

**Commonwealth of Puerto Rico  
Tax Reform Assessment Project**

*High Level Implementation and  
Multi-Generational Plan*

*December 23, 2014*

## Table of Contents

1	Introduction.....	3
2	High Level Implementation Plan.....	3
3	Multi-Generational Plan.....	4
3.A	Integrated Tax Administration System Implementation .....	4
3.B	Improve the Current Taxpayer Services and the Corresponding Service Channels .....	5
3.C	Tax Simplification.....	7
3.D	Function-oriented Organizational Structure Implementation .....	10
3.E	Broad-based Goods & Services Tax (GST) based on an Invoice/Credit Mechanism Implementation .....	12
3.F	Risk-based Compliance Management Implementation.....	13
3.G	Semi-Autonomous Revenue Agency (SARA) Implementation .....	14

KPMG's role is limited to the services and deliverables articulated in the Contract for Professional Services dated March 18, 2014 as subsequently amended (the "Engagement Contract"). It is understood that any actions taken by the Government of the Commonwealth of Puerto Rico related to these services and deliverables may involve numerous factors that are outside of the Contract's scope. KPMG's services and deliverables cannot take such factors into account and, therefore, recommendations for such actions are not implied and should not be inferred from these services and deliverables. Further, while such deliverables may include analyses of certain legislative initiatives, no service described in the Engagement Contract and/or subsequent amendments will involve advising the Department regarding lobbying or other public policy advocacy activities related to legislation or regulation, including evaluating the likelihood of enactment of any proposed initiative or providing advice to the Department as to methodologies to ensure enactment. KPMG cannot undertake any role in connection with the Contract services that could be deemed lobbying, public policy advocacy, or impair the independence of KPMG as an auditor for the Department of the Treasury such as drafting legislation and engaging in implementation assistance.

# 1 Introduction

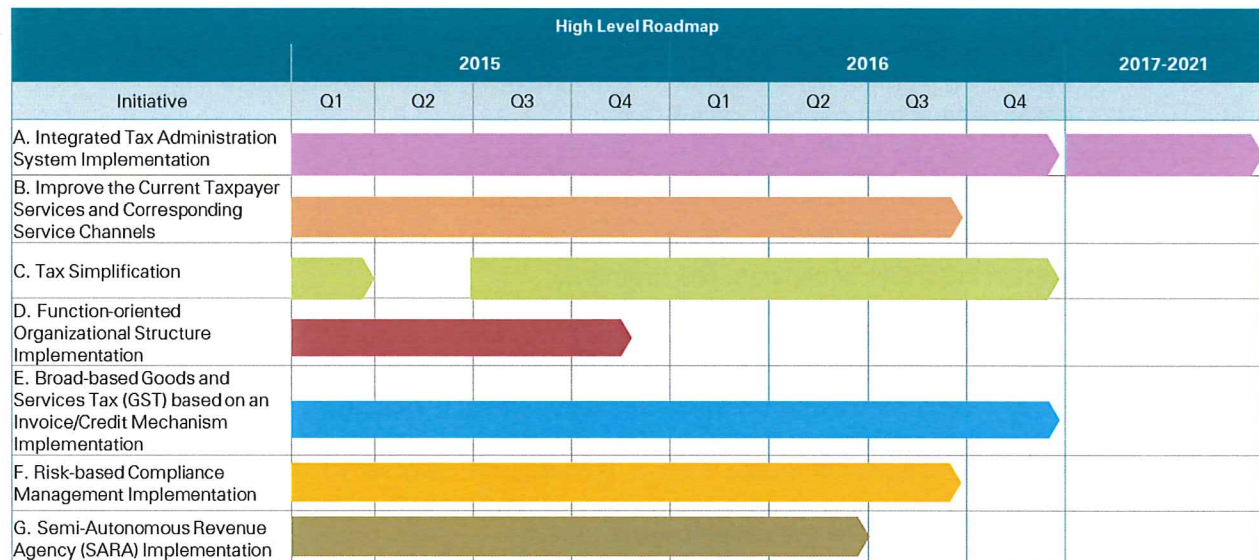
Successful Tax Reform must include a well-structured implementation plan. This High Level Implementation and Multi-Generational Plan describes activities necessary to implement changes to the Commonwealth of Puerto Rico's (Commonwealth) tax structure and the Department of Treasury's (Department) operations. The plan includes a proposed two year timeframe and milestones for implementation of seven Tax Reform opportunity initiatives. We acknowledge that the timeframe is aggressive, but the Commonwealth's current fiscal condition requires an expedited implementation strategy. Additionally, the Commonwealth's elected leadership should immediately begin drafting, amending and enacting the laws necessary to implement the Tax Reform options. Furthermore, the Commonwealth should draft and issue regulations for the administrative changes related to newly enacted tax legislation.

