

AMERICAN

DEPARTMENT OF STATE

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A.I.D.
Reference Center
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May 27, 1971

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TO - AID/W TOAID A- 44

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FROM - KINGSTON

SUBJECT - PROP: Income Tax Administration

REFERENCE -

NONCAPITAL PROJECT PAPER (PROP)

7

Country: Jamaica

Project Number 532-11-750-033

Submission Date: 5/27/71

Revision Number 1

Project Title: Income Tax Administration

U. S. Obligation Span: FY 1971 thru FY 1974

Gross life-of-project financial requirements: US Dollars \$323,000

(Note: The original PROP, transmitted as TOAID A-11 of 22 January 1970, was approved for only FY 1971 financing, as per State 86597 dated 4 June 1970.)

* * * * *

I. Summary Description

Responding to a request from the Jamaican Government, USAID in FY 1971 initiated a tax administration advisory project patterned after recommendations originally put forward by IRS consultants in 1965. The scale of the project is modest - one resident advisor plus TDY consultants, to be supplemented by participant training beginning in FY 1972. The impact on Jamaican Government finances, however, promises to be major. Already there has been a marked increase in tax collections ascribable to the modernization program which AID is assisting.

PAGE 1 OF 7 PAGES

DRAFTED BY HSchweizer WHPaxton	OFFICE Tax DP	PHONE NO.	DATE	APPROVED BY: AAO: George B. Roberts, Jr.
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AID AND OTHER ELEMENTS

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The project arose from the Jamaican Government's realization that it had to do something about the poor administration and widespread evasion which were undermining the efficacy of its income tax. It should be noted at once, however, that Jamaica started from a position ahead of most developing nations in that at least it had an income tax law on the books and the receipts from this tax formed a substantial part -- over 45% -- of total government tax revenue. But enforcement left much to be desired. The only people who really paid all the taxes the law required them to pay were the salaried employees subject to Pay As You Earn (PAYE) withholding taxes. For the rest, evasion was the rule. The Finance Minister termed this the National Sport. In the almost total absence of audit, few felt impelled to confess their true incomes. Many individuals and firms did not bother filing returns at all. And there was little checking of the returns that were filed. The clerks in the Tax Office spent most of their time just computing the amount of tax due, for, until this year, the self-assessment system was not used: the taxpayer simply submitted raw data. The Tax Department had little time to go behind these data to ascertain their accuracy or completeness.

U.S. assistance will concentrate in the areas of audit, administration, collection, and intelligence. The project is being carried out through a PASA with the Internal Revenue Service. U.S. personnel working on the project -- both resident and short-term -- act as advisors to Jamaican Government officials. They will never be involved in operational roles.

Last year's PROP envisaged a two-year project ending at the close of FY 72. It now appears that a more realistic appraisal of the time needed to complete the task is 4 years, and we are phasing this revised PROP accordingly. We shall, however, make a thorough appraisal before the end of FY 1972 -- more or less at mid-point in the four-year period -- to determine whether this longer period is in fact necessary and advisable.

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:</u>		<u>Participants</u>
				<u>AID</u>	<u>PASA</u>	<u>PASA or AID</u>
Operational Year FY 71	AG	G	70	17	53	-
Budget FY 72	AG	G	107	17	70	12
B+1 FY 73	AG	G	87	12	65	10
B+2 FY 74	AG	G	59	8	40	5
Total Life	AG	G	323	54	242	27

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II. Setting and Environment

By the standards of most developing countries, Jamaica has a relatively healthy fiscal picture. The Government covers all current expenditures from tax revenue, while overall budgetary deficits (current plus capital account) have been running at about 18% of total expenditures. These deficits are covered by borrowing from local and international sources, both public and private, without direct recourse to printing-press inflation by currency emission. Price inflation, minor during most of the decade of the 60s, has however shown signs of increasing; in 1970, for example, the consumer price index for the Kingston-St. Andrew area rose by 7.4%.

