# The Commonwealth Association of Tax Administrators

**No.4 of 2004** Newsletter **December 2004**


- TWENTY-FIFTH CATA ANNUAL TECHNICAL CONFERENCE/ WORKSHOP – LUSAKA, ZAMBIA
- KENYA TO HOST "CATA" CONFERENCE IN 2007
- COMMONWEALTH FINANCE MINISTERS MEETING ST KITTS & NEVIS, 28-29 SEPTEMBER
- DATES CONFIRMED FOR AMP, CTIC, TOIT AND CMDP 2005
- TWENTY-FOURTH MEETING OF THE COMMONWEALTH MINISTERIAL ACTION GROUP ON THE HARARE DECLARATION (CMAG)
- NEW INTERNATIONAL TAX ORGANISATION

## CONTENTS




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# Editorial

# Politics and the Underground Economy

Tax administrations in developing countries are faced with a number of challenges. One of these is dealing with the underground economy or the informal sector. Defining the underground economy is a real struggle because of the lack of identify of what we are actually looking for. If anything can be called a challenge in the literal sense, it has to be this, firstly because by its very nature, the underground economy is characterized by a high degree of vagueness about its existence and quantum. Secondly, in many cases, the size of the underground economy as a ratio of the total economy is so large that tax administrations never seem to have enough resources to deal with the problem effectively. Thirdly, there is increasing evidence that underground economies are becoming more organised and developing collusive tax avoidance and evasion mechanisms that cause major headaches for tax administrations. Understanding the dynamics that operate in the informal sector is the key to dealing with the problem. Unfortunately, some aspects of the problem are completely beyond the control and jurisdiction of tax authorities, such as cross border smuggling or law and order breakdown because quite often such groups are not only organised but in many cases well armed too.

The informal sector covers a whole range of illegal operations, such as smuggling, drug trafficking, gun running, etc. The first problem is to identify those illegal businesses and then determine their obligations towards tax administrations. At the same time, there is also a large segment of the informal economy that is engaged in legal businesses of one sort or another but is in fact operating outside of the tax system, operating heavily in cash or perhaps trading in ways that are not easy to notice and even more difficult to register on tax records. It then has a fall out effect in that people registered as taxpayers feel justifiably aggrieved that there are an unreasonably high number of people escaping the tax net at their expense and making a mockery of operative laws. The creditability of the whole system falls into disrepute.

Before any attempt is made to deal with the underground economy effectively, two realities of life have to be accepted as a starting point. Firstly, in market economies the profit motive is the primary motivating force. Economic agents, being rational utility maximisers naturally seek to maximise profits. One way to do that is to avoid or evade payment of taxes. Mere moral condemnations are simply irrelevant and betray a sense of frustration and helplessness on the part of tax authorities. It is important to accept the reality and move on from that as a stating point.

Secondly, the problem of tax avoidance and evasion can never be dealt with through incentives, concessions, tax amnesties, reduction in tax rates, user friendly procedures, etc. These are all very important measures in themselves but not unless these are part of a broader approach. Motivation and facilitation must be accompanied by a strong and effective compliance structure that is not only in place but is highly visible. The message has to be loud and clear – tax authorities are there to guide and facilitate taxpayers in the discharge of their fiscal obligations but where a taxpayer fails to do so despite all help, penal action will be swift and unavoidable.

The question that arises is that if the solution to the problem is so simple and well defined, why do tax avoidance and evasion continue to cause severe headaches for tax administrations? The answer is that theory is always simple, implementation is a different proposition altogether. In order for plans to be successful, corresponding implementation tools have to available. In reality, in almost all developing countries, there is almost always a large resource gap, both human and material. This is not to say that the problem of underground economy or informal sector does not exist in developed countries. There have been some limited studies in the past highlighting the problem in developed countries too. One reported study some years ago in Switzerland estimated that between 10 and 20 percent of those employed as gardeners, masons, painters, plasterers, waiters, cleaning and domestic personnel worked in the informal economy. In the United States a survey based on hidden purchases showed that, in 1985, 80 per cent of home repairs and additions, food, child care and domestic services were provided by the informal economy. What makes the problem really serious for developing countries in the sheer scale of the underground economy.

While aspects of the problem limited to tax implications only can be tackled to some extent by tax administrations, it is the external influences and variables that take the solution away from tax administrations. Conflicting political interests are a major obstacle to dealing with the problem. In developing countries with limited employment opportunities, the need to avoid hunger and starvation become paramount and engaging in informal activities is adopted as one option. At times governments have been known to encourage participation in the informal sector as a way of job creation, when the formal economy is not doing too well or close to pending elections. People involved in tax planning are "prompted" in appropriate ways to take is easy for a while. Unfortunately, this does not remain an issue that is for a while only. Once such seeds are sown, they grow into a culture of non-compliance. It is easy and convenient for governments to perceive inefficient tax administrations as the reason for less than optimum tax collections rather than to accept harsh realities on the ground. The first compliance problem therefore sometimes is to get the government to agree that the time has come for the informal sector to be regulated and brought to the tax net. The second problem is that if the informal sector operates for a while outside of state rules and regulations, it does not operate in a vacuum but instead it often develops its own self regulatory informal structure; having its own rules, its own security people operating outside of government rules. Once this self created system is in place, they are not prepared to accept governmental rules regulating their dealings which were not in conformity with their own rules. Sale of smuggled and counterfeit goods is usually a large part of the underground economy operations and in many countries, there are well established markets that deal almost exclusively in such goods. Emergence of such markets is a matter of demand and supply. As long as there are sales outlets operating without inhibition for the disposal of such goods, these will continue to get smuggled into the country where there is a demand. Political authorities prefer to chase individual smugglers for the confiscation of such goods but are reluctant to close down markets through which smuggled goods are disposed off. Collective actions like general strikes are threatened by market associations representing markets involved in the sale of illegal goods in order to demonstrate their economic importance and political clout. That is where the matter goes beyond the control and jurisdiction of tax administrations.

The problem of dealing with the underground economy is a complex one and certainly cannot be dealt with comprehensively through brief editorials. However, in the context of one aspect of the problem, namely, the political dimension, two considerations must never be lost sight of. Firstly, the informal sector will always develop, grow and flourish when fed on short term political considerations such as looking at it as a way of complementing the formal economy. Secondly, once it develops, it has a self perpetuating nature and the longer it continues to exist, the more difficult it is to formalize it and to deal with it effectively. Whether that can be done is above all a question of political will as well as the dominance of a long term vision over short term political and economic gains.

# CATA NEWS

## TWENTY-FIFTH CATA ANNUAL TECHNICAL CONFERENCE/ WORKSHOP

The Twenty-Fifth CATA Annual Technical Conference was held in Lusaka, Zambia from **6 to 10 September 2004**. In addition to 97 member and non-member countries, the conference was attended by a number of international organisations.

Zambia Revenue Authority made excellent arrangements for all aspects of the conference. Delegates were extended a very warm welcome on arrival and enjoyed tremendous hospitality throughout their stay in Zambia.

The conference deliberated on the following two topics:

(1) **Strategies for Widening the Tax Base.**

(2) **Building Capacities in Revenue Agencies.**

Excellent presentations were made by a number of countries during the course of the conference followed by lively discussions from the floor.

## SPECIAL GENERAL MEETING

A Special General Meeting was also held on Tuesday, 7 September at which the members approved an amendment to the constitution of CATA enabling the enrolment of Associate Membership for CATA in the future.

## KENYA TO HOST CATA CONFERENCE 2007

Mr Michael Waweru, Commissioner General, Kenya Revenue Authority and currently President of CATA has confirmed his country's decision to accept the invitation from CATA Secretariat to host the CATA Conference in 2007. Kenya has actively participated in previous CATA conferences and contributed constructively in deliberations on various topics discussed in the past.

## ADVANCING MANAGEMENT POTENTIAL/COMMONWEALTH TAX INSPECTORS COURSE (AMP/CTIC) 2005

Mr Sean Rabbett, Course Administrator for CATA sponsored training programmes hosted by the Inland Revenue, United Kingdon has reconfirmed the dates for next year's courses as follows:

- **Arrival in UK on Sunday 31 July 2005.**
- **Courses start on Monday 1 August 2005.**
- **Courses end Friday 16 September 2005.**

Mr Rabbett can be contacted at:

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E-mail: Sean.Rabbett@ir.gsi.gov.uk
Fax: 020 7147 2648

## COMMONWEALTH MANAGEMENT DEVELOPMENT PROGRAMME (CMDP) 2004

The Commonwealth Management Development Programme was held at the National Tax Academy, Inland Revenue Board of Malaysia from **30 August to 8 October 2004.**

The names of the participants are:

**Lorenzo Alphonso Forde (Barbados)**
**Boitumelo L Bose (Botswana)**
**Devon G Deslandes (Jamaica)**
**Odeefour Kwame Ampong**
**Fazullah Abdoolatiff (Mauritius)**
**Adekunle John Ogundare (Nigeria)**
**Talele Uitualagi Saaga (Samoa)**
**Lionel Menimer (Solomon Islands)**
**Dingiri Bandage Dissanayake (Sri Lanka)**
**Celani Margaret Dlamini (Swaziland)**
**Elly Obadiah Ndosi (Tanzania)**
**Wan Noor Mazuin Bt. Wan Aris (Malaysia)**
**Subkiah Binti Jamaludin (Malaysia)**
**Chen Chiu Khon (Malaysia)**
**Faizah Binti Omar (Malaysia)**
**Radzifah Binti Hassan Basri (Malaysia)**
**Marwanti Binti Omar (Malaysia)**
**Wong Chee Kheong (Malaysia)**
**Goh Kuan Siong (Malaysia)**
**Lazita Binti Abdullah (Malaysia)**

## TAXATION OF INTERNATIONAL TRANSACTIONS (TOIT) 2004

The Workshop on Taxation of International Transactions sponsored by CATA for senior and middle level tax officials was held from **2 August to 20 August 2004.**

The Workshop was held at The National Tax Academy, Inland Revenue Board of Malaysia. The resource persons who delivered the workshop materials were:

Ms Asriah Shaari, Course Director, (Malaysia)

Mr John Patterson, CATA)

Mr Douglas Rankin (United Kingdom)

Mr Peter West (Australia)

Mr Vijay Mathur (India)

The names of the foreign participants are:

**Tyrone Pearson Lavine (Barbados)**
**Roslyna Bt. Dr. Hj. Abdul Latif (Brunei)**
**Potamitou Maria (Cyprus)**
**Wai Hang Fong (Hong Kong)**
**Maurice Otieno Ochieng (Kenya)**
**George Waweru Mbatai (Kenya)**
**Baguant Jogeswari (Mauritius)**
**Anthea Suzette Beukes (Namibia)**
**Igbinomwanhia Jolly Aheko (Nigeria)**
**Reguvaran S/O Sreedharan (Singapore)**
**Edward Limoni (Solomon Islands)**
**Chandralal Wijeyananda Walpita Gamanayake (Sri Lanka)**
**Nancy Sibongile Mavuso (Swaziland)**
**Jackson Harun Maswi Wangkogere (Tanzania)**
**Hosea Minja Ananiah (Tanzania)**
**Ndibalwanya Masturah Nsubuga (Uganda)**

The names of the local participants are:

**Nurzahirudin Amin B. Husin**
**Assistant Secretary**
**Inland Revenue Board of Malaysia**

**Harizan Bt. Hj. Hussin**
**Assistant Secretary**
**Inland Revenue Board of Malaysia**

**Saw Lye Hock**
**Principal Assistant Director**
**Inland Revenue Board of Malaysia**

**Lim Kien Thai**
**Assistant Director**
**Inland Revenue Board of Malaysia**

**Salbiah Bt. Ismail**
**Assistant Director**
**Inland Revenue Board of Malaysia**

**Md. Nasir B. Mohamad**
**Assistant Director**
**Inland Revenue Board of Malaysia**

**Chan Sou Lan**
**Assistant Director**
**Inland Revenue Board of Malaysia**

**Nor'Aini Bt. Mohd. Ali**
**Assistant Director**
**Inland Revenue Board of Malaysia**

**Wan Muzaffar B. Wan Nilam**
**Assistant Director**
**Inland Revenue Board of Malaysia**

## TAXATION OF INTERNATIONAL TRANSACTIONS (TOIT) 2005

The Workshop on Taxation of International Transactions sponsored by CATA for senior and middle level tax officials will be held from **25 July to 12 August 2005.** CATA's annual Circular giving details of the Workshop arrangements will be circulated to all members in early January and will also be available on CATA's web site.

## COMMONWEALTH MANAGEMENT DEVELOPMENT PROGRAMME (CMDP) 2005

The Commonwealth Management Development Programme for 2004 will be hosted by The National Tax Academy, Inland Revenue Board of Malaysia from **22 August to 30 September 2005.** CATA's annual Circular giving details of the Workshop arrangements will be circulated to all members in early January and will also be available on CATA's web site.

## CREATION OF A NEW INTERNATIONAL TAX ORGANISATION (ATAIC)

The Association of Tax Authorities of Islamic Countries (ATAIC) was formally launched on 15 October 2003 by the (then) Prime Minister of Malaysia, Tun Dr. Mahathir Mohamed, during the 10th Session of the Organisation of the Islamic Conference (OIC) Summit in Putrajaya , Malaysia. A Preparatory Meeting of ATAIC was held on 13 – 14 October 2003, attended by representatives of eleven founding members - Bangladesh, Brunei Darussalam, Indonesia, Tajikistan, Kuwait, Morocco, Lebanon, Yemen, Jordan, Pakistan and Malaysia. Membership of ATAIC is open to all member countries of the Organisation of the Islamic Conference (OIC) and other Islamic countries. The membership of the Association has now risen to 17 countries.

Malaysia was selected to hold the Association's Chairmanship for two consecutive years, and thus, hosted the first ATAIC annual technical conference during 4 to 7 October 2004 at Putrajaya Convention Centre in Putrajaya, Malaysia. Thirty-three (33) delegates representing the eleven ATAIC members, namely Brunei Darussalam, Indonesia, Iran, Kuwait, Malaysia, Morocco, Pakistan, Qatar, Senegal, Sudan and Yemen attended the conference. In addition, thirteen (13) observers from Turkey and Malaysia were also present during the conference.

