JORDAN FISCAL REFORM PROJECT II

BENCHMARKING THE TAX SYSTEM IN JORDAN

A STUDY PREPARED BY THE FISCAL REFORM II PROJECT

February 2010>

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Of course, all errors, omissions, and lapses in judgment that remain are solely the responsibility of the authors of this report.

ABBREVIATIONS

ASEZA	Aqaba Special Economic Zone Authority
ATS	Audit Tracking System
CIT	Corporate Income Tax
DG	Director General
FRP I	USAID/Jordan Fiscal Reform I Project
FRP II	USAID/Jordan Fiscal Reform II Project
GDP	Gross Domestic Product
GOJ	Government of Jordan
GST	General Sales Tax
IMF	International Monetary Fund
ISTD	Income and Sales Tax Department
JCD	Jordan Customs Department
JD	Jordanian Dinar (the national currency)
KAA	King Abdullah Award
KACE	King Abdullah Center for Excellence
LTO	Large Taxpayers Office/Directorate
MENA	Middle East and North Africa Region
MIS	Management Information System
MTO	Medium Taxpayers Office/Directorate
MOF	Ministry of Finance
OECD	Organization for Economic Cooperation and Development
OJT	On-the-job training
PAYE	Pay as You Earn
PIT	Personal Income Tax
SST	Special Sales Tax
STO	Small Taxpayers Office/Directorate
TIN	Taxpayer Identification Number
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value-Added Tax
VIPS	VAT Information Processing System

EXECUTIVE SUMMARY

This study begins with a review of tax system structure and performance in the Hashemite Kingdom of Jordan, both over the recent past and in comparison with a very large number of countries around the world. The next section compares internationally recognized practices in tax administration organization and operations with those prevailing in Jordan, based on the benchmarking methodology. This is followed by a review of the organizational setup and the major operations of the country's domestic tax administration, the Income and Sales Tax Department (ISTD), and a discussion of the ISTD's core resources vis-à-vis international standards. Finally, we provide a number of recommendations both to improve ISTD efficiency in tax collection and to reduce the burden of tax compliance on taxpayers, thereby improving the enabling environment for private sector development, increasing voluntary compliance, and ultimately enhancing revenues. Annex A provides a graphic presentation of a large number of tax system performance and structural indicators that were used to provide the overall performance assessment. Finally, Annex B presents the organization chart of the ISTD for reference purposes only.

Jordan's tax system has a number of excellent features. There are relatively few taxes. Tax rates are low. And, the overall tax burden is not particularly high. At the same time, revenue performance is relatively strong. In fact, among the Middle East region's non-oil producing countries, Jordan has the highest ratio of tax revenues to GDP. In particular, collections of the General Sales Tax (GST), which is comparable to the value-added tax (VAT) found worldwide, are high compared to other countries in the region and indeed compared to the rest of the world.

In tax administration, Jordan has also made important strides. Since the merger of the former income and sales tax departments in 2004, the ISTD has instituted many of the internationally recognized good or best practices. It has reorganized its operations along functional lines, rather than by tax type. It has decentralized most operations to field offices and implemented taxpayer segmentation, with dedicated services for the country's largest taxpayers and separate directorates for small and medium-sized businesses. Furthermore, it has established "e-links" to external agencies and connected tax offices to a centralized taxpayer database, facilitating access to tax information from any ISTD location in real time. These and other innovations have drawn attention from foreign tax officials, many of whom have visited Jordan to learn from the Department's experiences with employing new methods and technologies.

The ISTD actively pursues strategic planning and has a strong interest in developing indicators and metrics with which to monitor and improve its performance. Leadership is constantly seeking to strengthen operations, and to this end is still in the process of reorganizing functions, both in headquarters and in its operational units. Also noteworthy, ISTD staff and management, while not highly remunerated, are well educated and exhibit a high degree of professionalism.

Despite these positive features, the tax system continues to face considerable challenges, both old and new. While GST and corporate income tax (CIT) collections have steadily grown, personal income tax (PIT) revenues remain weak and well below international and regional averages. This report will review the major operations of the ISTD and provide some ideas that we hope will improve the productivity of the PIT as well as other taxes that the Department collects.

There are over 500,000 registered income tax taxpayers, but only about 15 percent of them are actively filing. Many of these taxpayers are likely out of business or deceased; many others are likely active but are simply not filing returns or paying taxes. Updating these records and cleaning out "ghost" taxpayers is complicated by the fact that taxpayers do not notify the Tax Department about changes in their status, and contact information is frequently out of date. Even if the Department detects a stop filer, it may have no way of contacting him or verifying his status.

Partly as a result of the deficiencies in the taxpayer registry, the ISTD dedicates too much energy to controlling the taxpayers that do file, and insufficient resources to bringing non-compliant taxpayers into the tax net. The Department continues to expend considerable time and resources on reviewing tax declarations submitted by taxpayers before issuing them a payment voucher. It subjects nearly 40 percent of income tax declarations, and 100 percent of GST refund claims, to time-consuming audits, resulting in a huge backlog of objections and appeals. And, its offices are overwhelmed with "walk-in" requests for registrations, income tax refunds, and "tax clearances" certifying that a taxpayer is free and clear of tax debts. Many of these tasks, if automated, would free up ISTD staff to focus on identifying unregistered businesses, pursuing non-filers, and collecting outstanding debts.

Tax arrears, some dating back to the 1960s, are equivalent to as much as one third of annual tax receipts. In an effort to secure additional revenues, in late 2009 the Government announced an amnesty encouraging delinquent taxpayers to pay down their tax debts, waiving all penalties and, in some cases, offering an additional discount on the taxes due. It is too early to evaluate the results of Jordan's amnesty program. However, international experience with amnesties shows that such programs do little to increase compliance. Rather, they provide a "free pass" to lawbreakers, while signaling to both tax evaders and previously compliant taxpayers that they need not pay taxes since the Government will eventually forgive their debts.

The legal framework for taxation is dispersed across a series of tax laws, each with its own set of provisions for tax administration. These are supported by an assortment of regulations; executive instructions; and, ad hoc decisions issued from a variety of sources. Recently, the Government considered the option of adopting a modern, comprehensive tax code, integrating tax administration and substantive tax legislation in a single, accessible source, yet opted instead to enact new tax laws separately for income and sales taxes, respectively.

The Income Tax Law reduces and "flattens" tax rates and greatly simplifies treatment of corporate and personal income; yet, it sets the tax-free threshold on personal income so high as to leave all but the highest income earners out of the tax net. The GST Law, meanwhile, fails to address key issues, such as application of a uniform GST registration threshold. We commend the Government on the reforms ushered in by the new tax laws. However, there may be scope to revisit these laws, in part to broaden the tax base, and in part to fill in the remaining gaps that create confusion among taxpayers and ISTD staff alike. The Government should also consider consolidating all tax administration provisions in a single, uniform tax procedure code, separate from the substantive tax legislation. This would move Jordan closer to international good practice and enhance transparency, clarity, and consistency in the application of the country's tax laws.

Finally, notwithstanding remarkable achievements, the full integration of income and sales tax operations in the ISTD has been slow. Policies and procedures for even the most basic of tax administration functions (e.g., registration, submitting returns, and tax refunds) differ depending on whether they concern income tax or sales tax. These procedural divisions create a cultural divide within the Department that often filters down to individual ISTD staff, who continue to focus their energies on one tax at the expense of the other, depending on which department they came from before the merger. So long as these divisions persist, the ISTD will continue to be weighed down by inefficient methods, and taxpayers will continue to face unnecessary confusion and burdens in complying with tax laws.

The team has performed a benchmarking exercise, based on international experiences and recognized and accepted best and good practices. Data were gathered from existing reports, such as the ISTD Strategic Plan, IMF consulting reports, and ISTD statistical reports, as well as from numerous interviews with ISTD staff and leadership, observation of ISTD facilities, and interviews with a number of taxpayers. Based on this exercise, the team has compiled a number of recommendations that can help to improve ISTD efficiency and effectiveness in mobilizing revenues for the Government and in its interaction with taxpayers.

Recommendations are found in the final section of this study and cover items, such as:

- Cleaning out the taxpayer registry;
- Enhancing certain applications, such as the taxpayer current account, the stop filers system, and the tax arrears database;
- Centralizing processing of all declarations and forms, and shifting payment of taxes exclusively to the banking system;
- Improving the taxpayer appeals process and reducing internal conflicts of interest;
- Consolidating the Tax Compliance and Debt Management Directorates and improving their role in setting policies and procedures for audit, collections and enforcement;
- Reducing the number of taxpayers subject to audit and prioritizing audits according to risk management techniques;
- Strengthening audit through the full deployment of the Audit Tracking System (ATS);
- Reviewing and re-delegating authority for approving common transactions, allowing ISTD leadership to focus on planning and management;
- Streamlining and automating procedures for processing refunds, tax clearances, and other common transactions, reducing the ISTD's administrative workload, while at the same time reducing face-to-face contact between ISTD staff and taxpayers;
- Helping the MOF and ISTD draft a new, uniform tax procedure code, consolidating administrative provisions for all taxes in one law; and,
- Finally, as an overarching principle, dedicating more resources to addressing non-compliant taxpayers, while rewarding law-abiding taxpayers by making the process of filing and paying taxes consistent, transparent and easy.

These and other measures, if adopted, will help the Income and Sales Tax Department become a center of excellence, help the Government secure the resources it needs to fulfill its policy priorities, and ensure the Kingdom of Jordan realizes its National Agenda objectives.

I. INTRODUCTION

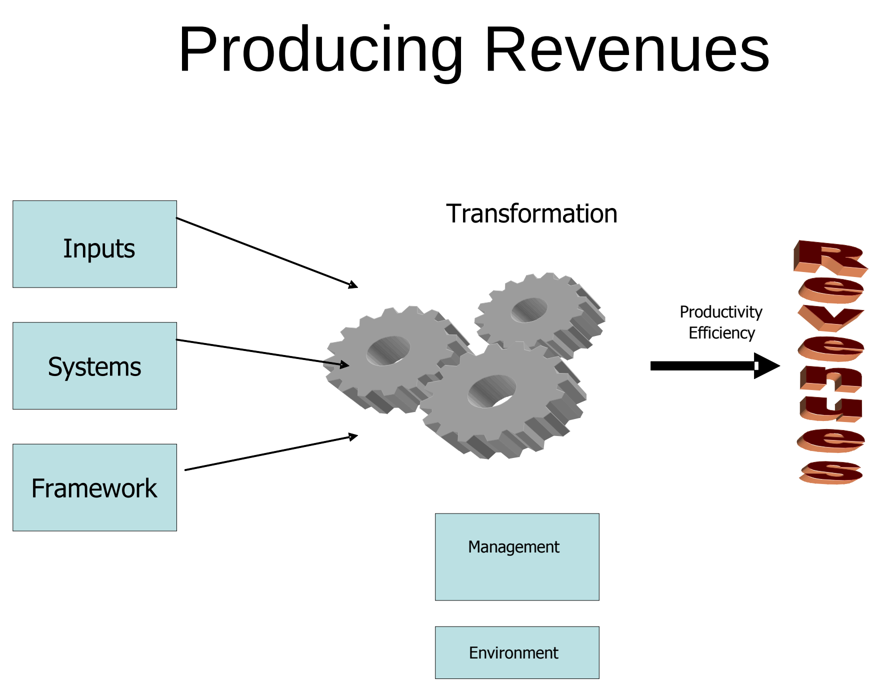
A. PURPOSE

The purpose of this study is to highlight the structure and performance of the Jordanian tax system in an internationally comparative framework. This exercise will help the Government of Jordan, and specifically the Ministry of Finance (MOF) and Income & Sales Tax Department (ISTD), to assess the overall efficiency and effectiveness of the tax system, accounting for tax policy, tax administration, and tax compliance. The result is a series of standards that can be useful in establishing specific goals, measures, and steps for improving the tax system.

B. METHODOLOGY

The benchmarking methodology, whether applied to tax systems or to business processes and organizational development in private business, is based on a production approach. In tax benchmarking, there are inputs, such as human resources and other budgetary resources, transformation processes, and outputs. The output of the tax system is the amount of revenues generated. When optimized, these are the revenues to be collected according to law. From an efficiency point of view, these revenues should be collected at the lowest feasible cost, both in terms of the costs of tax administration, as well as in terms of taxpayer compliance. Figure 1 presents this production schema in picture form.

Figure 1. Tax Administration as a "production process"



In the above illustration, the benchmarking methodology works from right to left, looking first at revenue collections, as well as the revenue productivity and overall tax administration efficiency in the production of these revenues. Next, it looks at the transformation process, with a focus on business processes, organizational management, and the environment in which the tax system operates. It then examines the inputs, especially in terms of the adequacy of human resources, financial resources, and IT systems and programs. The "framework" analysis shown in the graphic essentially comprises the set of tax laws, regulations and related legislative concerns that affect tax system operation.

The tax benchmarking methodology views tax system operations and performance from two related perspectives. First, we compare a variety of performance, structure, process and operations and organization measures in Jordan with those in many other countries of the world. The measures or benchmarks we use to compare Jordan in this study are largely those developed in Gallagher, Mark et al (2001), "Applying International Best Practices to Tax Administration Performance in Guatemala: A Benchmarking Study."[1] These comparisons help to establish the degree of normalcy of the Jordanian tax system: where it excels, where it falls short, and where it meets normal operating expectations. To make the analysis local in scope, we also compare the situation in Jordan to the experiences in other Middle East countries.

Second, the methodology compares tax administration operations and organization to what are generally considered "best" practice, although in some cases, common or good practice might be a more appropriate term. While there is no exhaustive catalogue of these practices as applied around the world, these practices nevertheless make up the basis of the recommendations made by international experts, such as those from the IMF or from USAID, that can be found in many reports and studies.

C. GUIDE TO THIS REPORT

Chapter II of this report takes a high-level view of the tax system in Jordan, both in terms of the competitiveness of the tax system and how taxes are collected and paid. We compare various aspects of Jordan's tax system with tax systems in the region and around the world. This provides the reader with an international comparative perspective, based on international benchmarks or standards that are useful in assessing overall system performance. The chapter is bolstered by a large number of graphs that are presented in Annex A.

Chapter III presents lower-level tax system benchmarks, comparing the situation in Jordan with good international practices. Chapter IV describes best international practices in tax administration organization and operations. Chapter V examines the structure and distribution of ISTD's human resources in view of those standards, while Chapters VI and VII discusses the operations of the ISTD and the Department's core resources and systems, respectively. Finally, Chapter VIII provides our recommendations for how Jordanian authorities can improve, simplify, and enhance efficiency in how the

[1] See Balaguer, Mark et al (2001), *Aplicación de Mejores Prácticas Internacionales al Desempeno de la Administración Tributaria de Guatemala: Un Estudio de Benchmarking*, at www.fiscalreform.net/library/pdfs/benchmark.pdf . These benchmarks have since been applied in studies of other tax systems, including in El Salvador (2005) and Moldova (2008).

ISTD administers and taxpayers comply with taxes. Most of these recommendations refer specifically to changes that should be implemented within the ISTD.

Annex A, as mentioned, compares tax collection performance and structure in Jordan with that prevailing in the rest of the world, based on 20 internationally available comparative indicators. Annex B presents the most recent organizational chart of the ISTD, as of January 1, 2010.

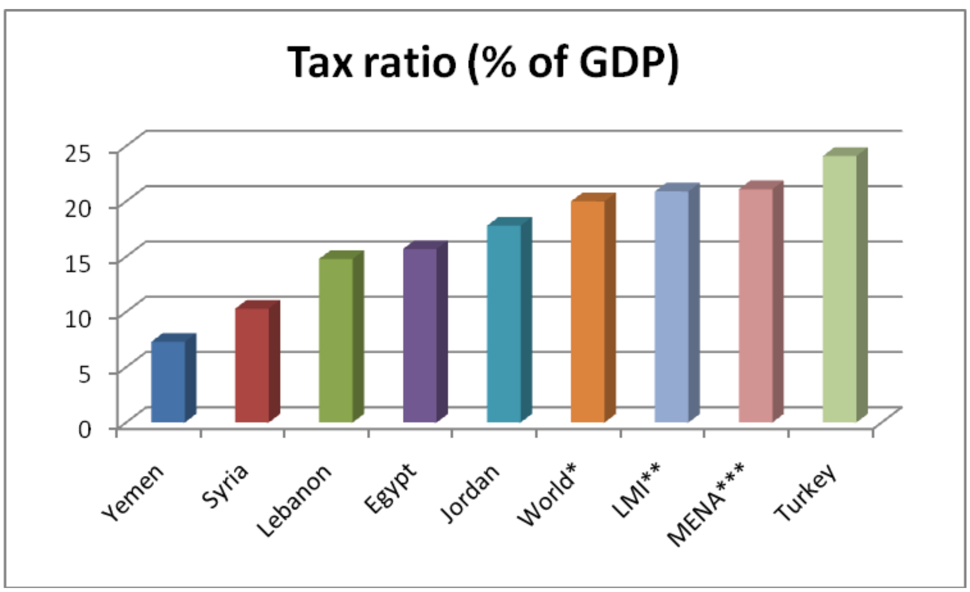
II. GLOBAL PERSPECTIVE

This section presents in brief the overall assessment of Jordan's tax system based solely upon the macro-level tax benchmarking indicators that are presented in Annex A to this report. These data come from the Collecting Taxes comparative data system (www.collectingtaxes.net/), an ongoing, global initiative of USAID's Washington, DC-based Fiscal Reform and Economic Governance Project.

A. COMPETITIVENESS OF THE JORDANIAN TAX SYSTEM

A "competitive" tax system is one that imposes the minimum possible burden on its taxpayers, relative to the tax burden found in other countries. From this perspective, overall levels of taxation in Jordan are neither high, nor low. For instance, total tax revenues, including taxes collected by the ISTD, Jordan Customs Department (JCD) and other domestic agencies, come to approximately 18 percent of GDP, which is not particularly high when compared to other Middle East countries. (Figure 2) Moreover, when we consider only the major taxes collected by domestic tax agencies around the world, and excluding import duties and social contributions, we find that at 15 percent of GDP, these taxes do not impose a particularly heavy burden in Jordan.

Figure 2. Tax revenue performance -- an international perspective



* World = international average
** LMI = lower-middle-income countries
*** World = Middle East & North Africa region

Jordan's general tax rates are also rather competitive from an international perspective. For instance, the general GST rate, set at 16 percent, is right on par with GST/VAT rates prevailing around the world. Furthermore, exports are zero-rated following international best practice.[2]

In accordance with the new, temporary Income Tax Law, as of January 1, 2010 the general rate of taxation on income of legal persons (including corporations and partnerships) has been reduced from 15 percent to 14 percent to match the new top personal income tax rate (see below), which is well below the average for the rest of the world as well as for the MENA region (approximately 26 percent in both cases).

Also starting in January 2010, the lowest marginal rate of taxation on personal income is set at only 7 percent, more than 2 percentage points below the regional average and 5 percentage points below the international norm. The top marginal tax rate, meanwhile, is reduced from 25 to 14 percent, which is not only far below the international average (30 percent), but is also highly competitive when compared to top rates around the MENA region (excluding oil-rich countries where personal income is generally not taxed).[3] The new law also provides generous tax allowances for employees and individuals, exempting the first 12,000 JDs of income for single persons, and the first 24,000 JDs for those with dependents (nearly 10 times per capita income).[4] As a result, the "tax wedge" on labor in Jordan, at 14.5 percent, is considerably lower than the average tax wedge around the world; in other words, the tax system is, in principle, "labor-friendly" and by itself should not pose a significant obstacle to job creation.[5]

Notwithstanding these positive features, there are a number of tax structure issues that are of concern. For instance, the new tax-free threshold of 24,000 JDs is equal to nearly 10 times per capita income in Jordan. While this might be seen as positive development from a tax system "competitiveness" viewpoint—the international average is about 1 times per capita income for a single person—by setting the tax-free threshold so high the Government of Jordan has removed all but the top 2 to 4 percent of income earners from the tax net and, thus, has foregone a potentially large amount of tax revenues.

Furthermore, the new Income Tax Law continues the previous practice of imposing separate, higher income tax rates on banks (30 percent) and an assortment of telecommunications and financial services (24 percent). International best practice suggests that corporate income should be taxed at a single rate, and this should match the top marginal tax rate for personal income to avoid distorting taxpayers' decisions about how to set up their businesses.

Finally, even with the adoption of a new General Sales Tax Law, which also took effect in January 2010, there are still multiple GST registration thresholds depending on the type of business: importers and

[2] Reduced rates of 4 and 8 percent apply to certain goods and services.

[3] The new, two-rate PIT regime includes an introductory rate of 7% on the first 12,000 JDs of taxable income; and, a top marginal rate of 14% on all remaining income.

[4] The new law also exempts the first 48,000 JDs for pension entitlements, as well as 50% of individuals' end-of-service compensation.

[5] The "tax wedge," which comprises mandatory social security contributions (employer and employee) and the personal income tax imposed on average working salaries, is a widely accepted indicator of the tax burden on labor. International studies have shown that there is a strong connection between the tax wedge and unemployment.

manufacturers subject to the excise-like Special Sales Tax (SST) must register regardless of turnover; otherwise, the turnover threshold is 30,000 JDs for services sector businesses, and 50,000 JDs for all other businesses. International experience suggests that a single filing threshold, based purely on annual turnover or a similar measure, is much easier to administer. The worldwide average for the GST/VAT registration threshold is about US$40,000 (28,000 JDs).

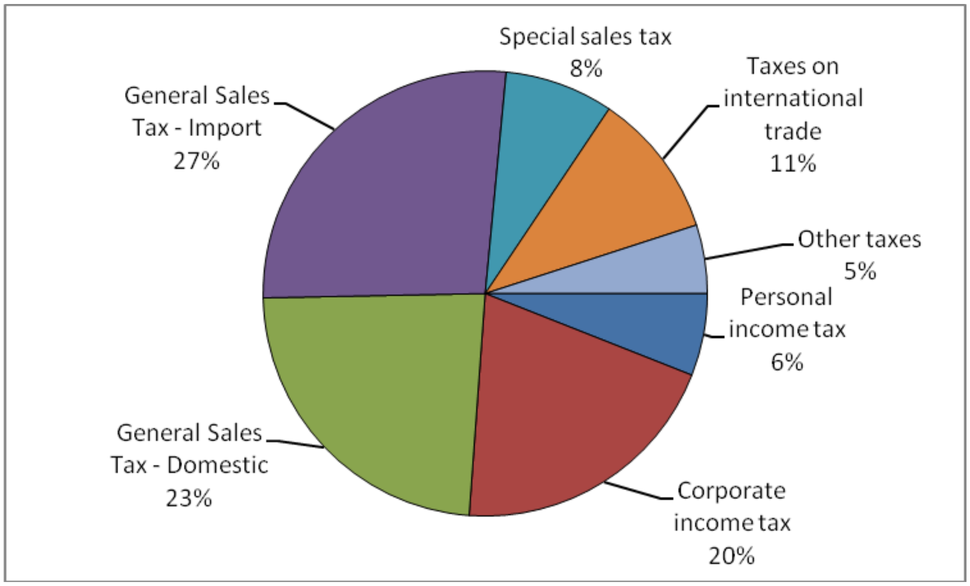
In short, we can conclude that the Jordanian tax system, in terms of the overall level of taxation, nominal tax rates, the recent changes in taxation of income and profits, and the tax wedge, is rather competitive, encouraging both investment and the creation of jobs. Yet, there is still considerable room to simplify tax policy, broaden the tax base and bring Jordan's tax system closer to international standards.

B. STRUCTURE OF THE JORDANIAN REVENUE SYSTEM

Tax revenue performance in Jordan is neither particularly strong, nor weak. Among the Middle East region's non-oil producing countries, Jordan has the highest ratio of tax revenues to GDP, at 18 percent. (Figure 2) Yet, the Government of Jordan still derives more than 40 percent of its revenues from *non-tax* sources, including substantial foreign grants. Collections of the GST are high compared to GST/VAT collections in other countries of the region and indeed compared to the rest of the world; however, taxation of corporate income produces only average revenues, while taxation of individuals' income produces only a measly amount.

Figure 3 shows the composition of tax revenues by tax type in Fiscal Year 2009. Worth noting, revenues from the General Sales Tax constitute roughly 50 percent of total tax revenues administered by the ISTD. Of this amount, more than 53 percent is collected at the border on imports of goods.

Figure 3. Composition of revenue by tax in Jordan, 2009



Source: Income and Sales Tax Department.

A more detailed presentation of the revenue structure and revenue trends over the past five years is presented in Table 1below.

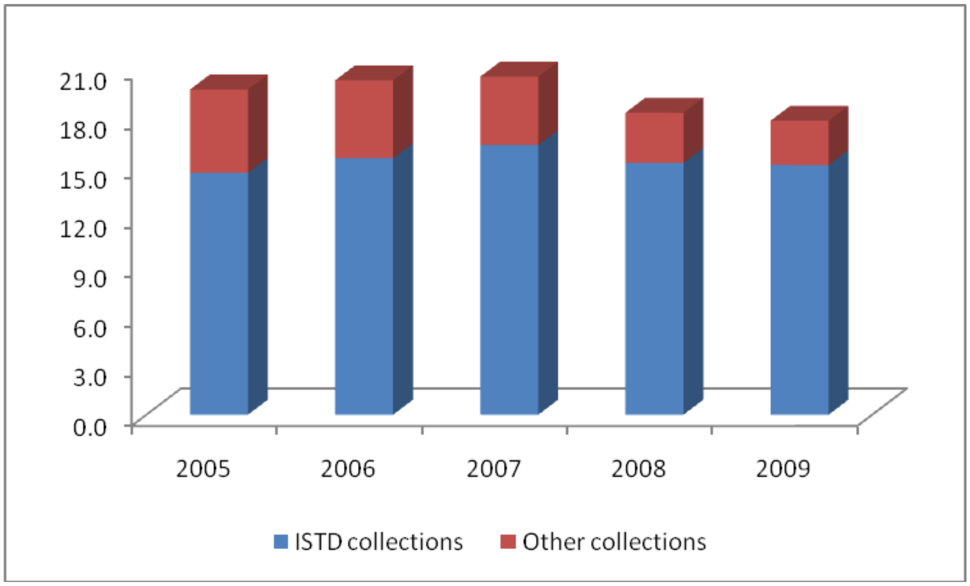
Table 1. Revenue trends in Jordan, 2005-2009

	2005	2006	2007	2008	2009
			Millions of Jordanian Dinars		
Revenues & grants	3,062	3,469	3,972	5,093	4,500 p
Revenues (excluding grants)	2,562	3,164	3,628	4,375	4,200 p
Tax revenues	1,766	2,134	2,472	2,758	2,900 p
ISTD-administered revenues	1,314	1,638	1,972	2,300	2,463
PIT	94	99	111	146	173
CIT	186	310	376	455	585
GST	888	1,056	1,275	1,508	1,460
SST (Excises)	147	172	199	178	229
International trade taxes	334	346	351	307	307
Other taxes	118	150	159	165	145
Non-tax revenues	778	1,014	1,138	1,595	1,505
Nominal GDP	8,953	10,520	12,057	15,058	16,263
CPI inflation	3.5%	6.3%	5.4%	14.9%	4.0%
			Percent of GDP		
Revenues & grants	34.2%	33.0%	32.9%	33.8%	27.7% p
Revenues (excluding grants)	28.6%	30.1%	30.1%	29.1%	25.8% p
Tax revenues	19.78%	20.3%	20.5%	18.3%	17.8% p
ISTD-administered revenues	14.7%	15.6%	16.4%	15.3%	15.1%
PIT	1.0%	0.9%	0.9%	1.0%	1.1%
CIT	2.1%	2.9%	3.1%	3.0%	3.6%
GST	9.9%	10.0%	10.6%	10.0%	9.0%
SST (Excises)	1.6%	1.6%	1.7%	1.2%	1.4%
International trade taxes	3.7%	3.3%	2.9%	2.0%	1.9%
Other taxes	1.3%	1.4%	1.3%	1.1%	0.9%
Other revenues	8.7%	9.6%	9.4%	10.6%	9.3%
			Percent of total tax revenues		
Tax revenues	100.0%	100.0%	100.0%	100.0%	100.0%
ISTD-administered revenues	74.4%	76.8%	79.8%	83.4%	84.9%
PIT	5.3%	4.6%	4.5%	5.3%	6.0%
CIT	10.5%	14.5%	15.2%	16.5%	20.2%
GST	50.3%	49.5%	51.6%	54.7%	50.4%
SST (Excises)	8.3%	8.1%	8.1%	6.4%	7.9%
International trade taxes	18.9%	16.2%	14.2%	11.1%	10.6%
Other taxes	6.7%	7.0%	6.4%	6.0%	5.0%

Source: Ministry of Finance; Income and Sales Tax Department. “p” = Authors’ projections

Revenue performance had been improving steadily from the time of the ISTD merger, crossing the 20 percent of GDP threshold in 2006 and again in 2007. However, as Figure 4 shows, the tax revenue to GDP ratio has declined since then, in large part as a result of the economic downturn that hit Jordan and numerous economies around the world in 2008.[6] In real terms (i.e., after adjusting for inflation), annual tax revenue growth also slowed, to only about 1 percent in 2008 and 2009.

