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TOPIC 3

**STRATEGIES AND INSTRUMENTS FOR IMPROVING MANAGEMENT
IN THE TAX ADMINISTRATIONS**

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**STRATEGIES AND INSTRUMENTS FOR IMPROVING MANAGEMENT
IN THE TAX ADMINISTRATIONS**

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Overview

Information technology has been one of the fundamental pillars for the management policies adopted at the Secretariat of Federal Revenues in Brazil (RFB). They are characterized by strategic actions aimed at reducing the costs and simplifying the accessory obligations of taxpayers, while enabling further expedience, efficiency, and transparency in tax management, also keeping a focus on integration with State and Municipal Tax Administrations.

A classic example of this strategy is the use of Internet for the reception of the Individual Income Tax (IRPF) returns. Even though it is currently seen as nothing out of the ordinary, the Internet as a means of submitting tax returns constitutes one of the major challenges faced by the Brazilian Tax Administration. Beginning in March 1997, the number of taxpayers who submit their tax returns by means other than the Internet is minimal. It is easier for taxpayers and more efficient for RFB's tax management.

This report will briefly describe the general guidelines of the management strategies adopted by the RFB, emphasizing the role of the intensive use of information technology. We will present some examples of management improvement instruments that were already implemented or are about to be implemented by the institution, such as the new tools for administrative trial management, the digital process (e-process), the National Synchronized Cadastre (CadSinc), the public digital accounting system (SPED), electronic invoicing (NF-e), and virtual attention (e-CAC), which are compatible with the spirit of modern tax administration of the CIAT General Assembly. Each one of these actions simplifies matters for taxpayers and improves management.

The SPED, NF-e, and CadSinc instruments represent joint work done by the RFB and State and Municipal Tax Administrations and set an example of the progress done as part of the country's institutional maturity, which strengthens state actions with more expedite and more powerful instruments against tax evasion and makes the business environment more propitious for citizens and corporations that are trying to operate in accordance with national laws.

TOPIC 3: STRATEGIES AND INSTRUMENTS FOR IMPROVING MANAGEMENT IN THE TAX ADMINISTRATIONS

1. Introduction

Information technology has played a key and growing role in the management policies adopted or implemented by the Federal Revenues Secretariat of Brazil (RFB).

The facilities and opportunities stemming from the development of computer science have led to substantial and paradigmatic gains in the Brazilian Tax Administration. The best example was the intensive use of Internet for the reception of the Individual Income Tax (IRPF) returns. Since 2000, more than 90% of Brazilian taxpayers submit their returns using the worldwide web, which entails a substantial simplification, compared to the old paper tax returns. From the standpoint of internal management, the gains were no less important with a drastic reduction in administrative costs and in the reception and digitalization of information submitted by taxpayers, thus decreasing the number of errors and enabling a much faster access to such information.

Despite the achievements of the progress made with these technological tools, there are more challenges. Today, it is not enough for Tax Administration to receive tax returns via Internet; it is also expected to meet a large part of the needs of its taxpayers directly on the worldwide web and no longer in person. Thus, information corrections, explanations, the issuance of the Negative Debit Certificate, payments, and many other services can now be rendered online.

Therefore, just like technology is socially fundamental to address the demands of society, it also constitutes a source that creates new needs and demands that must be addressed as well.

This document will briefly describe the general guidelines of the management strategies adopted by the RFB, emphasizing the role of the intensive use of information technology. We will immediately present some examples of the management improvement tools that were already implemented or are about to be implemented, such as the new tools for administrative trial management, the digital process (e-process), the National Synchronized Cadastre (CadSinc), the Public Digital Accounting System (SPED), electronic invoicing (NF-e), and virtual taxpayer services (e-CAC), which are compatible with the spirit of modern tax administration of the CIAT General Assembly. The consolidation of the institutional maturity already reached by Brazilian Tax Administrations, which translates into a series of joint initiatives, will also be emphasized. In addition, some indicators showing the results already obtained or being expected from the aforementioned instruments will also be outlined. Finally, the final considerations of the Brazilian experience will be listed.

2. Management Strategies in the RFB Environment

The management strategies of the RFB are more broadly broached in the Planning and Management Strategy (PGE), which comprises four-year periods. The actual planning corresponds to the period between 2008 and 2011. Meanwhile, such planning is being revised, and the changes were seen in the RFB administration in the second half of 2008.

The PGE includes a strategic matrix for the period under consideration, which begins with the mission, vision, and values, unfolding the various dimensions of the PFB actions in five major levels: State, Society, Taxpayers, Processes, People and Resources. A total of 15 pluri-nominal strategic objectives, linked to strategic actions and institutional management indicators, were outlined in association to these five levels. At the end of each year, Institutional Directives are established, guiding the focus of the strategic actions for the following year, considering that the institutional planning and evaluation process is dynamic and must receive constant feedback.

The following general objectives, which were forged by the RFB, are grouped by dimensions of the institution's actions.

State Dimension

1. Help in the formulation of tax and foreign trade policies.
2. Promote the integration of the RFB with the other state institutions and national and international organizations.

Society Dimension

3. Augment the actions of the RFB in the fight against organized crime.
4. Strengthen the institutional image of the RFB and promote citizens' tax awareness.

Taxpayer Dimension

5. Promote excellent services to taxpayers.

Processes Dimension

6. Optimize tax credit control and collection.
7. Improves the quality and production of fiscal work.
8. Increase the efficiency of oversight and repression of customs-related crimes.
9. Simplify, standardize, and expedite customs control.
10. Increase the efficiency and effectiveness in the preparation, analysis, and trials of administrative and tax processes.
11. Promote the improvement, simplification, and consolidation of federal tax legislation and standardize its interpretation.

People Dimension

12. Improve the people management policies of the RFB.

Resources Dimension

13. Increase the efficacy, efficiency, and effectiveness of budget, financial, capital, and confiscated merchandise management.
14. Refine the management policies of technology information and infrastructure.
15. Implement an excellent management in the RFB.

Once the objectives have been determined, the strategic initiatives are defined as a set of actions and projects necessary to achieve the strategic objectives, enabling the organization to go from the current state of affairs to the achievement of its goals.

In the case of the Secretariat of Federal Revenues of Brazil, the strategic initiatives were classified as levels 1, 2, or 3 strategic actions in the 2008/2011 Strategic Planning and Management program.

These actions must strengthen the RFB strategies, allowing compliance with institutional goals until 2011 and making sure that the strategic objectives are reached. The level 1 strategic initiatives are those directly followed by the Cabinet of the RFB and include projects and/or actions at the national level and are of great significance for the institution (see some projects in Chart 1). The level 1 strategic initiatives will be complemented by level 2 actions of sectorial and regional impact and by level 3 actions of impact on the local units and Offices of Processes (DRJ).

