**Inter-American Center of Tax Administrations – CIAT**

**43rd CIAT GENERAL ASSEMBLY**

**"A MODERN VISION OF THE TAX ADMINISTRATION"**

**Case Study 3.1**

# MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS

**State Agency of Tax Administration**
**Spain**

**Santo Domingo, Dominican Republic**
**April 20 – 23, 2009**

**Case Study 3.1: MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS**

## TABLE OF CONTENTS


TABLE OF CONTENTS ........................................ 1

STRATEGIC PLANNING IN TAX ADMINISTRATION ........................................

THE EXPERIENCE OF THE SPANISH STATE TAX ADMINISTRATION AGENCY ...... 2

I. APPROACH ........................................ 2

II. THE SITUATION IN SPAIN ........................................ 2

2.1 Backgrounds ........................................ 3

2.2 Tax Fraud Prevention Plan ........................................ 4

THE TAX AGENCY'S OBJECTIVE PLAN 8
GENERAL TAX CONTROL PLAN 11
CENTRAL SERVICES' COMMITMENTS 12

2.3 Results ........................................ 13

2.4 The revision of the Fraud Prevention Plan in Spain ........................................ 17

III. CRITICAL ANALYSIS AND CURRENT INITIATIVES ........................................ 19

IV. CONCLUSIONS ........................................ 20

## Case Study 3.1: MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS

## STRATEGIC PLANNING IN TAX ADMINISTRATION
## THE EXPERIENCE OF THE SPANISH STATE TAX ADMINISTRATION AGENCY

### I. APPROACH

By strategic planning is understood as the activity whereby a public or private organization defines its mission, its vision, the core values guiding its activities and its middle and long-term objectives, along with the strategies to pursue in order to achieve them. This activity also implies an analysis of its own situation and the environment in which the organization operates, so that the objectives and strategies adjust to the specific reality at a certain time in a certain country.

Strategic planning is not an alien concept to public bodies. The evaluation of the Public Administration's actions has been a constant concern of society since the first half of the twentieth century. While the concept of strategic planning, objective-based management and management control achieved great development in the business world, in the field of Public Administrations these ideas were introduced though with some reservations.

It should be pointed out that in the case of public administrations the definition of the public body's mission is largely found in the law or in a rule laid down by the nation's government, with the field of strategic planning focused on the compliance with the mission imposed by the juridical system.

This is the case of the tax administration, whose mission to apply the tax system, with greater or less powers varying by country, is set by juridical rules. Therefore, the question remains of what space is left for strategic planning in a tax administration, which we will discuss here from the experience of the Spanish Tax Agency.

### II. THE SITUATION IN SPAIN

Under its Charter, the State Tax Administration Agency (hereafter, Tax Agency) was created as a public entity having a legal system that confers upon it certain self-governance in organizational, budgetary and staff management matters, with respect to the State General Administration.

The Law assigns the Tax Agency the mission of applying effectively the state and customs tax systems, and such other resources of other Administrations and national Public Bodies or European Union bodies whose management is entrusted through a Law or Pact.

Like many other Public Administrations, for the performance of its mission the Agency has fixed as its core strategic objective the increase in the levels of citizens' voluntary fulfillment. To this aim, it has defined two fundamental lines of action. The first one intends to facilitate citizens' voluntary compliance with their tax obligations, by offering information and assistance services. The second one is targeted at detecting and regularizing tax non-performance by way of control actions that guarantee the generality and equity in the contribution of public charges.

To put into practice these core strategic lines of action, the Tax Agency has implemented an objective-based planning system that addresses two aspects of planning: strategic planning and operating planning.

The strategic planning outlines the major lines of action the organization must follow in the middle and long term, whereas the operating planning translates pluriannual strategies into actions and annual goals, which are incorporated into an annual objective plan and tax control plan.

The aim of this paper is to show the experience of the Spanish Tax Agency in utilizing planning to implement a change in the strategic line of action. To this end we will discuss the effects of this strategic renewal in the Tax Agency's orientation of activities and the results obtained during the period 2005-2007.

### 2.1 Backgrounds

Since its creation in 1992, the Tax Agency has used diverse planning instruments with a larger scope than the annual objective plan. The planning is in line with the new organizational model of the Tax Agency that confers autonomy but demands a strict control from the Government and the Parliament.

During the first two years of its existence, the Tax Agency resorted only to annual plans as instruments for planning its activity. However, since 1995 it has been incorporating strategic planning tools with diverse scopes. We say this because some plans had a general scope whereas others made reference only to the fight against fraud. Some of the latter ones, as we will see, have even had a general strategic orientation.

