2003, March

-

Editorial

Capacity Building in Tax Administrations

When CATA was created in 1978, the main task assigned to it was to help its members, especially developing countries achieve excellence in all aspects of tax administration. Over the years, the principle objective of the creation of the Association has remained unchanged. However, with the passage of time, some of the means of achieving the objective have been modified from time to time in keeping with changing financial, administrative and more recently, technological advances. In a fast changing world, the importance of more frequent reviews of goals and objectives as well as performance evaluation has steadily grown over the years. However, it is equally important to find the right balance between review and productivity. There are examples of organisations in which productive work has been disrupted, well established systems destabilised, staff demoralised, working conditions deteriorated and precious financial resources expended through repeated review "overkills" instead of focusing on and carrying out the aims and objectives for which the organisation was created. Organisations and staff require periods of consolidation and adaptation to derive optimum benefits from new programmes, initiatives and procedures. Continual change can have quite the opposite effect.

CATA's first Strategic Plan covered a period of three years (1998 to 2001). During 2002, the Plan progress or the lack of it was reviewed. A new Strategic Plan, likely to cover a period of three or four years is expected to be in place before the end of the year 2003. This represents a reasonable balance between strategic planning and implementation periods. It is interesting to note that the political authority that created the Association, namely the annual Commonwealth Finance Ministers meetings, reviewed the role of CATA in anticipation of the twenty fifth year of its existence and concluded that the Association had played an important role in capacity building in tax administrations, and encouraged CATA to play an expanded role in capacity building in the future. It represents a strong vote of confidence and continuity with a slight shift in emphasis; helping members to develop the capacity to achieve excellence in tax administrations both from within and by reaping the benefits of the rapid globalisation of activities. This is of course part of the larger global agenda of promoting good governance in general.

While globalisation has increased the interaction and interdependence among countries and jurisdictions through direct foreign investment, trade liberalisation, increased information flows, especially with the recent developments in information technology, it has also posed some challenges for countries around the world. Part of this package of challenges is external, particularly for developing countries such as the challenges posed by electronic commerce, but a substantial part of the challenge is home grown. Globalisation and free flows of capital cannot benefit a country to the desired level if it does not have the necessary tools to identify opportunities and redistribute the gains for the general welfare of its population. Therefore building the capacity of a country's governance institutions to promote development is now considered a priority area in strategic planning. The free flow of information provides the public in every country the opportunity to see how governance is carried out in other parts of the world. It is human nature that one tends to look for best practices instinctively. The age of ignorance about global developments is disappearing very rapidly for the common man, who now demands and expects the very best from his own government. Faced with these challenges, governments are now forced into looking at others to identify and to share experiences in their quest for quick and appropriate solutions to their problems. The state's role in realisation of its domestic tax potential as a tool for sustainable growth is now a well established and accepted reality. It is not surprising therefore that the Commonwealth governments envisage capacity building in tax administrations in member countries as a key objective for CATA.

One of the objectives for which CATA was set up is to provide a forum for senior tax administrators to meet and discuss problems of common concern as well as to share experiences with a view to enhancing their skills and updating their technical knowledge. one major tool through which CATA has sought to achieve this objective is through its annual technical conferences/workshops at which topics selected for discussions cover specific areas of practical relevance to tax administrators. So far CATA has held 23 technical conferences in various parts of the world. A very broad range of topics has been covered at these conferences. These include both tax policy and administrative issues, such as Role of Tax Administrator in Tax Policy, Human Resource Development and Training, Use of Modern Technology in Tax Administration, Organizing and Managing Tomorrow's Tax Administration, Improving Tax Compliance, Capital Taxation, Taxation of Oil/Mining, Taxation of Multinational Enterprises, Tax Audits, Taxation of Foreign Exchange Gains and Losses, Transfer Pricing and Thin Capitalisation, etc.

