

Improving Resources and Organizational Structure of the Jamaican Tax Administration

For many years the Jamaica Tax Administration was facing a number of very significant challenges which were seriously constraining its capacity to effectively and efficiently deliver quality services to taxpayers and meet its tax collection and control targets.

Among the chief of these were the following:

- (i) Tax Administration Departments were largely organized on the basis of specified taxes for which they carried out all the required administration except collection. For example, there was an Income Tax Department, a Value-Added Tax Department, and a Stamp Duty and Transfer Tax Department each of which carried out returns processing, auditing, assessment, compliance and enforcement activities for a single tax. As a result, many opportunities for economies of scale in such areas as general administration and property management were lost.
- (ii) There was no formal mechanism whereby information relating to individual taxpayers could be routinely shared between Tax Administration departments so that assessment, compliance and collection activities could be carried out on a uniform and consistent basis and in an efficient way for all taxes. In fact, the Income Tax Act specifically precluded the sharing of income tax information by the Income Tax Department with anyone else.
- (iii) The legislative framework for tax administration had other serious weaknesses. In particular, tax commissioners were severely restricted in their powers to obtain information from third-party sources such as accountants, attorneys-at-law and financial institutions. Further, tax laws were rather complex in structure, largely because they tended to develop in an uncoordinated, piece-meal way in response to urgent budgetary demands as they arose from time to time.
- (iv) Because of limitations in available resources, several offices of the tax administration – particularly collecting offices in rural areas – were in poor physical state. The uncomfortable working conditions demotivated staff and severely restricted the quality of service which was provided for taxpayers.
- (v) The majority of tax administration staff were rather poorly paid, adding to the level of demotivation among them.
- (vi) Jamaica has a very significant underground economy, and compliance levels, particularly in direct taxes, were quite low. Taxpayers who were compliant often expressed resentment that an unreasonable burden fell on their shoulders precisely because so many were able to escape the tax net.

- (vii) The tax administration also received adverse criticism that tax revenues were carelessly and wastefully spent by government (though the tax administration did not participate in making expenditure decisions).
- (viii) Members of staff who were technically strong were often promoted to management positions, though they did not necessarily have an interest or competence in playing genuine management roles. Accordingly, management staff often immersed themselves in technical operational work, and in many areas managerial roles such as planning and controlling were almost ignored.

The Tax Administration Reform Project (TaxARP)

In 1994, the Government of Jamaica and the World Bank signed a contract for the funding of a six-year project aimed at radically overhauling the tax administration. The contract for the development of this Tax Administration Reform Project was awarded to an American firm of consultants, and was run from a project office with a full time director, and supporting technical and administrative staff. Decisions on policy issues deliberated on by the consultants were made by a steering committee which comprised the project director and all the commissioners of the then existing tax administration departments.

The project concentrated on five major (overlapping) components as follows:

- (a) Broadening the Tax Base
- (b) Strengthening Organization and Management
- (c) Improving the Control of Tax Evasion
- (d) Improving Tax Collections
- (e) Facilitating Voluntary Compliance

(a) Broadening the Tax Base.

The basic tool for this component of the project was a unique identifying number for each taxpayer called the Taxpayer Registration Number (TRN) which was introduced in 1996. Any person having any interaction with a tax administration department is required to use this number, and as the same number is used by the taxpayer for all taxes, linkages are easily made and his compliance status can be tracked for different taxes.

Legislative changes were also made to increase the penalties for failure by liable persons to register for Value-Added Tax, and to authorize the assessment of persons for the period of non-registration.