- In 1995 the Fight Against Fraud Plan was approved. No specific effective term was contemplated. This plan not only made reference to the tax fraud but also comprised social security and other public service fraud. The diagnosis of the Plan was very comprehensive, although it fell short of operating measures.
- Later, the Biannual Plan for tax fulfillment enhancement and the fight against tax and customs fraud was approved, inspired largely by 1995's Plan.
- In 1998 the Modernization Plan of the State Tax Administration Agency was approved, which provided no specific effective term. Along the different paragraphs, it puts together, on the one hand, the measures to facilitate voluntary fulfillment and, on the other hand, the tax fulfillment control model.

Nevertheless, given its influence on the Tax Agency's current activity, we would like to underline the recent experience with the Tax Fraud Prevention Plan (approved in February 2005), used by the Tax Agency to implement a shift of direction which has ultimately had a great repercussion in the results of its activity. This is what this paper intends to discuss, for it implies analyzing through the real experience of a tax administration the ability to achieve tangible results from the strategic planning of its activities.

The situation exhibited a great development of one of the above cited strategic lines, that is, taxpayer information and assistance, whereas tax control had been relegated to a secondary role. The instructions received from the Government through the Presidency of the Tax Agency concerned the redefinition of priorities placing the fight against fraud as a top priority, without neglecting citizen assistance.

### 2.2 Tax Fraud Prevention Plan

The Tax Fraud Prevention Plan could be defined as a special plan for the prevention and fight against tax fraud, which distinguishes it from other general scope strategic plans entrusted to the Tax Agency.

Even so, since its approval in 2005, it has become the strategic document of reference in the Tax Agency's activity. The Tax Fraud Prevention Plan has defined a general strategy for the Tax Agency consisting in the promotion of voluntary fulfillment through two lines of action that can be summarized as providing facilities to taxpayers in compliance, on the one hand, and fighting against fraud on the other hand. Hence, the Plan has contemplated the two facets of the Tax Agency's activity: taxpayer information and assistance, and tax control.

The main characteristics of the Plan are:

It is an integral plan, because it comprises everything from tax education to tax whitewash or the persecution of tax crimes, that is, from taxpayer information and assistance, in the broadest sense of the term, to criminal penalization of the most serious fraudulent behaviors.

It is operative, because a great part of the proposed measures have immediate application, which have thus been translated into annual objective plans. However, the Plan has also been completed with formative reforms that have been incorporated into the Act of Tax Fraud Prevention No. 36/2006 of November 29, and its service charter, approved by the Executive Order 1804/2008 of November 3, and some organizational adjustments, specifically the creation of the Central Office of Large Taxpayers.

It is flexible, since it adapts to new forms of fraud or new social requirements.

Besides, it should be considered that the Tax Fraud Prevention Plan of 2005 is for internal execution within the Spanish Tax Agency and does not provide a limited term of execution.

The methodology employed in the Tax Fraud Prevention Plan deserves special attention. The Plan is the result of a large process of internal reflection taken place in the Tax Agency, which has also been put to the consideration of the whole society, so the process of its preparation can be said to be largely participative.

1. Initial phase

This consisted in the identification of weaknesses and strategic, organizational or coordination issues apt for improvement in the control model. To cite an example, the following weaknesses were detected:

- Problems related to the obtention and systematization of the information available to the Tax Agency, which hinder the selection of taxpayers and control actions.

- Lack of an external communication policy apt to leverage the effects of control actions and allow gaining allies among citizens, companies and entities affected by fraud.

- The Tax Agency's organizational model and external alliances have not experienced any substantial changes from its creation, reducing its ability to respond to such phenomena as the misplacement of taxable persons or operations with tax havens.

- Lack of a clear and integrating strategy to fight fraud during the collection phase of control actions, which consists in the equity stripping of defrauding entities during the period of control actions.

- Limitations to the planning instruments of actions targeted, until this Plan, at proving a minimum number of taxpayers and discovering a certain amount of debt, with the resulting discouragement of more complex investigative tasks.

2. Experts' analysis

From this diagnosis, over sixty measures or areas requiring improvement were identified. The Tax Agency's Permanent Managing Committee appointed experts who submitted a report for each of the measures.

These reports, more than 60 in total, were subjected to the consideration of the Agency's Departments and Services, and once ratified by the Permanent Managing Committee became the basis for the preparation of the Fraud Prevention Plan.

## 3. Draft Plan Preparation

The experts' reports led to execution of coordination tasks. The set of over 60 reports was depurated and systematized into eleven action blocks or areas based on the fraud modality, the type of affected taxpayer or the type of proposed measure.

## 4. Public information

The preparation of the Plan followed a methodology that incorporated elements of social participation inexistent in previous plans.