Chart 1 – National Strategic Projects

Public Digital Accounting System - Sped	Promote the integrated actions of federal, state, and municipal treasuries through the standardization and streamlining of information and shared access to taxpayers' digital accounting by legally authorized people.
Gauging the "fiscal gap"	Define and implement an institutional methodology to estimate the gap between the collection defined by the legal potential and the actual collection.
Arpia Project	Application of computer intelligence models for risk analysis in order to reach further efficiency and effectiveness in customs-related procedures through the standardization and optimization of fiscal selection.
Siscomex cargo	Digitalize the control of movements of ships and their cargo in international transportation, allowing a more effective customs control with a great savings in logistics by allowing the shipping of merchandise on water (freight on board).
National Fiscal Education Program	Educational actions that try to promote the conscious participation of citizens in the operation and improvement of the social and fiscal control instruments of the State, beginning with the awareness of people for the socioeconomic function of taxes by encouraging voluntary compliance. Proposal of a specific project aimed at internal fiscal education.
Fiscal Cadastre Project	System of overall control of compulsory taxes, beginning with taxpayers on differential follow-up, with the use of information from third parties and own information, enabling a preliminary estimate of the taxing power of taxpayers and the due accessory obligations.
E-Process	Electronic Administrative Process, which enables procedural actions and terms to be carried out electronically, putting aside the traditional use of paper processes and preserving the safety and authenticity of information. The documents will be authorized by the digital signature of both the official and the taxpayer through digital certification.

Revision and Simplification of Processes	Modeling and revision of organizational processes in order to promote the institutional modernization for the sake of the improvement and transparency of the services rendered, for the development and commitment of people, and for the management aimed at the achievement of results.
National Synchronized Cadastre	Increase the effectiveness in the rendering of services by the RFB through the reduction of compliance costs for taxpayers, the strengthening of oversight through the exchange of information with other tax administrations, and the reduction of the average time it takes to open companies in the country.
National Plan to Improve Taxpayer Services	Develop and implement a plan to improve taxpayer services through various channels in order to heed their demands in a standardized, proactive, integrated, and concluding fashion.

All these projects have an impact on the tax administration of the RFB, and many of them also have a bearing on state and municipal administrations. This point is essentially important, because it shows a major concern about the integration of the treasuries of the various federal organizations. This approach was reinforced by the new administration of the RFB with the creation of the Fiscal Cooperation and Integration General Coordinating Board, aimed exclusively at easing integration among the Brazilian Tax Administrations.

Among the strategic projects outlined in Chart 1, some actions were selected for a deeper analysis in this document, given both the importance of the project and the intensive use of information technology or the participation of other federal institutions. Thus, in the following section, the SPED, e-Process, the National Synchronized Cadastre, and the National Plan to Improve Taxpayer Services – in their virtual attention module -- will be explained in more detail.

3. Examples of Specific Projects

3.1 Changes to Work Processes in Administrative Trials

Before we discuss the e-Process, we will present some changes that have been made in the administrative arena.

a) Background

Among the institutional objectives of the RFB, we include the increase in the efficiency and efficacy in the preparation, analysis, and trial of administrative and fiscal processes with the commitment to expediting and giving quality to such trials.

In this regard, the search for an adequate measure contrasting with the degree of complexity of the administrative and fiscal processes and, therefore, with the estimate of the time necessary for the administrative trial, has been a constant since the creation of the Office of Processes in 1994.

Even though it is difficult to conceptualize, the possibility of drafting models that explain a substantial part of such complexity through objective criteria that can be compiled in the warrants right before the trials is unquestionable.

Such models, insofar as they are being implemented and improved, analyzing the historical data of the trials, enable the reduction of the uncertainty inherent to the contrast of values that, in principle, would be eminently subjective, as the complexity of the administrative and fiscal processes seem to be, regarding the time not used in their trials.

b) Current Management

The RFB is currently promoting the revision of the parameters for the determination of the degree of complexity of the processes, analyzing the historical data of trials, in a detailed fashion, managing to correct the distortions resulting from the use of certain parameters in the determination of the degree of complexity of the processes.

As an analysis strategy, hybrid models that associated statistical model solutions (generalized linear regression, independent for each table) with technical interventions done by representatives of each tax area, based upon their labor experiences, were used.

The results suggest that the parameters revised and the new ones that are proposed, if implemented, will reduce the distortions present in the determination of the degree of complexity of the processes. In this regard, using simulations with a database of national processes encompassing 2005 and 2006, it was observed that the difference between the actual number of hours of the trials and the estimated ones attributed to the degree of complexity dropped from the current -18.04% to -1.57%, and the dispersion of these variables was reduced by 59% (current MSE¹ of 32.21 to an estimated MSE of 13.12), according to the tables presented in the section of results.

c) Technical analysis

Database

The database used was made up of 61,208 records resulting from the historical and statistical collection of data of the CP² system, nationally consolidated in October 2007.

Methodology

Contrasting measures of the quality of results

The selection of the most adequate model, like the contrast of the quality of the results obtained, entails the use of one or more measures of comparison that represent the characteristics expected for the results of the analysis.

¹ Mean Square Error is the measure used in this work.

² The Process Control System (CP) is one of the systems used to control the flow of administrative processes in the area of Federal Revenues of Brazil.

In this regard, the basis of the search for the ideal model expected was the reduction of the distortions between the actual number of hours of the trial and the estimated number of hours (associated to the degree of complexity), leading to the following actions: i) reduction in the difference observed between the averages of the estimated number of hours for the models and the actual number of hours reported by the judges for each one of the parameters³; ii) minimization of the dispersion presented between the estimated and actual numbers of hours.

In this way, the two measures of contrast defined next to represent the aforementioned actions, respectively, were used:

a) for the measurement of the difference – item (i) above – the average deviation per group of parameters, defined as the percentage deviation in relation to the average of the estimated number hours, for each group, between the average of the actual number of hours and the average of the estimated number of hours, was used;

b) for the deviation of the dispersion, the mean square error (MSE), defined for the processes of each group as the average of the square of the deviation of the estimate, was used. Instead, the deviation of the estimates is defined as the difference between the estimated and the actual number of hours for each process.

Mathematical model

The objective was to estimate the time necessary for the decision of the process, given the characteristics that appear in the groups of parameters.

Such a phenomenon can be statistically modeled considering the hours spent in a trial as wasted time, randomly, to reach a certain distance associated, in the specific case, to the degree of complexity of the process. In this regard, the larger the complexity associated to the process (the distance to be run will be larger), the longer will be the expected time of work for the trial.

In this formulation, the expected time for the trial of the process has a statistic distribution known in literature as the Inverse Normal or Wald distribution⁴.

Thus, a generalized linear model (GLM), independent for each table, with identity as a function of relationship and Inverse Normal distribution family, using the actual number of hours used in the trial as the depending variable and the parameters that appear in each one of the aforementioned tables as the explicative variables, was used.

³ Due to the decision of not changing the structure of the CP in this first part of the work, the restriction of keeping fixed the groups of parameters of the existing tables that are outlined in Decree SRF No. 1.097/2005, being able to change only the weights and descriptions of the parameters of each table, is imposed.

