

**LINKING REGIONAL REFORMS IN TAX POLICY  
ADMINISTRATION WITH THE HUMAN SIDE OF TAXATION / BY  
COMPTROLLER, INLAND REVENUE DEPARTMENT, ST.  
VINCENT AND THE GRENADINES, PRESENTED TO THE  
CONFERENCE BY THE COMMISSIONER OF INCOME TAX,  
BELIZE**

The primary objective of tax administrators is the efficient assessment, collection and enforcement of taxes legally due, without undue costs to the government or the tax payer in terms of money, time and convenience.

This statement of objective however speaks from the head only. It does not speak from the heart, nor is it action oriented. To blend these objectives with the dictates of human emotions and to give direction and purpose to our operations, in other words, to give “life” and “feeling” to these broad objectives the following four (4) sub objectives have been identified:

1. To facilitate and encourage voluntary compliance with the requirements of the law;
2. To deter tax evasion and tax avoidance;
3. To maintain public confidence in the integrity of the tax system; and
4. To administer the tax legislation fairly, uniformly and impartially, as well as with diligence, firmness, courtesy and efficiency.

The key concept of these sub-objectives is that tax administrations should fundamentally be about people. While tax administrations may in the short and long term concern ourselves with the application of current laws to current income and about creating a climate of public trust in the system, we must become cognizant of the fact that voluntary adherence to the law by tax payers

are the cornerstone of any tax system. We must therefore be prepared to do everything within reason to facilitate and encourage the highest possible degree of voluntary compliance, for this is by far the most economical means of collecting taxes. It therefore follows that our every activity must be aimed at creating in the minds of taxpayers a favourable attitude towards voluntary compliance and confidence in the fairness of the tax official, are at least as important as activities aimed at increasing the efficiency of tax correcting errors made by taxpayers.

We must not merely demand of the tax payer that he comply with tax legislation, we also have a responsibility to give him all reasonable information to enable him to do so. This is quite succinctly summed up in the St. Vincent and the Grenadines Inland Revenue Department customer's service motto "*Make your taxes less taxing. Ask how, comply now.*"

Like most tax administrations worldwide the regional tax administration functions in an increasingly dynamic economic and financial environment, brought about primarily by the effects of globalization and a much more educated and informed taxpayer. These two (2) factors have resulted in increased demands from the public; while at the same time reduce the revenue yield from most tax types. Some of the economic factors identified are:

1. The emergence of trading blocks (free trade areas) which have resulted in a reduction in border taxes;
2. Exemption from taxation income earned from the investment of mobile capital e.g.
  - Dividends
  - After tax profits
  - Capital gains
  - Bonds and other government securities.

3. High revenue leakages from the granting of tax concessions/holidays
  - Hotels exemption
  - Agricultural income
  - Manufacturing companies – reduce CIT rate
  - Duty Free imports of goods for manufacturing.
4. Low tax yields
5. High levels of tax avoidance/evasion.

These factors have all resulted in policy makers and tax administrators in the region having to make strategic adjustments to their methods of operation and to implement the necessary reform measures aimed at improving the administrative and operational efficiency of their respective tax departments.

One of the more salient characteristics of the regions tax administrations is that they are weak and inefficient since tax administrations have been very costly for goods in terms of revenue losses and to the business community in terms of high compliance cost. The public perception of a tax department's integrity, efficiency and effectiveness directly affects the citizens' willingness to voluntarily comply with a country's tax laws.

No matter how well designed our tax policies are they cannot be implemented by a tax administration that is not well organized. There continues to be a huge gap between policy formulation and their actual implementation due to insufficient consultation among those who formulate policy and the tax administrators who implement these policies.

Since good tax policy cannot exist without good tax administration, the reform of tax departments has attracted much attention. It is now widely recognized that effective tax administration must be a central, not peripheral issue for economic development. It must be modernized in order not to impede economic growth in the region.

