

ABSTRACT

Tax Reform for the Gambia

A Proposal for Computerization and Administrative
Modernization of Income and Other Taxes

by

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In 1992, The Gambia was reforming its tax system in the context of an Action Plan that addressed issues in tax policy, administration, and computerization. This report recommended actions to strengthen the administration of the income tax code through a computerized administrative system. The report begins with a review of the organizational structure of the income tax system and the procedures used to process the returns, payments, audits, and other aspects of tax administration. Then it reviews and makes recommendations for administrative modernization, including organization, computerization, information technology, and processing. The recommendations center on a strengthened organization, the development of centralized databases on computers which are networked (GAMTAXNET), and a reorganized and simplified tax processing structure. The report concludes with an action plan for modernization and computerization of the income tax administration system.

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TAX REFORM FOR THE GAMBIA:

**A PROPOSAL FOR COMPUTERIZATION AND ADMINISTRATIVE MODERNIZATION
OF INCOME AND OTHER TAXES**

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Executive Summary

The tax systems in The Gambia are currently in the process of reform under the aegis of the Tax Reform Committee (TRC). This process encompasses issues in tax policy, administration, and computerization. A number of tax policy changes are currently underway in the context of the TRC which are built around an Action Plan which the Committee is reviewing currently. In this proposal, we turn to a set of recommended actions to strengthen the administration of the income tax code. These actions are centered around a computerized administrative system. However, constructing a computerized tax department not only requires change in various administrative procedures and forms, but also the development of an ability to provide a clear assessment of tax policy options to ensure that the computerized process represents a tax system that will form a solid foundation for the country's development strategy.

This report begins with a review of the current organizational structure and the procedures that are now used to process the returns, payments, audits, and other aspects of tax administration. Then the various elements of an administrative modernization - organization, computerization and information technology, and processing - are reviewed and recommendations advanced.

These recommendations center on a strengthened organization, the development of centralized databases on computers which are networked (GAMTAXNET), and a reorganized and simplified tax processing structure.

A future scenario for the computerized income tax administration can be stated succinctly. The tax administration office would have a **networked series of computer workstations**. This network would have **central databases** including a master file on each taxpayer and records on returns, assessments, payments, audits, investigations, and other relevant information. Eventually, each officer in the tax administration would have a computer or computer terminal on his desk.

The network, called GAMTAXNET here, could be linked in one of several possible ways to other Government departments as appropriate such as Sales Tax, Customs, the Ministry of Finance, or the Central Bank. In principle, the same network would eventually encompass the other revenue departments, and even a wider swath of the Government departments and allied organizations. Regional offices eventually would have a similar system but on a smaller scale, probably only a single machine. Connections among the various parts of the revenue system should be facilitated.

To make this process feasible, it is necessary that each

taxpayer in the system have a unique identifying number which should be the same in all dealings with the government revenue departments. This number, called the Taxpayer Identification Number (TIN) should be constructed with appropriate coding safeguards to minimize errors. Where possible, the use of taxpayer records that are available from withholding agents in a computer readable form should be encouraged.

The report concludes with an action plan for modernization and computerization of the income tax administration system. A series of steps which can be undertaken in the first six months are enumerated as well as a series for the following year. Revenue benefits could be expected in the first year although a period of two to three years would be taken for a total overhaul of the tax policy and administration. The results should be a much more efficient, effective and equitable revenue system.

Some preliminary views on the Sales Tax Department and Customs and Excise Department are provided in the context of integrating the tax information systems across the revenue departments. It is recommended that the Sales Tax Department be further computerized once a Taxpayer Identification Number system is in place and the initial stages of income tax are successfully completed.

In addition, it is strongly recommended that a review be undertaken of the revenue sensitivity of various actions or shocks such as dramatic changes in tariff and exchange policies among The Gambia's neighbors. These issues are not only of significant economic and revenue importance to The Gambia, but they would also have implications for the computerization requirements of the indirect tax system.

An 18-month project is proposed that will provide 23 person-months of consulting time in The Gambia. The bulk of this time will be devoted to computerization of the income and sales tax systems and provision of the related training. In addition, provision has been made for technical assistance to assist with policy and administrative problems that arise out of the computerization effort. We also propose a more detailed review of the sales tax, and the interface to the customs system, ASYCUDA, in order to integrate these systems with the income tax system. A budget is provided to support in-country workshops, as well as significant short- and long-term external training. The cost of all hardware and software for computerizing the income tax are also included. The total cost of the project as currently configured is estimated and detailed in Appendix E.

Introduction

In order for the various development programs of The Gambia to be successful, and to sustain economic stability, there must be a sound revenue system to finance the public sector. This system should provide a stable macroeconomic and policy environment to foster the development of a productive and vibrant business sector. There is also the need to ensure that all taxpayers comply with the tax laws to ensure equity, and to foster a view among the citizenry that all pay their fair share of the tax burden.

There are manifold policy issues which must be confronted in the tax reform in The Gambia. Many of these are currently being examined in the context of the Tax Reform Committee. In this report, we turn to the issues of effective administration of the tax code. Investments need to be made to modernize the administration of the income tax system if this organization is to play its most effective role in the fiscal element of the government budget and therefore in the economic development of the country. Without such investments, the tax systems will fail to deliver the necessary revenues to finance the other development expenditures.

Over the past decade, a large number of developing and developed countries have reformed their income tax systems in order to make them more effective instruments for collecting revenues, while being fair, stable, and conducive for the expansion of economic activity. These tax reforms have led typically to a large reduction in the maximum rates of taxation, an elimination of exemptions and discriminatory tax incentives, and often the introduction of automatic inflation adjustments in the tax system. In all cases, a major strengthening of the tax administration has been part of the tax reform program. The results have been very encouraging: tax revenues have been greatly increased; the tax systems have required fewer revisions; and the changes have been received with considerable political approval.

