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Tax Administration Reforms in the Caribbean "Challenges, Achievements, and Next Steps"

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Abstract

Over the past decade, governments in the Caribbean region have introduced the value-added tax (VAT) to modernize their tax system, rapidly mobilize revenue and reduce budget deficits. This paper analyzes VAT performance in the region and concludes that while it has boosted revenues, the VAT has not reached its potential. Intended as a broad-based tax with limited exemptions, a single rate and zero-rating confined to exports, the VAT's design often lacks these characteristics.

The paper also finds that although tax administration reforms can boost revenues, countries have just started to address organizational inefficiencies, data integrity issues, and operational ineffectiveness. These reforms need to intensify in order to have a more significant impact on compliance and revenue.

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ABBREVIATIONS AND ACRONYMS

CARTAC	Caribbean Regional Technical Assistance Center
CARICOM	Caribbean Community
CET	Common External Tariff
CIT	Corporate Income Tax
DPMS	Design Planning Monitoring Section
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EU	European Union
GCT	General Consumption Tax
GDP	Gross Domestic Product
HNWI	High Net-Worth (or High-Wealth) Individuals
HQ	Headquarters
HRM	Human Resource Management
IADB	Inter-American Development Bank
IRD	Inland Revenue Department
IMF	International Monetary Fund
IT	Information Technology
LTO	Large Taxpayer Office
LTU	Large Taxpayer Unit
LMTO	Large and Medium Taxpayer Office
LMTS	Large and Medium Taxpayer Section
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
PAYE	Pay-As-You-Earn
PIT	Personal Income Tax
RA	Revenue Authority
RA-FIT	Revenue Administration Fiscal Information Tool
RRA	Regional Revenue Authority
SARA	Semi-Autonomous Revenue Agency/Authority
SEMCAR	Supporting Economic Management in Caribbean
SIGTAS	Standard Integrated Government Tax Administration System
TADAT	Tax Administration Diagnostic Assessment Tool
TAPA	Tax Administration Procedure Act
TIN	Taxpayer Identification Number
TPA-TTF	Tax Policy and Administration Topical Trust Fund
VAT	Value-Added Tax

I. INTRODUCTION

This paper reviews the tax administration reforms that have been undertaken by 20 Caribbean countries with the support of the Fiscal Affairs Department of the IMF and the Caribbean Regional Technical Assistance Center (CARTAC) since its inception in 2001.

It concentrates on the Caribbean Community (CARICOM)[2] member states, or associate members, comprising Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands (BVI), Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos. Altogether, these 20 countries and dependent territories represent a total population of 17 million inhabitants with great diversity in terms of size (Haiti, which is the largest, has a population of 10.9 million, while Montserrat, the smallest, has 5,000 inhabitants). The Caribbean covers a surface area of 1,063,000 sq. mi and comprises more than 700 islands, mainly situated on the Caribbean plate and the fringe of the Atlantic Ocean (Bahamas, Turks and Caicos). It also includes Bermuda, which is located in the North Atlantic Ocean, and mainland countries, such as Belize, Guyana, and Suriname.

The purpose of this study is to describe the main drivers and characteristics of the reforms of the tax systems and their administration(s) in the Caribbean countries, and to determine whether these reforms have achieved their intended outcomes, particularly in regard to revenue mobilization.

The study will also assess the impact of these reforms in light of nonrevenue performance indicators, such as the expansion of the tax base, simplification of the tax system, increase in compliance levels, and improvement of tax administration effectiveness and efficiency.

II. BACKGROUND

A. Current Fiscal Situation and Revenue Performance in the Caribbean

As global recovery continues to struggle to gain its footing, the aftermath of the financial crisis is still perceptible in the Caribbean. The external environment has a differentiated impact on the region. Growth prospects continue to be favorable for the tourism-based economies. Their growth has doubled from 1.1 percent in 2014 to 2.2 percent in 2016. Low commodity prices, combined with steady tourism inflows from the United States, have allowed a significant reduction of both their external imbalances and fiscal deficits.

In contrast, growth prospects are deteriorating for commodity exporters. They have recorded a decline for the second consecutive year (0.9 percent in 2015 and 0.6 percent in 2016). **Suriname and Trinidad and Tobago are most affected because they depend on fossil fuel exports and other commodities whose prices are falling rapidly. For Belize and Guyana, however, positive offsets

[2] The study does not cover Cuba, the Dominican Republic, Puerto Rico, the U.S. Virgin Islands, the French Antilles (Martinique Guadeloupe, Marie-Galante, la Désirade St. Barthélémy, French Guyana), or the Netherlands dependencies (Aruba, Bonaire, Curacao, Saint Maarten), which are not CARTAC country members.

from other parts of the economy—tourism in the former, and oil imports in the latter—dampen the negative impact.

Table 1. Real Gross Domestic Product Growth in the Caribbean

Countries	2013	2014	2015	2016
Tourism-dependent countries				
Antigua and Barbuda	1.5	4.2	2.2	2.0
Bahamas	0.0	-0.5	-1.7	0.0
Barbados	-0.1	0.2	0.9	1.4
Belize	0.7	4.1	1.9	-1.0
Dominica	0.8	4.2	-1.8	0.8
Grenada	2.4	7.3	6.2	3.1
Jamaica	0.2	0.5	1.1	2.2
St. Kitts and Nevis	6.2	6.1	6.6	4.7
St. Lucia	0.1	0.5	1.6	1.4
St. Vincent and the Grenadines	2.5	0.2	0.6	1.8
Commodity exporters				
Guyana	5.2	3.2	2.6	3.4
Suriname	2.8	1.8	0.1	-2.0
Trinidad and Tobago	2.3	-1.0	-1.8	-1.1
Others				
Haiti	4.2	2.8	1.2	1.5

Addressing fiscal vulnerabilities remains an overarching objective for most Caribbean countries, and the authorities have made significant efforts in that direction. Some countries have strengthened their overall fiscal balances in 2015 (notably, the Bahamas, Grenada, Guyana, Haiti, and Jamaica) and made substantial progress in addressing vulnerabilities from high debt levels. Despite this progress, public debt remains high, particularly in tourism-dependent economies. Overall, fiscal deficits currently average around 4 percent of GDP, and sovereign indebtedness, averaging about 82 percent of GDP in 2014, increased to an average of 85 percent in 2015. Overall, Caribbean countries remain extremely vulnerable to both economic and weather-related shocks, and continue to face significant challenges that have manifested themselves in low potential growth, stagnant productivity, and high costs of business. To that end, reducing processing costs at ports and customs would eliminate a key competitive disadvantage. Efforts should also continue in advancing energy reform, which is needed to reduce dependence on fossil fuels, improve efficiency, reduce costs, and improve the business environment.[3]

While fiscal consolidation is underway, the expected decline in trade tax revenues and the persistent demand for higher investment in social and physical infrastructures continue to exert stronger pressures on domestic tax administrations in terms of mobilizing revenue.

[3] McIntyre and others 2016.

B. Trends and Challenges of Tax Administration Reforms

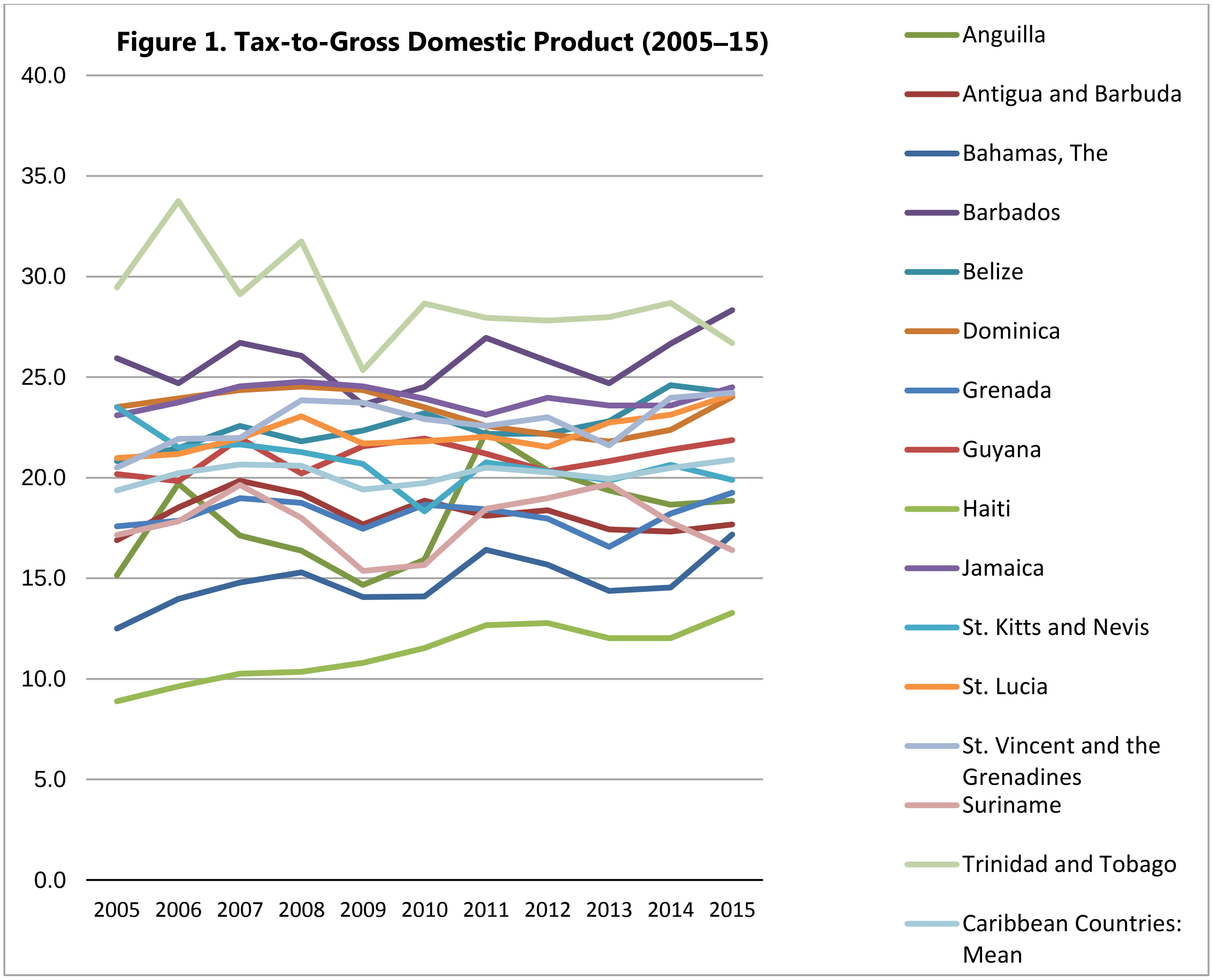
Governments in this region have been confronted with the difficult challenges of addressing short-term needs for mobilizing revenues and reducing deficits, as well as of embarking on longer-term structural reforms. Priority has been given to the modernization of the tax systems, particularly through the introduction of the value-added tax (VAT), which has taken/attracted most of the governments' attention and consumed most of their energies.

In the meantime, tax administrations—generally small ones (eight out of 20 are small or micro administrations with less than 100 staff members)—have continued to suffer from organizational inefficiencies, pervasive data integrity issues, out-of-date processes, low capacity, and operational ineffectiveness, resulting in a widening of the compliance gap (including for the VAT's).

Fundamental tax administration reforms have been undertaken more recently with the assistance of the Fiscal Affairs Department of the IMF, CARTAC, the Support for Economic Management in Caribbean (SEMCAR), a Canadian funded project, and other TA providers, including the Canadian government and the IADB. These organizations have focused on establishing/strengthening headquarters to improve strategic planning and supervision capabilities in the following ways:

- Reorganizing field operations by type of taxpayer to increase the focus on larger taxpayers.
- Building capacity in core areas (taxpayer service, audit, collection enforcement, and support service).
- Upgrading the IT systems to support key operations and improve service delivery.
- Reengineering business processes to move towards automation.
- Applying a risk-based approach to manage compliance.
- Improving the legal framework to support key operations.
- Increasing transparency and accountability.
- Enhancing institutional and individual performance management.

Caribbean countries also continue to be in need of tax policy measures to raise more revenue and reduce significant policy gaps, while pursuing the ongoing modernization of the tax administration.



Source: IMF WEO.