The purpose of this paper is therefore to provide an awareness that as tax administrations in the region attempts to engage in what appears to be a succession of reform initiatives, we must become cognizant of the fact that whatever the nature of these reform they must be inherently centered and focus on the “effect” these changes we are having on the constituents of our respective tax jurisdictions.

It is obvious that as budgetary constraints continue to impact on regional governments, the pressure on tax administrations to produce more, with less resource will continue to increase. As a consequence the department physical setting, tax processing systems, organizational structures, employee development approach and tax payer \*\* all need re-examining and upgrading. It is important to recognize at this point that a majority of past attempts at reform have failed because of a failure to integrate cultural changes and other human resource issues in the reform process.

- **The Human Side (The Tax Official & the Bureaucracy)**

Any attempt geared towards achieving organizational change that does not incorporate workforce development programs for employees at all levels will inevitably fail. But can tax department implement human resource management and practices that are different from those of the wide civil service? Can tax departments fulfill their statutory and administrative obligations geared towards improving the quality of service offered to both the internal and external customers?

This writer poses the view that in order for tax administrations to be able to effectively hire, train and retain competent and professional staff and rid

themselves of incompetent and dishonest employees, it would be necessary to provide tax administrations with a flexible structure.

Experience has shown that to reform tax departments within their existing general public service setting is time consuming, costly and uncertain. The existing public service structure does not lend itself to the employment and budgetary flexibility that would effectively attract and manage the level of professional staff that is necessary.

A quick efficient method of creating new and improved tax administrations are therefore to separate the tax departments from the general civil service and in so doing create autonomous revenue authorities.

- **The Human Side (Making Compliance Easier )**

Tax administrations have a responsibility in ensuring that the administration of the tax system is done in such a way that eases the community cost in meeting tax obligations. To do this effectively we must ensure that....

We provide better access to tax payers and tax practitioners on a wide range of information.

Constantly evaluate and update our products and services against the need of the tax paying public.

Identifying those things that cause irritation to the tax payer when dealing with us, and fixing them where possible.

Developing programs to assist the taxpayer with good record keeping.

Setting and meeting standards for service delivery.

Improve the physical infrastructure and technology to provide better quality service.

Reduce the cost of transacting business with the department.

Involve the taxpayers and tax practitioners in greater levels of consultation into the process of policy formulation and implementation.

It is critical that as tax administrators we ensure that we do more than lip service to the concept of “easier and cheaper services.” These two concepts must translate into action by a deliberate effort on our part to reduce the workload, time, effort and access needed by the tax payers to meet his obligations.

“Easier and cheaper” must translate into improved services and products. It must translate into simple matters such as answering our phones more quickly and resolving more issues on the first call. It will mean notices and letters that are easier to understand and more relevant and meaningful to the tax payer.

Making compliance easier and cheaper must also be extended to the tax accountants and auditors, by recognizing the important role that they play in assisting us in the administration of the tax laws. It is critical that we establish a climate of openness and trustworthiness when dealing with these professionals. This would undoubtedly help us to better achieve our objective to assist taxpayers in understanding and meeting their tax responsibilities.

- **The Human Side (“Tax Responsibly”)**

***Don't kill the goose that lay the golden egg.***

It is no coincidence that tax collectors were grouped with sinners in the bible, since the urge to literally ‘squeeze water out of stone’ seems to be inherent in some of the collection policies and procedures that are practiced regionally. It is also from this area of our operations that tax administrations have developed ill-will and perceived as being greedy, heartless, uncaring and inhumane tax officials. Perhaps, this may be one of the major reasons why although there has been considerable reform in tax policies in recent years dissatisfaction with the tax system has been increasing rather than decreasing.

Any attempt at reform must go beyond changing the laws, physical and technological infrastructure.

To change the public's perception that tax officials are uncaring and heartless we must adopt strategies aimed at repositioning the tax system official in a positive light. We must therefore aim to:

1. Contact tax payers in a proactive manner so as to prevent the accumulation of penalty and interest charges.
2. Work with the tax payers in reducing his tax liability.  
A tax collector has to be a financial counselor and planner to the tax payer.
3. Show empathy with the taxpayer's situation.  
Tax officials must try and understand the difficulties the tax payer may experience in obtaining amounts to pay his taxes.

