



TECHNICAL ASSISTANCE REPORT

SURINAME

Assessing the Launch and Administration of
VAT in Suriname

APRIL 2024

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Abbreviations and Acronyms

ASYCUDA	Automated System for Customs Data
CARTAC	Caribbean Regional Technical Assistance Center
CD	Capacity Development
CED	Custom and Excise Department
CIT	Corporate Income Tax
DoTC	Directorate of Taxes and Customs
EU EPA	European Union Economic Partnership Agreement
FAD	Fiscal Affairs Department
FIN	Fiscal Identification Number
GPPFP	Global Public Funding Partnership
GDP	Gross Domestic Product
GTA	General Tax Act
HQ	Headquarters
HS	Harmonized System
IMF	International Monetary Fund
IT	Information Technology
LTU	Large Taxpayer Unit
MSC	Multi Collection System
MTS	Multi Tax System
NT	Net Tax
OTA	Office of Tax Administration
PCA	Post Clearance Audit
PIT	Personal Income Tax
RBM	Results-Based Management
RMU	Risk Management Unit
SARA	Semi-Autonomous Revenue Authority
SOP	Standard Operating Procedures
SRD	Surinamese Dollar
TADAT	Tax Administration Diagnostic Tool
TAPA	Tax Administration Procedure Act
TFA	Trade Facilitation Agreement
TIN	Taxpayer Identification Number
TIT	Total Input Tax (VAT)
TOT	Total Output Tax (VAT)
TRACKER	Tax Revenue and Customs Knowledge Exchange and Research
TS	Total Supplies
UAT	User Acceptance Testing
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
VIT	VAT Implementation Team
WCO	World Customs Organization

WTO TFA
ZRS

World Trade organization Trade Facilitation Agreement
Zero-rated Supplies

Preface

At the request of the authorities of Suriname, a Capacity Development (CD) mission from the Fiscal Affairs Department (FAD) visited Paramaribo, Suriname from January 15- 26, 2024. The main tasks of the mission were to assess the effectiveness of the launch and administration of the Value Added Tax (VAT) and to provide advice on improving the efficiency and effectiveness of the administration of VAT within Suriname.

The mission team comprised of Mr. Norris Miller (FAD); Messrs. Stephen Mendes and Frode Lindseth (Caribbean Regional Technical Assistance Centre (CARTAC), resident customs and tax advisors, respectively, and Messrs. Rick Fisher and Grenville John (FAD tax and customs experts, respectively).

The team met with the Honorable Kermechend Stanley Raghoebarsingh, Minister of Finance and Planning; Ms. Marita Wijnerman, Director of the Directorate of Taxes and Customs (DoTC); Mr. Maikel Bruijne, Inspector of Sales Tax, responsible for VAT; Ms. Charda Girwar, Inspector of Customs and Excise; Meses. Danielle Wilfried and Sharida De Randamie, Collectors for Direct Taxes and Customs and Excise respectively; Mr. Radjes Sardjoe, Fiscal Affairs, and senior management of the respective tax and customs departments. Meetings were also held with the Information Technology (IT) provider and the authorities' IT consultant.

The mission benefitted from the views of key private sector associations representing manufacturers, chamber of commerce, audit firms, shipping association, customs brokers, and agents.

The mission expresses its appreciation to the DoTC's senior management team and staff for their active engagement and participation during the mission. The team also extends its thanks to Maikel Bruijne, for providing valuable support, including timely submission of data and for all logistical arrangements and support during the assessment.

This report comprises an Executive Summary and six Chapters: (i) Introduction; (ii) Assessing the Launch of the VAT; (iii) Tax Administration of VAT; (iv) Analyzing VAT Operational Performance in Accurate Reporting; (v) Customs Administration of the VAT; and (vi) Reform Program and Donor Support.

In this report, we refer to: (i) the Office of the Tax Administration (OTA), which comprises the domestic tax operations—Inspectorate of Direct Tax, Inspectorate of Indirect Tax (Sales Tax), and the Collectorate of Direct and Indirect Taxes; (ii) Customs and Excise Division (CED), comprising—Inspectorate of Import Duties and Excise and Collectorate of Duties and Excise; and (iii) the Directorate of Taxes and Customs (DoTC), which is responsible for the overall administration of taxes and includes the Office of the Director, OTA, and CED.

Executive Summary

Suriname implemented a VAT on January 1, 2023, replacing the Sales Tax. VAT revenue collected for the first 12 months was approximately 3 percent of Gross Domestic Product (GDP) and 95.4 percent of the collection target. VAT has become the single largest contributor to government revenue, accounting for close to 22 percent of overall tax revenue. The weaker-than-expected VAT collection can be attributed to how the VAT was implemented and administered for the first twelve months of operation.

The Directorate of Taxes and Customs (DoTC) was not sufficiently prepared to effectively implement and administer the VAT by the time it was launched on January 1, 2023. A 2022 Fiscal Affairs Department (FAD) mission provided a set of recommendations aimed at facilitating a successful implementation of the VAT; however, they were largely not followed. Several gaps were identified prior to the launch, including: (i) the implementation project was not fully resourced; (ii) most VAT Orders, needed to support the principal VAT Act were not developed; (iii) staff did not receive the required training to ensure adequate understanding of the VAT legislation; (iv) the full suite of IT (Information Technology) solutions required to support VAT were not deployed; and (v) taxpayers and traders did not receive sufficient information to adequately prepare.

Last-minute changes in the policy framework in December 2020 created uncertainty and delays. This significantly impacted taxpayers as well as the tax and customs administrations. Taxpayers were not given sufficient notice to adjust their systems, and the authorities were not sufficiently prepared to provide information to taxpayers and to the wider public on the impact of the amendments. The customs department did not have sufficient notice and information to update the ASYCUDA system in time for January 1, 2023. In addition, this amendment resulted in increased refund claims and a reduction in expected VAT revenue.

The implementation of the customs elements of VAT in 2023 was characterized by improvisation and compromise. At many points, implementation could have failed because of slow or inadequate preparation, policy decisions made late, essential equipment not provided in time, and not updating the tariff before the launch.

The VAT is being administered with the same institutional and organizational settings used to administer the Sales tax. The authorities did not adopt the organizational model used by several countries in the Caribbean—establishing a dedicated unit/department to administer the VAT for at least two years, then integrating it within the main tax administration.

In assessing the first year of VAT operations, several challenges and issues that were observed at the start of 2023 continued throughout the year. The outcome of the launch and administration of VAT is evidenced in the operational performance:

- With such a low VAT threshold, there is a concern that not all required taxpayers have been registered, and a considerable number of registrants have chosen not to file VAT. Approximately 4,000 taxpayers registered, and just over 2800 filed VAT returns. Monitoring on-time and non-filing of VAT returns is ineffective, as overall filing compliance was low (58 percent) for the first 11 months.
- The stock of tax arrears is not known. A substantial amount of VAT liabilities has not been posted to taxpayers' accounting ledgers, creating a risk to revenue.

- The timely processing of VAT refunds presented a major challenge. The authorities were not equipped to begin processing VAT refunds, as the refund module was not deployed, resulting in delayed processing, manually, of refunds. However, a recently introduced VAT refund profiling mechanism is expected to accelerate the processing of refunds. The value of VAT refunds and the number of cases is significant and are likely to increase as VAT filing compliance increases.
- The authorities are still using multiple taxpayer identification numbers (TIN). The absence of a single TIN to manage compliance of VAT and other taxes limits the opportunities for matching of revenue information across all revenue departments.
- The delay in deploying key IT functionalities further added to the many challenges faced by the authorities to effectively administer the VAT. Notwithstanding the late deployment of several functionalities, the implementation of the new IT system is welcomed and is producing some positive results. Taxpayers can register and file tax declarations online. Tax authorities now have access to timely information, which is being used in the management of VAT.

However, there are opportunities for strengthening the management of the VAT and improving revenue.

The authorities need to address fundamental weaknesses identified by the recent TADAT assessment and observed during this mission. It will take time to address all reforms/changes identified, however, these can be remedied if key steps are taken to strengthen organizational arrangements, automate most business processes, build technical capacity, and strengthen the legal framework. There is an urgent need to improve the administration of VAT and increase revenue while the greater revenue administration reform is being discussed. The following key areas will need to be acted on in early 2024:

- **All remaining modules of the new IT system should be deployed in 2024.** The authorities and the IT provider should revisit the piecemeal approach being taken in the development and delivery of the modules and functionalities. Ensure that a single taxpayer accounting system is in place that maintains detailed accounts for each taxpayer. Most business processes should be automated.
- **Mandate the use of a single TIN.** As a start, all importers should be issued with the new tax identification number (referred to as the Fiscal Identification Number - FIN), which is currently assigned when a taxpayer is registered for VAT. This will facilitate compliance and cross-matching of customs' import data with the VAT declarations. The next critical step is for all government entities to be issued with FINs and provide third-party information to the OTA.
- **Establish a small, dedicated team** to closely monitor compliance with VAT registration, filing, and payment requirements. Ensure timely posting of all VAT returns to record taxpayers' liabilities and the overall status of each taxpayer account. This is to be done before the end of the month following the due date for filing, ideally within 24 hours of filing. This will facilitate early detection of non-filers, level of arrears and timely collection, refunds, off-setting refunds against tax due, and timely posting of penalties and interests.
- **Estimate the level of refunds for 2024 and identify a funding source to pay VAT refunds.** Implement additional VAT refund risk assessment criteria and a mechanism to fast-track claims for low-risk taxpayers using the three-lane approach—green for low risk, fast-track; orange medium risk, for quick desk review; and red for high risk requiring audit.

- **Develop and publish detailed rules, via an Order, as per Article 17 (8)**, for the treatment of “refund of tax, credit, and interest”, and clearly define *the date on which a taxpayer’s “right to a refund of tax arose”*. Develop procedures (not included in the Order) for the timely and effective processing of refunds.
- **Strengthening controls in classification, valuation, and origin is essential to ensure the correct VAT collection at import.** If inaccuracy or deliberate fraud in any of these areas is prevalent, then the correct amount of VAT will not be collected. Many companies in Suriname that import commercial cargo have limited or no dealings with the OTA; collecting the correct VAT on imports becomes particularly important as this may be the only chance to collect VAT from these imports.
- **Integrity is a significant issue that must be urgently addressed.** Stakeholders and officials from OTA and customs report that integrity challenges exist. This not only negatively impacts compliance and the overall VAT yield but also creates an environment of mistrust and unfairness. The Directorate of Taxes must initiate a comprehensive review of governance and oversight and implement measures to strengthen integrity.
- **Critical changes are coming, and customs must prepare now.** Customs must invest time and energy in planning for the future. With the expansion of the complex and large oil and gas sector, significant and demanding new areas of work for customs will appear.

Suriname is to benefit from the new FAD-HQ managed Global Public Funding Partnership (GFPF). This will provide four years of technical assistance in strengthening revenue administration. CARTAC will continue to provide support in areas not covered by the GFPF. Customs is to benefit from a custom focused diagnostic mission. A separate customs oil sector focused diagnostic mission will be needed to help prepare Suriname for the growth in this area and the demands it will place on customs.

The key recommendations contained in the report are set out in Table 1 and are aimed at addressing several weaknesses and gaps in the administration of VAT. Other recommendations are outlined in the report.

Recommendations

Table 1. Key Mission Recommendations		
Administration VAT - First Year of Operations		
1.1	Finalize development of the remaining VAT Orders and Decrees.	04/2024
1.2	Develop procedures to facilitate government entities and other persons to acquire VAT-free supplies while protecting the revenue.	06/2024
1.3	Consolidate all responsibilities to manage VAT under the Inspectorate Sale Tax and stabilize the implementation of the VAT before considering broader organizational reforms.	12/2024
1.4	Segment taxpayers with defined criteria.	07/2024
1.5	Develop a policy mandating the use of a single FIN.	04/2024
1.6	Mandate all importers/exporters to use the FIN.	06/2024
1.7	Mandate the use FIN for every other person transacting with the DoTC.	12/2024
1.8	Develop and deliver advisory programs for large taxpayers and complex sectors	06/2024
1.9	Develop more targeted awareness programs and materials to address key concerns of stakeholders.	07/2024
1.10	Establish a small team dedicated to closely monitoring compliance with VAT registration, filing, and payment requirements.	03/2024
1.11	Process all outstanding VAT returns received to date and post the respective liabilities to taxpayers' accounts.	03/2024
1.12	Identify and take to steps to collect VAT arrears.	04/2024
1.13	Develop a 2024 VAT audit plan, select audit cases based on limited risk criteria and findings discussed in Chapter IV.	06/2024
1.14	Establish a dedicated VAT Refund Bank Account, identify the funding source to pay VAT refund, and forecast the levels of refund needed for 2024.	04/2024
1.15	Commence depositing, monthly, 15 percent of gross VAT collected, subject to the amount forecasted.	04/2024
1.16	Develop a refund procedure for non-VAT registrants who are entitled to VAT refunds.	07/2024
1.17	Develop and publish VAT Order in line with Article 17(8).	07/2024
1.18	Commence payment of interest on VAT over-due refunds.	06/2024
1.19	Develop an implementation plan that would guide the development, testing, and deployment of the remaining VAT functionalities, by April 2024.	04/2024

1.20	Develop an option to allow taxpayers to submit VAT payments online.	12/2024
VAT Operational Performance – Accurate Reporting		
2.1	Review returns to identify reporting errors and incomplete declarations.	03/2024
2.2	Establish a mechanism to capture data on supplies made to VAT-free entities and reduce abuse.	12/2024
2.3	Conduct registration audit, ensuring that taxpayers are assigned to the current business/sector.	12/2024
2.4	Conduct analysis on subsectors after cleanup of the returns' data, sectors, and segmentation of taxpayers.	12/2024
Customs Administration of the VAT		
3.1	Update the tariff to HS2022.	12/2024
3.2	Strengthening controls in classification, valuation, and origin.	06/2024
3.3	Strengthen risk management capacity.	06/204
3.4	Strengthen control of exports.	08/204
3.5	Strengthen verification and follow up monitoring of exemptions.	07/2024
3.6	Develop and implement a comprehensive integrity-strengthening program.	12/2024
3.7	Resource the PCA unit and give it resources, training, and direction.	09/2024
Reform Program and Donor Support		
4.1	Identify areas where follow-up CARTAC technical assistance is needed and request technical assistance for non-GPFP needs.	06/2024

I. Introduction

A. Background

- 1. In August 2022, a FAD technical assistance mission assessed Suriname's state of readiness to introduce the VAT.** The mission provided advice on actions needed for the authorities' smooth implementation on January 1, 2023. This follow-up mission is to evaluate the launch's effectiveness and its administration in the first 12 months of operation and to give advice on improving the efficiency and effectiveness of VAT administration.
- 2. As part of their economic and fiscal reform program, Suriname implemented a VAT on January 1, 2023, replacing the Sales Tax.** To address the many years of systemic fiscal and external imbalances, Suriname requested a 36-month arrangement under the Fund's Extended Fund Facility (EFF) program, which included steps to restore fiscal sustainability and strengthen fiscal management—having a more efficient revenue administration, improving revenue mobilization with the transition from a sales tax to VAT as a key component¹.
- 3. An assessment of the Directorate of Taxation (DoTC) using the Tax Administration Diagnostic Assessment Tool (TADAT), conducted in October 2023, found substantial weaknesses across all nine performance outcome areas assessed.** The root causes of the weaknesses emanate from at least four areas: (i) weak institutional and organizational arrangements, with core taxes being administered by five departments; (ii) multiple IT systems led to operational silos and inefficiencies; (iii) outdated legislations, with a principal collection Act of 1869; and (iv) governance issues—accountability and transparency framework is weak, notably—no internal assurance mechanism, limited external oversight, annual plans and reports not being published. The assessment found that the VAT performed poorly, especially given that it is a new tax.

B. Fiscal Review

- 4. Tax revenue collected by the DoTC was approximately 3.0 percent of GDP, and an outturn of 94.4 percent of revenue projected for 2023.** Both direct and indirect taxes underperformed. VAT, while being the largest contributor to tax revenue (21.4 percent of total collection), also underperformed at 95.4 percent.
- 5. The DoTC is expected to collect SRD 26.5 billion for 2024.** This is 33.5 percent above the 2023 collection. VAT is projected at SRD 5.6 billion, 30.7 percent above 2023's collection, and to contribute 20.9 percent of total expected revenue (Table 2).

