

**CARIBBEAN ORGANISATION OF TAX ADMINISTRATORS 18TH
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***TOPIC: 'LINKAGES FOR IMPROVING PERFORMANCE OF
TAX ADMINISTRATION'***

1. INTRODUCTION

While it is true that governments are always faced with the task of generating sufficient tax revenues to balance their budgets it is becoming more difficult for them to constantly generate more taxes or impose new taxes. This is especially the case where there is not sufficient growth in the economy to generate increased tax revenues. What is always possible however, is to improve the performance of the tax administration and thereby increase revenues by improving the efficiency and effectiveness of the tax administration. As a result, a great deal of the tax reforms that are being carried out today are geared towards finding ways of improving tax administration especially by identifying linkages with other governmental agencies working in related areas which invariably are also imposing compliance costs similar to the ones imposed by the tax administration on taxpayers. The latter is even more important where the administration of the taxes are carried out in structures and processes which cause duplication of effort on the part of both the taxpayer and tax administration and in many cases do not allow the exchange of vital information because of restrictions imposed by the legislation.

In addition, we need to bear in mind that as it is always the objective to improve voluntary compliance with tax systems, it is important to encourage linkages with persons such as tax practitioners, Chambers of Commerce, Customs Brokers, Private Sector Groups, Trade Unions and other organizations which will have a vested interest in the workings of the tax system. Many of these groups are continuously trying to find ways of minimizing their and so may not always be natural allies of the tax administration. However, by working closely with them it is possible to find out what their needs are and organize the administration accordingly, thereby ensuring that they become more satisfied customers, reducing the cost of compliance and improving the level of tax compliance.

2. BENEFITS THAT HAVE BEEN REALIZED THROUGH COMPUTERIZATION

One of the objectives of most modernization programmes is the elimination of duplication of effort by the sharing of information between different agencies. Initially this objective was achieved with agencies such as the tax administration where information such as customs import entries were made available to the Value Added Tax (VAT) and Income Tax agencies using online and real time systems. Such formal links may require the amendment of certain legislation as in some cases confidentiality provisions may not permit such arrangements. In the case of Jamaica, we have overcome this problem of integration by organizing the tax administration according to functions and therefore the next step is to deal with the other government agencies which can benefit from such arrangements.

Having carried out the modernization of the Tax Administration in Jamaica we discovered that some of the benefits which could be realized were not forthcoming because certain agencies which were of importance to the tax enforcement effort were not linked to the tax system. An example of this was the Tax Compliance Certification (TCC) system which requires taxpayers who import goods or who do certain transaction with government to be tax compliant with respect to all taxes and the other statutory deductions. When we computerized the tax administration, it became fairly easy for taxpayers to be processed with respect to the taxes we administered as these were on one integrated system. However, with respect to the other statutory deductions, National Insurance (NI), National Housing Trust (NHT) and HEART contributions, taxpayers were still required to visit those agencies to request their clearance. It then occurred to us that if these systems were computerized and our Tax Compliance module was able to speak to these systems and find out if the taxpayer was compliant, it would mean that such a taxpayer would be able to request a TCC by electronic means and would not have to actually visit four (4) different government agencies.

I need not tell you that the taxpayers are all in favour of such an arrangement and therefore all efforts are being made to implement such a system. Incidentally, one of the requirements of such a system is the use of a unique identification number and since we already had successfully utilized the Taxpayer Registration Number (TRN) within tax administration, it was agreed that this number would be used by all the other agencies.

This type of arrangement is not limited to just these agencies as in the case of Customs which carries out a number of agency functions for the Ministries of Health and Agriculture, the Trade Board and the Bureau of Standards, it is also important that for the electronic Import Entry system to work efficiently, the

ideal situation would be for such permits as are necessary to process an entry to be transmitted electronically rather than manually as is the case now. As part of the Jamaican Government's E-government project, these other agencies are to be computerized so that the link can be made and the entire system can be fully on line.

These are but two examples of how the computerization of government agencies has been able to strengthen the linkages within the tax administration and improve its performance in the area of service delivery to our customers.

