278-0247 /42

PD-AAI-340

UNCLASSIFIED

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D. C. 20523

INCOME TAX ASSISTANCE

PROJECT PAPER

USAID/JORDAN

UNCLASSIFIED

PROJECT AUTHORIZATION

Name of Country : Hashemite Kingdom of Jordan
Name of Project : Income Tax Assistance
Number of Project: 278-0247

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Income Tax Assistance Project for Jordan involving planned obligations of not to exceed $1,000,000 in grant funds over a one-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project consists of improving and modernizing the technical capacity of the Department of Income Tax(DIT).

3. The Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in the United States and the Cooperating Country, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Conditions Precedent to Initial Disbursement

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish, in addition to the standard legal opinion and specimen signature(s), in form and substance satisfactory to A.I.D., (i) the names and titles of the three counterparts selected to work with the U. S. advisors, and (ii) an organization chart showing the positions with whom the U.S. advisors will work, identifying the positions as filled or unfilled, and indicating DIT's plans for filling vacant positions.

c. Conditions Precedent to Disbursement for In-Country Training

Prior to any disbursement under the Grant, or to issuance by A.I.D. of any documentation pursuant to which disbursement will be made for development of the in-country training program applicable to entities of the Government of Jordan (GOJ) in addition to DIT, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., (1) the name of the organization or administrative entity in which such training function will be located, (2) the concurrence of the selected organization as evidenced by a contract or other written form of agreement, (3) assurances as to the capacity of the selected entity to carry out such training, and (4) assurances as to the availability of such training to other organizations of the GOJ.

Walter G. Bollinger
Director, USAID/Jordan

UNITED STATES GOVERNMENT

memorandum

DATE: Aug 6 , 1981

REPLY TO ATTN OF: Douglas L. Sheldon, Controller DLS

SUBJECT: Income Tax Assistance Project Paper (278-0247)

TO: Lois Richards, Acting Director, USAID/Jordan

PROBLEM: Your approval is required for the subject Project Paper.

DISCUSSION: The project is an effort to assist the GOJ in the improvement and modernization of the Department of Income Tax within the Ministry of Finance. Technical assistance provided by IRS tax administration specialists and training will be utilized in a coordinated effort aimed at the establishment of a sound managerial and technical base in the Department of Income Tax.

ISSUES: Two issues have been identified but are not included within the PP document:

(1) A Congressional Notification Advise of Program Change has been submitted on July 22, 1981 . The waiting period expires August 6, 1981.

(2) The selection process for participant training may be affected in view of recent legislation concerning private sector participant selection.

RECOMMENDATION: That you sign the attached Project Paper facesheet (Project Data Sheet) approving the Project Paper.

Attachments

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6
5010-112

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: _____

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Jordan

3. PROJECT NUMBER: 278-0247

4. BUREAU/OFFICE: Near East

5. PROJECT TITLE (maximum 40 characters): Income Tax Assistance

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 83

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 81 B. Quarter 4 C. Final FY 81

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 81 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	761	239	1,000	761	239	1,000
(Grant)	(761)	(239)	(1,000)	(761)	(239)	(1,000
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country		551	551		551	551
Other Donor(s)						
TOTALS	761	790	1,551	761	790	1,551

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	654	810				1,000		1,000	
(2)									
(3)									
(4)									
TOTALS						1,000		1,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE COD

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To enhance the institutional capability for income tax administration within the GOJ.

14. SCHEDULED EVALUATIONS

Interim MM 03 YY 82 MM YY Final MM 06 YY 84

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY

Signature: Lois Richards

Title: Acting Director USAID/Jordan

Date Signed: MM 07 DD 16 YY 81

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTIO: MM DD YY

AID 1330-4 (8-79)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete) — Revision No.

DOCUMENT CODE: 1

COUNTRY/ENTITY: Jordan

3. PROJECT NUMBER: 278-047

BUREAU/OFFICE: Near East — A. Symbol — B. Code: 03

5. PROJECT TITLE (maximum 40 characters): Income Tax Assistance

ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

A. Initial FY: 81

B. Final FY: 81

C. PACD: 84

7. ESTIMATED COSTS ($000 OR EQUIVALENT, $1

FUNDING SOURCE	LIFE OF PROJECT
A. AID	1,000
B. Other U.S. 1.	
B. Other U.S. 2.	
C. Host Country	551
D. Other Donor(s)	
TOTAL	1,551

8. PROPOSED BUDGET AID FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. 1ST FY 81 1. Grant	D. 1ST FY 81 2. Loan	E. LIFE OF PROJECT 1. Grant	E. LIFE OF PROJECT 2. Loan
ESF	654	810		1,000		1,000	
TOTALS				1,000		1,000	

SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

10. SECONDARY PURPOSE CODE

SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

PROJECT PURPOSE (maximum 480 characters)

To enhance the institutional capability for income tax administration within the GOJ

RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: The project paper will be prepared by the Project Officer, the USAID Deputy Controller, in consultation with a representative of the GOJ Department of Income Tax, and with the assistance of the Human Resources Development Committee of USAID Jordan. The IRS may also participate in PP preparation.

Funds: No additional funding is required.

ORIGINATING OFFICE CLEARANCE

Signature: Lois Richards

Title: Acting Director USAID/Jordan

Date Signed: MM 04 DD 16 YY 81

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

PROJECT DOCUMENT ACTION TAKEN

S = Suspended
A = Approved
D = Disapproved
CA = Conditionally Approved
DD = Decision Deferred

17. COMMENTS

ACTION APPROVED BY

Signature

Title

19. ACTION REFERENCE

20. ACTION DATE: MM DD YY

ID 1330-2 (8-79)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Revision No.

DOCUMENT CODE: 1

2. COUNTRY/ENTITY: JORDAN

3. PROJECT NUMBER: 278-0247

4. BUREAU/OFFICE: Near East — A. Symbol: NE — B. Code: 03

5. PROJECT TITLE (maximum 40 characters): Income Tax Assistance

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

A. Initial FY: 81

B. Final FY: 81

C. PACD: 83

7. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 =)

FUNDING SOURCE		LIFE OF PROJECT
A. AID		1,000
B. Other U.S.	1.	
	2.	
C. Host Country		817
D. Other Donor(s)		
TOTAL		1,817

8. PROPOSED BUDGET AID FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. 1ST FY 81 1. Grant	D. 1ST FY 81 2. Loan	E. LIFE OF PROJECT 1. Grant	E. LIFE OF PROJECT 2. Loan
1) ESF	654	810		1,000		1,000	
2)							
3)							
4)							
TOTALS				1,000		1,000	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

12. PROJECT PURPOSE (maximum 480 characters)

The purpose of the project is to improve Jordan's income tax administration and thereby increase domestic revenue generation.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: The project paper will be prepared by the Project Officer, the USAID Deputy Controller, in consultation with a representative of the GOJ Department of Income Tax, and with the assistance of the Human Resources Development Committee of USAID Jordan. The IRS may also participate in PP preparation.

Funds: No additional funding is required.

14. ORIGINATING OFFICE CLEARANCE

Signature: [illegible]

Title:

Date Signed: MM DD YY

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

16. PROJECT DOCUMENT ACTION TAKEN

S = Suspended
A = Approved
D = Disapproved
CA = Conditionally Approved
DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY

Signature:

Title:

19. ACTION REFERENCE

20. ACTION DATE

MM DD YY

AID 1330-2 (8-79)

INCOME TAX ASSISTANCE

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INCOME TAX ASSISTANCE

I. Summary and Recommendations

A. Grantee: The Government of Jordan.

B. Implementing Agency: Department of Income Tax.

C. Amount: U.S. $1,000,000, for which approval is requested for authorization and obligation in FY 1981.

D. Total Project Cost: The total project cost is estimated at $1,551,000. The GOJ contribution is estimated at $551,000, or 35 percent of the total project cost.

E. Project Purpose: The purpose of the project is the enhancement of the institutional capability for tax administration within the GOJ Department of Income Tax.

F. Project Description: The proposed project is an effort to assist the GOJ in the improvement and modernization of the Department of Income Tax within the Ministry of Finance. Technical assistance provided by IRS tax administration specialists and training will be utilized in a coordinated effort aimed at the establishment of a sound managerial and technical base in the Department of Income Tax. Areas of emphasis include: (1) data processing applications and training, (2) management and organization, (3) assessment/audit, (4) collection, and (5) delinquent accounts. The proposed project is a continuation of short-term IRS efforts to assist the Department of Income Tax. The success of this effort has prompted the GOJ to seek a broadening and extension of this assistance.

G. Grantee Contribution: The GOJ contribution to the project of $551,000, or 35 percent of the total project costs, includes (1) acquisition of a computer system and staff, (2) office space, supplies and equipment, (3) administrative and logistical support, and (4) travel and other related costs for training.

H. Statutory Checklist: All statutory criteria have been met, as indicated in Annex D.

I. Issues: Issues raised in the NEAC review, Annex C, including evaluation and impact of the tax modernization effort, have been addressed in the PP. Principal remaining issues are: (1) staffing levels in the ADP function, (2) determination of the entity which will assume responsibility for in-service training, and (3) decision as to the implementation of self-assessment during the course of the project. Each of these issues is the subject of a CP or covenant.

J. Source and Origin: Goods and services, except for ocean shipping, financed by AID under the project shall have their source and origin in the United States and the cooperating country. Ocean freight financed by AID under the Project shall be financed only on U.S. flag vessels.

K. Recommendation: It is recommended that a Grant of $1 million be authorized in accordance with the terms and conditions of the draft project authorization shown in Annex E.

L. Project Committee:

USAID/Jordan

Douglas L. Sheldon, Controller, Chairman
Jimmie Osburn, IRS Senior Advisor
Jarir Dajani, USAID Social Scientist
Larry Brown, Capital Projects Officer
Paula Harrell, Representative of the Office of Technical Projects
Nancy Carmichael, IDI, Program Office

M. Senior Review Committee:

Lois Richards, Acting Director, Chairman
Dan Leaty, Program Officer
Tom Pearson, Capital Development Officer
Douglas Sheldon, Controller
James Turman, General Development Officer

II. Project Description

A. Project Purpose and Strategy

1. Project Purpose

The proposed project is a technical assistance and training effort to modernize and improve the tax administration capacity within the GOJ Department of Income Tax. The project is in direct support of GOJ's efforts to implement effectively their tax legislation.

The legal basis for taxation of income in Jordan is Income Tax Law No. 25 of 1964, which provides for assessment and collection of income taxes. The law provides for progressive taxation. The tax law and its subsequent amendments provide an adequate legal basis for enforcement. The GOJ has not, however, been able to fully implement the legislation. Accordingly, Jordan's income tax revenues are low. In 1979, for example, income tax collections amounted to 12 percent of domestic revenues compared to prevailing rates of 50 percent and 18 percent in developed countries and LDC's, respectively.

The principal constraint to effective implementation of the tax law and GOJ income taxation policy is the technical capacity of the Department of Income Tax (DIT). The DIT does not possess the expertise or the resources to develop and administer a comprehensive system of tax assessment and collection. For example, under current procedures, a taxpayer must be assessed before tax is considered payable. However, the DIT only possesses the capacity to assess annually between 20 and 25 percent of the identified taxpayers. Similarly, a lack of established procedures and guidance on audit, assessment, and review slows processing and retards collections. The DIT has only been able to identify 50-60 percent of the total potential taxpayers. Specific problem areas are noted in the reports of the IRS PASA advisors who performed 5 short-term assignments in Jordan. These reports are incorporated by reference to this project paper. General areas where the DIT lacks technical capacity include: (a) all areas of Automatic Data Processing, (b) identification of taxpayers, (c) management and organization, (d) assessments, (e) collections, and (f) taxpayer services.

The GOJ is determined to implement an effective income tax. The GOJ is also aware that attainment of this policy objective is dependent on improved income tax administration. A number of measures in this direction have been taken including: (a) training efforts in the U.S.

and through the Institute of Public Administration in Jordan; (b) procurement of an Automated Data Processing (ADP) facility, including a computer; and (c) most importantly, a short-term technical assistance program with USAID/IRS, the results of which are described in Annex H, Prior Experience.

In summary therefore, the project purpose is to support the GOJ effort to modernize and improve the income tax administrative capacity to develop and implement taxation policy. There is a high potential for the achievement of the project purpose amply demonstrated by: (a) the willingness of the GOJ to allocate resources to the project, (b) prior USAID/IRS experience with the DIT, and (c) the priority which the GOJ places on this activity.

2. Beneficiaries

a. Direct Beneficiaries

The direct project beneficiaries will be the counterpart employees of the Department of Income Tax and the GOJ officials who receive training through the project. The entire Department will also benefit directly through improved tax administration and ADP methodologies employed in support of the GOJ income tax policy and legislation.

b. Indirect Beneficiaries

There are a number of indirect benefits which can be expected through the project. These benefits will ultimately affect a large proportion of the population of Jordan. Indirect benefits fall into the categories of social equity and economic benefits.

(1) Social Equity

All taxpayers should benefit indirectly from the project in the context of social equity. The social soundness analysis (Section III.B) indicates inequities in the current administration of the income tax laws. Project efforts which enhance effective and equitable tax administration will have the effect of reducing the disproportionate burden of income taxation on those currently paying income taxes. A principal objective of the project is to assist the DIT in the development of more effective audit and review procedures. This will have the effect of reducing the uncertainty with which the law is currently administered, one of the principal inequities of the current administration. The proposed project represents an effort by the GOJ to increase revenues through a progressive tax (the income tax) as opposed to indirect taxes (customs, excise taxes, licenses and fees) which are regressive in nature.

(2) Economic Benefits

There are numerous indirect economic benefits that may accrue under the project which will impact on the population in general, and on the poor segment of the population in particular. The GOJ should realize increases in domestic revenue as a direct result of the project. There is a presumption that a proportion of the increased tax revenues would be used for socially and economically beneficial activities. This would impact directly on the poorer portion of the population, the primary beneficiaries of social welfare activities.

The business community and potential investors should benefit from increased efficiency, reliability, and equity in tax administration.

This project is one effort which will contribute to the achievement of an increased degree of financial self-sufficiency and self-reliance. There are several economic benefits which can be expected to accrue from this. Increased domestic revenue generation can soften the economic disruption which might occur should current levels of concessionary foreign financing be curtailed. Effective tax policies, and the related increase in financial viability may at least provide the GOJ with additional means to combat inflation.

3. Sector Goals

The overall goals of the project are to assist in increasing generation of domestic revenue and to strengthen the capacity for public administration within the GOJ. The principal assumption to the achievement of the goal of increased financial self-sufficiency is that an improved technical capacity in tax administration will be reflected through increased revenues. The principal assumption to the achievement of an enhanced capacity for public administration is the degree to which the DIT is able to play a more effective role within the GOJ. It should be noted that this project, as an individual activity, will neither bring the GOJ to a point of financial self-sufficiency nor significantly alter overall public administration within Jordan. The proposed project is one of several measures aimed at assisting the GOJ in these directions.

The GOJ has consistently pursued a goal of financial self-sufficiency. The 1976-1980 development plan envisioned, as a matter of policy, raising the proportion of total revenue from domestic sources to 70 percent. Modest progress towards this objective was realized during 1975-1978, a period during which domestic revenues nearly doubled, and during which domestic revenues increased as a percentage of total revenue. High fund flows provided under the Baghdad Agreements in 1979 and 1980 erased gains made during the period 1975-1978, as shown in Table 1. The actual percentage of total revenue derived from domestic revenue was approximately 50 percent in 1976-1980.

GOJ expenditures, current and capital, are increasing at rates considerably in excess of total revenue, including foreign financing. The annual budget deficit as indicated in Table 1 has increased from 10 percent of total revenues and grants in 1975 to 29 percent in 1979 with a related increase in the public debt and debt service requirements. The overall deterioration in Jordan's financial position is best demonstrated by the declining coverage of current non-capital expenditures by domestic revenue. In 1977, domestic revenue provided funds equivalent to 73 percent of current, non-capital expenditures. This percentage had decreased by 1979 to 62 percent. The corollary to this is that in 1979, a sum equal to 38 percent of current expenditure and a sum equal to 100 percent of capital expenditure were funded through foreign grants and loans.

TABLE 1

GOJ SOURCES AND USES OF FUNDS[1/]
1975-1979

	Actual			Preliminary	
	1975	1976	1977	1978	1979
	(In millions of Jordan Dinars)				
Revenue and grants	183.2	173.8	264.2	238.5	376.9
Domestic revenue	82.6	107.6	142.2	156.8	181.9
Foreign grants	100.6	66.2	122.2	81.7	195.0
Expenditures	202.0	258.9	331.3	326.2	484.7
Current	125.7	185.9	195.6	211.1	291.5
Capital	76.3	73.0	135.7	115.1	193.2
Overall deficit	-18.8	-85.1	-66.9	-87.7	-107.8
Financing	10.7	42.0	62.0	56.6	59.5
Foreign (net)	13.3	16.3	54.9	31.8	56.1
Borrowing	(16.2)	(19.9)	(58.5)	(36.3)	(63.0)
Repayment	(-2.9)	(-3.6)	(-3.6)	(-4.5)	(-6.9)
Domestic	-2.6	25.7	7.1	24.8	-6.6
Banking system (net)	(-7.1)	(15.7)	(5.5)	(22.9)	(-12.5)
Central Bank (net)	(-13.1)	(21.8)	(0.1)	(-9.6)	(3.8)
Commercial banks (net)	(6.0)	(-6.0)	(5.4)	(32.5)	(16.3)
Non-bank sources	(4.5)	(10.0)	(1.6)	(1.9)	(5.9)
Discrepancy[2/]	8.1	43.1	4.9	31.1	58.3

[1/] Source of Information: IBRD Report on Jordan - June 1980

[2/] Discrepancy due to conversion from accrual to cash accounting.

The trend of increasing dependence on concessionary foreign financing is identified in GOJ planning documents as a key problem for development. Ready availability of foreign concessionary financing, principally grant assistance, has enabled the GOJ to accelerate developmental efforts. GOJ is obviously relying on a continuation of this assistance at least in the near future. The GOJ realizes, however, the inherent temporary nature of such foreign assistance. At best, foreign assistance is not a stable source of funds. Table 1 provides an example of the considerable fluctuation of foreign financing. The GOJ must prepare for the time when current levels of foreign assistance diminish. In this context, the GOJ is quite concerned with the eventual capacity of domestic revenue generation to cover necessary expenditures, current and capital. This concern is demonstrated by the Five Year Development Plan for 1981-1985 which specifically indicates the GOJ's intent to raise the coverage of current expenditures by domestic revenue to 100 percent by 1985.

USAID planning and strategy documents have consistently identified financial self-reliance as an important issue in Jordan's economic development. The 1982 Congressional Presentation country narrative identifies expansion of domestic revenue as an important variable in Jordan's development prospects and notes that a primary goal of the U.S. economic assistance program is to "increase Jordan's ability to be a viable and independent country by strengthening generation of domestic revenue." USAID is also aware of the inherent requirement for effective financial management within the GOJ if progress toward financial self-sufficiency is to be effected. USAID strategy, therefore, envisions support of the GOJ objectives through (a) activities aimed at increased domestic revenue generation, and (b) enhancement of the financial and managerial capacity to properly employ available financial resources.

The GOJ places a high priority on activities which will improve Jordan's financial position, as indicated by the development plan. Emphasis will be placed on both increasing domestic revenues and controlling expenditures. A key aspect to the achievement of these objectives is the need to improve the administrative and financial management capacity within the GOJ to utilize more effectively available resources.

Jordan's domestic revenue by source for the period 1976-1980 is presented in Table 2. During the period 1976-1979 customs duties and excise taxes provided a total of 46 percent or domestic revenues. Various fees and other non-tax revenues provided 42 percent. Income tax provided 12 percent of domestic revenues. The GOJ is searching actively for additional sources of potential revenue of which the income tax appears to be promising. Additional revenue from the income tax is possible through application of existing law, i.e., it is not required to enact an additional tax law. The income tax is also a relatively efficient producer of revenue. Table 3 compares revenues with the related cost of collecting revenue for the period 1976-1980 for the DIT and Customs Service. The cost of producing revenue through income tax has declined from approximately 3 percent of the revenue collected in 1976 to 1.6 percent in 1980, approximately the same cost incurred in the collection of customs and excise taxes.

The Five Year Development Plan envisions the establishment of tighter controls on expenditures and reductions of subsidies. The Budget Bureau is currently undertaking a number of activities aimed at establishing more effective budgetary controls within the GOJ. The Budget Bureau envisions significant training efforts within the Bureau. A number of staff members are currently attending training seminars in Jordan. USAID has been asked to consider assistance in organizing internal and external training programs for the Bureau. Tentative arrangements have been made for the assignment of a UNDP advisor to the Budget Bureau to assist in the development of budgeting manuals for the GOJ. The Budget Bureau hopes, through these efforts, to play a more decisive role in controlling and planning the growth of GOJ expenditures. The Customs Service is currently initiating measures in training, including long-term training, in tax administration in the U.S. aimed at the modernization and improvement of the Custom Service. The GOJ anticipates that these efforts will result in the increased generation of revenues and improved efficiency. A USAID-financed team of advisors from the USCS visited the Jordanian Customs Service in May 1981 and discussed GOJ priorities in training in this effort for modernization.

In summary, increased financial self-sufficiency is a stated GOJ policy objective which USAID supports. A number of activities have been initiated in support of this policy objective, one of which is the proposed project. The GOJ is attempting to achieve greater financial self-reliance by: (1) increasing the generation of domestic revenue, and (2) enhancing the financial and managerial capacity within the GOJ to utilize available resources effectively. The proposed project addresses both of these concerns. The stated goals of the project are to assist the GOJ to increase domestic revenue and to enhance the GOJ capacity for public administration.

TABLE 2

GOJ REVENUES AND GRANTS
1975-1979

	1975	1976	1977	1978 1/	1979 1/
	(In millions of Jordan Dinars)				
Tax revenue	51.5	68.0	97.4	98.6	115.3
Taxes on net income and profits	9.3	9.3	13.3	19.5	22.0
Individual and business	(8.5)	(8.6)	(12.7)	(18.5)	(20.9)
Surcharge 2/	(0.8)	(0.7)	(0.6)	(1.0)	(1.1)
Taxes on property	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.6	9.1	10.4	10.2	11.2
Excises on goods	(10.3)	(8.6)	(9.9)	(10.2)	(11.2)
Other (National Guard Tax)	(0.3)	(0.5)	(0.5)	(--)	(--)
Taxes on international trade and transactions	31.5	47.5	72.0	66.5	78.2
Import duties	(24.6)	(45.3)	(70.9)	(66.5)	(78.2)
Customs duties	(20.7)	(40.0)	(64.0)	(60.8)	(71.2)
Other 3/	(3.9)	(5.3)	(6.9)	(5.7)	(7.0)
Export duties 4/	(6.9)	(2.2)	(1.1)	(-)	(-)
Other taxes	--	2.0	1.6	2.3	3.8
Nontax revenue	31.1	39.6	44.8	58.2	66.6
Licenses	5.9	10.6	13.1	13.4	16.3
Fees	7.7	12.7	8.4	10.6	13.3
Operating surpluses from post and telephone services	2.2	2.3	3.4	8.5	9.1
Interest and profits	10.8	10.1	12.4	14.5	16.8
Miscellaneous 5/	4.5	3.9	7.5	10.9	10.8
Domestic revenue	82.6	107.6	142.2	156.8	181.9
Foreign Grants	100.6	66.2	122.2	81.7	195.0
TOTAL REVENUE AND GRANTS	183.2	173.8	264.4	238.5	376.9

SOURCES: Central Bank of Jordan, Ministry of Finance, and staff estimates.

1/ Preliminary actuals
2/ Social Service Tax
3/ Includes Social Service Tax, surcharge, and other minor charges
4/ Tax on production of phosphate, cement, and a few other minerals introduced in April 1974, most of which accrue from the export of phosphates
5/ Includes royalties, proprietary receipts, and sales of services

TABLE 3

COMPARISON OF OPERATING COST TO REVENUE
DEPARTMENT OF INCOME TAX AND CUSTOMS SERVICI
JD (000.0)

	Department of Income Tax			Customs Service		
Year	Operating Expense	Revenues	% Cost to Revenue	Operating Expense	Revenues	% Cost to Revenues
1976	281.0	9,300.0	3.0	780.0	54,400.0	1.4
1977	294.0	13,300.0	2.2	987.3	81,300.0	1.2
1978	322.0	19,500.0	1.7	1,227.0	76,700.0	1.6
1979	464.0	22,700.0	2.0	1,461.0	86,000.0	1.7
1980	451.0	27,700.0	1.6	1,549.0	96,100.0	1.6
TOTAL	1,812.0	92,500.0	2.0	6,004.3	394,500.0	1.5

B. Project Inputs

The total project cost, as illustrated in Section IV, Financial Plan, is approximately $1,551,000. AID inputs to the project consist of technical assistance and training. There are no AID-financed commodity inputs. The total AID grant for the 30-month span of the project is budgeted at $1.0 million, of which $238,000 is local currency cost. GOJ contributions to the project are estimated at $551,000 (JD equivalent) and will consist of appropriate managerial and technical staff support, counterparts, provision of a computer system and related costs, and facilities-services support for the USAID/IRS advisory team.