This illustrative list shows that topics addressed at annual conferences include both technical and policy issues. Selection of topics is based on identification of areas of priority by members sought through circulation of questionnaires. The general trend has been for developing countries to prefer technical issues where they feel their tax officials lack necessary expertise. At some of these conferences, where developing countries have found the topic of particular interest, there have been demands for a more intensive treatment of the subject through training programmes. In the words of one delegate at a conference, discussions at technical conferences amount to at times scratching the surface of an issue, particularly where is issue is highly complex and technical. Therefore on more than one occasion, training programmes and workshops have been organised by CATA to provide operational level officials the opportunity to benefit from participation in two or three weeks training programmes following deliberations at annual conferences. The annual workshop in Malaysia on "Taxation of International Transactions" was organised by CATA following deliberations at the 1996 conference in Zimbabwe where the topic "Taxation of Multinational Enterprises" was discussed. A large number of tax officials from the Commonwealth countries have benefited over the years from this particular opportunity. This has been possible because of generous membership support from Malaysia, the United Kingdom and Australia. Similarly, following the annual conference in Samoa in 1997, where the subject "Tax Audits" was discussed, CATA organised a two weeks workshop in Pakistan in 1998 and then again in Mauritius in 2002 on "Tax Audits of Multinationals". These workshops too were well attended and highly rated by participants.

The most important consideration in organising programmes for training and transfer of technical skills is that these activities have to be demand driven. Subjects and topics for purposes of training cannot be imposed on countries if these do not appear on their list of domestic priorities. Having said that, it is also an important function of CATA to create an awareness in developing countries about new challenges and opportunities. Awareness of problems can in turn lead to creation of an interest that eventually climbs the priority ladder. Conversely, absence or lack of awareness about the existence of a problem or challenge and the urgency of immediate action will always draw a cold response. An example of that was the CATA conference in Belize in 1999 at which the subject "Impact of Electronic Commerce on Taxation" was discussed. There was initially a general lack of interest as to the relevance of the issue to domestic conditions in developing countries. However, participation at the conference created an awareness of the relevance of the subject for developing countries, the urgent need to understand all implications and to prepare oneself to deal with challenges and avail opportunities related to electronic commerce. As a consequence, there was a very good presence of CATA member countries at the very successful co-sponsored conference on Electronic Commerce hosted subsequently by the Canada Customs and Revenue Agency.

Every organisation has its strength and weaknesses. In comparison to the activities undertaken by other international tax organisations, CATA perhaps needs to do more to catch up in several areas. However, CATA's main strength is its network of training programmes and workshop organised in various parts of the membership through which literally hundreds of tax officials at various levels of seniority in their respective tax administrations have benefited over the years on a broad range of key taxation issues. Despite massive decline in funding support in recent years, CATA still continues to deliver training programmes each year. This contribution towards capacity building in tax administrations in developing countries will continue to remain in sharp focus and all efforts will be made to improve the quality and accessibility of training programmes for members in future years.

CATA NEWS

TWENTY FOURTH CATA ANNUAL TECHNICAL CONFERENCE/WORKSHOP & NINTH GENERAL MEETING

CATA's Twenty Fourth Annual Technical Workshop and Ninth General Meeting will be held in **Kuala Lumpur, Malaysia** during **7 to 12 December 2003.** The Ninth General Meeting will be held on the afternoon of Sunday, 7 December followed by the Technical Workshop commencing on Monday, 8 December 2003.

Venue:

The Conference will be held at **Istana Hotel** in Kuala Lumpur.

Contact particulars for the hotel are as follows:

Contact Person: Norma Nordin

Assistant Director of Sales

Tel.: (60-3) 21495594

Fax: (60-3) 21441245

Email: **Norma.hik@meritus-otels.com**

Web: ww.hotelistana.com.my

Hotel Accommodation:

All delegates will also be accommodated at Istana Hotel.

Room Rates:

Deluxe Room:

Single: MYR240.00 = US$64.00

Double:MYR270.00 = US$72.00

Mahkota Club Room:

Single: MYR380.00 = US$101.00

Double:MYR420.00 = US$111.00

Suite Room

Single MYR550.00 nett = US$146.00

Double MYR600.00 nett = US$159.00

These prices will be inclusive of taxes and breakfast. Major credit cards will be accepted at the hotel.

Topics:

The following two topics will be discussed at the Conference:

1. ***Self Assessment of Income Tax in CATA Countries***

2. ***Human Resource Development***

Background Papers:

Each member country is required to furnish background papers (not more than four pages each) on the conference topics. The manner in which these background papers should be structured is set out in (Annex-1) to the Conference Circular . Due date for submission of background papers is 30 March 2003. Special guests do not have to furnish background papers.