⁴ Weisstein, Eric W. "Inverse Gaussian Distribution." in *MathWorld--A Wolfram Web Resource*.
<http://mathworld.wolfram.com/InverseGaussianDistribution.html>

Empirical model

The mathematical models obtained, one for each group of parameters, were criticized by the representatives of each type of tax over the detection and correction of technical inconsistencies. Even though it adds a difference to the final results, such a procedure is necessary insofar as the mathematical models fail to show all the forms related to the complexity of the trial process. Thus the intervention of the technician representative of each group of taxes (tables) with the ability of detecting and proposing alternatives for the inconsistencies that may be present is indispensable.

d) Results

The following table presents the current situation of the average percentage deviations, for the table of Decree SRF No. 1.097/2005, of the actual number of hours in relation to the number of hours attributed to the degree of complexity of the processes.

table	frequency	actual hours	hp_degree	deviation (%)
1	18.265	16,16	19,29	-16,23
2	27.792	7,43	8,59	-13,45
3	4.285	13,93	23,93	-41,79
4	1.023	20,38	26,96	-24,41
5	2.291	14,61	9,97	46,57
6	4.693	5,31	8,24	-35,58
7	2.859	17,25	20,64	-16,42
Total	61.208	11,27	13,75	-18,04

It is at once noticed that all deviations are above 10% and even above 40% in some cases. Such fact points the need to make adjustments to the complexity evaluation tables, justifying the revision of parameters.

With the implementation of the proposed models, the new average percentage deviations of the actual number of hours in relation to the number of hours attributed to the degree of complexity of the processes (estimated hours) went below 1%, with the exception of the processes of Table 5, whose reduction was from 46.57 to 14.67 percentage points. Such results suggest that the models proposed will reach the first goal of reducing the difference between the average of actual number of hours and those attributed to the degree of complexity.

Also regarding the measurement of the dispersion used, we notice an improvement in the performance of the total amount of (estimated) models proposed in relation to the current ones. With the models proposed, we managed to substantially reduce the dispersion between the number of hours actually worked and the estimated number of hours projected by the models.

Thus, according to the results, the implementation of new sets of parameters will drastically reduce the current distortions in the evaluation of the degree of complexity of the processes.

3.2 Federal Revenues Digital Process of Brazil (e-Process)

a) What is e-Process?

The Secretariat of Federal Revenues of Brazil – RFB – is developing an electronic process system called e-Process. This system eliminates the use of paper in procedural actions carried out in the administrative realm in the form of petitions, document submittal, and presentation of consultations.

The system will integrate and control all the phases of the fiscal credit macroprocess, ranging from the fiscal launching and going through the taxpayers' resources and the trial of administrative processes, up to the final collection of the tax credit without the need to print a single sheet of paper.

Beginning with this electronic tool, taxpayers will be able to consult tax legislation and find a solution to their consultation in an efficient and safe way, bringing forth more legal security to the treasury-taxpayer relationship.

The digital signature will enable taxpayers to submit procedural pieces and digital documents to make up the e-Process or the e-Query through the Virtual Taxpayer Service Center (e-CAC) to the e-mail address of the RFB -- www.receita.fazenda.gov.br.

Taxpayers will also be informed of the procedural actions electronically through their electronic e-mails available in the e-CAC. All taxpayers, individuals or companies, bearers of e-CPF or e-CNPJ Digital Certificates or any other certificates issued by the Certifying Authority accredited by the ICP-Brazil. Access through digital certificates guarantees the authenticity of the transactions.

The implementation of the e-Process is making progress to enable taxpayers and professionals of the area to avail themselves of numerous advantages, because they will be able to follow up on the steps of the process and carry out procedural actions at a distance — from their commercial establishments, offices, or homes – via the worldwide web.

The System represents savings, expedience, security, and transparency derived from the use of the e-Process in the area of Federal Revenues.

In the development and implementation of the system, the following basic principles are being observed: i) guarantee of transparency and traceability, with commitment and responsibility of each public action; ii) the elaboration of a generic and flexible system, allowing the parametrization of the specificities of each sector, type of unit, or competent body; iii) reduction of excess bureaucracy through the decentralization of power from those who wield it, guaranteeing further control and management of processes.

b) Background

The idea of working with digital processes was conceived in the 5th Fiscal Region based in Salvador/BA in mid-2003.

In 2004, the idea was adopted by the General Technology Coordinating Board, COTEC, and in 2005, the development of the process was chosen to be a priority project for the RFB.

In March 2006, the first digital process was created in the Federal Revenues Office of Brazil – Salvador DRF, the unit that was chosen as a pilot for the implementation of the system.

In October 2006, the first electronic process was tested in the Office of Federal Revenues Process – DRJ of Salvador.

In July 2008, the dissemination of e-Process in the 22 units of the RFB and the Taxpayers Council began.

In 2009, the dissemination will be done in the other units and the National Finance Prosecutor's Office -- PGFN.

c) Current management

There already are more than 3,500 digital fiscal processes in the units to be contemplated. In addition, in the pilot program in Salvador, approximately 90% of the new processes created with fiscal credit are already in digital format.

The expansion of the pilot Project to the 22 units of the RFB and the Taxpayers Council – CC – must end in late January 2009.

The development of the **Proc Web** module as part of e-Process, which is being implemented since December 2008, will enable the migration from paper processes to digital processes.

All the units contemplated in the first phase of the expansion of the e-Process were already trained and implemented. The only one remaining is Belem, which was scheduled for January 2009. The **Proc Web** pilot began in the DRJ of Ribeirao Preto/SP, incorporating functions of the DRJ's and CC's and opening the system to the control of 100% of processes in digital media and paper.

The following table shows how the existence of digital processes in the units already contemplated in the system:

Launching Units	#####	#####	10-Oct-08	5-Nov-08	28-Nov-08
	Stock	Stock	Stock	Stock	Sotck
DRF and DRJ/Salvador	2,249	2,274	2,226	2,336	2,535
DRF/Feira de Santana	19	20	39	47	35
Deinf and DRJ I and II/Rio de Janeiro	2	5	106	105	109
DRF and DRJ/Ribeirão Preto	28	29	128	151	171
DRF and DRJ/Curitiba	19	37	149	192	259
DRF and DRJ/Brasília	6	17	90	106	128
DRF and DRJ/Belo Horizonte			39	73	166
DRF and DRJ/Fortaleza				55	76
DRF and DRJ/Recife					61
DRF/Uruguaiana and DRJ/Santa Maria	Implementation 01 a 05/12/2008				
DRF and DRJ/Belem	Implementation 19 a 23/01/2009				
Total	2,323	2,382	2,777	3,065	3,540

In 2009, the second expansion of the e-Process will begin, contemplating most officers and inspector's offices of the RFB. In addition, the development of the remaining modules will end. To do so, the team that is developing the project, under the coordination of Marcelo de Souza Silva, the Fiscal Auditor of Federal Revenues of Brazil, listed the following priorities:

- 1- Manage the errors and make the necessary adjustments, many of which are caused by the implementation of the new version of the system.
- 2- Purchase and rent equipment for the other units. The Programming and Logistics General Coordinating Board, Copol, is finishing the purchasing projects (monitors and plaques) and the renting projects (production scanner per administration unit).
- 3- Search for multitasking with layers of software that enable a better image quality in the smallest size possible, with automatic brightness and contrast adjustments.
- 4- Increase the investment in infrastructure, especially in the creation of local cache memory for the increased performance in the display of images of a document, reducing the need to increase the Internet band.
- 5- Give e-Process access to the PGFN, with the standardization of digital certification, which also remains pending with the Disin/Cotec.

d) Expected results:

With the implementation of the **e-Process**, both society and the Tax Administration must obtain significant benefits. We can outline these among the most important ones:

1. Increase in tax collection due to the drastic reduction in the time it takes to enter a digital administrative process in the realm of contentious and fiscal execution.