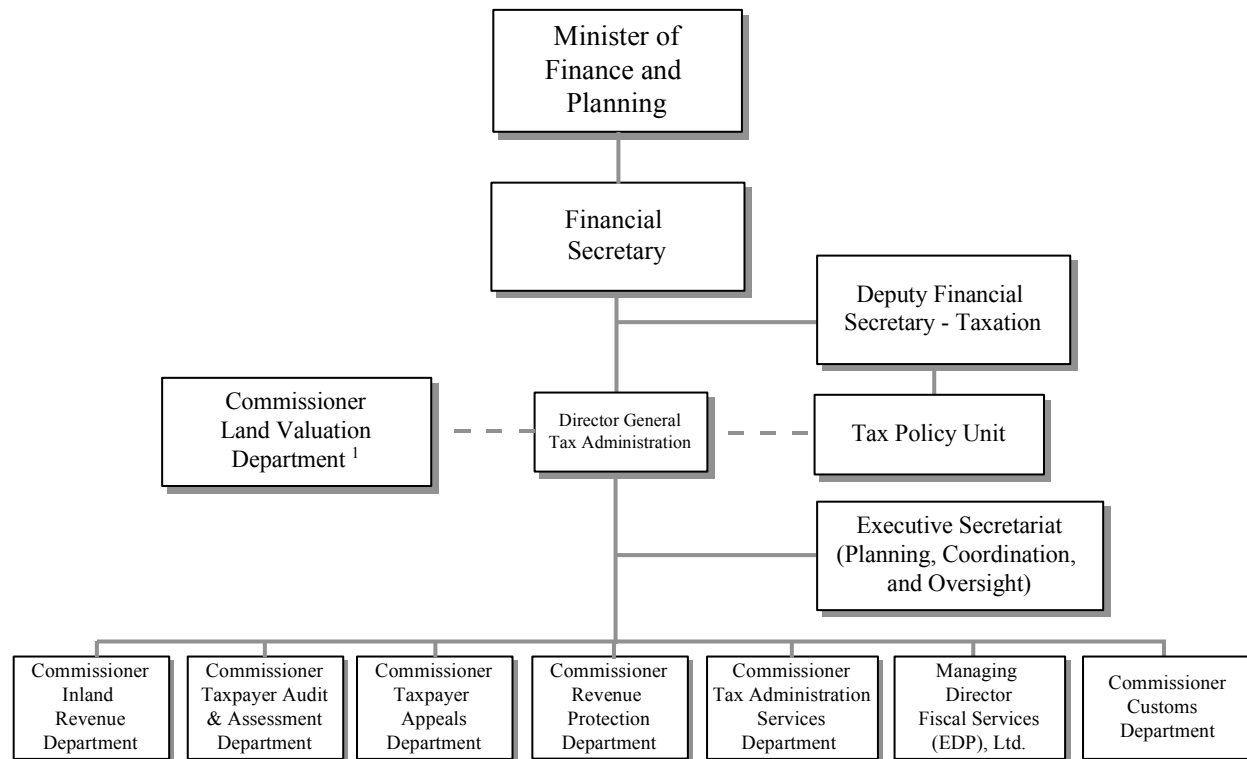
The number of identified taxpayers has increased by about 60% since the inception of the project.

(b) Strengthening Organization and Management

Under this component of the project, a radical reorganization of the structure of tax administration was undertaken. The main principles are the following:

- (i) Before the reform, tax commissioners reported directly and independently to the Financial Secretary in the Ministry of Finance. Since the Financial Secretary oversees many other programme areas of the Ministry, her span of control is extremely wide, and little focused leadership could be given to tax administration as a whole. Under the reform project, tax commissioners now report to a Director General of Tax Administration, whose management skills together with his experience and expertise in taxation the required focus and coordination for tax administration matters.
- (ii) Tax departments no longer administer specific taxes; rather they are organized on the basis of the functions they carry out, and these functional responsibilities extend across all tax types.

Overall Structure for Tax Administration in Jamaica



The major functions now carried out by the departments are as follows:

