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MINISTRY PAPER NO. ....

Tax Compliance Measures 1996/97

The Honourable House is hereby advised of the Tax Compliance Programme of \$8.3B which will be undertaken to fund the 1996/97 Budget Expenditure in conjunction with new Tax Measures of \$362.0M.

INTRODUCTION

2. The level of tax evasion in Jamaica is very high due largely to a growing informal sector, and the negative attitude of significant elements of the formal sector to the payment of taxes.

3. This high level of non-compliance contributes to cynicism and resentment among taxpayers, since failure to meet their fair share of the tax burden, by both the informal sector and certain elements in the formal sector, places an unfair burden on PAYE taxpayers in particular. In addition, the activities of such persons contribute to corruption of public officials, and is reflected in the falsification of documentation, widespread smuggling and general criminal activities at the ports of entry.

4. In order to tackle this problem in the 1996/97 financial year, a special tax compliance programme has been designed which is expected to yield on a gross basis an estimated \$8.3B, which represents arrears and potential revenue from tax evaders in both the formal and informal sector. The cost of collecting this incremental \$8.3B is estimated at \$339M or 4% of the projected collection.

6. Activity will be concentrated in the areas of Customs, Income Tax, General Consumption Tax, Property Tax, Education Tax, Stamp Duty and Transfer Tax.

7. Major activities to be undertaken under the programme relate to:

- (I) Tax Courts and Prosecution of Revenue Cases
- (II) Improvement in systems at the Ports of Entry
- (III) Taxpayer Identification and Registration
- (IV) Comprehensive Audits
- (V) Training
- (VI) Public Education and Taxpayer Assistance
- (VII) Provision of resources

I. TAX COURTS AND PROSECUTION OF TAX CASES

8. A major deterrent to the collection of outstanding revenue is the slow pace at which tax cases move through the Court system. Currently the Revenue Protection Division (RPD) of the Ministry of Finance & Planning has 46 cases with an estimated Revenue yield of \$500M, tied up in the Courts. In addition, the GCT Department also has six large cases with an estimated yield of \$600M tied up in the Courts.

9. Although two Revenue Courts have been established, one in Kingston and one in Montego Bay, they are being overwhelmed by the sheer volume of fraud cases and with the plans to intensify the tax compliance efforts, the workload in these courts will increase significantly.

10. In order to speed the flow of cases through the Courts, the following action is to be undertaken:

1. The allocation of cases between the Revenue Board and RPD will be redefined. The Revenue Board will concentrate on civil cases whilst RPD will focus on tax fraud cases for the entire Revenue Services.
2. In order to cope with the work load of prosecuting the criminal cases, the legal team in RPD will be strengthened.
3. A special Tax Unit is to be established in the Office of the Director of Public Prosecutions to concentrate on tax fraud cases. The team at RPD will coordinate the investigations and provide guidance in respect of tax laws, while the DPP's team will make the court appearances.
4. The feasibility of Revenue Courts increasing their sittings by introducing night courts to deal with Revenue matters is to be examined.

## II. IMPROVEMENT TO THE SYSTEMS AT THE PORTS OF ENTRY

11. The following strategies are to be utilized to deal with the breaches at the Ports of Entry and consequential leakage of duty:

1. Customs C79 System: The existing C79 System which allows the clearance of goods to take place with only minimal details on the imports and importer, is to be discontinued and a new system introduced to deal with barrels and consolidated cargo. A modified C78 system has been developed by Fiscal Services for implementation in the first instance at the airports. The design of the system is now being finalized by a committee comprised of representatives of the Ministry of Finance & Planning,



Fiscal Services (EDP), Customs, and the Revenue Protection Division. The ICIs will be sensitized about the features of the new system in time for implementation by July 1, 1996.

