

PRESENTATION TO CARIBBEAN ORGANIZATION
OF TAX ADMINISTRATORS 17TH GENERAL ASSEMBLY
AND TECHNICAL CONFERENCE,
KINGSTON, JAMAICA - JULY 22-26, 2002

***“A FRAMEWORK FOR MODERNIZING TAX STRUCTURES –
INTERNAL AND EXTERNAL ARENAS”***

Introduction

Ladies and gentlemen, this topic, '*A Framework for Modernising Tax Structures: Internal and External Arenas*' is of great importance to us in the Caribbean at this time. Today we live in a society that is more demanding and therefore government must lead the way in making sure that the operation of the public administration in general and the tax administration in particular is efficient and effective. If this is not the case, there is likely to be much criticism which will damage the image of tax administration and could lead to a reduction in the level of voluntary compliance.

In Jamaica, the tax administration is responsible for the collection of approximately 90% of government's revenue and the Minister of Finance and Planning needs to collect the taxes due if he is going to be able to balance the budget and provide the social services required by the citizens. As taxation is the mechanism that facilitates satisfaction of the general interests of the nation through the execution of programs and projects which will result in social

benefits, the modernization of the tax structure must be one of the primary tasks which needs to be undertaken to guarantee its adaptation to the changing environment in which we live.

This changing environment which is characterized by the technological revolution and the advent of globalization has resulted in a constant need for tax obligations to be easily complied with in a standardized and harmonious environment, avoiding unnecessary time and costs for citizens. In addition, tax procedures must be directed in a manner that they guarantee the social acceptance of tax obligations by constantly seeking to reduce both the cost of compliance and the cost of administration. It is for this reason that the government of Jamaica embarked on a major tax reform project in 1995 aimed at increasing tax revenues without increasing tax rates, thereby contributing to the economic and social well being of the citizens of the country.

CURRENT MAKE UP OF TAX ADMINISTRATION IN JAMAICA

The Jamaican tax administration is responsible for all the taxes levied and includes the following:

- ⇒ Income Tax
- ⇒ Consumption Tax
- ⇒ Property Tax
- ⇒ Customs Import Duty
- ⇒ Stamp Duty and Transfer Taxes
- ⇒ Travel Tax

- ⇒ Education Tax
- ⇒ Betting, Gaming and Lotteries Tax
- ⇒ Contractor Levy
- ⇒ Motor Vehicle Licences

In terms of importance, the Income and Consumption Taxes are the most important and account for approximately seventy-six (76%) percent of total tax collections. Despite a downward trend in the rate of customs import duty, there is still a fair amount of collections from that source. However, with the soon to come introduction of the Free Trade Area of the Americas, (FTA) import duties throughout the region are likely to be adversely affected. Those countries that will be affected must therefore prepare themselves to rely more on internal taxes such as consumption and income taxes. At the same time, because of the constant shift towards liberalized economies and electronic commerce, it is going to become more difficult to ensure compliance with the relevant tax laws. It should be noted that while some of the challenges which the tax administration will face may be due to outright evasion on the part of some taxpayers, a substantial amount will be because of tax avoidance practiced by large multinational Corporations and taxpayers in the high income group who are able to hire expert lawyers to minimize their tax burden. In the case of electronic commerce, while it may not be substantial in the region at present, the fact that governments are trying to make the technology more available to those who are unable to purchase their own computer equipment, there is every likelihood that

such transactions will increase in the future. I need not remind you that in many cases, it is almost impossible to ascertain the details of such transactions and therefore this will lead to a loss of tax revenue, primarily sales and income taxes.

At the same time we must not only see the difficulties because the technology will also provide opportunities to make tax administrations more efficient and effective. In the circumstances, it is in these areas that we must seek to utilize the technology along with the availability of information to counter the negative effects of the new environment.

Bearing in mind the above situation, we in Jamaica decided to organize our tax departments according to function. Today we have the following departments:

(See Charts attached)

- ⇒ Inland Revenue (IRD)
- ⇒ Taxpayer Audit & Assessment (TAAD)
- ⇒ Customs (CD)
- ⇒ Revenue Protection (RPD)
- ⇒ Tax Administration Services (TASD)
- ⇒ Taxpayer Appeals (TAD)

RESPONSIBILITIES OF THE TAX DEPARTMENTS

The following is a brief outline of the present tax administration and the responsibilities of the relevant departments.

(i) Inland Revenue Department (IRD)

This department is responsible for the following activities:

- a. The collection of tax revenues paid through the voluntary compliance system.
- b. The enforcement of delinquent payments and returns from delinquent taxpayers
- c. The maintenance of taxpayer accounts.

