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**Plan for the
Improvement
of Tax
Administration
in Haiti**

Prepared for USAID/Haiti

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PLAN FOR THE IMPROVEMENT OF TAX ADMINISTRATION IN HAITI

OVERVIEW, SUMMARY, AND TECHNICAL ASSISTANCE PLAN

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Team Coordinator

I. INTRODUCTION

A. Setting and Purpose

This study of ways to improve tax administration in Haiti was conducted against the background of a rapidly worsening Haitian fiscal position. Beginning in FY 1980, government expenditures rose dramatically, while revenues failed to keep pace. The resultant deficit spending wiped out Haiti's foreign exchange reserves. This general lack of foreign exchange has hampered imports, while coffee exports have remained weak; both of these factors have lowered duty collections from foreign trade -- traditionally the source of more than half of Haiti's public revenue.

In response to this situation, the Government of Haiti (GOH), working in conjunction with the International Monetary Fund, has reformed some tax laws and procedures, introduced new talent into key positions -- especially within the Secretariat of State for Finance and Economic Affairs (generally called the Ministry of Finance) -- and has accepted both an annual deficit limit and a monthly limit on public expenditures.

The U.S. Agency for International Development (USAID) has sponsored a comprehensive set of efforts to improve life in Haiti. One piece of this integrated Country Development Strategy is a plan to offer technical assistance to the Haitian government to improve the effectiveness and equity of its revenue collection. As the first step, USAID/Haiti brought in a team of six persons to study the current tax laws and tax administration processes, and to suggest a plan for short-term technical assistance. This report presents their findings and recommendations and is intended to form the basis for a USAID/Haiti Project Identification Document.

B. Study Approach

Two of the study team were seconded by U.S. Government agencies and four, including the team coordinator, were from the private sector. During the week of May 18, 1982 the team coordinator and three of the team were able to meet in Washington to hold a general planning session based on the coordinator's telephone conversations with the USAID/Haiti Mission Director. This group also met with knowledgeable officials of the International Monetary Fund. The team members, with the exception of the coordinator, met in Haiti on May 24 and completed their work June 12. The coordinator conducted further research at the IMF and World Bank in Washington and joined them June 3. He stayed until June 19 to complete this Overview, Summary, and Technical Assistance Plan (hereafter called the Summary Report).

The brief time allotted for this comprehensive review of tax administration did not permit the team to follow an elaborate methodology. Individual approaches are described in the appendices. In general, the team members reviewed pertinent Haitian laws and previous studies touching upon their areas of interest. They interviewed appropriate GOH officials and visited offices and field sites. The data used were drawn from GOH and IMF sources and no independent collection of data was made, except for spot review of sample documents such as tax returns and customs declarations.

II. REPORT STRUCTURE, CONTENT, AND ASSUMPTIONS

A. Individual Consultant Reports

Each of the five consultant specialists prepared a separate report which is appended to this Summary Report:

Appendix I: Improvement of Controls at the Customhouse Level.

By Kenneth Stacey, Panel Expert of the International Monetary Fund, serving on this study as a private customs advisor.

Appendix II: Improvement of the General Administration of Customs.

By William C. Wilkins, Program Analyst, Office of Trade Operations, United States Customs Service.

Appendix III: Income Tax Administration. By Charles Oak Austin, Tax Administration Advisor, Tax Administration Advisory Services Division, United States Internal Revenue Service.

Appendix IV: Management of Property and Excise Taxes. By Ramon E. Gomez Colon, Tax Consultant and former Under Secretary of the Treasury, Commonwealth of Puerto Rico.

Appendix V: Computerization Aspects. By Roger Paradis, Senior Consultant, Price Waterhouse and Associates, specializing in automated data processing systems.

These individual reports follow a common general format which was suggested by the team coordinator and agreed to by the team. Variations in detail of format and in individual writing style were left unchanged.

B. Summary Report

This Summary Report was prepared by the team coordinator, John M. Buck, Vice President for Management and Finance of Development Alternatives, Inc. and formerly Director, Management Analysis Division, Office of the Secretary of the Treasury. The coordinator reviewed each report individually with the author, and each team member read the others' reports. The team held group discussions in an attempt to put the aggregate of recommendations into priority order, to estimate time and cost for implementation, and to guess at the effects of specific technical assistance initiatives on Haitian revenue yields. Discussions with the USAID/Haiti Mission Director and Deputy Director were part of this process.

Thus there was team input to the Summary Report and general agreement as of its content; however, the final text, the ordering of priorities, the benefit/cost estimates, and the technical assistance schedule were drawn up by the team coordinator after the rest of the team's departure and are his responsibility.

C. Some Words of Recognition

As team coordinator, I wish to thank M. Marc L. Bazin, Secrétaire d'Etat des Finances et des Affaires Economiques, and his special assistant, M. Louis M. Noisy, Attaché au Cabinet du Ministre, for taking the time to give me their candid views on a wide range of tax administration questions, and for arranging for the study team to have access to information and to hold discussions with numerous Government of Haiti officials involved in the daily work of revenue assessment and collection.

I wish also to thank the Honorable Ernest H. Preeg, United States Ambassador to Haiti, for his support of the study, as expressed during my entry and exit briefings.

Mr. Gregory Dahl, Resident Representative of the IMF, was kind enough to share with me some updated GOH revenue and expenditure estimates and to discuss the Haitian fiscal situation.

Special words of appreciation are due to USAID/Haiti Mission Director Harlan Hobgood, to Deputy Director Phyllis Dichter, and to the truly able Mission staff. Without their energetic help -- ranging from policy guidance to word processing -- it would not have been possible for the team to complete its task within the time allotted.

D. Development of a Plan for Short-term Technical Assistance

During discussions between Minister Bazin, the Mission Director, and the team coordinator, it was agreed that the focus of this study would be to develop a plan for short-term technical assistance to the Ministry of Finance (time horizon 18 months) based on the report's key recommendations. Any recommendations contained in the appendices which do not appear in this Summary Report should be considered for the longer term. Only the key ideas have been skimmed off and presented here.

To qualify for inclusion in the plan presented below, a recommendation must meet the following criteria:

- It must have a short-term positive effect on revenue collections and/or a short-term psychological impact. The Government of Haiti has announced its willingness to deal with its fiscal problems and this can only be made credible to Haitian taxpayers if convincing actions are taken and results are apparent.
- It must be compatible with the country's long-term goals of economic development and local institution-building.

- . It must mitigate, or at least not enhance, the regressiveness of the Haitian tax structure.
- . It must be practical. This means that it must be possible in light of the availability of trained (or trainable) manpower, physical facilities, and equipment -- and in light of Haitian political realities. In this regard, the study team was much better able to estimate the effects of physical and administrative constraints than of political constraints.

The recommendations which meet these standards are presented below under the major tax administration headings: customs, income tax, and property and excise taxes. The final section deals with computer system applications, as they relate to the other three areas.

The study team recommends that all training be done in Haiti, with the exception of sending three or four top income tax officials to the Internal Revenue Service INTAX course in the U.S. The team agreed that the training should be done in place, and in the context of Haitian realities, if it is to be effective for mid- and entry-level personnel. This costs the GOH less and permits in-service training on a part-time schedule so that employees can continue some of their regular duties. Also the presence of expatriate trainers should serve the additional purpose of training local instructors and helping to build local training institutions.

The cost for short-term expatriate technical assistance is calculated at \$12,000 per person-month, with international travel and all other expenses included. The cost is somewhat higher for automated data processing consultants and the legal advisor, as shown below. Some training may be done by personnel seconded by U.S. government agencies and this may be somewhat less expensive than \$12,000 per person-month.

The charts at the end of this report present, in consolidated form, estimates of the costs of technical assistance, the associated tax revenue yields, and the benefit/cost ratios. The Gantt chart elaborates the team coordinator's estimate of timing for completion of the sequence of actions, by both USAID and the Haitian government, which are expected to produce these results.

E. Conservative Nature of Estimates

The assumptions underlying these estimates are conservative, since the team did not wish to raise unrealistic hopes with regard to the time required to effect measurable change.

First, the schedule is conservative; it assumes that six months will be required for USAID (and perhaps other donors) to complete the contracting procedure or make other arrangements to place technical assistance personnel on the ground in Haiti, and for the GOH to make the recommended changes of law that are necessary to institute new administrative procedures. The schedule also assumes that it will take six months from the start of technical assistance, on the ground in Haiti, before any effect is felt on revenue collections.

Second, the estimated percentage increases in tax yield were kept low. Moving from virtually no control of borders and little enforcement of tax collection to some control and some more enforcement of collection could potentially produce a major jump in revenue; however, Haiti has no history of cracking down on tax evasion and underpayment, so the projected increases were kept modest.

Third, increases in yield were calculated as percentages of the various categories of revenue produced in FY 1981. These revenues could be higher by the time the effects of the proposed technical assistance are felt; however, the IMF sees no immediate reason for optimism with regard to revenue production.

Fourth, it was assumed that the proposed simplified excise tax on manufactures (the "First Stage" proposed by Casanegra and Byrne in the IMF Report, "Sales Taxation in Haiti," April 13, 1981, pp. 16-21) will be set at a level that yields the same overall revenue as in FY 1981, rather than raising total revenue. This report's estimated percentage increases were made against the FY 81 base.

It should be pointed out that there is one major optimistic assumption which accompanies the conservative estimates detailed so far: the team took as a given -- or at least as a hypothesis to be tested -- that this is indeed a 'new' Haitian government with a commitment to meaningful reform and enforcement of the tax system; and that this government has the political will to counter long-established traditions of patronage and corruption and prevent these from nullifying the effects of the proposed reforms.

F. No Major Reorganizations Proposed

With the exception of some specific changes recommended below (most notably the creation of a Customs Police), the team does not propose any major reorganization within the Ministry of Finance or its various subparts. We felt that the structure is not the problem; the problem is to make it work. Now is not the time for the turbulence, fear, and resultant inefficiency which reorganization brings. It is the time to update and improve laws, to introduce new procedures and technology, and to enforce the revenue collection process.

G. Scope of Technical Assistance

The team had some discussion with USAID/Haiti about whether to propose two levels of technical assistance -- a high option and a low option, with different price tags. In their subsequent discussions, the team started with the minimum level of assistance thought necessary to do the job properly and meet the criterion of showing short-term results. This basic package will cost around \$2.2 million, will require 18 months to execute, and will yield an estimated \$21.5 million in additional revenues during the final 12 months. This would be a 16.3% increase against the FY 1981 total revenue base, gained at a benefit/cost ratio of 9.7:1.

Since the cost of this basic package exceeds the figure which the Mission Director felt would be immediately available, the team did not propose a further "high" option. Nor did we think it was practical at this stage to propose further long-term expenditure of assistance money; this should be decided later, based on the results from introduction of the basic package.

It is not readily possible to trim the proposed basic package. Most of the cost is in the expatriate trainers and advisors, and the marginal savings from training fewer Haitians would be minimal. A possible exception is to have a much smaller Customs Police -- say 50 instead of 150 -- but it is questionable whether dropping below 150 would be effective; three 50-person shifts around the clock seems a minimum. Of course, it would be possible to save money by eliminating entirely one or more parts of the proposed plan (rather than trimming a little everywhere); however this would cut the program's effectiveness, since the parts interrelate and support each other, especially the proposed introduction of permanent national identification numbers for individuals and businesses and the application of automated data processing to assist all areas of tax collection.

Also, it is probably a good idea to move in all areas of revenue collection simultaneously, since evasion and underreporting seem to occur in all. Thus all could yield more revenue. Besides, this would avoid giving the public the impression that some groups (importers, manufacturers, property owners, or whatever) were being targeted for enforcement while others were exempted. The team coordinator feels this is important in the Haitian setting, where there is a general perception that favoritism is a way of life and equitable administration of taxes is not to be expected.

H. Recommendation Format

The major recommendations are presented below by category of revenue collection. Each is discussed and priced individually and the total figures are summarized in Chart 1, below. An overall schedule is presented in the form of a Gantt chart (Chart 2).

III. CUSTOMS

A. Legal and Regulatory Changes

1. Recommendation: Revise and simplify both the Customs Code and the Tariff Law, as recommended in Appendix I, and enable the Minister of Finance to issue regulations covering procedural details, rather than having these details codified in law. Promulgate laws establishing a Customs Police Force and tightening standards for, and control of, duty-free (franchise) imports.

2. Discussion: These changes and additions to Haitian law are needed before the other recommendations set forth below can be carried out.

3. Technical Assistance Required: As an activity precedent to much of what is recommended in this report, this piece of the assistance

package should be contracted for and carried out first. Whereas the schedule set forth below assumes six months to arrange for other donor assistance, this should be pushed through within the first three months, so that the advisor can assist with the drafting and passage of the necessary laws. One person with a wide knowledge of tax and regulatory law, and the associated French technical terms, could perform all of the work of legal revision recommended here (and below) in an estimated six person-months. If such a specialist costs \$15,000 per month, the total price would be approximately \$90,000. The advisor should concentrate first on preparing the enabling laws to establish the Customs Police, regulate franchises, and introduce new valuation procedures (plus institute a national identity numbering system, recommended below). As a second priority, the advisor could turn to the revision of the Customs Code and the Tariff Law, plus the revision of the excise on manufactures, discussed below.

B. Customs Police

1. Recommendation: Appendices I and II both recommend establishment of a Customs Police to enforce a more orderly entry of goods into the country and to interdict contraband. There is now very little control of borders or ports of entry.

2. Discussion: What is envisioned is a modest beginning: 150 Customs Police working three 50-person shifts around the clock. They would exercise some control over the major ports of entry and border crossing points. It would not be either practical or cost-effective to attempt to patrol all of Haiti's rugged border.

The customs advisors and the team coordinator feel that these new police should make up a single unit for training and administrative purposes, but that the head of the force should clearly be under the command of the civilian Minister of Finance, with the activities of the police agents in the field being under the control of the civilian customs port directors. The creation of an autonomous or semiautonomous police force should definitely be avoided; there is too great a risk of corruption and abuse.

An idea which came up during the team coordinator's discussions with Minister Bazin and Mission Director Hobgood was that of creating a special strike force of "untouchables" to take action, with top-level backing and a fairly free hand, against major smugglers, tax evaders, and corrupt officials. This is an idea which has always had a strong innate appeal: cut through the red tape and get at the wrongdoers.

Unfortunately, in their many cumulative years of exposure to the law enforcement processes of various governments, the team members have never seen this approach work over the long term. Even assuming that capable personnel could be recruited and such a group formed and given the freedom and backing to strike at major offenders, it is almost inevitable that power would corrupt the group and its purpose, so that it became the problem rather than the solution.

The attraction of the special strike force is that, it is highly visible and its activities are symbolic of leadership's intent to crack down on wrongdoing wherever it occurs. The other side of that coin is that, if the group becomes corrupt or is diverted from its purpose, this is also highly visible. Besides, such a group diverts resources and attention from institution-building within the regular establishment (the customs and tax collection bodies), and transmits to the personnel of these bodies the message that they are not worthwhile in themselves and need a watchdog.

If the GOH decides to try the strike force approach, it should be with a very small and trustworthy group having a definite charter and a short span of existence (plus guarantees of protection for the participants afterwards). Better, if some 'untouchables' can be found, they should instead be put in charge of building and managing the proposed Customs Police, as a long-term institution integrated into the Ministry of Finance and placed firmly under the Minister's control.