2. Reduce bureaucracy at the RFB in terms of easy steps taxpayers will have to take to accompany and view the process and the carrying out of procedural actions via Internet.
3. Availability, security, expedience, standardization, and automation of bureaucratic procedures.
4. Direct saving of budgetary resources for public administration.
5. Reduction in the procedural times according to the initial expectation shown in the following table:

1	Paper process – current situation	134		320		186		640
2	Implantation of digital processes	108	20%	288	10%	148	20%	544
3	Integration session of judg. with CT	108		288		104	30%	499
4	Reception of petitions via e-CAC	75	30%	288		104		468
5	Integration with the W Decision System	75		230	20%	104		410
6	Electronic form petitions	23	70%	230		104		358
7	Electronic decisions PF/SCC/e-Safira	23		69	70%	104		196
8	Massificação da Ciência Eletrônica	23		69		31	70%	123

e) Achieved results

The use of **e-Process** is already substantially reducing the procedural times, but it is still too early to quantify if the reduction goals outlined in the previous table will be achieved.

Insofar as new units are integrated into the system and the new statistics on stock and procedural flows are available, it will be possible to accurately quantify the gains obtained from the implementation of the digital administrative process in the RFB.

3.3 National Synchronized Cadastre (CadSinc)

a) What is the National Synchronized Cadastre?

The National Synchronized Cadastre (**CadSinc**) is the integration of the cadastral procedures of corporations and other institutions in the Tax Administrations of the Union, the States, the Federal District, and Municipalities, as well as other organizations and institutions that are part of the business registration and legalization processes in Brazil.

One of the pillars of the **CadSinc** is the use of the registration number in the National Corporations Cadastre (CNPJ) as the identifier in all sectors of the government.

As a shared solution among the very different organizations involved in the registration and formalization of companies and other institutions, the **CadSinc** is not a single cadastre, but a synchronization among the various existing cadastres – they all show the same cadastre information, respecting the demands or organizations and (competent) institutions in relation to the need for specific information from each one.

The main objectives of the **CadSinc** is the simplification and streamlining of the processes of registration, modifications, and closure of corporations and other institutions (economic entities), leading to a reduction of costs and terms, in addition to the guarantee for further transparency in all processes and the standardization of the cadastral information of corporations and other institutions, enabling them to act with further efficiency and efficacy.

In the construction of the Synchronized Cadastre and according to Cooperation Protocol ENAT nº 01/2004, the following premises were observed: a) single data entry; b) independent, albeit synchronized databases; c) reciprocity in the acceptance of the legislation of each signatory institution; and d) adoption of the registration number of the National Corporations Cadastre (CNPJ) as the cadastral identifier of the taxpayers of the ICMS and ISS.

With the Synchronized Cadastre, it is much easier and faster for entrepreneurial citizens to open a company. After registering the charter, the interested party must fill out and forward the registration petition to the CNPJ through one of the available applications. If the petition is accepted, the inscription will be ready not only at the CNPJ, but also at the pertinent State and/or municipalities.

In the States where there are agreements with the Trade Tribunals, entrepreneurial citizens can submit the registration petition along with the registration petition of their charters. If the documents submitted and the data transmitted are correct and if they made the petition in a single place, the companies will therefore be registered and the registration at the National Corporations Cadastre (CNPJ) and the state and/or municipal registrations generated simultaneously will be done all at once!

In addition to the aforementioned benefits, it is also possible to use the state passwords or digital certificates to take action at the cadastre. In a simple, easy, and quick step, this electronic signature eliminates the need to authenticate the signatures and often eliminates the need to appear before the body (Federal Revenues, SEFAZ⁵, SEFIN⁶, and so on) to demand the carrying out of the cadastral action (the change is processed automatically. Example, the change to the commercial name, telephone number, electronic mail, and so on).

Thus, when the Synchronized Cadastre is fully implemented, all Government Institutions related to Tax Administration, at all levels, and the registration of corporations will be working in a synchronized fashion; in other words, citizens will submit their petitions in one way only.

⁵ Finance Secretariats of the States

⁶ Finance Secretariats of the Municipalities

b) Background

The search for the simplification in cadastral processes in the three levels of Government began in 1990s, mainly beginning with the signing of the ICMS Agreement 08/1996, through Normative Directive SRF No. 27, which created the National Corporations Cadastre (CNPJ), replacing the old General Taxpayers Cadastre (CGC). The CNPJ began as a proposal to streamline the resources and procedures of the various existing cadastres and prior to the joining of all state and municipal tax administrations, with a later national integration of the tax cadastre. Meanwhile, due to legislation matters and operational difficulties attributed to the time, especially in the technological area, the CNPJ failed to achieve the expected objectives.

The simplification process of cadastral procedures takes on a new impetus in late 2003, when Constitutional Amendment No. 42 was approved. It introduced paragraph XXII in Article 37 of the Federal Constitution, establishing that the new tax administrations of the Union, States, the Federal District, and Municipalities act in an integrated fashion, even sharing fiscal cadastres and information.

In order to heed this constitutional mandate, in July 2004, the First National Meeting of Tax Administrators (ENAT) was held in Salvador. It gathered the heads of the Federal, States, Federal District, and Municipal Capital Tax Administrations. The objective of the meeting was to search joint solutions for the three levels of government enabling integrated actions and sharing fiscal and cadastral information among the Tax Administrations. The main document resulting from this meeting was the ENAT Cooperation Protocol No. 01/2004, whose objective was the construction of a cadastre that would heed the interests of the respective Tax Administrations.

Along the same line of simplification of cadastral procedures, rules encompassing the integration of procedures among the bodies responsible for the registration and legalization of businessmen and corporations were established for micro- and small-sized companies through Complementary Law 123 of December 14th, 2006. The goal was to prevent the duplicity of requirements for citizens, while guaranteeing the setting into motion of the single entry of cadastral data (in order to keep businessmen or corporations from having to make the same petition for cadastral actions – registration, changes, closures – at the various institutions involved). The same Complementary Law also defined that the databases of the institutions that are involved in the process of registration and legalization of corporations will keep independent databases, which reinforced the idea of the construction of a Synchronized Cadastre.

c) Current Management

The implementation of the National Synchronized Cadastre is being done gradually. Currently, various Tax Administrations are already participating in the **CadSinc**, and in addition to them, other organizations and institutions that are involved in the process of registration and opening of corporations and other entities have the power to join the project, such as Commercial Courts, Fire Departments, Sanitary Overseeing Offices, and so on.

