



## USAID'S LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

# Status of Recent Tax Reform in Jamaica & Benchmarking Tax System Performance

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# Status of Recent Tax Reform in Jamaica & Benchmarking Tax System Performance

## A Comprehensive Study

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# List of Acronyms and Abbreviations

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Acronym	Definition
<b>BJA</b>	Best Judgment Audits/Assessments
<b>BPRS</b>	Business Process Review System
<b>CARICOM</b>	Caribbean Community
<b>CARTAC</b>	Caribbean Regional Technical Assistance Center
<b>COTS</b>	Commercial Off the Shelf
<b>CRM</b>	Client Relations Managers
<b>DDCF</b>	Decentralized Data Capture Facilities
<b>DGEO</b>	Director General’s Executive Office
<b>EU</b>	European Union
<b>FAD</b>	Fiscal Affairs Department
<b>FDIU</b>	Forensic Data-Mining and Intelligence Unit
<b>FSL</b>	Fiscal Services, Ltd.
<b>GCT</b>	General Consumption Tax
<b>GDP</b>	Gross Domestic Product
<b>GOJ</b>	Government of Jamaica
<b>HEART</b>	Human Employment and Resource Training Trust
<b>HIT</b>	High Intensity Teams
<b>HR</b>	Human Resource
<b>ICT</b>	Information and Communication Technology
<b>ICTAS</b>	Integrated Computerized Tax Administration System
<b>IDB</b>	Inter-American Development Bank
<b>IMF</b>	International Monetary Fund
<b>INCRS</b>	Integrated New Cash Remittance System
<b>IRD</b>	Inland Revenue Department
<b>JCD</b>	Jamaica Customs Department
<b>JTA</b>	Jamaica Tax Administration
<b>LAC</b>	Latin American and Caribbean
<b>LMI</b>	Low-Middle Income
<b>LMIS</b>	Labour Management Information System
<b>LTO</b>	Large Taxpayer Office
<b>MIND</b>	Management Institute for National Development

<b>Acronym</b>	<b>Definition</b>
<b>MIS</b>	Management Information System
<b>MOF</b>	Ministry of Finance
<b>MOFPS</b>	Ministry of Finance and the Public Service
<b>MTO</b>	Medium Taxpayer Office
<b>NHT</b>	National Housing Trust
<b>NIS</b>	National Insurance Scheme
<b>NTA</b>	National Training Agency
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>OTA</b>	Office of Technical Assistance
<b>PAYE</b>	Pay as You Earn
<b>PRIDE</b>	Promote, Renew, Invigorate, Develop, and Energize
<b>PSED</b>	Public Service Establishment Division
<b>PSWG</b>	Private Sector Working Group
<b>RAA</b>	Revenue Administration Act
<b>RFP</b>	Request for Proposal
<b>RPD</b>	Revenue Protection Division
<b>RSC</b>	Regional Service Center
<b>SARA</b>	Semi-Autonomous Revenue Authority
<b>SOI</b>	Statistics of Income
<b>TAAD</b>	Taxpayer Audit & Assessment Department
<b>TAD</b>	Taxpayer Appeals Department
<b>TAJ</b>	Tax Administration Jamaica
<b>TASD</b>	Tax Administration Services Department
<b>TAXARP</b>	Tax Administration Reform Project
<b>TRN</b>	Taxpayer Registration Number
<b>USAID</b>	United States Agency for International Development
<b>VAT</b>	Value Added Tax
<b>WB</b>	World Bank



# Executive Summary

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Over the recent years, improving the efficiency and effectiveness of the Jamaican tax system has been the subject of extensive review and analysis by the Government of Jamaica (GOJ), local business associations and private sector organizations, the International Monetary Fund (IMF), World Bank, Inter-American Development Bank (IDB), United States Agency for International Development (USAID) and other bilateral donors. This study contributes to the tax reform debate in Jamaica by undertaking a benchmarking exercise that compares qualitative and quantitative indicators of the tax system in Jamaica against regional and income group comparator countries and the structure, operations and supporting functions of the Tax Administration Jamaica against tax administration norms.

This study begins with a summary of recent tax-reform studies and activities in Jamaica during the past few years. This is followed by a review of tax system structure and performance in Jamaica, both over the recent past and in comparison with other countries in the Latin America and Caribbean and CARICOM regions. Taking into account the many technical reports of international advisors and of TAJ, the next section comprises a review of the organizational structure, major operations and supporting functions of Tax Administration Jamaica (TAJ) vis-à-vis international norms. Furthermore, Jamaica's benchmark indicators of performance and its practices are then compared to international benchmark indicators and international best practices of successful tax administrations. A review of TAJ's recent accomplishments, many with help from bilateral donors, is provided next. Finally, recommendations are provided to improve TAJ's efficiency in tax collection, to lessen the risk of revenue loss to the Government of Jamaica, and to increase the number of registered taxpayers.

In relation to Jamaica's gross domestic product (GDP), Jamaica's tax system mobilizes significant revenue at about 23.5 percent of GDP. This is modestly higher than regional and income group comparator countries. Recent comparative data suggests that Jamaica's revenue effort from each of the three main revenue handles—personal income tax (PIT), corporate income tax (CIT) and general consumption tax (GCT) – is above that of regional and income-group comparator countries. This is largely due to PIT, CIT and GCT rates that are above income group and regional comparator countries. Despite these higher rates, Jamaica's CIT and GCT productivity is below that of comparator group averages. Taken together, these measures suggest that tax policy reforms focused on improving the effectiveness of tax administration, reducing compliance costs for business and lowering statutory tax rates could potentially have the greatest impact on supporting Jamaica's revenue mobilization, debt reduction and economic growth needs.

Over the last 15 years, the organization of Jamaica's tax administration has undergone two significant transformations and is primed for a third. In 1999, after a World Bank Tax-Reform Study, the tax administration changed from a tax-type organization structure (income tax, sales tax) to one organized by functions performed (audit, collection, etc.). More recently, the tax administration has begun a transition to a functional organization with segmentation of taxpayers. The tax administration is now

poised to attain semi-autonomous status as a Revenue Authority, if legislation recently prepared is approved by a new government that won elections late in 2011.

With its own initiatives and the support of technical assistance advisors provided by partners such as the IMF, USAID PRIDE Jamaica and the U.S. Treasury's Office of Technical Assistance (OTA), plus a \$65 million loan by the IDB (about half for TAJ), a great deal of work has been accomplished to transform the organization and improve its operations, including organization re-design; business process re-engineering; preparation of legislation to consolidate administrative provisions and improve enforcement; and the modernization of its integrated computerization system.

TAJ's current operations were reviewed during the preparation of this assessment through office visits, interviews, data gathering and analysis and a review of previous reports and studies on the reform of tax administration in Jamaica. In the functional segments of the report, observations and recommendations made by other technical advisors are cited along with the observations of the Deloitte Team. Benchmarking the organizational structure, major operations of TAJ and its supporting functions against leading practices suggests that TAJ meets or exceeds leading practices in 9 of 13 categories. The four areas that do not meet international norms are: lack of reliability of the taxpayer current account; low voluntary compliance rates; lack of proper delegations of authority; and adequate budget for support and field operations. In terms of detailed benchmarking indicators, TAJ has a number of weaknesses in the following areas: unreliable taxpayer current account; few payments and collections through banks; low percentage of large taxpayers declaring via internet; insignificant sanctions and penalties for fraud; and very limited legal authority for use of 3rd-party databases.

In addition, a number of high level and specific recommendations to mitigate risk of revenue loss at TAJ and address areas where TAJ does not currently meet international benchmarks are presented in the report. These recommendations include:

- Broaden the existing tax base and reducing tax rates to improve competitiveness and compliance, by organizing the regime of introducing and reporting on discretionary wavers, eliminating preferential GCT rates and reducing the number of GCT exemptions, phasing-out of sector specific tax holidays, reducing the CIT rate, reducing the lower PIT rate, and raising the threshold for the higher PIT rate;
- Improve the monitoring of the performance of the tax system by introducing regular statistics of income reports and tax compliance analyses;
- Improve the monitoring of fiscal stability by devising a framework for amortizing tax debt;
- Reduce revenue leakage by increasing the number of staff assigned to the Large Taxpayer Office (LTO) and by strengthening the Revenue Protection Division (RPD) through a Code of Conduct and organizational and process improvements;
- Improve compliance by focusing on the identifying and registering medium taxpayer segment, devising risk and case management systems for medium taxpayers, strengthening the Forensics Data-Mining and Intelligence Unit, and enacting an integrated tax procedures act to improve access to third-party data and to allow for greater authority in enforcing collections; and

- Modernize Jamaica's tax administration by completing the implementation of TAJ human resource requirements and implanting the transformation of TAJ to a semi-autonomous revenue authority, and strengthening management with clear delegation of authority.

These and other measures, once implemented, will help TAJ improve the efficiency and effectiveness of the tax system in Jamaica. TAJ's development partners have continued to express concerns about the slow pace of response to tax administration reform recommendations<sup>1</sup>. It is imperative to stress that political will to promptly implement prior reform recommendations and the recommendations in this report is vital to build on and maintain past and recent improvements for long-term gains.

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<sup>1</sup> Zake, Justin et al, IMF FAD, "Jamaica – Next Steps in Tax and Customs Administration Reform and Modernization", April 2010, p. 10.

# I. Introduction

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Two major tasks comprise this study: (1) a summary of tax-reform studies and activities in Jamaica during the past few years, and (2) a benchmarking study, based on international experience and accepted best practices, to determine the latest levels of key indicators of TAJ's organizational performance and practices and to compare these to international benchmarks.

Prior to arrival in Jamaica for the benchmarking study, the Deloitte Team thoroughly reviewed the recent technical reports of TAJ officials and international technical advisors. The Team prepared a benchmarking table (including performance indicators, international benchmarks) in advance, and requested that TAJ officials determine and complete Jamaica's corresponding indicators as soon as possible. The Team provided a list of approximately 30 TAJ and Ministry of Finance (MOF) officials to be interviewed, together with a memorandum explaining the purpose of the Benchmarking Study and the suggested topics for discussion pertinent to the study (see Annex F).

After the initial data gathering phase, the Deloitte Team worked on-site in Kingston to conduct an on-the-ground assessment and hold interviews from March 19 – April 5, 2012. Once in country, the Team first met with USAID officials in Kingston and agreed that the Team's primary objective extended beyond simply producing one more study of Jamaica's tax policies, organization, and operations, among many such studies in recent years and included using the results of the benchmarking study, combined with existing studies and recommendations, to determine priority roadmaps for action by top TAJ officials.

During the 10 days available for interviews with the officials listed in Annex A, the Deloitte Team gathered additional data and clarified and confirmed with TAJ and MOF officials the data gleaned from the review of recent technical reports by TAJ officials and technical advisors.

On April 4, 2012 the Deloitte Team presented their initial observations and a list of preliminary road-map recommendations to high level TAJ officials and made a similar presentation to USAID officials at the US Embassy in Kingston on April 5, 2012.

## A. Purpose of the Benchmarking Study

The purpose of this study is to highlight the structure and performance of the Jamaican tax system in an internationally comparative framework. This exercise aims to help the Government of Jamaica, Tax Administration Jamaica, and the Ministry of Finance to assess the overall efficiency and effectiveness of the tax system, accounting for aspects of tax policy, administration, and compliance. The resulting series of standards will prove useful in establishing specific goals and measures and in developing a roadmap for continued improvement. A number of revenue risks are also identified and corresponding recommendations are made to strengthen the tax system in Jamaica.

## B. Methodology

The benchmarking methodology begins with a close inspection of the revenue collections, as well as the revenue productivity and overall tax administration efficiency in the production of revenues. Next, it looks at the transformation process, with a focus on business processes, policies and procedures, organizational management, and the environment in which the tax system operates. It then examines the inputs, specifically in terms of the adequacy of human resources, financial resources, and IT systems and programs, and the legislative concerns that affect the tax system operation.

In developing the benchmarking report, the Deloitte Team first compared a variety of performance, structure, process, operations and organizational measures in Jamaica with those in other countries around the world. In performing the comparisons, the Deloitte Team used both regional (Latin American) and Caribbean (LAC and CARICOM) country groupings and income group (lower-middle income economies) comparator countries, as well as world averages of 198 countries. A detailed list of the comparator country peer groups can be found in Annex D. These comparisons help to establish where the Jamaican tax system excels, falls short, or meets normal operating expectations.

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 make up the basis of the recommendations made by international experts, such as those from the IMF, the IDB, the European Union (EU), the Organization of Economic Co-operation and Development (OECD), and USAID.

## C. Guide to This Report

Section II of this report is a summary of recent tax reform in Jamaica. The section sets the stage with the evolution of the Jamaica revenue authority since the 1990's. The section describes the establishment of the new revenue administration, Tax Administration Jamaica (TAJ), in 2011 and the adherence to international donor suggestions through the recent reform period.

Section III continues with an overall assessment of Jamaica's tax system based on the macro-level tax benchmarking indicators, which helps present the reader with a global perspective and develop a frame of reference to base recommendations found in later sections in the report.

Based on the Deloitte Team's observations and interviews and the information in recent technical reports by TAJ and international advisors, Sections IV, V and VI describe the TAJ's organization, staffing, operations and support functions. These sections highlight strengths and identify opportunities for improvement within the tax system. Sections VII and VIII describe in detail the tax system benchmarks and international leading practices in Jamaica and in comparator groups and provide in-depth explanations on the benchmark indicators.

A summary of recent tax-reform accomplishments is provided in Section IX.

The report concludes with Section X which provides recommendations to help Jamaica's authorities protect and improve revenues, and enhance compliance and the efficiency of the Jamaica's tax system.

## II. Summary of Tax Reform in Jamaica in Recent Years

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Jamaica's tax system has been studied by many international donors and advisors, who have provided technical and financial assistance over the past decade and in very recent years. Organizations, such as USAID, IMF, World Bank, IDB, OECD, EU, and the U.S. Treasury's Office of Technical Assistance have supported economic growth by providing recommendations to Jamaica's revenue authorities to enhance taxpayer services, enact tax administration and policy reforms, and to increase government revenues.

Some of the most notable tax policy and administration reform suggestions were made by several IMF Fiscal Affairs Department (FAD) studies in 2010/2011, the Private Sector Working Group (PSWG) papers in 2010, and the 2009 Blueprint for Taxation Reform in Jamaica. During the 1990s, the World Bank played a significant tax-reform role in Jamaica. More recently, the IMF's (FAD) missions have had particular influence on the direction and substance of Jamaica's tax-reform developments. Jamaica's tax administration has begun a transition to a new functional organization structure which enhances segmentation by type of taxpayer. Tax Administration Jamaica (TAJ) was recently established through a consolidation of previous existing Tax Departments. As the new revenue body is taking shape, the TAJ cites recommendations of an IMF/CARTAC report of 2006, which greatly helped set the TAJ's current strategic plans and direction.

The technical assessment with the greatest impact, which set the course of recent and current tax-reform-assistance efforts in Jamaica on the part of multiple international donors and the TAJ, is the IMF FAD mission's Report of April 2010, *"Next Steps in Tax and Customs Administration Reform and Modernization,"* which was a follow-up to the recommendations of FAD's technical assistance mission of 2008. In its 2010 Aide Memoire, the IMF noted *"the tremendous pressure on the Tax Administration from the government and the private sector for improved delivery of its services, despite poor working conditions, limited and outdated technology, and low remuneration of staff."*<sup>2</sup> As a partial remedy, the IMF mission recommended that TAJ transform itself to an executive agency and cited some of the benefits of semi-autonomous institutions created in Jamaica under Executive Agencies Act No. 4 of 2002. The following were among the benefits cited by the IMF:

- Have discrete administrative units, sufficient in size to justify major structural change;
- Be capable of being made separately accountable;
- Be able to establish clear lines of accountability between government ministers and agencies through contractual arrangement between the Minister and CEO;
- Be able to define required performance in an unambiguous and measurable way, for which targets are set out in the performance contract;
- Delegate authority to the chief executive officer;

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<sup>2</sup> Ibid, p.15

- Establish incentives that reward or punish results relative to the agreed outcomes; and
- Be able to improve its human resources complement through quality recruitment from the labor market, competitive remuneration, and quicker response times in taking decisions and streamlining operations.<sup>3</sup>

As a result of these studies, international donors have strongly supported the IMF's April 2010 Aide Memoir's recommendations and their joint coordination. The various donors have carefully analyzed the IMF's recommendations and organized, funded and launched a wide variety of coordinated technical assistance visits by international experts to help the TAJ accomplish the IMF's recommendations and modernize its organization and operations.

During the last two years, a great deal of work has been accomplished. For example, USAID PRIDE Jamaica and OTA consultants assisted TAJ with:

- Project management reform – plan development; project structure;
- Organization design – assistance to prepare legislative proposals for SARA; guidance for design of new organization structures; development of HR strategy;
- IT modernization – business process re-engineering and mapping; and development of RFP for new ICTAS;
- Change management and communications – development of change management and communications strategies (internal and external); and
- Program and technical assistance – development of risk management systems for audit and debt management; assessments and recommendations for debt management enforcement and inventory management; development of proposed tax procedures legislation; assistance on information technology, human resources, budgeting and other management services.

With the technical assistance described above, an Inter-American Development Bank (IDB) loan of \$65M (about half for TAJ), and its own initiatives, TAJ is well on its way to modernize and substantially improve its organization and operations.

## **A. Highlights of Tax Policy Issues and Recommendations**

Over the last decade Jamaica's tax policy initiatives have been confined to incremental policy reforms aimed at mobilizing additional revenues to address the country's fiscal needs.

Highlights of tax reforms over the last decade include:

- Expanding the GCT base over a broader range of goods and services (2003);
- Increasing the basic personal exemption for the PIT, simplifying the estate tax and property tax regime, increasing the GCT rate to 16.5%, increasing the GCT threshold to reduce the number of

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<sup>3</sup> Ibid, pp. 15-16



taxpayers by 6,900, reforming the taxation of the gaming industry, and simplifying the CIT (2005); and

- Increasing the GCT rate from 16.5% to 17.5%, increasing the middle income tax rate, introducing advanced GCT payment on imports, and introducing an ad valorem excise tax (2009).

Tax policy discussions in Jamaica in 2010 have focused on a comprehensive reform of tax incentives, including a freeze of discretionary tax wavers and tax holidays. There were, however, no corresponding changes to either primary or secondary legislation. In 2011 Jamaica issued tax wavers at an estimated high level of 27% of actual tax collections.

Policy options currently considered by the Government in the context of mobilizing revenue or improving international competitiveness and voluntary compliance include:

- Simplifying the rate structure of the GCT, selectively removing exemptions and reducing the general rate from its current level of 17.5%;
- Phasing out the current system of tax incentives and sectoral benefits and significantly reducing the statutory rate of the CIT; and
- Raising the income threshold at which the current top rate of the PIT becomes effective and reducing the statutory rate at the initial income threshold (currently 441,168 Jamaican dollars or a factor 1.1 of per capita GDP).

Reform in all of these areas is an urgent necessity. Failure to do so has a number of serious negative consequences in terms of: economic growth in Jamaica, the level and direction of investment, distortions in the allocation of economic resources and continued or worsening fiscal problems.

## **B. Evolution of TAJ's Organization Structure**

### **World Bank's TaxARP Project of the 1990's**

The World Bank's Tax Administration Reform Project (TaxARP) was conducted from 1995-96. The project provided recommendations to re-structure Jamaica's Tax Administration (JTA<sup>4</sup>), which were implemented in 1999. TaxARP saw the transitioning of the then independent agencies organized by type of tax into a single organization based on functions performed. Several tax-type tax agencies and a Revenue Board, which provided support services, were replaced with an umbrella organization, Jamaica Tax Administration (JTA), consisting of five departments - Taxpayer Audit and Assessment Department (TAAD), Inland Revenue Department (IRD), Taxpayer Appeals Department (TAD), Tax Administration Services Department (TASD), and Revenue Protection Division (RPD). An integrated tax administration system led by the Director General's Executive Office (DGEO) was introduced. Customs was later included as the sixth department. RPD later underwent changes that eventually saw the Internal Audit

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<sup>4</sup> JTA was later consolidated by the creation of Tax Administration Jamaica (TAJ) in April 2011

component being attached to the DGEO<sup>5</sup>. TaxARP also recommended a job classification and a grading and remuneration system outside the public service, which was more competitive with the private sector.

The benefits achieved as a result of TaxARP included a transparent and fair appeals process; significant changes in tax and non-tax laws; improved physical facilities; improved quality of taxpayer service; increased availability and use of information and communication technology (ICT); greater integration of taxpayer accounts; greater coordination in planning and budgeting process; improved human resources environment and enhanced organizational image<sup>6</sup>. While many benefits were gained through TaxARP, some recommendations were not implemented, such as the improved grade-and-compensation system.

### **Need for Further Organization Reform**

Despite TaxARP's accomplishments, top JTA officials several years later noted<sup>7</sup> that: there was no significant increase in tax compliance; tax fraud control through prosecutions remained ineffective; and there was no significant widening of the tax base. Additional unresolved issues included: continued weaknesses in management; inadequate inter-departmental cooperation; training backlog; incompleteness of the Integrated Computerized Tax Administration System (ICTAS); the need for right-sizing of departments/units; classification inconsistencies, and harmonization of data with Customs. The departments created along functional lines by TaxARP had evolved into silos operating as single entities, when the reality of the environment required a more integrated approach to tax collections.

### **The Revenue Administration (Amendment) Act of 2011**

Tax Administration Jamaica (TAJ) was formally established on April 1, 2011, after the enactment of the Revenue Administration (Amendment) Act of 2011. The former Inland Revenue Department (IRD), the Taxpayer Audit and Assessment Department (TAAD), and the Tax Administrations Services Department (TASD), which had comprised Jamaica's Tax Administration since 1999, were consolidated and their functions and staff transferred to a unified TAJ, under a Commissioner General of Tax Administration with three Divisions – Operations; Legal Support; and Management Services, each headed by a Deputy Commissioner General. The transformation from JTA to TAJ included the separation of Customs and of Taxpayer Appeals, which was established as a Division under the MOF. Much like TAJ, Customs is moving toward Executive Agency status.

Since its recent establishment, TAJ has been in a transition mode as it migrates from the prior TaxARP organization structures to the current TAJ. All of the staff has been officially transferred to TAJ; is being

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<sup>5</sup> Tax Administration Jamaica, Strategic Plan FY2011/12 – FY 13/14, 30 May 2011, prepared by the Planning & Research Section, p. 1.

<sup>5</sup> Ibid, p. 1

<sup>6</sup> Zake, Justin et al, IMF Fiscal Affairs Dept, "Jamaica – Next Steps in Tax and Customs Administration Reform", p.15

<sup>7</sup> Ibid, pp 15-16

paid salary and allowances at existing rates; and has been informed of the change. Approval was secured at the end of March 2012 for job descriptions, classifications and new pay levels for the Commissioner General, the three Deputy Commissioner Generals, and the Chief, Technical Advisor. Job descriptions are being prepared for Senior Managers and other new positions, and their classification and pay levels will need to be established and approved by MOF, the Cabinet, and by the Public Sector Establishment Division of Jamaica's Civil Service.

The newly designed organization structure of TAJ is along the lines IMF FAD missions' recommendations of 2008 and April 2010 and conforms to the structure expected to be in place, after approval of legislation for TAJ to become a Semi-Autonomous Revenue Authority (SARA).