¹ Suriname 2022 - 2nd Review under the Extended Arrangement under the Extended Fund Facility

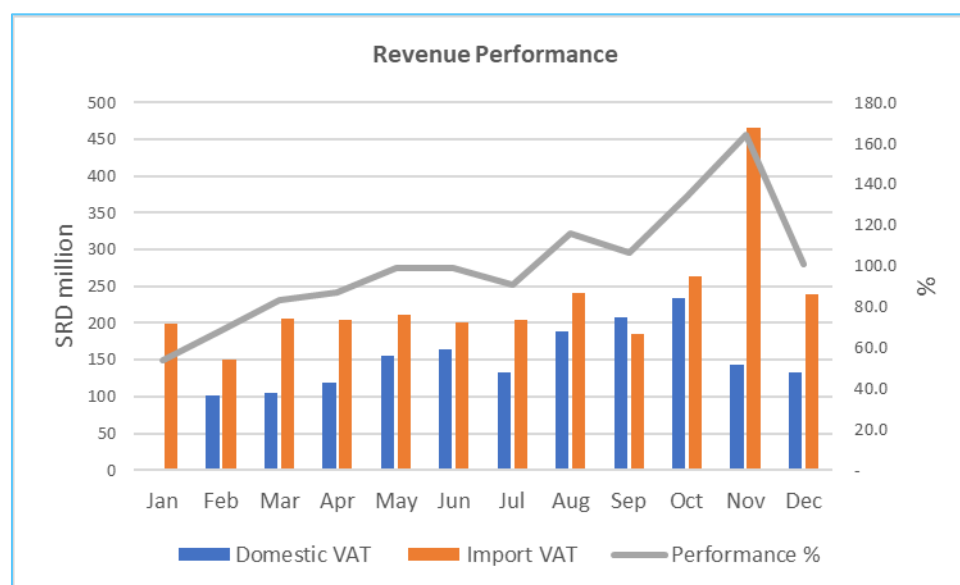
Table 2. DoTC 2023 Revenue Performance

	2023 Projection	2023 Collection	2023 Performance	2024 Projection	2024 adj.
	SRD million		%	SRD million	%
Direct Taxes	10,697.0	9,910.6	92.6	11,918.6	20.3
Indirect Taxes	10,358.2	9,967.5	96.2	14,628.6	46.8
<i>of which VAT</i>	4,450.9	4,247.9	95.4	5,550.0	30.7
Total Tax Revenue	21,055.1	19,878.1	94.4	26,547.2	33.5
VAT % Total Rev.	21.1	21.4		20.9	

Source: Compiled by the mission from data provided by DoTC.

6. Net VAT revenue collected for 2023 is approximately 3.0 percent of the Gross Domestic Product (GDP). Despite the approach taken by the authorities implemented and administered the VAT, the outcome is encouraging. Figure 1 shows VAT revenue performance for the first 12 months of operation.

Figure 1. VAT Revenue Performance



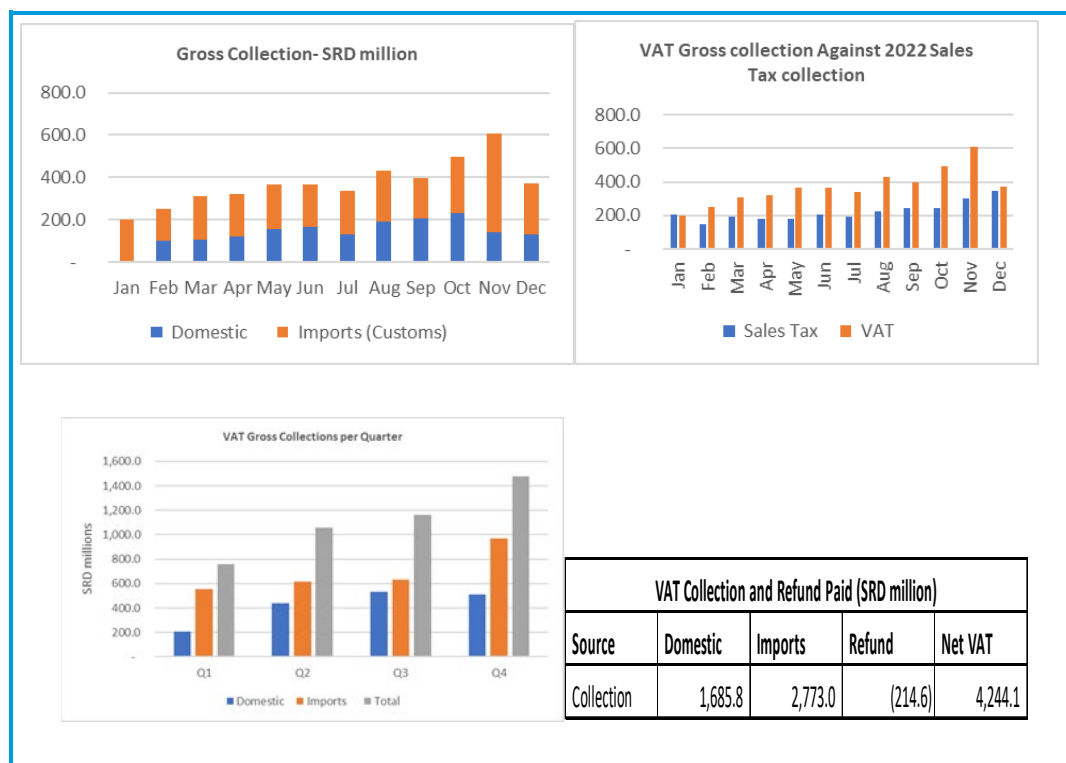
Source: Compiled by the mission from data provided by DoTC.

7. VAT paid on the importation of goods was 62.2 percent of gross collection and 63.3 percent of net collection. November 2023 reported the largest gross collection—due to increased volume of imports, representing 75.6 percent of gross VAT collected, or 13.6 percent VAT collected at Customs. VAT collected on domestic operations was 37.8 of gross collection and 39.7 percent of net collection. Of note, VAT credit/refund claims amounted to SRD 989.4 million. The VAT refund process is discussed in Sections III and IV.

8. VAT appears to perform at the same level as Sales Tax collection for 2022. Notwithstanding that Net VAT is 55.9 percent above Sales Tax collection, both came out at approximately 3.0 percent of GDP. However, if more refunds were processed and paid in a timely manner, the VAT would have under-performed relative to the Sales tax.

9. Gross VAT revenue steadily increased quarter-over-quarter. The fourth quarter (Q4) recorded the largest amount collected, SRD 1.5 billion or 33.2 percent of total collection, followed by the third quarter with 26.1 percent. VAT on imports is responsible for the larger share of collection, being 65.5 percent of the Q4 collections. This collection trend is in line with expectations.

Figure 2. VAT Revenue Collection



Source: Compiled by the mission from data provided by DoTC.

10. The weaker-than-expected collection of VAT revenue can be attributed to several factors. Factors such as: (i) weak and under-resourced implementation program; (ii) lack of a targeted taxpayer advisory program that prepared VAT registrants for the launch of the VAT (e.g., how to account for VAT transactions) and limited general taxpayer awareness/education program; and (iii) late amendments to the VAT Act. Chapter III discusses the weak performance of the administration in more detail. However, this can be remedied if the authorities take steps to address the fundamental weaknesses by strengthening organizational arrangements, automating most business processes, building technical capacity, and strengthening the legal framework.

II. Assessing the Launch of the Value Added

A. Overall Status

11. The 2022 FAD mission provided a comprehensive set of recommendations aimed at facilitating a successful implementation of VAT, but they have largely not been followed. That mission assessed the authorities' degree of readiness to introduce VAT on January 1st, 2023, and provided advice on activities with timelines to be undertaken for an effective. The mission's report indicated that, with the implementation of only four months after the passage of the VAT Act, the launch would be challenging as several critical factors needed for a successful launch were not in place. Notwithstanding the many challenges outlined, the authorities indicated that they were committed to a January 2023 launch.

12. The DoTC was not sufficiently prepared to effectively administer VAT by the time it was launched. To mitigate implementation risks, the mission advised that a progress review of the implementation project should have been undertaken by mid-October 2022 to determine if the planned launch date was feasible. The DoTC indicated that the review was not done. The DoTC, therefore, did not reach the expected level of preparedness to ensure an effective launch of the VAT.

13. The gaps in the level of preparedness were observed in several areas. Some of the areas are: (i) the steering committee was not reconstituted, the VAT implementation team (VIT) was not fulltime, and the project was not fully funded and staffed; (ii) most Decrees/Orders were not finalized; (iii) staff did not receive the required training to ensure adequate understanding of the VAT legislation; (iv) tax and customs business processes were not fully strengthened to address previously identified gaps; (v) the full suite of IT (Information Technology) solutions required to support VAT were not deployed; (vi) registration of potential VAT registrants started later than expected; (vii) a VAT advisory program was not developed; and (viii) taxpayers and traders did not receive sufficient awareness of VAT to ready for the January 1st launch.

14. The inadequacy of training provided to DoTC staff represents a significant challenge. Insufficient knowledge and skills within the DoTC not only impede the smooth functioning of the VAT system but also contribute to confusion and resistance among taxpayers and traders. The lack of a well-structured and executed stakeholder consultation and education program further intensified these challenges, leaving taxpayers grappling with the new legislative framework and fostering an environment of non-compliance.

15. Changes in the policy framework during the time of implementation created uncertainty and delays. The VAT implementation has been hampered by changes in the policy framework during the critical phase of execution. The absence of a stable and predictable policy environment creates uncertainty for both the DoTC and taxpayers/traders, hindering effective management of the VAT. Businesses find it challenging to adapt and comply with changing legislation, while the DoTC struggles to maintain control and coherence in its administration. These inconsistencies had a negative impact on revenue collection and the level of compliance. The impact on the level of preparedness by the DoTC and taxpayers is clearly revealed in the first 12 months of VAT. This is further discussed in Section III of this report.

16. The 2022 FAD recommendations, designed to guide the authorities through seamless implementation, remain largely unaddressed. The challenges faced in implementing the suggested timelines

and activities outlined by the FAD mission have put the VAT system's success in jeopardy. Appendix 1 provides an overview of the recommendations and the status as of January 2024, underscoring the urgent need for a reassessment of the implementation strategy. Addressing these challenges is imperative to build confidence in the VAT system. Table 3 set summarizes the status of the key recommendations.

Table 3. Key Recommendations for launching the VAT

Critical Areas – Recommendations			Status
<i>Strengthen the implementation of project management to ensure timely delivery of outcomes by re-establishing the steering committee and establishing a full-time VIT.</i>			
<i>An approved implementation plan and key resources need to be put in place.</i>			
<i>A new tax administration information system is being developed, prioritizing the VAT-related modules.</i>			
<i>Advisory visits should be mobilized to begin detailed education of the newly registered VAT registrants and potential registrants.</i>			Remain relevant
<i>The authorities should consider whether VAT should be administered under the current Sales Tax regime. The preferred view is to use a reformed LTU to administer the VAT until the OTA undertakes its reform program.</i>			Remain relevant
<i>Critical to the operations of Customs is procuring a new training server and finalizing the list of zero-rated/exempted goods.</i>			
<i>Develop the supporting Orders/Decree/ Regulation & List of exemptions and zero-rated with the appropriate tariff codes.</i>			
Key	<i>Achieved</i>	<i>Partially achieved</i>	<i>Not achieved</i>

B. Views of the private sector

The mission met and held fruitful discussions with private sector representatives. Representatives from different organizations were invited to share their views. The invitation to the meeting stated the intention of obtaining the views of external parties and stakeholders that interact with the DoTC. The participants were asked to be prepared to hold discussions on: (i) views on the implementation and the administration of the VAT; (ii) the extent to which the DoTC is providing information to taxpayers/traders to fulfill their VAT obligations; (iii) how stakeholder groups can assist the DoTC to improve its service delivery and operations; (iv) the timeliness of payment of refunds; (v) the accessibility and quality of interaction with the staff; (vi) how the DoTC can improve its operations, increase compliance and collection; and (vii) challenges to complying with requirements and legislations. Issues raised by representatives from the private sector are shown in Box 1 below.

Box 1. Views of the Private Sector Representatives

Complexity in the legislation and lack of transparency:

- The introduction of VAT is welcomed, but the complexity and lack of transparency cause frustration and hamper compliance.
- The tax law is overly complex and not communicated to taxpayers in an understandable manner.
- The complexity also represents challenges for tax and customs administrations with limited qualified staff.
- Too many exempted and zero-rated goods, suggesting exceptions should be removed and the VAT rate should be lower.
- Rulings should be published for transparency and guidance.

VAT Administration Challenges:

- Interest is not being paid on delayed refunds, which negatively affects compliance and represents a challenge for the liquidity for Small and Medium Enterprises (SMEs).
- The focus on auditing refunds negatively affects the administration of other important aspects of the VAT system.
- OTA appears weak, understaffed, and not competent to administer VAT.
- Lack of enforcement actions from the OTA jeopardizes compliance.
- Integrity issues within the tax and customs administrations.
- VAT introduction was an opportunity for more significant reform of tax and customs – unfortunately, this opportunity was not acted on and all the inefficient procedures, and bad habits that existed before were brought into the administration of VAT.
- The Inspector of customs has no decision-making power – all decisions, even relatively minor ones, must be dealt with by higher authorities.
- There is no consistency in rulings and taxpayers and traders must hire consultants to negotiate with customs and OTA.

Stakeholder Engagement and Consultation:

- Structured consultation with stakeholders on both revenue administration and tax policy is welcomed, but only if this results in a commitment to change and improve.
- Educational materials could also be tailored to the needs of specific sectors.
- There are no formal and structured channels or platforms for communication with the private sector and other stakeholders (this was also true before VAT). Taxpayers/traders receive conflicting advice.
- No guidance for the registration of non-resident taxpayers, impacting foreign investments.

Regular consultations between the DoTC and stakeholders are imperative to improve trust, confidence, and compliance with VAT. Regular consultations will allow stakeholders to voice concerns regarding specific issues related to the design and operations of the VAT in Suriname. This will enable the DoTC to focus on the development and implementation of educational materials and campaigns to address specific issues raised. It will also provide an opportunity to understand where capacity for the building of DoTC staff is needed.

III. Tax Administration of VAT

This chapter focuses on the administration of VAT by the OTA in the first twelve months of the VAT implementation. In addition to the operation of the core administration functions, the chapter briefly looks at the legislative framework, organizational challenges, and IT support.

A. Legislative Framework and Challenges

- 17. The VAT Act implemented January 1, 2023, does not adhere to international good practice.** For ease of administration and compliance, the general rule for the imposition of a VAT is to have a single positive rate, zero rate for export, a broad taxable base with few exemptions, and a relatively high VAT threshold². Suriname's implemented a multiple-rate regime—standard rate of 10 percent; 5 percent applicable to international medical insurance and fuel; 25 percent applicable to a defined category of goods; zero percent on a wide range of items such as food—in addition to an extended list of exemptions. The multiple rates, large lists of exemptions, and zero-rated goods and services increase administrative complexities and compliance. The VAT threshold of SRD 1 million is among the lowest in the region.
- 18. Most of the Orders required to provide guidance in the administration of the VAT Act were not developed.** Six Orders have been developed to date but have not been published. The Act speaks to over 12 Orders. Not developing all the required rules has created uncertainty and thereby negatively impacted the administration of the VAT and taxpayer compliance. The Orders are to provide guidance and clarity on how the respective provisions are to be administered and adhered to by taxpayers.
- 19. The Act was amended twice since its enactment in August 2022.** The first amendment, on December 30th, 2022, saw the shifting of most exempted products to zero-rated and zero-rated items to exemption. This amendment included the imposition of a 5 percent rate. The second amendment was made in September 2023. This includes transferring most zero-rated items back to exemption, bringing zero-rating somewhat more in line with good practice. However, Annex 1 of the Act (zero-rating) makes provisions for certain persons to acquire goods and services without the payment of VAT, creating administrative complexities.
- 20. Last-minute changes in the policy framework in December 2022 created uncertainty and delays.** Given the timing of this amendment, taxpayers would not have been given sufficient notice to prepare—recode their accounting systems, cash registers, and Point-of-Sale systems to indicate items that now attracted zero percent. The tax administration was not sufficiently prepared to provide information to taxpayers and to the wider public (including the impact on pricing and how to accurately account for VAT). Customs didn't have the time to recode the ASYCUDA system. In addition, this amendment caused an increase in refund claims and a reduction in expected VAT revenue.
- 21. The amendments in September 2023 were aimed at protecting and increasing VAT revenues instead of simplifying the system.** The implementation of these amendments by the authorities mirrored the

² Miller et al; 2022, FAD, Assessing Suriname's Readiness to Successfully Launch and Administer VAT

December 2022 approach—that is, insufficient time was given to taxpayers to prepare their systems to accommodate the changes. With these changes, taxpayers need to be guided on how to account for VAT.

