

AIRGRAM

DEPARTMENT OF STATE

Proj. 5320033 -
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FROM - KINGSTON

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DATE SENT

Jan. 22, 1970

SUBJECT - PROP: Reorganization of Income Tax Administration

REFERENCE - FY 71 Congressional Presentation

NONCAPITAL PROJECT PAPER (PROP)

Country: Jamaica Project No: 532-750-033
 Submission Date: January 26, 1970 Original
 Project Title: Reorganization of Income Tax Administration
 US Obligation Span: FY 71 through FY 72
 Physical Implementation Span: FY 71 through FY 72
 Gross Life-of-Project Financial Requirements:
 US Dollars: \$106,000
 Cooperating Country Cash Contribution: est. \$277,000

Summary Description

USAID recommends approval of the project, described hereunder, to provide 2 man-years of advisory services to assist reorganization of the Income Tax Department in Jamaica. The project as outlined follows the recommendations of IRS survey teams which, first under AID PIO/T and later under contract with the SOJ, drew up plans for reorganizing the Tax Department. Total budgeted cost to AID would be \$106,000. The Jamaican Cabinet has approved the reorganization plans and has submitted legislation to Parliament for any necessary changes in law.

Within the context of criteria for our modest AID program in Jamaica, this is a good project for US support. It is modest in cost, can make an important contribution

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OFFICE

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APPROVED BY:

W. P. Cannon: cw

DP

1-21-70

AID Affairs Officer: DWilken

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to Jamaican development, and is in a field in which the US has the capability of providing the services needed.

Summary of Funding Required (Obligations in \$000)

<u>Fiscal Years</u>	<u>Ap</u>	<u>L/G</u>	<u>Total Aid</u>	<u>Personnel Serv: PASA</u>	<u>Cooperating Country</u>
Budget FY 71	AG	G	70	70	132*
B+1 FY 72	AG	G	36	36	145^
Total Life	AG	G	106	106	277

* est. additional cost of new, revised tax administration

Setting or Environment

Jamaica has an income tax law on the books, with a fairly steep set of rates running up to 75% for net income over US\$18,000. Income tax collections accounted for 31% of total government tax revenues in 1968/69. But the income tax has had many weaknesses as an efficient source of revenue because of inefficient collection. It works well against salaried employees who are subject to PAYE (withholding). Others have been let off more lightly by a cumbersome system which lacks effective enforcement.

First of all, there is no self-assessment. The individual taxpayer has been sending in his raw data and the tax office analyzes them, levies an assessment, and then the interminable arguments begin. Returns may remain in an "objections" status for years. And there is very little auditing.

Tax offices are understaffed and do not have the time or competence for any comprehensive auditing work. The jobs in the offices have not been attracting able candidates because of low pay. The low efficiency is mirrored in the physical state of the tax commission's building which, though new even if austere, looks rundown and disorganized.

The Government of Jamaica, like any other government, needs more revenue. It also needs to distribute the tax burden more equitably. Hence, the logic of improving the administration and increasing collections under the income tax.

Strategy

The Government of Jamaica is determined to improve administration of the income tax. It has taken as its point of departure the recommendations of a retired IRS officer (Mr. Charles Emlet) as consultant. He had surveyed the Jamaican income tax administration in 1965 (AID PIO/T 532-50024). A team of three IRS advisors, including Mr. Emlet, returned to Jamaica last year under contract to the GOJ to provide further assistance in drafting recommendations for reorganization of the income tax collection structure. The Cabinet has approved a comprehensive series of recommendations which will:

- 1) Adopt the principle of self-assessment for returns beginning with those for 1969; new and revised forms are now being mailed to taxpayers;
- 2) Revise the personnel structure, and provide higher pay;
- 3) Strengthen the audit sections;
- 4) Last but not least, fix up the income tax building in Kingston with the view toward providing better service to taxpayers.

Recommendations requiring legislative changes have gone to Parliament where approval is assured.

Planned Targets, Results, Outputs

The government's stated goal is to increase income tax assessments by J\$1 million (US\$1.2 mil) per year in the next three years over and above any increase expected through a rise in income levels. This figure probably understates the potential quite a bit. Another expected advantage, although a less tangible one, is the hoped-for popular awareness of the more equitable burden-sharing resulting from decreased tax evasion.