The terms of reference for this study are: to carry out a detailed study of the computerization needs of the Department of Income Tax taking into account the deficiencies of the present system, the Government's tax reform programme, and the need to share information with the Customs and Excise Tax Department (including sales tax). This requires that we develop: (1) A more comprehensive tax filing numbering system; (2) an effective taxpayer data base; (3) electronic production of assessments; (4) a speedier and more efficient collection system; and (5) better statistics and management information. Advice should be given on suitable hardware and software, and on the expected costs of the computerization program including the costs of staff training.

In this proposal, we review: 1. the current organization and

functioning of the income tax system; 2. modernization of the tax administration's organization and information systems centered on construction of GAMTAXNET - the tax system network - and the various tax processing procedures which accompany such a system; 3. integration of the information system across revenue departments; 4. training requirements for the computerization and modernization of the income tax, and 5. a proposed action plan for the computerization of the tax administration over an 18-month time horizon.

I. Current Income Tax System

A. Organizational Structure

The Central Revenue Department is organizationally located in the Ministry of Finance and Economic Affairs. The Commissioner of Income Tax reports to the Permanent Secretary, Ministry of Finance and Economic Affairs¹. The Commissioner is responsible for enforcing the income tax laws, and the overall management of the Department. He is assisted by a Deputy Commissioner.

The Department has a head office in Banjul and four field offices² (in Basse, Farafenni, Brikama, and Serrekunda). The head office is divided into four sections for income tax, and an inland revenue division. The four sections are assigned work by the type of taxpayers. The principal sections in CRD are:

- o G Section This section deals with income tax from government employees including parastatals. It issues tax declaration

¹. The Central Revenue Department resulted from the merger of the Income Tax and Internal Revenue Departments. The Director of the combined Department is also the Commissioner of Income Tax. We use the title Commissioner throughout the text recognizing that he holds both titles. Recently, the Personnel Management Office completed a detailed review of the Department's establishment and their functions (see the references section for a full citation). That report made a number of recommendations with respect to staffing and job descriptions. In this report, we will not review most of those issues except as they relate to changes in staff structure that computerization might bring to the Department.

². Two additional offices are proposed (Georgetown and Kerewan). The PMO report recommends that this action be delayed until a further evaluation of the current attempts to deal with transportation are dealt with.

forms to those taxpayers earning more than D10,000 annually and to those known to have additional income besides their government salary. The section processes tax returns and assessments, prepares vouchers for tax credits, issues clearance certificates, and deals with retired civil servants as well. There are currently four staff (Principal Inspector, senior tax clerk, and two tax clerks).

o E Section This section is responsible for PAYE tax from non-government employees including staff of private companies, sole traders, and for some parastatals. It also issues tax clearance certificates for vehicles. It issues tax declaration forms to employers and those employees either earning D30,000 annually, or to those taxpayers known to have other sources of income. Around 350 forms are returned and processed by the section annually. In 1991, the section received 1657 payments. There are currently five staff (principal inspector, two assistant inspectors, and two tax clerks).

o T Section This section is responsible for income tax from traders including partnerships and self-employed individuals. It also issues tax clearance certificates and is responsible for collection of payroll tax (this is a tax on expatriate employees). In 1991, this section completed 2115 assessments. There are currently five staff assigned to this section (three tax officers and two tax clerks).

o C Section This section is responsible for income tax from companies as well as assessing capital gains tax by individuals. It also issues tax clearance certificates. The Director directly supervises this section which has one tax officer in it. The PMO study recommends a new post be created (Inspector of Taxes) in this section to release the Director from many of the day to day duties. This section is responsible for somewhat more than half of all revenue in the CRD. In 1991, this section completed 321 assessments and issued 500 clearance certificates.

The Inland Revenue Division is responsible for the collection of various license fees and other charges. These include: Business Registration Fees (1991 - 1553 cases); Land Rent (1991 - 1586 certificates); Survey Fees (1991 - 546 cases); Hotel/Restaurant Fee; Casino License Fee (on two casinos); Royalty Tax (on seven parastatals); and Medical Services Financial Contributions (total 1991 collections D69,000 from five groups of firms). There is a staff of four (Senior Collector, Collector, and two Senior Clerks).

o Cash and Collection Section This section is responsible for receiving all payments made at the Banjul office (this is the overwhelming majority of payments to CRD). It prepares

receipts for all monies received and deposits the monies in the Central Bank. During 1991, the section handled over 8,000 payments which represented over D70.4m. The section has a staff of four (Inspector of Taxes, Cashier, and two tax clerks). The PMO report recommends an additional Senior Inspector to oversee branch offices to lessen the load on the Deputy Commissioner.

o Support Services This group covers the provision of transport, accommodation, messengers, security, cleaning, mail and related services. The section has a staff of about seventeen (Executive Officer, typist, two registry clerks, six messengers, five drivers, and two cleaners).

The total current staffing complement of the Department consist of 70. However, there is a current vacancy rate of about 16%. The PMO report recommends a staff of 61 with increases in the operational staff and significant decreases in the support staff.

While it is beyond the scope of this report, the question of a substantially different organizational basis for the revenue departments naturally arises. A number of countries including several in Africa (e.g. Ghana, Uganda, Zambia) have or are constructing revenue boards to administer the tax system. A brief discussion of the issue is presented in Appendix D.

B. Tax Processing

The current procedures require professionals, self-employed individuals and employers to register with the Income Tax Department when they commence their business.

Companies, self-employed, and those with non-wage income - During the tax year, the Department is required to serve notice on these taxpayers that a return must be filed by sending the taxpayer a return that includes the taxpayer's name, address, and tax year. Taxpayers are then required to complete their returns and file a final return with the Tax Department.

Upon receipt of the returns filed by the taxpayers they are assigned to an assessor. Every return must be reviewed and a determination made by the assessor regarding the correctness of the income, deductions, etc. Once this is completed, a notice of assessment is prepared. When the assessment has been approved, it transmitted to the taxpayer.