1. AID Inputs - Technical Assistance

a. General

A total of 60 staff-months of technical assistance have been programmed for the 30-month life of the project, all of which will be provided by IRS. This will consist of 2 long-term advisors for 24 months each, supplemented by 12 months of short-term assistance as required for specialized expertise and/or workload distribution. Technical assistance may be classified into the following general components:

(1) Administrative: Organization, management, administrative policies and practices, administrative aspects of tax laws, etc.

(2) Compliance: Audit, assessment, collection, identification of unrecorded taxpayers, taxpayer motivation, etc.

(3) Processing: Clerical and automatic data processing, work flow, information management and retrieval, etc.

(4) Administrative support: Personnel, training, accounting, facilities, planning, budgeting, etc.

IRS advisors assigned to the project will provide technical assistance in all of the above areas under the following guidelines:

(1) Priority will be given to areas that (a) are likely to produce the greatest amount of revenue in the shortest possible time, and (b) where systemic improvements are not likely without technical assistance.

(2) Emphasis will be on institutionalizing systems to provide continuing DIT capability beyond the term of the project.

(3) Method will be advisory as opposed to operational. This does not preclude advisors performing some tasks for demonstration and training purposes.

Both of the long-term advisors will have a general knowledge and varying degrees of specialized knowledge of all areas of tax administration as applied to developing countries. One of the advisors, in addition, will have highly specialized knowledge and skills in both clerical and computerized data processing systems for tax administration. The other advisor will have highly specialized knowledge and skills in compliance areas such as audit/assessment, collection, and the identification and motivation of taxpayers. The short-term advisors will have specialized skills corresponding to the requirements of the specific assignment.

The long-term advisors will be required to coordinate all project activity with the appropriate GOJ counterparts to assure that a cooperative attitude exists for implementation of advisory recommendations, and that project inputs are applied in an orderly and timely manner. Principal responsibility for this and all other project activity will rest with the IRS Senior Advisor, who will serve as Team Leader, in addition to his/her other duties.

b. Team Leader

The Team Leader will have responsibility for overall conduct of the project, which will include the following:

(1) Liaison, coordination and other official contact with (a) the USAID Project Officer and other appropriate USAID officials, (b) the Tax Administration Advisory Services Division of IRS, and (c) the appropriate GOJ counterpart officials.

(2) Developing specific project plans, reports and other communications as may be required by USAID and IRS/TAAS.

(3) Assisting in the selection of short-term advisors assigned to the project (12 staff months).

(4) Supervision and work assignments for other long-term and short-term advisors assigned to the project.

(5) Participating in the selection and processing of GOJ officials designated for IRS training in the United States.

(6) Monitoring all contracts and agreements made under the training component of the project, and countersigning all obligation and disbursement authorizations related to the training component.

(7) The Team Leader may delegate authority to other USAID/IRS advisors as considered appropriate.

c. Data Processing Advisor

The principal role of the Data Processing Advisor is to assist in developing institutionalized capability within the DIT to develop both clerical and computerized tax administration processing systems. This includes capability to (a) analyze needs, (b) design forms and processing systems, (c) program computerized systems, (d) test and validate, (e) prepare technical documentation, (f) instruct affected employees, (g) implement, (h) operate, (i) evaluate, and (j) manage a data processing organization.

The Data Processing Advisor will also play a major role in the development of institutionalized data processing training capability both within the DIT and within an independent agency. The Data Processing Advisor will perform similar advisory, instructional and demonstrative functions in other areas of tax administration, dependent upon the Advisor's qualifications and workload, supplemented by specialized short-term assistance where necessary.

d. Compliance Advisor

The principal role of the Compliance Advisor is to assist in developing institutionalized capacity within the DIT to assure the highest possible degree of taxpayer compliance with the intent of the tax laws. This involves three principal areas:

(1) Taxpayer Motivation: Making recommendations regarding tax law, administrative policy and internal procedure to provide both positive and negative compliance motivations to the taxpayer. Negative motivations consist of reasonable and enforceable application of sanctions for non-compliance. Positive motivations consist of providing information and adequate service to the taxpayer, courtesy, and protection from arbitrary, capricious, and illegal actions by tax officials.

(2) Assessment Efficiency: Assuring that assessments are made on a timely, efficient and accurate basis; that all taxpayers who should be assessed are identified and assessed; and that a similarly effective system exists for legitimate appeals by the taxpayer.

(3) Collection Efficiency: Assuring that taxpayers pay the proper amount at the proper time; that sanctions for nonpayment are available and reasonably applied; that all funds collected are properly accounted for; and that the procedures employed are effective and efficient.

The Compliance Advisor will perform similar advisory, instructional and demonstrative functions in other areas of tax administration, dependent upon the Advisor's qualifications and workload, supplemented by specialized TDY assistance where necessary.

e. Short-Term Technical Assistance

A total of 12 months of short-term assistance is included to provide for specialized expertise when needed, and to provide for assistance beyond the workload capacity of the long-term advisors. It is anticipated that about half (6 months) of the TDY assistance will be used during the early stages of the project to assist in establishing (a) in-house training capability for job-specific training required within the DIT, and (b) training courses for those areas where the type of training would be appropriate for both the DIT and other agencies of the GOJ. The remaining 6 months is tentatively programmed for assistance in (a) organization and methods, and (b) administrative services. The resident advisors will, if workload permits, perform both of these tasks. If short-term assistance is not required for either or both of the above, the programmed time will be reserved for possible use in the following ways: (a) consultations with IRS advisors in Egypt, Saudi Arabia, or other countries having similar tax administration project, or (b) consultations with other GOJ agencies in other areas of taxation, if requested by GOJ officials.

The following list is representative of the functions which may be addressed by the short-term advisors. It should be emphasized, however, that primary objectives of the short-term advisors are to exploit targets of opportunity and to provide specialized assistance when problems develop in project implementation. The specific functions to be addressed may therefore be subject to considerable modification depending upon actual project implementation experience.

Two months of short-term TDY assistance are allocated for IRS participation in project monitoring and evaluation. As noted in Section VI, Project Evaluation, it is anticipated that IRS personnel from Washington will be available for project evaluation.

Short-term assignments are numbered 1 through 12. Implementation plan reference refers to the coding section of the preliminary workplan, Section VI. The month number refers to the elapsed time after the Grant Agreement is signed.

Assignment Number	Function	Implementation Plan Reference	Month
1-4	Assist in developing training courses	(D-9), (D-10)	04,06,08,09
5	Development of compliance systems	(C-4), (C-8)	13
6	Assist in development of ADP Systems	(D-6)	13
19	Development of compliance systems	(C-4), (C-8)	14
8	Systems Development		13
9-10	Monitor training	(D-9), (D-10)	18, 19
11	Assist in compliance or self-assessment or tax policy	(C-10), (C-11)	20
12	Evaluation		24-30

Immediately on arrival, the long-term advisors will develop a specific workplan which will describe each activity in terms of objectives, priorities, target dates, prerequisites, assumptions and probable resource requirements. Since the initial survey and some follow-up TDY activities have already been done, it is possible to predict in general terms the activities that will be identified. These are contained in Annex G. For the purpose of indicating priorities, the two-year span of the project has been divided into nine phases. Each phase will emphasize a particular type of activity as follows:

1 month: Project Readiness
Preparation of specific project workplan, and the collection of data to be used in progress evaluation.

3 months: Stabilization and Follow-up
Insuring that the most important changes implemented, or partially implemented, during the pre-project period are functioning as intended, and that they can continue to function with minimum attention from the advisors. This refers especially to the computerized Taxpayer Accounts processing system and related clerical procedures.

5 months: Initiation of Training
To ensure institutionalization of DIT capability, further systemic changes will be minimized until DIT employees have been sufficiently trained to participate in developing and implementing those changes. This phase will emphasize (a) developing appropriate in-house training capability, (b) identifying an appropriate institution for inter-agency training, (c) developing course materials, and (d) monitoring and evaluating initial course presentation.

2 months: Long-range Administrative Changes
Tax law changes, organizational changes, and conversion to self-assessment are likely to require a considerable amount of lead time because of the approval levels required. This phase will prepare the groundwork for those changes, so that they can be implemented promptly on approval.

3 months: A Priority Systems
3 months: B Priority Systems
3 months: C Priority Systems
3 months: D Priority Systems
These phases will involve working directly with DIT employees to develop and implement systemic improvements in priority sequence.

1 month: Review and Evaluation
The final phase will be used to review and evaluate the project, prepare a final report, and to make recommendations to the DIT for continued improvement beyond the close of the project.

It should be noted that these phases refer to emphasis. During any given phase, advisors will continue to follow-up on previous activities and do whatever is necessary to anticipate future activity. The phase plan is intended to indicate the latest date at which any given type of activity should be started.

The following are limitations on the activities of the advisors:

(1) No involvement in economic policy issues such as types of taxes, tax rates, or components of the tax base. Any law or policy that affects the efficient administration of taxes will be considered.

(2) Advisors will not have direct contact with Jordanian taxpayers, and will not participate in individual tax cases processed by the DIT.

(3) Publicity regarding the role of the advisors is discouraged. Advisors will not participate in news media interviews without prior approval of USAID or without the presence of USAID representative.

(4) Advisors will not be involved in auditing or assisting U.S. taxpayers.

(5) Advisors will not be involved in any criminal investigation activity, or in training for such activity.

(6) Advisors will not assume any supervisory or operational responsibility in the DIT.

2. AID Inputs - Training

The provision of training represents a major project focus. Training is the means through which the DIT will become prepared to maintain the systems developed through the technical assistance and continue improvement and progress after the completion of the project. The USAID-financed training component totals $248,600. Two distinct training mechanisms are to be employed -- participant training in the U.S. through the IRS, and the development of an ongoing training capacity within Jordan.

a. Participant Training

A total of 10 employees will receive specialized participant training at the IRS in the U.S. Training will be through the IRS INTAX seminar program for 8 of the employees. The GOJ project counterparts will specifically attend the INTAX seminars. Other participants will be Division Chiefs or other supervisory level employees. Attendance at the INTAX seminars will be spaced at the rate of 2 participants each 6 months. The seminars are 3 months in length. There is sufficient latitude in the INTAX seminars and in additional available training opportunities to orient training to the particular function or speciality of the participant. Special programs will be organized for two additional participants, one of whom may be the Director of the DIT. The special programs will be exclusively tailored to the individuals and will be approximately 2 months in length. A total of 28 person-months of participant training is envisioned under the project at the cost of $105,600.

b. Development of a Training Capacity

The DIT is faced with a continuing requirement for specific job oriented training, most particularly in the fields of ADP and financial management (auditing and accounting). The project proposes to assist in the development of an internal training capacity. A portion of the desired training will be devoted to DIT specific requirements in training for functions found exclusively within the Department. Other training functions, particularly in the ADP field, may well have application to other Ministries and departments in addition to the DIT. Training for income tax specific functions will have to be carried out as an internal function within the DIT. It may be feasible to place

the training function for training not necessarily specific to the DIT in an outside institution. The project proposes as a training input to develop short specific courses and present 2 or 3 sessions of each course. After the initial course presentations, necessary course modifications would be effected. With the necessary training of trainers during the initial course presentations, the courses would then be continued either within the DIT or within another institution.

The DIT is a relatively small organization. Particularly in the ADP area, personnel and training requirements, while continuous, will involve relatively small numbers of employees. The development of the necessary training courses will represent relatively fixed costs irrespective of the number of employees trained. To the extent feasible, it is therefore a more efficient use of resources if the training courses can eventually be made available to other agencies of the GOJ. It would also be logical to place the responsibility for such training with multi-agency implications within an entity or organization with an existent training capacity.

The desired result is a capacity within some entity or organization to continue the presentation of the developed training courses after the completion of the project, i.e., an institutionalization of the training capacity. The selected entity should possess some or all of the following attributes:

-- ready access to a computer.

-- at least some prior experience with or cognizance of ADP technology and applications.

-- some prior experience with management and financial management concepts and applications.

-- some prior experience in the development and presentation of training courses.

-- qualified staff available or a willingness to obtain the necessary staff.

Initial investigations have indicated that no one existent organization presently possesses a predominant capability to perform the envisioned training and to continue the training after project completion. The following organizations appear to be the most qualified: the Institute for Public Administration, the Royal Scientific Society, the Department of Statistics, and Yarmouk University.

It should be noted that the Institute for Public Administration is the entity officially charged with developing and presenting training courses for the public sector. In accordance with this responsibility, the IPA has the authority to draw resources from other organizations.

At this point, an alternative would be to organize the training function under the auspices of the Institute for Public Administration, with access to the computer facility at either the Department of Income Tax, Department of Statistics, or the Royal Scientific Society. As noted above, the IPA has the authority to draw additional staff resources to augment the Institute's staff capability. The second alternative would be to organize all training directly under the auspices of the DIT.

The selection of an entity or organization which will assume responsibility for the training courses developed under the project is a project issue. A recommended condition precedent involves a decision on the part of the GOJ as to the selection of the responsible entity prior to disbursement of funds for this input.

The USAID input for the development of the training capacity will be directed at the specific requirement for practical short-term training. Project resources will be utilized to develop and present a series of courses during the course of the project. The course presentations will have the effect of training the initial groups of trainees and training the individuals who will continue the course presentations after project completion. All training will be in accordance with the following general concepts:

(1) Student participation will be used to the fullest extent possible, with lecture methods employed only when necessary.

(2) Emphasis will be on practical application of material learned, with theory presented only as needed to resolve practical class problems.

(3) Courses will be short-term; measured in days or weeks instead of months or years.

(4) Training will be institutionalized so that it can be continued with Jordanian resources after expiration of the project.

(5) Job-specific and equipment-specific training appropriate only to the DIT will be institutionalized within the DIT.

(6) Training that has potential value for other agencies as well as the DIT will be institutionalized in a Jordanian agency that is capable of and appropriate for providing inter-agency training.

(7) Where feasible, women will be particularly targeted for training.

The following are the types of courses which are anticipated for development under the project.

#1 Implications of ADP for Executives

Length:	About 2 full days, preferably at a remote location
Participants:	Government executives at the level of Assistant Director and above
Objective:	To acquaint participants with the problems and potential benefits of using ADP technology

#2 Management Skills Seminar

Length:	Approximately 12 days
Participants:	GOJ employees in supervisory level to level just below Assistant Directors
Objectives:	Familiarize participants with management/ supervisory problems and techniques in areas such as communications, motivation, planning, work measurement, scheduling, training, personnel relationships, etc.

#3 Introduction to ADP Technology

Length: 12 days

Participants: GOJ employees who are, or may be, assigned to jobs involving systems analysis, programming or operations

Objectives: Acquaint participants with concepts involved in using ADP technology such as forms design, data control, data entry, storage and retrieval, capabilities of computer programs, backup and security, typical applications, etc.

#4 Basic ADP Systems Design

Length: 3 days per week for 8 weeks, with the other 3 days used at working on specific systems designs for the participants' home agency

Participants: GOJ employees who are assigned to jobs involving systems analysis and design

Objectives: To provide workshop experience in which each participant learns basic concepts of systems design, applies those concepts to a specific application in participant's own agency, and receives counseling and evaluation from instructor and other participants

#5 COBOL Programming

Length: 3 days a week for 8 weeks. The other 3 days per week would be used working on specific processing programs for the participants' home agency.

Participants: GOJ employees who are assigned to jobs involving COBOL programming

Objectives: To develop participants' ability to write, test and debug COBOL programs of increasing degrees of complexity

#6 Accounting Principles

Length:	3 days a week for 6 weeks
Participants:	New and junior level assessors and auditors and other employees who desire training to become auditors and assessors
Objectives:	To familiarize new and junior level personnel with general accounting principles and concepts, including financial statement preparation. To ensure that auditors and assessors without significant financial training or prior experience have a minimum basis in accounting principles

#7 Auditing

Length:	3 days a week for 6 weeks
Participants:	Auditors and Assessors
Objective:	To familiarize personnel with generally accepted auditing concepts and practices, particularly those applicable to commercial firms

The above training is considered to have potential application for other agencies of the GOJ in addition to the DIT. Courses will also be developed and presented, however, for specific training in functions found only within the DIT. This "job specific" training would be directly oriented to the performance of specific tasks within the Department and could include: cashier check-out and accounting control; specific income tax assessment techniques; collection methods; specific ADP adaptations limited to income tax; data entry and keypunch activities. It is anticipated that responsibility for this income tax specific training would remain within the DIT.

The long-term advisors will have primary responsibility for the development of the courses. Their efforts will be supported by: short-term technical assistance, the GOJ counterpart designated training coordinator, and representatives of the institution designated as the repository of the inter-agency training courses. In addition to staff time included in the USAID technical assistance input and the GOJ inputs, a direct cost of approximately $143,000 is expected in the development and initial course presentations.

In order to institutionalize the training program, it is important that the courses be developed for presentation in Arabic to the fullest extent possible so that participation will not be limited to those who can speak and understand English. It is also important that the basic techniques must be participatory learning and practical application. These factors make it highly probable that adequate materials can not be purchased directly, but will have to be developed by modification and translation of existing materials. The USAID contribution is estimated at $143,000 for the span of the project. The following is illustrative of the manner in which these funds might possibly be distributed:

Purchase of training materials in Arabic	$ 30,400
Development of supplementary material with translations to Arabic	45,000
Fees to individuals/institutions for assistance in preparing courses	20,000
Fees to individuals/institutions for initial presentation of each course	15,000
Fees to individuals/institutions for evaluation and revision of courses	15,000
Miscellaneous other costs related to development of training courses	18,000
	$143,000

3. GOJ Inputs

The GOJ inputs to the project total approximately $551,000 over the life of the project and include: (1) support to technical assistance; (2) support to training efforts; (3) computer, and (4) GOJ personnel.

a. Support to Technical Assistance

The GOJ will directly support the AID-financed technical assistance through provision of office facilities, supplies and related operational support services. The total GOJ contribution under this input is estimated to be $63,800.

The GOJ will provide office space and facilities for 6 persons -- two long-term advisors, three counterpart employees, and one additional work station for TDY advisors, and intermittent clerical services. Facilities will include desks, chairs, file cabinets, telephones, typewriters and office supplies. The estimated GOJ contribution for this purpose is $43,680 for the two-year life of the project.

The advisory team will require other support services and personnel on an intermittent and irregular basis to perform the following functions:

(1) Secretarial service in both Arabic and English.

(2) Messenger service.

(3) Local transportation.

(4) Printing, photocopying, etc.

The total amount of these services is estimated to be the equivalent of an additional full-time employee, or $20,160 for the life of the project.

b. Support to Training

The GOJ contribution to the training component will consist of (a) provision of an adequate training facility, (b) employee time for employees who will be trained, (c) appropriate materials and equipment for continuation of training beyond the life of the project, (d) international travel for IRS training in the U.S. The total value of all components is estimated at $106,540.

c. Computer and Related Costs

On the recommendation of the IRS advisors, the DIT has procured an NCR 8250 computer system with 256k memory, 81 mb disc storage, and 4 terminals, plus related equipment, supplies and services as follows:

Costs	
NCR 8250 Computer System	$ 78,021
Site preparation, air conditioning, wiring	29,700
Two-year maintenance contract	14,043
Rental of two data entry units	13,622
Space for equipment and staff	13,200
Discs, supplies, furnishings	12,556
Overhead	64,456
TOTAL	$225,598

The computer facility is now installed and operational.

d. GOJ Personnel

The total contribution of GOJ personnel is valued at approximately $155,200. The input consists of counterpart personnel and employee project-related time.

The DIT will provide a minimum of three English speaking counterpart employees who will be assigned to work full time with the advisors, and will have no other work assignments in the Department. The principal functions of these employees will be to assist the advisors in the following areas:

(1) Investigations into procedures, policies and practices in various areas of tax administration.

(2) Development of instructions, procedures and reports.

(3) Coordination of improvement activities among organizational components of the DIT, and of training activities with other agencies of the government.

(4) Evaluation of the recommendations of the advisors on behalf of the Director of Income Tax.

To properly discharge these duties, the counterparts must (a) have adequate skills in English, (b) be literate and articulate in Arabic, (c) have a high level of interest and motivation, and (d) must be able to work cooperatively and effectively with other organizations of the Department and the GOJ. The personnel costs for these counterparts for the life of the project is estimated at $54,400.

Execution of the project will require frequent consultations with employees of the Department to obtain information, suggestions, clarify instructions, evaluate proposals, etc. The total time diverted from normal activities is estimated to be the equivalent of 6 employees, and the cost is estimated at $100,800.

C. Project Outputs

The project is aimed at the enhancement of the institutional capability for tax administration within the DIT. There are three general outputs identified as necessary to the achievement of this objective: (1) improved operational systems for income tax assessment, collection, clerical processing and administrative services; (2) a functional capacity for training in systems development/maintenance (ADP, management and accounting); and (3) a fully operational ADP system.

Output 1: Improved Operational Systems (Non-automated)

The operational functions of the DIT are the central focus of the project in that they represent the means through which the Department accomplishes its purpose -- enforcement of the tax law/collection of revenue. Other outputs are essentially in support of the operational function. Project efforts will generally be aimed at improving procedures, work-flow, and prioritization of effort. A concurrent project emphasis will be to assist the GOJ in the development and implementation of specific procedural guidance which would be aimed at reducing uncertainty in the application of the tax law. Specific outputs which illustrate achievement of improved operational systems include the following:

a. A functional organizational structure that identifies subordinate responsibilities and provides for delegation of authority.

b. Adequate accountability controls and data security systems to help prevent erroneous, deliberate, or inadvertent destruction or alteration of essential records.

c. More prompt and comprehensive identification and administrative action relative to potential taxpayers who are not currently being assessed.

d. Issued procedural guidance on application of the tax law including policy interpretations of taxable income and allowable expense, accounting procedures and principles to be used, auditing standards and review procedures.

Output 2: A Functional Capacity for Training in Systems Development/ Maintenance

The DIT has a significant ongoing training requirement. There is a requirement for employees to be trained specifically for their jobs. With the implementation of new operational procedures and methods under the Project, the Department will require the training of employees in their new functions. There is a requirement for the training of new employees and for upgrading the skills of employees. A portion of the training is job specific within the DIT. Other training may be applicable to other agencies as well. Project efforts will be aimed toward the development of an internal training capacity adequate to service the needs of the DIT and available, as appropriate, to other departments. Specific outputs which would illustrate the development of this capacity are as follows:

a. Short-term courses developed and presented in the areas of ADP applications, auditing/accounting and management.

b. An institutional capacity either in the DIT or in another entity adequate to continue effective presentation of the courses developed.

c. Internal training capacity within the DIT capable of providing job-specific training to new employees.

It is difficult to quantify the total number of trainees who will receive training under the in-service training structure. As noted in the input section of the project paper, AID resources are directed to the development of a training capacity. The total number of trainees and training time will depend on the degree of participation by agencies or entities other than the DIT. Table L-5 (Annex L) indicates that the project anticipates a minimum of 5 person-years of in-service training. This minimum level represents a utilization of training capacity restricted to the DIT during the life of the project. The maximum training time which could be provided under the project would be approximately 13 person-years of training which would include significant participation from other agencies. It should again be noted that the training which takes place during the life of the project is only one aspect of the in-service training component. A primary objective of the in-service training component is the development of a capacity to continue appropriate training after the completion of the project.

Output 3: Operational ADP Systems

Output 3 refers to the project emphasis on the development of functional systems for the computer facility. This will involve software development and implementation as well as the identification of ADP applications for management purposes. The development of the ADP capability is essentially a support function.

The Development of Operational ADP

The ADP capacity and applications represent a support function. This output is directed toward the efficient provision of ADP support through the development and implementation of appropriate programs. The identification of management applications from data sources is also an aspect of this output. The following are specific objectives which would indicate the attainment of output 3:

a. A management information system capable of (1) measuring and summarizing internal productivity, (2) identifying problem areas in assessments and collections, and (3) providing economic statistics regarding the tax base.

b. Accurate and timely computerized taxpayer accounts which will provide (1) improved service to the taxpayer, (2) more prompt and accurate detection of non-compliance, (3) more effective action on non-compliance by computer generation of notices and bills, and (4) better management data on status of accounts, balances due, and assessments pending.

c. Developed capability within the Department to design, program and implement new processing systems, and to adjust existing systems to conform with changes in tax laws or administrative policies.

III. ANALYSES

A. Economic Feasibility

In order to assess the economic effects of the project, it is necessary to (1) analyze the impact of improvements in the DIT in relationship to the program goal, and (2) review the relationship between project inputs and outputs and proposed project results on a cost effective basis. The purpose of the economic analysis is to examine each of these facets and, by doing so, demonstrate the economic feasibility of this project. This section summarizes the economic analysis found in Annex L.