3. UTILIZATION OF CUSTOMS INFORMATION IN TAX ADMINISTRATION

It has been argued that information is a key element in ensuring an efficient and effective tax administration. As a consequence, the more information that the tax administration has at its disposal, the more likely that taxpayers will assess the risk of detection and where it is found to be high will opt to comply with the tax laws. A good example of this is in the case of the licensing and registration of motor vehicles in Jamaica, which is carried out at the Inland Revenue Department's Tax Collectorates. The process involves the taxpayer presenting the ownership documents, which in the case of new motor vehicles would include the Import Entry Documents and the purchase invoice for the vehicle. Prior to the computerization of the tax system, unscrupulous persons would present bogus documents to the IRD offices and because it was not easy to manually check the custom records to confirm the authenticity of the entry, in many cases stolen vehicles would be licensed and brought into the system. Now that there is an online real time link to the Customs database, it is possible for the officers at IRD to put the information on the entry into the Customs database and confirm whether the documents are in order. Where there are discrepancies, the matter has to be fully investigated and if found to be fraudulent, action can be taken immediately.

As a result of this link between the IRD and Customs, a number of stolen vehicles have been identified and seizures have taken place. I am unable to tell you that all the problems with stolen vehicles have been solved but it is a fact that the numbers have been reduced as it is now extremely difficult for them to beat the system.

A further enhancement that has been realized as a result of this integrated computerized system has to do with the link between the Customs Department and the Taxpayer Audit and Assessment Department (TAAD). This department is responsible for the audit and assessment of taxpayers for income tax, General Consumption Tax (GCT) and Stamp Duty and Transfer Tax. Jamaica, like many Caribbean countries, imports a great deal of goods for both raw materials and

finished goods purposes. These purchases form an important input for both the filing of income tax returns (financial statements) and GCT returns as taxpayers claim input tax credit for the tax paid at Customs on the goods. Now that the TAAD officers have the ability to access the customs system, it is possible for them to verify these foreign purchases and input tax credits even before they start to do their audit. Furthermore, since the taxpayers are aware that we have the ability to ascertain this information, they are more likely to include the correct figures on their returns. The end result is that the level of voluntary compliance is increased and surely this is what we had set out to do.

The Customs import information is also of use in the identification of persons who should be on the GCT and Income Tax register and as a base for making estimated assessments on importers of goods who refuse to file tax returns or who understate their sales.

4. THE ALTERNATIVE TO FILING RETURNS AND PAYING TAXES AT TAX COLLECTORATES

In Jamaica despite the fact that we have taken steps to improve the tax collection system and to seek to make it easier for taxpayers to file returns and pay taxes, there still remains a fair amount of taxpayers who are dissatisfied with the current system. They argue that they find it difficult to pay their taxes at the Collectorates especially at the end of the month, which is when most persons come to make payment. Some efforts have been made to encourage persons to pay during the off peak periods but this is clearly not going to solve the problem.

In view of the above, we have embarked on a programme to make it possible for taxpayers to file their returns and pay their taxes electronically. In addition, some amount of negotiation is now taking place to see if it is also possible for taxpayers to pay certain taxes at alternate payment centres, i.e., other than at Collectorates. I must point out that the benefits that would accrue to the system are not just limited to the ease and convenience that consumers would experience but the fact that less persons would be in the tax offices at peak periods would mean that the service levels would be improved for existing customers. Furthermore, it would free up resources within Collectorates which could be used to carry out enforcement efforts, thereby helping to improve compliance and the performance of the tax administration.

We have analyzed carefully the transactions that take place at tax offices and what we have discovered is that there are a number of transactions which account for large numbers of transactions but really do not generate a great deal of tax revenues. Appendix I provides details of some of these transactions.

To date, we have had some success in this area in terms of the electronic filing and payment of customs duties but it has not been possible to do the same for the other taxes. However, it is something that is being worked on and will definitely be implemented in the near future.

With regards to the Alternate Payment System, this has also not been implemented, as there are some obstacles to overcome. One important change would be the legislation dealing with the collection of taxes, which under the current law can only be done by a Collector of Taxes. Then there is also the question of who is to pay for the service in the case of the Alternate Payment System. Most persons are of the view that the taxpayer should not have to pay anything other than the tax and at any rate the charge is really minimal and is usually a flat rate. My own position is that the benefit to the Tax Authorities will far exceed the cost if they have to pay, not to mention the goodwill that will follow from being able to say, 'it is now easy and convenient to pay tax'. On the other hand, if I was a taxpayer who had to stand in a long line at a tax office to pay tax, I would certainly weigh this cost compared to the value of my time and when that is done, the choice would be overwhelming on the side of paying the fee.