Figure 4. Tax revenues-to-GDP in Jordan, 2005-2009



Even so, it is important to note that tax revenues collected by the ISTD have continued to grow as a percentage of overall tax revenues in Jordan, rising from 74 percent of the total in 2005 to 85 percent in 2009. In contrast, foreign trade taxes have declined sharply in their contribution to overall government revenues.

On an internationally comparative basis, we see that Jordan collects relatively low shares of GDP in personal and corporate income taxes and the Special Sales Tax, while it collects a relatively high share of GDP in the General Sales Tax. These shares are presented in an internationally comparative framework in Annex A.

Compared to VAT collections in other MENA countries, too, Jordan's GST produces a larger than average share of GDP in public revenues, while taxes on personal income tax (PIT) and corporate income tax (CIT) register slightly below the regional averages.

In 2005, ISTD-collected GST revenues were equal to about 79 percent of those VAT revenues collected by Customs. Since 2009, the ISTD's GST collections, net of refunds, increased to around 88 percent of Customs' GST collections. The trends in domestic (ISTD) VAT collections and collections at Customs on

[6] A notable exception to this trend is collections of the corporate income tax, which have continued to rise in spite of Jordan's economic troubles.

imports from 2005 to 2009 are presented in Table 2. Net GST revenues from domestic transactions increased by 69 percent between 2005 and 2009, while GST on imports increased by roughly 54 percent. It is difficult to establish the precise trends in border (Customs) collections, since we were unable to obtain revenue data that disaggregated the GST revenues from the SST revenues collected by Customs.

Table 2. Sales tax on domestic and international transactions

(JD millions)

Year	TOTAL	Domestic collections			Border collections	Domestic/ Customs
		GST	SST	Total		
2005	1,034.9	392.0	146.5	538.5	496.4	79.0%
2006	1,228.5	462.2	172.3	634.5	594.0	77.8%
2007	1,473.9	592.8	199.0	791.8	682.2	86.9%
2008	1,685.4	749.1	177.6	926.7	758.7	98.7%
2009	1,689.5	682.5	229.3	911.8	777.8	87.8%

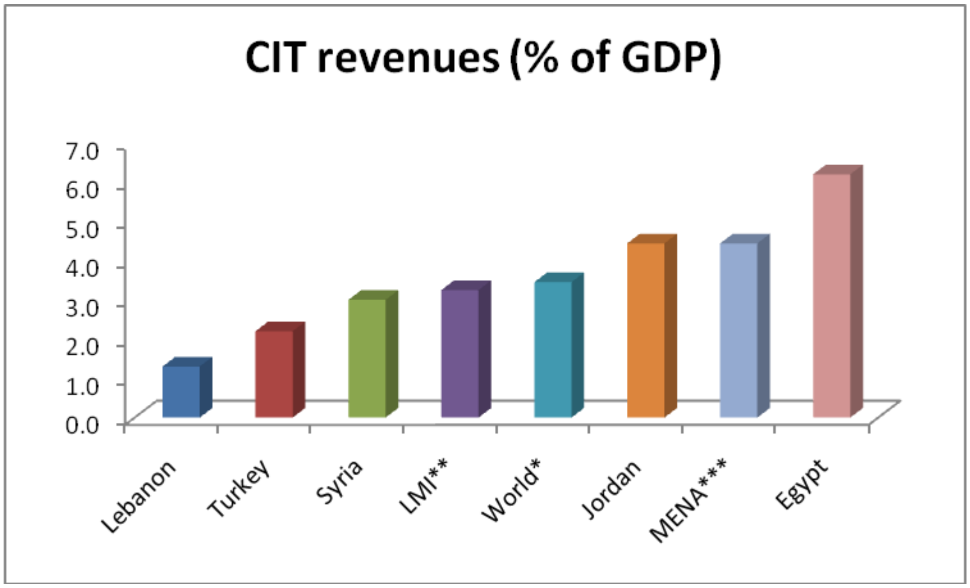
Source: Income and Sales Tax Department.

C. REVENUE PRODUCTIVITY AND EFFICIENCY

The Collecting Taxes comparative data system (www.collectingtaxes.net/) examines national tax systems from many perspectives, including in terms of revenue productivity. Tax revenue productivity measures a country's performance in collecting revenues for a particular tax, taking into account the specific features of that tax in that country. Annex A of this report provides detailed explanations of these productivity indicators and several related variables.

From a revenue productivity perspective, Jordan has achieved relatively strong performance. Corporate income tax revenue productivity is just slightly above the worldwide average of 0.13, but substantially lowers than the 0.19 average across all MENA countries. (Figure 5) It is important to note that the MENA average is as high as it is in part because the region includes several oil- and gas-rich countries, many of which boast among the highest CIT revenue yields in the world.

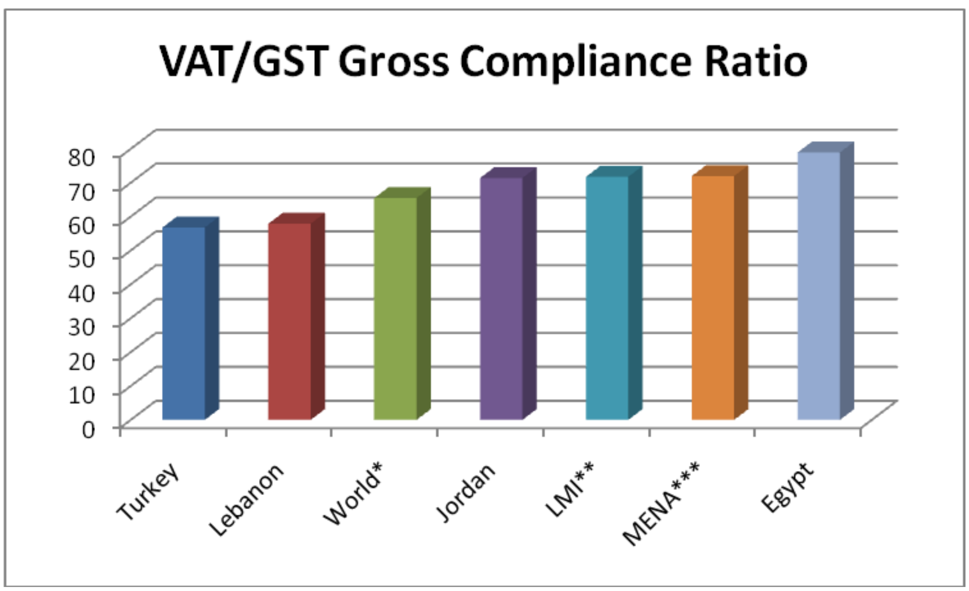
Figure 5. CIT collections in an international context



* World = international average
** LMI = lower-middle-income countries
*** World = Middle East & North Africa region

The ISTD also does a good job of collecting GST revenues. Indeed, GST productivity, at 0.56, and the more refined productivity indicator referred to as the GST "Gross Compliance Ratio," at 71 percent, are comparable to regional and international averages in those categories. (Figure 6)

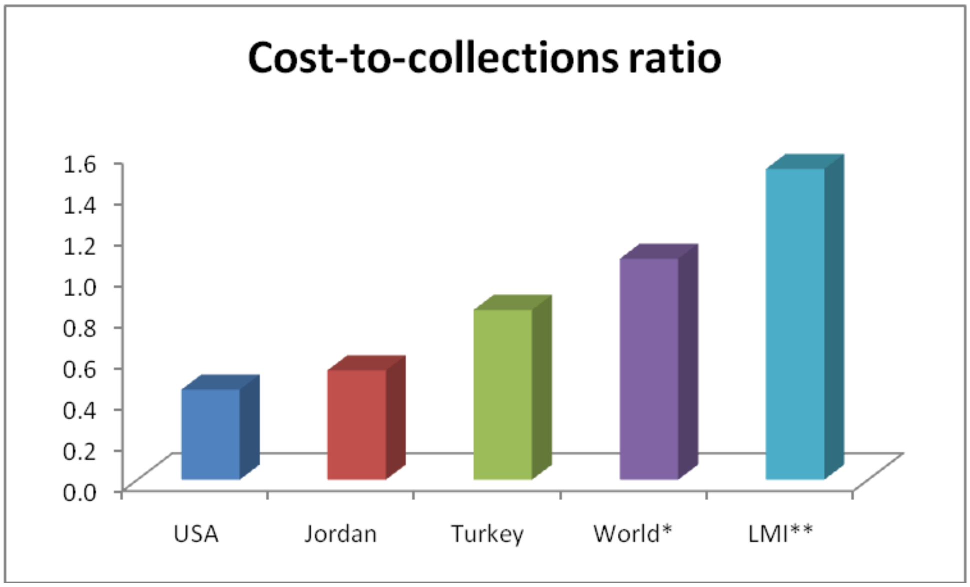
Figure 6. GST productivity in an international context



In contrast, personal income tax productivity in Jordan, given the structure of the tax, is extremely low. The country's PIT productivity is only 0.05 compared to the international average of 0.14. However, there is quite a wide distribution in this indicator, and the MENA regional average is only 0.07, or just slightly higher than in Jordan. Regardless, Jordan's consistently weak performance can be explained, at least in part, by the large number of exemptions and reliefs offered under the old income tax law. As highlighted above, the new law is similarly generous with its high tax-free thresholds; therefore, we expect that PIT revenue productivity will not likely improve much with implementation of the new law.

Another good indicator of overall revenue productivity and efficiency is the overall cost of collections measure. Available data indicate that the ISTD's cost-to-collections ratio is quite low, at 0.53 percent (i.e., 0.53 JDs for every 100 JDs of revenue collected), compared to an average of 1.08 percent for tax administrations worldwide. (Figure 7) We believe, however, that the official data understate the Department's overall expenditure—though exactly by how much is unclear.[7]

Figure 7. International comparison of tax administration efficiency



** LMI = lower-middle-income economies

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[7] The cost-to-collections ratio was calculated for the year 2008, as follows:

$$\frac{\text{Actual ISTD expenditures}}{\text{Revenues collected}} \times 100 = \text{Cost-to-collections ratio}$$

where 2008 expenditures include:

Personnel costs	10,413,803
Non-personnel expenditures	1,678,451
Others	5,125
Capital spending	200,951
Total	JD 12,298,330

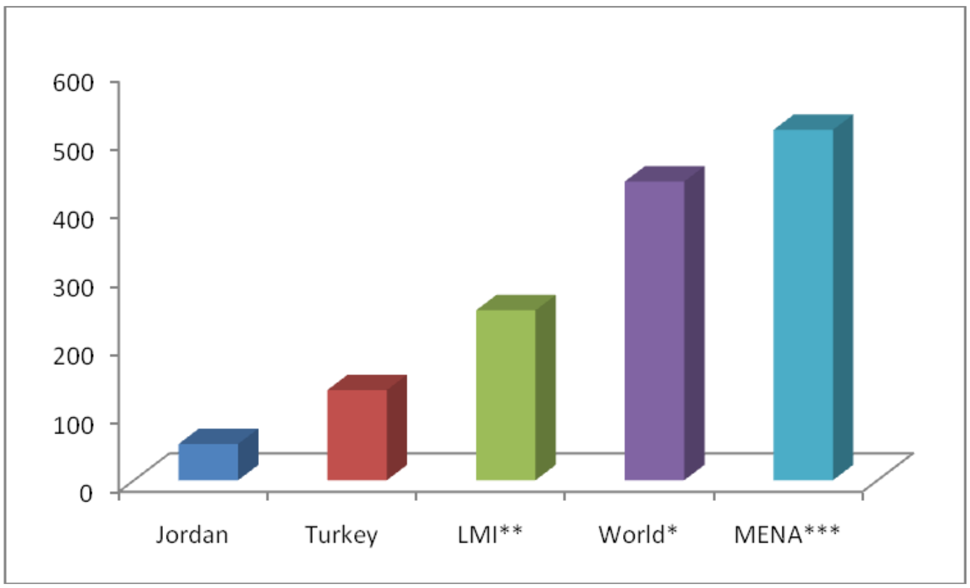
and where 2008 revenues were: JD 2,300,310,000

Further investigation is needed to determine the true and complete costs that the ISTD incurs annually in the execution of its operations. While a lower cost-to-collections ratio is always desirable, it is more important to ensure that the tax administration has the resources it needs to effectively carry out its responsibilities to the Government and to its customers.

Two other major factors related to tax administration productivity are the depth of the tax administration into the general population and, more specifically, into the taxpayer population, expressed in terms of its human resources or staffing. Compared to international norms, ISTD's staffing, at 1,507 employees as of January 2010, is very low. Indeed, in Jordan, there are 0.27 tax administration personnel per 1,000 inhabitants. The worldwide average for tax administration staff size is 0.82 per 1,000 persons in the population. For the MENA region, the average staff size is 0.51.

At the same time, the number of active taxpayers per tax administration staff is quite low. (Figure 8) By "active" taxpayers, we refer here to registered taxpayers who are actively filing, whether for income tax, GST, or any other tax obligations.

Figure 8. Active taxpayers per ISTD employee–an international comparison



*World = international average
**LMI = lower-middle income countries
*** = Middle East & North Africa region

As Figure 8 illustrates, at approximately 56 taxpayers for every ISTD employee, Jordan's coverage of the taxpayer population is about one-eighth of the world average, and one-tenth of the average in the MENA countries for which we have data. The international averages are as high as they are in part because of those countries, such as the United States, Canada and many OECD countries, that have a large number of active (i.e., filing) personal income taxpayers. By contrast, Jordan's ratio of taxpayers to tax officials is so low because only about 85,000 taxpayers are actively filing for income tax out of a registered taxpayer population of 520,000. These figures exclude the more than 400,000 employee-taxpayers, most of whom need not file annual returns in Jordan.

D. PAYING TAXES IN JORDAN: TAXPAYERS' PERSPECTIVE

International interest in the tax system's impact on the business "enabling environment" is growing rapidly. Among the many initiatives in this area, the World Bank's Doing Business Project has attracted wide attention with its "Paying Taxes" survey.[8] The survey and its data set compare the ease of paying taxes in countries around the world and rank them based on a series of indicators. The survey includes two indicators of administrative burden:

- The total number of tax payments per year; and
- The time it takes to prepare, file and pay (or with-hold) the corporate income tax, the value-added tax and social security contributions (in hours per year).

The "Paying Taxes" methodology is not without its flaws. For instance, the number of payments a taxpayer must make may be of lesser interest than the manner in which those payments are made (e.g., electronically, by post, or in person at the tax office). Furthermore, the "time" indicator only measures the time required to comply with three common taxes, while ignoring other taxes and fees—which in some countries may include dozens of so-called "nuisance taxes"—to which a company must dedicate resources. Yet, "Paying Taxes" is a good starting point for examining the burdens that businesses face from complying with tax laws.

Table 3 on the next page presents the "Doing Business 2010" survey's estimates of these administrative burdens for Jordan, MENA countries, and all the regions of the world. From this table, it is clear that Jordan is internationally competitive with respect to the administrative burdens placed on business in complying with taxes. While requirements will vary depending on the size and nature of the business, the average taxpayer must only make about 26 payments per year to the Government (compared with 23 payments for the MENA region); and, it devotes about 100 hours to preparing and filing tax returns and paying taxes due, or one-half of the regional average.

[8] See Doing Business' Paying Taxes site at: http://www.doingbusiness.org/ExploreTopics/PayingTaxes/.

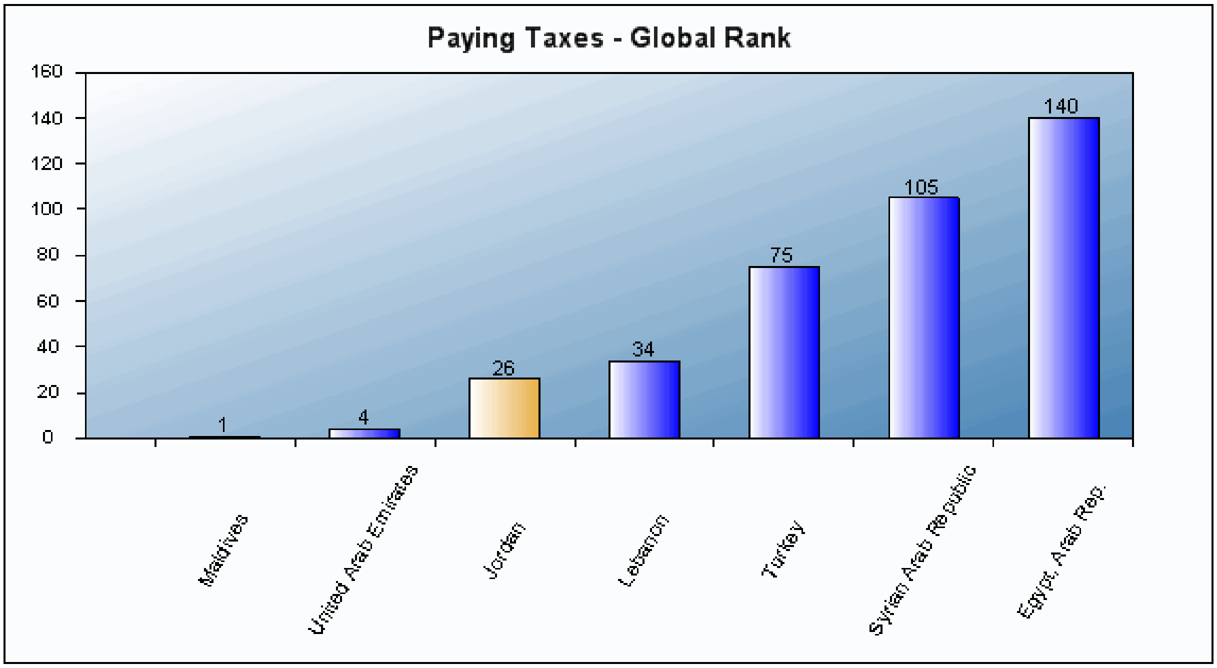
Table 3. Ranking Jordan's "Paying Taxes" regulations

INDICATOR	PAYMENTS (NUMBER)	TIME (HOURS)
East Asia & Pacific	24.6	227.2
Eastern Europe & Central Asia	46.3	336.3
Latin America & Caribbean	33.2	385.2
Middle East & North Africa	**22.9**	**204.2**
OECD	12.8	194.1
South Asia	31.3	284.5
Sub-Saharan Africa	37.7	306
Algeria	34	451
Bahrain	25	36
Egypt	29	480
Iran	22	344
Iraq	13	312
Israel	33	230
Jordan	**26**	**101**
Kuwait	15	118
Lebanon	19	180
Morocco	28	358
Oman	14	62
Qatar	1	36
Saudi Arabia	14	79
Syrian Arab Republic	20	336
Tunisia	22	228
Turkey	15	223
United Arab Emirates	14	12
West Bank and Gaza	27	154
Yemen	44	248

Source: Doing Business, *Paying Taxes 2010*, at www.doingbusiness.org/exploretopics/payingtaxes/.

Figure 9 shows Jordan's global rank relative to its regional neighbors. The small island country of the Maldives in the Indian Ocean is shown here merely as a reference point, as it ranks first among all the countries surveyed by Doing Business. In the Middle East, however, Jordan ranks second, bested only by the United Arab Emirates, an oil-rich country with a very lean tax regime.

Figure 9. Ease of paying taxes in Jordan: Regional and international benchmarks



Source: *Paying Taxes 2010*, at www.doingbusiness.org

As mentioned above, the Doing Business Project's "Paying Taxes" comparative system provides but one perspective on the relative burdens of complying with tax laws from country to country. In the chapters that follow, we will address additional burdens that taxpayers face in complying with tax rules and procedures specific to the ISTD and to Jordan.

E. RECENT DEVELOPMENTS

Jordan's National Agenda lays out clear targets for achieving broad-based growth and creating an internationally competitive economy, including greater reliance on taxation to fund investments in the country's development. Yet, a number of recent developments present serious challenges to meeting this objective.

The ongoing economic crisis is one such challenge. In real terms, economic growth has declined from 8.9 percent in 2007 to less than 5 percent in 2009. As Table 1 above shows, this slowdown has already had an impact on tax revenues. Unusually, it seems to have had more of an effect on GST collections than collections of the personal and corporate income taxes, which are traditionally more sensitive to economic fluctuations.

Reforms introduced in the new (temporary) Income Tax Law pose additional risks to revenue generation. In an attempt to lessen the burden of taxation on Jordanian society, starting in 2010, the Government has flattened personal income tax rates from a five-rate regime, with progressive rates from 5 to 25 percent, to a two-rate regime, where the first 12,000 JDs of taxable income is subject taxation at 7 percent, and all remaining income at 14 percent. While high income earners will surely welcome this change, lower income earners will likely take little consolation from the increase in the introductory rate to 7 percent. Regardless, it is likely that with the high tax-free threshold, and with the lowering of the top marginal tax rate, this reform will result in lower tax revenues for the Government.

Another risk comes from the recent amnesty decision issued by the Government. According to the September 2009 decision, taxpayers with outstanding debts can apply to the ISTD to waive part or all of the penalties (and, in some cases, part of the taxes due) for agreeing to pay off their outstanding tax obligations. The hope is that this amnesty, in the short term, will help the Government recoup a significant portion of its total tax arrears; and, in the long term, that one-time delinquent taxpayers will now become compliant and actively participate in the tax system. However, there is no reason to expect that this strategy will result in improved compliance or greater revenue generation. Indeed, international experience suggests that tax amnesties, such as this one, lead to even less compliance in the future. Non-compliant taxpayers will continue to break the rules, and some of the previously compliant taxpayers will join them, because they anticipate that the Government will eventually grant another amnesty. To ensure that the Government and the ISTD are able to secure the desired results from this amnesty program, immediate efforts are needed to strengthen compliance efforts. Several measures recommended in Chapter VIII of this report can help in this regard.

F. PINPOINTING STRENGTHS AND WEAKNESSES

Overall, Jordan's tax system, while not particularly weak, is also not particularly strong. GST collections are relatively strong, but have been on the decline over the last two years. Corporate income tax collections are seemingly on the rise, but collections of the personal income tax remain very low and are likely to fall with the recent changes in tax law.

With respect to tax administration specifically, the size of the ISTD work force is not large, but the number of taxpayers that this staff is actively managing is probably lower than is optimal. Measures to reduce unproductive activities within the ISTD—many of which will be discussed in the coming chapters—would free up staff to focus on more revenue-productive activities, such as bringing income tax non-filers into the tax net and thereby increasing the ISTD's tax base. Meanwhile, the ISTD's cost-to-collections ratio is relatively low, which we believe reflects as much a problem of inadequate financial resources, as it does efficiency in collecting taxes due. Later in this report, we recommend measures to both increase remuneration levels for ISTD employees, particularly audit and compliance personnel, while reducing the amount of resources dedicated to unproductive tax administration activities.

Finally, it is likely that recent policy initiatives, such as the new income tax law and the amnesty program, will result in further revenue decline unless countered by strengthened and better focusing of tax administration capabilities. Recommendations in Chapter VIII of this study will specifically address this issue.

III. ISTD ORGANIZATION AND OPERATIONAL BENCHMARKS

The attributes and statistical benchmarks of modern tax administrations used to compare Jordan in the table below are those developed in the Gallagher (2001) study, "Applying International Best Practices to Tax Administration Performance in Guatemala: A Benchmarking Study."[9] In Table 4 below, the data shown in the second column replicate the "International Benchmark" data presented in Gallagher (2001). Jordan's status as of 2009, in comparison to each of the international benchmarks, is shown in the third column. Explanations for each indicator and benchmark are presented below the table.

A. PRIMARY BENCHMARKS

Table 4. Primary tax administration benchmarks

Indicator	*International Benchmark*	*Jordan 2009*
General		
1. Number of tax administrators per 1000 national population	0.87 (1.14 in FSU)	0.27
2. Ratio of active taxpayers to tax administrators	575:1	56:1
Audit		
1. Use of performance indicators for audits and auditors	Yes	Yes
2. Audited taxpayers as % of total taxpayers, per year	1%	40% MTOs 100% LTO
3. Unified domestic and import audits	Trend	Trend
4. Ex post customs audits	Trend	Yes
5. Separation of taxpayers by size or nature	Yes	Yes
6. Percent of taxpayers in LTO	0.5% to 1%	0.3%

[9] See Gallagher, Mark et al (2001), *Aplicación de Mejores Prácticas Internacionales al Desempeno de la Administración Tributaria de Guatemala: Un Estudio de Benchmarking*, at http://www.fiscalreform.net/library/pdfs/benchmark.pdf.

Indicator	*International Benchmark*	*Jordan 2009*
7. Percent of revenues from large taxpayers	65%	80%
8. LTO staff as % of total tax staff	3%	4%
Payment and collections		
1. Banking system payments	Yes	Yes
2. Percent of large taxpayers declaring via Internet	100%	< 1%
3. "Stop-filers" as % of active taxpayers	5%	300%
4. Late payments as % of total tax receipts	5%	Data not available
5. Administrative cost as % of total receipts	1%	0.53%
6. Share of adjustments and fines collected	80%	Data not available
7. Business days for VAT refunds	25	30-90 days
8. Institution that establishes revenue targets	Ministry of Finance	Ministry of Finance
Automated Systems		
1. Use of automated systems for daily operations	Yes	Yes
2. Existence and use of automated Management Information Systems (MIS)	Yes	Partial
3. Interconnectivity between Headquarters (HQ) and local tax offices	Yes	Yes
4. Backup systems for all uses	Yes	Yes
5. Reliable taxpayer current account	Yes	No
6. Clean and operating taxpayer registry	Yes	No
7. Automated audit case selection	Yes	Partial
8. Tax declaration entry with automatic error correction	Yes	No
9. Use of exogenous information (filers>vehicles>real estate)	Yes	Yes
10. Use of third-party databases	Yes	Yes
11. Data crossing among taxes	Yes	Partial

Indicator	*International Benchmark*	*Jordan 2009*
12. Late or stop filers system	Yes	Partial
Planning and coordination		
1. Appropriate use of planning, monitoring, and evaluation systems for tax organization	Yes	Partial
2. Coordination of data flows among tax administration, Ministry, and other agencies	Yes	Partial
Human Resources		
1. % of employees with university or college degrees	70%	79%
2. Ratio of senior auditor to entry-level auditor salaries	2:1	2:1
3. Ratio of average tax administrator's salary to GDP per capita	2:1	1:4
4. Existence of administrative career plan	Yes	No
5. Existence of formal retirement plan	Yes	Yes
Sanctions and penalties		
1. Tax code	Trend	No
2. Tax fraud felony	Trend	Yes
3. Application of tax fraud felony sanctions	Little	Yes
4. Appeals tribunal	Yes	Yes
Organization, Institutional Credibility and Public Confidence		
1. Stability of top-level leadership	Fixed appointment	Fixed appointment
2. Professionalism of top-level staff	Excellent	Excellent
3. Tax fraud unit in tax administration	Yes	Yes
4. Unit for investigation of internal corruption	Yes	Yes
5. Diverse and high-quality taxpayer services	Yes	Partial
6. Internal regulation	Yes	Partial

B. EXPLANATIONS OF BENCHMARK INDICATORS

<u>General</u>

1. *Number of tax administrators per 1000 national population.* Self-explanatory.
2. *Ratio of active taxpayers to tax administrators.* Self-explanatory.