1. Relationship with Program Goal

In that a program goal is to increase domestic revenues in Jordan, it is important to compare the various tools the GOJ has, or is proposing to have, for use in generating revenues. In the 1981-85 Five Year Development Plan, the GOJ proposes to cover current expenditures completely with domestic revenues by 1985. In the past five years, the GOJ has been running deficits, with current and capital expenditures exceeding revenues. These deficits have been financed by foreign grants (the level of which has been variable from 1975-1980) and foreign and domestic borrowing, with the GOJ heavily relying on the former, especially on loans with concessional terms from other donor countries. Under the new Development Plan, the GOJ plans to rely upon foreign grants and loans to finance capital expenditures only; domestic revenues are to increase from 70 percent of current expenditures in 1980 to 100.4 percent by the end of 1985.

In the past five years, the government's domestic revenue structure has relied upon income from taxes (income, property, goods and services, import and export duties) rather than from other revenues such as those drawn from licenses, fees and profits from government firms. Tax revenues accounted for 64 percent of domestic revenues during the period. Within the tax revenue category, import duties were the most important source of income, comprising almost two-thirds of total tax revenue from 1975-79.

Among the mechanisms already in place, income tax revenues show the most promise for sizeable increases. First, tax receipts have grown, increasing from 9.3 million in 1975 to JD 22 million in 1979. Second, Jordan only generates 12 percent of its domestic revenue from income taxes as opposed to an average of 18 percent in other LDCs. Third, improved tax administration and the broadened coverage of the income tax attributed to increased tax revenues in the past five years indicates that additional improvements would be of value. Fourth, the low unemployment rate in the country and the relatively high per capita income of Jordanians indicate that the GOJ should be able to tap a fairly large tax base through increased assessments and collections. To further bolster revenues, the government plans to institute a real estate capital gains tax and an inheritance tax in the 1981-85 development period. In order to achieve its goal of covering current expenditures with domestic revenues, the Jordanian government also plans on holding back growth of government expenditures. Government subsidies for fuel and basic consumer goods are to be phased out by 1985.

Increasing assessments and collections of individual and corporate income taxes should not impose undue hardship on the Jordanian economy by hindering growth of productive sectors. The government's system of tax exemptions for investors, especially in export-oriented industries, will continue. Since income generated from agriculture is exempt, the foreign exchange earned by that sector's exports will not be affected.

As the thrust of this project is on improving the DIT's capacity to assess and collect taxes, it is important to analyze where the improvements will have the greatest impact. Corporate taxes currently provide the greatest amount of generated revenues (53 percent), although corporations comprise the smallest percentage of total taxpayers. Because 85-95 percent of corporations have been identified by the DIT and are presumed to be assessed regularly, additional assessments by the DIT will be generated from private businesses and employees, especially the former group, since only 35 to 45 percent of this group is now paying taxes.

Because no detailed information is available on how and where private businesses and employees fit into the structure of the Jordanian economy, it is difficult to conclusively analyze the overall impact of the project on the macro-economy. Based upon how the present income system is structured, however, several conjectures can be made:

a. Identification and assessment of those businesses or self-employed individuals who derive income from agriculture or handicrafts will not increase revenues since these are exempted under current status.

b. Identification and assessment of businesses and individuals which receive sizeable benefits from the Encouragement of Investment Law will presumably not increase revenues since these concerns have already been identified through the Law.

c. Given the present structure of income tax exemptions, it is likely that those presently not identified and who will be assessed in the future, contribute to the services sector, especially in wholesale and retail trade and financing, real estate and business services, or in construction.

d. If these unknowns receive remittances in order to finance their operations, then these remittances could conceivably flow into other investment areas outside of the country where taxes are less.

Data generated from the 1979 census should provide a better picture of income distribution in Jordan. The last income survey was conducted in 1973, making its conclusions somewhat suspect given subsequent increases in income levels and widespread distribution of remittance income. According to this survey, average wages and income from self-employment were considerably higher in urban areas than in rural -- the average urban income was 60 percent higher than the average rural income. There was a lesser degree of inequality within rural areas than within urban areas (Gini coefficients of .32 and .42, respectively). Income distribution was also marked by a wide disparity among regions.

Given the extent of Jordan's urban population (approximately 85 percent live in urban areas) and the extent of economic opportunities in the cities, particularly Amman, it is expected that increased efforts by the DIT will focus on city taxpayers. This is underscored by the fact that the DIT's offices are located in the largest urban centers, and assessment and collection are easier to conduct and administer in these areas. Impact on particular groups within the cities is difficult to ascertain, but it is presumed that improved tax procedures will translate into increased tax collections from the urban self-employed and property owners -- two groups which are apt to underestimate their incomes for tax purposes.

2. Relationship Between Project Costs and Project Results

As detailed in the project description, project design relies heavily on technical assistance and training to the DIT. AID's contribution to the total project cost consists of two long-term PASA IRS advisors for 24 months each and 12 months of technical expertise in the form of short-term assistance. The training component of the project consists of 12 months of participant training in the U.S. and in-house short courses for DIT personnel and, to the extent possible, for other GOJ employees. In light of project outputs of improved operational systems for income tax assessment, collection, clerical processing, and administrative services; developed capacity for training in management and systems development maintenance; and operational ADP systems; the project design properly focuses on gaining the greatest impact within the DIT. The greatest share of inputs goes to the functional areas which should receive the most benefits from AID assistance -- the assessment and collection units and the data processing office. The increased efficiency of the DIT depends on this focus in order to reduce the administrative costs of collecting taxes. The training component of the project should reap benefits by providing managers with the improved capability of managing human resources. The economic returns of the ADP equipment will be felt by the end of the project in terms of increased utilization for maintaining tax rolls. The ADP equipment will accrue savings in terms of employee time needed to keep proper records. Taxpayers will save time from the streamlining of procedures for assessment and collection. Taxpayers will also save time when self-assessment becomes standard practice.

The economic benefits to the DIT will increase in future years as DIT implements self-assessment on a broad scale. Expenditures under this project will contribute to savings gained in the DIT long after the project ends.

The proposed project also provides for training which will not necessarily be limited to the DIT. Since the short-term courses which are covered by project costs will reach other GOJ employees, potential project benefits will carry over into other agencies. Table L-5 shows the breakdown of short courses and the potential for training DIT and other government employees.

The inclusion of two project advisors from IRS is necessitated by the amount of work involved and by the fact that one advisor is needed to concentrate on ADP operations while the other will serve as a general advisor. Project costs for technical assistance are relatively high since the required expertise cannot be confined to one person. In addition, other aspects such as translating the training material into Arabic are necessary expenditures now which will have benefits in the future for an on-going training program.

3. Summary and Conclusions

The following can be drawn from this analysis of the Tax Assistance Program:

a. Increased emphasis on income taxes can generate additional domestic revenues for the GOJ, as indicated by past increases and the low percentage of income taxes in terms of total domestic and tax revenues. Import duties will continue to remain important.

b. In order to achieve its goal of covering current expenditures by domestic revenues, the GOJ is planning on increasing revenues from taxes and holding down growth of government expenditures. The structure of public expenditures will probably not change in the next Development period.

c. Increasing assessments and collections should not impose a hindrance to investors. Tax exemptions for agriculture and export-oriented sectors will continue.

d. Increased attention on assessment and collection will be directed to those firms and individuals which currently are escaping from paying taxes. The focus of the DIT will be on such groups in urban areas.

e. Elimination of the uncertainty of the present tax system will assist business decision-making. However, the climate for foreign and domestic investment will not be necessarily enhanced for increased investment.

f. It is uncertain as to how improved assessment and collection will affect income distribution in Jordan. Impact will most likely fall on the urban self-employed and property-owning groups.

g. Project design allocates inputs to those sections of the DIT which hold the most promise for improvement and which will benefit the most from additional resource inputs. These sections are also those which have the greatest impact on increasing tax revenues.

h. Project design indicates that in terms of U.S. expenditures, the proposed project is economically feasible due to the perceived benefits in lowering administrative costs of the DIT, improving the operational capacity of the DIT as well as other GOJ agencies.

B. Social Soundness

This section summarizes the social soundness analysis found in Annex K of this project paper. The analysis reviews the social impact of the income tax on the taxpayers in respect to the socio-economic environment of Jordan. The issue of equity is addressed in the context of both the income tax law as legislated and as currently implemented. Lastly, the anticipated effect of the proposed project is reviewed.

Jordan's income tax law is progressive in nature and provides the basis for a reasonably equitable distribution of the tax burden. As in all tax laws, policy considerations favor some sectors of the economy over others. A major inequity of the tax law, noted in Annex K, is found within the tax brackets and exemptions which have not kept pace with inflation, thus causing a "bracket creep" situation. The amendment to the tax law, which is currently under consideration by the Council of Ministers, addresses this issue by significantly increasing the exemptions and recognizing inflation in the tax brackets.

The analysis notes that significant inequities arise from the current administration of the law. The ambiguity of the law and the paucity of procedural guidelines has provided a great deal of latitude of interpretation which in turn results in unequal treatment of taxpayers and uncertainty about tax liability. The project is expected to directly assist the DIT in reducing the inequities of administration of the law.

C. Technical Feasibility

The technical feasibility of the project is dependent on the degree to which the project resources or inputs are appropriate to the achievement of the project outputs. The proposed project is aimed at the development and maintenance of an improved tax administration capacity through training and technical assistance. The implementation and maintenance of automated control systems is a concurrent focus of the project. The scope of this analysis is to examine the proposed technical assistance and training methodologies to be utilized and the application of automated systems to the Department of Income Tax.

1. Technical Assistance

The project envisions a total of 60 person-months of technical assistance as described in Section II-B, Project Inputs. The advisors will work closely with a designated group of GOJ counterparts who will be assigned full time to the project. The advisors and counterparts will constitute a project working group under the supervision of the Director of the DIT which will have the authority to review all aspects of the DIT. The counterparts and advisors will jointly develop and recommend specific system modifications. With the Director's approval of the modification, the working group will work directly with the concerned division of the DIT and implement and monitor the system modification.

This technical assistance methodology has been widely applied in project implementation and has generally been considered an appropriate approach. It should be noted that this project, as a follow-on activity to a previous activity, proposes a continuation of the working methodology previously employed. The results of the previous short-term technical assistance effort would tend to indicate the validity and propriety of the proposed approach to technical assistance.

2. Training

The project envisions the introduction of a relatively new training methodology. Short courses emphasizing participatory education and job-specific training represent a significant departure from the traditional concepts of education and training in Jordan, i.e., that of a more formal and theoretical university-style education. Ready acceptance and enthusiasm on the part of the prospective trainees cannot be automatically assumed. These methods have been, however, applied successfully in the same technical areas by the IRS in the U.S. and in LDC's as part of project assistance. The degree to which the training methodology is successful will probably depend on the level of support from the top management of the DIT. If the training is strongly supported from the top, this will be duly noted and appreciated by the prospective trainees. After the initial course presentations, the training methods should generate a degree of enthusiasm and become self-reinforcing. A key element in the continuation of the training capability is the degree to which the prospective Jordanian trainers can adapt themselves to the new methodologies. The requirement for additional technical training is clearly present and recognized within the DIT. Successful initial presentations should serve to properly motivate the prospective trainees.

3. ADP Application

The application of ADP technology to income tax administration is an innovation in the DIT. The IRS has been involved in the DIT's efforts in this direction since the beginning. GOJ interest in ADP applications was the basis of the initial expression of interest on the part of the GOJ in tax assistance.

The use of computers in tax administration has precedent throughout the world. While the specific applications vary from country to country because of the differences in tax laws, the general methodologies, skill levels of technicians, and types of equipment are quite similar. Because of the requirement inherent in tax administration for the maintenance of extensive data files on taxpayers, the use of ADP equipment has become virtually indispensable for efficient tax administration. If the GOJ reasonably expects to achieve the objective of substantial implementation of the income tax laws, the use of computer technology is clearly a necessity.

The ADP equipment involved is a standard computer which was purchased from the National Cash Register Company (NCR). Similar equipment is already in use in other locations in Jordan and the equipment is already in use in the DIT for some applications. There is a capacity in Jordan for maintenance and repair.

As noted in the reports of the IRS technical advisors, the PID, and other parts of the Project Paper, availability of trained ADP personnel is a problem. Despite project efforts, it will no doubt continue to be a problem for a variety of reasons which are discussed in the administrative feasibility study under retention of personnel. The project hopes to minimize the problem through establishment of a capacity to train personnel in ADP functions for selected applications within Jordan.

D. Administrative Feasibility

The implementing agency within the GOJ for the project is the Department of Income Tax, an independent department under the supervision of the Minister of Finance. The DIT is responsible for all activities related to the administration of income taxes. The chief operating executive is the Director, who is nominated by the Minister of Finance and appointed by the Council of Ministers with the approval of the King. The DIT consists of approximately 275 employees located in a central office in Amman and in six field offices. There are 294 approved positions.

This section is a summary of the Administrative Analysis contained in Annex I to the Project Paper. Specific elements of the analysis include (1) organization, structure and workflow, (2) personnel considerations, (3) managerial assessment, and (4) the outside administrative environment.

1. Organization, Structure and Workflow

The DIT is organized along functional lines as indicated in Annex I. The field offices appear to fulfill line functions of assessment and collection. Staff functions including data processing, legal, etc., are located in the Amman Central Office. The great bulk of activity takes place in the Amman Central and Amman Field Office. The field offices outside of Amman appear to exist largely to service taxpayers in obtaining tax clearances.

IRS advisors under the short-term technical assistance program reviewed the organization and structure of the DIT and recommended a number of modifications which have been partially implemented (see summary of prior technical assistance, Annex H, and IRS technical assistance reports incorporated by reference to this Project Paper). The structure of the DIT is in general adequate; no major reorganizational effort is considered necessary. The advisors under the proposed project will continue to follow up on previous recommendations and, where appropriate, will recommend minor modifications to the organization.

2. Personnel

The DIT has a total of 294 permanent positions at this time, of which approximately 275 are filled. Personnel and staffing have always represented, to some degree, a problem for the DIT. The Department has a significant requirement for personnel trained in financial management and auditing. With the development of the ADP function, the qualified ADP technicians must be hired.

The need for financial management within the audit and assessment function is basic. The demand for accounting and auditing skills is high in Jordan, in the region, and worldwide. With higher prevailing salary scales in the private sector and considering other factors, the DIT has had great difficulty in obtaining and retaining skilled employees. For example, the preferred educational background for a new auditor/assessor is a university degree in accounting or finance. It has not, however, been possible to obtain graduates with these skills for several years. The DIT has been required to hire new employees with other qualifications -- law, economics, etc. Inadequate training efforts, coupled with the lack of procedural guidance, has hindered the effective development of the new employees.

The project depends on the availability of qualified staff, particularly in the ADP function, to strengthen the DIT. The GOJ is fully cognizant of this need and has agreed to recruit additional staff as necessary. The DIT has, however (along with other agencies of the GOJ), encountered difficulty in retaining competent professional and technical staff. This difficulty is directly attributable to the demand for such services in the private sector and low salary levels for civil service employees compared to salaries elsewhere, especially in the Gulf States. The GOJ, in effect, cannot compete effectively for highly trained professional staff, but must seek out qualified "beginners," i.e., applicants with an appropriate educational level, but limited experience. The turnover rate is high as new employees, after a period of training and experience, leave the DIT for other opportunities. It is clear that additional incentives are required if the required personnel are to be retained by the DIT. The GOJ is exploring a number of approaches to this problem including: incentives and other bonuses, an increased recruitment of women (who are less likely to emigrate for jobs outside of Jordan), and the possibility of using contractual and other non-civil service employment modes which would allow payment of higher salaries.

3. Managerial Assessment

The DIT is highly centralized in respect to the managerial authority. Relatively minor decisions are often referred directly to the Director. The division between staff and line functions; particularly in the case of the Amman Field Office and the General Office, is virtually non-existent due to (1) the physical proximity, and (2) the overriding importance of the Amman Field Office in terms of revenue generation.

Middle management and supervision are not strong within the DIT. This is partially due to traditional operating procedures which do not encourage initiative or delegation of authority. Whether by inclination, custom, or ability, middle management activities are generally restricted to routine functions and carrying out the express orders of the Director. Particularly in the line functions of collection and assessment, technical supervision tends to be minimal, partially due to the system of assessment which places a virtually overriding reliance on the personal judgment of the assessors. Another significant factor is the tendency to promote invididuals for the most part on the basis of seniority. The lack of statistical data also impedes the performance of managerial responsibilities.

The project intends to strengthen both the role of supervisors and middle managers and to provide specific training in these functions. The development of procedural guidance will assist in strengthening technical review procedures. The availability of statistical and other information from the computer will assist management and supervisors at all levels in the performance of their functions.

4. Outside Administrative Environment

The public perception of the administrative capacity of the DIT is, in general, unfavorable. As noted in the Social Soundness Analysis, this is partially due to the traditional role of the tax collector in any society. There are, however, significant problems in the administration of the income tax system, of which the public in general and the business community in particular are aware. The DIT is often viewed as inefficient, arbitrary and, to some degree, corrupt. Inefficiency is considered a result of inadequate technical training or capability. The unusual degree of reliance on the personal judgment of the assessor or auditor, coupled with inadequate technical training, can well result in arbitrary assessment of tax liability. The highly personal nature of the assessment process provides opportunity for possible corruption. The GOJ is aware of public perceptions and recognizes the need for improvement. The GOJ is specifically concerned about charges of corruption.
The DIT does have an internal investigation function. Significant efforts are made to combat possible corruption, of which the public is generally unaware. The GOJ interest in the proposed project is a reflection of a desire to improve the administrative capability of the DIT and the public perception of the function.

E. Environmental Concerns

The project was reviewed at the PID stage by the Near East Bureau Environmental Coordinator who recommended that the project be given a "Negative Determination" in compliance with the requirements of 22 CFR 216, "A.I.D. Environmental Procedures." (Annex G).

IV. Financial Plan and Analysis

The proposed project is an institution building activity. The affected entity, the Department of Income Tax, is charged with the collection of revenue through implementation of the Income Tax Law. Although the generation of revenue is the raison d'etre of the DIT, the Department is not a revenue producing entity for purposes of financial analysis. The revenue produced is a result of the application of law as opposed to economic activity. Analysis related to revenue generation, i.e., incremental revenue generations envisioned under the project, and the relative efficiency of the DIT in producing revenue, is presented in the economic analysis. The scope of the financial analysis of the proposed project is limited to (1) budgetary analysis, (2) project financial implementation, (3) assessment of the financial management capacity within the DIT, and (4) recurrent cost implications.

A. Budgetary Analysis

The project budget is summarized in Table 4. The total project cost is estimated at $1,551,100. AID inputs total $1,000,000 or 64 percent of the total project cost. The GOJ contribution is $551,100 or 36 percent of the total. The specific project inputs are fully described in Section II-B.

The proposed USAID contribution to the project is more specifically detailed in Table 5. The USAID contribution is directed toward the provision of technical assistance (75 percent) and training (25 percent). The USAID inputs are reasonably well defined. The budgeted amounts represent realistic cost estimates. An inflation rate of 7 percent is assumed for U.S. Government direct hire salaries and salary related benefits effective 10/1/81 and 10/1/82. An inflation rate of 10 percent per annum in the second year of the project is assumed for all other costs except costs fixed by contract, such as leases.

The GOJ contribution to the project represents funding for (a) commodities, (b) ADP and related equipment, (c) a portion of the costs to be incurred in the training program, and (d) in-kind support in the form of personnel, office facilities, and other operational expenses. The ADP equipment, which represents 41 percent of the GOJ contribution, has already been installed in anticipation of this project.

TABLE 4

SUMMARY BUDGET

U.S. $(000.0)

Inputs	U.S.	GOJ	TOTAL
Input 1 - Technical Assistance	751.4	63.8	815.2
Long-term Technical Assistance	557.1		557.1
Short-term Technical Assistance	194.3		194.3
GOJ Support for U.S. Technicians		63.8	63.8
Input 2 - Training	248.6	106.5	355.1
Participant Training in the U.S.	105.6	28.0	133.6
Development of GOJ training capacity	143.0	78.5	221.5
Input 3 - Commodities		225.6	225.6
Input 4 - GOJ Personnel		155.2	155.2
PROJECT TOTAL	1,000.0	551.1	1,551.1

TABLE 5

Detailed Budget
U.S. Contribution

U.S.$(000.0)

Inputs	Total Costs	Foreign Exchange	Local Currency
Input 1 - Technical Assistance	751.4	634.1	117.3
Long-term:			
2 advisors, 2 yrs each, 48 p/m	557.1	444.8	112.3
PASA Costs	381.3	381.3	
Mission Costs	175.8	63.5	112.3
Short-term:			
12 assignments, 1 mo. each, 12 p/m	194.3	189.3	5.0
PASA Costs	158.9	158.9	
Mission Costs	35.4	30.4	5.0
Input 2 - Training	248.6	127.1	121.5
Participant Training	105.6	105.6	
8 employees @ 3 mos. INTAX			
Seminars = 24 p/m			
2 employee special program @ 2 month = 4 months			
Development of Training Capacity	143.0	21.5	121.5
Job-specific training within Income Tax Department	14.3	2.1	12.2
Training applicable to other departments as well as ITD.	128.7	19.4	109.3
Management: course development and training	35.7	5.4	30.3
ADP & Other Technical: course development and training:	93.0	14.0	79.0
PROJECT TOTAL.....	1,000.0	761.2	238.8

Table 6 correlates, in financial terms, project inputs with the anticipated project outputs. Output No. 1 - improved operational systems for income tax assessment, collection, clerical processing and administrative systems, represents the project emphasis on refinement and improvement of the operational capacity of the DIT including management and supervision. This output is allocated 53 percent of the USAID technical assistance component and 40 percent of the total project funding. Output No. 2 - development of the GOJ capacity for training in systems development and management, represents the creation of an internal GOJ capacity for training, both job-specific within the DIT and inter-agency training within a separate agency or institution. This output is allocated 61 percent of the USAID training component and 34 percent of the total project funding. Output No. 3 - implementation of an operational ADP system, represents the development of the operational ADP capacity, and is quite finite in scope. This element is allocated 26 percent of project funding.

B. Project Financial Implementation

Table 7 the project financial implementation plan, presents projected accrued expenditures by quarter over the life of the project. Project expenditures are to a great extent dependent on the physical presence of the long-term project technicians. The financial implementation plan assumes that the advisors will arrive no later than three months after the signing of the Agreement. Any delay in financial implementation would in all probability be due to delay in the arrival of the technicians.

The following disbursement mechanisms will be used in the project: Disbursements for costs included under the PASA will be incurred by the IRS and charged directly against the PASA budget allocation. Mission support costs for the PASA team will be disbursed directly by USAID or provided in kind by USAID. Operational support costs for the PASA team will be financed by the GOJ (See GOJ inputs). Disbursements for training outside the U.S. will be made directly by USAID in accordance with normal AID procedures for participant training. Travel and appropriate related costs for participant training outside of Jordan will be financed by the GOJ. The funding mechanism for training within Jordan, including the development of the training courses, would be through reimbursement of allowable costs to the GOJ for expenditures incurred in accordance with procedures detailed within a letter of implementation.

TABLE 6

Costing of Project Outputs

U.S.$(000.0)

Inputs	Total Cost	Output #1	Output #2	Output #3
U.S. Inputs	1,000.0	480.4	374.6	145.0
Technical Assistance	751.4	398.6	222.0	130.8
Long-term 48 p/m	557.1	301.4	141.0	114.7
Short-term 12 p/m	194.3	97.2	81.0	16.1
Training	248.6	81.8	152.6	14.2
Participant US 18 p/m	105.6	53.1	52.5	
Management Training	35.8	7.2	28.6	
ADP & Other Technical	92.9	7.2	71.5	14.2
ITD Job-specific.	14.3	14.3		
GOJ Inputs	551.1	134.0	151.1	265.2
GOJ Support for Tech. Assistance	63.8	30.6	23.9	9.3
GOJ Support of Training	106.5	29.7	69.0	7.8
Participant US training	28.0	14.0	14.0	
Development Trng Capacity	78.5	15.7	55.0	7.8
Commodities	225.6			225.6
GOJ Personnel	155.2	74.5	58.2	22.5
PROJECT TOTAL	1,551.1	615.2	525.7	410.2
	100%	40%	34%	26%

Output No.1 - Improved operational systems for income tax assessment, collection, clerical processing, and administrative services.

Output No.2 - Developed capacity for training in management and systems development/maintenance.