Visas:

Delegates are advised to check their Visa requirements for travel to Malaysia well in advance either through their travel agency or the Malaysian High Commission in their respective countries. It is also important to have Visa clearance prior to travel to avoid journey continuation problems at airline transfer desks at airports en-route to the final destination. In some cases Visas may be required for transit or transfer points during the journey.

Health requirements:

It is a mandatory requirement of the World Health Organisation to have yellow fever vaccination if travelling from infected areas and endemic zones. An international certificate of vaccination against Yellow Fever is valid for 10 years. Travellers arriving without a valid Yellow Fever vaccination certificate shall be quarantined upon arrival.

Climate:

Kuala Lumpur has an equatorial climate with some rainfall expected during the December period. During the Workshop period the average temperatures should range between a minimum of 22.6 °C and maximum of 31.6 °C with rainfall averaging 249.4 mm. Humidity is expected to be high and as such, light (summer) clothing is recommended.

Registration:

Delegates nominated to attend the conference and special guests and observers are requested to forward their Registration Forms duly completed to reach the **Conference/Workshop Coordinator** (with a copy to the CATA Office) no later than 15 May 2003.

Delegates are advised to book their hotel rooms through the Conference/Workshop Coordinator.

Conference Coordinator:

Mr. Mohd. Zaid bin Ismail, Head of the International Tax Division, Inland Revenue Board of Malaysia is the Conference/Workshop Coordinator. He can be contacted as follows:

Tel.: 603-62017101

Fax: 603-62019884

Cell: 019-2863527

Email: mzaid@hasilnet.org.my

Details of the Conference/Workshop programme will be circulated to all members and invited Special Guests in due course.

COMMONWEALTH TAX

INSPECTORS COURSE

(CTIC) 2003

CATA is pleased to announce that arrangements have been completed by the UK Inland Revenue to run the Commonwealth Tax Inspectors Course

(CTIC) 2003 for compliance/audit officials.

Dates:

Internet: 9 June – 18 July 2003

Residential: 3 August to 19 Sep 2003

Internet: 22 Sep – 31 March 2004

Venue:

Inland Revenue Staff College, Lawress Hall, Lincoln, where accommodation and meals will be provided.

Inland Revenue Training Office, Birmingham with participants being accommodated in a nearby hotel on a bed, breakfast and dinner basis.

Inland Revenue Training Office, 11 Belgrave Road in London with participants being accommodated in a nearby hotel on a bed and breakfast basis.

Course Director:

Peter Catchpole

Delivery Methodology and Environment:

The course will be run in three phases that every delegate must complete:

(Delegates should preferably have access to the Internet in their home country, especially for Phase I and III of the course although lack of access is not a bar to participation).

Phase I Pre-residential course while the delegates are in their home countries. This period is moderated by a trained facilitator under the guidance of the Course Director and is shared with participants around the world. This phase takes place over a period of 6 weeks.

Phase II Residential part of the programme that takes place in the UK. Delegates stay at the Inland Revenue Staff College at Lincoln and in a hotel in London. This phase takes place over a period of 7 weeks.

Phase III Post-residential part that takes place in the delegates' home countries. This phase is crucial in the application of learning to the workplace. This is delivered through Computer Moderated Conferencing and lasts for a period of 6 months.

Course Content:

The course is designed for officials who are involved in:

* Examination of business accounts and/or dealing with the training of such staff.

The course provides opportunities to enhance knowledge and skills in:

* Identification and pursuit of non-compliance to improve the effectiveness of domestic compliance organizations

* Risk analysis in case selection and interviewing techniques

* IT skills, the impact of e-commerce, internet aided compliance work and issues associated with cross border transactions

* Management and technical issues through meetings with senior UK Inland Revenue officials

The course also includes visits to operational tax offices.

Eligibility:

The Course is open to officers involved in audit/compliance work or their trainers and will be of most benefit to those who are comparatively new to business accounts investigation work or who are involved in the training of new appointees in this field. A working knowledge of English is essential.

Course Fee:

The Course Fee of **£7,900** will cover tuition costs, accommodation, most meals and reading materials.