3. Technical Assistance Required: To give basic training in interdiction, control of imports, and the exercise of police powers to 150 persons (not to make them substitute customs inspectors, just customs police) would require an estimated six instructors for three months. These 18 person-months would cost about \$216,000, including time for course development and startup in Haiti.

C. Procedural Reforms

1. Recommendation: Modify and simplify customs procedures, to include eliminating the bordereau and the consular invoice and substituting a standard customs entry document. Institute the standard reporting of ships, checking of entry declarations, cancellation of manifests, and post-audit of entries and ships' documents. The new procedures would make all valuation ad valorem, doing away with the present alternate methods of calculation.

2. Discussion: All these changes would streamline and modernize procedures, thus freeing manpower to be devoted to better recordkeeping and enforcement of duty collection. The new procedures would be taught in the training sessions described below.

3. Technical Assistance Required: One customs advisor could accomplish this in six months at a cost of about \$72,000.

D. Establishment of a Training School

1. Recommendation: Establish a customs training school on a modest level, initially using classroom space and facilities existing at local institutions (perhaps ENAF or INAGHEI).

2. Discussion: The initial courses would be taught by technical assistance personnel, who would also be responsible for training a core of instructors to take over and continue the training activities. The initial effort would give 20 mid-level customs officers in-service training on the new customs law and procedure recommended above, and on general control

techniques. The emphasis would be toward hands-on training in the Haitian environment, with the idea that the initial group of trained personnel would man the Port-au-Prince seaport and airport and work in the customs valuation service. Four instructors would be selected and trained, either from the initial class of 20 or elsewhere. They would establish regular in-service career development training.

3. Technical Assistance Required. Two expatriate trainers would be required for three months to develop the courses and give the instruction. This would cost about \$72,000.

E. Audit

1. Recommendation: Train eight persons, with some accounting background, as auditors.

2. Discussion. These persons would be given additional instruction from a customs audit viewpoint, so that they could conduct the recommended post-audits of entry valuations, importers' and exporters' declarations and financial records, and the disposition of goods entered under franchise (duty-free or duty-reduced). One or two could become instructors in the training school recommended above.

3. Technical Assistance Required: Two audit specialists could give this training in three months. It would cost about \$72,000.

F. Automation

The application of automated data processing will be of great eventual value for recording and monitoring customs entries, including franchised goods, and for compiling Haiti's foreign trade statistics. This is treated in the general discussion of computerization in Section VI, below.

G. Estimated Yield, Year Two

As stated above, the estimates of increased revenue yield are made on the assumption that the effects of technical assistance will be felt after six months, and that arrangements to provide this assistance will, beforehand, have taken six months from the time that this report is accepted. Thus twelve months would elapse (Year One) before a revenue effect would be felt, and this effect is calculated against the following twelve months (Year Two).

Any estimate of increased revenue is highly speculative, but it seemed to the team coordinator and the customs advisors not unlikely that a 20% rise could occur if all the recommended measures were instituted and the government gave serious support to the resultant increases in interdiction of contraband and control and audit of imports. (Exports are not dealt with here; this would complicate the discussion since they fall partially under the jurisdiction of the income tax department. However, they are also a likely source of increased revenue, given proper enforcement.) A 20% increase over the FY 1981 level of import duties would yield about \$9.4 million, an overall increase of some 7% in total national revenue.

IV. INCOME TAXES

A. Taxpayer Identification Numbers

1. Recommendation: Issue permanent national taxpayer identification numbers to all adult persons (including resident aliens) and all businesses.

2. Discussion: Meaningful identification numbers do not exist in Haiti, and having them is fundamental to effective collection of all taxes (income, withholding, property, and excise taxes and import and export duties). They are essential for the application of automated data processing to revenue collection. While it may take a long time to issue numbers to all persons and businesses in Haiti, it should be fairly simple to cover the population of Port-au-Prince and the other major cities in short order. The requirement to have a national ID number would be publicized and temporary points of issue established in population centers. After a certain date, anyone applying for a driver's license, car registration, import franchise, postal box, and so forth, and anyone filing a tax return or customs declaration, would be required to show a national identity number on the form. This would catch the stragglers who had not complied with the initial registration. As pointed out above, this must first be made a requirement of law.

3. Technical Assistance Required: In three months, one advisor could help the GOH to set up a reliable system of identity numbers with internal check digits to control for erroneous entry into the eventual automated tax administration system. The cost would be about \$36,000. Four top tax officials should attend the IRS INTAX course in the United States, at a cost of \$7,500 per participant (total cost \$30,000 excluding international travel).

B. Taxpayer Audit

1. Recommendation: Train 75 accountants, from among those now in the tax service, to perform audits of business and individual taxpayers.

2. Discussion: The tax service needs a body of trained auditors capable of reading company financial records and sifting through the backup documentation of individual tax returns. Very little effective audit of taxpayers is now being done.

3. Technical Assistance Required: Four advisors working three months could accomplish this initial training at a cost of about \$144,000. It is envisioned that the trainees would be divided into basic and advanced auditing classes, depending on their knowledge level. Some of those trained could, after gaining some practical experience in the conduct of taxpayer audits, serve as instructors for a continuing in-service audit training program.

C. Estimated Yield, Year Two

It is estimated that numbering and auditing taxpayers, even

though accomplished initially on a manual basis, would yield a 10% increase in income tax collections in Year Two. The current effort of the Fichier Fiscal section of Ministry of Finance to query taxpayers on their returns yielded over \$20,000 of additional revenue in its first three days. That this was done without either training of additional auditors or the availability of a coherent taxpayer numbering system for crossreferencing returns and declarations gives an indication of the taxpaying potential latent in the system. When the numbering of taxpayers is computerized, eventually, the increase in tax yield should be much higher (assuming serious government enforcement). A 10% increase in income tax collections would yield \$2.3 million, which would be a 1.8% rise in total government revenue.

V. PROPERTY AND EXCISE TAXES

A. Property Tax

1. Recommendation: Take advantage of the property census, which is due to start in the summer of 1982, to gather additional tax information on all respondents and to collect accurate information on property size and characteristics. The latter can be used currently to check owners' declared values, and eventually to serve as a basis for taxation on assessed value, if that becomes law.

2. Discussion: This will require the design and use of an enlarged census form, as recommended in Appendix IV, and the training of assessors. Although the real estate tax provides only a small part of the national revenue, it is grossly underpaid and could show a high percentage return on any investment made to improve enforcement. Also, the property tax is the primary source of revenue to municipalities, which split it equally with the national government. Presumably the increase in revenue would be welcomed by municipal governments. Finally, there is a question of equity and psychological effect. Everyone knows that the owners of large, luxurious homes in Pétion-Ville pay ridiculously low property taxes, and a progressive set of moves to rectify this imbalance would have an important effect in demonstrating that the government is willing to tax the rich as well as the poor.

3. Technical Assistance Required: Two technical assistance experts working two months could train the 20 assessors needed, at a cost of some \$24,000.

B. Excise Tax on Manufactures

1. Recommendation: Implement the simplified excise tax on manufactures ("sales tax") proposed by the IMF and train auditors to enforce it. (See the IMF report "Sales Taxation In Haiti," Casanegra and Byrne, April 13, 1981, pp. 16-21).

2. Discussion: It is assumed here that the rates of the simplified tax will be set so that total manufacturers' excise taxes will have the same yield as in FY 1981. It is also assumed that no additional countervailing duties on imports will be imposed. These assumptions (which

are subject to revision based on the findings of the current IMF mission addressing this subject) are used in making the yield calculations set forth below.

3. Technical Assistance Required: Five accountants should receive three months of training in excise tax audit. This could be given by one expatriate trainer at a cost of \$36,000.

C. Alcohol, Tobacco, and Gasoline

1. Recommendation: Increase the number of alcohol and tobacco inspectors from five to 10 and give them a month's training. Train two or three inspectors to monitor properly the off-loading of petroleum products to assure that full duty is paid.

2. Discussion: The alcohol and tobacco taxes are easy to enforce through the requirement that manufacturers purchase tax stamps and pay a tax on bottle caps. Compliance simply needs to be verified by inspectors doing spot checks of manufacturers and retail outlets. They could also check that the bottle cap tax has been paid on soft drinks.

The process of verifying amounts of petroleum products off-loaded is likewise not difficult, but it does not seem to be done thoroughly at present. This involves sealing storage tank outlets and then verifying dipstick readings against the ship's bills of lading and the sealed ship's comptometer (adjusting all quantities for temperature, of course, using a standard conversion table).

3. Technical Assistance Required: The ten alcohol and tobacco inspectors could be trained in one month by one person at a cost of \$12,000. It is likely that one of the major international oil companies which make deliveries to Haiti would be glad to train two or three inspectors, and perhaps a like number of customs officers, in the measurement of petroleum deliveries. It is assumed this would be done free of charge.

D. Estimated Yield, Year Two

The extent of excise tax evasion with regard to alcohol, tobacco, and soft drinks is impossible to estimate, and it is simply assumed that increased revenues in Year Two will pay for the training of the ten inspectors. Likewise with the delivery of petroleum products -- for the purposes of this report it is assumed that the training is free and the yield unknown.

The team coordinator and the property and excise tax advisor estimate that a thorough property census and the presence of trained assessors to check taxpayer declarations would increase the property tax yield to the national government by 30% in Year Two, even without computerization having been implemented or the base of tax payment changed to assessed value. This would yield \$180,000 (a .03% increase in national revenue), with a like amount going to the municipalities.

Enforcement of the excise tax on manufactures is estimated to produce a 20% increase in Year Two, or \$3 million (a 2.3% increase in national revenue).

VI. AUTOMATED DATA PROCESSING

A. Recommendation

Proceed as soon as possible with the feasibility study described in Appendix V, leading to the automation of data collection and analysis within the Ministry of Finance.

B. Discussion

The major areas for computerization have been mentioned in this report and are discussed in more detail in the appendices. Most important is the creation of a taxpayer master file, to record business and personal income taxes, property taxes, and various excise taxes, including the proposed "sales tax". Also, the recording of customs entries could be automated to assist valuation, duty collection, and the generation of Haitian foreign trade statistics. Automated data processing would be a primary tool for bringing efficiency, effectiveness, and equity into the administration of Haiti's tax system. Given proper support by top government leadership, automation would make corruption and tax evasion harder to conceal, and could thus raise national revenue dramatically.

Unfortunately, as shown by the schedule on the last page of Appendix V, computerization cannot be introduced overnight, or even within the two-year period contemplated in this report. However, the process must begin immediately if it is to be achieved within three years after acceptance of these recommendations. Therefore, money for the feasibility study, the purchase of hardware, and some of the implementation must be spent within Years One and Two.

C. Technical Assistance Required

Appendix V estimates a total of 61 person-months of technical assistance. At an average price per person-month of \$15,000, the personnel cost would be \$915,000. If approximately \$500,000 is added for hardware purchase and installation, this brings the total for automation to \$1,415,000 -- by far the most expensive part of this technical assistance plan.

D. Estimated yield, Year Two

As Appendix V shows, the proposed system will not be in operation by the end of Year Two. However, this does not mean that the preliminary moves to implement it will be without effect. They can be expected to have a strong psychological impact, according to highly placed Haitian officials. Demonstrated intent to computerize, combined with the issuance of taxpayer identification numbers, can be expected to show the population that the government is serious about enforcing tax collection. If this has the effect of increasing voluntary compliance by 5% during Year Two, it would raise government revenue by \$6.6 million.

Chart 1: Summary of Technical Assistance Costs and Benefits

<u>Area of Technical Assistance</u>	<u>Total Cost (\$000)</u>	<u>Yield in Year Two (\$000)</u>	<u>Benefit/Cost Ratio (end of Year Two)</u>
Customs	522	9,400	18:1
Income Tax	210	2,300	11:1
Property Tax	24	180	7.5:1
Excise on Manufactures	36	3,000	83.3:1
Computerization	<u>1,415</u>	<u>6,600</u>	4.7:1
TOTAL	2,207	21,480	

Overall Figures

- . Increase in National Revenues During Year Two (against FY 81 base) = 16.3%
- . Overall Benefit/Cost Ratio = 9.7:1

PLAN FOR THE IMPROVEMENT OF TAX ADMINISTRATION IN HAITI
 CHART 2: SCHEDULE OF TECHNICAL ASSISTANCE
 AND HAITIAN GOVERNMENT ACTIONS

	ELAPSED TIME (MONTHS)								
	YEAR ONE				YEAR TWO				
	0	3	6	9	12	15	18	21	24
<u>DONOR ACTIVITIES (USAID and/or Other Donors)</u>									
1. Select tax law advisor.	_____								
2. Tax law advisor activities:									
a. Draft laws to establish Customs Police, regulate franchised goods, permit new valuation and customs procedures, and require national taxpayer identification numbers.	_____								
b. Revise of Customs Code, Tariff Law, and Manufacturers' Excise Tax.	_____								
3. Select and contract for other technical assistance advisors.	_____								
4. Technical assistance activities:									
a. Train Customs Police.	_____								
b. Assist customs procedural reforms.	_____								
c. Establish Customs Training School and give initial training	_____								
d. Train customs auditors.	_____								
e. Assist establishing national taxpayer identification numbering system.	_____								
f. Train internal revenue auditors.	_____								
g. Train property tax assessors.	_____								
h. Train excise tax auditors.	_____								
i. Train alcohol & tobacco inspectors.	_____								
j. Establish automated data processing system in Ministry of Finance (for detail see Appendix V).	_____								
<u>ACTIVITIES OF THE GOVERNMENT OF HAITI</u>									
1. Promulgate legal and regulatory reforms.	_____								
2. Conduct census of real property.	_____								
3. Issue national identification numbers to business & individual taxpayers.	_____								
4. Establish interdiction of contraband and control of ports of entry by Customs Police.	_____								
5. Conduct audits and inspections, using newly trained personnel, in the areas of customs, income tax, property tax, and excise taxes.	_____								
6. Recruit and train personnel to operate Ministry of Finance Computer system.	_____								

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VII. TECHNICAL ASSISTANCE IN THE LONGER TERM

It is probable that Haiti will require more outside technical assistance than is contemplated in this report, if it is to achieve effective and equitable tax administration. However, it would be premature to suggest a longer-term assistance plan at this point. Such a plan should be based on the preliminary results obtained from implementing the recommendations made above. Interim results should be assessed, and decisions made regarding further assistance, at a point which is far enough before the end of the first round of technical assistance to allow the arrangement of continuing support in those areas where it is required, and the timely start-up of assistance in newly identified areas of need.

VIII. PERSONNEL EFFECTIVENESS

Achieving personnel effectiveness in any organization is difficult; it is especially hard within a government structure such as exists in Haiti, where people may be employed through patronage, rather than on the basis of competitive examinations or demonstrated merit. This report has not addressed this problem so far, since it is largely political. However, the team coordinator feels he would be remiss if he did not suggest some institutional policies which could be used to monitor employee performance. The presence of effective personnel is a necessary complement to implementation of the technical recommendations made so far.

First, as taxpayer information is collected, collated, and audited on a more efficient (eventually automated) basis, it will be possible to detect not only evasion and underreporting on the part of the public, but also inefficiency, incompetence or corruption on the part of government officials. A few dramatic dismissals from the civil service of persons proven corrupt or incompetent would have a salutary effect on the remaining employees, and on public opinion.