C. The Modernization of the Tax System

Main Tax Policy Directions

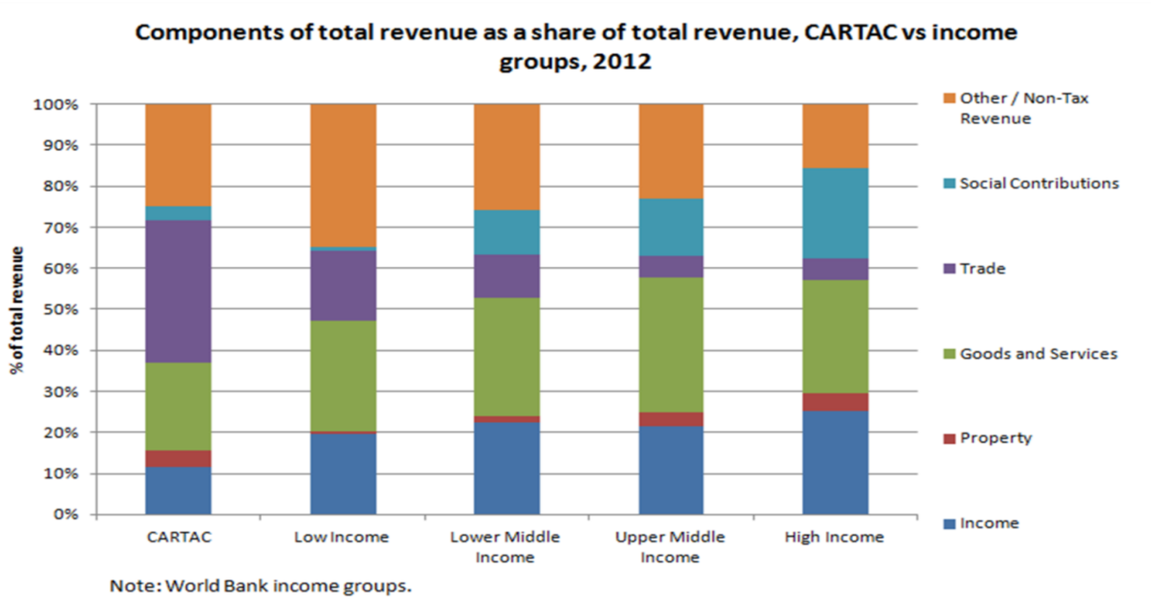
Introduction of a VAT has been the most important reform of the tax system in the Caribbean. Countries in the region have traditionally relied, and continue to rely, on import duties as revenue sources (see Figure 3). The development of the CARICOM Common External Tariff (CET), and more generally, global trade liberalization, have convinced them to shift towards domestic revenue sources. The VAT has been considered the best instrument to replace a myriad of inefficient taxes, broaden the tax base, and generate a stable source of revenue (see Section IV).

In a few countries, tax policy reforms have started focusing on (i) improving the income tax regimes by simplifying the individual income taxes and broadening corporate income tax (CIT) bases (Dominica, St. Lucia);[4] (ii) scaling back generous tax incentives, or at least shifting from

[4] Antigua and Barbuda each eliminated the personal income tax (PIT) in 2016.

discretionary to rules-based and more transparent incentive systems (Jamaica, Grenada); (iii) reducing often high and distortive nominal taxes and duty rates; and (iv) modernizing property taxes and their administration to make the taxes both fairer and significant sources of revenue. The coordination of tax systems among ECCU members and CARICOM countries is still at an early stage. With respect to international tax issues, the costs and benefits of the CARICOM Treaty need to be reconsidered.

Figure 2. Component of Revenue



Tax Policy Issues that Require Closer Attention

- ***"Tax competition, a race to the bottom."*** Tax incentives—a core element of tax structures, especially in tourism-dependent countries—have become increasingly pervasive, spreading over multiple taxes and resulting in substantial tax expenditures. The process of granting tax concessions generally involves considerable discretion. Recent studies[5] estimate the revenue

  forgone for the main taxes (VAT, import duties, excises, and the CIT at about 4.0 to 6.5 percent of GDP in Antigua and Barbuda, as well as Dominica and St. Kitts and Nevis, above 7 percent of GDP in Grenada, St. Lucia, and St. Vincent and the Grenadines, and nearly 10 percent of GDP in Jamaica. Tax incentives erode the tax base and significantly complicate tax administration. They require resources to control and monitor them, which, in turn,

[5] IMF-FAD tax incentives and property taxation in the ECCU (John Norregaard and al., January 2015); IMF-FAD. Jamaica. Report on revenue administration gap analysis program-the GCT tax gap (February 2015).

impact tax administrations' efficiency. They are also significant sources of fraud and leakages, which deteriorate overall compliance and make it difficult to ensure a level playing field.

- ***The complexity of the personal income tax (PIT system (including taxes on wages)***. In many countries, decades of incremental tax changes have created a complex personal income tax (PIT) system that needs fundamental revision. It generally comprises multiple allowances and deductions that hamper the implementation of efficient filing/payment arrangements (e.g., prefilled tax returns or withholding at source as a final tax). The latter would eliminate the need for a large number of individual taxpayers to file annual income tax returns. Numerous deductions also generate refundable tax credits. In Barbados, 68,000 out of 90,000 PIT taxpayers qualify for refunds. A complex PIT system has two consequences: it deters voluntary compliance (the nonfiling rate is above 50 percent in the region), and it consumes an important workforce to provide immediate assistance, follow up on nonfilers, and enforce collection.
- ***The lack of small business tax regimes.*** Normal VAT and income tax regimes are not adapted to the limited compliance capacities of small and micro businesses, especially in low- and low-to-middle-income countries. They impose proportionally higher compliance costs on this segment, which, in turn, impact both the overall filing and payment rates. (See section G.) Only a few countries (e.g., Grenada and St. Lucia) have introduced, or have planned to introduce, a genuine turnover-based presumptive tax regime with minimal accounting requirements for small businesses. In these countries, this initiative is synchronized with the increase of the VAT registration thresholds.
- ***The modernization of international tax rules is urgently needed.*** Cross-country variations for business income tax rates (from 15 percent to 45 percent), and the absence/weakness of transfer pricing legislation, likely encourage artificial profit shifting out of jurisdictions by multinational enterprises (MNEs). Proper application of international tax rules should provide more clarity to businesses, while safeguarding against tax avoidance.
- ***Property tax regimes are dated and inefficient.*** Given the challenges of maintaining up-to-date, reliable land registers and valuating properties, tax bases have generally not been maintained, and compliance levels are low, as are tax rates. Thus, taxes raise very little revenue in many jurisdictions (0.6 percent of GDP on average, compared to 2.1 on average in OECD countries), while administration costs remain high. The status quo is not sustainable, and a number of countries have decided to move toward strengthening taxes, a process supported by CARTAC and others.

III. TAX ADMINISTRATION REFORMS

A. Governance Models

Two main governance models coexist in the Caribbean. Besides the regular tax departments within MOFs, which prevail in the majority of countries, the concept of semiautonomous agencies has attracted increasing interest. In 2002, the ECCB Tax Reform and Administration Commission for

Organization of Eastern Caribbean States (OECS) [6] *suggested the establishment of national revenue authorities.*[7] *To date, only three countries—Barbados, Guyana, and Jamaica—have established national semiautonomous agencies.*[8] *Trinidad and Tobago is still contemplating this option. More recently, the Bahamas has initiated the creation of a Unified Revenue Agency or Revenue Authority.*

The Choice of Semiautonomous Agencies

In Barbados and Guyana, the Revenue Authority (RA), which integrates tax and customs administrations, has been established, while in Jamaica, the TAJ is a semiautonomous tax agency. Box 1 describes the main features of these semiautonomous agencies.

The key question is whether or not the model has benefited these countries. There are traditionally four main drivers behind the establishment of semiautonomous RAs. These include (i) providing these organizations with more autonomy to manage their own resources; (ii) improving effectiveness in managing compliance by enhancing synergies and exchange of information between tax and customs; (iii) increasing efficiency by sharing common services (e.g., budget and HR management, and IT support); and (iv) fostering both the transparency and accountability of these organizations (and senior civil servants).

- In these three countries, the creation of these semiautonomous agencies was mainly triggered by the need to remove impediments to effective human resource management (HRM), and to foster public servants' accountability. Jamaica has seized this opportunity to "repackage" staff remuneration and benefits, and to review technical qualifications and standards for all job positions.
- In Barbados, establishing the RA was also seen as a vehicle for achieving the integration of direct and indirect taxes.[9] However, the integration of tax and customs administrations has been postponed several times as a result of unsuccessful government and trade union negotiations.
- In the three countries, data are lacking to demonstrate the positive impact of these reforms on revenue administrations' efficiency, which could be illustrated by a reduction of collection costs.

[6] The OECS is a nine-member grouping comprised of Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Anguilla, and the British Virgin Islands as associate members.

[7] The idea of creating a Regional Revenue Authority (RRA) for OECS member states has also been raised by the ECCB, which sought IMF assistance in examining its feasibility. The study concluded that the RRA presented many issues to be resolved and identified, and recommended that different options be considered, from coordination alone, to coordination with some oversight/supervision powers (akin to banking supervision), before moving toward an RRA that has the power to administer and enforce national revenue laws.

[8] Guyana (GRA—Guyana Revenue Authority), Barbados (BRA—Barbados Revenue Authority), and Jamaica (TAJ—Tax Administration Jamaica).

[9] The RA was established in April 2014 with the merging of four departments responsible for income taxes, VAT, land taxes, and motor vehicle licensing. The Customs and Excise Department (CED) integration, initially planned for April, 2015, has since been delayed, and only the excise section of the department has been integrated.

- While this reform has generally paved the way for developing a culture of performance, the accountability of civil servants is one area that has not evolved significantly in any of the three countries.

In conclusion, the establishment of semiautonomous agencies has not been a panacea. Experience shows that adopting this model without strengthening headquarters functions, shifting to a functional approach, introducing taxpayer segmentation, improving compliance and performance management, enhancing data exchange, and modernizing IT systems has had limited or no impact on revenue mobilization. Particularly in Guyana and Barbados, the establishment of RAs has distracted the authorities from the needed reforms, which have, unfortunately, received insufficient attention and resources.

Table 2. Revenue Administration Institutional Arrangements in the Caribbean

Countries	Tax Dept.	Revenue Authority	Other
Anguilla	IRD		
Antigua and Barbuda	IRD		
Bahamas	IRD		
Barbados		BRA[10]	
Belize	DGST and ITD		
Bermuda	OTC		
BVI	-		
Cayman	-		
Dominica	IRD		
Grenada	IRD		
Guyana		GRA[11]	
Haiti			(DGI) Gen. Directorate
Jamaica			(TAJ) SARA
Montserrat		Informal RA	
St. Kitts and Nevis	IRD		
St. Lucia	IRD		
St. Vincent and the Grenadines	IRD		
Suriname			DTD, ITD, customs reporting to a director of taxes
Trinidad and Tobago	IRD		
Turks and Caicos	IRD		

[10] BRA: Barbados Revenue Authority

[11] GRA: Guyana Revenue Authority.

Box 1. Main Features of Semiautonomous Agencies in the Caribbean

- ✓ A legislative instrument (law or decree) has been used to establish each agency. The BRA, GRA, and TAJ have separate legal statuses and boards.
- ✓ BRA and GRA have integrated tax and customs operations, TAJ has not.
- ✓ They have the mandate of assessing and collecting taxes and duties, administering and enforcing revenue laws, and providing advice on tax laws to the minister of finance (MOF).
- ✓ The commissioner general is appointed by the government and fully vested with the powers established in the revenue laws, with the authority to delegate these powers.
- ✓ They remain directly accountable to the minister of Finance and the government.
- ✓ They exist outside the regular public service and can recruit, discipline, evaluate, and, in some cases, fire staff.
- ✓ They are allocated a normal budget and there is no appropriation funding.
- ✓ The management board (including external members) has specific responsibilities and oversight functions, but is excluded from making the RA's basic business decisions.
- ✓ The chair of the board is named by the government.
- ✓ They are subject to external audits by the auditor general (AG).

B. Structural Reorganization

Main Trends in Structural Reorganization

Most of the tax administrations in the region have undertaken major organizational reforms during the last decade. The predominant changes include (i) the integration of tax operations across major tax types, (ii) the reorganization of field delivery along segmentation principles, and (iii) the adoption of a functional approach based on core activities, such as registration, returns and payments processing, auditing, etc.). (Box 1 describes the main features of tax administration organization.) While well engaged in some countries, these reforms have yet to produce the expected outcomes in terms of effectiveness and efficiency. It is important not to minimize the positive impact of structural reforms on revenue mobilization, even though they require long-term efforts.

Integration

The integration of consumption and income-based taxes into one administration has accelerated during the last five years (see Box 2). Out of the 12 countries that currently administer VATs, all, except Belize, have now adopted this integrated approach.