PAYE Employers - These taxpayers represent employers who are required to withhold tax from salary and wages of its employees. Every employer must withhold income tax from his employees based upon the amount of wages earned.

The entire tax processing system is performed manually and is very labor intensive. The volume of transactions, manual computations, balancing operations, and retrieving and filing of account records provide many opportunities for human error. Also, in the present processing system all statistical data and reports of the various departments and offices must be compiled manually making them all subject to delays and errors.

II. Administrative Modernization Issues

A. Prerequisites for computerization

Before entering into computerization, a plan should be established concerning any changes in legislation, regulations or administrative procedures that are likely to have a significant impact on the processing of tax returns. It is particularly important that legislation and regulations concerning, for example, instalment taxes and penalties and interest charges on late and underpayment of taxes, be finalized. These affect the timing of filing returns, and tax payments and the calculation of penalties and interest charges, if applicable. Tax forms and procedures will also require review to ascertain their suitability for computerization. For example, tax returns need to be designed to provide easy data entry into the computer system.

The computerization of a tax administration requires changes in the organization of a department. First, during the design and implementation of the computer system, a group needs to be established to ensure appropriate input of the tax administrators into the design and testing of the system, and to arrange for convenient timing of training and systems implementation. Second, during the operational stage of the computer system, while some functions are eliminated and/or simplified through automation (for example, producing mailing labels or producing collection and arrears accounts), other functions are added. Important among these added functions are the management and conduct of the maintenance of computer hardware and software as well as the day-to-day operation of the system. The department will need to be prepared to put in the extra time and effort during the design and implementation phase required for systems design and testing and for adequate training on systems use. The department will also need to provide for new positions in the organization. These could include hardware maintenance personnel, programmers, an information systems manager, and subordinates who co-ordinate the day-to-day operation of the system, make security arrangements, and organize appropriate training to ensure ongoing operation of the computer system.

B. Computerization and Information Technology

Central to the administration of a modern tax system is the need to develop an information system that is efficient and effective with respect to contemporary technological choices. Such a system must be able to provide a common database for the several tax administration systems in the country. A common database will provide the ability to perform cross-checking of data from the various tax systems and allow considerable simplification of the administration, while providing significant increases in the ability to enforce the tax laws.

In order to accomplish such an objective, a shift away from information systems built around paper records and manual processing is necessary. A change to computerized systems and organizations adapted to computer processing of materials is an essential element in the improvement of all the tax administrations. Both the PMO report and the Gray et al Harvard Report also support this objective. This even includes getting information from some tax filers in computer readable form when they already have such data, as the Government and some corporations and banks already have.

In recent times, computer hardware and software programs have become relatively inexpensive and much easier to use. Thus it is practical to develop systems for specific applications which are cost effective yet provide the security necessary for the confidential nature of the information.

In what follows the elements of a computerized system are detailed and recommendations are made for acquiring such a system. These elements include: 1. taxpayer identification numbers; 2. computerization approach; 3. network specification

Recommendations for Computerization and Information Technology

1. Taxpayer Identification Numbers

It is essential to the effective working of a computerized and integrated tax service that there be a national taxpayer registration number system. A unique taxpayer registration number must be used by each taxpayer, individual or corporate, to report all³ taxes. Hence, when a taxpayer pays taxes on income, sales,

³. It might be useful and appropriate to require this unique number on all licenses such as business and professional, hotel, casino, prospecting, manufacturing and motor vehicles.

excise, and imports etc., he must use the same number each time.

RECOMMENDATIONS:

- 1.1. It is recommended that all individual tax returns use a taxpayer identification number which will be assigned to all Gambian taxpayers and which will be used for all tax relations with the Government. It is recommended that this be the National Identity Card number in the case of Gambian nationals and the passport number in the case of aliens.
- 1.2. All businesses shall also be assigned a taxpayer identification number for all tax matters which we recommend to be the number attached to the business registration in the Registrar General's office.

2. Computerization Approach

While the computer system will be fully integrated across all applications or functions within the Central Revenue Department with all files linked through the taxpayer identification number, the overall system can be seen to be built up of a number of interrelated subsystems. The key subsystem is the Taxpayer Information Registration system which would produce and maintain taxpayer identification information. Next most important is the Accounts Receivable System for maintaining records of taxpayer liabilities, collections and arrears. Closely linked to this system is the Cash Office system for capturing tax collection information and producing tax receipts. The Document Control subsystem will be used to keep track of all correspondence with taxpayers, including the flow of tax forms between the Department and the taxpayer. The Tax Assessment system will capture all detailed tax return information required to assess taxes. A PAYE information system will be linked to employer and employee tax returns for reconciliation purposes. Finally, management information and statistical reports will be processed from appropriate records within the system to provide the basic information required to manage the collection process, monitor tax collections and arrears and provide the statistical information required for revenue projections.

Before finalizing designs and ordering equipment, the CRD should agree on a plan for modernization that contains the following choices:

1. The applications that are desired and in what priority.

2. The Fourth Generation Language (4GL) applications software that is desired, and the operating system that is most appropriate.
3. The standard specifications of the type of system that is desired. Particular care should be taken to avoid using any computer software that is proprietary to a particular type of computer hardware.
4. It is our recommendation that the Department use the configuration of equipment that we refer to below as the GAMTAXNET.

3. Network Specification

Given the size and organization of all the tax departments and the technology available, computer systems based on the use of microcomputers (386/486 processors) should be used. The microcomputers should be linked together to create a Tax Network (GAMTAXNET). Most of the technical choices made here are the same or consistent with similar choices being made in other parts of the Government⁴.

RECOMMENDATIONS:

- 3.1 Use a standard operating system environment (MS-DOS and Novell NETWARE 3.11) and FOXPRO or similar level database language.