Output No.3 - Operational ADP systems

TABLE 7

Financial Implementation Plan

U.S. $(000.0)

	Project Total	FY 81	FY 82 Total	Quarters 1st	2nd	3rd	4th	FY 83 Total	QUARTERS 1st	2nd	3rd	4th
U.S. Inputs	751.4	42.6	354.4	81.4	81.5	99.3	92.2	354.4	83.5	86.9	117.7	66.3
Technical Assistance	751.4	42.6	260.9	81.4	50.3	68.1	61.1	253.7	66.7	53.3	67.4	66.3
Long Term	557.2	42.6	260.9	81.4	50.3	68.1	61.1	253.7	66.7	53.3	67.4	66.3
Short term	194.2		93.5		31.2	31.2	31.1	100.7	16.8	33.6	50.3	
Training	248.6		164.9		85.6	46.5	32.8	83.7	14.3	22.0	25.4	22.0
Participant Training	105.6		50.5		30.5		20.0	55.1		22.0	11.1	22.0
Dev. GOJ trng capacity	143.0		114.4		55.1	46.5	12.8	28.6	14.3		14.3	
Total U.S. Inputs	1000.0	42.6	519.3	81.4	167.1	145.8	125.0	438.1	97.8	1.8.9	143.1	88.3
GOJ Inputs												
GOJ Support of technicians	63.8	2.7	32.0	8.0	8.0	8.0	8.0	29.1	8.0	8.0	8.0	5.1
GOJ Support of training	106.5		76.8		37.2	25.8	13.8	29.7	7.9	7.0		14.8
Participant Training	28.0		14.0		7.0		7.0	14.0		7.0		7.0
Develop training capacity	78.5		62.8		3.02	25.8	6.8	15.7	7.9			7.8
Commodities	225.6	225.6										
GOJ Personnel	155.2	6.5	77.6	19.4	19.4	19.4	19.4	71.1	19.4	19.4	19.4	12.9
Total GOJ Inputs	551.1	234.8	186.4	27.4	64.6	53.2	41.2	129.9	35.3	34.4	27.4	32.8
Total Project	1551.1	277.4	705.7	108.8	231.7	199.0	166.2	568.0	133.1	143.3	170.5	121.1
% Expenditure		18%		7%	15%	13%	11%		9%	9%	11%	7%
Cum. % Expenditure.				25%	40%	53%	64%		73%	82%	93%	100%

A certain amount of budget flexibility should be retained for effective project implementation. The USAID contribution to the project consists of two inputs -- technical assistance and training -- each of which is further sub-divided. Fund commitments and expenditures should be controlled on the input basis, i.e., on the total fund levels for technical assistance and training with flexibility within the individual inputs. A provision of the Grant Agreement should permit a certain degree of shifting between the inputs on the basis of implementation letters.

C. Financial Management Capacity of the Department of Income Tax

Financial management is an essential aspect of the DIT. Fund control, a key aspect of financial management, is inherent within the DIT's operations. The DIT collects cash and checks and must ensure that these funds are safeguarded and controlled prior to timely receipt in the Treasury. The DIT has the responsibility for follow-up and collection of accounts receivable generated through income tax assessments. Financial management is also inherent within the audit and assessment functions. Significant accounting expertise is required to audit financial records and determine the validity of accounting data. The DIT is, therefore, quite dependent on financial management expertise in the performance of operational responsibilities.

The financial management resources available within the DIT are difficult to analyze. The DIT appears to have a reasonable capability in respect to physical fund control. As noted in other sections of the Project Paper, collection of outstanding accounts has been a problem and will be addressed as part of the proposed project. It is not clear, for example, to what extent collection difficulties are attributable to procedural failings as opposed to the application of insufficient resources. There are apparently considerable problems in the audit and assessment functions. An oft heard taxpayer complaint relates to the technical qualifications of the auditors and assessors. While this complaint may be valid, a good part of the difficulty could well be due to the lack of uniform, and uniformly understood, procedural guidance and accounting standards. Language can also represent a problem, particularly in the case of foreign firms which may keep some or all of their accounting records in English as opposed to Arabic. This problem is exacerbated by the extreme degree of reliance placed on the personal judgment of the assessor/auditor.

The DIT is aware of the financial management weakness in the areas of audit and assessment. Some training has already been provided through a program with the Institute for Public Administration. The DIT views the proposed project as an excellent vehicle to address this weakness both through the development of procedures and through the provision of specific training.

D. Recurrent Costs

Increased recurrent costs are to some extent a desired output of an institution-building project. It is envisioned that the GOJ will apply additional resources to those areas where additional resources are required for the effective implementation of the tax law. The concept of recurrent costs should be viewed in respect to the revenue generated. To the extent that additional recurrent costs increase revenue and maintain or reduce the cost of generating revenue, there is a net benefit to the GOJ. Table 3 illustrates this point quite clearly. In 1980, for example, the cost of collecting revenue represented 1.6 percent of the revenue collected. Should the increased recurrent costs and resultant revenue increases reduce the cost of collecting revenue below 1.6 percent, the GOJ will realize additional revenues and increased efficiency.

It is difficult to predict the recurring cost which will be generated, directly or indirectly, through the project. The establishment of the ADP facility and the related personnel requirements is a direct element of recurrent cost encouraged by the project. This expenditure is already incurred and provided for in the budget. If the GOJ decides not to implement self-assessment, there would be a definite recurrent cost implication. Increasing revenue is dependent on increasing the frequency of assessment. The assessment of 75 percent of the identified taxpayers annually would require an additional 130 assessors/auditors even with improved audit/assessment procedures. The implementation of self-assessment would require considerably fewer additional personnel for the same degree of assessment. The personnel requirements for the implementation of self-assessment are estimated to be 50-60 auditors.

V. Implementation Plan

The following are target dates for project-related activities:

Project Paper Completed	Jul 1981
Project Authorized	Jul 1981
Project Agreement Signed	Jul 1981
Conditions Precedent Met	Jul 1981
Issuance of PIO/T and PASA	Aug 1981
Arrival of Advisors	Sep 1981
Terminal Dates for Conditions Precedent	Aug 1981 and Mar 1982
Phase 1 Project Readiness	Sep 1981
Phase 2 Stabilization and follow-up	Oct 1981
Phase 3 Initiation of Training	Dec 1981
Initial In-house Project Evaluation	Mar 1982
Phase 4 Long-range Administrative Changes	May 1982
Phases 4 & 6 Implementation of System Changes	Jul 1982
Phases 7 & 8 Implementation of System Changes	Jan 1983
Phase 9 Project Review and Close-out	Aug 1983
Departure of Long-term Advisors	Sep 1983
PACD	Dec 1983
Final Project Evaluation	Jun 1984
TDD	Sep 1984

A. Project Execution

The project life is a total of approximately 30 months from the signing of the Grant Agreement. Actual project implementation will, however, take place during the 24-month assignment of the long-term advisors. The additional 6 months are programmed to cover any delay in the arrival of the technicians, as well as the possibility of a requirement for any extension of service or provision of short-term consultants beyond the projected departure of the long-term advisors.

Immediately on arrival, the long-term advisors will develop a specific workplan which will describe each activity in terms of objectives, priorities, target dates, prerequisites, assumptions and probable resource requirements. Since the initial survey and some follow-up TDY activities have already been done, it is possible to predict, in general terms, the activities that will be identified. For the purpose of indicating priorities, the two-year span of the project has been divided into nine phases. Each phase will emphasize a particular type of activity as follows:

1 month: Project Readiness
Preparation of specific project workplan and the collection of data to be used in progress evaluation.

3 months: Stabilization and Follow-up
Insuring that the most important changes implemented, or partially implemented, during the pre-project period are functioning as intended, and that they can continue to function with minimum attention from the advisors. This refers especially to the computerized taxpayer accounts processing system and related clerical procedures.

5 months: Initiation of Training
To insure institutionalization of DIT capability, further systemic changes will be minimized until DIT employees have been sufficiently trained to participate in developing and implementing those changes. This phase will emphasize (a) developing appropriate in-house training capability, (b) contracting with an appropriate institution for inter-agency training, (c) developing course materials, and (d) monitoring and evaluating initial course presentation.

2 months: Long-range Administrative Changes
Tax law changes, organizational changes, and conversion to self-assessment are likely to require a considerable amount of lead time because of the approval levels required. This phase will prepare the groundwork for those changes, so that they can be implemented promptly on approval.

3 months: A Priority Systems
3 months: B Priority Systems
3 months: C Priority Systems
3 months: D Priority Systems
These phases will involve working directly with DIT employees to develop and implement systemic improvements in priority sequence

1 month: Review and Evaluation - Jul 1983
The final phase will be used to review and evaluate the project, prepare a final report, and to make recommendations to the DIT for continued improvement beyond the close of the project.

The nine phases of project implementation are further sub-divided into specific activities which are as follows:

Activity		Month
A	MISCELLANEOUS AND TDY	
A1	Develop specific work plan	01
A2	Collect data for project evaluation	01
A3	Evaluate progress of project	12,24
A4	Establish training, O&M and ADP units	03
A5	Develop overall plan	10
A6	Complete functional statements	11
A7	Complete recommended tax law changes	10
A8	Survey administrative services needs	13-14

Activity		Month
C	COMPLIANCE	
C1	Establish assessment priorities	04
C2	Simplify review process	03
C3	Evaluate assessment controls	02
C4	Improve and reduce objectives	13-14
C5	Establish collection priorities	04
C6	Evaluate collection controls	02
C7	Complete withholding controls	03-04
C8	Clerical control long-term payments	14-15
C9	Identification of unassessed taxpayers	15-16
C10	Compliance measurement system	20-22
C11	Forms and instructions for self-assessment	16-18
C12	Procedures for clerical returns process	18-19
D	PROCESSING	
D1	Solidify taxpayer accounts system	02-03
D2	Initiate name-address data entry	12
D3	Computer issuance of notices	15-16
D4	Incorporate withholding control	18-19
D5	Incorporate long-term payments	19-20
D6	Develop third party information system	13-15
D7	Improve clerical filing system	22-23
D8	Security system for ADP records	03
D9	Develop-inhouse training	04
D10	Develop inter-agency training	05-09

B. Project Monitoring

Both USAID and the IRS will be actively involved in project monitoring. Attention will be placed on monitoring activities to the timely provision and adequacy of project resources and the collection of quantifiable data. The success of the DIT's efforts to retain skilled employees, particularly in the ADP field, will be a particular focus of project monitoring. Project monitoring responsibilities undertaken by both USAID and IRS are as follows:

1. USAID

USAID/Jordan will be responsible for AID project monitoring. Within the Mission, project management duties will rest with the Project Officer assisted, as appropriate, by the project committee, which is composed of staff members from each functional office within the Mission. Responsibility for the project currently is located in the Office of the Controller. Depending on the workload of this office, it may be necessary to reassign responsibility to either the Program Office or the Office of Technical Projects (OTP). The training advisor within the OTP will, in any event, provide technical backstopping and support to the project officer in the implementation and monitoring of the training component of the project.

2. IRS

The IRS has had significant experience in the implementation of tax assistance projects and, accordingly, has developed a comprehensive evaluation/monitoring program referred to as IMPACT. The IRS program is focused on quantitative progress compared to the specific workplan. The IRS evaluation/monitoring system consists of the following elements (see Annex F):

a. At the beginning of a project, development of a specific workplan identifying sub-projects in terms of (1) objectives, (2) target dates, (3) methods, (4) priorities and (5) probable resources required.

b. Monthly narrative reports identifying the most significant activities, progress and setbacks in connection with currently active sub-projects.

c. Quarterly summaries reflecting the current status of each sub-project, and statistical data as available to assist in measuring the overall effectiveness of tax team efforts.

d. An administrative review by a senior IRS official after the first year and at the end of the project. This will be an on-site inspection of records and observation of conditions and activities.

VI. Evaluation Plan

The project will undergo two (2) evaluations during the course of project implementation and following the completion of the project. Both IRS and USAID have separate evaluation requirements, each of which are discussed below. To the extent feasible, the evaluations will be conducted jointly.

A. IRS

IRS evaluation of project activities is aimed more at project monitoring than evaluation in the USAID sense. The IRS efforts concentrate on quantitative measures and progress against the task specific workplan drawn up at the beginning of the project. The IRS IMPACT program is described in Section V, Project Implementation, under project monitoring. The forms used are presented in Annex F.

B. USAID

USAID will arrange for two separate evaluations for the proposed project. Personnel for the USAID evaluation will be drawn from the Mission staff and AID/W as appropriate. Other personnel from IRS and other sources may also be utilized. The USAID evaluations will emphasize achievement of the project purpose and goal. The USAID evaluation schedule is as follows:

1. The first will be in-house approximately 6 months after the arrival of the long-term advisors, and will include:

    a. Progress of the DIT in hiring, training and retaining ADP technicians.

    b. The operational status of the installed equipment and processing procedures.

    c. Reaction of GOJ employees to project activities, and the extent to which project methods are supported by GOJ officials.

2. The second and final evaluation would take place within six months of the departure of the advisors and the completion of the project. The final evaluation would be broad in scope and would review the overall progress of the DIT. Particular emphasis would be given to the degree of success with which the DIT is able to maintain the systems developed during the project and to continue to make improvements and modifications to the system. The evaluation team would have full access to and draw heavily on the results of the IRS evaluation. It is anticipated that a senior IRS official and the former team leader would participate in the evaluation.

   Specific attention will be given to the following:

   a. Capability developed within the DIT to continue existing programs and implement improvements after project completion.

   b. The amount and quality of training conducted both in the DIT and in the independent agency.

   c. The extent to which implemented systems are conducted independently by Departmental employees with minimum assistance from the advisors.

USAID project evaluations will utilize statistical data developed by the IRS as both baseline data and as a measure of progress in assessing the magnitude of project outputs and achievement of project purpose and goals. The technical assistance component of the project allocates up to two months of short-term technical assistance for the provision of Washington-based IRS personnel for participation in project evaluation activities. Evaluation personnel drawn from AID/W, if any, would in all probability be direct hire personnel and accordingly funded from operating expenses. Should project monitoring or the initial in-house evaluation indicate implementation difficulties, additional evaluations may be scheduled as required.

VII. Conditions and Covenants and Negotiating Status

A. Conditions Precedent to Disbursement

1. First Disbursement

Prior to the first disbursement under the Grant, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

a. An opinion of counsel acceptable to AID that the Project Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

b. A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.3 of the Project Agrement, and of any additional representatives, together with a specimen signature of each person specified in such statement;

c. The names and titles of the three counterparts selected to work with the U.S. advisors, and an organization chart showing the positions with whom the U.S. advisors will work, identifying the positions as filled or unfilled, and indicating DIT's plans for filling vacant positions.

2. Disbursement for In-Country Training

Prior to any disbursement under the Grant, or to issuance by AID of any documentation pursuant to which disbursement will be made for development of the in-country training program applicable to entities of Grantee in addition to DIT, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, (1) the name of the organization or administrative entity in which such training function will be located, (2) the concurrence of the selected organization as evidenced by a contract or other written form of agreement, (3) assurances as to the capacity of the selected entity to carry out such training, and (4) assurances as to the availability of such training to other organizations of the Grantee.

3. Notification

When AID has determined that the conditions precedent specified in Section 4.1 and 4.2 of the Project Agreement have been met, it will promptly notify the Grantee.

4. Terminal Date for Conditions Precedent

a. If Section 4.1 of the Project Agreement has not been met within 30 days from the date of the Agreement, or such later date as AID may agree to in writing, AID, at its option, may terminate the Agreement by written notice to Grantee.

b. If Section 4.2 of the Project Agreement has not been met within 180 days from the date of the Agreement, or such later date as AID may agree to in writing, AID, at its option, may terminate the Agreement by written notice to the Grantee.

B. Special Covenants

1. Project Evaluation

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project, and at one or more points thereafter: (a) evaluation of progress toward attainment of the Project purpose; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

2. Implementation of the Income Tax Law

Grantee covenants that it will, within 180 days from the signing of the Agreement, advise AID of planned changes in implementation of the Income Tax Law, including assessment and compliance thereunder.

3. Staffing, Training and Coordination

Grantee covenants that it will provide adequate staff, implement necessary staff training, and effect necessary actions to assure that Project objectives are accomplished.

C. Negotiating Status

The terms and conditions herein have been reviewed by and discussed with appropriate GOJ officials according to established procedures in such matters. The draft Project Paper has been reviewed by the Director, DIT. A draft of the Project Agreement and Annex 1, the Project Description, is under discussions with the DIT.

ANNEXES

INCOME TAX ASSISTANCE

ANNEX A

Logical Framework

PROGRAM-SECTOR LEVEL

NARRATIVE SUMMARY: THE BROADER OBJECTIVES TO WHICH THIS PROJECT CONTRIBUTES:

To increase the generation of domestic revenues.
To enhance the capacity for public administration within the GOJ.

VERIFIABLE INDICATORS: MEASURES OF GOAL ACHIEVEMENT:

Income Tax Revenues, to increase 15% by 1984 over revenues which would have accrued without the project.

Increased ability to implement tax policy efficiently.

MEANS OF VERIFICATION:
GOJ tax collection and statistical data.

IMPORTANT ASSUMPTIONS:

1. Continued economic stability and growth.
2. Improvements in tax administration will lead to greater revenues.
3. Tax law changes do not decrease base or reduce tax rates.

PROJECT LEVEL

NARRATIVE SUMMARY: PROJECT PURPOSE:
Modernization and improvement of GOJ tax administration capacity.

VERIFIABLE INDICATORS: CONDITIONS THAT WILL INDICATE PURPOSE HAS BEEN ACHIEVED: END OF PROJECT STATUS:

1. Key managerial and technical staff trained and applying techniques learned.
2. Number of annual assessments increased to 250,000. Participation of 90% of eligible employees in tax withholding system.
3. Improved record keeping, reporting and analysis by use of computers.

MEANS OF VERIFICATION:

1. Review training record of USAID and GOJ status reports.
2. Review and analysis of collection and assessment statistics.
3. Examination of computer output reports.

IMPORTANT ASSUMPTIONS:
Continuation of present management commitment of support and participation in (a) implementation of necessary systemic changes, and (b) staffing and training to provide for continuing capability.

ANNEX A - Page 2

Logical Framework

OUTPUTS:

NARRATIVE SUMMARY:

1. Improved operational systems for income tax assessment, collection, clerical processing and administrative services.
2. Development of GOJ capacity for training in management and system development.
3. Operational ADP system.

VERIFIABLE INDICATORS: MAGNITUDE OF OUTPUTS:

1. Implemented systems for taxpayer accounts, collection management and withholding control.
2. Staff on-board and trained. Training capacity operational.
3. Equipment and personnel capability to design, program, implement and operate ADP processing systems.

MEANS OF VERIFICATION:

1. Review of programs and procedures in operation.
2. Personnel documents and interviews.
3. Examination of facilities, documentation and operational records.

IMPORTANT ASSUMPTIONS: ASSUMPTIONS FOR ACHIEVING OUTPUT:

1. Active management support for appropriate changes required to implement tax system modifications.
2. GOJ provides adequate incentives to attract and retain qualified ADP and other personnel.

INPUTS:

NARRATIVE SUMMARY

AID Technical assistance and training.

GOJ Project support, GOJ personnel and ADP equipment

VERIFIABLE INDICATORS: IMPLEMENTATION TARGETS (TYPE AND QUANTITY):

AID
1. 60 staff months of assistance; 48 long term and 12 short term
2. 18 staff months training
3. Support of training facility

GOJ
1. Office space, facilities and supplies.
2. Counterparts and support staff working with the advisors
3. Availability of computer and data entry equipment

MEANS OF VERIFICATION:

AID AID Mission files.

GOJ On-site inspection.

IMPORTANT ASSUMPTIONS: ASSUMPTIONS FOR PROVIDING INPUT:

GOJ will made adequate resources available for required personnel and support.

بسم الله الرحمن الرحيم

THE HASHEMITE KINGDOM
OF JORDAN
NATIONAL PLANNING COUNCIL
AMMAN
Tel. 44466 — 44470
Tlx : 21319 - P.O. Box 555
Teleg. NPC - Amman

المملكة الأردنية الهاشمية
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No. 58/1/3895
Date 12.8.1981
Ref.

الرقم
التاريخ
الموافق

Mr. Walter Bollinger
Director
USAID/J
Amman

ACTION COPY

Dear Mr. Bollinger

H.E. the Director General of the Income Tax Department (ITD) has informed me that the said Department is in the Process of improving the capacity for income tax administration in his Department through arranging special training programs to be held locally and abroad.

To accomplish this objective, you are kindly requested to provide said Department with the necessary Technical support. I suggest in this respect to go ahead and take the necessary arrangements with the Internal Revenue Services to provide the technical assistance and arrange for the training programs needed under the USAID Technical Assistance Program to Jordan.

Sincerely yours

President

cc: H.E. Minister of Finance
cc: H.E. Director General Income Tax Department.

BEST AVAILABLE DOCUMENT

ACTION COPY

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ADM AID

E.O. 12065: N/A
SUBJECT: INCOME TAX ASSISTANCE (278-0232) PID: NEAC REPORTING CABLE

REF: A) STATE 29827, B) AMMAN 1096

1. WITH THE BENEFIT OF INFORMATION PROVIDED IN REF (B) AND BY MISSION DIRECTOR AT THE MARCH 5 NEAC REVIEW, THE REMAINING ISSUES (EQUITY AND TRAINING) WERE RESOLVED. THEREFORE, THE NEAC APPROVES SUBJECT PID AND DELEGATES AUTHORITY TO THE MISSION DIRECTOR TO APPROVE PROJECT.

2. THE FOLLOWING LOOSE ENDS REMAINED AND ARE OFFERED HERE AS PP DESIGN GUIDANCE: A) THE DESIGN SHOULD BE CAREFUL NOT TO LEAD THE PROJECT SUPPORT TOWARDS ENFORCEMENT TRAINING IN VIOLATION OF SECTION 660 OF THE FOREIGN ASSISTANCE ACT. B) A MID-PROJECT EVALUATION DATE AND PLAN SHOULD BE BUILT INTOTHE DESIGN TO ASSESS, DURING IMPLEMENTATION, THE EFFECTIVENESS OF THE PROJECT'S STRATEGY FOR RETAINING TRAINEES IN THE GOJ INCOME TAX DIVISION. C) THE PP SHOULD PROVIDE MORE DETAILED INFORMATION ON HOW THE PLANNED INCOME TAX MODERNIZATION WILL IMPACT ON DIFFERENT INCOME GROUPS: URBAN/RURAL, WAGE EARNER/INFORMALSECTOR,PROPERTY OWNER/TENANT, ETC. TO THE EXTENT FEASIBLE, THIS ANALYSIS

SHOULD INDICATE WHAT TYPES OF INCOME ARE EXCLUDED FROM ASSESSMENT AND COLLECTION BY PRESENT TAX PRACTICES. HAIG
BT
#4044

COMMUNICATIONS CONTROL RECORD

DATE RECEIVED

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FROM

SUBJECT

HFRD

DATE 3 [illegible]

DATE REPLY DUE | DATE REPLY SENT | PREPARE REPLY | SIGNATURE OF

memorandum

DATE: June 25, 1981

REPLY TO ATTN OF: Lois Richards, A/DIR

SUBJECT: Senior Review Committee Meeting - Income Tax Assistance PP

TO: The Files

REF: Issues Memo, 6/14/81

The Senior Review Committee reviewed the draft PP June 16. Decisions and recommendations of the Committee are summarized below, keyed to the issues as set forth in the referenced memorandum:

1. The Committee agreed to revise the covenant in Section 5.2 of the draft Agreement on assessment and to incorporate a review of status of compliance with the revised covenant in the first evaluation described in the PP's evaluation plan. The revised covenant states, "Grantee covenants that it will within 180 days of the signing of this Agreement advise USAID of planned changes in implementing sections of the Income Tax Law which have not yet been implemented, including assessment and enforcement."

2. It was agreed that the implementation schedule is tight, especially in the early stages due to the PP's assumption about prompt satisfaction of CP's. This assumption reflects IRS' strong desire to participate in the project, IRS's identification already of the two long-term advisors, the GOJ's desire to follow up quickly on the short-term TDY's, and the GOJ's investment so far in raising tax collections. It was agreed to leave the implementation plan basically as is but to revise the terminal date for satisfaction of initial CP's to within 30 days of signing the Agreement rather than 90. Also, it was agreed that during negotiation of the Agreement USAID would stress to the Department of Income Tax this short time period and determine if it felt actions could be taken to meet the date. Note: Adoption of this procedure also has implications for USAID actions, such as issuance of the first implementation letter at the time the Agreement is signed.

3. Senior Review Committee members noted that the Agreement does include a CP on the GOJ central training program; it was recommended that the draft CP be modified to incorporate a requirement for a signed contract or other agreement with the agency designated to become the training center should the function be placed outside the Income Tax Department. It was also agreed to initiate the Department's in-house training program first. The consensus of the group was to utilize,

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6
5010-112

to the degree time and circumstances permit, inputs from the IRS advisors to developing the "external" training center but that primary responsibility for initiating this project component would fall on the Project Officer and other USAID staff, i.e. Education. Finally, the Committee recommended revising the PP, including the "log frame," 1) to quantify the number of trainees, 2) to include needed source/origin waivers for commodity procurement of training materials in Arabic, etc.) in the summary section, and 3) to summarize the social analysis in the body of the PP and make the entire analysis a PP annex.

4. The Committee agreed that the NEAC cable items had been adequately addressed. Note: At least one week prior to PP approval the USAID must advise AID/W by cable how the PP addresses the cable's three "loose ends" and also query the status of the Congressional Notification and request an allotment of funds.