<u>Audit</u>

1. *Use of performance indicators for audits and auditors.* Self explanatory.
2. *Audited taxpayers as % of total taxpayers, per year*. Self explanatory.
3. *Unified domestic and import audits.* These are in-depth audits that cover all taxes for which the taxpayer is liable, including Customs duties.
4. *Ex post Customs audits.* These are audits conducted after merchandise has been cleared and released to taxpayers.
5. *Separation of taxpayers by size or nature.* This refers to the practice of most modern tax administrations to classify taxpayers as large, medium or small, and to further classify taxpayers by industry groups for special handling of each category.
6. *Percent of taxpayers in LTO.* The international norm is to have between 0.5% and 1% of total active taxpayers managed by a large taxpayer unit.
7. *Percent of revenues from large taxpayers*. In most modern tax systems, receipts from large taxpayer account for about 65-70% of total tax revenues on average.
8. *LTO staff as % of total tax staff*. The international benchmark is to dedicate about 3% of total tax administration staff to servicing large taxpayers.

<u>Payments and enforced collections</u>

1. *Banking System Payments.* This involves tax payments through the banking system, which is usually more convenient for taxpayers; more accurate processing; and less expensive to the government than payments through the tax administration.
2. *Percent of large taxpayer declaring via the internet.* Again, this is highly desirable in terms of cost and reliable data. The higher the percentage, the better.
3. *"Stop filers" as % of active taxpayers.* This is the percentage of the number of registered taxpayers who have stopped filing the tax returns they were registered to file (VAT, Income Tax, etc.) in relation to the total number of active taxpayers. Management of delinquent stop-filers to keep this percentage as low as possible is a very important objective.
4. *Late payments as % of total receipts.* This is the percentage of the value of tax payments made after the due date for payment established by law, in relation to total tax revenue. Management of delinquent taxpayers to keep this percentage low is a very important objective.
5. *Administrative cost as % of total receipts.* This is a gross indicator of efficiency. How much it costs – salaries, equipment, fixed assets, etc. – for a government to impose taxation on its people in administrative terms. Internationally, costs vary widely, but rich countries have lower costs than poor countries in relation to how much they collect.
6. *Share of adjustments and fines collected.* The reference here is to the % of additional taxes and penalties proposed by auditors that are actually collected, after technical reviews; objections by taxpayers to proposed additional assessments; and appeals to administrative and judicial levels. The higher the percentage, the higher the quality of case selection and work quality of audits, as based on law and facts.
7. *Business days for VAT refunds*. The lower the average number of days, the better in terms of taxpayer service, taxpayer relations, and the image of the tax administration.
8. *Institution that establishes revenue targets.* Self explanatory.

Automated systems

1. *Use of automated systems for daily operations.* All modern tax administrations must employ reliable systems of automation for all major operations, such as document receipt, issuance of notices, filing and imaging, taxpayer services, collection and auditing cases, etc.
2. *Existence and use of automated Management Information Systems (MIS).* Self-explanatory.
3. *Interconnectivity between HQ and local tax offices.* All modern tax administrations provide on-line links/servers between Head Quarters and regional and local offices for all major aspects of operations. Those administrations that do not and have to resort to paper exchanges and processing are always the least efficient and least effective.
4. *Data and systems backups*. All modern public institutions must insure that their data and computer systems are backed up on a daily basis to avoid losing the vital data and systems of the entire country's tax system in case of a natural or other types of disasters.
5. *Taxpayer current account in operation.* A current account is an accounting of all the taxes that a taxpayer is responsible to file and pay which requires at all times up-to-date posting by automated means of all tax activities of the taxpayer, i.e., filings, payments, penalties, etc. for all types of taxes. The taxpayer current account is the heart of modern tax administrations. The taxpayer account in most developing countries is <u>not</u> up-to-date or reliable.
6. *Clean and up-to-date Taxpayer Registration System.* A modern and up-to-date taxpayer registration system is a pre-requisite for a taxpayer account. The taxpayer registration system in most developing countries is <u>not</u> up-to-date or reliable.
7. *Automated Audit case selection.* Audit selection, whether for income tax, VAT or other types of taxes, should be based on unbiased risk assessments based on statistically determined parameters. Such a system will help select for audit those firms and individuals that are more likely concealing information and therefore under-declaring their tax obligations.
8. *Tax declaration entry with automatic error correction.* This has reference to automated systems integrated with automated systems for processing tax declarations that will detect error and either make corrections automatically or set the declaration aside for human intervention and correction.
9. *Use of exogenous information (filers- vehicles – real estate).* Efficient and effective tax administrations must use databases about assets of taxpayers for income-and-tax consistency with ownership of assets.
10. *Use of third party databases.* The legal authority and ability of tax administrations to use automated systems of information to compare 3rd-party financial and other data to taxpayers' returns is of utmost importance to modern tax administration.
11. *Data crossing among taxes.* Crossing and comparing information of each taxpayer's taxes provide excellent leads for taxpayer compliance programs, e.g. VAT paid in customs and VAT paid on domestic transactions; real estate taxes and income taxes; and import duties and VAT.
12. *Late or stop-filer systems.* Management and compliance programs and systems to monitor and pursue late and stop-filers to keep this percentage as low as possible are very important objectives of modern, efficient and effective tax administrations.

Planning and coordination

1. *Appropriate use of planning, monitoring and evaluation systems for tax organization.* Efficient/effective tax administrations have a planning unit that leads in the development of coordinates strategic plans and annual work plans and establishes a culture that includes setting and continual monitoring of performance targets.
2. *Coordination of data flows among tax administration, Ministry, and other agencies.* The tax administration should have information-sharing agreements with the banking system, the Ministry of Finance, Customs and local governments – all of which can provide information

about taxpayers valuable to tax administration such as value of imports, exports, bank deposits, international transfer pricing, and other information.

Human resources

1. *% of employees with university or college degrees.* A higher percentage – particularly in the technical and management ranks – enhances the efficiency and effectiveness of the overall administration.
2. *Ratio between director and auditor salaries.* In industrialized countries, the ratio is about 2 to 1, but the ratio in developing countries varies considerably.
3. *Ratio between average tax administrator's salary and GDP per capita.* Here again, the ratio in industrialized countries is about 2 to 1; so the average salary, while not high, is enough to attract highly qualified candidates to the tax administration's ranks. In developing countries, the ratio is higher but still too low to attract enough high caliber professionals.
4. *Existence of administrative career plan.* This refers to what is called a "civil service system" in many industrialized countries, with features such as formal recruitment, training and promotion programs based on qualifications and competition of candidates.
5. *Existence of formal retirement plan.* Self explanatory.

Sanctions and penalties

1. *Tax Code.* The ideal tax code is a single, comprehensive piece of legislation that defines all the legal rights, requirements and recourses for taxpayers and the tax administration alike. It defines all terms that are to be used in the tax system and establishes broad procedures; the organization structure; and the roles of related bodies, such as appeals tribunals.
2. *Tax fraud penalty.* A tax fraud law imposes criminal sanctions for tax evasion and intentional filing false documents with regard to income, expenses or other financial transactions with the tax authorities. Developing countries have only recently started to adopt tax fraud laws.
3. *Application of tax fraud felony sanctions.* Developed countries usually have a high voluntary compliance rate. Therefore, the tax fraud penalty has to be applied only sporadically and its applications are given heavy publicity in the news media. In developing countries which have recently adopted tax fraud laws, despite low voluntary compliance and high tax evasion rates, application of fraud felony sanctions have been weak at best or totally non-existent.
4. *Appeals tribunal.* Most industrialized countries have an appeals process where taxpayers are able to dispute the decisions of the tax authorities. The appeals process is an important institutional arrangement that helps to insure the protection of taxpayer rights lends credibility to the overall tax system and helps to keep the tax authorities under constant review.

Organization, institutional credibility and public confidence

1. *Stability of top-level leadership.* Stability at the top is a critically important feature for consistent direction and leadership of modern, effective and efficient tax administration. In tax administrations of developing countries, instability is the norm, as directors general are replaced very often.
2. *Professionalism of top-level staff.* Self explanatory.
3. *Tax fraud unit in tax administration.* Tax administrations should have an internal organization unit to investigate cases of tax fraud. The investigators of such a unit require special investigative skills, different from those of auditors and other tax administration staff.
4. *Unit for investigation of internal corruption.* Tax administrations should have an internal organization unit to investigate allegations of corruption of tax officials. This unit should report directly to the top-level administrator.

5. *Diversity and quality of taxpayer services.* The most important responsibility of any tax administration is to attain and maintain a very high degree of voluntary compliance by taxpayers with their tax obligations. The variety and quality of services given to taxpayers to help them comply with their tax obligations voluntarily encourage voluntary compliance as much or more than enforcement programs.
6. *Internal regulation.* All public entities need to clearly specify in terms of internal regulations or rules the policies and procedures that must be followed in carrying out their functions. Procedural manuals issued to all employees of modern tax administrations are the handbooks that outline how these policies and procedures are to be carried out and provide uniformity in application by all personnel. In developing countries, such manuals usually do not exist or are outdated or obsolete.

IV. ORGANIZATION & OPERATIONS – BEST INTERNATIONAL PRACTICES

There are several features which distinguish successful tax administrations around the world. From many of those features, a collective, but not all-inclusive, set of good or best international practices in tax administration has been drawn. Our observations and recommendations in this report about the ISTD's organization and operations are based largely on comparisons to international best practices. The sections below briefly describe many of those practices.

A. TYPE OF ORGANIZATIONAL STRUCTURE

Tax administrations around the world tend to organize around three different themes:

1. Some are organized by type of tax, e.g., income tax, VAT, and excises taxes.
2. Some are organized by type of taxpayer/client, e.g., large enterprises, small/medium enterprises and self-employed, wage and salary earners, and exempt organizations.
3. Some are organized by functions performed, e.g., taxpayer services, audits, collections and enforcement.

Each approach has its advantages and its disadvantages. The most prevalent and most successful organizational structure for many years has been by functions performed (commonly referred to as "functional organization"). However, in some countries, including Australia, New Zealand and the United States, there have been moves in recent years away from the wholly functional structure to either the "client type" or to a "hybrid" structure, which combines elements of the functional and the client-type structures.

Under the functional and the functional/client type structures, a very high proportion of the human and financial resources are allocated to the core functions or field operations of the tax administration in relation to that provided to the support functions in Headquarters.

B. CORE AND SUPPORT FUNCTIONS

The basic or core functions of modern tax administration include:

- Taxpayer registration;
- Taxpayer services;

- Receipt & processing of tax declarations;
- Taxpayer audits;
- Taxpayer objections (administrative appeals);
- Collections of current taxes and of tax arrears;
- Compliance control of non-filers and stop-filers; and
- Tax-fraud investigations.

The support functions which provide the resources and guidance to the core functions are:

- Integrity investigations and internal audits ;
- Planning, monitoring and performance evaluation;
- Legal services;
- Human resources (personnel management and training functions);
- Budget and financial administration;
- Information technology (computerization and data networking); and
- Facilities and administrative services.

C. ROLE OF HEADQUARTERS DIRECTORATES

The Headquarters of a country's national tax administrations is meant to provide support and normative guidance for all field operations, but not to actually carry out any of those operations. The specific roles of Headquarters Directorates generally include:

- Preparing strategic plans;
- Preparing, issuing, monitoring and evaluating annual work plans for Audit, Tax Compliance, Debt Management and Taxpayer Services operations and monitoring progress on meeting objectives;
- Developing case-selection criteria for Audit, Debt Management, and Compliance;
- Determining human resource needs and recruiting, training and allocating personnel;
- Providing financial resources;
- Providing legal services;
- Providing IT hardware, software and expertise; and
- Developing and providing the norms by which the entire organization is governed.

The normative role that Headquarters Directorates perform—setting organization-wide policies and operating procedures and laying these out in written procedural manuals—is vital to the success of the tax administration. Clear policies and methodologies—the *norms*—guide the consistent application of tax laws, tax policies and administrative procedures at all levels, and help ensure fairness, transparency and predictability in the tax system. These are key ingredients in stimulating the high levels of domestic and foreign investment required for economic growth.

D. ROLE OF FIELD DIRECTORATES

In contrast to Headquarters, Field Directorates perform the operations role of the tax administration. Auditors, Compliance Officers, Anti-Fraud Investigators, and Customer Service Specialists are the ones who deal exclusively with taxpayers to provide information and assistance, perform audits, enforce compliance, collect tax arrears, and investigate cases of possible tax evasion.

E. CONTROL OF HIGH-PRIORITY TAXPAYERS BY SEGMENTATION

Over the years, more and more tax administrations have developed and implemented strategies for controlling their universe of taxpayers by segments. The most common segmentation strategy has been to establish a Large Taxpayer Office (LTO) program to control those taxpayers who collectively account for between 60-80 percent of the government's overall tax revenue each year. Inclusion in the LTO program is usually determined by the annual turnover and/or amount of tax liability of the taxpayer for the prior two or more years, plus other criteria such as the nature of the business. For instance, in many countries all taxpayers in certain industries—such as financial institutions—are included in the LTO program, regardless of their actual size.

Lower-level segmentation of taxpayers has recently been extended in some countries to designing and implementing strategies and offices to control medium-size taxpayers who usually contribute around 15-20 percent of the government's annual tax revenue. Medium Taxpayer Offices (MTOs), by default, control those taxpayers not included in the Large Taxpayer program or those classified as "small taxpayers."

Small taxpayers, meanwhile, are by far the largest taxpayer segment, but also the most difficult to control because of their sheer number and their lack of adequate record-keeping. In many countries, tax administrations have begun to develop and implement strategies for controlling this segment as well. Many have introduced presumptive tax strategies, in lieu of applying scarce audit and compliance resources to this taxpayer population. Many have also designed and implemented simplified regimes for small businesses, allowing these taxpayers to opt to pay a simple turnover tax, rather than be subject to more complex income tax and VAT reporting requirements.

F. CATEGORIES OF STAFFING

Functional organizations require three categories of personnel: (i) management, (ii) technical, and (iii) administrative, or support, personnel. Each category is organized around its respective, specialized tax administration function. Staff are then recruited or selected and specifically trained to specialize in the performance of their respective roles and responsibilities, and they are expected to continually dedicate most of their time to the performance of those duties. Auditors perform tax audits, and Anti-fraud Investigators conduct fraud investigations; the former should not perform the latter's job, and vice versa. To the extent possible, technical personnel should not be burdened with a high degree of clerical or administrative work. Supervisors and managers should mainly be left to carry out management functions, and should not be involved in the technical work concerning specific taxpayers.

In a given organizational unit, personnel sharing the same technical specialization (Auditors, Compliance Officers, etc) are assigned to "full groups", each with a supervisor. The term "full groups" relates to management span-of-control—groups that are large enough to permit specialization, but small enough to be manageable. A ratio of 8-12 specialists per one supervisor is considered a good span-of-control. However, a smaller span-of-control is desirable in some highly technical operations, such as large-taxpayer audits.

Of course, one disadvantage of organization by taxpayer segments in countries with less than 2,000 tax administration employees is the inability to implement this particular good practice.

G. CENTRALIZED STAFFING

Another important practice in successful functional organizations is "centralized staffing." Centralized staffing ensures the adequate provision of personnel to a limited number of centrally located tax offices to carry out all of the core functions of tax administration efficiently and effectively. The central geographic locations of offices makes them accessible to a high percentage of the taxpayers in that tax jurisdiction, while also ensuring that taxpayers in the wider geographic area will still "feel the presence" of the tax authorities. To provide adequate coverage of more remote areas, staff are assigned periodically to travel from these central locations to perform audits, collect tax arrears, hear taxpayer objections and conduct taxpayer education. Connectivity at all locations to centralized databases allows each site to provide services to taxpayers anywhere in the country.

H. DELEGATIONS OF AUTHORITY

In the most successful tax administrations, tax officials in Headquarters and Field Directorates are given sufficient authority and resources from the finance ministry and higher levels of government to make and carry out technical and administrative decisions. Directors run their respective Directorates with a high degree of independence, while being held fully accountable for their unit's performance.

In fact, modern tax administrations rely heavily on a system of "cascading" delegations of authority. In the traditional chain of command, authority is given in the law to the Minister of Finance to delegate authority to the Director General of Taxes to perform all duties necessary to execute the country's tax laws. The Director General is then authorized to delegate authority to his Assistants DGs in Headquarters and in the field. In turn, Assistant DGs make similar written delegations of authority to their respective Directors, who then can delegate to their managers and supervisors. Finally, managers are able to delegate sufficient authority to their trusted staff to ensure that work gets done both efficiently and effectively. Given sufficient authority, employees at each level of the tax administration are able to deal with most operational, personnel, and administrative matters expeditiously and with a high degree of independence. Each level of management can then monitor the proper exercise of authority through monitoring reports, on-site reviews, internal audits and other activities.[10]

I. INTERNAL AUDIT & INTERNAL CONTROL

The term "internal audit" refers to the process of conducting periodic reviews to ensure that selected regulations, operations and administrative procedures and programs conform to specified standards and are being implemented efficiently and effectively. All modern tax administrations have an Internal Audit staff in the Headquarters office who conduct independent and professional internal audits on behalf of the Director General to detect and deter inefficiency and waste and identify better ways to carry out tax administration operations.

The internal audit function is often part of a division that also includes "internal control," although these two functions are somewhat different. Whereas internal audit focuses on the quality and efficiency of tax administration systems, procedures and processes, internal control focuses on allegations of corruption, fraud and misconduct by tax officials. Internal control staff conduct professional and timely investigations of such misconduct and then recommend and carry out sanctions against those officials in confirmed cases. An effective, independent internal control function helps to preserve public confidence in the integrity of tax administration personnel.

J. ENHANCING VOLUNTARY COMPLIANCE

The most successful tax administrations around the world are the ones that strongly encourage and achieve a very high degree of voluntary compliance by taxpayers with the country's tax laws. Tax administration expenses are low, and tax revenues for the government are high, when most taxpayers comply voluntarily. To this end, the cost or burden for taxpayers who continue to comply voluntarily must be kept to a minimum at all times. Furthermore, a wide variety of high-quality services must be provided to demonstrate to taxpayers that those who comply voluntarily are respected and are treated as valued customers of the government.

At the same time, the tax administration can direct its limited compliance resources at taxpayers who do not comply with their tax obligations, exercising all enforcement powers at its disposal.

K. OPERATING, RELIABLE TAXPAYER CURRENT ACCOUNT

The Taxpayer Current Account (sometimes referred to as the "taxpayer ledger" in the ISTD) is one of the pillars of modern and successful tax administrations. A taxpayer current account is really an accounting system for each taxpayer by which the tax administration tracks liabilities owed and payments made by each taxpayer for all types of taxes. All debit and credit transactions must be recorded in a very timely manner—no matter where the activity takes place—to track all financial activity (liabilities and payments, respectively) on a taxpayer's account. Automated current account systems are able to track and record

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[10] There are, of course, certain limitations to such delegations of authority—for instance, with respect to official decisions on tax cases with very high monetary values, or for purchases of major capital equipment.

tax declarations filed by the taxpayer, whether through the banking system, electronically (e.g., e-filing), or at a tax administration office anywhere in the country. Tax payments made at all locations must also be recorded to the taxpayer's current account as quickly as possible. Prompt and complete posting of these data provides an audit trail with debit and credit transactions to track all financial activity (liabilities and payments, respectively) on each taxpayer's account.

A given taxpayer's current account is first established at the time the taxpayer registers with the tax administration and is given a unique taxpayer identification number (TIN). The TIN for each taxpayer is the "electronic address" where all transactions are recorded. At the time of registration, the particular taxpayer's tax obligations are entered in his own current account in the tax administration's master file database of taxpayers, using the unique TIN as the main identifier. The particular current account for that taxpayer lists the types of tax declarations for which the taxpayer is liable (GST, Income Tax, SST, etc.) and the due dates of each tax return and payment. Thereafter, the automated system monitors the taxpayer's current account for compliance or non-compliance with tax obligations. If the taxpayer does not file any of the required declarations by the due date, a non-filer case is issued soon thereafter by the automated system to the appropriate compliance unit for contact with the taxpayer (by mail, telephone, or field visit).

Similarly, if the taxpayer does file, but does not pay all or part of the tax due, the automated system issues a tax-arrears case to the appropriate division for contact with the taxpayer. The system also automatically calculates and records information to the taxpayer's current account, including: penalties and interest assessed for each tax and period; tax deficiencies assessed, after audit; each payment made for each tax and period; and, refunds made. The taxpayer's physical address for tax purposes—or that of his legal representative—must continually be updated for issuance of official notices.

In short, all tax filing and financial activity must be entered and tracked in a very timely manner so that the tax administration can identify instantly the status of any given taxpayer, and determine whether any compliance action or other response is required.

L. ADEQUATE BUDGET FOR SUPPORT AND FIELD OPERATIONS

Management, supervisory and technical officials in modern, successful tax administrations throughout the world need to be given the necessary human and financial resources to perform their principal core and support operations efficiently and effectively. Mangers must have some certainty that the resources allocated to them each year will be available as the expenditures become necessary. Furthermore, they must have the authority and independence to manage their own budgets, while being held accountable for results and for efficient use of their allotments.

M. COMPUTERIZATION AND DATA NETWORKING

Successful execution of every function of a modern tax administration requires effective use of computers, automation and data networking systems. To perform their respective jobs well, employees in all core and support functions rely heavily on information, and unless this information is accurate and complete and can be retrieved in a timely manner, the information becomes virtually meaningless.

All levels of management rely on automated Management Information Systems (MIS) to monitor progress on strategic and annual objectives and report monthly and annual progress on objectives within the tax administration and to the Ministry of Finance.

Taxpayers also benefit when the tax administration makes effective use of computerization and data networking systems, as this helps ensure timely service in response to all their compliance needs.

N. SUMMARY FEATURES OF BEST INTERNATIONAL PRACTICES

In short, the most successful tax administrations around the world are those whose management:

- Define, communicate and apply clear roles for the normative, functional-support and operations levels of the organization;
- Provide clear communication channels among different levels and among interdependent units;
- Maintain a comprehensive, up-to-date record of all taxpayers and their tax obligations;
- Direct the allocation of the bulk of their financial and human resources to the “front-line” functions and to those support functions directly related to tax compliance; enforcement and taxpayer service;
- Delegate authority to all operations levels and officials of the organization;
- Encourage development and application of technology in all functions, including internal management information systems; and
- Provide functional and management training, career opportunities and a work environment that helps attract and retain a high-caliber, career workforce.

V. STRUCTURE AND DISTRIBUTION OF ISTD STAFF

A. STRUCTURE

The ISTD's organization structure effective January 1, 2010 is show in Annex B. The current structure is in large part reflects the recommendations made by the IMF in recent years and represents a "hybrid" functional/client-type structure. Significant events which have impacted the stages of development to the current structure are:

- The Tax and Customs Administrations were separated in 2001;
- The ISTD was created by prime ministerial decree December 31, 2003;
- The formerly separate Income Tax and General Sales Tax Administrations officially merged effective January 1, 2004;
- Actual merger of respective Directorates of Income Tax and GST Headquarters began in late 2004;
- Segmentation by size of taxpayers in the ISTD began October 3, 2004, when the Large Taxpayer Office (LTO) became operational to control taxpayers with annual turnover exceeding 3 million JDs;
- Three Medium Taxpayer Offices (MTOs) were created July 2006—one each to serve Industrial, Service, and Commercial Traders with less than 3 million JDs in annual turnover. Commercial Traders, the largest MTO in terms of number of taxpayers, was divided into MTO Commercial Traders 1 & 2 in May 2008.
- Thirteen (13) long-established District Tax Centers, or Small Taxpayer Offices (STOs), were made responsible for income tax administration of all taxpayers in the country not under the jurisdiction of the LTO or the MTOs.

As can be seen in Annex B, the ISTD has made substantial progress in a relatively short period of time to transform its structure from one based of type-of-tax, to one that is largely consistent with best international practices.

While Annex B, at first glance, largely reflects a client-type structure within the ISTD, the sub-structures which exist within the LTO, MTOs and STOs—not shown in Annex B—are based on functional organization structures. In other words, the LTO, MTOs and STOs all have sub-structures and staff to provide taxpayer service, returns receipts, processing and payments, audit, compliance (stop filers and non-filers), and collection of tax arrears for their respective taxpayers. In effect, the ISTD has made a concerted effort to establish "one-stop centers" in all of its offices.

B. DISTRIBUTION OF CURRENT STAFFING

The ISTD's current authorized staffing is 1,600. As of this writing, however total on-board staffing was 1,507, of which 367 (24 percent) were assigned to the Headquarters Directorates and 1,140 (76 percent) to various field offices throughout the country.[11] The relative distribution of staff to operations roles vis-à-vis support/normative roles in Headquarters is right in line with best international practices.

The breakdown of field operations staff as of January 1, 2010 was as follows:

- LTO 59 employees
- MTOs 325 employees
- Site Control (SST) 51 employees
- STOs 637 employees
- ASEZA 18 employees
- Anti-Fraud 50 employees

While the allocation of staff to operations roles follows the international practice, the allocation of more than 56 percent of these operations staff to the STOs is disproportionately high given that this taxpayer population only accounts for about 10 percent of total tax revenues.

C. EXCEPTIONS NOTED ABOUT ISTD'S ORGANIZATION STRUCTURE

There are a number of unusual features to the ISTD's current organization structure. Among them:

- Seven Local District Tax Centers (STOs)—field operations offices in Al Karak, Al Balqa, Attafeelah, Madaba, Ma'an, Al Mafraq, and Ajloun—are currently placed under the Assistant DG for Planning, Development & Taxpayer Services (a Headquarters policy and support function), rather than under the Executive Assistant DG for Field Operations, where all the other operational directorates are located.
- The Information Technology Directorate is also under the Assistant DG for Planning, Development & Taxpayer Services. In most modern tax administrations, this function is placed directly under the Director General, since the IT Directorate serves and supports the entire organization, including and particularly the Field Operations Directorates.
- The Debt Management Directorate, which deals with tax arrears, was established in 2009 and is placed under the Assistant DG for Finance & Administration, rather than under the Assistant DG for Planning, Development & Taxpayer Service.
- Debt Management was established at the Directorate level rather than as a component within the Tax Compliance & Operational Management Directorate, which customarily has Divisions for (i)

[11] Of these field operations staff, 576 were Auditors, 63 were first-line Supervisors, and 36 were designated as Managers or Directors.

Tax Audit and (ii) Tax Compliance, including Collection of Tax Arrears & Follow-up (Stop Filers). The reason for its current placement is not entirely clear, but we understand that it was patterned after similar placement recently by Syria's Tax Administration.

- The Taxpayer Call Center is now a Division of the Media & Communications Directorate, under the Assistant DG for Finance & Administration. In most modern tax administrations, the call center is typically part of the Customer Service Directorate, under the Assistant DG for Planning, Development & Taxpayer Services.

D. OPERATIONS ROLES PLAYED BY ISTD HEADQUARTERS

During the first few years after the merger of the former Income Sales Tax Departments, Headquarters Directorates and Field Directorates both performed substantial operations roles. Wherever similar practices have been performed by Headquarters Directorates in other countries, there has been a great deal of duplication of effort, creating confusion among taxpayers about who has jurisdiction and authority to deal with their tax cases, and among tax administration personnel about who directs their work and the scope of their responsibilities.

The ISTD has made substantial progress in shifting operations roles exclusively to its Field Directorates. However, contrary to best international best practices, we did note that some Headquarters Directorates still conduct some operations functions, some of them overlapping with activities already carried out by field offices. For example:

- The staff of the Debt Management Directorate deal directly with taxpayers to resolve tax arrears cases, as do all of the Collection and Follow-up staffs in the LTO, MTOs and the STOs.
- The staff of the Tax Compliance & Operational Management Directorate make contact with some taxpayers on an on-going basis in an effort to resolve non-compliance cases, such as stop-filer cases. The Field Directorates will also often contact the same taxpayers for the same purpose.

The fact that very heavy taxpayer traffic visits the first and fourth floors of the ISTD's Headquarters building, where extensive Taxpayer Service operations are conducted, no doubt contributes to the operations functions that the Headquarters Directorates continue to execute. To the extent possible, the ISTD should shift such operations out of the Headquarters facilities to minimize contact between Headquarters tax officials and taxpayers.