Segments of this document contain excerpts of deliverables previously submitted to the Commonwealth of Puerto Rico. The Treasury should read this deliverable in conjunction with the following previously submitted deliverables: 1) Prioritized Opportunities for the Target Operating Model Design, 2) Target Operating Model Business Case, and 3) Unified Tax Code of Puerto Rico: Tax Policy Implementation Options.

## 2 High Level Implementation Plan

This section identifies the seven Tax Reform opportunity initiatives previously validated by the Department. This high level implementation plan describes basic milestones for each opportunity as part of the proposed two year Tax Reform implementation plan. As noted, all Tax Reform opportunity initiatives should begin in Q1 2015.

### *High Level Tax Reform Implementation Road Map*



## 3 Multi-Generational Plan

This section presents details within each of the seven opportunity initiatives required to fully implement the tax system as set forth in the Internal Revenue Area's (IRA) Target Operating Model report. Work products for legislative or taxation changes related to the Tax Reform's stated goals are not included in this report.

### 3.A Integrated Tax Administration System Implementation

#### **Define the business and technology requirements for the new Integrated Tax Administration System**

- Business (functional) and technology requirements should be linked to business needs.
- Conduct meetings and workshops to document and validate the current business process flows and system flows to gain additional input and stakeholder buy-in from the business teams on the high-level current business processes, the future-state business processes and the functional needs of the to-be system. A Case for Change may be required based on changes to the business or system needs, if applicable.
- Document User Design Requirements that can take many forms from process improvements through to the definition of key reports or required information.
- Document Information and/or data requirements with the objective of selecting a business process/system that supports the specified requirements. If the use of data is key to the business process/system and the data relationships are complex, a further more detailed analysis may be necessary.

#### **Prepare a cost-benefit analysis of a new Integrated Tax Administration System**

- The financial analysis should address both the business benefits and associated costs that will help define the budget and resources required for the evaluation and implementation of the new tax system.

#### **Select vendor for Integrated Tax Administration System**

- Consider tax administration system procurement options: software and hardware with a system integrator or separate procurements.
  - Conduct vendor forum to analyze procurement options.
  - Determine software/hardware procurement, if applicable.
- Prepare a Request For Proposal (RFP) or similar procurement for the new tax system.
  - Establish the evaluation criteria.
  - Issue the RFP or similar procurement.
- Evaluate the business, technical and cost proposal responses for the new tax system.
- Negotiate a vendor contract.



### 3.A – Integrated Tax Administration System Implementation High Level Road Map

High Level Roadmap									
Initiative	2015				2016				2017-2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Define business (functional and system) requirements	█								
Select vendors, including software and hardware		█							
Implementation of an Integrated Tax Administration System		█							
Phase I: <i>Excise Taxes</i>			█						
Phase II: <i>Individual Taxes and Additional Functions</i>				█					
Phase III: <i>Corporate Taxes</i>					█				
Phase IV: <i>GST</i>					█				
Phase VI: <i>Post-Go Live Support</i>								█	
Ongoing maintenance and operations									█

