

CARIBBEAN REGIONAL TECHNICAL ASSISTANCE CENTRE

CARTAC

VAT INTRODUCTION—ADMINISTRATIVE ISSUES

Prepared by Paulo dos Santos*

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Abstract

This paper presents the issues that should be considered when deciding on the introduction of a VAT-type tax. It reviews the main policy and administrative aspects of the tax that affect its introduction. It also examines the tasks to be accomplished in the course of preparing, executing and following up on the introduction of a VAT-type tax.

* The views expressed are those of the author and do not necessarily reflect those of the CARTAC.

VAT Introduction—Administrative Issues

1. Background

VAT is one of the most popular taxes around the world. It has been introduced in more than 120 countries; it raises more than US\$18 trillion in revenue a year, and is paid by more than 4 billion people.¹ The main reason for this popularity is that VAT provides a buoyant revenue base that usually yields significantly more revenue than other taxes on consumption. VAT revenue in Barbados and Jamaica, for example, is equivalent to 9 percent of their GDP. Also, the VAT is neutral and efficient as it does not tax investment or cascade tax liabilities.

VAT first appeared in France in 1948 at the manufacturing level. In 1967 it was introduced in Brazil as a multi-stage tax administered by the Brazilian states. It started to spread in the 1970s, and by the late 1980s, 63 countries around the world had introduced it. This number doubled in the 90's.

VAT performance has been particularly strong in small island countries with populations under one million, where in recent years it scored an average C-efficiency ratio² of 83. These countries' performance compare extremely well with other regions (see table 1). One possible reason for this strong performance is that these countries have open economies with a heavy reliance on international trade, and most of their VAT is collected at customs.

Table 1: VAT C-efficiency ratio by region

Region	C-Efficiency ratio
Sub-Saharan Africa	38
Asia and Pacific	58
Americas	57
EU (plus Norway and Switzerland)	64
Central Europe and BRO	62
North Africa and Middle East	57
Small Islands	83

Source: Ebrill, 2001

Although VAT has been introduced in Barbados, Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago, a number of other Caribbean region countries are still concerned about its introduction. The usual arguments put forward against VAT implementation by regional authorities and experts are that Caribbean tax administrations are weak, the countries suffer from a culture of tax evasion, the VAT invoicing and bookkeeping requirements would be difficult to comply and enforce, the level of adult literacy in some

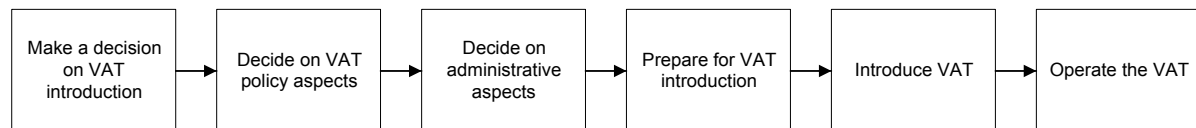
¹ Ebrill, 2001

² The C-efficiency ratio is the ratio of VAT revenue to private consumption per one point of tax rate.

countries would present problems, and that introduction could be a complex and expensive task. These concerns have to be taken into consideration when a decision is to be made regarding VAT introduction and will be the focus of this paper.

It is important to note that worldwide only a few countries have repealed the VAT after its introduction.³ Usually the reasons for repealing VAT are (1) political commitment to repealing the VAT (politicians promise to repeal the VAT if they are elected); (2) poor performance due to poor planning for VAT introduction and operation; or (3) an inadequate definition of registration threshold which resulted in an excessive number of taxpayers to be administered.

This paper first discusses some key administrative and policy issues that have to be addressed to support a decision to introduce VAT. Subsequently, it discusses the most relevant issues in terms of the desirable features of a modern VAT, and finally suggests the tasks to be accomplished in the course of preparing, executing, and following up on the introduction of VAT. The following chart illustrates the milestones of the process of VAT introduction and operation.



Before discussing the administrative issues to be assessed during the decision process, it is necessary to emphasize that the most crucial aspect for the VAT introduction is the political commitment to its implementation. The explicit support of the highest authorities is the key success factor for VAT introduction. Once a decision is made to introduce the VAT, the authorities should publicly express their support and start a series of key actions that will lead to the set up of the new tax. The decision to introduce the VAT should be followed by the definition of the main features of the tax, in terms of policy and administration. The authorities should also supervise the introduction process and provide the resources required by the introduction team.