Second, the computerization of the taxpayer data base, and the resultant ability to recall information for post-audit, will make it much more difficult for a individual taxpayer to make an undetected arrangement with a government employee. This should serve as a disincentive to such arrangements.

Third, audits, inspections, and internal quality reviews should detect ineffective employees. These persons could be given obligatory refresher training and, if they did not demonstrate a minimum level of competence on a final examination, they could be denied promotion or dismissed.

All these are institutional processes for passing employees and their work under periodic review and promoting persons of demonstrated competence while screening out those who do not perform. Such controls are, of course, no better than the system which enforces them.

IX. CONCLUSION

The level of smuggling, tax evasion, underreporting, corruption, and inefficiency of government process in Haiti appears to be such that the

country's tax base is not being tapped at anything like its full potential. Given a chance, outside technical assistance can help Haiti to deal with inefficiency of administrative process. Given political support from the top level, the executive agencies of the Ministry of Finance could enforce collections and increase national revenue yields by far more than the modest 16% suggested above. The object of this report is to recommend ways to put into the hands of the Haitian government the tools with which it can effect meaningful change. The question then will be whether there is the political will to do so.

TAX ADMINISTRATION IN HAITIAPPENDIX IIMPROVEMENT OF CONTROLS AT THE CUSTOMHOUSE LEVEL

by Kenneth Stacey

- I. FORMAT - The format of this report will be as follows:
- II. Introduction
- III. Summary of Recommendations
- IV. Study Approach
- V. Detailed Work Plan: Discussions of each sector of work comprised in the above recommendations, approximately in order of importance, each divided into three subsections:
- a) Discussion
- b) Findings
- c) Recommendations
- VI. Special Report on Airport and Cap-Haitien
- VII. Technical Assistance Plan

II. INTRODUCTION

The Customs Administration of Haiti has received much technical assistance over the past decade from many donor institutions. Notable results were the conversion of the tariff to the Customs Co-operation Council Nomenclature (CCCN), in the form which it took prior to January 1978, and the inclusion of the enabling legislation for the Brussels Valuation System in the Tariff Law.

Many fields of varying importance have remained untouched, a fact which to some degree may have arisen from an inherent lack of coordination among the efforts of the many donor agencies involved.

The present proposals are intended to provide a Master Plan for forward movement on all fronts, combining fundamental legal, organizational and procedural reform; the introduction of new procedures; and the modification of existing ones.

The impact of these reforms is expected to create a more efficient Customs administration tending to increases in Customs revenue collection.

III. SUMMARY OF RECOMMENDATIONS

1. Reform the Customs Code to eliminate superseded material, and to legislate necessary reforms and eliminate specific legislation on matters which can be dealt with by regulations. Prepare such regulations based on the

revised Code. Eliminate from the Tariff Law all surplus material already found in the Brussels Explanatory Notes and that rendered surplus by reforms.

2. Create a Customs Police Force, authorized by law as part of the new Customs Code, with regulations to enforce cargo security through ships' searches and quay and warehouse surveillance, and to repress contraband through control of the border, especially major points of entry.

3. Establish a Customs Training Institution with outside technical assistance to train in-service instructors in teaching techniques. Simultaneously give technical training at basic and middle levels for in-service Customs officers. The plan would also include specialized training of the Customs Police.

4. Extend the Valuation Section's present function so that declared values may be properly adjusted on the basis of acquired information and the effects of commercial relationships on value properly assessed. The reform would be implemented through precise regulation, training and organizational adjustments.

5. Revise the tariff nomenclature to take account of the fundamental changes of January 1978; rearrange some subheadings to conform to CCCN requirements; provide statistical codes and include any 1982/83 amendments to the nomenclature. Improve the dissemination of information on classification problems.

6. Establish a Headquarters Section to enforce conditions under which goods are admitted duty-free. The function would include the prevention and detection of illegal sales of concessionary duty-free articles and the control of factories using duty-free raw material or constituents for the manufacture of products for export or the home market. The reform would be supported by regulation, training and reorganization.

7. Reorganize the Headquarters only to the extent that specific changes are implemented: establishment of the Customs Police and the training school; improved control of franchises, valuation and classification; increased inspection of staff; and introduction of some procedural changes. No change is recommended in the basic structure of Customs or in the relationship between Headquarters and the Port-au-Prince directorate.

8. Review the effectiveness of the present system of Customs inspections carried out by the Fiscal Inspection Service of the Ministry of Finance to ensure that uniformity of practice, efficiency and discipline are achieved. Review the technical field experience of these inspectors and examine ways to increase the benefit of their activities to both HQ and out-station staff.

9. Modify and simplify procedures to improve efficiency and cut costs. This would include the elimination of the bordereau and the consular invoice, the reporting of ships, the checking of entries (declaration), the cancellation of manifests, the post-audit of entries and ships documents, and the reduction of register control for the movement of documents.

IV. STUDY APPROACH

The author wishes to express special thanks to Chef de Service Mr. Edouard Dupont, who served as his counterpart during this study and whose assistance was invaluable. The author also much appreciated the generous help of the other Haitian officials whom he interviewed. Chief among these were: Director-General of Customs Mr. Albert Boyer, Chef de Service Mr. André Turnier, and the Customs Directors of Cap-Haitien, François Duvalier Airport, and Port-au-Prince.

The principal reference materials used for this report were: The Haitian Customs Code and Tariff Law, the World Bank Economic Memorandum on Haiti (April 1982), recent IMF reports on Haitian Customs and economy, and the author's own earlier reports on customs administration in Thailand, Cape Verde, Guinea-Bissau, and Honduras.

V. DETAILED WORK PLAN

1. Legal Reform

a) Discussion - The legal basis for the present Customs operation lies mainly in the Tariff Law and the Customs Code. There appear to be no regulations of importance emitted at Ministerial level or below under enabling legislation.

The Tariff Law adequately supports the import tariff and statutory exemptions and the Brussels Valuation System. Much space is devoted to technical instructions on the examination of certain goods. The tariff itself, an integral part of the tariff law, conforms to the CCGN before the important January 1978 revision, and subheadings are provided to accommodate Haitian Tariff rate variations. There is no column showing the Statistical Code appropriate to each tariff item.

The Customs Code is an old law which gives authority to many functions such as the handling of ships in harbor, cargo manipulation, etc. which have now been transferred to other bodies such as the Port Captain and the National Port Authority. It provides powers to permit search of ships and persons, documents seizure and sale of goods and general anticontraband activity. There is approval of certain ports and border posts as Customs stations and much of the procedural work is adequately supported. Staff pay, discipline, leave, etc. are also dealt with.

b) Findings - The Tariff Law contains many technical explanations and procedural directions which are already found in the Brussels Explanatory Notes and which are more suitably contained in regulations than in law. There are also instructions on the employment of methods which are long outdated and which in any case are not proper to a Tariff Law; in fact, procedures are legislated in such detail that even minor recommendations in this report will need the reform of the Law before implementation.

Matter which has clearly been superseded by subsequent laws

still remains in the Customs Code. Staff matters are usually dealt with on a national Civil Service basis but if there is specialised treatment involved this would justify inclusion in the Code.

c) Recommendations - The two laws should be redrafted to eliminate inappropriate and superseded material and include any new material introduced by reform. The Tariff should be updated by the inclusion of post-January 1978 amendments, the adjustment of subdivisions, and the inclusion of the Standard International Trade Classification (SITC).

Without necessarily changing the effective duty rate, the basis of calculation of tariffs should be changed to ad valorem on textiles and the present complicated duty base eliminated.

2. Customs Police Force

a) Discussion - There is at present no Customs Force designated to repress contraband in coastal and border areas or perform such associated duties as search of arriving vessels, patrol of Customs areas at designated ports and posts, and security of cargo in warehouse. Although the Customs Code does not specifically refer to such a force it does broadly legislate the functions implicit in such a force.

Without a closer study of the contraband situation it is not possible to assess quantitatively the impact on duty collections but it is fair to say that there are few means of preventing even the most amateur attempts at contraband.

b) Findings - There is no search of ships in port for contraband, undeclared cargo or checks on bonded ships' stores. The security of cargo in Port-au-Prince and Cap-Haitien (and presumably in the rest of the country) apart from the Customs tally on unloading, is left to the Port Authority Police. The Custom Authority states that there is no anticontraband control of any border, coastal area or island.

c) Recommendations - A Customs Police Force should be created with its direction at the level of Chef de Service under the control of the Director General. Its legal existence should be established in the reformed Customs Code, with administrative regulations defining its functions, and the recruits should be trained in local facilities (to be discussed later).

To minimize budget costs advantage should be taken of surplus staff resulting from simplification of procedures recommended later in this report.

3. Customs Training School

a) Discussion - There is no Customs training activity but there exists a national administrative training institution which is said to have had almost no impact on the Customs Service.

The technical knowledge of the middle and lower staff levels is restricted to the limited range of their particular tasks and this deficiency is particularly revealed in valuation, classification, franchises, organisation and administration in general. The senior staff with some exceptions have not had the opportunity to broaden their experience through contact with the international principles of Customs policy.

b) Findings - Much work is being performed with little knowledge of its significance and relation to other work. This lack of knowledge could lead to loss of revenue through wrong classification and undervaluation and the failure to observe franchise and exemption conditions. Frustration of the import restriction and prohibition regulations may also occur.

c) Recommendations - A program should be established for the training of Customs Instructors, the technical training of middle level officials below Chef de Service rank and including examining officers (vérificateurs) and of lower levels below vérificateur. Lectures should be planned for senior staff on international Customs policy, free zone and Customs Union development and specialised subjects such as statistics, hydrocarbon oil control, bonded warehouses, etc.

To give an impetus to the program, training would be planned and carried out by technical assistance experts who would gradually be superseded by the trained in-service instructors.

The Customs Police training would be similarly planned and implemented as a separate exercise conforming to the timing of legislation and recruitment.

The subject matter would be developed and the training conducted in consultation with the Director General and his staff.

4. Valuation

a) Discussion - In common with many other developing countries Haiti has not signed its agreement to the Valuation System established under Art. VII of the General Agreement on Tariffs and Trade (GATT) of April 1979. The latter has replaced the Brussels Valuation System by the signed consent of the contracting parties.

The "Brussels System" is thus the legally established system in Haiti through incorporation in the Tariff Law.

The first stage of its implementation has been accomplished by the establishment of card index information which is progressively developing and the introduction of a declaration of value form as prescribed in the Brussels system.

Apart from the declaration of value, a consular invoice must be produced with the importer's declaration which includes a certificate verifying amongst other things the authenticity of the value.

Present practice places almost total reliance on the value in the consular invoice and there is no evidence of any measures taken to uplift such values nor to examine the effect of commercial relationships on declared values.

Although there are many specific duties in the tariff there is also a large percentage of them which is superseded by an alternative ad valorem rate which is applied when its product is greater than that of the specific rate.

b) Findings - The failure to use the acquired valuation information to uplift declared values vitiates the whole operation of the card index. The principles involved in valuation are not widely understood.

No specific criticism of Haitian Consuls abroad is intended but it is common knowledge that the certifying of invoices by consuls generally has become a matter of rote and it is often not even possible for the consul to inspect the merchandise for verification purposes. For this reason most countries have abandoned the consular invoice for all practical purposes except the collection of the fee which it may produce.

c) Recommendations - Staff should be trained in valuation as recommended at IV.3.c).

The goal should be a free flow of values information between the Valuation Section and the examining officer who should be the key official (in consultation with his seniors) in deciding whether a value is satisfactory. (See recommendations on the elimination of the bordereau).

When an importer declares a commercial relation with his supplier the knowledge should be used to discover whether his declared value has been depressed below the acceptable level by this fact. Regulations should be prepared under the law explaining in detail how officials should go about uplifting (increasing) duty. These regulations would have to be supplemented by the training program because of features new to the present procedures.

The staff of the valuation section should eventually be reorganized so that a section of senior personnel (say two officials) is given the task of making the necessary enquiries justifying an uplift in declared values.

The consular invoice should be eliminated in favor of the commercial invoice.

5. Classification

a) Discussion - Although the current tariff is in the CCCN format it has not been amended to conform to the fundamental and extensive changes of January 1978. As amendments are issued in bloc every four or five years further amendments can be expected at any time.

Although the format of tariff subheadings is not binding on contracting countries, it is preferable that they should follow a certain pattern if they are to be properly aligned with the statistical codes. A brief examination of the tariff shows that some subheadings do not follow the advisable form. There is no column showing the statistical code appropriate to the tariff heading.

b) Findings - The current tariff is deficient to the extent described above. There is evidence of a need to supervise more closely the checking of classification declarations at the time of examination of the goods and there does not appear to be a routine system for transmission of information on likely classification problems or on decisions made at higher level.

c) Recommendations - The Tariff Nomenclature should be amended to incorporate the January 1978 and 1982/3 amendments and to adjust any subheadings to a pattern more convenient for statistical purposes. A further column should be added showing the appropriate statistical codings. It is believed that a study is being planned to amalgamate and amend duty rates so that some of the above recommendations may in fact be planned within that study.

The Control and Inspection Service should assume the responsibility for identifying possible classification problems relating to the pattern of importations. In addition to considering the dangers of duty evasion there should also be some attention paid to the possibility of incorrect classification to avoid an import prohibition or restriction.

This information should be disseminated on a regular basis to examining officers and to the section responsible for the post-audit.

6. Franchises and Exemptions

a) Discussion - The Tariff Law contains a section on exemptions and franchises (commonly referred to in this context as "statutory exemptions") which cover the familiar field of exemptions for diplomats, passengers' baggage, State contracts, re-imported goods, etc.

In addition, there is a wide field of franchises for raw materials used in manufacture and articles brought in by firms authorized under special laws. The time schedule has not permitted a study of these laws but they are understood to confer concessions to give incentives to investment, export and the growth of infant industries. It is also understood that products from concessionary raw materials (those entered duty-free or duty-reduced) receive a partial exemption when sold on the domestic market and a full exemption when exported. Conditions may also be applied to the disposal of franchised articles such as vehicles, machinery, office and electrical equipment brought in by authorized firms.

No effective Customs procedure exists for enforcing the conditions under which any of these goods are imported, e.g. diplomatic liquor or concessionary cars illegally sold or concessionary raw material being

diverted to illegal uses. As the Ministry of Commerce appears mainly, responsible for granting most franchises there is a widespread assumption that they, rather than Customs, are also responsible for its proper use.

b) Findings - Although the level of illegal diversion cannot be easily estimated it would be surprising if there were not, under these conditions, a significant amount of malpractice. Unless the special laws oblige the Ministry of Commerce itself to control factory production and imported franchised articles, there is no machinery for controlling this revenue risk. Insofar as a risk exists it is undoubtedly a Customs responsibility.

c) Recommendations - The Customs service should be given clear responsibility for controlling franchised goods. A section (say two senior officials) should be established under the control of the Chef de Service of Franchise with responsibility for enforcing the conditions of franchise and exemptions.

Regulations should be made establishing the detailed conditions expected of manufacturers and concessionaires such as keeping stock records of concessionary raw material, its use in factory processes, formulas for products showing the amount of concessionary material in products exported or sold on the home market, records of stock produced, lists of articles, machinery, vehicles, etc. imported under concession with import details, location of the goods and their eventual disposal (export, duty paid, etc.).