E. SUBSTANTIAL NON-PRACTICE OF NORMATIVE ROLE

As stated above, the main role of a tax administration's headquarters is a normative one, i.e., to develop, issue and continually update policies, procedures and standards—usually in the form of manuals—that govern the day-to-day execution of the core tax administration functions. During our visits to ISTD offices in preparation for this study, however, we found that current procedural manuals or other formal guidance were largely missing. For example:

- The only audit procedures manual in use in one MTO was a manual developed independently for on-the-job training by a senior auditor in 2003.

- In one STO, staff made reference to instructions in “a circular” that is no longer available, but which they have followed for several years, related to issuance of one type of tax clearance certificate that creates a high volume of work for that office.
- Upon inquiry in several offices, we were informed that none of the various operations staffs had current, written procedural manuals.

There were exceptions, of course. A Customer Service Manual, for example, was developed in December 2007 and is currently in use. We also were informed that an on-the-job training (OJT) Manual developed by the FRP I Project in 2007 is being used, though mainly by newly assigned Auditors.

VI. OPERATIONS OF THE ISTD

This section describes and assesses the core functional processes and operations of the Income and Sales Tax Department. Throughout the discussion, references are made to a variety of benchmark indicators of tax administration performance and structure. Primary indicators, comparing the situation in Jordan to the international benchmark or standard, are presented in Table 4, above. International comparative indicators for Jordan are then presented in Annex A.

It is important to remember that the ISTD is already initiating important changes to meet the objectives of its 2010-2014 Strategic Plan. Other events, including the ongoing tax amnesty program, have had and will continue to have an effect on tax administration operations, but it still too soon to predict the impact. Still, the discussion below aims to provide a general picture of the current situation, statutory procedures and their application, and areas in need of improvement, rationalization or simplification.

A. TAXPAYER SERVICES, REGISTRATION, AND RETURNS FILING

WALK-IN TAXPAYER SERVICES

Taxpayers and tax practitioners are provided walk-in taxpayer services on the first and fourth floors of the ISTD Headquarters and at all ISTD field offices throughout the country. The services include:

- Obtaining necessary information and pamphlets to file tax returns;
- Taxpayer registration;
- Filing tax returns and other documents;
- Making payments;
- Obtaining tax clearance certificates;
- Obtaining tax exemption certificates; and
- Securing tax refund checks.

Taxpayer and tax practitioner traffic in all Taxpayer Service offices we visited at Headquarters and in Field Directorates was very heavy—more so because our visits coincided with the run-up to the deadline for early filing (and payment) for annual income tax returns.

Based on practices we have observed in several other countries, the ISTD's walk-in traffic could be decreased considerably. For instance:

- The layout of the physical space at some Customer Service locations, such as on the 4th floor in the ISTD Headquarters building, could be made much more customer friendly. Current practices require taxpayers to visit a sequence of service counters to complete different steps in support of whatever service they require or tax obligation they need to fulfill, whether completing taxpayer registration, filing a return or other documentation, paying taxes due, or obtaining a tax clearance certificate. These steps could be substantially streamlined to make them more efficient and customer-friendly.

- ISTD staff spend considerable time reviewing the accuracy of tax returns and keying in the data for those returns while taxpayers wait to obtain a stamped receipt and payment voucher. These activities could be considerably streamlined as well, with greater centralization and automation of data processing, and considerably less (or preferably no) in-person filing at ISTD tax offices. Chapter VIII includes some recommendations for how to accomplish this.
- A “Qmatic” numbering system, with numbers drawn by taxpayers in the order of their arrival, was installed several years ago at the 4th floor of ISTD Headquarters, but we understand that the system is not in use. Consequently, even though chairs are provided for waiting, we observed long queues and no one seated. The “Qmatic” system should be used at all times, at least until walk-in services at ISTD Headquarters are discontinued.
- One of the ISTD’s most administratively burdensome activities is the issuance of tax clearance certificates. Such certificates are usually required by taxpayers before they can complete a particular transaction, such as transferring real property obtaining bank loans, importing an automobile, or bidding on government contracts. Individuals and employees often require these as well for a variety of reasons. These tax clearance requests create a lot of heavy traffic in all ISTD offices, yet there is no evidence that these clearances actually contribute in any measurable way to enhanced taxpayer compliance or additional tax revenues. While eliminating such requirements is often very difficult to accomplish, some countries have reduced the administrative and compliance burden they create by using web-based services to automate the issuance of tax clearances and move this activity out of the tax office.
- The ISTD also processes and pays out tax refunds to taxpayers, which also creates considerable traffic at the various tax offices. In most countries, budgeting and disbursement of tax refunds is typically the domain of the Treasury function within the Ministry of Finance. Under the ISTD’s current practice, current and capital expenditures as well as tax refunds are all part of the same budgetary allocation. This practice not only creates an unnecessary administrative burden for the Department; it also puts pressure on the Department’s normal spending, since sufficient funds must always be set aside to pay out refunds.

TELEPHONE SERVICE – NATIONAL CALL CENTER

The ISTD launched a taxpayer-service call center in February 2005 to provide telephone service to taxpayers anywhere in the country. The Call Center was placed in the Media & Communications Directorate, under the Assistant DG for Finance & Administration, which is unusual given that call center services clearly represent an operations function.

At the outset, five taxpayer service specialists handled inquiries six days per week, from 7:30-16:30 each day. Currently, however, the number of specialists has dwindled from five to two. Moreover, the staff are provided with limited tools for responding to taxpayer queries.

There are plans to establish a national call center under the Ministry of Commerce, staffed by personnel from the various government ministries. Under this scheme, the ISTD’s call center staff will also be transferred to the new national center, but it is unclear whether this change will be accompanied by an increase in staffing or any other enhancements.

B. TAX PAYMENTS

The MOF and ISTD have already implemented a progressive initiative that allows taxpayers to pay GST at selected banking institutions throughout the country. It is not clear whether the same service is offered for payment of income taxes. Initially, agreements were made with three commercial banks to accept GST payments and issue receipts to taxpayers. Under this arrangement, taxpayers can come to one of the designated banks to pay taxes due, where bank staff document entity information—the taxpayer's identification number (TIN), name, the tax period, and amount of the payment—and then transmit the data to the ISTD electronically for posting to the taxpayer's current account. Agreements were then made with an additionally three banks, and most recently three more banks were added, bringing it to a total of nine commercial banks participating in the program. This initiative makes paying taxes more convenient for taxpayers and tax practitioners, ensures more rapid and accurate transcription of entity data, and more timely posting of new data to taxpayers' current accounts.

Perhaps the public information campaign to advertise this new service has not been successful, because a very high number of taxpayers continue to make their GST payments at ISTD offices, where the Cashier's office continues to receive very heavy customer traffic. Besides the long queues we observed at the Cashier's offices we visited, we also noticed that there was no security of any kind for the Cashier staff and the monies entrusted to them. This vulnerability to security breaches, combined with the potential for abuse, were among the major factors contributing to other many other countries' decision to discontinue the cashier function at tax administration offices.

C. TAXPAYER REGISTRY

Taxpayer Registration and the TIN numbering system represent one of the most important pillars supporting integrated tax information systems. The reliability of a tax administration's taxpayer registration system, procedures and TIN database have a very significant impact not only on the effectiveness and efficiency of all its operations, but also on the revenue collections for the whole country as well.

The overall quality and reliability of the ISTD's current taxpayer registry is poor. There are currently more than 500,000 registered taxpayers in the ISTD's registration database (not including the more than 400,000 employees on record). These taxpayers include:

- 427,000 individuals (non-employees)
- 59,000 partners; and
- 20,000 corporations

Of the more than 500,000 registered non-employee taxpayers, only 85,500 are active taxpayers, i.e. registered taxpayers who file tax returns. No reliable data are available to determine how many of the rest are taxpayers who have tax obligations but stopped filing tax returns, are deceased, or are insolvent. Furthermore, there is no updating of key data in the registry, such as change-of-address, to support current operations, such as the variety of notifications that the ISTD sends out to taxpayers. In short, there is an urgent need to clean up the taxpayer registry.

The poor state of the Taxpayer Registry has come about in large part because of the use of multiple identification numbers for different registration purposes over the years. The Ministry of Interior issued a national ID number for all citizens, usually at birth. The Income Tax Department issued an Income Tax TIN for employees and individuals, and a separate TIN for corporations. And, the Sales Tax Department issued a General Sales Tax TIN and a separate Special Sales Tax TIN for the relevant taxpayers.

When the Income and Sales Tax Departments merged, the decision was made to adopt and use the Income Tax TIN for all taxpayers, a system for TINs which had been developed by the UNDP-funded Petra Project. Starting July 1, 2007, the Income Tax TIN became the official and only TIN issued to new taxpayers. However, for GST taxpayers who had already registered prior to that date, the old GST TIN was retained as a "secondary TIN" on each taxpayer's ledger, or current account, for information purposes only.

D. TAXPAYER CURRENT ACCOUNT

The accuracy and reliability of the ISTD's taxpayer current account database hinges on the reliability of data in the taxpayer registry. Since the latter database is in poor shape, so is the taxpayer current account database. We also understand that there are flaws in the automated tax arrears database. For instance, we learned in conversations that payment transactions previously entered into the system "disappear" from the system when newer transactions are entered. Similarly, stop-filer lists produced by automated systems are not reliable either.

Given the problems with the taxpayer current account database, it must be virtually impossible for ISTD Taxpayer Service personnel to issue tax clearance certificates or respond to taxpayer inquiries about their tax standing with a high degree of confidence about the reliability of the underlying data. Without a reliable current account database, moreover, Tax Compliance and Debt Management operations have to cull information manually from different databases to try to establish a more accurate picture of taxpayers' activity.

E. AUDIT OPERATIONS IN GENERAL

RISK-BASED SELECTION OF CASES FOR AUDIT

An effective taxpayer audit system must be based on the selection of returns for audit from self-assessed declarations with the highest risk of revenue loss to the government. Risk-based criteria help identify, classify and assign such cases for audit. For many years prior to the merger, the audit strategies of the former Income Tax and Sales Tax Departments were to select and audit 100 percent of tax returns filed—an objective which is largely unproductive. The 100-percent audit strategy persisted even after the merger of the two Departments.

During the last two years, the ISTD has made considerable progress in channeling their resources to higher-priority audits through segmentation of taxpayers. Establishing the LTO, MTOs and STOs represents a huge accomplishment by ISTD's top management in this respect.

Additionally, the ISTD developed, in collaboration with the FRP I project, a risk-based, computer-assisted selection system, which has been in use for about two years. Despite the progress made by the

ISTD to channel their human and financial resources to audit cases with the greatest revenue-loss potential, however, there is still a very long way to go before the ISTD' audit selection practices are consistent with the most productive and efficient international best practices. For example, most successful tax administrations select and audit only 1 percent of Income Tax and no more than 5 percent of GST returns filed. Current selection and assignment for Income Tax audits for the MTOs is around 40 percent, and the percentage for GST cases is substantially higher.

Contributing to the excessive audit rates are several policies and legal requirements for mandatory audits of certain categories of cases. For example, all applications for refunds who value exceeds JD 200 must be audited. Additionally, all returns that show an operating loss of JD 20,000 require mandatory audit as well.

Similar mandatory-audit requirements in other countries have proved very unproductive. For example, in Indonesia a few years ago, analyses of results of mandatory refund audits showed an average additional assessment of US$3 per audit. Audit resources would have been utilized much more efficiently and effectively had they been channeled to comprehensive audits instead, which produced an average of US$800 per audit.

Even if changes to legislation are required in Jordan to establish much higher thresholds for review or audit of refunds, efforts to change the laws are of vital importance. If successful, ISTD's limited resources, which are now being used to a largely degree in low value, unproductive audits, could be applied more efficiently and effectively.

ANNUAL AUDIT WORK PLAN

The staff of the Audit Management Division in the Tax Compliance & Operational Management Directorate at Headquarters prepares the annual audit work plans and selects cases for audit based on the risk-based criteria in the automated system. Through the 2009 tax year, the statute of limitations to conduct audits has been only one year from the date a tax return was filed or its due date, whichever is later. Under the new (temporary) income and sales tax laws, the statute of limitations for the ISTD to initiate audits has been extended to four years. This is far more reasonable and consistent with best international practices.

An Automated Tracking System (ATS) developed under FRP I was designed to monitor assignment, on-going progress and completion of audit cases in Field Directorates and to produce automated MIS reports about the results. The ATS was piloted by the LTO and roll out to the MTOs began in 2009. The ATS is scheduled to be rolled out to all MTOs by the end of 2010.

Auditors conduct the audit and enter all data pertinent to the audit—tax issues raised, tax law provisions involved, time spent on the audit, and results of the audit (agreed or un-agreed deficiency and value in terms of additional tax, penalties and interest, appeals, etc.)— through the use of laptops at workstations in their assigned offices. Audit managers and the Audit Management Division in the Tax Compliance & Management Directorate in Headquarters monitor and report progress on objectives of the annual audit plan gathered electronically at least monthly through the ATS and other automated systems. LTO Auditors all have laptops and work-stations. The MTOs have fewer laptops and workstations for auditors, but the ATS has an off-line feature to enable auditors to complete their reports without having to log in at the office.

We were informed that many auditors in the MTOs do not like the ATS. They complain about the requirement to enter a great deal of administrative data, which takes away time that could otherwise be spent on working more cases. Many also feel that the ATS subjects their work to excessive monitoring, requiring them to detail and account for time spent on every issue addressed in completing a case. On the other hand, we also were informed that auditors' complaints are exaggerated—that their frustration is more a reaction to lack of training in using the ATS, than it is a question of system design or functionality. One specific need cited by some auditors was for training to help them find industry and other data for comparison analyses necessary to plan and conduct their audits. Some also suggested that an Information Technology Specialist be assigned permanently to each MTO to help address their ongoing IT needs.

With regard to conducting comprehensive, integrated audits for Income and General Sales Tax, this is the standard practice in LTOs. However, there still seem to be separate cultures within the MTOs, where auditors continue to focus on the tax they used to handle before merger of the Income and Sales Tax Departments. The STOs, meanwhile, have only been performing Income Tax audits, but selected STOs have begun to conduct GST audits for new GST taxpayers with annual turnover below JD 100,000, even though GST taxpayers should all be handled by the MTOs and the LTO.

Aside from the above, one of the major problems with current practice in the ISTD's Audit function—whether in the LTO, the MTOs, or the STOs—is the lack of current and consistent written procedures and policies for all Audit personnel to follow. In one MTO we visited, we were told that the Audit Manual in use had been developed by an Auditor in 1993. We also understand that an on-the-job training (OJT) Audit Manual developed in 2007 was currently in use as well, but only by newly assigned Auditors. Otherwise, no audit manuals or any uniform written procedural instructions exist, as far as we could determine. Staff in more than one office we visited mentioned that there were "circulars" that had long since been misplaced, but whose instructions they continued to follow in carrying out certain activities. Audit officials in other offices, meanwhile, were not aware of any such circulars. Clearly, there is a need for centralization and standardization of audit procedures and policies.

LACK OF DELEGATIONS OF AUTHORITY

Despite the fact that the tax laws permit delegation of authority, we learned from our visits and from various reports that delegations of authority, as described in Chapter IV of this report, do not exist. Consequently, a huge number of completed cases are being sent to MTO Directors, and even to higher levels, for review and approval. It was reported that managers at all levels spend much of their time on technical and administrative matters because of the absence of delegations of authority. Consequently, they are left with little time to perform their primary management duties.

LTO AUDIT OPERATIONS

The LTO was launched in October 2004 with about 40 Auditors to control 500 of Jordan's largest taxpayers, including those with annual turnover above JD 3 million, as well as SST taxpayers. The strategy was to control those taxpayers who accounted for 70 percent of the ISTD's revenue collections. The largest taxpayer categories were Commercial Traders (180) and Industrial (177); other categories included Services, Banks, and Insurance Companies.

Currently, the LTO and administers 708 taxpayers accounting for around 80 percent of the ISTD's total tax revenue. To qualify for LTO status, taxpayers must now have an annual turnover of JD 5 million for a consecutive three-year period. LTO taxpayers have a very high compliance rate of 95 percent.

Of the LTO's 59 total staff, 33 auditors and 5 supervisors are dedicated to the audit function. All case assignments to LTO auditors are done electronically, through the Audit Tracking System. As recently as last year, only about half of the Auditors had laptops, but we understand that now each auditor is equipped with a laptop and a workstation. Completed case work papers are also archived electronically. The Audit staff is not specialized by industry, but rather is grouped into several teams with the various industry specializations represented in each group.

Surprisingly, there is no risk-based sampling for the selection of large taxpayer audit cases. The objective continues to be to audit 100 percent of large taxpayers, which, of course, is an unrealistic goal. However, managers do prioritize cases for assignment to ensure that the highest priority cases are continually assigned for audit. For the first 11 months of 2009, additional assessments produced by LTO Auditors were around JD 82 million, of which JD 59 million were agreed cases. LTO management emphasizes that audit quality is as important as audit productivity, and this is reflected in the quality of their audit staffs' work.

Training for LTO Auditors is on an ad hoc basis. Current training needs are for courses in International Accounting Standards and English language. Transfer-pricing issues and systems audits for large taxpayers are topics which require in-depth training as well.

MTO AUDIT OPERATIONS

Three MTOs were launched in 2005 to administer a population of 15,000-20,000 medium-sized taxpayers. The strategy was to control the group of income tax and GST taxpayers who provide around 20 percent of the ISTD's total revenue collections, after the 70 percent contributed by LTO taxpayers. The Commercial Traders MTO was split in two in 2008, bringing the total to four MTOs: Commercial Traders 1 & 2, and one each for Industrial and Services Sector taxpayers. The combined staffing of the MTOs is around 325, of which there are 168 Auditors and Audit Supervisors. Taxpayer Service, Collection and Follow-up, and Administration account for the rest of the staffing. The two Commercial Trader MTOs share a Customer Service site at Headquarters, while the Industrial and Services Sector MTOs each have their own Customer Service offices because both are now at sites away from Headquarters. In due course, we understand that the Commercial Traders MTOs will also be moved off-site, which is a welcome move.

One MTO we visited has an Administration Division, an Audi Division, a Collection & Follow-up Division, an Objections Staff, and a Quality Assurance function. However, we understand that structures vary from one MTO to another, depending on the respective Director. The Audit Divisions have the largest staffs in all MTOs. Staffing for operations in the respective MTOs is as follows:

- Industrial – 90 total, of which 43 are Auditors and 6 Audit Supervisors;
- Traders I – 69 total, of which 43 are Auditors and 5 Supervisors;
- Traders II – 74 total, of which 41 are Auditors and 5 Supervisors; and
- Services – 92 total, of which 42 are Auditors and 5 Supervisors.

We were not able to reconcile various reports about the precise audit coverage of MTO audit operations, or the results of those cases. However, from a variety of sources, we did detect several common problems shared by all MTOs, at least from the standpoint of the audit function. Specifically:

- Current risk-based selection systems for audit cases are not sufficiently selective. There are too many cases being selected for audit, and workload is excessive.
- Unlike like the LTO and in contrast to international best practices, there is a very high emphasis on audit "production." In other words, the more cases completed, and the higher the revenues produced from those cases, the greater the reward for audit staff. In this environment, audit quality becomes a lower level priority.
- Information Technology resources, particularly PCs and laptops, and IT expertise are in very short supply at MTOs.

F. COLLECTION & FOLLOW-UP OPERATIONS IN GENERAL

Even though the Debt Management and the Tax Compliance & Management Directorates are Headquarters Directorates, we discuss many of their activities here in tandem with those of Field Directorates because (i) they continue to conduct some operations that are normally performed by field offices, and (ii) many aspects of Collection & Follow-up operations in the Field Directorates depend on the respective functions these two Directorates perform at Headquarters.

DEBT MANAGEMENT DIRECTORATE

The Debt Management Directorate was established at Headquarters in January 2009. It has nine employees in two Divisions: (i) the Debt Management Division, with a Collections Follow-up Section and a Pay as You Earn (PAYE) Follow-up Section, and (ii) an Enforcement Division, with Enforcement and Insolvency Sections.

Here again, the Director informed us that procedural manuals do not exist for Debt Management. The new (temporary) Income Tax and GST Laws and Jordan's Public Debt Collection Law provide ISTD staff with the basic legal framework and some of the procedures for much of their work. Tax officials do have the power to file protective liens on real and personal property and seize and sell property at public auction for taxpayers who refuse to pay tax arrears. However, we understand that in practice, seizure and sale rarely happens. The ISTD has electronic links with many external agencies to provide information about property of taxpayers for enforcement purposes, including the Department of Lands & Surveys; Jordan Customs); the Department of Vehicle Registration; the Securities Commission; and, the Central Bank of Jordan. However, there is still a great deal of manual data entry required by data-entry operators to associate electronic third-party data with specific taxpayers. In fact, due to a lack of resources, much of the third-party party data received by the ISTD is never matched.

We were informed that total tax arrears in Jordan come to more than JD 500 million. With no statute of limitations, the greater part of this total is very old debt, some of it dating back to the 1960s. Even though these amounts are largely uncollectible, they cannot be written off because there is no legislation to permit write-offs.

Because of substantial budget deficits, an amnesty was approved in September 2009 for taxpayers with outstanding debts to the Government. Settlement rates were heavily discounted: the older the debt, the bigger the discount. Through December 8, 2009, about JD 40 million had been approved and paid by taxpayers under the amnesty program. The results may seem impressive in the short run, but international experience has provided sufficient evidence to conclude that tax amnesties are very detrimental in the long term to voluntary compliance.

The Debt Management Director has great concerns about the operation of the automated tax arrears database, which was developed with the assistance of the Information Technology Directorate. In particular, older payment transactions seem to "disappear" from the system once new transactions are entered. The LTO and the MTOs have also had serious difficulties with the system (described below). Everyone involved, both in Headquarters and in the Field Directorates, has had to resort to manual methods for managing tax arrears cases. MIS reports for monitoring progress against annual work plan objectives are also mainly developed manually.

TAX COMPLIANCE & OPERATIONAL MANAGEMENT DIRECTORATE

The roles of this Directorate in selecting cases for tax audit and preparing annual audit work plans were described above, under Audit Operations. This Directorate also has responsibility for non-filers and stop-filers, including setting the criteria for selecting samples of non-filers and stop-filers for assignment to Field Directorates on cases not resolved at Headquarters. The criteria are sent to the Information Technology Directorate for selection of the sample and are returned to the Directorate to establish priorities and provide taxpayers' lists to the Field Directorates. We discussed the poor condition of the TIN database with the Director, and he agreed that it must be cleaned up.

COLLECTION & FOLLOW-UP OPERATIONS IN THE LTO AND MTO'S

The Collection and Follow-up Divisions in the LTO and MTOs have dedicated staff responsible for sending notifications to delinquent taxpayers, negotiating installment agreements for payment of tax arrears, and enforcing collection, including through tax liens and seizure and sale of property at public auction. In practice, however, we understand that no seizures are actually carried out because of some restrictive provisions in the Public Debt Collection Law, which we did not review (a copy in English was not available). Collection & Follow-up staffs also work stop-filer GST cases and are authorized to make presumptive assessments in such cases based on prior tax liabilities. Auditors in the Audit Division, on the other hand, deal with Income Tax stop-filer cases, which require examination of books and records to make presumptive assessments, as authorized by the (temporary) Income Tax Law.

We understand that the automated stop-filer system, which was developed with the help of the IT Directorate to provide listings of stop-filer cases, is not working effectively. For example, the LTO and MTOs' staffs claim that they can see the non-compliant taxpayers' names in the system, but they cannot print the listings.

LACK OF DELEGATIONS OF AUTHORITY AND MANAGEMENT ROLES

In Collection and Follow-up field operations, as in Audit field operations, we were informed that effective delegations of authority were largely non-existent. Auditors feel powerless to make decisions on their cases, since they have to first secure approval from MTO Directors and, at times, higher levels of the

ISTD. Here again, it was reported that managers at all levels spend much of their time on technical and administrative matters, leaving little time focus on their management roles.

G. STO OPERATIONS

There are 500,000 small taxpayers registered for Income Tax under the administration of the 13 STO Directorates, compared to 708 for the LTO and roughly 20,000 for the four MTOs. Small taxpayers maintain few records that can be examined by tax officials. Therefore, the small-taxpayer segment is the most difficult to control, not just in Jordan, but in all countries.

Collectively, small taxpayers in Jordan are estimated to account for only 10 percent of the ISTD's overall revenue collections. Because of the high number of taxpayers under their jurisdiction, however, the STOs currently have 56 percent of the staff allocated to ISTD field offices, which is disproportionately high given the small contribution of this taxpayer segment to total tax revenues. MTOs, meanwhile, complain that their staffing is insufficient to meet workload demands.

For several years, the IMF has recommended the design of a broad, simplified regime for small taxpayers, allowing small businesses (say, those below the GST filing threshold) to pay a single turnover tax, in lieu of fulfilling the filing and payment requirements for income tax and GST. The IMF has also advocated for several years to eliminate the requirement for employee-taxpayers to file annual income tax returns.

The actual strategies are slowly evolving. For example, the new, temporary Income Tax Law sets the tax-free threshold so high (a basic deduction of 12,000 JDs, and 24,000 JDs including all dependents) virtually all employees are, in effect, freed from the requirement to file for income tax. The ISTD has begun efforts to extend the coverage of STOs to include control of the population of smaller GST taxpayers, even though the ISTD's taxpayer segmentation strategy did not originally envision STOs playing a role in controlling any GST taxpayers. In 2009, the Irbid and Zarqa District Tax Centers were the first STOs to pilot this initiative, taking on new GST payers with annual turnover below JD 100,000.

STO organization structures and substructures in all 13 Directorates are the same as in the MTOs. We visited the STO Amman North Directorate (the largest of the 13 District Tax Centers) and discussed with the Director the high volume of work handled by this office. We observed first-hand the heavy taxpayer traffic in the Customer Service area for a variety of services. Among them, the most common were requests for tax clearance certificates and for refunds of income taxes withheld by employers.

We also visited the Al Balqa District Tax Center. This office is located in a commercial building about 30 minutes outside of Central Amman, and was easily the most attractive of the offices we visited. Clearly, this office represents a "One Stop Center." All services are provided there, and the layout is very customer-friendly. Work stations for employees are modern and comfortable, as is the Customer Service area. The nature of the workload is much like that of the Amman North STO, but of considerably lesser volume.

H. OBJECTIONS AND APPEALS

Under Article 30 of the (temporary) Income Tax Law of 2009, taxpayers must file an objection to proposed additional assessments, after audit, within 30 days of the issuance of the audit decision letter. According to Article 32, an "Objections Committee" comprised of one or more audit officials—usually another experienced auditor assigned to the same office as the examining auditor—is appointed to review the audit decision, consider the taxpayer's objection, and issue a decision within 90 days from the date the taxpayer filed the objection. If the taxpayer agrees to any part of the proposed original assessment, however, he is required to pay any amounts due on agreed portions before an Objections Committee can be formed.

If the taxpayer disagrees with the decision of the Objections Committee, he has to right to file an appeal to be considered by the Tax Court of 1st Instance; then to the Tax Court of Appeals; and finally to the Court of Cassation (which we understand is similar to a Supreme Court). All appeals court cases are handled by attorneys of the General Prosecution Division in the ISTD's Directorate of Legal Affairs.

We understand that in 2009 there were around 1,800 Income Tax and 300 GST appeals cases which went before the courts. We were not able to establish the total number of objections cases resolved in the Audit Divisions of the various Field Directorates in 2009.

Best international practices have shown that objections should be brought before an independent Objections Committee composed of experienced, former auditors and housed in a unit that is not responsible for conducting any audits or other tax enforcement activities. These arrangements provide reassurance to taxpayers that they will receive fair and impartial consideration of their objections, and ensure that a higher percentage of cases are resolved at the objections stage. A high settlement rate at the objections stage, of course, decreases the volume of cases that go to appeals courts and is of benefit to all parties.

I. ANTI-FRAUD INVESTIGATIONS

The Anti-Tax Fraud Directorate was established about two years ago. Currently, the Directorate has 50 employees, of which 35 Auditors investigate cases on GST non-filers, i.e. taxpayers liable for GST who have never registered with the ISTD. Investigators for evasion of GST comprise the largest part of the investigator staff. Other cases address suspected tax evasion involving under-reporting and non-reporting of income and overstating of business expenses. Anti-fraud investigators are recruited from the ranks of experienced Auditors who have at least three years of tax administration experience. Given the (sometimes) physical nature of the work, anti-fraud investigators must also meet certain physical fitness requirements. They do not receive any special training, however, to help them develop investigative skills. They learn instead from actual experience on the job.