The Jamaican Government has serious fiscal problems, and the plight of the income tax illustrates the need for remedial action. Jamaica needs to tap its own resources to a greater extent to finance its developmental needs -- infrastructure, education, housing - the usual list. It needs to spread this burden more fairly. And it needs to tackle the problem of poor administration which affects the Income Tax Department like many another government office.

Corporate and personal income taxes account for about 33% of all government revenue and about 45% of total tax collections. Personal income taxes are based on a fairly steep set of rates running up to 75% of net income over \$18,000. The severity of the rate structure is counterbalanced by liberal exemption rules and practices and, at least in the past, by widespread evasion.

III. Strategy

Some overhauling of the tax legislation will ultimately be necessary to bring rates to more moderate levels and at the same time rationalize the system of exemptions and allowances. The GOJ has chosen to make its start, however, by tackling the administrative problems. This means, first of all, upgrading the Income Tax Department: better employees, better pay, better organization. This improved office should then be in a position to attack an accumulated chaos of unsettled accounts running back many years, mountains of unanswered correspondence, and an almost total lack of auditing of returns.

The Government adopted a plan of reorganization drawn up by retired IRS officers on contract and began its implementation in 1970. It put in a new staff structure, increased salaries, and a realigned internal organization. Severe penalties have been enacted to stop widespread delinquencies in the submission by employers of funds they had withheld from employees' paychecks; fines run up to 50% of the amount delinquent. Beginning with the returns submitted this year on 1970 income, individual taxpayers figure out their own tax due, which is then subject to audit by the tax department. There has also been some tightening up in the legislation concerning business

taxes: for example, in the taxation of undistributed earnings.

There has been progress, as reflected in the fact that income tax collections in the year ending 31 March 1971 exceeded original estimates by J\$8 million. Obviously, however, a thoroughgoing reform will take time. The biggest task will be that of getting an efficient audit system in operation. Only a beginning has been made so far.

USAID advisors will not be the only foreigners walking around the corridors of the Income Tax Department. The Department has a number of UK and other specialists under contract, often in operational roles. There is also an advisory team provided under the Canadian assistance program. The general task of this latter team is to study the Jamaican Civil Service and come up with recommendations for its overhaul; the team is now giving priority attention to the Income Tax Department. While there may be a bit of treading of toes now and then, there is no essential duplication of effort among these groups. Their missions are complementary. The contract advisors hold down jobs in the table of organization: working as auditors, for example. The Canadians are looking at the broad problem of civil service reorganization. USAID technicians advise on management problems. There is plenty of work for all.

IV. Planned Targets, Results and Outputs

The broad goal of the project is an Income Tax Department capable of exacting reasonable compliance with the tax laws. More specifically, this goal involves achievement of the following objectives:

1. A broadened tax base, with everyone filing who should do so. Presently the tax burden is inequitably carried by the middle class, whose earnings are subject to withholding tax.
2. An improved clerical procedure for the maintenance of an up-to-date list of taxpayers, with returns filed in timely fashion and a diligent follow-up on delinquents.
3. An expanded collection force to ensure that delinquencies in the payment of tax, filing of returns and PAYE (withholding tax) are held to a minimum.
4. Voluntary compliance fostered by the further development, both numerically and qualitatively, of an audit force so that a representative number of returns are examined each year.

5. In-house training facilities capable of imparting the necessary technical skills to field agents, office auditors, collection officers, special investigators and taxpayer assistants.

6. Improved management skills at all levels so that eventually the Department can function without the assistance of foreign advisors and staff.

7. Development of a force of special investigators to detect fraud, gather evidence, and prepare documentation needed for successful criminal prosecution.

8. Improved support functions - Personnel, Facilities Management and Finance - enabling top management to become less involved in minor administrative matters, thus allowing these officials more time to pursue their main responsibility.