Box 2. Ongoing Reforms in Selected Organization of Eastern Caribbean States Countries

Tax administrations in Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines are relatively small (with less than 120 staff members).[1] They are responsible for the administration of income taxes (both CITs and PITs), PAYEs, VATs, and land/property taxes and/or stamp duties.

Historically, these tax administrations were organized by type of tax (sales tax, income tax, and stamp/property tax), with different units (one by tax), each responsible for taxpayer service and education, auditing, and collecting enforcement functions. When the VAT was introduced, each of the four countries established an additional unit to administer the new tax separately, further stretching resources and increasing task duplication.

Over the past four years, with CARTAC's assistance, each country has engaged—and some have completed—the following reforms: (1) moving from tax-type to function-based organization; (2) fully integrating operations for all tax types, particularly VAT operations, into the domestic tax department; (3) applying segmentation principles to organize field operations (creating a unit to administer large and medium taxpayers, and another for small taxpayers); and (4) creating a design, planning, and monitoring unit to provide strategic orientation and oversee field operations.

[1]The proposed structural reorganization has been submitted to the Minister of Finance for approbation

In Belize, domestic taxes are administered by two separate departments. The Income Tax Department (ITD) is responsible for corporate and personal income taxes, as well as business tax, and the Department of General Sales Tax (DGST) administers the VAT. Suriname, which plans to introduce a VAT, presents a peculiar situation. There are two separate domestic tax departments (direct and indirect), and a customs department, but they all report to one director of taxes.

These types of organizational approaches result in the duplication of functions (dual registration system with double data bases, doubled return and payment processing), inefficiencies (additional costs for the administration), and compliance burdens for taxpayers. They have also proven to be ineffective in managing taxpayer compliance (including audit and collection enforcement) in a holistic manner.

Segmentation

Experience shows that a very small proportion of taxpayers (often less than 10 percent, sometimes just a few percent) account for 70–80 percent of revenues.[12] The main benefit of applying segmentation principles is primarily gaining better control over the main sources of government revenue by improving compliance from a small number of taxpayers among the largest. The organization of field offices and/or program delivery by segment has been introduced lately in the Caribbean, but is tending to become the predominant model.

Depending on their sizes and resources, countries have developed different approaches of segmentation. In the largest islands, including Antigua and Barbuda, Jamaica, Haiti, Guyana, and

[12] In the recent regional studies on VAT, it appears that 95–97 percent of the VAT is paid by large and medium taxpayers.

Trinidad and Tobago, a large taxpayer unit (LTU) has been established to administer large businesses whose turnover exceeds US$ 1 million. Jamaica is the only country where particular attention has been given to the high net-worth (or high-wealth) Individuals (HNWIs). Since these HNWIs (as owners, directors, CEOs) are associated with the largest businesses that the LTU administers, a dedicated unit has been established within the LTU to monitor their tax obligations. In Haiti, a specific structure (MTO) has been established to administer medium-sized taxpayers, in addition to a network of local offices (generally responsible for small businesses and individual taxpayers).

In the smaller islands (OECS), such as Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent (ongoing), segmentation has been used as a means to integrate VAT and income tax operations. Given the small sizes of their economies and limited resources, dedicated subdivisions (large and medium taxpayer sections [LMTSs]) have been created to administer large and medium businesses together. In Grenada and St. Lucia, the LMTSs are responsible for businesses whose turnovers exceed the VAT registration threshold. In Dominica and St. Kitts and Nevis, the VAT registration threshold has not been raised; small VAT taxpayers are administered by small taxpayer sections (also responsible for individual PIT taxpayers).

In Barbados, there is no dedicated structure dealing with large taxpayers. A specific program has been designed to monitor the filing and payment obligations of the top 200 taxpayers but has yet to be fully implemented. The BRA is now contemplating a more effective way to administer large and medium taxpayers.

The Role of HQ in Managing the Organization

Most of the tax administrations in the region have recently shifted from tax-type structures to function-based organizations/organizational methods. This evolution has given rise to the need for a clearer distinction between strategic management and operational functions. During the last decade, all the of tax administrations have started to address issues related to the lack of separation between HQ functions (direction, design of standardized policies and procedures, planning, monitoring, and support functions) and program delivery (taxpayer management). These include (i) unclear roles and responsibilities, (ii) insufficient definition of strategic priorities, (iii) lack of operational policies and standards, (iv) weak monitoring of activities and performance assessment, and (v) lack of accountability.

The largest administrations, such as Jamaica, Guyana, and Trinidad and Tobago, have established separate HQ functions with two subdivisions: (1) operations (including taxpayer service, audit, collection enforcement, and appeal) and (2) corporate services (including HR, finance, IT). Haiti and Barbados have each started the process of strengthening their HQ functions with mixed progress.[13] After the recent VAT introduction, the Bahamas has plans to establish an integrated function-based central revenue administration (CRA) to manage all tax operations.

In the small islands (Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent) where human resources are limited, the option of establishing integrated design planning and

[13] Initiatives undertaken under the TPA-TTF project.

monitoring (DPM) sections has been chosen. Small DPM units (comprising between four and 12 staff members) have been established to develop strategic and operational planning, design procedures, and manuals and instructions, and to discuss resource allocation, provide functional guidance for operational units, establish performance standards, and monitor field operations.

Table 3. Tax Administration Organization

Countries	Integrated direct and indirect taxes	HQ separated from operations	DPM	Support function	Segmentation			
					LTO	LMTO	MTO	STO
Anguilla	Y	N	N	N	N	N	N	N
Antigua and Barbuda	Y	-	-	-	-	-	-	-
Bahamas		N	N	N	N	N	N	N
Barbados	Y	Ongoing	Ongoing	Y		N	N	N
Belize	N	Y	Y	Y	N	N	N	N
Bermuda	Y	N	N	N	N	N	N	N
BVI	-	-	-	-		-	-	-
Cayman Islands	-	-	-	-	-	-	-	-
Dominica	Y	Y	Y	Y		Y		Y
Grenada	Y	Y	Y	Y		Y		Ong
Guyana	Y	Y	N	Y	N		N	N
Haiti	Y	N	N	Y	Y		Y	Y
Jamaica	Y	Y	N	Y	Y			
Montserrat	Y			Y				
St. Kitts and Nevis	Y	Y	Y	Y		Y		Y
St. Lucia	Y	Y	Y	Y		Y		Y
St. Vincent and the Grenadines	Y	N	N	N	N	N	N	N
Suriname	N	Y	N		N	N		
Trinidad and Tobago	Y	Y		Y	Y			
Turks and Caicos	Y	-	-	-	-	-	-	-

Impact of LTO and LMTO on Revenue Performance

Given the limited data, it is challenging to attribute a discernible revenue increase to the LTO and LMTO initiatives. In the case of St. Lucia and Grenada, the reform is too recent to have produced any results. In Jamaica, while the increase of the tax-to-GDP ratio from 23.9 percent in FY 2010 to 24.9 percent in FY 2016 (+1 percent of GDP) cannot be attributed to the LTO alone, its positive impact should not be minimized. Some of the revenue increase, which coincides with the establishment of the LMTO, may also be due to other factors. For instance, in St. Kitts and Nevis, the popularity of the citizenship by investment program, and its associated economic activity, supported a sharp increase in growth, which may have boosted tax revenue, independently of whether or not tax collection has become more efficient.

- There are clearer examples where revenue increases coincide with the establishment of the LMTOs. In Dominica, the LMTO began operating in 2013, and total revenue increased by 5.9 percent between 2012 and 2014. In St. Kitts and Nevis, revenue collection from large taxpayers increased by 16.8 percent between 2013 (year of LMTO inception) and 2015.
- In Haiti, the tax-to-GDP ratio was just above 8 percent in 1996 (year of the LTO's establishment) and is expected to reach 14.7 percent during FY 2016 (+6.7 percent of GDP). This increase may well be associated with the tax administration's improved capacity to manage large taxpayers' compliance. But this also could be nuanced by the sharp reduction in GDP following the 2010 earthquake.

While international experiences show that the establishment of LTOs or LMTOs has generally contributed to improving domestic revenue mobilization, several factors have offset these positive outcomes in the Caribbean.

- The aftermath of the financial crisis is still perceivable in the region, with a negative impact on large taxpayers' turnovers and profitability.
- Tax incentives and allowances primarily profit the largest taxpayers, resulting in substantial revenue losses (several points of the GDP in countries where recent studies have been made, such as Jamaica and the ECCU).
- The integration of tax operations is still an ongoing process in most of the countries; direct and indirect taxes continue to be administered in silos, sometimes with different and noncommunicant IT systems. There is a significant gap between VAT and CIT performances. CIT filing and payment rates are still below 50–60 percent compared to 80–90 percent for VAT. There is a similar gap in the case of audit. Emphasis has been given to VAT (VAT auditors benefited from the bulk of training), while audit capacity has not improved in the CIT.
- Large taxpayers' international transactions (and their related transfer pricing and thin capitalization issues) are not well managed. In some countries, the legislation to protect revenue against such aggressive tax planning is missing.
- Intensified efforts in the audit of large taxpayers have generated a considerable accumulation of tax arrears across the region over the last decade.
- Frequent tax amnesties have also created a "wait and see" attitude, and have had serious consequences for tax payment compliance.

C. Modernization of the Legal Framework

One feature of the region's legal framework is that tax procedures are generally disseminated across different and often out-of-date laws (income tax, property tax, property transfer tax acts) and VAT acts. Tax legislations, except for the VAT law—which generally gives the most power to tax administrations—have the following weaknesses: (i) limited access to third party information, and (ii) insufficient power to serve liens, seize assets, enforce garnishment, and engage the third party director's liability.

There are multiple inconsistencies regarding the application of interests, penalties, and sanctions in the different legislations. Provisions to write off uncollectible debts are generally nonexistent. In most cases, current legislations also lack broad anti-avoidance provisions that would enable tax administrations to disregard transactions or series of transactions that are artificial, fictitious, or mischaracterized by the taxpayers, or to adjust transactions between related parties to the market prices.

Tax administrations lack clear guidance/mandates regarding law interpretation. At the same time, taxpayers often lack procedural safeguards (right to information), public and advanced rulings (to secure their transactions), and clear requirements (time limits).

To address these issues, there is a trend toward integrating all procedures into a single document, either a Tax Administration Procedure Act (TAPA) or a Tax Procedure Bill. With CARTAC's and the IMF Legal Department's technical assistance, Antigua and Barbuda, Haiti, and Grenada have developed TAPAs (that have yet to be enacted in some of these countries at the date of this note). In Antigua and Barbuda particularly, certain provisions face strong resistance stalling the implementation of the Tax Procedure Bills enacted in 2013. Based on these experiences, CARTAC has developed a model TAPA that incorporates international good practices and could serve as regional model.

D. Increasing Attention Devoted to Strategic Management

CARTAC and SEMCAR have delivered significant technical assistance to help Caribbean countries (Anguilla, Barbados, Dominica, Grenada, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, and Trinidad and Tobago) design multiyear corporate strategic business plans (CSBPs) articulating their missions, visions, and values, and clearly identifying key strategic objectives.[14] A few countries have yet to update their business plans.[15] In Belize, designing a single plan for the two domestic tax departments (ITD and DGST), could have been a first step towards their integration, but this initiative failed.

Key Elements of Strategic Planning

Common features of the strategic business plans developed recently by Caribbean tax administrations include (1) the adoption of a customer-oriented approach to encourage

[14] SEMCAR has been active in helping tax administrations develop strategic management frameworks.

[15] Antigua and Barbuda, Guyana, and St. Vincent and the Grenadines are in the process of updating their previous strategic plans.

compliance, (2) the introduction of risk management principles to improve the effectiveness of enforcement activities, and (3) a strong focus on human resource and performance management.

In practice, most of the tax administrations have formally published their business plans and engaged stakeholders (government, business community) in their main strategic directions. However, these strategies have not been systematically translated into operational plans and their levels of implementation are relatively low.

Reform management is also a critical part of strategic management that has often been neglected. There are only a few exceptions where structural reforms have been integrated with business plans or linked to strategic goals. For example, the articulation between investment needs and future performance has never been documented.

Quite often, reform initiatives have been insulated from the rest of tax administration operations and have suffered from deficits of oversight and communication. These explain why staff and mid-level management have shown/taken/demonstrated (very) little ownership of the reforms. Tax Administration Jamaica provides the only example of an organization where a modernization office has been set up (in September 2014).

Risk Management

While the concept of risk management—as a means of optimizing limited resources—is relatively well understood, its application in practice is not mature. Risk management is fragmented, insufficiently planned and documented, and essentially confined to audit case selection.