5. THE CREATION AND DEVELOPMENT OF THE INTERNET

Among the most recent technological instruments that have made it possible for the tax administration to interface with the taxpayer in a manner unheard of in the past has been the Internet. Today, the possibilities are such that the tax administration has had to restructure the way services are rendered to taxpayers to take advantage of the benefits and cost savings, which can materialize. At the same time, some citizens have certain concerns as they prefer to limit their relations with the tax administration to a minimum and will tend to accept the contact if it is sufficient to enable them to comply with the tax laws with greater ease as is the case where taxpayers are claiming tax refunds, etc.

The creation of the internet has certainly changed a great deal of business processes and while some are positive for tax administration, this is not always the case.

Some persons have argued that the Internet has eliminated national borders for carrying out business and also the identity of the companies and individuals carrying them out. On the other hand, the Internet has opened new paths for tax authorities to administer tax systems to collect taxes and new possibilities of communication with the world. Among the benefits are:-

- ☞ Increased possibilities to supply taxpayers with information and assistance.
- ☞ Simplification of registration and the submission of tax returns

- ☞ Electronic filing and payment of taxes
- ☞ Faster and more secure payment of taxes
- ☞ More efficient communication with other government agencies
- ☞ Taxpayers can communicate with agencies independent of office hours and locations.

As a result, in many countries, governments have set the objectives of supplying all information and services to citizens through the Internet using one common database and so the notion of E-government is becoming a reality.

I wish to point out however, that despite the best will in the world, it is a fact that access to computers is not widespread in less developed countries because of financial constraints with respect to both hardware and software. As a consequence, Governments will have to take the lead and provide Internet access in government agencies such as post offices and other such locations. In addition, it may also be necessary to provide incentives for private persons to set up Internet cafes.

Incidentally, the surveys that have been undertaken show that there is a strict correlation between 'per capita income' of countries and the percentage of the population connected to the Internet. This is demonstrated in the International Telecommunication Union ITU Report, Telecommunications Indicators 2000 dealing with the Countries of the Americas. (See Appendix II)

6. EXAMPLES OF PERSONALIZED SERVICES TO TAXPAYERS

One of the best examples of a Tax Administration providing personal services to the taxpayer via the Internet is that provided by the Spanish State Agency of Tax Administration. This system allows the taxpayer to access the system to check for data related to their personal circumstances such as:

- (a) Emoluments earned/Tax Deducted - Submitted by Employers
- (b) Interest earned/Tax Deducted - Submitted by Financial Institutions
- (c) Dividends earned/Tax Deducted - Submitted by Companies
- (d) Other information - Submitted by third parties.
- (e) Real Estate Transactions – Submitted by the Land Registry.

Taxpayers are also able to determine the status of their tax liabilities in order to regularize their status and so be in a position to file a more accurate return rather than to be filing incorrect returns which omit income and which have to be regularized by the tax administration at a later date.

In order for the taxpayer to interface with the Tax Administration on line through the Internet they have to be able to identify the person carrying out the transaction to avoid breaking confidentiality provisions. In addition, they had to guarantee the integrity of the transactions and that persons were only able to access their personal information.

The first problem was overcome by the introduction of the electronic signature where it is necessary to electronically identify the user. In some cases it was also necessary to have private keys to work with the electronic signatures.

This database currently contains over twelve thousand (12,000) questions with their corresponding answers and is offered to all taxpayers who have access to the Internet. It is also subject to a weekly update in order to collect the new questions and their answers.

The Spanish authorities have found that the system encourages higher levels of voluntary compliance, reduces the volume of paper in the offices and is less expensive than the old system.

7. ADVERSE EFFECT OF GLOBALIZATION ON TAX ADMINISTRATION

Recently we carried out a tax policy study in Jamaica on the Corporate Income Tax and the result showed that the percentage of corporate tax as a percentage of total tax revenues was decreasing compared to previous years. We were concerned about the findings but were advised by the consultants that this was a worldwide trend that they had noticed and was due to a great extent to the fact that more and more companies are engaged internationally. They are now less likely to have any strong historical association with a particular country and will now more likely select their home based on the tax regime, the availability of a competent workforce and the quality of the infrastructure. Some persons refer to it as 'Corporate Globalization'.