2. Administrative aspects to be considered in deciding on VAT introduction

a. Tax administration effectiveness

An argument often used against the introduction of VAT is the weakness of the tax administration. This is a valid concern. VAT performance would be poor under a weak administration. However, if a tax administration is weak, its strengthening is a priority regardless of what taxes the country has in place.

During the process of deciding whether to introduce a VAT, the tax administration's weakness should be a concern, but not an overriding factor. If such weaknesses are a real problem, they will have to be tackled under any scenario. Since preparation for VAT introduction takes approximately two years, this time could and should be used to strengthen

³ In the Caribbean region VAT has been introduced and repealed in Belize and Grenada

tax administration. In fact, some countries have used the VAT introduction to set up a new, more modern tax administration. With the correct perspective and commitment, this process can naturally lead to a strengthening of the tax administration.

During the preparation for VAT introduction, employees with the required skills need to be hired and trained both in tax administration techniques in general, and on the VAT mechanisms in particular.

b. Culture of bookkeeping

Bookkeeping is an integral part of any business that, if neglected, presents risks for the business' health. Too many entrepreneurs consider that they should only be engaged with their business' general operations and not with their business' bookkeeping. If businessmen take the attitude that books are either beneath their notice or too complex for them to understand, they will necessarily face problems. Business success depends on a variety of factors: a good product or service delivered by competent people is only one part of the picture; well-kept books are just as important.

Most people view bookkeeping as an exercise that they go through for one reason only: the tax return. With this outlook, it is understandable that no one wants to bother until the end of the year, when it is often too late. Below are the main reasons why it is vital for businesses to keep accurate books—above and beyond tax reporting:

- Pricing product accurately;
- Knowing if the business is making or losing money;
- Knowing the cash flow in the short and long run;
- Working with bankers; and
- Paying taxes due

Another factor regarding strict bookkeeping is that while it is currently required in many Caribbean countries legislation, compliance with such requirements is not adequately enforced. In Guyana, for example, the Income Tax Act requires that “Every person carrying on any business, trade, profession or vocation shall keep proper accounts and records of his income and expenditure...”. The legislation also sets out specific regulation defining the different books required. Enforcing bookkeeping requires first “educative” visits to taxpayers to tell them how to keep the books. Later, tax auditors should be required to check the books every time they visit a taxpayer and penalize the taxpayers who do not comply with bookkeeping requirements.

Some would say that it is not in the “culture” of the taxpayers to carry accounting books. But this should not be accepted. Tax administrations have to enforce the compliance of the tax legislation and change the “culture”. In Peru, for example, when the tax administration reform started in 1992, one of the first recommendations from international consultants was to enforce compliance with invoicing regulations as a way to improve VAT revenue. The immediate local response was that there was no “culture” of issuing invoices in Peru. Nevertheless, the authorities decided to implement a tough program to enforce compliance with invoicing requirements and they were able to change the culture. Today, even the smallest businesses in Peru issue invoices regularly. The “culture” has been changed....

Another important related issue is the threshold for registration. As it will be discussed below, the threshold should be high enough to reduce the number of registrants to: (a) a number of taxpayers that can be administered by the tax administration: and (b) those that are able to maintain reasonably good bookkeeping.

c. Literacy level

Some experts also argue that a low adult literacy rate would be a strong factor against the introduction of taxes with the level of complexity of a VAT. Reality, however, does not confirm this impression. Some countries in Africa, with very low adult literacy rates have been able to successfully implement and operate a VAT and are collecting an important share of their revenue from this tax (see table 2). Niger, with a literacy rate of 14 percent, and Burkina Faso with 19 percent, collect more than 25 percent of their revenues from VAT.

Additionally, adult literacy rates for the Caribbean countries range from 80 to 99 percent. Clearly adult literacy rates should not be a factor affecting the decision on VAT introduction in Caribbean countries.