Even in this last area, audit programs do not necessarily target the highest-risk taxpayers. Furthermore, tax operations and their impact on compliance, when measured, is generally limited. The techniques used to identify, assess, and rank risks are mostly intuitive and rely on rudimentary analyses of insufficient data. This situation is aggravated by pervasive data integrity and IT issues in many countries (all ECCU members, Belize, and Barbados). Intelligence activities are embryonic and data gathering from various sources is generally conducted on a case-by-case basis. Only Guyana and Jamaica have developed systematic exchanges of data with customs, but have no equivalent arrangements with social security or other government agencies (e.g., corporate register). With CARTAC's assistance, Antigua and Barbuda, Haiti, St. Vincent and the Grenadines, and St. Lucia have completed one-off data matching exercises (with customs and procurement). Despite its high potential for detecting unregistered activities and major underreporting, this initiative has been unevenly followed-up.

Only a few countries (such as Barbados and Jamaica) have started to concentrate on institutional risk management in a structured and systematic manner. In Barbados, a central risk management unit has been established, and coordination mechanisms have been developed to fully integrate risk management with strategic planning. However, it is too early to measure the value added of these arrangements on decision making, resource allocation, and operational effectiveness.

Compliance Management

Multiple factors have contributed to the relative ineffectiveness of compliance management. A major one is fragmentation. It is a common feature in the region that a greater focus has been given to enforcement activities, particularly tax audit, at the expense of other aspects of compliance management, such as taxpayer service, education, and assistance. In addition, audit programs have been poorly articulated with upstream activities (e.g., management of taxpayers' accounts, intelligence, and risk management); enforcement programs (like debt management); and appeals. The legacy structure and IT systems—both organized by tax type—have generated silos and encouraged monocompetence and specialization of staff. A few countries (Jamaica, Trinidad and Tobago) have developed taxpayer single accounts that enable tax officials to monitor taxpayers' obligations in a holistic manner. As discussed above, VAT introduction has concentrated most of the attention and resources, often at the expense of other taxes. Where compliance is not managed in a holistic manner, important compliance gaps are observed in CIT, PIT, and PAYE (see Section G).

A second characteristic of compliance management in the region is that it is more intuitive than fact-based or documented. There have been limited studies and measures on compliance gaps and taxpayer attitudes toward compliance.[16] To date, Jamaica is the only country that has completed (with FAD assistance, including that of a resident expert) a compliance gap analysis and developed a compliance risk mitigation strategy. CARTAC has supported similar ongoing initiatives in Barbados, St. Lucia, and Grenada. However, no country has measured the impact of the different compliance programs on taxpayer behavior.

Performance Management

Institutional performance is poorly measured. While most of the countries have each recently identified a set of key performance indicators and service standards as part of their multiyear strategic plan, few have the capacity to monitor these on a regular basis (monthly or quarterly). Several reasons explain this situation: (1) the reporting framework is very poor in many countries (no guidance, no format, no timeline is provided); (2) high and mid-level managers, including direct supervisors, have limited experience or appetite for performance management; (3) IT systems do not provide the minimum information required, and several countries suffer from severe data integrity issues; and (4) no country has conducted a taxpayer survey to measure performance against service standards and analyze the outcomes. The IMF has developed a performance management tool (RA-FIT) whose purpose is to gather revenue administration data (qualitative and quantitative), establish baseline measures by appropriate grouping, and make data and analysis available to member countries. While encouraging developments have been made in a certain number of countries, the utilization of RA-FIT has yet to improve.

Individual performance management. In most of the countries, there are no systems in place to ensure that employees and teams perform to their full potentials. Often, the existing individual performance management is in a nascent stage, and relies on inappropriate processes and practices characterized by (i) limited goal setting, (ii) weak feedback mechanisms, (iii) insufficient

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[16] Studies have concentrated on specific industries/sectors (tourism in Jamaica, professionals in Grenada).

communications and collaborative work between managers and employees, and (iv) the absence of performance implementation plans. Direct supervisors' management capacities and skills are generally insufficient to drive employees' engagement, clarify direction and priorities, help employees work for results or develop their careers, and provide the necessary support (coaching).

Overall, individual and institutional performance is not properly linked, and most employees are not fully aware of organizational goals.

E. Constraints of Resource Management

Human Resource Management

The constitutions of the newly independent Caribbean countries each created a public service commission (PSC) to govern the appointment, discipline, and removal of public officers, ensure their neutrality, and protect them against any political interference. Since then, the environment has changed dramatically. During the last decade, tax administrations have embarked on fundamental reforms including (i) shifting from hierarchical and bureaucratic to customer-oriented models, (ii) adopting market-based procedures and systems, (iii) increasing transparency and accountability, and (iv) focusing more on performance.

"Making positive change in periods of economic uncertainty requires skilled and responsive public servants."[17] In the context of the ongoing modernization of the public administrations, HR management is facing major challenges:

- ✓ Integrating and aligning HRM with overall strategic objectives.
- ✓ Identifying the functions, positions, roles, and capabilities required to drive the organization's performance.
- ✓ Acquiring, developing, motivating, and retaining talent to ensure sustained performance.
- ✓ Linking individual performance to organizational goals, and tracking results.

Existing public service rules severely undermined the implementation of these principles. They are rigid and ineffective and have proven to be inconsistent with the ongoing transformation process. (Box 3 describes the main weaknesses of HRM).

Countries like Guyana, Barbados, and Jamaica have established semiautonomous agencies to remove these constraints and enjoy greater autonomy, in order to recruit, motivate, and discipline their staffs.

The "traditional" tax departments have adopted different strategies to alleviate these constraints, but it seems that certain remedies were worse than the disease, such as the increased use of term contracts to compensate for staff shortages. In some cases, contractual employees

[17] John Skerritt, Financial Secretary (Montserrat).

represent more than 20 percent of the total workforce, and most of them have never received any training. In addition, while these contracts were intended for a short period (a few months), a large proportion of them are still in effect after several years.

Box 3. Main Weaknesses of Human Resource Management in Public Service[1]

- ✓ No clear delineation between HR policy, operations, and oversight responsibilities. The PSC performs all three functions.
- ✓ Lack of a strategic approach (inconsistency of recruitments, succession insufficiently planned).
- ✓ Lack of coordination and fragmentation (incapacity to promote uniformity, no policy guidelines).
- ✓ Rigid and centralized (insufficient involvement of relevant stakeholders).
- ✓ Lack of performance orientation.

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[1]Prime Minister Gonsalves highlighted 20 weaknesses of public service in the conference held in St. Vincent and the Grenadines in June 2008.

Less radical options would include delegating HRM powers to public managers (ministers and tax department heads). These would require fundamental changes in the PSC's roles and responsibilities.

In any case, in order to maximize the benefits of increased autonomy, tax administrations need to strengthen their own capacities for managing their resources. This involves establishing competent and professional HR units within HQs, capable of designing internal policies, developing HR management tools, and applying modern HR management principles. CARTAC has just begun delivering technical assistance in this area (in Jamaica).

Staffing

Workforce sizes depend on country-specific factors, such as organizational models, the types of revenue administered, complexity of the legislations, sizes of territory and population, and the administrations' levels of automation. Thus, it is difficult to determine what the optimal number of staff members for a particular tax administration should be. While a few tax administrations clearly suffer from staff member shortages—and have not even reached the critical size needed to carry out missions (see Table 4)—most are lacking in competent staff. In general, tax administrations' involvement in the recruitment processes is limited, and the PSCs do not take their qualitative and quantitative needs into account. Staffing issues can also result from inefficient use of the workforce. Very often, a significant percentage of staff members are involved in low value-added tasks, particularly in front office functions (including data capture, cashiering, and taxpayer account management), whereas more staff members are needed for compliance management, audit, and collection enforcement.

Table 4. Workforce by Country (Situation in 2013)[18]

Countries	Autonomy	Staff	Number of citizens	Population/ staff ratio
Anguilla	N	20	15,094	754
Antigua and Barbuda	N	126	89,985	714
Bahamas	N	148	377,374	2,549
Barbados	**Y**	357	284,644	797
Belize	N	213	331,900	1,558
Bermuda	N	25	65,024	2600
Dominica	N	80	72,003	900
Grenada	N	98	108,580	1,107
Guyana	**Y**	1100	799,643	726
Haiti	N	1200	10,320,000	8,600
Jamaica	**Y**	2261	2,715,000	1,200
Montserrat	N	17	4,900	288
St. Kitts and Nevis	N	156	54,191	347
St. Lucia	N	159	182,273	1,146
St. Vincent and the Grenadines	N	129	109,373	847
Suriname	N	800	539,276	674
Trinidad and Tobago	N	1200	1,300,000	1,083
Turks and Caicos	N	25	33,098	1,323

Training

Except in countries where semiautonomous models have been established, the responsibility for training tax officials is left to the human resource department (or, in some cases, to the central training department) with oversight by the PSC. Training is generally poorly planned and insufficiently resourced. It is not designed to support the specific needs of reforming the tax administration, nor to accommodate the changing role of the workforce. While staff members generally lack technical skills and competency (see section on audit effectiveness), first level supervisors, team leaders, and mid-level managers lack leadership and management skills.

A common issue in the region is the lack of induction training. Only the Jamaican tax administration (TAJ) has a structured and permanent induction training program enabling some staff to acquire core knowledge and competencies. However, it is only available to tax auditors.

[18] A single staff member "covers" about 2,200 citizens (see "Understanding revenue administration, an initial data analysis using the Revenue Administration Fiscal Information Tool" by Andrea Lemgruber, Andrew Masters, and Duncan Cleary).

In Barbados and Guyana, there have been isolated initiatives (e.g., a joint venture between BRA and the West Indies University) to train mid-level managers.

Even in "large islands," where budgets are available on the job training is fragmented, poorly managed, and insufficiently aligned with broader HR strategies.

Most of the training delivered to the tax administrations in the region is done directly by private consultants, or financed by donors and executed by international organizations (including CARTAC, SEMCAR, and IADB). While critical, this approach has also demonstrated the following shortcomings:

- ✓ It is demand driven and not always aligned with medium-term strategies.
- ✓ It provides for limited follow up and evaluation (cost/effectiveness, no skills rating gap).
- ✓ The correlation between training and job functions/qualifications is limited.
- ✓ Sometimes, it suffers from limited ownership by, or involvement of, the authorities;
- ✓ The transfer of know-how is limited.

Budget

As discussed in the different sections of this study, the use of resources is far from optimal due to organizational inefficiencies, weak risk management, and limited use of information technology. A dominant factor in most tax administrations is the lack of resources/budget management capacity. Budget planning (if any) is generally isolated from strategic planning, and resource management is completely disconnected from performance management. A few tax administrations (e.g., Haiti) have appointed budget specialists with experience in costing or financial analysis. However, most of them have insufficient information (on annual and multiyear funding needs, including salaries, operational and capital investments), and lack the instruments or models (cost/effectiveness, return on investment) to support their business cases and justify their resource requests to the MOF. Budget determination is often ad hoc and consists of a mechanical extension of numbers from one fiscal year to another. As a consequence, both budget constraints and weak financial management capacity undermine a tax administration's ability to achieve its strategic and operational objectives.

The prerequisite for improving a tax administration's engagement with the MOF regarding resource allocation and budgeting? include (i) addressing the capacity gap, (ii) implementing financial policies with review and audit mechanisms, and (iii) improving performance management to link resources and outcomes.

F. IT Systems, Automation

IT Systems

The situations of revenue administrations with respect to IT systems are varied.

In seven OECS countries (Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines), plus Belize, tax administrations use a Caribbean version of SIGTAS[19] developed during the 1990s, which no longer supports tax administration operations. In Guyana, the GRA uses TRIP, a tax and customs application that does not seem to fit the purpose of integrated tax and customs operations. In Barbados, the BRA is trying to merge two systems, VITAS and ITAX, which were inherited from two separate structures: one is responsible for direct tax, the other for indirect tax.

In 2009, CARTAC experts completed an evaluation in these countries and concluded that "SIGTAS is not a strategic future component for the tax business and its replacement is urgent." This version of SIGTAS poses major data integrity issues that compromise a tax administration's capacity to manage day-to-day operations. For example, the system does not provide critically needed information, such as on-time filing data, consolidated taxpayer arrears, and basic performance management information that a reliable IT system would normally generate. It also lacks accounting functionality, and aggregation of the revenue information is subject to errors. The system codes have been modified in each country, making upgrades difficult and maintenance costs higher. This diagnostic and, more recently, the aforementioned IMF paper on RRA, confirm the need to develop a regional IT solution, which appears to be the most convenient approach for small countries with limited financial capacities.

