

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

***Target Operating
Model Business Case
and Estimated Costs of
New Tax System
Implementation***

December 23, 2014

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1. Purpose and Scope

Purpose and Scope

Purpose of the Target Operating Model Business Case

This document's purpose is to present the Department of Treasury (Department) with the main motives, benefits, costs, risks, value created and next steps associated with implementing the opportunities presented in Deliverable 3-08: Prioritized Opportunities for the TOM Design and Deliverable 3-10: High-Level TOM Design Options.

Report Scope

The Business Case of Target Operating Model supports the decision making and implementation plan to transform the IRA into an organization with the following capabilities:

- Build Foundation
- Simplified Administration
- Taxpayer Centric
- Goods & Services Tax Administration
- Risk Based Enforcement
- Independent & Performance Driven

2. Approach and Methodology to Value Management

Business Case and Value Gateways (BCVG) Building and Sustaining Tangible Value

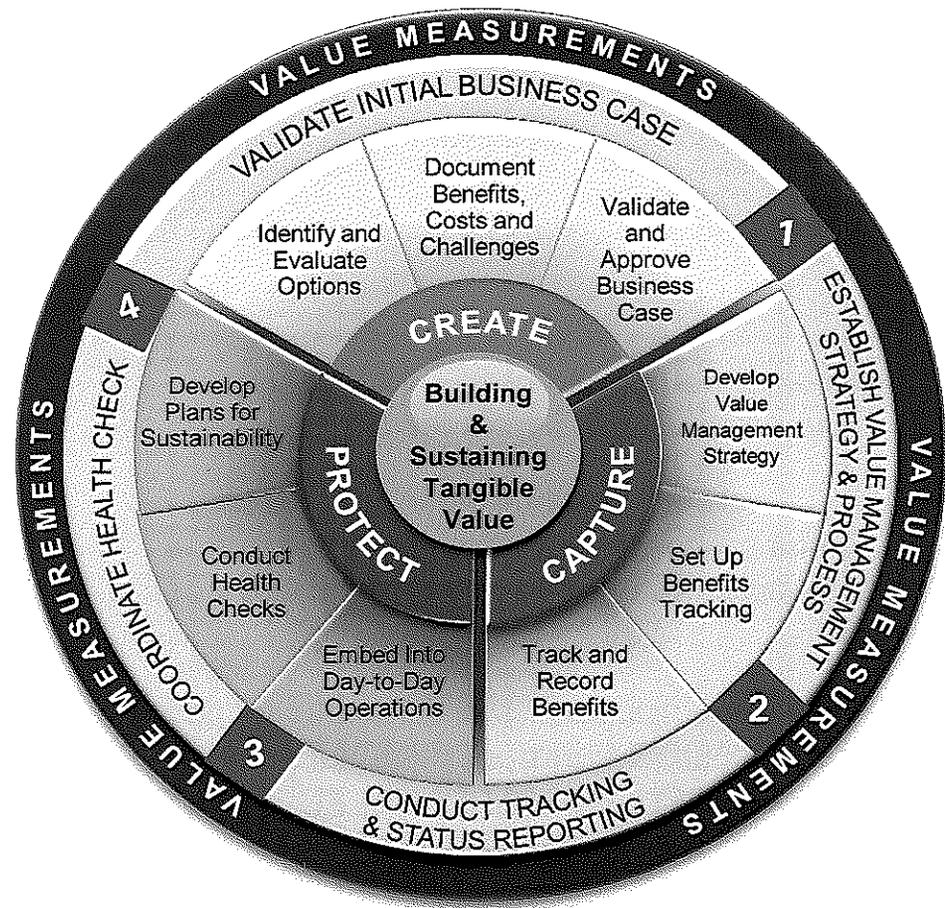
Value gateways can be defined as the following:

- Major milestones that focus on assisting organizations in realizing their intended value.
- Points where program or project leadership (and key stakeholders) assesses the progress to date, in relation to managing incremental benefits, review associated deliverables and outcomes, and deciding on course adjustments, if necessary.
- Provide the formal point in the lifecycle in determining if the program or project is ready to move to the next phase of work.

An Integrated Approach to Building and Sustaining Tangible Value

With a clear focus on tangible value, Treasury leadership must be clear on:

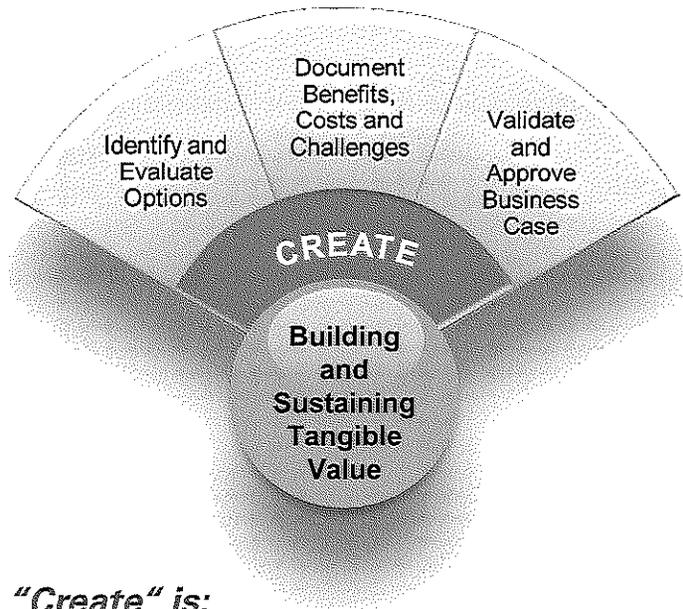
- What is the value we are looking to create through the Department's Tax Reform efforts?
- How do we build and capture the value as we design and implement?
- How do we protect the value initially captured and enhance it further as we move into business as usual?
- How do we use "Value Gateways*" during the engagement to determine if the Tax Reform initiatives are ready to move to the next phase?



The diagram summarizes the key elements and stages involved in creating, capturing and protecting value.

Business Case and Value Gateways

1. Creating Value



“Create” is:

Prioritizing and documenting the business improvement options and high level benefits in the form of an initial business case. If the organization already has a business case in place, then “Create” validates the options and their intended benefits against the KPMG SEA* framework for business case development.