Thus far, the **CadSinc** has already been implemented in the States of Alagoas, Bahia, Maranhao, Minas Gerais, Para, Rio Grande do Norte, and Sao Paulo and in the municipalities of Belem/PA, Belo Horizonte/MG, Curitiba/PR, Natal/RN, Salvador/BA, Sao Luis/MA, and Vitoria/ES. There already are signed agreements, with their implementation schedules in draft (Phase III, first half of 2009), with the states of Acre, Amazonas, Ceara, Distrito Federal, Mato Grosso, Mato Grosso do Sul, Paraiba, Pernambuco, Piaui, Parana, Roraima, Santa Catarina, Sergipe, and Tocantins and the municipalities of Aracaju/SE, Barra Mansa/RJ, Boa Vista/RR, Campo Grande/MS, Montes Claros/MG, Petropolis/RJ, Pinhais, Recife/PE, Sao Paulo/SP, Rio de Janeiro/RJ, Santarem/PA, and Sorocaba/SP. There also are signed agreements, but with the schedule still undetermined, with the states of Amapa, Espirito Santo, Rio Grande do Sul, Goias, Rio de Janeiro, and Rondonia and the municipalities of Bragança/PA, Camaçari/BA, Contagem/MG, Maceio/AL, Manaus/AM, Palmas/TO, Piraju/SP, Ribeirao Preto/SP, Santos/SP, and Sete Lagoas/MG.

d) Expected results

With the implementation of the Synchronized Cadastre, the following results are expected to be obtained:

1. ***From the point of view of citizens:*** i) reduction of the terms and procedures to create, modify and close companies; ii) further transparency in the process; iii) simplification and standardization of compliance with obligations; iv) less need to go to the involved institutions; and v) reduction in the expenses for document copies, mail, and filing.
2. ***From the point of view of Public Administrations:*** i) more stimulus for the formalization of businesses due to a reduced creation cost; ii) reduction of operational costs; iii) further integration, quality, and standardization of information; iv) improvement of the image before society; and v) more effectiveness of fiscal actions.

e) Achieved Results

The use of the Synchronized Cadastre enabled a substantial reduction in the period between the petition and the registration at the Federal Revenues of Brazil, in state and/or municipal revenues, and in states and municipalities where the system had already been implemented.

As shown in the following chart, in Bahia, for instance, the Cadastre reduced to only 2 or 3 days the period between the petition and the formalization of the registration, which used to be 7 days. This reduction in time was verified, more or less, in the other offices of state and municipal revenues.

Estado/Município sincronizado	Tempo total para inscrição na RFB, Estado e/ou Município (em dias)	
	Antes do CadSinc	Depois do CadiSinc
BA	7	2 a 3
MG + Belo Horizonte	20	5 (só município) a 15 (estado + município)
PA + Belém	30 ou mais	10 a 20
RN + Natal	30 ou mais	10
SP	20	10-15 dias capital, 3 dias demais
Vitória	7	3

3.4 Public Digital Accounting System (SPED)

a) What is SPED?

Created by Decree No. 6.022 of January 22nd, 2007, the Public Digital Accounting System (SPED) Project, in general terms, consists of the modernization of the current system of compliance with accessory obligations, submitted by taxpayers to tax administrations and the oversight bodies, using the digital certification in order to obtain a signature for electronic documents, thus guaranteeing their legal validity in digital form. The system is one of the projects that make up the 2007-2010 Growth Acceleration Program (PAC) of the federal government of Brazil.

The SPED is made up by three major subprojects: Digitally Recordable Accounting (ECD), the Digital Fiscal Accounting (EFD), and Electronic Invoicing (NF-e). In this section, we focus on the issue of accounting, while the NF-e will be broached in a separate section, because it is in a more advanced stage.

The new system represents an integrated initiative by the tax administrations at the three levels of government and is a partnership with 20 institutions, including public organizations, class councils, civil associations and institutions, in the joint implementation of the project.

For the implementation of the SPED, the following premises were adopted: i) promote a better business environment for the country's companies; ii) eliminate unfair competition by increasing competitiveness among companies; iii) the official document is the electronic document with legal validity for all purposes; iv) use the Standard ICP Brazil Digital Certification; v) promote information sharing; vi) reduction of costs for taxpayers; vii) minimum interference in the taxpayers' environment; and viii) make available applications for the issuance and transmission of Digital Accounting and NF-e for the optional use by taxpayers.

Among the objectives, we have promoting further integration of the treasuries by sharing accounting and fiscal information, simplifying compliance with the taxpayers' accessory obligations since the obligations with various institutions will be complied with in a single transmission, and improving oversight, which will be able to identify illegal tax-related actions faster, given the quick information access.

b) Background

Just like in the other cases involving integration among treasuries, the initial reference is Constitutional Amendment No. 42 of December 19th, 2003, which established that the tax administrations of the Union, states, Federal District, and municipalities act in an integrated fashion, even sharing their cadastres and fiscal information.

In later meetings by tax administrations, joint actions were delineated to comply with the constitutional mandate. Thus, Cooperation Protocols were signed at the ENAT II – National Meeting of Tax Administrators – in order to develop and implement the Public Digital Accounting and Electronic Invoicing System.

Regarding the issue of the Improvement of the Tax System, the implementation of the Public Digital Accounting System (SPED) and Electronic Invoicing (NF-e) in two years is among the measures announced by the Federal Government on January 22nd, 2007 for the 2007-2010 Growth Acceleration Program (PAC), because the two projects are aimed at removing administrative and bureaucratic obstacles to economic growth, promoting a business environment for the country, and reducing the “Brazil cost.”

c) Current Management

Regarding the subprojects dealing with accounting, it can be established, in a very simplified way, that in both cases, it is the replacement of the current fiscal and accounting books for their digital equivalents.

