

**THE 17TH GENERAL ASSEMBLY OF
CARIBBEAN ORGANIZATION OF TAX ADMINISTRATORS (COTA)
22-26 JULY 2002**

KINGSTON, JAMAICA

OPENING CEREMONY

ADDRESS BY:

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CARICOM SECRETARIAT**

MR. CHAIRMAN

DR. THE HONOURABLE OMAR DAVIES, MINISTER OF FINANCE AND PLANNING;

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REVEREND NORBERT STEPHENS, MRS. ALMA DUGAN OBE PRESIDENT OF COTA;

MS. MARVA LEE, EXECUTIVE SECRETARY OF COTA

MR. CLIVE NICHOLAS, DIRECTOR GENERAL, TAX ADMINISTRATION

REPRESENTATIVES OF CIAT, APFF

HEADS OF TAX ADMINISTRATION OF COTA MEMBER JURISDICTION

INVITED GUEST

FRIENDS OF THE MEDIA

LADIES AND GENTLEMEN

IT IS MY VERY DISTINCT PLEASURE TO PARTICIPATE IN THIS OPENING SESSION OF THE 17TH GENERAL ASSEMBLY AND TECHNICAL CONFERENCE OF COTA

MOST CARICOM GOVERNMENTS FACE AND WILL CONTINUE TO FACE, OVER THE NEXT DECADE OR SO, TREMENDOUS CHALLENGE IN RASING REVENUE. THE UNDERLYING FACTORS INCLUDE REDUCED EARNINGS FROM MAJOR EXPORT ACTIVITIES SUCH AS BANANAS ARISING FROM LOSS OF EXPORT MARKET; FROM MAJOR SERVICES SUCH AS TOURISM (FACED, AS IT IS, WITH STIFF GLOBAL COMPETITION AND THE FALL-OUT FROM THE OCCURRENCES OF SEPTEMBER 11, 2001), TELECOMMUNICATIONS (THE US FCC'S UNILATERAL READJUSTMENTS OF ACCOUNTING RATES), AND INTERNATIONAL BUSINESS SERVICES INCLUDING FINANCIAL AND SHIP REGISTRY SERVICES (LOSS OF MARKET DUE TO OECD UNILATERAL ACTIONS); AND FROM REDUCTIONS IN IMPORT OR CUSTOM DUTIES ARISING FROM MEMBERSHIP OF EXISTING OR MAJOR PROSPECTIVE FREE TRADE ARRANGEMENTS – CARICOM, CARICOM/COLOMBIA, CARICOM/DR, CARICOM/DR AND CARICOM/VENEZUELA, AND FTAA AND CARICOM/EUROPE- AND FROM WTO TARIFF REDUCTIONS.

TAX POLICY MAKERS HAVE BEEN AND WILL CONTINUE TO BE UNDER PRESSURE TO REFORM POLICIES AND TAX ADMINISTRATIONS TO REFORM AND REORGANIZATION OF ADMINISTRATIVE SYSTEMS TO ENHANCE THE EFFICIENCIES AND COST EFFECTIVENESS OF TAX COLLECTION.

WE FOCUS ON FOUR SETS OF ISSUES WHICH INCREASE THE CHALLENGE TO TAX ADMINISTRATORS. THESE ARE:

- CHANGING TAX POLICIES
- CHANGING STRUCTURES OF ECONOMIES
- TECHNOLOGICAL CHANGE, INCLUDING THE CHANGING NATURE OF TRADE; AND
- THE NEW CARICOM SINGLE MARKET AND ECONOMY

CHANGING TAX POLICIES

THERE HAS BEEN A STRONG TENDENCY IN TAX POLICY TO SHIFT FROM DIRECT TO INDIRECT TAXES; AND WITHIN INDIRECT TAXES, FROM BORDER TAXES SUCH CUSTOMS DUTIES TO INTERNAL TAXES SUCH CONSUMPTION TAX ARE SOME VARIET OR VALUE ADDED TAXES. WHILE BORDER TAXES REMAIN RELATIVELY IMPORTANT IN SOME MEMBERS STATES ESPECIALLY IN THOSE MEMBERS STATES WITHOUT AN INCOME TAX REGIME, THIS SITUATION IS UNLIKELY TO HOLD IN THE FUTURE. AS YOU ARE WELL AWARE, INDIRECT INTERNAL TAXES POSE SEVERAL CHALLENGES FOR TAX ADMINISTRATORS ESPECIALLY WHERE BUSINESSES ARE SMALL AND WIDELY DISPERSED. THE UNIT COST AND THE TIMELINESS ARE TWO OF THESE CHALLENGES. SIGNIFICANT CHANGES IN THE MANAGEMENT ARRANGEMENT AND IN THE SYSTEMS FOR COLLECTIONS ARE EITHER ALREADY BEING EFFECTED OR WILL BE NECESSARY. IN THIS REGARD THE TRADITIONAL RIGID DIVIDED AMONG

TAX DEPARTMENTS, FOR EXAMPLE, INCOME TAX DEPARTMENT, CUSTOMS TAX, CONSUMPTION TAX AND PROPERTY TAX IS INCREASINGLY BEING RECOGNISED AS INEFFICIENT. THE DIRECTION IS TO CONSOLIDATE AND STREAMLINE. THIS HAS REACHED A VERY ADVANCED STAGE HERE IN JAMAICA.