* SEA: Strategic Economic Achievable

Objective:

- This BCVG “Create” phase is designed to address the need for formally rationalizing and justifying the organization’s changes and associated investments
- The likelihood of realizing intended benefits improves by establishing a validated and robust initial business case
- The initial business case will serve as the master forum for documenting benefits and the overall case for change

Business Case and Value Gateways

Strategic - Economic - Achievable: The 'SEA' Framework of Business Case Development

Strategic

- Sets out the rationale for a business case and aligns the case for change to the organizational strategy
- Provides an appropriate background to the investment proposal and explains the objectives that are to be achieved
- Captures associated risks, constraints, dependencies, etc., of the business improvement initiative at a high level

Economic

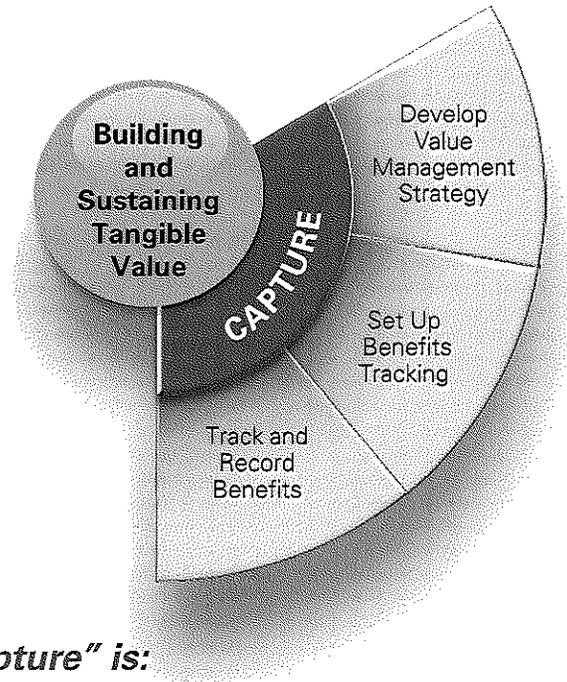
- Details the preliminary options, analyzes and evaluates each option to arrive at a list of viable options
- Contains qualitative and quantitative analysis of the proposed options. The quantitative analyses includes a financial as well as non-financial assessment of the proposed options

Achievable

- Considers the deliverability of the business improvement or change initiative
- Sets out project or program management responsibilities, governance and risk planning
- Addresses the tactical implementation aspects as part of the investment evaluation process

Business Case and Value Gateways

2. Capturing Value



“Capture” is:

Developing a Value Management Strategy that helps ensure there is a rigorous and well defined approach to tracking the capture of benefits throughout the life of the change.

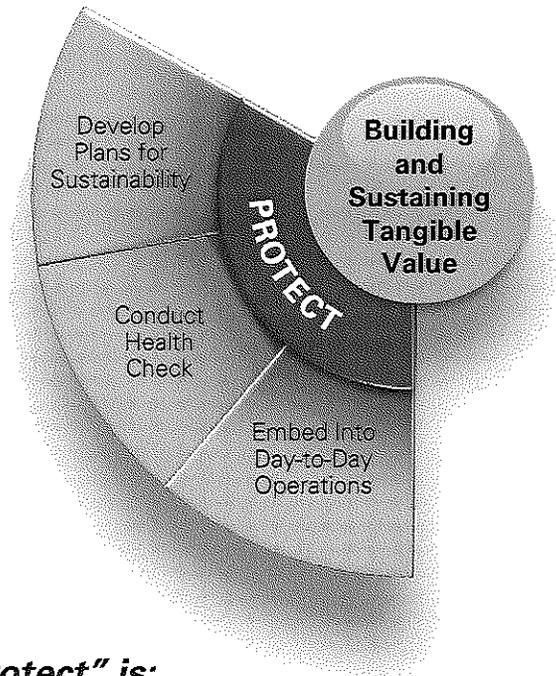
It establishes a benefit tracking and reporting mechanism that can provide information for analysis and decision making.

Objective:

- This phase of the BCVG approach is designed to address the initiation and development of the organization's real value management capability and to help record, analyze and report on the organization's realization of benefits, while preparing them for the transition from a program or project function to ongoing operations
- Ensuring the approach lasts beyond the life of the current change initiative being undertaken

Business Case and Value Gateways

3. Protecting Value



“Protect” is:

Helping ensure the value initially captured continues to deliver the expected benefits to the organization. It ensures periodic health checks are in place to review progress against expectations, and adjust plans to meet the expected changing circumstances. It measures the impact of the original investment decision and ensures the value does not simply ebb away over time.

Objectives:

- The BCVG “Protect” phase is designed to evaluate how well the organization is managing their value management process from the transition point as well as to assess the benefits realized to date
- Both evaluations should occur within an agreed period of time subsequent to the close of the program or project
- Both evaluations should focus on enhancing the organization's ability to realize value from their investments

Business Case and Value Gateways

Building and Sustaining Tangible Value

Summary of the Value Gateways

Gateway # 1:

Is there an agreed and validated Business Case and is the Department ready to proceed in developing their Value Management strategy?

Gateway # 2:

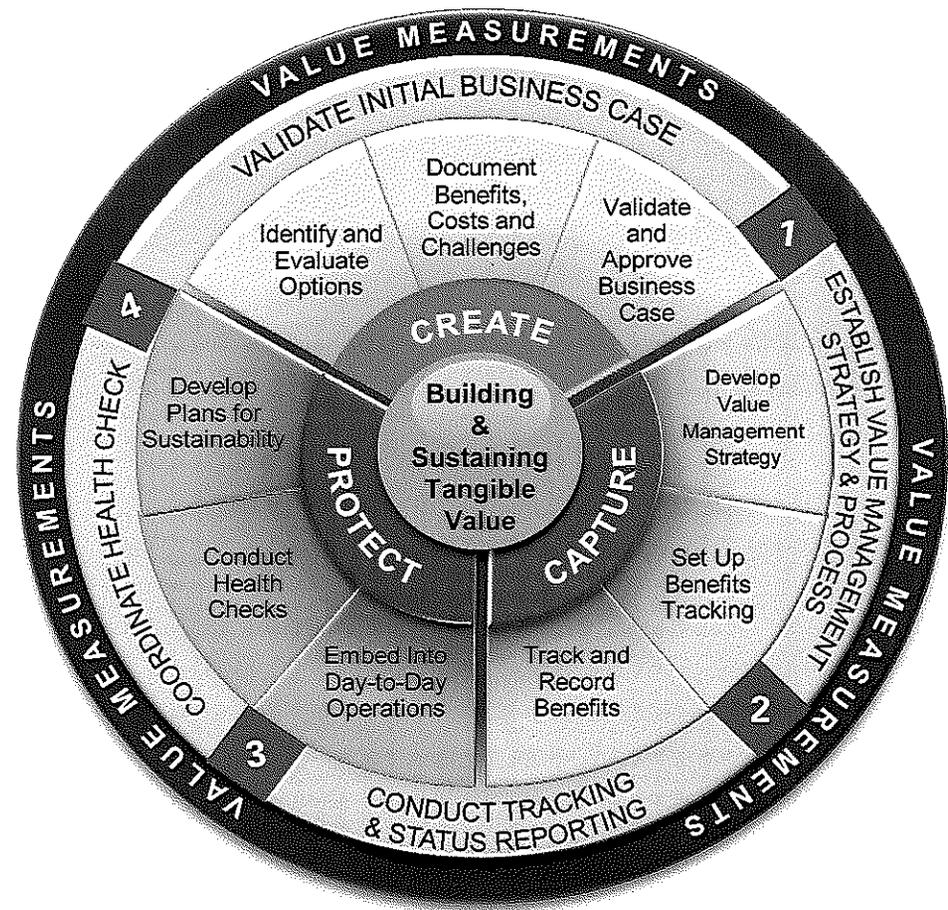
Is there an agreed approach to Value Management and is the Department ready to proceed?