2. Security: Security in all Customs areas is to be tightened. Currently, Port Security, the Police, Wharf Operators and Customs, all have responsibility for certain aspects of security. One agency is to be made accountable for security in these sensitive areas. A security system is to be developed, taking into account the special security requirements of all parties. The new system should result in removing all unauthorized persons from quayside, inside the Berths at the ports, on the Tarmac, and the fingers at the airport. All authorized personnel will be required to carry an ID card with a photograph on display and wharf operators, etc. will be required to install Closed Circuit Television Cameras to increase security.
3. Customs Duty Collection: In order to eliminate the incidence of theft of duties collected, Fiscal Services (EDP) has revised the security features on the Cash Remittance System in place at the Customs Department. Supervision of the Cashier areas is to be upgraded and sanctions imposed for failure. New locks and security bars will be fitted to the cashiers' cages and access severely limited to unauthorized persons. A new classification series for cashiers in the Revenue Services will be sought.

### III. TAXPAYER IDENTIFICATION AND REGISTRATION

12. Legislation has been enacted to introduce a Taxpayer Registration Number.

This number which is a unique nine-digit identification number will be assigned to each individual taxpayer, and business enterprises or partnerships, non-profit organizations, charities, etc.

Taxpayers will be required to utilize this number when doing business with Revenue Departments with effect from 1st July, 1996. Registration commenced this month and has been moving smoothly. When fully implemented, the system will:

- facilitate government's computerization of the Revenue Departments;
- improve tax compliance;
- allow for easy and speedy recording and verification of information on taxpayers' files.

#### IV. COMPREHENSIVE AUDITS

13. The collection of intelligence, analysis of data and the development of assessments will be the main activities, in the areas of audit and investigation, which will be undertaken by the Income Tax Department, General Consumption Tax Department, Stamp Duty and Transfer Tax Department, the Revenue Board and the Revenue Protection Division. This will facilitate the conduct of comprehensive auditing of firms on a large scale basis in this financial year.

This strategy is to be utilized, since comprehensive audit not only has the advantage of being the most cost-effective approach to tax audit, but also yields the maximum amount of revenue, detects and minimizes evasion through in-depth audit, and provides an avenue for widening the knowledge and experience of departmental tax auditors.

14. Experienced Tax Auditors from the Revenue Board along with Investigators from the Revenue Protection Division will provide team leadership for Auditors from the several Revenue Departments when comprehensive audits of large business enterprises are undertaken.

V. TRAINING

15. The Training Programme for 1996/97 will include courses in revenue law, procedures and techniques, and computer audit training.

16. In addition the programme for recruiting graduates of the University of the West Indies and the University of Technology for training as Revenue Agents will continue. These Agents will be able to provide greater assistance to taxpayers and will have the skills to undertake complex audit.

17. A special programme for strengthening the management capability of senior tax administrators which has already commenced will continue during 1996/97.

VI. PUBLIC EDUCATION AND TAXPAYER ASSISTANCE

18. The publication of Tax Guides to assist taxpayers will continue. Taxpayer Satisfaction Surveys will be undertaken as the basis for improving the quality of service to the public at collection centres.

19. Wide publicity of Court decisions in respect of successful prosecutions and convictions will also be an integral part of the Compliance Programme.

VII. PROVISION OF RESOURCES

20. The estimated cost of collecting \$8.3B of additional revenue is \$339.0M that is, 4% of the potential revenue to be collected.

21. The main items of cost and the potential sources of revenue are shown in Appendix IA.

22. The revenue potential and critical activities for individual tax agencies are shown in Appendices 1B to 1G.

Omar Davies, MP  
Minister of Finance & Planning

16th April, 1996.