## CIOTA MEETING

The Committee of International Organisations of Tax Administrations (CIOTA) met on October 6, 2004 in Amsterdam, The Netherlands during the CIAT Conference. The following member organisations of CIOTA were represented at the meeting:

| | |
|---|---|
| AATA: | Mr. Pascal-Baylon Owona |
| CATA: | Mr. Zahir Kaleem |
| CIAT: | Mr. Jorge Cosulich |
| | Mr. Marcio Verdi |
| | Ms. Maria Raquel Ayala |
| COTA: | Mr. Clive Nicholas |
| IMF: | Mr. Carlos Silvani |
| | (membership formalised at Amsterdam) |
| IOTA: | Mr. Raits Averats |
| OECD: | Mr. Jeffrey Owens |
| SGATAR: | Mr. Dongil Kim |

**Secretariat: Canada Revenue Agency (CRA)**

Mr. Stephen Rigby, Secretary/Chair
Mr. Len Endemann
Mr. Daniel Perrier

The meeting discussed various items of interest and/ or concern to various members, including approval of the report for June 16, 2004 meeting, approval of the CIOTA mission statement and CIOTA's membership issues (including new members). The meeting also discussed various aspects of the continuing differences between CIOTA's role and that of the subsequently emergence of ITD. The Committee decided that representatives of CIOTA & ITD should meet in Paris on 13 & 14 December 2004 to try to resolve the ongoing dispute on the relative roles of the two bodies and to examine the possibility of developing a working relationship, if possible.

## CIAT GENERAL ASSEMBLY

The 39th CIAT General Assembly will be held in Buenos Aires, Argentina, from Monday 18 to Thursday 21 April, 2005, under the sponsorship of the Federal Administration of Public Revenues of Argentina and CIAT. The main theme of the Assembly will be **"The role of the tax administration in society".**

## NEW COUNTRY CORRESPONDENT FOR PAKISTAN

Mr Muhammad Riaz, Secretary (International Taxes), Central Board of Revenue has been appointed as Country Correspondent in place of Mr Mahfuz Ur Rehman Pasha.

# OTHER NEWS

## WE CANNOT AFFORD TO FAIL THE POOR, SAYS SECRETARY-GENERAL

"There is still no reason to give out any gold, silver or bronze medals," said Commonwealth Secretary-General Don McKinnon, expressing disappointment at the slow progress made on the Millennium Development Goals.

Speaking at the opening of the Commonwealth Finance Ministers Meeting in St Kitts and Nevis on 28 September, Mr McKinnon said that much more needed to be done to cut global poverty by half by 2015.

"If more is not done now," he claimed, "the targets for education, child mortality and global poverty will not be met for another 150 years. And in the Commonwealth, 14 countries will miss the global poverty target. This is simply not good enough. This is not what we promised."

In his speech, Mr McKinnon argued that whilst increased trade is key to tackling underdevelopment in the world, "we must also make sure poor countries have the capacity to take advantage of the opportunities opened up by trade liberalisation. Otherwise, they will be like dinghies pushed out on the ocean: the dinghies may be free to go where they want — but they are likely to sink soon after they leave the port."

The Secretary-General called for trade preferences to be phased out gradually and said that the countries affected must get the help they need to adapt to those changes and diversify their economies.

He urged Commonwealth finance ministers to rise to the challenge in a practical way and agree on an innovative initiative — a fund targeted at the private sector to help absorb the shock of the transition phase. The fund would provide a safety net for those who risk losing their livelihoods and help producers and exporters to diversify and develop more competitive industries.

Mr McKinnon also highlighted the plight of Commonwealth countries and citizens hit hard by recent hurricanes in the Caribbean and renewed his call to all Commonwealth governments and international agencies to assist in any way they can.

## COMMONWEALTH FINANCE MINISTERS MEETING ST KITTS & NEVIS, 28-29 SEPTEMBER COMMUNIQUÉ 2004

1. Commonwealth Finance Ministers met in St Kitts and Nevis on 28-29 September 2004. The meeting was chaired by the Prime Minister and Minister of Finance of St Kitts and Nevis, Dr the Hon Denzil Douglas.

2. Ministers reviewed the world economic situation; discussed a range of issues that are on the agenda of the annual meetings of the World Bank and International Monetary Fund (IMF) in Washington D.C; and discussed policy issues relating to supporting development in small states, promoting investment in Commonwealth developing countries and securing support from the International Financial Institutions (IFIs) to help low-income and vulnerable countries benefit from trade liberalisation. They agreed to take forward their conclusions to the IMF/ World Bank meetings in Washington.

**World Economic Situation**

3. Global economic growth remains strong including in Commonwealth developed countries. But Ministers noted that not all regions had benefited. Despite recent improved performance in some countries, Caribbean economies remain adversely affected by depressed tourism earnings, adjustment to the loss of trade preferences and more recently, the most damaging hurricane season in many years, and short and medium term growth prospects in Sub-Saharan Africa are unlikely to be sufficient for these countries to achieve the Millennium Development Goals (MDGs). They looked forward to the report early next year of the Commission for Africa, which is addressing ways to strengthen development prospects for the continent. Ministers also noted significant risks for the future. The uncertain recovery in the Euro Area, high and fluctuating oil prices, and the fiscal and current account deficits in the US present challenges for the future. Many countries in Africa and among the community of small states, as recent events in the Caribbean have demonstrated, remain exceptionally vulnerable to the impact of unanticipated shocks. For heavily indebted oil-importing developing

countries, the combination of rising oil prices and rising interest rates would be particularly burdensome.

4. Sustaining the global recovery and mitigating and handling these risks remains an important challenge for global economic policy makers. Ministers called for action by:

- industrial countries, to address the fiscal and balance-of-payments imbalances in the US while sustaining growth and to implement the structural reforms needed to sustain stronger growth in Japan and the Euro Area;
- developing countries, to continue to implement the policies needed to promote faster growth and poverty reduction and to improve the environment for domestic and foreign direct investment, supported by increased external resources obtained on appropriate terms and through improved market access for their goods and services;
- all countries, to work together to maintain stability in the international oil market with prices consistent with long term growth; and
- all countries, to make rapid and substantial progress in agreeing and implementing the Doha Development Agenda, in particular on agricultural trade liberalisation, which is so crucial for growth in developing countries, and on special and differential treatment to enable capacity-constrained countries to benefit from multilateral trade liberalisation.

5. The Ministers expressed serious concern and deep sympathy over the devastation caused by the recent hurricanes and committed to provide, where possible, bilateral financial and other assistance and to support efforts in the multilateral arena to mobilise resources to finance reconstruction efforts in the Caribbean region.

**Achieving the Millennium Development Goals**

6. Ministers noted with concern that a significant number of Commonwealth countries, some by a substantial margin, are likely to fail to achieve the MDGs, including the goal for reducing the proportion of people living in extreme poverty. They called for a renewed sense of urgency in implementing all the elements of the Monterrey Consensus, which is subject to review in 2005, and urged all parties to the Consensus to fulfil their obligations. In particular, they noted the key role that official development assistance (ODA) plays in financing MDG-related investments, and supporting policies and institution building needed for growth and poverty reduction. In this regard they:

- welcomed increased ODA commitments by some countries and urged all developed countries to move quickly to implement commitments to increase aid flows and to make progress towards meeting the 0.7% of Gross National Income (GNI) target;
- called for early international agreement on parallel action in the short-term to augment aid flows, whilst the ODA target is being attained. In addition, Ministers welcomed the World Bank and IMF analysis of the International Finance Facility and looked forward to early international agreement to augment aid flows through this or other mechanisms.

7. They emphasised the need to ensure that in moving towards the ODA target, there is no diversion of aid flows to selected recipients at the expense of low-income and vulnerable economies.

8. Ministers also reviewed implementation, at the country level, of the Poverty Reduction Strategy (PRS) process and global agreements to align aid flows better with country priorities and to harmonise aid procedures and practices, informed by the first of a series of Commonwealth country studies. In particular Ministers:

- noted the importance of integrating country-led poverty reduction strategies fully with national decision making processes, and involving Parliaments in the process;
- called on the IFIs to help strengthen country ownership by acting to remove the appearance that national poverty reduction strategies are approved in Washington, and in this respect welcomed the recent agreement to adjust the nature of the joint Bank/Fund staff assessment of national strategies;
- called on donors to support country strategies by aligning their aid programmes fully behind PRSs, using budget support, wherever feasible, making their support more predictable through firm medium term commitments, and harmonising their reporting and other requirements with country practices; and
- called on developing countries to continue to strengthen public financial management and accountability.

9. Ministers welcomed actions taken by the Secretariat to implement its responsibilities under the 2002 Commonwealth Action Plan on Delivering

the Monterrey Consensus. They looked forward to reviewing progress in implementing all aspects of the Action Plan by all parties at their meeting next year by which time they hope there will be substantial progress on all these issues.

**Supporting Trade Liberalisation**

10. Ministers, noting that developing countries will not succeed in accelerating economic growth without adequate access to markets of industrial countries and of each other, particularly in agriculture, welcomed the role the Commonwealth has played and continues to play in providing political momentum to getting the Doha Development Round negotiations back on track. At the same time they recognised that trade liberalisation could have short and medium term costs for some countries including those dependent on trade preferences, and that countries needed help in securing the long run benefits of liberalisation. In this context, Ministers:

- emphasised the crucial importance of a successful Doha Development Round, which is also an essential component of the Monterrey Consensus;
- welcomed the statement by Professor Stiglitz as an important contribution to the debate;
- recognised the need for appropriate trade policies and transitional financing arrangements to mitigate the significant losses that some preference dependent economies will face from their erosion;
- called for consideration by the IFIs of new ways of providing assistance, including a facility to support private sector-led export diversification, as part of the process of adjustment to further trade liberalisation in the many poor and vulnerable economies that are dependent on trade preferences;
- welcomed the civil society statement and briefing paper and in acknowledging the value of civil society's work in influencing international trade and finance agendas in support of pro-poor development, called on civil society organisations to forge viable and productive partnerships to develop new proposals and strategies towards an effective, just, rules-based multi-lateral trading system; and welcomed the Commonwealth Secretariat's decision to expand substantially the trade capacity building programme, in partnership with the European Union, the ACP Secretariat and the Agence Intergouvernementale de la Francophonie, through an ACP wide programme aimed at building capacity in trade policy formulation, negotiation and implementation.

**Ensuring Debt Sustainability for Poor Countries**

11. Ministers welcomed and endorsed the continuing work of the Commonwealth Heavily Indebted Poor Countries Ministerial Forum (CHMF) and the report from its meeting on 28th September. They also discussed progress in developing a new World Bank/IMF framework for assessing debt sustainability in low income countries. Ministers:

- welcomed the agreement to extend the sunset clause of the Heavily Indebted Poor Countries (HIPC) initiative by two years;
- called on creditors that are not yet participating to do so, and welcomed the efforts the Commonwealth is making to mobilise support for HIPCs in tackling the difficult issue of creditor litigation;
- asked for further examination of proposals to deepen debt relief to HIPCs and other similar low-income countries, including proposals to extend 100% relief to multilateral debt. They stressed, however, that any extra debt reduction must be additional to and not at the expense of new aid flows. In this context they welcomed the United Kingdom's commitment to finance its share of such debt relief for the World Bank and African Development Bank and looked forward to similar efforts from other development partners;
- broadly endorsed the proposed new Bank/Fund framework for ensuring long term debt sustainability in low-income countries, while noting important issues to be agreed before it can be made operational include the level of debt thresholds (which should not be set too high), the need to allow for the potential impact of unexpected shocks, the treatment of domestic debt and the need to have a single Bank/Fund assessment; and
- recognised the continuing importance of debt-related technical assistance generally and the Commonwealth Secretariat's efforts in providing advice particularly to HIPC countries on effective debt recording and the sustainable management of external, domestic and private debt. They welcomed also the deployment of regional debt advisers in key partner institutions.

### Strengthening the Investment Climate in Developing Countries

12. Ministers, aware of the link between growth and investment, welcomed:

- the work of the World Bank Group and other donors including the Commonwealth Secretariat in helping countries improve their investment climates, and in particular in addressing the cost of doing business and promoting investment in Small and Medium Enterprises (SME);
- the World Bank's renewed emphasis on supporting investment in infrastructure, including the infrastructure needs of businesses; and
- the continuing contribution of the Commonwealth in promoting private investment in developing countries through the Commonwealth Private Investment Initiative (CPII), an outstanding example of North-South and South-South co-operation, which has already raised over $200 million for private investment.

### Other World Bank and IMF Issues

13. Ministers discussed other issues likely to be raised at the forthcoming Bank/Fund meetings. In particular Ministers emphasised:

14. the continuing need to make progress on the more fundamental reforms needed to strengthen developing country 'voice' at the Bank and Fund including by increasing developing country voting power;

- their support for the IMF's strategy of remaining engaged with its low-income country members, and its recognition that in many cases their economic problems are deep seated, and require many years of successful macro-policy implementation to address;
- their support for the forthcoming IMF review of its conditionality guidelines and called for a comparable review of World Bank conditionality with a view to streamlining overall IFI conditionality;
- the need to encourage the IMF to further develop its capacity to support country-led intensive surveillance for those countries desiring enhanced Fund surveillance without the need for them to seek more Fund borrowing. The Fund should also aim to strengthen dialogue and advice in Article IV consultations to further help member countries;
- the need to consider new ways to provide quick disbursing concessional finance to low-income countries facing exogenous shocks and to consider ways for the IFIs to provide counter-cyclical financing for countries that do not have access to capital markets;
- their support for a generous IDA 14 replenishment, which will be critical for attaining the MDGs. This replenishment should be a substantial increase over previous ones and should promote more effective engagement with eligible members;
- their support for continuing Fund/Bank work on crisis prevention and management; and
- their continuing support for the work of the Bank/Fund, the Commonwealth and the wider global community in helping countries counter money laundering and terrorist financing.

### Small States

14. Ministers reviewed the continuing actions being taken by the Commonwealth and its partner institutions (the World Bank, IMF, World Trade Organisation (WTO), European Union (EU), United Nations Conference on Trade and Development (UNCTAD) and Regional Development Banks) in implementing the proposals in the April 2000 report of the Joint Commonwealth/ World Bank Task Force on Small States.

