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

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Overview of TAJ Benchmarking Study

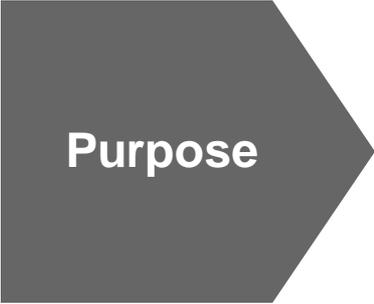
Preliminary Tax Policy Overview

Preliminary Tax Administration Overview

TAJ Main Challenges

Next Steps for Benchmarking Team

Overview of the TAJ Benchmarking Study



Purpose

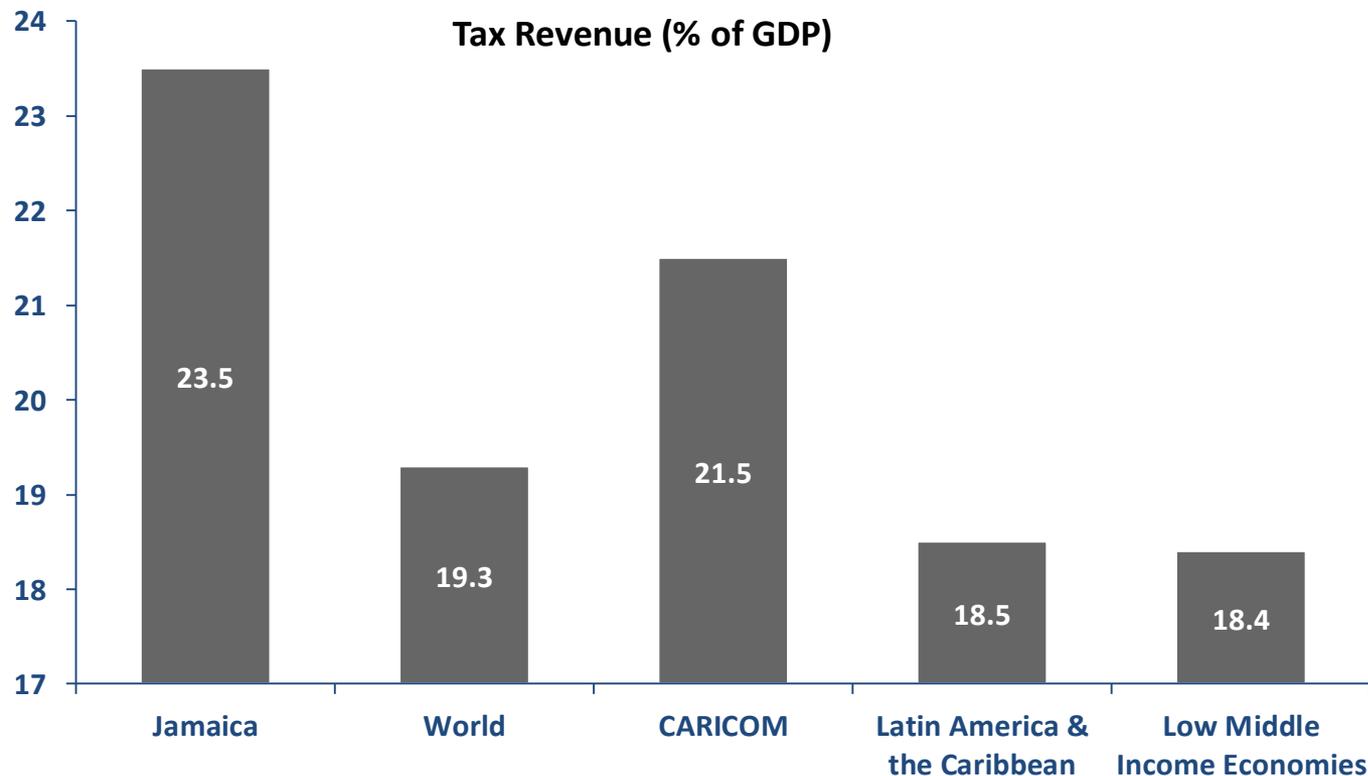
- To provide an objective comparison of Jamaican tax policies and administration against those of tax systems in other, similar countries
- To provide a summary of tax administration and policy reforms in recent years, and to create a tax system profile to provide a high level comparison of performance, structure, and productivity

