

Commonwealth of Puerto Rico Tax Reform Assessment Project

Comparable Jurisdiction Operating Model Report

Revised October, 2014

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1 Introduction

1.1 Purpose of the Report

The purpose of the *Comparable Jurisdictions Operating Model Report* is to provide the Department of the Treasury (Department) general information on comparable tax administration operating models across the following components:

- Services, Functions and Processes
- Organizations and Governance
- Technology
- Sourcing and Locations
- Performance Management
- People & Skills

These jurisdictions have been selected from Revenue Bodies¹ with similar responsibilities to the Internal Revenue Area (IRA) in jurisdictions with similar Economic and Governance characteristics to the Commonwealth of Puerto Rico (hereinafter, "Puerto Rico"). The information gathered is a valuable input for the Department to understand how comparable jurisdictions collect target revenues, maintain competitiveness, reduced the tax burden, and operate an efficient tax administration. This report, in conjunction with the Current Operating Model Assessment report, forms the basis to define the Department's future-state Operating Model and to identify recommendations for an improved, efficient and effective Tax Administration and Compliance Organization.

1.2 Scope

Our team consulted KPMG's Tax Administration specialists in preparing this report. Furthermore, datasets from representative organizations and international studies on efficient and improved Tax Administration were carefully selected. This report contains information collected from the following publicly available sources:

- The World Bank (www.worldbank.org)
- Transparency International (www.transparency.org)

¹ The Organisation for Economic Co-operation and Development (OECD) refers to local institutions or agencies responsible for collecting revenues and taxes as 'Revenue Bodies'.

- The World Economic Forum (www.weforum.org)
- Inter-American Center of Tax Administrations – CIAT (www.ciat.org)
- U.S. Agency for International Development – USAID (www.usaid.gov)
- Organization for Economic Co-operation and Development – OECD (www.oecd.org)

1.3 Approach

The main activities of the analysis included:

- Identifying and selecting comparable jurisdictions based on similarities of the Economic and Governance characteristics published in the datasets of The World Bank, Transparency International, and The World Economic Forum
- Analyzing published datasets of the Inter-American Center of Tax Administrations (CIAT), the U.S. Agency for International Development (USAID) and the Organization for Economic Co-operation and Development (OECD) to compare current Tax Administration’s Performance of comparable jurisdictions with Puerto Rico
- Analyzing tax and compliance administrations from comparable states in the US

1.4 Structure of this document

This document is organized in two sections:

- Our analysis of the Economic and Governance characteristics used to define the comparable jurisdictions and how their Tax Administration Performance compares to Puerto Rico
- An overview of our conclusions and considerations based on the comparison of representative Tax Administrations and Compliance Organizations

2 Comparable Jurisdictions

This section describes how KPMG used the Economic and Governance KPIs from the international organizations mentioned in Section 1.2 and general information about the Operational Components in each jurisdiction to define comparable jurisdictions. The attributes of comparable jurisdictions were then used to compare Puerto Rico's Tax Administration to its peers around the world. The objective of the analysis is to provide a basis for identifying improvement opportunities and Tax Administration leading practices for Puerto Rico's Treasury Department to replicate in the future. Our recommendations will consider lessons learned and benefits obtained from the improvement initiatives of these jurisdictions.

2.1 Economic and Governance Characteristics

This section describes characteristics used to select the comparable jurisdictions. We have found that the following characteristics provide a sound basis to find commonalities amongst tax administrations:

- Ease of doing business index (EoDB): EoDB ranks economies from 1 to 189, with a number 1 ranking being the best. A high ranking score (a low numerical rank) means that the regulatory environment is conducive to business operation. The index averages the country's percentile rankings on 10 topics covered in the World Bank's Doing Business report. The ranking on each topic is the simple average of the percentile rankings of its component indicators.
- Gross Domestic Product (GDP): GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.
- Exports of goods and services as a percentage of GDP (EoG&S): EoG&S represents the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments.
- Global Competitive Index (GCI): The GCI assesses the competitiveness of 148 economies, providing insight into the drivers of their productivity and prosperity.
- Corruption Perception Index (CPI): The CPI 2013 measures the perceived levels of public sector corruption in countries worldwide, scoring them from 0 (highly corrupt) to 100 (very ethical).
- Government Effectiveness (GovEff): GovEff reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the

government's commitment to such policies. The values presented in the table in Section 2.2 are the percentile ranking among all countries (ranges from 0 (lowest) to 100 (highest) rank).

- **Regulatory Quality (RegQual):** RegQual reflects perceptions of the government's ability to formulate and implement sound policies and regulations that permit and promote private sector development. The values presented in the table in Section 2.2 are the percentile ranking among all countries (ranges from 0 (lowest) to 100 (highest) rank).
- **Control of Corruption (CtrlCorr):** CtrlCorr reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. The values presented in the table in Section 2.2 are the percentile ranking among all countries (ranges from 0 (lowest) to 100 (highest) rank).

2.2 Comparable Countries

Based on the Economic and Governance Characteristics discussed in the previous section, KPMG used the following comparable jurisdictions for the analysis because they have similar Economic and Governance key performance indicators and are identified as leading tax administration jurisdictions:

- Canada
- Chile
- Denmark
- Estonia
- Ireland
- Korea
- New Zealand
- Portugal²
- Singapore

The Economic and Governance key performance indicators for the comparable jurisdictions are presented in the table below.

Jurisdiction	EoDB (1 is the best)	GDP (in Millions of USD)	EoG&S (% of GDP)	GCI (1 is the best)	CPI (100 = very ethical 0)	GovEff (Highest Rank = 100)	RegQual (Highest Rank = 100)	CtrlCorr (Highest Rank = 100)
Puerto Rico	37	101,495	79	62	30	66	78	71
Canada	17	1,779,634	30	14	81	95	96	95
Chile	34	269,869	34	34	71	87	93	91
Denmark	5	315,163	55	15	91	99	98	100

² Portugal was included as part of our analysis of the performance of the tax administration and not considered for the analysis of their operating model due to lack of publicly available information

Jurisdiction	EoDB (1 is the best)	GDP (in Millions of USD)	EoG&S (% of GDP)	GCI (1 is the best)	CPI (100 = very ethical 0)	GovEff (Highest Rank = 100)	RegQual (Highest Rank = 100)	CtrlCorr (Highest Rank = 100)
Estonia	21	22,390	91	32	68	78	90	80
Ireland	15	210,771	108	28	72	92	94	90
Korea	6	1,129,598	57	25	55	84	77	70
New Zealand	3	171,281	29	18	91	96	99	100
Portugal	29	212,273	39	51	62	81	76	78
Singapore	1	274,701	201	2	86	100	100	97

Note: EoDB=Ease on Doing Business, GDP=Gross Domestic Product, EoG&S=Exports of Goods and Services, GCI=Global Competitiveness Index, CPI=Corruption Perception Index, GovEff=Government Effectiveness, RegQual=Regulatory Quality, CtrlCorr=Control of Corruption.

Additionally, KPMG researched the operations of Revenue Bodies in the States of Florida, California, and New York because they administer similar taxes as Puerto Rico.

2.3 Comparable Jurisdictions Profiles

The tables in the following pages summarize high level information publicly available about the operational components (Services, Functions and Processes, Organizations and Governance; Technology, Sourcing and Locations, Performance Management, and People & Skills) of the comparable jurisdictions.

The information gathered for this Report was found on the websites of the Revenue Bodies from each jurisdiction. KPMG focused its research on identifying topics related to each operational component since detailed current Operational Models for these jurisdictions was unavailable. The main areas covered on the Revenue Bodies' websites include:

- Current Functions of the Revenue Body
- Main Tax Collected by the Revenue Body
- Organization Chart of the Revenue Body
- Systems or applications the Revenue Body uses to interact with taxpayers
- Number of Regional Offices
- Main statistics published by the Revenue Body
- Number of staff employed by the Revenue Body

The following table indicates the availability of information related to the operational component of each comparable jurisdiction:

Jurisdiction	Services, Functions and Processes	Organization & Governance	Technology	Sourcing & Locations	Performance Management
Canada	✓	✓	✓	✓	✓
Chile	✓	✓	✓	✓	✓
Denmark	✓	✓	✓	✗	✓
Estonia	✓	✓	✗	✗	✗
Ireland	✓	✓	✗	✓	✓
Rep. of Korea	✓	✓	✗	✓	✓
New Zealand	✓	✓	✗	✗	✓
Singapore	✓	✓	✓	✗	✓
State of Florida	✓	✓	✓	✓	✓
State of California	✓	✓	✓	✓	✓
State of New York	✓	✓	✓	✓	✓

Available operational component information for each jurisdiction is outlined on the following pages.

Canada

Revenue Body	Canada Revenue Agency (CRA)
Website	http://www.cra-arc.gc.ca/
Services, Functions and Processes	<ol style="list-style-type: none"> 1. Taxes Collected: <ol style="list-style-type: none"> a. Individuals b. Businesses <ol style="list-style-type: none"> i. Goods and Services Tax (GST) ii. Harmonized Sales Tax (HST) c. Corporations d. Excise taxes and other levies 2. Other Programs: <ol style="list-style-type: none"> a. Scientific Research and Experimental Development (SR&ED) Tax Incentive b. Charities and Giving c. Representatives 3. Function: <p>To administer tax, benefits, and related programs, and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians.</p>
Organization and Governance	<ol style="list-style-type: none"> 1. Organization: <p>CRA's Structure and Operational Framework explains these key roles of the institution:</p> <ul style="list-style-type: none"> - Minister of National Revenue: "The Minister of National Revenue is accountable to Parliament for all the CRA's activities, including the administration and enforcement of the Income Tax Act and the Excise Tax Act. The Minister must ensure that the CRA operates within the overall government framework and consistently treats its clients with fairness and integrity." - Board of Management: "The Board of Management consists of 15 members appointed by the Governor in Council. Eleven of these members are nominated by the provinces and territories. The Board has the responsibility of overseeing the organization and management of the CRA, including the development of the Corporate Business Plan, and the management of policies related to resources, services, property and personnel." - Commissioner - Chief Executive Officer: "As the CRA's chief executive officer, the Commissioner is responsible for the day-to-day administration and enforcement of program legislation that falls under the Minister's delegated authority. The Commissioner is accountable to the Board of Management for