### 3.B Improve the Current Taxpayer Services and the Corresponding Service Channels

#### Conduct a survey

- Determine the correct statistical sample that includes all the districts, municipalities, type of taxpayers and type of tax collected; which will result in the definition of the Customer Segments. The use of segmentation models varies according to purpose, but most revenue bodies divide users into individuals and companies, where companies are further divided into large companies and small and medium sized enterprises, and tax agents.
- Identify the communications channels (i.e.: print, personal, telephone, Department’s website, Department’s Social Media, Third Party’s website, focus groups) that will support the execution of the survey. Currently, Puerto Rico’s taxpayer is exposed to thousands of marketing messages each day, which is why it is critical to understand how, when, and where taxpayers will be engaged.
- Obtain approval for the required staffing and budgetary resources to execute the survey. Revenue bodies have started to approach their users more proactively, by conducting surveys and analysis on users’ communication preferences, and their perception of the communication. The insights from this research are then used as input to provide better service.
- Assign a team in the Department (IRA) to analyze the collected data. In addition to collecting the right data, it is important to convert it into actionable insights— and then distribute insights to anyone with customer interface. Using regression analysis, artificial

intelligence tools, and basic indicators leading companies continually refine their results and feed them back to different levels of the organization.

### **Define a new taxpayer assistance service strategy**

- Conduct meetings with the objective of determining IRA's customer segment for the new Operating Model. A segment should be categorized by mutually exclusive and statistically valid groupings. Within each grouping customers will have similar responses to services and treatments and between the different groups, customers will have significantly different needs and responses to services and treatments.
- Analyze what the customer segment perceives as *valuable* (which is often described in terms of meeting taxpayers' needs and making the contact with revenue bodies easier, faster and more efficient).
- Develop a Customer Centric strategy where the IRA will seek to meet taxpayer needs in every opportunity and is always close to the taxpayer.
- The Department should define the channels that effectively meet the customer segment preferences, give customers increased access to high value-added services and lower cost to customers in using the selected channels; including: reduced need for contact, reduced time spent in contact and lower direct costs of using channels are attractive to customers.
- Establish performance management indicators that provide, in a reliable and consistent way, information on the efficiency of the channel strategy. New procedures for performance and cost reporting must be established.
- Create a roll-out plan that integrates key personnel from all the bureaus because the introduction of new channels and refocusing of existing channels will change the way tax staff interact, cooperate and meet taxpayers.

### **Compile current information related to common issues**

- Determine data that should be migrated from current IMS (Q-Matic or PRITAS) and decide how to migrate the data.
- Identify the project team from IT and Taxpayer Assistance and Specialized Consults (NACSE).
- Analyze and define the following teaming schemes for the project:
  - a. Team Lead and IRA personnel support
  - b. IRA Team Lead with external provider support
  - c. External Provider Lead with IRA personnel support
- Determine how the information will be compiled, evaluated and communicated.

### **Evaluate and implement the new case management system (See 3.A for details)**

- Prepare a Request For Proposal (RFP) or similar procurement for the case management system:

- Identify the business, technology and data requirements.
  - Establish the evaluation criteria.
  - Issue the RFP or similar procurement.
  - Evaluate the business, technical and cost proposal responses.
  - Negotiate a vendor contract.
- Implement the new case management system with the corresponding IRA project team and selected external provider.
  - Migrate the information compiled from the common issues in the new case management system that allows IRA to manage cases and build knowledge about the resolutions.

### 3.B – Improve the Current Taxpayer Services & Corresponding Service Channels High Level Road Map

High Level Roadmap								
Initiative	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Conduct a survey	■	■	■	■				
Define a new taxpayer assistance service strategy		■	■	■				
Compile information related to common issues			■	■				
Evaluate and implement the new case management system*				■	■	■	■	■

\*The high level implementation roadmap of the case management system can follow 3.A Integrating a Tax Administration System roadmap if included in scope.

