

MINISTRY PAPER NO. 15  
TAX ADMINISTRATION REFORM PROJECT

Members of this Honourable House are aware that substantial progress has been made over the past decade in effecting reform in the taxation system to make it simple equitable and effective, and to provide stimulus to economic growth.

Tax Administration, however, continues to function under a number of constraints and it was in recognition of the need for further action, if the progress previously made was not to be nullified, that Government in July 1994 signed an agreement for a loan of US\$13.2m to co-finance another phase in this comprehensive tax reform programme, the Tax Administration Reform Project, and which has as its primary focus, strengthening the efficiency and effectiveness of the administration in revenue mobilisation.

Under the project, a multi-dimensional strategy is being pursued to deal with the interrelated problems which have been identified as affecting tax administration and which available evidence confirms, serve to reinforce each other negatively. These problems are -

1. The narrowness of the tax base due to:
  - a) a significant portion of the revenues not being collected
  - b) inability of the tax system to register all eligible taxpayers
  - c) continued existence of a large number of exemptions, deductions and concessions granted by the tax laws
2. Deficiencies, particularly in the areas of assessment and collection, consequent on the organisation of the administration based on "tax type" which results in -
  - a) duplication of effort and inefficient use of scarce human resources
  - b) fragmentation of enforcement efforts and the inability to detect tax evasion
3. Low voluntary compliance

Activities under the Project are intended to correct the problems identified above and in consequence increase revenue without there being a need to increase taxes by :

- a) broadening the tax base
- b) improving the efficiency and effectiveness of the tax administration
- c) encouraging improvement in voluntary compliance

## **PROJECT DESCRIPTION**

Work under the Project which will be completed in December 2000 commenced in January 1995, when the World Bank Loan became effective. The project finances the cost of consultancy services, training and equipment, under the five components as follows:

### **1. Broaden the Tax Base**

Activities under this component are geared to increasing the number of taxpayer through the registration process as well as by strengthening the legally defined tax base through the reductions of available loopholes.

### **2. Strengthen the Organisation and Management of the Tax Administration**

Restructuring of the tax administration along functional lines to exploit potential synergies will be implemented. To complement the restructuring attention will be directed to improving the management of the human resources in the administration. Improvement of incentives, modernisation of functions including computerisation better working conditions enhanced training and career opportunities are expected to make employment in the tax administration more attractive.

Suitable changes in management systems and practices will also be made to ensure administrative efficiency. Reform issues under this component are being addressed in three stages.

In the **First Stage** a **Master Plan** was developed which provides a comprehensive blueprint of activities which must be undertaken to achieve the objective of the project. The Master Plan defines the new mission organisation and high level functions of the new department and associate units. It also provides an assessment of the management systems, human resources, training and equipment needs of the administration.

During the **Second Stage** a detailed **Transition Plan** to give

effect to the **Master Plan** was prepared. It *inter alia* defines new functions and career paths recommends, evaluates existing skills, proposes the design of a management information strategy for organisational changes.

Implementation activities constitute the **Third Stage**. These relate to both the **Master** and **Transition Plans** and the development of an Integrated Computerised Tax Administration system to facilitate the collection process.

### 3. **Control Tax Evasion**

It is known that revenue collection decreases when taxpayers perceive that the risks attached to and the cost of non-compliance are low. The restructuring of the administration is intended to result in a strengthening of auditing and assessment capabilities and so be able to combat tax fraud more effectively. There will also be a review of the legal framework to support the move from desk bound audits to high visibility field activity and vigorous enforcement of tax statutes.

#### **Improve Tax Collection**

The current tax collection system has several drawbacks. In order to ensure collection not only of current liabilities but provide for more efficient recovery of outstanding taxes, the functions of the Inland Revenue Department will be redefined and improvement effected to the collection system itself.

#### **Facilitate Voluntary Compliance**

While more effective enforcement is expected to result in an increased level of compliance, the intent is not to rely solely on deterrence to achieve and sustain a high level of compliance. Other complementary steps will be taken and include:

- a) modification of tax laws to simplify procedural requirements
- b) updating collection, assessment, refund, tax clearance procedures



- c) the establishment of taxpayer assistants units to assist and inform taxpayers
- d) continuation of the programme for the construction of new Revenue Centres and the refurbishing of existing offices to facilitate improved service to clients.

## **CURRENT STATUS OF THE PROJECT**

### **BROADEN THE TAX BASE**

The Taxpayer Registration Number (TRN) was introduced in 1996. Two Taxpayer Registration Centres have been established in Kingston and St. Andrew and one in each of the other tax collectorates. Seven collectorates have on-line access to the TRN database which enable numbers to be allocated straight way when applications are complete.

As at March 31 TRNs have been assigned to 734,573 individuals and 43,482 organisations.

Following on the satisfactory introducing of the TRN it is proposed to carry out survey to detect potential taxpayers who are still unregistered.

### **Tax Policy Issue**

Although there will not be the major focus as before on tax policy issues under this phase of tax reform, there is nevertheless, a recognition that some policy matter will have to be resolved to further improve equity and efficiency in the tax system.

The proposal for tax policy reform have important sequency implications and accordingly, it is proposed to carefully study the issues which have been identified before action is taken.