Gateway # 3:

Has the agreed skills transfer taken place and is the Department ready to assume Value Management alone?

Gateway # 4:

Is the Department's Value Management strategy still working to achieve their intended benefits?



Business Case and Value Gateways

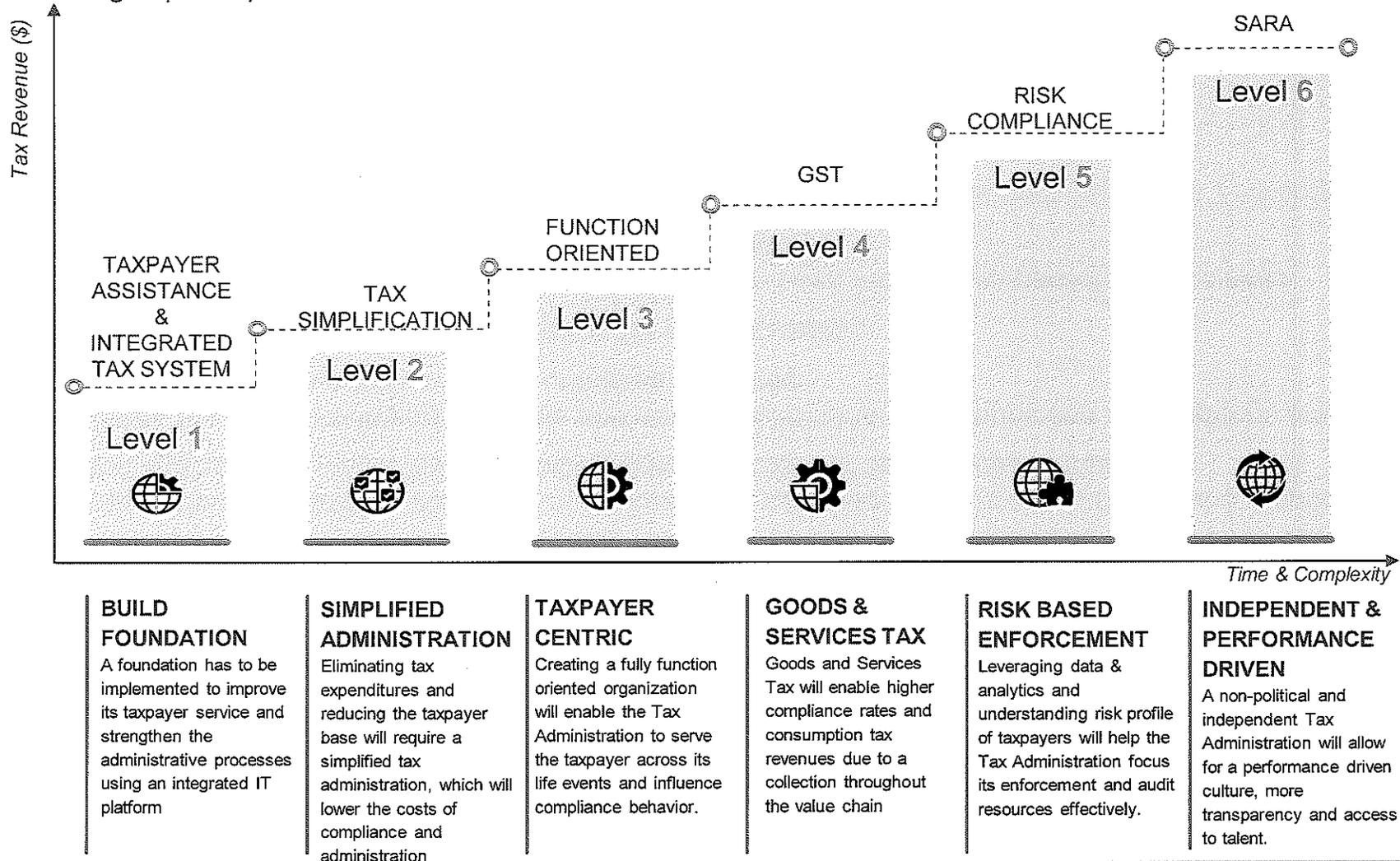
Sample Value Gateway Questions

	Gateway #1	Gateway #2	Gateway #3	Gateway #4
Strategic	<ol style="list-style-type: none"> 1. Are the initiatives proposed and the envisioned benefits aligned with strategic objectives of the Department and the transformation work proposed? 2. Is there a clear, robust rationale to support the achievement of each of the proposed benefits? 3. Do the executive sponsor/stakeholders fully understand the proposed business case and have they approved it? 	<ol style="list-style-type: none"> 1. Has the value management strategy been formally agreed to by the appropriate level of management? 2. Do documented benefits factor in pre-requisites and dependencies? 3. Do documented benefits align with management's value management strategy? 	<ol style="list-style-type: none"> 1. Is there a complete transition plan in place that covers the following? <ol style="list-style-type: none"> a. Documentation b. Experience (i.e., knowledge and skills) c. Training plan d. Governance 2. Has a health check review been scheduled and planned? 	<ol style="list-style-type: none"> 1. Has a formal health check review been conducted that documents objective observations and recommendations? 2. Is management developing an action plan based on the reported observations and recommendations, if required?
Economic	<ol style="list-style-type: none"> 1. Are the assumptions and calculations supporting the business case reasonable and transparent and have they been validated by the Department? 2. Are the funds to initiate the program or project approved and available as documented in the business case? 	<ol style="list-style-type: none"> 1. Are benefit and risk profiles complete and do they incorporate sufficient measurement information (e.g., target value, baseline value, measurement type, and measurement assumptions)? 2. Are the benefit metrics agreed to by management? 	<ol style="list-style-type: none"> 1. Has consideration been given to the use of performance management tools to support the changes (e.g., goals in performance contracts, changes to job descriptions, reporting structures)? 	<ol style="list-style-type: none"> 1. Have the results of the health check review indicated that the Department's approach to and realization of benefits is sustainable?
Achievable	<ol style="list-style-type: none"> 1. Are the benefits in the business case realistic in terms of timeframe? 2. Has there been a sufficient analysis of risks and their potential mitigation? 	<ol style="list-style-type: none"> 1. Is a governance structure in place to support benefits' realization? 2. Have benefit owners assumed responsibility for the documented benefits? 3. Do management's metrics align with the intended benefits? 	<ol style="list-style-type: none"> 1. Is the transition plan communicated and understood by the impacted roles in the client organization? 2. Are owners identified to implement the transition plan and do they understand their roles? 	<ol style="list-style-type: none"> 1. Is the organization setting realistic targets for continuously improving their approach to value management for future programs or projects?