A network of workstations, using a file server with large memory and disk storage capacity and employing a number of less powerful microcomputers and terminals, will be used as data entry, data access, and program development machines.

The following is a specification of this network. The exact number of microcomputers and terminals to be used as work stations would vary according to the needs of the department and location. We recommend a starting figure of 17 workstations.

Specifications for Tax System Network - GAMTAXNET

The network should be built around a set of microcomputers which are linked together using ETHERNET wiring. The main machine(s),

⁴. In particular, the new system just installed at the AMRC is very similar to the network hardware we would recommend. A visit to their premises would be useful to anyone wanting to investigate the hardware issues.

will have large memory and disk capacity since it will be the locus of the central departmental databases and the operational software. The elements of the system are: 1. the network wiring; 2. central processing equipment; 3. workstations; 4. concentrators; and 5. related equipment such as printers, UPSs etc.

1. Network Wiring

We recommend the network wiring model that we have implemented widely and successfully elsewhere. The structure consists of two parts: the basic wiring infrastructure called the Premise Distribution System (PDS), and the data transmission equipment and other specialized wiring, which makes the actual data network.

The PDS consists of a centrally located distribution point in the tax building from which unshielded twisted pair (UTP) cable is run to all potential connection locations. Only the connections needed are activated. This provides flexibility and a cost effective way to plan for future growth. It also provides the means to connect any device whether it is a computer, printer, a communications gateway, etc.

The data network itself should consist of an Ethernet-based network. This provides the basis to accommodate different hardware platforms and a standard suite of protocols widely supported by multiple vendors, all co-existing in harmony, but being able to communicate and share resources among themselves. We recommend a star configuration to provide a more reliable and "trouble" free environment with easy fault identification and troubleshooting. We recommend that the wiring and cabling installation for this network design utilize unshielded twisted pair (UTP). This is a 10-Base T system.

2. Central Processing Equipment

This configuration requires a central computer capability with large memory and disk capacity which will be linked via Ethernet to all the other equipment.

2 Microcomputers (fileserver plus one backup)

- 8MB RAM
- Intel 80486-33 Mhz
- 650 Mb disk capacity - SCSI
- monochrome VGA Monitor
- 3 1/2" 1.44 Mb drive
- Ethernet card

(It will be necessary to have a backup to the central machine in case of a breakdown in the file server. Hence, in purchasing this equipment it would be desirable to initially purchase two of the above machines)

3. Workstations

Each officer, cashier or other person who works with computer records should ultimately have access to a computer workstation.

Until usage is developed a ratio of about two persons per workstation should be completely adequate.

The Intelligent Workstation

- 4 Mb Ram
- Intel 80386SX (or 80486SX) 20 Mhz
- (1) 40 Mb Hard Disk
- Color SVGA Monitor
- 3 1/2" 1.44 Mb drive

Varying numbers of machines could be employed in each network according to the work load. The initial system would contain sixteen workstations.

4. Concentrators

The workstations are linked to the file server via devices known as concentrators. These linkages allow each machine to depend on the system independently. Therefore, if breakdowns occur in the system they tend to be localized. This increases the reliability and robustness of the installation.

- Cabletron MRX Concentrator (One for each 12 workstations)
- 3C505 Ethernet adapter for the Fileserver
- Cabletron TPT-T Transceiver for the fileserver
- Cabletron AUI Cable
- Cabletron E2010 Ethernet adapter (One for each intelligent workstation)
- RJ45 Office Jumpers (to be measured for distance)

5. Related Equipment such as Printers, UPSs etc.

The systems require UPS (Uninterruptible Power Supplies) to segregate the machinery from the vagaries of the power supply and to provide power when there are power interruptions. Typical equipment would include:

APC UPS 600 (2 msec. switch over)
APC UPS 520
APC UPS Monitoring Card

Mountain QIC-02 250 Mb #23 tape drive
(DC6250) 250 Mb Tape cartridge

300 and 500 CPS Dot Matrix Printers
Laser printers
Printer Cables

Operating System Software (Novell Netware 3.11)
Database Manager Software for DOS v5.0 (FOXPRO)