Three countries (Jamaica, the Bahamas, and Haiti) have recently purchased new systems. GENTAX, used by Trinidad and Tobago for several years, is being installed in Jamaica. The Bahamas and Haiti are rolling out DATA TORQUE. While it is still too early to measure the progress made with these new systems, it is fair to say that DATA TORQUE has contributed to the success of VAT introduction in the Bahamas.

Automation of Processes and Operational Efficiency

It might seem paradoxical to raise collection cost issues in countries where human and financial resources are limited, but improving efficiency is crucial. Despite the limited data extracted from the RA-FIT, one can see that the collection costs (gross revenue/aggregate expenditures) in the region are high by international comparison (in some cases, ten times those recorded in OECD countries). This situation is largely due to the difficulty of reaching economies of scale in small organizations, but an important factor is the complexity of the processes and the low level of automation.

The bulk of taxpayer transactions are still paper based, and a significant number of resources are consumed by front office functions, such as data capture, return checks, and filing/payment reconciliations, at the expense of more productive tasks, like audit and collection enforcement.

Recently, important progress has been made in developing e-procedures. Most of the legal and technical issues associated with e-filing and e-payment have been addressed, the network of commercial banks has been expanded, needed adaptations of the existing systems have been made, and electronic filing and payment facilities are now available for all core taxes. However,

[19] SIGTAS: The Standard Integrated Government Tax Administration System has been implemented in 24 countries in Africa, the Caribbean, the Middle East, Eastern Europe, and Asia.

their uptakes are very low (in Jamaica, the e-filing rate is 16 percent for VAT and CIT, 14 percent for PAYE, and 1 percent for PIT, while e-payment, in value, is less than 6 percent). In Barbados, e-filing remains below 30 percent for income tax. This reflects insufficient publicity and advertising efforts or faulty strategic direction in most countries.[20] Countries generally give priority to large businesses when applying e-procedures. Jamaica has introduced legal changes to make e-filing and e-payment mandatory, at least for large taxpayers.

As discussed in previous sections, the complexity of the system is also a major obstacle to further automation. For example, withholding PIT at source (as a final tax) is hampered by multiple deductions and allowances, and limited access to third party information. Small taxpayers are subject to monthly (in the best case, quarterly) filing obligations, where annual returns would be sufficient. In a number of cases, filling complex tax forms or complying with cumbersome administrative requirements entail systematic assistance, or simply deter voluntary compliance.

G. Operational Management

Maintenance of the Registration Database

Most of the Caribbean countries (except Bermuda, Trinidad and Tobago, and St. Vincent and the Grenadines) have established unique Taxpayer Identification Numbers (TINs) and have given the registration responsibilities to the tax administrations. However, in a number of countries, taxpayer registers suffer from a lack of reliability and accuracy.

While the use of unique TINs is well spread across the countries, only a few tax administrations have systems that provide single and national views of taxpayers. Generally, taxpayer registers contain large percentages of inactive/dormant accounts (see Table 5), and there is a lack of knowledge regarding the status of each taxpayer's obligations. Inactive rates are high in Jamaica, Barbados, and Belize for different reasons. In the OECS and Barbados, the integration of legacy systems and the migration of direct and indirect tax information into single databases have failed. In a number of cases, procedures are not in place to close ceased or terminated (disappeared) taxpayer accounts legally, and in most of the countries, there are no routine and/or systematic analyses of accounts, which would enable the detection of duplicated or irregular registrations. This hampers the effective monitoring of taxpayers' obligations and negatively impacts compliance performance. For example, it biases the filing rate (see section below and Table 6) as the denominator "number of expected returns" is generally overstated.

Based on Schneider (2014), the weight of the hidden (cash) economy in percentage of the GDP in the Caribbean ranges between 23 and 65 percent, with a median of 38.8 percent. Despite the importance of informality, the initiatives for identifying unregistered activities are limited. As discussed, only a few countries have systematic exchanges of information between different government agencies (using the TIN) and/or systems in place to cross-match taxpayer information with third party data (Jamaica). Haiti has undertaken a general door-to-door census (launched since 2013) which has produced limited results.

[20] Compared to solutions like pay-by-phone, electronic filing for PIT is not the best option in countries where withholding at source is not generalized (Barbados), or where the computerization per capita is low (Haiti).

Table 5. Percentage of Inactive Taxpayers

Countries	Inactive VAT payers as a percent of total	Inactive CIT payers as a percent of total	Inactive PAYE payers as a percent of total	Inactive PIT payers as a percent of total
Barbados	16	48	42	44
Belize	15	80	-	-
Grenada	21.1	-	-	-
Jamaica	49.7	37.8		
St. Lucia	9.40	11.40	-	-
St. Vincent and the Grenadines	8.6	4.3	38.1	0.1
Average	**20**	**45**	**-**	**-**

Source: RA-FIT and CARTAC (2013–15).

Monitoring Filing Obligations

On-time filing rates across all taxes are generally below international standards.[21] (See Table 5). Performance in this area is strongly affected by the low quality of the taxpayer register. A large number of ceased/terminated taxpayers that should be deregistered are still considered potential filers. There is also a large gap between the VAT filing rate and those of PIT, CIT, and PAYE. This is because administrations are slower to monitor the compliance for these taxes, and because of inadequate sanctions and fees for late filing (generally too low). Typically, late filing penalties are easier to apply (tax administrations enjoy more autonomy in their application) and more dissuasive for VAT.

In Barbados, Grenada, St. Lucia, St. Kitts and Nevis, and St Vincent, a combination of factors explains the low filing rate: (1) the registration threshold for VAT and the corporate income tax "standard" regime is too low (see Table.3). As a result, the number of taxpayers exceeds administrative capacity, and some aspects of compliance management, such as monitoring filing obligations, are weakened. (2) A large proportion of small and micro- businesses are subject to standard monthly/quarterly filing obligations with which they cannot comply. International experience shows that compliance burdens and costs are proportionally higher for small and micro-businesses. To address these issues, Grenada and St. Lucia have decided to introduce presumptive taxes for small businesses, and increase VAT registration thresholds. Dominica has recently signaled its intention to follow this approach. In Barbados, the VAT threshold will increase, but there is no indication that the authorities intend to introduce a small taxpayer regime.

[21] (TADAT- POA 4) refers to an on-time filing rate of 90% as a good practice, and the analysis of the RA-FIT's first round indicates that the international standard is below 70%.

Table 6. On-time Filing Rate (on average)

Countries	VAT/GST	CIT	PAYE	PIT
Bahamas	75%	-	-	-
Barbados	45%	55 %	-	90%
Belize	-	68%	57%	-
Bermuda	81	-	-	-
Dominica	80%	65%	60%	-
Grenada	81%	24%	45%	30%
Guyana	43%	-	-	-
Haiti	70%	-	-	-
Jamaica	65%	69%	60%	67%
St. Kitts and Nevis	68%	50%	-	-
St. Lucia	65%	10%	42%	-
St. Vincent and the Grenadines	12.4%	8.8%	28.8%	10.1%
Regional average	**62%**	**43.7%**	**48.8%**	**49%**

Source: CARTAC.

Audit Effectiveness

Despite a tremendous amount of training that international organizations, including CARTAC, have delivered during the last 10 years, audit effectiveness in the region is mediocre. Its productivity is low in terms of number of cases completed and additional revenue yields, and its impact on taxpayer behavior towards compliance has been limited. So far, audit activities have helped to deter noncompliance. A combination of factors explains this situation.

Audit structures have remained operationally-oriented for years, and insufficient attention has been paid to the audit management function. The establishment of a central unit, distinct from field operations, and responsible for developing audit policies, procedures and plans, and, most importantly, for monitoring the program delivery, is a relatively recent development (such a central structure is still lacking in a number of countries, like Barbados).

Noncompliance risks are insufficiently targeted, and audit case selectivity is poor due to embryonic intelligence activities and limited use of third party information. A high proportion of resources is dedicated to systematic audits (often desk audits) of CIT, PIT returns, and VAT refunds, irrespective of their risks. Recent audit programs have focused more on large taxpayers, but immediate risks, such as the nonfiling of income taxes, are not covered, and the main forms of underreporting (complex schemes, international transactions) are either insufficiently identified or superficially handled.

Audit coverage is low. Annual audit plans are not particularly ambitious in terms of the number and types of audits, and they are rarely implemented fully. Preference is generally given to comprehensive audits at the expense of issue-oriented audits (in a proportion of three to one). The latter are easier to complete and would allow for broader coverage. It is noteworthy that here, "comprehensive audit" often means a single tax audit covering the whole statutory period, generally ranging from four to seven years. Only a few tax administrations have the capacity to undertake genuine comprehensive audits encompassing all core taxes (VAT, CIT, and PAYE). The integration of direct and indirect taxes has not been completed yet, and audit teams and auditors are still specialized by tax type. Coordination with customs (through post clearance audits) and social security administrations is also nonexistent. It is fair to say that VAT auditing has attracted most of the training delivered. As a consequence, tax administrations lack enough competent auditors capable of auditing all taxpayers' obligations across taxes, including to addressing complex corporate income tax issues.

Audit quality is also an area of concern. A significant proportion of audit assessments are disputed and discharged (in Jamaica and Trinidad, for example, audit assessment objections are at 70 to 90 percent rates). This is due to the fact that in disputes that legally defer the collection process, taxpayers often use objections as delaying tactic. The collection rate of additional assessments resulting from audits is also very low.

Collection Enforcement

In the region, the value of accumulated tax arrears compared to the total tax collected is generally high by international standards,[22] reflecting low collection enforcement capacity and insufficient resources devoted to this function (see Table 7). On average, the stock of tax arrears exceeds 68 percent of annual tax collection, and in some cases, it exceeds the total annual revenue collection (176 percent in St. Lucia, 131 percent in Jamaica, 118 percent in Antigua and Barbuda, and 113 percent in St. Vincent and the Grenadines). The stock of arrears consists of a high proportion of aging debts (more than 78 percent are older than 12 months)[23] and uncollectible debts (84.5 percent on average). In countries where the stock of arrears exceeds the annual collection, a limited percentage is ultimately collectible (most of the debts are old and/or uncollectible). There are various reasons for this situation. Some of it can be attributed to the financial crisis, but this mainly reflects weak debt management, the absence of write-off mechanisms, and weak compliance monitoring by tax administrations. Collection enforcement may not be seen as a strategic priority, but more importantly, in some countries, it does not receive the political support it deserves. In some cases, collection enforcement may be subject to political interference, and in others, the tax administrations are not given sufficient power to carry out this mission. Periodic amnesties are an example of damaging policy decisions that may ruin tax administrations' efforts to recover arrears.

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[22] The ratio should not exceed 10 percent on a three-year average.

[23] This should not exceed 25 percent of the value of all tax arrears.

Table 7. Situation of Tax Arrears

Countries	Value of arrears in percentage of total tax collection	Value of collectible in percentage of total tax collection	Value of arrears older than 12 months in percentage of total arrears	Number of cases at FY-end in percentage of cases at start of FY
Anguilla	50	26	88	-
Antigua and Barbuda	118.3	-	-	124
Barbados	36	-	86	108
Belize	39.8	23	95	95
Bermuda	38	20	90	107
BVI	69.8	-	-	-
Dominica	59.5	-	3	104
Grenada	38.6	-	-	99
Jamaica	131	6	96.5	114
Montserrat	56.1	-	-	-
St. Kitts and Nevis	39	-	-	33
St. Lucia	176.6	-	93	-
St. Vincent and the Grenadines	113	-	-	100
Trinidad and Tobago	10.9	2	-	-
Turks and Caicos	50	-	-	-
Regional average	**68**	**15.4**	**78**	**98**

Tax Dispute Resolution

The situation of dispute resolution varies throughout the region. In some countries, audit activities generate increasing volumes of disputes,[24] while in others, the number of disputed cases is negligible. A common feature, however, is the lack of a dedicated and independent objection unit within headquarters, and an insufficient number of competent lawyers.

Overall, the dispute resolution process is poorly monitored:

- ✓ Data on the stock and flows of cases (including the number of objections and appeals at the end of each fiscal year and their values in percentage of total collection) are generally missing.

[24] In some countries, like Jamaica and Trinidad and Tobago, audit assessments are quite systematically disputed as a delaying tactic to defer tax collection.

- ✓ There is no systematic measure of the time taken to determine an objection, but studies show that this can easily exceed several months.
- ✓ The root causes for disputes are not clear. For example, it is difficult to establish a clear connection between the high volume of objections and the existence of an independent review mechanism. The low number of disputes in some countries could reflect the disaffection of taxpayers, explained by the incapacity of the tax administration to resolve cases within acceptable periods, or to provide the right information on the dispute process).
- ✓ The outcomes of dispute resolutions are rarely analyzed, and there have been very few examples of mass litigation or major court decisions that have led to either amendment of tax legislation or revisions of administrative procedures.