9. An internal audit and security force able to maintain the integrity of procedures.

10. A taxpayer education program in support of the voluntary compliance concept.

Measurement of progress in concrete terms is difficult to calculate altho it is obviously useful to have some index available. We have selected the following as significant series which will be used to check the Income Tax Department's progress:

Years ending March 31	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Gross Collections	J\$88 m.			
Main List Returns Filed	9,200			
Number of PAYE Accounts	3,150			
Taxpayer Delinquent Accounts	NA*			
Taxpayer Delinquent Investigations Closed	NA			
Examinations Made:				
Field Audit	280			
Office Audit	747			
Fraud Cases Referred for Prosecution	0			
Taxpayers Assisted	33,500			

*NA = Not Available

Qualitative measurements are to a degree reflected in the attainment of the above projections, as, for example, TDA's and TDI's closed and the number of cases accepted for prosecution. However, the best indicator would be from reports of internal audits. These are reflective of the quality of performance and would point out both deficiencies and areas of excellence for management and the Tax Team.

V. The Course of Action

AID will carry out this project thru a PASA with IRS providing technical advisors, supplemented by training for Jamaican personnel, both locally and in the US. Assistance will fall into four general functional areas: collection, audit, administration and intelligence. These are explained in more detail below.

A. Collection. The first duty of any good income tax department is obviously to collect the taxes. In Jamaica actual collection of income taxes is handled by the Income Tax Department only in the Kingston-St. Andrew area -- the Collector General's Office, a separate organ of the Ministry of Finance and Planning, handles this task elsewhere -- but central records are kept by the Department.

The plan of work under this project includes action to

- 1) Analyze procedures followed for processing returns, including maintenance of the main list of taxpayers; and plan and carry out improvements with the aim of speeding up operations and maintaining accounts receivable on the current basis;
- 2) Move gradually into automatic data processing for listing taxpayers, if this should prove to be feasible and desirable;
- 3) Expand and improve the Collection Officers Force; and
- 4) Develop improved collection forms for use by the Department.

B. Audit. The idea here, of course, is to develop an audit force which, through the publicity attending its intensive examination of selected returns, will persuade taxpayers that voluntary compliance with the tax law is a good thing. This means a shifting away from the "assessor concept" of examination to selective examination using modern field and office audit concepts. More specifically this will involve

- 1) Installation and monitoring of an audit work planning and control system, including the development of performance standards;
- 2) Guidance and training in examination techniques; and

3) **Development of improved procedures on the classification of returns for examination.**

C. **Administration.** Assistance in this field will help develop the organization and skills needed for support functions including

1) Personnel administration;

2) Facilities management -- i. e. GSO-type operations;

and
3) Public information -- with emphasis on a taxpayers education program;

4) Training -- developing the ability of the Income Tax Department to plan, organize and carry out on-the-job and other types of staff training.

D. **Intelligence:** Tax intelligence, of course. Plans here envisage training a special investigator in the techniques of fraud investigation.

E. **General and miscellaneous.** Pending the development of an in-house capability, the advisory team plans to conduct middle management and supervisor training courses, and to arrange for orientation visits of certain Jamaican officials to IRS centers in the US.

de ROULET



PROJECT AUTHORIZATION

1. PROJECT NUMBER 532-11-750-033	3. COUNTRY Jamaica	4. AUTHORIZATION NUMBER
2. PROJECT TITLE Reorganization of Income Tax Administration		5. AUTHORIZATION DATE
		6. PROP DATED 5-27-71

7. LIFE OF PROJECT

a. Number of Years of Funding: 2
Starting FY 19 71; Terminal FY 19 72

b. Estimated Duration of Physical Work
After Last Year of Funding (in Months): 0

FUNDING BY FISCAL YEAR (in U.S. \$ or \$ equivalent)	DOLLARS (000)		P.L. 480 CCC + FREIGHT	LOCAL CURRENCY Exchange Rate: \$1 =			
	GRANT	LOAN		U.S. OWNED		HOST COUNTRY	
				GRANT	LOAN	JOINTLY PROGRAMMED	OTHER
Prior through Actual FY							
Operational FY 71	70						132
Budget FY 72	107						145
B + 1 FY							
B + 2 FY							
B + 3 FY							
All Subsequent FY's							
TOTAL	177						277