THE TRADITIONAL DIVISION AT THE NATIONAL LEVEL IS REPLICATED IN OUR COLLABORATIVE ARRANGEMENTS AT THE REGIONAL LEVEL. YOUR OWN ORGANISATION COTA, HAS A MEMBERSHIP WHICH IS RESTRICTED TO "DIRECT TAX ADMINISTRATION AGENCIES". DIRECT TAX ARE HOWEVER BECOMING LESS IMPORTANT SO THAT YOUR ROLE WILL BECOME INCREASINGLY LESS IMPORTANT. WE HAVE A SEPARATE COMMON MARKET CUSTOMS COMMITTEE WHICH SEEKS TO ENHANCE CUSTOMS ADMINISTRATIONS. BUT AGAIN CUSTOMS OR IMPORT DUTIES ARE BECOMING RELATIVELY LESS IMPORTANT. WE HAVE NO REGIONAL ARRANGEMENT WHICH FOCUSES ON CO-OPERATION IN THE GROWING AREAS OF CONSUMPTION OR VALUE ADDED TAXES.

A MORE COMPREHENSIVE ARRANGEMENT FOR CO-OPERATION IN TAX ADMINISTRATION AT THE REGIONAL LEVEL. I SUGGEST THAT THIS IS A MATTER TO WHICH YOU MIGHT BEGIN TO GIVE THOUGHT. DIRECTOR GENERAL NICHOLAS HAS SAID THIS.

THE CHANGING STRUCTURE OF THE ECONOMY

THE STRUCTURE OF THE ECONOMY OF ALL CARICOM MEMBER STATE AND ASSOCIATED MEMBER STATES HAS CHANGED SIGNIFICANTLY OVER THE LAST FORTY YEARS. THE CONTRIBUTION OF THE PHYSICAL GOODS, SECTORS – AGRICULTURE AND MANUFACTURING – HAS DECLINED, IN SOME CASES VERY MARKEDLY WHILE THE CONTRIBUTION OF SERVICES HAS STEADILY INCREASED. IN CASES SUCH AS THE BAHAMAS AND ANTIGUA AND BARBUDA SERVICES NOW ACCOUNT FOR OVER EIGHTY-FIVE PER CENT OF GROSS DOMESTIC PRODUCTION. TRADITIONALLY SERVICE PROVIDERS OTHER THAN THOSE EMPLOYED IN THE PUBLIC SECTOR OR IN THE ORGANIZED BUSINESS SECTOR CONTRIBUTED LITTLE TO THE TAX BASKET. TAX POLICY IS NOW REQUIRING A GREATER CONTRIBUTION FROM SERVICE PROVIDERS. TAX ADMINISTRATORS NOW MUST DEVISE THE SYSTEMS AND ARRANGEMENTS TO COLLECT.

I WOULD SUGGEST THAT THIS IS AN AREA IN WHICH THE EXCHANGE OF EXPERIENCE, THE IDENTIFICATION OF EFFECTIVE PRACTICE WILL BE VERY HELPFUL. COTA COULD SERVE AN IMPORTANT FUNCTION HERE.

TECHNOLOGICAL CHANGE, INCLUDING THE CHANGING NATURE OF TRADE

THE RAPID GROWTH IN SERVICES IS BEING DRIVEN AND FACILITATED BY DEVELOPMENTS IN TECHNOLOGY. PRODUCTS SUCH AS DESIGN SERVICES, DIAGNOSTIC SERVICES AND EVEN REPAIR SERVICES ARE BEING SUPPLIED CROSS BORDER. PAYMENTS CAN ALSO TAKE PLACE THROUGH TECHNOLOGICAL MEANS, CAN BE MADE TO AN ACCOUNT NUMBER ANYWHERE AND VERIFIED BY THE ACCOUNT HOLDER WITHOUT THE MOVEMENT OF ANY PAPER.

TAX ADMINISTRATORS NOW HAVE TO FIGURE OUT TAX LIABILITY AND HOW TO COLLECT IN SUCH CIRCUMSTANCES.

THE TECHNOLOGY CAN ALSO ASSIST TAX ADMINISTRATORS. THEY CAN NOW HOLD AND ACCESS MUCH MORE SOPHISTICATED RECORDS ON TAXPAYERS IN THEIR JURISDICTION. THEY CAN ALSO COOPERATE MORE EFFECTIVELY AND EXCHANGE EXPERIENCES ACROSS JURISDICTION.

A CHALLENGE FOR COTA IS TO DETERMINE HOW IT CAN ASSIST ITS MEMBERS, ESPECIALLY THE SMALLER OR THE LESS SOPHISTICATED JURISDICTION.