22. The Act provides for governmental entities and special designated persons to acquire taxable goods and services at zero percent³ (VAT-free). This forces suppliers to (i) distinguish between regular/commercial customers and VAT-free customers, (ii) develop procedures for applying the appropriate tax rate and (iii) account for the supply. The array of goods and services purchased by governments is large and includes many dual-use goods. For this reason, there is a high risk that some goods can be purchased VAT-free for personal use. The current regime of supplying a one-off letter to the specified entities, indicating exemption is open to misuse. Currently, there is no mechanism in place to ensure that supplies acquired are used for the intended purpose. This system creates both administrative and compliance challenges and risk to the revenue. An Order should be developed, putting a mechanism in place to prevent abuse, and the OTA should collect information as to the supplier, purchaser, the nature of and value of the supply.

23. A common legal framework for the administration of all taxes is urgently needed. The authorities plan to enact a General Tax Act (GTA) in 2024. However, this has been in draft for an extended period. The intention is for the GTA to operate as a tax administration procedure act (TAPA). A TAPA is a unified tax procedure law, which groups into a single self-contained law all legal provisions relevant to the administration of tax liabilities and recovery of tax imposed under the main tax. This ensures that a proper legal framework, for tax administration is in place, that provides an appropriate balance between the rights of taxpayers and the powers of the Authority laws. Thus, the objective of the GTA is to harmonize the administrative provisions of several of Suriname's tax Acts and would replace the 1896 Collection Act and the Fiscal Identification Number Act. To effectively administer VAT, if the GTA will not be enacted in 2024, consideration should be given for amendments to be made to the VAT Act. (e.g., mandatory use of a single FIN), expand enforcement measures, and remove the link with the 1896 Collection Act.

Recommendations

- Finalize development of the remaining VAT Orders, by April 2024.
- Develop procedures to facilitate government entities and other persons to acquire supplies VAT-free while protecting the revenue, by June 2024.
- Enact the GTA or incorporate the administrative amendments in the VAT Act, by December 2024.

B. Organizational arrangements and staffing issues

24. The authorities did not adopt the organizational model used by several countries in the Caribbean. That is, establishing a dedicated unit/department to administer the VAT for at least two years and then integrating it within the main tax administration. VAT is being administered with the same institutional and organizational settings as the sales tax.

³ The Act provides entities governed by public law to acquire products a zero percent. In addition, state-owned enterprise operating under the Petroleum Act, 1990, related contractors and sub-contractors and gold mining companies can acquire taxable supplies at zero percent.

25. Organizational arrangements to administer the VAT are fragmented, impacting the successful implementation of the VAT, and must be consolidated under the Inspectorate Sales Tax. The VAT Implementation Team in charge of the VAT launch is no longer in place. The Inspectorate Sales Tax has responsibility for registering VAT taxpayers, receiving/processing VAT returns, monitoring VAT filing compliance, auditing of non-large taxpayers, and investigating accuracy of VAT refund claims. The Inspectorate Direct Taxes has the LTU reporting to it, which is primarily responsible for detecting inaccurate reporting of large taxpayers. The Collector of Direct Taxes is responsible for VAT collections, including collection of VAT arrears and payment of VAT refunds. VAT revenue performance and monitoring of VAT compliance could best be achieved if one organizational department has end-to-end responsibilities for all core tax administration functions and management of large taxpayers. Table 4 lists the departments and responsibilities in relation the administration of VAT.

Table 4. Departments Administering VAT

Office/Department	Code	Business Processes Owners
Directorate of Taxes	HQ	General policy & the LTU
Inspectorate of Sales Tax (VAT)	IOB	Registration, filing, assessing, audit, objection, refund approval
Direct Tax Receipt Office	ODB	Collection of Sales tax and VAT; arrears management and enforced collection.
Import Duties & Excise/Customs Inspectorate	IIA	Levy VAT on importation of goods, assessing import values
Receipt Office Excise and Imports	OIA	Collection of VAT on importation of goods

Source: Compiled by mission team.

26. Human resources required to effectively administer the VAT has not been fully identified and DoTC management and staff have raised concern regarding the lack of sufficient resources to administer the VAT. There is a need to have staff to administer all aspects of the VAT (e.g., staff required to register/educate and provide needed services to all VAT registrants, data analysis staff that could identify key VAT compliance risks and treatment strategies, staff to monitor filing and payment compliance, audit staff to monitor inaccurate reporting of both large and non-large taxpayers). However, at this stage of VAT implementation, it is not clear how many staff are needed to administer the VAT as there has not been an in-depth analysis of any benefits coming from automation (e.g. taxpayers registering online, returns being submitted online), review to determine if all core business process have been streamlined (e.g. full automation of the assessment process and risk-based VAT refund process that will reduce the audit resources required). Notwithstanding, consider increasing the number of staff, in the Inspectorate of Sales Tax from the pool of new hires.

27. While some capacity building of OTA staff was provided before the launch of VAT and during 2023, the training is insufficient to ensure effective administration of the VAT. An in-depth understanding of the VAT law and the design/mechanics of VAT is not in place. For example, staff responsible for registering taxpayers and responding to taxpayer VAT inquiries received some VAT training prior to the launch. However, they faced ongoing challenges during 2023 to provide certainty to taxpayer questions and would frequently request support from management of the Inspectorate Sales Tax. In addition, while some auditors received VAT training prior to the launch and a four-day refresher training in 2023, there is concern that staff have not acquired

the required knowledge to effectively detect inaccurate reporting of VAT. It is important to note that the OTA lacks standard operating procedures for most core tax administration functions, which could have been used as part of a training program to fully operationalize the VAT. Additional program/project management and change management skills need to be developed to ensure effective administration of the VAT and management of a comprehensive tax and customs administration reform program. Priority needs to be given to re-establishing a small team of core experts that will be trained on all aspects of VAT and a train-the-trainers program developed to build capacity across the OTA.

28. The DoTC continues to strive to implement a broad range of tax/customs administration reforms that will build a stronger foundation for all core tax/customs administration functions. Emphasis should be placed on modernizing and stabilizing core tax/customs administration functions relating to VAT prior to the establishment of possible broader DoTC organizational reforms.

Recommendations

- Consolidate all responsibilities to manage VAT under the Inspectorate Sale Tax, by June 2024.
- Develop a manpower staffing plan that identifies short/medium /long term requirements needed to administer the VAT, by December 2024.
- Establish a small team of core experts and seek donor assistance to build the VAT capacity of these experts, by April 2024.
- Provide more in-depth follow-up training on the VAT Act and regulations, by June 2024
- Stabilize the administration of the VAT before considering broader DoTC organizational reforms, by December 2024.

C. Taxpayer registration and the Use of a Single TIN

29. There is a concern that not all required taxpayers have been registered for VAT. On January 1, 2023, approximately 970 taxpayers were registered for VAT; an additional 1,800 taxpayers registered during January, and Suriname reached approximately 4,000 by the end of 2023. This fell short of the initial target of 5,000. The initial plan was to use available data to identify potential VAT registrants prior to the launch in January 2023; however, given the concerns related to accuracy and reliability of available data, the decision was made to launch a public awareness campaign that informed taxpayers of their obligation to register if they meet the VAT registration threshold. The Inspectorate of Sales Tax has taken steps, during 2023, to increase the number of VAT registrants. Given the low VAT threshold, the general view is that the number of registrants is low.

30. All taxpayers that meet the VAT threshold must register and VAT returns/payments should be made according to the legislative prescribed deadline. A sound VAT system requires that all taxpayers register, file, and pay VAT. The first task of any tax administration is to facilitate compliance, ensuring that those

who should be in the system are in the system, and that they comply with the rules. To do so taxpayers must be found. If they are required to register, the registration process should be as easy as possible⁴.

31. Measures are needed to detect unregistered VAT taxpayers. Priority should be given to using third-party data to identify taxpayers who failed to register for VAT. The adoption and implementation of the FIN will facilitate cross-checking of data to identify unregistered VAT taxpayers. It will take time before all departments and agencies begin to use the single FIN; however, as a first step, the OTA should provide Customs with the FIN for all taxpayers registered for VAT. Customs should require all importers to use the FIN, facilitating data sharing between the two departments.

32. Registration for VAT is done electronically. However, currently the online facility does not allow VAT registrants to update their registration details or to view taxpayer account details.

33. The taxpayer register is not integrated with any other national business registries. Taxpayers provide all information and evidence necessary for registration by entering data via the Web portal and attach required documentary evidence. However, return data now available for one year indicates many taxpayers may have been assigned to the wrong sectors. Consideration should be given for the OTA to access the Chamber of Commerce register, which can help check taxpayers' nature of business.

34. The delays in implementing a single IT system that covers all core tax types presents a substantial risk to monitoring compliance for VAT and all other core tax types. The OTA has two separate taxpayer registration databases, which impacts the accuracy and reliability of the overall OTA taxpayer register, as measures will need to be put in place to keep both taxpayer registers in sync as taxpayers amend their registration details. This also requires taxpayers to use multiple TINs, one for direct taxes, one for VAT, and one for any importation/exportation with customs.

35. Taxpayers are segmented into large, medium, and small taxpayers using taxpayers' registration data. Current taxpayer segmentation policies have been based on the estimated annual turnover provided by taxpayers. However, this distorts the measurement of compliance across the different taxpayer segments as they are not yet based on actual annual turnover declared in the tax returns. Based on data submitted by the authorities, there are 377 large registrants, 9.3 percent of total registrants.

36. Segmenting taxpayers involves dividing taxpayers into different groups based on various characteristics. Income level, compliance behavior, industry, business complexity, asset value and demographic factors, are some of the criteria used in segmenting the taxpayer population. Segmentation allows tax administrations to develop tailored programs that enhances compliance, improves service delivery, and ultimately contributes to a more efficient and equitable tax system. With more than one full year of taxpayers VAT declarations, a segmentation exercise should be undertaken by July 2024.

Implementing a single Tax Identification Number (TIN)

37. The Suriname tax system currently assigns different TINs to the same business, which prevents cross-matching of data and adds an additional burden to the businesses as they need to remember when to use the various TINs. Today, a business receives a TIN for filing and payment of CIT, PIT, and Wage Taxes,

⁴ 2010, Richard Bird, Smart Taxation, World Bank.

a different TIN for VAT (referred to as the FIN- Fiscal Identification Number), and a different TIN when dealing with Customs. The authorities plan to use the FIN as the single TIN, which businesses and individuals will use when dealing with the revenue departments. This will require changes to the legislative framework, including the primary legislation, the FIN Act. This could be achieved by introducing this requirement in the General Tax Act.

38. The use of a single taxpayer identification number (referred to as the Fiscal Identification Number) should be made mandatory. The Suriname tax system currently assigns different TINs to the same business, which prevents cross-matching of data and adds an additional burden to the businesses as they need to remember when to use the various TINs. The authorities plan to use the FIN as the single TIN, which businesses and individuals will use when dealing with revenue departments. This will require changes to the legislative framework, including the primary legislation, the Fiscal Identification Number Act. This could be achieved by introducing this requirement in the General Tax Act.

39. It should be mandatory for all government entities to have a FIN; and required to file third-party information to the DoTC. To assist with compliance measures and determine the accuracy of taxpayer reporting, the DoTC needs to access third-party information timely. Businesses should also be required to file third-party information. A single unique FIN will facilitate the storage, access, analyses, and cross-matching of data from various sources. To protect and improve tax revenue, as a start, mandate all importers/exporters to use the FIN, by June 2024, for transactions with customs. In addition, make it mandatory for every government entity to be issued with a FIN and submit third-party information to the DoTC, by December 2024.

40. Adopting a unique TIN ensures that each taxpayer is easily identifiable within the tax system, helps prevent confusion, and ensures accurate record-keeping. It ensures that there is less chance of errors in tax filings and payments. It helps tax authorities match taxpayers with their respective tax obligations, reducing the likelihood of mistaken identities or errors in processing tax returns. It facilitates streamlining administrative processes for both taxpayers and tax authorities. It simplifies communication, reduces paperwork, and makes it easier to track tax compliance and enforcement.

41. The adoption of a single TIN is essential to strengthen monitoring of tax compliance in Suriname. All revenue departments would benefit from using a single and unique TIN, as this allows data cross-matching for risk management purposes. It is essential that businesses and individuals are assigned the single unique number, FIN, to be used when transacting with any revenue or government department. Many governments now require businesses and individuals to use their unique TIN when opening bank accounts and purchasing goods for their businesses.

42. Centralizing taxpayer identification under a single unique number enhances the integrity of tax data. It facilitates data analysis and reporting, enabling tax authorities to better understand taxpayer behavior, detect patterns of non-compliance, and make informed policy decisions. This makes it harder for persons to evade taxes by using multiple identities. It promotes fairness in the tax system by ensuring that everyone contributes their fair share based on their actual income and financial activities. Having a single TIN can enhance security measures within the tax system by reducing opportunities for identity theft and fraud. It helps protect taxpayer information by establishing a standardized, secure means of identification.

43. The OTA registration function should have responsibility for issuing FINs. It is important to have one department in charge of registering persons and issuing a single FIN – this is typically the responsibility of the tax administration. The FIN should remain with the taxpayer for the lifetime of that business.

Recommendations

- Priority should be given to using third-party data to identify taxpayers who failed to register for VAT, by April 2024.
- A segmentation exercise should be undertaken, by July 2024.
- Develop a policy mandating the use of a single FIN, by April 2024.
- Ensure the FIN Act or GTA includes a provision to require use of a single TIN, by June 2024.
- Mandate all importers/exporters to use the FIN, by June 2024
- Enhance the IT system to ensure it covers all core tax types, by December 2024.
- OTA to provide Customs with all FINs issued and begin to match registration data, by April 2024.
- Mandate the wider use of the TIN, by December 2024.

D. Taxpayer Service and Public Awareness Program

44. The DoTC established a small Taxpayer Services Division; however, it has not yet reached the desired level of maturity. This was established with a staff of seven and was expected to assist taxpayers to register for VAT, assist taxpayers to understand how to file VAT returns electronically and make required VAT payments, and to respond to a wide range of VAT queries. Prior to the launch of the VAT and during the first few months of VAT implementation, taxpayers chose to contact staff in this division (e.g., in-person visits, phone calls or email communication); however, since the staff did not have sufficient knowledge to fully respond to VAT queries, queries were directed to other areas (e.g., direct contact with DoTC senior management). The establishment of such a division is an important milestone for the DoTC. However, a more modern taxpayer services strategy (e.g., shifting focus to more outreach programs to addressing service interventions based on identified compliance risks), and service standards and standard operating procedures will need to be developed before the taxpayer services function reaches the next level of maturity. Further investment in this area is critical, as improved services can be a more efficient means of fostering voluntary compliance and contribute to improved revenue performance.

45. A public awareness campaign was developed for the launch of the VAT and to operationalize the VAT in 2023; however, additional work is needed to ensure full understanding of the VAT. The following summarizes key actions taken: (i) a video was developed to build awareness of the VAT; (ii) a help desk was established to assist taxpayers to understand how to register, file and pay VAT; (iii) a range of channels were used to deliver the information and products (e.g., radio, social media, newspaper, quick response (QR) codes, website, phone, portal, and face-to-face meetings with stakeholders); and (iv) several guides for VAT registration

were produced. Additional guides/educational materials will need to be developed moving forward to cover key areas (e.g., the process for completing VAT returns, an overview of the VAT refund process, VAT arrears management guide, and guides targeted to the needs of specific economic sectors).