Canada

	<p>the daily management of the CRA, supervision of employees, and implementation of policies and budgets. Moreover, the Commissioner must assist and advise the Minister with respect to legislated authorities, duties, functions, and Cabinet responsibilities.”</p> <ol style="list-style-type: none"> 2. Chair: As the presiding director of the Board of Management, the Chair manages the affairs and functioning of the Board and guides the Board to ensure it meets its responsibilities. 3. Governance: CRA has published the following Guideline and by-laws that define the governance of the institution, which is managed by the Board of Management: <ul style="list-style-type: none"> - Conflict of Interest and Ethical and Political Activity Guidelines - Board of Management by-law #1 - Board of Management by-law #2
<p>Technology</p>	<p>CRA provides services to the taxpayer through E-services. For Individuals, E-services is used to file a return, make a payment, change your return, register your formal dispute, change your address, calculate your family benefits, get direct deposit, and more. Businesses use E-services to file a return, make a payment, register a business, get information, make an online request, calculate payroll deductions, make an electronic payment, download or order forms and publications, and more. E-Services is used by Tax Preparers, to file a return or make a payment for an individual or business client, get information, subscribe to an electronic mailing list, download or order forms and publications, and more.</p> <ul style="list-style-type: none"> - Information related to CRA Information Technology, Data or Application Architecture was not readily available during our in depth research. .
<p>Sourcing and Locations</p>	<ol style="list-style-type: none"> 1. Sourcing: No information was readily available during our in depth research. 2. Locations: <ol style="list-style-type: none"> a. CRA has approximately 50 Tax Services Offices (TSOs) located throughout Canada's 13 provinces and territories.
<p>Performance Management</p>	<p>Some of the reports published by the CRA include:</p> <ul style="list-style-type: none"> - Number of corporations by jurisdiction - Total revenue by jurisdiction - Taxable income by jurisdiction

Canada

- All returns by total income class
- All returns by age and gender
- Hours expended complying with CRA requirements
- Taxpayer error rate
- User satisfaction with CRA services and staff

Chile

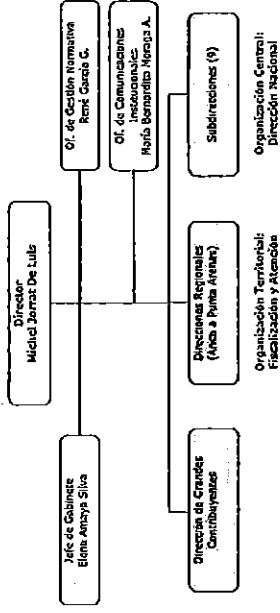
<p>Revenue Body</p>	<p>International Tax Service (SII, in Spanish)</p>
<p>Website</p>	<p>http://home.sii.cl/</p>
<p>Services, Functions and Processes</p>	<p>1. Taxes Collected:</p> <ul style="list-style-type: none"> a. Taxes on Income, Profits and Capital Gains b. Taxes on Properties c. General Consumption Taxes d. Excise Taxes e. Taxes on Foreign Trade f. Stamp Duty g. Taxes on Civil Registry and Identification Acts <p>2. Function:</p> <p>The Internal Tax Service (SII, in Spanish), a body attached to the Ministry of Finance (MH, in Spanish), has the responsibility of auditing the Central Government's taxes, with the exception of those that by nature are of customs (such as Import Duties, Sales and Services Tax on Imports, etc.) which are liquidated and audited by the National Customs Service (SNA, in Spanish).</p>
<p>Organization and Governance</p>	<p>1. Organization:</p>  <pre> graph TD Director[Director: Michel Jarama de Luis] --- JefeGabinete[Jefe de Gabinete: Elena Amaya Silva] Director --- OfGestionNormativa[Of. de Gestión Normativa: René García C.] Director --- OfComunicaciones[Of. de Comunicaciones: Helys Bernardita Noriega A.] OfComunicaciones --- Subdirecciones[Subdirecciones (9)] OfGestionNormativa --- DireccionesRegionales[Directores Regionales: Arica a Punta Arenas] OfComunicaciones --- OrgTerritorial[Organización Territorial: Fiscalización y Atención de Contribuyentes] OfComunicaciones --- OrgCentral[Organización Central: Dirección Nacional] </pre> <p>2. Governance:</p> <p>No information related to how SII governs its services is published.</p>

Figure 1. Organization Chart of SII

Chile

SII uses an interface called Virtual 3.0. Its objective is to gradually take 100% of the activities performed by the taxpayer and have the option to execute them online, to support them with their tax obligations and provide the ability to access the portal through an Internet Browser and mobile devices. The taxpayers can get their Taxpayer Identification Number, submit tax return and make payments.

Additional information related to SII Technology, Data or Application Architecture is not published.

Sourcing and Locations

1. Sourcing: Information published in MercadoPúblico presents that SII contracted Computer Maintenance, Electrical Equipment Maintenance, Cleaning Services, Daycare Services, and Training.

2. Locations:

a. Regional Offices: 19

Each Regional Office is divided in seven business units (Departamentos, in Spanish)

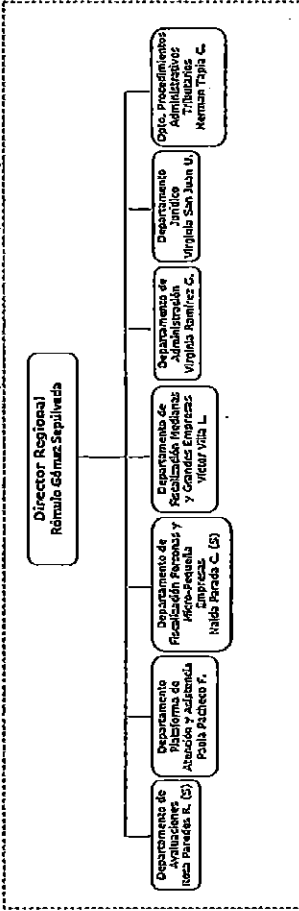


Figure 2. Organization Chart of a Regional Office in SII

The SII publishes reports that present the following KPIs:

1. Total Tax Revenue
2. Total Tax Revenue as a percentage of GDP
3. Number of total taxpayers by tax type
4. Number of tax returns (paper and electronic)

Ireland

<p>Revenue Body</p>	<p>Ireland Tax and Customs</p>
<p>Website</p>	<p>http://www.revenue.ie</p>
<p>Services, Functions and Processes</p>	<p>1. Taxes Collected:</p> <ul style="list-style-type: none"> a. Value Added Tax b. Stamp Duty c. Excise & Licenses d. Capital Acquisitions Corporation e. Capital Gains f. Deposit Interest Retention g. Dividend Withholding h. Domicile Levy i. Environmental Levy j. Income k. Income Levy l. Professional Services Withholding <p>2. Function:</p> <p>The Office of the Revenue Commissioners (Revenue) was established by Government Order in 1923. The Order provided for a Board of Commissioners. The Board is comprised of three Commissioners one of whom is appointed Chairman and all carry the rank of Secretary General. The core business is the assessment and collection of taxes and duties. Revenue's mandate is derived from obligations imposed by statute and by Government and as a result of Ireland's membership in the European Union.</p>
<p>Organization and Governance</p>	<p>1. Organization:</p> <p>The Revenue organization structure is designed around the customer base. Revenue Regions are responsible for customers within their geographical area, except for those large corporations and wealthy individuals handled by the Large Cases Division.</p> <p>The 15 Divisions within Revenue include the following:</p> <ul style="list-style-type: none"> 1. Four Regional Divisions 2. Large Cases Division 3. Investigations and Prosecutions Division 4. Three Revenue Legislation Service Divisions

Ireland

	<ul style="list-style-type: none"> • Planning Division • Corporate Services Division • Corporate Affairs and Customs Division • Revenue Solicitor's Office • Information, Communications Technology and Logistics Division and Collector General's Division <p>2. Governance: No information was readily available during our in depth research.</p> <ul style="list-style-type: none"> - The Revenue interacts with the taxpayer through ROS (Revenue Online Service) for business users, PAYE Anytime for personal users and Local Property Tax (LPT). ROS is an internet facility which provides customers with a quick and secure facility to file tax returns, pay tax liabilities and access their tax details, 24 hours a day, 7 days a week, 365 days a year. In July 2003, Revenue received an eGovernment label from the European Commission for this service which was found to be one of the best practices of its type. PAYE Anytime is the service used to electronically complete and send eForm 12 2013 by a person whose main source of income is from a PAYE employment or pension or a non-proprietary company director who pays all his or her Income Tax under the PAYE system. LPT is used for the annual self-assessed Local Property Tax (LPT) charged on the market value of all residential properties in the Country and came into effect with the passing of the Finance (Local Property Tax) Act 2012. - Information related to the Revenue's Information Technology, Data or Application Architecture was not readily available during our in depth research. .
Technology	
Sourcing and Locations	<ol style="list-style-type: none"> 1. Sourcing: No information was readily available during our in depth research. 2. Locations: There are in excess of 110 Revenue offices countrywide
Performance Management	<p>Some of the statistics that Revenue publishes are:</p> <ul style="list-style-type: none"> - Net Duty Paid Quantities and Net Excise Receipts - Incidence of Duty and VAT per Bottle of Whiskey - Excise Duty Net Receipts - Stamp Duty Net Receipts by Category - Exchequer Receipt and Net Receipt for VAT
People & Skills	<ul style="list-style-type: none"> - Staff of just over 5,700 - Information regarding roles, responsibilities and skills of Key Personnel was not readily available during our in depth research.

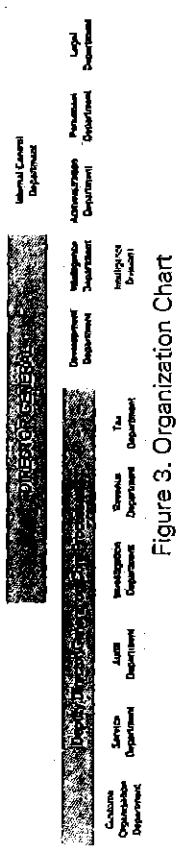
Ireland

Revenue manages a Career Plan for its professionals

Denmark

Revenue Body	Ministry of Taxation
Website	http://www.skm.dk/
Services, Functions and Processes	<ol style="list-style-type: none"> 1. Taxes Collected: <ol style="list-style-type: none"> a. Income b. Value Added Tax c. Municipal Tax d. Church e. Income from shares f. Pension Yield 2. Function: <p>Since 1975 Denmark has had an independent Ministry of Taxation and since 1990 a combined administration of customs, direct taxation, Value Added Tax (VAT), and other forms of indirect taxation, named the Central Customs and Tax Administration.</p>
Organization and Governance	<ol style="list-style-type: none"> 1. Organization: <p>The Danish Ministry of Taxation consists of The Department responsible for legislation and tax policy, the Tax Appeals Agency responsible for appeals, and the Central Customs and Tax Administration (SKAT) responsible for administration and collection of direct taxation, VAT, and other forms of indirect taxation and customs procedures.</p> 2. Governance: <p>No information was readily available during our in depth research.</p>
Technology	Information related to the Ministry's Technology, Data or Application Architecture was not readily available during our in depth research..
Sourcing and Locations	<ol style="list-style-type: none"> 1. Sourcing: No information was readily available during our in depth research. 2. Locations: No information was readily available during our in depth research.
Performance Management	<p>The Ministry publishes reports that present the following KPIs:</p> <ul style="list-style-type: none"> ↳ Tax Burden: "The total taxes and duties as a percentage of the gross domestic product (GDP) in market prices."