Applications:

Applications for places on the Commonwealth Tax Inspectors Course should be forwarded to reach:

Mr Andrew Coombes

Inland Revenue International

Assistance

Victory House, 30 – 34 Kingsway

London WC2B 6ES

Tel No: +44 (20) 7438 8203

Fax No: +44 (02) 7438 6106

Email: **Andrew.coombes@ir.gsi.gov.uk**

Additional information and on-line application forms can be obtained through UK Inland Revenue web site at: **www.inlandrevenue.gov.uk/intassist**

Funding:

Nominees are strongly advised to start seeking their funding as soon as possible. **Confirmation of funding must be received by 27 June 2003.**

Cut Off:

The closing date for all applications is 23 **May 2003.** Soon after this date candidates will be sent the computer conferencing software to start the course on 9 June 2003.

Late Application:

This programme is run with small number of delegates, as it is highly interactive and practical. It is therefore imperative that nominees meet the above deadline. Late cancellation by potential candidates could seriously affect the course and even cause it to be cancelled.

ADVANCING MANAGEMENT

POTENTIAL (AMP) 2003

CATA is pleased to announce that the UK Inland Revenue have completed all arrangements to run the Advancing Management Potential (AMP) training programme for 2003 It is intended for a maximum of fifteen participants.

Dates:

Internet: 9 June – 18 July 2003

Residential: 3 August to 19 Sep 2003

Internet: 22 Sep – 31 March 2004

Venue:

Inland Revenue Staff College, Lawress Hall, Lincoln where accommodation and meals will be provided.

Inland Revenue Training Office, 11 Belgrave Road in London with participants being accommodated in a nearby hotel on a bed and breakfast basis.

Course Director:

Alan Harley

Delivery Methodology and Environment:

The course will be run in three phases that every delegate must complete.

(Delegates should preferably have access to the Internet in their home country for Phases I and III of the course although lack of access is not a bar to participation).

Phase I Pre-residential course while the delegates are in their home countries. This period is moderated by a trained facilitator under the guidance of the Course Director and is shared with participants around the world. This phase takes place over a period of 6 weeks.

Phase II Residential part of the programme that takes place in the UK. Delegates stay at the Inland Revenue Staff College at Lincoln and in a hotel in London. This phase takes place over a period of 7 weeks.

Phase III Post-residential part that takes place in the delegates' home countries. This phase is crucial in the application of learning to the workplace. This is delivered through Computer Moderated Conferencing and lasts for a period of 6 months.

Course Content:

The Advancing Management Potential programme is an intensive and demanding course organized and run by the United Kingdom Inland Revenue. The course is now in its sixth year. It is tailored to meet the needs of senior tax officials, especially those involved and interested in organizational, cultural and technical changes. The UK Chartered Management Institute has accredited the course for four modules of its Executive Diploma in Management.

The course will provide participants with opportunities to develop innovative solutions to problems, and examine some important taxation issues in a highly practical manner, particularly in the field of international tax.

Other opportunities include:

* Making the most of their ability and completing a personal development plan

* Exploring management concepts and techniques with an emphasis on resource management and quality development

* Widening the knowledge of domestic and international taxation through exchange of views and ideas

* Group learning, team dynamics and discussions

* Meeting managers from other tax organizations around the world

* Developing ideas and solutions to problems in their own organisation through project work

* Using latest training and development techniques

* Meeting and discussing management and technical issues with senior UK Inland Revenue officials

* Visiting operational tax offices.

Eligibility:

Candidates should have experience of or the potential for senior management responsibilities. A high degree of proficiency in English is essential. The course is designed for tax officials of the Commonwealth countries, but applications will be considered from other suitably qualified candidates.

Course Fee:

The Course fee of **£7,900**, per participant will cover tuition costs, accommodation, most meals and reading materials.

Applications:

Applications should be forwarded to reach:

Mr Andrew Coombes

Inland Revenue International

Assistance

Victory House, 30 – 34 Kingsway

London WC2B 6ES

Tel No: +44 (20) 7438 8203

Fax No: +44 (02) 7438 6106

Email: **Andrew.coombes@ir.gsi.gov.uk**

Additional information and on-line application forms can be obtained through UK Inland Revenue web site at: **www.inlandrevenue.gov.uk/intassist**

Funding:

Nominees are strongly advised to start seeking their funding as soon as possible. **Confirmation of funding must be received by *27 June 2003* .**

Cut Off:

The closing date for all applications is 23 **May 2003**. Soon after this date candidates will be sent the computer conferencing software to start the course on 9 June 2003.