46. VAT registrants may not be fully aware of how to comply with VAT. The proposed launch of an advisory program that ensures VAT registrants are fully aware of the design and mechanics of VAT did not take place as recommended. Feedback received from the stakeholders' meetings confirmed that additional education and guidance from such a program would have provided greater certainty and clarity regarding VAT implementation. The authorities should develop targeted advisory programs, as this program is still needed. The issuing of rulings/Orders can also provide clarity in some provisions within the Act.

47. A taxpayer advisory program is still relevant. However, staff of the DoTC will need to be trained in VAT legislative framework, audit techniques, general business processes, and internal control. In the interim, senior management, supported by LTU staff, should provide tailored information to taxpayers, targeting large taxpayers and complex sectors. An advisory program is one of the principal tools used to inform and educate potential and registered taxpayers. The advisory program provides legal and administrative procedures tailored to the operations of specific business entities. In addition, the advisory program collects specific technical and operational information and allows for basic data about the taxpayer's business, level of VAT knowledge, and compliance attitude to be captured by the administration.

Recommendations

- Develop and deliver advisory program for large taxpayers and complex sectors, by June 2024.
- Develop a taxpayer services strategy for strengthening services and education to VAT taxpayers, by July 2024.
- Develop more targeted awareness programs and materials to address key concerns of stakeholders, by July 2024.

E. Filing and Assessment

48. All VAT returns are required to be submitted electronically. This is a positive move by the authorities—ensuring that there is no mechanism for taxpayers to file paper-based returns. Kiosks were put in place to guide taxpayers on how to file electronically.

49. On-time filing compliance of VAT returns is low for all taxpayer segments, and a substantial number of taxpayers have not filed VAT returns. There are several reasons for low VAT filing compliance, which includes lack of awareness of how to complete and file VAT returns, delays in registering taxpayers prior to the launch date⁵, and lack of timely filing enforcement by the OTA. The following is a summary of filing compliance levels:

- Average VAT on-time filing for large taxpayers in 2023 was approximately 26.6 percent and 23.6 percent for non-large taxpayers. Late filing of VAT returns will have a negative impact on timely receipt of VAT collections as taxpayers that chose not to file on time also do not pay on time. Timely receipt of VAT collections is critical.
- Approximately 18,000 expected VAT returns were not filed in 2023, including 1,800 VAT returns from large taxpayers. This represents a substantial risk to VAT revenue performance as those taxpayers who have chosen not to file also opted not to pay VAT. In addition, when a VAT return is not filed, this eliminates the ability to identify the taxpayer's liability, detect inaccurate reporting, and could distort accurate reporting of the stock of VAT arrears.

50. Monitoring of on-time and non-filing of VAT returns is ineffective and needs to be strengthened as the data shows filing compliance remains the same across all 12 months. The following highlights key reasons: (i) the Inspectorate Sales Tax does not have a dedicated team that has accountability and responsibility for monitoring filing compliance; (ii) the Inspectorate Sales Tax does not have standard operating procedures that outline all possible actions to be taken to increase on-time filing of VAT returns and for securing returns that have not been filed; and (iii) the IT compliance module that detects late filing and fully supports enforcements actions was only delivered in July 2023.

51. Measures are needed to strengthen VAT filing compliance. A small compliance team should be established to secure current missing VAT returns, ensure timely follow-up on taxpayers who have failed to file, and timely assessed taxpayers have not filed. This should also apply ensure timely payments. As a starting point, the team should prioritize improving filing/payment compliance of large taxpayers, given their importance. In addition to sending the traditional filing reminder and warning letters, the compliance officers should make direct contact with the taxpayer to find out the reasons for not filing VAT returns on time. If the taxpayer needs further education or assistance on how to prepare the returns, this should be provided. If the taxpayer chooses not to file the required VAT returns, the team should generate an estimated assessment. The DoTC should consider if technical assistance is needed to prepare filing and payment standard operating procedures and if training is needed to build capacity. Regarding payment, the team should work with the Inspectorate Collections to

⁵ During 2023, additional taxpayers were registered for VAT, however, if these taxpayers should have been registered by January 1, 2023, because they met the VAT threshold prior to the launch, then their effective date of registration would be January 1 which then increases the number of late filed returns.

determine if any VAT payments were placed in the suspense account and changes made to post the unidentified payment to the right taxpayer account.

Recommendations

- Establish a small team dedicated to closely monitoring compliance with VAT registration, Filing, and payment requirements, by March 2024.

F. Payment and arrears management

52. Taxpayers pay VAT electronically through their banks; however, the payment process used to secure and post payments into the new IT system have not been strengthened along the lines recommended during 2022 FAD mission. Some VAT payments cannot be posted to the taxpayers' account and are placed in one of two suspense accounts—due to incorrect/no FIN, no tax period stated, or no tax type indicated. This has implications as to the accuracy of taxpayers' accounts, the level of VAT arrears and refunds, and, more importantly, the reporting of tax revenue per tax type. Currently, taxpayers do not have the option to pay VAT online directly to the OTA. Implementation of this solution would facilitate the timely and accurate recording of VAT payments.

53. Not all 2023 VAT liabilities have been posted to taxpayers' account ledgers, creating a risk to the accuracy revenue data and taxpayers' accounts. VAT return data provided to the mission by OTA indicates that SRD 2.7 billion was declared as payable. Most of these declarations are yet to be posted to the respective taxpayers' accounts—due primarily to the authorities focusing on the processing of VAT refund claims, and several declarations found with data issues. This poses significant risk, where taxpayers have made payments, and the corresponding liability is yet to be recognized in the system.

54. The OTA does not have a complete and accurate reporting of the stock of arrears. The following are the key reasons for this: (i) failure to post reported VAT liabilities to taxpayers' accounts and not being able to track VAT refunds paid to taxpayers who may have used credits to offset payables for subsequent periods; (ii) the OTA cannot consolidate the amount of stock of arrears for all core tax taxes, as currently there are two independent IT systems; and (iii) taxpayers who have failed to file VAT returns have not been assessed; and (iv) limited capacity and system to detect inaccurate reporting, as the OTA audit program has been limited to VAT refund audits. There are no standard operating procedures to guide tax officials to use the full suite of enforcement actions to collect arrears and the current IT system does not fully support the management of VAT arrears.

55. It is estimated that the amount of VAT arrears could be at least SRD 1.0 billion. Table 5 shows the total payable reported on VAT declarations and payments made to the authorities. The computed balance does not include penalty or interest for late filing or payment, or audit assessments.

Table 5: VAT Payable and Paid (SRD million)

Domestic VAT	Value
VAT Payble	2,731.8
less Collected paid	1,685.8
Balance	1,046.0

Source: Compiled by the mission from data provided by DoTC.

56. Ensure timely posting of all VAT returns to record taxpayers' liabilities and the overall status of each taxpayer account. This is to be done before the end of the month following the due date for filing, ideally within 24 hours of filing. Posting liabilities promptly ensures that the taxpayers' accounts accurately reflect the current position of each taxpayer, provides management with information on the amount of tax due, level of tax arrears, refund claims and due, assessments, facilitates timely off-setting of refunds against liabilities and level of penalties and interests imposed. This is also important to taxpayers—knowing the exact amount of liabilities helps in managing cash flow effectively. It allows taxpayers to plan for upcoming payments and avoid liquidity issues.

Recommendations

- Process all outstanding VAT returns received to date and post the respective liabilities to taxpayers' accounts, by March 2024.
- Identify and take to steps to collect VAT arrears, by April 2024.

G. Audit

57. The Inspectorate of Sales Tax has been focusing on auditing VAT refund claims. Priority has been given to examining VAT refund claims, given the legislative requirement to complete processing of VAT refunds within 30 days. The OTA needs to go beyond the investigation of VAT refund cases, as VAT registrants may be under-reporting on payable VAT returns.

58. Critical components of an effective audit program are not in place. The following are several key components of an effective audit program that are currently missing: (i) there is no documented annual VAT audit plan that sets out the overall priorities and targets for detecting inaccurate reporting of VAT; (ii) audit risk selection criteria has not been developed that prioritizes audits; (iii) audit standard operating procedures have yet to be fully developed; and (iv) management of the VAT audit process is largely manual as the expected IT audit functionalities and features are not yet in place.

59. The auditing of VAT refund is not fully based on risk to VAT revenue. The OTA reports that 237 audits were completed. This resulted in a reduction of refund claims from SRD 175 million to SRD 116 million – a reduction of SRD 60 million, or 33.9 percent of the value of refund claims. However, audits are conducted on a first-in–first-out basis, to complete audits within the legislative prescribed time of thirty days.

Recommendations

- Develop a 2024 VAT audit plan and select audit cases based on limited risk criteria and findings discussed in Chapter IV, by June 2024.

H. VAT Refund

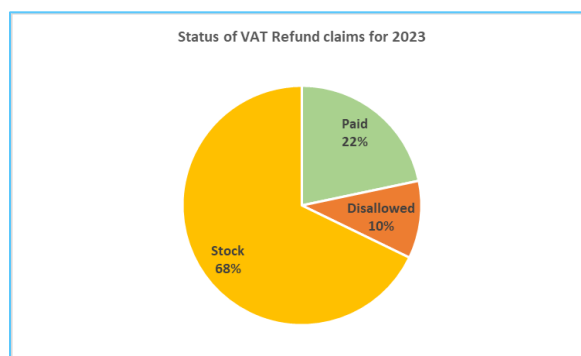
60. The filing of a credit VAT return triggers an immediate request for a refund, a formal request is not required. The VAT Act follows international good practice as the refund process commences once a credit return is filed. Where a legitimate refund exists, the authorities have 30 days from the date of filing to pay the refund. Interest is due and payable on approved delayed refunds. However, the OTA has not processed VAT returns timely, this has undermined the effectiveness of the VAT refund process.

61. Timely processing of VAT refunds presented a major challenge in 2023, as the refund functionality in the new IT was not deployed at the time of implementation. The Inspectorate Sales Tax has introduced a refund profiling mechanism that accelerates the processing of VAT refunds by developing three segmentation thresholds—if claims fall below the respective threshold, they are processed for payment without audit/examination; otherwise, the claims are sent for review. Initially, this has been done outside of the main IT system, but plans are in place to use the new IT system starting in at the end of January 2024. For the most part, the monitoring of VAT refunds is manual, including determining the average time taken to process refunds, the number and value of refunds processed, paid, and declined.

62. There is no system in place to refund persons who are not VAT registrants. Where there is a cause to refund a non-VAT registrant importer for VAT paid on imports, the Collector of Customs refunds the related duties and taxes but not the VAT. The importer is referred to the OTA. The initial view of the OTA is that no refund is due. Persons and entities entitled for VAT-free purchase may pay VAT and would be entitled to claim VAT refunds. The authorities indicated that this would have to be considered and the possibility of enhancing the IT system. While the legislation does not specifically provide for this, the clear intention of Government is that this category of persons is not so suffer VAT if items are acquired on terms specified in the Act. For certainty, a VAT Order, pursuant to Article 17, can provide for this.

63. The value of VAT refunds and the number of cases is significant and are likely to increase as VAT filing compliance increases. VAT returns submitted in 2023 reflect total credits of SRD 989 million. SRD 214 million (21.6 percent) was paid by the end of 2023. As at the end of December 2023, the stock of refund value was about SRD 671.0 million (67.8 percent), (Figure 3). An estimated SRD 11.5 million is expected to be paid by the end of January 2024.

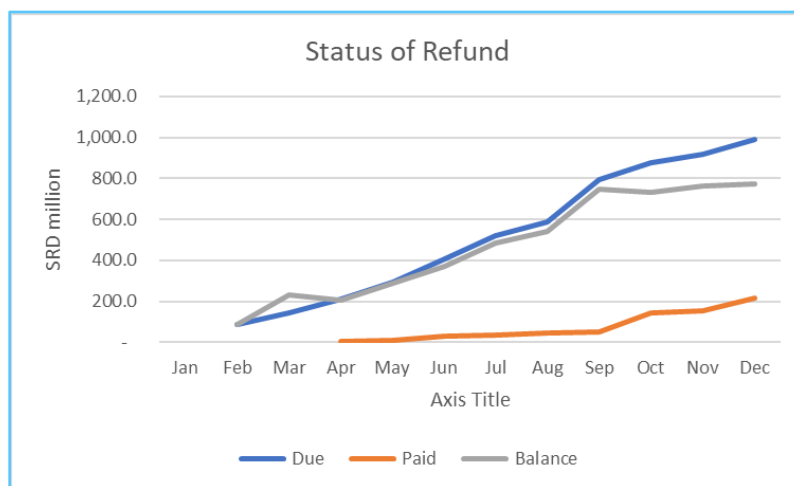
Figure 3. Status of VAT Refund Claims



Source: Compiled by the mission from data provided by DoTC.

64. The refund gap is widening. If the number and value of claims are not processed and paid promptly, the stock of refund claims will increase faster each passing month. Figure 4 shows the status of the gap as of December 2023.

Figure 4. Status of Accumulated VAT Refund



Source: Compiled by the mission from data provided by DoTC.

65. The OTA has the authority to use revenue collections to pay VAT refunds. The Collector of Direct Taxes is responsible for the payment of VAT refunds.

66. The VAT law provides for interest to be paid on delayed legitimate refund claims. Interest is due on refund claims if payment is made after 30 days of the claims. However, the authorities are yet to compute, apply and pay interest on delayed refunds. One reason given, is that the functionality in the IT system is yet to be deployed. The fact the functionality is not yet in place in the new IT system is not a reason for interest not to be paid, this amounts to a breach of the law. The authority should take immediate steps to rectify this breach and commence the payment of interest.

The way forward

67. Refunds are a key feature of a well-designed and functioning VAT system. Paying legitimate tax refunds promptly while having safeguards in place to prevent payment of fraudulent refund claims is essential. A good refund system should, therefore, include: (i) a process to authenticate VAT registrants; (ii) a purpose-built automated risk assessment system to review all VAT refund claims made against clearly identified risk criteria (to distinguish refund claimants with good compliance history from those with poor or unknown compliance histories); (iii) special arrangements or schemes for regular exporters; (iv) provision for payments of interest on delayed refunds; and (v) a funding mechanism to ensure all approved refunds are paid on time. Good practice calls for the payment of refunds from VAT collections, not from the general budget.

68. Suriname operates an invoice-based VAT system, for which VAT is accounted for on an accrual basis. Refund entitlements are, therefore, inevitable. In Suriname, taxpayers do not have to make a formal request, as every credit declaration is deemed to be a refund claim. The law provides for refunds to be paid within thirty days of a claim being made. It stands to reason that an efficient system must be in place for the timely processing and payment of approved refunds.

69. The authority needs to forecast the level of VAT refunds. Having 11 months of data from tax declarations, information from verification and audits including registration, know-your-taxpayer—identifying taxpayers who are importers and others who regularly have zero-rated supplies above 70 percent of total supplies—can assist in estimating the level of monthly refund claims. Given the early stage in the life cycle of VAT, the best estimate may have to be done while a system is put in place to build capacity and increase access to third-party data.

70. The average monthly claim in 2023 was SRD 82.9 million. This represents 24.2 percent of gross monthly collection and 18.0 percent of payable reported on VAT declaration and collection on imports. A review of 413 claims resulted in a 33.9 percent reduction, and with improved business and compliance processes, there is a fair possibility that revenue will increase. It is not clear what is the amount of refund projected for 2024, notwithstanding a net collection of SRD 5,550 million projected for 2024.

71. A funding source should be identified. The preferred view is for a percentage of the collection from domestic operations and/or from imports to be set aside monthly into a special VAT Refund Bank Account (VRBA), and the balance remitted to the Treasury; this is subject to legislative approval. Subject to internal controls, this VAT account should be managed by the Collector responsible for collecting VAT, and monthly reports should be submitted to the Ministry of Finance, the Director of Taxes, and the Inspector of Sales tax.

72. As a start, consider depositing 15 percent of monthly collections to a VRBA. Using the projection of SRD 5,550.0 million, 15 percent amounts to SRD 832.4 million, or SRD 69.4 million monthly. This is necessary to prevent the widening of the refund gap, as seen in Figure 4.