### **Semi-Autonomous Revenue Authority Status**

The timeline proposed by the IMF and established by TAJ in 2010 for semi-autonomy projected that all tasks necessary to complete the transition of staff to the current organization and all tasks necessary to get the SARA legislation enacted would be completed by April 1, 2011. Over the next several months, with technical assistance from USAID PRIDE Jamaica and OTA's consultants and the TAJ's own efforts, some but not all the major milestones to enact the SARA legislation were accomplished by the projected deadline.

The SARA legislation was prepared; reviews were solicited and made by the Public Sector Establishment and the Attorney General and their comments considered; a presentation was made to the Minister of Finance and his approval was secured to place the proposed legislation on the Cabinet's agenda. After the resignation of the Prime Minister and the selection of a new Prime Minister in October of 2011 and a new Cabinet in December of 2011, the SARA legislation is awaiting review and approval by the new Minister of Finance. The deadline for enactment of the legislation was moved up one year to April 1, 2012, which was still not accomplished as of the date of this study. Officials at the TAJ and at the MOF are optimistic that the legislation will be approved in the near future.

### **C. Tax Administration Operations Reform**

Additionally, in its mission report of October 2011<sup>8</sup>, the IMF included a matrix –*Jamaica – High-Level Revenue Administration Reform Activities Matrix*. This matrix provides a summary of pending tax policy and tax administration activities and recommendations and includes an implementation timeline. It provides a comprehensive summary of all recent and pending reform activities in the tax administration. TAJ and donors are working to implement the activities and recommendations. The matrix can be found in Annex B.

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<sup>8</sup> Zake, Justin et al, IMF Fiscal Affairs Dept., "Jamaica - Enhancing Taxpayer Compliance Management", October 2011, p.33.

## III. Global Perspective

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This section contains an overall assessment of Jamaica’s tax system based on the tax benchmarking indicators from USAID’s Collecting Taxes Database (“Database”- <http://egateg.usaid.gov/collecting-taxes>) to provide a context and a frame of reference for the observations and recommendations on reform in the rest of the document. In doing this, it examines the system from a number of perspectives including: competitiveness, overall structure, the view point of taxpayers, and the productivity of the major taxes using the analytical tools from the Database. It concludes with an overview of recent developments in Jamaica’s tax and fiscal environment. Unless noted otherwise, all data is generated from the Database.

A few points deserve special emphasis:

First, Jamaica’s tax system operates within an unusually constrained macro-fiscal environment:

- Jamaica is not only a small open economy and thus particularly sensitive to fluctuations in the global economy, but with a particularly high level of public debt in excess of 120% of GDP;
- Its economy is dominated by tourism and the export of bauxite – both unusually sensitive to global economic trends; and

Within this context, Jamaica’s performance in revenue mobilization is impressive. For more than a decade revenue collections have significantly exceeded 20% of GDP. This is a strong performance for any country – especially one in the Lower Middle Income (LMI) Group.

Second, not only is the quantitative performance of Jamaica’s revenue system in good order, but the broad elements of the design of the system conform to normative standards. As discussed below, Jamaica’s revenue system is dominated by the suite of major economically buoyant taxes that characterize the design of the revenue systems of all fiscally successful countries.

Third, within this positive context, Jamaica's tax system has mobilized revenue at a high cost: high rates for all of the major taxes, administrative procedures and business processes that compound the costs of doing business, and lower than optimal levels of compliance.

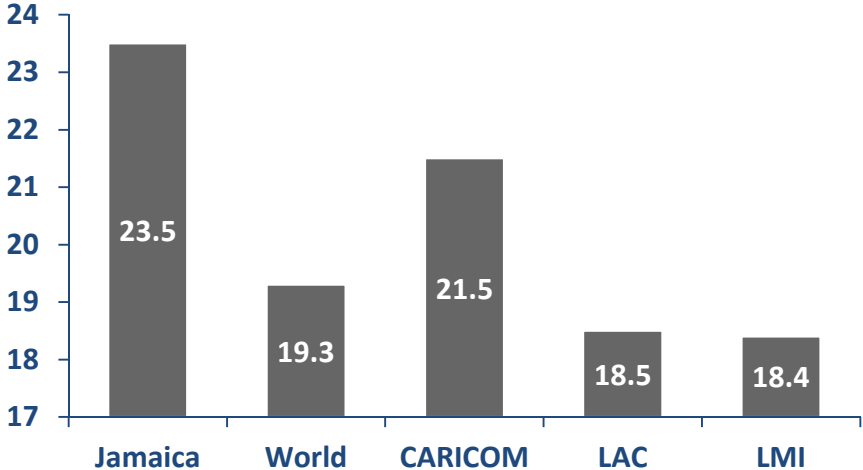
### A. Structure of Jamaica's Tax System

A competitive tax system is one that imposes a relatively small tax burden on taxpayers relative to other countries. Tax burden is best understood as the explicit financial costs of tax obligations and the implicit costs of compliance including time spent on preparing tax declarations, filing payments, keeping records, and performing other compliance related activities.

Overall levels of taxation collected by TAJ and the Jamaica Customs Department (JCD) are 23.5% of GDP. As illustrated in Figure 1, this is higher than the world averages (19.3%), higher than the levels collected

in the countries of the Latin American and Caribbean Region (LAC – 18.4%), the Low-Middle Income group of countries (LMI - 18.3%), and CARICOM countries (19.3%).

**Figure 1. Comparison of Tax Revenue as Percentage of GDP**



As the next series of figures illustrates, Jamaica’s rates of the major taxes are higher than world averages and for those of competitors and comparators. As illustrated in Figure 2 for GCT, at 17.5%, the rate for the GCT is higher than the world average GCT rate (15.2%), higher than the neighboring CARICOM countries (14%), and the averages for the LAC and LMI countries (14.3% and 14.8% respectively).

**Figure 2. General Consumption Tax Rate (%)**

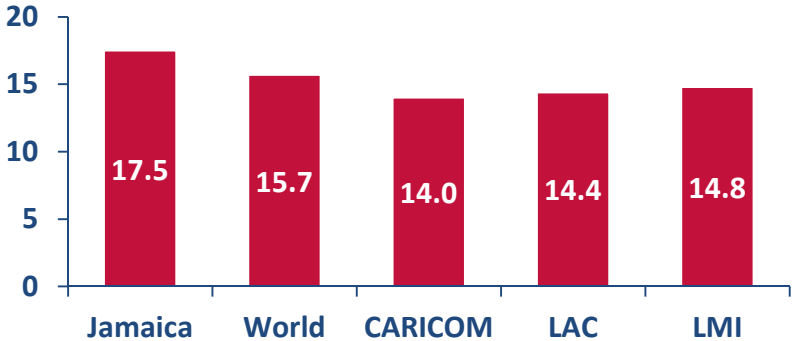
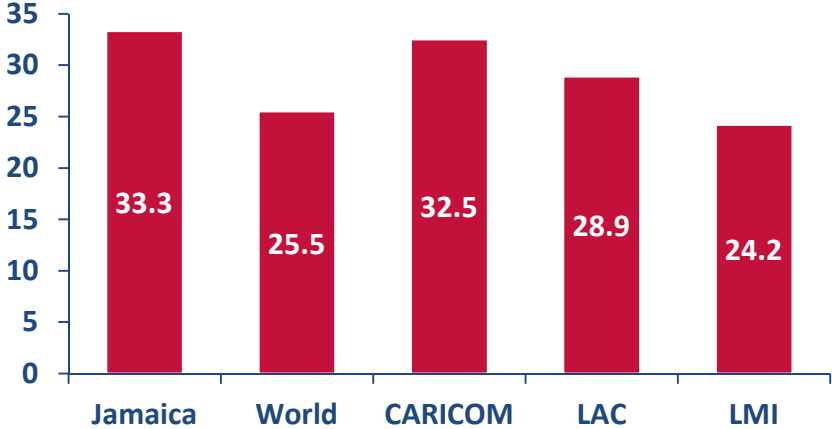


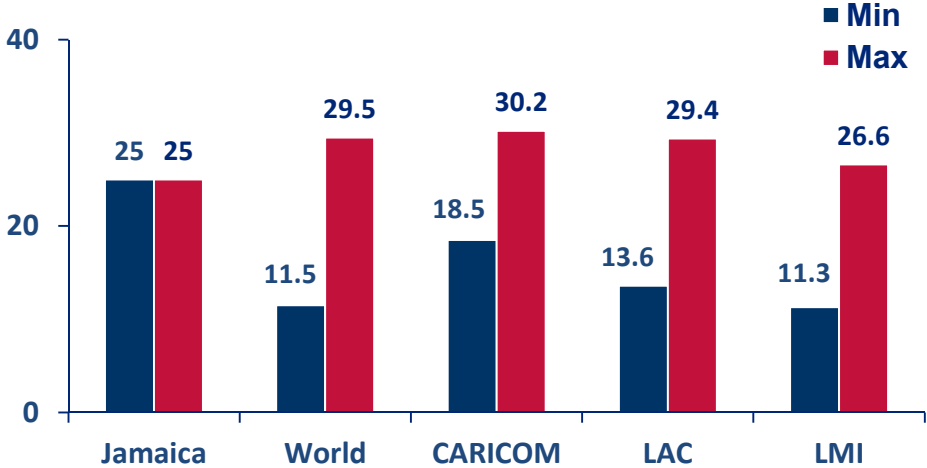
Figure 3 below shows Jamaica’s CIT rate is 33 1/3 %. This too is higher than the world average (25.5%), and the LAC (28.9%) and LMI (24.2%) countries. It is also marginally higher than the rates for the CARICOM countries of 32.5%.

**Figure 3. Corporate Income Tax Rate (%)**



The single rate of 25% for Jamaica’s PIT is substantially higher than the rates among comparator countries. It is lower than the highest marginal rate but the income threshold at which the Jamaican single rate becomes effective (a threshold of 1.1 times per-capita GDP) is considerably low. When this is combined with payroll taxes for social programs, the resulting tax wedge on labor costs is 18. This is higher than the world average (16.4) and considerably higher than the calculations for the LAC (11.8) and LMI (14.9).

**Figure 4. Personal Income Tax Rate (%)**



In addition, Jamaica's system of tax rates exhibits a number of undesirable characteristics:

- Multiple tax rates for the GCT: The standard rate for Jamaica's GCT is 17.5%, but telephone and telephone services are taxed at a rate of 25% while tourism services and electricity are taxed at 10%. Multiple GCT rates have two disadvantages. First, they distort consumer and producer choices and interfere with the creation of an economically neutral and efficient tax system. Second, they introduce additional costs of compliance by taxpayers and of administration by the government;
- GCT exemptions: Jamaica exempts many goods and services from GCT taxation in order to pursue social welfare objectives. This is not unusual but neither is it an example of good practice. Disadvantages of GCT exemptions are many: relative difficulty in achieving social objectives in comparison with zero rating; lack of information from and control over the value added tax chain; potential for tax cascading; increased complexity and compliance and administration burdens;
- Discretionary tax waivers: Jamaica has institutionalized a system of discretionary tax waivers whereby the Minister of Finance can waive the tax obligations for individuals and businesses at his discretion. Discretionary tax policy typically creates a perception amongst taxpayers of lack of fairness taxpayers and thus results in reduced voluntary compliance. Discretionary waivers hinder proper planning and may result in inadequate revenue collections;
- Other tax incentives: An extensive system of tax incentives are provided under Jamaican law including tax free zones, special tax holidays for the tourism and agriculture sector, and tax exempt status for companies registering on the Jamaican Junior Stock Exchange. Tax incentives introduce further complexities and compliance burdens and hinder planning and perceptions of fairness.

Collectively these features have had the effect of narrowing Jamaica's tax base, increasing the complexity of the system and the difficulties in administering it and complying with it, and increasing the scope for non-compliance. In addition, to achieve the current level of revenues, a higher set of tax rates were used than would otherwise be the case.

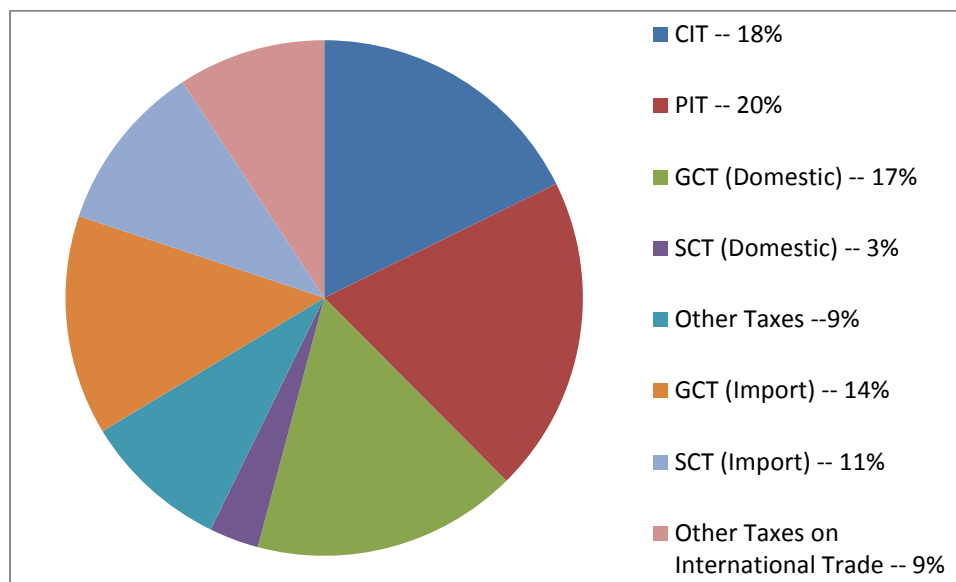
In short, the Jamaican tax system is not competitive in its overall level of taxation, nominal tax rates, and the tax wedge. There is still considerable room to simplify tax policy, broaden tax bases and bring Jamaica's tax system closer to international standards.

## **B. Composition of Jamaican Revenue**

Figure 5 displays the composition of revenues by type of tax in Jamaica in 2011. Jamaica's revenue system is dominated by the typical suite of major taxes and the proportional representation of each tax is roughly normal. A few points stand out:

- With PIT, CIT, and GCT generating combined 69% of total tax revenues, the Government relies on core taxes, which should contribute positively to stability and fiscal planning;
- Total taxes collected at the border, GCT and SCT (import) and other taxes on international trade account for 34% of total revenues. GCT collected at the border accounts for 45% of GCT collections indicating that Jamaica’s reliance on border taxation is high but not unusually so and is representative of a small open island economy; and
- A somewhat equal combination of core consumption taxes (GCT at 31%) and core taxes on income and profits (CIT and PIT at 38%) and creates a balance between stability and income redistribution. Changes to this balance can be an important policy instrument for the Government.

**Figure 5. Composition of Tax Revenue by Type of Tax in Jamaica in 2011**

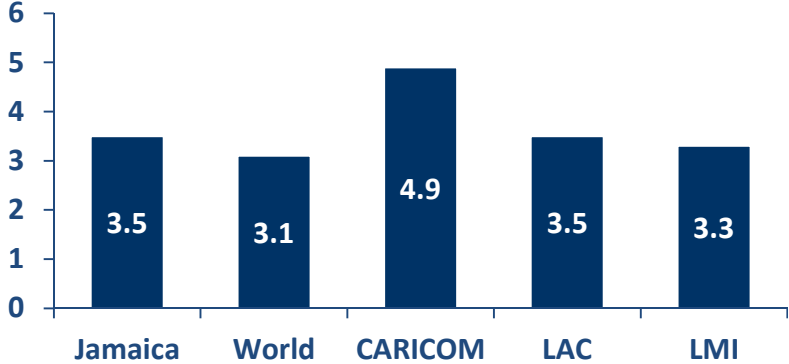


As a further breakdown, the following three figures (Figures 6, 7 and 8) depict the percentage of GDP collected for each type of tax described on a comparative basis.



Figure 6 displays Jamaica’s collections of the CIT as a percentage of GDP are on par with comparator countries.

**Figure 6. Corporate Income Tax Revenue as Percent of GDP**



In GCT, however (Figure 7), collections as a percentage of GDP are a full percentage point higher than regional and income group comparators.

**Figure 7. General Consumption Tax Revenue as Percent of GDP**

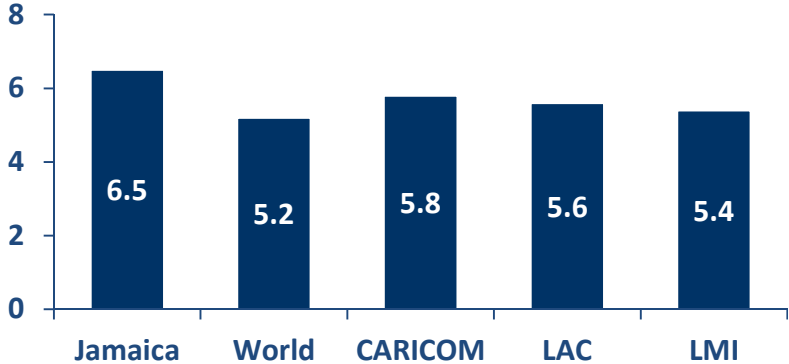
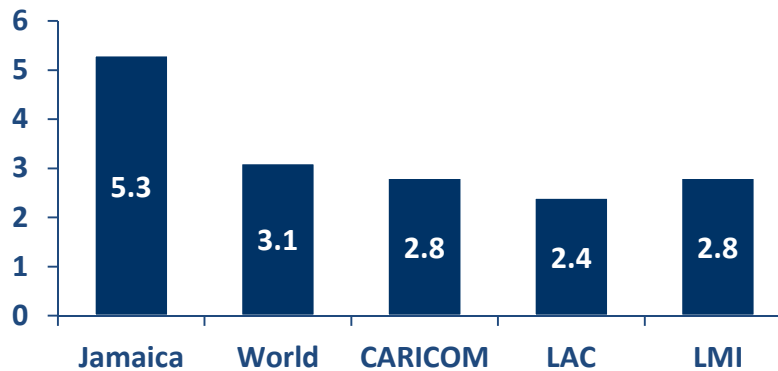


Figure 8 displays Personal Income tax, showing that Jamaica is significantly higher than all comparators. At 5.3% of GDP it is significantly above the world average of 3.1% and the 2.4% and 2.8% from LAC and LMI countries respectively.

**Figure 8. Personal Income Tax Revenue as Percent of GDP**



A more detailed picture of Jamaica's revenue structure and trends over the last five years is presented in Table 1 below.

**Table 1. Revenue Trends in Jamaica 2007-2011**  
(In millions of Jamaican dollars)

	2006/07	2007/08	2008/09	2009/10	2010/11
Total Revenue & Grants	<b>211,364.5</b>	<b>252,098.8</b>	<b>276,199.8</b>	<b>300,200.1</b>	<b>315,200.0</b>
Total Tax Revenue	188,353.5	219,517.6	246,216.6	265,860.2	279,874.2
CIT	32,969.0	41,160.3	45,766.1	58,432.3	49,564.3
PIT	43,352.1	51,465.4	61,628.8	59,863.3	55,554.3
GCT (Domestic)	33,306.0	37,446.9	40,415.7	41,452.1	46,389.9
SCT (Domestic)	4,042.8	3,523.7	4,611.8	6,678.3	8,647.9
Other Taxes	21,108.2	24,996.4	26,518.8	24,948.6	25,573.7
GCT (Import)	24,333.1	29,250.1	29,352.7	28,805.0	38,520.6
SCT (Import)	9,212.1	9,029.0	14,255.2	23,477.6	29,811.8
Other Taxes on International Trade	20,030.2	22,645.9	23,667.5	22,203.1	25,811.6
<b>Percent of GDP</b>					
Total Revenue & Grants	<b>26.07%</b>	<b>27.59%</b>	<b>26.98%</b>	<b>27.13%</b>	<b>26.42%</b>
Total Tax Revenue	<b>23.23%</b>	<b>24.03%</b>	<b>24.05%</b>	<b>24.03%</b>	<b>23.46%</b>
CIT	4.07%	4.50%	4.47%	5.28%	4.15%
PIT	5.35%	5.63%	6.02%	5.41%	4.66%
GCT (Domestic)	4.11%	4.10%	3.95%	3.75%	3.89%
SCT (Domestic)	0.50%	0.39%	0.45%	0.60%	0.72%
Other Taxes	2.60%	2.74%	2.59%	2.25%	2.14%
GCT (Import)	3.00%	3.20%	2.87%	2.60%	3.23%
SCT (Import)	1.14%	0.99%	1.39%	2.12%	2.50%
Other Taxes on International Trade	2.47%	2.48%	2.31%	2.01%	2.16%
<b>Percent of Total Tax Revenues</b>					
Total Tax Revenue	100%	100%	100%	100%	100%
CIT	18%	19%	19%	22%	18%
PIT	23%	23%	25%	23%	20%
GCT (Domestic)	18%	17%	16%	16%	17%
SCT (Domestic)	2%	2%	2%	3%	3%
Other Taxes	11%	11%	11%	9%	9%
GCT (Import)	13%	13%	12%	11%	14%
SCT (Import)	5%	4%	6%	9%	11%
Other Taxes on International Trade	11%	10%	10%	8%	9%

Source: Provided by Central Government during Field Assessment

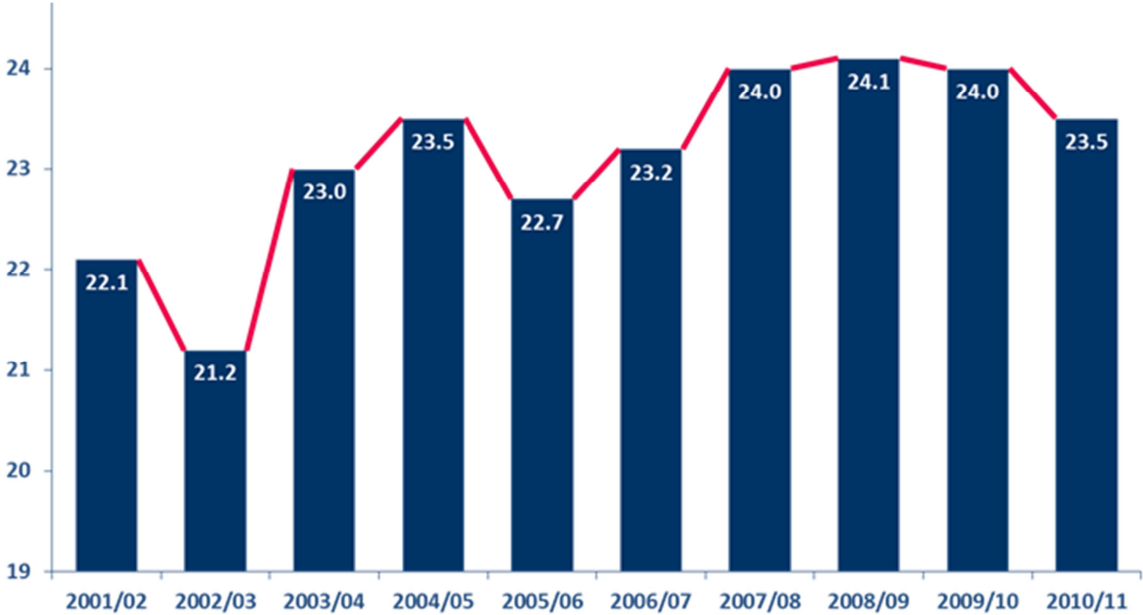
Figure 9 illustrates total tax revenues as a percent of GDP over the last decade. It shows that revenue performance made a modest improvement over the period as tax revenue increased 1.5 percentage points of GDP.