Objectives

- Identify differences – indicators & practices
- Draft recommendations for improvements, correlated, if possible, to meet TAJ's own initiatives and to International Advisors' recent tax reform assessments/recommendations
- Outline TAJ's main challenges and needs for support – MoFP and international donors – to carry out proposed recommendations
- Provide a roadmap to launch and implement in the short-to-medium term

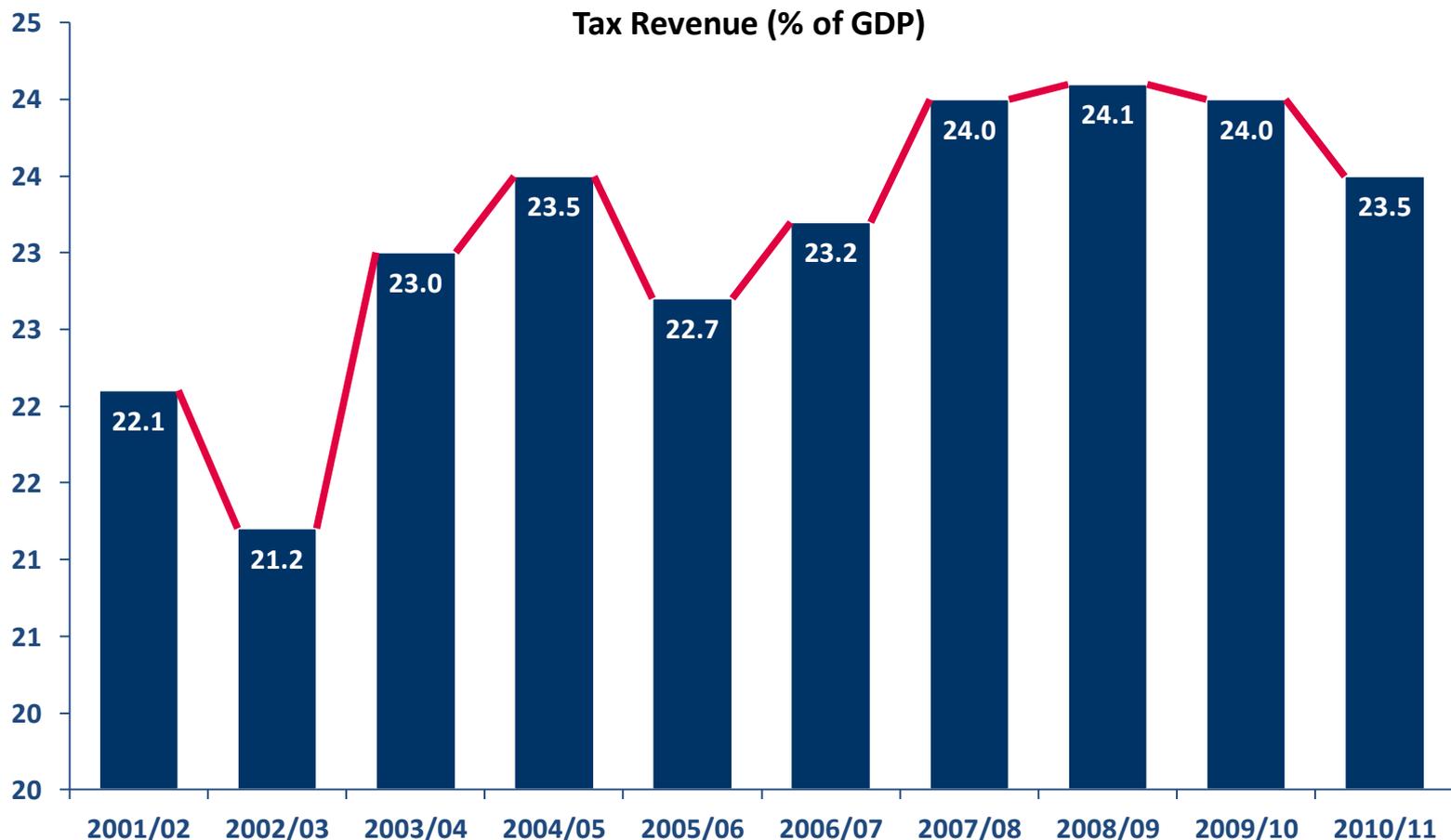
Revenue Effort: A measure of the amount of revenue from income and sales tax that a government collects as a share of GDP

Jamaica's overall tax revenue effort is **23.5% of GDP**, about 5 percentage points above that of regional, income group and world averages