Table 2: Adult literacy rates in selected African countries in 1995 and VAT revenue

Country	Literacy In percent	VAT Revenue as % total
Niger	14	27.6
Burkina Faso	19	28.7
Mali	31	27.0
Senegal	33	37.1
Guinea	36	21.3
Benin	37	41.6
Mauritania	38	23.3
Cote d'Ivoire	40	28.7
Mozambique	40	24.4
Chad	48	25.3
Egypt	51	17.9
Togo	52	34.0
Malawi	56	36.2
Nigeria	57	19.7
Algeria	62	31.0
Cameroon	63	34.5

Source: UNESCO and IMF

d. Cost of VAT introduction

VAT introduction is a process that takes at least two years of hard work of a big team of high-level staff. It is quite expensive and a special budget should be allocated to it. Of course, when the authorities decide on the VAT introduction, they expect that the introduction costs will be more than offset by the benefits of the new tax. That was clearly the case in Barbados and Jamaica, for example.

3. Decide on the VAT policy aspects

Once the authorities decide to introduce a VAT, the next step is to define the main policy aspects of the new tax. Decisions have to be made on the tax base (exemptions and zero rates), the positive tax rate (or rates) and the threshold for registration.

An ideal VAT should be applied on the sales of all goods and services. Exemptions should be kept to a minimum to broaden the tax base and to facilitate compliance by taxpayers and control by tax administration. There should be only one positive rate. Multiple rates make administration more complicated and favours evasion.⁴ Zero rates should be applied exclusively to exporters. If they are extended to other sectors it will result in more difficult control systems and an increased number of refund claims, which sometimes cannot be managed by the tax administrations.

Threshold should be established at a level that, without sacrificing too much revenue, would result in a reduced number of taxpayers to be registered. In some countries of the region, a number between 200 and 500 registrants would provide between 85 percent and 95 percent of the VAT revenue. As was explained above, it would be more reasonable to require compliance with invoicing and bookkeeping requirement from a smaller number of top-level taxpayers. Table 3 shows the thresholds adopted by some selected countries.

Table 3: VAT registration threshold in selected countries (annual sales in US\$)

Country	Registration threshold
Benin	50,000
Ivory Coast	50,000
Madagascar	45,000
Chad	40,000
Sri Lanka	33,000
Barbados	30,000
Rwanda	28,000
Trinidad & Tobago	25,000
Fiji	7,000
El Salvador	5,700

Source: IMF

4. Decide on VAT administrative aspects

a. Which organization is going to administer the VAT?

Countries are divided regarding the decision on which department should administer the VAT. Some countries prefer to have the Customs Department (CD) administering it; others prefer the Inland Revenue Department (IRD). One reason for giving the administration to CD

⁴ See Terkper, 1995.

is that in some developing countries most of the VAT revenue comes from imports, making the CD the preferred department for administering the VAT. On the other hand, both income tax and VAT are assessed based on the enterprises' financial transactions and records. IRD staff has more developed skills to enforce taxes based on financial records than customs staff. Also, VAT is a tax that is applied to both imports and domestically produced goods and services. The IRD already has the responsibility of dealing with the taxpayers not involved with imports/exports. Moreover, as one of the objectives of a modern VAT is to broaden the tax base mainly by including services into the tax base, the IRD is the better organization to administer it. In any case, whatever the authorities decide, the decision should be made as early as possible to allow time for the department selected to prepare for the introduction.

Although the IRD is often the department recommended by experts to administer the VAT, the CD will nevertheless play a significant role. The main CD involvement in the operation of the VAT is in relation to the collection at import, verification of exports and the provision of information.

The CD will collect VAT on imports and the information on the tax collected would be crucial for the IRD audit. The customs declaration forms, procedures, and IT system will need to be reviewed and where necessary amended prior to the introduction of VAT.

The CD should also provide detailed information on exported goods to support the IRD audit of refund claims and prevent possible frauds associated with these claims.

The CD and IRD officers may conduct joint audits and will exchange information to enhance compliance. The use of a common taxpayer identification number is the ideal solution for permitting electronic data interchange between the two departments.

b. How frequently should taxpayers file and pay?

VAT is a transaction-based tax, and consequently should be reported and controlled as often as possible. Many countries require monthly filing and payment. However, this could result in a large number of returns and payments, which the administration could be unable to administer. Thus, some administrations have decided in favour of monthly returns and payment for the largest taxpayers and quarterly returns and payment for other taxpayers.

Longer filing and payment periods, while reducing the number of returns and payments to process, make administration more complicated. Control of compliance with filing and payment requirements and information crosschecking are more difficult to implement where longer filing and payment periods are in place. Longer filing and payment periods also affect revenue.

c. Invoicing requirements

Invoices are a critical component of VAT. The correct use of invoices must be enforced by tax administrations. Tax practitioners often say that an invoice is like a check issued against the Treasury. So, all precautions should be taken to ensure that they are adequately used.