- They encouraged the Secretariat to continue to enhance its efforts in supporting the interests of this group of countries, including helping to prepare for and actively participate in the International Meeting in Mauritius next January to review the Barbados Plan of Action on the sustainable development of small island states.
- Ministers welcomed the framework of policies that the Secretariat was seeking to develop to build resilience and competitiveness in small states.
- Recognising that the Commonwealth will often be most effective in advancing the small states agenda by working in collaboration with other international organisations, Ministers also encouraged the Secretariat to strengthen and systematise its partnerships on small states issues with a range of other international organisations, including the IMF and Multilateral Development Banks (MDBs).

15. Noting the increased vulnerability of small states arising from natural disasters and other threats such as HIV/AIDS, and the cost of measures to combat global terrorism, Ministers called on the Commonwealth Secretariat and the World Bank to revisit the 2000 Report with a view to ensuring that

its recommendations take account of these new vulnerabilities.

16. Ministers noted progress in discussions between small jurisdictions and Organisation for Economic Co-operation and Development (OECD) countries on the OECD's Harmful Tax Competition Initiative (HTCI) and, in particular, on ways to achieve a level playing field in the area of Transparency and Exchange of Information on Taxation, and welcomed the facilitating role that the Commonwealth has played in this regard. Ministers:

- looked forward to the expeditious achievement of a level playing field;
- encouraged continuing dialogue on the HTCI with all interested parties within and outside the OECD, including the private sector and civil society; and
- called on OECD member countries, bilateral donors, and IFIs to widen and intensify their support and assistance to those developing countries and jurisdictions that are currently engaged in restructuring their international financial services sectors to take full advantage of the benefits of globalisation.

**Commonwealth Development Co-operation**

17. Ministers welcomed the contribution being made by the Commonwealth Fund for Technical Co-operation (CFTC) to assist member states to achieve the MDGs. They noted the increasing focus of the development programmes on addressing such areas as trade, investment, debt and public sector development, designed to build institutions and skills necessary to take advantage of the opportunities and address the risks presented by globalisation. They noted that there remained a need to enhance the level of technical co-operation to member states so as to help achieve the MDGs within the established time frames. They recalled the commitment of Heads of Governments at Abuja to enhance the resources of the CFTC and welcomed the increased contributions by a number of member countries. They called on those members that had not yet done so, to increase their support in line with the majority of members who benefit from the CFTC.

18. Ministers noted the progress report on the Commonwealth Private Investment Initiative (CPII) and the fact that the first round of funds were now fully invested and in the divestment phase. They recognised the positive impact that CPII had had in attracting private capital to difficult markets and in the range of investments made. They were keen to see CPII continue and supported the rolling out of another round of funds to follow up those now being repaid to shareholders. They were supportive of the Secretariat's ideas of focusing a second phase of CPII on the SME sector in the geographic areas covered by the first round of the funds. They were pleased to note that a second Kula Fund was in the process of being launched and asked the Secretariat to report back in 2005 on the success of that fund and on more concrete proposals for a series of SME funds.

19. Ministers welcomed the progress made in fostering consensus on the need to enhance private direct investment in countries with 'endowed handicaps' through risk-sharing schemes.

20. Ministers noted that money laundering and financing of terrorism continued to pose serious threats to financial systems and of global community. They noted the concerted measures that many Commonwealth countries are taking to comply with the revised Financial Action Task Force (FATF) recommendations in order to develop regimes that prevent money laundering and the financing of terrorism. They also encouraged the Secretariat to continue supporting the Asia Pacific Group (APG) Secretariat, the Caribbean Financial Action Task Force (CFATF) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in developing national and regional strategies to combat money laundering and financing of terrorism. They welcomed the support provided to the Economic Community of West African States (ECOWAS) Secretariat in its efforts to set up the West African Anti-Money Laundering Group.

**Commonwealth Business Council (CBC)**

21. Ministers commended CBC for its work in implementing practical initiatives for sharing experience at senior government levels on public-private partnerships for the delivery of basic services to the poor and the CBC Global Index to facilitate greater portfolio equity flows to emerging markets on a commercially sustainable basis.

**Commonwealth Partnership for Technology Management (CPTM)**

22. Ministers noted with satisfaction the rapid progress made by CPTM in getting the Endowment Fund, announced last year, fully operational with contributions to date amounting to a total of £6.4 million. They encouraged CPTM to undertake more country activities and develop greater synergies with other Commonwealth entities involved in functional co-operation. They noted that the CPTM Smart

Partnership approach provides a positive contribution to the solution of development challenges in the Commonwealth.

**Appreciation**

23. Ministers thanked the Government and people of St Kitts and Nevis for their generous hospitality and the excellent arrangements for the meeting.

**Venue of Next Meeting**

24. Ministers accepted the generous offer of the Government of Barbados to host the next Commonwealth Finance Ministers Meeting in 2005.

## COMMONWEALTH FINANCE MINISTERS DISCUSS SUPPORT FOR SMALL STATES AND ECONOMIES

▪
Commonwealth finance ministers discussed development policy in small states and investment in developing countries at their meeting in St Kitts and Nevis on 28-29 September 2004. Chaired by host Prime Minister and Minister of Finance Dr Denzil Douglas, the meeting also discussed securing support from international financial institutions to help low-income and vulnerable countries benefit from trade liberalisation.

▪
Finance ministers reviewed the world economic situation and discussed a range of issues on the agenda of the approaching annual meetings of the World Bank and International Monetary Fund in Washington, DC, on 1 October 2004.

▪
In their Communiqué, the ministers noted that while global economic growth remained strong, not all regions had benefited. Many countries in Africa and among the community of small states, including in the Caribbean, remain exceptionally vulnerable to the impact of unanticipated shocks. For heavily indebted oil-importing developing countries, the combination of rising oil prices and interest rates would be a heavy burden.

▪
Ministers called for action by all countries to make rapid and substantial progress in agreeing and implementing the Doha Development Agenda, in particular on agricultural trade liberalisation, crucial for growth in developing countries, and on special and differential treatment to enable capacity-constrained countries to benefit from multilateral trade liberalisation. They welcomed the role the Commonwealth has played and continues to play in providing political momentum to getting the Doha Development Round negotiations back on track.

Another issue of concern was progress in achieving the Millennium Development Goals (MDGs). Ministers were concerned that a significant number of Commonwealth countries are likely to fail to achieve the MDGs, some by a substantial margin, including the goal for reducing the proportion of people living in extreme poverty. They called for a renewed sense of urgency in implementing all the elements of the Monterrey Consensus, which is subject to review in 2005, and urged all parties to the Consensus to fulfil their obligations. In particular, they noted the key role that official development assistance plays in financing MDG-related investments, and supporting policies and institution-building needed for growth and poverty reduction.

▪
The Monterrey Consensus — adopted in 2002 by the International Conference on Financing for Development — is a commitment by nations to provide the resources to meet the Millennium Development Goals and the conditions that will enable freer trade, more foreign investment, debt relief and efficient government.

▪
In the area of trade liberalisation, ministers noted that developing countries will not succeed in accelerating economic growth without adequate access to markets of industrial countries and of each other, particularly in agriculture. They also recognised that trade liberalisation could have short and medium term costs for some countries, including those dependent on trade preferences, and that countries needed help in securing the long run benefits of liberalisation. The ministers noted the need for appropriate trade policies and transitional financing arrangements to mitigate the significant losses that some preference dependent economies will face from their erosion.

▪
Finance ministers recognised that money laundering and financing of terrorism continued to pose serious threats to financial systems of the global community. On small states, ministers noted the increased vulnerability of these countries arising from natural disasters and other threats such as HIV/AIDS, and the cost of measures to combat global terrorism.

▪
The next Commonwealth Finance Ministers Meeting will be in Barbados in 2005.

## HELPING COMMONWEALTH DEVELOPING COUNTRIES COPE WITH LOSS OF TRADE PREFERENCES

Commonwealth finance ministers will be considering a proposal on the development of a private sector fund to assist developing member countries dependent on trade preferences to cope with the phasing out of such privileges in the current Doha Round of World Trade Organisation (WTO) negotiations.

Dr Roman Grynberg, Head of International Trade and Regional Co-operation in the Commonwealth Secretariat's Economic Affairs Division, said the proposal will be presented to finance ministers for their consideration at their meeting in St Kitts and Nevis on 28-29 September 2004.

Dr Grynberg, who was speaking at the Royal Commonwealth Society on 14 September, said the Commonwealth is also working with other intergovernmental organisations such as the World Bank and the European Union in an effort to define a strategy to help developing countries deal with the loss of trade preferences.

He also highlighted the recent Secretariat-commissioned study by the Nobel Laureate in Economics, Professor Joseph Stiglitz, which points a way forward for the development of a consensus on a genuine development agenda for the Doha Round of trade talks. Dr Grynberg stressed that the Secretariat supports the process of liberalisation while seeking to ensure that it is a process that is inclusive, equitable and benefits all Commonwealth citizens.

## NEW PUBLICATION: 'SMALL STATES IN TRANSITION — FROM VULNERABILITY TO COMPETITIVENESS'

There is a perception that small country size, which includes economies with less than 1.5 million people, hinders the achievement of industrial competitiveness.

This study by Dr Ganesh Wignaraja, Marlon Lezama and David Joiner analyses the vulnerability of small states and strategies to address this problem in order to achieve competitiveness. It was undertaken as part of the Commonwealth Secretariat's ongoing trade-related technical assistance activities to small states. The study focuses on the measurement of the industrial competitiveness record in small states and the public policies they could adopt to improve their performance. It deals with the pressing economic policy questions facing the world's smallest economies. These include how small states can enhance their industrial competitiveness and alleviate economic vulnerabilities associated with their small size.

'Small States in Transition' addresses the meaning of competitiveness in relation to small states and their enterprises; the impact of globalisation; the enterprise strategies, policies and institutions that have yielded success; and principles and measures that may underpin the development of future industrial competitiveness policies of small states.

While globalisation offers small states' enterprises access to new technologies, skills, markets, financial resources and growth potential, it also exposes them to intensive competition from imports, foreign investment and low-cost developing country enterprises.

What are the dynamics that link technology, firms, industries, policies and institutions in developing competitiveness in small states? The authors examine this issue as well as the impact of import diversification and human resources on the economic performance of the small states.

This book will be of interest to those concerned in the adjustment of small states and their enterprises to accelerating globalisation. It will be of particular interest to policy-makers, international donor organisations, academics and researchers, business organisations and students.

## NEW PUBLICATION: 'MAINSTREAMING INFORMAL EMPLOYMENT AND GENDER IN POVERTY REDUCTION'

This publication presents a strategic framework for how best to promote decent work for the poor and, in so doing, reduce poverty. It provides practical examples of how to assist working poor women and men to minimise the constraints and maximise the opportunities arising from trade liberalisation and growth.

The International Labour Organisation defines 'decent work' as employment opportunities accompanied by rights, protection and voice. In this Handbook, authors Martha Alter Chen, Joann Vanek and Marilyn Carr argue that hopes for poverty reduction largely hinge on the creation of more employment opportunities, particularly those accompanied by rights, protection and voice.

While the vast majority of the world's poor work, few are able to work their way out of poverty. The authors state that this is because poor people working in the informal economy face lower incomes, greater financial risks, lower standards of human development and greater social exclusion compared to better-off workers, especially those who work in the formal economy. They point to the links between being informally employed, being a woman or a man, and being poor. They also look at the changing nature of informal employment and describe the impacts of economic restructuring and liberalisation on different categories of informal producers and workers.

The Handbook, which is part of a Commonwealth Secretariat series on gender mainstreaming in critical development issues, highlights the lack of attention to employment –- especially informal employment –- in poverty reduction strategies. The informal economy includes both self-employment in informal enterprises and wage employment in informal jobs, or those without secure contracts, worker benefits and social protection.

The publication draws widely on recent data and evidence of the global research policy network called 'Women in Informal Employment: Globalising and Organising', as well as the knowledge and experience of the grassroots organisations in the network. It provides a convincing case for an increased emphasis on informal employment and gender in poverty reduction strategies.

## NEW PUBLICATION: 'AN AGENDA FOR THE DEVELOPMENT ROUND OF TRADE NEGOTIATIONS IN THE AFTERMATH OF CANCUN'

In this new Commonwealth report, Professor Joseph E Stiglitz, the Nobel Laureate, and Andrew Charlton present an alternative way forward for the Doha Round of trade negotiations, approaching global issues with a fresh eye. They call for a fundamental reform of the agenda and the negotiating process, stressing that this is important if the Doha Round is to deliver on its promise to bring widespread benefits to developing countries.

The report notes that the Doha Round has still not delivered on its development mandate in several respects. There has been little progress on the issues that developing countries are interested in, particularly agriculture, labour mobility and labour-intensive manufactures and services; the new issues on the agenda primarily reflect the interests of advanced industrial nations and have been strongly opposed by many developing countries; and there has been only limited reform of the culture and procedures of the World Trade Organisation (WTO).

This publication proposes some principles that should motivate the negotiations. It identifies priority initiatives which would deliver significant gains to developing countries and increase global efficiency. It also recommends institutional reforms necessary to make global trade negotiations more effective and inclusive.

The report addresses questions such as: What should a development round of negotiations look like? What would an agreement based on principles of economic analysis and social justice — not on economic power and special interests — look like? What would an agreement that promoted fair economic development look like?

The primary principle of the Doha Round, the authors conclude, must be to ensure development in poor countries. To make this principle work, the WTO needs to identify pro-development proposals and promote them to the top of the agenda. The report observes that any agreement which differentially hurts developing countries or provides disproportionate benefits to developed countries should be presumptively viewed as unfair and regarded as being against the spirit of the development round.

The authors also analyse the need for a development round. They examine the experience of developing countries in previous trade negotiations and review some of the potential gains from further liberalisation.