- The **Inland Revenue Department (IRD)** continues to have responsibility for the collection of all taxes. In the context of the increased prominence which has been given to the rights of taxpayers, IRD has also been given the functional responsibility for taxpayer service, having as it does the most frequent contact with taxpayers as well as the biggest network of offices throughout the island. IRD also has responsibility for enforcing taxpayer compliance (by pursuing taxpayers who are in arrears and instituting court proceedings where appropriate), for maintaining taxpayer accounts, and for overall revenue accounting. The department has about 1000 employees distributed among 28 offices of varying size throughout the island.
- The **Taxpayer Audit and Assessment Department (TAAD)** is responsible for tax audits in relation to all taxes. The department also carries out the processing of tax returns received by IRD. As an exception to the rule that IRD collects all taxes, TAAD continues to collect stamp duties and transfer taxes on a range of legal and commercial documents after they are assessed on site. It is planned that these collection functions will in due course be taken over by IRD. TAAD has about 900 employees at 6 locations in the island.
- The **Tax Administration Services Department (TASD)** provides the other tax departments with such services as property management, cross-departmental training, legal advisory services, legal representation in the courts, international treaty services and monitoring the databases for TRN and Tax Compliance Certification. It also provides public education services. The intention is to reduce the administrative complexity of the other departments so that they can concentrate on their core taxation functions, and to realize greater efficiency through economies of scale in the provision of services. TASD also manages the one-stop Revenue Centres (see below). The department has about 300 employees.
- The **Revenue Protection Department (RPD)** grew from a division in the Ministry of Finance with responsibility for investigating Customs fraud. It continues to perform this function, but now also investigates income tax and value-added tax cases which develop out of customs cases. (The department works with the Tax Fraud Unit of TAAD in pursuing income tax and VAT cases). RPD also carries out internal investigations of tax administration staff where corruption is suspected. Initially, the department had a third major responsibility of establishing and carrying out inter-departmental internal audit programmes for all of tax administration, but this has recently been transferred to the office of the Director General.
- The **Taxpayer Appeals Department (TAD)** hears appeals by taxpayers from the decisions of other tax departments (most frequently assessment decisions of the

Commissioner of TAAD). The department is staffed by about 12 very experienced tax administration officials each having a background in at least one of the major taxes. Appeals from the decisions of the Commissioner of TAD to the Court may be made by taxpayers, but not by tax department commissioners.

- Fiscal Services Ltd. (FSL) is government owned company which provides software development services for tax administration. The company also provides guidance for departments in the procurement of hardware, and performs maintenance services for their systems.
- The **Customs Department** did not all within the ambit of TaxARP as its own modernization programme was well underway when the project started. Nevertheless, the Commissioner of Customs does report to the Director General, and the intention is to harmonize the policies and systems of Customs with those of the rest of the administration.

The government has accordingly accepted the recommendations of the project consultants that the various tax departments will

- (i) operate on the basis of the main functions to be performed,
- (ii) be delegated sufficient authority to perform the important functions
- (iii) be given the necessary resources to perform the principal operations,
- (iv) be held responsible and accountable for results
- (v) be remunerated to some extent based on a performance-linked scheme.

In addition to the reorganization of the structure and functions of tax departments, a new emphasis has been placed on reorienting the focus of managerial staff towards genuine management roles. Considerable attention has been given to management training, and the criteria on which tax administration management is to be evaluated by the Director General emphasizes the new focus. For the purpose of the controlling functions, management now has access to an impressive range of management information reports produced by the Integrated Computerized Tax administration System (see below); these reports cover almost every important business process in tax administration.

(c) Improving the Control of Tax Evasion

The Revenue Protection Department (RPD) and the Tax Fraud Unit of the Taxpayer Audit and Assessment Department (TAAD) are the administrative agencies most directly involved in realizing this component of the project. TAAD also has an Intelligence Unit which searches for information from all available sources in order to identify new taxpayers. In the past, very few fraud cases have given rise to court action, but it is now the deliberate policy of the administration to more vigorously pursue litigation in appropriate cases of fraud, because there is a recognition of the value of the deterrent effect which publicized cases of this kind can have. Recent legislative amendments have also given considerably more power to tax commissioners to compel information from

business advisors and associates of taxpayers, and to obtain information through forced entry and search methods.

(d) Improving Tax Collections

Improvement in tax collections is being pursued in a number of ways, some of which have already been mentioned. Additionally, more collection sites are being developed, some collection offices have extended their opening hours, better management is being applied to the handling of tax arrears, greater use is being made of tax courts to enforce collections, and new computer systems are making it easier to control the collection process.

(e) Facilitating Voluntary Compliance

The tax administration recognizes that voluntary compliance is enhanced when

- tax legislation is simple and fair,
- good taxpayer service is available at all levels
- the tax-paying public is well-informed about obligations and rights,
- physical facilities are adequate
- administrative procedures are simple and applied equitably and consistently.