THE CARICOM SINGLE MARKET AND THE ECONOMY

THE CARICOM SINGLE MARKET AND ECONOMY (CSME) IS INTEND TO CREATE A SINGLE ECONOMIC SPACE FOR GOODS, SERVICES, CAPITAL AND INVESTMENT. PUT DIFFERENTLY, IT IS INTENDED TO ENSURE THAT THERE IS NO DIFFERENCE, NO DISCRIMINATION IN THE TREATMENT OF NATIONALS OF THE VARIOUS MEMBERS STATES, INCLUDING IN TAX MATTERS. THIS WILL REQUIRE SIGNIFICANT HARMONIZATION IN BOTH TAX POLICIES AND ADMINISTRATION. CURRENTLY, TAX POLICY, OTHER THAN CUSTOMS TAX POLICY, REMAINS IN THE DOMAIN NATIONAL DECISION MAKERS. IT DOES NOT TAKE THE GENIUS IN THIS ROOM TO RECOGNISE THAT THIS CANNOT BE SUSTAINED FOR LONG IN THE ABSENCE OF SIGNIFICANT COOPERATION AND HARMONIZATION. IN ANY EVENT THE HON. MINISTER WAS VERY EXPLICIT ABOUT THIS.

IN THE DECISION REACHED IN FEBRUARY 2002, AND REFERENCED EARLIER BY THE COMMISSIONER, EACH GOVERNMENT HAS IDENTIFIED ALL MEASURES, INCLUDING TAX MEASURES WHICH DISCRIMINATE BETWEEN NATIONALS AND NATIONALS OF OTHER MEMBER STATES. THEY HAVE SCHEDULED HOW THESE WILL BE ELIMINATED IN THE PERIOD UP TO THE END OF 2005. TAX ADMINISTRATORS NEED TO BE FULLY *AU FAIT* WITH THESE COMMITMENTS AND ENSURE THAT PRACTICE IS

CONSISTENT WITH LEGAL OBLIGATIONS. THIS WILL BE PARTICULARLY IMPORTANT INDIRECT TAXES, FOR EXAMPLE AN ENVIRONMENTAL TAX OR A CONSUMPTION TAX ON AN AGRICULTUREAL PRODUCT PRODUCE BY SMALL FARMERS. NON-COLLECTION OF THE TAX FROM EVEN REMOTELY LOCATED NATIONALS WHILE COLLECTING IT ON THE PRODUCTS OF COMMUNITY NATIONALS WHICH CAN BE EASILY IDENTIFIED AT THE BORDER, WILL CONSTITUTE A BREACH.

THE CSME WILL HAVE EVEN DEEPER IMPLICATIONS FOR TAX ADMINISTRATORS AS THEY SEEK TO DEAL, FOR EXAMPLE, WITH ISSUES SUCH AS:

- TEMPORARY SERVICE PROVIDERS, FOR EXAMPLE, UNIVERSITY GRADUATES PROVIDING CONSULTANCY SERVICES WHO HAVE A RIGHT TO ENTER AND EXIT AT WILL; AND
- INVESTORS WHERE THE DOUBLE TAXATION AGREEMENT IS NOT IN FORCE.

AN EFFECTIVE CSME ASSUMES THAT TAX ADMINISTRATIONS WILL BE ROUGHLY EQUALLY COMPETENT ACROSS THE REGION. THIS IS A COLLECTIVE RESPONSIBILITY. ISSUES SUCH AS TRAINING TO REGIONAL STANDARD WILL BECOME MUCH MORE OF A NECESSITY. UNDER THE CSME THE HARMONIZATION CORPORATE TAXATION WILL BECOME A NECESSARY FACTOR. THE PROCESS WHICH HAS BEEN IN TRAIN FOR SO

MANY YEARS WILL HAVE TO BE COMPLETED AND IMPLEMENTED. THE PROCESS OF HARMONIZATION ALSO HAS TO MOVE BEYOND CORPORATE TAX TO OTHER KEY TAXES IN SHORT ORDER.

CURRENTLY CUSTOMS DUTIES ARE HARMONIZED AND CENTRALLY MANAGED BUT ARE COLLECTED AT EACH NATIONAL BORDER ON NON-ORIGINATING GOODS. A TRUE SINGLE MARKET REQUIRES HOWEVER THAT GOODS, ONCE INSIDE THE COMMON ECONOMIC SPACE, SHOULD MOVE AND BE TRADED FREELY. THE REVISED TREATY REQUIRES A STUDY ON THIS ISSUE – THE ISSUE OF FREE CIRCULATION. AN IMPORTANT ISSUE HERE WILL BE CONFIDENCE IN THE CAPACITY OF CUSTOMS ADMINISTRATIONS TO GUARANTEE APPROPRIATE COLLECTION. THIS AGAIN MUST BE COLLECTIVE RESPONSIBILITY.

IN CLOSING, I WISH ON BEHALF OF THE SECRETARIAT TO ACKNOWLEDGE AND THANK THE GOVERNMENT OF JAMAICA, THE MINISTRY OF FINANCE AND THE DIRECTORATE OF TAX ADMINISTRATION FOR HOSTING AND ORGANISING THIS ASSEMBLY.