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Commonwealth of Puerto Rico Tax Reform Assessment Project

*Project Charter and Stakeholder Matrix
April 29, 2014*

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I. Executive Summary

The Commonwealth of Puerto Rico Department of the Treasury (the Department) engaged KPMG to conduct a Tax Reform Impact Assessment. The goal of this initiative is to analyze the structure and administration of the current tax system, create a macroeconomic model of the Puerto Rican economy and assist the Department decision-makers in understanding the impact of various alternatives to the current structure.

KPMG established a Project Management Office (PMO) to help meet the projects objectives. The PMO will manage the project team's efforts and support the implementation of project initiatives identified by the Department. The project initiatives include the following activities:

- Economic Modeling
- Tax Design and Structure
- Tax Administration and Organizational Design
- High Level Implementation Planning

The PMO has developed a formal governance structure for managing the project. That structure defines clear roles and responsibilities. The governance structure increases accountability, provides a process for issue resolution, and contributes to successful and timely execution. The Project Charter includes:

- Project Background
- Scope and Objectives
- Project Team and Structure
- Key Phases and Deliverables
- Methodologies and Key Project Management Artifacts
- Key Project Stakeholders
- Communication Plan
- Issue Resolution

The purpose of this document is to guide the project activities in a formal methodical manner.

II. Project Background

Puerto Rico has been facing an economic recession since the middle of the last decade. Despite measures to reverse this trend taken by previous and current administrations, the adverse fiscal situation continues. The Governor of the Commonwealth of Puerto Rico has taken decisive and forceful measures to address the fiscal crisis facing the Government and its public corporations. One of the measures is the creation of a Tax Reform Advisory Group to analyze the structure of the current tax system and its operation. It is required to submit a report to the Governor that includes its analysis, diagnosis, and recommendations for an effective and equitable tax system.

The Department of the Treasury of the Commonwealth of Puerto Rico has engaged KPMG to assist in this process by performing a Tax Reform Impact Assessment.

III. Scope and Objectives

The goal of this initiative is to assist the Department decision-makers in understanding the impact of various alternatives to the current tax system. The objective of the reform is to arrive at a simpler tax system that produces the appropriate amount of revenue, increases compliance, efficiency and equity, reduce enforcement costs and promote the economic development and competitiveness of Puerto Rico. The primary areas of focus of the Tax Reform Impact Assessment Project are Corporate and Individual Income Tax and Consumption (Indirect) Tax. Other taxes may be considered at a later stage, and as a result, incorporated into this Project Charter.

The Tax Reform Impact Assessment Project consists of four work streams that will occur concurrently:

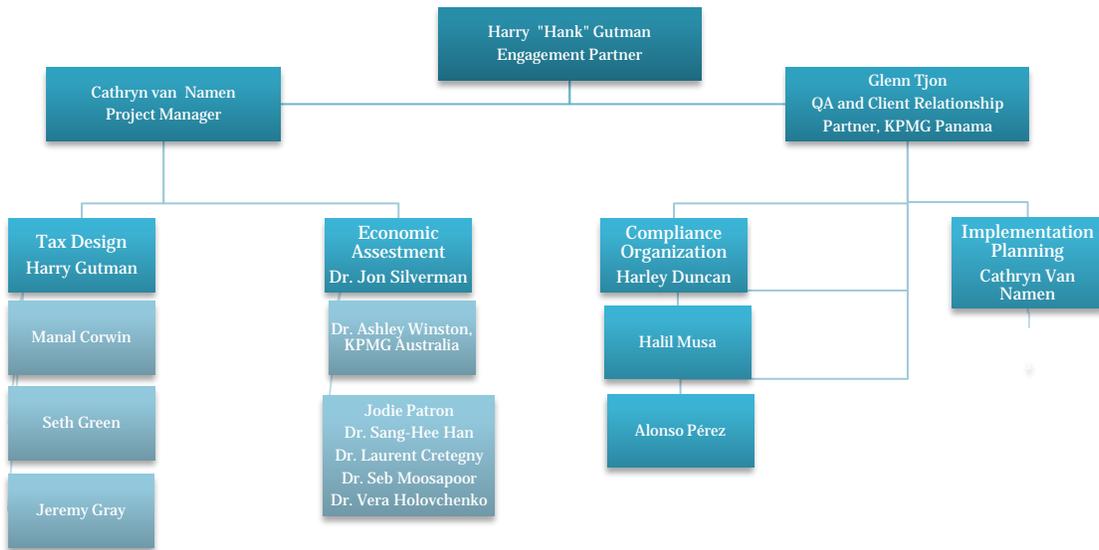
- Economic Modeling
- Tax Reform and Design
- Tax Administration Organizational Design
- High Level Implementation Planning

The goals of each of the work streams are:

1. To establish an equitable, efficient and administrable tax system that raises the appropriate amount of revenue
2. To improve the structure, resources, and efficiency of the Department of Treasury in carrying out its revenue collection functions
3. To restructure, eliminate or expand components of the state and municipal tax system to increase tax revenues and stimulate economic growth

IV. KPMG's Project Team and Structure

The KPMG Project Team is been structured in a manner to provide the best support to each of the project work streams. The following graphics depict the organizational structure of the project teams.



