

Inter-American Center of Tax Administrations – CIAT

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“A MODERN VISION OF THE TAX ADMINISTRATION”

Case Study 1.2

**THE PROMOTION OF MASSIVE CONTROL ACTIVITIES
(FILING AND PAYMENT)**

**National Superintendence of Tax Administration
Peru**

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Case Study 1.2: THE PROMOTION OF MASSIVE CONTROL ACTIVITIES (FILING AND PAYMENT)

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Case Study 1.2: THE PROMOTION OF MASSIVE CONTROL ACTIVITIES (FILING AND PAYMENT)

1. Background

One of the tax administrators' main concerns is the implementation of strategies to expand control coverage of taxpayers and its objective is to permanently guarantee a high level of tax duty compliance; therefore, control actions are expected to reach the largest possible number of taxpayers and that they are implemented through fast and efficient actions, and at low cost.

To be efficient, a mass control program requires implementation of control actions that generate a high perception of the detection and sanction on the part of tax administrators. Inasmuch as the increase in the perception of exposure generated by effective control actions has a multiplying effect in the degree of taxpayers' compliance who contemplate not fulfilling their obligations.

In this regard, one of the most important features of control for a tax administrator refers to duties compliance control, such as timely filing of tax returns and payment of the corresponding debt; in addition, the tax return should correctly state the facts generating the taxpayer's tax liability. Concerning these control features, the Superintendencia Nacional de Administración Tributaria (SUNAT by its abbreviation in Spanish)[National Superintendence of Tax Administration], has developed several processes and tools to obtain information that support mass control of tax obligations in an efficient and timely manner.

The first component to take into account for an efficient duties control, is the timely delivery of tax returns by banking institutions, and alternatively, return processes and payment online with SUNAT through the use of its website. In turn, these processes require the support of automated routines to ensure the quality of the information filed.

The most recent developments performed by SUNAT in this regard will be presented in this document. Improvements made to the Filing and Payment process will be presented which have been carried out through advances in the virtualization of the Return, the development of Simplified Tax Returns implemented online in the website, and the development of online payments from the banks.

In addition, SUNAT's experiences in the development of information quality control processes will be presented, basically concerning Management of inconsistencies in the Returns, and a new approach being developed in order to have an integral information quality control process.

Lastly, the scope of the new mass management process of tax return inconsistencies will be presented through the Virtual Control Center.

2. Improvements to Tax Return Filing and Payment Process

One of the principal means to ensure quality of the information and effectiveness of mass control actions is the use of telematic tax return in lieu of paper. Depending on the type of taxpayer, these could be made through the Telematic Tax Return Program (PDT by its abbreviation in Spanish), or the Easy Payment system.

2.1 Telematic Tax Return Program (PDT)

Software developed by SUNAT which is provided to taxpayers free of charge to prepare the tax return. It includes validation, arithmetic calculations, and help to fill out the Return, allowing timely detection of calculation errors prior to filing. This program generates the telematic Return, which can be filed through the SUNAT website: SUNAT Virtual, or at the banking agencies.

It should be mentioned that payment can be made through the Internet, using one of the following options: payment with a debit or credit card, payment through an account previously registered, or charged to its drawdown account.

To ensure the taxpayer that the information will only be seen by the Tax authorities, it is automatically encrypted at the time of generation. In addition, the system requires the taxpayer to enter a security password in his Return, which is unique for each taxpayer and is generated, free of charge through the Internet: the **forwarding password**. This password ensures the taxpayer that the tax return has been generated by him/her, thus avoiding rejection.

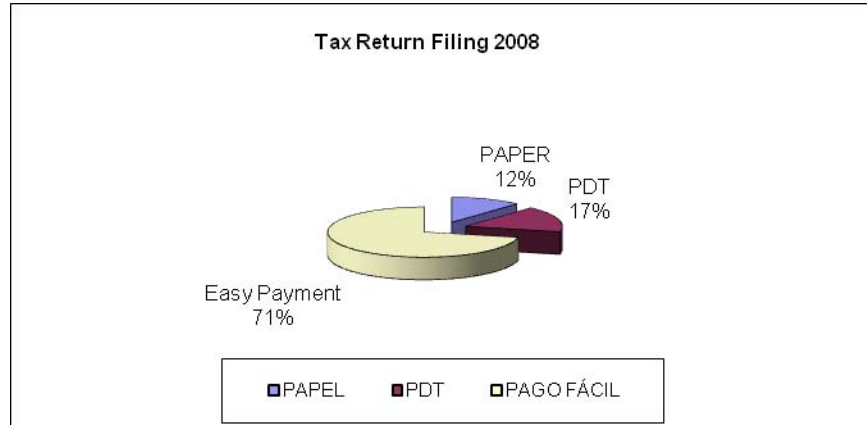
In order to assist taxpayers who do not have a PC at home or company, to prepare their tax returns through the PDT, SUNAT has installed PDT Booths in all its Taxpayer Service Centers at national level. Through this service, the taxpayer uses a PC and a printer if needed, and can ask for assistance to download the PDT and to fill out the Return.