## APPENDIX IA

### SPECIAL TAX COMPLIANCE PROGRAMME (1996/97) SOURCES OF POTENTIAL REVENUE

DEPARTMENT	POTENTIAL REVENUE (\$B)	SOURCES
Inland Revenue	1.300	Arrears of Property Tax, Education Tax and Income Tax.
Income Tax	4.497	Non-filing of returns, under-reporting of income and arrears of Income Tax.
General Consumption Tax	1.200	Non-registration and non-filing of returns.
Stamp Duty & Transfer Tax	0.030	Composition agreements and settlement of estates.
Customs/RPD	1.350	Reducing extent of Fraud, Smuggling etc
Revenue Board	Management and Technical Support Functions	
<b>TOTAL</b>	<b>8.377</b>	

#### BUDGET SUMMARY

ITEM	Inland Revenue \$M	Income Tax \$M	GCT \$M	Stamp Duty \$M	Revenue Board \$M	Customs & RPD \$M	Total \$M
Staff		4.00		0.16	-	-	4.16
Equipment	2.00	2.00	0.30	0.04	2.50	1.00	7.84
Motor Vehicles	9.00	3.25	5.00	-	2.00	7.50	26.75
Training	-	-	-	-	7.50	1.00	8.50
Publicity	-	-	1.20	-	30.00	-	31.20
Others*	-	-	-	-	6.05	0.30	6.35
Contingency*							4.15
<b>Sub-Total</b>	<b>11</b>	<b>9.25</b>	<b>6.5</b>	<b>0.2</b>	<b>48.05</b>	<b>9.8</b>	<b>88.95</b>
Incentives for Revenue Agencies							250.00
<b>TOTAL</b>							<b>338.95</b>

\* Taxpayer assistance, computer service, travelling and subsistence

\*\* Contingencies to deal with legal aspects of the compliance programme, estimated at \$4.15M.



## SPECIAL TAX COMPLIANCE PROGRAMME 1996/97

## INLAND REVENUE DEPARTMENT

## MAIN FUNCTION: ENFORCEMENT &amp; COLLECTION

1. Revenue Potential

CATEGORY	\$M
Arrears of Property Tax	70
Arrears of Education Tax	430
Income Tax	800
TOTAL	1.300

2. Critical Activities

1. Updating of Taxpayer Accounts
2. Processing of Returns
3. Issuing of Demand Notices
4. Issuing of Levy Writs and Serving of Summonses
5. Issuing of Judgement Orders
6. Issuing of Commitment Orders
7. Prosecutions

## SPECIAL TAX COMPLIANCE PROGRAMME 1996/97

## INCOME TAX DEPARTMENT

MAIN FUNCTIONS: FILING OF RETURNS AND AUDIT OF COMPANIES AND SELF-EMPLOYED PERSONS

1. Revenue Potential

CATEGORY	\$B
Companies	1.500
Self-Employed	0.400
PAYE	1.597
Interest	0.400
Bauxite	0.600
TOTAL	4.497

2. Critical Activities

1. Updating of Master List.
2. Identification of non-filers (companies, self-employed persons).
3. Developing estimated assessments.
4. Identifying unreported income, for example, interests on debentures and promissory notes.
5. Audit and investigations.
6. Settling outstanding objections.
7. Prosecutions.

**SPECIAL TAX COMPLIANCE PROGRAMME 1996/97**  
**GENERAL CONSUMPTION TAX DEPARTMENT**

**MAIN FUNCTIONS: RETURNS PROCESSING AND AUDIT**

**1. Revenue Potential**

<b>CATEGORY</b>	<b>\$M</b>
<i>Criminal prosecution of at least six cases - Effect of Voluntary Compliance, etc.</i>	<i>400</i>
<i>Broadening of Tax Base (Registered Taxpayers)</i>	<i>200</i>
<i>Collection of Arrears</i>	<i>400</i>
<i>Audit/Civil Investigation Cases</i>	<i>200</i>
<b>TOTAL</b>	<b>1.200</b>

**2. Critical Activities**

1. *Enforced Registration*
2. *Upgrading of Registered Persons to the status of Registered Taxpayers*
3. *Filing of Returns*
4. *Verification of Returns*
5. *Intelligence (Field Operations)*
6. *Audit*
7. *Prosecutions*