Article 35 of the GST Law of 1994, as amended, provides financial penalties for criminal offenses. Taxpayers convicted are liable to pay a sum not less than twice nor more than three times the amount of GST tax under-reported, plus a fine of JD 200 – JD 1,000. A second criminal offense doubles the penalties. Only if the second offense occurs within one year of the first offense is a taxpayer subject to imprisonment, for a period of between 3-6 months. Article 55 of the (temporary) Income Tax Law, meanwhile, provides for imprisonment of between 1-12 months, plus a fine of JD 500 – JD 1,000, for tax evasion.

An annual work plan is prepared and progress on objectives is monitored on an on-going basis. Most of the cases investigated involve GST evasion. During 2009, we understand that taxpayers referred to the Legal Directorate for prosecution paid JD 651,000 in tax and fines for GST criminal violations. The source of most of the Anti-Fraud Directorate's GST cases is communications from informants. The investigators also conduct “road-search operations” in conjunction with law enforcement authorities, which also produce evasion cases.

As we understand it, there is not much ongoing work on income tax evasion. There certainly needs to be more activity in this area. For income tax evasion cases, international experience has proved that the best cases with the most fraud potential are case referrals from auditors who, through preliminary investigation of taxpayers’ books and records, recognize so-called “badges of fraud,” or possible tax evasion. Auditors are given specialized training to detect such “badges of fraud” and are required to stop their examination and refer the case to the Anti-Fraud office when they detect such activity. Anti-fraud investigators can then focus on developing the criminal aspects of potential fraud cases, not to produce additional revenue as in audit cases, but rather to develop the necessary proof to be able to refer the case to the Legal Directorate for prosecution. Successful prosecution, conviction and incarceration sentences—even if only a few cases are successfully prosecuted each year—are heavily publicized to serve as examples to all taxpayers that non-compliance with the country’s tax laws has serious consequences.

J. INTERNAL CONTROL

The ISTD’s Internal Control Directorate reports directly to the Director General. It has a staff of 15 Auditors assigned to three Divisions: Technical & Financial Control; Administrative & Legal; and Post-Audit. The Director has an annual work plan and monitors progress on objectives. He and his staff have done a great deal of work in recent months to streamline their operations. Internal Control very much needs, but has been unable to secure, training and IT support to develop the knowledge, skills and programs needed to perform systems audits, such as on the Audit Tracking System.

The Directorate routinely performs two unusual functions not consistent with international best practices. First, the Directorate’s Post-Audit Division performs sample quality reviews of audit cases—a 10-percent sample, according to our understanding. Quality review of audit cases is an integral function of Audit Division management in the Field Directorates, not of the Internal Control function.

Second, the Internal Control Directorate also reviews and approves (or rejects) a variety of disbursements made by the ISTD, including tax refunds of 100 JDs and above. We understand that Jordanian law requires all such refund vouchers to be audited. Yet, we sincerely doubt that the time and effort expended is worth the return on resources invested.

K. PLANNING AND COORDINATION WITHIN ISTD

Many aspects of ISTD’s planning and coordination have already been described in various sections of this report. For example, the Planning & Development Directorate has developed a strategic plan for 2010-2014 and coordinates with all Directorates to monitor and report progress on strategic objectives on a monthly, quarterly and annual basis. The Tax Compliance and Debt Management Directorates both prepare annual work plans for the respective functions in Field Directorates and coordinate with them to monitor and report monthly progress on operations objectives.

One automated, internal planning and coordination tool not described earlier is an automated Workflow System, developed in 2006 with support from the UNDP. The Workflow System was designed to re-engineer internal workflows of communications related to the various functions.

Several concerns were shared at field offices about the Workflow System. We did not have sufficient time to observe first-hand how the system works, but it seems to be used primarily as an internal communications system between staffs within and between different Directorates to direct common requests/transactions to the appropriate individual for action. Some complained about the sheer volume of daily transactions that they had to respond to promptly. Others noted that the rigidity of the system made it impossible to delegate certain actions to other staff. Ultimately, it seems that the Workflow System was largely designed to automate existing workflow processes, without much regard for whether those processes serve the ISTD's evolving needs.

L. COORDINATION WITH EXTERNAL AGENCIES

The ISTD has electronic links with many different agencies for a variety of purposes. The Debt Management operations obtain a great deal of data electronically from agencies such as the Customs Department, the Social Security Administration (e.g., pensions), the Department of Vehicle Registration, the Department of Lands & Surveys, and the Ministry of Trade. The Audit function at Headquarters and in Field Directorates uses data from the same and other electronic links with third parties to make comparison analyses for selection, planning and examination of audit cases.

While the ISTD has made substantial progress in developing software programs to obtain third-party data electronically, effective use of such data in ISTD operations is still very limited. Much of the third-party data being secured has to be keyed in manually, and software applications for cross-referencing these data with information in the ISTD's own databases have not yet been adequately developed. As a result, a lot of these data go un-matched. Manual cross-checking of data is still to a large extent the norm.

VII. RESOURCES

A. INFORMATION TECHNOLOGY

The ISTD's Information Technology Directorate, with 44 total staff, reports to the Assistant DG for Planning, Development & Taxpayer Services. The Directorate is comprised of three Divisions:

- Programming & Analysis, whose 15 staff develop new systems, make modifications to existing ones, collect data from third parties, and refine and enter those data into ISTD databases;
- Operations, Maintenance & Networking, whose staff maintain the ISTD servers and backup-system and design and maintain the networking systems; and
- E-Government System & Administration, with a staff of 8, who test new software and manage system security (providing and restricting access to users),

The ISTD's IT system, an Oracle database system, is about 6 years old. Over the last three years, the ISTD's IT and operations staff have had to merge three legacy IT systems – the old Income Tax System, the Value-Added Tax Information Processing System, or VIPS (used by the former Sales Tax Department, and a newer system designed with UNDP support. The migration of data from the old Income Tax and VIPS systems to the newer system was an enormous task and was completed not long ago. The ISTD now has an integrated tax information system; however, problems persist, as reported above, such as with the automated stop-filer and tax-arrears systems. Furthermore, there is only one server for the integrated database. Consequently, users in the field have to request a great deal of assistance from the IT Directorate to meet a variety of their operations needs.

The IT Directorate seems to be constantly putting out fires, responding daily to urgent requests from all operations offices. There is an overwhelming volume of IT work throughout the ISTD; the IT Staff is in constant demand, yet they cannot meet all needs.

Another problem we observed is that Auditors and managers defer to the IT Directorate when a need for automation is identified. IT specialists should design and develop systems and applications that meet needs defined and specified by the functional experts; they should not be left to define those needs on their own.

B. HUMAN RESOURCES

As noted above, the ISTD is currently authorized 1,600 total employees, and 1,507 are currently on board. The overall education level of the staff is excellent. Around 79 percent of all employees have university or college degrees, as compared to the international benchmark of 70 percent.

ISTD employees are appointed by Jordan's Civil Service Bureau. Typically, several months—sometimes up to a year—elapse between the date requests are made by the ISTD to fill vacancies and the date the vacancies are actually filled.

TRAINING FUNCTION

Since 2004, when the Income Tax and Sales Tax Departments merged, much of the ISTD's training has been delivered on an ad hoc basis. On occasion, considerable training was organized and delivered. In 2006, for example, over 100 employees were recruited. The majority of them were trained in both Income and Sales Tax Laws, and several were trained as programmers for the Information Technology Directorate. In 2007, a formal training program was developed with a great deal of effort by FRP I staff. Approximately 25 training courses were delivered over the course of more than two years. Courses included an orientation program for new employees; an on-the-job (OJT) training program; a train-the-trainer course; development of a cadre of trained instructors; training programs in specialized fields, such as auditing techniques and international accounting standards; several management training courses; and, legal framework training courses. . However, the ISTD did not take any follow-up action to evaluate the impact of the training on participants' job performance. Furthermore, no action was taken to convert any of the training materials into training manuals or other formal tools for future training needs of the ISTD.

We understand that the ISTD continues to develop annual training plans. For instance, the 2009 training plan listed about a dozen training courses, including programs covering the Income and Sales Tax Laws, International Accounting Standards, English language, and Advanced Software Programming, among others. Some of the listed courses were to be taught by the ISTD's cadre of trained instructors, while other courses were to be outsourced to other institutions, such as the National Training Institute. However, the ISTD maintains no records documenting which training courses were actually conducted in 2009 and which were not, or the reasons why certain courses could not be conducted.

LACK OF CAREER PATHS

The ISTD has no formal career paths. All appointees with college and university degrees are appointed to the ISTD as "Auditors." In contrast with international best practices, there is no distinction made in job titles between the type of work performed, say, by those staff working in tax audit, compliance and collection, and other parts of the tax administration organization.

Career paths provide a means for new staff to attain progressively higher, non-competitive grade/pay levels in their jobs, usually over a period of two years, until they attain a level of experience at which their work which requires minimum supervision. Thereafter, with several additional years of experience, they can compete for higher-level positions and salaries, up to senior levels in the LTO or other high-profile divisions.

A career path provides a means for new staff to attain progressively higher, non-competitive grade/pay levels in a given career field, such as "Auditor" or "Compliance Officer." They begin as "trainees" for a period of typically up to two years, after which time they gain increasing independence in their jobs, rising again several steps until they reach the level of experience to perform their work with minimal supervision. Once an employee reaches and performs satisfactorily at that level, most modern HR promotion systems allow them to compete for higher grade-level positions requiring additional expertise, e.g. LTO Auditors.

The concept of non-competitive career ladder promotion provides Tax Administrations an opportunity to accelerate the development of employees to the independent working level within their respective occupations. There are three critical factors involved in the accelerated development process: the progressive assignment of more difficult work; providing the training required to perform assigned tasks; and, a performance evaluation system that measures performance of assigned work at various levels of difficulty.

ADEQUACY OF REMUNERATION

Remuneration for ISTD Auditors is comprised of many factors, including:

- The Civil Service Bureau's basic salary at time of appointment, which is less than JD 100 (the basic salary of appointees with master's degrees is higher than that of those with bachelor's degrees);
- To the basic salary, the Civil Service Bureau adds sums for personal allowance and family allowance;
- The MOF adds an allowance for overtime pay;
- The ISTD adds a monthly travel allowance and a hospitality allowance;
- The ISTD adds an incentive bonus for performance each month, which can be as high as 60 percent for those whose monthly rating is "Excellent";
- Periodic increases for length of service; and
- Grade category, which depends on position and education level of the incumbent.

With all of the above, the average monthly salary of Auditors, including bonuses and allowances, comes to around JD 550, or about one-quarter the value of per capita income in Jordan. Meanwhile, the maximum monthly salary for an Auditor with 20 years of service, including bonuses and allowances, comes to only around JD 950.

We understand that there is general dissatisfaction throughout the ISTD with remuneration levels authorized by the Civil Service Bureau and with the incentive system within the ISTD. In all our visits, we were informed that there has been a very high Auditor turnover rate for several years. For the latter reasons, we understand that an ISTD Committee has been working on a proposal to establish a system of salaries separate from and more generous than that administered by the Civil Service Bureau. We were informed that the Committee's first proposal was rejected by the MOF as "too generous" and that the Committee is now preparing a second proposal.

PERFORMANCE EVALUATIONS

As stated above, Auditors are evaluated monthly by their supervisors. The evaluation form used includes several criteria, including:

- Performance indicators, such as knowledge, dedication, and ethics;
- Discipline;
- Capabilities & Aptitude; and
- Relationships with others.

There are values and points assigned to determine a monthly score. The total number of points Auditors score each month is very important for computing their monthly salaries. Those who score ninety or more points (90+) are rated excellent and earn an additional 60 percent on top of their monthly salary; those who score 80-90 points are rated Very Good and get 40 percent added to their monthly salary; and so on an so forth.

There seems to be some dissatisfaction among ISTD staff with the performance evaluation system. The main complaint is that staff is rated almost exclusively on "production", i.e. how many cases they completed each month, or how much in additional tax deficiencies or tax-arrears collections they generated. The quality of their work and other attributes are given much lesser importance. We were not able to ascertain the validity of these assertions.

C. FINANCIAL RESOURCES

According to the Ministry of Finance, total ISTD outlays in 2008 came to just over JD 12 million, of which more than 98 percent was used to finance current (operating) expenditures. These figures exclude approximately JD 25,000,000 paid out to taxpayers in the form of tax refunds, which surprisingly are included in the Department's annual budget. In most modern tax systems, tax refunds are the domain of the government's treasury function.

Table 5. ISTD expenditures by type, 2008

Expenditure category	Amount in JDs
Personnel costs	10,413,803
Salaries & wages	10,036,543
Social Security	377,260
Non-personnel expenditures	1,678,451
Others	5,125
Capital spending	200,951
Total Expenditures	**12,298,330**

Personnel costs, at JD 10.4 million in 2008, consistently dominate ISTD's spending, leaving less than JD 2 million to cover the Department's overhead expenses, purchase goods and services, and finance capital expenditures, including investments in new IT equipment, systems, and other infrastructure. During our investigations, we heard claims from various sources that the ISTD often uses proceeds from collected penalties to compensate for its severe budget constraints. As we understand it, these funds are used to cover various support costs and to make special performance awards to individuals and committees. They are not used to support salaries.

Indeed, even with the wage bill claiming a disproportionately large chunk of the budget, remuneration of ISTD employees remains extremely low. With current staffing at just over 1,500, average compensation per ISTD employee would be around JD 550 per month, including the various official allowances and bonuses described earlier in this report. To put this into perspective, in industrialized countries, the ratio between an average tax administrator's basic compensation and GDP per capita is about 2 to 1—not particularly high, but high enough to attract and retain experienced personnel. In Jordan, the ratio is 1 to 4, i.e., the average ISTD employee earns only one-quarter the value of per capita GDP. The rigid civil service grade and pay system poses challenges for the ISTD in attracting talent to its ranks. The Department has become accustomed to losing its staff to the private sector as soon as they have been trained.

The programmatic breakdown of the ISTD budget is also of concern. The Department dedicates the largest portion of its budget to servicing small taxpayers (individuals and employees); the second largest to administration and support services; and, finally, the smallest amount to servicing medium and large taxpayers. This is inconsistent with international best practice. The ISTD should be dedicating the bulk of its resources (both financial and personnel) to controlling the largest taxpayers in the LTO and the MTOs. It should be devoting far fewer resources to controlling smaller taxpayers, and far less time and energy on performing low-return tasks, such as low-value refund audits and tax clearances. Meanwhile, administration and support costs, while important, should be contained to the extent possible.

D. LEGAL FRAMEWORK

DISCUSSION OF THE KEY LAWS AND REGULATIONS

The ISTD implements two tax laws—the Income Tax Law and the General Sales Tax Law—which both have references to regulations, executive instructions, and other laws in force, such as the Civil Procedure Law, the Penal Code, and the State Funds Collection Law. The Income Tax Law applies to both personal income and corporate income. Though called sales tax, the GST Law is a VAT law in practice. It is applied on general sales tax (GST) and special sales tax (SST), which is more like an excise tax. Several revisions and amendments have been made to both laws since their introduction.

According to the Jordanian legal system, legislation exists largely at four levels, starting with the basic law (the constitution), followed by laws, regulations, and finally instructions. Laws are endorsed by the Parliament and by the King, regulations by the Cabinet, and instructions by ministers. All are published in the Official Gazette. Laws have to be endorsed by the King. Some further internal instructions can be issued by director generals.

Between 2007 and 2009, the Jordan Fiscal Reform I Project helped develop a proposal for a new, comprehensive tax code, incorporating all taxes and administrative provisions in the country into one code. Ultimately, however, the decision was made to split the tax code into four separate tax laws—for income tax, sales tax (GST and SST), property tax and property transfer tax, respectively. The first two were issued in late December 2009 and became effective as of January 2010. Both are provisional or "temporary" laws, the Parliament having been dissolved when they were issued. The Income Tax Law constituted a completely new law, while the new Sales Tax Law only amended the existing law. Work on the latter two laws is underway and these are expected to be issued in 2010.

The new tax laws are clearer, more simplified and generally improve the tax legislation, especially with regard to tax compliance issues. As discussed in Chapter II, the Income Tax Law lowers and flattens the tax rates, increases the tax-free threshold for individuals, and makes a number of changes with respect to exemptions and other reliefs. On the other hand, the amended GST law makes only minor changes, mainly reorganizing the structure of the law to group all the administrative provisions at the end of the law. Remaining issues, such as establishing a uniform GST filing threshold, and separating SST provisions from GST provisions, will need to be addressed in due course. Importantly, however, the Income Tax and Sales Tax Laws now have almost completely harmonized provisions for tax administration.

As mentioned earlier, further changes may be on the way. For instance, the Government is considering the possibility of introducing a new, simplified regime for small businesses, allowing them to pay a simple turnover tax rather than be subject to complex income tax and GST filing requirements. Given that the Government is moving to harmonize administrative provisions across all taxes, there may also be scope to consider integrating those provisions into a single, uniform tax administration code for greater simplification and ease of reference.

LEGAL SERVICES IN THE ISTD

The Directorate of Legal Affairs provides a wide range of services to ISTD operations. The General Prosecution Division, with a staff of 34, represents the ISTD on all litigation cases, including cases which go before the appeals courts, and prosecution of fiscal crimes. The staff also handles cases referred for prosecution by the Anti-Fraud Directorate, as reported above. A Consultations and International Tax Agreements Division, with 3 attorneys, provides assistance with interpretation of legal issues and works on all double-taxation and other international issues.

The Directorate also issues regulations associated with tax legislation. The Director is heavily engaged now in drafting and issuing regulations for the new (temporary) Income Tax Law and the changes in 2009 to the GST law. He heads a Committee which has nine Working Groups—soon to be downsized to 3—which is working feverishly to issue all required regulations as soon as possible. This work is made even more difficult because the regular work of the Legal Affairs Directorate continues. This includes a tremendous backlog of appeals cases, and frequent ad hoc inquiries from taxpayers for clarification on application of tax laws to their business activity.

VIII.RECOMMENDATIONS

A. HIGH-LEVEL RECOMMENDATIONS

The Jordanian tax system is built on relatively solid foundations. The country's tax laws are still in a state of flux, but the underlying tax policies in many ways follow international best practices. Personal income tax compliance is still far below international standards, but compliance with the GST is very high and corporate income tax compliance has been increasing steadily. The ISTD still has many challenges, but we recognize here that there has been considerable progress toward creating a modern, truly integrated tax administration.

The ISTD is actively upgrading and strengthening its IT infrastructure, from workflow systems, to computer-assisted, risk-based audit selection, to an integrated, comprehensive tax accounts database. These efforts will result in improved compliance while improving taxpayer service and enhancing tax administration efficiency.

Technical assistance from international agencies, including USAID and the IMF, is helping the ISTD accelerate its modernization efforts, but the tasks are great and the opportunities plentiful. The ISTD must coordinate these efforts to maximize benefits and minimize duplication.

There is little point to making a series of recommendations unless they are consistent with an overall set of strategic objectives. The ISTD's Strategic Plan for the period 2010-2014 provides three objectives in this regard:

1. Increasing tax administration efficiency and effectiveness;
2. Raising voluntary compliance through improving taxpayer education, taxpayer services, and transparency; and,
3. Increasing tax revenues available for the Government to execute its responsibilities.

To ensure consistency and clarity of purpose, we have relied on these strategic objectives to drive the development of our recommendations. Thus, at a high level, we propose the following:

The ISTD should seek to maintain a low cost-to-collections ratio. Official data indicate that the current cost-to-collection ratio in Jordan is quite low; although we believe the ratio is understated—exactly by how much is unclear. What is clear is that remuneration levels on average are very low, but at the same time there are many inefficient practices that divert scarce tax administration resources from their most productive uses. The following sections provide some recommendations that could lead to both lower costs and greater efficiency, without adversely affecting revenues.

In tandem with the above, the Department should adopt all reasonable measures to increase the ratio of tax revenues to GDP that it collects. Given the significant contribution of the General Sales Tax to overall tax revenue, recovering GST revenue lost since the onset of the current economic crisis should be a Departmental priority. The ISTD should also concentrate on improving collection of other taxes, particularly on raising compliance among income taxpayers. This strategy will reap benefits in the long run, after Jordan has emerged from the current economic slump.

Finally, revenue-raising efforts, while important, must not create additional administrative burdens for the private sector. Voluntary compliance is built on the premise that tax administration should provide taxpayers the information and assistance they need to comply with tax laws, focus its limited resources on pursuing those who violate those laws, and reward those who follow the rules by making compliance easy and then leaving them alone. The recommendations that follow seek to both raise compliance, while reducing the administrative burdens the tax system imposes on businesses and individuals. In some instances, we propose actions that are mostly designed to reduce taxpayer compliance burdens and ISTD administrative burdens, without specifically seeking to raise revenue productivity.

With these objectives in mind, and based upon the analyses in this study, the following sections present our immediate and medium-term recommendations for the consideration of His Excellency, the Director General of the Income and Sales Tax Department, as well as other concerned authorities.

B. SPECIFIC RECOMMENDATIONS

CLEAN UP THE TAXPAYER REGISTRY

A reliable taxpayer registry database provides the foundation for an integrated tax information system, which, in turn, supports all operations of the tax administration. The ISTD's Taxpayer Registry is currently not reliable.

There are approximately 520,000 taxpayers in the ISTD's taxpayer registry, of which only about 85,000 currently file tax returns.[12] Some ISTD officials believe that as many as 250,000 of the 520,000 registered taxpayers are stop filers.[13] Many of these stop filers cannot be found because their contact information is out of date. Surprisingly, many of these taxpayers are known to be defunct, but the ISTD is reluctant to remove their files from the registry for the (unlikely) event that third-party data may someday provide leads about new business activity for these taxpayers. While such a strategy may have occasional, one-off benefits, this is really not a productive use of the ISTD's limited resources and, at best, it is just putting unnecessary strain on the Department's IT system.

Without a clean, up-to-date taxpayer registry, the tax authorities cannot effectively control their taxpayer population and will continually focus excessively on those who follow the rules, and insufficiently on those who violate them. The ISTD should immediately develop and implement procedures to clean up the taxpayer registry. The first step should be to eliminate all the "ghost" taxpayers from the database. There is no point in clogging up the taxpayer database with records of deceased and defunct taxpayers. Once this is done, the ISTD can concentrate their limited resources on finding and enforcing compliance on the

[12] Nearly 30,000 of these taxpayers are also registered as GST filers. There are a further 450,000 employee-taxpayers in the registry, but most of these people are not required to file annual income tax returns.

[13] The new (temporary) income and sales tax laws both contain provisions that require taxpayers to update their contact information with the ISTD within 30 days of any change. However, to date, no public campaign has been launched to inform taxpayers of this responsibility.

real stop filers. At the same time, the ISTD should mount a campaign requiring all taxpayers to update or verify their status, including contact information, type of business, and other information.

Priority level: This should be a high priority for the ISTD. The "retiring" of ghost files should not take a very long time nor require a great deal of effort, though it will require the culling of close to 1,000,000 records, including files for employee-taxpayers. Finding the real stop filers to enforce their compliance and update their registry information will take longer.

IMPLEMENT AN AGGRESSIVE COMPLIANCE PROGRAM

There are many unregistered taxpayers in Jordan who should be in the taxpayer registry and are not. These are the non-filers who operate "under the radar" and go largely undetected by the ISTD. A very strong compliance program needs to be designed and implemented to broaden Jordan's tax base, bring non-filers (for income tax in particular) into the tax net, and lessen control on those who already do comply. The program should focus selectively on those taxpayers with potentially significant tax liabilities, i.e., corporations and professional taxpayers. Specific ISTD activities might include scanning of business registration information in the Ministry of Industry and Trade's commercial registry; information from electric company lists of high wattage users; lists of passport holders; cross-checking of lists of membership in professional associations (doctors, lawyers, etc.); scanning of publications for new business announcements; cross-checking of import/export documents; and other sources. Widespread publicity about the launching of the compliance program, coupled with publicity of high-profile cases where the ISTD successfully brings large tax evaders into the tax net, will also help compliance.

Priority Level: This is a high priority initiative.

IMPROVE THE TAXPAYER CURRENT ACCOUNT/LEDGER SYSTEM

Because the reliability of the taxpayer current account/ledger system is heavily dependent on the accuracy and reliability of the taxpayer registry, the ISTD's taxpayer current account/ledger system is not reliable. Furthermore, we understand that there are flaws in the ISTD's tax arrears system to the effect that payment transactions previously entered into the system "disappear" as soon as new transactions are entered. We also understand there are problems with the automated non-filer system in producing accurate stop-filer lists. All these flaws, whether wholly or only partially true, in current automated databases negatively affect the reliability of the Taxpayer Current Account/Ledger System.

Priority level: Making the taxpayer current account/ledger system reliable and accurate is a very high priority.

CENTRALIZE AND AUTOMATE DATA PROCESSING

A very high volume of taxpayers visit ISTD offices throughout the country for a variety of reasons, including to register as taxpayers; file GST and/or income tax returns; make tax payments; claim tax refunds; and, request tax clearance certificates. All of these tasks and processes are completed decentralized, and ISTD staff in all offices dedicates a great deal of time and effort to manually handling all of these requests. For example, taxpayers can go to any tax office, present their tax returns, and wait while tax technicians review the mathematical accuracy and key in and verify data from the tax return. The services provided from office to office may vary as well. In some cases, for instance, the tax office will only process income tax declarations, but will accept and transmit GST returns to ISTD Headquarters for processing.

Managing all this document traffic—with all the different rules and procedures for income and sales tax, and with all the different kinds of taxpayer requests—cannot be easy. Furthermore, the document processing workload is highly variable, with heavy activity during peak filing periods and lighter activity at other times. Dedicating staff in each ISTD office to this function, thus, is an inefficient use of resources.

Many modern tax administrations around the world have designed and implemented centralized, highly automated tax returns and document processing centers. The United States' Internal Revenue Service implemented this concept many years ago. Bosnia and Herzegovina, with USAID support, recently established a Centralized Processing Center with excellent results. Huge backlogs of unprocessed tax returns (that were previously processed manually) were eliminated within the first year of operations. Similar successes have been enjoyed by tax administrations in many countries.

We recommend that the ISTD move to centralized receipt and processing of tax returns and many of the other documents associated with registration, refunds, tax clearances and other common taxpayer transactions. This processing center will be set up at a central location to be determined once requirements are laid out. All data entry will take place within the central processing unit, with automated applications for key verification, error correction and tax accounting. Processing of all tax payments will also be included in the operations of the Centralized Processing Center (recommended processes for taxpayers to make tax payments are discussed below).

Once the plans to proceed are approved and the design begins, a very strong publicity campaign should be mounted and maintained, until the Centralized Processing Center is operational. The campaign should emphasize that the ISTD has taken the initiative to streamline the filing process and reduce taxpayers' burdens in doing so. Therefore, all returns and other documents—regardless of the purpose and regardless of the type of tax—should henceforth be sent to the ISTD's Centralized Processing Center, either by mail or electronically. There will no longer be an option to file tax returns and other documents at ISTD offices, nor to make payments at the tax office; instead, taxpayers will only be able to make tax payments at commercial banks (discussed in detail below).

Priority level: The need to design and establish a Centralized Automated Processing Center is a high priority. However, implementation will require securing the financial resources and physical plant for the Center.

ESTABLISH A CENTRALIZED, AUTOMATED FISCAL COMPLIANCE CENTER

Many Tax Administrations around the world have designed and implemented centralized fiscal compliance centers in conjunction with centralized automated document processing centers. The fiscal compliance centers, with largely automated systems, have very successfully dealt with a large number of taxpayers in a variety of non-compliance situations, such as stop-filers, non-filers, taxpayers with outstanding arrears, and under-reporters of income tax or GST[14]—in short, most of the preliminary

[14] The lists of under-reporters of tax liabilities are generated by cross-referencing third-party information documents received electronically about income, sales, or expenses reported on tax declarations.

compliance functions presently being performed collectively by the Tax Compliance Directorate and the Debt Management Directorate at the ISTD's Headquarters.