2.2 Easy Payment System

Facilities to file the tax return and make payment without forms, addressed to taxpayers who do not have complex operations such as taxpayers from the New RUS (tax regime for MYPES) [Micro and Small Enterprises] who receive first category revenue, payment of collection documents, installments, among others. Through this system the taxpayer verbally or through a guide provides the data necessary to the bank teller. The teller then validates the information online, providing a receipt of the transaction made.

In general the use of Telematic Tax Return constitutes a significant portion of statements filed. As can be seen in Chart No. 1, during 2008, 17% of tax returns were filed through the PDT, 71% through Easy Payment and only 12% in physical form (paper).

Chart No. 1



On the other hand, regarding the PDT presentation channel, as can be seen in Charts Nos. 2 and 3, use of Internet has increased, which is greater on the due date for Tax Return filing (end of March, beginning of April). For example, as of the month of January 2009, 76% of Returns prepared through the Telematic Statement Program have been filed through this channel, of a total of 848,408 tax returns received in this period.

Chart No. 2

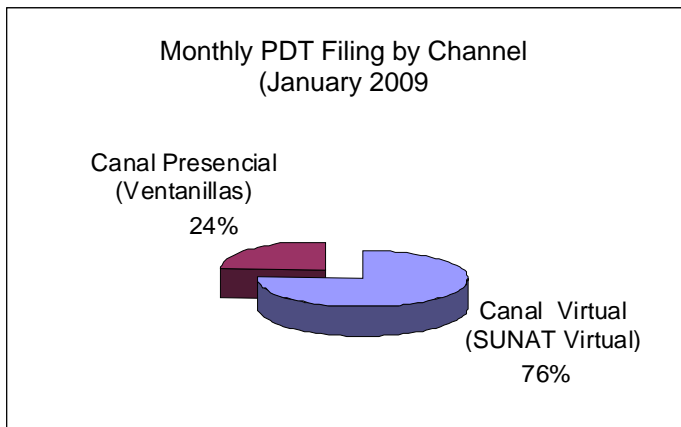
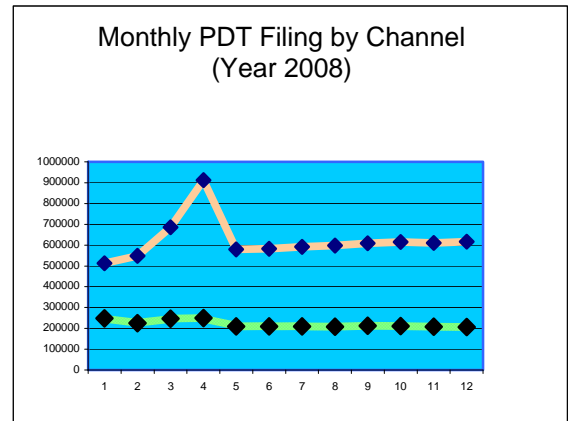


Chart No. 3



2.3 What's forthcoming...

In addition to these improvements, we are trying to simplify the tax returns filed by taxpayers specially the ones filed by the MYPES, whose operations are not too complex and therefore an electronic form would be feasible – Simplified Tax Return – to replace the Telematic Tax Return Program.

On the other hand, there is the need for the information from returns and payments made through the banks to be transmitted online to the tax administrator in order to potentiate mass control on filing and payment.

2.3.1 Virtual SUNAT Simplified Return

Through this system the taxpayer prepares and files his tax return directly on the SUNAT website: SUNAT Virtual. The features of this system are:

- This is addressed to taxpayers who have little information to declare in the month whether because they are part of special treatment (New RUS or Special Revenue Regime) or that being part of the General Income Tax Regime have a limited number of entries to make (whether because the period was slow, or because only purchases and sales are levied).
- By being online with the administrator, the taxpayer can validate the return with the SUNAT database thus avoiding errors in filling out the information.
- By being “connected” to the SUNAT the taxpayer can receive feedback regarding errors in previous returns or pending debts, thus becoming a means of mass control.
- In addition to the means available for payment through Internet, payment through a number generated by SUNAT Virtual is added: SUNAT Payment Number (NPS by its abbreviation in Spanish), which will allow immediate payment or later through a bank teller, in which case the bank teller should be provided with: the RUC and NPS numbers. This will allow banks to enable this type of payment through other channels such as: automatic teller, its website, POS (Point of Sale) and telephone.