Estonia

<p>Revenue Body</p>	<p>Estonian Tax and Customs Board</p>
<p>Website</p>	<p>http://www.emta.ee/</p>
<p>Services, Functions and Processes</p>	<p>1. Taxes Collected:</p> <ul style="list-style-type: none"> a. Land b. Natural Persons Income Tax c. Social d. Corporations/legal persons e. Value Added Tax f. Excise <p>2. Function:</p> <p>The Board is responsible for ensuring the receipt of state budget revenue from state taxes and customs duties, protection of the society and legal economic activities, implementation of national tax and customs policies, ensuring the compliance with tax legislation, customs regulations and other legal acts, issue of activity licenses and operating permits for gambling and lotteries, acting as a gambling supervisory agency, and provision of customer services for fulfillment of tax liabilities and performance of customs formalities.</p>
<p>Organization and Governance</p>	<p>1. Organization:</p> <div style="text-align: center;">  <p>EMTA</p> </div> <p>2. Governance:</p> <p>No related information was found</p>
<p>Technology</p>	<p>Information related to the Board's Technology, Data or Application Architecture was not readily available during our in depth research. .</p>
<p>Sourcing and Locations</p>	<p>1. Sourcing: No related information was found</p> <p>2. Locations: No related information was found</p>

Republic of Korea

<p>Revenue Body</p>	<p>National Tax Service</p>
<p>Website</p>	<p>http://www.nis.go.kr</p>
<p>Services, Functions and Processes</p>	<p>1. Taxes Collected:</p> <ul style="list-style-type: none"> • National Taxes <ul style="list-style-type: none"> ◦ Internal Taxes <ul style="list-style-type: none"> ▪ Income Tax ▪ Corporation Tax ▪ Inheritance Tax ▪ Gift Tax ▪ Comprehensive real estate holding Tax ▪ Value-added Tax ▪ Individual Consumption Tax ▪ Liquor Tax ▪ Stamp Tax ▪ Securities Transaction Tax ◦ Customs Duties ◦ Earmarked Taxes <ul style="list-style-type: none"> ▪ Transportation· Energy· Environment Tax ▪ Education Tax ▪ Special Tax for Rural Development • Local Taxes <ul style="list-style-type: none"> ◦ Province Taxes <ul style="list-style-type: none"> ▪ Ordinary Taxes <ul style="list-style-type: none"> • Acquisition Tax • Registration and License Tax • Leisure Tax • Local Consumption Tax ▪ Earmarked Taxes <ul style="list-style-type: none"> • Community Resource and Facility Tax • Local Education Tax ◦ City & County Taxes

	<ul style="list-style-type: none"> ▪ Ordinary Taxes <ul style="list-style-type: none"> • Inhabitant Tax • Property Tax • Automobile Tax • Local Income Tax • Tobacco Consumption Tax <p>2. Function: The National Tax Service (NTS) was established as a separate organization of the Ministry of Finance on March 3, 1966. Taxes in Korea are comprised of national and local taxes. National taxes are divided into internal taxes and customs taxes. The NTS is mainly in charge of the assessment and collection of internal taxes. The major functions of NTS are as follows:</p> <ul style="list-style-type: none"> □ Supplying the revenue base. "We collect the bulk of the revenue the government needs to fund its programs. With this important role, we need to constantly strive for excellence and be truly effective and efficient." - Promoting taxation fairness. "We are also committed to providing fairness to taxpayers and to protect their rights under the tax law."
Organization and Governance	1. Organization:

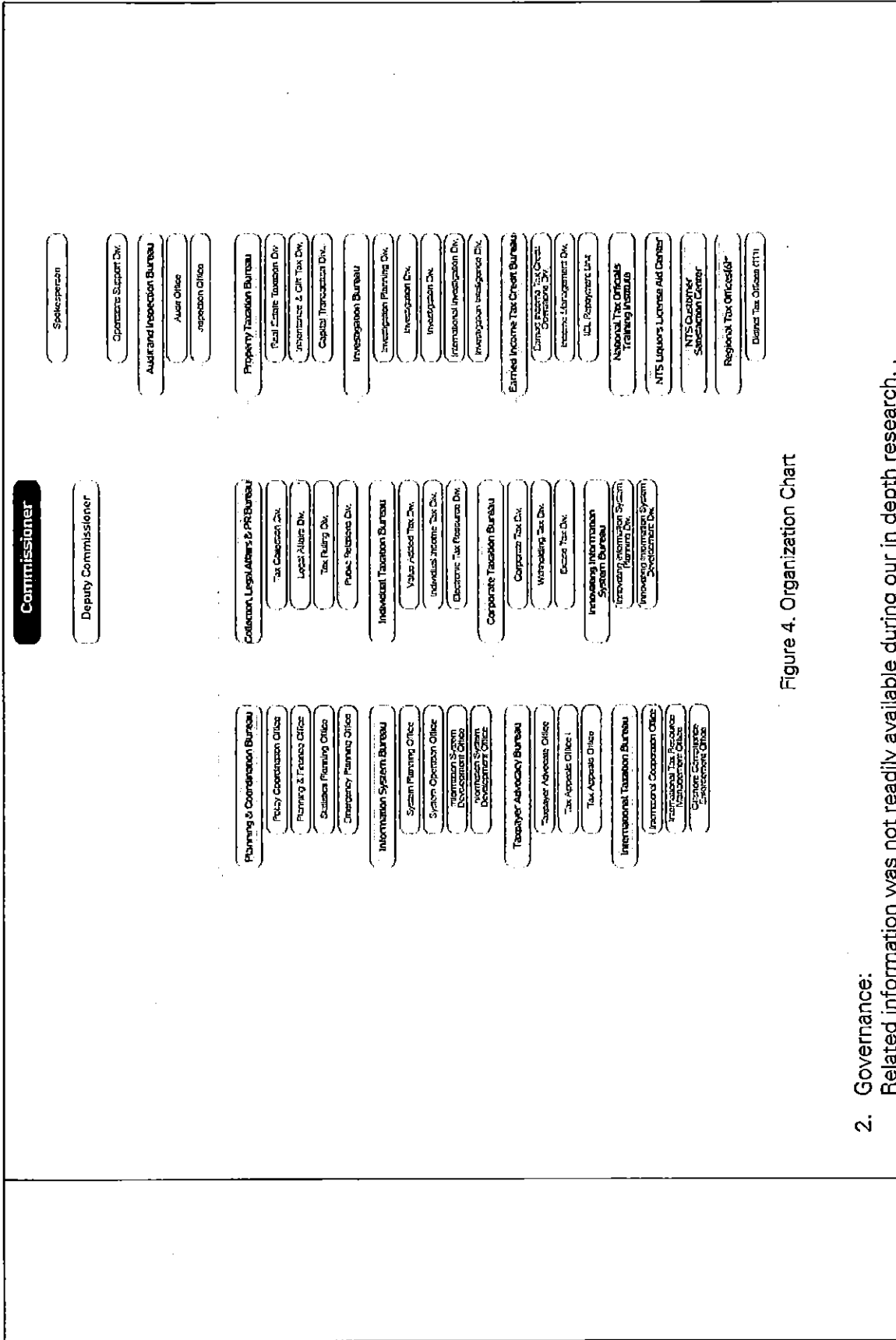


Figure 4. Organization Chart

2. Governance:

Related information was not readily available during our in depth research.

Technology	<ul style="list-style-type: none"> - NTS interacts with the taxpayer through the Automatic Calculation Service, which is an automatic income tax calculation. - Information related to the NTS' Information Technology, Data or Application Architecture was not readily available during our in depth research..
Sourcing and Locations	<ol style="list-style-type: none"> 1. Sourcing: Related information was not readily available during our in depth research. . 2. Locations: <ol style="list-style-type: none"> a. NTS has District Tax Offices in its Provinces and "Special" Cities.
Performance Management	<p>Some of the statistics NTS publishes are:</p> <ul style="list-style-type: none"> - Revenue by the National Tax Service - Trend of Tax Burden - Number of Taxpayers by Regional Tax Office and Type of Tax - Trend of Tax Collection by Type of Tax - Collection by Regional Tax Office and Type of Tax - Notification of Information on Delinquent taxes to Credit Institutions - VAT Return(Taxpayers and Tax Base) by Taxable Period and Regional Tax Office - Trend of VAT Collection

New Zealand

	<p>Revenue Body</p> <p>Inland Revenue</p>
	<p>Website</p> <p>http://www.ird.govt.nz/</p>
<p>Services, Functions and Processes</p>	<p>1. Taxes Collected:</p> <ul style="list-style-type: none"> a. Goods and Services Tax b. Income Tax – Companies c. Income Tax – Estates or Trusts d. Annual Imputation e. Income Tax – Partnerships f. Individual Tax <p>2. Functions:</p> <p>Inland Revenue (IRD) plays a critical role in improving the economic and social well being of New Zealanders. Inland Revenue collects 85% of the Crown's revenue, collects and disburses social support program payments and provides policy advice to the government.</p> <p>They are working to ensure:</p> <ul style="list-style-type: none"> ☐ Responsiveness in meeting the changing and increasing expectations of government and society ☐ Making it easy for customers to get it right and hard to get it wrong ☐ Society has confidence that appropriate action will be taken against customers who do not comply ☐ Increasingly, paying tax is seen as a civic duty for the betterment of society ☐ Professionalism, approachableness, effectiveness and efficiency
<p>Organization and Governance</p>	<p>1. Organization:</p>