Much of the work of fiscal compliance centers is automated, including notices for the various types of non-compliance. Even some telephone calls to taxpayers are automated. In El Salvador, for instance, the Director General of Internal Taxes recently deployed a new "robo-call" system, an automated program that calls stop-filers and other non-compliers with recorded messages instructing them to rectify their particular non-compliance issue by a specified date. In addition, there are compliance technicians on live telephone systems to work on cases not resolved by such "robo-call" systems. Cases not resolved by any of these methods are assigned to field offices for enforcement.

Experience has shown that a large percentage of non-compliance cases are resolved by Fiscal Compliance Centers much more efficiently, and much more cost-effectively, than one-on-one efforts in field operations. Some countries have experienced a yield on average of 15:1 for their investment in fiscal compliance centers, i.e. an additional US$15 in taxes collected for every US$1 authorized and invested in these centers.

Priority Level: The need to plan for and design a centralized, automated ISTD Fiscal Compliance Center is high priority. However, implementation will require securing the funding and physical plant.

SHIFT ALL TAX PAYMENT TO THE BANKING SYSTEM

The MOF and ISTD have already implemented a progressive initiative to engage three, then six and now nine commercial banks as certified to accept and remit tax payments to the ISTD. However, the initiative has not taken hold sufficiently to decrease very heavy customer traffic handled by ISTD cashiers at Headquarters and the various field offices, especially during the last few days before payment deadlines.

All over the world, modern tax administrations have moved away from the practice of accepting tax payments and have eliminated the cashier function in all of their offices. Instead, most processes for making tax payments have been shifted to the commercial banking system. Ministers of Finance have successfully negotiated contracts with the commercial banking sector to accept, process and transmit tax payments, usually with software designed by the tax administration and provided free-of-charge to the banks. Contract terms in different countries for compensation to banks vary—from merely allowing banks the use of these Government funds for 3-5 days (referred to as a "float"), to paying monthly fees to banks for their service, or both. Under these contracts, commercial banks use the software provided to issue receipts, transcribe taxpayers' entity and payment information (TIN, name, type of tax and period, and payment amount), and transmit the transactions electronically to the tax administration's centralized processing center, where reconciliation and posting to the taxpayers' current accounts/ledgers are performed.

Widely engaging the commercial banking sector to accept and process tax payments has produced "win-win" benefits for all parties: Banks benefit financially from service fees and/or the 3-5 day "float"; taxpayers gain access to a wider network of bank locations, allowing them to pay and obtain tax receipts more conveniently; and, the Government benefits from more timely tax collections, and a reduced time between processing and posting of payments to taxpayers' current accounts. At the same time, the tax administration disposes of a cashier function that is frequently prone to abuse and security breaches.

Priority level: This recommendation is of very high priority. The publicity campaign described above for centralizing submission of tax returns will also incorporate messages and instructions regarding the decision to shift tax payment fully to the banking system.

USE COMMERCIAL BANKS AS A SUBMISSION POINT FOR TAX RETURNS

In several countries (Chile, El Salvador and others), the contracts between the finance ministry and commercial banks for handling tax payments also authorize banks to receive and sometimes process tax declarations. In most cases, the banks do some minimal data processing of tax declarations (e.g., TIN, name, address, tax period and amount) on behalf of the tax administration and then batch and submit the returns electronically to the tax administration's centralized document processing center.

Confidentiality of taxpayers' financial information is of paramount concern, and in many cases is enshrined in the country's tax laws. In some such countries, contracts with commercial banks involve only deposit of tax returns in sealed envelopes into "locked boxes" on banks' premises for daily forwarding to the tax administration's centralized processing center. In other countries (e.g., in Chile and El Salvador), the "confidentiality issue" is covered in contracts with banks by imposing penalties for unauthorized disclosure by bank staff of taxpayers' tax return information.

Priority level: This recommendation is of high priority, and should be considered jointly with the recommendation to centralize and automate data processing and the recommendation to shift all tax payment to the banking system.

STRENGTHEN CALL CENTER OPERATIONS

We understand that plans are in place to establish a government-wide call center, and that ISTD call center staff will move there once operational. When this occurs, the call center's staff should be expanded substantially. The ISTD's call center has only two staff, with limited tools for responding to taxpayer queries. We recommend expanding call center staff commensurate with the likely increase in call volumes that will come from reducing taxpayer visits to the ISTD offices. Eventually, the call center will be the focal point for responding to taxpayer queries and providing specific information for taxpayer compliance.

Priority level: This recommendation should be implemented over the medium term.

MAKE TAXPAYER CURRENT ACCOUNT / TAX CLEARANCES FULLY WEB ACCESSIBLE

The ISTD should fully roll out web-accessible applications for the taxpayer current account and for the issuance of taxpayer clearance certificates. The ISTD already has an intranet portal where some taxpayers can go and view their account information, their current status, and file an income tax declaration electronically. Any taxpayer should be able to access this portal to view and manage information for all of his taxes, using his TIN and an assigned password or personal identification number (PIN).

The ISTD should also develop a transparent, controlled, and accountable certification process that allows immediate issuance of certifications from this web-accessible application. The clearance certificate should be available to taxpayers from the portal, where they can request and download certificates by themselves. In cases where taxpayers do not have internet access, we propose that taxpayers be able to go to one of the proposed ISTD "internet café" locations to access the internet and print official tax clearance certificates.

Priority level: The ISTD should begin to implement these measures in 2010.

RESTRICT TAXPAYER ACCESS IN FIELD OFFICES TO CUSTOMER CARE AREAS ONLY

Taxpayers should no longer be allowed access to work areas of the Audit and Collections functions in ISTD tax offices. This will help prevent the unauthorized disclosure of information on taxpayers, and at the same time reduce opportunities for improper, "closed door" contact between taxpayers and tax officials. Contacts between auditors and taxpayers subject to audit typically occur on taxpayers' business premises or at other locations outside of ISTD offices, where most of the inspection work is performed. Of course, there may be circumstances in which such taxpayers would have to visit ISTD offices, such as in relation to objections. In such cases, meetings or interviews between the taxpayer and ISTD officers should take place in designated customer service space.

The ISTD should also explore innovative means for delivering customer services to further reduce the need for taxpayer visits to compliance work areas. In Moldova, for instance, the State Tax Inspectorate, the country's tax administration, is establishing "internet café"-style taxpayer service centers inside municipal government facilities, where taxpayers are able to register, obtain forms and instructions, update their status, or access their tax statement via an intranet portal. Increasingly, and especially as the ISTD moves to centralized processing and bank payments, taxpayer information and assistance should be made available via the ISTD website, the call center, and at "one-stop" taxpayer service centers.

Priority Level: Restricting taxpayer access to compliance work areas is a high priority.

STRENGTHEN THE ISTD HEADQUARTER'S NORMATIVE ROLE

The ISTD has made a lot of progress in transferring operations functions from Headquarters to the Field Directorates. Nevertheless, some Headquarters Directorates, such as those responsible for Debt Management and Tax Compliance, are still involved in operations to some extent. These activities should be ceased.

ISTD Headquarters should be relieved of all operational tasks and left to concentrate on its normative developing operational policies and procedures, and to leading Department-wide planning, monitoring, and development activities.

Among the most pressing Headquarters tasks will be the development, updating and dissemination of procedural manuals for all functions (audit, collection, follow-up, anti-fraud investigations, training, etc.), as well as taxpayer publications (including tax forms and instructions) reflecting the changes effected by the new income and sales tax laws.

Priority level: The ISTD should begin to develop and issue written policy and procedural manuals immediately.

DISCONTINUE INTERNAL CONTROL UNIT'S ROLE IN AUDIT REVIEWS AND DISBURSEMENT APPROVALS

The ISTD's Internal Control Directorate routinely performs two very unusual functions not consistent with international best practices. First, the Directorate's Post-Audit Division performs sample quality reviews of audit cases—a 10-percent sample, according to our understanding. Quality review of audit cases is an integral function of Audit Division management in the Field Directorates and should not be performed by the Internal Control Directorate *unless* an auditor's integrity is in question.

Second, the Internal Control Directorate also reviews and approves (or disapproves) several types of disbursements by the ISTD, including tax refunds of 100 JDs and above. We understand that national law requires all such refund vouchers to be audited. We sincerely doubt that the time and effort expended is worth the return on resources invested, and elimination of this requirement for low-threshold disbursements should be implemented as soon as possible, even if this requires legislative change.

Internal Control can then dedicate its small staff to more traditional "internal audit" roles—particularly system audits, which trigger corrective actions on a much broader scale throughout the ISTD—rather than to dealing with individual taxpayer cases and minor disbursements.

Priority level: These changes are of very high priority.

REALIGN SOME ISTD DIRECTORATES TO IMPROVE EFFICIENCY AND EFFECTIVENESS

Several ISTD units that currently report to the Assistant DG for Planning, Development & Taxpayer Services should be realigned to better conform to international best practice. (Annex B to this report shows the ISTD's organization structure effective January 1, 2010.)

First, the Information Technology Directorate should be realigned to report directly to the Director General. Information technology in modern tax administrations serves all tax offices, both in the field and at headquarters. IT staff and expertise are always in very high demand, yet frequently limited by resource constraints. The case is no different in the ISTD. The best placement of IT Directorate, therefore, is under the highest level of the organization, where senior management can prioritize the organization-wide IT needs and implement responses accordingly.

Second, the responsibilities of the Debt Management Directorate really "fit" much better under the Tax Compliance & Operations Monitoring Directorate. Like stop filers, taxpayers with outstanding tax arrears are, by definition, *non-compliant* taxpayers; yet, the ISTD currently divide responsibility for these taxpayer categories between the two directorates, resulting in duplication of effort and inefficiencies. Therefore, the Debt Management Directorate should be realigned as a Division within the Tax Compliance Directorate, focusing on policies, procedures and methodologies for addressing the ISTD's tax arrears cases.

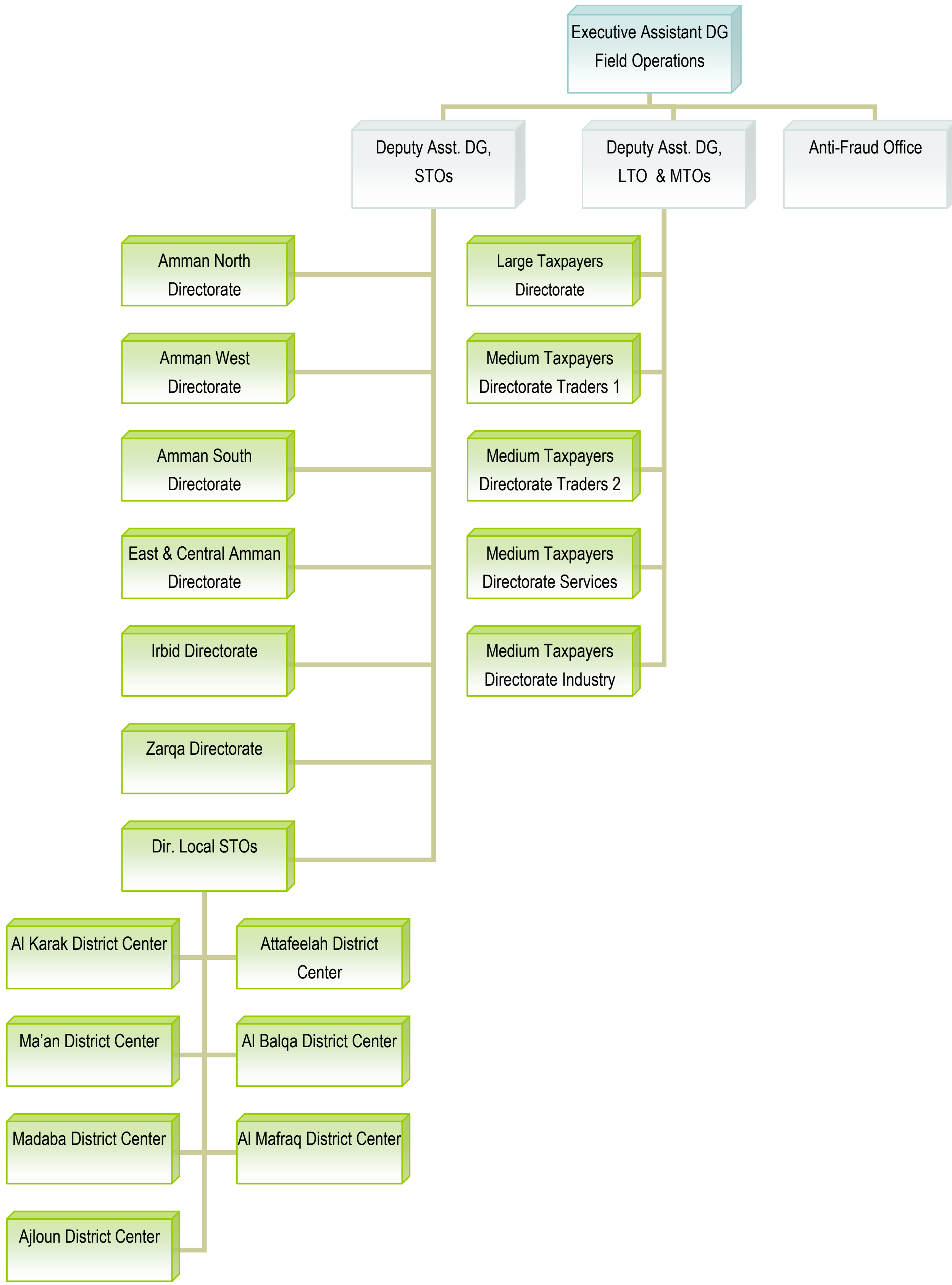
Third, the seven District Tax Centers, currently placed under the Assistant DG for Planning, Development & Taxpayer Services in ISTD Headquarters, should be placed instead under the Executive Assistant DG for Field Operations. As specialized, local STOs servicing the smallest taxpayers (mostly individuals and employees), these seven District Tax Centers should be grouped and aligned under a "Local STOs Directorate."

Finally, to reduce his span of direct reports, we recommend that the Executive Assistant DG for Field Operations be supported by three subordinates, two at the Deputy Assistant DG level. **Error! Reference**

source not found. illustrates the proposed reorganization described here. One Deputy would supervise the six larger STO Directorates (Amman North, West, South, etc.) and the Local STOs Directorate. The other Deputy would supervise the LTO and the 4 MTOs. The Anti-Fraud Directorate, which services all field operations, would also be placed directly under the Executive Assistant DG for Field Operations, as is currently the case. This realignment will free up the Assistant DG to dedicate more of his time to oversight of all ISTD field operations, to keeping the Director General informed at all times, and to monitoring and report on progress in meeting the ISTD's strategic objectives.

Priority Level: Re-aligning of the ISTD's organization structure as described above is of high priority.

Figure 10. Proposed organization of ISTD operational units



REASSIGN STAFF FROM STO'S TO MTO'S

The STOs currently have 56 percent of the total staff allocated to ISTD field offices. This allocation is disproportionately high for administering a taxpayer segment whose contribution to tax revenues is only 10 percent. Meanwhile, many auditors and managers in the MTOs report severe shortages of staffing in relation to their workload, particularly in the Collection & Follow-up Divisions.

STOs' staffing needs will decline with the implementation of many of the measures described above, including centralized processing and compliance centers and other innovations to reduce taxpayer visits to tax offices. Moreover, as most employees will no longer have to file under the new Income Tax Law, we expect that taxpayer traffic at the STOs will decline even more. Therefore, we recommend a significant number of STO personnel be redeployed to MTOs and to the recommended two centralized data processing centers. Administration of small GST taxpayers by STOs should be reconsidered.

Priority Level: Switching some staffing from STOs to MTOs is very high priority.

INCREASE THE USE OF FORMAL DELEGATIONS OF AUTHORITY

Despite the fact that Jordan's tax laws permit formal delegation of authority—Article 63(b) of the (temporary) Income Tax Law, for example—we learned from our visits and from various reports that delegations of authority throughout the ISTD are largely absent. Consequently, a high number of completed audit, collection and follow-up cases have to be sent to MTO Directors and even to higher levels for approval. Indeed, it was reported that managers and directors at all levels spend much of their time on technical and administrative matters, leaving little time to perform their primary management responsibilities.

As reported in Chapter IV of this report, a "cascading" system of formal delegations of authority from the Director General down through management channels to experienced auditors and compliance officials—with careful oversight by the Internal Control/Audit function to prevent abuses—is essential to developing and maintaining efficient and effective operations in tax administration.

Priority Level: A system of formal delegations of authority urgently needs to be implemented throughout the ISTD.

SEEK LEGISLATIVE CHANGES TO WRITE OFF UNCOLLECTIBLE TAX ARREARS

The ISTD's tax arrears amount to more than 500 million JDs. A large part of this total is very old and is uncollectible. Tax arrears go back to the 1960s because there is no statute of limitations under the law. Furthermore, these debts cannot be written off because there is no provision in the law permitting write-offs of uncollectible debts to the Government. Given this huge population of tax arrears accounts, it is difficult for ISTD compliance officials to focus on those tax arrears accounts which are truly collectible, in whole or in part, and establish priorities among these accounts.

Modern tax administrations are given authority under the law to determine which tax arrears accounts are uncollectible—e.g., bankrupt or deceased taxpayers with no assets—and to place these accounts on "inactive" status, separate from active accounts. Periodic follow-up actions, generated by automated systems, determine if any of the inactive accounts should be restored to active status, in the event the taxpayer's collectability situation improves. Furthermore, there is always a statute of limitations—10 years from the date of assessment in some countries—within which to collect the tax arrears or permanently write off those accounts. Experience has proven that, the older the tax arrears, the lower the likelihood of collecting any taxes due.

Priority level: There is an urgent need to seek legislation to write-off uncollectible tax arrears cases.

IMPLEMENT THE RISK-BASED AUDIT SELECTION SYSTEM

A risk-based, computer- assisted selection system was developed under FRP I and has been in use for about two years. Despite progress made by the ISTD to channel their auditor and other resources to audit cases with the greatest revenue-loss potential, however, there is still a very long way to go before the ISTD's audit-selection practices are consistent with international norms. For example, most successful tax administrations select and audit only 1 percent of income tax and no more than 5 percent of GST declarations filed. The ISTD's MTOs currently audit around 40 percent of income tax returns and an even higher percentage for GST returns. The LTO, meanwhile, does not use an automated, risk-based system and relies instead on priorities established by LTO managers. To conduct a comprehensive audit on every large taxpayer takes considerable time; a 100-percent audit strategy is unrealistic.

Contributing to the excessive audit rates are several policies and legal requirements for mandatory audits of certain categories of cases, without regard to the return (additional revenue) on ISTD's investment. For example, all refund claims for amounts exceeding JD 200 are subject to audit, as are all tax returns reporting an operating loss of JD 20,000 or more.

If there is a need to revisit the risk criteria or the functionality of the system, the FRP II team would be ready to assist. In any case, audit selection should focus on the highest risks, to which the ISTD directorates can apply more rigorous and productive audits.

Priority level: Much higher application of the automated audit selection system should be of highest priority, including any refinements needed to the system.

IMPROVE THE OBJECTIONS AND APPEALS PROCESSES

In the ISTD, taxpayers' objections are first brought for consideration before auditors who are members of the same division as the auditor who proposed the additional deficiency. Best international practices have shown that objections should be brought before an independent Objections Committee composed of experienced, former auditors and housed in a unit that is not responsible for conducting any audits or other tax enforcement activities. These arrangements provide reassurance to taxpayers that they will receive fair and impartial consideration of their objections, and ensure that a higher percentage of cases are resolved at the objections stage. A high settlement rate at the objections stage, of course, decreases the volume of cases that go to appeals courts and is of benefit to all parties.

Objections Committees are often placed as a Division of the Legal Affairs Directorate in tax administration headquarters. Those cases not resolved by the Objections Committee and referred to appeals courts are then handled by the general prosecution division of the Legal Affairs Directorate.

Priority level: Reform of the objections and appeals processes are of high priority and should begin to be addressed immediately.

IMPROVE THE FUNCTIONALITY OF THE AUDIT TRACKING SYSTEM (ATS)

The ISTD should fully roll out the ATS to all directorates, for all audit cases. The ATS will allow auditors, audit managers, directors, and ISTD leadership to be able to track the actions being taken in any and all audit cases as they occur. The ATS can help to improve audit, audit oversight, audit performance, and even reduce the opportunities for error and corruption in audit practices.

Training about user requirements and tools available in the system has been very limited. More and better training will help diminish widespread discomfort and frustration of auditors in the MTOs and help transform ATS into a beneficial, performance-enhancing system, as is the case in the LTO.

Priority level: This should be done immediately for auditors in MTOs that have rolled out the ATS, and should precede implementation of ATS roll-out and training in those Field Directorates that do not yet have it.

ESTABLISH CAREER PATHS FOR ISTD PERSONNEL

All new appointees with college and university degrees are appointed to the ISTD as "Auditors". Unlike policies and practices in many other countries, the ISTD has not established formal career paths for new staff. Career paths provide a means for new staff to attain progressively higher, non-competitive grade/pay levels in their jobs, usually over a period of two years, until they attain a level of experience at which their work which requires minimum supervision. Thereafter, with several additional years of experience, they can compete for higher-level positions and salaries, up to senior levels in the LTO or other high-profile divisions.

The ISTD has a fairly high turnover rate of experienced Auditors. Based on experience in tax administrations in other countries, a system of career paths and performance-based promotions, with higher grades and pay the higher the level, help a great deal to improve retention rates of experienced staff.

Priority Level: The need to establish career paths in Audit, Compliance, Anti-fraud investigations, and Taxpayer Service positions is of high priority.

IMPROVE REMUNERATION OF ISTD EMPLOYEES

The average monthly salary of ISTD Auditors—including personal and family allowances; travel, overtime and other allowances; and performance bonuses—is around JD 550, equivalent less than one-fourth per capita income in Jordan. Moreover, the maximum monthly salary an Auditor with 20 years of service, including bonuses and allowances, is only around JD 950. Given the low remuneration, and the promise of more rewarding opportunities in the private sector, the turnover rate of experienced Auditors is understandably high.

We also understand that a top-level ISTD Committee has almost completed work on a proposal to be submitted to the MOF to substantially increase remuneration levels and separate the ISTD from civil service classification and salary scales. We fully support this initiative to formalize a more competitive pay scheme for ISTD employees.

Priority level: Improvement of ISTD's remuneration for employees is of the highest priority.

IMPROVE PERFORMANCE EVALUATION SYSTEMS

All ISTD Auditors are evaluated monthly on a variety of performance criteria, and points are assigned to each to derive an overall score. Those who score 90 or above get a 60-percent bonus added to their monthly salary; those with scores of 80-90 get 40 percent; etc. Even though several criteria on the monthly evaluation form are subjective (aptitude, dedication, etc.), there is a general feeling among Auditors (except in the LTO) that the sole criterion on which they are rated each month is “production”: how many cases they work each month, the value of the additional deficiencies proposed, and the amount of tax arrears collected.

Over the years, tax administrations around the world have abandoned similar “production evaluation systems.” Experience has shown that such systems provide incentives for auditors to propose higher than appropriate tax deficiencies, resulting in increased numbers of objections and appeals cases, and creating considerable tension between the tax authorities and those taxpayers who are complying with their tax obligations voluntarily.

Furthermore, most countries have introduced annual performance evaluation systems, with expectations established between auditors and their supervisors, who monitor performance throughout the year with quarterly assessments. Additionally, the criteria used to evaluate auditors are job-specific, e.g., workload management; work planning and scheduling; and, proper application of auditing techniques.

Priority level: This recommendation is of high priority.

FORMALIZE AND CARRY OUT ISTD’S TRAINING PROGRAMS

Over the years, training for ISTD employees has been sporadic and, to a large extent, ad hoc. . For the training courses actually designed and conducted in recent years, primarily with the assistance of FRP I staff, there has been little or no effort by ISTD’s staff to evaluate the impact of the training on participants’ performance on the job, nor to maintain materials for continuing training needs.

A formal ISTD Training Program needs to be designed, implemented and maintained. FRP II staff is available to help.

Among the training courses needed now are those specifically designed and tailored to the respective functions that ISTD staff perform. For instance:

- In addition to tax law training, auditors need training in various competencies, including auditing techniques; international accounting standards; research techniques; report-writing skills; fraud awareness; and, indirect methods for determining income.
- In addition to the above, LTO auditors need training in transfer pricing issues and systems audit techniques.
- MTO auditors need ATS training.
- Collection and follow-up staff need training in tax laws; collection laws; financial analysis; public relations and interviewing techniques; and, report-writing.
- Anti-fraud investigators need specialized training in investigation skills and equipment; money laundering practices; and, indirect methods.

Priority Level: This recommendation is of very high priority.

DRAFT A COMPREHENSIVE, UNIFIED TAX ADMINISTRATION LAW

The international norm is to consolidate all administrative provisions concerning tax administration and tax compliance requirements in one place, rather than separately in each tax law. Such a practice is more likely to ensure uniform application of tax laws, in a clear, consistent, and transparent manner. The tax administration law (or, as some countries refer to it, the "tax procedure code") would provide the ISTD, taxpayers and tax practitioners with a comprehensive guide to taxpayer rights and responsibilities, tax administration powers, as well as constraints on those powers. Among others, it would also lay out the role and responsibilities of the independent objections and appeals function, including a requirement for the ISTD to rule in favor of the taxpayer in cases of ambiguity.

Priority level: This recommendation should be undertaken in the medium term, say, over the next 12 months, once experience with the new tax laws has provided lessons for improving the administrative provisions.

INSTITUTE ADVANCE RULINGS PROCEDURES

Advance rulings are official responses to taxpayer queries on specific situations, the answer to which can have important implications on business and investment decisions. The ISTD should have the authority and the capacity to provide answers, in writing, to specific sets of questions and situations to help taxpayers make business decisions with a clear understanding of the tax implications. Moreover, these advance rulings must be binding—that is, the tax administration cannot subsequently change its ruling.

Advance rulings are an important way to introduce more transparency in tax administration and improve business decision making for taxpayers. Advance rulings are available in many of the world's most advanced tax administrations, including in the United States, India, and Malaysia.

Changes in Jordanian tax legislation may be required to allow such advance rulings.

Priority level: This is a medium-term priority.

DEVELOP AND IMPLEMENT MANAGEMENT INFORMATION SYSTEMS REPORTING

The ISTD's various IT systems contain a wealth of data that could be more effectively used for monitoring, managing and improving both performance efficiency and effectiveness in providing service and collecting taxes due. Yet, standard reports do not yet exist for many of the Department's functions, and instead must be produced manually or on request by the IT Directorate. The ISTD should develop automated MIS reports, formats and templates required by Field Directorates a high priority, starting with reports that help ISTD leadership more effectively and efficiently track and report on the Department's performance again its Key Performance Indicators. These reports should be developed in close collaboration with Field Directorate managers and technical staff, who are best placed to define information needs.

Priority level: This work should begin immediately.

STRENGTHEN TAXPAYER EDUCATION TO ENHANCE TAXPAYER CULTURE

The ISTD needs to strengthen and expand its efforts to inform taxpayers about the tax system, how taxes are collected, and how taxes are used to benefit society. A permanent public relations campaign should be developed, based on a clear set of messages, that will continually highlight the importance of paying taxes and complying with tax laws to Jordan's present and future prosperity.

Such an education program would include, inter alia: television spots, pamphlets, classroom materials and curricula for schools.

The expansion of taxpayer education should also be geared toward specific outreach programs meant to provide specific information, including: taxpayer rights and obligations, the rights, obligations and powers of tax officials (and limitations on those powers); and information with regard to how, where, and when to deliver specific tax reports and other documents.

Priority level: This is a high priority and the ISTD should begin to implement these measures immediately, in tandem with outreach campaigns to educate the public on the new tax laws.

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In closing, we wish to acknowledge that the ISTD's accomplishments in transforming its organization to one consistent with many international best practices in a relatively short period of time are impressive. Clearly, the ISTD's top management and workforce are very skilled and are determined to continue the journey toward organizational and operational excellence.

We have made numerous observations and recommendations for changes in this report—not in a critical sense, but with the desire to assist and support the ISTD in accelerating its modernization efforts. We are confident that continued collaboration between the ISTD and USAID's Fiscal Reform II Project staff will yield benefits for tax administration, tax compliance, and the broader tax system in Jordan.