The draft Plan underwent a diligence of public information for two months that included its publication on the Agency's webpage for information of the citizens, resulting in over 500 suggestions from individuals and 22 reports from professional associations and unions. All of them were subject to a careful analysis by the Tax Agency with a view to enriching the Plan's content and adapting it to the demands of the society regarding tax fraud prevention. Some modifications were introduced in the draft as a consequence of such contributions.

## 5. Presentation of the plan

Upon completion of the public information diligence, the final version of the Tax Fraud Prevention Plan was presented within the frame of the meeting of the Council of Ministers held on February 4 of 2005. It consists of a document divided into four chapters.

- The first chapter is devoted to presenting the Plan.

- The second chapter includes the main lines of action.

- The third chapter is composed of eleven areas of actions.

- The fourth chapter, relative to regularizing measures, presents in systematized fashion the regularizing proposals whose study derives from the aspects developed by the Plan.

## 6. Permanent suggestion box

The disclosure of the Plan to the society, which, as it has been said before, constitutes the most innovative aspect of the methodology employed, has been completed with a permanent suggestion box posted on the Agency's website www.agenciatributaria.es. In this box citizens can formulate proposals and observations that are subject to the Tax Agency's continuing study.

The Tax Fraud Prevention Plan defines new strategies that entail a shift in management and will inform the organization's activities in the following exercises:

- In-depth investigation and creation of specialized investigative units of the most sophisticated fraud modalities, and field presence. The great volume of information stored in tax databases is recognized as being a major asset. However, with time it may pose a risk because the control model may only consider what is inside the information system. An adequate tax control requires investigating in addition to proving what is known, and incorporating risk analysis techniques.
- Approximation of control to the execution of the taxable event. Greater effectiveness of action is sought by way of greater proximity between the control of the taxable event and the time the taxable event is executed, especially in the case of indirect taxes.
- Performance of more preventive actions, because correcting is more difficult and costly than preventing. To this aim actions have been reinforced, such as the forwarding of fiscal data and individuals' income tax drafts.
- Reinforcement of internal coordination and integration. The Plan reinforces the mechanisms of integration and coordination between the different functional areas.
- Prioritized attention to liquidated debts. The collection of debts arising from investigative and verification processes is articulated as a priority for the Tax Agency's actions. What is being avoided is the displacement of fraud towards the collection phase, thus eluding the tasks of control bodies.

The structure of the Tax Fraud Prevention Plan comprises the following sections:

- Preventive actions and institutional alliances
- Areas of specific attention:
    - Organized fraud schemes
    - Real estate sector
    - Foreign trade
    - Small and medium-sized companies
- Fraud during collection phase
- Organizational and coordination measures
- Regularizing measures

Each of such sections contains action principles and concrete measures that have been incorporated into successive annual objective plans of the Tax Agency during the period 2005-2008.

In addition to setting the general guidelines of the fight against fraud actions, the Plan also called for a modification of the annual objective plan's structure that would reflect the proposals, in terms of actions. This implied abandoning liquidated debt as the main measure of control effectiveness, and adopting standards that opened the door to investigative actions that had never been sufficiently promoted and valued when they were carried out in terms of liquidated debt.

We will now focus briefly on the Tax Agency's annual planning tools in order to show how the tax fraud prevention plan is reflected in their structure and content.

These are the Annual Objective Plan, the General Tax Control Plan and the Central Services' Commitments.

## THE TAX AGENCY'S OBJECTIVE PLAN

The Tax Agency's annual objective plan is the summarized, joint and systematic expression of the results that are expected to be accomplished with each of the objectives outlined in the plan itself.

The Tax Prevention Plan has implied a revision of the planning principles, which can be summarized in the following aspects:

1. Alignment of the objectives with the strategy (to favor voluntary fulfillment)

2. In 2005, liquidated debt ceases to be the target of control actions. Until then, the target of control actions was measured mainly in terms of liquidated debt; thereafter, the objectives are fixed in terms of numbers of actions homogenized and weighed by diverse factors, among them, liquidated debt.

3. Reinforcement of coordination through the establishment of indicators common to different areas (Customs, Management, Inspection and Collection) and quality through diverse weighing factors that consider the different quality of actions.

4. Planning becomes more participative upon including territorial services in the process of preparation of the Annual Objective Plan.

5. The Objective Plan is approached from an internal double perspective to point out the organization's annual goals; and externally, for the purposes of accountability before the General Courts. A basic principle of the current planning system is the external control exercised by the Government and the General Courts. This control is particularly exercised by presenting the annual Objective Plan and two biannual reports on results to the Courts, through the Government. In addition, the Tax Agency's Director reports to the Parliament to expose the achieved results.

6. A notable simplification is made in the definition of the diverse indicators in the Objective Plan with the preparation of an integral chart of indicators containing 13 first-level metrics.

Since 2005, the Agency's Objective Plan presents two clearly differentiated parts:

The first one refers to the results in terms of gross revenue collection, liquid collection and the effects in terms of collection of the Agency's managerial actions.