## 3.C Tax Simplification

### Increase electronic filing

Improving current platform and using a component supported by third parties initiative will continue to provide individual taxpayers with a method of preparing their own returns by completing tax forms on a secure website and electronically submitting (e-filing) their completed tax returns directly to the Department for free or with third party involvement.

The implementation of this initiative will be as following:

- Develop a business case:
  - Assess the functional value provided by the back-office systems.
  - Determine the systems capabilities to support new web-based functionalities.
- Review third party contracts:
  - Renegotiate the contracts already in place, if needed.



- Negotiate with new possible providers, if applicable.
- Data purging and cleanup to facilitate integration.
- Design implementation plan:
  - Identify hardware and software configurations needs to comply with new approach in a full e-filing environment.
  - Identify the capabilities of third party involving transmission protocols.
- Execute implementation plan.
- Conduct testing.
- Marketing and Training:
  - Develop awareness campaigns through various channels of communication.
  - Execute in-door trainings to taxpayer on how to use the system.
  - Provide incentives and services to encourage e-filing.

### **Create pre-filled tax return**

A pre-filled tax return is one prepared by the revenue body for the taxpayer by using information reports provided by a third party and other sources of information. By providing completed or largely completed tax returns for their taxpayers, revenue bodies can simplify the tax filing process to the taxpayers, reducing their compliance costs and helping them to meet their obligations. In this case, the pre-filled tax return will be sent electronically, using the web portal. The implementation of this initiative will involve the following activities:

- Verify Legal Framework:
  - Identify law implication on sharing confidential data from employers, banks, insurance companies, utilities' providers and other government agencies to provide reporting information about the taxpayers.
- Technical Background:
  - Develop an interface that matches the information from taxpayers provided by other companies with the information that the Department already manage.
  - Debug and update the taxpayer database.
- Define Taxpayer Target group:
  - Identity the target group of taxpayers to start the implementation of this practice.
- Testing Period prior to implementation:
  - Run a pilot project before implementing, with a voluntary group of taxpayer that can take part after signing a cooperation agreement with the Department.



- Organize meetings and consultations to receive feedback from the voluntary participants.
- Implementation:
  - Perform a communication strategy focused on the Department employees and Taxpayers.
  - Go “live” with pre-filled tax returns.
- Monitor and upgrade:
  - Send survey to each taxpayer after they finish checking their pre-filled tax return.
  - Analyze the survey results in order to find areas of improvement.
  - Determine, which types of taxpayer should be considered for pre-filled tax returns for the next fiscal year.

**Reduce the number of tax expenditures\***

This could be implemented as follows:

- Analyze Legal Framework:
  - Implement a reform to eliminate or reduce tax expenditures from the current tax legislation based on the proposed changes from the revision of the current Code and related laws.
- Marketing:
  - Implement a communication campaign directed to all taxpayers in order to understand the changes that would be made to the new tax returns filing forms and provide information about the expenditures that are being eliminated.

*\*Specific details on the reduction of tax expenditures have been discussed by the tax design workstream and will be dependent on the approval of the overall tax reform.*

*3.C –Tax Simplification High Level Road Map*

High Level Roadmap								
Initiative	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Increase electronic filing			[Green arrow spanning Q3 2015 to Q4 2016]					
Create pre-filled tax return				[Green arrow spanning Q4 2015 to Q4 2016]				
Reduce the number of tax expenditures	[Green arrow spanning Q1 2015]							

### 3.D Function-oriented Organizational Structure Implementation

#### **Review Organizational Legislation**

- Determine if any legislative action is required to establish organizational changes.

#### **Review Sourcing Contracts**

- Revise contracts with existing sourcing providers in order to determine if and how the contracts can be modified or renegotiated.

#### **Create blueprint and develop implementation plan**

- Create a detailed design of the “to-be” organizational structure, taking into consideration the proposed staff for each area.
- Design the new processes for each function, detailing roles that would be responsible and accountable. Draft new procedures for each process, if applicable.
- Identify the level of personnel needed to support function-oriented organizational structure.
- Design the implementation plan to include:
  - Roadmap for implementation, detailing dates, activities and owners.
  - Design the communication plan based on the communication strategy and change management strategy.
  - Design a training and development plan.
  - Create an outplacement strategy (analyze timing for Public Law 70).