Late Application:

This programme is run with small number of delegates, as it is highly interactive and practical. It is therefore imperative that nominees meet the above deadline. Late cancellation could seriously affect the course and even cause it to be cancelled.

COMMONWEALTH MANAGEMENT DEVELOPMENT PROGRAMME (CMDP) 2003

The Commonwealth Management Development Programme for 2003 will be hosted by Tanzania from **8 September to 17 October 2003.**

The 6 weeks programme will be held at the Institute of Tax Administration, Dar es Salaam, Tanzania. CATA Secretariat is expected to issue the programme Circular in March 2003.

TAXATION OF INTERNATIONAL TRANSACTIONS (TOIT) 2003

CATA's workshop on International Taxation for the year 2003 will again be hosted by the Malaysian Inland Revenue Board from **29 September to 17 October 2003.**

The Workshop will be held at the National Tax Academy, Inland Revenue Board, Bandar Baru Bangi, Selangor – MALAYSIA

CATA Secretariat is expected to also issue the programme Circular for TOIT 2003 in March 2003.

MANAGEMENT COMMITTEE MEETING 2003

The annual meeting of the Management Committee of CATA will be held in London on **14 and 15 May 2003.**

The Committee will have a heavy Agenda in view of the forthcoming Ninth General Meeting of CATA later this year.

MEETING OF SELECT COMMITTEE on STRATEGIC PLANNING

The special Select Committee constituted by the Management Committee of CATA during its meeting in Cape Town, South Africa, in December 2002 met in London during 10 and 11 February 2003 to discuss the formulation of CATA's Second Strategic Plan. The Plan is being formulated in the light of responses received from members to the Strategic Plan questionnaire circulated by CATA Secretariat in 2002.

A draft plan is expected to be presented to the Management Committee during its annual meeting in May 2003 in London incorporating input from members.

A final approval is targeted for the Ninth General Meeting of CATA to be held on 7 December 2003, in Kuala Lumpur, Malaysia.

NEW CORRESPONDENT FOR BANGLADESH

Mr Mohammad Aminur Rahman, First Secretary (Income Tax Policy), National Board of Revenue is the new Correspondent for Bangladesh.

NEW CORRESPONDENT FOR SINGAPORE

Mr Andy Seah Yong Luck, Manager (Policy & Planning), Inland Revenue

Authority of Singapore is the new Correspondent who has taken over from Miss Ang Sor Tjing.

NEW CORRESPONDENT FOR UNITED KINGDOM

Ms Jas Sahni has been notified as the new CATA Country Correspondent for the United Kingdom in place of Ms Angelia Burke.

OTHER NEWS

37th CIAT GENERAL ASSEMBLY, 2003

The 37th General Assembly of Centre for Inter-American Taxes (CIAT) will be held in Cancun, Mexico from **31 March to 3 April 2003.** The main theme of the Assembly will be: **"Strategies and Instruments for Increasing the Effectiveness and Efficiency of the Tax Administrations".**

CIOTA MEETING, April 2003

The next meeting of the Committee of International Organisations for Tax Administrations (CIOTA) will be held in Cancun, Mexico on **4 April 2003** immediately after the CIAT General Assembly

COMMONWEALTH LAW MINISTERS MEETING

St Vincent & The Grenadines hosted the twelfth Commonwealth Law Ministers Meeting from 18-21 November 2002. Ministers and representatives from across the 54-nation Commonwealth discussed progress on international legal cooperation, shared their experiences and proposed new solutions for consideration at the next meeting of the Heads of Government in Nigeria.

Discussions included legal issues relating to :

- international cooperation to combat terrorism
- democracy, good governance and human rights
- model laws on competition, computer crime and e-commerce
- legal reforms to enhance development
- co-operation in the administration of criminal justice
- freedom of information and privacy protection

The triennial meeting is preceded by a meeting of senior officials of Law Ministries, and a meeting of Law Ministers and Attorneys-General of Small Commonwealth Jurisdictions.