The task is carried out throughout the entire island through twenty-eight (28) Collectorates of varying sizes headed by Collectors of Taxes. While the overall management of the department is carried out by the Commissioner and Deputies in the capital city of Kingston, there are four (4) Assistant Commissioners who are responsible for the four (4) regions and they and the Collectors are primarily responsible for the operations within the Collectorates.

In addition to the collection and compliance functions, the IRD is the primary point at which the taxpayer interfaces with the revenue services in order to obtain information on all the various taxes, and therefore, taxpayer assistance is of prime importance. In order to make it easy and convenient for the taxpayer to obtain information and services, we have embarked on designing Revenue Services Centres which house all the various revenue departments. The

taxpayer assistance section is located in the banking hall area and is manned by officers who are trained to deal with all the various taxes, thereby ensuring that within the Revenue Service Centres, the full service concept is a reality. Here again, we have not been able to fully carry out the concepts in all cases because of certain constraints, but this is going to be the case in the future.

(ii) Taxpayer Audit and Assessment Department (TAAD)

In keeping with our objective to organize the tax administration by functions, an audit and Assessment Department was formed to take over all the assessment and audit functions which used to be carried out in the old Income Tax, General Consumption Tax and Stamp Duty and Transfer Tax Departments. In other words, one Commissioner is now responsible for the administration and the operations of the Income Tax, General Consumption Tax and Stamp Duty and Transfer Tax Acts. We are aware that this is a radical move as it is moving away from the system where some officials specialized in certain taxes and therefore it require that the tax officials in this department have all the required skills. I am not going to tell you that at this particular time, this is entirely the case. However, we are well on the way to achieving this standard as the training at the professional level of revenue officer is specifically geared towards the acquiring of these multi-skills. What is, in my opinion, of even greater importance is the fact that an officer can now carry out many different types of audit on a single taxpayer, thereby reducing the time and cost of administration, but also minimizing the duplication of effort, for e.g., verifying sales for income tax and

then again for value added tax. This savings is not just in favour of the revenue as taxpayers used to complain bitterly about the multiplicity of different auditors wanting to carry out checks on the same set of books and records.

In terms of responsibility, there are also four (4) Regional Assistant Commissioners (TAAD) who have their teams of auditors of different levels and they also are responsible for the taxpayers within their respective regions.

(iii) Customs Department

The Customs Department has the responsibility for the protection of the nation's borders, facilitating trade and ensuring that proper customs duties are collected on the goods that are dutiable. With the constant reduction in Import Duties and the growing importance of free trade areas, the department is going to have to become more efficient and effective so as to collect the revenues that are due to the government.

In reforming the tax administration, the Customs reform was kept separate from the other parts of the tax administration and therefore work is now progressing on the modernization of customs.

(iv) Revenue Protection Department

In the Jamaican situation it was felt that because of the importance that was being placed on revenue protection, a department of that name should be created. Its main functions are to:

- (a) Conduct investigations into alleged corruption within revenue departments.
- (b) Carry out internal auditing within tax departments

(c) Conduct investigations into suspected criminal cases of tax fraud concerning any tax matter

(d) Investigate Custom Duty evasion cases, which was its original mandate prior to the reorganization.

(v) **Tax Administration Services Department (TASD)**

There are some services such as legal, taxpayer education and publicity, staff training, civil works, procurement, management of the Taxpayer Registration Numbering system and the taxpayer file registry which are common to all the revenue departments. So as to minimize any duplication of effort, it was agreed to have one department responsible for all such services. This arrangement allows the other tax commissioners to concentrate on their core functions and not have to worry about these other activities.

(vi) **Taxpayer Appeals Department**

This department was established to enhance the objectivity and fairness of the administrative appeals process. The service is available to all taxpayers at no cost and this does not prevent them from appealing to the Revenue Court if they so desire. What it does is to provide a further avenue of appeal especially for the small taxpayer who may not want to appeal to the Revenue Court because of cost considerations.

(vii) **Director General – Tax Administration**

A new office, Director General, Tax Administration, was created to oversee the modernization process and to provide overall management and oversight of tax

administration. The role of the Director General's Office include: co-ordinating and monitoring the activities that foster integration of the departments to achieve efficiency and effectiveness, establishing working systems and procedures, developing and issuing policy guidelines and standards.

The Commissioners of the departments report to the Director General who in turn report to the Financial Secretary, who has overall responsibility for government's revenues.

In addition to the above, I must mention that there is a government owed company called Fiscal Services Limited (FSL), whose main role is to provide an Integrated Computerized Tax Administration System (ICTAS) for the tax departments with appropriate information technology service. This is separate from the role of the EDP Units within the departments that are charged primarily with office automation.