3. The Capabilities Evolution

Capabilities Evolution

The Internal Revenue Agency (IRA) will have to gradually evolve the capabilities of its operations, according to the following capability evolution model:



Business Case General Assumptions

Assumptions

- KPMG is not responsible for completeness of information. KPMG cannot guarantee the potential cost, estimated savings or return on investment associated with expanding the Treasury's capabilities.
- Projected costs or financial savings are presented in range form and with the understanding that KPMG does not guarantee any amount will be realized as a result of this activity.
- All analysis has been based on a sound decision making methods. The process and analysis has been provided as evidence as to how the range of figures were calculated. Any financial model and resulting comparison against peer jurisdictions regarding potential costs or savings has limitations.
- Client accepts the risk of changing business and market conditions. Conditions and assumptions are subject to change. Future events may not unfold as expected.
- A 7 year Net Present Value is used as the basis for the calculation.
- The associated implementation and operational costs have been included as part of the Business Transformation Cost Sheet. No inflation % has been considered.
- A three year implementation project is considered for Level 1, and one year each for Levels 2 through 4.
- The projected benefits are considered in the Project Benefits Sheet.
- An 8% Cost of Debt Rate is considered.
- Benefits will not be 100% achieved during the first year, thus we have considered a gradual ramp up of benefits.

Level 1 – Building the Foundation

TAXPAYER ASSISTANCE & INTEGRATED TAX SYSTEM

Level 1 – Building the Foundation



This level is focused on the development of a new taxpayer assistance service strategy considering a mix of service channels aimed to enhance the relationship with the taxpayers. Improving, implementing and offering new capabilities through service channels with special emphasis on the web and mobile channels will deliver a better service experience to taxpayers.

Taxpayer assistance services will support the new services that will be required before going live with any process improvement and/or integrated tax system implementation. This opportunity seeks to reduce costs of face-to-face services in order to facilitate taxpayer compliance and payment of tax liabilities. These services will provide tax education, advice and information to help taxpayers comply with tax obligations.

The following subsections present the benefits and costs for each TOM operational component.

Level 1 - Evolution of Operational Components

INTEGRATED TAX SYSTEM



Services, Functions & Process

- Update documentation processes according to the new integrated tax system
- New processes to be designed must reflect the legislative changes and simplified rules

Technology

- Legacy databases must be cleansed to ensure smooth transition to the new system
- The current technology infrastructure will require gradual replacement due to the implementation of a new tax system

Performance Management

- The Adoption of Business Process Management (BPM) practices and technologies will support performance management objectives.

Organization & Governance

- IT Organizational structural and governance changes will be required to ensure expected service levels are achieved

Sourcing & Location

- Existing support contracts must be kept until the legacy systems are replaced
- The mix of in-house/contracted staffing levels must be determined to ensure appropriate support of the new system

People & Skills

- IT staff must be knowledgeable in the new tax administration system

Level 1 - Evolution of Operational Components

TAXPAYER ASSISTANCE



Services, Functions & Process

- Reduction of requests for extensions to file Income Tax Returns
- Alternative channels for taxpayers
- Increase in voluntary tax filers
- Decrease volume of inquiries

Technology

- New technology supporting the new taxpayers service strategy

Performance Management

- Adopt mature key performance indicators on taxpayer assistance services

Organization & Governance

- Accountability on tax payer assistance services
- Optimal span of control

Sourcing & Location

- Reduction of Collection Centers
- Reduction of Sourcing Costs

People & Skills

- Reduction of FTEs
- Specialized training to manage cases will be required
- Reduction of the time spent interacting with taxpayers on traditional channels

Level 1: Benefits

Benefits Sources	Low (\$ M)	High (\$M)	Realization Ratio	Value (\$M)
1. Operational Excellence				
Taxpayer Services Efficiency	0.52	1.04	100%	1.04
Tax Processing Efficiency	1.45	2.18	100%	2.18
Tax Assistance Efficiency	0.16	0.32	100%	0.32
Tax Collection Efficiency	3.47	5.21	100%	5.21
Tax Audit Efficiency	3.67	5.51	100%	5.51
2. Increased Compliance				
Increased IVU & IVA Compliance Rate (Mn\$)	12.00	30.00	100%	30.00
Increased Business Tax Compliance Rate (\$Mn)	19.00	38.00	100%	38.00
Increased PIT Compliance Rate (\$Mn)	20.00	40.00	100%	40.00

Benefits Ramp-up Factors						
2015	2016	2017	2018	2019	2020	2021
Select Benefit Ramp-up Factors from the table below						
0%	0%	50%	70%	100%	100%	100%
0%	0%	50%	70%	100%	100%	100%
0%	0%	50%	70%	100%	100%	100%
0%	0%	50%	70%	100%	100%	100%
0%	0%	50%	70%	100%	100%	100%
0%	0%	50%	70%	100%	100%	100%
0%	0%	50%	70%	100%	100%	100%
0%	0%	50%	70%	100%	100%	100%

Total Yearly Benefits(\$M)							
	2015	2016	2017	2018	2019	2020	2021
Total	0.00	0.00	7.13	9.98	14.26	14.26	14.26
	0.00	0.00	0.52	0.73	1.04	1.04	1.04
	0.00	0.00	1.09	1.52	2.18	2.18	2.18
	0.00	0.00	0.16	0.23	0.32	0.32	0.32
	0.00	0.00	2.60	3.65	5.21	5.21	5.21
	0.00	0.00	2.76	3.86	5.51	5.51	5.51
Total	0.00	0.00	54.00	75.60	108.00	108.00	108.00
	0.00	0.00	15.00	21.00	30.00	30.00	30.00
	0.00	0.00	19.00	26.60	38.00	38.00	38.00
	0.00	0.00	20.00	28.00	40.00	40.00	40.00
Total	0.00	0.00	61.13	85.58	122.26	122.26	122.26