Tax administrations have to decide on the contents of the VAT invoice. Usually, invoice information should include: the taxpayer identification number of both the seller and the

purchaser; the name and address of the seller; the name of the purchaser; the date the invoice is issued; the invoice number, a description of the goods, indicating a unit and total selling price; the amount of VAT resulting from that transaction; the total amount of the invoice, including the VAT payable, the date the invoice was printed, and the serial number of invoices printed in that batch. Special provisions should be made for taxpayers who use computer systems to print their own invoices.

A decision also has to be made on whether invoices or tickets issued to final consumers will show VAT paid. Most countries prefer not to show the VAT paid by final consumers, as these invoices, as opposed to invoices between VAT payers, should not grant VAT credit.⁵

Compliance with invoicing requirements is another important issue. Countries have to decide how to control printing, issuing and the use of invoices. False or altered invoices are one of the concerns in VAT administration. Several countries have dealt with it through the introduction of strict invoicing regulations. Many of them require the taxpayers to obtain tax administration authorization before printing invoices. Some countries have introduced systems to register the print shops that print invoices and require them to inform tax authorities the taxpayer identification number and range of the invoice numbers printed. Some countries have available Web-based systems that allow print shops to get authorization for printing invoices and informing the range of invoice numbers printed. When the taxpayers use computerized invoicing systems and print their own invoices, they should get authorization from the tax administration before printing the invoices. Tax administrations, which have adopted these systems, have all the necessary information on valid invoice numbers available to them.

d. How will VAT refunds operate?

One of the features of the VAT is the possibility that a taxpayer's payments of VAT on purchases (i.e., credits) may exceed the VAT collected on sales (i.e., debits) at the end of a particular accounting period. This is a common occurrence for exporters, purchasers of capital assets, and other types of taxpayers. However, international experience has shown that refunding systems provide many opportunities for fraud, which can lead to substantial losses in revenue. To address this problem, some countries have developed special programs for detecting and preventing fraudulent refund claims. These programs have attempted to provide sufficiently tight controls on fraud while avoiding hurting the competitiveness of exporters. There are two alternative methods for handling excess VAT credit balances: they may either be refunded or carried forward to the next accounting period.⁶ The Caribbean countries should opt for the carrying forward system for all taxpayers except exporters. In the case of purchase of capital goods, refunds should be paid only after the taxpayer remains in a position of credit for a certain period (for example six months).

⁵ See Silvani, in Tait, 1988 pp. 40-48

⁶ See Casanegra de Jantscher, in Tait, 1988 pp. 36.

5. Preparation for VAT Introduction

Planning for VAT introduction is a critical step. As mentioned above, some of the failures in introducing a VAT are due to weak planning. As an example, in one country where the VAT was introduced and then repealed, the responsibility for administering the VAT was switched from the Customs Department to the Inland Revenue Department a few weeks before the introduction of the VAT. A series of tasks have to be performed during the two-year preparation period. A detailed plan for this period is a must. The plan should include the tasks to be completed, their duration and the persons responsible for each task.

The main tasks to be performed in preparing for VAT introduction are:⁷

A. Establish the VAT introduction team

A multidisciplinary introduction team should be established under the Ministry of Finance to conduct the day-to-day introduction tasks. A high-level professional should head it. The team leader should ideally be drawn from the tax administration or Ministry of Finance. His/her most important attributes will be leadership qualities, easy access to the country's top authorities, proven project management experience, enthusiasm, and capacity to innovate. Each team member should have a specific responsibility in the following areas: (1) legal issues; (2) training, taxpayer education, and publicity; (3) customs control on imports and exports; (4) registration and taxpayer assistance; (5) filing and payment procedures; (6) compliance control; and (7) information technology.

B. Prepare the introduction budget and get it approved

A budget for VAT introduction should be prepared and submitted to the authorities. It should cover expenses with regular staff, consultants, travel expenses to visit other countries in the region where VAT has been implemented, office accommodation, furniture, office equipment, staff training, training aids, publicity, communication facilities and transportation. The budget should be under the control of the team leader who should have the authority to execute it without having to refer constantly to the Ministry of Finance. The budget would be, of course, subject to audit by the Auditor General.