Commonwealth Secretary-General Don McKinnon stressed that legal co-operation among Commonwealth countries was good news for global security. Speaking at the Opening, Mr McKinnon said, "In the post-September 11 world, international legal co-operation has become more important than ever. And we must constantly make sure our citizens are aware of the benefits of legal co-operation to make our planet more secure."

"Commonwealth efforts to help member states, especially its smaller countries, comply with UN Security Council Resolution 1373 have been acknowledged globally - and cited as a model by other international organisations," said the Secretary-General.

Emphasizing the role Law Ministers can play in helping to strengthen democratic values and institutions, Mr McKinnon said, "You can design the laws that will help individuals lead better lives and fulfill their true potential, free from injustice and insecurity. You can design the laws that will give citizens confidence in the society they live in."

The role of law in accelerating development was a central theme of the Commonwealth Law Ministers Meeting. The Secretary-General said, "Better laws can help achieve better standards of living. For example, an improvement in land law and a robust land title system can mean that poor farmers have a better chance of securing a loan and are therefore in a better position to produce food to feed their families."

"Laws are not made for lawyers or politicians, they are made for people," concluded Mr McKinnon. "Today, we have a real opportunity to make a difference in the lives of Commonwealth citizens, to help them create a fairer, more secure world. This - and only this - should be the true test of our success."

Over the past decades, the Commonwealth has increased co-operation through mutual assistance agreements in areas such as anti-money laundering and extradition.

SECRETARY-GENERAL CALLS FOR AFFORDABLE MEDICINES FOR DEVELOPING COUNTRIES

Commonwealth Secretary-General Don McKinnon has warned that the life-saving drugs agreement made by the World Trade Organisation (WTO) members at Doha, Qatar, is being put in peril by a single country.

"Denying people in impoverished countries access to life-saving medicines is unacceptable," Mr McKinnon said in a statement issued on 31 December 2002 in response to the news that one country out of 144 WTO members is blocking a deal to supply poor countries with vital drugs at affordable prices.

"143 out of 144 WTO countries cannot be wrong," said the Secretary-General. "If the United States of America would only join this powerful humanitarian consensus, millions of lives could be saved.

"The fact is, many poorer countries do not have the capacity to manufacture, in sufficient volume and quality, the essential pharmaceuticals their people need. Recognising this, Trade Ministers at Doha made a practical and compassionate decision: to create a mechanism allowing these countries to make effective use of compulsory licensing under the TRIPS Agreement to provide affordable drugs," the Secretary-General continued.

"We recognise the value of patents to those who spend considerable resources, time and energy in research and development. But a better balance is certainly needed between the ownership of patents and the need for worldwide availability of affordable medicines. This agreement would have eased global patent rules on drugs, potentially saving millions of lives, while not harming pharmaceutical companies' profitability nor removing the incentive to continue to invest properly in research and development.

"It is not too late for the United States to provide the leadership required to implement this international commitment, which is motivated by concern for our fellow human beings. We need agreements like these if we are to convince the majority that globalisation with a human face is possible."

Mr McKinnon warned that any attempt to redefine the outcome of several months of intense negotiations, which culminated in a consensus agreement on the scope of public health problems, could unravel the delicate balance achieved on many other issues at Doha.

"It is in the long term interests of the world's richest countries to provide affordable drugs for poor countries. Acting with compassion at critical junctures like these will not only save lives but helps create global stability."

COMMONWEALTH DOCUMENTS FROM 1972 RELEASED TO THE PUBLIC

The Commonwealth Secretariat placed in the public domain formerly classified files for the year 1972. A total of 83 files, containing documents dated 1972 and earlier, have been added to those already available to all people interested in Commonwealth affairs.

The records include:

- Meeting of Commonwealth Consular Officials, May 1972
- Minutes of Meetings of the Rhodesia Sanctions Committee and other files related to the Rhodesia crisis
- Files relating to the European Economic Community (EEC) - in particular Association/Trade Agreements with the Enlarged EEC and the Associated African and Malagasy States (under Annex VI and the Yaoundé Convention of 1969)
- Files relating to the Commonwealth Seminar on the Changing Patterns in the Organisation and Conduct of Foreign Policy

COMMONWEALTH SECRETARY-GENERAL LOOKS FORWARD TO WORKING WITH PAKISTAN'S NEW GOVERNMENT

Commonwealth Secretary-General Don McKinnon has welcomed the formation of a newly elected government in Pakistan, following the 10 October 2002 National and Provincial Assembly Elections.