#### **Implement communication plan**

- Deliver the key messages to the determined audience, utilizing the available channels.
- Monitor effectiveness of the communication plan by requested feedback from the involved audience.

#### **Conduct training plan**

- Develop training materials of new processes, procedures and roles.
- Conduct training sessions.
- Provide post training assessments to measure and track the effectiveness of the training sessions.
- Update training materials, as needed, to incorporate known gaps in procedures and processes.
- Reinforce the knowledge gaps identified on the post training evaluations that required

further assistance.

**Execute implementation plan**

- Implement the new functions and processes; deliver new procedures to all Department personnel.
- Realign various bureaus within the Department to follow the new Function-Oriented Organizational structure.
- Monitor implementation progress; schedule and conduct Department meetings as needed.

**Implement outplacement strategy**

- Conduct sessions to help employees search career opportunities.
- Provide training on general subjects to provide individuals with the knowledge and skills needed to pursue a career opportunity.
- Provide individuals with information on Public Law 70 for early retirement options and community service activities.

**Develop and implement monitoring plan**

- Monitor key performance indicators after the implementation phase.
- Reinforce and retrain in areas where gaps have not been closed yet.
- Recommend activities for further improvement.

*3.D – Function-oriented Organizational Structure Implementation High Level Road Map*

High Level Roadmap				
Initiative	2015			
	Q1	Q2	Q3	Q4
Review organizational legislation and sourcing contracts				
Create blueprint and develop implementation plan				
Implement communication plan				
Conduct training plan				
Execute implementation plan				
Implement outplacement strategy				
Develop and implement monitoring plan				

### 3.E Broad-based Goods and Services Tax (GST) based on an Invoice/Credit Mechanism Implementation

#### **Obtain statutory approval for GST**

#### **Implement GST (people, process and technology)**

- Define a strategy in order to run the transition process between IVU and GST, considering an estimated time of 18-24 months.
- Establish the team responsible for introducing GST.
- Prepare and approve the budget to execute GST introduction.
- Consider third party assistance.
- Develop and implement registration and de-registration procedures, based on registrants' profiles and their compliance costs vs. revenues generated.
- Develop and implement taxpayer assistance procedures through the different service channels (e-payments, consults, notifications).
- Implement a Compliance Risk Management procedure to support tax enforcement functions.
- Decide whether to maintain or change the IVU machines in order to help enforce the issuance of GST invoices for B2C type transactions.
- **Implement GST communication and education strategy.**
- Publicity campaigns to ensure acceptance of the GST principles.

#### **Implement GST training**

- Develop and deliver staff training and taxpayer education.

#### **Administer the GST**



### 3.E – Broad-based Goods and Services Tax (GST) based on an Invoice/Credit Mechanism High Level Road Map

High Level Roadmap								
Initiative	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Obtain statutory approval for GST	█							
Implement GST communication and education strategy		█						
Implement GST (people, process and technology)	█							
Implement GST training program		█						
Administer the GST*						GST Pre-go-live		

\*Timeline projection considers going live on January 2017.

### 3.F Risk-based Compliance Management Implementation

#### Develop a risk management approach (Risk Management Framework)

- Develop a Formal Risk Management Structure.
- Develop a Risk Matrix including management information system.
- Risk Assessment Summary.
- Develop new policies, procedures and limits.
- Define internal control.

#### Develop and conduct training plan

- Develop training materials of new processes, procedures and roles.
- Conduct training sessions.
- Provide post training assessments to measure and track the effectiveness of the training sessions.
- Update training materials, as needed, to incorporate known gaps in procedures and processes.
- Reinforce the knowledge gaps identified on the post training evaluations that required further assistance.

#### Develop human resource plan

- Recruitment of specialize personnel needed to implement the new scheme.