73. An approved refund should not be paid if a taxpayer has not filed all previous VAT returns. Consideration should be given to changing the claim's date to the date(s) when all returns previous returns have been filed, or to date(s) when the authority makes an assessment for the unfiled returns. Legislative changes or rules may be needed to effect this.

- 74. The VAT return should be properly completed.** Where a tax declaration is incomplete, the taxpayer should be asked to refile a complete return, and for which the claim date, for the purpose of processing the refund, should be the date when the revised return is filed.
- 75. Where there is a cause to audit a refund claim, consider suspending the claim date to the date on which the assessment notice was issued.** In such a case, the Inspector would have to notify the taxpayer, within 30 days after the refund claim was made, of his intention to audit. The audit must be completed within four months of the claim. In addition, the statutory deadline should be extended if taxpayers have failed to respond within a reasonable period to verification enquiries. For completeness and clarity, this should be stated in the VAT Order as per Article 17 (8), discussed below.
- 76. Amendments to the VAT Act may be required to give effect to some of the recommendations.** Article 17 (8) provides that the “*Minister may, by order, lay down detailed rules for the refund of tax, credit and interest to be reimbursed in accordance with this article*”. Consider using this provision to effect suggestions made in this chapter; if not, amendments will be required within Article 17. Of note, Article 17 (3) already provides for the Inspector to suspend the payment of refund for a period not exceeding two months, and for which he must notify the taxpayer, in writing, of the reason. A similar provision could be made for a “cause to audit.”
- 77. The Order to be developed for the processing of refunds should clearly sets out when a person’s “right to a refund of tax arose.”** The general view is the right to a legitimate refund is due when a credit return is filed. However, there are several situations when this may not be applicable, e.g., —a credit declaration is filed before the due date or an incomplete declaration. This should be addressed pursuant to Article 17 (8).
- 78. In addition to the existing fast-track system of paying refunds before an audit, consider developing criteria to identify low-risk taxpayers.** One such group of taxpayers are exporters who have (i) demonstrated over the last 12 months that average monthly Zero-rated (export) supplies are over 75 percent of total supplies, and (ii) have been audited and found to be compliant—filing accurate and timely tax returns, keeping proper books and record, and have good internal controls. A short workshop was conducted demonstrating how to analyze VAT return data and develop key sector and performance ratios. As discussed, the developed risk criteria should be done using the three-lane approach—green for low risk, fast-track; orange for medium risk, quick desk review; and red for high risk requiring audit.
- 79. Verification of VAT refund claims should be a component of a wider audit program aimed at achieving broad coverage of taxpayers and compliance issues.** Ideally, pre-refund audits should be limited to high-risk cases (e.g., the first refund claim by a new registrant), while lower-risk claims should be subjected to selective post-refund audits⁶.
- 80. Appropriate sanctions should be consistently applied to taxpayers who falsely claim refunds or do not comply with record-keeping requirements.** Refund-related fraud should be prosecuted through the criminal justice system.
- 81. Additional technical support is urgently needed.** Request technical assistance for: (i) developing risk criteria and VAT refund SOPs and (ii) building technical capacity. FAD has several publications on VAT refunds.

⁶ Best practices for value-added tax refunds—how to mend the “Achilles ...

Two of the latest publications are How-to-Note on “*How to Manage Value-Added Tax Refunds*”⁷ and “*How to Combat Value-Added Tax Refund Fraud*”⁸.”

Recommendations

- Establish a dedicated VAT Refund Bank Account and identify the funding source to pay VAT refund by March 2024.
- Forecast the level of refunds needed for 2024 by March 2024.
- Commence depositing, monthly, 15 percent of gross VAT collected, subject to the amount forecasted, by April 2024.
- Implement VAT refund risk assessment criteria, by March 2024.
- Develop a refund procedure for non-VAT registrants who are entitled to VAT refunds, by July 2024.
- Develop and publish VAT rules in line with Article 17 (8), by July 2024.
- Commence payment of interest on VAT over-due refunds, by June 2024.
- If necessary, request technical assistance for developing risk criteria and standard operating procedures, by March 2024.

I. Information Technology

82. The implementation of the new IT system is a welcomed step and is producing positive results, notwithstanding the many challenges being faced in its implementation. Taxpayers can register and file tax declarations online. Tax authorities now have access to timely information, which is being used in the management of VAT. In addition to an online portal, the authorities have acquired two systems—Multi Tax System (MTS) and Multi Collection System (MSC) and linked through interface. The MTS is primarily used for registration, filing, assessment, and the determination of tax liability. The MCS is used for collection, payment of refund and collection enforcement. See Appendix II for modules and functionalities deliverables by the IT supplier.

83. VAT implementation and administration have been significantly impacted by delays in having a fully operational IT system that supports all core tax administration functions. International experience shows that successful implementation of VAT is predicated on the availability of a complete and integrated system that supports all core tax administration functions. While several modules have been delivered, several key functionalities were delivered late, and others have not yet been developed, evaluated, and deployed. Table 9 provides a summary of the releases, the period delivered, and the impact on operations. Ideally all modules and functionalities should have been in place prior to January 1, 2023.

⁷ [How to Manage Value-Added Tax Refunds \(imf.org\)](#)

⁸ [How to Combat Value-Added Tax Refund Fraud \(imf.org\)](#)

Table 6. Status of the Delivery of Tax Administration System

Tax administration IT functionality	Release date	Possible impact on VAT implementation
Online VAT registration and assignment of FIN	October 2022	Released in time to allow VAT registration to take place.
Online filing of VAT returns	January 1, 2023,	Delivered on time (first VAT returns due by February 16, 2023).
Processing and Assessment of VAT returns	June 2023	Should have been in place by February 16, 2023. This impacted the timely processing of VAT refunds as there were no assessments in the system, and taxpayer account ledgers were not kept up to date.
Receipt and recording of VAT payments	February 1, 2023	Delivered on-time (VAT registrants were expected to make payments at the same time they filed VAT returns in February)
Monitoring filing/payment compliance	July 2023	Should have been in place by February 16, 2023. The impact is the DoTC did not know which VAT registrants did not file VAT returns and make payments on time. This delayed enforcement actions to address late filing and non-filing of returns, which impacted revenue performance.
Management of VAT arrears	July 2023	Accumulation of VAT arrears could have started in February 2023. The delay has impacted timely identifying, processing, and collecting arrears which has a potential on revenue performance. The new IT system provides limited support for collection of arrears (e.g., only supports sending of reminder letters).
Management of VAT refunds	July 2023	This was not ready for the processing of refund claims made in February 2023. This has significantly impacted on the processing of claims, as most claims were manually processed.
Management information reports	Still ongoing	Not all expected management information reports were released which requires OTA management to manually prepare reports.

84. The absence of a fully integrated system required the OTA to develop interim solutions outside of the system. For example:(i) processing and assessing of VAT returns had to be done outside of the system, which meant taxpayers accounting ledgers did not accurately reflect the amount of refunds a taxpayers were entitled to and the amount of arrears; (ii) slippage in releasing management information reports meant the OTA had to manually produce these; (iii) absence of automated solutions to support audit and collection enforcement activities meant work could not be easily be prioritized (e.g. lack of audit risk selection criteria) and actions need to be maintained outside the system.

85. There is a lack of clarity as to what should have been delivered and by when. The mission was told that the initial discussion to acquire this IT solution did not include VAT as a priority. When the government decided to give priority to implementing VAT, the IT provider was asked to support this implementation without producing an updated specification as to what would need to be delivered and by when. This has resulted in an ad-hoc series of discussions as to what and when to deliver.

86. The system lacks all functionalities to effectively manage VAT. The key features that are not currently in place: (i) online payment portal for taxpayers to make VAT payments; (ii) taxpayers can register and file online but they do not have access to view their taxpayer account details online; and (iii) several management information reports are missing.

87. There is no approved strategy/plan for incorporating management of all core tax types under the new IT system. The current legacy IT system handles the management of other core taxes such as CIT, PIT, and Wage Tax, and the new system handles VAT. Current discussions are targeting January 2025 to incorporate all core taxes into the new IT system. However, this creates a substantial institutional risk, as until the systems and data are integrated, there will not be a single and consolidated view of a taxpayer's compliance history (e.g., no single taxpayer register, no single view of all tax returns and payments, no single view of a taxpayer's account and financial status). This can have an impact on revenue performance (e.g., VAT refunds are paid even though the taxpayer has arrears on other tax types).

88. All remaining modules of the new IT system should be deployed in 2024. The authorities and the IT provider should revisit the piecemeal approach being taken in the development and delivery of the modules and functionalities. Ensure that a single taxpayer accounting system is in place that maintains detailed accounts for each taxpayer. Most business processes should be automated.

89. Ideally, the tax administration needs to have a single tax administration integrated tax system. While the MTS and MCS are currently designed around the current organizational arrangements, if feasible, consideration should be given to redesigning the system to have a single system, single taxpayer accounting ledgers showing details of all transactions and the states of each.

Recommendations

- Develop an implementation plan that would guide the development, testing, and deployment of the remaining VAT functionalities, by April 2024.
- Finalize the development and deployment of all management information reports for all core tax administration functions, by April 2024.
- Finalize development of all audit and collection enforcement functionalities, by April 2024.
- Develop an option to allow taxpayers to submit VAT payments online, by December 2024.
- Develop and deploy a facility that allows VAT taxpayers to view their transaction and account details online, by September 2024.
- Develop a strategy and plan to integrate management of CIT, PIT, Wage Tax, and VAT under the new system, by August 2024.

IV. Analyzing VAT Operational Performance in Accurate Reporting

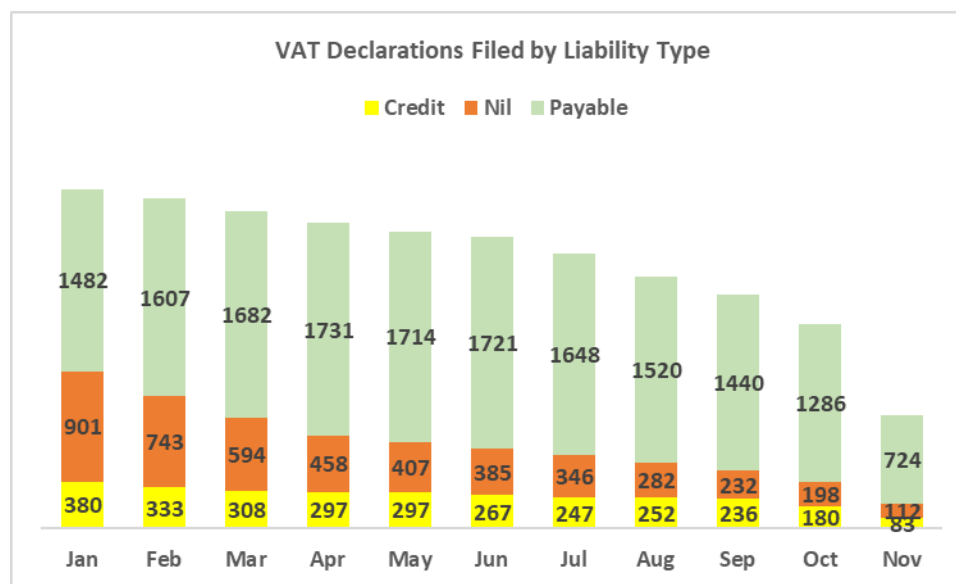
This section provides an analysis of the financial information submitted by taxpayers on their VAT declarations. While Chapter III discusses the core function processes, this chapter takes a deeper dive in analyzing the filing and reporting of VAT tax declarations. It speaks to the importance of analyzing and understanding how accuracy of reporting can be used as a key driver for identifying issues affecting compliance and the effectiveness of other core functions and provide guidance in developing compliance improvement plans.

90. The mission analyzed VAT declaration data to identify reporting issues. The findings provided insights into the first year of filing, which can be used in developing a compliance program. There are some data quality issues attributed to data entry errors by taxpayers and/or system designs. Analysis of any VAT financial data starts by having a good understanding of the design of the VAT return form and the information required by the tax authorities. Key to the analysis is the use of ratios to identify trends in accurate reporting and the implications for revenue.

91. Taxpayers are expected to file VAT declarations by the 15th day following the tax period. The information is needed by the tax administration to determine the tax liability for each taxpayer, total expected revenue, the level of refund claims, and for the efficient administration of the tax. Omission of key information limits the ability to conduct analysis, risk assessments, and planning. For the period reviewed, January – November 2023, two key data fields are not included on the VAT declaration form or in the tax system data table: total supplies and exempt supplies. Additional information, such as VAT paid/collected on purchase/sales of capital items, is not requested. The value of exempt supplies is needed for determining the level of exempt supplies relative to total supplies and is used to determine allowable input VAT where taxpayers are engaged in mixed activities. Up to mid-November 2023, 2,881 taxpayers filed 24,093 tax declarations.

92. Declarations filed have three outcomes – tax payable, credit/refund, or nil. Of the number of declarations filed, 16,555 (68.7 percent) were payable, 2,880 were credits (12.0 percent), and 4,658 (19.3 percent) were nil—had no liability or credit (Figure 5). A review of the nil declarations should be conducted to identify the taxpayers and the reasons for such filings.

Figure 5. VAT Declaration Filed by Net Liability



Source: Compiled by mission team from data provided by the DoTC.

93. It is important that declarations are correctly completed. For example, several declarations reported (i) output VAT but no supplies; (ii) deferment on imports, notwithstanding that this is yet to be implemented; and (iii) output VAT relating to zero-rated supplies. A mechanism should be in place to verify the completeness of declarations at the time of filing and, in some cases, prompt taxpayers to know that the declaration is incomplete. More analysis needs to be done to identify incomplete and inaccurate declarations.

94. Several declarations showed overstated values. The declarations reviewed indicate that the figures were multiplied by 1,000; for example, a taxpayer’s declaration for one tax period showed tax payable of SRD 6.8 billion; this was corrected to SRD 6.8 million. It is not clear if this issue is caused by a system design or taxpayers’ data entry error. It was observed that the overstated values related to all the financial data on the respective declaration. The analysis of the returns filed (January to November 2023) showed total VAT credits amounting to SRD 2 billion and payables of SRD 15 billion, with net VAT due of SRD 13 billion. However, the authorities have been reviewing, cleaning, and assessing the declarations offline. This is now showing VAT payable of SRD 2.7 billion, credit/refund of SRD 0.9 billion, and net position of SRD1.7 billion, showing the magnitude of the data issue. There is a need to investigate the cause, as errors are not easily detected on low transaction declarations⁹. Table 6 shows the amount initially reported and the revised values¹⁰ for VAT declarations filed up to mid-November 2023.

⁹ The DoTC indicated that they developed an awareness program by sending information to taxpayers not to use the dot (.) when filling their tax return, suggesting that the error was caused by a design issue.

¹⁰ Not all VAT declarations have been reviewed by the authorities, the focus was on high-value transactions.