## **STRENGTHEN ORGANISATION AND MANAGEMENT OF TAX ADMINISTRATION**

### **Re-Organisation Of Tax Administration**

The Master Plan for the project was completed in February 1995 with financing from a Japanese Government Grant. This was followed by the preparation of a comprehensive Transition Plan, finalised in May 1996 for re-organising the administration department

on functional lines. Under the plan the functions will be organised under a Director General, Tax Administration into the following departments:

**Tax Audit and Assessment Department (TAAD)** which will assume all responsibilities which require a review, examination or investigation (including criminal investigation) of tax returns, submissions, and declarations.

**Inland Revenue Department (IRD)** will be in charge of all collection functions. The functions traditionally include related duties such as pursuing delinquent returns and applying sanctions against delinquent files and tax debtors. The department will receive and process filings of returns of all types and for all taxes.

**Taxpayer Appeals Department (TAD)** to deal with appeals from conference and other decisions and encourage resolution before Court actions are pursued.

**Tax Administration Services Department (TASD)** which will provide certain centralised administrative services, legal and taxpayer services inter departmental training and have property management responsibilities for the tax administration.

**Revenue Protection Department (RPD)**

**Customs Department**

Legislation to provide for the restructuring as above has been prepared and will shortly be presented to Parliament. Job description for some 300 posts in the new structures have been written and are being review to ensure completeness.

Implementation teams have been formed in the existing department and training in change management is being conducted.

## **Training**

In anticipation of the re-organisation and the fact that staff will be expected to perform at higher levels, a long term training programme has been developed and courses in several skills areas have already been conducted and are ongoing.

## **Civil Works**

Construction work on the new Montego Bay Revenue Service Centre is almost completed. Installation of fixtures and furniture is proceeding and the Centre will be opened to the public shortly.

Work is also in progress on Revenue Service Centre at Spanish Town scheduled for completion in April of this year. Upgrading and refurbishing work is also underway at another six collectorates. Construction activities are being financed out of Government of Jamaica counterpart funds.

## **IMPROVE CONTROL OF TAX EVASION**

A Bill to enact amendments to the Revenue Administration Act to strengthen the enforcement capability of the tax administration has been tabled in Parliament. The provisions are now being examined by a Joint Select Committee of Parliament to which the Bill has been referred. The Committee has had several sittings and at the last one heard submissions from organisations/persons regarding certain provisions of the proposed legislation.

The Bill will be debated in Parliament on the conclusion of the Committee's examination.

## **Purchase of Vehicles**

As part of the thrust to improve the effectiveness of tax audit, funding has been provided under the project to purchase motor vehicles for field auditors who are now hampered in the conduct of field enquires and surveys by lack of transportation.

Contracts have now been awarded, based on World Bank procurement procedures, for the supply of thirty-five (35) motor vehicles which will be assigned to field staff. Deliveries will commence in June 1998.



## **IMPROVE TAX COLLECTION**

### **Development of an Integrated Computerised Tax Administration System (ICTAS) .**

A contract for the design development and implementation of an integrated tax administration system was awarded to Crown Agents in July 1996.

While the introduction of a computer system of itself cannot be expected to remove the major constraints of revenue mobilisation activities, within the context of ongoing reform of administration functions themselves, it will greatly facilitate improved revenue collection.

The consultancy is being undertaken in two parts. The activities of **Part 1** which was completed in January 1998, included requirements specifications and design preparation. **Part 2** which commenced in February 1998 and to be completed within twenty four months will focus on detailed system design and implementation activities.

Procurement and installation of a System Development Environment for system development and testing has been completed.

### **Other Systems Development**

Other developmental works in parallel with the development of ICTAS have been undertaken by Fiscal Services Limited. These include the Stamp Duty and Transfer Tax System to process applications, assess stamp duty and transfer tax and perforate documents in evidence of payment of duties, and an automated Motor Vehicle System to process application for titles to and transfer of motor vehicles.

In addition, land valuation property tax and cash receipts system are being developed and will be integrated into the ICTAS.

## **FACILITATE VOLUNTARY COMPLIANCE**

Activities in regard to redesign of forms to support voluntary compliance and facilitate the development of ICTAS have commenced and are continuing.

Training of staff in taxpayer service has been initiated. Specialist Taxpayer Assistants have been appointed at the Stamp Duty and Transfer Tax Department and Taxpayer Assistance Units will eventually be established in all Revenue Centres.

The updating of publications to inform taxpayer of the requirements of the several taxes is ongoing.

## PROJECT COSTS AND FINANCING

Total project costs are estimated at US\$42M. The Bank Loan of US\$13.20M will cover 95% of the foreign exchange costs and GOJ is providing counterpart funding of US\$28.80M.

Project preparation activities have been funded by a grant of US\$494,000 awarded by the Government of Japan.

Members will note that there has been a deliberate decision to keep the scope of the project focused and within manageable limits. Overall, it is expected that the effect of the improvements to be implemented will be to increase revenue collection without the need for increasing tax rates. The major risks to successful implementation have been identified and to reduce these, local and external consultants will be hired where necessary to provide support and work along side with counterparts from the tax administration over the life of the project.

A carefully phased work plan will ensure that changes are introduced in step with organisational strengthening, and training programmes covering all government related functions, will be structured to enhance the ability of managers and staff to implement and sustain the reforms.

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