The second one refers to the actions performed by the Tax Agency, whether taxpayer assistance, control or collection management. All control actions, whether extensive or intensive, are measured in terms of the number of actions.

The objective plan in its first part measures the collecting function of the tax public resources entrusted to the Agency. In the second part, the taxpayer assistance, tax control and collection actions to be performed are quantified with a view to fulfilling within the year all actions due by the different management units and thus allow a proper managerial control.

Below is the first-level objectives chart.

| |
|---|
| **I. RESULTS.** |
| **1.- Gross collection.** |
| **2.- Net collection.** |
| **3.- Direct collection effect:** |
| 3.1.- Revenues derived from the Agency's control actions |
| 3.2.- Tax refund relief. |
| **II. ACTIONS.** |
| **II.1.- TAXPAYER ASSISTANCE.** |
| 4.1.- Average time to process appeals and claims |
| 4.2.- Electronic, computer and telematic lodgement of tax returns |
| **II.2.- ACTIONS AGAINST TAX FRAUDE.** |
| **ACTTIONS OF SELECTIVE CONTROL AND RESEARCH.** |
| 5.- Actions of examination on internal taxes. |
| 6.- Actions of examination on Foreign Traiding taxes. |
| 7.- Actions of examination on real -estate sector. |
| 8.- Actions on fraude plots. |
| 9.- Actions on the Operative Customs Area |
| **ACTIONS OF EXTENSIVE CONTROL** |
| 10.- Extensive control actions on internal taxes and modules. |
| 11.- Extensive control actions son large buiseness. |
| 12.- Control actions on customs maganement and management and seizure of Special Taxes. |
| **ACTIONS OF COLLECTION MANAGEMENT.** |
| 13.- Collection management of debts. |

## I. COLLECTION RESULTS

Objectives 1 and 2 reflect the voluntary tax collection resulting from taxpayers' self-liquidations.

The direct collection effect in objective 3 reflects, on the one hand, the tax collection generated from the Tax Agency's liquidation actions, and on the other hand, relief of tax refunds made by the Tax Agency as a consequence of a control action.

The indicator 3.1 is a transversal objective that measures, with a cash criterion, the revenues obtained during the term of the Annual Objective Plan.

The tax refund relief indicator, 3.2, is intended to complete the tax collection effect deriving from control actions, and it is justified because it has prevented an undue amount from coming out of the Public Treasury thanks to the success of control actions.

The measurement of the direct collection effect is supplemented by the measurement, though not with the category of objective, of untimely tax returns submitted by taxpayers, which measure the immediate induced effect deriving from the Tax Agency's control actions. Not all control actions conducted by the Tax Agency can be measured by the actual collection, for many times these cause voluntary regularizations in the environment of the taxable person that is being subject to control.

## II. ACTIONS

### II.1 Taxpayer assistance

4.1. Average time for the diligences of remedies and claims. This indicator fixes a maximum term for the diligence of procedures of remedies or claims filed by taxable persons.

4.2. Electronic, computer and telematic lodgment of tax returns. This indicator measures the percentage of taxpayers' returns lodged through non-presence means, making a differentiation between mandatory lodgment tax models, which measure only the number of submitted records to show the volume of information entered through this means, and non-mandatory models, in which a minimum achievable percent objective is established.

The above cited objectives include other types of measurements that supplement an overview of taxpayer assistance activities.

As a result of the updated Fraud Prevention Plan, a modification was introduced in this point to reinforce the measurements of voluntary fulfillment promotion by way of a reduction in the administrative charges tied to voluntary fulfillment.

### II.2 Actions to fight fraud

Among the actions to fight fraud we can distinguish selective control and investigative actions, extensive control actions and tax collection management actions.

Selective control and investigative actions pertain to the application of the inspection proceeding that confers wider powers for investigation and control. They are carried out by the departments of Financial and Tax Inspection and Customs and Special Taxes. They are a faithful reflection of the action lines established in the Fraud Prevention Plan for certain control aspects such as the inspection actions in the real estate sector or fraud schemes.

The indicators 5, 7 and 8 refer to control actions for internal taxes, while the indicators 6 and 9 are actions carried out by Customs Inspection and Customs Surveillance, relative to foreign trade taxes.

The extensive control actions reflect mass actions based on computer filters and mass cross-check information using restricted verification or check procedures in which the Tax Administration's investigative powers are limited.

Tax collection management actions distinguish between those leading to revenues generated from voluntary fulfillment or summary proceedings and those not leading to immediate revenues, either because of the adoption of precautionary measures or the de-registration of accounts due to the taxable person's insolvency.