The dispute resolution process is not fully integrated into multiyear compliance strategies. A few countries (including Jamaica, St, Lucia, Grenada, and Barbados) are now working on designing and implementing dispute minimization strategies, including enhanced public and advance rulings, but these initiatives remain few.

Taxpayer Service

The concept of taxpayer service, while well understood, has received uneven application across countries. The shift from a culture of control to a culture of service, assistance, and education is relatively recent and has yet to be implemented fully in many countries. During the last few years, strategic plans have clearly established the link between facilitating voluntary compliance and improving service delivery. Still, a number of countries have far to go in this particular area.

While tax administrations have increased the provision of generic information through their websites (many of which require substantial upgrading/updating), they continue to rely heavily on traditional time- and resource-consuming services, such as face-to-face contact and written correspondence, to interact with taxpayers. In-bound calls are the predominant form of contact for demand of information. Investment in upgrading the telephone infrastructure has been limited; a few countries have developed voice recognition systems to facilitate the access to dedicated interlocutors, and only Barbados and Jamaica have established call centers able to provide both generic and specific information. Overall, tax administrations are paying attention to the number of calls (often monitored manually), but have not begun identifying the topics and root causes behind the demands.

As discussed earlier, most transactions (registration, filing, and payment) are still manual. Tax administrations are struggling to expand e-procedures, but their low degrees of penetration reflect initial design weaknesses, as well as need for further simplification. There are limited ongoing initiatives for introducing self-service functionalities that could allow taxpayers to access and manage their accounts easily.

The introduction and publication of service standards is relatively recent. Only a limited number of standards are actually monitored on a regular basis by a limited number of countries. To date, none of the countries has published performance results in this area. Overall, the performance of

Caribbean countries is below international standards in two important areas. The delay for processing VAT refunds generally exceeds 30 days due to the treasury's insufficiently budgeted funds. The delay for processing objections (when measured) also exceeds 30 days. Noticeable progress has been made to reduce the delay in issuing a TIN or responding to an inquiry, two areas where international standards are generally met.

Only two tax administrations (Jamaica and Trinidad and Tobago) have launched taxpayer satisfaction surveys, and the results have yet to be published.

H. Accountability and Transparency

Accountability and transparency are two central pillars of good governance. Despite real efforts toward improving strategic planning, tax administrations in the region have produced and published limited information on operational performance. As stressed before, the lack of strong head offices, weakness of the performance management framework, and poor data integrity and IT support have contributed to deficits of transparency in most of the tax administrations.

Limited external oversight of tax administrations. While almost all of the countries have independent external oversight mechanisms, such as auditor general or audit committee, in place, the frequency, scope, and quality of external reviews differ across the region. In most of the countries, the auditor general concentrates on financial statements with limited oversight of tax administration operations and performance. External audits are not undertaken once a year, and reports are neither systematically circulated within tax administrations, nor published. There has been also limited publication of staff integrity issues, which does not necessarily mean that no investigation has been undertaken, or that no case of corruption has been detected and/or sanctioned.

Role of the management board. In the two revenue authorities (Barbados, Guyana) and the Jamaican SARA, the boards' roles need to be strengthened. The board has an important role to play with respect to (i) setting out expectations and approving corporate plans; (ii) ensuring that existing reporting mechanisms are in place that allow the board/RA to monitor performance against targets, set service standards, and validate financial statements; (iii) establishing policies on HR, financial management, and enterprise risk management; and (iv) ensuring that the RA achieves the desired results while complying with all statutory requirements.

Internal control mechanisms are not in place everywhere. In Barbados, Jamaica, and Trinidad and Tobago, a specialized unit comprising trained auditors has been established and tasked with undertaking internal controls. These countries have annual internal audit programs covering key operations, IT systems and data integrity, internal procedures, accounting, and staff ethics, and senior management is provided with documented reports at least on an annual basis. A recent TADAT mission in Jamaica noted the good level of assurance provided by internal controls and external oversight. Unfortunately, Jamaica is an isolated case in the region. In Barbados, the board does not follow up on internal audit findings and recommendations.

I. Collaboration with the Private Sector

There are limited feedback mechanisms in place to measure the quality of the relationship between the private sector and taxpayer community. Several factors, including the low level of voluntary compliance, indicate a lack of confidence in the tax system and its administration. There are obvious inconsistencies between the official discourse valuing the partnership with taxpayers—frequently called "customers"—and the day-to-day practice, which is much more confrontational.

As was mentioned earlier, taxpayer service initiatives are limited, systems and processes are far from being user friendly, and there are major sources of tension (long delays in processing VAT refunds or determining objections) that have yet to be addressed. Although the use of the *Doing Business* index should be deemphasized, the ranking on paying taxes provides an acceptable proxy to measure the complexity of the tax system (as it is perceived by small and medium taxpayers). The 2015 and 2016 reports (Table 8) indicate a deterioration in the situations of the majority of the countries.

Consultations with private sectors remain limited, and tax administrations rarely act upon the sectors' views or suggestions. Intermediaries' involvement is also insufficient to produce sustainable effects on taxpayer behavior towards compliance. There is considerable room for improvement in this area.

Table 8. Paying Taxes 2015–16

Countries	2015	2016
Antigua and Barbuda	159	161
Bahamas	31	24
Barbados	92	99
Belize	61	69
Dominica	95	98
Grenada	106	132
Guyana	115	117
Haiti	142	143
Jamaica	147	146
Montserrat	-	
St. Kitts and Nevis	137	147
St. Lucia	69	83
St. Vincent and the Grenadines	93	97
Suriname	71	75
Trinidad and Tobago	113	114
Turks and Caicos	-	

Source: Doing Business ranking 2015 and 2016 (on paying taxes).

IV. THE VALUE-ADDED TAX CASE

Since the 1990s, and particularly during the last decade, the introduction of the VAT has been a driving force in the modernization of the tax systems in the Caribbean.[25] VATs have replaced a myriad of inefficient consumption taxes in Dominica and Belize in 2006, Antigua and Barbuda, Guyana, St. Vincent and the Grenadines in 2007, St. Kitts and Nevis and Grenada in 2010, St. Lucia in 2012, and the Bahamas in 2015.[26] Suriname plans to introduce a VAT in 2018, and Anguilla has signaled a similar intention. Haiti is also considering moving from the current turnover tax (with a deduction mechanism) to a full VAT (with credit refunds). Bermuda, the BVI, Cayman Islands, and Turks and Caicos have no plans to introduce VATs. Their tax systems are largely based on payroll taxes, land taxes, and numerous indirect taxes that take the form of company registration fees, service/transaction taxes, and other fees.

A. Value-Added Tax Performance

VATs have been relatively effective in achieving revenue performance outcomes. Implementing the VAT has been seen as an opportunity to improve revenue collection as a response to a decline in international trade tax revenues and the inherent inefficiencies of the indirect taxes that it replaced.[27] As Table 9 shows, comparisons of pre-VAT (indirect tax) and post-VAT revenues in several countries indicated that they experienced noticeable revenue increases in total tax revenue as a percentage of GDP. The increase ranges from 0.9 percent to 5.4 percent of the GDP in the countries studied, except in Grenada (where total revenue decreased by 0.1 percent of GDP despite an increase in revenue yield from the taxation of goods and services).[28] As reflected in Chart 1, taxes on goods and services represented 4.9 percent of GDP on average per country before VAT introduction, and VAT represented 7.5 percent of GDP one/two years after VAT introduction.[29] In the Bahamas, total revenue collection increased by 39 percent between FY 2013/14 (prior to VAT introduction) and FY 2015/16 (after one full year of VAT operations). For this group of countries, VAT represents 31 percent of total tax revenue.

[25] Trinidad and Tobago introduced VATs in 1990, Jamaica in 1991, and Barbados in 1997.

[26] Grenada and Belize had each introduced and repealed a VAT in the past.

[27] The situation is different in Trinidad and Tobago, where CIT from energy represents 50 percent of total tax revenue, and VAT only 20 percent.

[28] Assessment of CARTAC's technical assistance in supporting VAT implementation in Antigua and Barbuda, Belize, Dominica, and St. Vincent and the Grenadines (by Jette Jensen et al., 20 July 2009), and IMF/FAD reports on St. Kitts and Nevis (2013), Grenada (March 2012). and St. Lucia (2014).

[29] It is interesting to compare VAT performance in the Caribbean with that of comparable African countries, where it rarely exceeds 7 percent of GDP, despite higher rates.

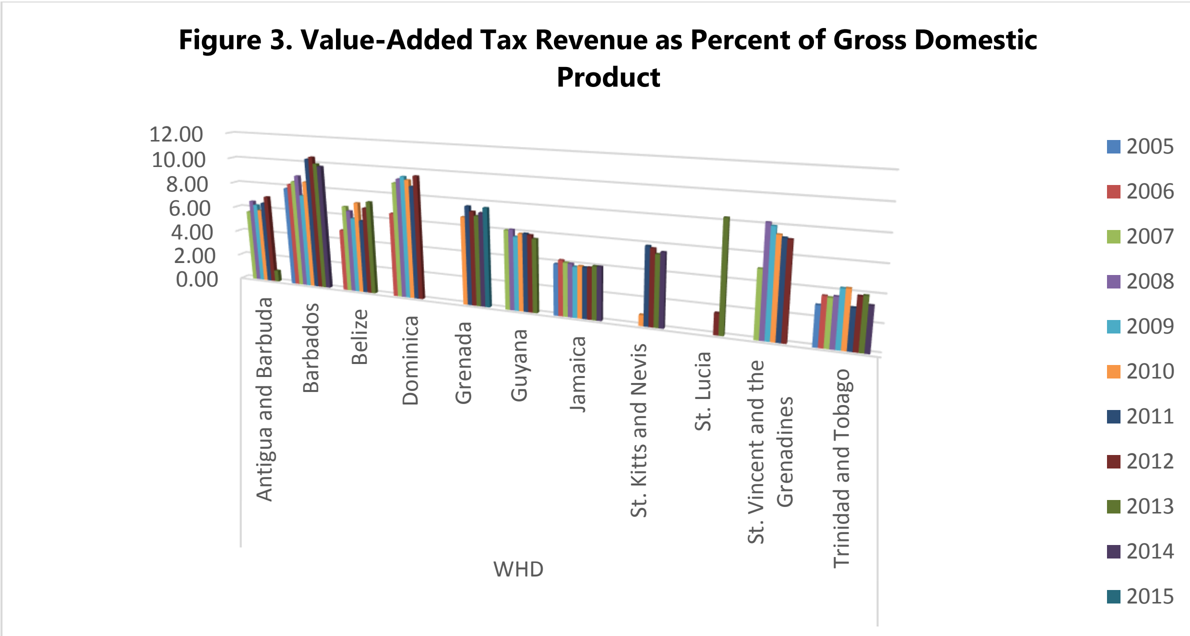
Table 9. Comparison of Tax Revenue, Pre-VAT and Post-VAT as a Percent of GDP

	Antigua and Barbuda		Belize		Dominica		St. Vincent and the Grenadines		Grenada		St. Kitts and Nevis		St. Lucia		Bahamas	
	2005	**2008**	**2005**	**2008**	**2005**	**2008**	**2005**	**2008**	**2009**	**2011**	**2010**	**2011**	**2010/11**	**2013/14**	**2013/14**	**2015/16**
Tax revenue	**19.2**	**21.5**	**19.4**	**23.2**	**27.9**	**33.3**	**23.9**	**25.6**	**18.1**	**18.0**	**18.6**	**20.7**	**21.9**	**22.8**	**14.7**	**19.1**
Taxes on income	2.7	3.2	4.7	7.1	5.8	6.3	7.5	6.8	5.1	4.1	5.1	4.5	6.7	6.1	-	-
Taxes on property	0.4	0.3	0.3	0.3	0.9	1.1	0.2	0.1	0.8	0.7	0.5	0.4	0.1	0.2	1.2	1.16
Taxes on goods and services	**4.2**	10.6	**6.6**	9.2	**4.3**	18.4	**4.3**	7.3	**5.8**	8.8	**4.6**	10.3	**5.5**	10.0	**4.5**	7.0
VAT		**7.6**		**6.7**		**9.0**		**7.3**		**7.6**		**8.0**		**8.3**		**6.0**
International trade taxes	11.9	7.4	7.6	6.6	11.9	5.6	11.8	11.3	5.4	5.0	8.6	5.4	11.3	11.0	6.9	5.7
Other taxes	-	-	-	-	-	1.8	-	-	-	-	-	-	-	-	5.7	5.3

Source: IMF/CARTAC.