Jamaica's tax revenues have increased modestly over the past decade (2001 – 2011)

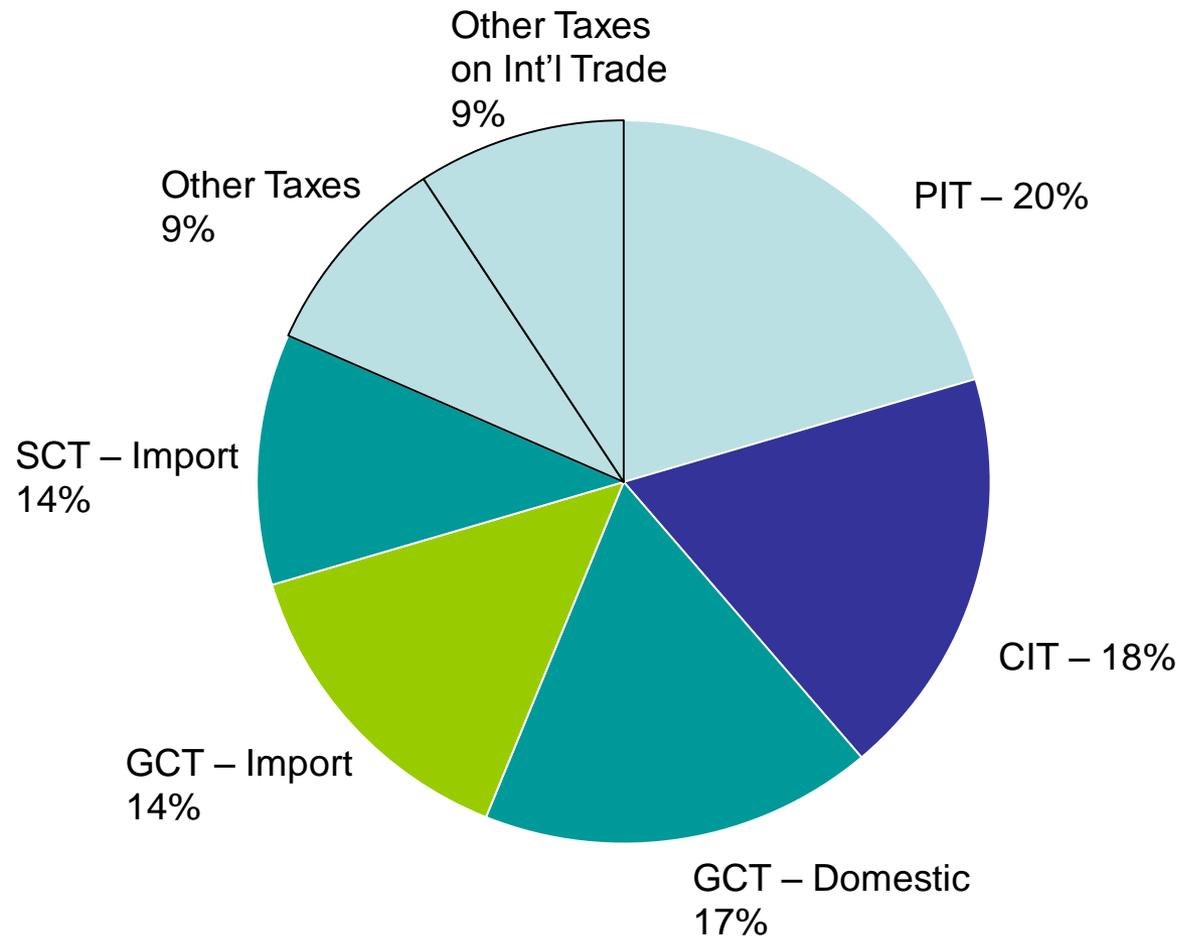
Over the 2001 – 2011 period, Jamaica has increased tax revenue by **1.5% of GDP** through efforts to strengthen the administration, increase rates, broaden bases, and streamline tax provisions