FIGURE 1

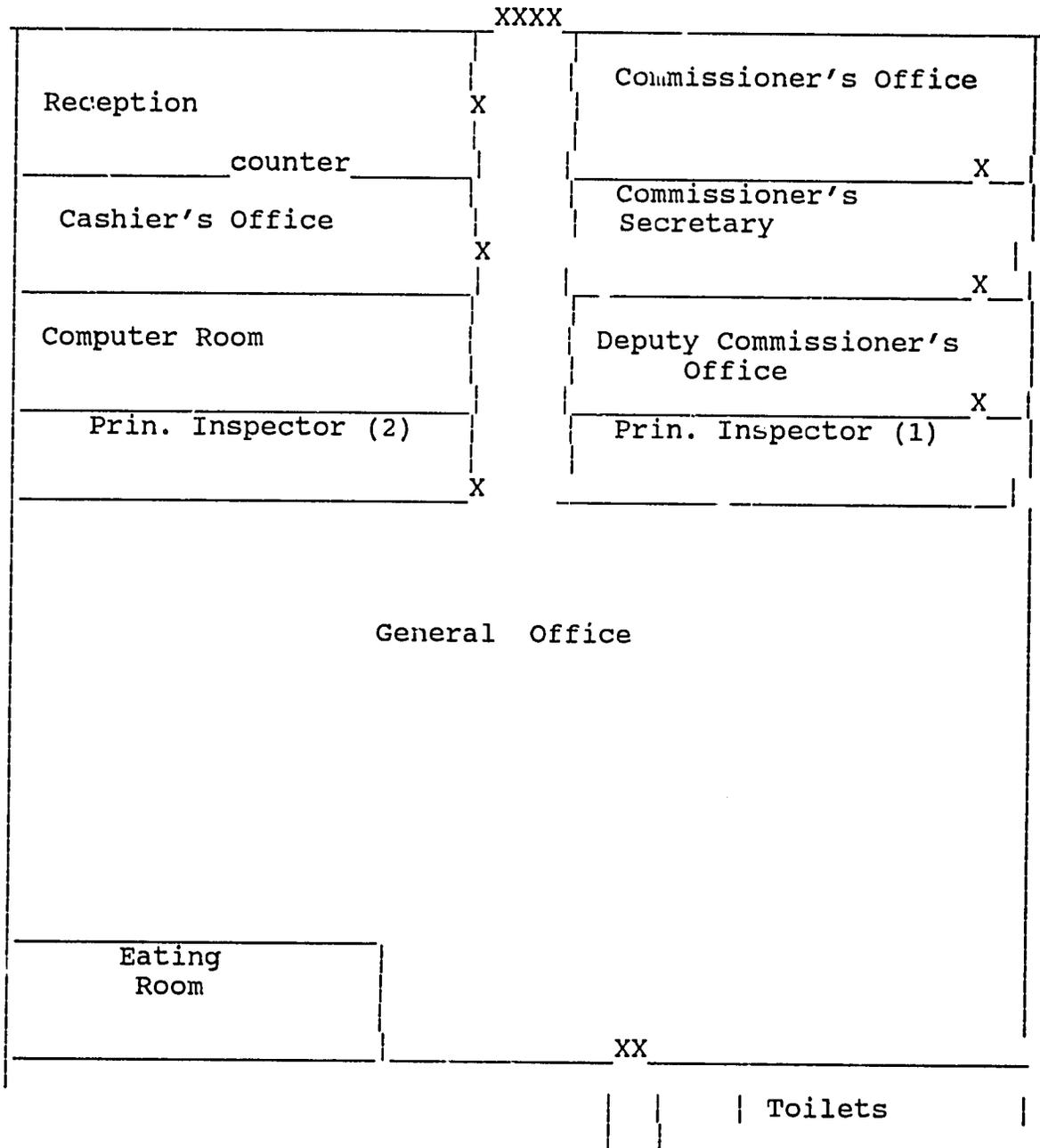
Possible New Configuration of the Income Tax Department Space

NOT TO SCALE

Accountant General
Space

Entrance to CRD

Toilets



C. Integration of Income Tax Information System with other Revenue departments

1. Sales Tax Division of CETD.

The Sales Tax Division is located in Banjul in the Customs and Excise Tax Department. Its revenue comes principally from the sales tax on imports (10% of CIF plus tariffs value). Sales tax is a department which currently has some computerization but it is not effective. The computerization in customs (ASYCUDA) and in income tax should bolster the system in sales tax in any way that can be done. Certainly this should include having the same TINs and hopefully similar database languages from which applications are built. Strengthening the capacity of the department in accounting skills and the conduct of tax investigations and audits along with computerization as a tool would be helpful.

The computerization of the sales tax system is a relatively simple task given the small number of registered taxpayers (approximately 300) and simple structure of the tax. Such a system would involve computerizing the following functions:

- (a) registration (which could be directly linked to income tax registration system where taxpayer identification numbers would be maintained);
- (b) cash receipting system;
- (c) accountants receivable system for maintaining ledgers on liabilities, penalties, collections and arrears based on returns and collections (which could be linked with the income tax system to cross-check turnover levels of businesses);
- (d) document control system including the production of notices to taxpayers; and
- (e) management information system and statistics (which could be linked with the Ministry of Finance to report on collections, arrears and other statistics for revenue monitoring and projection purposes).

While computerizing the current sales tax system would not preclude a switch to another indirect tax structure such as a VAT system, given that much of any system developed for the Sales Tax would be transferable, it would be desirable to first have at least the taxpayer identification numbering system operational in the Income Tax, and to have conducted a detailed review of the Sales

Tax revenue structure including the advisability of The Gambia switching to a VAT.

2. Customs and Excise Department

Information on import and export activity is useful to the Income Tax Department in determining economic activity levels of taxpayers. Such information is even more useful to the Sales Tax Division in determining which imports have entered The Gambia with sale tax suspensions and which have entered tax paid. Similarly, under a VAT, knowledge of VAT collected on imports is important in determining the levels of input tax deductions claimed by domestic businesses. This information linkage requires that importers use taxpayer identification numbers and that detailed import entry data be available on the computer system. The use of taxpayer identification numbers will be possible following the introduction of taxpayer identification numbers in the income tax. It should be determined that the Customs' computer system will be able to effectively interface (in both directions) with the other revenue departments.

3. Ministry of Finance and Economic Affairs

The Ministry has a leading interest in monitoring revenue collections and the overall performance of the revenue departments both for managing current government finances and for making revenue projections. Hence, the Ministry would have a major interest in being linked into the management information and statistical systems of the revenue departments.

D. Training

To support the modernization and computerization of the Income Tax system, training will be required in four areas: data entry, use of the information system, management of the information system, and use of the system for tax policy analysis. Programmers and systems analysts will be provided by the project with an emphasis on building local capability. Hardware maintenance services will be arranged locally to the maximum extent possible.

As each application is developed, key tax officers will be involved in the design and testing of the application. As each application is implemented, all data entry personnel and tax

officers that will use the application will receive training. This training will generally be provided on the job, but where numbers and the complexity of the application warrant, off-site workshops will be used to train the personnel involved.

To successfully maintain the administration of the income tax using GAMTAXNET will require at least two tax officers to assume the role of information system administrators. These officers will need to ensure the smooth day-to-day operations of the system. They will need to have a thorough knowledge of the operation of all the applications in the system so that they can provide user support. They will also be responsible for organizing security, data back-up, training, equipment maintenance schedules, report production schedules and distribution, and other activities necessary for systems operations. On-the-job training will be supplemented, by opportunities for two persons to attend short-term external courses on computer systems management.

