

Tax Reform

Ethlyn Norton-Coke
University of
Technology, Jamaica
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Tax Reform

- There are two approaches to Tax reform
 - (1) 'Big Bang' approach, that is, all policy changes effective on a particular day.
or
 - (2) Progressive step by step approach – making the changes at different times essentially a 'wait and see' approach.
- Then there is Administrative Reform vs. Policy Reform

Tax Reform

- A little bit of history to put this matter in context.
 - 1986 Major Tax Policy Reform Offer referred to as the 'Seaga Reform'

Why was Reform needed then?

Complicated Systems

Tax rates as high as 40% for some companies – varying rates

Credit System for individuals (notedly – insurance)

One rate for companies and individuals

Tax Reform

System considered cumbersome and unfair
High marginal tax rates made it a deterrent to productivity and investments
A large number of non-taxable fringe benefits.

Tax Reform

- January 1, 1986 – Reform on the ‘Big Bang’ Approach
 - (1) Credit System replaced by an Income Tax threshold at the ‘nil’ rate of tax of \$8,580.00.
 - (2) A flat rate of tax for individuals and companies of 33 $\frac{1}{3}$ % replaced the progressive rate structure. Later reduced to 25% for individuals.
 - (3) Fringe benefit type allowances were made taxable with a few exceptions.
 - (4) Preferential treatment of overtime income was eliminated and become taxable.
 - (5) Interest income above a certain level made taxable.

General Consumption Tax

- New Tax – was originally intended to be part of the 1986 Reform but the legislation was not ready
- Introduced by the new Government in October 1991
- From 1991 to 2011 – 20 years proved to be a productive tax with the highest compliance rate.

1996 To Present – Administrative Reform

- 1996 - The Revenue Administration act
 - Taxpayer Registration Number, unique personal number for transactions relating to Tax
 - Establishment of 6 six Commissions
 - Taxpayer Audit and Assessment (includes stamp duty and transfer tax)
 - Inland Revenue (Collections and Compliance)
 - Customs (International Trade)
 - Taxpayer Services Department (TRN and Physical facilities services)
 - Land Valuation
 - 2002 Commissioner Tax Appeals

1996 To Present – Administrative Reform

- The objective was to strengthen Tax Administration to improve compliance and in term increase tax revenues.
- To some extent the Administrative changes on the functional basis were successful but not successful enough to improve compliance rates particularly in relation to tax on income – especially the self-employed and therefore further changes considered necessary.
- Disclosure of information among the various tax departments accommodated under the Revenue Administration Act.

1996 To Present – Administrative Reform

- Power of the Revenue to enter third party premises to obtain information.
- Power of search and seizure.
- Power to impound books and records.

1996 To Present – Administrative Reform

- Post of Director General Tax Administration established
- Administrative and Advisory only as it was the Commissioners in whom the power and authority to assess taxpayers, relieve interest, take court action, and levy on taxpayers' goods in order to collect outstanding taxes rested.

1996 To Present – Administrative Reform

- Experience suggested that it is not a good idea to ignore the administrative dimensions of Tax Reform (Professor Richard M. Bird – University of Toronto, Advisor to the World Bank). Administrative Reform must go ‘hand in hand’ with Policy Reform.
- In that regard and as a forerunner to the Policy Reform – administrative changes have been made to facilitate the process.

1996 To Present – Administrative Reform

- Any changes in Tax Policy should include changes in the structure and in the administration (Professor Roy Bahl and Martinez Vasquez – 2005, Matalon Committee Report – Georgia State University – Andrew Young School of Tax Policy).

Revenue Administrative (Amendment) Act

- The Government by way of the Revenue Administration (Amendment) Act April 2011 – sought to put the administrative dimensions in place with the advice of the IMF and the IDB.
- Appointment of a Commissioner General
- All the power and authority of the Commissioners now transferred to the **Commissioner General** who now has the power to delegate same to the Deputy Commissioners General.
- This means that there are no longer any Commissioners.