5. Regarding staffing of the Income Tax Department, two revisions were recommended for Section 4.1 (CP's) in the draft Agreement: 1) Delete Section 4.1(d) which duplicates Section 3.2(a), and 2) combine Sections 4.1(c) and 4.1(e) into a new Section 4.1(c) which will also require the Department to provide USAID an organization chart showing the positions filled with whom the US advisors would work, a statement of the Department's plans for filling the vacancies, and a statement of the names of the three GOJ counterparts for the two IRS advisors. Finally, the first paragraph of the Agreement should specify the Income Tax Department as the GOJ implementing agency and state that the Department is part of the Ministry of Finance.

6. It was agreed to delete the second of the two AID evaluations and to move the third one ahead to six months after departure of the long-term advisors. These two AID reviews with the quarterly IRS monitoring should suffice to meet the NEAC requirement for sufficient and timely evaluations. Should USAID perceive a need during project implementation for additional evaluation work, the Mission will schedule a special review in its annual evaluation plans.

7. The Committee agreed to keep the Project Officer responsibilities with the Controller for the time being with support for the GOJ training center component to come from OTP. Should the workload become excessive for the Controller, another Project Officer can be named at that time.

8. The Committee found no problems with the project purpose as revised per the ref. However, considerable discussion occurred on the program/sector goal statement in the "log-frame". The questions posed involved whether the project contributes principally to the USAID's goals of improving GOJ administrative capabilities, increasing generation of domestic revenues or both, whether USAID assistance would/should seek to operate within existing GOJ tax law or to modify that law, and whether there was a real prospect of the project's interjecting USAID into Jordanian policy making. It was noted that both goal components would benefit from the project. The emphasis on administrative change directly reflects the Department of Income Tax stated desires. While the IRS does not want to become involved in policy making, the USAID should not foreclose policy assistance if the GOJ should request it. Government's decision to increase domestic revenues, including those from income taxes, is stated in the 1976-80 and 1981-85 Development Plans and is evident in recent actions undertaken by the Department. The Committee found that the PP contained no implications about changing GOJ tax legislation per se. It was agreed to leave the goal statement unchanged.

Clearance
CONT:DSheldon (draft)
CD:TPearson (draft)
OTP:JTurman (draft)
PRG:DLeaty (draft)
DIR:ECHarrell (draft)

cc:CONT
CD
OTP
PRG
DIR

LRichards:mv

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Department of State

OUTGOING TELEGRAM

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ORIGIN AID-35

ORIGIN OFFICE NETC-04
INFO NEPO-04 NEDP-02 CH6-01 NEJL-03 PPCE-01 PDPR-01 PPPB-03
GC-01 PPEA-01 GCFL-01 GCNE-01 PPIA-02 IDCA-01 FM-02
AADS-01 DSRD-02 CH8-01 ES-01 TAAS-01 TRSY-05 /039 A4 705

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DRAFTED BY AID/NE/TECH/SPRD:JOHN LEWIS:SNC
APPROVED BY AID/NE/TECH:LEWIS P. READE
AID/NE/JLS/J:DENNIS MORRISEY
AID/PD/SJL:ANDREA MONN (DFT)
AID/DP/PR:SIDNEY CHERNEKOFF
AID/NE/GC:TED CARTER (DRAFT)
AID/DS/RAD:MEREDITH SCOVILLE (DFT)
IRS/TX/TAAS:JIM WATSON (DRAFT)
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E.O. 12065: N/A

TAGS:

SUBJECT: PRC REVIEW OF INCOME TAX ASSISTANCE 278-0247 PID

REF: A) AMMAN 352 B) STATE11215 OF APRIL 79

1. THE PRC MET 1/29/81 OVER SUBJECT PID AND RAISED THE FOLLOWING TWO DESIGN ISSUES: A) THE ABSENCE OF AN EVALUATION PLAN OR LOG FRAME OUTLINE THROUGH WHICH EOP STATUS COULD BE MEASURED WILL HAMPER: THE VERIFICATION OF THE PID'S CLAIMS FOR EQUITY AND FINANCIAL INDEPENDENCE OUTPUTS OF THE PROJECT; THE DETERMINATION OF THE DIFFERENTIAL IMPACT OF THE PROJECT ON DIFFERENT SOCIO ECONOMIC GROUPS; AND THE IDENTIFICATION OF AS YET UNRECOGNIZED OR OVERLOOKED CATEGORIES OF POTENTIAL TAXPAYERS AND OF THE TYPES OF TAX PROCEDURES THAT COULD BRING THEM EQUITABLY ONTO THE ROLLS. WHAT SORT OF ASSURANCES FROM GOJ DOES USAID EXPECT, AND IN WHAT FORM DOES IT EXPECT THEM (COVENANTS, CONDITIONS PRECEDENT), THAT ADP TRAINEES WILL RECEIVE ORGANIZATIONAL AND CAREER INDUCEMENTS TO REMAIN WITH THE PROJECT AFTER TRAINING? SHOULD THE GOJ ALSO BE ASKED TO PURSUE SOME ADMINISTRATIVE REFORM AND SHOULD PID APPROVAL BE MADE CONDITIONAL ON USAID VERIFICATION OF THESE CHANGES? IS THE PID'S PROPOSED STRATEGY OF SIMPLY TRAINING SURPLUS ADP SPECIALISTS LIKELY TO BE EFFECTIVE? SHOULD THIS PROJECT EVEN BE TRAINING GOJ EMPLOYEES FROM OUTSIDE THE INCOME TAX DEPT?

2. THE FOLLOWING POLICY ISSUE ALSO SURFACED IN CONNECTION WITH THE ABOVE DESIGN CONCERNS: HAVE GOJ LEGISLATIVE AND POLICY CHANGES IN THE TAX AREA BEEN LEADING IN THE DIRECTION OF MORE EQUITABLE DISTRIBUTION OF THE TAX BURDEN? OR WILL IMPLEMENTATION OF CURRENT LEGISLATIVE TRENDS THROUGH THE PROPOSED PROJECT EXACERBATE CLASS DIFFERENCES IN THE NATION?

3. THE PRC REALIZES THAT SOME OF THIS ANALYSIS APPEARS IN THE IRS/TOY REPORTS, BUT AS THE NEAC WILL ONLY BE

STATE 029827 070074 AID580

LOOKING AT THE PID, THE PRC INVITES SUMMARY ASSESSMENTS HERE SO THAT DOCUMENT WILL NOT APPEAR IN TOO AMBIGUOUS A FRAMEWORK. SPECIFICALLY, IN ADDITION TO INFORMATION RESOLVING THE ABOVE ISSUES, THE PRC IS REQUESTING: A) AS PER REFTEL (B) PARA 58 A PRELIMINARY LOG FRAME AND THE OUTLINE OF AN APPROXIMATELY FUNDED EVALUATION PLAN; AND (B) IN CONNECTION WITH PARA 2 ABOVE A BRIEF ANALYSIS OF THE PRESENTLY LEGISLATED INCOME TAX SCALE ASSESSING THE EXTENT TO WHICH IT DEMONSTRATES A GOJ ORIENTATION TOWARDS AN EQUITABLE DISTRIBUTION OF THE TAX BURDEN WITHIN THE SOCIETY AT LARGE.

4. IN THE ISSUES PAPER, IN ADDITION TO THE ABOVE, THE PRC WILL RELATE THE PID TO THE LESSONS LEARNED FROM AID SUPPORTED TAX PROJECTS IN THE NE AND ELSEWHERE.

5. THE NEAC HAS DELAYED MEETING ON THIS PID UNTIL

USAID CAN PROVIDE ABOVE REQUESTED INFORMATION. NE/SJL WILL BE CONTACTING SHELDON FROM HERE SO THAT NE AND OSBURN (IRS) CAN BEGIN WORK ON PARA 3 REQUEST ABOVE ASAP. HAIG

Mr. Klem
2/10 Mr. Austin
2/10 Mr. Watson
Mr Osburn
Mr. Ormrod

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E.O. 12065: N/A
SUBJECT: PRC REVIEW OF INCOME TAX ASSISTANCE
278-0247 PID.

REFS: A) STATE 29827, B) 79 STATE 101215

1. MISSION APPRECIATES BEING ADVISED OF PID ISSUES RAISED DURING PRC REVIEW (REF A).

2. MISSION COMMENTS ON ISSUES CONTAINED IN REF A PARA 3:

A. LOG FRAME OUTLINE, SECTIONS 1A AND C OF SUBJECT PID SPECIFY PROJECT PURPOSE QUOTE TO IMPROVE COLLECTION OF INCOME TAXES UNQUOTE AND GOAL QUOTE TO RAISE DOMESTIC REVENUES UNQUOTE. SECTION 1C IS RATHER SPECIFIC ABOUT INPUTS AT THIS STAGE OF THE PROJECT PREPARATION PROCESS. THE EXPECTED OUTPUTS CAN BE DEDUCED FROM THE IRS REPORTS AND PID. IT SHOULD BE RELATIVELY SIMPLE FOR PROJECT OFFICER, DOUGLAS SHELDON, IN CONSULTATION WITH IRS OFFICIAL FAMILIAR WITH THIS PROJECT TO COMPLETE DRAFT LOG FRAME SUFFICIENTLY COMPLETE FOR PID REVIEW PURPOSES (PARA 5 REF A). THE ISSUES ARE CLEARLY DELINEATED IN THE PID SUBMITTED TO WASHINGTON. SHELDON CAN BE REACHED AT THE FOLLOWING ADDRESS: MR. DOUGLAS L. SHELDON, 801 51ST AVENUE, N., ST. PETERSBURG, FLA. 33703. HOME TELEPHONE (813) 526-4338.

B. EVALUATION PLAN, WE TENTATIVELY PROPOSE THREE EVALUATIONS FOR THE TWO-YEAR PROJECT. THE FIRST WILL BE IN-HOUSE SIX MONTHS AFTER THE PROJECT AGREEMENT IS SIGNED. THIS WILL FOCUS ON: 1) PROGRESS OF GOJ IN HIRING QUALIFIED STAFF AND SETTING OF THE REQUISITE TRAINING PROGRAMS, 2) HOW WELL THE ADP EQUIPMENT ALREADY INSTALLED BY THE INCOME TAX DEPARTMENT IS OPERATING, AND 3) REVIEW OF PROGRESS TOWARDS ADDRESSING PRIORITIES FOR NEXT 18 MONTHS OF PROJECT. MISSION IS PARTICULARLY

INTERESTED IN EXTENT TO WHICH INCOME TAX DEPARTMENT PEOPLE AT ALL LEVELS UNDERSTAND WHERE THE PROJECT IS TAKING THEM, WHAT HAS TO BE DONE IN WHAT TIME FRAME AND EXTENT TO WHICH THIS APPROACH IS SUPPORTED BY SENIOR GOJ OFFICIALS. THE SECOND EVALUATION WILL REVIEW PROGRESS TOWARD ACHIEVING PROJECT PURPOSE AND GOAL AND EXTENT TO WHICH INCOME TAX DEPARTMENT HAS DEVELOPED CAPABILITY TO CARRY ON EFFORT WHEN PROJECT IS COMPLETED.

MISSION MAY INVITE SENIOR IRS OFFICIAL WITH EXPERIENCE IN OTHER COUNTRIES TO PARTICIPATE IN THIS EVALUATION. FINALLY, WE WOULD PROPOSE FINAL EVALUATION SIX TO TWELVE MONTHS AFTER PROJECT TERMINATES TO REVIEW HOW WELL INCOME TAX DEPARTMENT IS IMPLEMENTING AND MANAGING NEW PROCEDURES DEVELOPED IN THE PROJECT. WE WOULD EXPECT IRS TEAM LEADER TO PARTICIPATE IN THIS EVALUATION.

C. INCOME TAX SCALE, CHAPTER VIII, ARTICLE 24 OF THE INCOME TAX LAW NO. 25 OF 1964 AS AMENDED BY PROVISIONAL LAW NO. 13 OF 1975 STATES THAT THE FOLLOWING PROGRESSIVE TAX RATES ARE APPLIED TO TAXABLE INCOME OF INDIVIDUALS:

ON EVERY DINAR OF THE FIRST						400	DINARS	50	FILS
"	"	"	"	"	NEXT	400	"	70	"
"	"	"	"	"	"	400	"	100	"
"	"	"	"	"	"	400	"	150	"
"	"	"	"	"	"	400	"	200	"
"	"	"	"	"	"	400	"	250	"
"	"	"	"	"	"	400	"	300	"
"	"	"	"	"	"	1200	"	350	"
"	"	"	"	"	"	2000	"	400	"
"	"	"	"	"	"	2000	"	450	"
ON EVERY DINAR OF THE REMAINDER							-	500	"

IN ADDITION TO THE ABOVE A 10 PERCENT SOCIAL SERVICES SURCHARGE TAX IS LEVIED. ANNUAL AMOUNT OF NON-TAXABLE INCOME FOR A FAMILY IS JD 550. NOTE THAT THIS IS APPPOXIMATELY EQUAL TO THE ANNUAL INCOME OF THOSE CON-
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SIDERED TO BE THE POOREST OF THE POOR IN JORDAN, WHO, THEREFORE, ARE EXCLUDED FROM TAXATION OF INCOME. A

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FIXED PERCENT IS COLLECTED FROM THE TAXABLE INCOME OF EACH COMPANY IN THE FOLLOWING MANNER:

1. INDUSTRIAL COMPANIES 38.5 PERCENT OF THE TAXABLE INCOME.
2. BANKS, INSURANCE COMPANIES AND FINANCIAL CORPORATIONS 45 PERCENT.
3. OTHERS 40 PERCENT.

THE ABOVE SCALE CLEARLY SHOWS THAT THE LAW IS PROGRESSIVE AND PROVIDES FOR AN EQUITABLE DISTRIBUTION OF THE TAX BURDEN AMONG THE VARIOUS INCOME GROUPS. HOWEVER, CURRENT TAX ADMINISTRATION RESULTS IN INEQUITIES. A GREATER PROPORTION OF INCOME TAXES IS COLLECTED FROM LOW-INCOME PEOPLE, MAINLY GOJ EMPLOYEES AND SOME BUSINESS EMPLOYEES, BECAUSE THEIR INCOME IS KNOWN AND IT IS ADMINISTRATIVELY EASIER TO DEDUCT TAXES FROM THEIR SALARIES MONTHLY. INCOME OF BUSINESS OWNERS IS VERY DIFFICULT TO ASSESS WITHOUT HAVING GOOD TAX RECORDS AND TRAINED TAX PERSONNEL. PRESENT SYSTEM PUTS BURDEN ON INCOME TAX DEPARTMENT TO MAKE ASSESSMENTS, NOT INDIVIDUAL OR FIRM. ACCORDINGLY, IMPROVED ADMINISTRATION AND WELL TRAINED PERSONNEL WILL ENSURE A WIDER ENFORCEMENT OF THE LAW. MOREOVER, BETTER RECORDS, AND INSTITUTION OF SELF ASSESSMENT IMPORTANT TO MORE EQUITABLE IMPLEMENTATION OF EXISTING PROGRESSIVE LAW. FYI, PARA. 2 REF A IMPLIES "CLASS DIFFERENCES" MAY BE IMPORTANT PROBLEM IN JORDAN. USAID BELIEVES OTHER DIFFERENCES MAY BE MORE IMPORTANT THAN CLASS. END FYI.

CURRENT PROPOSAL FOR AMENDING TAX LAW INVOLVES APPLYING PENALTIES FOR NON-COMPLIANCE (PAGE 4 PARA B(I) OF PID), AND INTRODUCES SELF-ASSESSMENT CONCEPT. THESE CHANGES SUPPORT EQUITY AND INCREASED COLLECTION OF TAXES.
D. TRAINING. BOTH USAID AND THE INCOME TAX DEPARTMENT RECOGNIZES THE CURRENT DIFFICULTIES RELATIVE TO RETENTION OF ADP PERSONNEL. ARTICLE C.3 OF THE PID DESCRIBES THE PROBLEM AND THE WAY TO OVERCOME IT. IT PROVIDES FOR UPGRADING AN EXISTING IN-COUNTRY ADP TRAINING PROGRAM SO AS TO BENEFIT TAX DEPARTMENT STAFF. THAT OTHER GOJ COMPUTER STAFF MAY ALSO BENEFIT, SUCH AS THOSE AT NRA WHICH USAID ASSISTING IN GROUNDWATER RESOURCES PROJECT, WHICH INCLUDES HELP IN DEVELOPING ADP SYSTEM. MAKES GOOD SENSE AND INCREASES THE RETURN TO AID PROGRAM FROM PROJECT FUNDS. THIS FAR DIFFERENT FROM AID/W SUGGESTION
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THAT USAID WILL BE PROVIDING TRAINING FOR OTHER GOJ (NON-TAX) STAFF. WE EXPECT TO PROVIDE LIMITED TA TO STAFF OF AN EXISTING ADP TRAINING PROGRAM AND TO ENSURE TAX DEPARTMENT CAN HAVE FULL AND CONTINUING ACCESS TO TRAINING BEYOND LIFE OF PROJECT. INEVITABLY IN JORDAN THERE WILL BE TURN-OVER IN GOJ COMPUTER STAFF FOR TAX DEPARTMENT AND OTHERS, AND WE ARE PRUDENTLY TRYING TO ENSURE AVAILABILITY OF SUFFICIENT STAFF TO KEEP DEPARTMENT OPERATING SMOOTHLY. FYI, COMPUTER FIELD IS ONE WHERE SKILLS SHORTAGE EXISTS, AND "OVER-TRAINING" ABOVE CURRENTLY EXISTING PERSONNEL NEEDS IS NOT ONLY THE "NORM" HERE, BUT IN THE U.S. AND IN OTHER AID PROJECTS.

USAID EXPECTS TO DISCUSS OTHER MEANS THAN HIRING UNDER CIVIL SERVICE FOR TAX STAFF DURING PP DESIGN, I.E. CONTRACT HIRING. ADOPTION OF THIS MODE MAY REQUIRE APPROVAL OF COUNCIL OF MINISTERS. TAX DEPARTMENT SEEMS WILLING TO CONSIDER CONTRACT HIRING AND DEPENDING ON PROGRESS USAID MAY REPEAT MAY NOT INCLUDE THIS AS CP OR COVENANT.

E. AT THIS POINT WE DO NOT KNOW WHETHER ADMINISTRATIVE REFORM IS REQUIRED OR WHAT OPTIONS MAKE SENSE TO KEEP QUALIFIED PEOPLE. WE HAVE CONSISTENTLY INSISTED THE PROJECT CAN'T GO FORWARD UNTIL ADP EQUIPMENT INSTALLED AND AT LEAST THREE QUALIFIED ADP PEOPLE ON-BOARD. IT WAS ONLY AFTER INCOME TAX DEPARTMENT MET THESE CONDITIONS THAT WE PREPARED THE PID. IF THERE IS ANY REASON TO DOUBT WHETHER THIS REQUIREMENT WILL BE MET BEFORE AGREEMENT IS SIGNED, WE WILL ADD CP FOR INITIAL DISBURSEMENT TO THIS EFFECT. WE WILL INCORPORATE A COVENANT ON STAFFING. IN ADDITION, AS MENTIONED ABOVE, WE WILL OVERTRAIN, WE WILL URGE GOJ TO SELECT PEOPLE THAT WILL LIKELY STAY IN THE INCOME TAX DEPARTMENT FOR SOME TIME, E.G., WOMEN, PRESENT EMPLOYEES WITH SOME SERVICE TIME TOWARD RETIREMENT, AND EMPHASIZE THE IMPORTANCE OF SELECTING A DYNAMIC, WELL-QUALIFIED CHIEF FOR THE ADP DIVISION.

7. WE HOPE THIS PLUS SHELDON ONE-DAY TDY/WASHINGTON WILL CLARIFY OUR THINKING SUFFICIENT FOR NEAC REVIEW AND DELEGATION OF AUTHORITY. TO EXPEDITE MATTERS, WE SUGGEST SHELDON HAND CARRY, OR AID/W CABLE, DRAFT LOP FRAME PREPARED BY SHELDON AND WE WILL COMMENT BEFORE NEAC REVIEW. DIRECTOR HARRELL WILLING TO SIT IN ON NEAC REVIEW IF IT

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IS SCHEDULED AFTER MARCH 2. IN EVENT THIS NOT POSSIBLE, DEPUTY DIRECTOR MIGHT ATTEND REVIEW IF IT SCHEDULED DURING WEEK MARCH 16-20.
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4. USAID UNDERSTANDS SHELDON TO RETURN AMMAN FROM HOME LEAVE O/A FEBRUARY 17. THEREFORE, URGE AID/W CONTACT HIM IMMEDIATELY. ZWEIFEL
ET
#1096

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PROJECT CHECKLIST
FY 1981

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual funding sources: Development Assistance (with subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES:	IS COUNTRY CHECKLIST UP TO DATE?	Yes
	HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	Yes

A. GENERAL CRITERIA FOR PROJECT

1. Continuing Resolution Unnumbered; FAA Sec. 634A; Sec. 653(b)

   (a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure) ?

   (a) Congressional notification has been submitted.

   (b) Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   (a) Yes. Firm financial plans have been included in the Project Paper.

   (b) Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   None required.

4. FAA Sec. 611(b); Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?

Not applicable

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Not applicable.

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

Not applicable. Project is country-specific.

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and Credit unions, and savings loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The project will be helpful to industry to the extent that trainees in ADP and accounting technology leave government for the private sector. It will encourage commerce by achieving a more equitable tax administration.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

An abundant supply of ADP technicials will tend to facilitate the expansion of the market for U.S.-built computer systems.

9. FAA Sec. 612(b), 636(h); Continuing Resolution Sec. 508. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The GOJ is contributing approximately 35 percent of the total project costs, and 70 percent of the local currency costs. Local currency expenditures financed by AID is limited to costs ancillary to AID inputs.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

Jordan is not an excess currency country.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assitance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Not applicable.

B. FUNDING CRITERIA FOR PROJECT

2. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102 ?

Increased domestic revenues will make the nation less susceptible to the fluctuation in concessionary budget support.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No

STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general heading of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

   Not applicable

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

   Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.?

   Not applicable

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably procured in U.S.).

   Not applicable

5. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?

   Not applicable

6. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services be furnished from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

   Yes. Technical assistance will be furnished by IRS, which is uniquely suitable to assist in national tax administration.

7. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S. carriers will be utilized to the extent such service is available?

   Yes.

8. Continuing Resolution Sec. 505. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

   Not applicable

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interests?

Not applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on competitive basis to maximum extent practicable?

Not applicable.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?

Not applicable.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Not applicable.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organizations, does Comptroller General have audit rights?

Not applicable.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes

4. Continuing Resolution Sec. 514. If participants will be trained in the United States with funds obligated in FY 1981, has it been determined either (a) that such participants will be selected otherwise than by their home governments, or (b) that at least 20% will be for participants selected otherwise than by their home governments?

It has been determined that agency-wide at least 20 percent of the participants will be selected otherwise than by their home governments.

5. Will arrangements preclude use of financing:

a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization?

Yes

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

Yes

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes

d. FAA Sec. 662. For CIA activities.

Yes.

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained.

Yes.

f. Continuing Resolution Sec. 504. To pay pensions, annuities retirement pay, or adjusted service compensation for military personnel?

Yes.

g. Continuing Resolution Sec. 506. To pay U.N. assessments, arrearages or dues.

Yes.

h. Continuing Resolution Sec. 507. To carry out provisions of FAA Section 209(d) (Transfer of FAA funds to multilateral organizations for lending).

Yes.

i. Continuing Resolution Sec. 509. To finance the export of nuclear equipment fuel, or technology or to train foreign nationals in nuclear fields?

Yes.

j. Continuing Resolution Sec. 510. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the populations of such country contrary to the Universal Declaration of Human Rights?

Assistance for such purpose will be precluded.

k. Continuing Resolution Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes.

PROJECT AUTHORIZATION

Name of Country : Hashemite Kingdom of Jordan
Name of Project : Income Tax Assistance
Number of Project: 278-0247

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Income Tax Assistance Project for Jordan involving planned obligations of not to exceed $1,000,000 in grant funds over a one-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project consists of improving and modernizing the technical capacity of the Department of Income Tax.

3. The Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in the United States and the Cooperating Country, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Conditions Precedent to Initial Disbursement

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish, in addition to the standard legal opinion and specimen signature(s), in form and substance satisfactory to A.I.D., (i) the names and titles of the three counterparts selected to work with the U. S. advisors, and (ii) an organization chart showing the positions with whom the U.S. advisors will work, identifying the positions as filled or unfilled, and indicating DIT's plans for filling vacant positions.

c. Conditions Precedent to Disbursement for In-Country Training

Prior to any disbursement, or to the issuance of commitment documents under the Project Agreement, for development of the central in-country training program, the Cooperating Country shall furnish, except as the Parties may otherwise agree in writing, in form and substance satisfactory to A.I.D., (i) the name of the organization or administrative entity in which such training function will be located, (ii) the concurrence of the selected organization as evidenced by a contract or other written form of agreement, (iii) assurances as to the capacity of the selected entity to carry out such training, and (iv) assurances as to the availability of such training to other organizations of the Cooperating Country.