## TWENTY-FOURTH MEETING OF THE COMMONWEALTH MINISTERIAL ACTION GROUP ON THE HARARE DECLARATION (CMAG)

**New York, Saturday 25 September 2004**

### CONCLUDING STATEMENT

1. The Commonwealth Ministerial Action Group on the Harare Declaration (CMAG) met in New York on 24 and 25 September 2004. This was the Group's second meeting following its reconstitution

by Commonwealth Heads of Government at Abuja in December 2003 and the twenty-fourth meeting since CMAG's establishment in November 1995. The meeting was chaired by the Hon Olu Adeniji, Minister of Foreign Affairs, Nigeria and attended by the Hon Tuilaepa Sailele Malielegaoi, Prime Minister and Minister of Foreign Affairs, Samoa; the Hon Frederick Mitchell, Minister of Foreign Affairs and the Public Service, The Bahamas; the Hon Pierre Pettigrew, Minister of Foreign Affairs, Canada; the Hon Mohlabi Tsekoa, Minister of Foreign Affairs, Lesotho; the Hon Dr Michael Frendo, Minister of Foreign Affairs, Malta; the Hon Lakshman Kadirgamar, Minister of Foreign Affairs, Sri Lanka; the Hon Jakaya Kikwete, Minister of Foreign Affairs and International Co-operation, Tanzania; and Mr Shyam Saran, Foreign Secretary, India.

2. The Group elected the Foreign Minister of The Bahamas as its Vice-Chairman.

**Pakistan**

3. CMAG received various reports on developments in Pakistan. The Group welcomed the Government's resolve to remain engaged with the Commonwealth to strengthen democratic institutions. It acknowledged Pakistan's participation in the Commonwealth since its reinstatement.

4. CMAG recalled and reaffirmed its statement of 22 May 2004 which urged Pakistan to continue to make progress in the democratic transition, ensuring the supremacy of the Constitution and Parliament as well as the full implementation of the 17th Amendment to the Constitution in letter and spirit, including the issue of the separation of the offices of President and Chief of Army Staff.

5. CMAG welcomed the Secretary-General's forthcoming visit to Pakistan in October 2004 at the invitation of the Government of Pakistan and the opportunity it provides for further engagement with the Government of Pakistan. The Group also requested the Secretary-General to continue to utilize his good offices and technical assistance, as appropriate, to support the strengthening of democracy, institution-building and good governance. Other Commonwealth countries were also encouraged to work with Pakistan.

**CMAG: The Way Ahead**

6. The Group received a paper from the Secretary-General on CMAG's future work. CMAG noted that its current work was consistent with its mandate from the High Level Review Group which was endorsed by the Coolum CHOGM in 2002 and needed no further elaboration. CMAG decided in principle to meet annually, ideally in New York in the wings of the United Nations General Assembly, and also meet if and when circumstances so required, in accordance with its mandate. The Group noted that CMAG also meets on the eve of CHOGM to update its Report to Heads of Government.

## DON McKINNON CALLS FOR FULL INVOLVEMENT OF WOMEN IN ECONOMIC DEVELOPMENT

"The Commonwealth is determined to provide all women with the opportunities they need to better their lives. No society can reach its full potential without fully involving women. We must make sure that women are enabled to play a full part in their country's economic future," said Commonwealth Secretary-General Don McKinnon.

Mr McKinnon was speaking at the launch of two Commonwealth Secretariat publications on 29 September 2004 in St Kitts and Nevis, held to coincide with the Commonwealth Finance Ministers Meeting. The books — 'Mainstreaming Informal Employment and Gender in Poverty Reduction' and 'Chains of Fortune: Linking Women Producers and Workers with Global Markets' –- are part of a Secretariat series on gender mainstreaming in critical development issues.

The Secretary-General said women made up half the world's population. Excluding them from the process of economic development means, "You're only getting half the economic growth, half the improvement in health and education. Gender equality is central to the economic success of any country."

The new publications will help raise awareness of the crucial role women play in the economic development of a country. They highlight the importance of recognising this role, particularly when women are in informal employment; and the need to ensure that they have greater access to international trade markets.

The books provide practical, tangible solutions to help maximise women's role in the economic growth of their communities.

"We hope that these positive examples serve to highlight the kinds of policies and programmes that can be put in place to enable women producers, entrepreneurs and wage workers to derive greater benefits from globalisation," Mr McKinnon said.

## €20M TRADE PARTNERSHIP FOR 78 ACP COUNTRIES

A €20 million partnership between the Commonwealth Secretariat, the European Commission, La Francophonie and the African, Caribbean and Pacific Group of States (ACP) Secretariat will benefit 78 ACP countries through the provision of more than 50 trade experts to advise governments on trade policy and negotiations.

Commonwealth Secretary-General Don McKinnon said: "The Commonwealth is taking a lead role in providing trade negotiating capacity for 78 African, Caribbean and Pacific states. The 'Hub and Spokes' project is a creative new approach to developing trade capacity in ACP countries. This project is a huge vote of confidence in the Commonwealth by governments and other international organisations.

"The expansion of this programme comes as more Commonwealth countries are grappling with the ongoing trade negotiations which will have a huge impact on their future."

'Hub and Spokes' aims to enhance the capacity of the ACP states in trade policy formulation and enable them to integrate trade in their poverty reduction strategies, and participate in international trade negotiations.

The Commonwealth Secretariat will manage and implement the project in 55 of the 78 ACP member states.

Mr McKinnon said: "Every euro invested by the Commonwealth has generated four more euros for developing states. The Commonwealth has contributed €4 million and unlocked €16 million from other partners in the project. We have the funding and expertise to add some practical value.

"The Commonwealth Secretariat's mission is to work as a trusted partner with our 53 member governments, to act as a catalyst for building global consensus, and to work towards the eradication of poverty. The project is one of the ways we are delivering on this mission to our membership and beyond it through the ACP Grouping."

## SECRETARY-GENERAL CONCLUDES TRIP TO ASIA

Commonwealth Secretary-General Don McKinnon returned at the weekend from visits to four Asian countries.

Pakistan, 22-23 October 2004:

The Secretary-General met with President Pervez Musharraf, Prime Minister Shaukat Aziz and Foreign Minister Khurshid Mehmood Kasuri. He also met the Chairman of the National Assembly and the Deputy Chairman of the Senate, as well as Opposition representatives. In his discussions, the Secretary-General explored areas for expanding the Commonwealth Secretariat's programme of technical assistance for Pakistan, including support for the education of girls and the strengthening of the media.

Mr McKinnon noted the progress achieved in return of democracy to Pakistan in recent years and welcomed Pakistan's engagement with the Commonwealth since the lifting of its suspension from Commonwealth councils by the Commonwealth Ministerial Action Group on the Harare Declaration (CMAG) in May 2004. At the same time, while acknowledging the position of the Pakistan Government that it had decided to take a parliamentary route to dealing with the question of separation of the offices of the President and Chief of Army Staff, the Secretary-General noted that recent developments in this regard were a matter of Commonwealth concern. He delivered three key messages on this issue. He stressed, firstly, that the current step, although being advanced through the parliamentary processes, falls short of CMAG's expectations. Secondly, that the Commonwealth expects the supremacy of Parliament and the Constitution to be upheld at all times. Finally, he made it clear that it is for CMAG to determine the Commonwealth position on this issue.

While in Pakistan, the Secretary-General also delivered a lecture on 'The Commonwealth in the 21st Century' at the Institute of Regional Studies in Islamabad.

# NEWS FROM MEMBERS

## AUSTRALIA

***Country Correspondent:***
***Ms Pam Mitchell***

The Australian Taxation Office recently launched a youth-oriented view of its website designed in consultation with young people. The view takes you straight to tax information that is relevant to younger taxpayers with the aim of cultivating an awareness of their tax obligations and responsibilities.

As a result of the Listening to the Community project, a Youth Co-design Workshop was held in May 2003. The Workshop participants indicated a strong preference for:

- using the internet to access information
- the use of plain English to help them understand the content
- simple navigation so users can quickly find what they are looking for
- real-life examples that they can apply to their circumstances
- links to more detailed information if required.

The youth-oriented view will enable users to receive more effective and meaningful messages through the streamlined layout and language used. The new and improved features will also allow the user to navigate the site in a way that better suits their preference.

The website clearly demonstrates the Tax Office's commitment to making the tax experience easier, cheaper and more personalised by listening to audience suggestions and incorporating the concepts of user testing in designing a product.

You can access this tax information 24-hours-a-day, 7-days-a-week – simply visit http://www.ato.gov.au/youth/

### Easier Cheaper and More Personalised (ECMP) Program. Approaching the first release of system improvements for our people

The high level design of the ECMP program is almost complete, and we are now approaching the first major release of new systems to our people. The high level design of the program helped us to shape the training, change management and deployment approaches for the program, along with determining the overall program affordability and do-ability through an extended program timeframe.

The ECMP program will progressively replace our front-end client service systems and back-end revenue management systems over the life of the program. This will mean new work practices for our people and major changes to most of our existing systems.

Our decision to purchase off-the-shelf software and minimise modifications (rather than building our own systems) gives us the ability to upgrade easily, and remain flexible to future changes in legislation, technology and community expectations.

This first release of system improvements is focused on client service and centres on a new client relationship management (CRM) system. While the release includes continued enhancements to our tax agent and business portals, a new document management system to provide better access to imaged client documents for our people, and a pilot of our new content management system used to generate most of our correspondence—the major element of this release is the new CRM system.

Purchased in March 2004 from Siebel Systems, this software package is the linchpin of our new client relationship management capability to be implemented initially in our call centres. It will also work together with other revenue management systems (to be implemented at a later date) and provide us with the ability to improve our case management of compliance risks and workflows with the progressive release of other functionality that the new software offers.

The most important feature of the CRM for the first release is the consolidated client view. This will bring together information held in several of our current systems and provide our telephony people with an integrated picture of the client and their recent contact with us.

By mid 2005 telephony staff will have a consolidated view of the client at their desktop, and will be able to:

- access a growing history of the client's past contact with us
- record notes of a client's interactions with us
- view images of inbound and outbound correspondence, and
- track the status of a client's phone or face to face enquiry.

This will help our staff to offer a more complete and personalised service to clients.

Starting with the initial functionality of the CRM system, the ECMP program will progressively introduce standardised business processes across the Australian Tax Office. Future improvements include a uniform case management approach which will capitalise on the new systems capacity, a range of information management and analytics practices to ensure we effectively target our compliance efforts, and a number of workflow changes to ensure we are positioned to respond effectively to future challenges in tax administration.

## BARBADOS

***Sent by: Mr Lloyd L Cummins***

### TAX LEGISLATION

The most recent tax legislation was enacted in 2003, (Income Tax Amendment Act 2003-11). Among other things the legislation sought to reduce the rate of tax progressively over a four-year period for both individuals and corporations. In addition to the reduction of the rate of income tax, there is to be a simultaneous increase in basic personal allowance spread over a five-year period.

The tax rates are as follows:

**Corporation Tax**

| Income Year | Corporation Tax Rate |
|---|---|
| 2003 | 36% |
| 2004 | 33% |
| 2005 | 30% |
| 2006 | 25% |

The above rates apply only to corporations not governed by specific tax legislation.

**Income Tax**

| Income Year | Basic Rate | Higher Rate |
|---|---|---|
| 2003 | 22.5% | 40% |
| 2004 | 20% | 40% |
| 2005 | 20% | 37.5% |
| 2006 | 20% | 35% |

The basic rate applies to the first $24,200 of taxable income and the higher rate to portion of taxable income in excess of $24,200.

Personal allowances up to year 2007.

| Income Year | Allowance ($) |
|---|---|
| 2003 | 15,000 |
| 2004 | 17,500 |
| 2005 | 20,000 |
| 2006 | 22,500 |
| 2007 | 25,000 |

**Home Allowance**

The home allowance of $3,500 was increased to $6,000 in respect of income year 2003 and to $10,000 in respect of 2004 and subsequent income years. This claim covers mortgage interest, insurance premiums, house repairs, energy savings or water saving devices.

### PROGRAMS CARRIED OUT

**A New initiative – Direct Deposit**

The Department broke new grounds this year when it introduced for the first time the Direct Deposit System for tax refunds. Taxpayers were given the option to have their tax refunds for income year 2003 and subsequent years credited to a designated account at a Bank or Credit Union of their choice or to continue to receive their refund by way of a cheque.

This initiative benefited both the taxpayer and the Department. Few Problems were encountered in its implementation and it is anticipated that it will gain wide spread support judging from the public's initial response.

**Training Seminar/Workshops**

Two of our Senior Officers, Mr Tyrone Lavine and Mr Loreno Forde, both Professional Accountants returned recently from Malaysia having attended the Taxation of International Transaction Workshop (2 - 30 August 2004) and the Commonwealth Management Development Programme (30 August - 8 October 2004) respectively. We thank the Inland Revenue Board of Malaysia and the Commonwealth Secretariat for their sponsorship of these programmes.

**Promotions**

Five senior officers have been appointed recently to higher posts. They are Mrs Joy Gamble to the post of Chief Accountant, Miss Sonia Jones to the post of Chief Internal Auditor and Mrs Pamelia Elcock to the post of Professional Accountant. Two other officers, Mrs Veronica Savory and Mr Curtis Moore, were both appointed to the post of Senior Inspector.

To them we extend our heartiest congratulations.

**Retirement**

The Department recently lost four officers to retirement. Farewell functions were held for Mrs Yvonne Alleyne, former Assistant Commissioner, Miss Wendy Daniel, Computer Operator and Mrs Cynthia McClean, Assistant Accountant. Mrs Megan Jordan, Accountant retired at the end of October 2004. These officers have all made invaluable contributions to the development of the Department over the years. We take this opportunity to thank them for their contribution and wish them well in their years of retirement.

**Death**

It is with deep regret and sadness that we announce the passing of Mrs Pamelia Elcock, Professional Accountant, who died on 25 October 2004 at the age of 49. Mrs Elcock has been with the Department for the past 23 years. She was a very conscientious and hard working officer who strived for excellence as she chartered her career. We shall truly miss her. To her husband Wesley, sons William and Brian, other family members and friends, we extend our sincere condolences.