The regulations should be prepared in such a way as to ensure that there is no gap or overlap between them and the controls properly exercised by the Ministry of Commerce or other Government bodies. They should also describe in detail the method of control to be adopted by the Franchise Service, such as:

- (i) the selection of cases for enquiry taking into account the amount of revenue risk involved.
- (ii) the method of stock-taking at the factory and the calculation of concessionary material used.
- (iii) the method of pre-export and pre-sale examination at the factory on a selective basis with sampling if necessary.
- (iv) the examination of articles, machinery, etc. said to be in use.
- (v) the selective verification of export documents and domestic sales invoices of previous transactions.

Assuming that a Customs Police Force is established, they should be involved by regulation in the suppression and detection of illicit sales of concessionary high-duty goods, e.g. cars, wines and spirits,

tobacco. Their enquiries would be guided by information from the Franchise Service insofar as detecting sources of illegal supply is concerned.

This is clearly a specialized subject and the proposed Customs Training School would need to emphasize it in their curriculum to produce trained supervisors and inspectors prior to commencing the operation.

7. Organization

a) Discussion - Subject to any proposals made by other members of the Advisory Team, the organization of the HQ and the Port-au-Prince Directorate are broadly adequate to perform their functions efficiently. There will, of course, be increases or reductions of the responsibilities of existing Service Chiefs as implementation of the proposals proceeds.

There is no HQ control of any cash receipts by Directorates or their central accounting at HQ as all payments are made direct to the Central Bank and accounted for by them. This is unusual but not necessarily defective.

The control over out-stations is remote as no routine inspections are normally practiced. There seem to be widely differing workloads and degrees of responsibility between the Service Chiefs who are all said to be of the same rank. The author did not investigate conditions existing in the exterior, except for Cap-Haitien.

b) Findings - The differing workloads and responsibilities of the Service Chiefs could cause a distortion of work flows and exercise of discipline but there may be other factors not obvious to the author which justify maintaining the present position.

Discipline, efficiency and uniformity of Customs practices would be better achieved by a regular inspection service, a question discussed below at V. 8.

c) Recommendations - The existing HQ Services should be extended or contracted in the measure of the implementation of recommendations and exemptions, modification and simplification of procedures. A new Service should be created for the Customs Police should this proposal be adopted and the creation of an inspection unit directly dependent on the Director-General made subject to the results of the recommendations made below at V. 8.

8. Staff Inspection

a) Discussion - There is no established system for routine staff inspection although there are no doubt ad hoc visits to dependent offices. It is said that control visits are made at random both to Customs HQ and the dependencies by the Fiscal Inspection Service of the Ministry of Finance.

b) Findings - It is difficult to propose rigid rules on such an important subject without a profound knowledge of local conditions.

Inspection ought not to be merely a matter of control of revenue security but should also promote an esprit-de-corps and mutual confidence and trust between HQ and the dependencies. Even two such entities as closely placed geographically as the HQ and the Port-au-Prince Directorates would tend to drift apart and develop separate loyalties unless there existed a bond developed through regular visits. This would provide on one hand a means for ensuring uniformity of practice, efficiency, discipline and loyalty; on the other a means of drawing official attention to special work problems, staff, equipment or office space shortages, personal problems related to leave, pay, welfare, etc.

It is not easy to achieve this dual objective with an inspection force outside the Customs Service as by its nature it gives the impression of lack of trust and repressiveness. There may however exist special reasons for preferring an independent control and clearly a Minister in control is in the best position to judge the balance of the arguments.

If a Customs Police Force is introduced the question of inspection becomes even more important as this would extend the range not only of the physical control but also of the technical qualifications of the inspection staff.

c) Recommendations - It is recommended that a study be made at top level of the methods of performing inspectional visits. Some thought might be given to regulations setting out in detail the field to be covered by general inspections to be complemented by special instructions to be given for particular visits. The idea could be considered of nominating two Chefs de Service, say the Customs Police Chief and the Chef de Service de Contrôle et Inspection to perform these duties on a part-time basis under the direct control of the Director-General. Some rearrangement of responsibilities could be made to compensate them for the time spent.

9. Procedural Reform

a) Discussion

(i) Accounting - Due to the unusual system of direct payment to the bank there is very little accounting at the Customhouse level. Daily and monthly reports of duty collected are sent to the Director-General but this does not seem to be part of the main accounting process.

(ii) Bordereaux - A bordereau is essentially a bill made out for the importer by the Customs based on the findings of the examining officer, and a verification of the classification and value and general check of the documents by the Bordereau office.

The bordereau is given to the importer after a final review by the "reviseur". It also includes any scale fines due to incorrect declarations. After the duty payment at the bank the paid bordereau is returned to the Customs for the delivery of the goods to be authorized and a daily return of paid bordereaux is sent to the Director-General and the Ministry of Finance. The paid bordereaux are used in post-audit as later described.

(iii) Manifest Cancellling and Post-Audit - In the Document Archive section the bordereau, together with its pertinent documents such as the entry, consular invoices, values declaration, etc. are written off the appropriate manifest. Only 45 days are allowed by law from the date of payment of the bordereau during which an underpayment of duty may be called for. Complications arising following duty payment often mean that the post-audit section has only a few days to act and sometimes the limit is already expired. Nonetheless, they continue to go through the mechanics of writing items off manifests even after the time for collection is past. This serves no revenue-collecting purpose.

A manifest is used during the tally by the Customs Officer at unloading to establish the actual quantity landed but no cancellations are made on delivery of the goods from the shed.

(iv) Ships' Reports - On the arrival of a ship a Customs Officer boards to receive the documents. The normal practice of a formal report in which a Rotation Number is allocated and permission to unload given, is not followed. There does not appear to be any physical check on board of ship's stores, crew's effects, possible contraband, transit or coastwise cargo stowage, etc. or unloading supervision.

(v) General entry passing - The detail of this process would not be appropriate at this stage but it is sufficient to say that a brief inspection revealed areas for simplification and staff saving.

b) Findings

(i) Accounting - Although unorthodox the present system is not defective at the Customhouse level. Post-audit is dealt with separately.

(ii) Bordereaux - This document is a repetition of what the examining officer has already noted on the entry after checks have been made and any fines added. If the examining officer's inspection of the goods is as full as it ought to be, his endorsement of the entry ought to be a sufficient basis for duty payment. The checking of classification and value and assessment of fine are properly the responsibility of the examining officer who should consult with his superiors or HQ in case of doubt.

(iii) Manifest cancelling and post-audit - The brief span allotted for determining an underpayment removes all incentive and interest from the checking of duty paid and the cancelling of the manifest. It is not surprising therefore, to find that steps are not taken to clear every manifest 100%. Ships' report documents are not routinely subjected to post-audit.

(iv) Ships' Reports - If no formal report is made no proper identity is given to a ship movement. Documents cannot so easily be related to a ship without a Rotation Number, documents attached to the manifest are not expertly inspected, checks and searches on board are not carried out, formal notice to unload cannot properly be given, special unloading supervision for sensitive cargo is less easily arranged and so

forth. Cases were mentioned to the author in which unloading has proceeded before the production of a manifest, thus placing at risk the revenue on the whole of the landed cargo.

(v) Recommendations - It is more convenient to compress the recommendations on the above five subjects into one section.

A proper report office should be established to deal with all the formalities necessary for ensuring revenue security and granting of permission to unload. The necessary physical checks on board would be made by the Customs Police.

The bordereau and the consular invoice should be eliminated and the original entry as presently endorsed by the examining officer plus any scale fine, used to support the payment of duty. The examining officer should become responsible for classification and valuation; training would assist in this reform. Calculation check of the entry should be made earlier in the passing process. Examining officers should make more use of the Valuation Section and the suggested improvements in the dissemination of classification information.

The manifest as officially adjusted after the tally is the key document for post-audit control and it is essential that all items should be checked off before eventual filing. The post-audit should include all ship's report documents and to this end it is recommended that the unit for audit purposes should be the "ship's file" comprising the report documents and all entries and related papers relevant to that ship. All would be identified by the ship's Rotation Number.

The post-audit should be done on the basis of a percentage of ship's files according to staff availability.

Underlying all these proposals is the essential point that the law should be amended to allow three years for calling for underpaid duty. The cancellation of the manifest should then proceed to the point where every item is accounted for by a legal disposal of the goods, including collection of any underpayments.

General entry passing requires a closer study to improve efficiency and produce staff savings.

VI FRANCOIS DUVALIER AIRPORT & CAP-HAITIEN PORT

These two subjects will be dealt with less precisely due to the specialized nature of the operation and their relatively small importance from the revenue viewpoint.

The recommendations made for the main operations in Port-au-Prince should apply mutatis mutandis in these cases: e.g. Customs Police work, ship and aircraft reports, valuation, classification, etc. The limitation on time did not permit detailed research but certain areas of work were revealed which clearly called for further study. They were:

1. François Duvalier Airport

a) The use of a simplified tariff and documentation to deal with passengers who bring in more than the statutory allowances but less than commercial quantities (probably 75% of all passengers do so). Such treatment would also apply to the large quantity of unaccompanied baggage containing dutiable goods below the commercial limit.

b) Control of the stock and sales procedure of the duty-free shop and any airline bonded stores.

c) Improvement of the physical examination and storage of unaccompanied baggage and the removal in due time of abandoned and overtime goods to auction.

2. Cap-Haitien

a) The manifesting, unloading and examination of imported goods carried unexamined coastwise from Port-au-Prince and subsequent special post-audit.

b) Improved communications between HQ and ports particularly as regards information on franchises, classification, valuation and the black list of duty non-payments.

TAX ADMINISTRATION IN HAITIAPPENDIX II: IMPROVEMENT OF GENERAL ADMINISTRATION OF CUSTOMS

By William C. Wilkins

I. Introduction

The contractor spent the period May 25 through June 9, 1982, in Port-au-Prince, Haiti, engaged in a review and analysis of the controls, systems and accounting methods within the Department of Finance and Economic Affairs as they relate to Haitian Customs. The report was prepared against the background of Haiti's worsening foreign exchange problems. The contractor attempted to discern methods by which the Haitian Government may not only enable Customs to collect increased revenues, but also be in a position to receive more accurate and more expeditious information about programs which directly affect Customs collections and exchange balances.

II. Study Approach

The contractor established contact with his principal counterpart, M. André Turnier, Chef de Service, General Administration of Customs, and with M. William Bonhomme, Assistant Director General, General Administration of Customs. The contractor observed operations and procedures within the General Administration of Customs and at the sea and airport douanes of Port-au-Prince. The contractor interviewed in depth his counterpart, M. Turnier; M. Bonhomme, Assistant Director General; the directors of the sea and airport douanes of Port-au-Prince; and various other Chefs de Service and section heads at the General Administration of Customs and at the douanes. The contractor consulted tables of organization pertaining to the Department of Finance and Economic Affairs and the General Administration of Customs. The contractor consulted the Code Douanier Dr. Francois Duvalier (1974) and visited the National School of Finance Administration (ENAF).

III. General Description of Customs Organization

The entity which constitutes the headquarters of Haitian Customs and which oversees the administration of all Customs operations and procedures in Haiti is known as the General Administration of Customs. Along with the General Administration of Taxes and the National School of Finance Administration, the General Administration of Customs is considered to be an external service of the Department of Finance and Economic Affairs. The Department of Finance and Economic Affairs is also officially known as the Secretariat of State for Finance and Economic Affairs, and popularly in the press simply as the Ministry of Finance. As opposed to the external services of the Department of Finance and Economic Affairs, its internal directorates are the following: Directorate of Economic Affairs, Directorate of Treasury and Public Debt, Directorate of Public Accounts, Directorate for Inspection of Finances, Insurance Directorate, Directorate of Public Revenue, Directorate of Judicial Affairs, Pension Fund Directorate, and Directorate of Administrative Affairs.

The chief management official of the General Administration of Customs bears the title of Director General. The staffing also provides for an Assistant Director General. At the functional level immediately subordinate to the Director General and hierarchically equal are seven services functioning in the following areas of responsibility. The Service de Recherches et Statistiques is engaged in a rather involved process of manually transferring foreign trade data from both import and export documents to file cards, and thence to a large tabular form, for the ultimate compilation and issuance of the periodic statistical bulletins. The Service Administratif is charged with the administration of accounting and budget and the control of supplies and materials for all Haitian Customs from the standpoint of expenditures. The Service Secretariat is responsible for maintaining a library of official state publications and an inventory of the office equipment and fixed assets of Haitian Customs. The Service Secretariat also prepares the general correspondence of the General Administration of Customs and administers its files. The Service du Personnel administers the hiring and termination of all employees and officers of Haitian Customs and implements personnel policies and procedures. The Service du Contentieux acts in the capacity of legal counsel to the General Administration of Customs and represents the Administration in court litigation. Litigation arises mainly with regard to instances of smuggling where Customs must be legally represented at the trial of the alleged smuggler, and in disputes with employees or former employees involving conditions of employment or pension claims.

The Service de Contrôle et d'Inspection des Douanes conducts a continuing review of all import and export documents which come under the control of Haitian Customs. The review in effect constitutes a one hundred percent audit. In conjunction with this procedure, the Service accumulates files of import data by kind of merchandise (tariff position number) and by importer. The Service also grants Administration approval to importers' requests for annulment or restitution of import and export documentation or import and export duties. This procedure will be described in more detail subsequently.

The Service de la Franchise is responsible for administering a government-sponsored program for the free entry of imported merchandise included in various categories. First, merchandise imported for the personal use of diplomats and other embassy officials may be brought into Haiti free of duty. Second, articles shipped to Haiti for the use of an agency of the Haitian Government may in certain, but not all, cases be free of duty. Finally, and most importantly, merchandise and articles entered into the commerce of Haiti for the fostering and sustenance of local industry may be granted a long term (up to ten years) right to duty-free treatment. It is with respect to this latter category of imported merchandise that the Service de la Franchise expends the greatest amount of personnel time.

This report does not deal with the Service du Personnel, the Service du Contentieux, the Service du Secretariat or the Service Administratif in any detailed manner since the functions of these services were not deemed to have a direct effect on revenue collections.

IV. Service de Recherches et Statistiques

A. Discussion

The Service de Recherches et Statistiques is responsible for preparing monthly and annual bulletins containing Haitian foreign commerce statistics. The source documents for this endeavor are the bordereaux for importation and for exportation. The bordereau is a basic document prepared by Customs at the level of the douane (customhouse or individual customs office) using both information supplied about the shipment on a declaration form by the importer or exporter and the results of the Customs examination and verification of the merchandise. In the Service de Recherches et Statistiques, pertinent data about the importation or exportation are transferred by hand from each bordereau to 3" x 5" cards which are color coded as to duty paid importation (blue), importation subject to franchise (white), coffee exportation (rose) and ordinary exportation (green). The data which have been copied onto the cards are then in turn categorized in accordance with Standard International Trade Classification (S.I.T.C.) number and copied onto large sheet forms (ca. 12" x 22"). This form shows quantity, value, and amount of duty monthly totals segregated also according to exporting country (in the case of importations) or country of destination (in the case of exportations), and according to customhouse through which imported or exported. The sheets (Form 512) form the basis for compilation of the periodical statistical bulletins.

B. Findings

The compilation and processing of statistics by hand is obviously a very tedious exercise. The office where this procedure takes place is a small room measuring no more than 12" x 16", crowded with desks and tables, and occupied by about ten persons. Various desks and tables are piled high with string-tied bundles of blue, white, green and rose colored cards.

