



Initiative for Policy Dialogue
IPD Tax Task Force

Summary from 30 March 2005 Task Policy Meeting

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1. The Peruvian Tax System has a basic structure made up by Central Government taxes, Local Government taxes and the contributions to both the Social Security System (called ESSALUD) and the National Pensions System (called ONP).
2. Tax revenues of the Central Government are supported by four main taxes: income tax, general sales tax (called IGV, a value added tax), excises tax (called ISC) and custom duties. These four taxes make up for almost 94% of the total tax revenue of the Central Government, being the IGV responsible for almost 50% of the total collection.
3. The evolution of tax burden in Peru has three well defined periods. The first one, from 1990 to 1996 marks the peak in collection and in tax burden. It was due to an important tax reform implemented in 1991, which consisted in the simplification of the tax system through the reduction of taxes and a comprehensive reform in Tax Administration. The second one between 1997 and 2002, brought tax burden to a steady state and later on led to its reduction as a result of the implementation of tax benefits (promotion laws, reduction of tax rates, amnesties, tax exemptions, etc.). These benefits had a negative impact on tax collection, created lack of neutrality, inequity and affected tax revenues and burden. The third period began in mid 2002 with the implementation of a tax reform which's main objective was to broaden the tax base and fight tax evasion, especially General Sales Tax (IGV) evasion. During this period the Peruvian Tax Administration (SUNAT) strengthened its efforts to control and collect and had the objective of making it simple for tax payers to comply with their obligations..
4. The measures implemented by SUNAT during mid 2002 focused mainly on strengthening IGV tax collection; IGV is the most important tax in the Peruvian tax system and its evasion is frequent and high. SUNAT implemented an IGV withholding tax system, an IGV perceiving regime, and an IGV special payment system of tax liabilities for some products selected according to rates of tax evasion. The withholding system was targeted at large taxpayers and the biggest buyers in the Peruvian economy; they became withholding agents for the IGV of their suppliers. The perceiving regime, first used in the commercialization of fuels, consisted in the making main producers and fuel companies agents of perception; charging the IGV to their clients in advance for the purchased products. Finally, the IGV special payment system (called SPOT system) established the payment of part of the tax in the commercialization of some products (at first rice, sugar and alcohol) by means of a deposit the buyer made in a special bank account the taxpayer seller had. The deposit was to be used exclusively in the payment of tax liabilities.
5. Notwithstanding the success of the reforms passed in mid 2002, in the second half of 2003, a new tax reform was passed to introduce equity and efficiency without overlooking the

importance of increasing tax revenues. SUNAT's expertise, support and commitment played an important role in the making of the tax reform. The central ideas of the reform were to broaden the tax base and provide SUNAT with the necessary tools to fight against evasion, informality and smuggling.

6. The objectives achieved by SUNAT after the implementation of the latest tax reform include: (i) a sustainable increase of the revenues and broadening of the tax base; total tax revenues as a percentage of GDP increased from 11.7% in year 2002 to 13.4% in year 2004 (ii) increase of the detection of tax evasion; due to the use of crosscheck information, and to greater tax control efforts and auditing (iii) consolidation of the merger of SUNAT with Customs, which fostered the use of synergies, cost reduction and use of economies of scale; the merger helped Customs acquire the necessary economic resources to develop technological solutions and make import/export procedures faster and simpler, and (iv) improvement in the quality of service to the taxpayer and trade users and the use of edge technologies to make their duties accomplishment easier.
7. After the reform, SUNAT is perceived as a leader institution in the eyes of the public opinion; surveys made show SUNAT has a very high level of approval to its work and it is placed as a leader institution overcoming other government and private institutions.