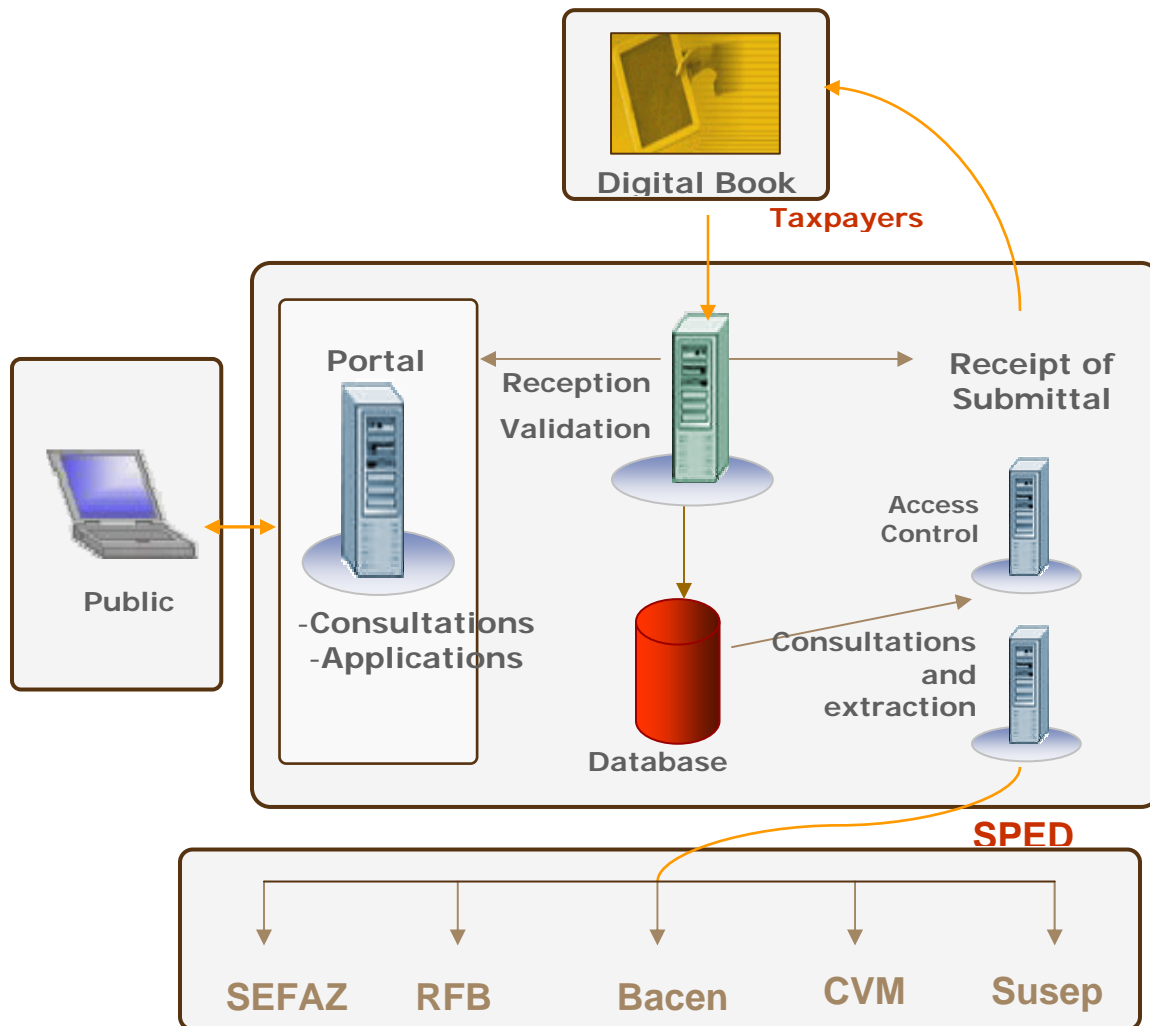
In the terms of Decree No. 6.022/2007, the term for the implementation of the ECD began on 01/01/2008 for companies subjected to the differentiated economic-tax accompaniment and subject to Real Profits⁷. On 01/01/2009, the system began encompassing all the companies subject to tax on Real Profits.

In a simplified manner, the operation of the accounting SPED is shown in Figure 1 in the following page.

Regarding the EFD, the definition of the companies obligated to submit digital fiscal accounting is slated for the first half of 2009.

⁷ Characteristics of the tax system of the largest companies once it demands fully recordable fiscal accounting.

Figure 1 – Digitally Recordable Accounting System



d) Expected Results

The benefits are varied and favor both the Tax Administrations and taxpayers. The following stand out among the results:

- Cost reduction with the elimination of issuance and storage of paper documents;
- Elimination of paper;
- Cost reduction with the streamlining and simplification of accessory obligations;
- Standardization of the information taxpayers give to the various federal units;
- Simplification and expedition of procedures subject to control by the tax administration (foreign trade, special systems, and transit among federal units);

- Strengthening of the control and oversight through the exchange of information among the tax administrations;
- Quicker access to information;
- Reduction in administrative costs;
- Improvement in the quality of information;
- Possibility of cross reference between accounting and fiscal data;
- Availability of authentic and valid accounting copies for various uses and concomitants;
- Reduction of the “Brazil Cost;”
- Improvement in the fight against evasion;
- Preservation of the environment through a reduction in paper consumption.

The main difficulties refer to problems of coordination among organizations during the implementation of the SPED. These problems are being overcome, given the common interest of the organizations involved, the leadership of the RFB, and the acceptance by society, which has been very positive since the system will reduce a large part of the accessory obligations of taxpayers, as well as will eliminate unfair competition in the economy. Even so, there are some sectors that have criticized the project for its allegedly legal weaknesses and an exacerbated increase in the power of oversight.

e) Achieved Results

Regarding the results, the SPED in the area of accounting is still in its initial execution stage, but it should start gaining ground beginning in 2009 with the compulsoriness of submission by all companies subject to Real Profits, which equals approximately 180,000 taxpayers⁸. In the period between 01/01/2008 and 04/11/2008, 50 files were submitted with the Accounting SPED.

3.5 Electronic Invoicing (NF-e)

a) What is Electronic Invoicing (NF-e)?

The NF-e is a document issued and stored electronically that exists only in its digital version. The objective is to document an operation of merchandise transfer and service rendering between two parties, whose legal validity is guaranteed by the digital signature of the issuer and the reception, by the treasury, before the occurrence of a Generating Event.

The objective of the NF-e is the implementation of a national electronic fiscal document model that will replace the issuance of a fiscal document in paper, with legal validity guaranteed by the digital signature of the issuer, simplifying the accessory obligations of taxpayers while enabling the follow-up in real time of the commercial operations by the Treasury.

⁸ Data of the DIPJ/2004.

b) Background

As is the case with one of the subprojects of the SPED, the origin of the NF-e is also found in Constitutional Amendment No. 42 and its implementation, with the signing of protocols of the II ENAT, and is part of the 2007-2010 Growth Acceleration Program (PAC) of the federal government.