Lois Richards
Acting Director, USAID/Jordan

1. Host Country	Impact Project Plan and Record	2. No.				
		Program	Obj.	Project	Yr.	Prl.

3. Description

a. Program:

b. Specific Objectives:

c. Project Title:

d. Other:

4. Date Assigned	Assigned To	Dates	Start	25%	50%	75%	Completed
		Scheduled					
		Actual					

5. Purpose and Scope

6. Background, Special Features and/or Instructions and Suggestions

7A. Outline of Project Actions Assigned Responsibilities and Target Dates

7B. Team and/or Host Country Resources Allocated To Project

8. Host Country	Impact Project Plan and Record	9. No.				
		Program	Obj.	Project	Yr.	Prt.

10. Project Progress Status *(Explanation of Delays & Problems Also)*

Date of Entry	Brief Description of Progress and Status	Percent of Completion
	(Attach additional sheet if necessary)	

11. Results Obtained From Completed Project.

(Attach additional sheet if necessary)

12. Follow-ups Made After Completion of Project *(Attach additional sheet if necessary)*

Date	By Whom	Brief Resume of Observations or Findings

Impact Planning and Program Report

Host Country

Annual Work Plan For Year

Progress Report For Period Ended

Page Number of

Program Area: _____

Project Number				Specific Objective Projects	Start Target Date	Scheduled Dates		Status	Achievements or Problems
Program	Objective	Project	Year			Start	Finish		
(a)				(b)	(c)	(d)	(e)	(f)	(g)

Form 6439 (4-80)

Department of the Treasury — Internal Revenue Servic

Periodic Statistical Report

For Period
From 19 to 19

Monetary Unit | Country | Report dollar amounts in Thousands of U.S. dollars

Functional Area and Item	Previous Year		Current Year		Cumulative Percent Increase or (Decrease)
	This Period	Cumulative	This Period	Cumulative	
Current Returns					
Returns Filed - Total					
- Taxable					
- Nontaxable					
Income and Profit					
Sales					
Property and Transfers					
Excise and Other					
Total Tax Revenue	$	$	$	$	
Income and Profit	$	$	$	$	
Sales	$	$	$	$	
Property and Transfers	$	$	$	$	
Excise and Others					
Delinquent Returns					
Contacts Made					
No. of Returns Secured (Total)					
Income and Profit					
Sales					
Property and Transfers					
Excise and Others					
Amount of Tax and Penalty (Total	$	$	$	$	
Income and Profit	$	$	$	$	
Sales	$	$	$	$	
Property and Transfers	$	$	$	$	
Excise and Others	$	$	$	$	
Delinquent Accounts					
Cases Closed					
Amount of Tax and Penalty (Total)	$	$	$	$	
Income and Profit	$	$	$	$	
Sales	$	$	$	$	
Property and Transfers	$	$	$	$	
Excise and Others	$	$	$	$	
Examination					
No. of Returns Examined and Closed					
Income and Profit					
Sales					
Property and Transfers					
Excise and others					
Additional Tax and Penalty	$	$	$	$	
Income and Profit	$	$	$	$	
Sales	$	$	$	$	
Property and Transfers	$	$	$	$	
Excise and Others	$	$	$	$	
Appeals					
Cases Received					
Cases Closed					
Inventory - Cases on Hand					
Amount of Tax		$		$	

UNITED STATES GOVERNMENT

memorandum

DATE: May 14, 1981

REPLY TO ATTN OF: NE/PD/PDS, Stephen F. Lintner, Bureau Environmental Coordinator

SUBJECT: JORDAN - Income Tax Assistance - Project Identification Document (278-0247) - Environmental Clearance

TO: NE/TECH/SARD, John Lewis, Project Chairperson

I have reviewed the proposed project and concur with the recommendation of the Mission that it be given a "Negative Determination" in compliance with the requirements of 22 CFR 216, "A.I.D. Environmental Procedures".

cc: GC/NE, M. Kleinjan
AID/Amman, R. Cline, Mission Environmental Officer
AID/Amman, G. Davidson, Regional Legal Advisor

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

☆U.S. Government Printing Office: 1980—341-526/6193

ANNEX H

SUMMARY OF PRIOR EXPERIENCE

AID and the IRS have had significant experience in tax assistance projects and activities. IRS has implemented activities in 24 countries over the past decade. Notable long-term projects involving data processing include efforts in Panama, Colombia, and Trinidad. The IRS tax assistance projects have generally been considered successful and appropriate developmental activities. Current tax assistance activities are in process or planned for Egypt, Saudi Arabia, Liberia, Sierra Leone, and Trinidad.

AID and the IRS have provided limited assistance to the GOJ Department of Income Tax for several years. The following section details the scope of this previous assistance.

1. Training

USAID has supported training for GOJ tax officials since 1963. There have been three distinct sources of training used in different periods of time:

1963-1965: Training provided in various U.S. colleges, predominately in Oklahoma

1966-1974: Training at the University of Southern California Institute for Tax Administration

1978-1980: Training at IRS INTAX Seminars.

The table below reflects the current location of the participants in each time/source training phase. The column head "P" indicates the number of participants, and the column headed "M" indicates the total number of months of training for all participants.

Training GOJ Income Tax Department 1963-1980

Present Position	TOTALS		Misc. Univ.		U.S. C.		IRS-INTAX	
	P	M	P	M	P	M	P	M
a. In Income Tax Dept.	23	191	2	12	13	163	8	16
b. In other Agencies	8	60	3	31	5	29	0	0
c. In Private Sector	2	51	3	25	2	24	1	2
d. Died(1), Retired(2)	3	20	1	3	2	17	0	0
Total	40	322	9	71	22	233	9	18
% retained in Dept.	57.5		22.2		59.0		88.8	
% retained in Govt.	77.5		55.5		81.8		88.8	

From this table, it appears that (a) none of the participants have left Jordan, (b) only about 15 percent have left the government service, and (c) there are 23 employees in the DIT who have received training in the U.S. It can thus be concluded that whatever benefits occur from training are not generally lost to the nation, the government service, or the DIT.

The latter observation, however, raises questions about the DIT's responsiveness to training. It can be reasonably asked why a cadre of 23 employees trained in the U.S. for an average of 8.1 months each have not been able to develop a more efficient tax administration. Several observations are significant in response to this.

a. The prior training at USC and other colleges has been long-term lecture type courses, predominately theoretical, and not supplemented by guidance on the application of theory. This project focuses on training that is short term, uses participatory learning methods, and is oriented toward practical application. In addition, the project proposes to supplement the training with on-site technical assistance in the application of theory to tax administration problems.

b. The value of the pre-project training, however theoretical, is probably reflected in the relative success of the TDY technical assistance missions that have occurred since 1978 discussed in the following section. Reports of the IRS advisors indicate that the major effort has been devoted to implementation of procedures, not explanation of concepts. Had a good theoretical base not been present, it is likely that these advisory efforts would have been much more difficult and considerably less successful.

c. The most significant observation is that none of the prior training has been devoted to ADP methodology, which is a central focus of the present project. Proper use of ADP technology has become almost essential to effective tax administration in every country, and it is difficult to imagine an efficient tax administration that does not employ it in one form or another. Even the best efforts of the trainees to improve tax administration without ADP technology could not have been very successful.

In summary, the training previously received can only be considered unsuccessful if it is not effectively applied -- and, as is noted in the Project Input Section, applied technology is the central focus of both the training and technical components of this project.

2. Technical Assistance

Beginning in August of 1978 and continuing through November of 1980, approximately 20 staff months of TDY advisory assistance were provided to the DIT by USAID/IRS, at a total cost of approximately $215,000. Four staff months of technical assistance was initially requested by GOJ early in 1978 for the purpose of designing a computer processing system for the DIT. To determine the feasibility of this request, USAID arranged for Mr. William Newman (Assistant Director, Tax Administration Advisory Services Division, IRS) to visit the DIT from April 15 to April 17, 1978. His report identified problems in various areas of tax administration and recommended a general survey to develop a plan for overall improvement in lieu of specific assistance in automatic data processing. The suggested general survey was conducted by three IRS employees who were assigned to the Department between July 18 and October 13, 1978. This team consisted of:

Marion F. Coburn, Generalist - 3 months
Octavio Carrasco, Audit - 3 months
Jimmie Osburn, Data Processing - 2 months

The survey team conducted a comprehensive analysis of the DIT's problems and needs, and developed an extensive number of specific procedural and policy recommendations in many areas of tax administration. The major recommendations of the survey are summarized in paragraphs below. Four follow-up visits were made by USAID/IRS employees to review progress on the recommendations, and to further assist in their implementation:

Feb 23 - Apr 21, 1979:	Conrado Longoria, Generalist Jimmie Osburn, Data Processing
Sep 12 - Nov 6, 1979:	Conrado Longoria, Generalist Jimmie Osburn, Data Processing
May 2 - May 31, 1980:	Jimmie Osburn, Data Processing Ronald Savoca, Compliance
Nov 7 to Nov 27, 1980:	Jimmie Osburn, Data Processing

In addition, Mr. Douglas Ormerod (Director, Tax Administration Advisory Services Division, IRS) visited Amman in September of 1979 to evaluate progress and potential for long-term technical assistance. His report recommended long-term assistance, supplemented by short-term assistance and training in the United States by IRS for employees of the DIT.

The recommendations made during these tours are too extensive and too detailed to be enumerated here. Complete documentation is available in the USAID Mission files. The following are the most significant recommendations, and the current status of each:

GENERAL	
Conversion to self-assessment	Partial implementation
Application of sanctions	Awaiting tax law changes
Tax law changes	Recommended to Min Fin
Organizational changes	Partial implementation
DATA PROCESSING	
Long-range plan	Partial implementation
Recruitment of technicians	Partial implementation
Training of technicians	Partial implementation
Computer acquisition	Completed
Conversion of new computer	Partially converted
TAXPAYER ACCOUNTS SYSTEM	
Accountability controls	Implemented
Data entry for computer processing	Implemented
Data entry validation programs	Completed by IRS advisor
Taxpayer accounts programs	Completed by IRS advisor
Continued operation of system	Partially by DIT staff
AUDIT/ASSESSMENT	
Group supervision of assessors	Implemented
Reduction of review steps	Not implemented
Productivity reports for assessor	Implemented
Use of taxpayer records	Implemented
Large case assessment priority	Implemented
Improvement in assessment techniques	Partial implementation
MISCELLANEOUS	
Control of withholding agents	Partial implementation
Automation of 3rd party information	Not implemented
Compliance survey	One completed
Delinquent accounts reports via ADP	Completed by IRS advisor
Overdue accounts collection procedure	Partial implementation

The major accomplishments during the period of technical assistance have been in the following areas:

a. Taxpayer Accounts

Initially, account records for companies (the largest source of tax revenue) were maintained by clerical and machine posting methods. The 5-month backlog in posting accounts rendered the results of little value for controlling collections, and the lack of accountability controls permitted undetected errors and possible dishonesty among employees.

These accounts are now processed by computer on a reasonably current (within one month) basis. Controls have been established to help detect errors and prevent dishonesty. The computer programs for this were developed by the IRS advisor, however, because the DIT still lacks the technical staff for developing and programming their own systems.

b. Withholding Control

Simple clerical procedures were designed for identifying employers who did not withhold taxes from employees or remit taxes withheld when due. Although these procedures have not been fully implemented, they have increased revenue from this source by about 30 percent, or JD 853,000 per year.

c. Enforcement Action

A special team has been assigned to sieze the records of large companies which, when assessed, claimed to have no records. The first 50 such cases yielded new assessments in the range of 10 to 20 times the amount of the original assessment.

d. Assessment Priorities

Initially, assessments were made in sequence without regard to the potential revenue. Larger cases are now given priority, and assessed every year instead of the 3-to-8-year delay previously incurred. The effect of this action on increased revenue can not be readily determined. Overall collections for 1979, however, were 20 percent greater than 1978 -- producing an additional JD 3,919,582 in tax revenue.

e. Other Areas

Although the current law provides for self-assessment tax returns, it is ineffective because there are no sanctions for non-compliance. Revisions to the law to provide for this, and to correct other problems in the tax law, have been submitted by the DIT to the Minister of Finance and are under consideration at that level.

With some relatively minor exceptions, the DIT has responded to the technical assistance program by implementing recommendations whenever it had the legal authority and technical capability to do so. It can be reasonably expected that increasing and institutionalizing the DIT's technical capability would result in substantial additional improvements. The improvements in the technical capacity of the DIT have also been reflected, as anticipated, through increased revenues. Largely as a result of the short-term technical assistance program, income tax revenues have increased from JD 13,300,000 in 1977 to JD 27,700,000 in 1980, an overall increase of 108 percent, or 28 percent per annum. As indicated in the table below, income tax revenues discounted for inflation have increased at the rate of 15 percent per annum.

Growth in Income Tax Revenues
(JD 000,000.0)

	1975	1976	1977	1978	1979	1980
Income Tax Collections	9.3	9.3	13.3	19.5	22.7	27.7
% Increase		-0-	43%	47%	16%	22%
Inflation Index 1975 = 100% 1/		111.5%	127.7%	136.6%	156.0%	173.3%
Adjusted Collections	9.3	8.3	10.4	14.3	14.6	16.0
% Increase		(10.8%)	25.3%	37.5%	2.1%	9.6%

1/ Table 46, Central Bank Statistical Bulletin, January 1981

ADMINISTRATIVE ANALYSIS

The implementing agency within the GOJ for the project is the Department of Income Tax (DIT), an independent department under the supervision of the Minister of Finance. The DIT is responsible for all activities related to the administration of income taxes. The chief operating executive is the Director, who is nominated by the Minister of Finance, and appointed by the Council of Ministers with the approval of the King. The DIT has approximately 275 employees located in a central office in Amman and in six field offices (Amman, Zarqa, Irbid, Aqaba, Salt, and Kerak).

This analysis reviews the internal administrative capacity of the DIT to carry out its assigned function. Specific elements of the analysis include: (1) organization and structure, (2) work flow, (3) personnel considerations, (4) managerial assessment, and (5) the outside administrative environment.

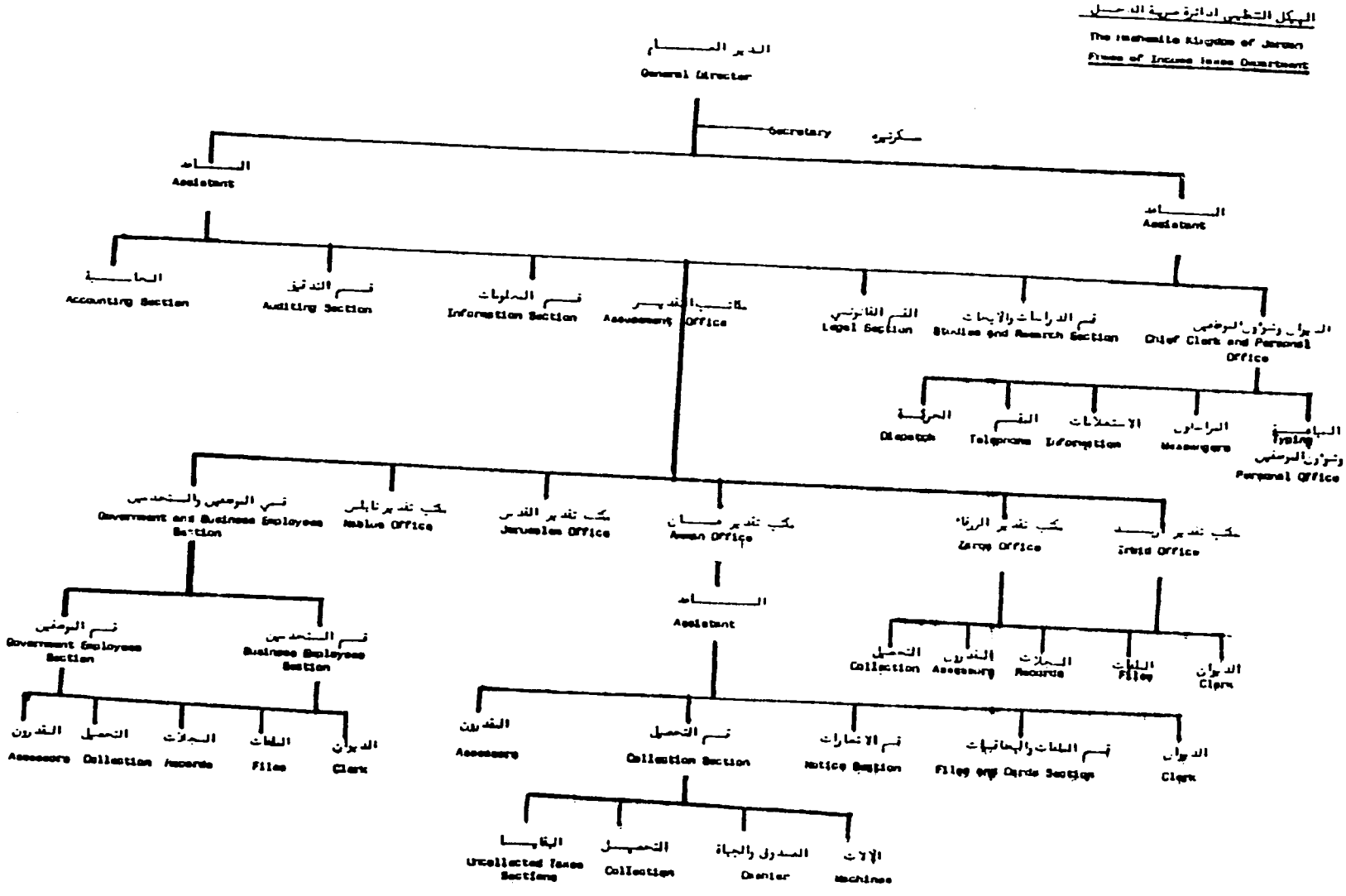
1. Organization and Structure

The organization chart, Table 1, details the functional division within the DIT. Functions can generally be characterized as (a) executive, including the Office of the Director, and inspection/internal audit; (b) staff functions, including legal section, computer section, accounting, administration, etc; and (c) line functions, including assessments, collections, etc. The executive and staff functions are generally located in the central office, line functions in the field offices. The great bulk of activity is performed in the Amman Central Office and Amman Field Office. The other field offices appear to represent, to a degree, a convenience to the taxpayers in obtaining tax clearances.

Table 1 is the organization chart supplied by the Director. The chart could be redrafted to clarify a number of points. The following points are noted:

The "joint tenancy" of the two Assistants to the Director has been eliminated, since it appears that now there is only one Assistant.

The organization for the Zarqa and Irbid Offices means to indicate that the substructure shown jointly under both offices is, in fact, duplicated under each office. Similarly, this is what is intended for the Government Employees Section and the Business Employees Section. The field offices should reflect the additional offices opened in Aqaba, Salt and Kerak. Although not indicated on this



BEST AVAILABLE DOCUMENT

organization chart, the Computer Section is a separate staff function. In the Collection Section, the unit entitled "Machines" is the taxpayer accounts unit -- machines being the methodology used to post the accounts.

The Auditing Section is essentially a review section that reviews cases prepared by assessors prior to approval of the assessment. An additional review is also conducted by a branch of the Comptroller General's office which, of course, is not shown on the chart since it is not part of the DIT.

The Information Section is responsible for the receipt of information to be processed for the use of the assessors. It has nothing to do with Public Information Programs.

The Studies and Research Section is at the incipient stage of development within the DIT specifically devoted to project implementation.

2. Workflow

Information Section

Receives information documents such as the following and in the estimated quantities indicated:

			Approximate Number of Documents
a.	Customs:	Imports	160,000
		Exports	50,000
b.	Contracts (government and private with government shareholder)		5,000
c.	Private Contracts (from municipalities)		1,500
d.	Refinery (annual submission of amounts of commissions to distributors)		700
e.	Land Sales (from Land Department)		8,000
			225,200

Sorts by taxpayer and office and transmits to appropriate offices (Amman-Zarqa-Irbid, etc.).

Assessment Office

Information flows to Files Unit for addition of file number and then to taxpayer's file for subsequent use of assessor in making the assessment. However, in practice, since Information Section is unable to keep current (late submission of documents by submitting agencies plus understaffing), most information documentation is prepared upon request of the assessor. Thus, in the majority of cases, the documentation flows directly to the assessor after the file number is placed on it.

Assessors

Assessor reviews documentation available as a principal basis for making the assessment. In addition, he may have available informant letters and, on occasions, he may visit the premises of the business. Another source is direct interview of the taxpayer and the requesting of statements of information from the taxpayer. Estimates are frequently used in determining the final assessment proposed.

The returns have not been filed since those for the taxable year 1975. It is intended to reinstitute filing at some future date. In the past, penalties for late or non-filing have generally not been applied. Also, tax returns have generally been so suspect as to accuracy that they have been of little use in the assessment process.

Assessment Review

Four levels of review are encountered for most cases (for business) before the assessment is approved:

a. Assistant to the Head of the Amman Office

b. The Auditing Section

c. The Assistant to the Director

d. The Auditing Branch of the Comptroller General's Office.

Assessment

a. After the reviews are completed, the cases are sent to the Notices Section.

b. The Notices Section prepares notice to taxpayer in triplicate:

   (1) To taxpayer

   (2) To "Machines" (Taxpayer Accounts)

   (3) To Collection

Appeals Process

a. Taxpayer sends appeal to the appropriate Assessment Office.

b. The appeal is assigned to an assessor different from the original assessor.

c. After completion of the case by the assessor, the 4-step review process is repeated.

d. Taxpayer then notified of results of appeal.

e. Taxpayer can then appeal to the courts -- even up to the Supreme Court. (Non-litigated settlement is usually attempt between the court and the Department.)

Collection

a. 30-days after notice of assessment sent, if not appealed, account can then be collected.

b. Until recently, no follow-up with taxpayer was undertaken.

c. Primary reliance was on the clearance procedure, which requires a tax clearance to perform the following:

   -- Purchase a car
   -- Receive money from the Government (on contracts, etc.)
   -- Import goods.

   Note, however, a tax clearance is not needed to leave the country.

d. The Collection Section can enter into installment agreements of up to 6 months duration; above that, it goes to Director for approval. This is a recent innovation, since previously all installment payment agreements had to be approved by the Director General.

Delinquent Accounts Collection

A small group has been established recently to follow-up on past due notices, with good results. So far, the principal effort has been merely to follow-up by correspondence with taxpayers and response has been good.

Subsequent steps to be taken have not yet been decided. Available to the DIT are the following:

a. Informal notice

b. Official demand -- made by personal delivery and signed as received by the taxpayer

c. Public notice -- displayed in conspicuous place

d. Publication in Government Gazette

e. Lien on property.

3. Personnel

The DIT has a total of 294 permanent positions at this time, of which approximately 275 are filled. Personnel and staffing have always represented, to some degree, a problem for the DIT. The Department has a significant requirement for personnel trained in financial management and auditing. With the development of the ADP function, the qualified ADP technicians must be hired.

a. Financial Management Personnel

The need for financial management within the audit and assessment function is basic. The demand for accounting and auditing skills is high in Jordan, in the region, and worldwide. With prevailing salary scales and considering other factors, the DIT has had great difficulty in obtaining and retaining skilled employees. For example, the preferred educational background for a new auditor/assessor is a university degree in accounting or finance. It has not, however, been possible to obtain graduates with these skills for several years. The DIT has been required to hire new employees with other qualifications -- law, economics, etc. Inadequate training efforts, coupled with the lack of procedural guidance, has hindered the effective development of the new employees.

b. ADP Personnel

A frequently heard complaint among GOJ officials is that it is difficult/impossible to recruit or retain competent ADP technicians because of low government salaries. The experience of the pre-project IRS advisory teams has confirmed this assertion is generally true. It is recognized, however, that this situation is frequently used as a convenient excuse for any and all other problems encountered in the ADP area, including those that are, in reality, related to factors such as poor coordination, ineffective supervision, and lack of job-oriented training.

In 1978, when the pre-project TDY technical assistance was first initiated, there were less than 10 computer systems installed in all of Jordan. The only institutions then identified as offering technical training were the Royal Scientific Society and the computer vendors. ADP technicians in the public service sector received a maximum salary of $412 per month (JD 125). The growth rate in ADP since that time has been phenomenal, and most of it has occurred since mid-1980. The current situation, based on information that literally changes from day to day, is as follows:

(1) Approximately 50 computer systems are currently installed or on order throughout the nation.

(2) Approximately 8 institutions (public and private sector combined) are offering or planning to offer training in ADP technology.

(3) Salaries for ADP technicians in the government sector have increased to $825 per month (JD 250).

Because most of this growth has occurred quite recently, it is difficult to assess its long-term effect on the problem of retaining technicians in the government service. Some random observations may help to put the problem in perspective:

(1) A similar situation exists in developed countries with regard to the supply of and demand for ADP technicians. A glance at the employment advertisements in any major newspaper in the U.S., for example, will reveal that the demand for ADP technicians considerably exceeds the supply.

(2) There is little hope that the worldwide supply-demand problem will be alleviated in the foreseeable future. Current applications of ADP technology have not begun to approach the potential for development and use of this technology.