Yet, VAT has not reached its full potential. VAT productivity, generally expressed by its "C-efficiency" (the ratio of actual VAT collection to the potential VAT, if all domestic consumption were taxed at the standard rate), is uneven in the region, and on average, slightly below international standards. It ranges from 0.36 in St. Lucia to 0.79 in the Bahamas, with an average of 0.54 in the region compared to 0.55 in OECD countries, 0.59 in Europe, and 0.64 in Asia and Pacific (see Table 3). A low productivity ratio indicates erosion of the tax base, exemptions, excessive zero-rating, concessional rates, evasion, and weak enforcement.

There is a significant difference between potential VAT collections and actual VAT collections, a difference that is commonly referred to as the "VAT gap." This gap reflects weaknesses in the tax design (compared to a normative framework, which would be characterized by a broad base, limited exemptions, a zero-rating limited to export, a single positive rate, high threshold, etc.), as well as compliance issues (which determine the effectiveness of the tax administration in collecting the tax).



Source: IMF.

The Policy Gap

Initially, Caribbean countries intended to introduce VATs with very broad bases, limited schedules for exemptions, and zero-ratings. However, the scopes of these schedules were expanded at the time, or since the passage of the VAT legislations in several countries,[30] thereby reducing VAT potential.

In St. Kitts and Nevis, for example, the most significant amendment included the exemptions for all supplies of electricity and most construction activities. Given that most of the inputs into the generation of electricity do not attract VAT, electricity supplies are effectively zero-rated. In Grenada, the amendments included fully zero-rating the municipal water supply and textbooks, while exempting bread, fish, poultry, other meats, select medicines, and select "unprocessed agricultural products." In St. Lucia, the amendments included fully zero-rating the water and electricity supplies, processed and unprocessed foodstuffs, and pharmaceutical products. In Barbados, the VAT's architecture has also deteriorated since its inception; nearly 20 broad categories of goods and services are zero-rated. The VAT legislation also provides for the extensive zero-rating of both inputs and final goods, ex post waivers of VAT due, and overly generous refund provisions that have undermined the VAT. In Belize and Guyana, zero-rated supplies account, respectively, for 44.2 and 52.5 percent of taxable supplies.[31]

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[30] The increased scopes of exemptions and zero-ratings were not reflected in the governments' initial VAT revenue projections, which have since been revised downward.

[31] The 2017 Budget Speech proposed that the VAT would cover electricity and water (above certain consumption levels), all zero-rated items—with the exception of those pertaining to exports and manufacturing inputs—would be eliminated, and that the list of exempt items would be expanded.

The cost of VAT incentives at a country level has been estimated at 2.6 percent of GDP, on average, in a regional study conducted in 2013 (4.3 percent in St. Lucia and 3.8 percent in Dominica),[32] a level corroborated by a recent policy gap study completed in Jamaica in 2015. In Antigua and Barbuda, 64 percent of all sales (aggregated turnover) were either zero-rated or exempt, 50 percent of imports were not subject to the VAT, of which 73 percent were zero-rated, and 27 percent were exempt. In St. Vincent, 36 percent of the value of imports was not subject to the VAT in 2008, and this percentage reached 56 percent in 2011. In 2015, a VAT gap analysis completed in Jamaica showed that the policy gap is equivalent to 5–6 percent of GDP, and the General Consumption Tax (GCT) expenditure[33] has been between 4–5 percent of GDP.

One factor aggravating the policy gap can be attributed to the rebound of the economy driven by lesser taxed sectors such as tourism, construction, and agriculture.

The tourism sector has always attracted special treatment.

Almost all the countries in the Caribbean (including Antigua and Barbuda, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines)[34] have introduced reduced rates (ranging from 7.5 to 10 percent) for hotel accommodations. The reduced rate has been expanded to restaurant food and beverage, and to several tourism activities, such as water sports services, tours, and admission to heritage sites and touristic attractions in St. Lucia, or cruises (other than international ones), sports and recreation, spas and retreats, and entertainment supplied at conference facilities, in Barbados.

In addition, several countries have made broad use of VAT exemptions, zero-rating, and VAT withholding to attract FDI and boost the competitiveness of their tourism sectors. There has been a proliferation of bilateral agreements granting VAT exemptions to hotel industry leaders in the region. In St. Kitts and Nevis, for example, these agreements allow for the nonremittance of 70 percent of the VAT charged on supplies of accommodation and the zero-rating of food and beverage supplies. In Barbados, goods imported under the Tourism Development Act are zero-rated, and service charges are zero-rated or exempt.

The Compliance Gap

Tax administrations appear to have been quite disciplined in monitoring taxpayer compliance at the time of the VAT introductions, but there is clear evidence that in many cases, compliance management has weakened since then (see Table 10). The direct consequence of the widening of the compliance gap has been the deterioration of VAT performance. This is notable in Antigua

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[32] FAD tax incentives and property taxation in the ECCU (John Norregaard et al., January2015).

[33] The GCT tax expenditure in Jamaica has been decreasing over the period 2008–13 because the GCT policy has been amended to widen the tax base. The GCT policy gap and tax expenditure are larger than the GCT compliance gap.

[34] In Belize, hotels and other tourist accommodations are exempt or zero-rated from GST, but pay as separate **Hotel Tourism Accommodation Taxes** levied on room revenue at the rate of 9 percent.

and Barbuda, where VAT revenue has declined from 6.2 percent of GDP to 4.5 percent between 2009 and 2011, in St. Vincent and the Grenadines, where, after a promising start, the VAT-to-GDP ratio fell from 8.5 percent in 2008 to 7.6 percent in 2010, and 7.1 percent at the end of 2011, and Guyana, where VAT represented 6.1 percent of the GDP in 2008 (one year after its introduction), and 5.4 percent of GDP in 2015.[35]

Filing and payment obligations: The VAT filing rate in the region, which reached 80 percent one year after its introduction, now ranges between 55 and 62 percent.

Accuracy of reporting: The accumulation of VAT credits, and the increase in number of taxpayers reporting nil returns, while partially attributable to tax policy and the inaccuracy of the taxpayer register, is also symptomatic of insufficient audit coverage.

Non-payment of outstanding liabilities: There is also an accumulation of VAT arrears, which can be explained by the increase in VAT-related audit activities, combined with weak collection enforcement.

Table 10. Evolution of Value-Added Tax Compliance

Countries	VAT filing rate on due date 1–2 years after introduction (as a percent)	Current VAT filing rate on due date (as a percent)	VAT arrears in percent of gross VAT 1–2 years after introduction	Current VAT arrears in percent of gross VAT
Antigua and Barbuda	55-60	40 (*)	-	-
Bahamas	-	72	-	-
Barbados	-	45	-	57
Belize	85	60	5.7	-
Dominica	80	80	1.5	10
Grenada	-	81	3.7	-
Guyana	60	72	2	-
Jamaica	-	65	-	-
St. Kitts and Nevis	76	68	1	-
St. Lucia	73	65	2	6.5
St. Vincent and the Grenadines	76	12.4	8.9	-
Trinidad and Tobago	-	-	-	-

(*) dropped to 26% in 2010.

B. Lessons Learned from Value-Added Tax Introduction

While the VAT has been a successful and sustained reform initiative, it has not been strong enough to serve as a catalyst for broader tax administration reforms. VAT operations have not

[35] CARTAC—*Review and Assessment of VAT Policy and administration in Guyana*—Vinette Keen et al., August 2016.

been integrated immediately into tax administrations' mainstream operations, nor have they contributed to strengthening the other tax administration areas, particularly direct tax operations.[36] The success of the VAT upon its introduction is, to a large extent, attributable to improved compliance management (close monitoring of VAT taxpayers' obligations) and the development of a taxpaying culture. Unfortunately, this discipline has not been extended to the other taxes. As a result, a significant gap exists between VAT and income tax compliance (in the absence of GAP measures for income taxes).

The VAT is a good revenue-raising instrument with potential to raise more. Although VAT remains a strong and stable source of revenue, improvements to its current structure are required to turn it into a simple, nondistortive, revenue-efficient tax. VAT analysis shows that there is scope for substantial gap reduction by curtailing tax expenditures (i.e., restricting domestic zero-rating, exemptions, and differentiated rates), and by increasing the revenue administration's effectiveness. The recent Bahamian experience indicates that introducing a broad-based VAT with minimum exemptions allows for the application of a lower tax rate (at 7.5 percent compared to 15–17 percent in the rest of the? region).

The size distribution of VAT payers based on their annual gross turnover suggests that the registration threshold is too low (US$ 55,868 on average). Almost 80 percent of the VAT is collected from the largest 10 percent of taxpayers, and close to 90 percent from the top 20 percent. The group of taxpayers in the lowest three deciles, 30 percent of all taxpayers, contribute less than 1 percent of the total. This unequal distribution of VAT revenue across taxpayers suggests that the choice of registration threshold should be based on administrative capacity, in addition to revenue performance concerns. A low VAT registration threshold imposes important collection costs for the revenue administration in return for modest tax collections. Currently, an important part of tax administrations' scarce resources is consumed by unproductive tasks relating to small businesses' administration (monitoring, following up on, and enforcing their filing and payment obligations, processing large number of credit claims, and providing assistance and information). By raising the threshold, administrations can concentrate on the large and medium taxpayers responsible for the bulk of revenue and improve overall compliance. Grenada, St. Lucia and Barbados have decided to raise VAT thresholds (US$ 115,000, US$ 150,000, and US$ 100,000, respectively). In the Budget Speech 2017, Dominica and St. Vincent and the Grenadines also indicated their intentions of doing the same.

Large and growing excess credits pose tax policy and tax administration problems. In a number of countries, the expansion of zero-rated domestic supplies of goods and services has contributed to building up a large volume of VAT credits, including in the retail sectors. This has increased the number of refund claims and put tax administrations under pressure to refund the credits within acceptable periods (good practice is 30 days).[37] In many cases, the turnaround time for reimbursing VAT credits exceeds 90 days, and quite often it is not monitored at all. This situation has been exacerbated by the lack of previous risk analysis and systematic audits of

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[36] A particular feature of VAT introduction in Caribbean countries (principally in OECS) has been the creation of separate units dedicated to VAT administration.

[37] In Barbados, 20 broad categories of goods and services supplied locally are zero-rated, which generates, on average, 6,000 and 7,000 credit claims to process per annum.

refund claims. In Trinidad and Tobago, VAT refunds have been temporarily suspended due to an insufficient budget. Refund delays and related cash flow issues have been the primary reasons for granting VAT exemptions to investors.

A good alternative to allowing VAT exemptions would be to apply deferment regimes to the importers of goods on import of capital goods (machinery and equipment), as well as raw materials, consumables, intermediate goods, or spare parts. But the system is insufficiently used in the region, except in Jamaica, where it has been in place since 1991, and has been recently streamlined. Importers and manufacturers continue to lobby emphatically for more exemptions.

"VAT or no VAT." VAT has given rise to important debates in the region. The VAT's relevance to small islands' economies has been frequently questioned. Recently, Bermuda decided not to introduce a VAT, but to tax goods at the point of entry and apply a broad-based tax on domestic services. This model, also implemented in Aruba, is being contemplated by Anguilla. While this debate is legitimate, the experience in the Caribbean demonstrates that the problem is not necessarily the introduction of a VAT, but the introduction of a poorly designed VAT and weak subsequent administration.

Table 11. Basic Value-Added Tax Data Per Country

Countries	VAT threshold in US$	VAT standard rates	Other positive rates	C-efficiency Ratio (mid-2013)[38]	VAT population
Antigua and Barbuda	111,111	**15**	12.5	0.52	-
Bahamas	100,000	**7.5**	**-**	**0.80** [39]	6,710
Barbados	40,000[40]	**17.5**	7.5	0.74	6,000
Belize	37,500	**12.5**	-		4,062
Dominica	44,444	**15**	10	0.66	-
Grenada	44,444[41]	**16**	10	0.48	824
Guyana[42]	48,263	**16**	-	0.37	2,623
Jamaica	23,810	**16.5**	2;5;10;25	0.47	14,000

[38] The C-efficient ratio is the ratio of VAT revenue to consumption, divided by the standard VAT rate.

[39] In 2016.

[40] Decision to raise the threshold from US$ 40,000 to US$ 100,000 in 2016.

[41] Threshold raised from US$ 44,444 to US$ 120,000 in 2015.

[42] The **2017 budget speech** proposed the following amendments to the VAT regime: standard rate to be reduced from 16 percent to 14 percent, threshold to be raised from 48,263 to 72,394 (US$).