2.3.2 Online tax return and payment from banks

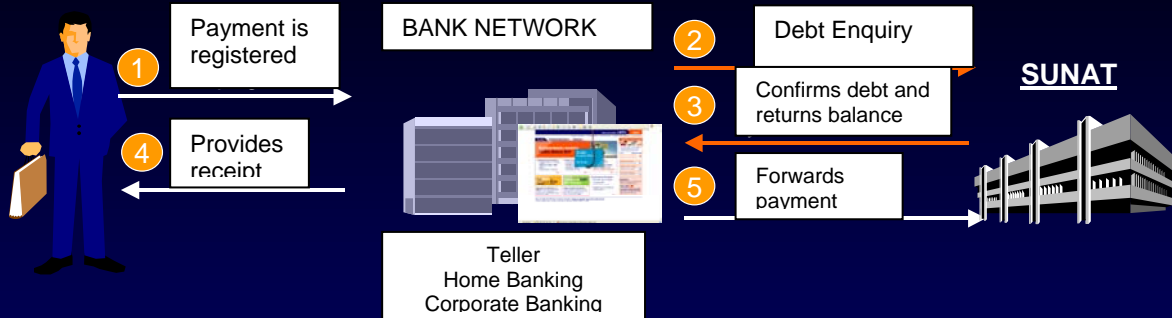
This new process consists of online filing (that is, at the moment the taxpayer files the return before the bank teller) of data and payments performed through the Easy Payment System to SUNAT. To this effect a new system of communication with the banks will be implemented, which will imply keeping a communications line for the transmission and confirmation of online data.

The procedure for this new online data transmission process will be as follows:

- Transaction is initiated at the bank teller
- The bank registers the return data or the payment slip entered through the easy payment system
- Sends the data online to SUNAT (XML Layer).
- SUNAT returns the validated results and the assigned order number of the return or payment.
- The bank completes the transaction by submitting the definitive data and registers payment data.
- SUNAT registers the tax return data and/or payment on its database.



ON LINE PAYMENT PROCESS



1. Taxpayer makes payment through a Bank's channel (Teller, home banking or corporate banking)
 - Providing corresponding data which will be validated by SUNAT
 - Using a SUNAT Payment Number (NPS)
2. The Bank registers the payment and verifies debt with SUNAT. SUNAT confirms debt.
3. The Bank registers the payment and provides receipt to taxpayer.
4. The Bank forward the payment layer to SUNAT.

Benefits from online filing of tax return

For the Taxpayer:

- Allows immediate verification that the tax return or payment was received by SUNAT.
- Allows requesting SUNAT discontinuance or release from coercive collection measures immediately after payment is made, not having to wait for information to be submitted to SUNAT in the traditional manner (approximately 3 working days).
- Provides taxpayer with greater assurance regarding correct compliance of its tax duties.
- Reduces the probabilities of errors in the tax return.

For the Tax Administrator

- Availability of information at the same time the tax return is filed and/or payment is made at the bank.
- Improvement of information of return filed and/or paid.
- Allows online application of payments to pending debts.
- Allows timely initiation of control actions or to stop them as the case may be.
- Reduces the need to allocate resources to verify if taxpayers have made payments which have not yet reached SUNAT.
- Allows better communication with taxpayers.

- Reduces subsequent monitoring actions of data entered since it is validated online.
- By having defined a data transmission scheme using MQ series technology, when there are failures in the communication SUNAT/BANK, tax returns and payments continued to be received, information being transmitted once communication is reestablished.

The online return filing and payment process will also allow SUNAT's mass control actions to be potentiated by being an online interaction channel of the taxpayer with the tax administrator, the collection bank being the intermediary.

For example, in the acknowledgement receipt that the bank will provide the taxpayer, the inclusion of a personalized message from SUNAT has been contemplated. This message may include reminders of due dates of their returns and installments, fiscal domicile updating in case the taxpayer appears as "Not Found", and a reminder of a pending debt.