## BOTSWANA

***Country Correspondent:***
***Mr Tutu Bakwena***

### BOTSWANA UNIFIED REVENUE SERVICE

The eagerly awaited Botswana Unified Revenue Service (BURS) finally came into operation on the 1st of August 2004. The Director of Customs and Excise, Mr Ken Morris has been appointed interim Commissioner General. It is not certain how long this appointment will be effective for but indications are that it will be for a period of 6 months after which the final appointment will be made. In the meantime staff from both Departments of Taxes and Customs and Excise have been seconded to the new organisation until all necessary arrangements for the final transition are made. Furthermore, the Interim Commissioner General inaugurated an Interim Management Committee, comprising the under-listed who are also available for contact on any pertinent issues:

Ms G Mbanga: Tel. 3614830
(Income Tax)

Mr V Balakrishnar: Tel. 3614678
(IncomeTax)

Ms L Seakgosing: Tel. 3614825
(Income tax)

Mr S Lekau: Tel. 3922129
(Customs)

Mr B Mudongo: Tel. 3918576
(Customs)

Ms B Lesedi: Tel. 3906481
(Customs)

Mr G Motsewabagale: Tel. 3924110
(Customs)

Contact details for the BURS are as follows:

Address: P/Bag 0013 Gaborone
Office No: Room 717 - Seventh Floor
Telephone: 3900196
3614828(Direct)
3614600 (General)

Personal assistant to the Commissioner General - Ms Cordelia Ditlhong: Tel.3614827 (Direct)

### AMENDMENTS

2004 saw the assent of two amendment Acts albeit that they were for different years, 2003 and 2004 years. The following is a brief summation of some of the highlights of the Acts:

**2003**
**Bad and doubtful debts – Banks**

Unlike previously, banks can now provide for bad and doubtful debts but the provisions shall be limited to an amount prescribed by the Minister. The prescription is stipulated in Statutory Instrument number 34 of 2004 (Gazetted 8th April 2004, Vol 42, issue no 24) as 1.5% of outstanding debts as at the last day of the tax year concerned.

**Withholding taxes on dividends paid within a group**

Previously, when dividends were paid to associate companies no withholding tax was imposed under the Seventh Schedule until the dividend was paid to shareholders. With the amendment, dividends that are paid within the group will no longer be absolved from the provisions of the Seventh Schedule. Payments of dividend will now be subjected to withholding tax in the normal way even though the payment is made to an associated company.

**Objections**

The Commissioner shall not entertain objections unless a tax return for the relevant year has been filed and tax on the taxable income declared has been paid. Delayed objections shall only be considered if reasonable cause for the delay can be shown.

**Director's obligations**

The personal liability of representative taxpayers that arises where the representative alienates property out of which taxes could have been paid has been extended to include persons who were directors at the time of the commission of the acts unless they could prove that the failure to pay the tax was not due to negligence on their part.

**2004**

**Definition of a company**

The definition of a company has been widened to include charitable, religious or educational institutions established for those purposes. This inclusion now requires these institutions to file returns. Only that part of their income that is ploughed back into operations for which the institution is formed will continue to be exempt from income tax.

**Filing dates**

Prior to the amendment the filing deadline was the end of September regardless of the accounting period of the company. This meant that some companies were required to file returns up to 14 months after the end of their accounting period. The amendment requires companies to file their returns within 4 months of the end of the accounting period. This will provide for a steady flow of company returns throughout the year rather than on a single date.

There is no change in filing date for taxpayers other than companies. The filing dates for other taxpayers still remains as the 30th September of the year following the end of the tax year.

**Farming losses**

Farmers will no longer enjoy a 100% set-off of farming losses against other taxable income. The set off has been reduced to 50% of the other taxable income.

**Housing benefit**

The calculation of housing benefit has been raised to bring it somewhat closer to market values by increasing the percentages used for rateable properties (from 6 to 10%) and for current capital valuation (from 5 to 8%)

**Capital gains legislation**

- The tax net for capital gains has been broadened to include non-business immovable property.
- The exemption of 50% on movable property has been reduced to 25%.
- Exemptions of gains from disposal of shares, units and debentures of public companies are only applicable to Botswana Stock Exchange listed companies or Botswana resident public companies.

**International Financial Services Centre (IFSC) legislation**

The ring-fencing of the IFSC has been relaxed to allow IFSC companies to provide services to resident sister companies provided the transactions are carried out at arms-length. However the income accruing from the services provided to sister companies will be taxed at 25% and not the concessionary rate of 15%.

## CYPRUS

***Country Correspondent:***
***Mrs Athina Stephanou***

**Developing Human Capital**

The Inland Revenue Department in Cyprus was reorganised in 2003 due to the appointment of the new Director of the Department, Mr. George Poufos. Since 2003 a greater emphasis has been given on Developing Human Capital and Learning was closely associated with the improvement and development of the organisation.

First it was realised that the most important asset of the organization is Human Capital and the only way to achieve the Organisations goals is to identify the needs of the Human Capital, in achieving the goals. Therefore supporting learning goals have been set to cover the needs identified in the Human Capital.

The Department consists of 517 persons.199 assessors of all levels, 62 Collectors of Taxes, 192 clerks and 64 assistants. Five persons from all type of staff have been selected to form the Learning Unit, that in cooperation with top management and on the basis of a Learning Policy, manages systematically and competently the Organisations Learning.

On a yearly basis the Unit:

- in cooperation with the employees and their managers identifies the Learning Needs to be covered that will lead to the achievement of the Organisations goals;
- analyses and prioritises the Needs;
- prepares a Learning Action Plan for the implementation of Learning Activities;
- implements and evaluates the Learning Activities;

- improves the Learning Activities on the basis of evaluation.

The above has been achieved with the **close cooperation** of the IRD with the Cyprus Academy of Public Administration.
It has been emphasized to all staff that:

- they must become conscious of their Learning Needs;
- they must ensure application of Learning, to work, for the production of better results;
- they must move beyond classroom Learning and learn to **Learn from Experience**, the **BEST TYPE** of Learning. Everyday they must note the actions taken that could have been taken differently. These notes are only for the personal use of the employee to help himself to develop;
- learning is continuous as we live in a constantly changing world;
- learning must be shared to reduce the likelihood of repeated mistakes;
- they must have an eager to Learn.

During 2003 and 2004 the following Learning Activities took place:

- 80 clerks (4 groups of 20), that serve the public, attended a 3 day workshop on "How you best serve the customers and how you best handle complaints." The aim was to improve customer service and handling of complaints. Better service leads to increase in compliance and thus to reduction of costs for both the customers and the Department.
- 80 assessors of all levels (4 groups of 20), attended a 3 day workshop on Effective Communication. The aim was to enhance the communication skills of assessors. Effective communication leads to better service, increase in compliance and reduction of costs.
- 42 Collectors of Taxes (2 groups of 21) were trained in negotiating skills. Furthermore all collectors participated in workshops the outcome of which was to present suggestions to Management on improving its policy with regard to the prompt collection of taxes. The aim was to improve the efficiency of the Department in the collection of Taxes.
- A manual was issued to all assessors and seminars followed on the tax reform 2002.The aim was to explain all changes so as to minimize errors , give better service to customers , increase compliance, reduce costs.
- 30 high rank assessors (2 groups) were trained in the "Taxation of Multinationals and Transfer Pricing", in Cyprus, by a **U.K Expert** of the Inland Revenue Department. The aim was to increase the quality of assessors work in the above area and ensure uniformity in the examination of tax returns. Better quality of work and uniformity in the examination leads to increase in compliance.
- 20 clerks (2 groups) attended a workshop on "the checks to be made on the Income Tax returns before these are accepted by the Inland Revenue Department". The aim was to assist staff identify errors before accepting tax returns, give guidance to taxpayers and therefore reduce errors in the future, increase compliance, reduce costs.
- A catalogue including all types of returns submitted by taxpayers, with details for each return, of when and where to be submitted and the last date of submission, was circulated to all staff. The aim was to ensure that all staff is informed, of all types of returns submitted by taxpayers, as a basic knowledge, leading in the giving of a better service to customers. A catalogue including all forms used within the Department was also issued, to ensure correct use of forms and minimization of mistakes.
- 20 assessors were trained in the examination of accounts and books of building contractors. The aim was to increase the quality and establish uniformity in the examination of building contractors. Since the year 2000 building industry is a booming industry.
- 40 people mainly assessors were trained in the MS office programmes windows, word, excel, internet. The application of these programmes to work simplifies procedures and saves time. A few people were trained in the programmes power point and access.
- 20 people were trained in the application of the above MS office programmes to work.
- A number of employees attended seminars/ workshops at the Cyprus Academy of Public Administration relating to European Union, increase of efficiency of private secretaries, induction courses for newly appointed employees in the Civil Service, training the trainers , organization and work of a Learning Unit etc.

The Inland Revenue Department in Cyprus gives a **great** emphasis in the international exposure of its staff, through participation **abroad** in training programmes and conferences. We believe that such exposure helps in the development of the staff, as it is exposed to new ideas and it gives the employees a chance to contribute, by passing on their own ideas. Exposure to new ideas makes you think and thinking leads to development. As we believe that knowledge must be shared, training programmes will be organized so as the knowledge/skills gained by the participants in programmes abroad, are passed to other members of staff. Participation in these programmes will lead to the increase in the quality of work.

During 2003 and 2004 the following participations in programmes abroad were made:

- 1 person participated in the programme "Common Wealth Tax Inspectors Course" organized by CATA and the UK IRD.
- 1 person participated in the programme "Taxation of International Transactions" organized by CATA.
- 2 persons attended the seminar International Tax Avoidance and Evasion organized by OECD for non- OECD Economies.
- 2 persons attended the seminar Domestic Auditing organized by OECD for non- OECD Economies.
- 2 persons attended the workshop Income Tax Workshop organized by OECD for non- OECD Economies.
- A number of persons attended workshops or took part in exchange visits organized by the European Union.

The Learning Unit Coordinator and the trainers are available to every member of staff, for the explanation of any matter they encounter at work. This can be done by telephone, e-mail or personal visit. It is important for the moral and motivation of employees to feel that except from their managers there are people in the Department that have the knowledge and experience to assist them in their work at any time. This leads to work efficiency.

Furthermore 5 Principal Assessors, (according to the scheme of service they must be professional accountants-first entry or promotion post), were appointed in 2003. In addition to the induction course attended at the Cyprus Academy of Public Administration, they attended a 3 week programme relating to IRD work and the Laws administered by IRD, organized by the Department.

Continuous Learning is one of the goals of the Cyprus Inland Revenue Department. Continuous Learning increases knowledge, improves skills and attitudes, gives satisfaction, increases morale, gives motivation, leads to improvement and development of each employee and thus to the improvement and development of the organisation as a whole. This leads to the achievement of targets by both the individual and the organisation. Achievement of targets means Contribution to the Country, so the Country can contribute back to each one of us.

## GUYANA

***Country Correspondent:***
***Ms B Hussein***

**Organisational Restructuring**

The Guyana Revenue Authority's Governing Board at its 37th Regular Meeting on July 28, 2004, approved proposals to strengthen the Authority's operational efficiency as follows:

**Formation of a New Internal Affairs Division**

This Division will investigate the conduct and malpractices of the Authority's staff, their assets and lifestyles and carry out special investigations as requested by the Commissioner – General or the Governing Board. The Division will enforce the decision of the Governing Board which requires all staff to make disclosures of their assets/liabilities on specially devised forms and to receive complaints from members of the public through the suggestion box recently put in place. It will be managed by an Assistant Commissioner who will report to the Deputy Commissioner – General.

**De-linking of Information Technology Unit from Management Services Division**

Information Technology, which was previously a section of the Management Services Division, will now be a Division in its own right. It will benefit from a significant capital inflow to modernize operations. Some of the benefits will include better coordination of Information Technology activities, improved taxpayer/customer services and replacement of manual functions/procedures with computerized systems.

**Audit and Verification Division**

This is a new Division which integrates all the audit operations of the Guyana Revenue Authority. All audit work previously conducted by the Collections, Examination and Investigations, Field, Audit

Divisions, and Consumption Tax Audit Unit will now be incorporated into the Audit and Verification Division. The Division will be managed by a Deputy Commissioner who will report to the Deputy Commissioner – General.

**Project Execution Unit**

A Project Execution Unit has been established as a requirement under the Fiscal and Financial Management Programme. The unit is headed by a Chief Technical Advisor and will be tasked with coordinating various activities identified for funding of the project.

The objectives of this restructuring were to:

- Promote integration of similar activities.
- Create opportunities for staff development and mobility.
- Improve customs/taxpayer services.
- Replacement of manual functions and procedures with computerized systems.
- Enhance revenue collections

As part of the restructuring process, the Revenue Authority Act 1996 was amended to allow for the creation of the position of Deputy Commissioner – General and the organisation chart was amended accordingly. Mr. Clement Sealy, a re-migrant, was appointed to the post with effect from September 1, 2003.

**New Security System**

A new wireless area network system has been installed at the Guyana Revenue Authority's ports of entry and offices country wide including all wharves and the Cheddi Jagan International Airport. Security cameras have also been mounted at these locations. The new system facilitates more efficient gathering and transfer of data on all imports and exports and monitors the activities of personnel to help safe guard the collection of revenue.

## REQUIREMENTS OF CUSTOMS LAW

**Customs Tariff Tribunal**

The Customs Tariff Tribunal was approved by Cabinet as required by Section 12 of the Customs Act, Chapter 82:01 and ratified by the Governing Board. The Tribunal will deal with disputes between importers/exporters and the Customs and Trade Administration in relation to the rate of duty/amount of duty on imported or exported goods. Any aggrieved party can appeal to the Tribunal providing evidence of valuation and any other necessary documentation.

A Review Committee has been put in place to provide a monitoring mechanism to prevent frivolous matters from being addressed to the Tribunal. This Committee will ensure that taxpayers' affairs do not suffer from administrative delays that arise from unfair and discriminatory practices.

**New Guidelines for Granting Exemptions**

New guidelines and criteria were approved for the granting of exemption from duties and taxes. The guidelines will remove the requirements for intervention of external agencies in the process of granting exemptions and provide for greater levels of transparency and accessibility. These guidelines are required under the Customs Order which were replaced and re-enacted February 10, 2004 by order 2 of 2004.

The Remission Unit, which was established as a result of legislative changes which occurred in September 2003, is tasked with processing applications for exemptions and making recommendations for approval/non-approval.

## POLICY AND PROCEDURE CHANGES

**Permit for Immediate Delivery**

New policies and procedures were also approved for the Permit for Immediate Delivery System with effect from August 16, 2004. The Authority will authorize the use of the Permit for Immediate Delivery system only in cases where persons who wish to use this facility write to the Commissioner – Customs and Trade Administration requesting permission to use it and must obtain written approval to do so. The P.I.D facility will be granted for a period not exceeding six (6) months by the Commissioner – Customs and Trade Administration. The importer will be required to re-apply for permission to use the facility after the period has expired.