## GENERAL TAX CONTROL PLAN

The General Tax Control Plan is the Tax Agency's planning tool for establishing quantitatively and qualitatively the actions to be performed in tax and customs control during the year.

The General Tax Control Plan outlines and describes the actions contemplated in the Objective Plan, values them and sets forth the maximum and minimum limits of actions. In other words, it translates the actions contemplated in the Objective Plan into operating terms.

It is structured as follows:

Ø General Guidelines
Ø Tax Control Partial Plans
§ Partial Plan for Control of Financial and Tax Inspection
§ Partial Plan for Control of Customs and Special Taxes
§ Partial Plan for Control of Tax Management
§ Partial Plan for Tax Collection Control
Ø Partial Plan Integration Rules
Ø Coordinated planning of assigned taxes

Whereas the Objective Plan refers to the number of actions we intend to perform during the year, the General Tax Control Plan specifies the number of actions for each program, its future valuation and limits, including penalties for excess non-performance in any of its sub-indicators.

The general action lines in the General Tax Control Plan are approved by resolution of the Tax Agency's Managing Director published in the State's Official Bulletin. The Partial Plans and their Integration Rules are reserved and not disclosed publicly.

Overall, the Partial Plans follow the same structure:

1. Description of prioritized sectors of actions and fraud operation.
2. Scheduled actions:
    a. Broken down by program
    b. Broken down by territorial unit
3. Homogenization coefficients
4. Weighing criteria

The Partial Plan integration rules develop a fundamental strategic guideline that gains relevance in the Objective Plan. It consists of the coordination between areas and between collaboration and coordination actions. Among them stand out the collaboration actions between liquidation areas and collection areas, with the immediate purpose of assuring debt collection from the time the control action is started. This kind of actions has great importance in Administrations having a functional organizational base, as is the case of the Agency.

## CENTRAL SERVICES' COMMITMENTS

The fraud prevention plan reports another annual planning tool, the Central Services' Commitments, which sets the managerial objectives of Tax Agency Departments and Services that are not attributable or imputable to the managerial offices. Since 2005, these commitments have given a relevant role to this type of objectives that derive directly from the Plan.

The Central Services' Commitments are a basic tool within the planning of the annual activities of Tax Agency Departments. Therefore, they constitute the necessary supplement of the Objective Plan and the General Tax Control Plan in that they extend planning of actions to those performed by the Central Services of the Tax Agency's Departments.

The commitment document compiles the most relevant projects, in terms of strategy and annual execution, of all Tax Agency Departments. It includes relevant projects, news and measures that allow the operating units to accomplish the organization's objectives.

In addition to its content, each commitment indicates its term of execution and, where possible, the diverse actions to be performed and the term considered for their performance. Also, the commitment document indicates the departments or collaborators responsible for each project.

Unlike the Objective Plan, the degree of fulfillment of commitments cannot be shown in terms of tax collection results or the number of actions. As a consequence, a quarterly assessment is required of the degree of progress of projects in consultation with the departments in charge, which issue a reasoned report on the status of each commitment affecting their Department or Service.

Given the nature of commitments, in some cases their fulfillment may be contingent upon the approval of certain rules or the agreement with other public bodies.

As an example, we offer below the structure of the commitment document of Central Services for 2008:

I. Originating in the execution of the Fraud Prevention Plan:
- Of operating and regularizing character
- Of organizational character

II. Relating to taxpayer information and assistance:
- Improvement of information and assistance services
- Actions deriving from regularizing modifications

III. Other commitments related to tax control:
- Improvement of computer tools for control purposes
- Manuals and knowledge management
- Improvement of control in specific areas
- Control actions deriving from regularizing modifications

IV. Various commitments:
- Relationship with other public administrations, national and international
- Human resource management
- Material resource management
- Other commitments

## 2.3 Results

During the first years of implementation of the Tax Fraud Prevention Plan (2005-2008) some aspects have been reflected in the annual results and the aggregated data resulting therefrom, which are directly tied to the Plan's strategic proposals.

Below are some relevant data showing the impact on results.

In effect, during the years of application of the Plan there has been a considerable increase in the accumulated direct collection effect of control actions, on a correlative basis. This went up to 22,394 million Euros. The evolution from 2004 to 2008 entails a 60, 49% increase in revenues from direct collection.

The following chart shows the evolution in millions of Euros:

| YEAR | REVENUES | REDUCTIONS | UNTIMELY REVENUES | TOTAL |
|---|---|---|---|---|
| 2005 | 3,640.483 | 972,482 | 913,433 | 5,526.398 |
| 2006 | 4,182.645 | 1,126.989 | 1,096.572 | 6,406.206 |
| 2007 | 4,714.530 | 1,239.368 | 1,479.882 | 7,433.780 |
| 2008 | 4,825.134 | 1,692.812 | 1,536.172 | 8,054.118 |
| TOTAL | 17,362.792 | 5,031.651 | 5,026.059 | 27,420.502 |

On the other hand, the Plan allowed the optimization of control actions intended not only to obtain a direct collection effect through the regularization of non-performances, but also to generate an induced effect. In this sense, on confirming that certain verification and investigative actions are in place, taxpayers are encouraged to regularize their tax situation through the lodgment of untimely self-liquidations (outside the statutory term).