VISION AND MISSION OF THE TAX ADMINISTRATION

The tax system in Jamaica is based on the Self-Assessment System and Voluntary Compliance is a cornerstone of the system. Taxpayers must therefore determine what they owe based on the relevant laws and pay over the amounts voluntarily by the due date.

Our vision for the administration is:

"To be the benchmark public sector organization for efficiency and effectiveness and to influence our stakeholders through service

excellence so that voluntary tax compliance becomes a way of life in the Jamaica society”.

On the other hand, the mission of the tax administration is:

“To collect the revenue due to the Jamaican Government under the tax laws in an equitable efficient and effective manner.

To earn and maintain public confidence in our integrity through a cadre of highly motivated, professional and service oriented staff.

To achieve the highest possible level of voluntary compliance, at the least cost to the Jamaican taxpayers”.

For sometime now we have been aware that to help our clients meet their tax obligations, we had to simplify the system, provide as much information and assistance as is possible and make it easy for them to file and pay their taxes. For this reason, we have designed the system in such a way that only those taxpayers who are over the tax threshold which is currently one hundred and twenty thousand, four hundred and thirty-two (\$120,432) per annum, need to file an income tax return. In addition, those persons on the Pay As You Earn (PAYE) System, who would pay tax at source at 25 cents in the dollar, would not have to file a tax return if that was their only income. Where such persons also have investment income (dividends and interest) which suffered tax at the rate of 25 cents in the dollar such persons would also not be required to file an annual return. As a result of these provisions in the Income Tax Act, a large

number of taxpayers are not faced with the burden of filing tax returns as they currently pay their correct taxes through the withholding tax system.

It is fair to say that while the present flat tax system may be criticized on the basis that it is not very progressive because of the single rate, it is certainly simple and has reduced the cost of compliance and administration for both the taxpayer and the tax administration.

We are of the opinion that in this business, communication is of the utmost importance, as taxpayers need to be aware of their rights and responsibilities. We have therefore issued user-friendly guides, brochures and bulletins which are also available on our web-page: www.jrs.gov.jm For those who wish immediate feedback, they can call our 1-888-TAX HELP number and speak with one of our Communication Specialists. Recently, we have instituted meetings with certain stakeholders at the local level in order to iron out difficult problems and to ascertain what we can do to improve our services to our customers. Some members of the tax administration are often invited to take part in seminars, workshops and conferences and there are presentations at schools and colleges to prepare the young people to understand how the system works and why there is the need for taxes.

COMPUTERIZATION OF THE TAX ADMINISTRATION

In today's world, it is very difficult to modernize tax structures and not place a great deal of emphasis on the use of computers. The mere fact that we have to deal with vast amounts of information and transactions, which need to be carried

out on a timely basis, means that the old outdated manual systems and procedures will have to be phased out.

We decided that we would opt for an Integrated Computerized Tax Administration System (ICTAS), which would integrate all the various systems within all tax departments into one system which could be accessed through the Taxpayer Registration Number (TRN).

ICTAS currently includes the following modules:

- a. Taxpayer Registration
- b. New Cash Remittance System (NCRS) for acceptance of a tax return; establishing the fact of filing the return; creation of obligations for tax payments based on the return; batching of returns according to tax type; collection of taxes; computation of penalties and interest; accounting for tax payments according to taxpayer, tax type etc., printing of motor vehicle registration certificates and tax receipts; monitoring of cashiers; reconciliation of accounts; generation of end-of-day balances; and transmission of transactions to the central Facility at the end of business;
- c. Tax Compliance Certificate to issue tax clearance certificates to taxpayers based on their tax compliance status;
- d. Tax Accounting containing individual ledgers for each taxpayer and tax type, and comprehensive tax payment profile of taxpayers covering multiple taxes and effects of audits, assessments, appeals and refunds;

- e. Revenue Accounting to account for aggregate revenue collections and refunds under various tax heads;
- f. Compliance to detect non-filing, stop filing, nonpayment, under-payment of taxes etc. and issue automated notices to taxpayers;
- g. Audit to allow adjustments in the tax liability based on audits and assessments

There are some other modules which are to be included but they are not currently in use so I have not mentioned them.

THE ROLE OF SENIOR MANAGEMENT IN A MODERNIZED TAX ADMINISTRATION

In the past two (2) years, significant changes have taken place in the management of the tax administration in line with the alteration in structures and practices. The decision to make these fundamental changes in the structures was in response to the need to adapt to powerful internal and external triggers. These included the rapid pace of technology and innovation, the threat from globalization, increased organizational complexity, and escalating customer expectations. We are aware that changes in structures and procedures are relatively easy to accomplish. However, with these changes there is also the need to change the culture of the organization and this is a far more difficult and complex task. A fundamental step in culture change is to determine which are the core values that are fundamental to the success of the organization and make sure that these are given high priority in creating the organizational vision.