V. Key Phases and Deliverables

The following section provides additional details regarding the three primary project workstreams and the anticipated deliverables associated with each. The acceptance criteria description for each deliverable is included in the table below.

Deliverable	Description
Scoping and Planning Phase	
Project Charter (includes Stakeholder Matrix)	The document will identify the stakeholders (internally and externally).The Project Charter will show team structure, communication channels, responsibilities, and general project protocols.
Case for Change	The document will describe the existing fiscal situation and current tax structure, preliminarily identifying the areas in which change could be considered. The document will include the following components: <ul style="list-style-type: none"> • Objectives of tax reform • The Commonwealth’s “going in” position • Preliminary observations on the current system
Generic Actual Operating Model	The Generic Actual Operating Model will provide a contextual understanding of Department’s organization and will also provide an understanding of mission, vision, goals, and desired outcomes of the Target Operating Model (TOM) design.
Readiness for Change Report	The document will show the results of the assessment for readiness for change in the organization.
Data Collection and Assessment Phase	
Comparable Jurisdiction(s)/Operating Model Report	The deliverable will provide an insight on a variety of similar practices, trends and capabilities in order to conduct a comparison of other jurisdictions operating characteristics against the Department "As-Is" state, and to formulate the direction of TOM development.

Deliverable	Description
Current Operating Model Assessment report (Organizational and Process perspective)	The deliverable will focus on an assessment of the current state of the organization to deepen understanding and to derive key considerations for the future design.
Current roles and job descriptions Assessment report	The document will provide insight on the current operational structure including roles and job descriptions.
Tools and technology issues and requirements	<p>For each tax functional area for which changes are being recommended, specific issues related to IT will be identified and discussed. These will later be addressed in the high level functional requirements.</p> <p>List and description of the following:</p> <ol style="list-style-type: none"> 1. Tools (software engineering tools, application software, programming language(s)); 2. Future communications and networking technology requirements. <p>Future hardware requirements including operating systems requirements.</p>
Current Tax Model Methodology	The document will describe in detail the structure of the tax model. The document will describe model structure, assumptions and methodology, sources and uses of data, and model functionality.
Prototype of Current Tax Model Documentation	Document describing the tax law parameters that users can manipulate to run simulations with the consumption tax models. Each parameter will be listed and defined.
Tax Model Database Documentation	Documentation of database of amongst others exempt and non-exempt businesses. Data description files containing for each variable: title, position in record layout, and origin. The tax database model will be constructed by merging: (1) input-output table; (2) trade statistics; (3) national income and product accounts; and (4) census data.
Economic Modeling Work Stream	

Deliverable	Description
Tax Computer Simulation Model Documentation	Document describing the Tax Model to include the following sections: <ul style="list-style-type: none"> ▪ Database; ▪ User Interface; ▪ Simulation; ▪ Reports/Tables; ▪ Documentation.
Analysis of the Current Tax Structure Document	Document to quantify the revenue and distributional effect of specific provisions of the existing tax system.
Simulation Results for Tax Reform Document	The report will show initial Simulation Results Scenarios through the model.
A validated suggested tax strategy document	The report will analyze final tax strategy alternatives including revenue and distributional effects, as well as impacts on efficiency and simplicity. The report will analyze the strategy in terms of: <ul style="list-style-type: none"> ▪ Role of Corporate, Individual and Consumption tax with overall tax mix; ▪ Taxes to be imposed, modified and/or eliminated; ▪ Changes in tax base; ▪ Stability of tax base; ▪ Tax rates, credits and exemptions; ▪ Implications for economic development; ▪ Equity of new consumption tax; ▪ Cascading effects; ▪ Distributional effects; ▪ Effects on exports; ▪ Revenue effects.
Tax Design Work Stream	
Outline of relevant Puerto Rico tax legislation	Description of current law.