(3) Governments in developing countries have managed to obtain an adequate proportion of the available supply by (a) establishing pay rates comparable with private industry, and (b) instituting internal training programs. The GOJ is attempting both of these measures, but in view of the recent exponential growth in ADP, it is not known how successful these efforts will be.

(4) Jordan's problem is intensified by the abundance of opportunities for ADP technicians in other Arab countries. It can be anticipated that many technicians who received training and experience in Jordan will migrate, especially to the Gulf countries, for higher-paying jobs. This is a mixed blessing for the GOJ. While it will lose some of its much-needed technicians, the input of foreign earnings from Jordanians abroad has already had a pronounced beneficial effect on the Jordanian economy.

The problem of hiring and retaining qualified employees is a serious issue throughout the GOJ, which the proposed project must confront. The GOJ cannot retreat from the need for advanced technology in the ADP area. The basic financial management requirements of the DIT must be met. There is no reasonable expectation that this project will resolve the retention problem, but the effects may be ameliorated to some degree through the following measures:

(a) Overtaining. This project will attempt to develop the capacity to train the maximum possible number of employees of the government sector. The assumption is that the government (emphasizing the DIT) will receive at least some portion of the value of this training, some will flow into the private sector, and (to the extent that technicians migrate to other countries) some will result in importation of foreign earnings -- all of which are beneficial to Jordan.

(b) The role of women. Training of women employees will be emphasized on the assumption that they are somewhat less likely to emigrate to other countries, and perhaps less likely to find employment in the private sector. This may be partially offset by the number of women who leave their jobs for marriage and childbearing. Pay comparability, however, will have a favorable effect on the number who continue working.

(c) Comparability pay. The GOJ is aware of the problem of recruiting and retaining ADP technicians and financial management personnel. The GOJ has almost doubled the pay for ADP technicians (from JD 125 in 1978 to JD 250 in 1981).

(d) Focus of training. The training proposed in this project is basically job-oriented. It does not attempt to develop employees with a wide theoretical background or a broad range of skills, which is the legitimate function of the universities in Jordan. The focus in on job proficiency, not on certification. The skills learned will be transferable, but lack of formal accreditation will not make this quite so obvious. This may be expected to have at least a slight deterrent effect on transfers to other organizations.

(e) Bonding. The length of training (short-term courses) proposed in this project is not sufficient to extract a commitment from the employees involved to continue with their agencies for an extended period of time. Such a commitment might be possible, however, with a combination of (i) training, (ii) certified competency, and (iii) an immediate salary increase. The possibilities for this approach will be explored in detail during the execution of the project.

(f) Other motivations. There are other factors that can influence retention in addition to pay. Good technicians prefer to work in an environment that permits creativity, imaginative systems, and plenty of learning opportunities. Others include (i) recognition and appreciation by management for good performance, (ii) a good physical and psychological working environment, and (iii) matching skill levels with work assignments so that employees can generally be successful. All of these motivation methods must be used in addition to pay adjustments.

4. Managerial Assessment

The Department of Income Tax is highly centralized in respect to the managerial authority. Relatively minor decisions are often referred directly to the Director. The division between staff and line functions, particularly in the case of the Amman Field Office and the General Office is virtually non-existent, due to (1) the physical proximity, and (2) the overriding importance of the Amman Field Office in terms of revenue generation.

Middle management and supervision are not strong within the DIT. This is partially due to traditional operating procedures which do not encourage initiative or delegation of authority. Whether by inclination, custom, or ability, middle management activities are generally restricted to routine functions and the carrying out of the express orders of the Director. Particularly in the line functions of collection and assessment, technical supervision tends to be minimal, partially due to the system of assessment which places a virtually overriding reliance on the personal judgment of the assessors. Another significant factor is the tendency to promote individuals for the most part on the basis of seniority. The lack of statistical data also impedes the performance of managerial responsibilities.

The project intends to strengthen both the role of supervisors and middle managers and to provide specific training in these functions. The development of procedural guidance will assist in strengthening technical review procedures. The availability of statistical and other information from the computer will assist management and supervisors at all levels in the performance of their functions.

5. Outside Administrative Environment

The public perception of the administrative capacity of the DIT is, in general, unfavorable. As noted in the Social Soundness Analysis, this is partially due to the traditional role of the tax collector in any society. There are, however, significant problems in the administration of the income tax of which the public in general and the business community in particular are aware. The DIT is often viewed as inefficient, arbitrary and, to some degree, corrupt. Inefficiency is considered a result of inadequate technical training or capability. The unusual degree of reliance on the personal

judgment of the assessor or auditor, coupled with inadequate technical training can well result in arbitrary assessment of tax liability. The highly personal nature of the assessment process provides opportunity for possible corruption. The GOJ is aware of public perceptions and recognizes the need for improvement. The GOJ is specifically concerned about charges of corruption. The DIT does have an internal investigative function. Significant efforts are made to combat possible corruption, of which the public is generally unaware. The GOJ interest in the proposed project is a reflection of a desire to improve the administrative capacity of the DIT and the public perception of the function.

ANNEX J

A.I.D. Project Number 278-0247

PROJECT GRANT AGREEMENT

BETWEEN

THE HASHEMITE KINGDOM OF JORDAN

AND

THE UNITED STATES OF AMERICA

FOR

INCOME TAX ASSISTANCE

July 15, 1981

AID Project No. 278-0247

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A.I.D. Project No. 278-0247

PROJECT GRANT AGREEMENT

BETWEEN

The Hashemite Kingdom of Jordan, acting through the National Planning Council (NPC) as its representative and the Department of Income Tax (DIT), an agency of the Ministry of Finance, as the Implementing Agency (Grantee),

AND

The United States of America, acting through the Agency for International Development (A.I.D.).

Article 1. The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above (Parties) with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2. The Project

Definition of the Project. The Project, which is further described in Annex 1, will consist of improving and modernizing the technical capacity of the Department of Income Tax. Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

Article 3. Financing

SECTION 3.1. The Grant

To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed one million United States (U.S.) Dollars ($1,000,000)(Grant). The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2. Grantee Resources for the Proje

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

(b) It is estimated that the total resources to be provided by Grantee for the Project over the life of the Project will be not less than the equivalent of U.S. $551,000, including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is December 31, 1983, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 7.1, no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursements, accompanied by necessary supporting documentation prescribed in Implementation Letters, were not received before the expiration of said period.

Article 4. Conditions Precedent to Disbursement

SECTION 4.1. First Disbursement

Prior to the first disbursement under the Grant, or to the issuance by A.I.D of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.3, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) The names and titles of the three counterparts selected to work with the U.S. advisors, and an organization chart showing the positions with whom the U.S. advisors will work, identifying the positions as filled or unfilled, and indicating DIT's plans for filling vacant positions.

SECTION 4.2. Disbursement for In-Country Training

Prior to any disbursement under the Grant, or to issuance by A.I.D. of any documentation pursuant to which disbursement will be made for development of the in-country training program applicable to entities of the Government of Jordan (GOJ) in addition to DIT, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., (1) the name of the organization or administrative entity in which such training function will be located, (2) the concurrence of the selected organization as evidenced by a contract or other written form of agreement, (3) assurances as to the capacity of the selected entity to carry out such training, and (4) assurances as to the availability of such training to other organizations of the GOJ.

SECTION 4.3. Notification

When A.I.D. has determined that the conditions precedent specified in Sections 4.1 and 4.2 have been met, it will promptly notify the Grantee.

SECTION 4.4. Terminal Date for Conditions Precedent

(a) If Section 4.1 specified above has not been met within 30 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

(b) If Section 4.2 has not been met within 180 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

Article 5. Special Covenants

SECTION 5.1. Project Evaluation

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project, and at one or more points thereafter: (a) evaluation of progress toward attainment of the Project purpose; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 5.2. Implementation of the Income Tax Law

Grantee covenants that it will, within 180 days from the signing of this Agreement, advise A.I.D. of planned changes in implementation of the Income Tax Law, including assessment and compliance thereunder

SECTION 5.3. Staffing, Training and Coordination

Grantee covenants that it will provide adequate staff, implement necessary staff training, and effect necessary actions to assure that Project objectives are accomplished.

Article 6. Procurement Source

SECTION 6.1. Foreign Exchange Costs

Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States (Code 000 of the Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services)(Foreign Exchange Costs), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance.

SECTION 6.2. Local Currency Costs.

Disbursements pursuant to Section 7.2, will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in the Hashemite Kingdom of Jordan (Local Currency Costs). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

Article 7. Disbursement.

SECTION 7.1. Disbursement of Foreign Exchange Costs

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (i) requests for reimbursement for such goods or services, or (ii) requests for A.I.D. to procure commodities or services on Grantee's behalf for the Project; or,

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (i) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or service, or (ii) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

SECTION 7.2. Disbursement for Local Currency Costs

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. Dollars by purchase; or

(2) by A.I.D. (i) requesting the Grantee to make available the local currency for such costs, and (ii) thereafter making available to the Grantee, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Grantee or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. Dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (B)(2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum as of the date of the opening or amendment of the applicable Special Letter of Credit.

SECTION 7.3. Other Forms of Disbursement

Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange.

Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into the Hashemite Kingdom of Jordan by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of the Hashemite Kingdom of Jordan at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Hashemite Kingdom of Jordan.

Article 8. Miscellaneous

SECTION 8.1. Communications

Any notice, request, documents, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Mail Address: National Planning Council
Amman, Jordan

Alternate Address for Cables: NPC, Amman, Jordan

To A.I.D.:

Mail Address: U.S.A.I.D./Jordan
American Embassy
Amman, Jordan

Alternate Address for Cables: U.S. Embassy (USAID)
Amman, Jordan

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 8.2. Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of President, National Planning Council, and A.I.D. will be represented by the individual holding or acting in the office of Mission Director in Jordan, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1, to revise elements of the amplified description in Annex 1. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex

A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

THE HASHEMITE KINGDOM OF JORDAN

By: _____
Hanna Odeh
Title: President
National Planning Council

THE UNITED STATES OF AMERICA

By: _____
Lois Richards
Title: Acting Director
USAID/Jordan

ANNEX 1 TO PROJECT AGREEMENT

Project Description

A. Project Objective

The objective or purpose of the Project is the improvement of the capacity for income tax administration in the Department of Income Tax of the GOJ.

To accomplish this objective, Project efforts will be directed towards the following activities:

1. Development and implementation of improved operational systems for income tax assessment, collection, clerical processing, and administrative services.

2. Development of the GOJ capacity for training in management and systems development.

3. Enhancement of the operational automatic data processing (ADP) capacity with the Department of Income Tax.

B. Project Components

The Project consists of the following major elements:

1. USAID Contribution - Technical Assistance

   USAID will provide a total of approximately 60 person-months of technical assistance, including two long-term advisors for a total of approximately 48 person-months, and approximately 12 months of short-term technical assistance. The long-term advisors will be specialists in the fields of automatic data processing and tax administration and compliance. The short-term advisors will provide assistance in training and other fields as required during the course of the Project.

2. USAID Contribution - Training

   USAID will provide approximately 28 person-months of participant training through the Internal Revenue Service INTAX seminars in the U.S., for appropriate employees of the Department of Income Tax. USAID will also assist the GOJ in the development of internal training functions to meet continuing training needs

in the areas of ADP, management, public administration and related fields. The portion of this training which may have application to other government organizations as well as to DIT may be located within DIT and/or another government organization. The USAID contribution will be directed toward the preparation and initial presentation of appropriate short-term courses. It is anticipated that at the completion of the Project, either the DIT or another institution will be able to continue the effective presentation of the courses developed.

3. GOJ Contribution - Support to Technical Assistance

The GOJ will directly support the USAID-financed technical assistance through provision of office space and facilities, office supplies, and required operational support services.

4. GOJ Contribution - Support to Training

The GOJ contribution to the training effort will consist of an adequate training facility, training staff, recurrent cost funding, employee time for training as required, appropriate materials and equipment for the continuation of the in-service training beyond the life of the project, and international travel costs for training in the U.S.

5. GOJ Contribution - Computer Facility/Commodities

The GOJ will provide the NCR 8250 computer system currently installed and operational in the Department of Income Tax. The GOJ will provide any additional discs, supplies, or other required material to ensure that the computer facility remains operational. The GOJ will ensure the provision of necessary maintenance of the computer facility and all other costs related to the computer facility.

6. GOJ Contribution - Personnel

The GOJ will provide a minimum of three English-speaking senior level employees who will be assigned to work closely with the advisors as counterparts. It is anticipated that the three counterpart employees will be knowledgeable and exercise responsibility in the functional areas of automatic data processing, tax administration and compliance, and training.

C. Project Cost Estimate and Financial Plan

Total Project cost is estimated at U.S. $1,551,000, of which the USAID contribution is $1,000,000. Table 1 is the summary project budget. As indicated in Table 1, the USAID contribution to the Project consists of funding allocations for two inputs -- technical assistance and training.

D. Project Implementation Plan

The Project will be implemented over a period of approximately 30 months. Primary responsibility for all phases of Project implementation will reside with the Director of the Department of Income Tax. An abbreviated implementation schedule follows this section. Further implementation details for specific Project components will be the subject of Project Implementation Letters as noted in Article A of the Project Grant Standard Provision, Annex 2, to the Project Grant Agreement.

The following are target dates for Project-related activities:

	Activity	Proposed Date
1.	Grant Agreement signed	July 1981
2.	Conditions Precedent to First Disbursement met	Aug 1981
3.	Issuance of PIO/T and PASA	Aug 1981
4.	Arrival of long-term advisors	Sept 1981
5.	Phase 1 activities completed, including preparation of workplan and collection of data and statistics	Oct 1981
6.	Condition Precedent for in-country training met	Nov 1981
7.	Phase 2 activities undertaken including review and follow-up on changes implemented and partially implemented during pre-project assistance	Oct-Dec 1981
8.	Two participants attend INTAX seminar	Jan 1982

	Activity	Proposed Date
9.	Phase 3 in-country training initiated, including course development and initial course presentations	Jan-May 1982
10.	Initial in-house evaluation	Mar 1982
11.	Phases 4-8 implementation of system modification and administrative changes	May 1982-Aug 1983
12.	Two participants attend INTAX seminars	June 1982
13.	Second presentation of in-country training courses with course modifications from initial presentations	Sept 1982
14.	Two participants attend INTAX seminars	Jan 1983
15.	Two participants attend INTAX seminars	June 1983
16.	Phase 9 project review and close-out activities	Aug 1983
17.	Long-term advisors depart	Sept 1983
18.	Project Assistance Completion Date	Dec 1983
19.	Final project evaluation	June 1984

E. Project Evaluation

A total of two evaluations will take place during the life of the project. These evaluations will be organized and conducted jointly by the DIT and AID and are tentatively planned for March 1982 and June 1984.

TABLE 1

SUMMARY BUDGET
INCOME TAX ASSISTANCE PROJECT
U.S. DOLLARS (000.0)

Inputs	U.S. F/X	U.S. L/C	U. S. Total	GOJ	Total
Input 1 - Technical Assistance	634.1	117.3	751.4	63.8	815.2
Long-term Technical Assistance	444.8	112.3	557.1		557.1
Short-term Technical Assistance	189.3	5.0	194.3		194.3
GOJ Support for U.S. Technicians				63.8	63.8
Input 2 - Training	127.1	121.5	248.6	106.5	355.1
Participant Training in the U.S.	105.6		105.6	28.0	133.6
Development of GOJ Training Capacity	21.5	121.5	143.0	78.5	221.5
Job-specific training within DIT	(2.1)	(12.2)	(14.3)	(7.9)	(22.2)
Training applicable to other departments as well as DIT	(19.4)	(109.3)	(128.7)	(70.6)	(199.3)
Input 3 - Computer Facility/Commodities				225.6	225.6
Input 4 - GOJ Personnel				155.2	155.2
PROJECT TOTAL	761.2	235.8	1,000.0	551.1	1,551.1

NOTE: Line item adjustments among inputs of up to 10 percent may be made without amendment to this budget, provided the total AID contribution is not exceeded.

Project Grant Standard Provisions Annex

Annex 2

Definitions: As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters

To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Grantee will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

Article B: General Covenants (Continued)

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use. [See HB 18.]

SECTION B.4. Taxation.

(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

SECTION B.5. Reports, Records, Inspections, Audit.

The Grantee will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

Article B: General Covenants (Continued)

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Grant.

SECTION B.6. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or cause A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

SECTION B.8. Information and Marking. The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Grant will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

Article C: Procurement Provisions (Continued)

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise by furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services, which, though not financed under the Grant; are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

Article C: Procurement Provisions (Continued)

(d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the Grant, shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the Grantee may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by

Article C: Procurement Provisions (Continued)

all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION. C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the Grantee (or government of Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacements will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The Grantee agrees that wherever practicable, United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION D.2. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

Article D: Termination; Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION D.2. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

Article D: Termination; Remedies (Continued)

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

SECTION D.3. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.4. Assignment. The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.

ANNEX K

Social Soundness Analysis

1. Introduction

Tax collection, in one form or another, has been in existence ever since man organized his lifestyle around communities and institutions. It has never been popular with taxpayers, although it has enjoyed different levels of acceptance and compliance in different times, under different political systems, and by different population sub-groups. It has been used as a major source of revenue for governmental and public service functions, as a tool for the equalization or redistribution of wealth, as a tool for achieving political objectives or, more recently, as an instrument of fiscal, monetary, economic, and social policy. As such, any tax scheme can be expected to, and indeed may be designed to, have differential impacts on different categories of taxpayers. It is the purpose of this analysis to identify the potential impact of the proposed project on taxpayers and on the socio-economic environment of the country. In order to do so, it is necessary to distinguish between the impact of its income tax law as legislated, on the one hand, and of both present approach and the expected changes in the implementation of the law.

An analysis of the former is necessary, although the proposed project only directly addresses the latter. It is also necessary to address the socio-cultural background against which the project is undertaken and the long-run effects which are expected to result from it.

2. Socio-cultural Background

Jordan is a young Moslem country which has gone through many difficult political and military experiences. Both of these facts have somewhat exacerbated the usual problems of tax acceptance and compliance. Deeply rooted in Moslem culture is a religious "tax" system which represents one of the five pillars of Islam. This system is called the "Zakat," the payment of which is considered to be a necessary condition for being a Moslem. The Zakat is supposed to be paid as an annual percentage of an individual's net worth, or wealth. Its proceeds are earmarked for welfare and assistance to the poor. While the payment of the Zakat is practiced on a voluntary basis by some, neither the extent nor magnitude of such payments can be known with certainty. It is clear, however, that the existence of a religious and deeply-rooted parallel tax system is at least partially responsible for a reduction in the levels of acceptance of, and compliance with, a recently legislated and culturally imported system of taxation.

3. The Equity of the Law

The present income tax law[1/] calls for the collection of a progressively increasing tax on taxable income. The first JD 2,800 of taxable income fall into seven brackets of JD 400 each, with a tax ranging from 5 percent to 30 percent of the bracket, or from 5 percent to 16 percent of the cumulative amount. A eighth bracket covers incomes ranging between JD 2,800 and 4,000, and is taxed at 35 percent. The tenth and eleventh brackets cover incomes of JD 4,000-6,000 and JD 6,000-8,000, and are taxed at the rates of 40 to 45 percent, respectively. All income over JD 8,000 is taxed at 50 percent.

Corporations pay a flat rate of 35 percent. All taxpayers, except for corporations, are assessed a social welfare tax which is calculated at 10 percent of their payable income taxes. The following exemptions are allowed under the law:

a. A personal exemption of JD 200 for single persons and JD 350 for married persons.

b. An exemption of JD 50 for each dependent child, up to a maximum of four.

c. Additional exemptions for the support of other dependents of JD 50 per dependent, with a maximum of two.

d. A deduction of up to JD 400 for each university student supported by the taxpayer.

e. 25 percent of the income of employees in the private sector and 50 percent of the income of employees in the public sector.

f. 50 percent of the rent of a residence.

The progressivity of the law provides in general the basic elements of an equitable tax burden with proper redistribution effects. Some problems, however, should be pointed out. Both tax brackets and exemptions were set in 1965 and have not been changed since then. The inflation rate during those 16 years has probably been in the order of 150-200 percent. This would suggest that the JD 400 brackets should be increased to about JD 1,000 in order to adjust for the "bracket creep" phenomenon, and to remain in line with the original intent of the law. By the same token,

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[1/] Law No. 25 of 1964, as amended by Provisional Law No. 13 of 1975.

exemptions for dependents should be increased from JD 50 to JD 150. The same would apply to other exemptions. This "bracket creep" is not peculiar to Jordan. It is present to some degree in any progressive tax system not adjusted, automatically, to inflation.

With the "bracket creep" situation, some of the poor will have a tax liability. Consider a typical poor head of household with a wife and six children, having an income of JD 1,200 per year and who pays JD 240 per year in rent. His personal and family deductionswould amount to JD 550; his rent deduction to JD 60. He also gets an additional exemption of JD 300 or JD 600, depending on whether he works in the private or public sector, respectively. This head of household will have no tax liability if he works in the public sector. If, on the other hand, he is a private sector employee, his taxable income would be JD 290 and his liability JD 14.5 per year. If he was not an employee, his taxable income would be JD 590 and his tax burden would be JD 33.300. A 10 percent social welfare surcharge is applied to all non-corporate tax liabilities.

Certain provisions of the tax law provide for special consideration to certain sectors of the economy. This is normal, as income taxes have traditionally been used as a tool of economic and social policy. Exemptions from taxation for policy considerations include (1) the agriculture and animal husbandry sectors, (2) the increased exemption for public sector employees, and (3) exclusion of income earned outside Jordan.

All income derived from agriculture and animal husbandry is exempted from taxation. This policy was intended to encourage the flow of capital to agriculture and to assist poor farmers and sharecroppers. In one sense, the exemption has proved to be a "loophole" in the law as corporations and entrepreneurs are moving into agriculture, particularly in the Jordan Valley where lucrative business opportunities are available. This movement of capital, however, and the presumed increase in agricultural production, was a policy objective of the exemption to some extent. This provision has also had the effect of exempting a good proportion of the rural population in general from taxation, particularly the rural poor.

The exemption of 50 percent of income for public sector employees would appear to discriminate against private sector employees. However, the practical application of the exemption is generally to narrow the wage difference between the public and private sectors. Salaries in the public sector are generally significantly lower than in the private sector. This exemption is, therefore, a policy inducement to enter the public service, and a means of offsetting the wage differential.

The decision to exempt income earned outside of Jordan from taxation clearly favors Jordanians working abroad, particularly in the Gulf States and Saudi Arabia. This exemption is not unusual. Most income tax systems, including the U.S., exempt all or some of the income earned outside the country. The GOJ decision to exempt this income was probably based on very real and practical considerations. Even with the cooperation of other governments, income earned outside of Jordan would be very difficult to identify, and the enforcement of taxation would accordingly be hindered. Remittances from Jordanians abroad represent very significant fund flows for Jordan. It is very much in the GOJ's interest to encourage such remittances. Taxation of income earned abroad may well significantly reduce these fund flows, particularly in view of investment opportunities available elsewhere.

4. Equity of Implementation of the Law

The present implementation of the law probably provides good coverage of salaried employees of governmental agencies and major businesses, as well as registered public corporations. These two categories (employees and corporations) are easy to track down since the former are taxed at the source while the latter need to be officially incorporated. It is estimated that 90-95 percent of the corporations and 75-80 percent of governmental and corporate employees are included in the taxpayers' files. The most difficult group to track is that of individual businesses and their related withholdings. It is estimated that only 30-40 percent of those are in the DIT's records. It is obvious that any improvement in collection will have to address this particular group. Improving the data processing capability of the DIT will assist in the identification of these potential taxpayers. The development of procedural guidelines for the implementation of the law can be expected to result in more reasonable, equitable and predictable treatment of both new and old taxpayers. Both of those steps are indicated in the proposed project.

The present system of assessment which depends on the judgment of DIT assessors is a major source of inefficiency, inequity and possible corruption. These problems can at least be partially ameliorated through a system of self-assessment. Such a system, however, will require (1) a wide-ranging clarification of the law, (2) a transition period of intensive public relations and public education, (3) an improvement of the image and attitude of the DIT. It could also be more effective if tax rates are reduced by adjusting the tax brackets and exemptions to more realistic levels, as discussed above. While self-assessment may be a desirable long-term objective, it is unrealistic to expect full implementation during the life of this project. Actions which are proposed in this project, however, are not inconsistent with that eventual development. They are, in fact, necessary conditions for its achievement.

Contributing to the inequity and predictability in the application of the law is a factor which, although external to the tax department, can also be ameliorated by the availability of clear procedural guidelines. There are presently no accepted accounting standards which are required for tax purposes. The accounting and auditing professions are not organized into a professional society which might participate in the setting of such standards, and in establishing licensing criteria and a code of professional ethics and practice. This has resulted in an increased lack of mutual confidence between tax assessors on the one hand, and accountants and auditors on the other. This lack of confidence, coupled with the vagueness of the law, provide an "incentive" for not presenting the proper data to the tax assessor, since he can always be expected to doubt the data and thus determine the tax liability to be higher than indicated. The ultimate result is an uneven and uncertain application of the law. The reduction of the latitude available to the assessor and the development of accounting standards which are acceptable to the DIT will both contribute to the solution of this problem.