Table 7. Initial VAT Information Submitted against Amount Revised

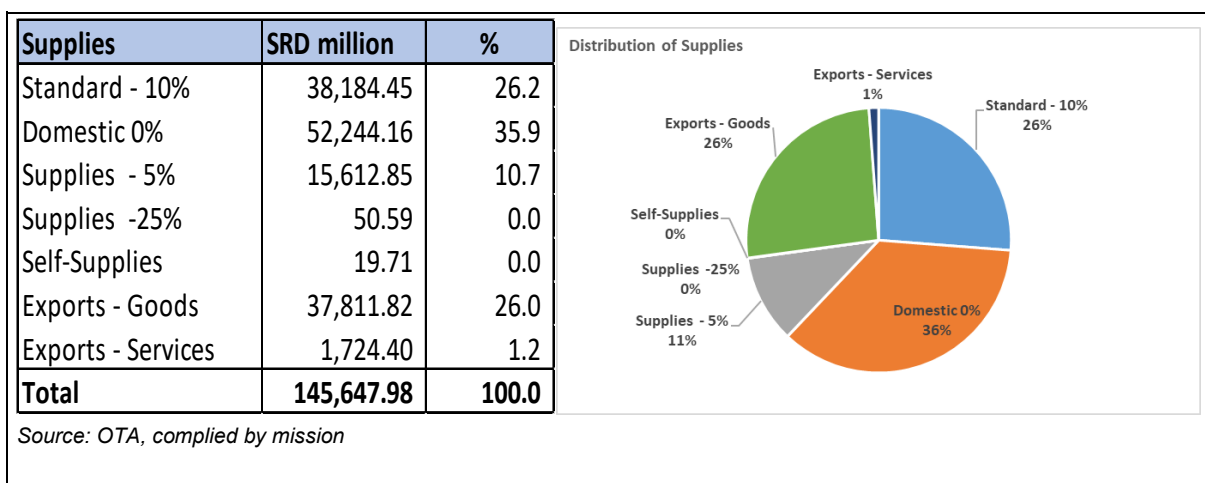
Fields	Initial	Revised
Taxpayers	2881	2881
No. Returns	24,093	24,093
	<i>SRD million</i>	
Total Supplies	395,716.7	145,648.0
Supplies- Standard rate	204,402.3	38,184.4
Zero-rated Supplies	175,491.9	91,780.4
Supplies- positive rate	220,224.8	15,683.2
Output VAT	25,727.5	5,047.8
Input VAT	12,115.2	3,202.5
Net VAT	13,612.4	1,845.3

Source: OTA, compiled by mission team

95. High level of zero-rated supplies appeared to generate a large number and value of credits. Credit declarations amounted to 17.4 percent of the returns filed, with credit/refund valuing 26.5 percent of domestic tax payable. When annualized (aggregating returns per taxpayer), there were 384 taxpayers (13.3 percent) with credits amounting to 23.0 percent domestic tax payable or SRD 552.5 million down from \$666.5 million. This implies that there are taxpayers who filed both credit and payable returns.

96. Zero-rated supplies (domestic and exports) represent 63.1 of total supplies. Further breakout shows that domestic zero-rated supplies accounted for the largest share (35.9 percent) of total supplies and 56.9 percent of total supplies at 0 percent. Export supplies accounted for 27.2 percent of total supplies. With the September 2023 amendments to the VAT Act—shifting most zero-rated items to exempt—it is expected that there should be a reduction in the ratio of domestic zero-rated supplies to total supplies. The value of taxable supplies made to VAT-free persons (public bodies and specified entities who are permitted to purchase goods and services at 0 percent) is unknown, as the amount is not being captured. This could cause the ratio to remain high due to the level of purchases and with some suppliers continue claiming refunds. The authorities should put a mechanism in place to capture VAT-free sales information using tax declarations.

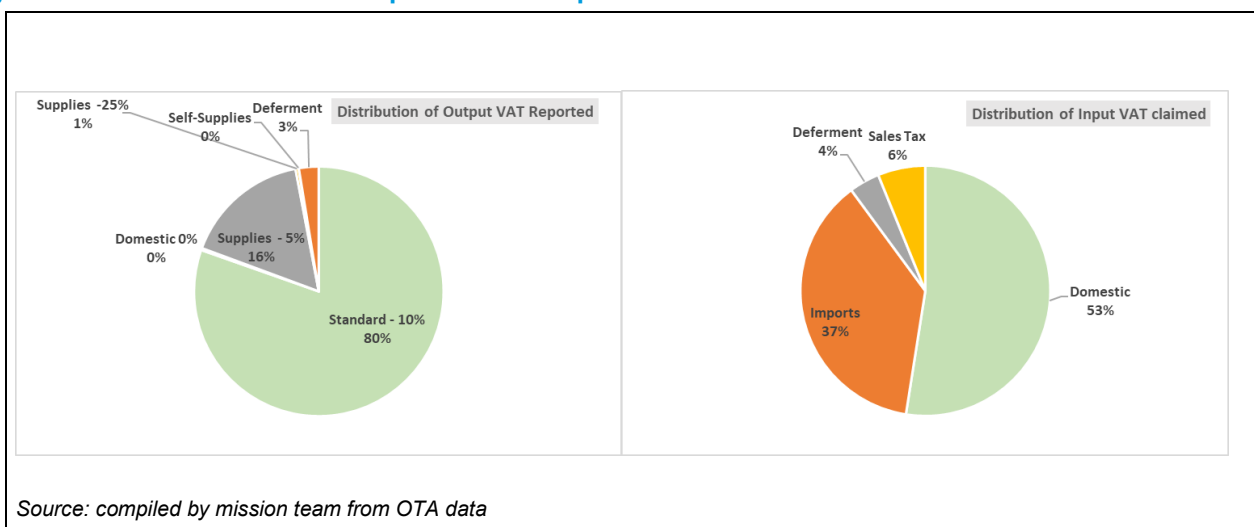
Figure 6. Categories of Supplies



97. A review of the total output VAT reported and input VAT claimed shows inconsistency on how taxpayers completed their declarations. Noticeably, taxpayers are reporting a high level of deferment, which is yet to be implemented. Deferment relates to VAT due on goods imported but not paid at the time importation. The amount deferred is to be reported as an output VAT, and the allowable amount reported as input. Taxpayers reported 0.3 percent output VAT on zero-rated supplies, suggesting inaccuracy in completing the returns. All are speaking to data integrity issues.

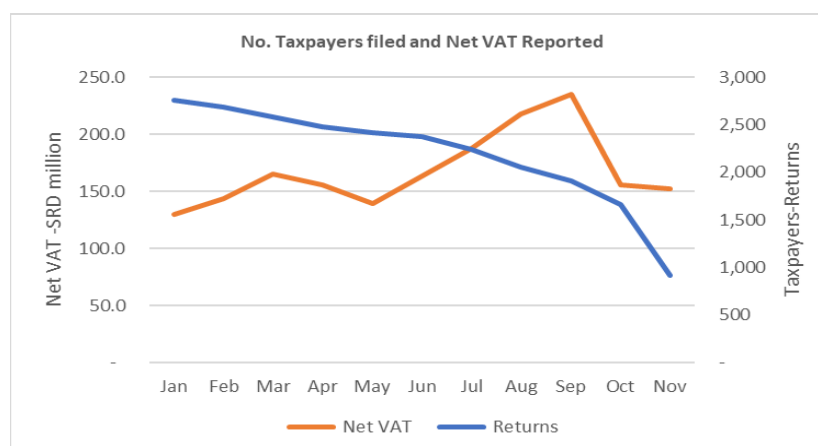
98. Output VAT on standard-rate supplies and domestic input VAT accounted for the largest share of total output and input VAT, being 80.4 and 52.5 percent, respectively. Approximately 0.4 percent of output VAT was reported on supplies at 25 percent—the government may want to look at this policy. Just under SRD 200 million (6.2 percent of input VAT) was claimed for Sales Tax rebate—applicable to goods on hand, January 2023, for resale on which Sales tax was incurred. The rebate is aimed at preventing the cascading of taxes and to cushion price increases—423 VAT returns filed by 102 taxpayers claimed Sales Tax rebates. Twenty-seven taxpayers “claimed” over SRD 1 million, of which six taxpayers have claims of over SRD 10 million each. One taxpayer “claimed” for SRD 45.1 million. Again, this could have been a data issue; however, all these claims should be examined.

Figure 7. Distribution of Total Output VAT and Input VAT



99. Net VAT reported for the reviewed period averaged SRD 163.9 million monthly. This represents 73.5 percent of VAT payable against a credit of 26.5 percent. Net VAT reported peaked in August and September, while the number of declarations declined (Figure 8). The number of taxpayers filing VAT returns is trending in the wrong direction and is of concern. Follow-up action is needed.

Figure 8. No. of Taxpayers Filing Monthly Returns and Net VAT Reported



Source: Compiled by the mission from data provided by OTA.

100. Key sectors and large taxpayers account for the largest contribution of VAT reported. Large taxpayers accounted for over 90 percent of net VAT reported. This level of reporting by large taxpayers suggests under-reporting by medium and small taxpayers. With respect to sectors, the mining sector was the main contributor with 30.0 percent, followed by manufacturing with 20.6 percent and wholesale and retail sectors with 19.4 percent. The construction sector recorded the largest credit/refund with 5 percent of net VAT. There is a need to conduct a registration audit, starting with the large taxpayers, ensuring that the business sector assigned to taxpayers accurately reflects taxpayers' primary business operations.

101. It is important to take a further look at the performance of sectors and their contribution using key performance ratios. These ratios are used to develop industry benchmarks, identify high-risk sectors and taxpayers, compute tax-at-risk, identify abnormalities, and guide policy discussions. Four key ratios are used in this analysis: (i) Zero-rated Supplies to Total Supplies (ZRS/TS) (ii) Net VAT to Total Supplies (NT/TS); (iii) Total Output VAT to TS (TOT/TS)-effective rate); (iv) Total Input VAT to Total Output VAT (TIT/TOT). Table 7 sets out the key performance areas for each sector and at the national level.

Table 8. Sectors Contribution and Performance

Sector	Taxpayers	Net VAT Contr.	ZR-TS	NT-TS	TOT-TS	TIT-TOT
		Percent				
Administrative and support services	120	0.6	75.6	0.4	2.5	83.7
Agriculture, forestry and fishing	147	(3.7)	67.0	(0.8)	2.4	132.5
Arts, entertainment and recreation	11	0.2	6.6	6.5	9.3	30.9
Construction industry	104	(5.0)	56.8	(3.8)	4.4	281.7
Distribution of water; waste water management	2	0.0	-	4.3	10.0	57.1
Education	11	(0.0)	84.5	(1.3)	1.5	185.5
Extraterritorial organizations and bodies	2	0.3	-	10.5	10.5	-
Financial activities and insurance	77	9.1	62.5	1.0	4.0	75.8
Households production	2	0.0	-	0.3	10.0	97.1
Human health and social services	12	(0.2)	99.3	(1.5)	0.1	2,365.0
Manufacturing	333	20.6	37.7	3.8	6.7	43.6
Information and communication	110	10.7	24.6	5.8	7.9	25.9
Professions and scientific and technical activities	183	4.1	21.9	12.4	8.1	24.6
Mining	68	30.0	82.5	0.9	1.0	15.0
Other services	25	0.2	13.8	6.1	8.6	29.0
Production and distribution of electricity, gas,	5	(2.9)	92.4	(2.4)	0.9	371.3
Providing accommodation and meals	167	6.6	3.1	5.7	9.1	37.1
Public administration and defense; compulsory social insurance	4	0.4	-	8.7	10.0	13.3
Real estate activities	53	3.0	13.4	8.3	8.7	4.6
Transport and storage	87	6.5	41.1	2.8	5.1	44.5
Wholesale and retail trade; repair of cars and motorcycles	1358	19.4	39.5	1.3	6.0	78.6
Overall	2881	100.0	63.0	1.3	3.4	65.2

Source: OTA, compiled by mission team.

- Zero-rated to Total Supplies.** This ratio measures the extent to which goods and services are taxable at 0 percent relative to total supplies. The higher this ratio, the more likelihood of the government collecting low amounts of VAT from the domestic side, increasing the possibility for a higher level of refunds. Eight sectors had ratios above 50 percent, with household production and mining showing the largest. Taxpayers within sectors with ratios above 70 percent are more likely to be in a refund position. With the recent amendments exempting most zero-rated items, it is expected that there should be reductions in the ratios for most sectors, especially for the financial, agricultural, educational, gas and electricity sectors, and to a lesser extent, wholesale, and retail.
- Net VAT to Total Supplies (NT/TS).** This ratio is mainly used to compute the overall effective productivity rate, which should not be higher than the standard rate. However, there are reasons why the ratio can be higher, for example, other VAT rate(s) higher than the standard rate, deferment reported as output VAT. A ratio is high when there is little or no relationship between input and output VAT, for example, in service sectors that usually have ratios above 6 percent. Trading sectors usually show lower ratios.
- Total Output VAT to Total supplies.** This measures one form of effective rates. Rates in this category should be higher than rates for NT/TS—there is one sector, profession, where NT/TS is higher, this should be examined—review the list of taxpayers within this sector to ascertain abnormalities, including whether persons have been assigned to incorrect sectors or there are incomplete VAT returns.
- Total Input VAT to Total Output VAT.** This shows the amount of input VAT reimbursed to taxpayers from output VAT they have collected. This is a key performance ratio for trading sectors, as most of their inputs are for trading and on which value is added to produced output (sales). For VAT to remain productive, the input-output ratio must be below 100 percent for non-zero-rated sectors. Suriname's overall ratio is 65.2 percent, with five sectors above 100 percent—all showing negative net VAT and (NT/TS). For the trading sector ratio, this would depend on the nature of the sector and value added—e.g., the ratio for wholesale and retail grocery

ranges from 70.0 to 85.0 percent. Suriname is averaging 78.6 percent at the national level, which appears acceptable.

- **Analysis of the ratios for sub-sectors is more meaningful and targeted.** It is best to develop industry ratios at the subsector level. It is clear from Table 7 that there are concerns with the VAT declarations filed, these could be caused by: taxpayers incorrectly completing their declarations; taxpayers assigned to the wrong sectors; incomplete tax declarations; under-reporting-suppressing of sales or overstating input VAT; and misclassification of items.

102. Suriname VAT ratios are outside most of its regional counterparts. As per Table 8, Suriname: (i) Zero-rated supplies is much higher; one reason is the omission of exempt supplies; (ii) has the lowest ratio of taxable supplies (with positive rates) relative to total supplies—this ratio would have been lower if exempts supplies were reported; and (iii) is on par with the input-output ratio and Net VAT to Output tax.

Table 9. Key Performance Ratios for Selected Countries

Performance Ratios	SUR	GUY	BHS	KNA	VCT	LCA	DMA	JAM
Zero-rated supplies / Total Supplies	63.0	45.1	33.8	28.8	21.2	20.4	5.8	16.8
Exempt supplies / Total Supplies		15.2	9.9	22.7	15.0	15.6	21.4	32.0
Taxable supplies (+ve rate) / Total supplies	37.0	39.7	56.2	48.5	63.7	64.0	72.7	51.2
Zero-rated supplies / Taxble Supplies/1	63.0	53.2	37.6	37.2	25.0	33.9	7.4	24.7
Output tax / Taxable supplies	9.4	7.5	6.1	9.6	10.9	10.5	13.7	12.5
Total Input tax / Total Output tax	63.4	78.8	70.5	58.6	63.9	64.5	65.2	68.6
Net VAT Due / Total Output tax	36.6	21.2	29.5	41.4	36.1	35.5	34.8	31.4
Net VAT Due / Total Supplies	1.3	1.4	1.6	3.1	3.4	3.1	3.8	2.7

Source.

Compiled by mission team.

Recommendations

- Review returns to identify reporting errors and incomplete declarations, by March 2024.
- Taxpayers who make exempt supplies should report this on their VAT declarations, immediately.
- Establish a mechanism to capture data on supplies made to VAT-free entities and reduce abuse, by December 2024.
- Conduct registration audit, ensuring that taxpayers are assigned to the current business/sector, by December 2024.
- Conduct analysis on subsectors after cleanup of the returns' data, sectors, and segmentation of taxpayers, by December 2024.

V. Customs Administration of the VAT

A. Overview of Customs Preparedness of VAT

103. VAT implementation at Customs was on time but was incomplete. For several reasons, the implementation was undertaken without full adherence to the many recommendations listed by the 2022 FAD mission and capacity development (CD) assignments leading up to the implementation. Implementation was deemed successful as the VAT was collected on time from imports, though it was conducted with improvisation and compromise and with little or no change to the inefficient systems and structures that exist within customs.

104. Training and information sessions were provided for officers and brokers. With the assistance of CARTAC, information sessions were developed and delivered before the launch. About 25 percent of customs staff were exposed to the principles of VAT. Customs worked in collaboration with a communication consultant to develop guides, flyers, and booklets and were involved with the OTA in delivering information to stakeholders.

105. A dedicated customs implementation team was not established. Customs considered it difficult, due to severe staff shortages, to dedicate staff full time to the VAT implementation project. Most senior officials, identified to be part of the team, remained in their substantive posts, and contributed to VAT implementation in an ad hoc manner. This resulted in gaps between the policy decisions of the government and the general staff of customs, as the staff were not properly informed of the policy and general information relative to the implementation of the VAT.