New Zealand

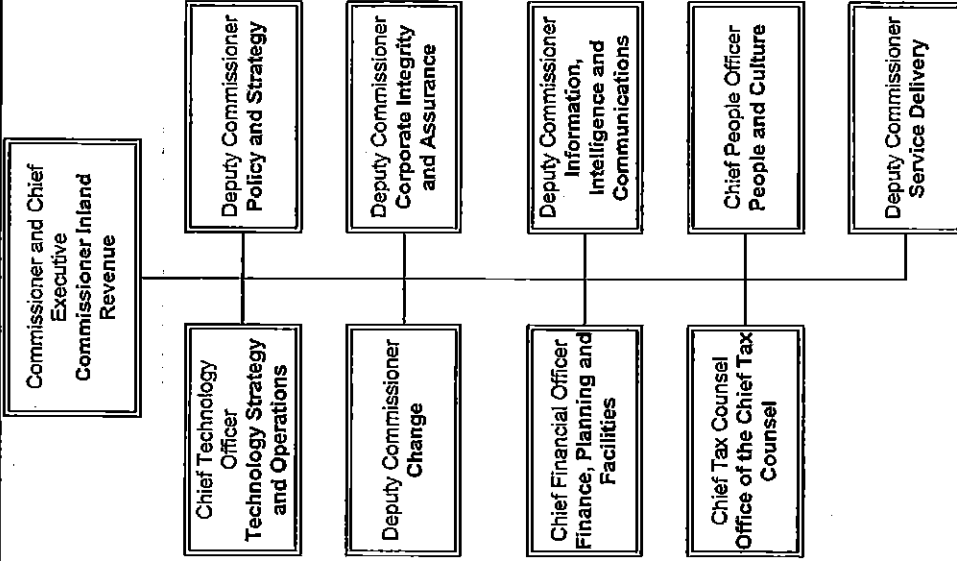


Figure 5. Organization Chart of IRD

2. Governance:
No information regarding how IRD governs its services, functions, and processes was available.

New Zealand

<p>Technology</p>	<p>IRD interacts with the taxpayers through its website to allow inquiry of account information, checking important dates of the fiscal calendar, downloading applications, submitting tax returns and making payments. Information related to IRD's was not readily available during our in depth research.</p>
<p>Sourcing and Locations</p>	<p>1. Sourcing: IRD has suppliers for the following types of services:</p> <ul style="list-style-type: none"> a. Management services b. IT and telecommunications infrastructure c. IT development services d. Recruitment services e. Research services f. Strategic advisory services g. Business analysis contractors h. Business analysis outsourcing i. Enterprise architecture services j. IT transitional advisory services <p>2. Locations: No information was readily available during our in depth research.</p>
<p>Performance Management</p>	<p>A Performance Improvement Framework (PIF) review of Inland Revenue was carried out in 2011 to provide Inland Revenue's senior leaders and central agencies, such as State Services Commission and the Treasury, with information on the department's current and future performance. The PIF review concluded that Inland Revenue is a well-managed department, strong in policy advice and administration. The review recommended some areas for improvement, and highlighted the challenge of Business Transformation.</p> <p>In IRD the Performance Delivery and Measurement Document (PDMD) to establish how the performance standards in the Information Supporting the Estimates will be measured. The PDMD ensures that their methodology is correct, robust, well documented, and consistent across years.</p> <p>The IRD publishes reports that present the following KPIs:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Registered customers by entity type <input type="checkbox"/> Registered customers by customer group <input type="checkbox"/> Use of return filing channels <input type="checkbox"/> Number of customers by return types <input type="checkbox"/> Returns filed <input type="checkbox"/> Revenue collected

New Zealand

- Income distributions of individual customers
- Number of tax agents by geographic area
- Number of clients of tax agents by geographic area
- Outcome of cases decided by adjudication
- Length of time cases in dispute
- Number of people convicted under the Tax Administration Act
- Overdue debt by tax type
- Overdue debt by debt value bands

Singapore

Revenue Body	Inland Revenue Authority of Singapore
Website	www.iras.gov.sg
Services, Functions and Processes	<p>1. Taxes Collected:</p> <ul style="list-style-type: none"> a. Income b. Property c. Estate Duty d. Motor Vehicle e. Customs & Excise f. Goods & Services g. Betting Taxes h. Casino i. Stamp Duty j. Foreign Worker Levy k. Airport Passenger Service <p>2. Function:</p> <p>The Inland Revenue Authority of Singapore (IRAS) was established by legislation on September 1, 1992 as a statutory board under the Ministry of Finance. With this conversion, IRAS was incorporated by the Inland Revenue Authority of Singapore Act to continue the functions previously performed by the Inland Revenue Department.</p> <p>The conversion gave IRAS the autonomy and flexibility to manage its personnel and financial resources. The conversion marked more than a change in name or a change in organization. It was a change towards achieving excellence in service to the nation and its people in the area of tax administration.</p>
Organization and Governance	<p>1. Organization:</p>

Singapore

	<ul style="list-style-type: none"> ☐ Tax Calculators. ☐ askJoanne, virtual assistant for individual income tax matters. ☐ EASY stands for e-Services Authorization System, an online authorization system that allows organizations to authorize employees or third parties to access e-services on its behalf.
<p>Sourcing and Locations</p>	<ol style="list-style-type: none"> 1. Sourcing: No information was readily available during our in depth research. 2. Locations: Only information for the Head Office was readily available during our in depth research.
<p>Performance Management</p>	<p>The main statistics IRAS publishes are:</p> <ul style="list-style-type: none"> ☐ Total amount of Government Operating Revenue and taxes collected ☐ Total amount of taxes collected by IRAS with a breakdown by tax type ☐ Number of cases and total amount of tax and penalty arising from audit and investigation ☐ IRAS' overall cost per dollar of tax collected ☐ Total income amount by income type ☐ Number of companies, amount of chargeable income and net tax assessed of taxable companies by chargeable income ranges, Tax arrears for Individual Income Tax, Corporate Income Tax, Property Tax and GST ☐ Service levels for answering telephone calls, replying to emails, responding to correspondence, attending to taxpayers and processing refunds

State of Florida	
Revenue Body	Florida Department of Revenue (Department, DOR)
Website	http://dor.myflorida.com/dor/
Services, Functions and Processes	<p>1. Main Taxes Collected:</p> <ul style="list-style-type: none"> a. Sales and Use Tax b. Reemployment (formerly unemployment) tax c. Communications services tax d. Corporate income tax e. Fuel tax <p>2. Function:</p> <ul style="list-style-type: none"> a. Register businesses for the collection of taxes b. Receive and deposit tax dollars c. Review tax returns and notify taxpayers of errors d. Help taxpayers with questions and problems e. Audit taxpayers to ensure compliance with the law f. Investigate tax fraud g. Collect overdue taxes h. Process tax refunds i. Distribute funds to state accounts and local governments j. Receive and process payments made to several state agencies <p>3. Core Processes:</p> <ul style="list-style-type: none"> a. Tax Processing b. Taxpayer Aid c. Compliance Determination d. Receivables Management

Organization and Governance

1. Organization:

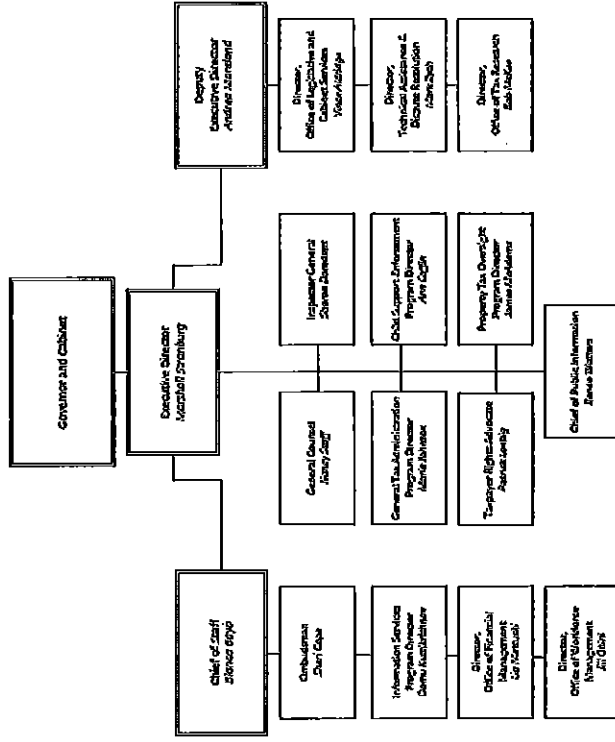


Figure 7. Organization Chart of DOR

2. Governance: Related information was not readily available during our in depth research.

Technology

1. The Department uses a Web Interface that allows taxpayers to submit Tax Returns (e-File) and Pay corresponding contributions (e-Pay)
 2. Information related to the DOR's Information Technology, Data or Application Architecture was not readily available during our in depth research.

Sourcing and Locations

1. Sourcing: Related information was not readily available during our in depth research.
 2. Locations: Related information was not readily available during our in depth research

Performance

Some of the statistics the Department manages through its Performance Measures and Standards are:

Management

- Percent of tax returns filed timely and accurately
- Percent of tax compliance examinations resulting in an adjustment
- Administrative costs as a percent of total agency costs
- Number of refund/tax certificate applications processed
- Number of inquiries from taxpayers and local governments answered
- Number of budget submissions and amendments reviewed
- Percent of tax returns reconciled within 25 days
- Number of accounts maintained
- Percent of tax returns filed timely and accurately
- Number of audits completed
- Percent of tax compliance examinations resulting in an Adjustment to a taxpayer's account

State of California

Revenue Body	The Board of Equalization (BOE)
Website	http://www.boe.ca.gov/
Services, Functions and Processes	<ol style="list-style-type: none"> 1. Main Taxes Collected: <ol style="list-style-type: none"> a. Property Taxes <ol style="list-style-type: none"> i. Board's functions here do not involve actually billing and collecting from property owners. Instead, they are limited to the assessment of certain multijurisdictional properties (e.g., telecoms, railroads, etc.), providing assistance to local assessors and overseeing local government assessments for quality. b. Sales and Use Taxes c. Excise Taxes d. Fuel Taxes e. Environmental Fees 2. Other Taxes collected in the state (by Franchise Tax Board) <ol style="list-style-type: none"> a. Corporate b. Individual 3. Function: <p>The BOE was initially responsible for ensuring that county property tax assessment practices were equal and uniform throughout California. Subsequently, BOE's responsibilities were expanded to include the administration of 34 separate tax and fee programs, 32 of which are revenue generating. The BOE has a full slate of programs to carry out its constitutional and statutory mandates of administering various taxes and fees and serving as an appellate body for property, business, and income tax assessments.</p> <p>3. Processes:</p> <ul style="list-style-type: none"> • Formal and approved Audit and Compliance manuals are publicly available. • Information about core processes was not readily available during our in depth research.
Organization and Governance	<ol style="list-style-type: none"> 1. Organization:

State of California

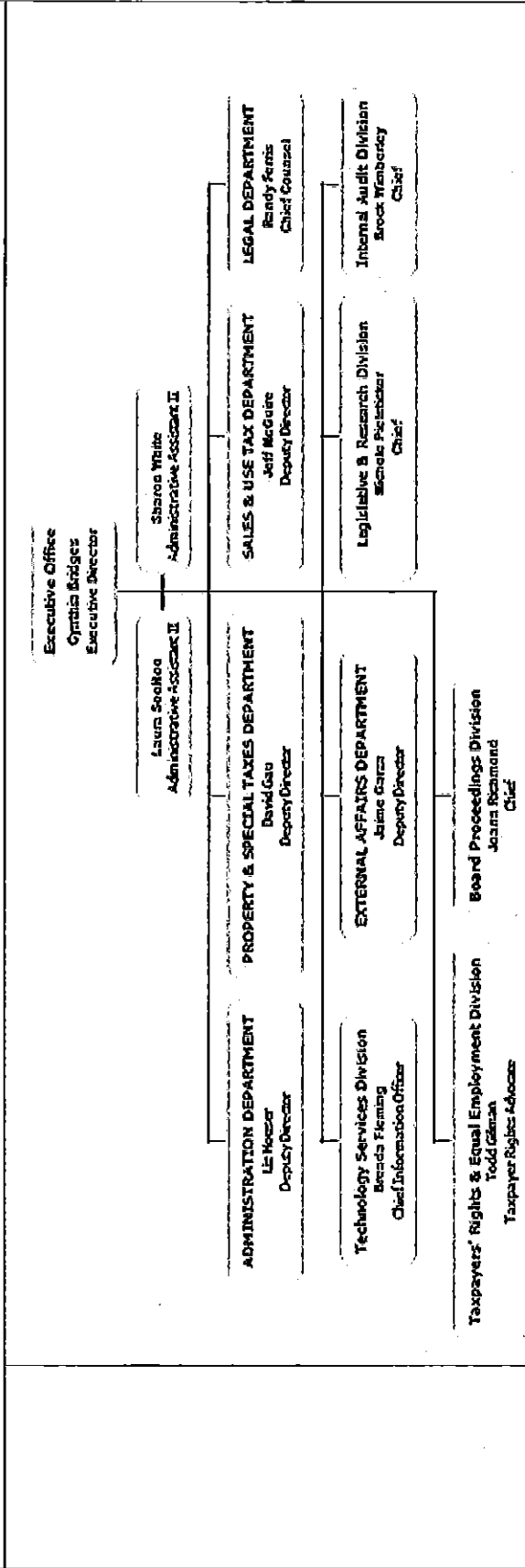


Figure 8. Organization Chart of BOE

2. Governance: The governing body for the BOE is a 5-person body consisting of 4 representatives elected in various regions of the state, and the State Controller, a statewide elected official.

Technology

- ☐ The Board uses a Web based application (e-File) that allows taxpayers to file a tax return, make payment (e-Pay), request relief (exemption) and establish a payment plan.
- ☐ It has recently implemented the Centralized Revenue Opportunity System (CROS) that replaces the Board of Equalization's (BOE) legacy computer systems with an innovative customer-centered solution. CROS' benefits include: providing a single registration for multiple tax and fee programs, access to more information that can be used to improve business operations, return filing assistance which helps reduce errors, expanded online services with increased account maintenance capabilities, including: access to real-time account information and the ability to track and obtain correspondence with the BOE.
- ☐ Information related to the Board's Information Technology, Data or Application Architecture was not readily available during our in depth research.

State of California

Sourcing and Locations

- 1. Sourcing: Related information was not readily available during our in depth research. .
- 2. Locations: Related information was not readily available during our in depth research. .

Performance Management

- Some of the statistics the Board manages are:
- Expenditures of the State Board of Equalization
 - Revenues from Taxes Administered by the State Board of Equalization, by Fiscal Year
 - Total Costs of Performing State Board of Equalization Functions
 - Assessed Values of Property Subject to Local General Property Taxes, and Average Tax Rates
 - State Sales and Use Tax Collections and Number of Permits
 - Revenues Distributed to Cities and Counties from Local Sales and Use Taxes
 - Beer, Wine, and Distilled Spirits Excise Tax Collections

State of New York

Revenue Body	Department of Taxation and Finance
Website	http://www.tax.ny.gov/
Services, Functions and Processes	<p>1. Main Taxes Collected:</p> <ul style="list-style-type: none">a. Corporation Taxb. Estate Taxc. Personal Income Taxd. Sales Taxe. Withholding Taxf. Property Tax <p>2. Function:</p> <p>To efficiently collect tax revenues in support of State services and programs while acting with integrity and fairness in the administration of the tax laws of New York State. The department administers more than 40 state and local taxes and fees, including more than \$14 billion in local sales tax and \$8 billion in local income tax. In regard to real property taxes, the department oversees the administration of more than \$50 billion annually and works directly with nearly 1,000 local governments.</p> <ul style="list-style-type: none">• Processes: No information was readily available during our in depth research.

**Organization
and
Governance**

1. Organization

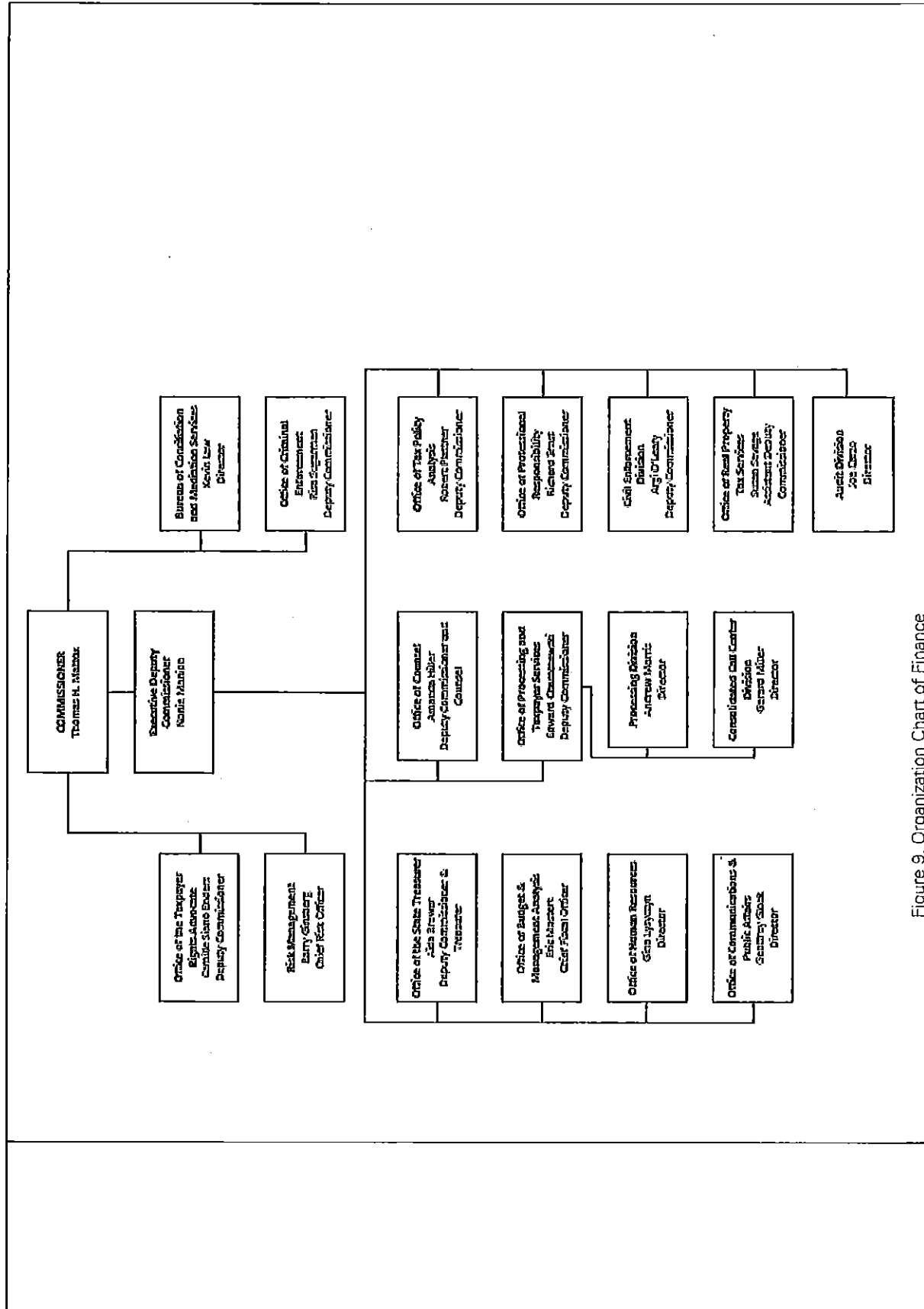


Figure 9. Organization Chart of Finance

	<p>2. Governance: Information related to Department's Governance was not readily available during our in depth research.</p>
Technology	<ul style="list-style-type: none"> <input type="checkbox"/> The Department uses online services that allow taxpayers to file a tax return, make payment, respond to a notice, and view payment history. <input type="checkbox"/> Information related to Finance's Information Technology, Data or Application Architecture was not readily available during our in depth research.
Sourcing and Locations	<ol style="list-style-type: none"> 1. Sourcing: No information was readily available during our in depth research. 2. Locations: The Department has its main offices in Albany.
Performance Management	<p>Some of the statistics the Board manages are:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Telephone inquiries answered within the established time <input type="checkbox"/> Percentage of tax forms and instructions issued on time with 100% accuracy <input type="checkbox"/> Personal Income Taxpayer written inquiries resolved within 90 days <input type="checkbox"/> Business written inquiries resolved within 90 days <input type="checkbox"/> Fiscal Year Collections by Type of Tax <input type="checkbox"/> Bank Tax Collections by Type of Bank Collections by Type of Tax