**Container Tracking System**

The tracking system relating to Containers was also reviewed and new policies and procedures became effective from August 16, 2004. These new policies are aimed at ensuring, among other things:

- the proper monitoring and accounting for each container imported;
- increasing the revenue collection due to better monitoring; and

- minimising the possibility of corruption and abuse of the system.

Several divisions are involved in ensuring the proper accountability of containers and their contents including Customs Operations, Enforcement Unit, Internal affairs and Internal Audit.

## JAMAICA

***Country Correspondent:***
***Miss Meris Haughton***

### TRAINING NEEDS ANALYSIS

Jamaica's Tax Administration in March 2004 conducted a comprehensive Training Needs Analysis within its Departments.

Some one thousand five hundred and fifty (1,550) members of staff (Managerial, Supervisory and Non-supervisory) representing approximately fifty-three (53%) of the staff population were interviewed.

The analysis is an important part of the administration's ongoing effort to equip staff with the requisite competencies to enhance their job performance and enable them to provide better quality service to taxpayers.

The project was administered by the Tax Administration Services Department (TASD) which has the responsibility to develop and implement centralized training within the tax departments. The results will be used by Managers to identify performance discrepancies and or gaps within their Departments and to develop training solutions where applicable. Non-supervisory staff will also be able to identify the training needs specific to their job function.

Departments involved were the Inland Revenue (IRD); Taxpayer Audit and Assessment (TAAD); Jamaica Customs (JCD); Taxpayer Appeals (TAD); Tax Administration Services (TASD); and the Director General's Executive Office (DGEO).

### TAXPAYER FOCUSED SURVEYS

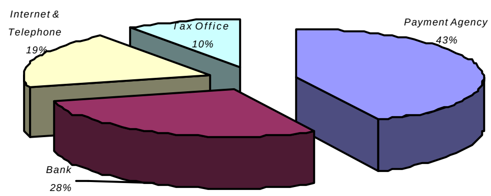
Over the past year Jamaica's Tax Administration conducted two (2) major taxpayer focused surveys.

The first survey, examining customer satisfaction, was carried out in September and October 2003. It measured the level of Taxpayer satisfaction with the service offered at the Tax Collection Centres and Inland Revenue Collectorates throughout the island and identified changes which needed to be made to reduce the time it takes to process transactions.

The findings point to a need for increased activities re customer education, across the board operational changes, increased training and improving the taxpayer's perception of staff in the tax offices. Corrective measures are being instituted.

The second survey had the objective of finding out how taxpayers would respond to the introduction of Alternate Payment Systems outside the Tax Offices such as through Private Payment Agencies, Banks, via the Internet and the Telephone. This survey was done as a precursor to the selective introduction of a number of these systems.

The survey conducted between December 2003 and January 2004 showed that an alternate payment system would be favourably received by the taxpaying public. In responding to the survey, taxpayers polled noted that if they had a choice they would prefer to pay using the following methods.




### JAMAICA TAX ADMINISTRATION OBSERVES 5TH ANNIVERSARY

The Jamaica Tax Administration has made significant strides in providing improved and convenient customer service in the last five years. Following a major restructuring under the Tax Administration Reform Project (TAXARP), December 1, 1999 saw the birth of the new Jamaica Tax Administration with the passing of the Revenue Administration Act. Since then a number of new and improved services have been introduced.

**1-888-TAX-HELP (1-888-829-4357):** In 2000 a toll free telephone help service was introduced providing the taxpaying public with a quick and easy source of information to their tax queries. The tax help line *1-888-TAX-HELP* is manned by courteous and knowledgeable Tax Information Specialists, offering information on the various tax types and is available Monday – Thursday 8:30 a.m. - 4:00 p.m. and Friday 8:30 a.m. – 3:00 p.m.

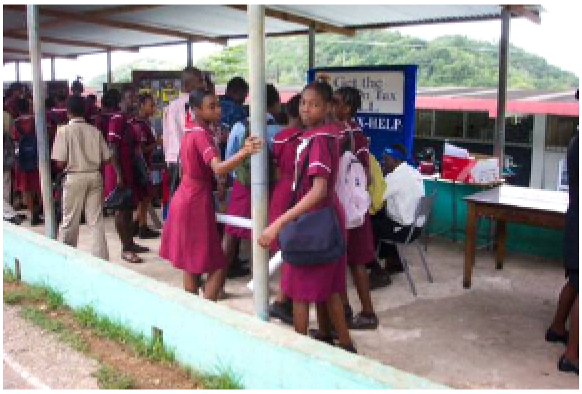
**Website:** The year 2001 saw the Tax Administration entering the information highway with the introduction of a website www.jamaicatax.gov.jm, providing online tax forms, fees & rates, tax publications, general tax information, query facility.

**Workshops and Seminars:** In partnership with a number of business associations and other interest groups, workshops, seminars and other programmes are developed to meet specific needs. We provide resource persons from within Tax Administration (at no cost) to make presentations on issues relating to Income Tax, General Consumption Tax, Customs Duty, Stamp Duty & Transfer Tax, other tax matters and generally about the rights and obligations of a taxpayer.

**Tax Advisory Visits:** The Tax Administration recently expanded its Tax Advisory Visit programme. Under this programme, officers from the Tax Administration will visit a business for a face-to-face session and offer advice on how to implement, manage and interpret various tax laws so that errors and misunderstandings may be avoided.

**TCC Online Application:** Recently the Inland Revenue Department began accepting on-line and fax applications for Tax Compliance Certificates (TCC). This service is offered to taxpayers who are compliant, greatly reducing the time spent obtaining clearance letters from the different Government agencies or Departments. A TCC is needed by importers and person contracting business with a Government Department.

**School's Tax Education Programme (STEP):** A programme targeting secondary and tertiary level schools was introduced in 2000. This initiative saw tax officers visiting schools and making presentations to students in the senior and business classes. A special information brochure was also developed for this programme, providing information on the various tax types and the benefits of taxation.



**Taxpayer Assistance:** A special unit has been set up in the Inland Revenue Department (IRD) which provides customers of any of the twenty-eight (28) Collectorates island-wide with information on taxes and departmental procedures. During the busy Income Tax filing period this service is offered at temporary tax sites set up at church halls, police stations, shopping malls and other non-traditional locations.

## KENYA

***Country Correspondent:***
***Ms Alice Owuor***

### A. Revenue Performance

Kenya Revenue Authority (KRA) once again surpassed its annual target by collecting a record Kshs. 229.27 billion against a set target of Kshs. 220.80 billion during the financial year 2003/4. This represents a 13.7% growth compared to last years collection of Kshs. 201.7 billion.

Below is a table summarizing the performance of each department:

| Department | Actual Collection (Kshs. Million) | *Target* (Kshs. Million) | Performance (%) |
|---|---|---|---|
| Customs & Excise | 110,240 | 110,594 | 99.7% |
| Income Tax | 82,209 | 74,644 | 110.1% |
| VAT | 34,667 | 33,963 | 102.1% |
| Road Transport | 2,160 | 1,599 | 135.1% |
| **TOTAL** | **229,276** | **220,800** | **103.8%** |

All Revenue departments recorded significant growth rates of 52.2% by Road Transport, 21.6% by Value Added Tax, 15.4% by Income Tax and 9.6% by Customs & Excise Department.

This sterling performance has been attributed to the favourable economic conditions and aggressive implementation of tax administration reform measures some of which included:

- Broadening the tax base by recruiting 33,923 new taxpayers with an additional revenue yield of Kshs. 5.3 billion.
- Introduction and implementation of withholding VAT which netted an additional 4,200 taxpayers and collected Kshs. 5.2 billion there from.
- Additional controls in the petroleum, cigarettes, wines and spirits sub-sectors.
- Strengthening of the investigation and enforcement function by fully integrating it and training officers in various areas including prosecution.

**B. Tax Amnesty**

A Tax Amnesty has been granted by the Minister for Finance in his 2004/05 budget speech giving our taxpayers an opportunity to make a fresh start in their tax matters. It is simple! All a taxpayer needs to do is:

- Make a written application for Amnesty.
- Submit Returns or amended Returns and any other relevant documents making full disclosure of previously undisclosed income for any year of income ending on or before 31st December 2003.
- Pay the relevant tax due by 31st December 2004.

- The Amnesty would then be granted to cover interest, penalties and fines relating to the voluntarily disclosed and paid taxes.
- The Amnesty which spreads across all duties and taxes under the Customs & Excise, VAT and Income Tax Acts, is in force between 11/6/04 – 31/12/04 but cases already under audit or investigation do not qualify for it .
- No queries will be raised on any voluntary disclosure – nothing can be better than this!
- KRA has held numerous workshops to create awareness and encourage many defaulting taxpayers to come forward and take advantage of the Tax Amnesty before the period expires. There has also been an aggressive campaign for it through the mass media and we are confident that it will be more successful than Amnesties given in the past.

**C. Taxpayers' Week**

KRA set aside a week running from 18th – 23rd October 2004 to recognize and appreciate taxpayers for their invaluable contribution to Government revenue. Since the inception of KRA in 1995, tax revenue has grown steadily, a sterling performance attributed to dedicated taxpayers and therefore the need to thank them for their support. During the week, various activities were held including Tax Clinics throughout the country, meant to bring services closer to the taxpayer.

The key highlight of the celebrations was the presentation of recognition awards to Kenya's distinguished taxpayers during a luncheon held on 21st October 2004. The objective was to give recognition to the most compliant taxpayers to not only encourage them, but also to motivate others to join the distinguished list.

**D. KRA Modernization and Modernization Project**

- Kenya Revenue Authority has embarked on a programme geared towards modernizing its operations inorder to provide quality services to all its stakeholders, streamline revenue collection and facilitate trade.
  This is line with KRA's Second Corporate Plan as well as recommendations given by IMF to strengthen tax administration which entails reviewing of business procedures and identifying best practices with a view to automating them.
- The Commissioner General, who is the overall sponsor of the project has already established a detailed governance structure to spearhead efficient co-ordination of reforms in the authority covering all departments.
- One of the major reform projects is the integration of the Income Tax and VAT departments into one Domestic Taxes Department which is still underway.

  The benefits expected from the merger include:
  - Information sharing
  - Enhanced revenue
  - Improved compliance and reduced cost of collection
  - Effective utilisation of available resources for efficiency
  - Broadened tax base and tax net
  - Harmonised and simplified tax procedures among others.

**E. Withholding VAT Introduced**

Withholding VAT Agency System was introduced with effect from 1st October 2003 to address various challenges including:

- Slow revenue growth compared to the number of taxpayers

- Poor revenue performance against expected potential
- Low quality of taxpayers with poor record keeping culture
- Increase in delinquent filers
- Lack of resources to effectively enforce compliance.

Some initial initiatives were put in place to deal with these challenges including requirement for government departments to provide periodic lists of all their suppliers and payments and also to procure from VAT registered persons. Exporters were also required to provide lists of exports made.

**(i) Lessons Learnt from these Initiatives**

- Many taxable persons were not VAT registered.
- Many taxpayers were charging VAT yet a lot of them could not be traced.
- Due to shortage of resources, majority of these cases could not be followed up.

- To address the challenges, VAT Withholding Agency System was introduced on 1/10/03
- It is applicable to any person who has been directed in writing by the commissioner of VAT, being a purchaser of taxable goods or services, to be a tax withholding agent.
- So far, KRA has focused on institutions making exempt supplies including:

- Government Ministries and departments
- Local Authorities
- Parastatals
- Public Institutions, Schools and Colleges
- Banks and Financial Institutions
- Hospitals
- Insurance Companies
- Co-operative Societies

**(ii) Its objectives were to:**

- Expand the tax base
- Improve compliance
- Reduce abuse of the VAT self crediting system
- Reduce future uncollectible debts
- Turn round credit, NIL and Non filers

- The withholding agent is required to deduct, remit and account for the VAT withheld to the Commissioner.

**(iii) Achievements**

- Average monthly revenue collection increased form Kshs. 2.4 billion (between July – September 2003) to Kshs. 3.6 billion (between July – September 2004).
- Revenue performance of 102% was achieved in 2003/04 compared to 93% performance in 2002/03 financial year.
- Approximately Kshs. 1 billion is collected monthly directly through the system.
- Filing rate has increased from 77% - 84%
- Non Filers have reduced from 21% - 19%
- 8785 new taxpayers were recruited in 2003/04 compared to 4621 in 2002/03.

- The system has its own challenges including reconciling tax withheld with individual taxpayer's ledgers as well as bank statements from various commercial banks and Central Bank with the Physical weekly returns.
- Measures to address the challenges include:

- Aggressive education of stakeholders to promote awareness and understanding of the system, and
- Monitoring of submission of returns and auditing of appointed agents to enhance compliance.

**F. Training Centre**

Kenya Revenue Authority Training Centre (KRATI) was accredited by World Customs Organization (WCO) as a regional training centre during the WCO Eastern & Southern region annual customs heads meeting held in Kampala recently.

WCO will now be able to use the facilities of the center for regional training, technical assistance meetings and other customs related events. It will also provide an opportunity for local experts to train in capacity building programmes.

In the meantime, KRA has been facilitating other trainings as part of collaboration between Revenue Authorities. An example being a recent training of officers from Rwanda Revenue Authority in a Programme supported by the UK Department for International Development (DFID).

**G. Mobile Scanner Acquired**

KRA has now installed a mobile scanner which is an integral part of the Customs Reform and Modernization (CRM) project. This unit will be used for scanning containerized cargo and making appropriate recommendations on whether the cargo should be released or subjected to physical verification. This is expected to help in de-congesting the port of Mombasa by facilitating faster inspection as well as enhancing the effectiveness of complete verifications.

20 officers had earlier been sent to China for one month to be trained on the use of the scanner in readiness for its arrival.

## MALAYSIA

***Sent by: Madam Asriah Shaari***

### USE OF ELECTRONIC SYSTEM AND PROGRAMMES IN IRBM

As part of its modernisation programme, the Inland Revenue Board Malaysia (IRBM) embarked on an electronic/computer systems to assist in revenue collection and cost cutting. The main computerization programme encompasses the following:

### COLLECTION PROCESS

Since the implementation of PAYE (Pay As You Earn) system, the processing of physical forms is time consuming and to overcome it, IRBM introduced the submission of Scheduler Tax Deduction (STD) details via electronic media (e.g. tapes or diskettes) in the prescribed format or via diskettes using a software programme developed by IRB

### ELECTRONIC FORM FILLING AND FILING

Manual submission of tax return and subsequent manual data entry is labour intensive, time consuming and prone to data entry error. To overcome the problems, e-filling and e-filling applications were developed. E-filling allows the taxpayers to fill up the forms online, download the completed form and print it for submission. E-filling has reduced the number of mistakes made in the forms as calculated fields are automated to reduce error.