106. The implementation was done without the procurement of a new server. Three servers were required for VAT implementation: (i) a 'live' server to operate the day-to-day processing of declarations in ASYCUDA World; (ii) a backup server maintained in case of a failure of the live server; (iii) and a User Acceptance Testing (UAT) server that would be used for development, testing and training purposes. No UAT server was procured; the backup server was used for this purpose – a highly risky course of action. This also severely hampered the implementation process, as the significant preparatory work that needed to be done in the ASYCUDA System to allow for the smooth transition of the VAT could not be done. The new tariff incorporating HS2017, the VAT rates, the list of exemptions, zero-rated goods, and all the newly created customs procedure codes could not be uploaded into the ASYCUDA World System in time for the implementation. Funding was obtained from the Inter-American Development Bank in the first quarter of 2023 to purchase the servers.

107. Customs is still operating with the HS2012 tariff. The work to configure the tariff to HS2022 only commenced in June 2023 and is still ongoing. The mission was informed that the current upgrades will focus on ASYCUDA 4.3.3 and the HS2022. The HS2022 is currently being reviewed at the Ministry of Commerce and its implementation will ensure that the tariff is fully up to date with current world standards.

108. At implementation, the VAT Law had been enacted, but no Harmonized System (HS) codes were in place to codify the exemption list. The lists (schedules) of exempted and zero-rated goods had not been specifically determined at the time of launch. This significantly limited the scope and pace of preparedness of the customs as these lists needed to be specifically configured into the tariff with tariff numbers, procedure codes and rates. The mechanism within the system for the administration of the Sales Tax was used as an interim measure.

This created a situation where, in some cases, VAT was charged on goods where it should not have been, and it is understood that none was charged where it should have. No detailed analysis has been done by customs; however, customs estimate that there was a one percent overpayment (gain) in revenue to the Government. It is understood that customs do not expect traders to seek reimbursement for overpayment.

109. The imposition of different VAT rates initially created challenges for customs—a standard rate of 10 percent, a rate of 5 percent for oil and gas, and a rate of 25 percent for certain categories of high-duty goods. There was no specific list with the corresponding HS Codes to properly identify the commodities to which each rate should be applied. This was also the situation with exempted and zero-rated goods. Confusion was compounded by the last-minute revisions of the exemption policy. The Customs team was not involved/consulted in the determination for the HS code for the respective category of goods.

110. The legacy Sales Tax rates and exemption list in the ASYCUDA system were used to implement the VAT. As mentioned above, the Sales list of exemptions for ST Tax had been used as the exempt list for VAT, although there were two categories of goods affected under the new regime: exempted and zero-rated. These categories have different applications under the VAT system. The standard rate of 10 percent was then applied to the remainder of the sales tax list in the ASYCUDA system. It appears that the 5 percent and 25 percent rates were applied on a case-by-case basis and as understood by customs managers, who had no clear and unambiguous policy directive to guide them. With no list of exempted and zero-rated goods and corresponding HS Codes, and cognizant of the limitations and lack of capacity of customs and the lack of guidance, it was left to the goodwill of the importers to make their declarations as they saw fit.

111. The transitional measures, including the extended bonded warehouse facility recommended to allow for the smooth implementation of VAT, were not adopted. Had this been adopted, the mechanism would have assisted in reducing the cascading of prices in the months immediately following the implementation. The price increase, due to cascading, blamed on VAT, created unease within the country, which then led to demonstrations and strikes and harmed the reputation of VAT as a revenue-neutral and fair tax.

112. The Collaboration between CED and OTA during the implementation was minimal. The common unique Taxpayer Identification Number (FIN) has not been introduced for customs transactions. The interface between ASYCUDA World and the OTA's new IT system is still to be done. Customs continued to register entities using the ASYCUDA number. The old Tax registration number, even for persons registered with the OTA for VAT, still appears on the customs declaration. There is no formal link for sharing and/or cross-matching of data between customs and tax. The recommended export control regime has not been implemented. The export verification procedures used by customs have not been modified in any way to facilitate the implementation of VAT. A formal export verification protocol, based on risk analysis and allowing for the sharing of information, has not been developed. As stated in previous reports, this is a critical component for the prudent and efficient functioning and monitoring of the credit mechanism allowed under the VAT legislation. There is currently limited exchange of information with Tax. There is a gap between what the OTA knows about a taxpayer and what customs knows about that same taxpayer.

Recommendations

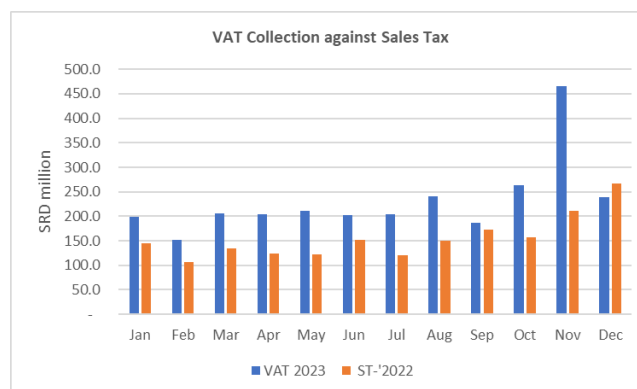
- Update the tariff to HS2022, by December 2024.
- Establish a working group with tax to share and explain information, by September 2024.

B. Measures Essential for the Effective Management of VAT

113. Management of the customs aspect of VAT is weak and requires urgent strengthening. The implementation of the customs elements of VAT in 2023 was characterized by improvisation and compromise. At many points, implementation could have failed because of slow or inadequate preparation, as key policy decisions came late in the day, essential equipment was not provided in time, and the tariff was not updated before the launch. Customs must ensure that the necessary steps to strengthen VAT – as outlined below – are implemented quickly and with discipline and accuracy.

114. However, VAT collected at Customs for 2023 was SRD 911.2 million more than the amount collected for Sales Tax in 2022. This represents a 48.9 percent increase. December 2022 was the only period for which VAT collected less than the Sales Tax. The reduction may be due to huge imports in November 2023 (Figure 9).

Figure 9. VAT Collection against Sales Tax



Source: compiled by mission team from OTA data

115. Accuracy in classification, valuation, and origin are essential elements to ensure the correct VAT collection at import. The calculation of taxes at import is determined by three main features, namely: accurate classification in accordance with the harmonized system (HS); valuation of cargo following the rules of the World Trade Organization Agreement on Customs Value (1994); and the correct application of the rules of origin, in particular those that provide for exemptions from import duties such as the CARICOM free trade agreements and the Economic Partnership Agreement with the European Union (EU EPA). As VAT is the last tax applied, if inaccuracy or deliberate fraud in any of these areas is prevalent, the correct amount of VAT will not be collected. Several companies in Suriname who import commercial cargo have limited or no dealings with the OTA – so collecting the correct VAT at import becomes particularly important as this may be the only chance to collect VAT from these importers.

116. Undervaluation is a significant area of non-compliance that must be addressed. Customs believe that fraud by the deliberate undervaluation of cargo is rife and is in fact routine for many importers. Ensuring compliance in this key area is constrained by limited resources, a lack of information sharing, and an uncoordinated approach to compliance. There is no valuation database, though work on one for motor vehicles has begun, and training in valuation fraud is limited. In Table 10, below, the results of valuation efforts regarding motor vehicles can be seen. In this case, values were uplifted by approximately 16.5 percent in 2022 and by 37.40 percent in 2023. These efforts resulted in increased duties and taxes of approximately 16 percent in 2022

and approximately 13 percent in 2023. This illustrates the type of increase that can be expected from increased and purposeful efforts to address undervaluation.

Table 10. Customs Motor Vehicle Valuation (USD) Compliance Efforts

Year	Number of Valuation Investigations	Total of Original Declared Values	Total of Uplifted Values	Value Uplift	Average Value Uplift	Original Duties and Taxes	Uplifted Duties and Taxes	Amount of Duties and Taxes Uplifted	Average Duty and Taxes Uplift
2022	42	1,217,891	1,420,108	202,217	4,815	420,386	489,846	69,460	1,654
2023	71	1,105,886	1,519,741	413,855	5,829	719,437	815,544	96,107	2,288

Source: Compiled by mission team from OTA data

117. Post Clearance Audit (PCA) is a valuable tool for building compliance, but it is not used in Suriname. PCA is one of the most powerful tools to combat valuation fraud. PCA utilizes both desk audits and more in-depth field audits to scrutinize traders' records to ensure accuracy and honesty in their dealings with customs. As well as identifying errors, negligence, and fraud, PCA is proven to be a highly effective component of an informed compliance strategy. It is also beneficial for trade facilitation as it gives customs the confidence to release cargo quickly without time-consuming and costly examination and verification, as errors can be identified later, and any revenue losses recovered. The customs PCA unit, currently unstaffed, should be reconstituted and the officers provided with the necessary training, tools, and management direction.

118. Adopt the FIN to strengthen compliance and reporting. All revenue departments would benefit from using a FIN to record transactions. The FIN allows data cross-matching for risk management purposes on both sides, including comparing turnover to trade volume, detecting undeclared activities, identifying inconsistencies in quantities and values of transactions, and ultimately combating noncompliance, fraud, and smuggling. Among other topics of common interest are the control of customs valuation and schemes to prevent illegal access to tax credits through the simulation of exports.

119. Information Exchange between tax and customs must be strengthened. In addition to adopting and enforcing the use of a FIN, customs and tax should cooperate to share information and, importantly, explore ways to make the most effective use of the information that they share. Data may need to be explained, and the terminology used may not be clearly understood by either side, weakening the effectiveness of collaboration. To overcome this and to optimize the effect of sharing, a working group or task force should be created to explore what data is held by each side and discover ways of using this data to increase compliance.

120. The IMF Tax Revenue and Customs Knowledge Exchange and Research (TRACKER) tool provides an effective solution to information sharing challenges. The TRACKER is an IT tool that facilitates the exchange of information between the different revenue agencies and, if desired, with other government departments. Information on the tool was presented to the Directorate of Taxes during this mission. TRACKER is available free, and the necessary technical assistance (TA) is provided at no cost to the beneficiary. It can be implemented very quickly and can be a permanent solution for information sharing. The authorities should consider requesting this tool and associated TA from FAD.

121. Effective controls on exports must be implemented. As VAT involves cycles of both payment and refund, additional vigilance must be maintained in work areas where refunds are made. In customs, this typically centers on exports as an area whereby error, negligence, or deliberate fraud, VAT refunds for exports may not be accurate or be made where there is no entitlement. Observation of customs export controls in the port of

Paramaribo indicates that the focus, especially the scanning of export consignments, is, understandably, on interdicting drug trafficking. The routine processing of export controls is entirely focused on the validation of documents presented with no meaningful attempt being made to verify the goods exported. Vigilance in the control of exports, including physical examination of export cargo based on revenue risk (i.e., VAT refund), should be a routine part of customs controls. Where customs controls require strengthening, as is the case currently, those responsible for VAT refund payments for exports should not solely rely on customs documents to confirm exports but should include checking other shipping documents such as Bills of Lading and Air Waybills as part of the verification process.

122. Suriname is an exemption-rich environment. While exemptions are a policy tool that is helpful in promoting economic development, monitoring and verification is necessary to prevent fraud and misuse, which can impact the VAT collection. As exemptions are given for a specific purpose, it is necessary that customs monitor the use of exemptions to ensure that beneficiaries abide by any conditions imposed in the granting of exemptions. This is not an office-based job but requires site visits and inspections, so officers who are tasked with this job must be given the necessary authority, information, and logistics support. It would also be helpful for any conditions applying to exemptions to be clearly and unambiguously made known to beneficiaries and for the granting ministry to consider the revenue forgone before approving any exemption.

123. Education and training for officers and brokers must be ongoing. During the mission, it became apparent that while officers and brokers had received information sessions on VAT, this has not been extended to specialized briefings directed at specific work areas and sectors. The export team, for example, appears not to have been given a detailed explanation of the need for the verification of exports as a part of the management of VAT. The information and education effort for both officers and brokers should be maintained, targeted, and specialized.

Recommendations

- Adopt the FIN and use it in all declarations and transactions, by June 2024.
- Strengthen controls on classification, valuation, and origin, by June 2024.
- Strengthen risk management capacity, by June 2024.
- Resource the PCA unit and give it resources, training, and direction, by September 2024.
- Strengthen control of exports, by August 2024.
- Provide training and briefings to officers and brokers on developments and issues with VAT, by February 2024.
- Strengthen verification and follow-up monitoring of exemptions, by July 2024.

C. Overall Strengthening of Customs Operations

124. Customs administration in Suriname requires strengthening. This need is well understood in customs. Previous IMF missions and CARTAC Technical assistance assignments highlighted areas where improvement is needed and provided detailed guidance as to how this might be achieved. The advice given is still

valid, and the Inspector and her management team should revisit those reports and develop an improvement plan based around the advice given and recommendations made in the mission and TA assignment reports.

125. Better customs administration will help optimize the VAT yield. A customs department that is more focused and purposeful with activities aligned to government policy objectives and departmental priorities will lead to increases in VAT collection. Strengthened customs compliance and enforcement efforts will reduce revenue loss due to errors and fraud, and enhanced trade facilitation measures will lead to increased trade and revenue yield.

126. The management of customs, including strategic planning, operational management, and performance management must be addressed. The starting point is for customs to be more purposeful and focused on contributing to government policy outcomes by having a clear strategic plan that includes prioritized strategic objectives endorsed by the Ministry of Finance. The way that the plan is implemented must involve a move to a more active style of management at all levels with roles, responsibilities, expectations, and quality and performance expectations understood by staff at all levels. This will involve clear instructions and meaningful and timely feedback, supported by data and clear direction, for better decision-making and resource deployment to achieve objectives and meet challenges.

127. Performance management must be a central pillar of customs administration. This is an ongoing process for ascertaining how well, or how poorly, an organization is achieving its goals and objectives. It provides feedback, in the form of objectively verifiable indicators, about internal business processes and external outcomes compared to measurable and tangible targets in the strategic and operational plans. As such, it is an essential part of the broader processes of strategic and operational planning. Having reliable performance management systems in place helps customs administrations better execute their mandate of collecting revenue, facilitating trade, and securing national borders by ensuring focus on purpose and objectives. Currently, customs only records and reports on revenue figures, and a broader set of targets and indicators that includes trade facilitation, human resource management, and enforcement targets as well as revenue should be adopted.

128. An effective headquarters (HQ) function in customs is a vital component of effective management. The HQ function acts as the “brain” of a customs administration, designing how customs should operate and monitoring to ensure that expected results are being realized. The HQ function is responsible for planning, providing advice and direction, problem solving, internal and external communication and liaison, training and staff development, integrity management, and the management of performance. At present, there are no approved customs manuals that specify the responsibilities, tasks, and powers for each division and position within the organization. This results in inconsistent decision-making and frustration for traders—the absence of standard operating procedures (SOP) alone can serve to underline the weakened state of customs administration in Suriname. The HQ should also drive management meetings and discussions across reform areas and initiatives. Such meetings are said to be infrequent at present.

129. There is a lack of formal communication within customs. Communication from unit to unit is by word of mouth. The facility in ASYCUDA World for sending out alerts, updates, and other pertinent information to the staff is not utilized. The reason given is that the staff do not read information sent via the system. There are no formal management or staff meetings; thus, there are no formal lines of communication. The result is that necessary information does not get to the staff on time basis, and there is the added danger that without formal lines of communication, there will be unreliable information provided, leading to inconsistency, error, and frustration by both officers and traders. Customs urgently needs to introduce better lines of communication,

including management and staff meetings, circulars, and the use of the message facility in ASYCUDA World for this purpose.

130. Customs is under-resourced. The new container scanner and the new, purpose-built, customs building are encouraging signs of positive investment in customs administration. In other areas, however, increased investment is required. As can be seen in Table 11, below, customs have about two-thirds of its establishment in the post, and the key area of PCA has no resources. Additionally, it is understood that the Risk Management Unit (RMU) has a staff of four, as three of the team are permanently deployed on scanning duties. As part of the strategic planning process, customs should identify how resources are deployed and ensure that the right number of staff, with the appropriate levels of authority, training, and equipment, are deployed in the right places to achieve prioritized departmental objectives.