If we consider both the direct collection effect and the induced effect deriving from the voluntary regularizations carried out by taxpayers, the result accumulated during the years 2005 to 2008 amounts to 27,421 million euros.

On the other hand, as a consequence of the provisions made in the Tax Fraud Prevention Plan, there has been an increase in control over such sectors as real estate, as shown in the 227% rise in the debt liquidated by the Inspection services in 2007 (latest data available as of the date of this paper) with respect to 2004, in this sector. This increase in control has also led to improved voluntary fulfillment, reflected in the €3,113m increase in real estate capital yields voluntarily declared in 2007, compared to 2004.

The compliance with the Plan has demanded firm action on sophisticated and socially disapproved fraud modalities (schemes, tax whitewash, forgery, etc.).

Schemes constitute a type of fraud that is extraordinary complex. The detection of fraud schemes involves several functional areas of the Tax Agency and, in cases where criminal signs are identified, the Attorney General’s Office and the judges and courts also intervene. Besides, schemes extend throughout the national territory, requiring adequate inter-territorial coordination and affect not only the Spanish Administration but also the rest of the Member States of the European Union.

The Prevention Plan contains a series of measures intended to avoid, through preventive measures, the appearance of fraud, and explain how to detect schemes as soon as possible to fight them effectively. Among these measures are:

- The creation of specialized units devoted to investigating and dismantling fraud schemes. They have been constituted in all the Special Delegations, totaling 41 units.

- The signature of understanding agreements with associations representing economic sectors, intended to detect and curb defrauding behavior affecting economic competition, and to allow the fight against unfair competition in certain sectors of the Spanish economy. The execution of this measure has led to the signature of Understanding Agreements with the following sectors:

    - Computer software
    - Mobile telephony
    - Automobiles (concessionaires, manufacturers, importers, etc.)
    - Brand advocacy
    - Business Centers
    - Nautical rental
    - Consumers' and Users' Organization
    - Spirits

- The signature of agreements to fight tax whitewash and tax fraud, through the exchange of information with other bodies:

    - Collaboration Agreement for the exchange of information between the Tax Agency and SEPBLAC, July 5 of 2006.
    - Agreement with Consejo General del Notariado (*General Council of Notary Publics*), of June 19 of 2007, for the provision of information contained in the Single Computerized Index, direct access to it and the fulfillment of other information-related legal obligations.

- Collaboration with the General Office of Traffic of the Ministry of the Interior for the eradication of fraud schemes in the Special Tax over certain Means of Transport. This measure was intended to eliminate fraud committed with relation to the registration of high-end vehicles coming from other States of the European Union, which pay taxable bases that are very low with respect to the vehicle's real price. This fraud was committed mainly through limited liability companies within the frame of organized schemes.

  The effectiveness of these measures can be checked through the following data. The number of tax returns-liquidations submitted for this type of corporations, with taxable bases declared for a value less than €2,500 (large-cylinder and luxury vehicles) went down from 41,299 in 2004, to 10,321 in 2007, accounting for a 75% decrease in this type of self-liquidations.

Additionally, the Prevention Plan is aimed at completing the fraud prevention process initiated by the liquidation areas with a proper collection management of liquidated debts, adopting fraud prevention measures in this phase.

In particular, the precautionary measures and the subsidiary liability adopted helped increase actions from 649 in 2004 to 1,313 in 2007, duplicating the number of actions.

The Tax Fraud Prevention Plan required reinforcing institutional and social collaboration alliances by means of a policy of alliances with other bodies and institutions with a view to preventing fraud, obtaining relevant tax information, training the staff or normalizing management and control systems.

As a result of such measures there are diverse Agreements signed with Autonomous Communities, the Social Security Treasury, the General Office of the Merchant Marine, the General Office of Civil Aviation, Professionals' Associations, the Labor and Social Security Inspection Department, the National Institute of Social Security, etc.

As one of the Tax Agency's key lines of action, the Plan provides for taxpayer information and assistance to help them fulfill their tax obligations. This intends to minimize overheads associated with the performance of obligations and, in addition, to prevent defrauding behavior upon facilitating the fulfillment of tax obligations.

On this regard, the consolidation of the forwarding of tax drafts and data associated with the Income tax of Individuals stands out, which went from 7,370,575 tax drafts or data sent in 2004 up to 19,256,579 forwarded in 2008.