The Revenue Administration (Amendment) Act

“Revenue Department” means

- a) Tax Administration Jamaica
- b) The Customs Department
- c) The Land Valuation Department
- d) The Revenue Protection Department
- e) The Taxpayer Appeals Department

The Revenue Administration (Amendment)

Section 3 of the Amending Act establishes a Department of Government called TAX ADMINISTRATION JAMAICA (TAJ)

The Revenue Administration (Amendment)

Role and Duties of TAJ

- a. To administer the law relating to the audit, assessment, administration and collection of domestic tax revenue;
- b. Collect all domestic tax revenue;
- c. Direct, organize and control all domestic tax revenue collection activities; and
- d. Administer related non-tax laws.

The Revenue Administration (Amendment)

Domestic Tax Revenue means Tax Revenue
other than

- a. Post Office revenue; and
- b. Any other revenue which, based on any other enactment, is required to be collected by some public officer other than the Commissioner General.

The Revenue Administration (Amendment)

Administration of Tax Administration Jamaica.

The Governor-General may appoint-

- a) A Commissioner General;
- b) At least three Deputy Commissioners General and
- c) Such and so many other officers as may be necessary for the efficient operation of Tax Administration Jamaica.

Functions of Commissioner General

The Commissioner General is responsible for the general direction, supervision and administration of Tax Administration Jamaica and shall have such other function as may be assigned to him/her by this Act or any other enactment.

Functions of Commissioner General

Powers of Commissioner General:

For the purposes of the discharge of his functions under the Revenue Amendment administration Act, the Commissioner General shall have power to –

- a) Advise the minister on matters relating to revenue;
- b) Serve as principal advisor to the Financial Secretary in matters respecting administration of the relevant laws relating to revenue;

Functions of Commissioner General

- c) Make recommendations to the Minister concerning proposals for legislation;
- d) Administer all tax laws (other than those relating to customs duties);
- e) Undertake all planning, research and public relations activities of Tax Administration Jamaica.

Functions of Commissioner General

- f) Supervise the staff of Tax administration Jamaica. The Commissioner General has the power to hire and fire.
- g) Carry out audit, assessment and collection operations , legal services and management services;
- h) Operate throughout Jamaica with the powers of a Collector of Taxes as if he/she had been appointed as such under section 3 of the Tax Collection Act, and any other enactment.

Functions of Commissioner General

Assign to Deputy Commissioners General responsibilities for areas including, but not limited to

- Audit, assessment and tax collection operations.
- Legal services
- Management services

Functions of Commissioner General

- Commissioner General functions as a Collector of Taxes.
- In this capacity any person authorized as assistant to the Commissioner General is regarded as an Assistant Collector under section 3 of the Tax Collection Act.

Functions of Commissioner General

- The Commissioner General may delegate, in writing, the exercise of any function conferred upon him by or under this Act (other than the power of delegation) to such other person or persons as he thinks fit (hereinafter called “the delegate”).
- Any act done as a result of the function delegated shall have the same effect as if done by the Commissioner General.

Functions of the Deputy Commissioner General

- Subject to subsection (3). Each Deputy Commissioner General.
 - a) May, under the direction and supervision of the Commissioner, perform all of the functions conferred upon the Commissioner (other than power of delegation)
 - b) Shall perform the functions conferred upon or delegated to him under any enactment.

Deputy Commissioner General Posts

- The 3 Deputy Commissioner General posts are: -
 - DCG – Management services
 - DCG – Operations and
 - DCG – Legal support

Deputy Commissioner General – Management Services

- a) Coordinate the operations of Tax administration Jamaica relating to
 - (i) administration;
 - (ii) Human resource management
 - (iii) Finance and accounts
 - (iv) Information technology
 - (v) Training
 - (vi) Property and procurement services, and
 - (vii) Records management

Deputy Commissioner General – Management Services

- (b) Provide status reports to the
Commissioner General in respect of
the above.
- Appointee is Dr. Frater.