Table 11. Staffing in Customs

Year:	2020	2021	2022	2023
Total in post:	222	219	207	204
<i>Including:</i>				
Seaport	34	33	31	30
Air Cargo	16	17	16	15
Air Passengers	16	17	16	15
Guyana Border	16	15	16	14
French Border	7	7	7	7
PCA	0	0	0	0
RMU	6	6	5	5
Enforcement	15	16	15	15
Recruits	0	0	11	0
PCU	3	3	3	3
Suspended from duty (disciplinary)	2	6	8	8
Dismissed	0	0	0	2

Source: DoTC-CED

131. The recruitment process is too slow and must be speeded up. Customs currently has about one hundred vacant posts. The recruitment of fifty officers begun in June 2022 and is far from complete. To date, only the first stage has been completed (advertising the posts and filtering out those applications that do not meet the basic selection criteria). Candidates will sit an exam, be interviewed, have medical and psychological tests, and other administrative procedures will need to be completed. The final group will enter the Police Academy for twelve months of training. It is possible that the fifty will not become operational until 2026 – this is simply far too slow, and the process must be accelerated to enable customs to address deficiencies and meet challenging objectives.

132. Risk Management is a vital component of sound customs administration. Effective risk management requires information to be collected, analyzed, and used so that intervention by customs can be more focused, effective, and cost effective. Use of information allows customs to make sound decisions regarding intervention or facilitation. This use of information for risk management is not well developed in Suriname, and so customs is, understandably, reluctant to grant facilitation for fear of significant revenue loss. Risk management, linked to the department's strategic and operational priorities, will ensure that resources are deployed to areas of greatest risk and that a range of treatments are applied to build compliance. This will take investment in people, tools, and techniques in the RMU and the granting of the appropriate levels of authority to the unit. Also, it is important that managers and staff at all levels are aware of the risk management function's purpose and understand their role in effective risk management.

133. Extracting, analyzing, and using data is essential for both performance and risk management. Effective performance and risk management requires accurate, timely, and objective data that is rigorously analyzed to support decision-making. Customs lacks the capacity to extract, analyze, and derive meaning from data. The risk management unit has been provided with some training by UNCTAD and utilizes some basic analytical techniques, such as Benford's Law, but does not have the full range of skills, techniques, and tools necessary to make the risk management function data driven. Similarly, the Inspector does not have ready access to reliable data to measure performance. An approach should be made to CARTAC to provide technical assistance in this key area.

134. Management recognizes that issues of integrity adversely affect efforts to secure and enhance revenue. A holistic approach should be adopted to address integrity issues at customs. The legal framework under which customs officials operate needs to be reviewed to address issues of integrity, including the requirement to declare conflict of interest and other relationships that may affect the work of customs. There should be a legal mechanism to report, investigate, and address instances of bribery, corruption, and other related issues. The salary scales of staff need to be reviewed and made commensurate with the work, role, and function of staff as indicated in the World Customs Organization (WCO) Arusha Declaration. There is a need for more modern management control and supervision of the staff. In this regard, every effort should be made to optimize the use of all the modules in the ASYCUDA World system to reduce and or remove human intervention in the goods clearance process. Customs should work closely with the Chamber of Commerce and Brokers Associations to educate staff and stakeholders on the negative effect of corruption.

135. Major changes are coming, and customs must prepare now. Customs must invest time and energy in planning for the future. With the expansion of the oil and gas sector, significant and demanding new areas of work for customs will appear. This sector is complex and large, and because of the huge amounts of duties involved and the scale of the business, significant changes and increases will be required in customs operations. Customs need to learn about the 'cost bank' and the vital role customs will play in ensuring accuracy and devote significant resources to managing warehouses and shore bases. Preparation must begin now, as reacting to developments in this sector rather than anticipating them will put sound administration at a significant and potentially unrecoverable disadvantage.

136. Suriname is a member of the WCO and signatory to the World Trade Organization Trade Facilitation Agreement (WTO TFA). As part of the reform and modernization of customs, there should be a concerted effort to implement the concepts, principles, and practices promoted in these organizations' treaties and conventions. Further, as signatory to the WTO TFA, Suriname is required to implement the provisions of that agreement. In the recent past, efforts were made by customs to implement risk management and post-clearance audits; however, these efforts were not fully brought into fruition. Customs should redouble their effort to implement these trade facilitation measures. Further, there should be a systematic approach to implementing the other measures of the WTO TFA. The successful implementation of the provisions of the WTO TFA would be a significant and worthwhile step in the reform and modernization of customs.

Recommendations

- Act on the recommendations made in previous FAD and CARTAC reports, by December 2024.
- Develop a strategic plan and operational plan – and put it into use, by October 2024.
- Recruit and train fifty new officers, by December 2024.

- Develop and implement a comprehensive integrity- strengthening program, by December 2024.

VI. Reform Program and Donor Support

A. Donor Support

137. The DoTC has received significant support from an active donor community. With support from the IMF and the Inter-American Development Bank (IDB), key revenue administration initiatives have been funded and facilitated. The IDB is extending its support to the DoTC by launching a new funding program, aiming to enhance the overall efficiency and effectiveness of revenue administration. CARTAC's resident advisors in tax and customs will continue supporting the DoTC by building capacity in specific core functional areas.

138. An important modernization initiative is the procurement of a new tax administration information system. The system was acquired to aid the implementation of VAT. Other taxes will be integrated later. If the system is fully utilized, several business processes will be automated and free up staff from manual and labor-intensive work, representing an opportunity for the DoTC to increase productivity. Other ongoing reforms seek to transform the DoTC into a Semi-Autonomous Revenue Administration (SARA). Following modern practices, a SARA will unify departments for both direct and indirect taxes, and a dedicated large taxpayer unit. With IDB support, the Surinamese government has secured a new facility in Paramaribo to serve as the DoTC's headquarters.

139. Suriname is to benefit from the new FAD Global Public Funding Partnership (GFPF). This will provide four years of technical assistance in strengthening revenue administration. CARTAC will continue to provide support for CD requests not being delivered by the GFPF program.

140. To enhance the sustainability of CD (Capacity Development) implementation, the IMF needs to ground capacity CD into a Results-Based Management (RBM) framework. The IMF and CARTAC are funded by donors with a focus on monitoring outcomes and assessing results, not just delivery, to ensure value for money. RBM serves as a valuable tool for planning, monitoring, implementing, and evaluating CD, fostering prioritization and partnerships among the IMF, authorities, and development partners. All CD support from the IMF and CARTAC must be integrated into the RBM, and a strong partnership with authorities is vital across all stages, from request for CD to project design, implementation, and evaluation. Appendix III provides an example of the framework.

B. Technical Assistance

141. The following capacity development needs have been identified, some of which have already been discussed with the authorities through the GFPF. CARTAC is prepared to further discuss and agree the areas for which they require TA support to further reform implementation in line with the recommendations of this FAD mission report. Key areas are: (i) strengthen audit function including developing a nation audit plan and build technical capacity; (ii) strengthen refund management; (iii) strengthen arrears management and enforced collection processes; (iv) develop standard operating procedures; (v) develop a VAT compliance risk-management program, including segmentation of taxpayers.

Annex 1. Status of FAD 2022 Mission Recommendations

	Achieved
	Limited/partially achieved
	Not done

FAD 2022 Key Mission Recommendations	Timeline	Status
Re-establish the SC or until a SC is reconstituted, consider using the Director of Taxes as the chairperson	Sept. 2022	
Make the VIT full-time and with assigned responsibilities.	Sept. 2022	
VAT implementation project documents drafted – for submission to SC	Sept. 2022	
Provide adequate dedicated staff and other resources to support the implementation of VAT, pulling support staff, from LTU, audit and experienced staff from Sales tax department.	Sept. 2022	
Request technical assistance.	Sept. 2022	
Determine the organization/unit that will initially assume the management of the VAT operations, once launched—consider using the LTU.	Sept. 2022	
Training trainers conducted.		
Finalize the VAT Regulations/Orders, including the detailing the list of zero-rated/exempted goods and with tariff codes	Oct. 2022	
Deploy VAT registration module	Oct. 2022	
Develop and publish a VAT communication outreach program	Oct. 2022	
List of potential VAT registrants in place (150)	Oct. 2022	
Commence registration of taxpayers, focusing resources to ensure timely registration of priority taxpayer segments, particularly large business	Oct. 2022	
Plan and execute an effective and timely advisory visit program	Oct. 2022	
Post VAT Implementation		
The Directorate of Taxes should implement the use of a single TIN (FIN) within six months of the launch of VAT	Jun. 2023	
Taxpayer advisory program should continue up to three months after the launch	Mar. 2023	
A basic audit program should begin within the first 90 days of the VAT launch	Apr. 2023	
Deploy other key IT modules (arrear, audit, refund, etc.) within six months of the launch of VAT	Jun. 2023	
Customs Operations in Preparing and Administering VAT		
Customs should be fully involved in the planning and implementation of the VAT	Sept. 2022	
Establish an internal VAT Implementation Team	Sept. 2022	
Extend the bonded warehouse facility to other importers—to assist with the transition of exiting goods from Sale Tax to VAT	Oct. 2022	
Establish an export control regime to verify exports	Nov. 2022	
Procure and install a new training server (done 2023 Oct)	Nov. 2022	
Upgrade the ASYCUDA World System to version 4.2.2	Nov. 2022	
The new tariff incorporating HS2017, the VAT rate, the lists of exempt and zero-rated goods and all the newly created customs procedure codes uploaded into the ASYCUDA World System	Dec. 2022	

Annex II. Modules and Functionalities of the new tax systems

Key for function and processes delivered as of December 32, 2022 – as indicated by the supplier.

	Delivered
	partial
	No delivered
	Not contracted to deliver
	To be further clarified

TAX ADMINISTRATION BUSINESS DOMAIN					System support (Yes/No)
Processes	MTS	MCS	Other	In system	Delivered
1. REGISTRATION					
1.1. General Taxpayer Registration	Y			Y	
1.2. Tax Types Registration Management	Y			Y	
1.3. Tax Periods Management	Y			Y	
1.4. Registration of Taxpayer per Tax Type	Y			Y	
1.5. Registration Compliance Monitoring	?				
1.6. Enforced Registration	?				
1.7. Generate Management Information report	Y		Y	Y	
2. FILING MANAGEMENT					
2.1. Taxpayer - Tax Type – Tax Period Management	Y			Y	
2.2. Filing Compliance Monitoring	Y			Y	
2.3. Generate Management Information report	Y		Y	Y	
3. ASSESSMENT					
3.1. Self-Assessment (Returns and Declarations)	Y			Y	

3.2.	Assessment by duty	Y			Y	
3.3.	Additional Assessment	Y			Y	
3.4.	Automatic Assessment	Y			Y	
3.5.	Best Judgement Assessment	Y			Y	
3.6.	Generate Management Information report	Y		Y	Y	
4.	AUDIT MANAGEMENT					
4.1.	Audit Planning	N			N	
4.2.	Taxpayer selection	Y			Y	
4.3.	Audit	Y			Y	
4.4.	Audit Assessment	Y			Y	
4.5.	Generate Management Information report	N		N	N	
5.	PAYMENT PROCESSING					
5.1.	Payment Processing		Y		Y	
5.2.	Identification of suspended payments		Y		Y	
5.3.	Generate Management Information report		Y		Y	
6.	REFUND MANAGEMENT					
6.1.	Refund request processing	Y	Y		Y	
6.2.	Refunding (re-payment)		Y?			
6.3.	Generate Management Information report		Y		Y	
7.	TAXPAYER ACCOUNT MANAGEMENT					
7.1.	Liability (Debit) posting		Y		Y	
7.2.	Payment (Credit) posting		Y		Y	
7.3.	Reconciliation (Offsetting)		Y		Y	
7.4.	Payment Compliance Monitoring (Indirect taxes)	Y	Y		Y	
7.5.	Payment Compliance Monitoring (Direct Taxes)	N	N		N	Will be delivered soon
7.6.	Payment non-compliance penalizing (Indirect taxes)	N			N	No determined penalty policy
7.7.	Payment non-compliance penalizing (Direct taxes)	N			N	No determined penalty policy
8.	REVENUE MANAGEMENT					
8.1.	Revenue reconciliation with banks		N		N	

8.2. Revenue reconciliation with treasury		Y		Y	
8.3. Revenue distribution		Y		Y	
8.4. Generate Management Information report		Y	Y	Y	
9. ENFORCEMENT					
9.1. Payment Compliance Monitoring	Y	Y		Y	
9.2. Debt Management		Y		Y	
9.3. Enforced Collection		Y		Y	
9.4. Generate Management Information report		N		N	
10. OBJECTIONS AND APPEALS					
10.1. Objection	Y			Y	
10.2. Appeals	N			N	There is no appeal body
10.3. Generate Management Information report	N			N	
11. COMPLIANCE MANAGEMENT					
11.1. Taxpayer Compliance Risk Analysis	N			N	
11.2. Compliance Strategy Management	?				
11.3. Registration Compliance Monitoring	?				
11.4. Filing Compliance Monitoring	Y			Y	
11.5. Accuracy of Reporting Compliance Monitoring	?				
11.6. Payments Compliance Monitoring	Y	Y			
11.7. Generate Management Information report	Y			Y	
12. SUPPORTING PROCESSES					
12.1. Internal Control	Y	Y			
12.2. Statistic, Analysis and Planning	?				
12.3. User Management	Y	Y	Y	Y	
12.4. Workflow Management	Y	Y	Y	Y	
12.5. Case Management	Y	Y	Y	Y	
12.6. Document Management	Y	Y		Y	
12.7. E-Tax Service	Y			Y	
12.8. Taxpayers Risk Management	N			N	

12.9. Knowledge Management	N	N		N	
12.10. Data exchange	N	N		N	
12.11. Security Management (including audit trail	Y	Y		Y	

Annex III. Sample of the RBM Framework

SURINAME		
<u>IMPROVE PROCESSING OF VAT REFUNDS</u>		
<p>Timely processing of VAT refunds presented a major challenge in 2023. The stock of refunds at the end of 2023 is too high. On December 31, 2023, the stock of refund value was about SRD 671.0 million. The refund gap is at risk of widening if the number and value of claims are not processed and paid in time, then the stock of refund claims will increase at a faster rate for each passing month. Poor VAT filing compliance is impacting the accurate measurement of the stock of refunds -- a considerable number of VAT registrants have not submitted VAT returns – when they are filed this will increase the accurate measurement of the stock of refunds.</p> <p>VAT refund processing is impacted by several issues which need to be addressed by the authorities. This includes: (i) VAT returns received in 2023 have not been processed on a timely basis which delays the process of refunding VAT (processing was delayed partly due to concern regarding the information reported by taxpayers), (ii) the tax administration did not have a risk-based mechanism to determine cases presenting high risk and therefore warrant an audit – instead each refund case must be audited by the tax administration, (iii) the VAT Act requires that VAT refund processing must be completed in 30 days. However, that is not always possible when the risk requires an audit to be conducted; (iv) the VAT act requires taxpayers be paid interest when the case cannot be completed in 30 days; and (v) the tax administration has the authority to use revenue collections to pay VAT refunds. However, moving forward the tax administration should estimate the amount to be refunded and funding should be put aside in a special account to pay refunds.</p>		
Project Objective: STRENGTHENED CORE TAX ADMINISTRATION FUNCTIONS		
Outcome 1: (Management of VAT refunds)	Verifiable Indicator(s):	
A larger proportion of taxpayers meet their payment obligations as required by law.	1	Management of refunds improved (TADAT 2015 POA8-24/TADAT 2019 POA8-28).
<u>Indicator Baseline Value:</u>		
The capability of the VAT refund and processing system is insufficient.		
<u>Indicator Target Value:</u>		
The adequacy of VAT refund process is improved to meet a B score in the TADAT framework (indicator P8-28).		
<u>Milestones:</u>	<u>Target Completion Date:</u>	<u>Donor Support Required:</u>
A dedicated compliance team is established and in operation to follow up on missing VAT returns.	March 1, 2024	Yes
A process is in place to secure that VAT returns received are processed within one week of receipt.	March 1, 2024	Yes
A process is in place to pay interest on late processing of VAT refund claims.	July 1, 2024	Yes