2.4 Comparable Performance

The following tables show the current Tax Administration performance of the comparable jurisdictions, based on published reports of the Organization for Economic Co-operation and Development (OECD), the U.S. Agency for International Development (USAID), and the Inter-American Center of Tax Administrations (CIAT). The tables will present a comparison between Puerto Rico and the comparable jurisdictions if information regarding Puerto Rico's Tax Administration performance was available

We have included the following comparable jurisdiction for the analysis of the tax administration performance:

2.4.1 Total Tax Revenue

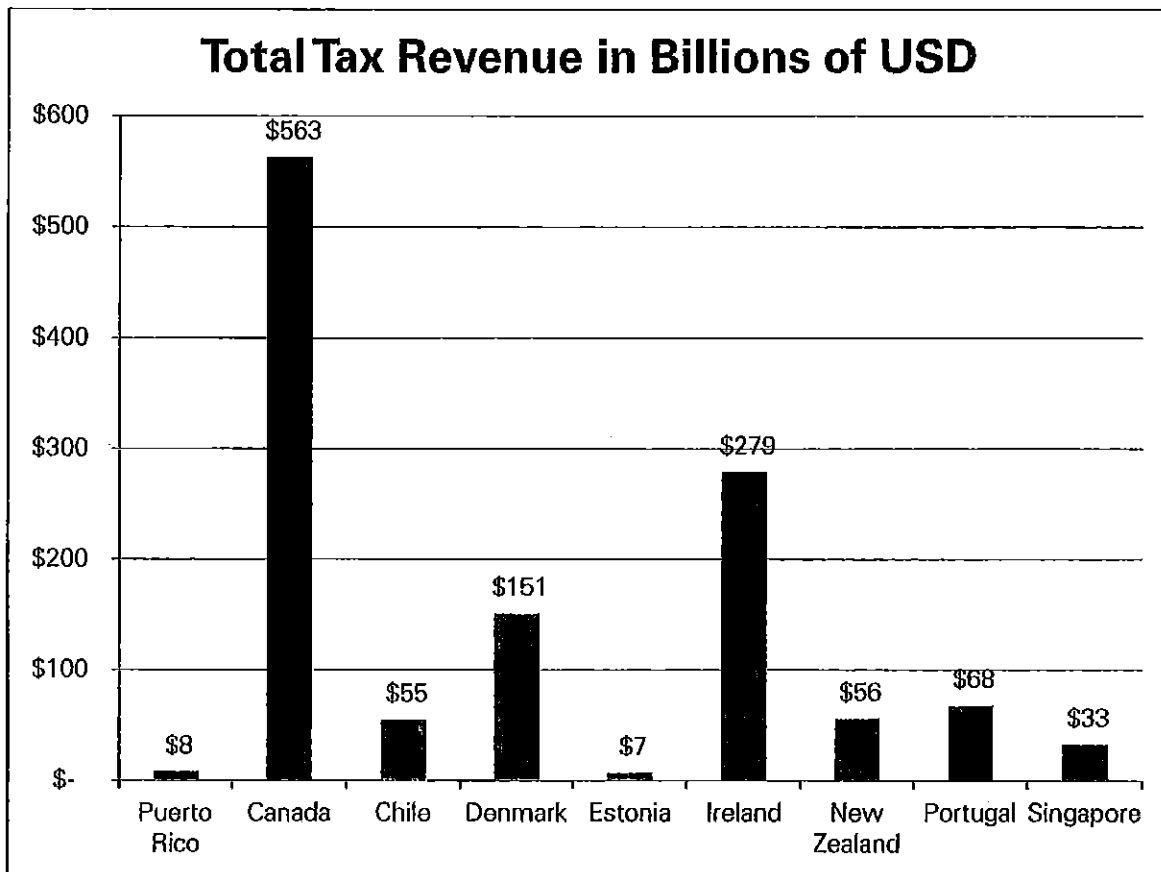
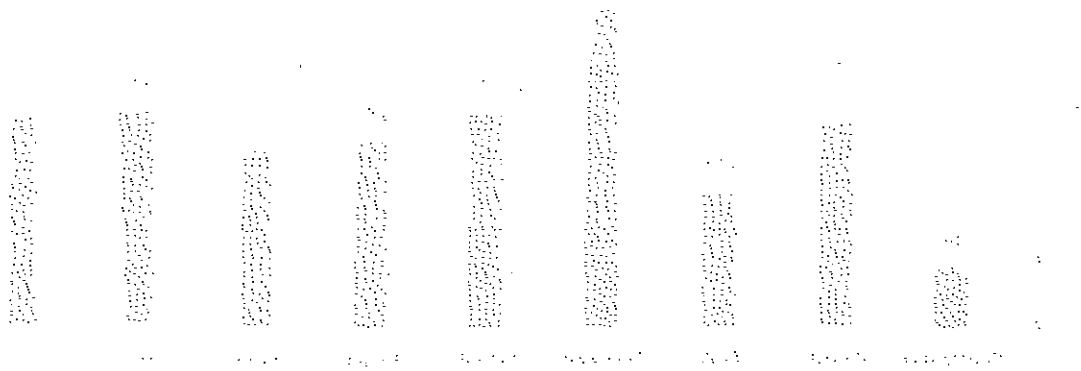


Figure 10 Total Tax Revenue in USD Billions (2012)

The Figure above shows that jurisdictions with similar GDP as Puerto Rico (New Zealand, and Portugal) have total tax revenues approximately more than seven times the amount collected by Puerto Rico. The current Revenue gap between Puerto Rico and its peers highlights the critical need to review how taxes are administered and collected in the Commonwealth. To

have a better understanding of how Puerto Rico currently administers and collects taxes you may refer to Deliverable 3-03.



The following table provides a summary of the data presented in the chart above. The data is organized into two columns: 'Category' and 'Value'. The values are relative to the tallest bar in the chart.

Category	Value
1	0.5
2	0.8
3	0.3
4	0.6
5	0.8
6	1.0
7	0.4
8	0.6
9	0.2
10	0.7

2.4.2 Tax Revenue as a Percentage of GDP

Tax revenue refers to compulsory transfers to the central government for public purposes. Certain compulsory transfers such as fines, penalties, and most social security contributions are excluded. Refunds and corrections of erroneously collected tax revenue are treated as negative revenue.

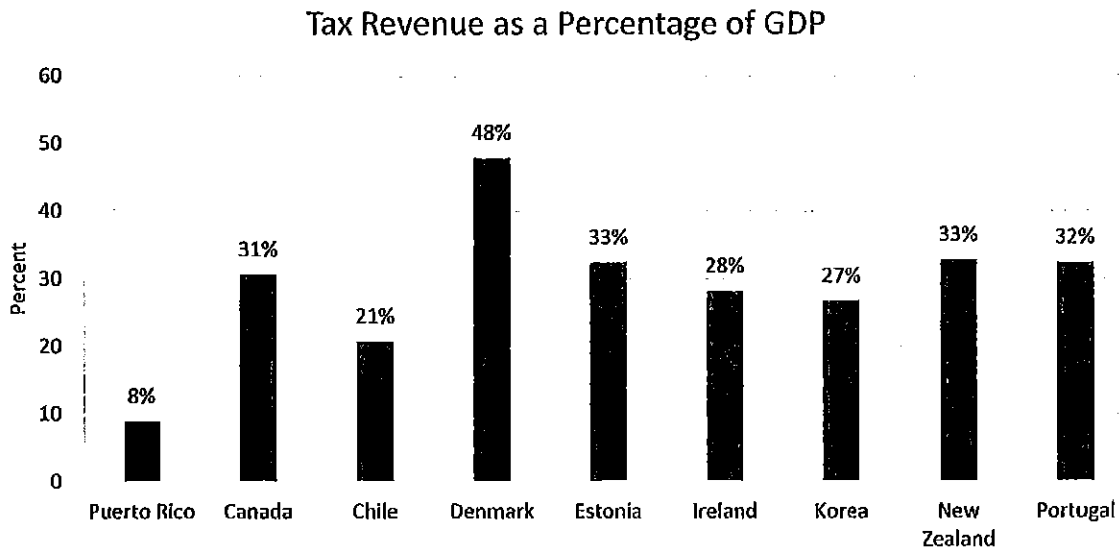


Figure 11 Tax Revenue as a Percentage of GDP (2012)

According to Figure 11, the median of the Tax Revenue as percentage of GDP in the comparable jurisdictions ranges between 21% and 33% and for Puerto Rico it is below 10%. The above results indicate again that Puerto Rico has major improvement opportunities for the current Tax Administration, specifically for Collections and Enforcement areas.

2.4.3 Value Added Tax Rates (VATR)

VATR is the percentage rate at which most goods and services are taxed under the value added tax. Most countries have a variety of reduced rates for certain basic goods, such as basic food stuff, and have a zero rate on exported goods.

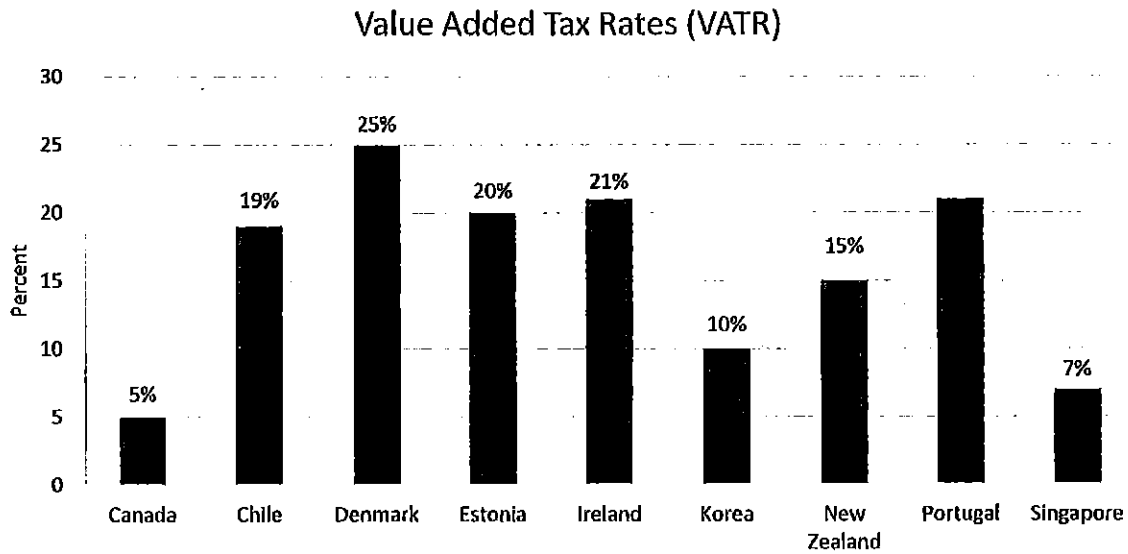


Figure 12 VATR for Comparable Jurisdictions for 2012-2013 (Source: USAID)

Currently Puerto Rico does not have VAT in place; however, Figure 12 presents the current Value Added Tax in the comparable jurisdictions as a reference for the Tax Reform project. Most tax regimes of these comparable jurisdictions have a VAT rate of above 15%.