Deliverable	Description
Unified Tax Code of Puerto Rico – Tax Policy Document	<p>The Policy Document will present tax reform options and scenarios (including the rationale for each alternative) that will be tested in the economic model and will subsequently result in final policy choices by the Puerto Rico government. The Policy Document will include Corporate Income Tax (CIT) Individual Income Tax (IIT), Consumption (Indirect) Tax, and procedural policy options. The Policy Document will include amongst others:</p> <ul style="list-style-type: none"> ▪ Options for CIT reform (standard regime and tax incentives); ▪ Option for IIT Reform; ▪ Options for Indirect Tax reform; ▪ Interaction between CIT, IIT and Indirect Tax options; ▪ Options for procedural reform; ▪ Timeline elements: phase 1 (quick solutions); phase 2 (long term solutions); ▪ Decision matrix.
Outline of validated suggested tax strategy document	The document will show a detailed outline of the topics covered in the validated tax strategy for Puerto Rico.
Unified Tax Code of Puerto Rico – Tax Implementation Design Guidelines	This document will provide guidelines for those drafting legislation to implement the tax reform policy choices made by the Puerto Rico government. This document forms a bridge between the Policy Document and legislative implementation. Where the Policy Document contains general descriptions of policy options and choices (to be) made, the Tax Implementation Design Guidelines will provide technical guidance on how the substantive and procedural regimes can be implemented.
Tax Administration and Organization Design Work Stream	
High-level TOM design options (including tools and technology applications)	The report will show high-level conceptual Operating Model options (as dictated as part of the scoping exercise, the assessment of the current organization and the proposed tax design alternatives).
Prioritized opportunities for the TOM design	The report will show the Prioritized opportunities for the TOM design.

Deliverable	Description
Agreed elements to include in TOM design	The report will aim at obtaining an approval for the elements to be included in the TOM in order to enable further development of TOM design and carry out further level(s) of design as required.
Agreed and validated final version of the TOM design	The deliverable will be an agreed and validated final version of the TOM design.
TOM business case	The deliverable will allow a series of high level TOM design options with supporting business cases.
Update communication strategy	The deliverable will focus on assistance with a high level implementation approach and update of the (internal and external) communication strategy related to the tax reform program.
Update project risk and issue register	The report will show the risks associated with the project risks and issue register.
Human resources plan	<p>Human resource plan will include:</p> <ul style="list-style-type: none"> ▪ Proposed staffing by functional unit; ▪ Personnel profiles for new staff, new positions, and skill requirements.
Technical Requirements: Recommendations for New Tools, Technology and Additional Standards.	The report continues on the Tools and technology issues and requirements as identified in the Scoping and Planning phase and provides an overview of the recommendations for New Tools, Technology and Additional Standards.
High level functional requirements for the future compliance and organization	The high-level functional requirements will provide an integrated overview of what the future tax business processes and applications software will contain. It will include a description of processes, features and capabilities to support the Future Compliance Organization.

Deliverable	Description
High level Implementation Planning Work Stream	
Multi generational plan for implementation	The deliverable will be a multi-generational plan (MGP or Roadmap) outlining initiatives required to move to the target state.
Change management strategy	The report will focus on a change management strategy which will cover the elements as identified in the Scoping and Planning and Assessment phase.
Estimated costs for implementing new tax system based on the TOM	Estimate of the costs for implementing the new tax system, including technology, training, public education, organizational restructuring, based on the requirements of the Future Compliance Organization.
Validated High level implementation plan	The report aims at obtaining a validation from the Department for the contents of the High level implementation plan.
Project Management and QA Phase	
Periodic Status Report	The report provides an insight on the status of the entire project.

VI. Methodologies and Key Project Management Artifacts

Governance is critical to the success of a large scale project. KPMG designed a governance structure around several core project management functions to successfully implement this initiative. The following bullets describe key governance functions for the Tax Reform Impact Assessment Project:

- **Scope Management:** Planning, monitoring, and controlling parameters and activities during transformation and scope definition
- **Schedule Management:** Planning, coordinating, and monitoring to achieve timely and proper completion of deliverables and resources during the project
- **Quality Management:** Establishing standardized program and project management tools, templates, and measurements during the project. Quality management also includes the ongoing process of measuring performance against the established acceptance criteria
- **Resource Management:** Planning, managing, and controlling human, physical, and technological resources during the project
- **Communication Management:** Planning and distributing information to internal and external stakeholders during the project
- **Issue/Risk Management:** Identifying, analyzing, mitigating and monitoring risks during the project

VII. Key Project Stakeholders

The success of Tax Reform Impact Assessment Project depends on the cooperation and involvement of multiple stakeholders, internal and external to the Department. The table below summarizes the key stakeholders within the Department and the KPMG team and their relationship to the PMO.