Over the 2001 to 2010 period, Jamaica’s revenue collection efforts focused on mobilizing needed revenue through incremental policy reforms and by strengthening tax administration aimed at collecting arrears and improving voluntary compliance.

Highlights of tax reforms over the last decade include:

- Expanding the GCT base to a greater number of goods and services (2003);
- Increasing the basic personal exemption for the PIT, simplifying the estate and property tax regime, increasing the GCT to 17.5%, increasing the GCT threshold to reduce the number of taxpayers by 6,900, reforming taxation of the gaming industry and simplifying the CIT (2005); and
- Introducing advanced GCT payment on imports, introducing ad valorem excise tax (2009).

**Figure 9. Tax Revenue as Percent of GDP**



**C. Paying Taxes in Jamaica: A Taxpayers’ Perspective**

International interest in the tax system’s impact on the business enabling environment is growing rapidly. The World Bank’s Doing Business project has attracted wide attention in this area with its “Paying Taxes” survey. 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).

Table 2 below presents the “Doing Business 2012” survey’s estimates of these administrative burdens for Jamaica, countries of the LAC and CARICOM regions as well as the individual CARICOM countries. An estimate of the effective corporate tax rate based on a normative representative business is included. From this table, it is clear that Jamaica performs poorly with respect to the administrative burdens placed on business in complying with taxes. The average taxpayer must make 72 payments per year to the Government (compared with 32 payments for the LAC region and 37 for CARICOM); and must devote 414 hours to preparing and filing tax returns and paying taxes due – significantly above the CARICOM average. The estimates of the effective corporate tax rate place Jamaica well above both LAC and CARICOM averages.

**Table 2. Jamaica's Ease of Paying Taxes**

**World Bank Doing Business Survey: 2012**

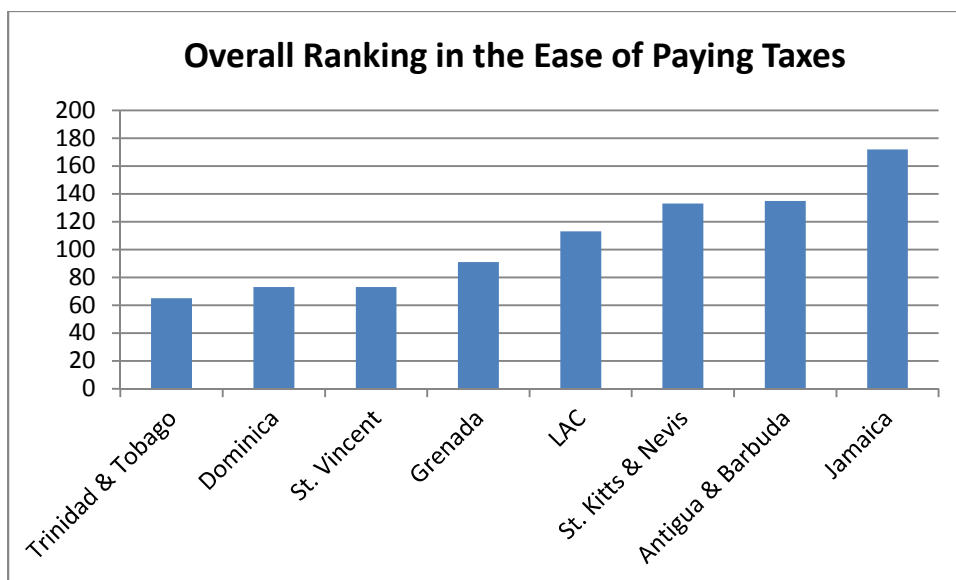
Country/Region	Payments (number per year)	Time (hours per year)	Profit tax (%)
<b>Latin America &amp; Caribbean</b>	<b>32</b>	<b>382</b>	<b>19.9</b>
<b>CARICOM Average</b>	<b>36</b>	<b>210</b>	<b>22</b>
Antigua and Barbuda	57	207	26
Bahamas, The	18	58	0
Belize	29	147	0
Dominica	37	120	25.9
Grenada	30	140	27.6
Guyana	35	263	23.8
Haiti	46	184	24.1
<b>Jamaica</b>	<b>72</b>	<b>414</b>	<b>25.6</b>
St. Kitts and Nevis	36	203	32.7
St. Lucia	32	92	25.9
St. Vincent and the Grenadines	36	111	30.2
Suriname	17	199	27.9
Trinidad and Tobago	39	210	21.6

Figure 10 shows Jamaica’s global rank relative to its regional neighbors in overall ease of paying taxes. Jamaica’s rank is 172nd out of 183 countries putting it among the most difficult counties in the world -

significantly more difficult than the overall rank of LAC countries and more difficult than many of its neighbors.

The Doing Business Project’s “Paying Taxes” comparative system provides a useful perspective on the relative burdens of complying with tax laws from country to country. The picture that emerges from this survey is reflected and reinforced in the productivity and efficiency measures discussed immediately below. In subsequent chapters, additional burdens will be addressed that taxpayers face in complying with tax rules and procedures specific to Jamaica.

**Figure 10. Jamaica's Overall Rank in Ease of Paying Taxes**



#### **D. Revenue Productivity and Efficiency**

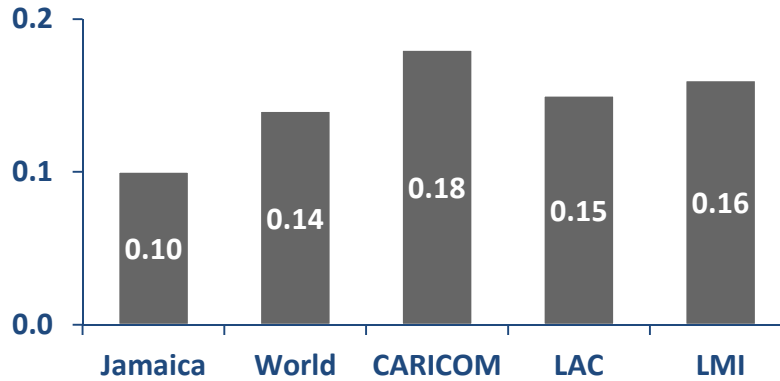
The Collecting Taxes Database examines national tax systems from many perspectives, including that of revenue productivity. Tax revenue productivity measures a country’s performance in collecting revenues for a particular tax, taking into account the specific features of that tax in that country. Annex C of this report provides detailed explanations of these productivity indicators and several related variables.

From a revenue productivity perspective, Jamaica’s productivity and efficiency compared to other countries varies significantly by tax.

Figure 11 displays CIT collection productivity for Jamaica, which is modestly below in relation to the comparator countries. At 0.10 it is significantly below the world average (0.15), below the levels of the

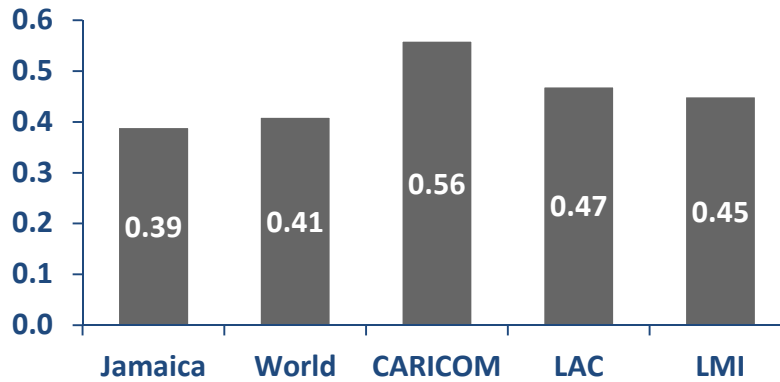
LAC (0.15) and the LMI (0.16) countries. It is roughly comparable to average values for CARICOM countries.

**Figure 11. Comparative Values of CITPROD**



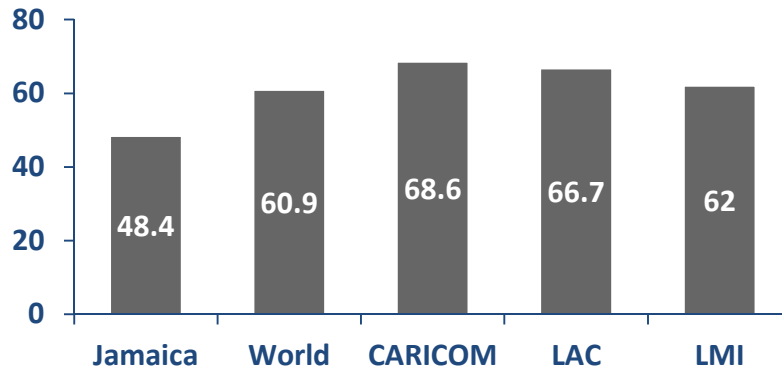
Performance and efficiency in GCT collection is similarly, weak. GCTPROD (GCT as a percent of GDP divided by the GCT rate) at 0.39 in Jamaica is slightly below the world average of 0.41 and considerably below the values for the LAC, LMI and CARICOM countries (Figure 12).

**Figure 12. Comparative Values of VATPROD**



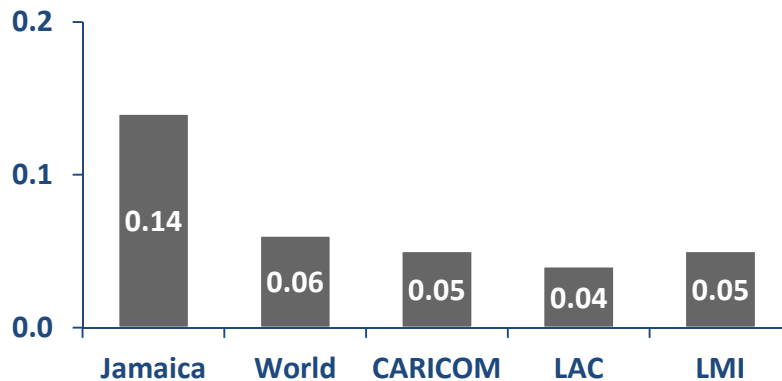
Jamaica's somewhat low values for GCTPROD are paralleled by relative underperformance in the GCT Gross Compliance Ratio (GCTGCR), an indicator that measures actual GCT collections as a percent of potential collections (Figure 13). With a gross compliance ratio of 48.0 Jamaica is below the world average of 60.1 and is considerably below the values for comparator countries (Figure 13).

**Figure 13. Comparative Values of VATGCR**



PIT performance on the other hand is quite high. With a value of 0.14 Jamaica’s value for PITPROD (PIT as a percent of GDP divided by the tax rate) is more than twice the world average of 0.06 and considerably higher than the values of the LAC and LMI countries (Figure 14).

**Figure 14. Comparative Values of PITPROD**



These revenue productivity figures for the three major taxes are highly revealing, especially within the context of the other features of Jamaica’s tax policy and tax administration environment discussed above. As mentioned earlier, Jamaica’s overall level of revenue effort, at 23.5% of GDP is strong by any standard. In order to achieve these results, however, Jamaica’s tax rates are high and there is an observable mismatch between tax rates and the ultimate revenue output for the CIT and the GCT that sets Jamaica well apart from the rest of the world and from comparator countries.

Indeed, if Jamaica had CIT productivity similar to its income-level comparators and VAT productivity comparable to the CARICOM countries, CIT revenues would have been 54% higher than they were in 2011 and GCT collections would have been 38% higher. Alternatively, revenue neutral tax rates could have been reduced to 21.7% and 12.7% for the CIT and GCT respectively.

The reason behind this low productivity is a consequence of:

- a) A policy environment characterized by a regime of tax waivers, tax holidays and other tax incentives; and

- b) An administrative environment of cumbersome procedures and business processes that raises compliance costs to taxpayers and is difficult to administer by tax officials. In addition, the tax administration is seriously understaffed in critical areas such as the Large Taxpayer Office.

The amount of revenue lost to government from adopting a regime of special tax concessions, incentives, and discretionary tax waivers is high. Attempts have been made to quantify the cost to the Government of such deviations from standard, normative tax design.

- In 2004, Bahl and Wallace estimated total tax expenditures as 60% of total tax revenues;
- In its 2007-2009 Tax Expenditure Budget MOF estimated total revenues lost from tax incentives related to the CIT at 25% of net collections from that tax. Revenues lost to special provisions in the GCT were estimated at 45% of net reported tax;
- In 2011 the National Planning Institute of Jamaica reported total discretionary tax waivers at 1% of GDP;
- An estimate of tax expenditures<sup>9</sup> illustrated in the table below show total tax revenue loss at 3.9% of GDP;

**Table 3. Estimate of Revenue Cost to Exceptions to Standard Taxation**

<b>Revenue Cost of Exceptions to Standard Taxation</b>	
<b>Provision</b>	<b>Revenue Lost (% of GDP)</b>
Corporate Income Tax Holidays	0.33
Duty/GCT/Stamp Relief	3.26
Waiver of penalty, interest and surcharge	0.08
Hotel Incentives and Resort & Cottage Act	0.25
Personal Income Tax Holidays	0.01
<b>TOTAL</b>	<b>3.91</b>

These estimates of revenue loss come from different sources, but their magnitudes are all high. The figures demonstrate that tax rates could be significantly reduced by their removal. The figures are also broadly consistent with the estimates of possible rate reduction provided above showing that the tax rates for the CIT and GCT could be reduced to 21.7% and 12.7% respectively with normal levels of productivity.

In addition to costing a significant amount to revenue, special tax incentives tend to:

- Distort investment decisions;
- Distort the relative prices among goods and services;
- Reduce allocative efficiency in markets;
- Increase complexity, compliance burden, and cost of administration; and
- Reduce perception of fairness and voluntary compliance.

<sup>9</sup> CaPRI 2011.



The observed strength in productivity for the PIT stands in sharp contrast to the other major taxes. At 0.14, it is more than twice the world average and considerably higher than the figures for comparator countries. It should be noted that Jamaica's high PIT productivity is achieved in an environment characterized by less than optimal compliance. Experienced observers have noted that there are significant gaps in Jamaica's "Pay As You Earn" (PAYE) income tax withholding system with many large taxpayers late in their filings and the public sector essentially non-compliant. Compliance analysis on sole proprietors and other non-PAYE filers indicates very serious problems in these areas.

High PIT productivity is explained by the fact that the single rate of 25% becomes effective at an income threshold of 1.1 times the level of per-capita GDP. This is a common threshold to begin income taxation but the rate applied at the threshold level is high. The amount of revenue mobilized from compliant taxpayers at this high effective rate essentially offsets compliance problems and results in a high measure of productivity. It should also be noted that the tax incentives offered to taxpayers that narrow the base for the CIT and the GCT do not extend to the PIT.

## **E. Recent Developments**

The Jamaican economy continues to be affected by the global economic downturn. In 2008 real GDP fell by 0.9% followed by a drop of 3.1% in 2009 and by another 1.2% in 2010 – by 2011 it had only just begun to recover to levels reached in 2005. The global economy has a magnified impact on Jamaica's economy because of its economic dependence on tourism, bauxite production and the remittances of Jamaican's living abroad, all of which are especially sensitive to global economic fluctuation. Jamaica's high debt burden has in turn magnified the problem by limiting government policies that might cushion the negative impact. Indeed, in order to meet its budgetary obligations in face of declining revenues, the Government had to increase the general rate of the GCT in 2010 from 16.5% to 17.5% (the preferential GCT rate enjoyed by the tourism sector was raised from 8.25% to 10%), the PIT rate on the highest levels of income was temporarily raised to 35%, and rates were changed on a number of commodities under the SCT regime.

These tax rate increases were not only pro-cyclical in an economic sense, but have occurred in a system whose tax rates were already somewhat high, and whose compliance levels were problematic. They can only worsen the atmosphere for compliance, raising the bar for the non-compliant, which would be brought into the tax net and by adding to the misconception that they are asked to shoulder a greater burden<sup>10</sup>.

In addition to increasing tax rates, the government committed to a comprehensive pro-compliance reform program that would: a) unify Jamaica's separate organizations of tax administration into a single organization; b) strengthen the Large Taxpayers Office; and c) facilitate compliance by implementing streamlined procedures and business processes.

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<sup>10</sup> See Zake 1, IMF April, 2010

As the details of the program were developed they received a high level of support from the donor community. Implementation has been slower than hoped, especially in certain critical areas like increasing staffing levels in priority areas, promulgating new legislation that would give the TAJ the enforcement authority it requires, and in establishing the TAJ as a semi- autonomous revenue authority (SARA).

Nevertheless, much has been accomplished and a momentum for improvement has been achieved in important areas: a) the TAJ has been established and its re-organization proceeds, b) a detailed plan to upgrade the tax administration IT system has been developed, funding has been provided by the IDB, and tender documents to procure the equipment will soon be released; c) business processes in key tax administration areas have been redesigned, a call center has been successfully introduced, and a data mining unit has been established.

All of these are discussed in detail in the remainder of the report. In their sum they represent a major effort to modernize the tax administration system so that the TAJ can more effectively:

- Monitor compliance with the tax laws;
- Enforce compliance by enhancing the TAJ's ability to enforce sanctions against non-compliance; and
- Facilitate compliance by introducing streamlined business process to tax administration that reduce the time and cost involved in complying with the tax laws.

In the end, higher levels of revenue mobilization will be sustained and facilitated by a package of tax policy and tax administration reforms where the tax policy part of the package is characterized by moving forward to adopt lower tax rates, broader tax bases, significant reductions in tax waivers and tax incentives and the adoption of a transparent rule-based system of tax exemptions in place of the current discretionary system. The tax administration components of the package, discussed below, largely represent follow-through on initiatives already underway and on which momentum has been achieved. These actions will contribute to the stability, predictability and the perception of fairness of the tax system.

In Jamaica's current situation characterized by high debt service obligations, the fiscal options to achieve this high compliance package of reform and modernization in tax policy and administration are tightly constrained. Achieving success will ultimately require a detailed thought out plan involving a tightly sequenced implementation of policy and administration elements.

## IV. TAJ's Organization and Distribution of Staff

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TAJ's current organization structure complies with the IMF FAD missions' recommendations in 2008 and April 2010 and conforms to the structure expected to be in place, after approval of legislation for TAJ to become an a semi-autonomous revenue authority. TAJ has a functional organization with segmentation for large taxpayers and the beginnings of further segmentation of medium taxpayers, which is fully compatible with leading international practices.

### A. Structure as per Revenue Administration (Amendment) Act of 2011

Annex E provides organization charts for the current structure of TAJ. The current organization structure includes the following major branches:

- TAJ Headquarters
  - Commissioner General and top staff
- Management Services, whose support roles include:
  - Information Technology
  - Administrative Services
  - Human Resources and Management Development
  - Budget and Expenditure
  - Planning and Review, and
  - Revenue Accounting
- Legal Support, whose support roles include:
  - Litigation and Enforcement
  - Objections Research and Advice, and
  - Legislation, Treaties and International Tax
- Operations, whose roles are normative, support and operations:
  - Normative and support roles are played by the Senior General Manager, Programmes and the staffs of his subordinate units.
  - Operations roles are played by the Senior General Manager, Operations; Senior General Manager, Specialized Operations; and Senior General Manager, Large Taxpayer Office (LTO) and Exchange of Information
- LTO, Corporate Clients Section
- LTO, Individuals & Information Exchange Section
- Regional Service Center (RSC) at Constant Spring Revenue Service Center, whose staff performs Audit, Debt Management, Taxpayer Accounts (Returns Processing and Collections/Cashiers) and Customer Service functions. There are three other RSCs – Oxford Road, Mandeville and Montego Bay
  - The four RSCs are responsible for tax-returns processing.
- General Manager, Medium Tax Office for Compliance only.
  - There are 10 Medium Tax Offices.

- Note that Medium Tax Offices do not perform the Audit function

## B. Current and Proposed Staffing

The TAJ's total authorized staffing is approximately 2,500. As of October 2011, 1,815 of those staff members belong to operations.

**Table 4. Staffing Proposed by TAJ**

<b>Proposed Changes in Operations Staffing</b>	<b>Proposed</b>	<b>Current</b>	<b>Change</b>
General Manager	11	15	-4
Asst GM	42	20	22
Manager	158	88	70
Technical Officers	1803	1475	328
Admin Asst	42	80	-38
Clerical Support	96	137	-41
<b>Total</b>	<b>2152</b>	<b>1815</b>	<b>337</b>

**NB.** New areas include Programmes Unit, Expanded SET, CCC, LTO, Taxpayer Education Officers, Quality Review Unit, High Profile Individuals Team and Exchange of Information Officers

The relative distribution of staff to operations in the field – 73% - vis-à-vis support/informative roles in Headquarters – 23% - is in line with best international practices. There is an understaffing of 328 Technical Officers to staff the new organization structures. Similarly, the 2011 IMF mission report concluded that TAJ is understaffed.

There are two indicators shown in the Benchmarking Table in Section VII, however, that suggest that TAJ may be overstaffed: first, the number of tax administrators per 1,000 national population (international 0.87 vs. Jamaica 1.88 – lower ratio demonstrates greater efficiency of the tax administration), and, second, the ratio of active taxpayers to tax administrators (international 575:1 vs. Jamaica 32:1 – lower ratio demonstrates greater efficiency of the tax administration). Jamaica's ratios are skewed for several reasons, including:

- TAJ is understaffed in technical positions, particularly LTO auditors, Compliance Officers and Client Relationship Managers;

- TAJ may be overstaffed in some staffing categories, e.g. Cashiers and Taxpayer Service staff. However, TAJ, appointed the assistance and collection agency for many licenses and fees for the GOJ, has a large staff in its Collectorates involved with non-tax-administration duties; so comparison to tax administrations that do not have such large non-tax responsibilities distorts TAJ's staffing ratios to population and active taxpayers); nevertheless, the GOJ should not impose non-tax responsibilities on TAJ because such burdens are prejudicial to the efficiency and effectiveness of the agency whose main mission is to produce tax revenue, the main source of funding for the Government, by far;
- With no statute of limitations for collection and no authority to write-off bad debt, 230+ Compliance Officers spend considerable time repeatedly working an inventory of tax arrears cases, of which 84% are older than three years and uncollectible and should be reported as uncollectible and removed from active inventories of tax arrears; and
- With no significant enforcement authority, Compliance Officers spend a great deal of unproductive time trying to persuade taxpayers to pay delinquent taxes.

Without an automated risk-management system to select cases for audit (until recently), manual selection and classification of cases for audit has led to selection of too many unproductive cases.

### **C. Observations on TAJ's Organization Structure**

There are two LTO Sections, one for corporate clients and the other for high-wealth and high-profile individuals. The latter section was established in September 2011. Each of the two structures has a general manager, an administrative assistant, audit staff, and an Exchange of Information Unit.

The Corporate Clients Section manages 877 large corporate groups (parents and subsidiaries), but the Individuals Section manages only a very small group of high-wealth/high-profile individuals. A separate general manager, administrative assistant, and Exchange of Information Unit for the individual section are a costly duplication of functions. Furthermore, the fragmentation of Customer Service/Education and Debt Management Staffs is inconsistent with the international leading practice of centralization of staff (See Section VIII of this report). The current organizational structure for Individuals should be integrated with the structure for Corporations (Annex 6).