The Consultant was informed that from about 1965 until 1969, automation was applied to this procedure with the use of punched cards. The cards were punched in the Service de Recherches et Statistiques and forwarded to a specialized statistical entity of government for processing. However, that body consumed an excessive amount of time in turning out a final product, with the result that foreign trade statistics were never available in a timely manner. The General Administration of Customs decided finally to abandon the use of automatic data processing and revert to primitive but more reliable techniques of statistics compilation.

C. Recommendations

It is recommended that the feasibility of applying automatic data processing to the gathering, classification and processing of statistical data on imports and exports, and to the continuing publication of periodic statistical bulletins be thoroughly examined. However, to avoid a repetition of the unfortunate experience of the sixties, any contemplated automatic data processing should be entirely carried out within the General Administration of Customs.

V. Section de la Valeur, Service de Contrôle et d'Inspection des Douanes

A. Discussion

Within the Service de Contrôle et d'Inspection des Douanes, the Section de la Valeur reviews all bordereaux and other documentation connected with each importation and exportation with respect to the actions taken by Customs officials in the determination of value, rate of duty, calculation performed to arrive at amount of duty due, and eligibility for free admission into Haiti under the right of franchise. The Service accumulates and maintains records of importations on printed card stock forms measuring approximately 8" x 14". Two forms are used: one summarizes importations received by various importers according to kind of merchandise (tariff position number), and the other is filed by importer listing the various kinds of merchandise received. After review of the dossier (bordereau and all its associated documentation) and the transfer of data to the card forms, the dossiers are placed in files - the more exact word would be "piles" - which by statute (the contractor was informed) must be retained for ten years.

B. Findings

The review of each dossier carried out by this section repeats the procedure performed by officers of the individual douanes (customhouses or field Customs offices) in the Division for the Application of the Tariff after verification of the merchandise, in order to calculate the amount of duty due and set the stage for preparation of the bordereau. In the event the Section de la Valeur discovers errors the correction of which would result in more duty being due the government, a supplementary bordereau is prepared and sent to the importer. If an error is detected which indicates that Customs has collected an excess amount of duty, the importer is so notified, but he must make a formal request for reimbursement.

The impression was that the information being accumulated on the cards is not used in any meaningful way, even though the intention may be to gather value information.

C. Recommendations

The meticulous review of the dossier should be carried out only once, at the level of the individual douane, immediately prior to the preparation of the bordereau which determines the amount of import or export duty which the importer or exporter must pay at the national bank. Customs officers employed in the Section de Taxation of the individual douanes should become thoroughly trained in the determination of Customs value. The Section de la Valeur should undertake only random audits of a representative sample of import and export dossiers. The statutory provision for the retention of files for a ten-year period should be deleted. At most, a five-year period of file retention should be instituted.

VI. Section des Annulations et Restitutions, Service de Contrôle et d'Inspection des Douanes

A. Discussion

Within the Service de Contrôle et d'Inspection des Douanes, the Section des Annulations et Restitutions deals with the kinds of redress which an importer has if he disagrees with actions taken by Customs with respect to individual bordereaux. If a bordereau has been prepared by Customs and delivered to the importer, and the importer does not agree with an amount of duty due resulting from the verification of the merchandise in question, he may request annulment of the particular bordereau and its replacement with a substitute bordereau. The importer must write a letter to the General Customs Administration explaining the facts of the case, sometimes enclosing a sample of the merchandise, and giving the reasons for which he is of the opinion that a lesser amount of duty is due. This must take place within 48 hours, for if not, the importer's name will appear on the "liste noire" of those importers whose bordereaux have been issued, but not paid, within a 48-hour period, and he will be prevented from securing release of the imported merchandise in question, or of any other imported merchandise, until his name is removed from that list.

The procedure concerned with restitution, also under the control and direction of the Service de Contrôle et d'Inspection des Douanes through its Section des Annulations et Restitutions, is more difficult to accomplish since it potentially entails the reimbursement of funds already in the hands of the state. A request for restitution is presented by an importer when a bordereau has already been paid and the importer takes issue with the verification or other action of the douane. The importer may be forced into the necessity of paying the amount of money due on the bordereau through an urgent need for the merchandise. He thus is unable to take advantage of the annulment procedure described above. Or, the importer may simply overlook an action of the douane adverse to him which, had he taken note of sooner, might have led him to pursue the annulment procedure.

B. Findings

The action of presenting a request for annulment has the effect of suspending payment of customs duties and taxes until the General Customs Administration adjudicates the case. After making a determination in the situation, the General Customs Administration prepares a memorandum to the director of the individual douane where the merchandise is still awaiting release and where the bordereau was prepared. The memorandum instructs the douane to prepare a substitute bordereau (together with an advice note that the original bordereau is to be annulled), or informs that the original bordereau still stands as first prepared. Since the submission of the request for annulment postpones payment of the amount due on the bordereau and in effect extends credit to the importer, only two requests for annulment are allowed with respect to an individual bordereau. That is, the importer may contest the details of the findings outlined in the memorandum which is sent from the General Customs Administration to the douane, a copy of which is also forwarded to him. The advantage of the annulment procedure for all parties

involved, from an administrative standpoint, is that a decision is arrived at prior to money changing hands.

The process of restitution is a rather formal one. The importer presents his request for restitution on a Form 23 A, Demande de Restitution. The Form 23 A incorporates a large space in which the importer may set forth in detail the reasons supporting his position in the matter. The form is directed to the General Administration of Customs but it is lodged at the douane level. The staff of the director of the douane prepare a detailed response, containing their decision in the matter and reasons therefore, on Form 23 ONE (sic). This form is directed to the level of the Department of Finance and Economic Affairs and is signed by the director of the douane. The General Administration of Customs may theoretically disagree with the decision taken by the director of the douane, but this seldom occurs in practice since the director's decision is developed by his staff in consultation with the Section des Annulations et Restitutions. Thus, the importer will be aware of the decision of the director of the douane regarding his request for restitution through receipt of a certified copy of Form 23 one containing the relevant recommendations. The importer is also advised of the final decision by letter from the Service de Contrôle et d'Inspection des Douanes. By law, requests for restitution must be presented to the director of the douane within 45 days from the date of payment of the bordereau.

C. Recommendations

Determinations relevant to whether or not an importer or exporter is eligible for the annulment of a bordereau prior to payment, or for the restitution of duties paid, should be made at the level of the douane. Customs officers employed in the Section de Réclamations et Restitutions should be adequately trained in the customs valuation and classification of imported and exported merchandise in order to be able to make these determinations. At the level of the General Administration of Customs, the Section des Annulations et Restitutions should conduct only random audits of a representative sample of annulment and restitution cases.

VII. Service de la Franchise

A. Discussion

Decisions regarding the application of the right to franchise (exemption from duty) are taken by the Service de la Franchise. The franchise is the right to free entry of imported articles into Haiti in accordance with established criteria. The principal factor in the reduction of Customs collections as a percentage of national income during the past decade has been the franchise program. Broadly speaking, there are three categories of merchandise entitled to franchise. The first comprises those articles brought into the country for the personal use of diplomatic and other authorized embassy personnel serving in Haiti. Certain merchandise imported by agencies of the Haitian Government is granted the right of franchise, but this is not true in all instances. For example, the electric power company pays import

duty on certain electrical equipment which it imports and passes the resulting costs along to the consumer. The third and most important category of merchandise entitled to franchise includes articles imported into Haiti in connection with the government sponsored program for the encouragement and protection of local industry, established by the laws of March 13, 1963, and of October 8, 1969.

B. Findings

Application for an industrial franchise is made in the form of a letter to the Department of Commerce from the company seeking the privilege. The letter will normally describe the nature of the industry and the types of articles for which the right of franchise is being sought. Each application is reviewed by a consultive commission composed of representatives of appropriate government agencies. Typically, the right of franchise will be granted for a ten-year period and can be applied to importations of factory machinery, raw material, and certain articles indirectly related to the endeavor such as, for example, a bus in which to transport workers from their homes to the factory. Imported raw material is completely free of duty providing the resultant products are destined for exportation, and is subject to only one third the customary amount of import duty if the resulting products are sold for domestic consumption.

In spite of a certified copy of the application for franchise letter, or "rapport", being on file with the Service de la Franchise, arriving shipments of articles from foreign countries for which the franchise is requested are preceded by a letter from the importer giving particulars about the arrival of the shipment and listing in detail the articles included. The Service de la Franchise compares the list of articles included in the pending importation with the articles named in the original rapport. A Demande de Franchise (request for franchise) form processed through the Department of Commerce is also required for articles in connection with which an industrial franchise is being sought. Diplomatic importations are supported by a Demande de Franchise form which is processed in the Department of Foreign Affairs and reviewed by the Service de la Franchise. Letters and forms must be certified by the Service de la Franchise in order for the importer to secure duty free release of merchandise at the douane level. The Demande de Franchise forms are customarily endorsed on the reverse side by the Service de la Franchise in short memorandum form, signed by the Chef de Service and by the Assistant Director General of Customs, and forwarded to the douane.

C. Recommendations

The franchise program is a sensitive area, pivotal in Haiti's efforts both to increase national income (Customs collections) and at the same time encourage the establishment of new, and the prosperity of existing, domestic industry. Next to outright smuggling, the franchise program represents the largest potential for the introduction of unauthorized foreign merchandise into Haiti free of duty. The consultant does not recommend transferring any portion of the responsibility for administration of the franchise program from the General Administration of Customs to the level of the individual douanes. We do recommend a study to investigate possible

automated ways of overseeing the conduct of the program, pinpointing ineligible importers or merchandise, and monitoring end use of articles imported into Haiti free of duty under franchise.

VIII Law Enforcement Capability

A. Discussion

This is no law enforcement or investigative arm of Haitian Customs. In fact, a review of the overall table of organization of the Department of Finance and Economic Affairs shows no law enforcement or investigative function or body.

B. Findings

The extent of smuggling was not ascertainable since it is not recognized by Haitian Customs as a crime. It was observed that the national port authority at Port-au-Prince and the management of Duvalier airport operate their own security forces which guard the port area and examine passenger baggage respectively, but these forces are divorced from Customs. There are no Customs police to patrol the border with the Dominican Republic, the sea coast and inland airstrips, or to set up highway checkpoints. It was not possible during the time allotted for the survey to determine the degree of false invoice valuation of imported merchandise or to follow up on possible abuses of the franchise program.

C. Recommendations

A law enforcement and investigative body of Haitian Customs should be established as a Service at the level of the General Administration of Customs with operational personnel in the field.

IX. Training

A. Discussion

Career or journeyman training is entirely lacking in Haitian Customs. There appeared to be no attempt or ability on the part of the Customs officers responsible for making value determinations to relate the data set forth in the documentation to a definition of value for Customs purposes. The accumulation of records of import and export transactions is undertaken as an end in itself with no use made of the information gathered.

B. Findings

The contractor visited briefly the National School of Finance Administration (ENAF) which exists as an activity, rather than as a separate plant or institution, on the premises of another state-operated educational institution. Courses are offered only when there are anticipated recruitment requirements by the General Administration of Taxes or the General Administration of Customs, which occurs with irregularity. The usual program

is of two years' duration. Candidates are accepted by competitive examination. As far as could be determined, the school did not conduct career training.

C. Recommendations

Training in the classification of imported and exported merchandise, the valuation of merchandise for Customs purposes, and the criteria for determining the duty-free or duty-paid admissibility of imported merchandise into Haiti should be established and made available to those officers of Haitian Customs who would most benefit from it. Training available to Haitian Customs officers should also comprise courses in elementary commercial procedures, trade documentation and business finance.

X. Filing and Clerical Support Systems

A. Discussion

During the course of the survey, the contractor noted no use of word processing equipment or of the storage of documentation by microfiche.

B. Findings

In the exercise of the functions of the General Administration of Customs, there are two procedures where repetitive memoranda are prepared on a continuing basis: the memoranda from the Section des Annulations et Restitutions to the directors of the douanes containing the decision of the section relative to annulment requests, and the endorsements to the Demande de Franchise form made by the Service de la Franchise.

There are offices in the General Administration of Customs which maintain files (piles) of identical documentation - not to mention the individual douane files which also replicate that documentation. All dossiers are kept on file for a period of ten years.

C. Recommendations

The practical applicability of a simple kind of word processing equipment should be investigated. Centralized filing should be established. The statutory requirements on the duration of the retention of files should be reduced. The economies of microfiche for long-term filing requirements should be examined.

TAX ADMINISTRATION IN HAITI

APPENDIX III - INCOME TAX ADMINISTRATION

By Charles Oak Austin

NOTE

The following report is a draft copy of the Internal Revenue Service (IRS) portion of the Tax Administration Survey which took place in Haiti from May 24 to June 11, 1982.

The final report will be prepared in Washington and may differ from the draft report in some parts.

The final report will be submitted to USAID/H through official channels by the IRS Tax Administration Advisory Services Division.

I. Introduction

This report is limited to Income Tax Administration in Haiti. The report was prepared by Charles Oak Austin, Tax Administration Advisor for the Tax Administration Advisory Services Division of the Internal Revenue Service, Washington, D.C.

This report would not have been possible without the assistance of Leonel Cadet, Chief of the Division of the Secretariat, who accompanied me to all offices and sections that were visited during the survey. Mr. Cadet also acted as interpreter for my interviews with French-speaking officials. Mr. Odonel Fenestor, Director General of Contributions (called the tax office in this report) set the stage by introducing survey team members to Department heads and asking them to cooperate in providing information.

All tax officials were cooperative and open in answering questions about their specific areas of operations. Special thanks should go to Mr. Vales René Chief of the Income Tax Bureau, for his helpfulness and patience in answering my many questions and in explaining the audit and other processes of the Income Tax Bureau.

For the most part, the information in this report was obtained through personal interviews with tax officials. Tax returns submitted by taxpayers were reviewed and records and reports prepared in the Income Tax Bureau were also studied. World Bank and International Monetary Fund reports on file in USAID/H were also read for background information. Revenue amounts shown in this report are in Haitian Gourdes. (\$1.00=G5.00)

The lack of reliable statistical information hampered the study. In instances where actual statistics were not available, estimates were made by the unit, section, or bureau chief.

Two field visits were made as part of the study. The Cap-Haitien income tax office, the second most important in the country, was visited, as well as the office of the Prepose (subcollector's office) for Petionville, the largest and most important in the country.

It was explained that refunds are not made in cases where the tax paid in one year exceeds the tax liability. It was also explained that excess tax payments are not carried over to the following year as a tax credit. This system certainly encourages taxpayers to estimate their tax payments as low as possible to eliminate the possibility of overpaying the tax.

Taxes on personal income and corporate profit for the fiscal year ending September 30, 1980 amounted to only 12.7% of total government revenues. The consultant believes that the amount of revenue from income taxes could be substantially increased through a strengthened tax administration which could perform better quality audits of tax returns to detect unreported income, and through the use of third party and other information to identify nonfilers.

The income tax law was recently changed, the current law taking effect September 28, 1981. Under the new law, taxes withheld from employees must be paid monthly, rather than quarterly under the prior law. Other changes regarding interest rates on unpaid taxes, treatment of dividends, and tax on insurance companies have little effect on tax administration procedures.

II. Business Income Tax (Balance Sheet Tax Return)

a) Discussion - The Government of Haiti operates on an October 1 - September 30 fiscal year, and the majority of the businesses in the country operate on the same fiscal year basis.