KPMG Key Stakeholders

Stakeholder	Description	Relationship to the Project
Hank Gutman	Engagement Partner, KPMG US	Overall Project Quality Assurance, Tax Design Lead
Cathryn van Namen	Project Director	Project Management Office and Implementation Planning Lead
Jon Silverman, Ph.D	Principal, KPMG US	Economic Assessment Lead
Glenn Tjon	Partner, KPMG Panama	Quality Assurance and Client Relationship Partner, Tax Administration and Organizational Design Lead
Dr. Ashley Winston, Ph.D	Chief Economist and Director, KPMG Australia	Economic Assessment

KPMG Key Team Members

Stakeholder	Relationship to the Project
Seth Green	Principal, Tax Design
Manal Corwin	Principal, Tax Design
Harley Duncan	Managing Director, Compliance Organization / Tax Design
Jeremy Gray	Senior Manager, Tax Design
Stephanie Robinson	Senior Manager, Tax Design
Joshua Kaplan	Senior Manager, Tax Design
Seb Moosapoor	Manager, Economic Assessment
Vera Holovchenko	Manager, Economic Assessment
Dr. Sang-Hee Han	Associate Director, Economic Assessment
Jodie Patron	Associate Director, Economic Assessment
Uma Radhakrishnan	Senior Associate, Economic Assessment
Halil Musa	Director, Tax Administration and Organizational Design

Stakeholder	Relationship to the Project
Alonso Perez	Director, Tax Administration and Organizational Design
Ailin Castellon	Manager, Tax Administration and Organizational Design

KPMG may also have other staff supporting this engagement, as needed.

Department of the Treasury Stakeholders

Stakeholder	Relationship to the Project
Melba I. Acota Febo	Secretary of the Department of the Treasury
Karolee Garcia	Assistant Secretary of the Treasury
Tony Flores	Consultant, Tax Reform Project Manager

Department of the Treasury Team Members

Stakeholder	Relationship to the Project
Yanis Blanco Santiago	Assistant to the Secretary of the Treasury
Maria Mena Irizarry	Legal
Edwin R. Rios	Assistant Secretary of Economic & Financial Affairs
Angel Marzan	Assistant Secretary of Internal Revenue

External Stakeholders

Stakeholder	Relationship to the Project
Antonio L. Medina Comas	PRIDCO, Executive Director
Jaime Yordan-Frau	PRIDCO, Director Business Development Knowledge Services
Carlos Rivas	Tax Reform Committee, OGP
Jose V. Pagan	Tax Reform Committee, GDB
Antonio Fernos	Tax Reform Committee, Economic Association
Juan Zaragoza	Tax Reform Committee, CPA
Ismael Vincenty	Tax Reform Committee, Lawyer (O'Neill & Borges LLC)
Federico Torres Montalvo	Tax Reform Committee, Labor Union Leader
Hon. Alberto Baco	Tax Reform Committee, Secretary of Economic Development
Jorge Canellas	Tax Reform Committee, Camara de Comercio de PR
Jose Orta	Tax Reform Committee, Senate

Stakeholder	Relationship to the Project
Luis Cruz Batista	Tax Reform Committee, House of Representatives

Organizational Stakeholders

Organization
Government Development Bank (GDB)
COFINA
PR Chamber of Commerce
PR Industrial Association
Pharmaceutical Industries Association (PIA)
Food Marketing and Distribution Chamber
Puerto Rican Products Association
United Center of Retailers
PR Hotel & Tourism Association
Community Pharmacies Association
Restaurant Association
PR Economist Association
PR Society of Certified Public Accountants
PR Association of Financial Analysis
PR Lawyers College – Tax Committee
PR Banks Association
PR Insurance Companies Association
PR Mortgage Bankers Association
PR General Contractors Association
PR Homebuilders Association
PR Engineer College
Colegio de Arquitectos y Paisajistas
Jose Ventura, Owner of Super Max
Etienne Durand, Former Head of Excise Tax Bureau of Department of the Treasury
Juan Agosto Alicea, Former Secretary of the Treasury, former President of the GDB
Jose E. Fernandez, former Owner/President of the Oriental Bank
Carlos del Rio, former General Manager of a CFC

VIII. Communication Plan

This Project Charter establishes a formal Communication Plan to ensure consistent and clear communication regarding the project’s goals, objectives, issues, and progress to date.

The Communication Plan will include the following items:

- **Status Meetings** – Regular meetings involving strategic, program, and operational level stakeholders to discuss current progress, initiatives, risks, and next steps.
- **Status Reports** – Reports documenting current progress of implementation activities and project management tasks
- **Issue Logs** – Used by project teams to document issues as they arise and identify mitigating strategies to resolve issues before they affect the project initiatives
- **Risk Register** – Used by the project team to identify and document risks, risk impact, and risk resolution as they arise throughout the project lifecycle

The table below describes the frequency of each communication item and the affected governance functions.

Communication	Frequency
Status Meetings	Monthly/As Needed
Status Reports	Bi-Weekly/ As Needed
Issue Logs	Updated Weekly
Risk Register	Updated Weekly

IX. Issue Resolution

The PMO is taking a proactive approach to tracking and resolving issues throughout the Tax Reform Impact Assessment Project. Utilizing the Issue Log and Risk Register described in the Communication Plan, the PMO will identify issues in a timely manner and escalate them, as appropriate. The below graphic depicts the escalation process for issues identified during the project lifecycle.