9. DESCRIBE SPECIAL FUNDING CONDITIONS OR RECOMMENDATIONS FOR IMPLEMENTATION, AND LIST KINDS AND QUANTITIES OF ANY P.L. 480 COMMODITIES

10. CONDITIONS OF APPROVAL OF PROJECT

PROP approved through FY 72.
See State 115612 for conditions.

(Use continuation sheet if necessary)

11. Approved in substance for the life of the project as described in the PROP, subject to the conditions cited in Block 10 above, and the availability of funds. Detailed planning with cooperating country and drafting of implementation documents is authorized.

This authorization is contingent upon timely completion of the self-help and other conditions listed in the PROP or attached thereto.
This authorization will be reviewed at such time as the objectives, scope and nature of the project and/or the magnitudes and scheduling of any inputs or outputs deviate so significantly from the project as originally authorized as to warrant submission of a new or revised PROP.

A.I.D. APPROVAL		CLEARANCES		DATE
 Herman Kleine SIGNATURE		LA/OPNS, G. Hill		6/18/71
		LA/DP, S. Chernenkoff		6/15/71
		LA/CAR/J, J. Kanline		
		LA/DR, W. Feldman		
		LA/IRS, R. Newman		
AAIA, Deputy U.S. Coordinator	6/30/71	A/CONT LA/DP, J. Heller	6/29	6/15/71
TITLE	DATE			



Department of State

TELEGRAM

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PAGE 01 STATE 115612

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ORIGIN AID-30

INFO OCT-01 IGA-02 E-04 INR-08 /045 R

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DRAFTED BY: LA/ OPNS: GAHILLI
APPROVED BY: LA/ DP: JIHELLER
LA/ OPNS: HLMYERS LA/ DP: SCHERNENKOFFI
LA/ CAR: JKANLINE LA/ DR: WFELDMAN
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ACTION LA
INFO OA GC AAPC 30P

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FM SECSTATE WASHDC
TO AMEMBASSY KINGSTON

UNCLAS STATE 115612

AIDAC

SUBJECT: PROP REVIEW- INCOME TAX ADMINISTRATION PROJECT
NO. 532-11-750-033

REF: FOAID A44

1. LATIN AMERICA BUREAU PROP REVIEW PANEL APPROVED THIS PROP
THROUGH FY-72 ON JUNE 18, 1971.

2. THE PANEL SUGGESTED THAT THE MISSION AMEND SECTION IV, PAGE
4 OF THE PROP DURING FY 72 TO DESCRIBE MORE PRECISELY THE
CONDITIONS EXPECTED TO EXIST AT THE END OF THE PROJECT IN FY 74.
THE PROJECT IS PRIMARILY CONCERNED WITH IMPROVING TAX ADMINISTRATION
AND THE END-OF-PROJECT STATUS MAY NOT BE ADEQUATELY PROJECTED
SOLELY BY ESTIMATES OF REVENUE COLLECTIONS, RETURNS FILED ETC.,
SINCE THE CAUSALITY BETWEEN INCREASED REVENUES AND IMPROVED
ADMINISTRATION IS DIFFICULT TO DEMONSTRATE. THEREFORE, THE CHANGES
IN ADMINISTRATIVE AND PROCEDURAL PRACTICES SOUGHT BY THE PROJECT
SHOULD BE NARRATIVELY DESCRIBED IN TERMS SUFFICIENTLY PRECISE
THAT AN OUTSIDE OBSERVER COULD TELL WHETHER OR NOT THEY HAD
BEEN ACCOMPLISHED IN FY 74. FOR EXAMPLE, IN PROP PART IV, PARAGRAPH