The successful implementation of a modernized and computerized tax system requires that the management have an overall understanding of all aspects of the tax system -- policy, legislation, administration and computer systems. To assist the management of the Income Tax Department in strengthening their capacity, provision will be made for advanced long-term training in tax policy, legislation and administration.

III. Action Plan -- Administrative Modernization

There are a number of aspects of change which can be done in the first six months which include starting the computerization process, evaluating administrative reorganization possibilities, and building up the elements of a well defined and empirically based revenue estimation model. Some of these points are described below. The principal group responsible for each action and the secondary responsibility are identified at the end of each recommendation.

A. First Six Months

In the first six months significant progress can be made. This would include computerization and administrative reform activities as well as the development of basic data that would be useful for the preparation of revenue projection models for future budget exercises.

1. INITIAL ACTIONS - COMPUTERIZATION

1. Establish a Taxpayer Identification Number (TIN) to be used by each taxpayer in all their taxpayer dealings with the revenue system. Include a check digit or equivalent to ensure accuracy of entry. For the cases where an existing number is not to be used, a TIN Office should be established and the procedures for issuing the TIN should be defined, implemented and publicized. (CRD and HIID).
2. Prepare legislation and/or regulations requiring all taxpayers to use the assigned TIN on all the tax returns filed and documents submitted to Central Revenue Department, and the Customs and Excise Tax Department. (CRD, CETD, Solicitor General).
3. Design instructions and notices to be provided to the public notifying them of the requirement to use the assigned identification number on all returns and documents submitted to the departments. (CRD, CETD).
4. Design a computer network for the department to be called GAMTAXNET. This includes reviewing income tax department operations and determining the number of workstations required; their location; storage capacity; etc. An estimate

is provided in this report which should be finalized at that time. (HIID and CRD).

5. Determine applications, work processes and priorities to be computerized. Develop a master file for each taxpayer. The first application computerized should be the posting and balancing of cashier receipts. Evaluate which past records should be computerized. (HIID and CRD)
6. Identify, select and train some tax department staff members in the design and maintenance of the GAMTAXNET network, computer operations, basic programming, etc. (HIID and CRD).
7. Select the location in the offices where the computers will be located. Reorganize the space. See a tentative proposal in the text. Purchase appropriate new office equipment (file cabinets, hand calculators etc.) (CRD and HIID).
8. Write the technical requirements for the hardware, software and support requirements. Submit to the vendors. (HIID).
9. Select vendors and develop an installation plan. (CRD and HIID).
10. Determine installation dates and develop plans for installation, testing and acceptance of hardware, software and operating systems. (HIID)
11. Begin to define information that should be exchanged between the Income Tax, Customs and Excise, and Sales Tax. Define data communications techniques or other electronic data transfer techniques. (HIID, with CRD and CETD)
12. Develop a written code of conduct for all employees. (CRD with HIID).
13. Develop written standards, guidelines, and operating procedures for the computerized Department. (HIID and CRD).
14. Design the computerization of the Business and Companies registry, and the relevant parts (or all) of the National Identity register. (HIID, Solicitor General, CRD, CETD).
15. Develop strategy for identifying non-filers. (HIID and CRD).
16. Begin development of utility programs such as for mailing labels, assessment notices, and other basic functions. (HIID with CRD).

2. INITIAL ADMINISTRATIVE ACTIONS REQUIRED FOR TAX REFORM

1. Develop a statistical sample of selected income tax returns for estimating the effects of various alternative tax designs and for purposes of evaluating compliance needs. This could be integrated into the proposed compliance unit. (HIID with CRD).
2. Retrieve from the files the selected tax returns and record the necessary data. (CRD with HIID).
3. Identify a Tax Policy and Compliance Group which will make evaluations regarding the implications of tax changes such as:
 - o tax rate changes
 - o broadening of the tax base
 - o taxation of fringe benefits
 - o treatment of investment income
 - o adjustment for inflation(CRD and HIID).
4. Develop reports on the above issues and others for use in discussing alternatives and making decisions. (HIID and CRD).
5. Assist in the development of tax reform legislation. Amend tax laws to increase enforcement authority, and to require withholdings in various areas of significant tax evasion such as rental income, bank interest, contractors' fees, and directors' fees. (CRD with HIID).
6. Consider alternative organizational forms for the revenue departments such as a revenue board structure. (CRD, CETD, HIID).
7. Evaluate and move towards self assessment. (CRD with HIID).
8. Develop enhanced withholding programs. (CRD with HIID).

B. Following Twelve Months

1. Design new tax forms appropriate to the new income tax computer system, GAMTAXNET. (HIID and CRD).
2. Prepare information bulletins to assist staff and taxpayers in understanding how to comply with the current income tax law. (CRD and HIID).
3. Undertake program to get selected past tax data entered into computer. For example, a decision has to be taken as to the

date from which entries will be made on the computer system and to which outstanding balances have to be brought forward to start the computer accounts. (CRD and HIID).

4. Identify and train at least one employee and a backup with a basic aptitude for microcomputers in the tax office. This person will manage the GAMTAXNET application and the network itself. (HIID and CRD).
5. Undertake program to identify potential income taxpayers and to alert them of potential tax liability. (CRD with HIID).
6. Train assessors and inspectors in the new tax laws using the computer workstations. (HIID and CRD).
7. Provide input into the preparation of legislation and/or regulations for key areas of the income tax law, particularly those issues affecting the computerization program. (HIID)
8. Develop a Corporate Plan for the CRD to outline the Department's objectives, goals, etc. for the next 3-5 years. (CRD).
9. Send staff off for short and long term courses as agreed upon. (CRD with HIID).
10. Develop reports as needed including an Annual Report and other statistical reports. (HIID with CRD).
11. Introduce regular tax audits. (CRD with HIID).
12. Provide CRD with legal adviser. (Solicitor General)

References

- Gray, Clive, Malcolm McPherson, James Owens, Clifford Zinnes, Taxes and Private Sector Activity in The Gambia: Overview and Recommendations for Change Harvard Institute for international Development, February, 1992, Cambridge, Mass.
- Personnel Management Office, Staff Inspection of the Central Revenue Department, June 1992, Banjul.
- Roemer, Michael Strategies of Industrialization: Lessons for The Gambia, Harvard Institute for International Development, 7 July, 1992, Cambridge, MA. USA.
- Tax Reform Committee, Ministry of Finance and Economic Affairs, Government of The Gambia, Action Plan for the Implementation of the Recommendations contained in the draft report "Taxes and Private Sector Activity in the Gambia: Overview and Recommendations for Change" mimeo, 22 July 1992, Banjul.