Structure of the Jamaican Tax Revenues

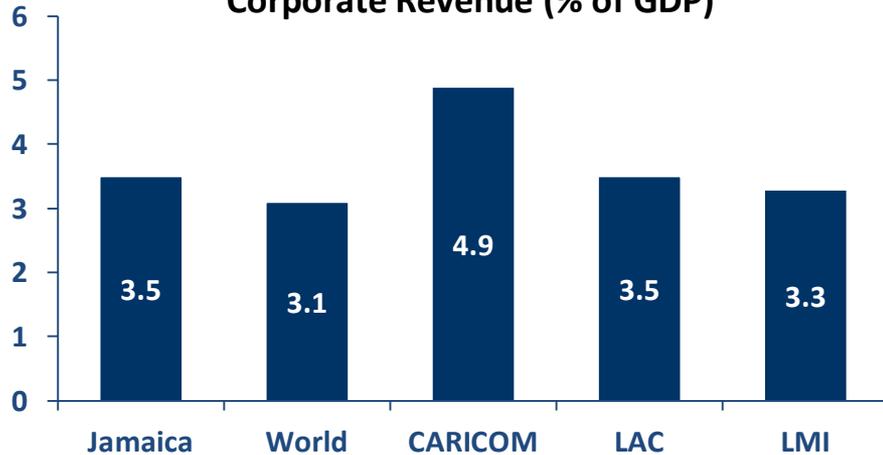
Jamaica's revenue system is dominated by the suite of taxes typically found in fiscally successful countries

- PIT, GCT and CIT generate a combined **69%** of total tax revenues

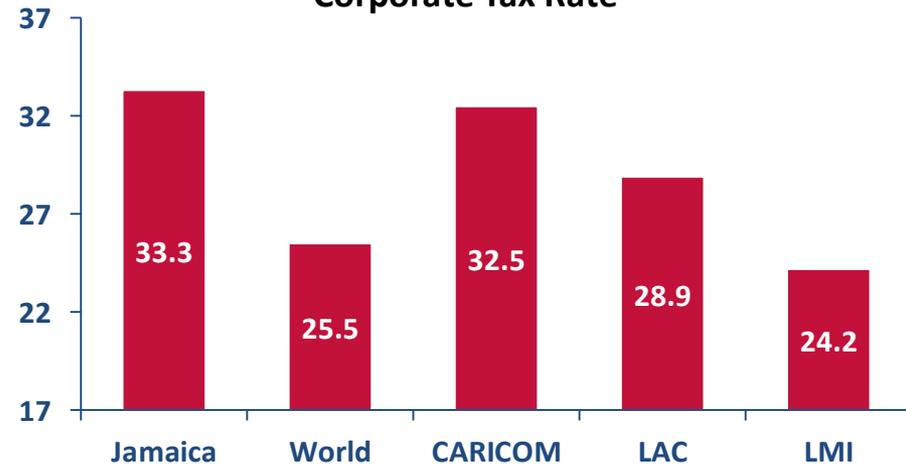


Taxes on Corporations (CIT)

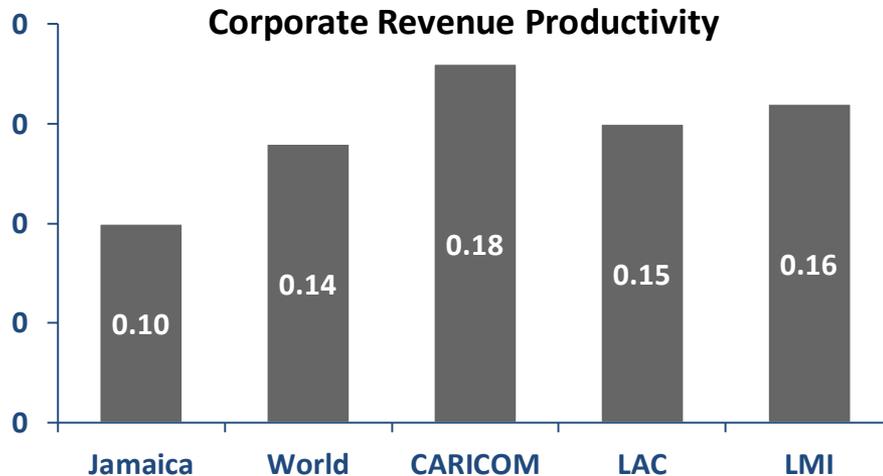
Corporate Revenue (% of GDP)