C. Get external assistance

It is recommended that an international expert with experience in VAT introduction, be hired for a period of 18–24 months to work closely with the VAT introduction team. He/she will assist the team leader and other team members to develop and put in place the tasks under their responsibility. Short-term experts may be necessary as well to perform specific tasks as training, drafting or reviewing VAT legislation, designing the audit and the refund systems, designing the IT system, etc.

⁷ This list of tasks was based on the IMF Fiscal Affairs Department's experience in helping countries implement VAT in the last 20 years.

D. Prepare the VAT legislation

It will be necessary to draft the VAT laws and regulations and review related legislation. This will require consultation with the relevant parties in the country. It will also be necessary to consider the impact of a VAT Act on existing legislation such as the Customs Act, the Income Tax Act, and other related legislation.

As VAT will replace other taxes and duties currently applied on consumption and services, it will be necessary to repeal the relevant legislation. It will also be necessary to take the appropriate action so that the introduction of VAT coincides with the repeal of these other revenues.

E. Develop and deliver staff training and taxpayer education

Training is one of the key success factors of the new tax. It should start with the introduction team and extended to the VAT staff. Training of the VAT introduction team members should be started as soon as they are appointed. The first main task in this area is to identify the training needs and prepare a comprehensive training plan. One particular aspect of the training plan should be the training of trainers, as most of the VAT training will have to be repeated for knowledge update and for new staff. Foreign experts could be used for more specialized subjects.

Although training is not a complex task, it will be lengthy because the number of staff requiring training may be high as staff from different areas of tax and customs administrations will have to be trained.

When VAT policy and administrative aspects have been decided, the considerable task of training potential VAT payers and the education of the general public will commence.

F. Publicity programmes

Once a decision to implement VAT on a given date is taken, it is recommended that the authorities deliver public announcements to avoid distortions in public opinion. Also, a publicity campaign needs to be set up with assistance from communications experts to gain momentum as the introduction date approaches.

Although publicity is a specialized subject that requires the skills of experts specially hired to run the campaign, the VAT introduction team will also have a public relations role to make VAT information available to as wide an audience as possible. Possibilities include setting up a help telephone line, a contact address (and e-mail address) for written enquiries, as well as talks, seminars, lectures, and public meetings. Often the members of the introduction teams participate in TV and radio shows to discuss VAT and explain its main features to the public. Most countries introducing VAT set up a forum for consultation with trade associations, chambers of trade, etc.

Professional communicators hired to help the authorities should use all the communication avenues available including television, radio, newspapers, magazines, handouts, mailings, and should stress the benefits of VAT. Some traders will regard having to set up and keep proper records as an imposition; a logical counterargument to this is to emphasize the

benefits that can flow from modern accounting, such as profit identification, stock records, and the provision of other useful business statistics. The benefits to traders of improved cash flow and tax-free capital goods should also be publicized. VAT is, to a certain degree, self-enforced and will help reduce undervaluation (since undervaluing has the effect of preventing a registered trader from claiming the correct input tax credit). These positive aspects should also be used in the publicity campaign.

G. Develop and put in place registration procedures

If an adequate threshold is applied, most of the VAT taxpayers will already be registered with the tax administration. Nevertheless, they will have to come to the tax administration to report their condition as VAT payers, provide additional information, and update their information in the taxpayer register. Thus, a VAT registration service has to be set up and new registration forms and procedures will be required.

Some countries that currently do not have a good taxpayer master file could find it necessary to undertake a taxpayer survey to ensure that all VAT taxpayers are registered.

As it was noted above, another important issue is the taxpayer identification number (TIN). Before VAT implementation, a reliable TIN should be in place. The ideal solution is that all tax departments (Inland Revenue, VAT, National Insurance) use the same number. If they do not use the same number as primary TIN, at least they should keep information on the other department's TIN in their files for reference and information cross checking. The correct use of the TIN by taxpayers in invoices and sales and purchase books should be strictly enforced.

H. Develop taxpayer assistance procedures

As part of the taxpayer service activity, the VAT introduction team should prepare explanatory materials to be made available to taxpayers. Different guides are necessary to inform the public why a VAT is being introduced and how VAT will affect them in order to help taxpayers with registration, and filing their returns.

The information guide to the public should say what the VAT is, why it is better than the taxes it is replacing, which tax rates will be applied, which products will be exempted, who will pay the tax, etc. Special versions of this guide should also be produced using popular language.