3. Quality Information Management Process

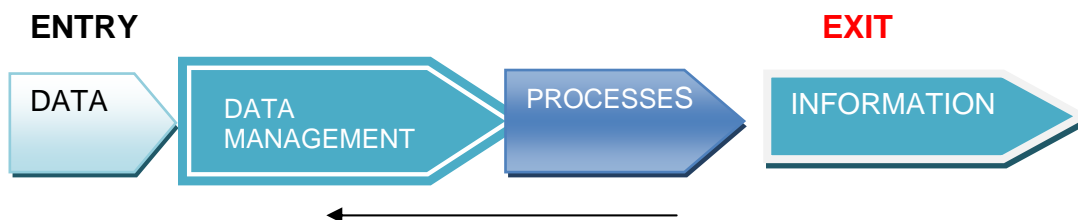
The sources of information constitute an important part of the assets of modern tax administrators. In SUNAT's case, having quality information is a determining factor due to its intensive use in the implementation of mass control actions.

SUNAT uses information that comes from internal sources, which are originated in the Statements of Payment and Control, as well as from external sources: information provided by private or governmental agencies, within the framework of information exchange agreements.

In order to be able to use this information in the various processes, it must be trustworthy and of good quality since any inconsistencies would have a negative impact on decision making and eventually in an inefficient allocation of resources on the part of the Tax Administrator.

Within this framework, it is necessary to have data quality control processes which include preventive and corrective measures, ensuring that informer and informed subjects are correctly identified, that the amounts declared are consistent, and in general, that the information be trustworthy and of good quality, to minimize errors and potentiate the Administration's main processes, among them mass control.

Data quality control processes implemented by SUNAT to date, are geared to the design of programs and tools that allow the prevention, detection and correction of inconsistent data that generate non-trustworthy information, as well as to make observations and recommendations resulting from the analysis made that result in subsequent optimization of the processes.



The main sources of information come from third party statements called “Informative Statements”, taxpayers who provide detailed information on operations they had with other taxpayers, which allows cross checking of information, of that declared by the taxpayer versus the information provided by a third party who interacted with him. Some of the sources of information used by SUNAT are:

- Operations with third parties annual tax return (DAOT by its abbreviation in Spanish)
- Withholding agents returns
- Transfer prices return
- Statement of Financial Transactions Tax (ITF) (which levies banking operations). This is filed by banking institutions.
- Notaries Annual Returns, which report the purchase and sale of real estate and vehicles, as well as mortgages, pledges, advancements, leasing, etc.
- Public Record Information: real estate and vehicle properties.
- First Category Revenue: in their Annual Tax Return natural persons identify their tenants.

As the need for information for mass control of sworn statements, the detection of types of evasion, and the selection of taxpayers to be monitored have increased, new approaches have been developed to ensure information quality, some of which are described below:

- Incorporation in the PDTs of detailed information to support the amount of the operations that significantly affect determination of the tax debt.
- Implementation and progressive expansion of obligors to file information returns, through which a group of taxpayers are requested to provide information related to their operations with third parties.
- Implementation of the Information Plan through which public and/or private sector institutions are asked to provide information related to their activities or with that which regulates it. The information plan describes the sources, the information requested and its use.
- Information exchanged with external entities through interagency cooperation agreements.

It should be pointed out that prior to data submission by external agencies those agencies receive data verification programs to allow for validation of data structure consistency. Once the information has been analyzed it is again validated and if problems are detected, its correction is requested.

Following is a description of SUNAT's experience concerning implementation of some specific processes of information quality control, as well as new approaches being developed on this subject.

3.1 Management of Returns' Inconsistencies

SUNAT relies on a centralized Data Warehouse¹, which validates information incorporated through returns, which allows the initial detection of problems in the data.

It also relies on quality control processes of tax returns data which allow validation of inconsistencies in taxpayers' monthly statements such as: Operations with third parties annual tax return (DAOT) and the Withholding Agents Returns (DAR). These data quality control processes – currently implemented – have the following functions:

- Information validation and consistency, through computer cross checking and programs that detect inconsistencies, as well as data cross checking between tax returns and those filed by third parties.
- Results analysis and determination of universe to be managed.
- Data visual management: procedures are established for Administrator staff to assess inconsistencies.
- External management of information: Implementation of a campaign to notify informants so that they voluntarily rectify the inconsistencies detected.
- Follow-up to rectification procedures (submission of releases and rectifications).

For example, for the filing of the Annual Income Tax Return of Natural Persons campaign, the main problems to be encountered with the data obtained are:

- Errors in identifying taxpayers and persons notified by third parties through their returns.
- Registration of an amount which does not reflect the actual level of operations carried out.
- Inadequate use of parameters defined by the Tax Administrator (for example, amount of revenues, tax deductions, payments, retentions, etc.).