2.4.4 Value Added Tax Collections as % of GDP (VATY)

VATY is the level of net VAT collections as a percent of GDP. Values are net unless otherwise indicated.

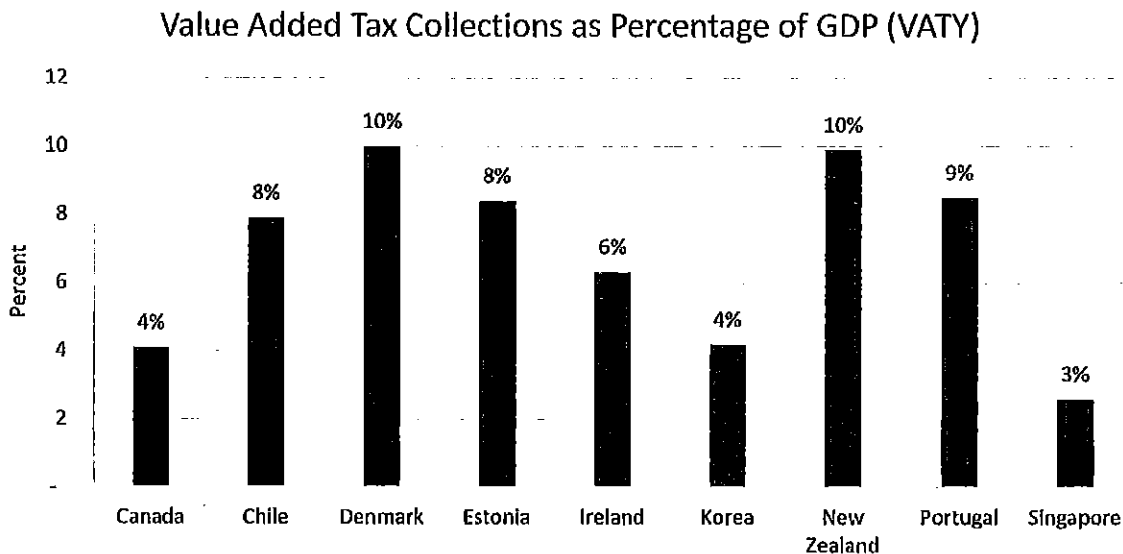


Figure 13 VATY of Comparable Jurisdictions for 2012-2013 (Source: USAID)

The media of VATY for the comparable jurisdictions ranges 6% to 8% of their GDP, which represents, for New Zealand and Portugal, approximately between \$17 and \$18 Billions of Tax Collections per year. As Puerto Rico is considering reforming its consumptions tax, the evidence shows that collections of VAT as a percentage of GDP is significant.

2.4.5 Corporate Income Tax Rate (CITR)

CITR is the percentage rate of the corporate income tax. In most countries, only one corporate income tax rate is applied to corporate profits. In addition, in most countries, owners of sole proprietorships or unincorporated partnerships pay personal income taxes and not corporate income taxes.

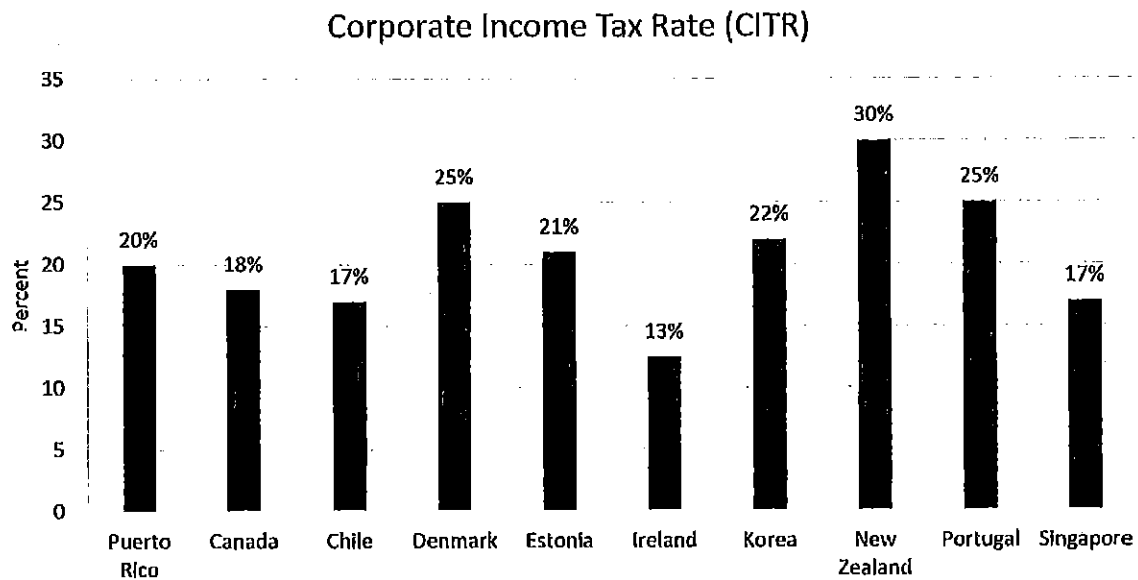


Figure 14 CITR of Comparable Jurisdictions for 2012-2013 (Source: USAID)

Figure 14 shows that the media of CITR ranges between 17% and 25% in comparable jurisdictions and Puerto Rico's CITR is 20%, which is inside the range of the jurisdictions under analysis.

2.4.6 Corporate Income Tax Collections as % of GDP (CITY)

CITY is the level of corporate income tax collections as a percent of GDP.

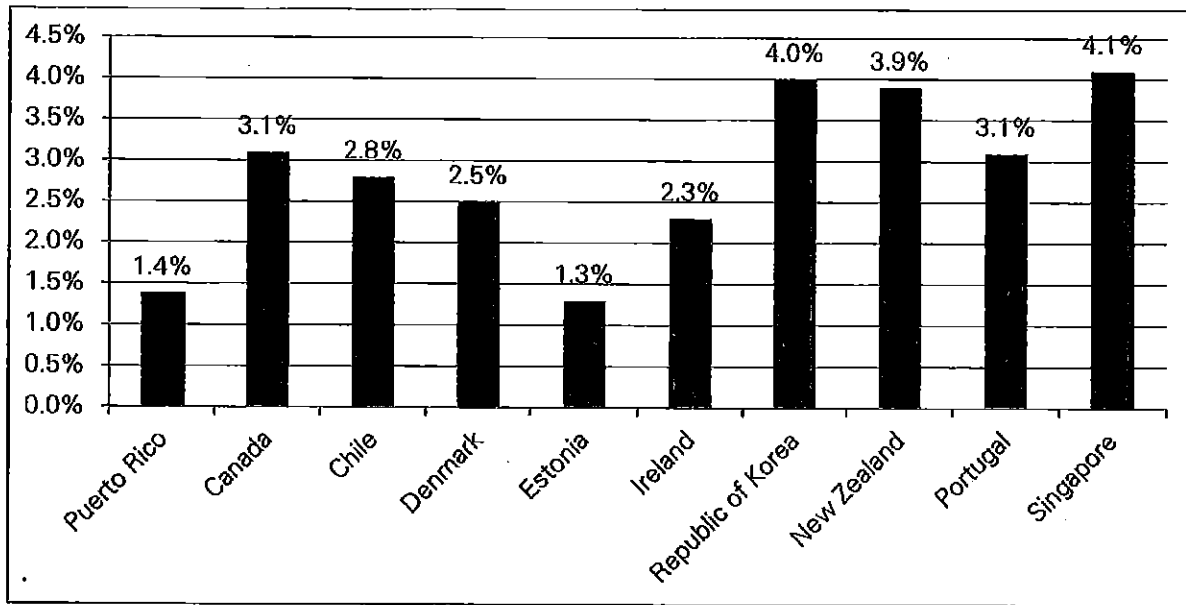


Figure 15 CITY Comparisons for 2012-2013 (Source: USAID)

The CITY in Figure 15 shows that the median ranges from 2.3% and 3.1% for which Puerto Rico is 0.9 percentage points below the minimum of this range. Additionally, jurisdictions like New Zealand and C have CITYs above 3% which implies that Puerto Rico can collect more corporate income taxes with proper enforcement and collection efforts.

2.4.7 Minimum Personal Income Tax Rate (PITMINR) and Maximum Personal Income Tax Rate (PITMAXR)

Minimum Personal Income Tax Rate is the lowest non-zero positive tax rate applied under the personal income tax and Maximum Personal Income Tax Rate is the highest tax rate applied under the personal income tax system.