4. Educate the taxpayer about areas in which he can reduce his tax liability. Tax officials must not only be seen as wanting to take from the taxpayer, but as someone who is concerned that the taxpayer is aware of his rights and pays only his fair share of taxes. If a taxpayer makes an error which increases his tax liability this should be brought to his attention.

5. Ensure that all taxpayers pay their fair share of taxes.

Very often tax departments target those who are within the tax net, in other words taxpayers are penalized for being compliant.

It is this writer's opinion that most of our citizens are law abiding and are willing to comply with the tax laws, if they are given the necessary help to understand these laws and regulations and are treated fairly. A taxpayer who fails to pay his correct taxes or meet his tax obligations is not necessarily a bad tax payer.

As tax officials we have a responsibility to first ensure that errors made were not due to honest mistakes, misunderstanding of the law or plain carelessness.

Whenever a discrepancy or error is identified, one must take into consideration the taxpayer's relevant individual circumstances when deciding what action to take. These considerations should include the reasons for the discrepancy and how well the taxpayer has complied in the past.

Honest mistakes and errors should be corrected and the taxpayer be advised so as to avoid making the same mistake. The tax official should not rush to impose penalties and interest as this could alienate the taxpayer. It must be re-emphasized at this point instead of here that non-compliance may be due to the attitude of tax officials, rather than the taxpayer's unwillingness to comply.

- **The Human Side (The Way Forward)**

For tax administrations to be successful, they must act as facilitators and also enable the process of achieving maximum compliance with the least possible compliance cost to the taxpayer. A focus on, and recognition of the needs of the taxpayers are necessary prerequisites of a modern efficient tax administration.

The human side of taxation must be translated into action. It must be reflected in our policies and procedures. The taxpayer must be able to see that tax administrations are managed by officials who are humane, sensitive and caring. In other words, tax administrators must have a heart.

Tax administrations must recognise that the “carrot” is a much more powerful and effective motivational tool, than the “stick”. This point is further augmented by the fact that the tax net is now comprised of taxpayers who are much more informed and educated as to their rights. This means that tax administration may not deliberately or otherwise, impose policies and procedures that are not consistent with the tax legislation or are perceived to be unfair to the taxpayer.

The “Human side” must translate into tax administration becoming more aware of the effects of tax policies on the wider society. Issues relating to compliance must be given priority since to be perceived as “fair”, tax administrations must ensure that all persons liable to tax are indeed paying their fair share. To do otherwise would result in a disproportionately large share of the tax burden being borne by those who pay.

The human side of taxation must also be seen in the “tax mix” that is used and the nature and quantity of exemptions. To have too many exemptions and nuisance taxes can result in the taxpayers having to incur significant administrative cost in order to comply.

The involvement of the public in the formulation of policies and their implementation via department policies and procedures will provide an opportunity to bridge the non-compliance gap since people tend to comply with measures with which they have had some input.

Tax administrators, friends, we have all come a long way towards achieving this much desired linkage between tax reform and the human element - our taxpayers.

Regional tax administrators have over the last seven (7) years embarked on and implemented various reform initiatives geared towards ensuring that while we fulfill our fiscal responsibility, our valued customers are satisfied.

Some of these initiatives that have been implemented are:

- Establishment of Customer Service Units
- Public Awareness and Outreach Programmes
- Community consultations
- Simplification of forms and Procedures
- Introduction of computerized systems
- Educational and Media Programmes
- Online services
- Taxpayer Assistance Services
- Revision of Tax Laws & Policies
- Staff Training & Development
- Improved office facilities

We have come quite a long way. But as one Trinidad calypsonian David Rudder aptly puts it “***the journey now starts.***” There is still a long way to go and a lot more to do. The challenge is ours to ensure that this process is maintained and sustained.

Thank you!