ANNEX A: COMPARATIVE BENCHMARKING INDICATORS

A. ABOUT THE INDICATORS

The Collecting Taxes comparative data system (www.collectingtaxes.net) features performance and structural indicators about countries' national tax systems. The interactive database contains quantitative revenue performance indicators, addressing how well a particular tax performs in generating revenues for the government, given its overall rate structure. Among the performance indicators is also an indicator of how well the overall tax system produces revenues, given the costs of administering the tax system. The database also provides tax rate information, such as the general value-added tax/GST rate or the general corporate income tax rate. Other indicators describe the main features of tax administrations, while economic indicators are also included so that performance, rate competitiveness, and structure can be easily compared given levels of development and other factors.

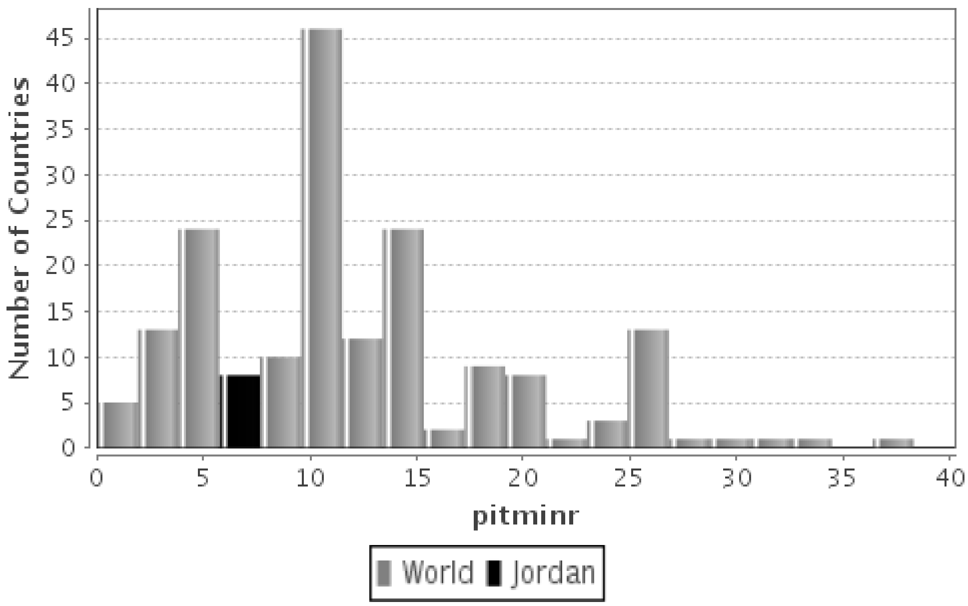
The entire Collecting Taxes data system compiles and presents more than 30 indicators or variables. These indicators can be divided into five categories:

1. **Tax revenue performance**: These quantitative indicators provide a sense of how effectively the tax system produces revenues.
2. **Tax structure**: These quantitative indicators represent the substantive structure of tax law, in a simplified, comparative way.
3. **Tax administration structure**: This category includes both qualitative and quantitative indicators of the organization and size of the tax administration.
4. **Economic structure**: These indicators provide information about the economy of each country included in the data system. These basic indicators have been cited in a number of research projects as having important impact on the ability of tax systems to collect taxes.
5. **Reference**: These indicators measure neither performance nor quality of the tax system. Rather, they provide information about the amount of revenues the three major taxes produce and allow international reference comparisons. There is no specific evaluative aspect to these indicators.

Below, we compare tax collection performance and structure in Jordan with that in the rest of the world, based on many of the key Collecting Taxes indicators. First, we present for each variable—say, the general VAT/GST tax rate—a histogram that graphically shows the variable's distribution among the countries of the world. Then, to make the analysis more local in scope, we also compare Jordanian data for each of the variables to the experiences in other Middle East countries (Table 6).

PERSONAL INCOME TAX MINIMUM RATE (PITMINR)

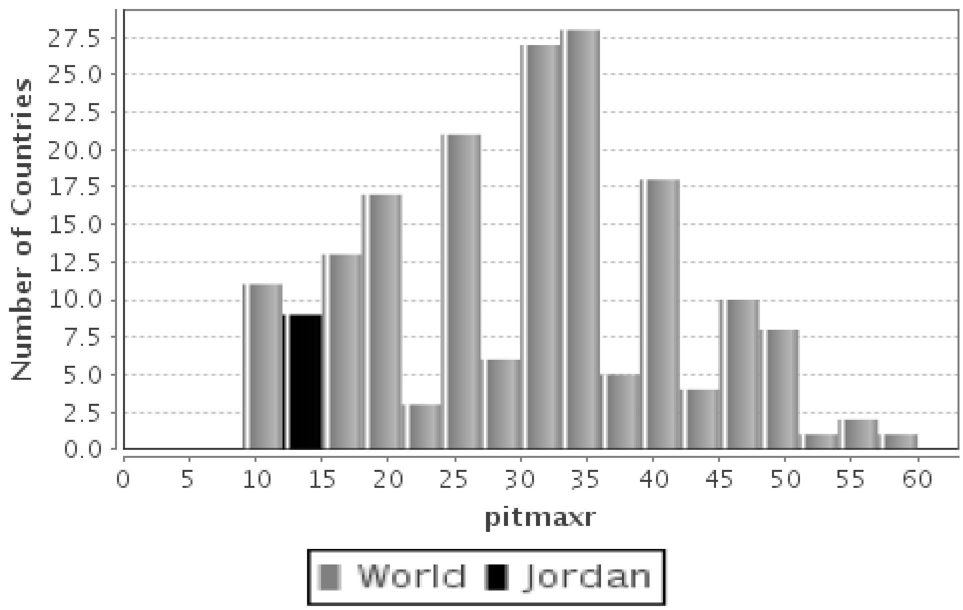
This is a **tax structure** indicator. It is the lowest, non-zero tax rate applied to taxable income in the personal income tax system. In most countries, this is also the rate at which the lowest income earners pay tax on their personal income, after deductions and exemptions.



Economy/Region	pitminr	Std. Dev	Min	Max	Obs
Jordan	7.00	--	--	--	1
Middle East and North Africa Region	9.29	4.92	2.00	20.00	17
Low-middle-income Economies Group	11.94	6.96	1.00	33.30	52
World	12.00	7.20	0.50	38.30	183

PERSONAL INCOME TAX MAXIMUM RATE (PITMAXR)

This is a **tax structure** indicator. It is the highest marginal tax rate applied under the personal income tax system, usually on taxpayers with the highest incomes.

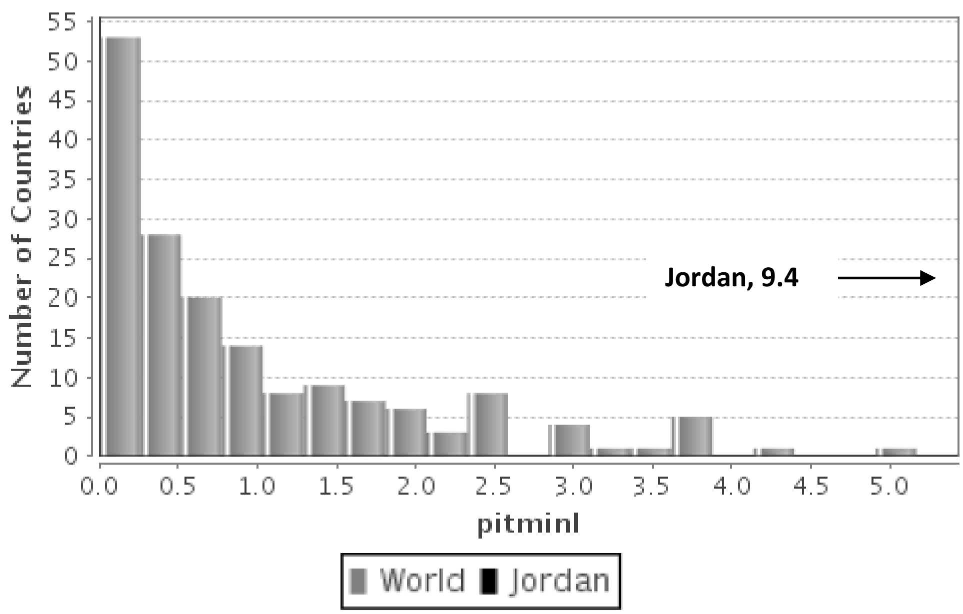


Economy/Region	pitmaxr	Std. Dev	Min	Max	Obs
Jordan	14.00	--	--	--	1
Middle East and North Africa Region	27.12	9.80	15.00	46.00	17
Low-middle-income Economies Group	26.78	10.72	10.00	50.00	53
World	29.72	11.47	10.00	60.00	184

PERSONAL INCOME TAX MINIMUM INCOME LEVEL (PITMINL)

This is a **tax structure** indicator. It is the lowest level of income at which the lowest marginal personal income tax rate (PITMINR) is imposed, expressed as a multiple of per capita GDP. For instance, if the lowest level of income that is subject to personal income taxation is $30,000 and the per capita GDP is $40,000 then this indicator will be 0.75.

When the country applies a single rate, say a "flat tax", to all personal income, without a zero rate, the PITMINL indicator will be the value of the basic personal allowance or deduction, expressed as a multiple of per capita GDP.

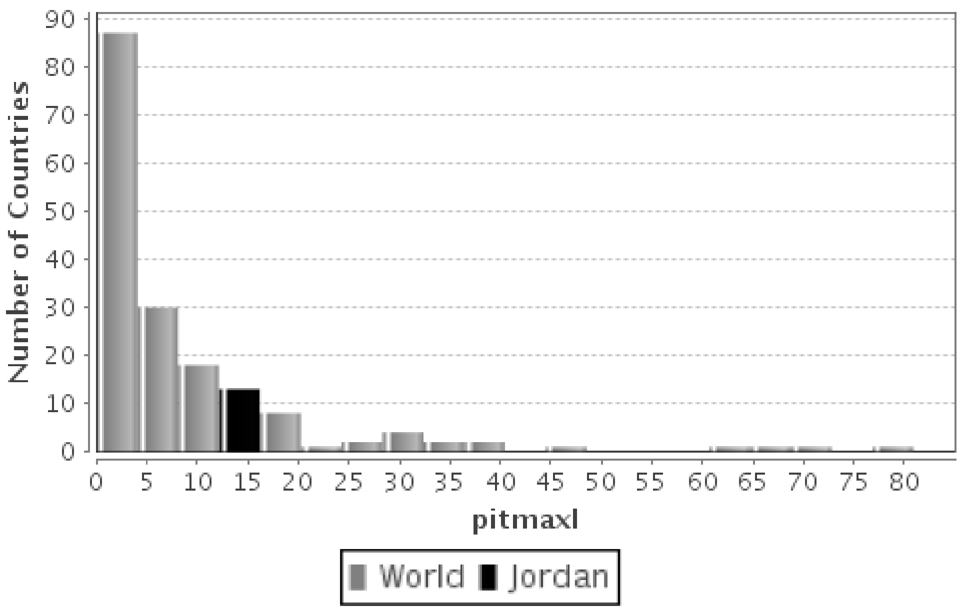


Economy/Region	pitminl	Std. Dev	Min	Max	Obs
Jordan	9.37	--	--	--	1
Middle East and North Africa Region	1.06	2.04	0.00	8.56	15
Low-middle-income Economies Group	1.43	1.77	0.00	10.23	51
World	0.95	1.03	0.00	57.29	169

PERSONAL INCOME TAX MAXIMUM INCOME LEVEL (PITMAXL)

This is a **tax structure** indicator. It is the lowest level of income at which the top marginal personal income tax rate is imposed, expressed as a multiple of per capita GDP. For instance: Suppose a country's top marginal personal income tax rate is imposed on an individual's annual income exceeding $400,000 and the per capita GDP of the country is $40,000; in this case, the PITMAXL indicator would be 10, i.e., the income level at which the top rate applies, divided by per capita GDP.

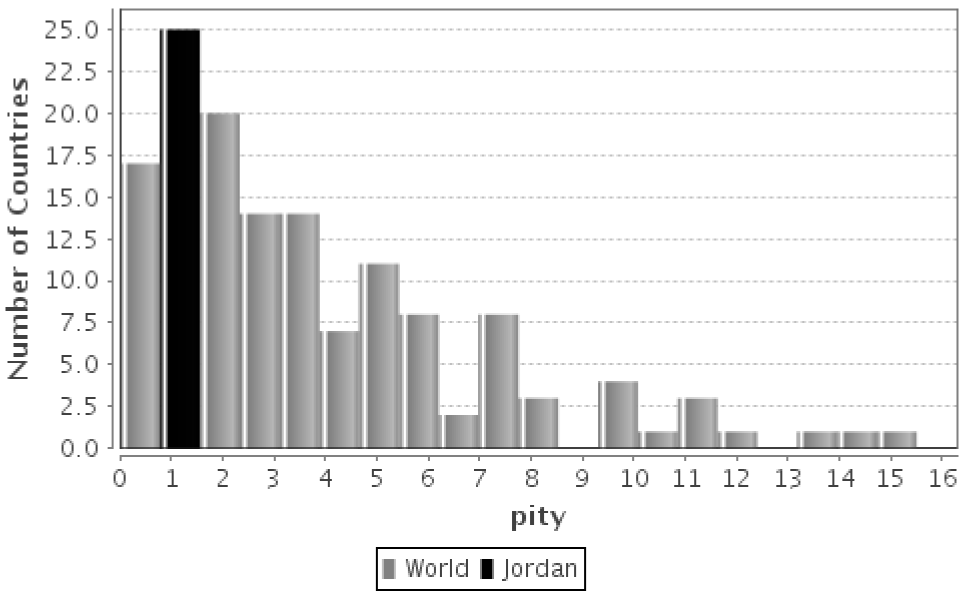
When the country applies a single rate, say a "flat tax", to all personal income, the value of PITMINL and PITMAXL will be the same.



Economy/Region	pitmaxl	Std. Dev	Min	Max	Obs
Jordan	14.1	--	--	--	1
Middle East and North Africa Region	9.15	10.15	0.66	36.55	14
Low-middle-income Economies Group	8.97	10.06	0.00	46.69	51
World	8.63	12.86	0.00	5,728.84	172

PERSONAL INCOME TAX REVENUES (PITY)

This is a **reference** indicator. It is the level of personal income tax collections as a percentage of GDP.

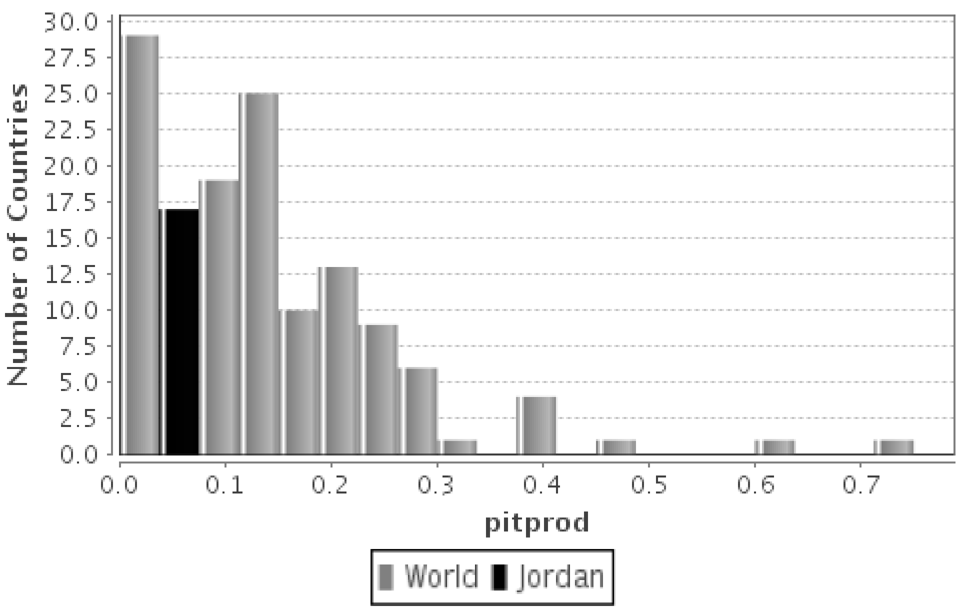


Economy/Region	pity	Std. Dev	Min	Max	Obs
Jordan	1.06	--	--	--	1
Middle East and North Africa Region	2.31	1.88	0.60	6.60	10
Low-middle-income Economies Group	2.71	2.07	0.10	8.20	41
World	3.72	3.23	0.10	15.50	141

PERSONAL INCOME TAX REVENUE PRODUCTIVITY (PITPROD)

This is a **tax revenue performance** indicator. It attempts to provide some sense of how well the personal income tax in a country does in terms of producing revenue. It is calculated by taking the actual revenue collected as a percentage of GDP (PITY), divided by the weighted average PIT rate, or PITWR. The weighted average PIT rate is the weighted average of the lowest (PITMINR) and highest (PITMAXR) marginal personal income tax rates, given the income level at which each rate kicks in.

For all countries, the PITPROD indicator falls between 0 and 1.



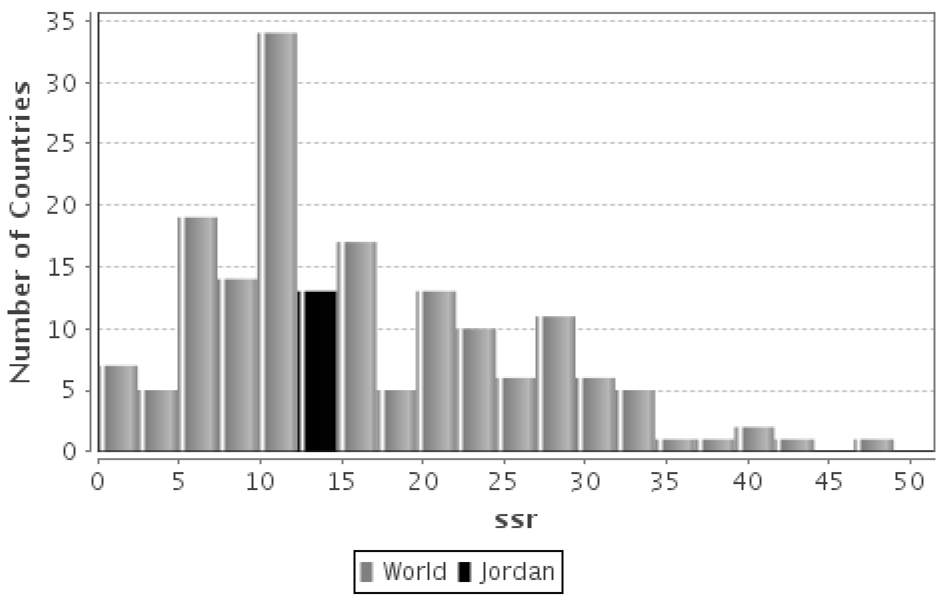
Economy/Region	pitprod	Std. Dev	Min	Max	Obs
Jordan	0.05	--	--	--	1
Middle East and North Africa Region	0.07	0.04	0.03	0.14	9
Low-middle-income Economies Group	0.12	0.13	0.00	0.75	40
World	0.14	0.12	0.00	0.75	136

SOCIAL CONTRIBUTIONS RATE (SSR)

This is a **tax structure** indicator. There is no revenue performance indicator associated with it.

It is calculated by summing the nominal rates of mandatory contributions to social security, pension, employment security, health, disability and/or other social programs in the country. This includes both employer and employee contributions (whether withheld from employee compensation or paid directly). The indicator is expressed as a percentage of gross salary, though there may be slight variations from country to country.

In general, social contributions are only applied to salaries or “earned income” and are not applied to interest earnings, capital gains, and other miscellaneous income. Most countries do impose social contributions on income of the self-employed, and the rate applied is often about the same as the combined employer-employee rate. Nonetheless, we report here on the tax on employers and employees.



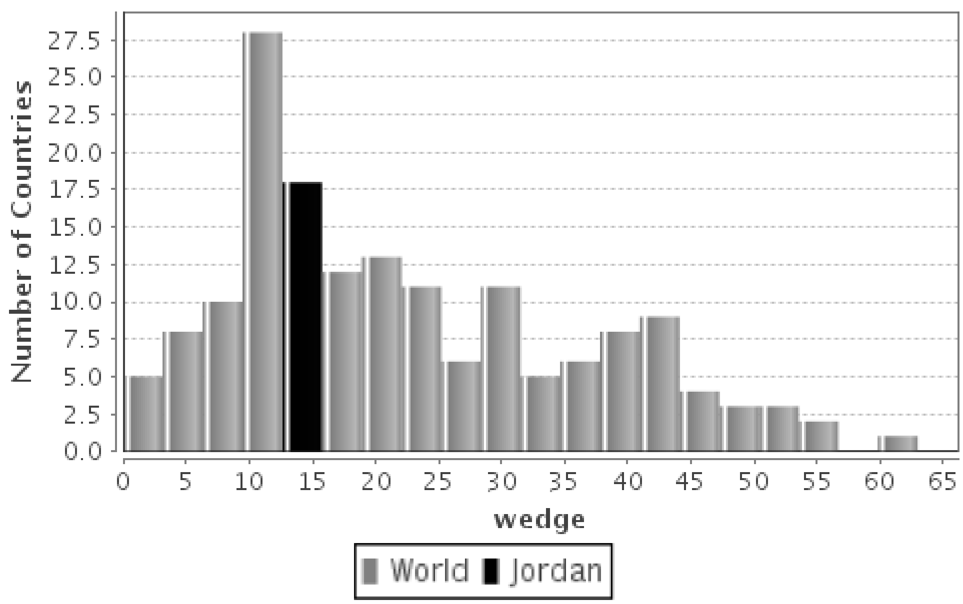
Economy/Region	ssr	Std. Dev	Min	Max	Obs
Jordan	14.50	--	--	--	1
Middle East and North Africa Region	16.21	6.64	2.00	29.06	16
Low-middle-income Economies Group	16.59	9.18	2.00	41.50	47
World	15.83	9.53	0.00	49.00	171

TAX WEDGE (WEDGE)

This is a **tax structure** indicator. There is no revenue performance indicator associated with it. The tax wedge is a widely accepted indicator of the tax burden on labor, represented as a percentage of gross salary. It combines social contributions with personal income tax. The OECD provides tax wedge estimates for OECD countries and a few others. For almost all other countries, "Collecting Taxes" (www.collectingtaxes.net) estimates the tax wedge using its own methodology, estimating the taxes that are applicable to below-average wage earners without dependents. The calculation is as follows:

- If the PIT minimum income level (PITMINL) is greater than per capita GDP, then the tax wedge is equal to the combined social contributions rate (SSR).
- If the PITMINL is applied at some fraction (say, half) of GDP per capita, then this rate is applied, pro rata, to per capita GDP and added to the combined social contributions rate. For instance, say the minimum PIT rate (PITMINR) is 10% and it is applied to income equivalent to one half of per capita GDP (i.e., PITMINL = 0.5), then the effective PIT rate on average income earners is 5%. Add this 5% to the social contributions rate, say 20%, and the tax wedge calculation is 25%.

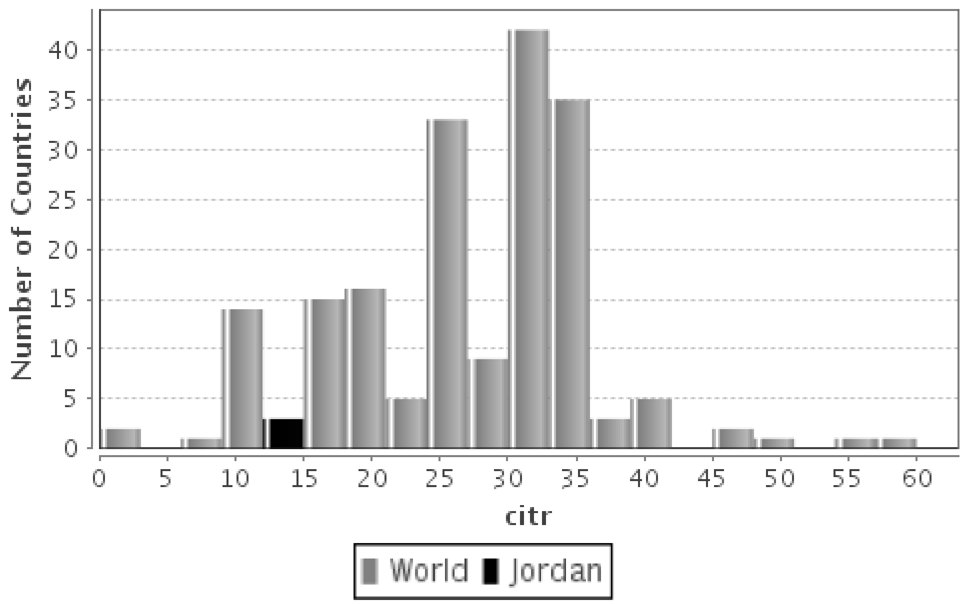
Empirical evidence shows that the higher the tax wedge, the fewer the jobs that will be generated from economic growth.



Economy/Region	Wedge	Std. Dev	Min	Max	Obs
Jordan	14.50	--	--	--	1
Middle East and North Africa Region	21.77	7.57	9.30	39.10	15
Low-middle-income Economies Group	19.41	10.26	3.00	42.80	44
World	22.35	13.89	0.00	63.00	163

CORPORATE INCOME TAX RATE (CITR)

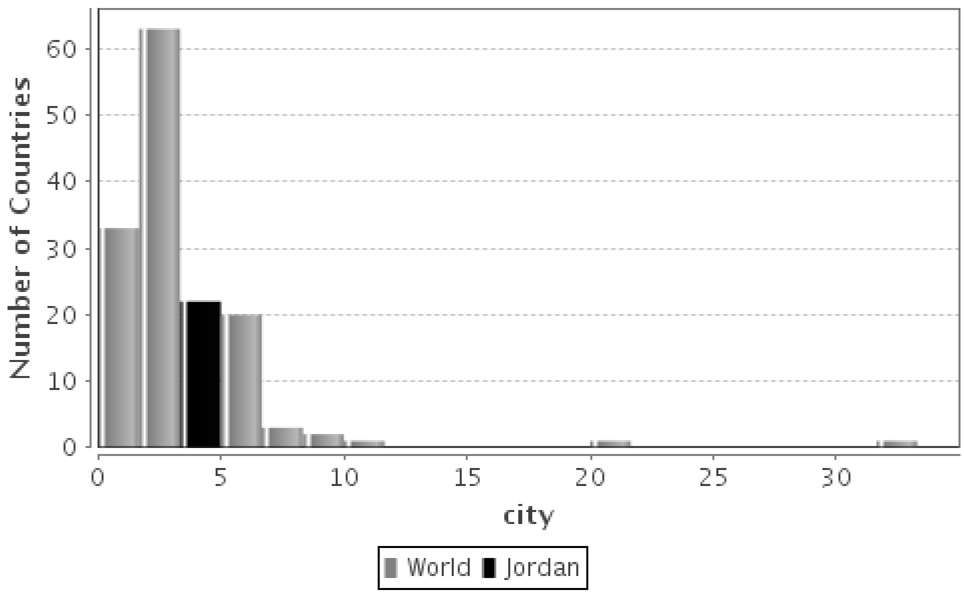
This is a **tax structure** indicator. It is the general rate applied for the corporate income tax. In most countries, only one corporate income tax is applied to corporate profits. Furthermore, in most countries business enterprises that are owned by sole proprietors or unincorporated partnerships pay tax under the personal income tax system.