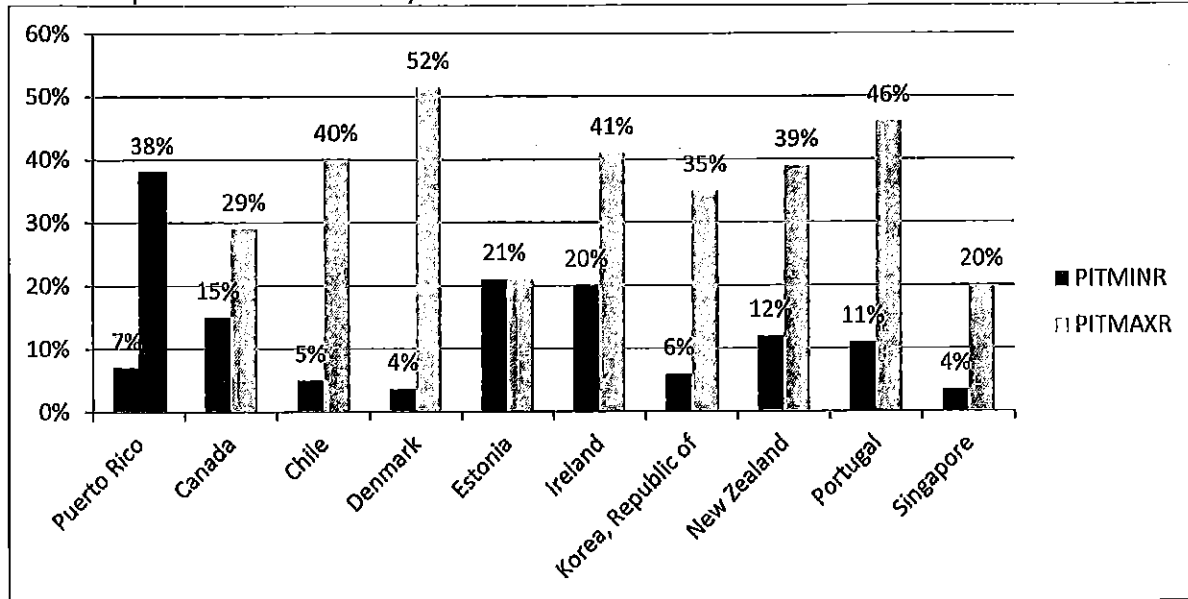


Figure 16 Comparisons of PITMAXR and PITMINR for 2012-2013 (Source: USAID)

In most of the comparable jurisdictions a scheme to increment how different Personal Income Tax Rate (PITR) is applied based in different conditions of the taxpayer. Only in Estonia this scheme to increment the PITR is not notorious. In the case of Puerto Rico there is a difference of thirty one percentage points between the minimum and the maximum tax rate. Additionally, the PITMINR for Puerto Rico is in the lower boundary compared to the other jurisdictions for which the media ranges between 6% and 13%. The PITMAXR is also one of the highest compared to jurisdictions under analysis.

2.4.8 Personal Income Tax Collections as % of GDP (PITY)

PITY is the level of personal income tax collections as percent of GDP.

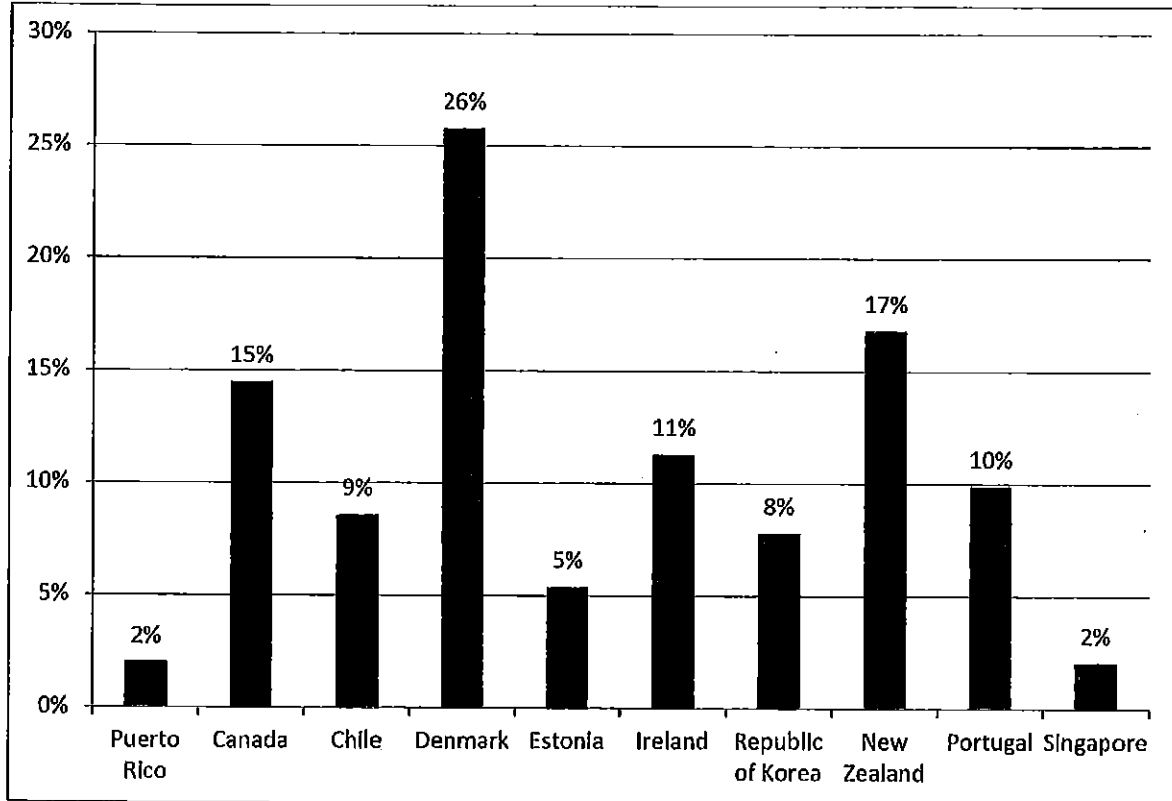


Figure 17 PITY Comparisons for 2012-2013 (Source: USAID)

Figure 17 shows that for the comparable jurisdictions the media of PITY ranges from 8% and 17%. In the case of Puerto Rico the PITY is only 2% even though the PITMINR is the highest and the PITMAXR is one of the highest (presented in Figure 8), compared to the jurisdictions under analysis.

3 General Observations

KPMG found that IRA has significant gaps in the operational components under analysis which directly impact the current tax administration performance (collection and compliance rates). Addressing these gaps will improve the tax compliance rate and reduce the administrative burden placed on the Department and the taxpayer. The most important topics for which IRA needs to quickly define and implement solutions are listed in the following table. The table briefly describes the current situation of IRA in each of the operational components and how the comparable jurisdictions execute them.

Operational Component	Puerto Rico	Comparable Jurisdictions
Services, Functions and Processes	The current structure of the Internal Revenue Area has two types of organizational structures combined. Most of their bureaus are organized by type of service and one bureau, Consumption Tax, is structured by type of tax. This could be leading to a possible duplication of efforts, mainly on the functions of inspection, audit and taxpayer services regarding Sales Tax and excise (IVU & Arbitrios). There are currently 41 Auditors that perform Sales and Use tax only, in the Consumption Tax Bureau.	The jurisdictions under analysis have transformed their Business and Operating Model to a full function oriented model. This type of Operating Model has the objective of recognizing the real needs of the taxpayer and reducing the burden of Tax Administration, and it is based on a formalized function oriented and/or business process oriented structure that allows each Revenue Body to meet the taxpayers' expectations. A function oriented Operating Model identifies the internal and external services that produce outputs that are valuable for the clients, and a Business Process oriented Operating Model defines the strategic, core and supporting business processes the Revenue Body needs to operate effectively and efficiently.
Organization and Governance	Most of IRA's personnel roles and responsibilities have not been updated since 1996. Consequently, key personnel have not be granted the necessary accountability and empowerment to execute key activities in	The Operations of the Revenue Bodies are governed efficiently due to the formal definition of roles and responsibilities, and an effective culture of key personnel accountability and empowerment.

Operational Component	Puerto Rico	Comparable Jurisdictions
<p>Organization and Governance</p>	<p>each of the core processes. Currently, the Internal Revenue Area (IRA) is an operational unit of the Department of the Treasury; therefore, this area depends on the guidelines, laws, procedures, budget and resources provided by the Department. Additionally, it is not publicly recognized as the main enforcer to comply with the current tax Code.</p>	<p>Some Revenue Bodies serve as (semi) autonomous agencies within the executive branch of the state government, and are headed by an individual administrator that is appointed by the Executive. Autonomy of the tax administration provides flexibility to design and implement own operational policies and/or processes.</p>
<p>Sourcing and Location</p>	<p>The offices that the IRA has in different municipalities have a main responsibility of receiving payments from taxpayers. The IRA has not analyzed objectively if additional services can be provided in these offices, based on taxpayers' suggestions.</p>	<p>Revenue Bodies have organized their services and allocated their personnel in a manner that allows for regional service delivery based on taxpayer demand. Organizational efficiencies driven by taxpayer demand offer the ability to build a national reputation for convenient, high quality service delivery.</p>
<p>Technology</p>	<p>IRA's Information Technology, Data or Application Architecture and Programming languages are not considered to fully support an efficient and effective tax administration. The application, data and technology architecture lacks integration which introduces high operational costs and limited possibilities to achieve true end-to-end process integration</p>	<p>Different technology and/or applications are used as formal and trustworthy channels of communication. For the implementation of the new technology and/or applications, the Revenue Bodies have replaced legacy systems with reliable and scalable technology, as well as implemented user/service oriented applications that facilitate the interaction between taxpayers and the corresponding portals.</p>
<p>Technology</p>	<p>Currently the IRA has a portal which allows the interface with the taxpayer and provides</p>	<p>Some have moved to a more modern interaction with the taxpayer through portals</p>

Operational Component	Puerto Rico	Comparable Jurisdictions
	<p>a few services. Some taxpayer assistance services are offered through the web channel and do not provide sufficient information, therefore taxpayers still require costly face-to-face support.</p>	<p>and applications that are compatible with mobile devices, on which the services available for taxpayers range from sending consults, submitting tax returns, making payments and receiving the status of tax returns.</p>
Performance Management	<p>Unstandardized performance dashboards are constantly prepared in the different Bureaus and the required data to prepare them is located in different information systems.</p>	<p>Formal and simple dashboards are publicly available.</p>
People and Skills	<p>Currently IRA's personnel lack a clear career path that can be designed and/or followed.</p>	<p>Employees enter a career path based on their respective skillsets. A clear career path allows them to participate in internal contest with different business units or continue personal/professional development within their business units.</p>

Additionally, based on analysis of the key performance indicators analyzed in section 2.4 for the Current Tax Administration of Puerto Rico (e.g. Total Tax Revenue, Tax Revenue as a Percentage of GDP, Corporate Income Tax Rate) compared to other jurisdictions shows that in five out of six KPIs Puerto Rico performance is below the majority of jurisdictions' performance. Only in the Corporate Income Tax Rate Puerto Rico was within the other jurisdiction's tax rate values.

Appendix A

List of Datasets used for the Comparison

OECD.StatExtracts	http://stats.oecd.org/	2013	May 2013	OECD.Stat includes data and metadata for OECD countries and selected non-member economies
The Global Competitiveness Index 2013-2014 rankings	www.weforum.org/gcr	2013	May 2013	
The Worldwide Governance Indicators, 2013 Update	www.govindicators.org	2013	May 2013	
USAID Collecting Taxes	http://egateg.usaidainet.gov/collecting-taxes	2013	May 2013	