Level 1: Cost & Benefit Snapshot

Cost Sources	
Total Costs	Cost (\$M)
Initial Project cost (paid at the end of the first period)	0.00
2nd Year Project Costs	25.13
3rd Year Project Costs	0.50
Operational cost year 2015	42.52

(All costs in \$M)

Year	2015	2016	2017	2018	2019	2020	2021	Total Project Cost
1st Year Project Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
2nd Year Project Cost	0.00	25.13	0.00	0.00	0.00	0.00	0.00	
3rd Year Project Cost	0.00	0.00	0.50	0.00	0.00	0.00	0.00	
Operational Cost	42.52	6.20	8.33	9.90	9.90	9.90	9.90	
Total Yearly Cost	42.52	31.33	8.83	9.90	9.90	9.90	9.90	

Yearly Returns in \$M (Yearly Benefits - Yearly Costs)							
2015	2016	2017	2018	2019	2020	2021	
-42.52	-31.33	52.30	75.68	112.36	112.36	112.36	

Benefit Snapshot	
Average Net Benefit Per Year	55.888
Discount Rate (WACC)	8.0%
NPV (for "7" years)	\$243.75
Profitability Index	2.0
Payback Period (years)	1.43

Level 1 – Qualitative Benefits

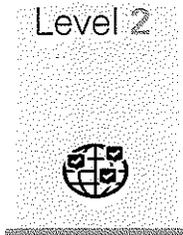
Qualitative Benefits

- Improving the tax administration's capacity for managing current and historical information
- Improving the current Taxpayer Services and the corresponding service channels will increase efficiency and increase compliance
- Enhancing taxpayer relationships and taxpayer's ease of doing business
- Improving, implementing and offering new capabilities through service channels with special emphasis on the web and mobile channels to deliver a better service experience to taxpayers
- Reducing costs of face-to-face services in order to facilitate taxpayer compliance and payment of tax liabilities

Level 2 – Simplified Administration

TAX SIMPLIFICATION

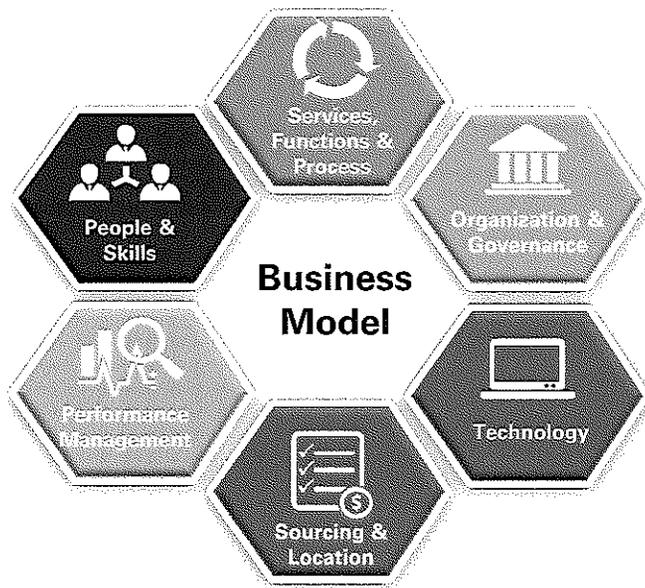
Capability Overview – Simplified Administration



This level shows the result of a simplified tax administration that will allow the Department to facilitate the way tax declarations are submitted in order to increase taxpayer compliance, by adopting leading practices such as e-filing or pre-filled tax returns.

This opportunity considers the elimination of tax expenditures (deductions and exemptions), the reduction on the taxpayer base, reducing costs and increasing compliance and the reduction of manually filed tax return forms that currently require multiple processing steps and additional reviews during submission process.

Level 2 - Evolution of Operational Components



Services, Functions & Process

- Simpler tax return processing
- Less effort in validating returns
- Simpler tax returns will lower the volume of inquiries

Technology

- Implement business rules within systems to minimize manual intervention
- Provide online documentation to taxpayer service representatives

Performance Management

- Implement performance measurements (cost reduction, through put) around the effectiveness of e-filing

Organization & Governance

- Reduction in number of staff involved in validating and checking processing returns

Sourcing & Location

- Better Service Level Agreements (SLA) with third parties to support the organization

People & Skills

- Outplacement process of staff
- Retooling and retraining of staff to focus more on enforcement, audits, taxpayer services and data & analytics

Level 2: Benefits

Benefits Sources	Low (\$ M)	High (\$M)	Realization Ratio	Value (\$M)
1. Operational excellence				
Taxpayer Services Efficiency	0.56	1.13	100%	1.13
Tax Processing Efficiency	3.94	6.30	100%	6.30
Tax Assistance Efficiency	0.08	0.16	100%	0.16
Tax Collection Efficiency	3.78	5.67	100%	5.67

Benefits Ramp-up Factors						
2015	2016	2017	2018	2019	2020	2021
Select Benefit Ramp-up Factors from the table below						
50%	60%	100%	100%	100%	100%	100%
50%	60%	100%	100%	100%	100%	100%
50%	60%	100%	100%	100%	100%	100%
50%	60%	100%	100%	100%	100%	100%

Total Yearly Benefits(\$M)							
	2015	2016	2017	2018	2019	2020	2021
Total	6.63	7.95	13.26	13.26	13.26	13.26	13.26
	0.56	0.68	1.13	1.13	1.13	1.13	1.13
	3.15	3.78	6.30	6.30	6.30	6.30	6.30
	0.08	0.10	0.16	0.16	0.16	0.16	0.16
	2.83	3.40	5.67	5.67	5.67	5.67	5.67
Total	6.63	7.95	13.26	13.26	13.26	13.26	13.26

Level 2: Cost & Benefits Snapshot

Cost Sources	
Total Costs	Cost (\$M)
Initial Project cost y1	0.14
Initial Project cost y2	7.53
Operational cost year 2015	0.51

(All costs in \$M)

Year	2015	2016	2017	2018	2019	2020	2021	Total Project Cost
Initial Project Cost	0.14	7.53	0.00	0.00	0.00	0.00	0.00	
Operational Cost	0.51	0.06	0.23	0.23	0.23	0.23	0.23	
Total Yearly Cost	0.65	7.59	0.23	0.23	0.23	0.23	0.23	9.39

Yearly Returns in \$M (Yearly Benefits - Yearly Costs)						
2015	2016	2017	2018	2019	2020	2021
5.98	0.36	13.03	13.03	13.03	13.03	13.03