Functions of Deputy Commissioner General - Operations

- a) Direct, monitor and coordinate the areas of
 - (i) Taxpayer services and registration
 - (ii) Taxpayer accounting
 - (iii) Tax collection
 - (iv) Enforcement of tax laws and
 - (v) Audit, investigations and assessment and

Functions of Deputy Commissioner General - Operations

- b) Provide status reports to the commissioner General on the matters set out in paragraph (a).
- Appointee is Mrs. Rosalie Brown.

Functions of Deputy Commissioner General Legal Support

- a) Coordinate the provision of legal services to Tax Administration Jamaica in relation to
 - (i) Litigation matters
 - (ii) Domestic tax legislation
 - (iii) Tax treaty negotiations
 - (iv) International tax and trade matters
 - (v) Legal advice and dealing with rulings;
 - (vi) Legal studies and research and

Functions of Deputy Commissioner General Legal Support

- b. Provide status reports to the Commissioner General on the matters set out in paragraph (a)
- Position now held by Miss Grace Rookwood an attorney-at-law.

Other Commissioners

Commissioner

Operational Superintendence and
Reporting
(May 2,2011)

- Revenue Protection
- Taxpayer appeals (new commissioner recently selected is Mrs. Staple - Chambers of Customs)
- Customs
(Proposed eventually to become an executive agency- International tax.)

Financial Secretary

Financial Secretary

Financial Secretary

Commissioner General

- All the power formerly residing in and exercised by the Commissioners is now transferred to the Commissioner General.
- Commissioner General – power to delegate authority as sees fit.
- Centralization in one post as the Deputy Commissioners General must take authority from and through the Commissioner General.

What are the Attributes of a Good Tax System

- Person should pay according their ability
- The tax should be certain and clear to everybody concerned
- The convenience of the contributor should be studied as regards payment
- The cost of collection should be small relative to yield
- Productive of revenue
- Certain to the taxpayer (not subject to negotiation by taxpayers)

What are the Attributes of a Good Tax System

- Convenient to the taxpayer
- Impartial between one person and another
- Adjustable
- Automatic in stabilizing the economy
- Unharmful to effort and initiative
- Consistent with government policy
- Equitable in its distribution of the tax burden

The Green Paper

- Proposal of these tax structure changes from discussion and responses from the public.
- These are proposals only not yet law.
- Provides a view of the central pillars of the medium term framework.
 - Primarily changes in GCT Threshold
 - Change in Income Tax rate
 - Other changes such as reduction of customs duties to a flat rate
 - Changes in the common external tariff.
- Proposals arose out of consultations with several private sector organizations and public sector offices and departments.

Objectives of the Proposed Tax Reform

- Simplifying the Tax system
- Equity
- Broadening the Tax base (which really means moving more to Consumption Tax)
- Improved Compliance
- Growth and competitiveness arising from policy certainty and confidence in the economy
- Keeping the Revenue demands of the budget while maintaining macro – economic and social stability

GCT

- Modelling being done to review the effects of reduction of GCT from 17.5% - 15% - 12.5%.
- Broadening the GCT tax base
 - Eliminating the zero - rated items except for exports and diplomatic
 - Reducing no. of 'exempt' items from 41.7% of goods and services to 30%
- Reducing the tax and broadening the base expected to stimulate the economy by releasing more funds for spending in order that there will be no reduction in revenue from this tax type
- A greater shift to consumption taxes broadens the base for example : Fees – Customs Administration Fee.
- Pay advance GCT – Commercial Imports only (except for petroleum and bauxite)

The Green Paper

- Import Duties

- Introduce a flat rate of 20% (except for a few items) compared to a tariff code of 7000 items ranging from 0% to 40% duty.
- Apply a Customs Administration Fee (CAF) on all imports – shifting the burden from direct to indirect taxation.
- Reduce the Common External Tariff. Subject to Caricom agreeing.