St. Kitts and Nevis	55,556	**16**	10	0.67	
St. Lucia	66,667[43]	**15**	-	0.36	1,496
St. Vincent and the Grenadines	44,444	**15**	10	0.53	-
Trinidad and Tobago	54,179	**15**	-	0.43	20,000
Regional average	**55,868**		**-**	**0.54**	

V. NEXT STEPS

Countries are in need of better tax policy designs to increase revenues, but also to reduce economic distortions and promote investment and growth. Simplifying the system and broadening the tax base are among the main directions to take. A significant reduction in tax incentives is unlikely, so a major step forward would be to impose a rules-based regime with a minimum of ministerial discretion, together with a uniform low-rate broad-based tax regime on all types of economic activity.

Revenue administration reforms in general, but compliance improvement in particular, requires more high-level political attention and engagement. Change cannot occur in a vacuum, but needs to be supported by reforms in other areas, such as establishing a civil service accountability framework.

The full implementation of the structural reforms begun a few years ago, including the establishment of function-based headquarters and the reorganization of field offices along taxpayer segments, will provide the basis for more effective and efficient compliance management. Stronger headquarters will also enable tax administrations to improve both human resource and performance management.

Improving taxpayer compliance in the core taxes, particularly the VAT, but also in income taxes, is a condition for a sustainable positive impact on revenue collection. To that effect, adopting risk management principles is pivotal to focusing scarce resources on immediate compliance risks (such as VAT credits, nonfilers, and turnover underreporting), and to adapting service delivery to taxpayers' needs/risks.

The majority of the countries have yet to undertake risk assessments and develop multiyear compliance strategies. Those that have completed these first steps now have to translate the strategies into operational plans to address the following weaknesses: inaccurate taxpayer register, weak monitoring and enforcement vis-a-vis nonfiling and tax arrears (sometimes aggravated by insufficient powers to sanction), lack of selectivity of audit programs, and poor

[43]Raised from US$ 66,667 to US$ 150,000 in 2015.

quality of service and assistance to taxpayers. One key to success will be the effective implementation of these programs and plans.

Another priority issue that needs to be addressed is the automation of the current business processes. In many countries, they are essentially manual and outdated and have proven to be inefficient because (a) tax administrations are devoting large percentages of their manpower to nonproductive tasks, and (b) taxpayers are subject to unnecessary compliance burdens and costs. Substantial gains can be expected from the full automation of processes and wide availability of electronic procedures (starting with large- and medium-sized businesses). This will allow tax administrations to reallocate staff to more productive tasks and will facilitate taxpayer transactions with positive impacts on compliance.

A third priority is to enhance performance management. Modern administrations need to measure their outcomes in key operational areas, monitor progress against targets, and assess the impacts of their programs and plans (to be able to reorient them as needed). A much stronger focus is needed on the maintenance of a reliable dataset, the implementation of a strong reporting framework, and the production of regular performance reports.

To be successful, these strategies need to be supported by a strong IT system and an engaged and competent workforce. Data integrity issues and public service constraints continue to pose major threats to tax administration modernization efforts and require much attention.

- In the nine OECS countries as well as in Belize, Bermuda, Barbados, Suriname, and Turks and Caicos, replacing the existing IT systems is urgent. However, tax administrations have not managed to make business cases linking the immediate investments in IT and expected performance outcomes. In small countries, where investment capacity is constrained, regional initiatives, including resource sharing, are options that should be contemplated.[44]

- Modern tax administrations require dynamic, relevant, needs-based, proactive human resource management. There is a consensus on the need to provide tax administrations with greater flexibility and more autonomy in managing their workforces. While reforming public service will require political courage, this paradigm shift will involve a deep cultural change.

VI. CONCLUSIONS

VATs have been effective in terms of mobilizing additional tax revenues since their introduction in Caribbean countries. The revenue increases from VATs range from 0.9 percent of GDP to 5.4 percent of the GDP in the countries that introduced the VAT tax in the period 2005–2013. Indeed, from this perspective, the VAT has proven to be more effective than the consumption taxes it replaced. However, its contribution should have been much greater. On average, an increase of 20 percent of VAT productivity for the region would represent an increase of 2.0 percent of VAT

[44] See CARTAC’s evaluation of the IT system in the OECS countries, which is mentioned in Section F.

revenues in terms of the GDP. Initially intended to be a broad-based, single rate tax, the VAT's legislation has deviated from these objectives. Zero-rating of domestic supplies, generous exemptions, lower rating of tourism activities, and low registration thresholds have affected its performance negatively and compromised administrative efforts. This paper argues that, instead of eliminating the VAT, the objective should be to strengthen it.

Tax policy decisions regarding other major taxes continue to impact tax administration performance adversely, and require closer attention. The modernization of the tax system is far from being achieved. Challenges include simplifying the personal income tax regime to facilitate the development of efficient collection and reporting systems (e.g., withholding at source), coordinating the corporate income tax regimes to reduce the scope for the "race to the bottom," as well as to better protect CARICOM member states against international tax evasion, and introducing simplified mechanisms (presumptive tax) for small taxpayers.

Fundamental tax administration reform can have a powerful effect on mobilizing tax revenue, but to date, this effect is not yet perceptible in Caribbean countries. Many reforms began after the financial crisis and need to be consolidated. This will take time and more effort. In this regard, significant future efforts are needed in the following key areas: ensuring that the traditional "stove-pipe" administration by type of tax is transformed into an integrated administration, and that the organization reflects a clear focus on major taxpayer segments, moving toward a "whole-of-taxpayer" model of compliance management, improving IT support, and investing in human capital.

Despite the many challenges this paper discusses, there is reason to believe that the foundations for real progress are in place. The time has come to enhance programs' outcomes and measure overall performance. This requires addressing data integrity issues, maintaining reliable datasets, and developing proper performance management frameworks. The IMF and its partners have recently made a number of tools, such as RA-FIT, TADAT, and RA-GAP, available in order to help countries assess performance and identify their strengths and weaknesses. A major challenge will be to ensure that ISORA, the new version of the data gathering tool RA-FIT, gains the traction that is needed in the countries in the region, in order to support performance management. Country authorities have indicated/signaled a/their growing interest in undertaking RA-GAP exercises and TADAT assessments.

Finally, despite the significant efforts and funding needed to implement programs at the regional level, concrete and structured regional programs designed to strengthen IT support, audit capacity, and enforcement in tax administration across the region have enormous potential to help raise overall tax compliance levels, as well as revenue outcomes.

APPENDIX

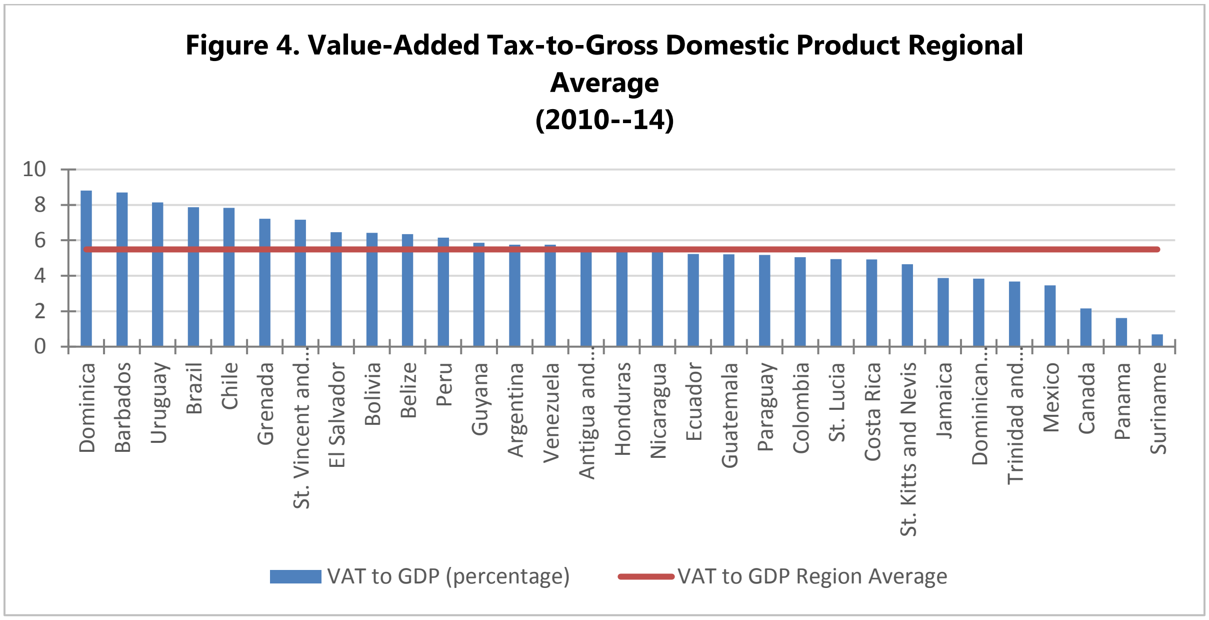
Figure 4. Value-Added Tax-to-Gross Domestic Product Regional Average
(2010--14)
10
8
6
4
2
0
Dominica
Barbados
Uruguay
Brazil
Chile
Grenada
St. Vincent and…
El Salvador
Bolivia
Belize
Peru
Guyana
Argentina
Venezuela
Antigua and…
Honduras
Nicaragua
Ecuador
Guatemala
Paraguay
Colombia
St. Lucia
Costa Rica
St. Kitts and Nevis
Jamaica
Dominican…
Trinidad and…
Mexico
Canada
Panama
Suriname
VAT to GDP (percentage)
VAT to GDP Region Average

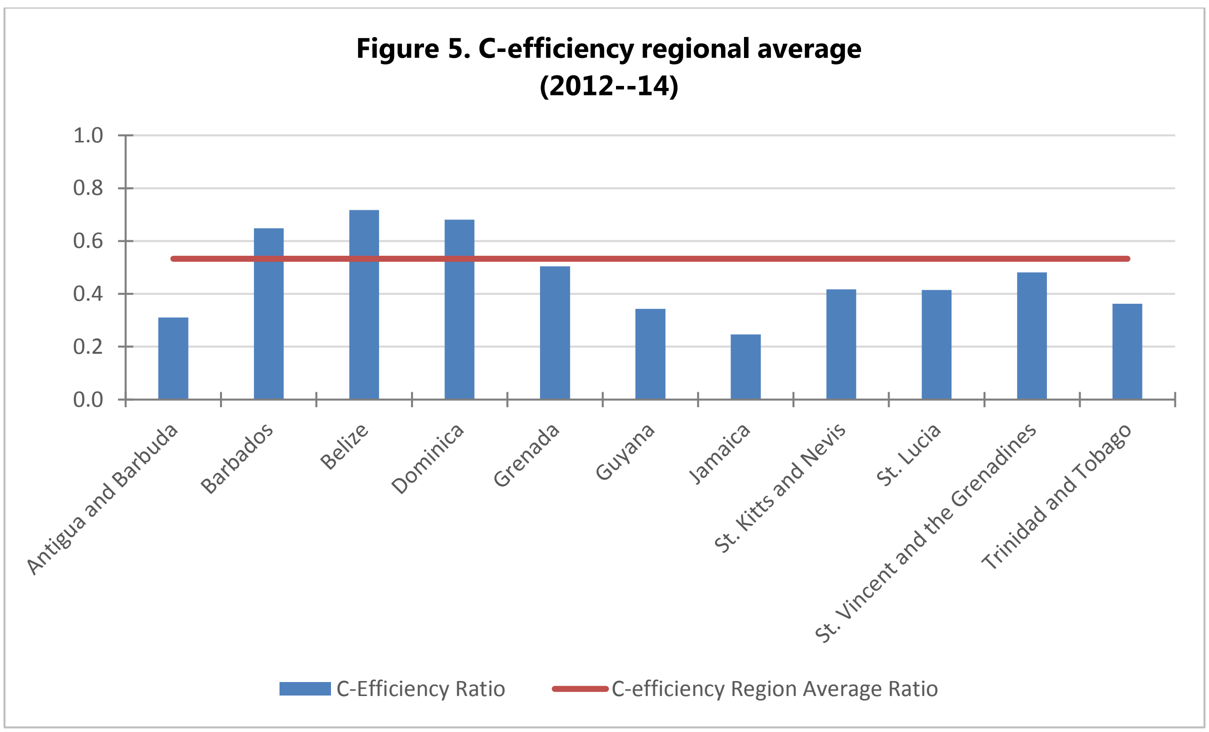
Figure 5. C-efficiency regional average
(2012--14)
1.0
0.8
0.6
0.4
0.2
0.0
Antigua and Barbuda
Barbados
Belize
Dominica
Grenada
Guyana
Jamaica
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Trinidad and Tobago
C-Efficiency Ratio
C-efficiency Region Average Ratio

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