Course of Action

It is proposed to provide the GOJ with the following advisors to assist in the reorganization of tax administration and collection procedures:

- 1) A specialist for a period of two years, with an overall knowledge of IRS district organization and functions. He should be particularly knowledgeable in the areas of processing returns, collecting

delinquent accounts, and obtaining delinquent returns.

- 2) A specialist in field audit techniques to provide intermittent services totalling six months; and
- 3) A specialist in administration to assist with personnel administration, supply management, forms design, and form letters, etc., for a total of three months.

If the proposal is approved, AID/W will be asked to negotiate a PASA with IRS to take effect as early as possible in FY 71. The GOJ has interim contractual arrangements with IRS through the balance of FY 70 but will need new financing thereafter. It has held preliminary talks with IRS which says it can supply the specialists needed.

DE ROULET

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FROM - KINGSTON

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REFERENCE - TOAID A-11

Please note that the advisors to be furnished by AID under the subject proposal (see "Course of Action") would not have operational roles. They would advise Jamaican officials on administrative and organizational changes. They would not have professional contacts with taxpayers.

DE ROULET

OTHER AGENCY

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DRAFTED BY WBPaxson	OFFICE DP	PHONE NO.	DATE 1-30-70	APPROVED BY: Program Officer: WBPaxson
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Department of the Treasury

Internal Revenue Service

Washington, DC 20224

Date **APR 10 1970** In reply refer to:

C:FA:O



Mr. John R. Kanline
Chief, Jamaican Affairs
AID/W, Room 3242
Department of State
Washington, D.C. 20520

Dear Mr. Kanline:

We have reviewed the PROP covering the reorganization of the income tax administration in Jamaica per your request of March 19, 1970.

Although rather succinct, the PROP appears to cover such essential elements as current environment, strategy, planned input on the part of the GOJ and the U.S., a plan of action and expected results.

Our involvement in the Jamaican tax administration improvement program has been limited to the conduct of a survey in 1965 and some back up assistance to Mr. Charles Emlet, a retired IRS Director, who has inaugurated a program to implement the recommendations which he made in the survey. The assistance that has been rendered by Mr. Emlet, under direct contract with the GOJ, has consisted of several short trips to Jamaica together with some short-term assistance by other IRS employees or retirees working under Mr. Emlet's direction.

We recently had occasion to make a rather cursory review of the program and found that a great amount of progress has been made in spite of the minimum assistance provided under the contract. The Income Tax Department has been completely reorganized along functional lines with increased staffing and higher salary levels. The basic tax return has been radically revised and a new manual processing system, including written procedures, has been established.

The taxpayer assistance program has been expanded, the office assistance area revamped and excellent publicity is now appearing daily in the local press. New audit procedures have been written and projects are now under way to train office auditors and field auditors in the new methods and techniques.

Of greatest significance, we feel, is the approval received for a pay scale for Inland Revenue employees that goes way beyond the regular civil service pay scale. This should resolve the most urgent problem pointed up in the original survey -- inability to attract and hold competent personnel because of low pay. The willingness of GOJ officials to set up a real "blue ribbon" tax service outside regular civil service standards is concrete evidence of their sincere desire to effect meaningful tax reform.

An excellent start has been made in the GOJ tax administration improvement program; however, it is only a beginning. The difficult phase of recruiting and training competent employees, implementing the new procedures and maintaining the original momentum that has been built up, will require expert direction and advisory assistance for the next several years.

Our experience with similar programs in other countries indicates that a full-time on-site tax administration specialist is urgently needed. The total amount of assistance provided for in the PROP -- two-and-three-quarters man years -- is an absolute bare minimum for a project of this type. However, we are confident that in view of the progress made to date and the competence and enthusiasm for change exhibited by the GOJ tax officials significant and lasting improvements in the tax agency will result.

We are prepared to support a tax administration project in Jamaica to any extent that you and the AID Mission deem appropriate. The part time advisor assistance now being contracted for by the GOJ will terminate in July and we feel it would be most desirable to begin the proposed AID project by that time.

With kindest personal regards.

Sincerely,



Harold Moss, Director
Foreign Tax Assistance Staff

cc: Casper Green - AID/W
William Feldman - AID/W
William Paxson - AID/Jamaica

P. S. In all, I feel that the progressive attitude displayed by the people in Jamaica is a big "plus" for them, and represents one encouraging reason for going ahead with the project.