Other measures showing positive results in this sense are the reduction in the average term for refund of the income tax on individuals and the value-added tax, the increase in telematic certificates and the increase in telematic lodgment of tax returns (112% in comparison with 2004).

All this is added to the high appreciation of Tax Agency's services by the citizens, since 83.5% declares to be satisfied or very satisfied.

Not all plan proposals were directly reflected in the annual Objective Plan; however, they have impacted the Tax Agency's activity.

Hence, the Civic-Tax Education program, targeted mainly at contributing to the development of fiscal responsibility among citizens, has been the center of attention in the last years. Among the executed measures stands out the preparation in 2005 of a Civic-Tax Educational internet portal accessible from the Tax Agency's website and the websites of other public and private bodies.

In addition, between 2005 and 2007, a great number of actions were taken to disseminate the Tax Education Program, especially in the educational community, through letters to the centers' directors, the participation in wide coverage fairs and exhibitions, conferences, round tables, etc. During this period, 2,462 open seminars, 1,424 visits to centers have been carried out, with the participation of 199,009 students.

The Plan called for a greater transparency and social responsibility of the Tax Agency, and suggested organizing institutional communication programs that favor voluntary fulfillment and discourage defrauding behavior. So, the commitments assumed by the Tax Agency were reflected in the Agency's Service Charter and the website's statistical data on collection was improved. "The Tax Agency, a socially responsible organization" is one of the fundamentals that inspire the Agency's communication strategy.

The fight against drug trafficking, the ecological concerns – through the control of protected animal traffic -, its contribution to promoting lawful trade through merchandise control in customs, the sensitivity to disabled people, civic-tax education, the promotion of gender equality, etc., are examples of this strategy that is aimed at a greater social responsibility.

Among the developed measures stand out:

- Disabled Person Assistance Annual Plan
- Large taxpayers survey
- Customs Security: With relation to brand protection, the verification of homologations and the detection of forbidden products, in 2007 55,124 documentary checks and 10,238 checks with physical recognition took place. Also, 198,662 import certificates have undergone documentary check and 2,424 physical checks of imported goods were conducted to guarantee the fulfillment of sanitation regulation.
- Control of Protected Species: In 2007, 904 living animals pertaining to protected species were checked, mainly reptiles and turtles. The total number of checked units, including protected species-derived products, was 21,829.

## 2.4 The revision of the Fraud Prevention Plan in Spain

So far we have discussed the data. In 2008, during the fourth year of the Plan, the strategic Plan was revised. The substitution of the document was avoided because a new strategic plan would be difficult to formulate without repeating a great part of its wording. Besides, what is sought is the emphasis on the continuity of the strategy of fraud prevention and fight. For this reason, the document has been called Update of the Tax Fraud Prevention Plan.

Despite the satisfactory results achieved with the Tax Fraud Prevention Plan, it should not be forgotten that one of its essential characteristics is that the plan must be continually revised to adapt it to the reality and the new circumstances that may arise. The lapse of three years from the start of its application was considered an adequate time to revise it, analyze it critically and open it to the social debate and propose its update.

The Plan has allowed striking a balance between the Agency’s two strategic lines of action, with the primary objective being the encouragement of citizens’ voluntary fulfillment of tax obligations.

Now, well, it is also true that certain aspects of the economic and social scenario have experienced significant changes over the last years. The transcendence of the immigration phenomenon, the role of the real estate sector, the changes in the financial system or the new trends in the international scenario are all factors that cannot be ignored and which demand new answers or rethinking some solutions that were once adopted. It should be considered that the diverse ways of tax non-performance and fraud accommodate rapidly to the economic and regulatory reality and the Agency’s performance, taking advantage of an open and globalized economic scenario. On the other hand, the execution tasks of the Plan itself have disclosed new problems that want solution, and even the success of many of the Plan’s measures has led to rethink new actions and objectives.

Accordingly, the situation of areas and action sectors have been reevaluated, which have already been approached previously under the Plan, in order to complete, improve or consolidate the measures and lines of action already initiated. New actions are undertaken and other areas are affected, such as, in particular, the sunken economy, understanding by it both the economic activity that remains fully hidden and other economic sectors hiding a substantial portion of their revenues, whether or not deriving from unlawful activities. Hence, specific measures are established intended to bring this situations to light and regularize them.

From the structure and content of the update of the Tax Fraud Prevention Plan stands out the continuity with 2005’s Plan. Therefore, the basic strategic planning action lines are the improvement of voluntary fulfillment, the intensification of the persecution of the most complex fraud schemes and the strengthening of national and international collaboration. A series of strategic actions are thus proposed, structured around the following:

1. Promotion of voluntary fulfillment. From the previous experience, a new frame is proposed for the relationship with large companies and fiscal intermediaries. Taxpayer assistance is broadened, offered through tax data and the tax return draft system, proposing a rapid procedure for the solution of minor discrepancies in tax returns.