These inconsistencies are managed by the following data quality control processes:

- **Identification of inconsistencies**, management process that seeks to correct inconsistencies appearing when incorrectly attributing sale and/or purchase operations to a taxpayer, when an incorrect number is used.

¹ Database consisting of a copy of the transactions databases, structured specifically for consultation and analysis.

- **Inconsistencies in sales and purchases amounts**, a process to manage the difference between the total amount of sales and purchases notified by the taxpayer versus that notified by third parties who interacted with him/her (data obtained through the DAOT).

The inconsistencies analysis and detection work is performed at the Data Warehouse through SQL consultations that allow mass data error identification.

On the other hand, the following specific data quality control processes for several information sources with inconsistencies are implemented:

- Taxpayers roll management (pilot test)
- Deceased taxpayer management
- Data quality control processes related to social security
- Public Records data management

Chart No. 4 shows figures related to registration management implemented:

Chart No. 4

Type of Management	Number of Cases Managed 2008
RUC Roll Inconsistencies	68,000
Deceased taxpayers	56,000
Pension and social security charges	4,500
Public Records Data	724,000

3.2 New approaches in data quality control

Even though specific process of data quality control has been developed, it is necessary to generalize these types of solutions in order to improve the quality of the information used in all processes. For example, permanence in time of certain data quality control programs have allowed improvement of quality of some returns since its continuity helps to generate consciousness of the importance of filing data correctly.

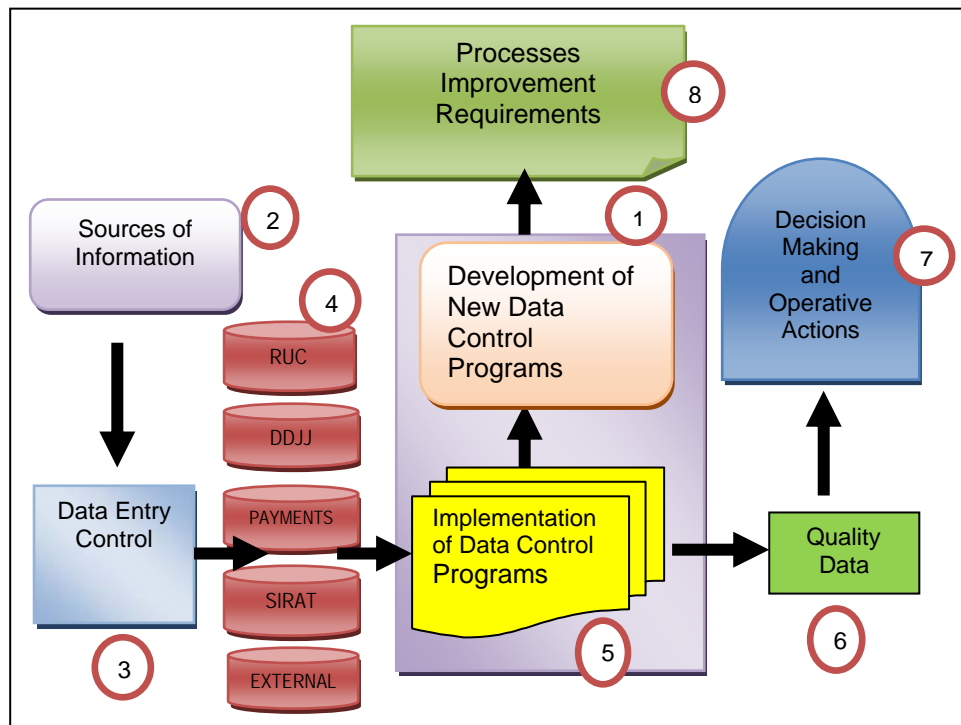
Accordingly, a new approach is proposed for SUNAT's data quality control process giving emphasis to factors referring to timely detection of errors, validation, remedies, prevention and control of data inconsistencies control.

The principles of this new approach are:

- Data quality control becomes effective through Data Quality Control Programs consisting of the definition of the data management procedure and the development of management support computer tools. This development is

implemented with the participation of operating areas according to the type of management guided by the unit responsible for data quality control.

- Implementation of the programs is the responsibility of the data quality control unit, with the support of the areas of taxpayer or external supplier (outsourcing) services.