## V. TAJ's Operations

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This section describes and assesses the core functional processes and operations of the TAJ.

TAJ has many recent accomplishments including:

- Development of – the Strategic Plan for FY 2012-2014; a three-year National Compliance Strategy; and a Concept of Operations to guide the planning and development of TAJ's future business processes;
- A Management Information System (MIS), just being implemented, which provides, "Performance at a Glance" monthly reports to assess monthly and cumulative organization performance of its various functions during the fiscal year;
- Development and testing of risk-based annual work plans for Audit and Debt Management;
- Enactment of the Revenue Administration Act (RAA) of 2011 to improve its organization structure and performance; and
- Design and implementation of the Customer Care Center at May Pen that provides very good telephone taxpayer service (e.g. FY 2011/12, through Oct 2011, had met 64% customer-satisfaction of 70% target) and collects substantial sums of early-stage tax arrears (e.g. for FY 2011/12, through March 16, 2012, collected JMD 568.5 million on 12,140 accounts).

Another accomplishment during the previous 15 months is the re-engineering of the following core business processes, including:

- Taxpayer Service (including walk-in and telephone service; correspondence control; and taxpayer education);
- Taxpayer Registration and De-Registration;
- Returns Processing, Payments Processing, Revenue Accounting, Tax Accounting, Refunds and Offsets;
- Audit – Risk Assessment, Audit Planning, Audit Case Processing, Objections;
- Collection – Debt Management and Delinquent Filers; and
- Risk Models.

The business-process re-engineering of the core business processes was necessary before an RFP could be prepared for the TAJ to acquire a new Integrated Computerized Tax Administration System (ICTAS). The RFP is near completion.

### A. Taxpayer Registration, Services and Returns Processing

#### Taxpayer Registration

The Taxpayer Registration Number (TRN) was implemented in 1996. The TRN is the basic identification for all taxpayers in Jamaica. It is used by the TAJ as well as Customs for all tax documents and purposes.

Only the Property Tax and Stamp Tax have not fully integrated the use of the TRN on all documents and declarations. The TRN has become like a national identification number for individuals, as the number is required and used as the drivers' license number and other government agencies. The National Health Fund is also changing its existing identification system to use the TRN. Utility companies, phone companies and many commercial organizations ask for the TRN as a part of normal identification. Many schools also require students to have a TRN for school registration. The TRN system facilitates the automated registration and assignment of a single unique number to each taxable entity, i.e. individuals, partnerships, companies and other business organizations.

Among the many benefits this computerized system offers are<sup>11</sup>:

- Identification of each taxpaying entity by the use of a unique number;
- Easy access to a reliable database; and
- Easy identification of the nature or type of business, geographical location and ownership.

In 2007, FSL developed and implemented a TRN Validation Web Service facility, which allows entities subscribing to the service to automatically validate TRNs over the Internet.

### **Taxpayer Services**

Taxpayer services by telephone are provided by the Customer Care Center at May Penn. Walk-in taxpayer services for taxpayers and tax practitioners are provided at 29 Collectrates throughout Jamaica. Information and assistance are provided taxpayers for the main taxes administered by TAJ:

- General Consumption Tax (GCT) – value added tax;
- Income Tax – on sole traders and corporations;
- PAYE – on employed individuals
- Education Tax (Ed Tax);
- Payroll Taxes –NIS , HEART, NHT;
- Excise;
- Special Consumption Tax (SCT); and
- Withholding Tax (WHT).

TAJ, unlike most tax administrations, as directed by the GOJ, also provides information, assistance and collection services for non-tax revenues. Unfortunately, these activities detract from the core functions and performance of a modern tax administration and should be re-assigned to another agency, as was recommended by the IMF in its 2010 mission report, and by advisors of other international institutions, but no change has yet been effected. The processes over which TAJ has no legal authority but provides information and assistance include:

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<sup>11</sup> Lattibeaudiere, Mrs Viralee, CG, "TAJ – Main Operational Issues: Responses to IDB Request", Feb 2011, p.19

- Drivers' licenses and motor vehicle documentation;
- Payment of traffic tickets;
- Property taxes;
- Titles for motor vehicles;
- Trade licenses; and
- Stamp Duty and Transfer Taxes

Much of the work is manual, and queues and waiting time are usually long, especially on days close to deadlines for filing and paying the various taxes and fees. Tax returns can be filed at any of the TAJ's 29 Collectorates, and this method accounts for most of the tax returns filed in Jamaica. However, despite filing at 29 Collectorates, returns are batched and sent to only four (4) Regional Service Centers – Constant Spring, Oxford Road, Mandeville and Montego Bay.

TAJ introduced some e-Filing/paying facility for certain tax returns. The Jamaica Tax Online Portal ([jamaicatax-online.gov.jm](http://jamaicatax-online.gov.jm)) was developed and implemented in December 2004 and revamped in 2008. The system allows taxpayers to effect payment for a select group of taxes and fees over the internet using KeyCard, Visa and MasterCard credit cards.

The e-Filing facility allows for online preparation and submission of GCT/SCT returns and payroll taxes namely, PAYE and EDTAX annual returns and PAYE monthly obligations along with the preparation and submission of Return of Income and Tax Payable (Self Employed), Return of Income and Tax Payable (Organization), and Declaration of Estimated Income and Tax Payable. The e-Filing facility also allows for the submission of accompanying schedules, certificates and financial statements. In addition the system also allows taxpayers to file tax returns and effect payments in relation to payroll statutory deductions and contributions, that is, PAYE, NIS, Education Tax, and HEART/NTA. Currently, the portal allows for the eight major tax types to be filed and paid using a credit card.<sup>12</sup>

## **B. Tax Payments and Cashiers at Collectorates**

The Integrated New Cash Remittance System (INCRS) is and has been the Cashiering system in all of TAJ's Collectorates. At the time INCRS was implemented several years ago, the TAJ noted its major benefits<sup>13</sup>:

- Providing a reconcilable system for the receipt of taxes and fees;
- Faster processing of revenue transactions;
- Providing an interface to all backed systems such as Property tax, ICTAS, AMVS, etc.;
- Uniquely identifying each transaction by integrating with the Taxpayer Registration Number (TRN), Property Valuation Number, Motor Vehicle Identification Number, or Traffic Ticket Number – where applicable; and

<sup>12</sup> Ibid, p. 20

<sup>13</sup> Ibid, p.18



- Uniquely identifying each user and providing an audit trail for each user’s activities on the system.

Nevertheless, the cashiering system, with much manual posting to taxpayers’ current-account ledgers, is inefficient and prone to errors. The IMF, in its April 2010 report, estimated that 30-35% of TAJ’s staff time in all functional areas was spent in correcting taxpayer accounts and that the business community was very unhappy with the state of affairs.<sup>14</sup>

To aggravate the situation, not only does TAJ staff provide information and assistance on non-tax activities, but TAJ’s Cashiers collect almost all non-tax revenue for the GOJ as well, including many licenses and fees. Therefore TAJ spends a lot of its time and resources engaged in non-tax administration activities.

Furthermore, cashier functions are an outmoded method of doing business for modern tax administrations all over the world. Instead, cashier functions have been outsourced under contracts to banks to receive and process tax payments and send key taxpayer-entity and payment information to the tax administration and/or the Treasury or the Central Bank. Not surprisingly, the IMF strongly recommended that TAJ’s cashier functions be outsourced.<sup>15</sup> Thus far, this recommendation has not been implemented.

An RFP has recently been issued for a new Integrated Computerized Tax Administration System (ICTAS). Once designed and implemented, there will be major changes to the current cash-remittance system, perhaps even outsourcing, we were advised at MOF.

### **C. Taxpayer Current Account**

International leading practices consider the Taxpayer Current Account (sometimes referred to as the taxpayer ledger) as one of the main 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. Tax filing and financial activity must be entered and tracked in a timely manner so that the tax administration can identify the status of any given taxpayer and determine whether any compliance action or other response is required.

The TAJ’s current account system has been unreliable for several years. One of OTA’s consultants noted in September 2010 that inaccurate taxpayer ledgers were causing excessive staff costs on Compliance Officers.<sup>16</sup> Therefore, Compliance Officers had to perfect each ledger manually before they could initiate any taxpayer contact, which is an inefficient use of compliance staff. The Large Taxpayer Office

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<sup>14</sup> Zake, Justin et al, IMF Fiscal Affairs Dept.- “Jamaica- Next Steps in Tax and Customs Administration Reform and Modernization”, April 2010, p. 34.

<sup>15</sup> Ibid

<sup>16</sup> Gaugler, Dave, U.S. Treasury’s Office of Technical Assistance, “Cleansing TP Account Ledger” Sep 2010.

also had to request their Customer Relations Managers (CRMs) to assist auditors in perfecting taxpayer ledgers, among other duties, prior to normal compliance activities. ICTAS also has some shortcomings in its design which adversely affect taxpayer ledgers. For example, ICTAS does not identify and automatically move available credits to debit balance accounts across tax types; nor can ICTAS provide an immediate, accurate payoff calculation for communication to the taxpayer.

With the help of OTA and USAID PRIDE Jamaica consultants, a data cleansing project was initiated and a project manager was appointed by TAJ in September 2010. Progress has been slow because of multiple tax-reform and normal-duty commitments for TAJ's project manager. However, in preparation for the new ICTAS which will be acquired in the near future, the business processes for tax accounting and revenue accounting were re-engineered recently, and the ledger-cleansing must be completed before the new ICTAS can be implemented

#### **D. Audit and Fraud Investigations**

In its mission report of April 2010<sup>17</sup>, the IMF stated that the JTA's (now TAJ's) audit operation is sound. At the time, the Taxpayer Audit and Assessment Department (TAAD) had 823 employees at six locations on the Island, and the department's responsibilities included fraud investigations of taxpayers.

The IMF noted that audit operations were carried out based on an annual audit work plan (cases selected at random and classified for audit manually). The Performance at a Glance Report for March 2011 (FY 2010/2011) shows, the TAJ's Audit function conducted 6,341 audits, with a total yield of JMD 5.5 billion. Compared to the previous fiscal year, when 7,734 audits had been conducted, with a total yield of JMD 7 billion, there was a reduction from the previous year of 18% in the number of audits and a reduction of 22% in the audit yield. For fiscal year 2011/12, through January of 2012, there had been 5,224 audits, with a yield of JMD 4.5 billion.

Three main problems were identified that were consistently encountered by auditors, which involve the preliminary, planning processes to conduct the audit. First, the data available to them is inadequate, especially the 3rd-party data (current law limits availability of such data). Second, the accuracy of data available to them is questionable. Finally, tools, equipment and other resources are not available to auditors.

High numbers of Best Judgment Audits/Assessments (BJA) are included in the numbers of audits cited for both fiscal years. These are audits conducted on behalf of taxpayers, i.e. taxpayers did not file and declare the tax liability stated on the assessments. In many cases, BJAs involve stop-filers – taxpayers who were registered and had filed earlier-period returns, but skipped periods or stopped filing altogether. If the taxpayer did not respond to correspondence and/or telephone calls to file the delinquent return(s), then a presumptive assessment is generated, and the amount of tax is based on

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<sup>17</sup> Zake, Justin et al, IMF Fiscal Affairs Dept. "Jamaica – Next Steps in Tax & Customs Administration Reform and Modernization", April 2010, p.37.

best judgment. In other cases, BJAs are the result of unregistered/non-filer taxpayers who refuse or neglect to file required tax returns, and there are few or no records to determine taxable income. In such cases, the auditors use indirect methods and their best judgment to determine and assess the amount of the tax liability. BJAs are very unproductive. One of USAID PRIDE Jamaica consultants cited a TAJ study which established that only about 8% of such assessments are collected<sup>18</sup>. Nevertheless, the tax arrears inventory contains a very high number of uncollectible cases and values based on BJAs. The proposed Tax Procedures Act, described later in this report, would substantially improve the methods under which BJAs are carried out.

With regard to fraud investigations, the IMF's report of April 2010 states that 25 fraud investigations were conducted and 10 cases were referred for prosecution to the courts. The Revenue Protection Division (RPD), under MOF, also conducts certain types of fraud investigations (particularly those involving both tax and customs fraud). During a visit with the Commissioner and Principal Director of the Revenue Protection Division, she observed that fraud cases referred for prosecution stay in the courts for years and that no one has ever been incarcerated in Jamaica for tax or customs fraud.

### **Large Taxpayer Office (LTO) Audit Operations**

The LTO was established in April 2009 with jurisdiction of about 600 taxpayers (including subsidiaries), whose criteria for inclusion was JMD 500 million annual turnover, or domestic tax payment of JMD 50 million or more. During its first year of operations, with a target of JMD 500 million, the LTO's audits yielded JMD 481 million. The following fiscal year, through January, audits had yielded JMD 1.11 billion, more than twice the previous year's results.

The LTO operates out of Kingston and Montego Bay. The three main organization units, client relations, audit and collections/debt management/, work together closely and have classified their clients by industry to better target service and to manage risk. Industries represented are numerous and include financial services, manufacturing, telecommunications, construction, importers/exporters, hotels, petroleum, insurance, real estate and many others.

The Client Relationship Managers are responsible for ongoing contacts and providing support services to assigned taxpayers and to the audit and debt management units, when problems arise. We were advised that, because of understaffing, each Client Relationship Manager has 90 taxpayers assigned to him or her currently. The Audit Units use a team approach and there is an emphasis on audit planning because of the complexity of the taxpayers' operations. However, third-party information for audit planning is very limited. Some industry specialization training has been conducted recently, e.g. banking and hotel industry, but more is needed. The collection/debt management/accounts units handle filing, payment and enforced collection. Unfortunately, most of their business processes are manual and time-

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<sup>18</sup> Callahan, Patricia, USAID PRIDE Jamaica, Trip Report, "To Design a Risk Management System to Identify and Prioritize Tax Debt Arrears for Collection", Feb 10, 2012, p.18.

consuming, particularly because of the many errors on taxpayers' current accounts. Furthermore, enforcement authority, under the Tax Collection Act, is limited.

As of October 2011, the IMF reported<sup>19</sup> that the LTO administered 877 large corporate groups (parents and subsidiaries/related entities), who accounted for 60% of domestic tax revenue (TAJ's goal is to reduce the number of taxpayers to 200). One of the most serious problems facing the LTO then was and still is severe understaffing, with actual staff of only 59, compared to authorized staffing of 189:

- The Audit function has only 26% of authorized auditors - 34 auditors, but is budgeted to have 132. The LTO's audit rate was only 1%, compared to the international LTO audit rate of 30%;
- There are five Customer Service Officers, where budgeted staff is 23; and
- Debt Management staff is only 36 % of authorized staffing.

Another serious problem of the LTO is that its audit staff lacks the technical skill to cope with the very complex industries of the corporations it audits. The IMF experts met with representatives of various industry sectors in Jamaica, specifically financial, bauxite, chartered accountants, telecommunications and petroleum, who expressed several concerns, including the compliance cost on their businesses, when dealing with inexperienced LTO auditors.

The IMF noted that LTO taxpayers pose a growing risk because they are conducting a growing number of transactions with related entities in Jamaica and abroad. The opportunity to under-report tax liabilities is increasing and there is less risk of detection, because of the severe understaffing and inexperience of the LTO's audit staff.

In its mission report of October 2011, the IMF recommended that:

1. LTO staff be increased by at least 300%;
2. Legislative changes be enacted to provide more third-party information to auditors for audit-planning purposes; and
3. The collection staff be provided modern computer equipment for their daily work.

### **Risk Management System for Audit**

In July 2011 USAID PRIDE Jamaica worked with the Forensic Data Mining Intelligence Unit (FDIU) staff to develop risk management models for the selection of high potential cases for audit. In the past, audit cases were randomly selected, sent to Audit classifiers for review and then assigned to auditors. The manual system is very outmoded. International leading practices have established mathematical formulas with weighted criteria to design and implement computerized systems for selection of cases for audit more likely to have errors and/or under-reporting.

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<sup>19</sup> Zake, Justin et al, IMF Fiscal Affairs Dept, "Enhancing Taxpayer Compliance Management", Oct 2011, p.15

Ultimately, FIDU's staff and USAID PRIDE Jamaica developed various risk-models for TAJ. Risk-based audit-selection models were developed for corporate income tax returns (CIT); general consumption tax (GCT); and personal income tax (PIT). All models were tested and were used to develop the audit work plan for FY 2012/13. These risk-based selection models are evidence of TAJ's progress in managing risk and modernizing its audit functions.

## **E. Debt Management**

Several of TAJ's core business processes were re-engineered during the last 15 months in preparation for the new ICTAS, which included workflow diagrams to map the business processes. A PRIDE Jamaica advisor involved in the re-engineering observed that of all the workflow diagrams, those developed for Debt Management were the weakest for a variety of reasons.<sup>20</sup>

### **Nature of Tax Arrears Inventory**

USAID PRIDE Jamaica accurately assessed the debt management function during two visits, one in late 2011 and the other earlier this year in 2012. Much of the information in this and subsequent sections on tax arrears are drawn from two trip reports<sup>21</sup>. In the earlier report, the advisor confirmed that the book value of TAJ's tax arrears inventory as of December 2011 was approximately JMD 230 billion owed by 70,245 arrears taxpayers, each owing between 1 and 244 modules (tax periods). This is the latest figure reported to MOF as the total tax arrears debt. Despite the fact that many are not collectible, all 70,245 arrears taxpayers are considered to be in the active inventory of Debt Management. All of these cases are printed on lists that are then distributed to the 233 Compliance Officers for action. On average, each Compliance Officer has an overwhelming +300 taxpayers assigned. They are expected to contact the taxpayer, explain the debt and charges, and then collect some amount. Until the total amount due is paid, the cases remain on lists with the expectation that repeated additional contacts will be made. Usually, the lists are rotated every six months, in hopes that a new Compliance Officer will be able to increase the amount collected from the same taxpayer.

It is estimated that 84% of the total arrears debt are more than three years old, which would be considered uncollectible by private debt-collection agencies. TAJ had already correctly identified these cases as extreme overage, but there is no legal statute of limitation for collection of a tax debt in Jamaica; so they remain in active status.

Another problem identified by the USAID PRIDE Jamaica advisor is that the TAJ's arrears database includes an extraordinary amount of interest, penalty and surcharges (IPS), both on modules with some amount of principal and those where IPS is the only remaining balance due. She also noted that the penalty and interest rates on Gross Consumption Tax (GCT) are unusually high, both in law and in TAJ

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<sup>20</sup> Goldberg, Paul, USAID PRIDE Jamaica, Trip Report, March 14, 2011, p.9.

<sup>21</sup> Callahan, Patricia, USAID PRIDE Jamaica, Trip Reports, Oct 2 – Nov 5, 2011 and Jan 8 – Feb 10, 2012, "To Design a Risk Management System to Identify and Prioritize Tax Debt Arrears for Collection".

interpretation. Of the JMD \$230 billion arrears total balance due, more than half, JMD \$176.6 billion (77%) is IPS and only JMD \$53.708 (23%) is principal. Because IPS on GCT is so high, many taxpayers seek waivers from MOF. Some taxpayers simply refuse to pay.

In addition, arrears accounts include an extraordinary number and value of best judgment audits/assessments (BJA), as described earlier in this report. Arrears accounts include an extraordinary number of modules and high value of Government Agency debt. These types of arrears are historically difficult or impossible for Debt Management personnel to collect. Furthermore, the balance on many of these accounts is only for IPS – no tax principal outstanding.

Only 1.7% of the total arrears debt, 3.8 billion JMD, is less than six months old. The USAID PRIDE Jamaica advisor observed that private debt collection agencies, banks and credit-card companies consider the most collectible debt to be that which is no more than six months old, and that they apply staffing almost exclusively to these accounts. Unfortunately, MOF establishes its annual tax-arrears collection targets for TAJ on the total tax arrears outstanding of 230 billion JMD, most of which is uncollectible.

### **Proposed Debt Write-Off Policy**

Because such a high percentage of the tax arrears stock is uncollectible, TAJ officials have been struggling to produce a procedural document for review by MOF that would address an IMF recommendation to prepare a debt write-off policy. The main difficulty has been that TAJ officials believe that the debt write-off policy they are expected to develop would result in the balance due on debt arrears cases being reduced to zero on ICTAS (TAJ's IT system). Actually, the main event which would officially reduce a tax debt to zero is triggered by the expiration date included in a statute of limitations for the collection of the arrears.<sup>22</sup> As stated earlier, there is no statute of limitations for collecting tax debt in current Jamaican law.

Modern tax administrations all encounter uncollectible tax arrears that distort collection potential. Legislation has been passed in many countries to provide delegations of authority to officials at various levels of their respective tax administration to make determinations and set aside temporarily tax arrears accounts which have been thoroughly investigated and have been determined to be not collectible in the short-term or ever in some cases, in which case, they are written off eventually. The value of accounts set aside are not included in monthly reporting of collectible or active tax arrears to higher levels of government at all or are reported in a separate category other than collectible to give an accurate picture of what can be realistically collected in revenue targets.

The USAID PRIDE Jamaica advisor reviewed and re-wrote the old debt write-off document first prepared by the administration several years ago to propose a currently not collectible (CNC) policy, which if approved, would set aside from active inventories all uncollectible tax arrears cases.

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<sup>22</sup> Ibid, Feb 2012 Report, pp. 5-6

## **Risk Management System for Tax Arrears**

Based on primary factors of risk, revenue, compliance and collectability to prioritize the tax arrears inventory and the weighted system developed by the USAID PRIDE Jamaica advisor and FDIU's officials, the 70,245 taxpayer entities have been scored and categorized/graded as HIGH (emphasis on field work), MEDIUM (emphasis on telephone and in-office work) or LOW priority. They emphasized that the LOW priority cases must be removed from the active inventory assigned to Debt Management personnel for action to have the impact intended. A three-month test in the Kingston RSC to determine the validity of the scoring system and make any changes necessary will be completed in April 2012. Development of the risk-management system for tax arrears is a great advancement to manage tax arrears in a much more efficient and effective manner.

## **Limited Tax Arrears Enforcement Authority**

In March 2011, a USAID PRIDE Jamaica advisor observed that the Government has no legal authority to enforce collection when taxpayers fail to pay tax debt<sup>23</sup>. The Government has no ability to file a tax lien to attach to the debtor taxpayer's property or rights to property. More recently, USAID PRIDE Jamaica noted that under current Jamaican law, there are no enforcement actions which TAJ can apply on its many delinquent taxpayers. Therefore, even with the risk-management system to help focus on collectible cases, enforcement is limited by law. The advisor observed that available Court procedures involve a long, tedious and time-consuming process for both TAJ and the Courts. Courts are already over-burdened. Relationships between TAJ and the Courts are sometimes strained.

Nevertheless, TAJ has been trying to change the attitude of Compliance Officers on enforcement, when it established Special Enforcement Teams (SET) to handle the most difficult enforcement cases of tax arrears (there are also High Intensity Teams, HIT, to handle less complicated cases).

## **F. Forensic Data Mining Intelligence Unit (FDIU)**

The FDIU was established as a risk-management unit in April 2009 to research non-compliance; to determine and continually monitor Jamaica's compliance gap; and to manage the TAJ's national compliance strategy, including execution of national compliance plans. The unit is under the Senior General Manager, Programmes, who reports to the Deputy CG, Operations. In its role as a risk-management unit, FDIU staff was heavily involved and substantially helped USAID PRIDE Jamaica develop the risk-management systems for Audit and for Debt Management last year. FDIU's staff has also been involved in several other risk-management initiatives.