The business income tax rate is progressive and is due in two installments. The first installment is due during the first month of the fiscal year. The amount to be paid is equal to 1% of the net sales based on the last tax return filed. (For a new business, the first installment is paid on a graduated scale based on a percentage of five times the annual rent for the business.) For a fiscal year filer the bill for the first installment is prepared in the balance sheet (Bilan) section in September so that it can be delivered to the taxpayer by October 1, and paid before October 31.

At the end of the fiscal year, the taxpayer has two months to prepare a balance sheet showing the results of operations for the year, calculate the balance of tax due, and present the balance sheet and payment of tax to the Income Tax Office, where a receipt for payment is issued.

A special tax return form is not used for business taxpayers, only the balance sheet is required. If the tax is not paid with the balance sheet, interest charges are added at the rate of 5% per month (not compounded) for the first two months and 2 1/2 % for each additional month until a total of 25% is reached.

If the balance sheet is not presented within the two months following the end of the fiscal year, a penalty of from G500 to G5,000 can be imposed.

Generally, only businesses with net receipts, sales or service in excess of G60,000 present a balance sheet. Commercial enterprises with net sales between G15,000 and G60,000 are not required to present a balance sheet at the end of the year and the estimated amount paid at the beginning of the year is accepted as the total amount of the tax due.

If net sales are under G15,000 no income tax is due.

b) Findings - All business balance sheet tax returns must be filed in the tax office in Port-au-Prince. There were 1320 such returns filed in the last fiscal year. All balance sheet taxpayers are audited at their place of business each year, usually by a team of two or more auditors from the Bilan Section. All balance sheet returns are filed alphabetically in the Port-au-Prince office. Auditors from Port-au-Prince are sent into the

interior of the country each year to audit balance sheet taxpayers located outside of Port-au-Prince.

The number of audits that result in additional tax is very high. Estimates are that 70% to 80% of audits result in additional tax due. Statistics were not available for the amount of additional tax generated by the audits. However, such a high percentage of cases with additional tax due indicates a low level of compliance by taxpayers. This may result from the taxpayer's belief that the quality of audits is poor and that all omissions will not be detected, or it can result from the current practice of not charging interest on the additional tax due unless the tax is not paid in 30 days. Interest is calculated on the same basis as it is calculated for non-payment when the balance sheet is presented, i.e. 5% for the first month, an additional 5% for the second month, and 2 1/2 % additional for each following month to a maximum of 25%

c) Recommendations:

1. Training in advanced business audit techniques is needed for auditors in the Bilan Section.
2. Consider the possibility of creating a computerized master file of business taxpayers, using such a master file for control purposes and for the rapid preparation of management information statistics for use by the ministry for budgetary or for other purposes.
3. Make more use of other information within the ministry, such as import manifests and patente (business license tax) records, and use such information during audits to detect underreporting of income, or to locate nonfilers.

III. Forfaitaire Tax

a) Discussion - The forfaitaire tax is designed to assure at least a minimum tax payment from two classes of taxpayers - small business enterprises (net sales under G60,000) and self-employed professionals such as medical doctors, dentists, attorneys and accountants.

The taxpayer must estimate net sales or services for the year and pay 1% of the amount at the beginning of the fiscal year. Each year a bill for the forfaitaire tax is prepared and sent to the taxpayer, with a copy sent to the bank and two copies kept in the tax office for control purposes. The payment process is explained in greater detail in another section of this report.

b) Findings - According to records available in the tax office, a majority of taxpayers pay the minimum forfaitaire tax and nothing else. The minimum tax becomes the maximum paid. Taxpayers in this category are not required to present books and records, nor are they required to file a tax return at the end of the year if their gross sales or services do not exceed the estimate made at the beginning of the year. If additional tax is paid, the tax rate is progressive.

Underreporting of income and underpayment of income tax is common among taxpayers in this category.

Tax records in Cap-Haitien disclosed that there were 51 professional taxpayers registered in the city, and 48 of them paid the minimum tax of G600. Of the three who paid more than the minimum, one paid G900, one paid G700 and the other paid G625. There were approximately 200 small businesses registered and almost every one estimated sales of G30,000 for the year and paid a tax of G300.

In Port-au-Prince, out of 669 professionals that paid the forfaitaire tax, 269 or 40% paid the minimum of G600. Of the total of 2043 small businesses that paid the forfaitaire tax, 1301 or 64% paid the minimum tax of G300.

c) Recommendations:

1. Detailed tax audits should be made of taxpayers filing forfaitaire tax returns. Professionals should be required to maintain books and records to substantiate their claims. Tax auditors should be trained to perform "net worth" audits in which expenses of a taxpayer for food, clothing, shelter, entertainment, vacations, tuition, automobile, etc. are estimated to determine net income, and tax assessed on this net income.
2. Third party information from sources such as patente (business license tax) records, purchases, and import documents can be used in cases of commercial establishments to develop more realistic figures regarding sales of merchandise.
3. Auditors should be trained to question professionals and small businesses regarding their "estimates". It appears that all of the minimum payment returns are accepted and filed away after the minimum amount has been paid. A concentrated effort should be initiated to contact each forfaitaire taxpayer at the end of the fiscal year to remind the taxpayer that the return filed at the beginning of the year was only an estimated return, and that a final tax return is due if total income for the year exceeded the estimate.

IV. Individual Income Tax

a) Discussion - Each September all employees are required to fill out two copies of a tax return (BC-210) for withholding tax on salary. The form is similar to the U. S. Internal Revenue Service W-4 form, as it is used to calculate the monthly tax to be withheld based on the employee's salary, deductions and exemptions. The tax rate is progressive, depending on taxable income. The employer keeps one copy on file and sends the other copy to the tax office, where it is filed. By the 15th of each month the employer must

file a tax return (BC-212) showing the name and amount of tax withheld from each employee for the prior month and pay the amount of tax withheld. An annual return is not required.

b) Findings - There are 356 employers in Port-au-Prince who file the employer withholding tax return each month. There are no statistics on how many employers file tax returns in other offices, but the total is said to be small. Because there are 1320 businesses that file tax returns, one would expect that approximately the same number of businesses would file withholding tax returns. When asked about this apparent inconsistency, the Chief of the individual income tax return section answered that, "In Haiti, wages are low and deductions are high, so most employees do not pay tax."

A random review of one employee tax return in a local office showed an employee (a controller in a large hotel) with an annual income of G21,000 and deductions for being married (G7,500), having five children (at G2,000 each, total G10,000), having medical expenses (G3,000), and claiming the standard deduction (G2,000), which left no taxable income. However, the tax return also revealed that three of the children were attending private school in Canada. Also, the maximum medical deduction allowed is G3,000 and the tax return form specifies that the amount deducted must be justified. No one questioned how a person earning G1,750 (\$350) monthly could afford to send three children out of the country to private school.

c) Recommendations:

The area of withholding taxes must be closely controlled to eliminate tax evasion of two different types. Employers can fail to withhold taxes as required or they can withhold taxes from employees and not pay the withheld amount to the government.

1. Determine which of the business taxpayers (Bilan) do not file employee withholding tax returns and send auditors to each one to check the payroll records to determine if tax has indeed been withheld and not remitted to the tax office. Also, to determine if income tax should not be withheld on the salaries of some of the higher paid employees.
2. Train auditors to review withholding tax returns submitted by employees and to recognize inconsistencies such as low income and children in private schools abroad. Unverified medical expenses should be questioned, and random checks made to verify the dependents listed by taxpayers. Tax auditors must be trained to look for excess deductions.
3. Require that employers submit an annual withholding tax return which will show the name, annual salary and total tax paid for each employee for the fiscal year. This information can be used to verify that the proper tax was withheld and can be used to verify the business tax return.

V. Taxpayer Master File

a) Discussion - At the beginning of this fiscal year a new unit called the Fichier Fiscal National (Taxpayer Master File) was established in the Direction of Control of the Ministry of Finance.

The unit is composed of 60 new employees, assisted by eight inspectors from the office of inspection and control. The employees were trained and worked from October 1 until May 30 researching records in the tax office to develop lists of possible taxpayers. The plan is to contact the potential taxpayers identified, review their finances, and create a master file of taxpayers.

b) Findings - Over 90,000 names of rental property owners, vehicle owners, and owners of several specific types of businesses who are not taxpayers have been accumulated from overlapping lists. Letters are sent out daily to a specified number of persons on the master list, asking them to come to the office to discuss their finances. At the time the office was visited it had been in operation for only three days and had already identified several persons who were liable for income tax yet had not paid any tax. The chief of the unit told me that the work of the section was inspired by the Interamerican Center of Tax Administration (CIAT) seminars held during the past two years regarding the Taxpayer Master File. As taxpayers are interviewed, their documents are assigned an identification number consisting of an alpha character representing the first letter of the surname, followed by a sequential number. These numbers are of no lasting value, since they apply to tax files, not individual taxpayers, and change every year.

Tax amnesty for prior year tax due will be granted to all who cooperate. Both individuals and businesses that meet the criteria will be interviewed.

The Ministry of Finance has supported this activity fully by hiring additional persons for the unit and training them. Space for the unit has been rented in a building near the Ministry and new furniture for the office was purchased.

A completed tax return of one of the persons interviewed was reviewed. The person owed several hundred gourdes in tax. The person had over G25,000 income last year from one business organization, but income tax had not been withheld from the amount paid to him. It was explained to me that the person was a "part-time" or "temporary" employee, therefore taxes had not been withheld from the amount paid to him.

c) Recommendations:

1. Continued support should be given to the project to create the master file of taxpayers and locate nonfilers. Perhaps a joint USAID/CIAT short-term technical assistance project could be arranged whereby technicians from nearby countries could come to Haiti to assist in the program.

2. Consideration should be given to changing the tax law to require information returns (similar to IRS Form 1099) for payments that total in excess of G10,000 to any one person during the course of one fiscal year.
3. Work should begin immediately on the creation of a uniform taxpayer identification number for both individuals and businesses. The number should be permanent and should contain a check-digit, which tests internal consistency of the whole number to prevent erroneous entry into an automated system's memory bank. Use of this identification number should be required on all financial documents.

VI. Training

a) Discussion - In-service training of employees is given as needed. Classes in auditing tax returns are occasionally presented to both new and experienced auditors. Classes are given by the Chief of the Income tax unit to explain tax law changes, or new procedures to auditors. The National School of Administration and Finance (ENAF) was created in 1978 and is supported by funds from the Ministry of Finance. In-service classes are sometimes held at ENAF facilities. In 1981 a new class of future Ministry of Finance employees was started. Over 600 persons applied for the class and were required to take an examination. Seventy-five students were selected for the course which will run for two years. The classroom facilities are modern and acceptable.

b) Findings - Although in-service training is occasionally given, most employees lack basic job skills, and auditors do not appear to know how to follow up on questionable items on a tax return. While ENAF facilities appear to be sufficient, the school officials did not have much information to offer regarding the curriculum or training given. The Finance course appeared to be put together on an ad hoc basis. Management officials, with a few exceptions, do not manage their personnel in their work. Many managers appeared to have only a minimum knowledge of the activities of their unit. One manager had to read the functional statement of his unit in order to explain the work of the office. One manager did not know how many employees (24) worked in his unit. Several of the managers were interested in their job, were bright, and understood all aspects of work in the unit. Management training is needed, especially at middle-management levels (Division or Bureau Chief.)

c) Recommendations:

1. A detailed training curriculum for ENAF should be developed. A person experienced in training could help to prepare a plan that could be followed for all classes so that all would receive the same training.

2. Courses in basic audit techniques should be given to all income tax department auditors, and advanced audit techniques, including net worth development and indirect methods of accounting, should be given to selected senior auditors. There is considerable difference between accounting and auditing for tax purposes.

Each year the IRS conducts a Tax Administration Seminar for Middle Managers (INTAX). The course takes place in the U.S and lasts for approximately seven weeks. Classroom instruction in management principles is given, and IRS District and Regional Office levels are visited to observe the management process at work. Haiti should plan to send three or four managers from the Chef de Service level to these seminars each year for the next three years. The courses are taught in English only.

VII. Accountability of Funds

a) Discussion - Payments for Income Taxes generally can be made at the Bank of the Republic of Haiti (Central Bank), the cashier's office, or the section that controls the account. (The Bilan Section, the Forfaitaire Section, the Individual Section). Payments must be in cash or certified check. Payments made on bills prepared and sent to taxpayers (for estimated payments or for additional tax following an audit) are usually made at the central bank. When a tax bill is prepared one copy each is sent to the bank, the taxpayer, and the statistics section, and one copy is kept in the billing unit.

Each day the central bank sends a list of payments received to the tax office. The list includes the taxpayer name, type of tax, amount and bill number.

When the taxpayer pays at the bank, his copy is stamped with the bank seal and date as proof of payment. The bank copy is also stamped and sent to the tax office with the daily list of payments received. A copy of the daily list of payments is also sent to the Controller of the Ministry of Finance for accounting purposes.

When the copy of the paid receipt and the daily list from the central bank reach the tax office they are first sent to the controlling section (Balance Sheet, Forfaitaire or Individual) where the payment is recorded in ledger books. The original entry is made in the ledger book when the bill is prepared.

Tax payments can also be made directly to a tax collector, a cashier, or to the section that controls the account. In that case a special receipt is prepared for the taxpayer, the payment noted in the ledger, and a copy of the special receipt sent to the bank with the payment so that the bank records will show the payment and so that the bank copy of the receipt can be removed and processed at the tax office.

The system provides several controls at each step in the process, and the bank daily report of payments received finally ends up in the Office of Statistics for the Tax office. The Office of Statistics records the payment by type of tax and collecting office and must balance total payments with the total reached by the Office of the Controller.

A special Division of Control and Inspection exercises control of all cashiers and collectors in the country. Random inspections are made of receipt books and payment records to insure that payments are properly deposited and credited to tax accounts.

b) Findings - The Division of Control and Inspection has 45 employees to provide internal control of the accountability and proper handling of funds. All types of taxes are under their control including income tax, property tax and excise tax. Employees in this division also verify audits made on corporations and sometimes will audit taxpayers.

No records are kept of the inspections made each year and the results. Hotels are said to be audited periodically to verify proper payment of the room tax; however, the last report on file regarding hotel tax was dated December 24, 1979.

c) Recommendation:

The unit is trying to control too many different activities within the tax office, plus control receipts and inspect collectors' offices throughout the country. On top of all the internal control, the unit also audits taxpayers. Auditing of taxpayers should be left to income tax inspectors. A person experienced in internal audit matters should be brought in to help restructure the organization, train employees in internal audit, and help define the functions of the organization.

VIII Data Processing

a) Discussion - At the time of the survey there was no data processing activity carried out within the Ministry of Finance.

b) Findings - Little is known of the skills of data processors in Haiti. Because computer programmers and systems analysts require special skills, and because of the relatively low level of data processing activity in Haiti, it must be assumed that the necessary skills are scarce. However, the use of computers within tax administration would facilitate the control of taxpayers accounts. Computers would also be able to provide information which could be used to detect nonfilers or to identify cases of underreported income. It would be almost impossible to bring all of this information together under a manual operation.

c) Recommendations:

1. Establish a master file of income tax payers, starting with balance sheet (business) taxpayers and adding professionals and small commercial enterprises as a second phase.