Mr McKinnon said, "Since the military coup in 1999, the Commonwealth has remained engaged with Pakistan on its return to civilian democratic rule. We take encouragement from the formation of an elected government in Pakistan under the leadership of Prime Minister Mir Zafarullah Khan Jamali. With the restoration of the Provincial and National Assemblies, Pakistan has taken an important step towards the full restoration of democracy.

"I am writing to the new Prime Minister saying that I look forward to working with the newly elected government. The Commonwealth will continue to offer support for the development of democratic processes and institutions to help complete the transition to civilian democratic rule, in accordance with the Commonwealth's fundamental political values."

Affairs, was to chart a way forward", said Mr McKinnon.

COMMONWEALTH SECRETARY-GENERAL VISITS INDIA, BANGLADESH, MALAYSIA, SRI LANKA AND MALDIVES

Commonwealth Secretary-General Don McKinnon commenced a visit to India, Bangladesh, Malaysia, Sri Lanka and Maldives in February. on this trip he will consult several Commonwealth Heads of Government in advance of their Meeting to be held in Abuja, Nigeria on 5-8 December 2003. The visit will also provide an opportunity to exchange views on regional and international developments of concern to the Commonwealth.

The Secretary-General will be in India from 16 to 19 February, where he will meet Prime Minister Atal Bihari Vajpayee; Minister for External Affairs, Yashwant Sinha and Finance Minister, Jaswant Singh.

Mr McKinnon will visit Bangladesh from 19 to 21 February where he will hold consultations with Prime Minister Begum Khaleda Zia; Minister of Finance, Saifur Rahman and Minister of Foreign Affairs, Morshed Khan.

The Secretary-General will be in Malaysia from 21 to 25 February to attend the XIII Non-Aligned Movement Summit in Kuala Lumpur. He hopes to meet the Malaysian Prime Minister Mahathir Mohamad, who is host and Chairman of the Summit, and also a number of Commonwealth leaders attending the Summit.

In Sri Lanka, the Secretary-General's programme from 25 February to 1 March includes meetings with the President, Chandrika Bandaranaike Kumaratunga; Prime Minister, Ranil Wickremesinghe; Minister of Foreign Affairs, Tyronne Fernando and other Ministers.

The Secretary-General will be in Maldives from 1 to 3 March to meet President Maumoon Abdul Gayoom and Foreign Minister Fathulla Jameel.

COMMONWEALTH RELEASES KENYA ELECTIONS REPORT

The Report of the Commonwealth Observer Group which was present in Kenya for the General Election on 27 December 2002 was released on Monday, 15 January 2003. It was completed and signed in Kenya before the Observers departed on 2 January, then sent to the President of Kenya, the Chairman of the Electoral Commission of Kenya, the leaders of the main political parties in the country and Commonwealth governments prior to its public release. The full text of the Report is available on the Commonwealth Secretariat website at www.thecommonwealth.org.

In its Interim Statement, issued on 28 December 2002, the Group said that the General Election had "on the whole been conducted in a responsible and orderly manner". It congratulated the people of Kenya, their political leaders and the parties on their commitment to democratic values and ethics, particularly to free, fair, peaceful and transparent elections. The Group also commended the Electoral Commission of Kenya and its staff on their overall performance.

COMMONWEALTH SECRETARY-GENERAL CONGRATULATES KENYA'S NEW PRESIDENT

Commonwealth Secretary-General Don McKinnon today congratulated Kenya's new leader, President Mwai Kibaki, on his election in the 2002 Kenya General Election and paid tribute to outgoing President Daniel Arap Moi.

Mr McKinnon commended the peaceful and orderly manner in which the polls were conducted. He praised Kenyans for their commitment to democracy, as shown during the election. "Their resolve to support the democratic process has been clearly demonstrated and will be a decisive factor in taking the country forward under its new leadership.