Furthermore, many companies are now concentrating more on their core functions and are outsourcing different functions to a chain of suppliers in other countries. These companies production systems will become more integrated and they will need to have access to each others computer systems. Needless to say, these transactions will become much more complicated and difficult to understand than previously. The allocation of profits to the different units will become more difficult and in all likelihood the total tax payable will be reduced substantially as this is usually one of the objectives of these organizations.

In many cases a great deal of their assets will be in the form of patent rights and know how, thereby making themselves less accessible to audit and investigations and immune to tax collection measures.

It is also possible that criminal organizations will make use of globalization to launder profits from illegal activities in the international financial system and re-invest the funds in legal businesses.

In order to combat this threat to tax administrations worldwide, more countries will have to rely on international initiatives in the form of conventions and agreements. In particular, Double Taxation Agreements must now have Exchange of Information provisions which can assist the authorities in carrying out successful globalization action to protect tax revenues and in general to improve the efficiency and effectiveness of the tax administration in combating tax evasion.

Later in this week we will have a workshop on this very important topic of Double Taxation Agreements and I am sure that we are all looking forward to what is to be said.

8. LINKAGES FOR ASSESSING THE PERFORMANCE OF TAX ADMINISTRATION

All organizations whether private or public need to assess their performance and this is usually carried out by comparing performance to standards, plans and customer/employee's expectations. In some cases performance data can also be compared with other similar private or public organizations both within one's country and other countries at different levels of efficiency and effectiveness. Many organizations which once kept this type of information private are now sharing it with groups such as Employer's Organizations and other Trade Associations. As a result, a great deal of benchmarking and adoption of best practices is taking place, as customers are aware of what is happening and expect similar levels of service. Today, whether you live in the third world or the first world, taxpayers expect to access services on-line and are forever raising the bar in terms of services offered.

Among the Performance Excellence Criteria that are now in use in some countries is the 'Malcolm Baldrige Criteria' which is popular in the United States of America. This Criteria was created in 1988 to promote the concept of total quality management. The Criteria consists of certain core values such as:

- ☛ **Visionary leadership** – senior leader's capacity for setting key directions for the organization by action and example.
- ☛ **Customer Driven** – organization's focus on its customers and the ability to ensure operations meet customer needs.

- ☞ **Organizational and Personal Learning** – ability of the organization to acquire, share and use knowledge to improve.
- ☞ **Valuing Employees and Partners** – commitment to employees and partners in order to optimize opportunities for success in their work environment.
- ☞ **Agility** – ensuring flexibility and the capacity to act quickly.
- ☞ **Focus on the Future** – operating strategically and possessing a long-range orientation
- ☞ **Managing for Innovation** – capacity to develop creative and effective products and solutions.
- ☞ **Managing by Fact** – reliance on data and analysis in support of decision-making.
- ☞ **Public Responsibility and Citizenship** – proactive and responsive commitment to the needs and concerns of the community and larger public.
- ☞ **Focus on Results and Creating Value** – orientation to managing toward key outcomes for mission accomplishment and meeting customer needs.
- ☞ **Systems Perspective** – ability of the organization to view operations holistically, understand how its parts interact and the ability to align activities effectively.

Tax Administration in various countries will have different methods of assessing performance but what is clear is that sustainable improvements within the administration will be dependent on:

- a. Integrated and coordinated policy making to ensure that all units work together towards the same goals
- b. Collaboration between various segments of the society.

9. HARMONIZATION OF TAX SYSTEMS WITHIN REGIONS

Although it is not easy to achieve, the harmonization of tax systems is one aspect of tax policy which seeks to reduce the areas of friction or uncertainties thereby benefiting increased trade and business. Harmonization should not be seen as giving up autonomy or abandoning sovereignty but as a means of sharing sovereignty and cooperating with the other partners in the group.

One of the benefits that will flow from harmonization is that there will be clear and identifiable rules for all the partners and this should make the region more attractive to foreign investors and reduce the level of tax competition.

The experience of the European Union in this respect is a good example of how harmonization can be achieved and what it tells you is that it is not a short term project but something which requires a commitment and is only achievable in the long term. Initially, it may not be possible to have all the partners coming along, and therefore, those that are ready may have to take the lead and the others will catch up eventually.