The guide to registration should emphasize the objective of registration, who is subject to registration, and how and when to apply for registration. It should explain how to complete the registration forms, and describe the post-registration procedures. It should be an easy-to-understand document, which would be included in registration packs, and be available at the tax office and other public places such as banks, post offices and shopping centres.

The *guide to completing the VAT return* should be a more detailed document that includes the information taxpayers require to comply with their filing and payment obligations. It should explain the VAT legislation and operation, and include the information needed by taxpayers to enable them to answer all their general questions. It should deal in some detail with tax invoicing and bookkeeping requirements, the credit mechanism, how to maintain proper books of account, the instructions for completing the different sections of the VAT

return form, and the filing and paying of the tax due. The penalty provisions should also be covered in some detail. This guide should be developed before the registration activity commences, so that it can be immediately supplied to new registrants.

Barbados has very good examples of such guides that could be a base for preparing other countries' guides

I. Develop filing and payment procedures

Taxpayers should file their return and make their payments around the 15th of the month following the month/quarter when the relevant transactions took place.

The return and payment form (unique form) should be simple. It should contain the taxpayer name and identification number, the tax period (month/year) the amount of domestic purchases, imports, domestic sales and exports. Also, the VAT paid on imports and domestic purchases and the VAT charged on domestic sales. Consultation with Customs and trade organizations would be useful during the design of the VAT forms.

VAT should be administered as a self-assessed tax. Under a VAT self-assessment system, taxpayers take the initiative in applying for registration and charging VAT on taxable supplies. In addition, they must issue appropriate invoices, keep adequate records of their transactions, file a return at the end of the accounting period and pay all issuing liabilities promptly.

In return, the administration must act promptly against non-compliance. This implies the need for: prompt processing of returns and payments; identification of stopfilers, non-filers and delinquencies; fast follow up of any non compliance so that taxpayers are encouraged to comply; and the imposition of appropriate penalties and interest charges in case of identified default so that taxpayers are discouraged from repeat offences, and that the benefits of past offences are removed.

J. Develop Audit procedures

VAT audit differs from income tax audit in that it is usually a less complex and less extensive procedure. Usually VAT audit is issue-oriented, covering just a few tax periods. It is generally a check of selected aspects of the taxpayers' records. Information crosschecking is a powerful tool for VAT audit. The objective is to improve compliance through frequent control visits, so that evasion can be quickly identified and penalized.

The duration of a control visit will vary considerably depending on the complexity, size, and reliability of the trader. For example, audits to large traders with complex operations will require more time and resources from the tax administrations. Some fraudulent taxpayers may require two officers to visit together. Conversely some taxpayers, by reason of their position in the manufacturing or retail chain, the simplicity of their accounts, or their small size, may only need occasional short visits.

In the first few months after introduction of VAT, control visits should be educational, with the emphasis on assisting the taxpayer. Subsequent visits will place the emphasis on control and penalties for any non-compliance.

K. Prepare Procedure and Policy Manuals

All officers concerned with collecting and controlling VAT will require instruction manuals, and an early start on preparing such manuals should be made. These should cover all procedures related to VAT operations. They must be clear, concise, understandable, and kept up-to-date as procedures change. If possible, they should be available via Intranet. They should also be used to support new staff training and re-training.

L. Develop and test the IT systems

IT systems should be in place to support the tax administration in carrying out its main functions. These functions are: processing monthly VAT returns and payment forms, validation of information, selection of returns with inconsistencies for audit, controlling stopfiling and delinquent accounts, selecting taxpayers for audit, and screening of VAT refund applications as they are filed.

M. Develop the procedures for the transition from a consumption tax to a VAT

At the VAT introduction date, many traders will be holding goods in inventory that have been taxed with the existing consumption tax. A credit should be granted for consumption tax paid on goods held in inventory at introduction date, otherwise the goods would be subject to both the consumption tax and the VAT.

Usually, the consumption tax applies at import and at an early stage of the production and distribution chain, but many goods are exempt from tax. In some circumstances, the goods in inventory have been charged with consumption tax and in some they have not. A strict requirement for documentary evidence—demonstrating that goods held in inventory at the time of introduction of the VAT were charged with consumption tax—will help prevent excessive claims.

N. Timetable

An implementation timetable, based on the IMF experience with VAT introduction, is suggested in attachment 1.⁸

6. Implement the VAT

By the date set for the commencement of VAT operation, a number of tasks must be accomplished to ensure a smooth operation and to optimise VAT performance:

- a. Set up taxpayer service unit

⁸ See Holland, in Tait, 1988 pp. 17-29.