Once there has been an evaluation of the existing culture and the desired culture, it is up to the leadership team to drive the change by directing and guiding the change effort. These leaders also need to ensure that they are focussing on what is good for the well being of the tax administration as a whole rather than for their individual departments and personal gain. Success will be dependent on the ability to communicate the vision and mission and mobilizing others to accept it. They must also be able to engender trust throughout the departments as there is bound to be a great deal of fear and insecurity among staff before, during and after the reorganization process. Employees at all levels need to be brought into the loop to provide input, ask questions and understand the need for change. They will want to know what is in it for them and therefore management must be honest in giving this information so as not to create expectations which cannot be achieved. We realized that fear can be reduced with information and counseling and as a result forty-five (45) members of the tax administration were trained as counselors. In addition, management must reward the behaviours and results that support the change and on the other hand, sanctions must be applied where there is persistent non-compliance.

As change is a dynamic process that requires continuous feedback and assessment, we have recently designed a questionnaire which was completed by employees of the tax administration. The results are currently being evaluated and changes will be made to the strategy, if necessary, based on the feedback from the questionnaire.

LESSONS LEARNED FROM REFORM

Now that the reform is headed towards completion, there have been some important lessons learned and I wish to share them with you so that if ever you have to carry out any such exercise, you can pay special attention to them.

(a) Legal changes, especially those aimed at strengthening the tax administration's

enforcement powers are likely to meet with opposition from vested interest.

Any such change should commence early in the project cycle and should be accompanied by proactive efforts to explain their rationale and purpose to taxpayers, representative associations and legislators on all sides of the political arena.

(b) Success at organization restructuring requires that senior management positions in the new organization structure be filled as early as possible. This would ensure that those who have a stake in the success of the project are in positions of authority, thereby enhancing accountability for results.

(c) Line managers and staff should be closely involved with project activities but since 'the existing show must go on', full time Implementation Teams should be created in the various functional areas. These team members will then be able to act as a link between line departments and the project; keeping managers and staff abreast of project developments, getting their input at critical milestones in the implementation process and ensuring that projected outputs remain focussed on the business needs of the organization.

- (d) Project activities should be sequenced in such a manner that changes in the organizational structure and functions of different departments and offices precede Information Technology system developments. Uncertainties regarding organizational structure, roles and responsibilities make it difficult to precisely define system requirements. In view of the above, organization changes during system development lead to considerable rework, higher costs and delays in implementation.
- (e) Great care should be taken in deciding whether to use 'off the shelf' application software or designing in-house software programs. While it is true that, the former is less expensive and may be implemented quickly, if the chosen package is found to be unsuitable, it could result in additional costs and delayed implementation.
- (f) In the design of any major reorganization process, it is impossible to overemphasize the importance which must be attached to planning for the changes required in the knowledge, skills and attitudes of members of staff in order to fit them for their new roles. It is easy to underestimate the effort, time and expenditure which these massive training efforts will require. Furthermore, both trainers and trainees will need to be away from their desks for significant periods of time, and to balance the competing needs of the training process and the maintenance of existing services a satisfactory level will always be a tremendous challenge to the management of the organization.

(g) Relationships with external tax organizations and administrations can provide valuable opportunities for sharing experiences about change processes. Whether the changes involve the structure of management, information systems development, or the reorganization of such business processes as collections, audit and investigations, compliance or taxpayer assistance, it is always likely that some other administration has undergone changes which can shed light on the way forward. In these circumstances, it would be foolhardy and wasteful to try to 'reinvent the wheel'. On the other hand, it is obviously critical to take sufficiently into account peculiarities of each situation: imported solutions are almost never a perfect match for local circumstance.

CONCLUSION

The modernization of tax structure is a major exercise and is dependent on the capability of the administration to commit to and absorb change. The restructuring, and in some cases, merging of departments/units each with its own entrenched culture and operating styles, will need a complete change of the prevailing ethos. The inability of some staff members to adapt to the new systems because of their pre-occupation with the past can delay the success of the modernization schedule.

The above challenges are not limited to the organization only but also to the customers and other stakeholders within the system. Invariably, there will be persons who benefited from the old less effective systems who will not want to

see any changes and may even seek to speak adversely about the changes and call for their abandonment.

Despite all the difficulties, improvements in the functioning of the tax administration are already visible in the form of increased taxpayer registration, enhanced taxpayer satisfaction, increased audit productivity and improved tax collections.

However, it is still early days and more time will be needed to fully assess the impact of the modernization efforts.

Prepared by:

***Clive Nicholas
Director General, Tax Administration
July 15, 2002***