2. Control of risk areas. Great importance is given to the fight against the sunken economy. So, a series of measures are developed to detect the different manifestations of the hidden economy and to subject them fully to the application of the tax and customs system. The measures to fight fraud in the collection phase or in foreign trade control also stand out.

It should be underlined that 2009's Objective Plan, inspired by the update of the Fraud Prevention Plan, largely reinforces the area of tax collection though a summary proceeding in order to address the current economic crisis. To facilitate the continuity of the activities of viable companies, the objective is to grant extensions and fractioning of tax debts without unreasoned delay. At the same time, the measures pursue rapid and firm actions that may assure the collection of tax debts and public debts, thus preventing fraud maneuvers (nominee corporations, use of straw parties) and coordinating more with liquidation offices in order to detect risks and adopt precautionary measures, as per the case.

3. Supporting measures. A series of measures of a diverse nature that join the objective of supporting the execution of the provisions contained in the two preceding chapters. They consist in the completion of agreement and cooperation instruments with other entities to form institutional alliances for the application of new technologies to work methods, the adaptation of human and material means and other supplementary actions.

## III. CRITICAL ANALYSIS AND CURRENT INITIATIVES

The medium and long-term strategic planning has been present in the Tax Agency virtually ever since its inception. However, it is the annual operating planning, through the annual Objective Plan and the Tax Control Plan, which has achieved a greater development.

The Tax Agency's management control has already been the topic of another paper entitled "Control as key management function in Tax Administration" presented at CIAT's technical conference held in Amsterdam in October 2004. There, the planning related to the Annual Objective Plan and the projected reform that has been presented here as a reality were developed more broadly.

After some previous attempts, which have been discussed here under the title "backgrounds", the Tax Agency used an integral fraud prevention plan as the document that compiles its strategy for encouraging voluntary fulfillment. The Tax Fraud Prevention Plan of 2005 emphasized the promotion of voluntary fulfillment through two big strategic lines of action: taxpayer information and assistance, and tax control. Therefore, the integral approach of the fight against fraud, the idea of prevention along with control, allows the plan to include measures for taxpayer assistance enhancement and also other aspects such as the promotion of institutional alliances, which do not pertain strictly to tax control.

As a supplement to the existing planning tools, the Tax Agency is currently approaching several initiatives in the field of the organization's strategy. So, a Map of Risks has been prepared recently (approved in 2007) that defines 8 strategic risks, in addition to the operating risks identified in each area of action of the Agency.

In addition, since 2008 the Department of Organization, Planning and Institutional Affairs, together with the rest of the Tax Agency's Departments and Services, and the support of an external consulting firm, has been carrying out tasks to incorporate the methodology known as Balanced Scorecard into the Tax Agency's planning. In a first phase, this task has implied the definition of a Strategic Map by the Tax Agency's Managing Committee. Today, tasks continue in order to extend and adapt this methodology to the Tax Agency's planning system, integrating the diverse tools today in hands of the Agency.

## IV. CONCLUSIONS

The first conclusion we can draw so far from this exposition is that the incorporation of the Tax Administration's strategic lines of action into documents that in turn provide information to the annual planning tools is an effective means to run the organization based on prioritized aspects.

Starting out from an advanced objective-based system, it should not be surprising that an instrument such as the Tax Fraud Prevention Plan should be so effective in causing a shift in the organization's strategy. From the above cited results, it can be concluded that the Tax Agency has been working differently and with other priorities since 2005 and that this has been reflected accordingly in the annual objectives.

It is not an obstacle for the strategic planning of a Tax Administration that its mission be determined by the legal regulation. Nether is the fact that the country's Government's instructions be precise as to the strategic lines of action for development.

In the case of 2005's Tax Fraud Prevention Plan it is the order to draft it itself (without reflecting it formally in the State's Official Bulletin) what triggers the strategic planning mechanisms to determine the big lines of action against fraud, both in terms of prevention and the fight against such behavior. The Plan was disclosed to the Council of Ministers on February 4 of 2005 before submitting it to the public opinion, with no objections made to it.

The same situation was put forward in the update of the Plan, which has implied, following the Government's initiative, a revision of the fundamental lines of action of tax fraud prevention in line with the current economic and social circumstances.

Therefore, it is concluded that the Tax Administration's mission should be expressed in terms of big strategic lines of action and translated into goals. It is also convenient that the adequate criteria should be fixed for objective setting, so that the results into which the organization's strategy is translated can be regularly measured.

Ultimately, strategic planning is a necessary activity for Tax Administrations that intend to fulfill the mission reserved to them by the juridical regulation.