A unit for assisting taxpayers should be set up and should be in full operation in the month before the first VAT returns and payments are due. It should focus on supporting taxpayers with bookkeeping and invoicing requirements, tax return preparation and filing, and refunding procedures. Visits to taxpayers' premises should be included in the work plan of the taxpayer service unit.

b. Set up unit to monitor compliance with filing and payment requirements

From the outset, the tax administration should send a clear message to taxpayers that control compliance with filing and payment requirements will be taken seriously. The unit monitoring compliance should be established and operational by the date the first returns are filed and should react immediately to non-compliance.

c. Set up VAT audit unit

Audit units should also be set up and send their message to taxpayers. As soon as the first returns are filed, the computer system should process and check them. All of them presenting deficiencies should be reviewed and the relevant taxpayers visited. As was indicated before, during the first months of VAT operation, the audit focus should be education. After this period the focus should gradually be changed to enforcement with penalisation of taxpayers who do not comply with VAT legislation.

d. Put in place the IT system

If the administration does not have an adequate IT system in place, a new one has to be developed, tested and put in place before the VAT implementation date. VAT should not be implemented if any of the following functions are not operational: taxpayer registration, return and payment processing, accounting, stopfiling control, taxpayer current account, and selection of taxpayers for audit.

e. Deliver VAT return forms to registered taxpayers

At least one month before the VAT implementation date, VAT returns with the taxpayer's identification printed (or with identification labels attached) should be sent to the taxpayers' official addresses. This is an important measure that serves as a reminder to taxpayers and helps improve the quality of the information in the VAT returns.

7. Operate the VAT

Once the VAT is implemented, some review of return and registration forms and procedures will be necessary. Also, the strategy of enforcing compliance will have to be adjusted. During this period, the tax administration should:

a. Review VAT operations

Review the operation with a view to correcting errors in their design or implementation and to streamline the process. Taxpayer cost of compliance should be a concern at this stage. Interviews with taxpayers could help detect weaknesses in the systems.

b. Put in place the system for enforcement of filing and payment requirements

The enforcement of compliance with VAT legislation should be gradually put in place and non-compliance penalized. Taxpayers should perceive that tax administration is able to detect non-compliance and effectively penalise non-filers and delinquent taxpayers.

c. Put in place the audit program

Preventive audits should be undertaken to check compliance with registration and the general levels of compliance with bookkeeping, invoicing, and return preparation. These audits should have a character predominantly educative.

Then, the audit program should be fully implemented with different actions to improve compliance. These actions should include: checking compliance with invoicing and bookkeeping requirements; performing quick, issue-oriented verifications; performing more complete verifications; and auditing refund claims.

8. Conclusions.

In administrative terms, VAT implementation in the Caribbean countries is feasible if certain requirements are satisfied. First, a strong and explicit political commitment from the top authorities; second, the preparation of a detailed implementation plan with realistic dates for the main milestones; third, the provision of the necessary resources for implementation, which should be clearly identified in an implementation budget. For some of the Caribbean countries, international help in terms of technical support will be necessary to bring the experience of other countries in implementing VAT to the region.

These are the vital considerations in the process of planning, executing and following up on the implementation of a VAT-type tax. Following them closely will, with no doubt, ensure a smooth transition to an efficient, effective VAT.