Benefit Snapshot	
Average Net Benefit Per Year	10.209
Discount Rate (WACC)	8.0%
NPV (for "7" years)	\$50.43
Profitability Index	5.4
Payback Period	0.87

Level 2 – Qualitative Benefits

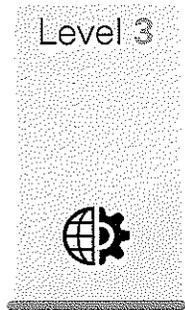
Qualitative Benefits

- Reducing costs and improving operational efficiency
- Simplification of the way tax declarations are made in order to increase taxpayer compliance, by adopting leading practices such as e-filing or pre-filled tax returns
- Reducing manually filed tax return forms that currently require multiple processing steps and additional reviews during submission process

Level 3 – Taxpayer Centric

FUNCTION ORIENTED

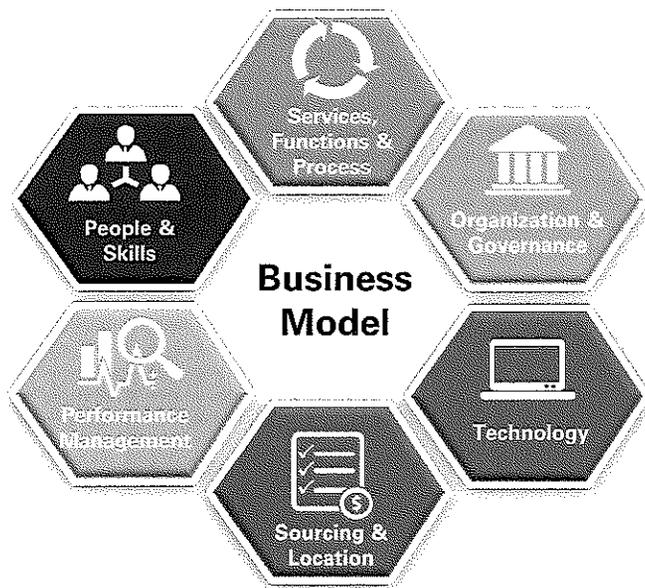
Capability Overview – Taxpayer Centric



This level reflects the result of a redesigned organizational structure that will enable the standardization of business processes across all taxes, achieving greater efficiency and higher productivity within the Department.

The following subsections present the benefits and costs for each TOM operational component.

Evolution of Operational Components



Services, Functions & Process

- Reduce duplicated efforts and optimize processes
- Procedures will need updating due to structure reorganization

Organization & Governance

- More efficient use of resources within the IRA due to a streamlined organization
- Focused on macro processes providing an integrated view of the taxpayer

Technology

- Work simplification due to automated processes supported by leading technologies

Sourcing & Location

- Less dependency on field operations due to centralized services that will be supported by integrated systems
- Less dependency on human resources sourcing contracts

Performance Management

- Highly efficient performance management process due to the elimination of duplicated processes and an integrated management of taxes

People & Skills

- New functions will have to be supported by highly trained personnel
- Knowledge transfer process will have to be adopted in order to support the execution of the outplacement strategy

Level 3: Benefits

Benefits Sources	Low (\$M)	High (\$M)	Realization Ratio	Value (\$M)
1. Operational excellence				
Taxpayer Services Efficiency	0.84	1.41	100%	1.41
Tax Processing Efficiency	1.18	1.97	100%	1.97
Tax Assistance Efficiency	0.24	0.40	100%	0.40
Tax Collection Efficiency	2.83	4.72	100%	4.72

Benefits Ramp-up Factors						
2015	2016	2017	2018	2019	2020	2021
Select Benefit Ramp-up Factors from the table below						
70%	90%	100%	100%	100%	100%	100%
70%	90%	100%	100%	100%	100%	100%
70%	90%	100%	100%	100%	100%	100%
70%	90%	100%	100%	100%	100%	100%

Total Yearly Benefits(\$M)							
	2015	2016	2017	2018	2019	2020	2021
Total	5.95	7.65	8.50	8.50	8.50	8.50	8.50
	0.99	1.27	1.41	1.41	1.41	1.41	1.41
	1.38	1.77	1.97	1.97	1.97	1.97	1.97
	0.28	0.36	0.40	0.40	0.40	0.40	0.40
	3.31	4.25	4.72	4.72	4.72	4.72	4.72
Total	5.95	7.65	8.50	8.50	8.50	8.50	8.50

Level 3: Cost & Benefits Snapshot

Cost Sources	
Total Costs	Cost (\$M)
Initial Project cost (paid at the end of the first period)	0.00
Initial Project cost 2nd year	4.65
Initial Project cost 3rd year	1.02
Operational cost year 2015	1.51

(All costs in \$M)

Year	2015	2016	2017	2018	2019	2020	2021	Total Project Cost
Initial Project Cost	0.00	4.65	1.02	0.00	0.00	0.00	0.00	
Operational Cost	1.51	0.00	0.19	0.26	0.26	0.26	0.26	
Total Yearly Cost	1.51	4.65	1.21	0.26	0.26	0.26	0.26	

Yearly Returns in \$M (Yearly Benefits - Yearly Costs)							
2015	2016	2017	2018	2019	2020	2021	
4.44	3.00	7.29	8.24	8.24	8.24	8.24	

Benefit Snapshot	
Average Net Benefit Per Year	6.815
Discount Rate (WACC)	8.0%
NPV (for "7" years)	\$34.15
Profitability Index	4.1
Payback Period (years)	1.01

Level 3 – Qualitative Benefits

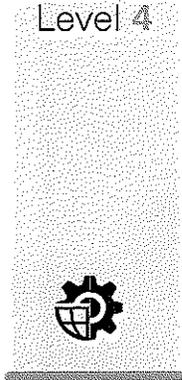
Qualitative Benefits

- Reduce costs and increase efficiencies
- Enable the standardization of business processes across all taxes
- Simplify tax payment procedures
- Achieve process integration across the Department
- Promote greater efficiency and higher productivity of the overall tax administration as it avoids the duplication of processes across tax categories
- Eliminating redundant positions and tax functions, optimizing processes, and organizing the Department based on responsibilities performed
- Streamlining operations will lead to a reduction in overhead costs. Other jurisdiction have estimated a staff reduction of approximately 15% on average

Level 4 – Goods and Services Tax

GOODS AND SALES TAX IMPLEMENTATION

Capability Overview – Good and Services Tax (GST)



This opportunity proposes an integrated approach in the statutory adoption of a GST. Future operational requirements to be addressed include:

- staffing needs
- implementation and/or adjustments processes supported by an integrated IT system
- adoption of a tax enforcement scheme
- deployment of a taxpayer and Department personnel communication strategy and training program to disseminate information related to the tax processing and compliance requirements of the GST

Goods and Services Taxes have raised tax collections and compliance rates in a transparent, business-neutral manner in more than 150 jurisdictions. Adopting a broad-based consumption tax has helped some governments in restoring growth in times of economic crisis, making more capital available to their economies, improving labor productivity, and increasing long-term national output. The preparation and full technology implementation of a GST tax structure in New Zealand, a comparative tax structure to Puerto Rico, lasted between 18-24 months.