The IMF has recommended that FDIU's staff specialize by sector-specific compliance teams, e.g. financial sector, telecommunications and energy, high-wealth individuals, etc. to conduct in-depth compliance management projects for development and later referral for field management. Also, performance

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<sup>23</sup> Goldberg, Paul, USAID PRIDE Jamaica, Trip Report March 14, 2011, p.10.

indicators for the FDIU need to be developed, together with annual work plans. Furthermore, continual exchange of information between field compliance functions and the FDIU should help to improve the TAJ's risk-management functions.

TAJ has developed a National Compliance Plan for 2012 – 2015, which is still in draft form. In the Plan, the potential tax gap for taxes on income and profits and taxes on consumption has been estimated at JMD 41.1b. The voluntary compliance rates for the two categories of taxes have been estimated to be 86.6% and 94.8%, respectively.

## G. Objections and Appeals

Taxpayers' objections to proposed tax assessments are handled by Audit Objections staff, under Assistant General Managers at each RSC. The table below shows the volume of Objections cases for FY 2009/2010 and through January of the following fiscal year.

**Table 5. Number of Objection Cases per Year**

	2009/2010	2010/2011 (YTD - Jan)
Audit Objections	493	278
BJA Objections	1,401	1,701
<b>TOTAL</b>	<b>1,894</b>	<b>1,979</b>

Objections by taxpayers to proposed Best Judgment Audits/Assessments (BJA), described as problematic under the Audit and Debt Management Sections, make up the bulk of the Objections inventory of cases each year and overwhelm the small Objections Staff. Other problems include frequent delays in receiving files from the Audit function and even inability to locate the Audit files. Consequently, objections cases are not timely worked. However, the business processes for objections have recently been reengineered and improved operations are likely in the near future.

The Appeals function, under the Revenue Administration (Amendment) Act of 2011, was given independent status from the tax administration (now under the Financial Secretary, MOF) to give taxpayers more confidence that the agency is truly independent. During the Deloitte Team's visit with the Commissioner of Appeals, it was explained that the Appeals function is understaffed, with a current staff of 15 to proposed staff of 30, of which six are support staff. As of February 2012, Appeals had 352 cases (including Customs cases) in their inventory, with an average age of 16 months. The value of the inventory was 3.7 billion JMD.

Completed cases average 22 per quarter. Therefore, the Appeals function does not meet its own operating manual requirement that a decision be issued on every appeal received within six months of receipt. During the last four to five years, the average time for resolution of cases has been about nine



months. Other problems include inadequate IT resources, particularly inability to replace an old server which caused slow response times and frequent failures to access various computerized systems. The appeals function does not have a case-management system, which is a deterrent to its operations. Some of these issues – the business processes and outdated server – are being discussed and there is optimism that their proposed staffing will be approved.

## H. Revenue Protection Division (RPD)

The RPD is a division under MOF, whose mandated duties include:

- Fraud investigations, particularly on cases where both tax and customs fraud are suspected;
- Investigations of TAJ and customs officials in cases where bribery/corruption may be involved; and
- Conducting pre-employment background checks on prospective employees

During a visit with the commissioner and principal director and her top staff, it was revealed that the division is understaffed. The division has only six fraud investigators with about 200 open fraud cases. For potential bribery/corruption cases and pre-employment background investigations, the division has only four investigators. The commissioner stated that they have been trying to fill four vacancies over a long period of time but cannot find eligible candidates.

One of the many consequences of their understaffing is that the RPD has not been able to conduct pre-employment background checks for several years. Nor do they have the staff to follow-up on integrity-related investigations. In addition, although TAJ has a Code of Conduct and requires that all staff become familiar with the Code, staff is not aware of the Code of Conduct and it may be out of stock. The Team was advised that TAJ managers themselves often times handle alleged bribery/corruption allegations of their employees which come to their attention, instead of referring such cases to the RPD.

Another serious RPD problem is their complete lack of computerization resources and systems. Open cases are dealt with manually. The RPD has not been consulted or included in the work underway to acquire a new ICTAS for TAJ.

In its mission report of October 2011, the IMF recommended that the RPD be provided with a full budget and a case management system.

## I. Tax Procedures Act

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. A tax procedures act would include the rights and obligations of taxpayers; provisions for filing and paying; the powers of the tax administration to audit, investigate, enforce and access 3rd-party data; provisions for dispute resolution; provisions for delegations of authority; etc. In short, a Tax Procedures Act

provide a country's taxpayers and tax practitioners with a comprehensive guide to taxpayer rights and responsibilities, tax administration powers, as well as constraints on those powers. Jamaica does not have similar legislation.

Numerous obstacles to efficient and effective tax administration have been cited for TAJ's operations functions, including the lack of real enforcement authority for tax arrears cases, the lack of third-party information for audit planning and risk management, and no expressed delegations of authority to field officials. Most of these obstacles can be removed or minimized with the enactment of a comprehensive tax procedures act.

In 2011 a USAID PRIDE Jamaica advisor, working with the TAJ's Deputy Commissioner General of the Legal Support division developed and proposed a comprehensive draft Tax Procedures Act for Jamaica.<sup>24</sup> They secured input from customs and the RPD. Partially because of the change in government, the Draft Tax Procedures Act has not moved beyond TAJ. Nevertheless, enactment of the Tax Procedures Act is critical to improve many aspects of TAJ's operations, including giving the TAJ much greater authority for its enforcement operations as well as to clearly establish the rights of taxpayers. As top priority, the proposed Act needs to be reviewed and finalized in accordance with Jamaica's legislative framework.

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<sup>24</sup> Hook, Joe D., USAID PRIDE Jamaica, Jamaica – “Draft Tax Procedures Act”, June 2011.

# VI. Support Functions

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## A. Information Technology

The Integrated Computerized Tax Administration System (ICTAS) is Commercial- Off-the-Shelf (COTS) tax system first implemented, with some customization, in 1999. The system provides for:

1. Registration, cashiering, taxpayer accounting, revenue accounting and compliance activities supporting revenue collection, returns filing and compliance activities;
2. Classification and audit to support the audit and assessment activities; and
3. Decentralized data capture facilities (DDCF) for the data entry of returns in support of the audit and assessment activities

ICTAS is accessible from all 29 Collectorates. Regional offices perform returns entry, classification and audit functions and receive tax returns from the Collectorates aligned to their region. Most tax-types have been automated and integrated through ICTAS and the supporting subsystems namely INCRS – Cashiering, De-centralized Data Capture Facility (DDCF) and the Taxpayer Registration Number (TRN) Systems. This level of technology has given a certain level of productivity and effectiveness to Tax Administration. However, the system’s impact has been limited by deficiencies, such as the lack of integration between tax types, and there is a need for replacement.<sup>25</sup>

TAJ’s main business processes have been reengineered and an RFP to acquire a new system (funded by the IDB) is in the final stages of preparation. The modernization plan involves procuring COTS software; upgrading the technical infrastructure and acquiring software to support the management service function. The business architecture of the new Integrated Tax Administration System will have the following functionalities:

- Registration – taxpayer and tax type both explicit and de facto;
- Collection – cashiering, electronic payment;
- Taxpayer Accounting;
- Revenue Accounting – inclusive of refunds processing and payment;
- Returns Processing – data entry, electronic filing, scanning, etc.;
- Compliance – inclusive of debt management, enforcement and recovery, automatic escalation;
- Audit Management – inclusive of case management;
- Taxpayer Assistance – self-service, client relationship support, education;
- Management Information and Performance Reporting;
- Objections and Appeals Management;
- Risk Management – taxpayer profiling; and

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<sup>25</sup> Lattibeaudiere, Mrs. Viralee, CG, “TAJ – Main Operational Issues: Response to IDB Request” Feb 2011, p. 16

- Research – tax economic modeling.

Computer support services are provided to the TAJ by Fiscal Service, Ltd. (FSL), an enterprise that was created in 1985 to be the sole provider of computer support services for all automation efforts of MOF. Its mandate has evolved over the years to provide computer support services to all of Jamaica's government institutions. The types of services it provides to the TAJ include:

- Definition, implementation and enforcement of open systems and portability standards;
- Definition of quality assurance standards and procedures;
- Performance of quality assurance testing and certification of all software applications;
- Vendor contract negotiation for both purchases and maintenance service;
- Providing training to TAJ technical staff – both by FSL staff and by contracting with outside companies;
- Recruitment and assignment of technical staff for user departments in MOF;
- Operation of MOF's computer center, which should be used to establish the management information center of the entire Ministry where consolidation of financial data is performed;
- Assistance in application implementation by assignment of FSL systems analysts and programmers; and
- Hardware and software back-up.

## B. Human Resources

TAJ has an authorized staff of approximately 2,500. The Public Service Regulations and the Staff Orders for the Public Service provide guidelines for the recruitment, training, promotion, compensation and retirement of staff. Benefits and compensation are determined by the Public Service Establishment Division (PSED) of MOFPS. The qualifications for retirement are set out in the Pension Act. The functions of recruitment, training and promotion have been delegated to the TAJ. The matter of determining compensation still resides within MOFPS and the Office of the Services Commission handles retirement<sup>26</sup>.

Employment within the Public Service is confined to positions that are so established. Recruitment for available posts is done on a competitive basis. Advertisements for such positions are worded as to ensure that required competencies (knowledge, skills, attitude/aptitude and experience) are clearly identified, related and relevant to the job. Advertisements are placed internally throughout TAJ and/or, through the Office of the Services Commissions, throughout the wider public service. If the required skills are not available in the public service, the vacant positions are advertised in the newspapers and via the Labour Management Information System (LMIS), Ministry of Labour, to the wider public.

The following is a brief explanation of some of the main HR functions:

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<sup>26</sup> Ibid, pp 35-36

- Training - All new employees are taken through an induction exercise by the respective department during their first week of employment. Classroom and other training depend on the needs of the organization and each individual. The goal is that every employee in TAJ should receive a minimum of five days training per annum. TAJ, in partnership with the Management Institute for National Development (MIND), provides a 13-month post-graduate training for its tax and revenue administrators;
- Promotion - As a general rule, the selection process for promotion opportunities is through competition;
- Compensation - Benefits and compensation are determined by the Public Service Establishment Division of MOF; and
- Retirement - The grounds for retirement are set out in the Pensions Act. Mandatory age for retirement is 60.

One of the main problems facing the HR operations is the absence of an integrated HR system for tax administration. Currently, work is manual, which causes delays in dealing with staff matters.

When TAJ attains semi-autonomous status, TAJ will have opportunities to establish its own policies, procedures and training for its Human Resources.

### **C. Financial Resources**

Most of the accounting and payroll functions are done by the MOF. As TAJ moves towards a semi-autonomous status, the need for an integrated system to support these functions is critical. Therefore, the solution must provide functionality in the following areas:

- Planning and Budgeting;
- Finance and Accounting;
- Human Resource Management;
- Performance Management; and
- Inventory and Facility Management.

The OTA provided technical assistance to TAJ late in 2010 and early 2011 in the areas listed above, in anticipation of TAJ's transition to status as a Semi-Autonomous Revenue Authority.

### **D. Legal Support**

Annex E shows the organizational structure under the Deputy CG, Legal Support. Legal Support has three sections: (i) Litigation and Enforcement, (ii) Objections Research and Advice and (iii) Legislation and Tax Treaties. During a visit with the Deputy CG, it was explained that Legal Support is authorized to staff 16 attorneys, but only has 10 at this time. The staff provides a variety of legal services, including Compliance Officers, Auditors, FDIU's staff, seizure of property and limited access to third-party information. The discussion with the Deputy CG focused more on the two pending critical pieces of

legislation with high potential for removing or minimizing many current obstacles to audit, collection enforcement and compliance operations (the proposed Debt Write-off Policy and the proposed Tax Procedures Act).

With regard to the Debt-Write-Off Policy, Deputy CG advised that Legal Support is now awaiting the instructions of the new Minister of Finance to begin the development of legislation for the proposal recently revised by the debt-management consultant for USAID PRIDE Jamaica.

The international norm for the Tax Procedures Act is to consolidate all administrative provisions concerning tax administration and tax compliance requirements. Submission and enactment of one single piece of legislation by legislative bodies is the objective.

However, the Deputy CG advised that to build on the foundation of the existing Revenue Administration Act (RAA), an incremental approach had recently been adopted by TAJ and is being re-evaluated by the current Acting CG. By adhering to this approach, TAJ had hoped to avoid the extensive delays involved in the approval by Jamaica's Cabinet, drafting, stakeholder review, Attorney General review and Parliamentary consideration of a single piece of legislation. The first set of amendments prepared for Cabinet approval had been on Information Gathering, Reporting Requirements and Returns. This would be closely followed by amendments in support of Debt Management and Collection. The last series of amendments, which were to be drafted this financial year, will address offenses, with particular reference to taxpayer fraud and employee misconduct. However, the incremental approach may change after the Acting CG's re-evaluation.

## **E. Management Information Systems (MIS)**

As stated earlier in this report TAJ has an excellent Management Information System (MIS) which is superior to most management-information systems encountered in other countries. Most of the statistical information about operations requested by the Deloitte Team was made available within minutes.

In June 2011, a USAID PRIDE advisor worked closely with TAJ Headquarters and field officials to redesign and implement a new performance management system. The joint tasks with TAJ staff he reported were<sup>27</sup>:

- Securing organizational performance data from a TAJ field offices and headquarters functions;
- Reviewing the performance data secured from TAJ to determine the accuracy, reliability and timeliness of the data;
- Developing a Performance Management System model and examples of report formats specifically related to the operational data needed by TAJ management to evaluate the effectiveness of tax administration operations;

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<sup>27</sup> Cables, Kelly L, USAID PRIDE Jamaica, Trip Report, Jul 7, 2011, p.2.

- Identifying the key program measures and performance indicators to be used by TAJ management for evaluating the effectiveness of TAJ strategies, policies, programs and operational plans;
- Providing international best practice guidance on successful performance management systems; and
- Designing the layout for an electronic score sheet for facilitating ongoing status checks on key program areas.

Among the products of their joint efforts is the *Performance at a Glance Monthly Report* cited earlier and a new Business Review Process System (BPRS) for the Deputy Commissioner General-Operations. TAJ now has many tools to assess organization performance.

## VII. TAJ's Organization and Operations Benchmarks

From our own review of TAJ's organization and operations and from information gleaned from donors' technical reports, key indicators of performance for Jamaica were determined and compared to international benchmarks. The attributes and statistical benchmarks of modern tax administrations used to compare Jamaica 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*.<sup>28</sup> The data shown in the second column of Table 6 below replicate the International Benchmark data presented in Gallagher (2001). Jamaica's status, in comparison to each of the international benchmarks, is shown in the third column. Specific, explanatory comments on Jamaica's variance indicators are provided in the 4<sup>th</sup> column.

A second table then shows only variance indicators, i.e. TAJ's indicators which are inconsistent with international benchmarks. Finally, general explanations for each indicator and benchmark are presented below the two tables.

### A. Primary Benchmarks

**Table 6. Primary Benchmarks**

<i>Indicator</i>	<i>International Benchmark</i>	<i>Jamaica</i>	<i>Comments on Variances</i>
<b>General</b>			
1. Number of tax administrators per 1000 national population	0.87	1.88	Jamaica is overstaffed in some occupations but understaffed in others. See discussion Section IV
2. Ratio of active taxpayers to tax administrators	575:1	32:1	Same as above
<b>Audit</b>			
1. Use of performance indicators for audits and auditors	Yes	Yes	
2. Audited taxpayers as % of total taxpayers, per year	1%	5%	Indicates too many audits, of which many are usually unproductive and a burden on taxpayers.
3. Unified domestic and import audits	Trend	N/A	
4. Ex post customs audits	Trend	N/A	
5. Separation of taxpayers by size or nature	Yes	Yes	
6. Percent of taxpayers in LTO	0.5% to 1%	1%	

<sup>28</sup> See Gallagher, Mark et al (2001), *Aplicación de Mejores Prácticas Internacionales al Desempeño de la Administración Tributaria de Guatemala: Un Estudio de Benchmarking*.



<i>Indicator</i>	<i>International Benchmark</i>	<i>Jamaica</i>	<i>Comments on Variances</i>
7. Percent of revenues from large taxpayers	65%	60 - 65%	
8. LTO staff as % of total tax staff	3%	2%	Importance of LTO taxpayers deserves 3%
<b>Payment and collections</b>			
1. Banking system payments	Yes	Partial	
2. Percent of large taxpayers declaring via Internet	100%	20%	Electronic filed returns are more accurate, less costly to process, audit
3. "Stop-filers" as % of active taxpayers	5%	Unavailable	
4. Late payments as % of total tax receipts	5%	9.5%	The lower the %, the better compliance
5. Administrative cost as % of total receipts	1%	1.6%	The lower the %, the higher efficiency
6. Share of adjustments and fines collected	80%	25%	A high % points to accurate selection of cases for audit and audit staff's efficiency
7. Business days for VAT refunds	25	90	Lower # of days lessen burden on taxpayers
8. Institution that establishes revenue targets	Ministry of Finance	Ministry of Finance	
<b>Automated Systems</b>			
1. Use of automated systems for daily operations	Yes	Yes	
2. Existence and use of automated Management Information Systems (MIS)	Yes	Yes	
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	Yes	
7. Automated audit case selection	Yes	Being tested	Automated system just developed, tested and used for new Audit Plan
8. Tax declaration entry with automatic error correction	Yes	No	Automatic error correction is much more efficient than manual examination
9. Use of exogenous information (filers>vehicles>real estate)	Yes	Limited	Jamaica law limits access to much financial data
10. Use of third-party databases	Yes	Limited	Limited data is huge obstacle to effective audits, enforcement
11. Data crossing among taxes	Yes	No	Data-crossing is manual

<i>Indicator</i>	<i>International Benchmark</i>	<i>Jamaica</i>	<i>Comments on Variances</i>
12. Late or stop filers system	Yes	Yes	
<b>Planning and coordination</b>			
1. Appropriate use of planning, monitoring, and evaluation systems for tax organization	Yes	Excellent	
2. Coordination of data flows among tax administration, Ministry, and other agencies	Yes	Yes	
<b>Human Resources</b>			
1. % of employees with university or college degrees	70%	Unavailable	
2. Ratio of senior auditor to entry-level auditor salaries	2:1		*
3. Ratio of average tax administrator's salary to GDP per capita	2:1		*
4. Existence of administrative career plan	Yes	No	Career plans are vital for development of human resources
5. Existence of formal retirement plan	Yes	Yes	
<b>Sanctions and penalties</b>			
1. Tax code	Trend	No	Separate laws
2. Tax fraud felony	Trend	No	Weak legal authority
3. Application of tax fraud felony sanctions	Little	No	Weak legal authority
4. Appeals tribunal	Yes	Yes	
<b>Organization, Institutional Credibility and Public Confidence</b>			
1. Stability of top-level leadership	Fixed appointment	Yes	
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, External (RPD)	
5. Diverse and high-quality taxpayer services	Yes	Yes	
6. Internal regulation	Yes	Yes	

\* These two ratios are not meaningful at this time. Salaries for top 4 TAJ officials have just been changed, and several other changes at various levels are to be made very soon.

## B. Variance Indicators

Table 7. Variance Indicators

<i>Indicator (Explanations of each* - below the table)</i>	<i>International Benchmark</i>	<i>Jamaica</i>
<b>General</b>		
1. Number of tax administrators per 1000 national population	0.87	1.88
2. Ratio of active taxpayers to tax administrators	575:1	32:1
<b>Audit</b>		
1. Audited taxpayers as % of total taxpayers, per year	1%	5%
2. LTO staff as % of total tax staff	3%	2%
<b>Payment &amp; Collection</b>		
1. Banking system payment	Yes	Partial
2. Percent of large taxpayers declaring via internet	100%	20%
3. Late payment as % of total tax receipts	5%	9.5%
4. Administrative cost as % of total receipts	1%	1.6%
5. Share of adjustments and fines collected	80%	25%
6. Business days for VAT refunds	25	90
<b>Automated Systems</b>		
1. Reliable taxpayer account	Yes	No
2. Tax declaration entry with automatic error correction	Yes	No
3 Use of exogenous information	Yes	Limited
4. Use of 3 <sup>rd</sup> -party data bases	Yes	Very Limited
5. Data crossing among taxes	Yes	No
<b>Human Resources</b>		
1. Existence of administrative career plan	Yes	No
<b>Sanctions and Penalties</b>		
1. Tax Code	Yes	No
2 Tax fraud penalty	Yes	No

TAJ, with technical assistance by various international donors/partners, is addressing most of the indicators listed in the Benchmarking Table, which are inconsistent with international benchmarks, as reported earlier. For example, the proposed Tax Procedures Act will greatly increase access to 3rd-party data and improve fraud sanctions, the recently developed risk-management system for Audit will greatly improve selection of more productive cases for audit, the new ICTAS will facilitate data-crossing among taxes in the taxpayer current account, the recent re-engineering of main business processes will lead to greater efficiencies in operations, and the current re-structuring of the TAJ's organization will make major improvements in various aspects of operations and HR policies and compensation. In some cases, such as the outsourcing of cashier operations to banks, specific recommendations have been made but have not been implemented by TAJ.

## **C. Explanation of Benchmark Indicators**

### General

1. Number of tax administrators per 1000 national population. A lower the ratio usually indicates higher efficiency and effectiveness of the tax administration.
2. Ratio of active taxpayers to tax administrators. Same as above.

### Audit

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.

### Payments and enforced collections

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 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 not 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 not 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 two to one, 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 two to one; 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



## VIII. International Best Practices – Organization and Operations

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There are several features that distinguish successful tax administrations around the world. From many of those features, a set of leading international practices in tax administration has been drawn. In addition to the primary benchmark indicators in Table 6, above, the assessments and recommendations in this report about the TAJ's organization and operations are also based on comparisons of Jamaica's practices to international leading practices. This section describes thirteen of the leading practices of successful tax administrations around the world. A table at the end of this section compares Jamaica's practices to the 13 international leading practices described.

### 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 organizations). A strong delineation of functional roles arises from the logical desire to create sections with principal activities to be performed as efficiently as possible, and allows any changes to the legal framework to be performed with minimal changes to the 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, or segmented, 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.

*TAJ's organization structure conforms very well with the international best practice.*

### B. Core and Support Functions

The basic or core functions of modern tax administration include:

- Taxpayer registration;
- Taxpayer services;

- Receipt and processing of tax declarations;
- Taxpayer audits;
- Taxpayer objections (administrative appeals);
- Taxpayer 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.

*TAJ's core and support functions are completely in line with international best practices.*

### **C. Roles of the Headquarters' Organization and Staff**

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 the various organization components in the Headquarters Office 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 and procedures by which the entire organization is governed.

The overall, normative role that Headquarters staff performs—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.

*The normative and support roles of TAJ's Headquarters' organization units and staff are performed according to international best practices.*

#### **D. Roles of the Field Organization Entities and Staff**

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

*TAJ's operations roles – including contacts with taxpayers - are carried out exclusively by the field organization units and their staffs – in accordance with international best practices.*

#### **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 a large annual turnover value 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.

Additional 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 and those classified as small taxpayers.