In the case of CARICOM, the tax harmonization process has not been moving quickly but it is my opinion that with the coming of the Caribbean Single Market and Economy (CSME) and the Free Trade Area of the Americas (FTAA) which will reduce the reliance on Import duties, the process is likely to quicken. I am saying this because with the reduction in Customs import duties which will become a reality, countries will have to rely more on internal domestic taxes for tax revenues.

10. CONCLUSION

The Tax Administration must ensure that their obligations to inform, educate and assist the taxpayer is effectively fulfilled by constantly updating the quality and timeliness of data. Ideally, this information should be provided in a manner which is convenient and at the least cost to the taxpayer. Technological development provides the possibility for the handling of large volumes of information with highly efficient tools at reasonable costs. Furthermore the use of the Internet has revolutionized the possibilities for the use of such information and facilitates the exchange of databases with information relevant to the work of the tax administration.

At the same time there are certain challenges posed by the links to the Internet for tax administrations throughout the world which require a global response along with strict exchange of information provisions which can be enforced.

In concluding, I must remind you that paying taxes has never been a pleasant experience for many persons especially in some of our countries where there is not a strong taxpaying culture. This is further compounded where they are of the opinion that tax revenues are not used wisely or there is corruption within the system. As a result, the tax administration must continue to provide the easiest and most efficient ways for taxpayers to get the information and assistance they need at all times through tools such as Toll free telephone assistance and web sites which are user friendly. In addition, we must collaborate with other organization and develop partnerships both within and outside of government, e.g., industry, practitioners, community groups, to provide customers with education and services utilizing integrated data which will increase the public's sense of responsibility toward this business of taxation.

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Appendix I

CASH REMITTANCE SYSTEM TRANSACTIONS FOR SELECTED TAX TYPES (THIRDPARTY COLLECTION) FOR ALL COLLECTORATES

Tax Type Code	Tax Type Description	FY 2003-4 Transactions	FY 2003-4 Collections
101	Property Tax	600,459	1,501,204,293
127	Traffic Ticket Collections	92,403	224,059,750
131	Asset Tax	7,780	73,641,557
152	MV. Cert. Fitness Fee - Trucks	55,865	111,618,250
154	PPV L Form	5,351	5,353,500
155	M/VEH. Cert. of Fitness Fee - MV D	475	950,000
165	M.V. Certificate of Fitness Fee	224,559	345,538,181
166	M.V. Drivers Licence Exam Fee	53,927	53,688,000
212	Coin Operated Machines	829	32,885,000
256	Fees Petrol Filling Station	17	41,090
258	Fees Employment Agencies	21	201
259	Fees Travel Agencies	28	65,668
Total (Selected Tax Types)		1,041,714	\$2,349,045,490

Total (All Tax Types)	2,657,971	\$108,685,886,226
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Select as % of Total	39%	2%
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Appendix II

TELECOMMUNICATIONS INDICATORS 2000 FOR COUNTRIES OF THE AMERICAS

Region	Popula- tion Million 1999	GDP Per Capita 1998	Fixed telephone lines %		Mobile Cellular %		Internet User %	
			Thousands 1999	Inhabitants 1999	Thousands 1999	Inhabitants 1999	Thousands 1999	Inhabitants 1999
Central	132.84	3,631	13,716.0	10.34	8,891.4	6.69	2,803	2.1
North	306.77	30,975	199,081.9	65.84	90,351.0	29.48	121,025	40.2
South	340.75	4,425	49,014.1	14.39	27,624.5	8.12	7,244	2.2
Caribbean	37.74	2,683	4,187.3	11.34	1,217.4	3.3	348	0.9
America	818.11	14,228	265,999.3	32.74	128,084.2	15.09	131,240	16.4

The countries of the Americas are grouped into four regions: Central America (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama); North America (Bermuda, Canada and the United States of America), South America (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, French Guiana, Guyana, Paraguay, Peru, Surinam, Uruguay and Venezuela) and the Caribbean (Antigua & Barbuda, Aruba, Bahamas, Barbados, Cuba, Dominica, Dominican Republic, Grenada, Guadeloupe, Haiti, Jamaica, Martinique, Netherlands Antilles, Puerto Rico, Kitts and Nevis, St. Lucia, St. Vincent, Trinidad & Tobago and U.S. Virgin Islands).