### Execute implementation Plan

- Implement the new functions and processes; deliver new procedures to all Department personnel.
- Performing Examination Procedures.
- Realign the organization to follow the new Risk base scheme.

### Monitor Risk Based Compliance progress

- Monitor key performance indicators after the implementation.
- Reinforce and retrain in areas where gaps have not been closed yet.
- Report findings and recommendations and follow-ups.
- Recommend activities for further improvement.

### 3.F – Risk-based Compliance Management Implementation High Level Road Map

High Level Roadmap							
Initiative	2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Develop a risk management approach (Risk Management Framework)	■						
Develop and conduct training plan		■					
Develop human resource plan		■					
Execute implementation plan				■			
Monitor Risk Based Compliance progress		■					

## 3.G Semi-Autonomous Revenue Agency (SARA) Implementation

### Design and formalize the organizational framework for a SARA

- Obtain statutory authority, if required, to establish the SARA.
- Establish a Board of Directors (BoD) with public and private sector participation and create a clear description of responsibilities for the BoD and the SARA's Director.
- Create an independent governance structure within SARA to minimize outside influence.

### Design and formalize statutory requirements

- Formalize the governance structure that will support the SARA's operations. Structuring a unified semi-autonomous body with board: Tax administration functions, along with necessary support functions (e.g. information technology, human resources) are carried out by a unified semi-autonomous body, the head of which reports to a government minister and oversight body/board of management comprised of external officials.

- Determine whether regulations will be required to define roles and responsibilities with the objective of establishing effective accountability mechanisms that avoid outside influence.
- Identify an appropriate self-financing mechanism to permit SARA the ability to meet all the obligations under the statutory requirements.

#### **Implement a human resource plan**

- Define a recruitment plan that SARA can use for competitive entrance examinations (including psychometric tests) under the management of its own human resources division.
- Establish salary scales and compensation plans for professional staff to match those offered in the private sector, especially in such key areas as tax audit and enforcement, information technology, legal affairs, and top management positions.
- Implement transparent career and retirement plans that are supported by the statutory requirements defined in the creation of the SARA.

#### **Implement a transformation program**

- Establish a program management team to track the benefits measured during the transformation. The program management team is responsible for the efficient and effective execution of each project.
- Define building and/or facilities needs are required to support the function oriented SARA and the primary and supplemental locations from where SARA will provide services. Having a separate facility enables the transformation from current to future state and also helps with the external and internal branding of the new operating model.

#### **Implement SARA's operations**

- Structure the SARA as a function oriented organization (Management, Submission, Calculation, Collection, Enforcement, Assistance) through the following activities:
  - Establish vision, goals and desired outcomes of the SARA.
  - Assess current organization, identify gaps and prioritize action items.
  - Create detailed macro and micro organizational blueprint.
  - Execute pilot and implement plan and perform post-implementation assessment.
- Develop and implement taxpayer assistance service strategy that communicates to taxpayers through specific channels, creates a friendly and services oriented interaction and it is perceived as valuable by taxpayers (see 3.B).
- Model the core business processes of the SARA and document related policies and procedures.
- Develop and implement an enforcement program that enables the SARA to gain credibility and trust from the public and other institutions (See 3.C).

- Determine how performance will be managed in the SARA to measure the evolution of revenue collection, taxpayer registration, enforcement programs and taxpayer services through KPIs.
- Develop and outplacement process for the departing personnel.
- Acquire and implement Infrastructure and Facilities.
  - Terminate current lease contracts.
  - Establish lease contracts of the new facilities.
  - Purchase of new furniture.

*3.G – Semi-Autonomous Revenue Agency (SARA) Implementation High Level Road Map*

High Level Roadmap								
Initiative	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Design and formalize the organizational framework for the SARA	■							
Define and formalize statutory requirements	■	■						
Implement a human resource plan	■	■	■					
Implement a transformation program	■	■	■	■				
Implement SARA's operations			■	■	■	■	■	