Small taxpayers, meanwhile, are by far the largest taxpayer segment in most countries, and 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 tax administrations 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, for example, rather than be subject to more complex income tax and VAT reporting requirements

*With the addition of the LTO in 2009 and a recent start to identification and control of medium taxpayers, TAJ is consistent with international best practices.*

## **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. One disadvantage of organization by taxpayer segments in countries with less than 2,000 tax administration employees is the inability to fully enjoy the benefits of staff specialization

*TAJ's management, technical and administrative staffs perform their respective roles in accordance with best international practices.*

## **G. Centralized Staffing**

Another important practice in successful functional organizations is to centralize 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 is 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.

*Generally, TAJ uses the international best practice of centralized staffing, but we noted one exception in the LTO – duplication of staffs for the corporate and the individual/VIP units.*

## H. Delegations of Authority

In the most successful tax administrations, tax officials in Headquarters Offices and Field Operations Offices are given sufficient authority and resources from the finance ministry and higher levels of government to make and carry out technical and administrative decisions. The Commissioner General and his/her Deputies run their respective offices 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 Commissioner General of Taxes to perform all duties necessary to execute the country's tax laws. The Commissioner General is then authorized to delegate authority to his/her Deputy Commissioners in Headquarters and senior managers in the field. In turn, Deputy Commissioners in Headquarters and senior managers in the field make similar written delegations of authority to their respective Division managers and assistant senior managers, 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, documented 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 confidence and independence. Each level of management can then monitor the proper exercise of authority through monitoring reports, on-site reviews, and internal audits.

*There are no written, expressed delegations of authority to various levels of TAJ's officials.*

## I. Internal Audit and Internal Control Functions

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 conducts independent and professional internal audits on behalf of the Commissioner General to detect and deter inefficiency and waste and identify better ways to carry out tax administration operations.

The internal audit function can be 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 and misconduct by tax officials. Internal control staffs 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.

*TAJ has its own Internal Audit function, and Internal Control responsibilities of the TAJ are assigned to the RPD, which meets the standard.*

## **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.

*TAJ does not meet this international best practice. Non-compliance rates in Jamaica are unacceptable*

## **K. Critical Role of Taxpayers Current Accounts**

The Taxpayer Current Account (sometimes referred to as the taxpayer ledger) 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 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 provide 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 registration number (TRN). The TRN 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 TRN as the main identifier. The particular current account for that taxpayer lists the types of tax declarations for which the taxpayer is liable (VAT, 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, then 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.

*Even though there is a cleansing, exercise ongoing, TAJ does not yet meet this international best practice.*

## **L. Adequate Budget for Support of 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. Managers 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.

*TAJ's budget for support of field operations is inadequate.*

## **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 service and compliance needs.

*TAJ generally meets this international best practice.*

## N. Summary Features of International Leading 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

## O. Table of Best Practices – International and TAJ’s

From our own review of TAJ’s organization structure and operations and review of historical tax-reform reports of the various technical advisors, we conclude that TAJ’s practices meet (or exceed) nine of the thirteen categories of international leading practices. The table below provides a summary of our comparisons.

**Table 8. Comparison of International Best Practices - Organization and Operations**

<i>International Best Practice</i>	<i>TAJ Matches or Exceeds</i>	<i>TAJ Does Not Meet</i>
1. Modern type of organization structure	Yes	
2. Recommended core and support functions	Yes	
3. Proper roles of headquarters components	Yes	
4. Proper roles of field components	Yes	
5. Control of high-priority taxpayers – segmentation	Yes	
6. Specializes the 3 categories of staffing	Yes	
7. Centralizes staffing to high degree	Yes	
8. Issues expressed delegations of authority to officials at various levels of the organization		No
9. Has internal audit and internal control units	Yes	
10. Enhances voluntary compliance		No
11. Operates reliable taxpayer current account		No
12. Provides adequate budget for support and field		No



<i><b>International Best Practice</b></i>	<i><b>TAJ Matches or Exceeds</b></i>	<i><b>TAJ Does Not Meet</b></i>
operations		
13. Provides computerization and data networking	Yes	

The TAJ, with help from international donors/partners, is addressing the reliability of the taxpayer current account (No. 11) and has already prepared and submitted to the Ministry a budget (No. 12) which is adequate, if it is funded as requested. Recommendations are made in Section XI of this report, to address lack of delegations of authority (No. 8) and low voluntary compliance (No. 10).

## IX. Summary of Recent Accomplishments

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A summary of recent accomplishments of TAJ and its international donors/partners include:

- Segmentation of Jamaica's largest taxpayers and placement of their jurisdiction under the LTO to better control compliance of and provide service to the taxpayers who contribute 60-65% of the GOJ's tax revenue;
- The design and implementation of the May Pen Customer Care Center to provide high quality telephone taxpayer service, to collect substantial sums of new tax arrears cases by less expensive telephone methods, and to begin segmentation of the medium taxpayer segment;
- Development of a draft Strategic Plan to guide the TAJ's overall direction through fiscal year 2014;
- Development of a draft National Compliance Plan for FY2012 – FY2015 to improve voluntary compliance of tax laws by Jamaica's taxpayers;
- Development of a Concept of Operations to guide the planning and development of TAJ's business processes;
- Development of a 3-year budget to be able to count on necessary resources for TAJ's operations for multi-years, instead of only one year at a time;
- Development and implementation of change management and communications strategies for internal and external stakeholders;
- Analyses and re-engineering of TAJ's main business processes – taxpayer service, audit, collection, etc. – in preparation for anticipated acquisition of a new, modern Integrated tax administration IT system which will greatly help improve efficiency and effectiveness of operations;
- Development of an automated Management Information System (MIS) to quickly assess monthly and cumulative TAJ's organization performance of its core business functions;
- Development of computerized risk-based case-selection systems for prioritizing and selecting mainly highest-risk cases for audit and for collection annual work plans;
- Specialization of Compliance Officers through development of teams to handle the most difficult cases of enforced collection of tax arrears, i.e., Special Enforcement Teams (SET), and teams to handle less complicated cases, High Intensity Teams (HIT).
- Enactment of the Revenue Administration Act of 2011, which enabled TAJ to integrate its various departments formerly acting independently into one revenue administration;
- Preparation of proposed legislation to enable TAJ to attain Semi-Autonomous Revenue Authority status, which provides a number of benefits, including improvement of TAJ's human resource complement through quality recruitment from the labor market and competitive compensation;
- Preparation of a draft Tax Procedures Act to consolidate all administrative provisions concerning tax administration and tax compliance requirements in one place, rather than separately in each tax law; and

- Preparation of a proposed debt write-off policy to report and remove from the active inventory a very high percentage of uncollectible tax arrears cases.

# X. Recommendations to Mitigate Risk of Revenue Loss

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Tax reform activities/issues not yet accomplished are reflected in the recommendations below. Consistent with the primary objective to use the results of the benchmarking study, combined with already existing studies and recommendations, to determine priority roadmaps for action by top TAJ officials, a number of high level and specific recommendations are given below to mitigate risk of revenue loss at TAJ and address areas where TAJ does not currently meet international benchmarks.

The observations and recommendations in this report are not made in a critical sense, but with the desire to assist and support the TAJ in accelerating its tax-reform and modernization efforts. Continued collaboration between TAJ and its international donors/partners will yield benefits for tax administration, tax compliance, and the broader tax system in Jamaica.

## A. High Level Recommendations (Tax Policy)

The consensus among the many studies prepared by GOJ, private sector groups, the IMF, and others is that the GOJ should broaden the existing tax base and to use the increased revenues to reduce tax rates. This would enhance the potential for improved compliance, which would be further supported by streamlined business processes in tax administration and improved enforcement capacity. A number of measures have been proposed in these studies to improve the efficiency and effectiveness of the tax system, including:

Discretionary Tax Waivers: Progress has already been made in organizing the regime of discretionary tax waivers and reporting on results. It is imperative that discretion be reduced to a very low level and the waiver system conforms to normative international standards to reduce revenue leakage and to stimulate the perception of fairness and voluntary compliance.

GCT: a) Eliminate preferential rates for the GCT and adopt a revenue-neutral lower rate; and b) Following a rate reducing revenue neutral policy, include many of the currently exempt items from the GCT in the tax base, compensate low income households through a combination of refundable income tax credits and increased social benefits.

CIT: Adopt a rapid phase-out of the system of sector specific tax holidays and other incentives. Reduce the CIT rate from its current rate of 33 1/3%. An internationally competitive rate would be below the world average of 25.5% and should likely be equal to the top PIT of 25%, but a CIT rate should be selected after appropriate quantitative studies.

PIT: Reduce the PIT rate effective at the current threshold to a lower level. Raise the threshold at which the 25% rate becomes effective.

The amount by which the current tax rates could be reduced depends upon overriding considerations of fiscal stability, including the need for Jamaica to amortize its public debt. These considerations once again highlight the Jamaica's fiscal dilemma: its revenue mobilization is strong and it needs to be strong in order to fulfill its fiscal responsibilities. However, its tax rates are high and the need to reduce them is very real. At the same time, Jamaica has little fiscal room and any rate reduction is contingent upon demonstrated revenue enhancing improvements in compliance and base broadening.

The GOJ understands the importance of meeting the goals of lower tax rates, broader bases and improved compliance. Achieving these goals, however, will involve a precise sequencing of policy measures. The inherent fiscal risk in executing these policies will be reduced with better and timelier information. Regular statistics of income (SOI) reports for all the major taxes and regular and highly detailed tax-by-tax compliance analysis reports will be of invaluable assistance in guiding the reform process at the level of close execution. Progress has already been made in the this area of information improvement as demonstrated by the Tax Expenditure Budget produced by the Ministry of Finance and the management information reports already produced by the TAJ. When the Tax Administration IT system that was financed by the IDB loan is installed, these existing capabilities will be further enhanced. However, this remains years away and many of the policy moves to broaden bases and lower tax rates should begin in the nearest future. Improvement in SOI reporting and compliance analysis should be planned as an integral part of this overall reform strategy.

## **B. Specific Recommendations (Tax Administration)**

### **Lessen Risk to GOJ of Potential Tax Revenue Loss**

#### ***Large Taxpayers***

The increasing number of large taxpayers and complex transactions is straining the limited resources in the LTO. The IMF observed this issue by concluding that the LTO is too understaffed and under-skilled to cope with the complex industries of its clients. The staff's inexperience coupled with the increasing number of transactions with related entities in Jamaica and abroad, has increased the risk of revenue leakage. Opportunities for taxpayers to under-report their tax liabilities are growing, with less risk of detection, especially when the LTO's audit rate is 1%, as opposed to the international norm of 30%.

To protect this critical source of tax revenue it is recommend that TAJ:

- Transfer 25-30 of the best auditors from the Regional Service Centers to the LTO;
  - Establish a data warehouse for risk identification/profiling of LTO taxpayers;
  - Acquire and apply computer-audit assisted tools and case management systems;
  - Provide classroom and on-the-job **industry-specialist** training to the new auditors;
- Transfer 10-15 of the best taxpayer service specialists from the RSCs to the LTO's cadre of Client Relation Managers (CRMS);
  - Identify, counsel and closely monitor LTO taxpayers who have filed and/or paid tax returns late during the last two years;

- Implement program to progressively increase electronic filing from the current 20%, as compared to the international benchmark of 100%.
- Transfer 10-15 of the best compliance officers from the RSCs to the LTO.
- Propose enactment as soon as possible of the Tax Procedures Act as one integrated piece of legislation to greatly improve access to third-party data for audit analyses and planning; for access to information about taxpayers' assets for enforcement leads; and for much greater authority to enforce collection.

**Priority level:** The preceding recommendations are of the highest priority – to be implemented as soon as possible.

### ***Addressing non-compliance***

There are high rates of non-compliance in Jamaica. Jamaica has only a small number of registered taxpayers for a population of approximately 2.8 million and few taxpayers account for a large portion of tax revenue. According to the IMF mission's March 2011 report<sup>29</sup>, however, Jamaica had only about 80,000 corporate and personal income tax payers, of which for FY 2010/2011:

- Only 500 taxpayers contributed 81% of domestic taxes;
- Only 6,000 taxpayers contributed 99% of domestic taxes;
- Only 482 LTO taxpayers (and 367 subsidiaries) contributed 60 - 65% of domestic tax revenue; and
- With regard to GCT, only 413 taxpayers contributed 65% of GCT.

Late-filing rates do not meet international norms. In the IMF's March 2011 report, late-filing rates of non LTO, registered taxpayers were estimated at 80% for PAYE taxpayers and 35% for GCT taxpayers. Further, a representative of the Private Sector Working Group (PSWG) asserted that only 5% of registered corporations that file corporate tax returns declare any tax liability. Late-filing/payment rates of registered, non-LTO taxpayers cited earlier are clearly unacceptable.

By TAJ's own estimates, unregistered/non-filers comprise a very large, untapped source of tax revenue. Based on information provided by TAJ, the IDB estimated stated that non-filing tax rates in FY2009 reached 54.8% for CIT; 56.7% for PIT; 56.5% for PAYE and 24.3% for GCT<sup>30</sup>. The representative of the PSWG informed the assessment team that his group's study found that 10% of registered corporations file corporate tax returns<sup>31</sup>.

<sup>29</sup> Zake, Justin et al, IMF Fiscal Affairs Dept, "Institutionalizing Tax and Customs Administration Reforms", March 2011, p.16

<sup>30</sup> Tax Administration Jamaica, Strategic Plan FY2011/12 – FY 13/14, 30 May 2011, prepared by the Planning & Research Section, p. 18.

<sup>31</sup> "Tax Reform Proposal for Jamaica", Private Sector Working Group (PSWG), Powerpoint Presentation, p. 8.

There are other estimates with varying figures regarding the scope of unregistered/non-filers in Jamaica. Nevertheless, all estimates point to a high level of non-compliance. With domestic tax revenue dependent on such few taxpayers, many more taxpayers need to be brought under the tax net.

It is recommended that TAJ decrease non-compliance through the following measures:

- Identify and develop the medium taxpayer segment as quickly as possible to focus on this segment for control purposes;
- Apply new risk and case-management systems to focus on Medium taxpayers;
- Strengthen the FDIU organization and operations, including comprising teams for industry/sector-specific focus, development of annual work plans and performance-management indicators and training for staff;
- Conduct specific-lead, targeted (as opposed to random) field surveys to detect unregistered taxpayers, again focusing on the Medium taxpayer segment;
- Develop strategies to get a firm grip on the scope of unregistered/non-filers;
- Develop Memoranda of Understanding (MOUs) for exchange of taxpayers' financial information with Customs, RPD and Financial Investigation Division (FID) of the Ministry of Finance; and
- Propose enactment as soon as possible of the Tax Procedures Act as one integrated piece of legislation to greatly improve access to 3rd-party data for audit and enforcement leads, for compliance field surveys, and for much greater authority to enforce collection.

**Priority level:** These recommendations should be implemented during the next 12 to 18 months, except for proposed enactment of the Tax Procedures Act, which should be as soon as possible.

#### ***Strengthen the Revenue Protection Division (RPD)***

Despite the fact that the RPD is under the Ministry of Finance and not in the TAJ's organization structure, its current state poses a risk to tax compliance. The RPD is understaffed, lacks computerization and has very limited financial resources. Because of these ongoing challenges, it poses potential risks to the loss of revenue for the GOJ because of the RPD's very limited ability to conduct TAJ/Customs fraud investigations of taxpayers; integrity investigations of TAJ officials suspected of corruption and bribery; and pre-employment background investigations. TAJ's own practices regarding integrity safeguards e.g. discontinued emphasis on the Rules of Conduct for all employees, also need to be reviewed and strengthened. Therefore, it is recommended that:

- TAJ and RPD (and Customs) jointly work with the Ministry of Finance to make an assessment of the RPD's organization, staffing and operations and make recommendations to modernize the organization;
- TAJ review its current practices with regard to integrity issues; re-instate the use of the Rules of Conduct; periodically have orientations for all employees regarding the Rules of Conduct; and
- TAJ and RPD jointly develop procedures –dos and don'ts - for all TAJ officials to use in making referrals to the RPD regarding allegations of bribery or corruption on the part of TAJ employees.

**Priority level:** This recommendation is of high priority level.

### **Propose Enactment of the Tax Procedures Act**

TAJ had decided to propose enactment of batches drawn from the proposed legislation of the Draft Tax Procedures Act developed by USAID PRIDE Jamaica and TAJ's Legal staff. Based on their experience with the legislative bodies of Jamaica's Cabinet and Parliament, TAJ officials fear that a large piece of important legislation such as the Tax Procedures Act will likely be sidelined in Jamaica's Cabinet for an indefinite period. Furthermore, one official observed that there is a need to re-draft many provisions of the proposed legislation – from international contexts and language to local context and language to help its chances of passage. Unfortunately, an incremental approach would take several years.

Local experience in choosing a set of provisions and re-drafting decisions is acknowledged and respected. However, the international experience and best practice of strongly advocating and enacting one piece of legislation has proven successful in improving the performance of tax administrations and protecting the rights and lessening the compliance burden of taxpayers around the world. Furthermore, as noted throughout this report and by international advisors, immediate enactment of multiple provisions of the proposed Tax Procedures Act would greatly improve TAJ's compliance and enforcement operations. Fortunately, we understand that the Acting CG is re-considering the incremental approach. Therefore, it is recommended that TAJ:

- Establish a team of legal experts to re-draft the Tax Procedures law with local language and context; and
- Submit the proposed Tax Procedures Act as one piece of legislation to GOJ legislative bodies as quickly as possible.

**Priority level:** These recommendations are of the highest priority

### **Propose Enactment of Debt Write-off Legislation**

With a very high percentage of uncollectible tax arrears stock continually over a period of many years, TAJ has considered proposed policies/legislation to write-off bad debts many times but has never succeeded. 84% of the tax-arrears inventory is three years old and older, most of which is uncollectible. Very recently, a USAID PRIDE Jamaica advisor worked with TAJ's Legal staff to re-write the proposed debt-write-off legislation. To remove the large portion of uncollectible accounts from active inventory and facilitate Debt Management Staff's focus on collectible high and medium risk tax arrears cases, it is recommended that TAJ:

- Establish a team of legal experts to champion the proposed write-off legislation through the various approval levels, including at the Ministry of Finance.

**Priority level:** This recommendation is of the highest priority.



## Design, Plan and Issue Written Delegations of Authority

As discussed in Section VIII, TAJ officials and international advisors have noted that there is a continued weakness in management and hesitation in taking decisions. There is no doubt that one of the reasons for hesitancy in making decisions, particularly in Jamaica, is the undermining of many actions taken by TAJ officials over the years by discretionary decisions by the Minister of Finance to reduce/waive tax assessments. Furthermore, as has been the case in many other countries, another main reason for reluctance to take actions by TAJ managers is their concerns about possible personal consequences. No explicit, written delegations of authority have ever been issued to officials at various levels to carry out technical and administrative decisions, without fear of personal consequences, throughout the organization. Instead, authority is implied.

The proposed Tax Procedures Act provides for written delegations of authority. It is recommended that:

- TAJ undertake a study to determine the types and levels of delegations of authority which should be issued throughout the operations and support organizations (delegations of authority are part of the proposed Tax Procedures Act);
- The study should determine number and levels of delegations (i) under current legal provisions and (ii) upon enactment of the Tax Procedures Act; and
- Appropriate delegations should then be issued throughout the organization.

**Priority level:** This recommendation is of the high priority and should be completed within the next 12 months.

## Accelerate Completion of Staffing and Organization Issues

### Semi-Autonomous Status and Staffing

TAJ has serious, widespread understaffing in technical positions, as reported by the IMF in its various mission reports over the last two years. Obviously, many of the pending recommendations made by many technical advisors, including those in this report, cannot be considered and implemented by TAJ without substantial infusion of new technical staff. TAJ has already prepared and submitted a new budget which provides for adequate staffing levels, and there is a high degree of optimism of TAJ and Ministry officials that the proposed budget is being favorably considered. However, the Ministry should be lobbied strongly by TAJ officials to apprise them of the current risks to tax revenues and the urgent need for Ministry officials to exert all political will at their disposal to provide adequate funding for TAJ's staffing and other vital resources.

As for current organization issues, a great deal of quality work has been completed during TAJ's transition to semi-autonomous status: new organization structures have been designed, SARA legislation has been prepared and approved by former Minister of Finance and new job descriptions have been classified and graded for the top four positions of the new organization. Moreover, the new salary levels have been approved for those positions. That being said, many job descriptions still need to be

prepared, including those for Senior General Managers, Programs and Operations. It is recommended that TAJ:

- For the pending SARA legislation: renew efforts to present the proposed legislation to the new Minister of Finance, get approval and enlist support for all remaining steps required to enact the legislation; and
- Immediately prepare job descriptions for classification by the Minister of Finance's Compensation Unit, the Cabinet, and Public Sector officials.

**Priority Level:** This recommendation is of the highest priority level.

### **LTO Organization Structure**

With regard to organization, the team noted an exception to international leading practices in TAJ's organization. The LTO has two main Sections, one for Corporations and the other for Individuals (Annex E). The team observed that a separate general manager, administrative assistant, and Exchange of Information Unit have been established and have various managers for the Individuals Section, despite the small number of taxpayers under its jurisdiction. This structure results in costly duplications of functions.

In the LTO organization, it is recommended that:

- The audit function, the administrative assistant, and the Exchange of Information Unit of the General Manager Individuals and Exchange of Information structure be integrated with the LTO's corporate structure.

**Priority level:** These recommendations are of the high priority level and should be completed within the next 9 – 12 months.

### **Outsource the Cashier Function**

This IMF recommendation has been on the table for a long time. The cashier function is an outmoded method of doing business for modern tax administrations all over the world. Instead, cashier functions have been outsourced under contracts to banks to receive and process tax payments and send key taxpayer-entity and payment information to the tax administration and/or the Treasury or the Central Bank. Furthermore, TAJ staff spends substantial resources as a collection agency and dispenser of information and assistance services for non-tax administration. Therefore TAJ needs to take a strong advocacy role for this recommendation to the Ministry and higher levels of government.

**Priority level:** This recommendation is of the highest priority level.

### **Determine Appropriate Staffing for TAJ**

The appropriate number of TAJ's staff has not been determined for its various functions (audit, debt management, etc.) and categories (auditors, compliance officers, HR, etc.). Many recent

accomplishments have made significant advances in establishing the factors and framework necessary to determine accurate staffing needs. This included the development of risk-management systems for selection of audit and tax-arrears cases, re-engineering of TAJ's main business processes, the proposed bad debt-write-off and tax procedures legislation and TAJ's re-structuring of its organization. Therefore, it is recommended that TAJ:

- Complete the transition of its staff to the new organization structure as soon as possible, including staffing of new areas, such as an expanded Special Enforcement Units (SET), LTO's Exchange of Information Officers, etc.;
- Conduct initial tests of selecting cases using the audit and the tax-arrears risk-management systems to start to accurately determine volume and location of productive work;
- Perform an initial workload/time-per-case study, including the workload attributed to non-tax, license-and-fees activities, to begin to determine correct staffing; and
- Continue to refine the study until the correct staffing is determined.