Appendices

A. Individuals Interviewed or Met, July 16-28, 1992

Amie Bensouda, Solicitor General, Attorney General's Office.

Neil Campbell, IMF Budget Advisor, Ministry of Finance and Economic Affairs.

Charles Cudjoe, Customs Expert, ASYCUDA Project, Customs and Excise.

Tumbulu Drammeh, Principal Collector, Sales Tax.

S. O. Eluwa, Assistant Controller, Immigration Department.

Richard Ginn, Computer Consultant, Banjul.

Momodou M. Jagne, Commissioner of Income Tax and Director Central Revenue Department.

Kalamanlie M. Juwara, Management Trainer/Consultant, Management Development Institute, Serrekunda.

Bryan Lewis, Adviser, Customs and Excise Tax Department.

Alieu M. Ngum, Permanent Secretary, MFEA, and Chair, Tax Reform Committee.

B. M. Mbye, Principal Collector, Customs and Excise, National Coordinator, ASYCUDA Project.

Bonnie Pounds, Representative, USAID, Banjul.

Harouna T. Savage, Principal Inspector, Central Revenue Department.

Samba E. Saye, Deputy Commissioner of Income Tax.

E. Touray, Acting Director General, Customs and Excise.

B. Forms

The following is a partial list of the various forms currently in use in Central Revenue and related Departments:

IT Form 2A Company Tax Return.

IT Form 19 Authorization under section 63 of the Gambia Income Tax Act. for Deductions of Income Tax from Officer's Salaries.

IT Form 31/ Monthly wage deduction from salaries and/or wages: under section 71 (2) of the income tax.

IT Form 31/Annual, Employer's Annual Return, Income Tax, PAYE.

IT Form 1(i) 70 Notice of Assessment, companies original assessment.

IT Form II (ii) Notice of Assessment, non-companies original assessment.

IT Form III (1) Original Assessment (Capital Gains) Company/non-company under section 49/59.

Capital Gains Declaration form.

Income Tax Tables for Monthly Paid and Half Monthly Paid Employees.

Individual Tax Return Form.

Return by employer of Income Tax deducted from employees, remuneration section 58 sub-section (2) cap. 96 Tax of the Gambia.

Republic of The Gambia - Application for National Identity Card.

C. Tax Processing Procedure Recommendations

The following observations and recommendations reflect on the objectives of ensuring an increasingly efficient processing of tax documents etc. Many of the processing elements noted here should be changed when the computerization takes place to minimize disruption.

SALARY, STAFFING AND ADMINISTRATIVE SUPPORT

The Department has a shortage of operational manpower. This has already been recognized by the PMO report which in turn noted that it did not make any provision for computerization although it did recommend the establishment of a compliance unit to combat tax evasion. There are vacancies and the authorized staffing will have to be increased to administer the computerized system effectively. The professional staff devotes much of its time to performing clerical tasks many of which computerization will take over. This should allow much more effective use of the professional staff for compliance and enforcement activities. Since the revenue services have the characteristic that increased staffing will bring more effective enforcement of the tax laws and therefore more revenue, it is a good investment for the viability of the country's government.

RECOMMENDATIONS:

1. Establish a higher pay scale for the professionals in the department. This may be established in conjunction with the establishment of a Revenue Board. See the following section for an outline of revenue board concepts.
2. Immediately begin an all out recruiting effort to fill the existing vacancies with the best people possible within a specific time.
3. A major commitment should be made to train all employees, beginning with the new employees. Special emphasis should be placed on program management, work assignment and evaluation, examination of tax returns, selective field audits in-depth, and collection techniques training.

PENALTY AND INTEREST

In order to be effective in the enforcement of the tax laws there must be significant penalties for taxpayers who do not comply with their tax obligations. These should be in addition to interest on payments due and should include powers of seizure of movable assets.

RECOMMENDATIONS:

1. The Commissioner should take a strong policy position that penalties and interest will be applied when the taxpayer fails to comply with the law. Taxpayers must accept their responsibility to comply with the law. Without penalties and interest there is no incentive for the taxpayer to comply.
2. The penalties and interest should be assessed and collected in the same manner as tax. Where these are for straightforward offenses, such as failure to file a return, they be applied automatically without prior reference to the courts.
3. A review of the entire penalty structure should be made and, if appropriate, legislative changes recommended.
4. Interest should be charged monthly and adjusted quarterly and be based on some index such as the T Bill rate or the average monthly rate of inflation for the last quarter that statistics are available, plus 1% a month but not less than 2% a month or 24% a year.

TAXPAYER ASSISTANCE AND EDUCATION

Taxpayers cannot be expected to voluntarily comply with the various tax laws if they are not provided with sufficient information for them to understand their responsibilities under the tax law. Even those that do understand these responsibilities become confused when changes occur in the law, tax forms, format of the notices sent by the tax office or penalties imposed for failure to file returns or make payments on time. This process of taxpayer education is critical to the success of modernizing the tax system and bringing taxpayers onto the tax rolls.