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2, WHAT SORT OF CLERICAL IMPROVEMENT IS ENVISIONED AND REALISTIC, WHAT DEGREE OF TIMELY FILING OF RETURNS AND WHAT PERCENTAGE OF FOLLOWUPS ON DELINQUENTS CAN/ SHOULD BE ACHIEVED BY THE END OF FY74? IN PARAGRAPH 3 HOW LARGE AN EXPANSION OF THE COLLECTION FORCE WILL BE NECESSARY? THIS SORT OF ANALYTICAL TREATMENT OF TARGETS AND END- OF- PROJECT EXPECTATIONS IS NOT ONLY HELPFUL FOR PERIODIC EVALUATION, BUT IS AN ESSENTIAL ELEMENT OF THE PROJECT PLANNING PROCESS. ROGERS

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A.I.D.
Reference Center
Room 1656 NS.

DATE REC'D.

TO- AID/W TOAID A- 82

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CENTER

DATE SENT
9/2/71

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ACTION

Mail Room

INFO.

FROM - KINGSTON

SUBJECT - Income Tax Administration
PROP (Project 532-11-750-033)

REFERENCE - (A) TOAID A-44
(B) State 115612

Section IV of the subject PROP is amended to read as follows:

The broad goal of the project is an Income Tax Department capable of exacting reasonable compliance with the tax laws. More specifically, this goal involves achievement of the following objectives:

1. A broadened tax base, with at least 80% of eligible taxpayers filing. Presently the tax burden is inequitably carried by taxpayers, mostly middle class, whose earnings are subject to withholding tax.
2. A master list of taxpayers, both company and individual, that will be maintained currently, with diligent and timely follow-up on delinquents.
3. An expanded collection force, increased from one group to 3 groups of 14 to follow up on delinquents in the payment of tax, filing returns and PAYE (withholding tax).
4. Voluntary compliance fostered by the further development of an audit force (3 office and 3 field audit groups) capable of examining a representative number of returns each year.

PAGE 1 OF 2 PAGES

DRAFTED BY HSchweizer:ky	OFFICE TAX	PHONE NO	DATE 8/31/71	APPROVED BY: Program Officer: WBPaxson
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AID AND OTHER CLEARANCES

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5. In-house training facilities capable of imparting the necessary technical skills to field agents, office auditors, collection officers, special investigators and taxpayer assistors.
6. Improved management skills at all levels so that eventually the Department can function without the assistance of foreign advisors and staff.
7. Development of support functions (personnel, facilities management and finance) capable of satisfactorily caring for the needs of the Department, thus allowing management officers more time to pursue their main responsibility.
8. An internal audit and security force, numbering 2 to 3, capable of maintaining the integrity of procedures and investigating alleged acts of wrongdoing by employees of the Department.
9. A taxpayer education system in support of the voluntary compliance concept, with newspaper articles and TV coverage. There will also be a special effort to introduce this subject matter into the educational system, starting with a program of reaching at least 75% of the secondary school students. The objective will be the creation of an understanding for the necessity of income tax.

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ORIGIN AID-26

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DRAFTED BY: LA/OPNS:GEORGEHILLI

APPROVED BY: LA/DP:JIHELLER

LA/CAR:JKANLINE

LA/DR:WFELDMAN

LA/DP:SCHERNENKOFF

DIST: SC ACTION LA INFO AAPC TAB 26P

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R 122014Z OCT 71
FM SECSTATE WASHDC
TO AMEMBASSY KINGSTON

UNCLAS STATE 186644

AIDAC

SUBJECT: INCOME TAX ADMINISTRATION PROP (PROJECT 532-11-750-033)

REF: TOAID A-44, STATE 115612, TOAID A-82

ON BASIS REF C, PROP APPROVAL EXTENDED THRU LIFE OF PRO-
JECT IN FY 74. ROGERS

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