2. Develop a permanent national taxpayer identification number which will include a check-digit for verification purposes. Revise all tax return forms, internal records and financial records so that space for the number appears in a prominent place on all documents.
3. Pass legislation to require that the identification number be used for all financial documents and transactions. Also, develop procedures for assigning the number, notifying the taxpayer, and keeping basic records.
4. Use the computer to record on the master file the payment of tax due, and to identify late filers, nonfilers, and delinquent payments.
5. Use data from the tax return stored in the master file to have the computer prepare the annual estimated tax payments for business and professional taxpayers.
6. Accumulate third-party data regarding taxpayers from imports, patente data, and other sources, and use these data during audits to identify cases of underreporting. The same data can be used to identify nonfilers of tax returns.
7. Data from monthly employer withholding tax returns can be recorded on the taxpayer master file and compared with employer records during an audit to identify possible cases where tax is withheld from employee salaries but not paid to the national treasury.

IX. Organization

a) Discussion - The tax office is organized primarily along functional lines in Port-au-Prince, but is organized otherwise in the interior of the country. Because of the small size of some of the local offices the organizational structure is difficult to define, especially so because many functions are not present in field offices.

b) Findings - Organizational span of control is too broad. For example, nine bureau chiefs and thirteen local tax collectors report directly to the Director General. In the Cap-Haitien field office, there are seventeen sub-collector offices known as Preposes which report to the collector, who also supervises all other tax activities for the area.

Salary scales are low and trained employees soon leave government service for better-paying jobs in the private sector.

There is no separate unit to handle the appeals of taxpayers who do not agree with the results of an audit. Under the present organization, appeals are handled first by the auditor's supervisor. If unresolved, the

appeal goes to the Division Chief, with the next level of appeal being to the Bureau Chief. The final level, before going to court, is the Director General of the Tax Office. Only two cases were appealed in court last year. No statistics are available regarding the number of appeals at each level and results of appeals.

c) Recommendations:

1. A detailed study should be made of the tax office and the office reorganized to put all auditors in one division, rather than having them scattered throughout the organization. Field offices should be organized into regions reporting to a regional office supervisor. This will help to reduce demands on the Director General's time. It will also provide for better supervision of local office activities.
2. A separate Appeals unit should be established outside of the direct control of the section that performs the audit.
3. The study of the organization should include a review of the salary structure of employees. Pay scales for highly trained employees such as auditors (or in the future, computer programmers) should be adjusted so that they are more in line with salaries paid for similar skills in the Haitian private sector.

TAX ADMINISTRATION IN HAITIAPPENDIX IV: MANAGEMENT OF PROPERTY AND EXCISE TAXES

By Ramon E. Gomez Colon

I. Introduction

This study was accomplished during the period May 25 through June 9, 1982. The different units within the General Tax Administration that administer the property tax and excise were studied in order to make recommendations concerning the most effective means for improving the management, control and collection of these taxes. I have interviewed some of the officials of these units and reviewed some of their official records. For background information, I read two reports of the International Monetary Fund.

I want to record my appreciation for the courtesy and assistance extended to me by Mr. Bernard Gabriel Pierre, who served as my counterpart and interpreter, and by Mr. Ernst Myrville, Chief of the Bureau of Affaires Communales.

II. Property Tax

A) Discussion: The "Bureau des Affaires Communales", a special unit within the Tax Administration Service, has the responsibility to administer the property tax.

This is a municipal tax assessed by the General Tax Department, the yield of which is shared between the central government and municipalities. It is the principal source of revenue to local governments.

The tax is based on the rental value of the property, as estimated by the Tax Department. The properties are listed in tax rolls, kept in each city and village, according to the street, block and number. The bureau, through one of its divisions (Service de Recensement), makes a real estate property census every 3 or 4 years to keep the tax rolls up to date. The last one was made in 1978 and there are plans to make a new one commencing in August 1982.

After the end of the fiscal year (September 30), the taxpayers have six months to go to the office of the Division of Property Tax or to the office of the Collector or Prepose (subcollector) in which jurisdiction the property is located to pay the tax. At that time an inspector will fill out a property tax return in which he figures the rental value as it appears on the tax rolls. If the taxpayer agrees with the valuation of his property, he signs the tax return and goes to the cashier to pay the tax. The cashier gives the taxpayer a receipt and keeps the tax return, so a bookkeeper can annotate the tax roll that the tax has been paid. The number of the receipt of payment is noted also. After March 31, the inspectors of the service in

Port-au-Prince or the Collector or Prepose, review the tax rolls to identify taxpayers who have not paid the property tax. When an inspector determines that a certain taxpayer has not paid the tax, he fills out the property tax return and sends it to the office of the Director General of Taxes to initiate the legal procedure for collection.

B) Findings: The method of valuation is based on the rental value of the property. If the property is rented, it is easier to make the valuation, than when it is lived in or used by the owner. I found out that no written guidelines exist to help the inspector to make a reasonable valuation. The law states that rent paid is the base for valuation of rental property, and that 1% of the cost of the property will be the value when it is not rented. The problem is that the bureau does not have the expertise necessary to figure out the cost of a property and they use the value stated by the owner.

Since the inspector does not have written guidelines or training to make the valuation, his only method is to negotiate with the taxpayer. I found in Port-au-Prince, and especially in Petion-Ville, that few of the properties pay the maximum tax. The way that inspectors make the valuation is highly subjective. They do not use other bureaus' information about the same taxpayer to determine if the full rental value is included in the declaration.

The recording of properties on the tax rolls is based on their location. There is no use of code or property number. No statistical information was available about the number of properties registered, the number of properties in each tax bracket, or how many are rented versus being used by the owner.

Officials of the Bureau estimate the properties registered in Port-au-Prince between 65,000 and 70,000. One official of the Tax Department estimated at over 120,000 the number of properties that should be paying taxes. Another official estimated over 200,000. The Bureau is already making plans for the house-by-house census to record and value real estate properties. In Port-au-Prince, they expect to use 18 brigades of four persons each for a period of from nine to twelve months to accomplish this work.

The questionnaire that will be used to interview the owner or occupant of each property is also the worksheet for the valuation.

I have also found that the procedure followed by a taxpayer to comply with the law is slow and time-consuming. He must spend hours waiting in an office for an inspector to fill out his return and make the calculation of the principal tax and the other seven additional taxes. It also wastes the time of Bureau employees to perform a task that can be accomplished by using a computer to print out the bills. If this can be done, the Bureau will have thousands of man-hours more to do audit work. This system will be more accurate in the control of accounts receivable.

Recommendations

- 1) Immediate technical assistance should be given to the Property Tax

Division in the planning the property census. They also should have assistance in the training of personnel, so there will be uniformity in applying valuation standards.

2) Technical assistance must be given to review the census questionnaire to assure it contains all the information needed to make the valuation. I strongly suggest that consideration be given to preparing a separate questionnaire that can be used to obtain respondent information about other taxes they pay (patente, business excise, and individual income tax paid; name of business or employer; business and personal income).

3) The Bureau must establish valuation standards and criteria.

4) Arrangements must be made with CAMEP (the Port-au-Prince water company) to use their city map.

5) After the next census, all the questionnaires should be filed individually and in a proper manner so that reference can be made to them whenever a new valuation of a property is needed (e.g. to update values or reflect a change in tax rates or methods of assessment).

6) I strongly suggest that a study be made aimed at changing the existing procedure for filing and payment. A computerized one can be established which will make the calculation of the principal tax and the other seven taxes more rapid and precise. Bills can be delivered by the messengers of CAMEP. Billing should be made on the basis of the new property census data, rather than on the basis of information supplied by the taxpayers.

7) I recommend design of a new form containing more information about the property, to be used for tax assessment during the period before computerization is completed. It should contain information about whether the property is rented or used by the owner; number of separate lining units within the property; type of construction; if the taxpayer bought or built it; and any other information that can help an inspector to decide if the property value should be revised.

8) Consideration should be given to amending the law to require that any person that pays more than G200 rent a month must file an information return.

9) A complete cadaster map of all real property must be made, using for this purpose an aerial panoramic photograph of the country. This cadaster map will be very useful for the government if they decide to change the valuation method to real assessed value.

10) The method of valuation must be changed to a basis of real assessed value as soon as practicable.

III. Excise Taxes

The Bureau of Excise Taxes, another special unit within the General Tax Administration, is composed of four different divisions or services, three of which are operational divisions and one of which is a service and control division.

Division of Alcohol and Tabacco

a) Discussion: This division is in charge of collecting the excise tax on alcohol and tabacco. It also collects the annual fee on alcohol and tobacco retailers.

The collection of the excise tax on cigarettes is very easy. The companies that produce cigarettes must buy in advance the stamp that is displayed on every package of cigarettes, indicating the tax has been paid.

For the payment of the excise tax on liquor the procedure is more or less the same. The distilleries must buy in advance the stamp to be fixed to the bottle. In the case of imported liquor, when it arrives at Customs the importer goes to the Bureau and the Central Bank to buy the stamps, and the inspector at Customs affixes them to the bottles.

b) Findings: The only finding that I want to comment on regards the enforcement task. They only have 5 inspectors in Port-au-Prince, and none in the rest of the country, to enforce the law through personal inspections of public establishments that sell tabacco and liquor. These inspectors do not have the expertise and training to detect contraband. They don't have motor vehicles to move around, and the Division does not have a coherent work plan.

Of the 1034 licences in Port-au-Prince, probably 90% pay seven gourdes annually, which is the minimum alcohol and tabacco license fee.

c) Recommendations: This service must be provided with enough personnel and vehicles to start a program to investigate and audit establishments that sell alcohol and tabacco. The personnel should have enough training so they can detect contraband. Manufacturers and importers, not Customs inspectors, should affix the excise tax seals. The inspectors should only monitor the process through inspection of samples.

Service des Boissons Gazeuses et Gazoline

A) Discussion: This division is in charge of the excise tax imposed on gasoline and soft drinks. The way that they collect the excise tax on soft drinks is very simple. There is only one company in Haiti that produces bottles caps, so the bottling company, in order to buy the caps, must pay the tax in advance. After they pay the tax the division gives them a permit to buy the caps. There are only three gasoline companies operating in Haiti and they receive the gasoline by ships. When a ship arrives it is required that a Custom inspector and a inspector of the gasoline service be present to supervise the transfer of the gasoline from the ship to the gasoline company. They are supposed to measure the gasoline unloaded. After this is done both officials send to the bureau a certification indicating the amount of gallons unloaded. The bureau computes the excise tax to be paid and prepares a memorandum to the Director General of Taxes. After receiving approval they can collect the tax.

B) Findings: I interviewed two officials of the Bureau and made a visit to the facilities of one of the companies to investigate the procedure that is

used in the unloading of gasoline and the way that the gasoline is measured. The Bureau does not have any procedure about the steps that the inspector must take before, during and after the gasoline is transferred from the ship to the company tanks. I found out that sometimes the inspector of Customs is the only one present when the gasoline is transferred to the tanks of the gasoline company. The personnel of Customs and the Bureau do not have the training necessary or the instruments that can assure reliable measurement.

C) Recommendations: Immediate action must be taken to give training to the personnel of Customs and the Bureau on how the gasoline is measured. A written procedure must be prepared. This procedure should include that the gasoline company must provide the tanks with sealable in and out valves which the inspectors can lock during the unloading of the gasoline. I recommend that the tanks be calibrated and dipsticks installed. Customs and Tax Department officials should measure tank depths before and after deliveries, and check the results against ships' bills of lading and the sealed comptometer aboard the tanker.

I do not have any recommendation about soft drinks.

Service des Usines et Manufactures

A) Discussion: This service is in charge of the collection of all the other taxes. They have a separate file for each enterprise subject to tax on its domestic production. The tax is paid monthly or every 15 days, depending on the enterprise.

If the applicable excise tax is levied at a specific rate (e.g. on a soap factory) they must file a daily report of production, inventory, and sales. This report must be signed by the manager of the plant and the Bureau inspector assigned to the enterprise. In this case the tax must be paid every 15 days.

For enterprises on which the excise tax is levied ad valorem, the taxpayer sends a monthly letter stating the amount of goods sold and the price. Upon receipt of the information regarding production, sales and inventory, Bureau employees calculate the tax. They prepare the bordereau for the taxpayer to pay.

B) Findings: This section does not have adequately trained personnel that can make an audit of a company that produces goods levied at ad valorem rates.

For almost one year two accountants of the Income Tax Bureau have been assigned to the Excise Tax Bureau, but their work performance was impossible to determine because the Bureau does not have statistical data available on how many audits they conducted or how much money they collected.

At present the Bureau does not have a single person who can make an audit. It is impossible to raise tax collections without well trained personnel.

The Excise Tax Bureau and Custom Administration are the units that impose and collect excise taxes on goods levied at ad valorem rates. The only way to improve the collection of excise taxes is to give the services trained personnel.

The taxpayers subject to ad valorem excise taxes must send a monthly letter stating the amount of goods sold and their price; the Bureau does not provide a standard tax return. Also, they don't have a work program to detect new taxpayers.

C) Recommendations:

The first and most important recommendation is to make all efforts possible to bring to the Bureau new personnel with good educational background, so they can be trained as accountants. These personnel must have a reasonable salary so they can afford to work for the government.

The government should move immediately to the simplified "First Stage" system of excise on manufactures recommended in the IMF report "Sales Taxation in Haiti" (Casanegra and Byrne, April 13, 1981) pp 16-21. The excise rates themselves and the question of whether countervailing duties on imports are necessary are policy questions which should be examined by the Haitian government and the current IMF Mission.

An official tax form must be designed for taxpayers who pay ad valorem excise tax. By using a standard form it is easier for an inspector to make an audit. The taxpayer should fill out this form, rather than sending the Bureau a memorandum and having Bureau personnel complete the tax form.

The Bureau should develop a work plan to find new taxpayers. Other bureaus and services within the Tax Department have in their records a lot of valuable information that can be used for this purpose.

PLAN FOR THE IMPROVEMENT
OF TAX ADMINISTRATION IN HAITI

Computerization Aspects

The following report was prepared by Roger Paradis* and describes the computerization aspects of the Tax Administration Survey which took place in the Republic of Haiti in May 1982. The computerization study was carried mainly during the week of May 31-June 5.

* Price Waterhouse et Associés, Port-au-Prince, Haiti.

PLAN FOR THE IMPROVEMENT
OF TAX ADMINISTRATION IN HAITI

Computerization Aspects

I - FORMAT

The format of this report follows the general guidelines given for the survey, e.g. as follows:

- II - Introduction
- III - Overview and Summary

DETAILED APPENDIX

(Each section is divided into two sub-sections:
Discussions and Findings)

- IV - Potential areas of Computerization
- V - Hardware Strategy
- VI - Considerations in Haiti
- VII - Recommendations
- VIII - Technical Assistance Plan

II - INTRODUCTION

The main purpose of this report was to describe which systems should be considered for computerization within the Ministry of Finance and Economic Affairs following the reviews and findings of a U.S. AID team and the author's own limited observations. Four other members of the team were assigned this task of carrying out a summary evaluation of the Haitian taxation system and make recommendations for improving its administration and the collection of taxes and duties within the Tax Collection (Revenue) and Customs Services.

The review and analysis of the other members of the team were carried out mainly from May 24 to June 11, 1982. However, as the author's recommendations were consequent on the findings of the other members of the team, his analysis only began on May 31. The findings in this report are thus based on a very brief review of the situation and this explains the need for a more detailed feasibility study recommended in this report.