Based on these principles, SUNAT has been developing the “Institutional methodology of data quality control” project whose main features are the following two deliverables:

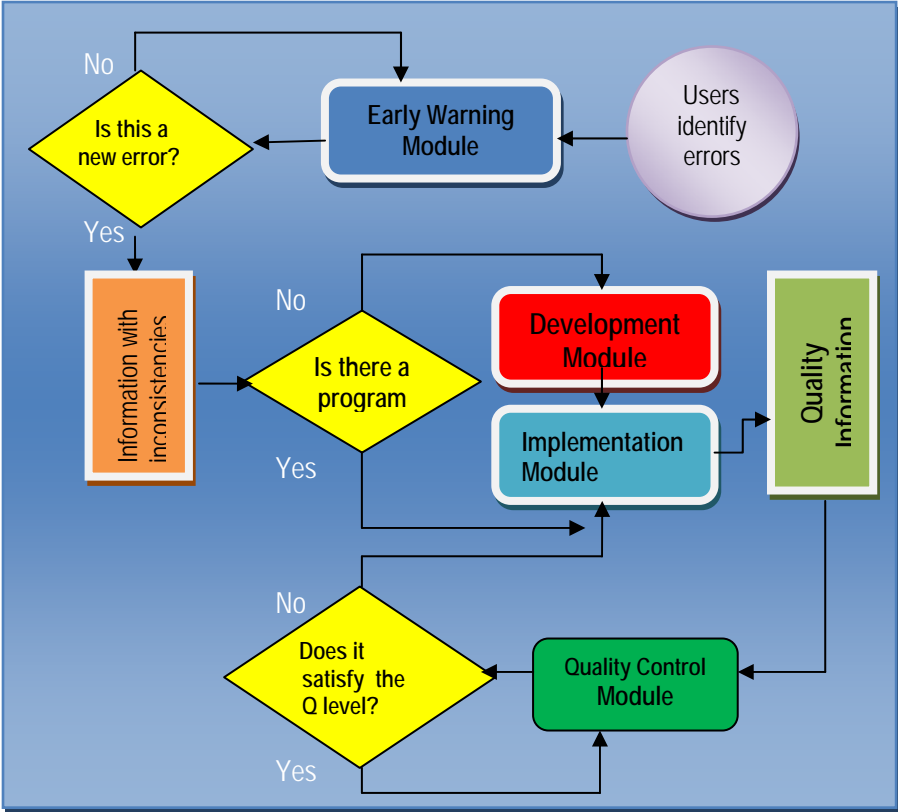
- **Data quality control general procedure:**
This procedure will determine the areas responsible for determining and approving the data quality control programs, the types of data quality control by program, the communication channels between the operating areas and the data quality control area, the parameters to determine if a set of data is to be arranged. It will also determine the approval procedure of the annual data quality control plans.
- **Computer platform for data quality control**
That foresees development of a computer platform to allow keeping data quality control from the initial analysis of data up to the quality control of correction of inconsistencies managed. This application will consist of the following modules:

- I. **Program Development Module**, which will keep a record of all sources and/or processes that, will be evaluated to be incorporated to the data quality control plan.
- II. **Program Implementation Module**, which will allow control of the implementation of the programs included in the data quality control plan. The functions by type of activity are the following:

Activity	Function
Detection of Inconsistencies	Load of inconsistencies
Case Programming	Selection of cases by type of data quality control Generation of information associated to control
Data quality control	Entry of answers: By agents (individual and mass) and by taxpayers (individual) Evaluation of visual control Evaluation of rejection of inconsistencies
Results Evaluation	Control reports

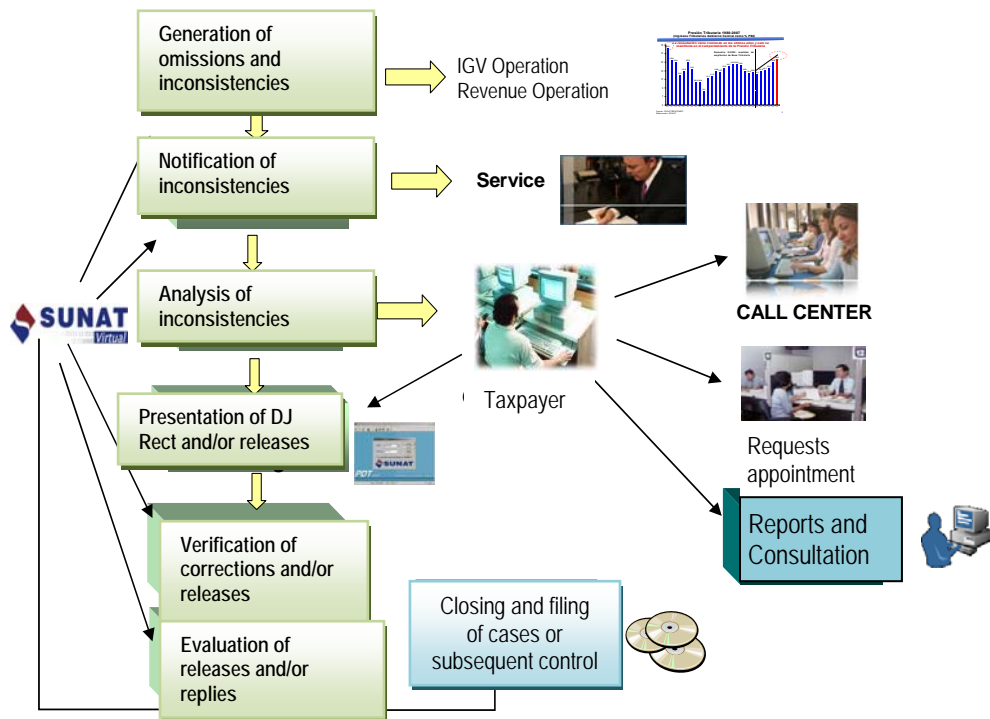
- III. **Data Quality Control Module**. This tool will control the level of data quality and will indicate if it is within the allowed range.
- IV. **Data Quality Control Needs Registration Module**. This module of early warning will provide a communication channel that will allow users to immediately notify problems detected in the data.