Considerable effort has been made by the administration in all of these areas (except that legislative reform remains a painfully slow process).

The Integrated Computerized Tax Administration System

Computerization has always been one of the major dimensions of the reform process. As a companion project to TaxARP, the government awarded a contract to a UK software firm for the development of an Integrated Computerized Tax Administration System (ICTAS) which would

- provide on-line access to taxpayer accounts to authorized users
- provide a comprehensive tax profile of a taxpayer by consolidating all tax-types in one account
- reduce turnaround time by automating manual processes
- provide greater flexibility to taxpayers by allowing taxes to be paid at any payment location
- allow for the automatic maintenance of national revenue accounts
- allow improved communication through automated correspondence
- allow selection of taxpayers for audit to be done by computer analysis of record
- provide a range of management information reports.

The ICTAS would also read and be read by a number of other computer systems which have developed in tax administration over the years.

The project was operationalized in August 2001.

Primacy of Taxpayer Service

As elsewhere in the world, Jamaica recognizes the right of taxpayers to receive high quality service, and great emphasis has been placed on the development of a service culture throughout the tax administration. A major focus of the massive training effort which the implementation of TaxARP involved was taxpayer service training for all staff who would interact with taxpayers. Training programmes have been developed for specialist taxpayer service staff in IRD. Performance review criteria for employees attach very high importance to the quality of taxpayer service, and surveys are routinely run among taxpayers to assess the level of their satisfaction with the service they receive.

Revenue Service Centres

The concept of the revenue service centre – a single facility at which the full range of taxpayer services is available under one roof – is expected to play an important role in promoting integration among tax administration departments and in advancing the convenience of taxpayers. Two such service centres are now in operation, two others are to be opened very shortly, and several others are in the planning stage. The service centre is the ideal setting in which true integration in operations between different tax departments all housed in one location can flourish, so that the benefits envisaged under TaxARP can be realized. Accordingly, high priority has been given to the development and efficient operation of these centres.

Cooperation between Departments

With the reorientation of departments towards responsibility for functions rather than tax-types, cooperation between departments and coordination of the work that they do have assumed greater importance, since the departments are now much more heavily dependent on the outputs of each other. There is still an unwitting tendency towards departmental rivalry in claiming scarce resources, and commissioners may strive at all costs to make their own departments ‘look good’ while the tax administration performs sub-optimally.

In this context, it is important that effective mechanisms continuously reinforce the importance of cooperation and integration. The cohesive mechanisms (many of which have been previously mentioned) which are available in the Jamaican case include

- the coordinating role of the Director General and his executive office;
- the strategic and operational planning process, in which overall tax administration plans are broken down into departmental plans;
- the budget process: the departmental budgets are examined by the Office of the Director General, the submissions of the various departments are prioritized (in consultation with the departments), and a single tax administration budget presented to the Ministry of Finance for funding;
- integrated operations in the revenue service centres;

- the Integrated Computerized Tax Administration System, in which information is processed and maintained by various departments, and is shared in common;
- regional teaming: in each of the four geographical regions, regional multi-departmental teams have been set up to promote integration at a regional level. The teams are encouraged to meet regularly to discuss and resolve regional issues.
- The training process; huge sums were spent on training programmes in all areas of tax administration, and the importance of cooperation and integration has consistently been emphasized.

The Continuing Challenge

The Tax Administration Reform Project in Jamaica was brought to a close towards the end of the year 2000, and it is still early to assess its full impact. The consolidation of the reform process is being driven from the office of the Director General.

Towards the end of 2001, a survey was administered among tax administration staff to determine their reaction to the changes which have been made. Analysis of the survey indicate a high level of commitment to the aims of the project, but significant disappointment concerning actual achievements to date.

Issues which continue to require resolution include unsatisfactory remuneration for some categories of staff, the tardiness of the legislation process, technical shortcomings in the Integrated Computerized Tax Administration System, a continuing shortage of resources, and the slow pace at which attitudes change at some levels in the administration.