Evolution of Operational Components



Services, Functions & Process

- GST filing frequency may impact processing workloads
- Requires the definition of an enforcement scheme based on Compliance Risk Management
- Fraud prevention mechanism adopted

Technology

- Cross-tax checking supported by an optimal registration process
- Optimized audit process supported by data analytics capabilities
- Access to external sources, such as third party databases (banks, insurance, & govt., etc.) required for effective enforcement

Performance Management

- The ability to measure performance throughout the value chain, using the invoice/credit mechanism, will provide data and information that is currently not available

Organization & Governance

- Requires optimization of taxpayer compliance monitoring capabilities
- Will require extensive public awareness and media campaigns to ensure overall acceptance

Sourcing & Location

- Need to optimize organization of enforcement workforces along Puerto Rico.
- Taxpayer outreach and assistance programs must be positioned in several geographic locations to provide sufficient coverage

People & Skills

- Will require knowledge transfer regarding the Compliance Risk Management model
- New skills to support taxpayer services must be adopted

Level 4: Benefits

Benefits Sources	Low (\$ M)	High (\$M)	Realization Ratio	Value (\$M)
1. Operational excellence				
Increase GST Revenue (\$)	1,900.00	2,700.00	100%	2,700.00

Benefits Ramp-up Factors						
2015	2016	2017	2018	2019	2020	2021
Select Benefit Ramp-up Factors from the table below						
0%	0%	40%	100%	100%	100%	100%

Total Yearly Benefits(\$M)							
	2015	2016	2017	2018	2019	2020	2021
Total	0.00	0.00	1,080.00	2,700.00	2,700.00	2,700.00	2,700.00
	0.00	0.00	1,080.00	2,700.00	2,700.00	2,700.00	2,700.00

Level 4: Cost & Benefits Snapshot

Cost Sources	
Total Costs	Cost (\$M)
Initial Project cost (paid at the end of the first period)	0.64
Initial Project cost 2nd year	4.98
Initial Project cost 3rd year	4.08
Regressivity Relief Project	50.00
Operational cost year 2015	7.60

(All costs in \$M)

Year	2015	2016	2017	2018	2019	2020	2021	Total Project Cost
Initial Project Cost	0.64	4.98	4.08	0.00	0.00	0.00	0.00	
Regressivity Relief	50.00	0.00	0.00	0.00	0.00	0.00	0.00	
Operational Cost	7.60	0.00	0.09	0.34	0.34	0.34	0.34	
Total Yearly Cost	58.24	4.98	4.17	0.34	0.34	0.34	0.34	

Yearly Returns in \$M (Yearly Benefits - Yearly Costs)							
2015	2016	2017	2018	2019	2020	2021	
-58.24	-4.98	1,075.83	2,699.66	2,699.66	2,699.66	2,699.66	

Benefit Snapshot	
Average Net Benefit Per Year	1,687.32
Discount Rate (WACC)	8.0%
NPV (for "7" years)	\$7,893.98
Profitability Index	114.8
Payback Period (years)	0.01

Level 4 – Qualitative Benefits

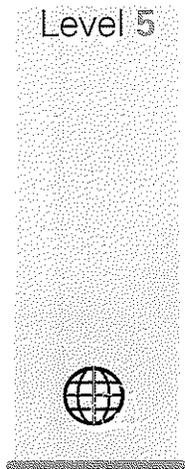
Qualitative Benefits

- Increase tax revenue and tax compliance
- Raise tax collections and compliance rates in a transparent, business-neutral manner
- Making more capital available to Puerto Rico's economy
- Improving labor productivity, and increasing long-term national output

Level 5 – Risk Based Compliance

RISK BASED ENFORCEMENT

Capability Overview – Risk Based Compliance



A risk based compliance management function adopts a new approach to assess potential fraud or tax avoidance risks of different taxpayer segments. The goal is to focus enforcement efforts on the highest risk taxpayers, thereby reducing the administrative burden on compliant, low risk ones.

The audit and compliance function must be supported by a methodology that ensures detailed fiscal monitoring of taxpayers. This methodology, which must be led by a Compliance Risk Management Office, can be enhanced through technology solutions to improve the timing and effectiveness in the identification, analysis, prioritization and type of treatment for high risk cases. Comparable jurisdictions have a similar risk compliance strategy, which allows tax administrations to focus and prioritize their efforts on specific segments of the tax base, resulting in the collection of debts through active influencing of taxpayers, cost-benefit approaches, and documented case management.

Decisions and subsequent implementation of IT solutions should consider the current maturity of the audit and compliance function in order to determine viable options that will generate higher tax collection efforts in the shortest time possible. Gradual adoption of a culture based on Compliance Risk Management is recommended.

Evolution of Operational Components



Services, Functions & Process

- Better tracking of registered taxpayer's return submission compliance
- Optimize capability to detect audit requirements and enforcement actions as a result of information cross-checking and risk analysis
- Reduction of field audits/inspections

Technology

- Implementation of risk assessment tools such as data analytics and case management functionalities to support monitoring of GST and income tax filers

Performance Management

- Implementation of mature key performance indicators to measure the performance of the risk-based compliance strategy
- Performance based compensation could be introduced

Organization & Governance

- Reduction in number of staff involved in executing tax audits and field inspections
- Optimal monitoring due to centralized enforcement functions

Sourcing & Location

- Empower the enforcement functions by changing legislations in order to gain access to taxpayer data from financial institutions and other sources, to apply optimal mechanisms to ensure the collection of any tax debt

People & Skills

- Appropriate staffing and training will be needed to support the enforcement function
- Professional profile should be higher, and as a result, competitive salaries should be established

Level 5: Benefits

Benefits Sources	Low (\$M)	High (\$M)	Realization Ratio	Value (\$M)
1. Operational excellence				
GST Tax Collection Efficiency	75.00	125.00	90%	120.00
Corporate Business Tax Collection Efficiency	38.00	57.00	90%	55.10
Personal Income Tax Collection Efficiency	20.00	40.00	90%	38.00

Benefits Ramp-up Factors						
2015	2016	2017	2018	2019	2020	2021
Select Benefit Ramp-up Factors from the table below						
0%	40%	70%	100%	100%	100%	100%
0%	40%	70%	100%	100%	100%	100%
0%	40%	70%	100%	100%	100%	100%