New Data Quality Control Interaction Process between the Modules Proposed



4. Virtual Control Center

As has been stated above, one of the mass control strategies of duties related to filing and payment is the one that refers to returns' inconsistencies. Since the mid nineties the Peruvian tax administrator, based on information submitted in taxpayers returns and that provided by third parties, performs mass information cross checks in order to detect inconsistencies in the returns and control them through a strategy of taxpayers segmentation with various types of actions such as notifications, subpoenas, verifications, and audits.



One of the problems of mass implementation of these types of actions is the administration responsiveness to disclaimers filed by taxpayers, which limits the scope and coverage of mass control programs.

The growing need to increase exposure generation before noncompliance with more efficient channels of response resulted in once again resorting to information technologies to solve the coverage problem and to reduce taxpayers' compliance costs. Therefore a Virtual Control Center was conceived which consists of a personalized virtual environment in the SUNAT website: SUNAT Virtual, which allows the taxpayer to know in detail the inconsistencies appearing in his sworn statements detected by the Tax Administrator when crossing the information on his returns and to make the corresponding disclaimers, without the need to visit the Administrator's office in person.

Through this web solution, the taxpayer can accept the differences and submit the corresponding corrections, and can even submit them and pay them at the same time within the same internet application. On the contrary he may not accept the inconsistencies and submit the electronic support for the differences detected (Word, Excel, PDF, zip formats).

The main objective is expansion of attention coverage through the virtual channel, also supported by the telephone line, which reduces attention and opportunity costs, both to the Tax Administrator and to taxpayers, resulting in improved tax compliance. As secondary objectives are the increase of taxpayers feeling of exposure (more actions in time) and awareness raising regarding compliance of tax duties.

This process implemented by SUNAT in 2008, grants multiple benefits both to the Tax Administrator and the taxpayer.

Benefits

For the Tax Administrator

- Allows mass control of a larger number of taxpayers, raising the feeling of exposure and in turn improving compliance of tax duties.
- Transparency, the taxpayer is shown the results of the computer cross checking clearly stating the inconsistencies detected and its causes.
- Reduction of costs, both for the Tax Administrator as well as the taxpayer (attention, wait, trip, paperwork costs, etc.).
- It allows online evaluation of the campaign's advancement, which results in timely decisions.
- The Administration focuses its resources in activities that generate greater value for the institution.

For the Taxpayers

- They can count on a channel opened 24 hours a day 365 days a year.
- Savings in costs and time, since they do not have to travel to an Administrator's office to receive or reject inconsistencies.
- It allows coordination of personalized appointments at any taxpayer control center on the days and hours best suited to the taxpayer.
- Closing of induction actions executed through an automatic process which verifies inconsistencies imputation and submits to a second phase the cases not imputed or supported.
- Reduces the possibility of initiating a formal audit process with the costs it involves for the Tax Administrator and the taxpayer.
- The taxpayer can review the inconsistencies detected through the SUNAT website from the comfort of his home or office in a safe, fast, and easily accessible environment.
- The virtual control center provides help to guide the taxpayer in the regularization of his inconsistencies, as well as provide telephone support which through the consultation center assists taxpayers with their inconsistencies or omissions detected.
- Supporting documents may be attached to confirm or disqualify the inconsistency or omission detected.

Virtual Control Center Features

The solution is oriented towards virtualization of tax services and procedures with the objective of expanding mass control coverage and to facilitate tax compliance, generating operation savings for the institution which can also concentrate resources in tasks of higher aggregate value.