The Green Paper

- Income Tax
 - Proposed to reduce corporate rate from 33 1/3 % - 25% to equate full personal tax rate and / or increase the personal income threshold to approximately \$500,00.00.
- Education Tax
 - Proposed elimination of this tax
- General
 - Set off of tax refundable against other tax liabilities
 - Reviewing the current non – compliant penalties and interest required to enhance tax compliance
 - Establishing a tax education program

The Green Paper

- Aggrieved Parties

- Manufacturing and Agriculture sectors – fear that the reduction of the CET will result in greater external competition that could wipe out these sectors.

- Matters not addressed in Green Paper

- Energy
- Incentives for entities and individuals to go green
- Customer Service
- Clean up of taxpayers Accounts on the computer system
- Not enough done for P.A.Y.E. taxpayers who have borne a lot of the burden over the years.

The Matalon Committee Report

- Implemented on a ‘piece-meal’ basis, primarily implementing the proposed increases in taxation and not taking into account the proposed reduction.
- Major shift was recommended from Direct Taxation, e.g. Income Tax to Indirect Taxation (GCT – although the latter is regressive and affects the poor more than the rich) – recommended an enhanced Type Path Program to bolster the effect

The Matalon Committee Report

- Recommended substantial increase in the Income Tax threshold to compensate.
- Also recommended reduction of Income Tax rate to at least 25% for corporate and eventually down to 20%
- Expanding tax base
 - Reducing exempt items in GCT Regime

Central Pillars of the Medium Term Tax Policy Framework

- Linked to the Fiscal responsibility framework with specific fiscal targets
 - Balanced Budget by 2016
- Reduce the national debt to 100% of GDP by 2016. (Now at 128% GDP)
- Cannot be achieved without improved compliance
- Broadening the Tax Base.
- Achieving sustained economic growth.

Guiding Principles

- Sufficiency of Revenue
- Economic Growth
- Enhanced compliance and convenience
- Credibility and viability of the revenue (realistic estimates and targets)
- Reforming the discretionary waiver regime – transparency and justification
- Buy-in of the Opposition

Strategies for Implementation

- Systematic and structured approval to tax policy
 - Changes in tax rates → three (3) year intervals
- Performance monitoring of the tax policy
- Changes in the income tax regime would be made only effective January 1
- Pre-implementation period for new regimes to allow business people time for system adjustment.

Direction and Scope of the Tax Reform Proposals

- A shift more towards Consumption Tax
- Apply Customs Administration fee to all imports
- Reduce CET (subject to discussions with CARICOM)
- Advance GCT for Commercial Importers only
- Reduce GCT rate **but** widen base – reduce the number of exempt items and eliminate zero-rating except for exports and diplomats
- Reduce income tax rates and/or increase tax threshold

Direction and Scope of the Tax Reform Proposals

- Introduce a phased compulsory filing of income tax returns
- Omnibus Tax Incentive Law
- Tax education for taxpayers and tax administrators
- Amend the penal provisions of the relevant Acts to strengthen enforcement

Direction and Scope of the Tax Reform Proposals

Customs

- CAF – one fee
- Keep the Additional Stamp Duty separate (ASD) to provide some level of protection for the Agricultural Industry
- Reduce CET

Direction and Scope of the Tax Reform Proposals

- Two important areas of taxation that the Green Paper has not addressed:-
 - Green energy and using either a tax incentive or tax credit system to reduce Jamaica's energy costs by at least 40%
 - No custom duties or GCT on imports of solar panels etc.
 - Tax education in schools from the basic school to high schools and compulsory in all tertiary programs

Direction and Scope of the Tax Reform Proposals

- Customer Service Improvement
 - The taxpayer is the client/customer
 - Taxpayers are inherently unwilling customers. Therefore the customer service has to be excellent.
 - The taxpayer's experience must be a good one
- The shift to Consumption Taxes and away from Income Tax is not sufficient. Keep GCT at 15% while widening the base and gradually eliminate tax on income for individuals