In addition to meeting frequently with the other advisors on the team, the author gained some personal insight by meeting the officials responsible for the following units within the Ministry:

- . Administration Générale des Contributions (Tax Collection)
- . Fichier Fiscal National (National Tax File)
- . Affaires Communales (Real Estate Taxes)
- . Rôle des patentes (Operating Permits)
- . Douanes-aéroport (Airport Customs Office)

Apart from studying various forms and registers in the units visited, the author became acquainted with the following reports:

- . Economic Memorandum on Haiti (The World Bank - April 1982);
- . Sales Taxation in Haiti (The International Monetary Fund - April 1981).

The present report deals only with the possible computerization of administrative systems linked to tax collection and is mainly based on the data gathered by other members of the mission. All other potential improvements to present systems were to be dealt with by the other members of the team.

III - OVERVIEW AND SUMMARY

Current Situation

The main apparent deficiency in the Ministry of Finance's administrative systems is the generalized absence of internal control and of a rational method to process the voluminous transactions numbering in the hundreds of thousand.

Related data or even the same data is required in several different units or departments for their daily operations. This requires the multiple recording and retranscription of the same data over and over again.

This dispersion and multiplication of the information renders it impossible to maintain any level of control over the data and to use this information in a coherent and rational manner to better enforce tax collection.

For example, most of the information generally comes from taxpayers' different declarations in different units. Because of the high volume and the dispersion of this data, it is practically impossible under the current manual system to reconcile this data to ensure conformity from one unit to the other and to confront the taxpayer where indicated. It is likely that a great number of taxpayers are aware of this situation and are taking advantage of it.

The multiplication and dispersion of the same data, coupled with the lack of internal control, allow the possibility of a great number of undetected errors, and by the same token, of uncontrollable collusion between civil servants and taxpayers.

However, it is to be emphasized that the vigilance of most current civil servants is not being questioned in this report. On the contrary, it appears that a great number of them are quite vigilant in searching for irregularities, but unfortunately, are not provided with the means necessary (as described above) to pursue their task effectively.

Because of the current laborious manual systems, the various units have little time to prepare valid statistics about their activities and the collection of the various duties and taxes. One exception is the production of statistics on foreign trade which seems to be a colossal task which takes many months to complete. Even in this case though, we did not find any internal control system being used to ensure the validity and the comprehensiveness of these statistics.

Remedial Action

Rational information management requires, on the one hand, rigorous control of the data involved as to its validity, integrity and conformity with reality, and on the other hand, the availability of the information desired, when desired, and in the form desired.

Some manual improvements can no doubt be implemented immediately as verified by the other advisors of this mission. However, because of the current volume and the wide dispersion of information necessary within the Ministry of Finance, the author believes it would be even more disruptive and inefficient to attempt to concentrate and control the information gathered by the present manual methods. The author believes that only through the computerization of the principal administrative systems involved, will it be possible to introduce more effective control and rational management of this high volume of data in view of improving tax collection procedures.

Data processing by computer is only starting in Haiti and some people are sceptical of the possibility of successful implementations in this area. However, there is a growing general interest in the country for computerization and there is no reason why it could not be implemented as successfully here as it has been in many other less developed countries. Presently, a major installation (considered the largest in the country) is being implemented successfully in the national electric utility under a rigid work program and competent staff has been recruited to implement the systems with the assistance of an international consulting firm.

Computerization within the Ministry of Finance would certainly allow a much more efficient coordination of the information, an immediate access to this information, enforced controls, and the possibility of cross-checking data quickly and effectively. The resources assigned to retranscribing several times the same information could be more productively channelled to ensure better compliance with the taxation laws and improving tax collection. This image would progressively make its way to the general public and should eventually reduce the temptation and possibility of tax avoidance.

An element which could become highly sensitive however and must be analyzed further is the necessity, for computerization purposes, to assign a permanent identification number to all taxpayers, whether individuals or organization (such as the U.S. Social Security Number). This number would be required on all forms and for all transactions within the Ministry of Finance.

Some resistance may be initially encountered within the civil service ranks (fear of loss of employment, change of habits, more control, etc.) but should eventually disappear as new and more interesting jobs are created and as the perception increases within the staff of the new possibilities opened up by the computerization. However, the complexities of such a transformation within the Ministry of Finance cannot be overestimated and thorough planning and extensive training will be essential components of such a project.

Major Recommendation

Even though his initial review was very limited in scope and duration, this author remains convinced, after his discussion with the other team members, that computerization would be beneficial to the Ministry of Finance and should be implemented. However, a detailed feasibility study needs to be undertaken to determine which functions should be computerized and in what priority, the modus operandi, the organization and personnel required, the type of equipment needed and above all to plan the implementation of the project. This study must be as thorough and complete as possible, and is key to the successful implementation of this delicate and extensive project, considering the current environment.

Summary of Technical Assistance Required

Only the technical assistance required for the feasibility study can be determined with accuracy at this stage, the purpose of the detailed feasibility study being to plan and establish the implementation schedule of the project. However, based on the author's previous experience, the following preliminary estimates are given as a guide for determining the overall requirements of such a project:

<u>Activities</u>	<u>Technical Assistance Required (person-months)</u>
. Feasibility study	9
. Functional specifications of systems to be computerized	9
. Set up of computer functions	7
. Technical specifications and implementation of systems to be computerized	<u>36</u>
TOTAL	61 person-months

Note 1: It is expected that all computer programming would be done by Ministry of Finance personnel.

Note 2: This preliminary evaluation is based on the potential computerization of the following systems:

Fichier Fiscal National
Customs Administration
Excise Taxes
Rôle des patentes
Income Tax
Bureau des Affaires Communales
Vehicle Registration

Note 3: If the highly trained management personnel (of Haitian nationality) necessary to create and implement this new department within the Ministry of Finance cannot be recruited either locally or abroad, it is possible that further "permanent" technical assistance could be required for at least three years.

Following the preliminary schedule shown above, the computer equipment would be installed approximately 22 months after the beginning of the feasibility study. A detailed schedule is shown in the chart at the end of the detail work plan.

IV - POTENTIAL AREAS OF COMPUTERIZATION

Described below are areas that could benefit from computerization. The form of computerization and characteristics of the computer applications would be defined in a detailed feasibility study that should be conducted. The purpose here is only to identify areas where computerization could take place.

Fichier Fiscal National

. Discussion

At present, tax records (Fichier Fiscal National) are maintained manually at the Service de l'Inspection des Finances. These records consist of nine basic registers that contain identification information such as name, address, type of vehicle, or property, etc. In addition, one register contains a list of civil servants. A given taxpayer may be recorded in any one of these registers. These registers are the principal documents that identify citizens who pay various forms of tax. Similar registers that contain both identification information and accounting information are located in other government departments or units. For example, the Bureau des Affaires Commerciales also has records on property census. The department responsible for motor vehicle registration also maintains records. There are several other examples of duplication.

. Findings

Basic identification information on taxpayers (individuals or organizations) are duplicated both in the Fichier Fiscal National (FFN) and in the government department or unit responsible for tax collection. Also, there is no mechanism to ensure that the information contained in the Fichier Fiscal National is consistent with what is contained in other records.

The Fichier Fiscal National would lend itself to computerization. The Fichier would contain basic identification data on taxpayers or potential taxpayers. If a computerization program is considered, this would be the first priority. It could not effectively be done without a unique and permanent identification number or code (discussed elsewhere in the reports of the other advisors).

Customs Administration

. Discussion

The Service des Recherches et Statistiques de l'Administration Générale des Douanes accumulates trade statistics from "bordereaux". These "bordereaux" are used to prepare monthly and annual reports by tariff nomenclature, country of origin or destination, and port of entry or departure. The Service de Contrôle et d'Inspection verifies the "bordereaux" and accumulates the same information in an index by importer and type of merchandise and in the reverse order.

Another potential area for computerization would be in the franchise program. Each arriving shipment from foreign countries is preceded by a letter from the importer describing the particulars of the shipment. These documents are matched to the original application for duty free status.

. Findings

Foreign trade data is recorded a minimum of three times. The preparation of foreign trade statistics is a major effort and usually there are significant delays in preparation. There seems to be no check on whether the results shown include all "bordereaux" or not. The preparation of trade statistics lends itself to computerization. The franchise program also lends itself to computerization. A master file of importers who can import goods duty free could be maintained and imports (from the "bordereaux") would be recorded. The computer could then produce exception reports on importers who have exceeded their quota for particular goods. Various statistical reports could also be produced.

Excise Taxes

. Discussion

Excise taxes are collected in two ways. Those precollected through the sale of stamps and those collected by other means. Stamps are used for spirits and tobacco. Excise taxes on gasoline and other commodity are collected on arrival.

There is also a tax levied on certain products produced in Haiti for domestic consumption. Enterprises prepare daily reports for taxes applied at a specific rate and prepare monthly reports for taxes levied Ad Valorem.

. Findings

The computer could maintain a file of excise taxpayers in which would be recorded the amount of taxes paid as well as sales and production data. This information could then be compared to the "bilan" for control purposes. Statistical and management reports could also be produced.

Rôle des Patentes

. Discussion

There are approximately 1,400 business organizations and professionals. These organizations must obtain a permit to operate by completing a declaration on which must appear, among other things, the amount of imports, the value of inventory and a list of all employees with their salaries.

- Findings

This area lends itself to computerization. The computer could maintain the information declared in the previous year and would permit updating when a new declaration is made.

Income Tax

- Discussion

Two types of taxpayers pay income tax: enterprises (industries, businesses, etc.) and individuals (wage earners, professionals, etc.). Enterprises are taxed at the end of the year based on the presentation of their "bilan". Employers must send to the Bureau de l'Impôt sur le Revenu a list of employees paying taxes and remit the income taxes deducted from their pay.

Each year, wage earners must produce a declaration of exemptions from income tax to their employer. Wage earners are required to make an income tax declaration at the end of the year showing the details of their earnings and deductions. Very few actually prepare such a declaration. Professionals and small businesses pay 1% of their estimated revenue as tax at the beginning of the year (taxe forfaitaire).

- Findings

Although it would be possible to maintain records of employer tax contributions on behalf of employees and reconcile these at year end against formal declarations, this would not be feasible as there are few declarations. A similar situation exists for professionals and small businesses. The computer therefore could only be used to record revenues and taxes for employees and small businesses for purposes of matching with other records.

Bureau des Affaires Communales

- Discussion

There are 70,000 properties recorded in the real estate book. Property tax is payable annually. The taxpayer must appear with a copy of last year's receipt and prepare a declaration. The inspector calculates the tax based on this declaration and the property owner then pays and receives a receipt. Payment is then recorded in the register.

- Findings

This area lends itself to computerization. A computer system could be used to maintain the evaluation roll, to prepare an invoice for the tax to be paid and to maintain the accounts receivable records.

Vehicle Registration

Although the author did not study this area, it would appear that the computer could be used to prepare the registration documents and for billing purposes.

Other Areas of Computerization

Thus far, this report has briefly described possible areas of computerization for revenue collection. No doubt the Ministry of Finance could benefit from computerization for the preparation of budgets, maintenance of accounting records and for preparation of employee payroll and civil service records.

V - HARDWARE STRATEGY

Modern computer technology provides a means of capturing transactions as close to their source as possible. This is done by means of a video display terminal VDT (display with an attached keyboard). The information is then either processed immediately or stored for latter processing. The advantage of processing immediately (referred to as real time) is that it permits error correction on the spot. These types of systems are easier to implement as the operator of the VDT can be prompted to correct the error. The data can also be stored for later processing (referred to as batch processing) which is useful for preparing statistical reports for example. Modern computers also have the capability of processing several tasks at the same time thus permitting different terminals working on different applications.

Modern computer technology also makes available small computers (called micro or mini computer) to large computers (called main frames). The Ministry could install one computer with sufficient capacity to service all organization units or install several small computers each to service one user or application. Based on this limited review, it is believed that a single computer would be a better strategy at least to start. It is believed that this is a better approach because:

- files must be integrated - one taxpayer file. Several computers would imply several files which would replicate the existing situation albeit on a computer;
- technical staff should be pooled and trained on one system as they are limited in Haïti;
- it provides a better overall synchronization of the development plan.

At this time, it is not possible to be precise on the size of the computer needed as this could only be determined after a detailed definition of requirements and an estimation of processing volumes which is normally done during a detailed feasibility study.

VI - CONSIDERATIONS IN HAÏTIEquipment

There are few computers in Haïti: 7 to 10 mini-computers and about 30 micro-computers. Very few of these units operate to the satisfaction of users. The main reason for this failure is the almost total absence of a proper feasibility study prior to acquisition, so that instead of acquiring a computer according to needs, the needs are adjusted to meet the capability of the machine purchased. Equipment maintenance is also non-existent for all practical purposes although this is changing because of the computer installation at Électricité d'Haïti.

Personnel

The lack of qualified personnel in Haïti is not conducive to computer development. There are few competent and experienced analysts and fewer than 10 programmers with worthwhile experience. There is a need however and some will have to be trained.

The Haïtian Institute of Statistics and Data Processing (IHSI)

By Presidential decree published in the Moniteur in March 1981, the IHSI had the mission of coordinating the development of computers and applications in Haïti, especially for government agencies that would make use of its services. The Institut is now setting up general guidelines for the development of computer system.

The Haïtian Electricity Company (EDH)

The Électricité d'Haïti has embarked in a computerization program. It was able to surround itself with good technical assistance and competent Haïtian staff (trained in the United States) to carry out the largest computerization project yet undertaken in Haïti. This project is now well underway.

VII - RECOMMENDATIONS

This preliminary study identified a number of areas that could benefit from computerization. A detailed feasibility study should be conducted in order to:

- identify each application to be computerized along with its justification;
- develop a general design of each application;
- estimate processing volumes (volumes of transactions, records, etc.);

- evaluate hardware alternatives and define the exact computer configuration required;
- develop an organization plan specifying the number and types of people to staff the computer function as well as the level of technical assistance required;
- develop an application plan that would specify when each application would be developed, programmed and implemented and the resources required (both external technical assistance and from within the Ministry);
- identify/evaluate the administrative impact re:
 - changes in existing procedures;
 - job reassignments;
 - training to be provided;
 - modifications required to existing laws;
- evaluate the benefits;
- develop cost estimates for the whole project:
 - initial costs (hardware, system software, computer room, air conditioning, power supply, auxiliary equipment and technical assistance);
 - on-going costs (maintenance, supplies, etc.).

VIII - TECHNICAL ASSISTANCE PLAN

- 1) Detailed Feasibility Study 9 person/months
- General design of applications
 - Estimation of volumes
 - Evaluation of hardware alternatives
 - Development of an organization plan
 - Development of application plan
 - Identification of administrative impact
 - Development of cost estimates
 - Evaluation of benefits
 - Presentation, report, etc.

- 2) Development of Detailed Functional Specifications 9 person/months

This step should be done before the preparation of request for proposals in accordance with the standards set by the Institut Haïtien de Statistique et d'Informatique. Normally functional specifications describe for each application, the function (manual or computerized), the source documents and transactions, reports produced and processing specifications.

- 3) Set up Computer Function 7 person/months

- Preparation and issue of request for proposals for hardware
- Evaluate hardware proposals
- Hardware delivery and installation
- Personnel search and training

- 4) Development of technical specifications/programming/testing/implementation 36 person/months

- Fichier fiscal national
- Customs administration
- Excise tax
- Rôle des patentes
- Income tax
- Bureau des Affaires Communales
- Vehicle registration