The main features of the Virtual Control Center are:

- a) The taxpayer does not have to visit the SUNAT offices in order to make his return, it can be done through SUNAT Virtual, attaching electronic support if so wished, which implies the freeing of human resources to perform other tasks of greater aggregate value and the consequent elimination of paperwork.
- b) Once notified the taxpayer may: consult inconsistencies, see the details of the information that support the problems, reply, request an appointment, use the telephone line as complement to the consultations that may arise (SUNAT's Consultation Central has an option that allows consultation of the details of the problem for timely guidance to the taxpayer) and follow up on the status of induction actions.
- c) From a technological point of view, this solution is in a safe environment "SUNAT Online Operations" whose access is provided with a password – CLAVE SOL, which the taxpayer can obtain free of charge at any Taxpayer Service Center. Information is structured in personalized consultations, allowing the taxpayer to navigate in order to ascertain where the problem is and take actions to solve it.
- d) It is linked to the "PDT Return and Payment" option which facilitates compliance of the statement of omissions or differences detected.
- e) Mass control automation, since it has an automatic verification process (batch) which verifies actions taken and updates results obtained.
- f) The solution may be used in other tax environments such as charge management.
- g) Facilitates the work of the operating areas, automating processes which allows performance of other activities of greater aggregate value, as can be seen in the chart below:

Activity	Benefit
Attention to taxpayer consultation	Is minimized by making information concerning the details of the inconsistency and the mechanisms to correct it available to the taxpayer
Appointments	Are minimized since they are granted upon taxpayer requests or taxpayers are requested to appear whose support documents are not sufficiently clear
Disclaimer Verification	Is made by the automated processes which verify inconsistencies imputation.

5. Conclusions

- The first fact to take into account to achieve effective control of duties is the timely delivery of returns by banking institutions. In this regard, even though SUNAT has made significant advances related to virtualization of tax returns, in order to potentiate mass control of returns, these advances may be complemented with schemes that allow that all returns and payments made, even at banks' tellers, are made online with the tax administrator. This results in benefit to the taxpayer, since this provides timely feedback concerning errors in the tax return, and in turn allows the Tax Administrator to rely on a mass control mechanism, by taking advantage of the online interaction with the taxpayer to send personalized messages related to his/her tax duties.
- Quality of information is a determining factor for an efficient mass control process. In this regard, SUNAT has developed tax return data quality control processes whose information is essential to a mass control process, as is the case of the Annual Tax Return of operations with third parties (DAOT) and the Withholding Agents Return (DAR).
- A new approach is proposed for SUNAT's Data Quality Control, whose objective is to ensure data quality emphasizing aspects related to timely detection of errors, as well as the validation, remedy, prevention, and control of data inconsistency management. This new approach proposes the implementation of permanent Data Quality Control Programs, creation of a specialized unit responsible for the management and development of a computer platform to allow follow-up and control of management programs, as well as the development of quality control and early warning modules.
- One of the problems of implementing mass control actions is responsiveness on the part of the administration to disclaimers submitted by taxpayers for the requirements received, which limits the scope and coverage of control programs. This limitation may be overcome through the use of a Virtual Control Center to automate consultations and disclaimers of inconsistencies from the taxpayers, allowing the tax administrator greater efficiency in the use of resources while potentiating control coverage of taxpayers who do not fulfill their tax return and payment duties in a timely and correct manner.

ANNEXES

ANEX NO. 1 – Induction Letter Sample

Subject: Filing of Annual Tax Return 2007

Dear Taxpayer:

In accordance with the income you have declared for the year 2007 and that notified by third parties, we have detected that you have not **filed the Sworn Annual Tax Return for Natural Persons for the period 2007**. In order to prepare this please use [PDT 659 – Annual Income 2007 – Natural Persons](#). We suggest you use your personalized file which contains information on your income declared for 2007. The personalized file is available at SUNAT Online Operations, option: 2007 Income.

In order for you to view the details of the information that has allowed us to detect this omission, we have made available to you through the **SUNAT Online Operations (SOL) a Virtual Control Center, option “Consultation and differences or omissions support”**. If you feel that you are not obligated to file the above-mentioned tax return, through this same option you may submit the supporting documents to the Tax Administrator.

Should you have any questions regarding the above, please contact our Consultation Center (081-12-100) option 2, from Monday through Friday from 8:00 a.m. to 6:00 p.m. and Saturdays from 8:00 a.m. to 2:00 p.m. or visit our Taxpayer Service Centers.