**Priority level:** This recommendation has high priority.

## Annex A: List of Benchmarking Study Meetings

**Table 9. List of Benchmarking Study Meetings**

Contact Name	Role/Title/Department	Date	Location
<b>Kevin Fox</b>	USAID/Jamaica Economic Growth Officer	March 21, 2012 April 5, 2012	Kingston, Jamaica
<b>Andrea Gregory</b>	Corporate Planning Specialist	March 21, 2012	Kingston, Jamaica
<b>Rosalee Brown</b>	TAJ Commissioner General (Actg)	March 21, 2012 April 4, 2012	Kingston, Jamaica
<b>Rockquel Campbell</b>	TAJ Project Administrator	March 21, 2012	Kingston, Jamaica
<b>George Wright</b>	ICT Specialist, Programme Manager ]	March 21, 2012	Kingston, Jamaica
<b>Norma Kerr- Clarke</b>	Project Consultant/Technical Advisor	March 21, 2012	Kingston, Jamaica
<b>Dr. Terence Frater</b>	TAJ Deputy Commissioner General, Management Services	March 21, 2012	Kingston, Jamaica
<b>Grace Rookwood</b>	TAJ Deputy Commissioner General, Legal	March 21, 2012 March 28, 2012	Kingston, Jamaica
<b>Jean James</b>	Senior Manager, Operations	March 21, 2012	Kingston, Jamaica
<b>Astrid Frith</b>	Chief, Internal Auditor	March 21, 2012	Kingston, Jamaica
<b>Judith Smith Richards</b>	Human Resource Management Specialist	March 21, 2012 March 28, 2012	Kingston, Jamaica
<b>Yasmin Jackson</b>	Senior Transitional General Manager	March 21, 2012	Kingston, Jamaica
<b>Noelle Heron</b>	TAJ Customer Service	March 21, 2012	Kingston, Jamaica
<b>Samantha Taylor</b>	TAJ Customer Care Centre	March 22, 2012	Kingston, Jamaica
<b>Patrick Bullock</b>	TAJ Taxpayer Accounting	March 23, 2012	Kingston, Jamaica
<b>Jacqueline Macfarlane</b>	TAJ Audit & Investigations	March 23, 2012	Kingston, Jamaica
<b>Everald Foreman</b>	TAJ Debt Management & Collections	March 23, 2012	Kingston, Jamaica
<b>D. Batchelor</b>	TAJ Debt Management & Collections	March 23, 2012	Kingston, Jamaica

<b>Devon Deslandes</b>	TAJ Compliance Research	March 23, 2012	Kingston, Jamaica
<b>Donette Summerville</b>	TAJ Large Taxpayer Office	March 23, 2012	Kingston, Jamaica
<b>Dave Jeffery</b>	TAJ Large Taxpayer Office	March 23, 2012	Kingston, Jamaica
<b>L. Cook</b>	Managing Director, Fiscal Services Ltd.	March 23, 2012	Kingston, Jamaica
<b>Mr. Thompson</b>	Fiscal Services Ltd.	March 23, 2012	Kingston, Jamaica
<b>Debra Wahlberg</b>	PRIDE Jamaica	March 26, 2012	Kingston, Jamaica
<b>Deloree Stable Chambers</b>	Commissioner, Taxpayer Appeals	March 26, 2012	Kingston, Jamaica
<b>Darlene Morrison</b>	Ministry of Finance & Planning	March 27, 2012	Kingston, Jamaica
<b>Norris Miller</b>	Ministry of Finance & Planning	March 27, 2012	Kingston, Jamaica
<b>Shauna Trowers</b>	Ministry of Finance & Planning	March 27, 2012	Kingston, Jamaica
<b>Fabian Lewis</b>	Ministry of Finance & Planning	March 27, 2012	Kingston, Jamaica
<b>O. Weise</b>	Ministry of Finance & Planning	March 27, 2012	Kingston, Jamaica
<b>Viralee Lattibeaudiere</b>	TAJ Commissioner General	March 28, 2012	Kingston, Jamaica
<b>Gene Leon</b>	IMF Senior Resident Representative	March 29, 2012 April 5, 2012	Kingston, Jamaica
<b>Ainsley Powell</b>	TAJ Chief Technical Advisor	March 30, 2012	Kingston, Jamaica
<b>Devon Rowe</b>	Jamaica Customs	March 30, 2012	Kingston, Jamaica
<b>Patricka Wiggan-Chambers</b>	Jamaica Customs	March 30, 2012	Kingston, Jamaica
<b>Major Johanna Lewin</b>	Revenue Protection Division	April 2, 2012	Kingston, Jamaica

## Annex B: High Level Revenue Administration Reform Activity Matrix

**Table 10. High Level Revenue Administration Reform Activity Matrix**

Activity	Proposed Timeline			Responsibility center
	By December 2011	By April 1, 2012	Post-April 1, 2012	
<b>1. Policy, legal and regulatory issues</b>				
<ul style="list-style-type: none"> <li>TAJ (SARA)—resolve all outstanding issues including presentation to Minister of Finance and Cabinet—before upcoming elections.</li> </ul>	√			Ministry of Finance and TAJ
<ul style="list-style-type: none"> <li>JCD (Executive Agency)—Finalize legalities and resolve outstanding issues.</li> </ul>	√			Ministry of Finance, JCD
<ul style="list-style-type: none"> <li>TAD--expeditiously finalize and backdate legal mandate to May 1, 2011.</li> </ul>	√			Ministry of Finance, Office of the Prime Minister and TAD (Ministry of Justice should be consulted)
<ul style="list-style-type: none"> <li>RPD—provide policy direction (roles and responsibilities) by December 2011 and fully staff and fund the agency by April 1, 2012. The policy pronouncement should include relationship with TAJ and JCD delivery agencies, and criteria to escalate tax fraud cases to RPD.</li> </ul>	√ (spell out clearly role and responsibilities)	√ (reclassification, full staffing and funding)		Ministry of Finance
<ul style="list-style-type: none"> <li>Establish revenue debt write-off procedures and implement an appropriate write-off program.</li> </ul>	√ (first phase—establish policy and procedure)	√ Continuous implementation from end-January, 2012	Continuous	Ministry of Finance in conjunction with TAJ and JCD
<ul style="list-style-type: none"> <li>Review the status of all taxpayer cases at prosecution stage, identify bottle necks and recommend administrative and law changes which would facilitate the process.</li> </ul>		√		TAJ and JCD legal divisions
<ul style="list-style-type: none"> <li>Tax procedure/administration code (TPC)—start the process of developing a modern code that strengthens domestic tax integration and harmonizes tax administration powers across tax types.</li> <li>Seek external legal design and drafting assistance to expedite completion of the TPC.</li> </ul>	√			TAJ
<b>2. Organizational/ institutional arrangements</b>				
<ul style="list-style-type: none"> <li>TAJ (SARA)—complete institutional arrangements to establish TAJ as a semi-autonomous institution by April 1, 2012.</li> </ul>	√	√		Ministry of Finance and TAJ
<ul style="list-style-type: none"> <li>LTO issues: <ul style="list-style-type: none"> <li>Staff the LTO fully—more auditors and support staff, equipment, tools and logistics plus office space)—and use it as a model to equip the other revenue</li> </ul> </li> </ul>	√ (start by providing full audit)	√ (complete staffing and tooling)		TAJ—positions in LTO are already classified by Cabinet Office

Activity	Proposed Timeline			Responsibility center
	By December 2011	By April 1, 2012	Post-April 1, 2012	
centers.				
<ul style="list-style-type: none"> <li>• <b>Create high wealth individual compliance management unit within the existing LTO.</b></li> </ul>	complement from existing TAJ staff)			
<ul style="list-style-type: none"> <li>• JCD (Executive Agency)—immediately confirm publicly the move to Executive Agency and resolve all outstanding issues by December 2011.</li> </ul>	√ (resolve outstanding issues—including job classification)	√ (implement executive agency April 1, 2012)		Ministry of Finance, Cabinet Office
<ul style="list-style-type: none"> <li>• Provide RPD with a full budget and case management system.</li> </ul>		√		Ministry of Finance
<ul style="list-style-type: none"> <li>• Provide TAD with the necessary budget, staffing and case management system.</li> </ul>		√		Ministry of Finance
<b>3. Taxpayer/client relationship management in TAJ</b>				
<ul style="list-style-type: none"> <li>• Establish and implement a strong comprehensive outreach program for selected industries (particularly for large clients) including the use of: (i) technical guidelines and industry specific profiles; (ii) work and discussion groups; and (iii) operational protocol agreements for compliant taxpayers</li> </ul>	√ (blend approach with the client relationship management system in use the LTO)	√ (roll out to 1 key non-LTO revenue centers)	√ (roll out to remaining revenue centers)	TAJ and JCD
<ul style="list-style-type: none"> <li>• Link May Pen call center to all revenue centers including LTO; beef up staff and equipment support to call center.</li> </ul>		√ (link to LTO and roll out to 1 key non- LTO revenue center)	√ (roll out to remaining revenue centers)	TAJ
<ul style="list-style-type: none"> <li>• Resolve direct banking issues to improve customer service and stem non-compliance due to long wait times and taxpayer stress.</li> </ul>	√			TAJ and Accountant General (Ministry of Finance)
<b>4. Compliance management including collection enforcement</b>				
<ul style="list-style-type: none"> <li>• Establish and implement inter-agency cooperation Memoranda of Understanding (MOU's) to facilitate the sharing of information with other government organizations (TAJ, JCD, RPD, Port Authority, Public Works, Bank of Jamaica, and Financial Investigation Division (FID)).</li> </ul>		√		
<ul style="list-style-type: none"> <li>• Focus REAP on areas of potentially high revenue yield; continue with but keep skeletal staff on street visit program.</li> </ul>	√			TAJ
<ul style="list-style-type: none"> <li>• Mainstream REAP into TAJ regular operations—under LTO and non-LTO centers.</li> </ul>		√		TAJ

Activity	Proposed Timeline			Responsibility center
	By December 2011	By April 1, 2012	Post-April 1, 2012	
<ul style="list-style-type: none"> <li>• Collect arrears through settlement/offense compounding procedures in both TAJ and JCD: <ul style="list-style-type: none"> <li>➢ Establish or use existing criteria and focus attention on maximizing collection of principal tax whilst waiving unrealistic cumulative interest and penalties;</li> <li>➢ Seek and document legal advice on necessary safeguards from Solicitor General;</li> <li>➢ Notify Auditor General and other stakeholders on policy direction and authority to implement;</li> <li>➢ Provide resources (funds, staff and tools) to ensure prompt clean-up and update of taxpayers' accounts.</li> <li>➢ Implement debt write-off policy and guidelines for incontrovertible cases.</li> </ul> </li> </ul>	√			TAJ and JCD—RPD to advise on cases under their purview that can be compounded/settled.
<p>5. <b>Audits in the short term</b>—commence intense audit activity in key sectors using international audit experts with industry specialization to work with and support TAJ/JCD/RPD teams—optimize resources by conducting joint interagency audits whenever possible.</p>				
<ul style="list-style-type: none"> <li>• Petroleum <ul style="list-style-type: none"> <li>➢ For JCD: <ul style="list-style-type: none"> <li>○ Establish an oil monitoring unit that introduces modern processes and controls over imports and exports and exchanges electronic information regularly in a format required by TAJ and other regulators; and</li> <li>○ Establish a framework for obtaining valuation/pricing information from Venezuela and other places of origin, if necessary, through third parties.</li> </ul> </li> <li>➢ For TAJ—select audit cases including key distributors and their agents.</li> <li>➢ For RPD— using intelligence information, investigate illegal and concealed fuel outlets.</li> </ul> </li> </ul>	√ (commence activity)			TAJ, JCD and RPD
<ul style="list-style-type: none"> <li>• Telecommunications sector (TAJ)—focus on profiling and documenting management structures (local and abroad), nature of operations, products and undisclosed income.</li> </ul>	√			TAJ
<ul style="list-style-type: none"> <li>• Charities/NGOs—joint audit by TAJ and JCD: <ul style="list-style-type: none"> <li>➢ For JCD—post-clearance audit to ascertain end-use of concessions and privileges granted.</li> <li>➢ For TAJ—audit all eligible taxes and examination of income usage for purposes prescribed by law.</li> </ul> </li> </ul>				JCD—post clearance audit with TAJ audit team



Activity	Proposed Timeline			Responsibility center
	By December 2011	By April 1, 2012	Post-April 1, 2012	
<ul style="list-style-type: none"> <li>• Financial Institutions (TAJ)</li> <li>➤ Micro finance establishments and general tax compliance.</li> <li>➤ Mainstream banks and insurance companies—including profiling the interest withholding issue.</li> </ul>		√		TAJ—explore collaboration with Bank of Jamaica and FID
<ul style="list-style-type: none"> <li>• Bauxite—contractual arrangements and interpretation of concessions.</li> </ul>		√		TAJ in conjunction with Jamaica Bauxite Institute, and JCD (on interpretation especially relating to motor vehicles imports and the proper disposal of items under the Bauxite Act)
<ul style="list-style-type: none"> <li>• Cement industry—routine compliance audits</li> </ul>		√		TAJ and JCD on valuation and anti-dumping issues.
<ul style="list-style-type: none"> <li>• Hotel/tourist industry—end-use audit of preferences and checking compliance patterns of parent companies through exchange of information agreements with partner tax agencies.</li> </ul>	√			TAJ and JCD—preferably joint audit programs
<b>6. Audit activity in general</b>				
<ul style="list-style-type: none"> <li>• Establish an audit file selection system based on a modern risk assessment system supported by intelligence, ratio analysis and data mining.</li> </ul>		√		TAJ and JCD
<ul style="list-style-type: none"> <li>• Establish discussions and relationships with foreign partners that are tax convention partners to consider joint and simultaneous audits on selected industries.</li> </ul>		√		TAJ and JCD
<ul style="list-style-type: none"> <li>• Commence the use of existing tax conventions to obtain information on foreign taxpayers operating in Jamaica.</li> </ul>		√		TAJ
<ul style="list-style-type: none"> <li>• Develop and implement performance measures and score boards at the program and team levels.</li> </ul>		√ (start with audit functions and cascade to other operational areas)		TAJ and JCD
<b>7. Management of waivers and incentives</b>				
<ul style="list-style-type: none"> <li>• Transfer waiver application management (and existing case inventory) from TAD to Tax Policy in Ministry of Finance—conflict of interest (cannot subsequently adjudicate</li> </ul>	√			Ministry of Finance

Activity	Proposed Timeline			Responsibility center
	By December 2011	By April 1, 2012	Post-April 1, 2012	
on self-approved applications) and it is an inefficient use of appeals officers to process applications.				
<ul style="list-style-type: none"> <li>• Automating the waiver process: <ul style="list-style-type: none"> <li>➢ Resolve systems issues and exchange of information between revenue agencies—automate waiver decision transmittal to JCD and RPD.</li> <li>➢ Use existing automated prototype system (demonstrated during the mission) to re-specify and implement an interim waivers management solution that is scalable for future needs.</li> <li>➢ Procure the necessary resources to implement the interim solution.</li> </ul> </li> </ul>	√ (an interagency team led by TAJ's Chief Technical Advisor is following up this matter)			Ministry of Finance, RPD, JCD, TAJ and Fiscal Services Limited (FSL)
<ul style="list-style-type: none"> <li>• Conduct end-use audits on key tax waivers beneficiaries and share results with TAJ. Where fraud is suspected, refer to RPD.</li> </ul>	√ (complete one substantive case)	√		JCD post-clearance audit
<ul style="list-style-type: none"> <li>• Investigate abuse of preferences in the hotel industry.</li> </ul>	√ (complete one cases)	√ (program regular but random investigations)	√ (implement investigations work plan)	RPD
<b>8. TAJ-FDIU, JCD-RMU &amp; Anti-smuggling, FID and RPD data-mining tools, logistics and operational support (including adequate budgets)</b>				
<ul style="list-style-type: none"> <li>• Exchange intelligence and compliance management information.</li> </ul>	Continuous	Continuous	Continuous	Focal points in TAJ, JCD, RPD and FID
<ul style="list-style-type: none"> <li>• Procure and implement case management systems for agencies that do not have them and train staff—objective is to improve efficiency and productivity, while ensuring case documentation and maintenance of an audit trail.</li> </ul>		√		TAJ, JCD, TAD and RPD
<ul style="list-style-type: none"> <li>• Data-match electricity payments with tax payments in order to asses compliance gaps.</li> </ul>			√ (commence data-matching activity)	TAJ
<ul style="list-style-type: none"> <li>• Procure data-mining software and train staff.</li> </ul>		√		TAJ and FSL
<b>9. Funding, systems and operational support</b>				
<ul style="list-style-type: none"> <li>• Review and decide on sustainable funding model and to remove uncertainty—recurrent and capital expenditure—for revenue program delivery agencies (TAJ, JCD, TAD and RPD).</li> </ul>		√		Ministry of Finance
<ul style="list-style-type: none"> <li>• Determine activities to be supported by international development partners in the short- to medium-term and hold a meeting with interested parties.</li> </ul>	√			Ministry of Finance, TAJ, JCD, TAD and RPD

Activity	Proposed Timeline			Responsibility center
	By December 2011	By April 1, 2012	Post-April 1, 2012	
<ul style="list-style-type: none"> <li>Provide funding incrementally for suitable accommodation and operational tools—equipment (hardware, software and logistical support)—consider use of the sinking fund approach to enable seamless replacement.</li> </ul>	√	√		Ministry of Finance working with tax and customs program delivery agencies (includes RPD and TAD)
<ul style="list-style-type: none"> <li>Explore bar coding for product identification purposes and to support customs valuation team—check with large and credible supply houses (local and international) for commonly imported items, for example, from Courts and others.</li> </ul>	√			JCD
<ul style="list-style-type: none"> <li>Commence arrangements for government-to-government or inter-customs agency MOUs (as applicable) to share valuation databases: particularly for China, United States of America, Panama, Curacao, Canada and Venezuela.</li> </ul>		√ USA, Panama, Curacao, Venezuela China, Canada, others		JCD
<ul style="list-style-type: none"> <li>Information systems—get local or external assistance to complete BPR and system needs analyses.</li> </ul>	√	√		JCD, TAJ
10. Complete one-page summary project documents for the initiatives above, including costs, identifying funding sources and source of immediate and medium term Technical Assistance (TA)	√			

Source: Justin Zake, Lorraine Ocampos, Brian Dawe and Brian Brimble, “Jamaica: Enhancing Taxpayer Compliance Management” International Monetary Fund Technical Assistance Report, October 2011

# Annex C: Comparative Benchmarking Indicators

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## A. About the Indicators

This appendix provides a high-level profile of the comparative structure and performance of the Jamaican tax system. Specifically, it examines: tax system revenue effort, tax structure, and revenue performance based on a series of quantitative and qualitative indicators, and compares the Jamaican tax system with other countries in the LAC region, peer income group, and the rest of the world. The comparative figures draw largely on a benchmarking of the tax structure and revenue performance of three major taxes: corporate income tax (CIT), personal income tax (PIT) and the Value Added Tax (VAT). All structure and performance benchmarking data are from Fiscal Year (FY) 2010-11 and are sourced from the USAID Collecting Taxes comparative data system (<http://egateg.usaid.gov/collecting-taxes>).

The Collecting Taxes comparative data system contains performance and structural indicators about countries' national tax systems. The database contains quantitative revenue performance indicators, i.e., how well a particular tax performs in generating revenues for the treasury, 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 VAT rate or the normal corporate income tax rate. Other indicators describe the main features of tax administrations. Economic indicators are also included so that performance, rate competitiveness, and structure can be easily compared given levels of development and other factors.

There are a total of twenty comparative indicators that 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 administrative 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 database. 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 are neither indicate 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.

Twenty indicators on tax performance and structure in Jamaica are compared with that of the rest of the world, based on many of the key Collecting Taxes indicators.

## A. Overall Tax Revenue Effort

“Revenue Effort” provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP. The table below provides a summary of the overall tax revenue effort for Jamaica compared to its benchmark peer groups.

**Table 11. Comparison of Total Tax Revenue as Percent of GDP**

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Jamaica	23.5
CARICOM	21.5
Latin America and the Caribbean	18.5
Low-Middle-Income Economies	18.4
World	19.3

**TAXY (Tax Revenue Effort)** is a reference indicator. It reflects the total taxes and related non-taxes collected by the tax administration and customs as a percentage of GDP.

## B. Corporate Income Taxes

The table below provides a summary of 3 comparative indicators for taxes on company income for Jamaica.

**Table 12. Corporate Income Taxes**

Corporate Income Tax	CITR	CITY	CITPROD
	Corporate Tax Rate	Revenue as % GDP	Revenue Productivity
Jamaica	33.3	3.5	0.10
CARICOM	32.5	4.9	0.18
Latin America and the Caribbean	28.9	3.5	0.15
Low-Middle-Income Economies	24.2	3.3	0.16
World	25.5	3.1	0.15

**CITR (Corporate Income Tax Rate)** is a tax structure indicator. It is the general rate applied for the corporate income tax.

**CITY (Corporate Income Tax Revenues)** is a reference indicator. It is the level of corporate income tax collections as a percentage of GDP.

**CITPROD (Corporate Income Tax Revenue Productivity)** is a tax revenue performance indicator. It represents how well the corporate income tax does in terms of revenue collection, given the tax rate.

## C. Personal Income Taxes

The table below provides a summary of 4 comparative indicators on personal income tax rates for Jamaica and comparator countries.

**Table 13. Personal Income Taxes**

Personal Income Taxes	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Jamaica	25.0	1.10	25.0	1.10
CARICOM	18.5	0.49	30.2	4.0
Latin America and the Caribbean	13.6	0.95	29.4	7.29
Low-Middle-Income Economies	11.3	0.82	26.6	12.3
World	11.5	0.91	29.5	43.2

**PITMINR (PIT Minimum Rate)** is a tax structure indicator. It is the lowest non-zero positive tax rate applied to the lowest income group in the personal tax system.

**PITMINL (PIT Minimum Income Level)** 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.

**PITMAXR (PIT Maximum Rate)** is a tax structure indicator. It is the highest tax rate applied under the personal income tax system on the richest income class of taxpayers.

**PITMAXL (PIT Maximum Income Level)** 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.

**Table 14. Additional PIT Indicators**

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Jamaica	5.3	0.14	18.0	18.0
CARICOM	2.8	0.05	10.5	10.5
Latin America and the Caribbean	2.4	0.04	11.9	12.2
Low-Middle-Income Economies	2.8	0.05	14.8	15.2
World	3.6	0.06	15.3	16.5

**PITY (Personal Income Tax Revenues)** is a reference indicator. It is the level of personal income tax collections as a percentage of GDP.

**PITPROD (Personal Income Tax Revenue Productivity)** is a performance indicator. It represents how well the personal income tax does in terms of revenue collection, given the tax rate.

**SSR (Social Contributions Rate)** is a tax structure indicator. This is the payment of legally mandated social security and public pensions, employment security, basic public health care coverage, and disability and other social programs that are imposed on the earnings of or the payments to labor. It is the combined value of the mandatory contributions made both the employer and the employee, usually withheld from employee compensation. It is expressed as a percentage of gross salary, though there may be some slight variation in this from country to country.

**WEDGE (Tax Wedge)** is a tax structure indicator. The tax wedge is an attempt to estimate the overall taxation of labor, represented as a percentage of gross salary. It combines social contributions with personal income tax.



## D. General Consumption Tax

The table below provides a summary of 4 comparative indicators for value added taxes.