5. Socio-Economic Effects

Total income and social welfare tax collections in Jordan are estimated to be JD 32 million in 1981. Actual collections in the preceding three years were JD 27.7, 22.7 and 19.5 million, respectively. Total collections in 1981 represent five percent of the total budget, and 12 percent of total local revenues. It is obvious that income tax, at least in its present form, cannot be expected to produce a significant portion of the government budget, or to significantly cover any major losses in foreign assistance. To every tax bill, other than those of corporations, a surcharge of 10 percent is added to cover the "social welfare tax." The rationale behind the exclusion of corporations from the payment of this tax is not clear. Funds collected through this surcharge seem to be correlated with, but not equal to, the operating budget of the Ministry of Social Development. The Ministry's total budget seems to sum somewhat higher than tax collections, and represents 0.4 percent of the 1981 budget. Table 1 shows both social welfare tax collection and the social development budget for the period between 1978 and 1981. If it is presumed that an increase in tax collections would lead to corresponding increases in the social development budget, then some benefits can be expected to accrue to some of the poorest and most disadvantaged people in the country, through welfare and family assistance programs, special education programs for the handicapped, assistance to charitable organizations, and programs for women and children.

TABLE 1

SOCIAL WELFARE TAXES AND EXPENDITURES
(In thousands of JDs)

	1978	1979	1980	1981*
Social Welfare Tax Collections	1,000	1,100	1,120	2,200
Social Development Budget, Operating	954	1,275	1,522	2,450
Social Development Budget, Capital	412	575	635	375
Total Social Development Budget	1,366	1,850	2,157	2,825

*Estimated

The uncertainty of present law, the paucity of clarifying regulations, and the unevenness of assessment seem to have a negative impact on the business environment. It appears to be impossible for an entrepreneur or a businessman to incorporate tax information into his decision-making process, since his tax liability remains to be unknown with any certainty, until the actual assessment is made. This uncertainty is also expected to discourage entrepreneurs from investing in the country, with the possible exception of investments in activities enjoying a multi-year tax holiday. This uncertainty may provide some entrepreneurs with an incentive to move their operations elsewhere. Opportunities or alternative investments and locations exist in the form of high-interest tax-free bank deposits or operations in countries which offer tax breaks for off-shore operations. This escape of capital could mean the loss of future jobs and employment opportunities which are vital to the future well-being of the country. The removal of the uncertainties and the unevenness in both the law and its implementation are important to the alleviation of this potential danger to economic and employment growth. This is particularly true in a country like Jordan which has a large pool of fairly well-to-do citizens overseas who are potential investors in the economy of the country and who have the option of investing elsewhere. To the extent that the proposed project will remove the uncertainties which are associated with tax collection practices, it is expected to result in positive impact on the business environment and on the associated growth in the economy and in employment opportunities.

6. Summary and Conclusions

The preceding analysis identifies some of the social and cultural aspects of the income tax law as legislated and as currently implemented. As noted previously, the law is progressive in nature and provides the basis for a reasonably equitable distribution of the tax burden. As in all tax laws, policy considerations favor some sectors of the economy. There are some inequities in the law. There are also social, political and cultural factors which make the tax collection effort a difficult one. Yet, more significant inequities arise from the administration of the law. The ambiguity of the law and the paucity of procedural guidelines for its application has provided the assessors with a great deal of latitude in interpretation which, in turn, often results in unequal treatment of taxpayers and an uncertainty about tax liability. Inequities also result from incompleteness of the tax files. While the proposed project does not address the question of tax policy *per se*, it does provide assistance in areas which should improve equity and increase levels of collection. These benefits should result from both an improved data processing capability and the development of tighter procedural guidelines.

ANNEX L

ECONOMIC ANALYSIS

In order to assess the economic effects of the project, it is necessary to (1) analyze the impact of improvements in the DIT in relationship to the program goal, and (2) review the relationship between project inputs and outputs and proposed project results on a cost effective basis. The purpose of this analysis is to examine each of these facets and, by doing so, demonstrate the economic feasibility of this project.

1. Relationship with Program Goal

If the program goal is to increase domestic revenues in Jordan, it is important to compare the various tools the GOJ has, or is proposing to have, for use in generating revenues. In the 1981-85 Five Year Development Plan, the GOJ proposes to cover current expenditures completely with domestic revenues by 1985. In the past five years, the GOJ has been running deficits, with current and capital expenditures exceeding revenues. These deficits have been financed by foreign grants (the level of which has been variable from 1975-1980) and foreign and domestic borrowing, with the GOJ heavily relying on the former, especially on loans with concessional terms from other donor countries. Under the new Development Plan, the GOJ plans to rely upon foreign grants and loans to finance capital expenditures only; domestic revenues are to increase from 70 percent of current expenditures in 1980 to 100.4 percent by the end of 1985.

In the past five years, the government's domestic revenue structure has relied upon income from taxes (income, property, goods and services, import and export duties) rather than from other revenues such as those drawn from licenses, fees, and profits from government firms. Tax revenues accounted for 64 percent of domestic revenue during the period. Within the tax revenue category, import duties were the most important source of income, comprising almost two-thirds of total tax revenue from 1975-79.

Among the mechanisms already in place, income tax revenues show the most promise for sizeable increases. First, tax receipts have grown, increasing from 9.3 million in 1975 to JD 22 million in 1979, as indicated in Table 2 of the PP. Second, Jordan only generates 12 percent of its domestic revenue from income taxes as opposed to an average of 18 percent in other LDCs. Third, improved tax administration and the broadened coverage of the income tax attributed to increased tax revenues in the past five years indicates that additional improvements

would be of value. Fourth, the low unemployment rate in the country and the relatively high per capita income of Jordanians indicate that the GOJ should be able to tap a fairly large tax base through increased assessments and collections. To further bolster revenues, the government plans to institute a real estate capital gains tax and an inheritance tax in the 1981-85 Development period. In order to achieve its goal of covering current expenditures with domestic revenues, the Jordanian government also plans on holding back growth of government expenditures. Government subsidies for fuel and basic consumer goods are to be phased out by 1985. Detail on government current expenditures in the past five years is provided in Table L-1. As demonstrated in this table, the major components during the 1975-79 period were defense (42 percent), general public services (20 percent), and social services (18 percent).

Increasing assessments and collections of individual and corporate income taxes should not impose undue hardship on the Jordanian economy by hindering growth of productive sectors. The government's system of tax exemptions for investors, especially in export-oriented industries, will continue. Since income generated from agriculture is exempt, the foreign exchange earned by that sector's exports will not be affected.

The structure of Jordan's Gross Domestic Product in recent years is outlined in Table L-2. Growth in manufacturing, mining and agriculture has been fueled by both internal and external demand for products from these sectors. The main export groups are currently phosphates, manufactures, and fruits and vegetables. In comparing the incentives provided by the Encouragement of Investment Law and the present income tax law with the structure of the Jordanian economy, one can see that the most benefit accrues to the largest firms in the mining and industrial sectors. Although businesses are taxed at a flat rate of 35 percent of net profits, those firms largest in terms of gross capital and in key economic areas escape stringent tax measures.

TABLE L-1

Jordan: Government Current Expenditures, 1975-80 1/

(In millions of Jordan Dinars)

	Actuals					Budget Estimates
	1975	1976	1977	1978	1979 2/	1980
General public services	25.5	34.6	43.7	44.3	57.7	55.0
General Administration	17.2	25.0	31.8	30.9	40.2	36.4
Public order and safety	8.3	9.6	11.9	13.4	17.5	18.6
Defense	48.3	93.3	82.6	88.6	114.9	118.2
Social services	23.6	29.5	35.1	42.3	54.4	59.3
Education	14.3	17.7	20.6	26.4	33.1	36.6
Health	4.8	6.4	7.9	8.4	11.8	13.0
Social benefits and services	4.5	5.4	6.6	7.5	9.5	9.7
Economic services	8.7	10.7	12.8	14.9	19.5	19.9
Agriculture	1.9	2.4	3.0	3.1	3.8	3.5
Transport and communication	3.2	3.9	4.8	5.6	7.5	7.8
Other	3.6	4.4	5.0	6.2	8.2	8.6
Other	19.6	17.8	21.4	21.0	45.0	48.9
Public debt (interest and commission)	5.4	4.0	8.4	8.0	10.0	10.0
Internal	(3.2)	(...)	(...)	(4.6)	(4.8)	(4.8)
External	(2.2)	(...)	(...)	(3.4)	(5.2)	(5.2)
Refugee relief payments	5.8	3.3	4.0	4.0	4.0	4.0
Food subsidies	8.4	10.5	9.0	6.0	11.0	14.9
Fuel subsidies 3/	—	—	—	3.0	20.0	20.0
Total current expenditure	125.7	185.9	195.6	211.1	291.5	301.3

Source: Central Bank of Jordan and Ministry of Finance.

1/ Accrual basis.
2/ Preliminary actuals.
3/ Not including subsidies financed outside the budget amounting to JD 18.7 million, JD 16.4 million, JD 17.1 million, JD 16.9 million, and JD 7.0 million, respectively, during the period 1975-79, and to zero in 1980.

Table L-2
SECTORAL GROWTH AND STRUCTURE OF GDP, 1971-79

	Annual Growth Rates 1/ (levels in 1975 prices)			As % of GDP at Factor Cost (in current prices)		
	1971-75	1975-79	1979	1971	1975	1979
Agriculture	5	-4	-55	(14.3)	(9.6)	(7.9)
Public Utilities	18	19	34	1.1	1.1	1.2
Mining and Quarrying	21	20	21	1.7	6.0	4.9
Manufacturing	6	17	18	8.4	11.3	15.8
Construction	7	20	44	4.4	6.0	9.7
Industry	10	19	25	(15.6)	(24.4)	(31.6)
Trade	-4	7	4	29.8	17.1	15.8
Transport	2	17	24	8.7	9.2	11.9
Administration	-2	4	9	26.2	24.2	20.2
Others	0	4	21	15.4	14.5	12.6
Services	-1	7	8	(70.1)	(66.0)	(60.5)
GDP at factor cost	2	9	3	(100.0)	(100.0)	(100.0)

1/ Growth rates calculated by least squares.

Source: World Bank. The analysis of the economic growth and its components is difficult because of the lack of accounts in constant prices.

The current income tax law defines sources of income as that which is derived from the following:

a. Gains or profits from any work, craft, business, profession or vocation.

b. Gains or profits from any employment.

c. Interests and discounts.

d. Any obligation or annuity.

e. Rents from any land or building as well as any gains, premiums and other profits arising therefrom.

f. Key money.

g. Profits from property other than building.

h. Profits or gains derived from trademarks, copyrights, etc.

i. Sums realized from insurance against loss.

j. Sales of products outside the Kingdom.

k. Wife's income.

Exemptions include those which apply under the Encouragement of Investment Law, incomes of local authorities, trade unions and cooperative societies, religious, charitable institutions and trusts, as long as this income is not derived from any trade or business carried out by this entity; and income derived from any of their pensions with some stipulations prescribed by law. Income derived from agricultural production and handicrafts, interest on public loans, and dividends which have already been included in corporate income taxes are also exempt. Individual, family, and dependents are part of allowable exemptions as outlined in the social soundness analysis section of this paper.

Under the Encouragement of Investment Law of 1972, "economic projects" receive special income tax exemptions on net profits. Economic projects are those which: (1) are commensurate with the goals of the general plan of economic development and approved by the appropriate government agency/agencies; (2) contribute to the increase of national production with gross added value of not less than 20 percent of its cost; (3) contribute to the support of the balance of payments; and (4) are approved by the Council of Ministers. An approved economic project must fulfill the following conditions:

a. It must be within the sector of industry, tourism, housing, land reclamation or sea transport.

b. In the case of an industrial project, the value of its machinery, tools and equipment shall not be less than JD 5000.

c. In the case of a tourism project, its cost shall not be less than JD 15,000, cost of land excluded.

d. In the case of housing or land reclamation project, its cost must not be less than JD 25,000, cost of land excluded.

e. It must be approved by the Council of Ministers.

Net profits of an approved economic project are exempted from income tax and the social welfare surcharge if the project is owned by a public shareholding limited company and is created outside of the Amman governorate, for a period of six years from declaring the project as an approved one and for a period of nine years of the project. The expansion of a project not owned by a public shareholding limited company and created within the Amman governorate entails a maximum exemption of 25 percent of net profits for a period of three years. Privately-held as well as publicly-held businesses receive benefits under this law, especially the largest concerns. By the end of 1977, the number of various kinds of companies operating in Jordan totaled 7,628 with a total capital of JD 394.8 million. Of the companies registered in 1977 alone (1,355 with total capital of JD 38.46 million), 1,270 were private shareholding firms and 85 were public ones, with industrial or services and commerce activities. However, the public shareholding firms represented JD 28.39 million in gross capital.

Another important facet of the Jordanian economy - remittances from Jordanians working abroad - is not covered directly by income tax legislation, since it assumed that these earnings are taxed at their source. Between 250,000 and 300,000 Jordanians have found relatively well paid positions in Saudi Arabia and the Gulf States. Remittances per capita in 1979 were estimated at US $2,000-2,500.

As the thrust of this project is on improving the DIT's capacity to assess and collect taxes, it is important to analyze where the improvements will have the greatest impact. Table L-3 provides a breakdown of recent collections and taxpayers and shows the 1980 estimate of potential taxpayers according to source.

As demonstrated by this table, corporate taxes currently provide the greatest amount of generated revenues (53 percent), although corporations comprise the smallest percentage of total taxpayers. Because 85-95 percent of corporations have been identified by the DIT and are presumed to be assessed regularly, additional assessments by the DIT will be generated from private businesses and employees, especially the former group, since only 35 to 45 percent of this group is now paying taxes.

Because no detailed information is available on how and where private businesses and employees fit into the structure of the Jordanian economy, it is difficult to conclusively analyze the overall impact of the project on the macro-economy. Based upon how the present income system is structured, however, several conjectures can be made:

a. Identification and assessment of those businesses or self-employed individuals who derive income from agriculture or handicrafts will not increase revenues since these are exempted under current status.

b. Identification and assessment of businesses and individuals which receive sizeable benefits from the Encouragement of Investment Law will presumably not increase revenues since these concerns have already been identified through the Law.

c. Given the present structure of income tax exemptions, it is likely that those presently not identified and who will be assessed in the future, contribute to the services sector, especially in wholesale and retail trade and financing, real estate and business services, or in construction.

d. If these unknowns receive remittances in order to finance their operations, then these remittances could conceivably flow into other investment areas outside of the country where taxes are less.

Table L - 3
Income Tax Structure
1975 - 1980

	1975	1976	1977	1978	1979	1980
Collections[1/] (000,000) JD	9.2	9.8	13.3	18.8	22.7	27.7
Corporation	6.0	8.5	7.9	10.8	12.8	14.8
Private Bus.& Self Employed	1.9		4.0	5.8	5.9	7.6
Govt employees	.7	.5	.3	.5	1.2	.9
Other Employees	.6	.8	1.1	1.7	2.8	4.4
Assessments[2/] Total (000)	76	98	117	122	134	149
Taxpayers (000's)	107.0		182.9			444.3
Corporations	.3		.6			1.0
Private Business & Self Employed	30.0		63.6			98.6
Govt Public Sector	57.3		79.6			217.0
Other Employees	19.4		39.1			127.7

1980 Estimate of Potential Taxpayers

Taxpayers (000's) 1980	Base	Min &Max % Estimate[3/]	If Base is Min%	If Base is Max %
Corporations	1.0	85% - 95%	1.2	1.1
Private Businesses	98.6	35 - 45%	281.7	219.1
Govt employees	217.0	90 - 95%	241.1	228.4
Private Employees	127.7	70 - 80%	182.4	159.6
	444.3		706.4	608.2

In Current JDs

1/ Statistical data developed by IRS PASA employees and GOJ DIT: Newman Report Income Tax Characteristics; IRS Draft Report for May 1980; DIT Status Report for 1980.
2/ Statistical data developed as follows: Newman Report 1975, 1976, 1977; DIT and Ar Ravy 3/4/79; 1978 GOJ Dir of DIT 1980 Preliminary.
3/ Percentages are estimates of Director, DIT.

Data generated from the 1979 census should provide a better picture of income distribution in Jordan. The last income survey was conducted in 1973, making its conclusions somewhat suspect given subsequent increases in income levels and widespread distribution of remittance income. According to this survey, average wages and income from self-employment were considerably higher in urban areas than in rural -- the average urban income was 60 percent higher than the average rural income. There was a lesser degree of inequality within rural areas than within urban areas (Gini coefficients of .32 and .42, respectively). Income distribution was also marked by a wide disparity among regions.

Given the extent of Jordan's urban population (approximately 85 percent live in urban areas) and the extent of economic opportunities in the cities, particularly Amman, it is expected that increased efforts by the DIT will focus on city taxpayers. This is underscored by the fact that the DIT's offices are located in the largest urban centers, and assessment and collection are easier to conduct and administer in these areas. Impact on particular groups within the cities is difficult to ascertain, but it is presumed that improved tax procedures will translate into increased tax collections from the urban self-employed and property owners -- two groups which are apt to underestimate their incomes for tax purposes.

The following table provides an illustration of the impact of the proposed project on tax revenues and assessments. It shows that by the end of the project, approximately 250,800 assessments will be made by the DIT involving JD 56,700,000 of revenues. End-of-project status also entails a reduction in the cost of collecting tax revenues which will be discussed in the next section of this analysis.

TABLE L-4

PROJECTIONS OF TAX REVENUES AND ASSESSMENTS
Without Tax Assistance Project

		1980	1981	1982	1983	1984
1/	Tax Revenues (000,000)	27.7	32.0	37.1	43.0	49.5
	No. of Assessments (000)	149.0	163.0	181.1	199.0	219.0
1/ 2/	Average Assessment (TD)	185.9	195.2	204.9	215.2	226.0

With Tax Assistance Project

1/	Tax Revenues	27.7	32.0	38.7	46.9	56.7
	No. of Assessments (000)	149.0	163.0	188.9	217.9	250.8

End of Project Status

(1) Assessment increase to 250,000 pa, an increase of 15%, or

(2) 90% (143,600) of all private employees, eligible for withholding participating in tax withholding system -- an increase of 28% above current participation.

1/ In current JDs
2/ Average amount of Assessment to increase .5%.

2. Relationship Between Project Costs and Project Results

As detailed in the project description, project design relies heavily on technical assistance and training to the DIT. AID's contribution to the total project cost consists of two long-term PASA IRS advisors for 24 months each and 12 months of technical expertise in the form of short-term assistance. The training component of the project consists of 12 months of participant training in the U.S. and in-house short courses for DIT personnel and, to the extent possible, for other GOJ employees. In light of project outputs of improved operational systems for income tax assessment, collection, clerical processing, and administrative services; developed capacity for training in management and systems development maintenance; and operational ADP systems; the project design properly focuses on gaining the greatest impact within the DIT. The greatest share of inputs goes to the functional areas which should receive the most benefits from AID assistance -- the assessment and collection units and the data processing office. The increased efficiency of the DIT depends on this focus in order to reduce the administrative costs of collecting taxes. The training component of the project should reap benefits by providing managers with the improved capability of managing human resources. The economic returns of the ADP equipment will be felt by the end of the project in terms of increased utilization for maintaining tax rolls. The ADP equipment will accrue savings in terms of employee time needed to keep proper records. Taxpayers will save time from the streamlining of procedures for assessment and collection. Taxpayers will also save time when self-assessment becomes standard practice.

As Table L-4 indicates, the difference between the total number of assessments made by the DIT with and without project assistance is 31,800 from 1981-84. This represents approximately 15 percent more assessments than would normally occur. Although technical assistance in the form of the resident advisors will end in late 1983, the effects of their assistance transposed into additional assessments will not be felt until the end of the next calendar year.

In terms of AID's contribution of US $1,000,000, this represents an expenditure of US $9.82 per assessment. Past technical assistance from August 1978 to November 1980 involved expenditures of $251,000 or $7.84 per assessment. The increase is attributable to the following:

a. U.S. technical assistance in the past focused on the elimination of basic technical problems which were impeding assessment the most. Those additional assessments which were the easiest to identify were incorporated into the tax system quickly.

b. U.S. technical assistance now aims at solving those problems which are most difficult to remedy in the short term.

c. Long-term technical assistance costs more than short-term and this assistance is also more costly today than in the past.

d. The project will lay the groundwork for Jordan's income tax system's future development. Therefore, short-term assistance cannot cover all the areas which require attention.

The economic benefits to the DIT will increase in future years as DIT implements self-assessment on a broad scale. Expenditures under this project will contribute to savings gained in the DIT long after the project ends.

The proposed project also provides for training which will not necessarily be limited to the DIT. Since the short-term courses which are covered by project costs will reach other GOJ employees, potential project benefits will carry over into other agencies. Table L-5 shows the breakdown of short courses and the potential for training DIT and other government employees.

The inclusion of two project advisors from IRS is necessitated by the amount of work involved and by the fact that one advisor is needed to concentrate on ADP operations while the other will serve as a general advisor. Project costs for technical assistance are high since the required expertise cannot be confined to one person. In addition, other aspects such as translating the training material into Arabic are necessary expenditures now which will have benefits in the future for an on-going training program.

TABLE L-5

TRAINING COMPONENT SHORT COURSES

Course		Length of Course	Maximum Trainees 1/	Maximum Training Time	Minimum Trainees 2/	Minimum Training Time
1	Implications of ADP for executives	2 days	20	40	8 3/	16
2	Management Skills Seminar	12 days	40	480	15	180
3	Intro. to ADP Technology	12 days	30	360	10	120
4	Basic ADP Systems Design	48 days	30	1440	10	480
5	COBOL Programming	48 days	30	1440	10	480
6	Job Specific Income Tax Dept.	8 days	50	400	50	400
				4160		1676
			Convert to calendar time ÷6 x 7	4853		1955
				13 years of training		5 years of training

1/ Maximum with other agency participation
2/ Minimum confirmed to Income Tax Dept.
3/ Trainees will probably receive multiple courses.

3. Summary and Conclusions

The following can be drawn from this analysis of the Tax Assistance Program:

a. Increased emphasis on income taxes can generate additional domestic revenues for the GOJ, as indicated by past increases and the low percentage of income taxes in terms of total domestic and tax revenues. Import duties will continue to remain important.

b. In order to achieve its goal of covering current expenditures by domestic revenues, the GOJ is planning on increasing revenues from taxes and holding down growth of government expenditures. The structure of public expenditures will probably not change in the next Development period.

c. Increasing assessments and collections should not impose a hindrance to investors. Tax exemptions for agriculture and export-oriented sectors will continue.

d. Increased attention on assessment and collection will be directed to those firms and individuals which currently are escaping from paying taxes. The focus of the DIT will be on such groups in urban areas.

e. Elimination of the uncertainty of the present tax system will assist business decision-making. However, the climate for foreign and domestic investment will not be necessarily enhanced for increased investment.

f. It is uncertain as to how improved assessment and collection will affect income distribution in Jordan. Impact will most likely fall on the urban self-employed and property-owning groups.

g. Project design allocates inputs to those sections of the DIT which hold the most promise for improvement and which will benefit the most from additional resource inputs. These sections are also those which have the greatest impact on increasing tax revenues.

h. Project design indicates that in terms of U.S. expenditures, the proposed project is economically feasible due to the perceived benefits in lowering administrative costs of the DIT, improving the operational capacity of the DIT as well as other GOJ agencies.

As seen in Tables L-6 and L-7, administrative costs for the DIT will decrease as a result of the project. The reduction of administrative costs will be noted by the end of project and will continue to decrease after the project ends. Lowering of administrative costs will even be more noteworthy as soon as the Department converts to self-assessment.

TABLE L - 6
DEPARTMENT OF INCOME TAX
ILLUSTRATIVE REVENUE PROJECTIONS WITHOUT SELF-ASSESSMENT

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Tax Revenues	32.0	38.7	46.9	56.7	68.6	79.6	92.3	107.1	124.2	144.1
Operating Expenses	.5	.6	.7	.8	.8	.9	1.0	1.1	1.1	1.2
Cost Per Dinar of Revenue Collected	1.6%	1.6%	1.5%	1.2%	1.2%	1.1%	1.1%	1.0%	.9%	.8%

TABLE L - 7

DEPARTMENT OF INCOME TAX
ILLUSTRATIVE REVENUE PROJECTIONS WITH
PROJECT ASSISTANCE AND SELF ASSESMENT
JD (000,000)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Tax Revenues	32.0	38.7	46.9	57.7	70.9	87.3	107.4	132.1	149.3	168.7
Operating Expenses	.5	.6	.7	.7	.8	.9	1.0	1.1	1.1	1.2
Cost per Dinar of Revenue Collected	1.6%	1.6%	1.5%	1.2%	1.1%	1.0%	.9%	.8%	.7%	.7%