E-filing is currently available to companies only. E-filing programme cuts down the need to key-in data into its computer system as the electronic data is directly uploaded into the system. This application certainly eases the work load for IRBM, particularly during peak filing season, and ensures prompt tax refunds for the taxpayers.

### E-STAMPING

This is an internet On-Line Transaction Processing system linking the IRBM Stamp Duty Office with the Valuation and Property Services Department to speed up stamp duty assessment on property transfer.

### E-PAYMENT SYSTEM FOR PAYMENT OF SCHEDULER TAX DEDUCTION (STD)

Employers are required by law to make tax payments on behalf of their employees and the payments of STD can be made electronically through a bank over a secured and reliable network. With e-payment, employers are able to submit their employees' details together with payment on prescribed file formats to ensure that the files can be accepted. With this system, there will be no more queuing for payment on due dates.

### WEB-SITE

The website, www.hasilnet.org.my has enabled IRBM to provide many services to its customers. These include access to information (Public Rulings, Tax Guides, Booklets, and press releases), downloads, electronic filing, temporary work permit application, tax calculator and communication via e-mail.

The *hasilnet* website is continuously upgraded to be more user-friendly and faster. With the techno-savvy population reaching taxpaying age it can be assumed that use of *hasilnet* will see faster growth in years to come.

## MALTA

***Country Correspondent:***
***Mr Randolph Aquilina***

"New regulations have been issued under the Income Tax Act setting out the conditions applicable for foreigners who wish to take up residence in Malta. The following is an overview of the regulations:

**The Residents Scheme Regulations**

Any foreigner, of whatever nationality, who satisfies the conditions stipulated under this new scheme will be provided with a certificate issued by the Commissioner of Inland Revenue that entitles him/her for the benefits of the scheme.

The holder of such certificate shall also be entitled to reside in Malta subject to the conditions as specified in the regulations.

*The conditions*

An individual is eligible if:

- S/he has an annual income equivalent to Lm10,000 arising outside Malta or is possession of a capital of not less than Lm150,000.
- S/he remits annually to Malta an income of not less than Lm6,000 in his/her respect and a further Lm1,000 in respect of each dependant.

Moreover, once in possession of the certificate the holder:

- will be required to take up residence in Malta by not later than one year form the issue date of the certificate; and
- must either purchase an immovable property valued at not less than Lm50,000 (Lm30,000 in the case of an apartment), or lease/rent a property for not less than L.1,800 per annum within twelve months of taking up residence in Malta.

*The Benefits*

An individual qualifying for this scheme will benefit from a flat rate of 15% on all income received in, or remitted to, Malta subject though to a minimum tax liability of Lm1,800 per annum."

## MAURITIUS

***Country Correspondent:***
***Mrs Sybile Lim Kong***

**TAX CHANGES**

**Following are the main tax changes announced in the 2004/2005 Budget:**

- increase in the basic personal deduction from Rs.75,000 to Rs.80,000;
- increase in deduction for dependent spouse from Rs.60,000 to Rs.65,000;
- introduction of a single basic deduction for dependent child of Rs.30,000 to replace the different categories of child deduction;
- deduction for educational expenses restricted to school fees paid to recognised educational institutions, subject to a maximum of Rs.10,000 for a child receiving pre-primary, primary or secondary education and Rs.80,000 for a child receiving tertiary education in Mauritius. A flat deduction of Rs.80,000 is allowable for a child receiving tertiary education outside Mauritius;
- increase in the present 2 tax bands for individuals to 4 bands as follows:

  10% on the first 25,000 rupees
  20% on the next 25,000 rupees
  25% on the next 450,000 rupees
  30% on the remainder;
- re-definition of the following terms:
  (a) "dividends" to exclude also interest deemed to be dividends on debentures issued by reference to shares;
  (b) "securities" to exclude treasury bills and Bank of Mauritius Bills;
- capital allowance provisions amended to restrict the allowance on fixed assets which are subject to depreciation under normal accounting practice;
- capital allowance denied where books and records are not properly kept;
- conditions for grant of investment relief and investment tax credit modified and no longer cover investments in tax incentive companies. However, transitional provisions have been made for tax relief and credit in respect of investments made prior to 1 July 2004 in tax incentive companies;
- increase in the maximum amount of deduction allowable in respect of donations to charitable institutions made by individuals from Rs.20,000 to Rs.40,000 and by companies from Rs.200,000 to Rs.400,000;
- contributions made to Prime Minister's Children's Fund allowed as deduction;
- introduction of an "Alternative Minimum Tax" (AMT) applicable to certain categories of companies which either do not pay corporate tax or pay at an effectively low rate but make dividend distributions;
- provision for additional investment allowance of 25 per cent incurred by manufacturing companies to be extended to 4 more years up to 30 June 2008 at the following rates:

| Income Year ended | Rate |
|---|---|
| 30 June 2005 | 25% |
| 30 June 2006 | 20% |
| 30 June 2007 | 15% |
| 30 June 2008 | 10% |

- deduction for contributions by companies to sports clubs and sport training centres extended to contributions made to Trust Fund for Excellence in Sports established under the Finance and Audit (Trust Fund for Excellence in Sports) Regulations 2002;
- introduction of new provisions to access computer and other electronic devices for the purposes of ascertaining the tax liability of any person;
- power given to the Commissioner to disclose information for the purposes of the Prevention of Corruption Act 2002 and the Dangerous Drugs Act;
- provision for post-free service of documents removed;
- addition to the list of Tax Incentive Companies of a guarantee fund established under Section 3(8)(a) of the Securities (Central Depository, Clearing and Settlement) Act;

- exemption of income derived by:

(a) a trust set up under the Trusts Act 2001 to administer an employees' share scheme;
(b) the Employees' Real Estate Investment Trust referred to in Section 10A of the Employees' Welfare Fund Act;

- the 50% tax relief available to an expatriate employee or a specified Mauritian employee of specified sectors extended to employees of companies engaged in spinning activities;
- ceiling of tax exemption of interest income increased from Rs.75,000 to Rs.100,000 for an individual and from Rs.150,000 to Rs.200,000 for a couple;
- exemption of interest earned on:
  (a) the Special Savings Scheme for Public Officers administered by the Accountant General;
  (b) a loan made to the Employees' Real Estate Investment Trust referred to in Section 10(A) of the Employees' Welfare Fund Act;
- exemption of the value of shares to the extent of Rs.200,000 received by an employee from an employees' share scheme provided such shares are held for at least 3 years;
- exemption of the value of units received by an employee under the National Savings Fund Act, or any distributions made by the Employees' Real Estate Investment Trust;
- increase in the monthly PAYE exemption threshold from Rs.7,000 to Rs.8,000; the threshold for field workers and non-agricultural workers in the sugar industry is increased from Rs.5,700 to Rs.6,000 during the inter-crop season and from Rs.9,100 to Rs.9,500 during the crop season.

## PAKISTAN

***By: Mr M S Lal***

### Reform of Tax Administration

Given Pakistan's long absence from the Commonwealth, this news dispatch attempts to cover important developments during that period as well as more recent ones.

**Introduction -** An ill-fitting tax-triangle

There are three sides to Pakistan's taxation triangle, namely tax administration, tax policy and the tax paying public. This was a wobbly triangle at best with disjointed sides, and there was a general perception in certain quarters that Pakistan's tax administration is inefficient, vexatious and corrupt. Financial leaders have also often complained of a static tax base, inelastic revenues, lack of measurable performance indicators, whilst taxpayers complained of arbitrariness of policies and procedures, excessive administrative tiers and absence of connectivity of information. Tax Collectors also complained of low salaries, lack of resources and of political will to either enforce tax laws or to improve them.

Focus-shift - **From "tax" to "tax system"**

Given this background, the usual response to Pakistan's fiscal needs would have been the same as in any traditional environment i.e. that of raising tax rates or reducing tax exempt incomes. This time around it is not so. A visible change has occurred in Pakistan's fiscal gurus' thought process, that brings an increased level of fiscal awareness and a willingness to adopt the latest and the best approaches in current international experience. In the same vein, Pakistan is not filling it's coffers by raising taxes. Instead, it is going for the option of reforming its tax system, which means *both* tax policy as well as tax administration.

**Two Pronged Approach** – Tax policy and tax administration

Pakistan decided to change its previous tactics of adjusting tax policy through every budget, and instead to take a look at the tax system as a whole. There was a two pronged approach, one aimed at policy reforms and the other at administrative reforms.

The policy reform had two avenues -

- Simplification of tax laws, and
- Minimising tax exemptions

The policy reform was completed by the year 2000 with advice from international tax law experts. Under this almost 150 tax exemptions have been removed through a wide consultative process, and a new income tax law has been promulgated. 2004 is the second year of this new law being in effect. The second prong of tax reforms aims at improving tax administration, and is highlighted as follows.

**Prior research and input into reform**

Pakistan is presently in hot pursuit of tax reforms, and its efforts are being lauded at all international levels for its direction and speed of reforms. In this present reform drive to remove weaknesses from the system and to create a model and efficient client responsive tax administration, the Pakistan government in June 2000, appointed a Task Force on Reform of Tax Administration. The Task Force's report of May 2001 and an IMF study contained in the August 2001 findings recommended to Pakistan a tax system, with features like simpler laws and procedures, that promotes self-assessment, reduces physical controls and creates reliance on audit and risk assessment.

**Design-principle …** Internal ownership

The recommendations of these reports were discussed by top management team of Islamabad's Central Board of Revenue (CBR) in a 3-day workshop in October 2001. Benefiting from the learning-curve, the workshop looked at the reasons for failure of previous tax reform efforts and the overwhelming opinion was that previous efforts failed to create ownership of the reform process within the organisation. It was therefore decided to involve CBR itself in the reform process to the maximum. As a first step in this regard, this workshop decided to develop the Vision of future CBR with the help of the entire organisation. Therefore, CBR started a process of internal consultation by holding workshops for its employees. Accordingly, thirty-six daylong workshops were held across Pakistan. In these workshops Vision, Mission, and Values were adopted and an outline of the strategy for reform was developed.

**VISION**

To be a modern, progressive, effective, autonomous and credible organization for optimising revenue by providing quality service and promoting compliance with tax and related laws.

**MISSION**

Enhance the capability of the tax system to collect due taxes through application of modern techniques, providing taxpayer assistance and by creating a motivated, satisfied, dedicated and professional workforce.

**VALUES**

These include: Integrity, Professionalism, Teamwork, Courtesy, Fairness, Transparency, and Responsiveness.

Pakistan is also making efforts to improve documentation of the economy. Towards this end CBR has introduced stricter record keeping rules. It is expected that these measures backed by strong audit and taxpayers' education and facilitation services will help to improve voluntary compliance.

Goals and Objectives of tax reform

- ❑ Simple laws and comprehensive taxpayer education
- ❑ Automated processing of tax return & accumulation of data
- ❑ Selection for audit on risk factors
- ❑ Minimize interface between tax officials and taxpayers
- ❑ Accountable, transparent, honest and capable tax administration

**Administrative-Reform …** Strategy for CBR

In November 2001, the Pakistan Government approved the broad outline of the reform strategy of CBR. The reform strategy aims at increasing effectiveness of CBR, reducing corruption opportunities and raising the buoyancy of the tax system through organizational re-structuring, self-assessment, reduction of personal contact between taxpayers and tax collectors, simplified processes, revised terms and conditions for employment of CBR officials and improved IT management.

**Cabinet Oversight of CBR Reform**

An important development in the reform process is the formation of the Cabinet Committee for Federal Revenues (CCFR) to oversee the reform process of CBR. The Committee is headed by Minister for Finance and includes Ministers for Commerce, Privatization, Deputy Chairman Planning Commission, Secretary General Finance, Secretary Establishment and Secretary Revenue Division as members.

**Public /Private Restructuring at CBR Headquarters**

CBR has re-structured its headquarters. With a view to supplement the level of skills in CBR, Pakistan government has appointed professional Members from the private sector to work with the regular bureaucratic Members. The new Members from the private sector are in the following areas:

1. Human Resource Management (HRM).
2. Information Management System (IMS).
3. Audit.
4. Facilitation and Taxpayers' Education (FATE), and
5. Fiscal Research and Statistics (FR&S).

The CBR has prepared a recruitment policy that puts greater emphasis on skills that match CBR needs, aims for an incentive and merit based remuneration and promotion mechanism. The CBR reform program also aims for strengthening sales tax audit and enforcement activities.

**Important Initiatives under Reform Process**

The following milestones have been achieved in Pakistan's reform project at a fairly rapid pace from 2002 to 2004:

***i. Large Taxpayers Unit (LTU)***

From July 01, 2002 Pakistan has established a pilot Large Taxpayer Unit (LTU) at Karachi. The Unit is based on functional organisation encompassing all the three domestic taxes i.e., sales tax, central excise duty and income tax. It has an open-floor layout with a large reception and facilitation area for taxpayers. This Unit has achieved its revenue target of Rs. 55 billion for the first year, exhibiting a successful transition to the new "functional" tax system without any revenue losses.

Seeing the first year's success the scope of the LTU has been enhanced from the original 300 largest (corporate) Karachi-based large taxpayers to 600 such taxpayers. The second year of LTU operations has also been successful in terms of revenue collection.

*Expected Benefits from LTUs:*

The LTU is expected to be a major facilitating unit with minimum contact between taxpayers and tax collectors. The closely monitored performance of the tax collectors is expected to improve revenue collection and check corruption. The incentive based remuneration for the employees of CBR working at LTU will cultivate a new culture within the organisation.

*Expansion of LTUs:*

After two years of seeing the Karachi LTU in operation, a second LTU in its second largest city of Lahore has been started from Sept 2004 for income tax operations. By March 2005 it expects to have this 2nd LTU fully operational in new premises inclusive of sales tax operations. A third LTU is also planned \for the capital city of Islamabad, which is expected to cater to its taxpayers by January 2006.