RECOMMENDATIONS:

1. Establish a comprehensive Taxpayer Assistance and Education program with a unit within the tax offices that would be responsible for the program.

2. Prepare information pamphlets and publications for the various types of taxes and make them available to all taxpayers. Distribution should be made as wide as possible, not only through the tax offices, but at banks, post offices, Registrar of Companies, and where appropriate, direct mailing to taxpayers.
3. The Commissioner of Income Tax should issue news releases to both the print and electronic media on selected topics to inform taxpayers of various changes and due dates of returns.
4. Prepare a kit containing the tax responsibilities and requirements of business and companies and make them available to individuals when they register their businesses.

D. Revenue Board - Their Structure and Functioning

The growing need for governments to maintain fiscal discipline in order to ensure a stable macroeconomic environment to favor rapid rates of sustainable economic development is increasingly recognized. This typically means reforms in revenue policy which can only be effective with significant improvements in tax administration. One of the organizational devices that is very attractive to increase the effectiveness of tax administrations is the formation of revenue boards to consolidate revenue functions in a single body that has an employment and resource structure more like the normal central bank form than a civil service structure.

Hence, a revenue board is typically a consolidated revenue organization with a small governing board (typically 5-8) of public and private sector individuals. The organization enforces the revenue code as before. However, it is not constrained by the normal salary and resource constraints of the civil service. Consequently, the board can hire all the skills necessary for effective enforcement of the tax code. Typically this means that skills such as those held by professional accountants, computer analysts, managers, and collections specialists are attracted to come to and stay in the organization.

The Board is normally funded as a function of the revenue it collects. This tends to be in the 1-3% range but some are much higher. Uganda, for example, takes 6% of the revenue raised to run their new board although this is expected to decline after the initial setup costs are covered.

When a revenue board is formed there continue to be sub groups in the organization responsible for specific taxes although they need not be in the same relationship as their predecessor organizations. The staff of the predecessor organization is NOT automatically brought along! In some cases, as few as half of the predecessor staff is brought along. In others, most are. It is a chance to weed out those who are not effective contributors to the objectives of the board.

While there is disagreement as to the ultimate worth of this approach, it has a number of proponents. In Africa, Ghana has a well established one, the Uganda one begun last September, and Zambia is currently constructing one (with Harvard assistance). Jamaica has had a board for some time as have some other countries. I would suggest any evaluation of such an approach include visits by tax officials and others to places where they do exist such as the close by Ghana.

E. Budget for Income and Sales Tax Computerization, CRD Administrative Modernization, and Links to Customs and other parts of the MFEA.

(Estimated subject to verification)

Staff:

2 Consultants for nine months each @\$200/day	\$79,200
Consultants for tax policy and administration analysis: 100 days @ \$450	\$45,000
Local consultant, computerization, 150 days@\$200/day	\$30,000
Per diem for consultants: 660 days x \$144	\$95,040
Airfares (12) Boston-return @3,000	\$36,000
Subtotal: Staff	\$285,240

Training:

Short term training in-country (locales cost, supplies etc.)	\$15,000
out-of-country (inc. transportation) 2 @ \$15,000	\$30,000
Long-term training (Harvard ITP) 2 @ \$50,000	\$100,000
Subtotal: Training	\$145,000

Cambridge office expense:

Cambridge backstopping (project management/ administrative/secretarial support)	\$20,000
Office expenses	\$ 6,000
Harvard fringe rate (23%)	\$ 4,600
Subtotal: Office expenses	\$30,600

Sub-total: Direct costs \$460,840

Harvard University overhead (27%) \$124,427

SUBTOTAL \$585,267

Equipment: These are US prices.

1. Network Wiring

The running of wire and the connection of machines involves some costs but they are not known. A total cost for wire, plugs, and tools would be less than US\$1,000. The labor for this activity could be supplied by the consultant. Costs: \$1,000 +

2. Central Processing Equipment

2 Microcomputers (fileserver plus one backup)

- 8MB RAM
- Intel 80486-33 Mhz
- 650 Mb disk capacity (SCSI)
- monochrome VGA Monitor
- 3 1/2" 1.44 Mb drive
- Ethernet card

(It will be necessary to have a backup to the central machine in case of a breakdown in the file server. Hence, in purchasing this equipment it would be desirable to initially purchase two of the above machines. Costs: about \$7,000 each - total \$14,000.

3. Workstations

The Intelligent Workstation

- 4 Mb Ram
- Intel 80386SX (or 80486SX) 20 Mhz
- (1) 40 Mb Hard Disk
- Color SVGA Monitor
- 3 1/2" 1.44 Mb drive

Costs: for 16 workstations @\$1,800 each = \$28,800.

4. Concentrators

Cabletron MRX Concentrator (one for each of 12 stations)
@\$1500
3C505 Ethernet adapter for the Fileserver @\$700
Cabletron TPT-T Transceiver for the fileserver@\$200
Cabletron AUI Cable@\$100
Cabletron E2010 Ethernet adapter (1 for each workstation)
16 @\$200 = \$3,200
RJ45 Office Jumpers (to be measured for distance)
\$400

Costs: \$7,600

5. Related Equipment such as Printers, UPSs etc.

(220 V capability)
APC UPS 600 (2 msec. switch over) 16 @ \$200

APC UPS 900 2 @ \$700
300 CPS Dot Matrix Printers 8 @ \$700
500 CPS Dot Matrix Printers 2 @ \$1,500
Laser printer (HP IIID) 2 @ \$1,800
Printer Cables 12 @ \$40

Operating System Software (Netware 3.11) \$2,000

Database Manager Software for DOS v5.0 (FOXPRO)
depending on final configuration about \$1,500

Costs: \$20,780

6. Program Development Equipment

3 Portable computers with external keyboards and
monitors @2500

Costs: \$7500

Total Hardware/software cost

\$ 79,680

TOTAL ESTIMATED PROJECT COST:

\$664,947