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VAT IMPLEMENTATION TABLE

ID	Task Name	Duration	Predecessors	Y1				Y2				Y3			
				Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1			
1	VAT Development	527 days		[Gantt bar spanning Y1 Q1-Q4, Y2 Q1-Q4, and Y3 Q1]											
2															
3	Major policy issues	43 days		[Gantt bar in Y1 Q1]											
4	Government decides to implement VAT	1 day		[Task bar in Y1 Q1]											
5	Main policy and administrative aspects defined	20 days	4	[Task bar in Y1 Q1]											
6															
7	Implementation Team	90 days		[Gantt bar in Y1 Q1]											
8	Select team leader	30 days	4	[Task bar in Y1 Q1]											
9	Prepare/approve implementation budget	60 days	4	[Task bar in Y1 Q1]											
10	Establish team	30 days	9	[Task bar in Y1 Q1]											
11	Install international expert	60 days	4	[Task bar in Y1 Q1]											
12															
13	Prepare law and regulations draft	229 days		[Gantt bar in Y1 Q1-Q4]											
14	Draft the VAT law	90 days	4	[Task bar in Y1 Q1]											
15	Draft VAT regulations	89 days	4	[Task bar in Y1 Q1]											
16	Cabinet review and approval	60 days	15	[Task bar in Y1 Q2]											
17	Parliament passes law	80 days	16	[Task bar in Y1 Q3]											
18															
19	Resolve organizational issues	180 days		[Gantt bar in Y1 Q2-Q4]											
20	High-level staffing issues	60 days	10	[Task bar in Y1 Q2]											
21	Structure	30 days	20	[Task bar in Y1 Q3]											
22	Staffing	90 days	21	[Task bar in Y1 Q4]											
23															
24	Registration	421 days		[Gantt bar in Y1 Q2-Q4, Y2 Q1-Q4]											
25	Conduct taxpayer survey	60 days		[Task bar in Y1 Q1]											
26	Design Registration process	90 days	14	[Task bar in Y1 Q2]											
27	Conduct registration activity	150 days	26,50,64	[Task bar in Y1 Q3-Q4, Y2 Q1-Q2]											
28															
29	Operational Development	431 days		[Gantt bar in Y1 Q2-Q4, Y2 Q1-Q4]											
30	Taxpayer Services activities	80 days	14	[Task bar in Y1 Q2]											
31	Return process	80 days	14	[Task bar in Y1 Q2]											
32	Enforcement of arrears procedures	80 days	14	[Task bar in Y1 Q2]											
33	Audit activity	180 days	14	[Task bar in Y1 Q2-Q4]											
34	Refund processing system	80 days	14	[Task bar in Y1 Q2]											
35	Other Support Activities	180 days	14	[Task bar in Y1 Q2-Q4]											
36															
37	IT Systems	260 days		[Gantt bar in Y1 Q3-Q4, Y2 Q1-Q4]											
38	Develop Registration system	120 days		[Task bar in Y1 Q3]											
39	Develop return and payment processing	130 days		[Task bar in Y1 Q3]											
40	Developing taxpayer current account syst	130 days		[Task bar in Y1 Q3]											
41	Develop audit system	130 days		[Task bar in Y1 Q3]											
42	Develop other systems	130 days		[Task bar in Y1 Q3]											
43	Test systems	130 days	38,39,40,41,42	[Task bar in Y1 Q4]											
44															
45	Manuals	190 days		[Gantt bar in Y1 Q3-Q4, Y2 Q1-Q2]											
46	Develop Operations manual	90 days	30,31,32	[Task bar in Y1 Q3]											
47	Develop Audit manual	90 days	33	[Task bar in Y1 Q4]											
48															
49	Forms design	200 days		[Gantt bar in Y1 Q3-Q4, Y2 Q1-Q2]											
50	Registration Form	90 days	26	[Task bar in Y1 Q3]											
51	Return Form	100 days	31	[Task bar in Y1 Q3]											
52	Other Forms	100 days	50	[Task bar in Y1 Q4]											
53															
54	Engage staff	150 days		[Gantt bar in Y1 Q3-Q4, Y2 Q1-Q2]											
55	Phase 1	60 days		[Task bar in Y1 Q3]											
56	Phase 2	60 days		[Task bar in Y1 Q4]											
57															
58	Staff Training	120 days		[Gantt bar in Y1 Q3-Q4, Y2 Q1-Q2]											
59	Registration and Advisory	67 days	26,46,55	[Task bar in Y1 Q3]											
60	Operations/processing	90 days	46,30,31,55	[Task bar in Y1 Q4]											
61	Audit	90 days	33,47,55	[Task bar in Y1 Q4]											
62															
63	Publicity and Education	270 days		[Gantt bar in Y1 Q3-Q4, Y2 Q1-Q4]											
64	General publicity	90 days	14,26	[Task bar in Y1 Q3]											
65	Taxpayer education and advisory	270 days	30,31,32	[Task bar in Y1 Q3-Q4, Y2 Q1-Q4]											
66															
67	VAT introduction	45 days		[Gantt bar in Y2 Q1]											
68	Issue first returns	45 days	43FS-40 days	[Task bar in Y2 Q1]											
69	Receive first returns and VAT revenue	0 days	68,43	[Task bar in Y2 Q1]											