**Table 15. General Consumption Tax Indicators**

Value Added Tax	VATR	VATY	VATPROD	VATGCR
	VAT rate	Revenue as % GDP	Revenue Productivity	Gross Compliance Ratio
Jamaica	17.5	6.5	0.39	48.4
CARICOM	14.0	5.8	0.56	68.6
Latin America and the Caribbean	14.4	5.6	0.47	66.7
Low-Middle-Income Economies	14.8	5.4	0.45	62.0
World	15.7	5.2	0.41	60.9

**VATR (Value Added Tax Rate)** 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 have a variety of reduced rates for certain basic goods, such as basic food stuffs.

**VATY (Value Added Tax Revenues)** is a reference indicator. It is the level of VAT tax collections as a percentage of GDP.

**VATPROD (Value Added Tax Revenue Productivity)** is a performance indicator. It represents how well the VAT produces revenue for the country, given the VAT rate.

**VATGCR (Value Added Tax Gross Compliance Ratio)** is a performance indicator. It is a measure of how well the VAT produces revenue for the government, but is a bit more refined than the VATPROD indicator, since it takes into account the fact that VAT is mostly only applied to final home consumption by households and individuals.

## E. Tax Administration

The table below provides a summary of 4 comparative indicators for tax administration.

**Table 16. Comparison of Tax Administrations**

Tax Administration	Tax Staff	Payer to Staff	Corruption	Taxpayer Burden
	Tax staff per 1000 population	Number of tax payers per tax staff	“% Expected to give gifts in meetings with tax officials”	Average Time (hrs)
Jamaica	N/A	N/A	14.3	414.0
CARICOM	0.4	N/A	5.91	172.9
Latin America and the Caribbean <sup>1</sup>	0.4	388.6	7.1	383.7
Low-Middle-Income Economies <sup>2</sup>	0.5	260.2	12.6	307.9
World	0.8	519.8	16.2	275.0

**TAXSTAFF (Tax Staff)** 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.

**PAYERTOSTAFF (Number of Taxpayers per Tax Staff)** 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.

**CORRUPTION (Evidence of Corruption)** is a tax administration structural indicator. This is a measure from the World Bank Enterprise Survey which indicates the percentage of business taxpayers “expected to give gifts in meetings with tax officials.”

**BURDEN (Time Required for Paying Taxes)** is a tax administration structural indicator. This is a measure from the World Bank Doing Business Survey which indicates the average time required for paying taxes by a medium sized company.

## Annex D: Comparator Country Groups Defined

### **CARICOM Countries include:**

Table 17. CARICOM Countries

Antigua & Barbuda	The Bahamas	Barbados	Belize
Dominica	Grenada	Guyana	Haiti
Jamaica	Montserrat	Saint Lucia	St. Kitts & Nevis
St. Vincent & the Grenadines	Suriname	Trinidad & Tobago	

### **Latin American and Caribbean (LAC) Countries include:**

Table 18. LAC Countries

Antigua & Barbuda	Argentina	The Bahamas	Barbados
Belize	Bermuda	Bolivia	Brazil
Chile	Colombia	Costa Rica	Cuba
Dominica	Dominican Republic	Ecuador	El Salvador
Grenada	Guatemala	Guyana	Haiti
Honduras	Jamaica	Mexico	Nicaragua
Panama	Peru	St. Kitts & Nevis	St. Lucia
St. Vincent & the Grenadines	Suriname	Trinidad & Tobago	Uruguay
Venezuela			

### **Low Middle Income (LMI) Countries include:**

Table 19. LMI Countries

Albania	Algeria	Angola	Azerbaijan
Belarus	Bhutan	Bolivia	Bosnia & Herzegovina
Cameroon	Cape Verde	China	Colombia
Cuba	Djibouti	Dominican Republic	Ecuador
Egypt	El Salvador	Fiji	Georgia
Guatemala	Guyana	Honduras	Indonesia
Iran	Islamic Rep, Iraq	Jamaica	Jordan
Kiribati	Kosovo	Lesotho	Macedonia
Maldives	Marshall Islands	Micronesia	Moldova
Morocco	Namibia	Nicaragua	Paraguay
Peru	Philippines	Samoa (Western)	Sri Lanka
Suriname	Swaziland	Syrian Arab Republic	Thailand
Tonga	Tunisia	Turkmenistan	Ukraine
Vanuatu			

# Annex E: TAJ Organization Structure

Figure 15. TAJ Headquarters Structure

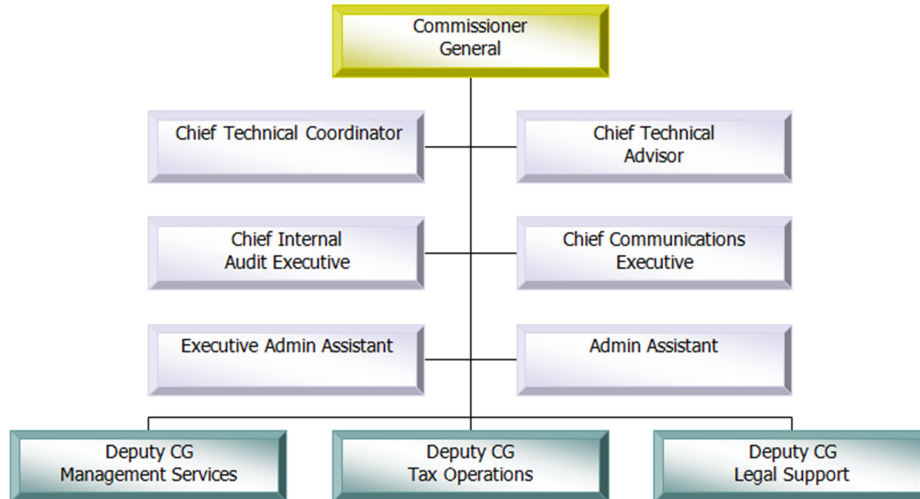
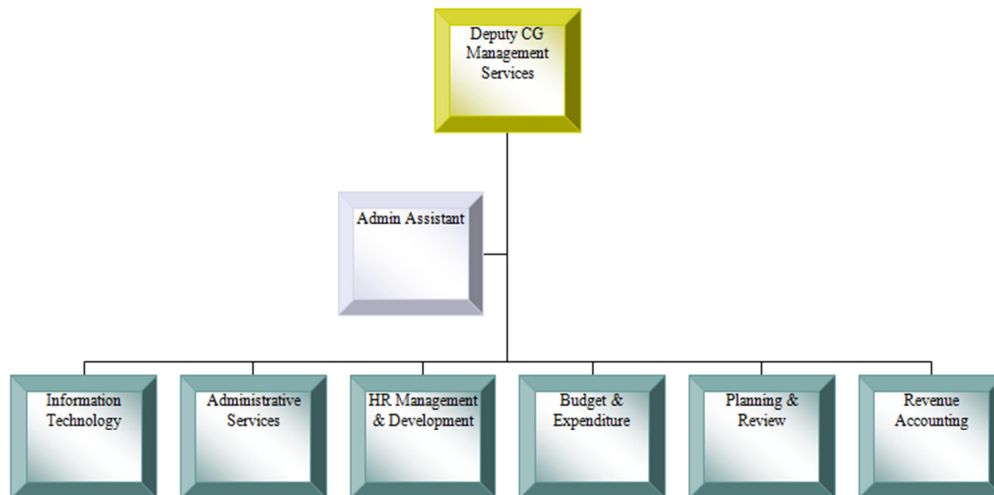
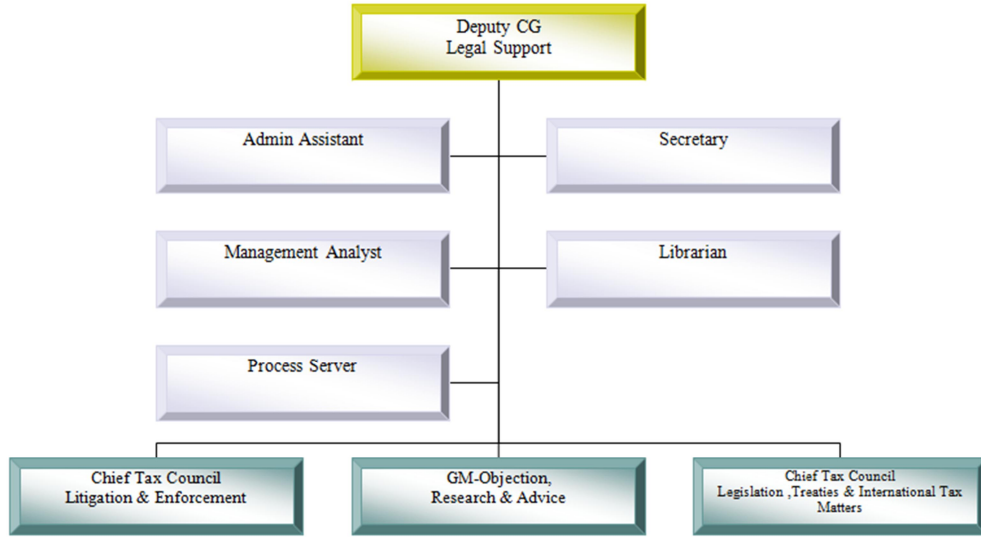


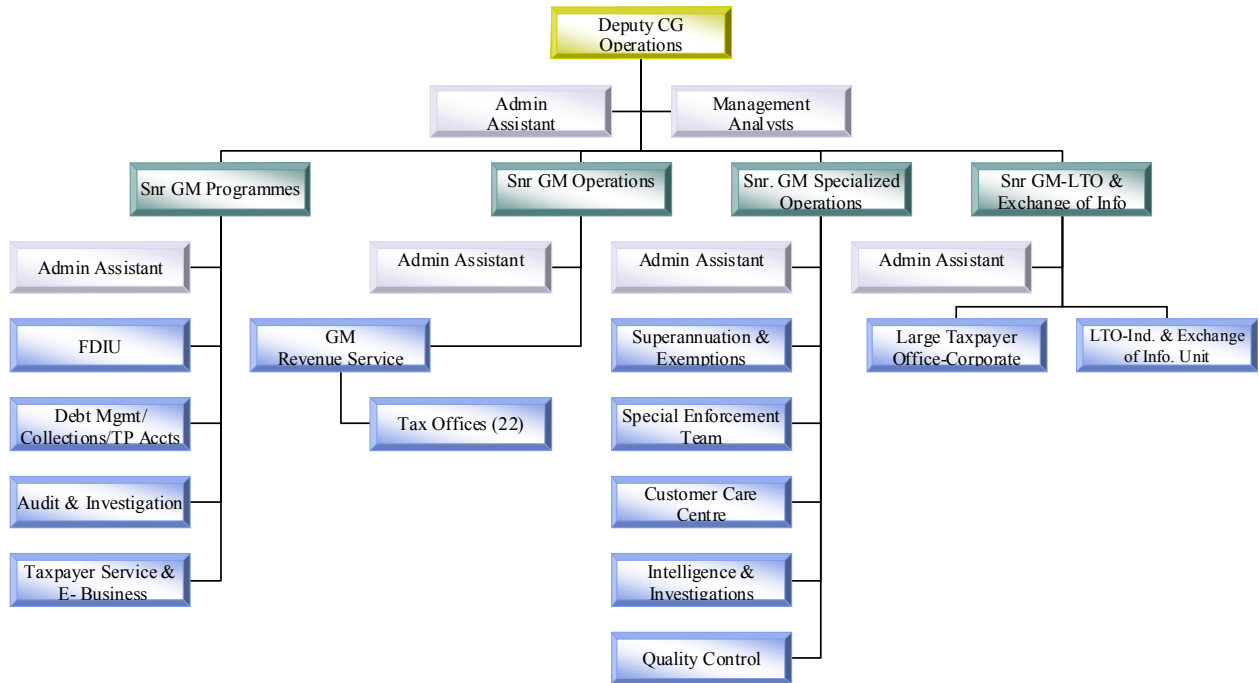
Figure 16. Deputy Commissioner General: Management Services



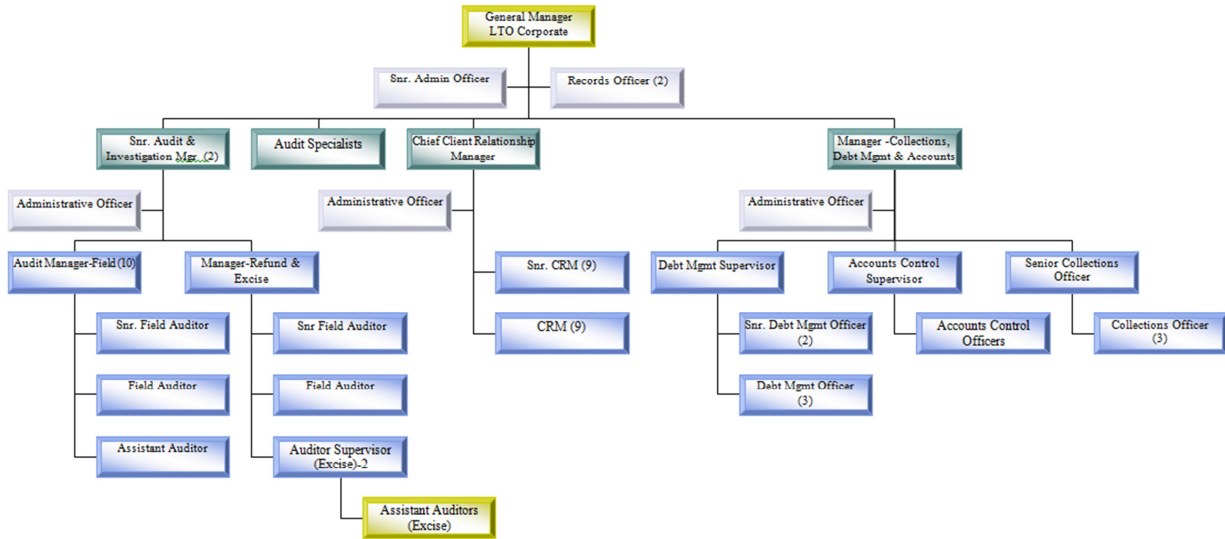
**Figure 17. Deputy Commissioner General: Legal Support**



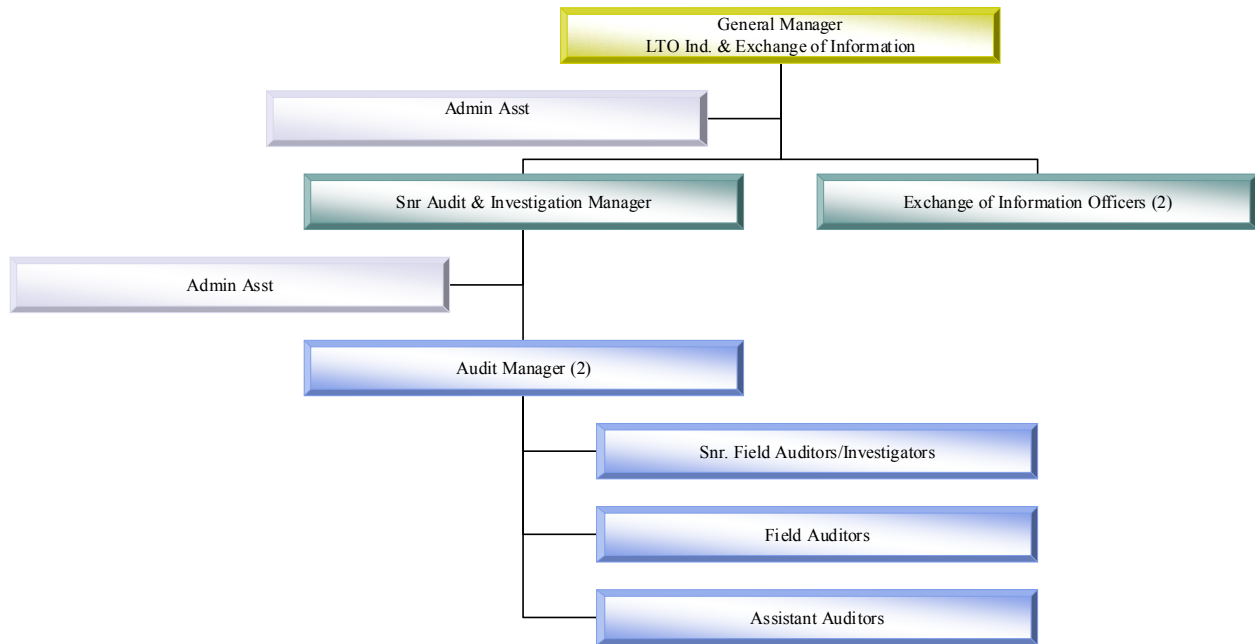
**Figure 18. Deputy Commissioner General: Operations**



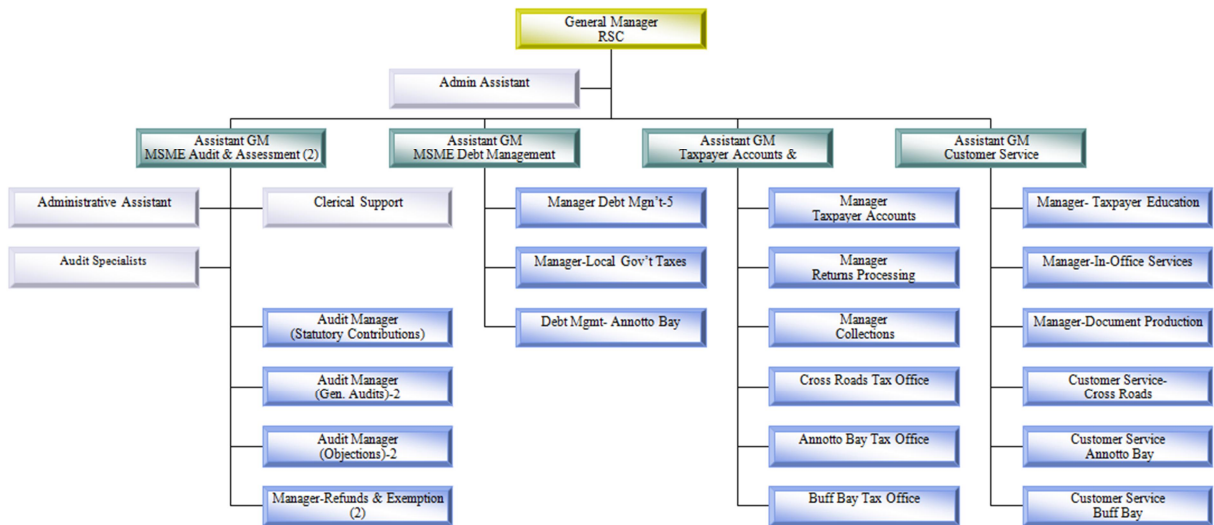
**Figure 19. Operations: Large Taxpayer Office (LTO) - Corporate Clients**



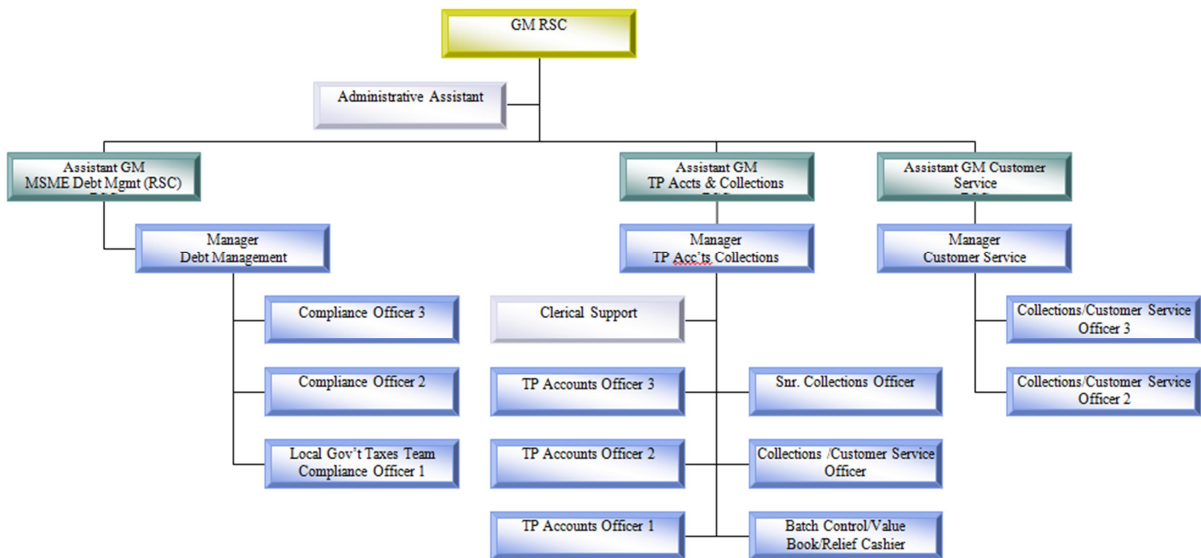
**Figure 20. Operations: Large Taxpayer Office (LTO) - Individuals and Exchange of Information Office**



**Figure 21. Operations: Constant Spring Revenue Service Centre**



**Figure 22. Operations: Medium Tax Office (MTO) with Compliance Only**



# Annex F: Advance Letter to Prospective Interviewees for Benchmarking Study

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USAID/DELOTTE/TAJ

TAX BENCHMARKING STUDY  
March-April 2012

To: Deputy CG, Management Services  
Deputy CG, Legal Support  
Chief, Internal Auditor  
Director, Fiscal Services, Ltd.  
Deputy CG, Tax Operations  
Operations Offices (See Attached List)

Date: 12 March 2012

From: Deloitte Consultants:

1. Jim Wooster, Tax Policy Advisor
2. Arturo Jacobs, Tax Administration Advisor
3. Luis Paniagua, Deloitte Consulting, LLP

## Background:

Deloitte's Benchmarking team is engaged in an exercise, based on international experience and recognized and accepted best and good practices, to determine the TAJ's latest key indicators of organisation performance and compare them to international benchmarks. Data are being gathered from existing reports, such as the TAJ's Strategic Plans; IMF's, World Bank's, IDB's and USAID's tax reform reports of recent years; interviews with TAJ's staff and leadership; observation of TAJ's facilities; and interviews with 3<sup>rd</sup> parties, such as professional tax practitioners. Based on the results of the information-gathering exercise, the Benchmarking Team will compile a number of recommendations to assist the TAJ to improve benchmarks which may need improvement in relation to International Benchmarks.

## Request for Your Assistance:

With approval now secured from the Commissioner General, some or all members of Deloitte's Benchmarking Team would like to make short (1-hour) visits between March 20 – April 3 with you and with some of the staff and facilities of organization components directly under your authority to:

1. Discuss highlights and gather data about current and recent aspects of operations, organization and personnel, e.g.
  - a. Current organizational charts
  - b. Current staffing – number, distribution, expertise, training, remuneration
  - c. Main operating procedures, including written operating manuals
  - d. Adequacy of facilities and resources
  - e. Reporting of progress on objectives – weekly, monthly, etc.
  - f. Main accomplishments previous 2 years
  - g. Main difficulties/problems – recent and current
  - h. Listen to your suggestions about how Deloitte's consultants might be able to assist you and the TAJ to meet the organization's mission and objectives.
2. Observe (walk-through) facilities and operational areas

## Report on Benchmarking Exercise

A summary report of the benchmarking exercise will be presented to the Commissioner General in May 2012



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