c) Current Management

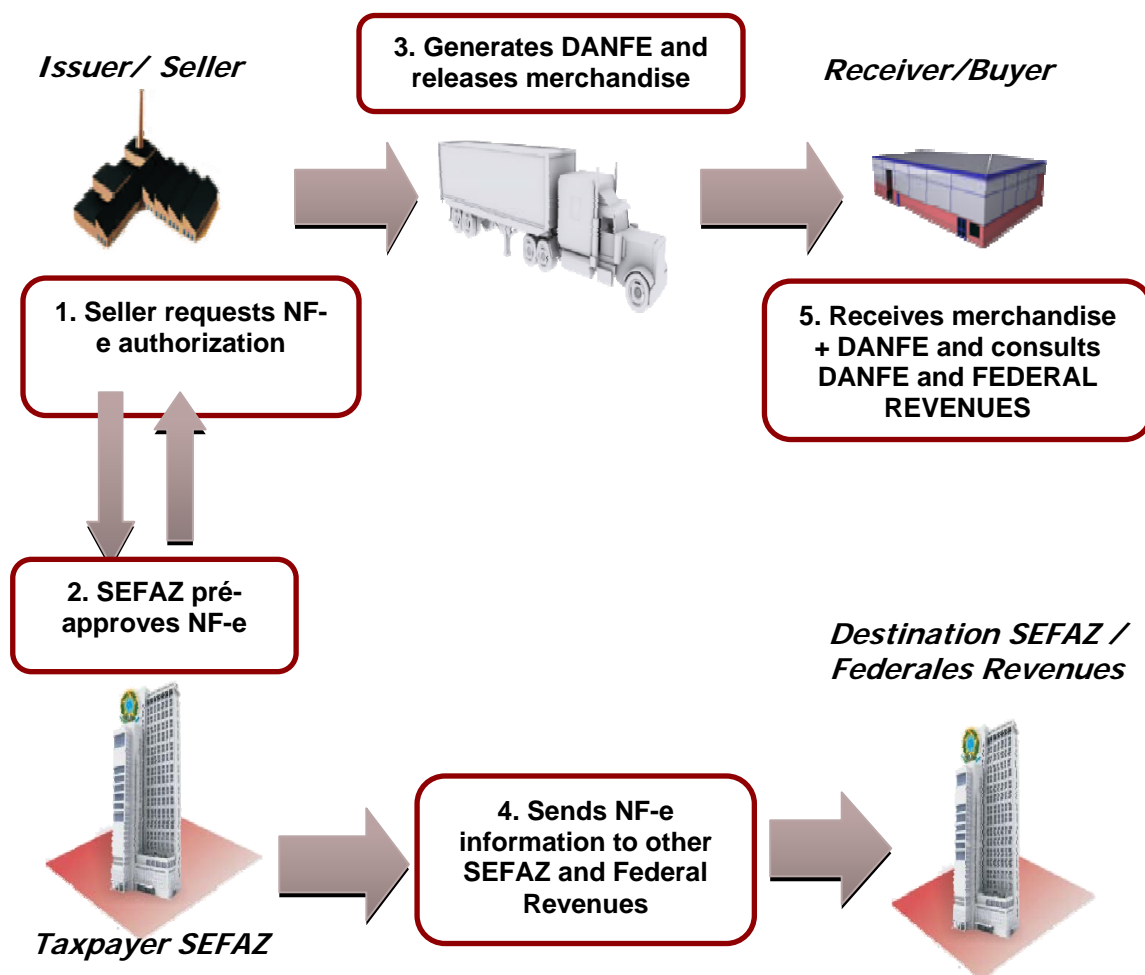
The NF-e has already been implemented in some states and economic sectors, according to the following chart, but its coverage will substantially increase beginning on 01/04/2009.

Chart 02 – Sectors already Implemented

Date	Sectors
Beginning on 01/04/2008	<ul style="list-style-type: none"> - cigar makers; - cigar distributors or wholesalers; - liquid fuel manufacturers, producers, and importers; - liquid fuel distributors - retail transporters and resellers
Beginning on 01/12/2008	<ul style="list-style-type: none"> - manufacturers of automobiles, vans, SUVs, trucks, buses, and motorcycles; - cement manufacturers - manufacturers, distributors, and wholesalers of allopathic medicines for human consumption; - cold containers and wholesalers that promote the sale of fresh, refrigerated, or frozen meat from cows, pork, buffalo, or poultry; - manufacturers of alcoholic beverages, including beer and draft beer; - refreshment manufacturers; - agents that play the role of electric energy providers in the area of the Electric Energy Commercialization Chamber; - manufacturers of semi-finishes, plain or long laminates, re-laminates, and wire drawing and sectional steel; - manufacturers of first fusion steel.

The following figure is a summary of how the NF-e Works:

Figure 3 – Electronic Invoicing System



When a buyer and seller conduct a business transaction, the later with its digital signature requests authorization via Internet for the issuance of the NF-e to the State Finance Secretariat from its jurisdiction. The SEFAZ in turn returns the pre-validated NF-e receipt. This Use Authorization notice enables the transportation of merchandise. Beginning with this authorization, the Auxiliary Electronic Invoice Document (DANFE) is printed. The NF-e information will be transmitted by the SEFAZ of the taxpayer to the SEFAZ of the destination of the merchandise and Federal Revenues. The SEFAZ will make available for consultation, through the Internet, the NF-e information.

The DANFE is a simple graphic representation of the NF-e, can be printed in common paper, and is used to cover the transfer of merchandise and NF-e accounting auxiliary when the addressee does not participate in the system. By itself, it has no legal value, and its validity is conditioned upon the existence of the NF-e.

d) Expected Results

It is estimated that the adoption of the NF-e will bring positive results for all the parties involved. The following results stand out: *Benefits for the Selling Taxpayer – NF-e Issuer* (reduction in the costs of paper, printing, and storage; simplification of accessory obligations; reduction in the time trucks stop at fiscal offices; incentive for the use of electronic relations with clients - B2B); *Benefits for the Buying Taxpayer – NF-e Receiver* (elimination of the digitalization of invoices in the reception of merchandise and incentive for the use of electronic relations - B2B); *Benefits for Tax Administrations* (increase in the trustworthiness of the invoice, improvement in the fiscal control process, further information exchange and sharing among treasuries, reduction in the in-transit merchandise invoice control process, and support for fiscal electronic accounting projects of the RFB (Public Digital Accounting System – SPED)).

e) Achieved Results

Regarding the results according to the sites that follow up on the program⁹ on 15/01/2009, 81 million NF-e's totaling more than R\$1.6 quintillions have already been issued.

3.6 Virtual Taxpayer Service Center (e-CAC)

a) What is the Virtual Taxpayer Service Center?

In order to provide more options to render services to taxpayers, the Secretariat of Federal Revenues of Brazil, RFB, on 12/12/2005, through Normative Directive No. SRF No. 580, created the Virtual Taxpayer Service Center, called **e-CAC**, which is accessed through the RFB portal in the worldwide web.

To access the **e-CAC** services, it is necessary for taxpayers to have the e-CPF or e-CNPJ, or any certificate of corporation or person from the Brazilian Public Password Infrastructure ICP-Brazil.

Citizens can access **e-CAC** from their homes or offices via the Internet through the use of Digital Certification technology, which guarantees the safety and integrity of the transactions done.

The **e-CAC** operates 24 hours a day, seven days a week in order to provide more comfort to taxpayers, without having to move and stand in line. It also increases the time available for his attention considerably.

⁹ <http://www.nfe.fazenda.gov.br/portal/Default.aspx>

The services rendered through the **e-CAC** are automatic and are grouped according to the nature and type of taxpayers – corporations or individuals – and can be accessed, respectively, with the use of their e-CPF and e-CNPJ Digital Certificates, or through their representatives, as long as they have previously been listed in the cadastre through the specific service. It is certified that an individual, with his e-CPF, will be able to use the applications for the corporation for which he is responsible before the CNPJ.

The digital certificate is the tool that enables taxpayers to access the services protected by the fiscal secret in the **e-CAC**. It is a process that guarantees that the information exchanged in electronic transactions will not be accessed by third parties and that they will not be changed in the route they follow. Thus, the certificate guarantees the identity of the origin and destination of the information.

The certification process generates an electronic file that identifies who the owner is, which in an electronic means, is the equivalent of an identification card.