***ii. Medium Taxpayers Unit (MTU)***

Pakistan decided that another pilot test site was necessary to look at non corporate tax administration which forms the bulk of taxpayers in Pakistan.

Therefore a model Medium Taxpayers Unit was commissioned. This unit has started working in Lahore with effect from October 01, 2002. The Unit tests the re-engineered income tax system based functional organizational structure. The total taxpayer population of this Unit was 10,000 taxpayers, which was enhanced in 2003 to around 90,000 taxpayers.

Chairman CBR & Member Reforms, M.S.Lal visit MTU Rawalpindi.

*Expected Benefits:*

In the reform project of CBR, this Unit has a pivotal role for determining the future organisational structure of income tax. The present system of collection of income tax is circle based, where all functions of collection, assessment, appeal, recovery, enforcement, survey, etc. are performed by the circle staff headed by one Income Tax Officer. There were 742 such circles in Pakistan before the present reforms started. The circle system is characterized by close contact between taxpayers and tax collectors. The re-engineered system (based on functional organization concept) is expected to overcome the deficiencies of the existing circle system.

*Expansion of MTUs:*

With a year and a half of testing, the MTU concept is now in the expansion phase where it is being replicated at different locations throughout the country under the reform project of CBR. For the first phase five (5) MTUs are being set up across the country. Two of these are operational this year since July, two more will be operational by December 31st, and the fifth will be open for business by March 2005.

***iii. Universal Self-Assessment System***

Pakistan's obsolete income tax system that required the income tax officer to "assess, by an order in writing.." each person's income every year, has been abandoned and replaced by Universal Self-Assessment System (USAS) from July 01, 2002.

Under USAS all taxpayers automatically qualify for self-assessment. The detailed examination of returns is now not undertaken at the time when tax returns are received. Even at a later date, only a certain percentage of cases are selected for audit. This selection is based on risk assessment for various classes of taxpayers.

Expected Benefits: The USAS will minimise direct contact between tax officers and taxpayers, reducing the adversarial relationship between them and also enhancing voluntary compliance through an effective mechanism of audit and enforcement.

***iv. Taxpayers Facilitation Centers***

With the move towards universal self-assessment, introduction of large scale changes in tax laws and procedures, introduction of new forms and record keeping requirements and functional reorganization of income tax, the need has been brought home for a dedicated taxpayers facilitation and education set up. All pilot projects of CBR that are now on ground have Taxpayer Facilitation Centres (TFCs) in them. Such facilitation will usher in a new era of productive cooperation between tax administration and taxpayers with timely addressal of their queries. The facilitation function is staffed by personnel with friendly disposition.

Currently CBR is in the process of setting up of 7 Taxpayers Facilitation Centres (TFCs) at various locations across the country to address queries/ routine question of the taxpayers.

## Human Resource Related Training Programme

The defined vision and mission of CBR envisages skilled and properly trained personnel to perform their work on professional lines. To support the introduction of modern management techniques and organizational improvement practices in various model tax offices, a comprehensive sequence of training modules have been outlined for various categories of officers/officials. MOU's have been signed with reputed educational/professional institutions to impart quality training. The strategy has been endorsed by the World Bank. The first cohorts are due to be sent for training shortly.

## Measures to Ensure Continuity of Reforms

CBR has taken necessary steps to institutionalize its reform process. The basic outline of the Reform Strategy Document was developed in consultation with all stakeholders. This has helped to create ownership of the reform process within the organization. CBR will remain a Division of the Government of Pakistan, and bureaucracies being what they are worldwide, CBR needs enhanced legal powers, capabilities and autonomy in order to:

- Formulate its own expenditure budget and administrative policies (government to meet budget needs);
- Spend (within its budget) as it deems appropriate;
- Decide its own structure for monetary rewards and allowances;
- Formulate and enforce its own operational rules;
- Adopt its own human resource recruitment and development strategy;
- Protect itself against undue intrusion from outside influence.

These autonomies have been provided to CBR to a large extent, and it is hoped that these will help in providing sustainability to Pakistan's reform efforts.

## Implementation/ Monitoring Mechanism

***Project Management Unit—PMU***

To implement reforms a Project Management Unit (PMU) has been constituted and is operating under Member Tax Policy and Reforms. The member reports to the Chairman CBR. The unit, apart from several key administration staff, will also hire full-time outside consultants to assist in implementation of the respective project components. An integral part of the PMU responsibilities will be to establish monitoring and evaluation component of the proposed project.

***Cabinet Committee—CCFR***

The Cabinet Committee for Federal Revenues (CCFR) is monitoring the reform process of Central Board of Revenue. The Committee being headed by the Finance Minister (now the Prime Minister) has given a boost to the CBR's reform work, and progress is being monitored closely. The Government of Pakistan is also committed with donor agencies to bring about reform of Pakistan's tax administration. The IMF and the World Bank have provided certain timelines for the reform process. These are also required to be met, and are being met. This mechanism of regular monitoring by the Cabinet Committee and by donor agencies is ensuring the smooth implementation of Pakistan's tax reform project.

## Policy Directions for the Future

The detailed reform strategy document of CBR with timelines having been prepared, that also provides direction for re-design of business processes, information technology architecture, human resource management, and strategy to combat corruption and infrastructure development strategy.

The extensive use of IT will help to minimise contact between officials and taxpayers. The reformed CBR will heavily depend on modern, effective and efficient IT function. Databases will be created for management reporting, audit selection and analysis. Eventual objective is to shift from paper based processes to electronic interactive service.

To implement the CBR reform the World Bank has agreed to advance necessary funding and has signed a loan agreement for US $ 150 million. The loan funds are expected to be available from February 2005. The reform initiatives noted earlier have been undertaken with a combination of Government of Pakistan funding and advance project preparation facility and bridge financing form the Bank.

It is anticipated that on the completion of the reform program in the next 2-3 years, an effective tax system will be in place in Pakistan that will foster enhanced community participation and voluntary compliance towards tax laws.

We expect that this would eventually raise government's revenues from a current level of 14 percent of GDP to a target of 16-17 percent of GDP. This would go a long way to reduce the budget deficit, reduce the government's reliance on non-tax sources of income and allow greater fiscal space for pro-poor budgetary allocations.

### Inter-Governmental Experts Group for SAARC members

Pakistan is hosting Second Meeting of the Sub-Group of Inter-Governmental Experts Group (IGEG) of SAARC Member States for the conclusion of Limited Multilateral Tax Treaty (LMTT) for the Avoidance of Double Taxation amongst the SAARC Member States.

The proposal to conclude the Treaty was agreed during the first meeting of the Inter-Governmental Expert Group on Avoidance of Double Taxation amongst SAARC Member States held at New Delhi on 22-23 March 2004. A Sub-group of IGEG was therefore, formed to conclude this treaty. First meeting of the Sub-group of IGEG was held at Kathmandu on 26-28 October 2004, where draft of LMTT was discussed in the light of observations and comments of the member countries. However, it could not be finalized because experts of all the SAARC Countries could not attend the meeting. It was decided that the second meeting of the Sub-group of IGEG was to be held again at Kathmandu, Nepal on 6-7 December 2004 but the venue of the meeting on the desire of the Prime Minister of Pakistan has now been proposed to be Islamabad, Pakistan. The second meeting of the Sub-group of IGEG shall be hosted by Pakistan. The Central Board of Revenue has completed all the requirements for hosting of the conference on 6-7 December 2004.

The proposed LMTT will be a second major step towards cooperation amongst SAARC Member States after signing SAFTA and shall go a long way in improving economic development of the member states. The South Asian Region strongly feels the need for regional cooperation in trade, commerce and other economic terms for the progress of member states. Such regional co-operations experienced in developed parts of the world have yielded healthy results. The technical cooperation like LMTT and agreement on Arbitration and Investment shall pave the way for ushering in a new era of progress, peace and prosperity in the SAARC region.

## UNITED KINGDOM

***Country Correspondent:***
***Ms Jas Sahni***

### Helping Businesses Serve Their Disabled Customers

New guidance on tax allowances, available to business to help them make their premises more accessible to disabled people, was published on 1 October 2004. From that date, the Disability Discrimination Act requires service providers to make "reasonable adjustments" to their premises to tackle any physical features that prevent disabled people from using their services. The new guidance clarifies the reliefs available in relation to several of the most common types of adjustment in order to assist businesses and encourage them to comply fully with the new law.

The Disability Discrimination Act 1995 makes it unlawful to discriminate against disabled people in connection with employment, the provision of goods, facilities and services, or the disposal or management of premises. Many of the adjustments needed to meet the new requirements under the Act will already qualify for tax relief, either as a revenue expense or through capital allowances. The new guidance provides an overview of the tax position and examples of the tax treatment of some of the adjustments most frequently made in order to make premises more accessible to disabled people.

**Disclosure of Tax Avoidance Schemes: Legal Professional Privilege**

On 17 March 2004, the Chancellor of the Exchequer announced new rules to require promoters and users of certain tax schemes and arrangements to disclose details of those arrangements to the Inland Revenue. On 9 July 2004, the Inland Revenue published three supporting Regulations, the Tax Avoidance Schemes (Information) Regulations 2004, the Tax Avoidance Schemes (Promoter and Prescribed Circumstances) Regulations 2004 and the Tax Avoidance Schemes (Prescribed Descriptions of Arrangements) Regulations 2004.

A key measure in the UK Government's strategy to tackle offensive tax avoidance schemes moved forward recently following the announcement of amendments to the tax avoidance disclosure rules. These changes put beyond doubt that all promoters, including the legal profession, are able to comply with their obligations without revealing privileged information. The amended rules will require clients to make a disclosure in place of a promoter where the promoter believes the relevant information is covered by Legal Professional Privilege (LPP).

The effect of these changes is to ensure the rules operate as intended and apply fairly to everyone in the business of promoting or advising on tax avoidance schemes, including accountants, financial institutions and lawyers. The disclosure rules require promoters and, in some cases, tax payers to provide to the Inland Revenue the details of certain tax avoidance schemes and arrangements.

**Bubble Bursts for £5 Million Fraudster**

A successful businessman, who failed to pay tax or National Insurance for 12 years, was jailed on 15 October 2004 for 42 months. Robert Newark (61) pleaded guilty to 15 counts of cheating the UK Inland Revenue. The turnover of his business was over £5 million, which generated a tax loss, including interest, of more than £1 million.

Newark's business, The Bubble Factory, supplied bubble wrap packaging to supermarket suppliers and other companies, where it was used to protect fruit in plastic containers. At its height, the business employed 12 people and had an annual turnover of £750,000.

Special Compliance Office Investigator Peter Crockford, said: "This case sends out a warning to anyone tempted to cheat the Inland Revenue. Mr Newark didn't pay a penny in income tax for several years and he didn't pay the tax or National Insurance Contributions of his employees even though his business was very successful. He deducted tax from wages he paid and kept the money for himself. He cheated the public purse and created false documents in an attempt to mislead the Inland Revenue."

## ZAMBIA

***Country Correspondent: Mr Pumulo Akapelwa***

The CATA Annual Technical Conference was held from 6th to 10th September 2004 in Lusaka.

The conference was officially opened by the Honourable Minister of Finance and National Planning, Mr. Ng'andu P. Magande on Sunday 5th September 2004. The conference was graced by the attendance of other senior Government Ministers and Officials. The CATA representatives were the Vice Chairman, Mr Gerry Cook, the President, Mr Michael Waweru and the Executive Director, Mr Zahir Kaleem.

The conference deliberated on two key topics namely

1. *Strategies for widening the tax base, and*
2. *Building capacities of the Revenue Agencies*

**Attendance**

The conference was well attended with thirty-five (35) countries and five (5) other organisations represented. A total of one hundred (100) participants comprising ninety-one (91) delegates and nine (9) special delegates were in attendance. In addition their spouses and also two (2) daughters of two of these delegates accompanied thirteen (13) delegates.

**Social Tour**

Several tours were conducted for the delegates and their spouses within Lusaka. But the grand tour was the trip to Livingstone to view one of the Seven Wonders of the World – the Victoria Falls named after Queen Victoria of the United Kingdom.

The delegates were driven down to Livingstone a distance of 480 kilometres south of Lusaka on luxury coaches. They arrive in the evening in time for the Zambian night cultural function hosted by the

Zambezi Sun, one of the world class Sun Hotels Group of Southern Africa. The following morning a visit to the Victoria falls were delegates experienced a lifetime awe of the mighty Zambezi River gushing down a 1.6kilometre wide cataract of falls. The vapour rising up to 300 metres high and which the local people called Musi – O – Tunya, meaning the smoke that thunders. This was followed by a tour of the Musi – O –Tunya National Park and eventually a boat cruise on the mighty Zambezi River. This marked the end of the tour and the delegates were back on the road to Lusaka to continue the next day with conference business.

The delegates expressed their enjoyment of the wonderful excursion as a-once-in-a-lifetime experience!

**CATA Evening**

The conference was closed with the last event being the CATA Evening, as per tradition of the Conference, which was held on Friday 10th September. The highlight of the evening was the dance performed by the Samoan delegate Mr Alafala Faatali who performed the Samoan dance with two ten year old twin girls resident in Zambia. The performance received a standing ovation for the performance, which displayed the unique rich Samoan culture in dance. We are still filled with fond memories of the dance.

The Main organising Committee comprised the following members:

1. Mrs Priscilla Banda – Chairperson of the Organising Committee.
2. Mrs Chintu Mazakaza - Assistant Commissioner.
3. Mr Raphael Masheke - Assistant Commissioner.
4. Mr Peter Phiri - Assistant Commissioner.
5. Ms Mukuka Nkamba - Assistant Commissioner.
6. Mr Michael Phiri - Assistant Commissioner.
7. Mr Danmore Mulima - Assistant Commissioner.
8. Ms Jackie Filamba - Assistant Director, IT.
9. Mr Lackie Kaonga - Ag. Assistant Commissioner.
10. Mr Anthony Bwembya - Audit Manager.
11. Ms Chisanga Kashoki - Audit Manager.
12. Mr Pumulo Akapelwa - Head of Training, CATA Correspondent.
13. Mr Daniel Msoka - Public Relations Manager.
14. Mr Rogers Siachitema - Procurement Manager.

***Visit the CATA Website***

**http://www.cata-tax.org**

***for more information***