Economy/Region	citr	Std. Dev	Min	Max	Obs
Jordan	14.00	--	--	--	1
Middle East and North Africa Region	26.14	11.77	10.00	55.00	21
Low-middle-income Economies Group	25.52	9.22	0.00	38.50	52
World	26.39	9.33	0.00	60.00	188

CORPORATE INCOME TAX REVENUES (CITY)

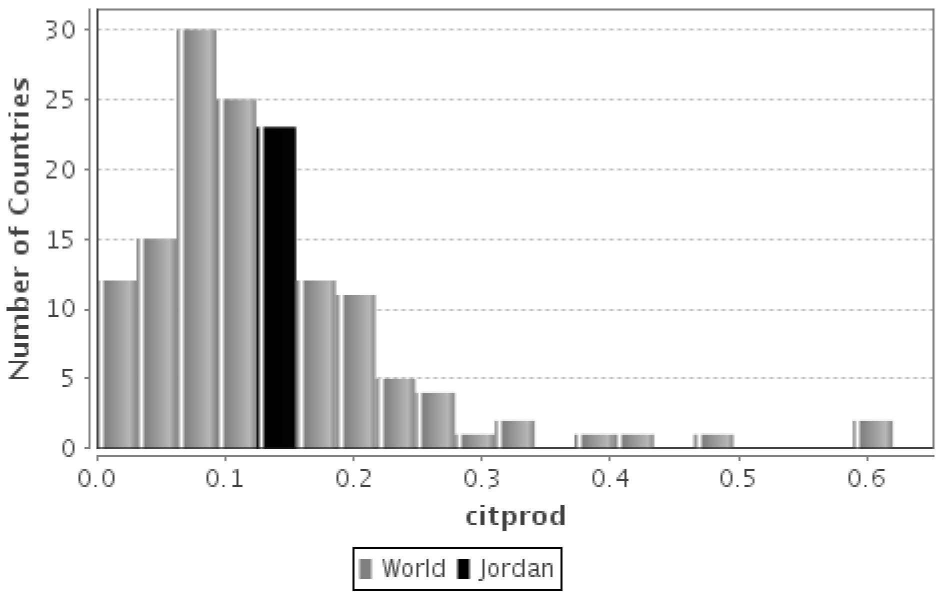
This is a **reference** indicator. It is the level of corporate income tax collections as a percentage of GDP.



Economy/Region	City	Std. Dev	Min	Max	Obs
Jordan	3.60	--	--	--	1
Middle East and North Africa Region	4.44	5.27	0.30	21.60	13
Low-middle-income Economies Group	3.25	1.87	0.40	9.10	41
World	3.45	3.46	0.30	33.30	146

CORPORATE INCOME TAX REVENUE PRODUCTIVITY (CITPROD)

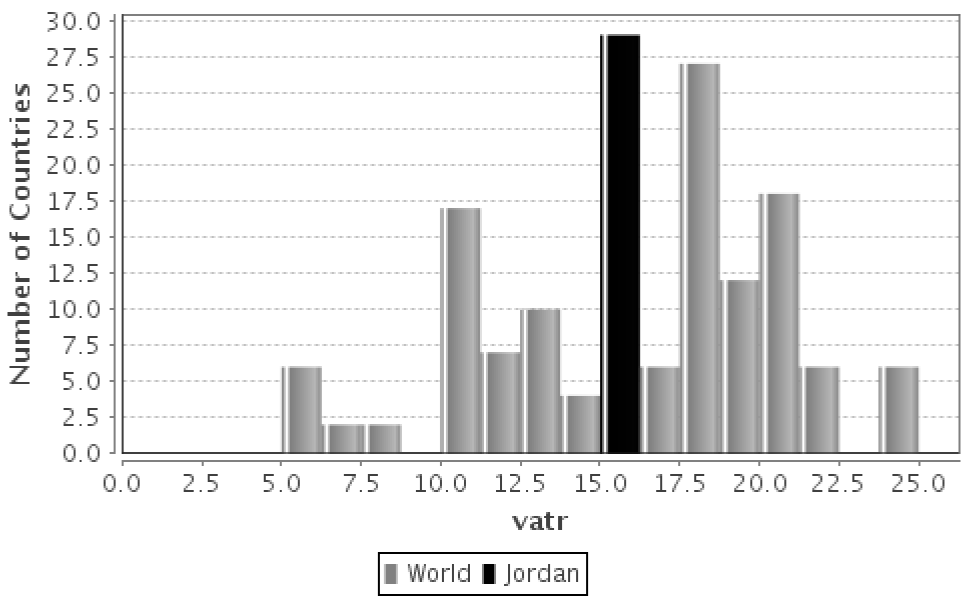
This is a **tax revenue performance** indicator. It represents how well the corporate income tax does in terms of producing revenue, given the tax structure. It is calculated by dividing total corporate income tax revenues by GDP (CITY) and then dividing this by the general corporate income tax rate (CITR). For instance, if corporate income tax revenues came to 10% of GDP and the corporate income tax rate is 20%, then the CITPROD value would be 0.50.



Economy/Region	citprod	Std. Dev	Min	Max	Obs
Jordan	0.14	--	--	--	1
Middle East and North Africa Region	0.19	0.18	0.02	0.62	12
Low-middle-income Economies Group	0.13	0.07	0.03	0.42	41
World	0.13	0.10	0.01	0.62	145

VALUE-ADDED TAX/GST RATE (VATR)

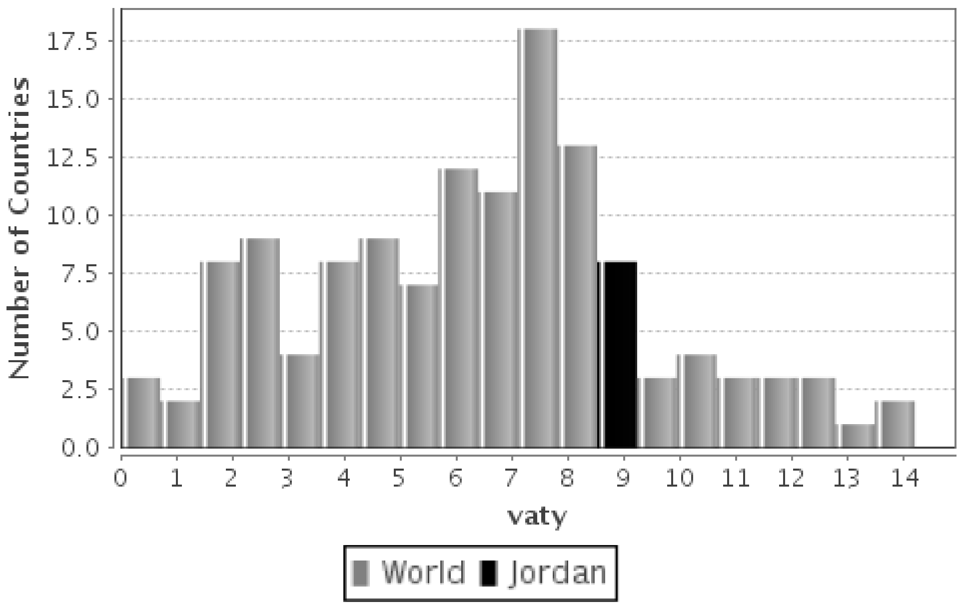
This is a **tax structure** indicator. It is the general rate at which most goods and services are taxed under the value-added tax system. Most countries with a VAT, or a VAT-like general sales/consumption tax (GST/GCT), have a variety of reduced rates for certain goods, such as basic food stuffs, and zero rate for exported goods.



Economy/Region	vatr	Std. Dev	Min	Max	Obs
Jordan	16.00	--	--	--	1
Middle East and North Africa Region	14.10	4.26	5.00	20.00	10
Low-middle-income Economies Group	15.56	3.66	7.00	25.00	44
World	15.77	4.50	5.00	25.00	152

VAT COLLECTIONS (VATY)

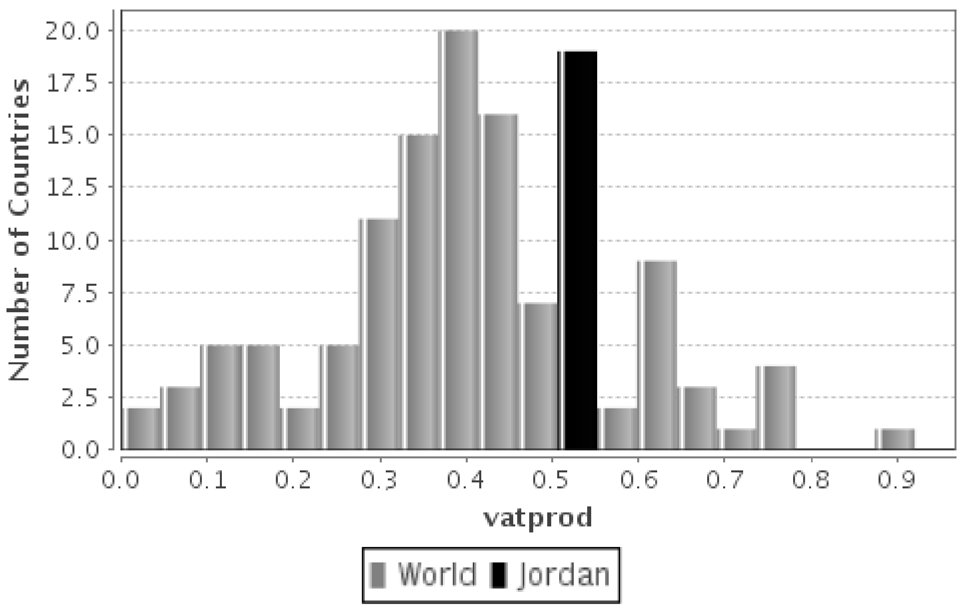
This is a **reference** indicator. This is the level of net VAT collections as a percentage of GDP.



Economy/Region	Vaty	Std. Dev	Min	Max	Obs
Jordan	8.98	--	--	--	1
Middle East and North Africa Region	7.07	2.97	2.90	12.50	9
Low-middle-income Economies Group	7.40	2.87	1.80	14.20	39
World	6.37	3.06	0.20	14.20	131

VAT/GST PRODUCTIVITY (VATPROD)

This is a **tax revenue performance** indicator. It is a measure of how well the VAT/GST produces revenue for the government, given the prevailing VAT/GST rate. It is calculated by dividing net VAT collections by GDP (VATY) and then dividing this by the general VAT/GST rate (VATR). For instance, if net VAT/GST revenues come to 10% of GDP and the general VAT rate is 20%, then the VATPROD value will be 0.50.

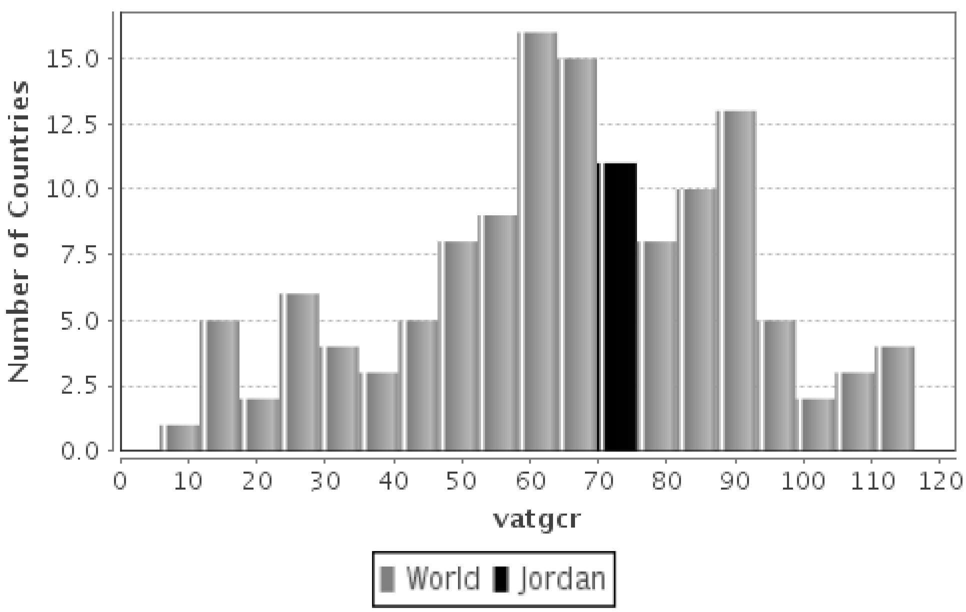


Economy/Region	vatprod	Std. Dev	Min	Max	Obs
Jordan	0.56	--	--	--	1
Middle East and North Africa Region	0.48	0.18	0.17	0.78	9
Low-middle-income Economies Group	0.48	0.16	0.10	0.78	39
World	0.41	0.17	0.03	0.92	130

VAT/GST GROSS COMPLIANCE RATIO (VATGCR)

This is a **tax revenue performance** indicator. It measures how revenue-productive the VAT or GST is, but is a bit more refined than the VAT/GST productivity (VATPROD) indicator, since it considers the fact that VAT or GST is mostly applied to final consumption by households and individuals. It is calculated by dividing net VAT/GST revenues (VATY) by total private consumption in the economy and then dividing this by the general VAT/GST rate. For instance, if VATY comes to 5% of private consumption and the VAT rate is 20%, then VATGCR would come to 25%. The VATGCR ratio is equal to actual VAT/GST collections divided by potential VAT/GST collections, expressed as a percentage.

The VATGCR is similar to the VAT "c-efficiency," or collection efficiency, indicator except that VAT c-efficiency relates VAT collections to aggregate consumption expenditures rather than just private consumption.[15] Since almost all government consumption around the world is the payment of government wages and salaries, the VATGCR is perhaps “tighter” indicator of performance.

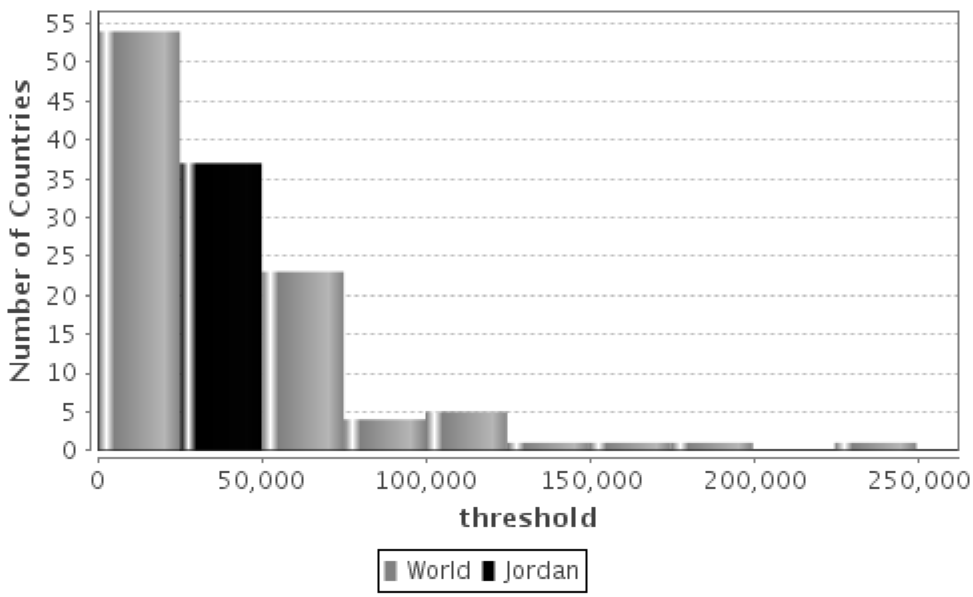


Economy/Region	vatgcr	Std. Dev	Min	Max	Obs
Jordan	71.40	--	--	--	1
Middle East and North Africa Region	71.98	23.63	43.90	114.70	9
Low-middle-income Economies Group	71.75	18.24	26.20	108.10	39
World	65.48	24.45	11.40	116.30	130

[15] See Joshua Aizenman and Yothin Jinjarak, “The collection efficiency of the value added tax: theory and international evidence,” at: http://econ.ucsc.edu/faculty/aizenman/VAT_Collection_efficiency.pdf.

VAT/GST FILING THRESHOLD (THRESHOLD)

This is a **tax structure** indicator. It is related to the VAT or GST and is expressed in current US Dollars ($) for purposes of international comparison. It indicates the amount of annual turnover, or supply/import of goods and services, above which taxpayers must file regular VAT/GST returns. It also often represents the threshold above which businesses must register with the authorities as VAT/GST payers. A low or no VAT Threshold can place undue tax compliance burdens on smaller businesses without sophisticated recordkeeping, as well as place unnecessary administrative burdens on the tax administration.

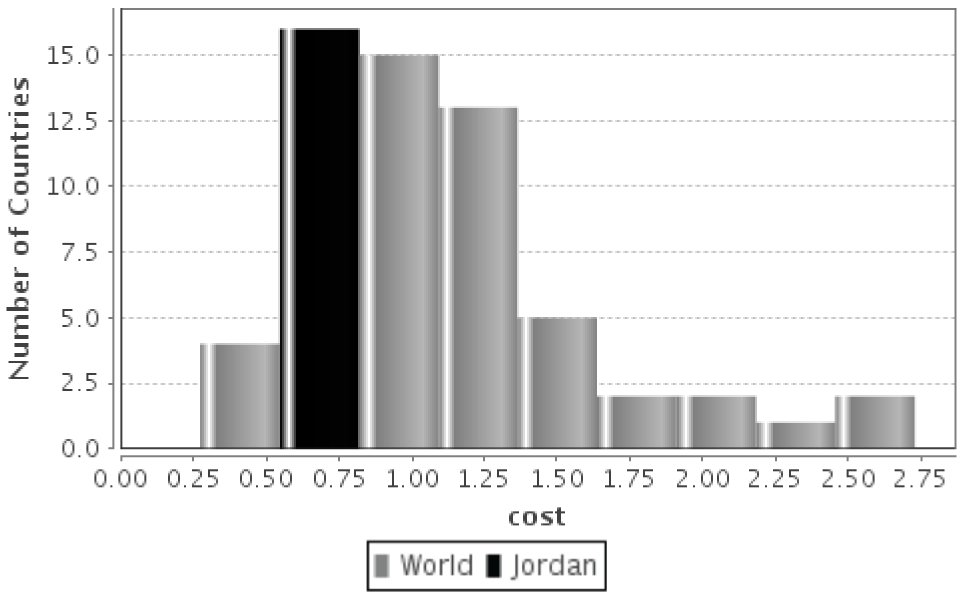


Economy/Region	Threshold	Std. Dev	Min	Max	Obs
Jordan	42,609	--	--	--	1
Middle East and North Africa Region	25,601	32,242	0.00	101,010	11
Low-middle-income Economies Group	42,216	44,789	0.00	194,333	33
World	38,067	39,455	0.00	1,140,264	127

TAX ADMINISTRATION COST (COST)

This **performance** indicator relates the cost of administering the tax system to the total revenues collected by the tax administration. For instance, if a country's tax administration budget comes to $2 million and it collects $200 million, this variable will be equal to 1%, or $1 in costs for every $100 collected.

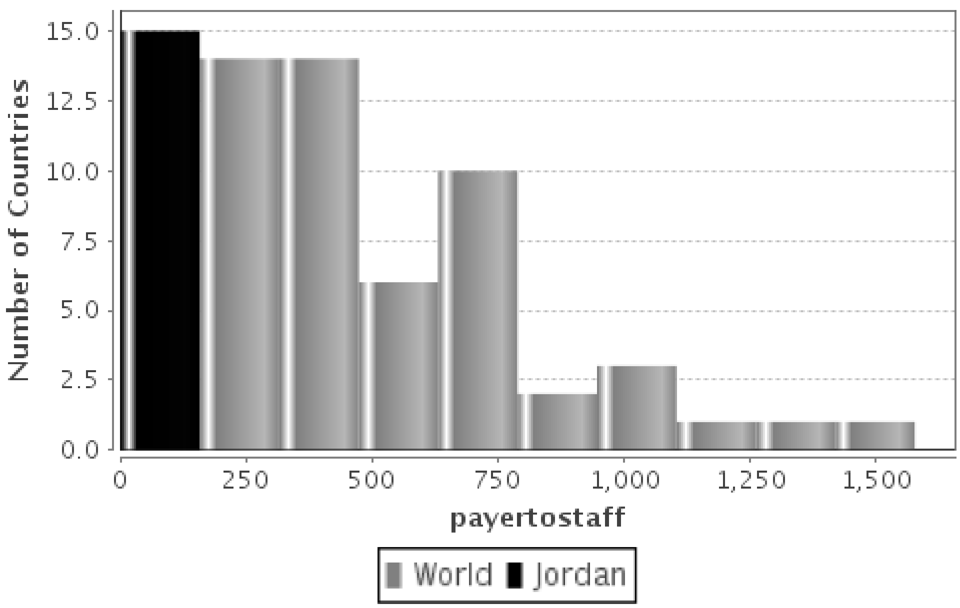
In general, the lower this cost indicator is, the more efficient the overall tax system is in collecting all taxes.



Economy/Region	Cost	Std. Dev	Min	Max	Obs
Jordan	0.53	--	--	--	1
Middle East and North Africa Region	--	0.00	5.80	5.80	1
Low-middle-income Economies Group	1.52	0.94	0.43	3.41	14
World	1.08	0.50	0.28	7.40	60

NUMBER OF TAXPAYERS PER TAX STAFF (PAYERTOSTAFF)

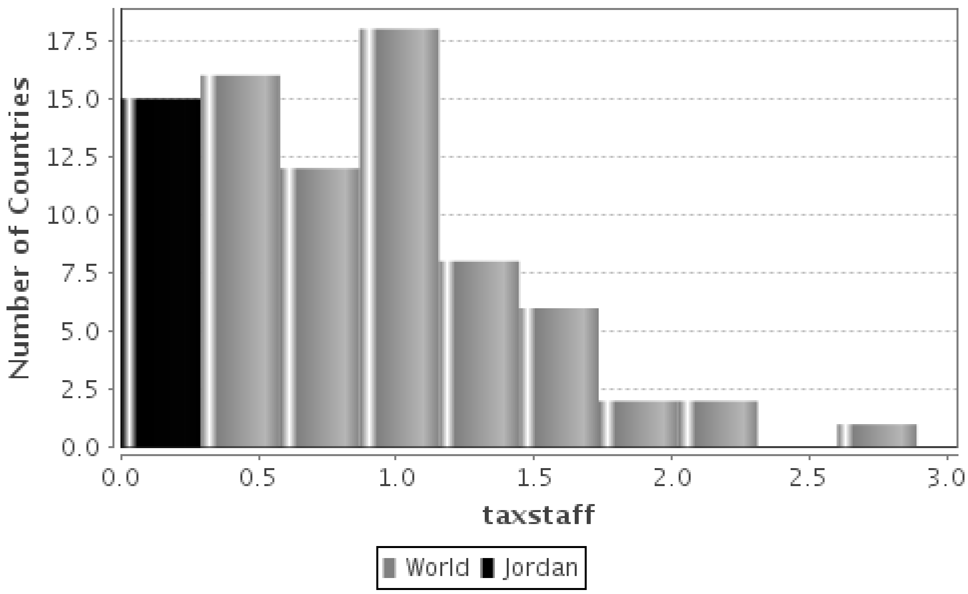
This is a **tax administration structural** indicator. It is a measure of the size of the tax administration's staff given the number of active taxpayers in the country. An active taxpayer is a person, business, or other entity that files tax declarations on a regular basis. In countries that rely heavily on the personal income tax, where taxes are withheld from salaries and most individuals are required to file with the tax administration, this indicator can be expected to be relatively large. In countries where personal income tax is not particularly important and where the VAT or GST is much more prominent, the number of active taxpayers relative to the number of tax administration staff is usually lower.



Economy/Region	Payertostaff	Std. Dev	Min	Max	Obs
Jordan	56.74	--	--	--	1
Middle East and North Africa Region	512.95	147.35	365.60	660.30	2
Low-middle-income Economies Group	248.74	191.69	24.50	609.30	16
World	437.36	334.30	16.00	3,181.80	67

TAX STAFF (TAXSTAFF)

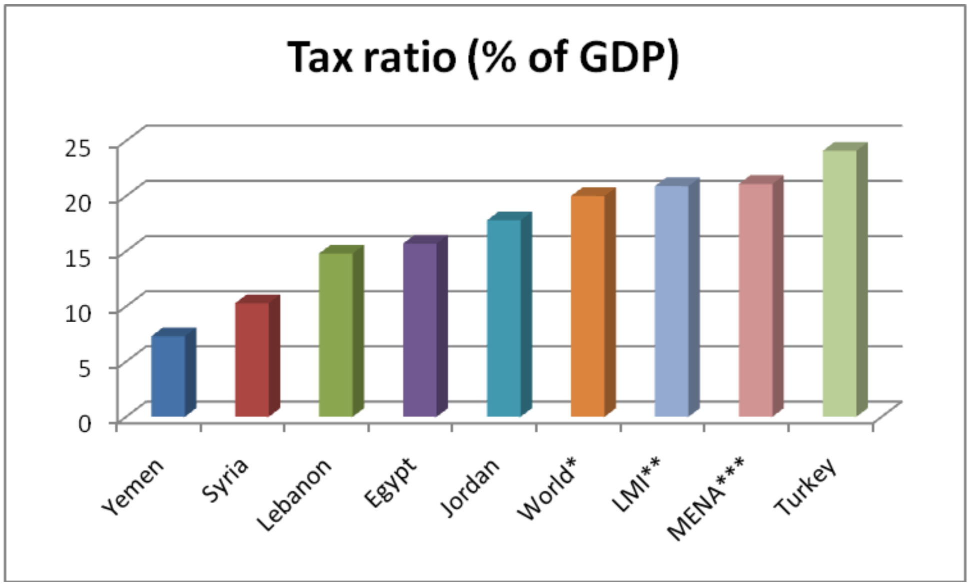
This is a **tax administration structural** indicator. This is a measure of the size of the tax administration, with respect to the size of the country's population. TAXSTAFF is the total number of staff of the tax administration per 1,000 national population. For instance, if the tax administration in a country has 1,000 employees and the country's total population is 1,000,000 persons, then the TAXSTAFF ratio will be 1.0, i.e., one tax staff member for every 1,000 people in the country.



Economy/Region	tax staff	Std. Dev	Min	Max	Obs
Jordan	0.27	--	--	--	1
Middle East and North Africa Region	0.51	0.26	0.25	0.77	2
Low-middle-income Economies Group	0.51	0.32	0.07	1.32	20
World	0.82	0.57	0.05	2.89	80

TAX RATIO (TAXY)

This is a **reference** indicator. It represents total taxes (both domestic and international taxes) collected as a percentage of GDP.



* World = international average
** LMI = lower-middle-income countries
*** World = Middle East & North Africa region

B. COMPARATIVE TABLES

Table 6. Comparative macro-level indicators for the MENA region

Indicator	International	Region	Income group	Jordan	Egypt	Lebanon	Syria	Turkey	Yemen
PITMINR	12.0	9.3	11.9	**7**	10	2	5	15	10
PITMAXR	29.7	27.1	26.8	**14**	20	20	20	35	20
PITMINL	1.0	1.1	1.4	**9.4**	0.7	0.6	0.9	0.8	0.19
PITMAXL	8.6	9.2	8.9	**14.1**	3.3	11.9	3.5	4.7	4.16
PITY	3.7	2.3	2.7	**1.1**	1.3	0.6	0.4	5.4	0.4
PITPROD	0.14	0.07	0.12	**0.05**	0.07	0.03	0.02	0.17	0.02
SSR	15.8	16.2	16.6	**14.5**	25	8.5	21	20	15
WEDGE	22.4	21.8	19.4	**14.5**	28.3	9.3	21.4	42.7	23.1
CITR	26.4	26.1	25.5	**14**	20	15	35	20	35
CITY	3.5	4.4	3.3	**3.6**	6.2	1.3	3.0	2.2	3.0
CITPROD	0.13	0.19	0.13	**0.14**	0.3	0.09	0.09	0.11	0.09
VATR	15.8	14.1	15.6	**16**	10	10	--	18	5
VATY	6.4	7.1	7.4	**9.0**	6.0	5.3	--	6.8	--
VATPROD	0.4	0.48	0.48	**0.56**	0.6	0.5	--	0.4	--
VATGCR	65	72	71.8	**71.4**	78.9	57.9	--	56.8	--
THRESHOLD	38,067	25,601	42,216	**42,609**	9,681	101,010	--	0	242,000
TAXY	20.0	21.1	20.9	**17.8**	15.7	14.8	10.3	24.1	7.3
COST	1.1	--	1.5	**0.53**	--	--	--	0.83	--
PAYERTOSTAFF	437	513	249	**56**	--	--	--	132	--
TAX STAFF	0.8	0.5	0.5	**0.3**	--	--	--	0.65	--

Source: USAID Collecting Taxes data system: www.collectingtaxes.net.

ANNEX B: ISTD ORGANIZATION CHART