Total Yearly Benefits(\$M)							
	2015	2016	2017	2018	2019	2020	2021
Total	0.00	85.24	149.17	213.10	213.10	213.10	213.10
	0.00	48.00	84.00	120.00	120.00	120.00	120.00
	0.00	22.04	38.57	55.10	55.10	55.10	55.10
	0.00	15.20	26.60	38.00	38.00	38.00	38.00
Total	0.00	85.24	149.17	213.10	213.10	213.10	213.10

Level 5: Cost & Benefits Snapshot

Cost Sources	
Total Costs	Cost (\$M)
Initial Project cost (paid at the end of the first period)	0.30
Initial Project cost 2nd year	1.83
Initial Project cost 3rd year	6.37
Operational cost year 2015	4.50

(All costs in \$M)

Year	2015	2016	2017	2018	2019	2020	2021	Total Project Cost
Initial Project Cost	0.30	1.83	6.37	0.00	0.00	0.00	0.00	
Operational Cost	4.50	0.00	0.06	0.22	0.22	0.22	0.22	
Total Yearly Cost	4.80	1.83	6.43	0.22	0.22	0.22	0.22	13.94

Yearly Returns in \$M (Yearly Benefits - Yearly Costs)							
2015	2016	2017	2018	2019	2020	2021	
-4.80	83.41	142.74	212.88	212.88	212.88	212.88	

Benefit Snapshot	
Average Net Benefit Per Year	153.27
Discount Rate (WACC)	8.0%
NPV (for "7" years)	\$740.097
Profitability Index	53.1
Payback Period (years)	0.06

Level 5 – Qualitative Benefits

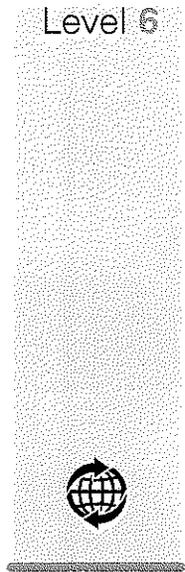
Qualitative Benefits

- Improve the timing and effectiveness in the identification, analysis, prioritization and type of treatment for high risk cases
- Creating deliberate strategies and actions that mitigate the negative impacts of risk
- Providing assurance that an effective use is being made of the organization's resources by focusing them on the most significant risks
- Creating fairness and equal treatment of taxpayers by assessing the organization's risks
- Focusing the burden of auditing on non-compliant taxpayers
- Prioritizing the organization's available resources: personnel, financial and technical
- Increasing the level of voluntary taxpayer compliance

Level 6 – Independent and Performance Driven

SEMI-AUTONOMOUS REVENUE AGENCY

Capability Overview



A Semi-Autonomous Revenue Authority (SARA) creates an independent organization for the primary purpose of increasing collections, enforcing non-compliance and helping influence taxpayer behaviors and perceptions of the way tax collection is managed.

SARA will have the autonomy to manage its own internal systems, operations and resources.

Evolution of Operational Components



Services, Functions & Process

- Implementation of a function oriented structure that avoids duplication of efforts and provides process optimization
- Implementation of a Program and Innovation Office

Technology

- Creation of a dedicated IT department providing service exclusively for the tax administration systems and applications

Performance Management

- Development of a performance management system to support the compensation structure
- Higher service rates and operational efficiency
- Higher levels of staff motivation and overall productivity

Organization & Governance

- Independent decisions on strategic and operational matters
- Streamlined organization that will provide a more efficient use of resources.
- Strong legal support

Sourcing & Location

- More centralized services resulting on less dependency on field offices
- Better SLA's on contract terms to support SARA's outsourcing needs

People & Skills

- Attract more developed and specialized talent by implementing a performance based compensation system
- Implement a recruiting standards and process in order to determine if candidates qualify for the new job descriptions

Level 6: Benefits

Benefits Sources	Low (\$ M)	High (\$M)	Realization Ratio	Value (\$M)
1. Operational excellence				
GST Tax Collection Efficiency	75.00	250.00	90%	232.50
Increased Business Tax Compliance Rate (\$Mn)	38.00	152.00	90%	140.60
Increased Personal Income Tax Compliance Rate (\$Mn)	40.00	152.00	90%	140.80

Benefits Ramp-up Factors						
2015	2016	2017	2018	2019	2020	2021
Select Benefit Ramp-up Factors from the table below						
0%	0%	50%	100%	100%	100%	100%
0%	0%	50%	100%	100%	100%	100%
0%	0%	50%	100%	100%	100%	100%

Total Yearly Benefits(\$M)							
	2015	2016	2017	2018	2019	2020	2021
Total	0.00	0.00	256.95	513.90	513.90	513.90	513.90
	0.00	0.00	116.25	232.50	232.50	232.50	232.50
	0.00	0.00	70.30	140.60	140.60	140.60	140.60
	0.00	0.00	70.40	140.80	140.80	140.80	140.80
Total	0.00	0.00	256.95	513.90	513.90	513.90	513.90

Level 6: Cost & Benefits Snapshot

Cost Sources	
Total Costs	Cost (\$M)
Initial Project cost (paid at the end of the first period)	0.00
Initial Project cost 2nd year	1.13
Initial Project cost 3rd year	5.04
Operational cost year 2015	13.32

(All costs in \$M)

Year	2015	2016	2017	2018	2019	2020	2021	Total Project Cost
Initial Project Cost	0.00	1.13	5.04	0.00	0.00	0.00	0.00	
Operational Cost	13.32	0.00	0.00	0.02	0.02	0.02	0.02	
Total Yearly Cost	13.32	1.13	5.04	0.02	0.02	0.02	0.02	19.57

Yearly Returns in \$M (Yearly Benefits - Yearly Costs)							
2015	2016	2017	2018	2019	2020	2021	
-13.32	-1.13	251.91	513.88	513.88	513.88	513.88	

Benefit Snapshot	
Average Net Benefit Per Year	327.57
Discount Rate (WACC)	8.0%
NPV (for "7" years)	\$1,537.81
Profitability Index	78.6
Payback Period (years)	0.02

Level 6 – Qualitative Benefits

Qualitative Benefits

- Discretion to allocate or reallocate budgeted administrative funds across administrative functions
- Discretion to set its own administrative performance standards (e.g. for taxpayer service delivery)
- Establish accountability for its operations and is subject to control and assessment
- Operate own structure and governance for effective and efficient operation
- Provide transparency and integrity regarding tax administration
- Authority to administer its own support functions and systems, or to outsource such services to private contractors, if deemed appropriate