Corporate Tax Rate

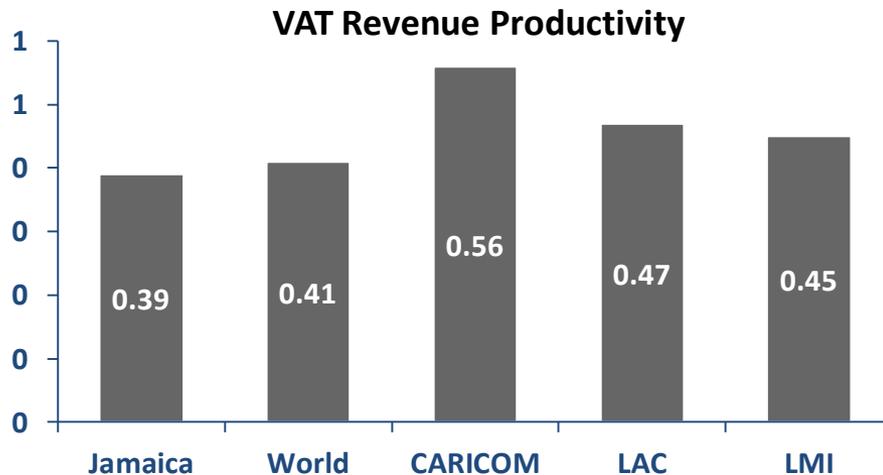
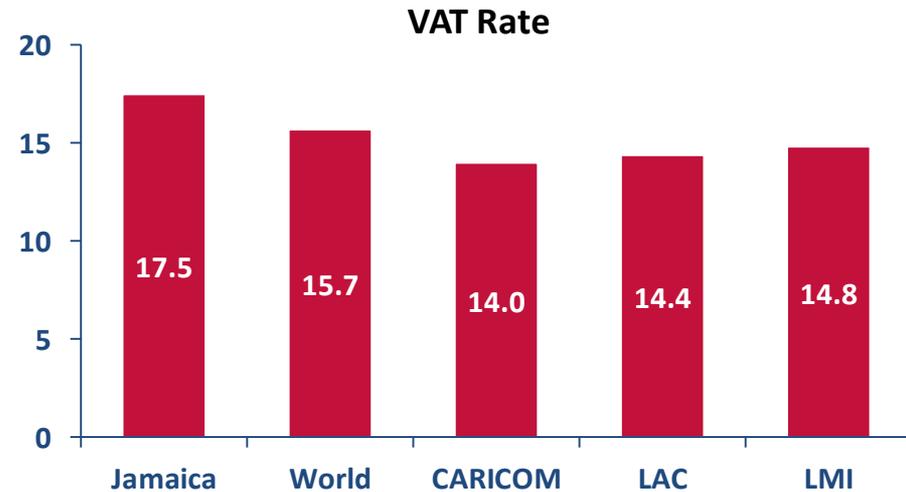
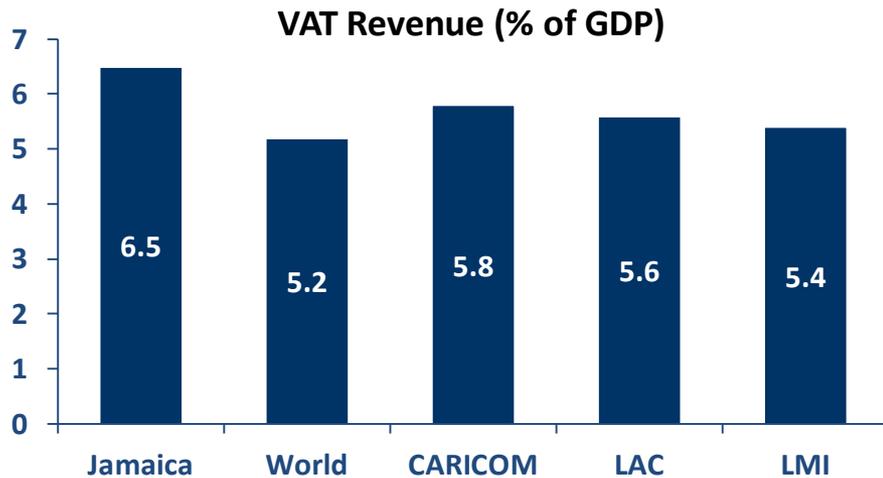