**SPECIAL TAX COMPLIANCE PROGRAMME 1996/97**  
**STAMP DUTY & TRANSFER TAX DEPARTMENT**

**MAIN FUNCTION: VALUATION FOR THE SETTLEMENT OF ESTATES**

1. **Revenue Potential**

<b>CATEGORY</b>	<b>\$M</b>
Settlement of Estates/Audit of Composition Agreements	30
<b>TOTAL</b>	<b>\$ 30 M</b>

2. **Critical Activities**

1. Valuations for Stamp Duty and Transfer Tax
2. Audit and Enforcement of Composition Agreements

3. **Resources Required**

**Staff:** Additional officers to undertake clerical work in office.

**Equipment:** Boxes for filing and storing documents in connection with settlement of estates.

**Incentives and Honoraria:** Performance standards will be based on:

- number of additional valuations undertaken;
- revenue yield from the settlement of long outstanding cases;
- additional revenue arising from the audit of composition agreements.

**SPECIAL TAX COMPLIANCE PROGRAMME 1996/97**

**REVENUE BOARD**

**MAIN FUNCTIONS: PROJECT MANAGEMENT, LEGAL SERVICES, TRAINING  
COMPREHENSIVE TAX AUDIT AND TECHNICAL SUPPORT**

**1. Co-ordination**

*The tax compliance activities will be co-ordinated by the Revenue Board and a monthly progress report submitted to the Ministry of Finance.*

**2. Comprehensive Tax Audit**

*Experienced tax auditors from the Board will along with auditors from the Revenue Protection Division provide team leadership for auditors from the several Revenue Departments when comprehensive audits of large business enterprises are undertaken.*

*The Audits will involve special investigations and the gathering and analysis of data and the development of assessments.*

*Comprehensive audit has the advantage of:*

- *yielding the maximum amount of revenue*
- *minimizing evasion through in-depth audit*
- *providing the most cost-effective approach to tax audit*
- *widening the knowledge and experience of departmental tax auditors*

**3. Technical Support**

*The Board will provide technical support in the following areas:*

***Litigation:***

*This will include the giving of opinions, directing prosecutions for the recovery of taxes and Court appearances in the several jurisdictions on behalf of the Revenue.*

SPECIAL TAX COMPLIANCE PROGRAMME 1996/97CUSTOMS/REVENUE PROTECTION DIVISION

*Main Functions: Improving systems and procedures to prevent leakage to both the formal and informal economy.*

1. Revenue Potential

Category	\$M
Expediting 46 criminal prosecutions before the Courts	500
Discontinuing the C79 system and replacing same with a new clearance system for ICIs and Others	600
Computerization of Manifests	50
Audit	200
Total	1,350

2. Critical Activities

1. Recruiting additional lawyer at the Revenue Protection Division of the Ministry of Finance & Planning.
2. Designing with the Ministry of National Security and Justice a scheme for speeding up Tax cases through the Court system.
3. Funding a special unit in the Director of Public Prosecution's Department (DPP) to handle tax cases.
4. Working with Fiscal Services and the Revenue Protection Division to finalize the new clearance system and the computerization of manifests now under discussion.
5. Intensification of intelligence work by RPD.
6. Increased and improved audits.
7. Increased Criminal Prosecutions.
8. Providing increased security for Customs Areas.



***Training:***

*The programme will include courses in revenue laws, procedures and techniques in the specialist areas of tax audit, investigations and collection.*

*Specialist courses for Revenue Agents and Senior Tax Administrators will be conducted.*

***Tax Compliance Certification (TCC):***

*This arrangement is designed to ensure that the satisfaction of taxpayers' obligations is a pre-requisite to the conduct of certain business transactions, for example, tendering for Government contracts.*

***Public Education and Taxpayer Assistance:***

*Wide publicity of Court decisions in respect of successful prosecutions and convictions will be an integral part of the Public Education and Taxpayer Assistance. Publication of Tax Guides to assist taxpayers will continue.*

***Management Improvement Services:***

*To ensure effective implementation, the systems, procedures and organizational*