In order to obtain the e-CNPJ or e-CPF digital certificate, taxpayers must choose one of the companies authorized by Federal Revenues to issue an identification card.

b) Current Management

Currently, the **e-CAC** has the following services, among others, at taxpayers' disposal:

1. POSTAL ADDRESS: e-CAC users will be able to receive completely safe and reliable messages from the RFB, either general or personal, reminders for compliance with accessory obligations, and notices on the deadlines to pay taxes, as well as pending actions present in the RFB systems. Information of the exclusive interest of taxpayers who have a POSTAL ADDRESS will be able to circulate fully guaranteeing the inviolability of the fiscal secret.

2. CADASTRES:

a) CPF: it is available to consult its cadastral data, as well as the possibility of updating some of these data, even the address.

b) CNPJ: it is available to consult the cadastral situation of companies and the issuance of the registration receipt.

3. RETURN COPY:

a) Returns of Individuals: taxpayers will be able to retrieve copy of the return filed via Ingresosnet in the last few years, whether IRPF, ITR, and IRRF.

b) Returns of Corporations: taxpayers will be able to retrieve copy of the return filed via Ingresosnet in the last five years, whether IRPF, ITR, and IRRF.

4. SUBMITTED RETURNS: Individuals and corporations will be able to view the last tax returns submitted, as well as to make consultations on their processing (processing extract) and on the amounts to be returned for the following types of tax returns: DIRPF – Individual Income Tax Return; Dirf – Source-Withheld Tax Returns; DIPJ – Statement of Fiscal and Economic Information of Corporations; Simplified PJ – Simplified Corporate Returns; DITR – Rural Property Tax Returns; DCTF – Federal Tax Debit and Credit Returns.

5. PAYMENTS: e-CAC users will be able to consult the list of payments made, print payment receipts (a very useful option when the original DARF is lost), and correct mistakes made when the DARF or the DARF-SIMPLE are filled out. The corrections allowed will be fully automatic in case the payments are available.

6. PARTIAL PAYMENTS: enable **e-CAC** users to make partial debit payments at Federal Revenues, payments dealing with federal taxes and dues under the current legislation.

7. ELECTRONIC POWER: enables **e-CAC** users to delegate to third parties who have their Digital Certification their representation at the Federal Revenues. Individuals and corporations will be able to do the following: i) select what available services their representative can access and also specify the date of expiration of his power; ii) consult the powers previously registered by taxpayers in favor of their proxies, as well as the powers granted to third parties on their behalf, being able to view their data and respective expiration dates; and iii) cancel those powers they do not wish to keep.

8. FISCAL SITUATION: **e-CAC** users will have detailed access to their fiscal situation at Federal Revenues. In addition to being able to view their cadastral and fiscal data, taxpayers will be able to obtain orientation on the regularization of their pending cases existing by chance.

9. SISCOMEX: individuals previously registered at Federal Revenues will be able to conduct transactions regarding the Foreign Trade Integrated System, such as registration of legal representatives, exports, Mantra, imports, customs movement, and the use of the Manaus Free Zone.

The aforementioned services constitute only a small sample of what has already been implemented in order to ease the burdens of taxpayers and their communications with the Tax Administration. Federal Revenues will continue to work to broaden the universes of services to be rendered by means of the Virtual Taxpayer Service Center, **e-CAC**.

The complete list of services rendered by the **e-CAC** can be consulted in the following address: <http://www.receita.fazenda.gov.br/atendvirtual/defaultDemaisServicos.htm>.

c) **Expected Results:**

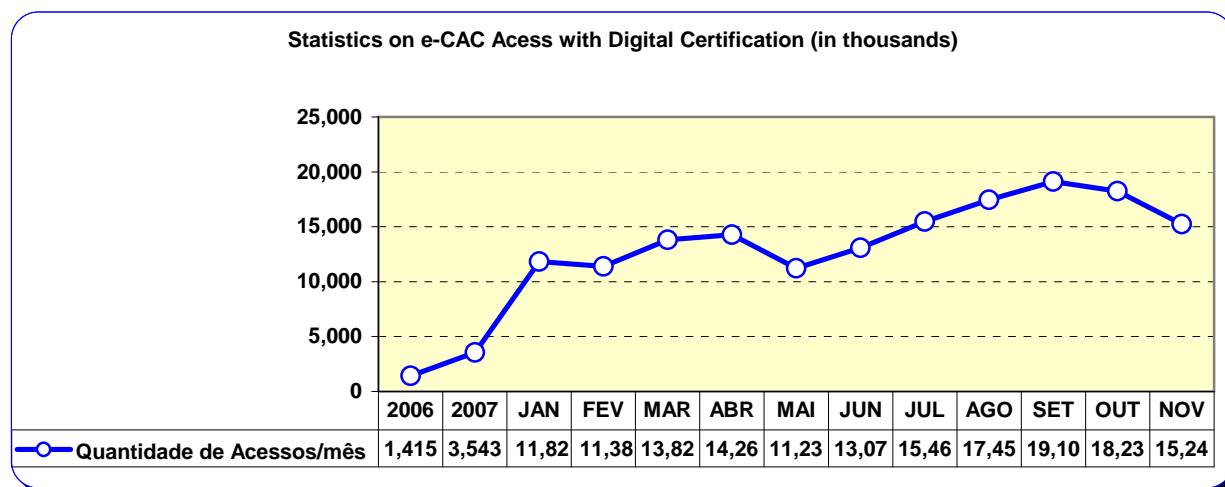
With the implementation of the **e-CAC**, both society and the Tax Administration must obtain significant benefits. The following stand out among the most important ones:

i) **For taxpayers/citizens:** time saving, comfort, and practical sense as the services are available full time at the RFB site.

ii) **For Tax Administrations:** reduction in operational costs, such as filing materials, among others. Reduction in the search for personal services at the Taxpayer Service Centers, enabling the change/qualification of servers to render more specialized services, thus contributing to reducing the time spent in lines, diminishing the average time of attention, eliminating repressed demand, and increasing the conclusion of cases.

d) **Achieved Results:**

The use of **e-CAC** substantially reduced the flow of taxpayers at Service Centers for Federal Revenues, reducing the time spent in lines and the average time of attention. The number of accesses has increased insofar as taxpayers become aware of the types of services already available via Internet. The following graph shows the statistics for digital certification accesses:



The major challenge is to also reduce personal attention even more, which reached 1.5 million taxpayers in 2008, and replace it by virtual attention.

4. Final Considerations

As we tried to show, the RFB has sought management solutions leading to a reduction in costs and simplification of the obligations of taxpayers while increasing efficiency in tax administration, as well as further promoting communications among States and Municipalities. It must be recalled that the integration among the Tax Administrations has not been too great in federal countries, especially in those that, like Brazil, have a high degree of fiscal decentralization.

The partnerships, protocols, and joint projects among the RFB and the state and municipal Tax Administrations represent progress in the country's institutional maturity, strengthening the actions of the State with more agile and powerful instruments against fiscal evasion and making the business environment more propitious for the citizens and corporations that try to operate in accordance with national laws.