Corporate Revenue Productivity



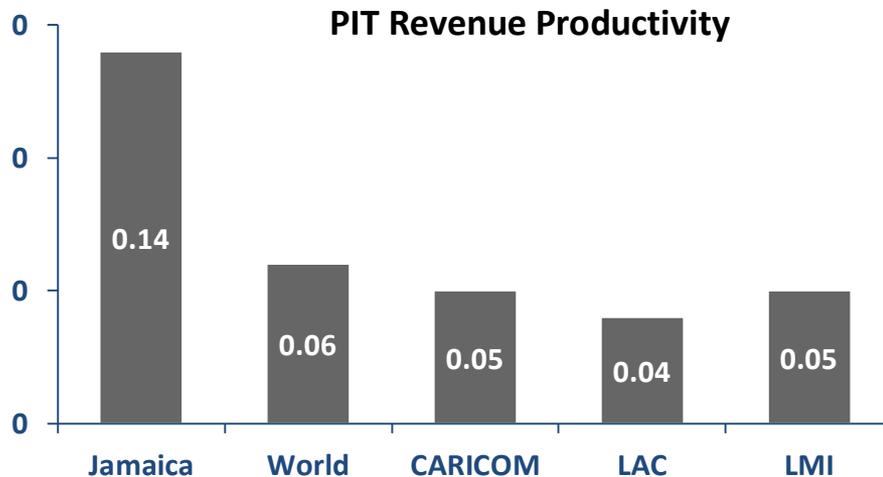
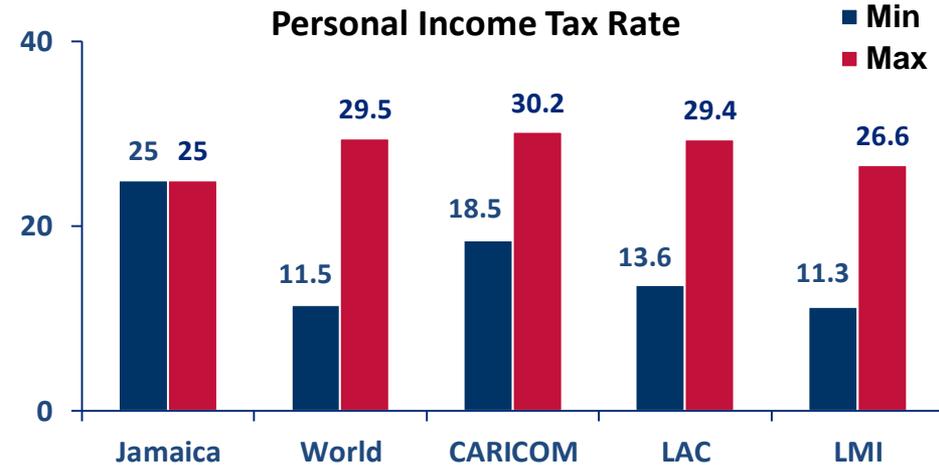
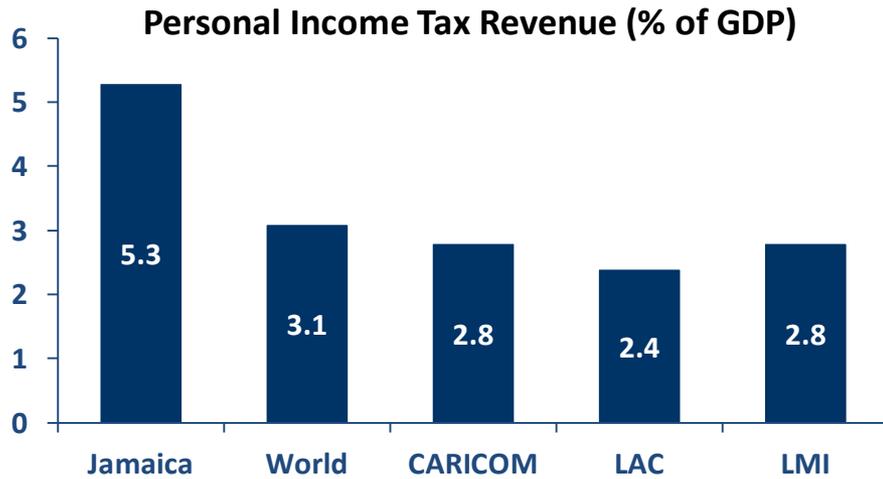
- CIT revenue mobilization, at 3.5% of GDP falls within the normal range
- CIT rate, at 33.3% is at the high end of the normal range
- CIT productivity, at 0.10% of GDP revenue for each percentage point of tax rate, is low in comparison

Value Added Taxes (VAT)



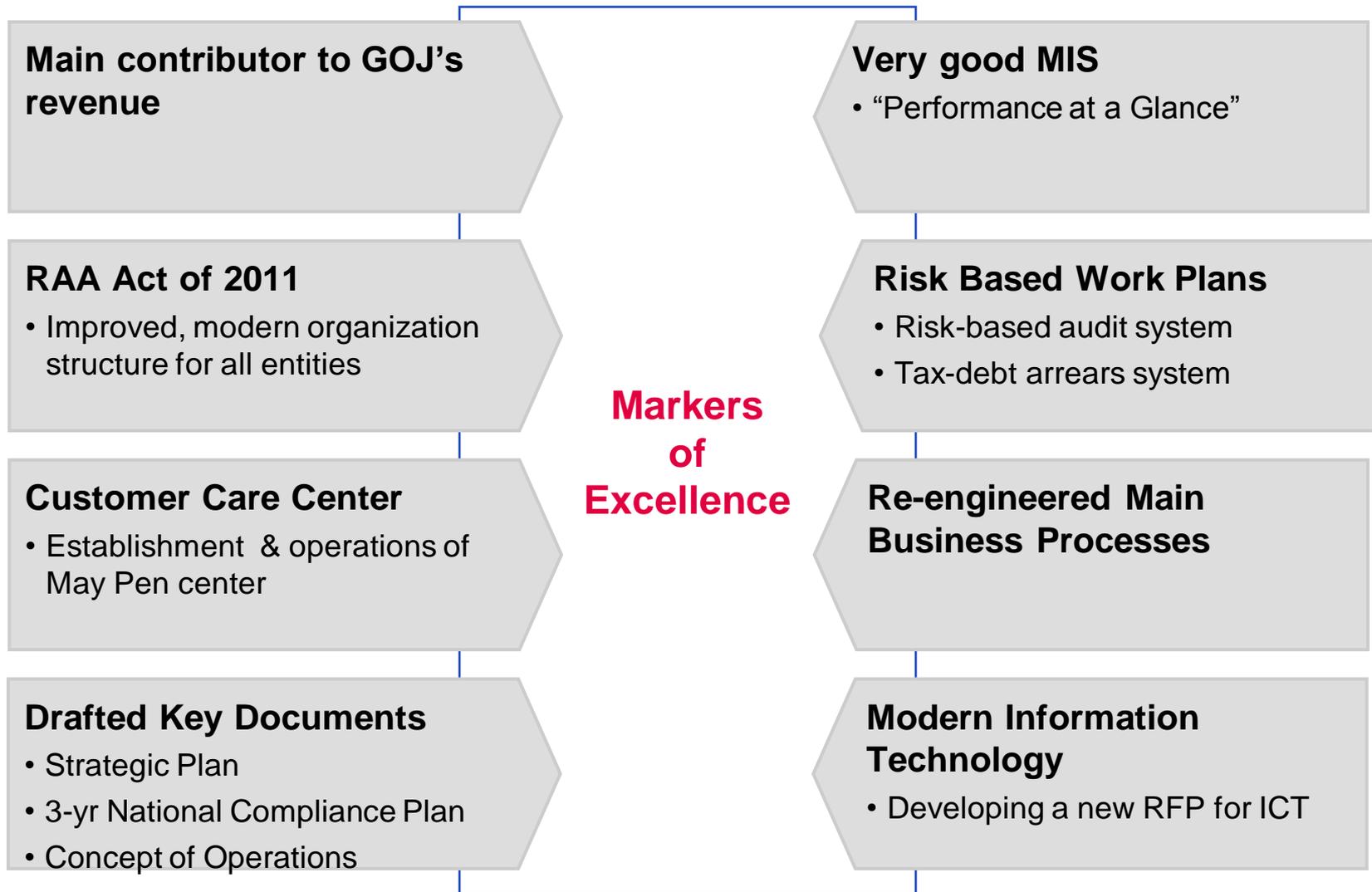
- VAT revenue mobilization, at 6.5% of GDP, is strong
- VAT rate, at 17.5% is at the high end of the normal range
- VAT productivity, at 0.39% of GDP revenue for each percentage point of tax rate, is low in comparison

Taxes on Personal Income (PIT)



- PIT revenue mobilization, at 5.3% of GDP, is very strong
- The single PIT rate of 25% is at the high end of the normal range
- PIT productivity, at 0.14% of GDP revenue for each percentage point of tax rate, is very high in comparison

Tax Administration Jamaica (TAJ) has achieved many excellent accomplishments in recent years



Benchmarking Table Outcomes: Selected Indicators

Indicator	International Benchmark	Jamaica
Percent of Taxpayers who pay the top 75% of revenues	5%	0.625%
Performance indicators for audits & auditors	Yes	Yes
Percent of LTO declared via internet	100%	20%
Clean & operating TRN	Yes	No
Planning, Monitoring, & Evaluation Systems	Yes	Yes
Professionalism of top-staff	Yes	Yes

Benchmarking Study Outcomes – Selected Best Practices

Indicator	Jamaica
Types of organizational structure	Yes
Roles of Central Office & operations	Yes
Centralized staffing	Partial
Delegations of authority	No
Adequate budget for support & field operations	No
Computerization & data networking	Partial

TAJ's Main Challenges

1. **Seriously understaffed, under-resourced, weak legislative authority for enforcement, sanctions against fraud**
2. **Need to reduce current high-risk for potential loss of tax revenue for GOJ**
 - a) LTO taxpayers
 - 1% audit rate vs 30%(international benchmark); only 1/3rd of staffing
 - Complexity of audits; need for industry specialization
 - Late filing/paying – PAYE 26%; GCT 6%
 - b) Non LTO, registered taxpayers – high late-filing/paying
 - PAYE 80%; GCT 35%

TAJ's Main Challenges (continued)

- 3. Need to quickly & progressively bring more taxpayers into the tax system**
 - a) Only 0.625% of taxpayers (500/80,000 active) pay 75% of tax revenue
 - b) TAJ analysis 2006-09 showed only 42-45% compliance level across all tax types
 - c) PSWG “90% of registered companies do not file CIT returns”
- 4. Need to get a firm grip on scope of unregistered/non-filers and strategies**
- 5. Need to enact legislation with “real consequences” for non-compliance**

Main Challenges - Operations

Challenge	Proposed Roadmap (Medium-to-Short term)
<p>1. LTO taxpayers – potential high-risk of under-reporting/paying</p>	<ul style="list-style-type: none">• 25-30 best auditors – from RSCS to LTO• 10-15 best TP Service Specialists from RSCS to Client Relations Officers• Establish data warehouse for risk ID/profiling• Acquire and apply computer-audit assisted tools, case management systems

Require international donor/partner assistance to get short-term, international industry specialists for training/skills transfer/OJT

Main Challenges – Operations (continued)

Challenges

2. **Registered taxpayers** – high rate of late filing/paying
3. **Unregistered taxpayers** – scope and identities unknown

Proposed Roadmap (Medium-to-Short term)

- Apply new risk and case management systems
- Develop Medium-Taxpayer segment (MTO)
- Strengthen FDIU operations, workplan, sectoral focus
- Continue to redraft, enact Tax Procedures Act to get 3rd party data
- Conduct **targeted** field surveys to detect unregistered taxpayers

Main Challenges – Operations (continued)

Challenge

4. **Debt Management** – high % of uncollectable, enforcement authority limited

Proposed Roadmap (Medium-to-Short term)

- Apply new risk and case management systems on tax arrears
- Finalize debt write off policy and related regulations
- Continue to redraft, enact Tax Procedures Act
- Make enforced collection by SET standard practice

Remaining Obstacles, Critical Success Factors for Operations

- **Tax Procedures Act (comprehensive, unified Act, with local legal terminology)**
- **Debt write off policy and related legal/regulatory guidelines (finalize)**
- **MOU's for information sharing – Customs, FID, RPD, etc**
- **Strengthen FDIU operations – sectoral research; annual workplan etc**

Main Challenges – Organization Structure & Staffing

Challenges

1. **Serious understaffing** – limited resources
2. **Limited resources**
3. **SARA status**
4. **Organization structure** - from 'in transition' to established
5. **Staffing** – job descriptions, classification and approval

Proposed Roadmap (Short term)

- Budget with adequate resources (already prepared and being considered)
- SARA status (on the verge – repeat successful steps)
- Organizational structure already designed – staff in place informally
- Job description and salary level approvals secured – 4 top positions
 - Sr. General Managers - many still pending
 - Contract job description specialist to assist

Next Steps for Benchmarking Team

- **Meeting with IMF Senior Resident Representative (4/5/2012)**
- **Close out meeting with USAID EG Officer and Mission Director (4/5/2012)**
- **Benchmarking Team departs Jamaica (4/6/2012)**
- **Draft Benchmarking Study submitted to USAID (4/20/2012)**
- **Quality Review & revisions to report based on USAID comments**
- **Final Benchmarking Report submitted to USAID**

Question & Answer