SECRETARY-GENERAL RESPONDS TO ANCRAM

Commonwealth Secretary-General Don McKinnon has rejected the Rt Hon Michael Ancram's claim that the Commonwealth's failure to find a solution to the crisis in Zimbabwe destroyed "the basic credibility of the Commonwealth". Responding to Mr Ancram's remarks at the Royal Institute of International Affairs on Wednesday 5 February, Mr McKinnon said: "The Commonwealth is not a pair of boxing gloves to be used by one member to beat up another.

On Zimbabwe, while it is true that we have not been successful, the Commonwealth has done more than any other international organisation. In fact, the Commonwealth is the only global organisation which has suspended Zimbabwe from its councils and which continues to remain engaged in the search for a solution. We will continue these efforts.

But the Commonwealth is not simply about Zimbabwe. To make action on Zimbabwe a test of the Commonwealth's credibility is to ignore the wide ranging work and achievements of the Commonwealth in many areas. These include the quest for democracy and good governance, the fight against poverty and the promotion of trade and investment in developing countries.

The Commonwealth is a vibrant organisation that makes a real difference to the lives of its citizens. A multilateral organisation such as ours is crucial in today's polarised world."

NEWS FROM MEMBERS

BANGLADESH

Country Correspondent:

Mr Mohammad Aminur Rahman

PRESUMPTIVE TAX - ITS EFFECTIVENESS AND DIFFICULTIES

Many countries like Bangladesh have introduced presumptive tax. The idea of presumptive tax is to fix the amount of tax for certain types of businesses or professions. The concept of presumptive tax has evolved from similarity of assessment in cases of the similar volume of trade and profit between different persons. In many countries like Bangladesh this was introduced primarily in the transport sector. Presumptive tax on buses is levied on the basis of seat capacity. In the case of transport of goods, the tax is imposed on amount of per gross tonnage capacity. Same principle has been applied in the case of inland water vessels. Rate of presumptive tax in the transport sector is further refined in Bangladesh by taking into account the age of the transport. Presumably an old transport is likely to have higher wear and tear and maintenance cost leading to lower profit. Considering the same, a stratified presumptive tax regime has been imposed on the basis of age. Present rates of presumptive tax in transport sector in Bangladesh is as below:

Bus Truck etc. (for hire)		
1.	Where the vehicle is first registered before ten years or less	Rate of Tax in a Year (in taka)
(a)	Bus having seating capacity	5,000

	exceeding 52 passengers	
(b)	Bus having seating capacity not exceeding 52 passengers	4,000
(c)	Air-conditioned bus or double-decker bus	4,5000
(d)	Non air-conditioned mini bus or coaster	2,700
(e)	Air-conditioned taxi cab	3,5000
(f)	Non air-conditioned taxi cab	2,500
(g)	Prime mover for carrying container	5,000
(h)	Truck or tank lorry having a capacity more than 5 tons	4,000
(i)	Truck or tank lorry having a capacity more than 1.5 but less than 5 tons	2,500
(j)	Truck, pick-up van every type of human hauler, maxi or auto rickshaw for carrying goods having a capacity equal to 1.5 tons or less	750
2.	Where the vehicle is first registered before ten years or more	Rate of Tax in a Year (in taka)
(a)	Bus having seating capacity exceeding 52 passengers	2,000
(b)	Bus having seating capacity not exceeding 52 passengers	1,500
(c)	Air-conditioned bus or double-decker bus	1,800
(d)	Non air-conditioned mini bus or coaster	1,000
(e)	Prime mover for carrying container	2,500
(f)	Truck or tank lorry having a capacity more than 5 tons	2,000
(g)	Truck or tank lorry having a capacity more than 1,.5 but less than 5 tons	1,000
(h)	Truck, pick-up van every type	3,000

	of human hauler, maxi or auto rickshaw for carrying goods having a capacity equal to 1.5 tons or less	

Inland Water Transport		Rate of Tax in a Year (in taka)
1.	Where the vessel is registered less than 10 years before -	
(a)	On daytime passenger capacity	40 per passenger
(b)	For inland cargo and coasters	65 per gross ton capacity
(c)	For dump-barge	50 per gross ton capacity
2.	Where the vessel is registered 10 or more years before -	
(a)	On daytime passenger capacity	20 per passenger
(b)	For inland cargo and coasters	35 per gross ton capacity
(c)	For dump-barge	28 per gross ton capacity

The justification of presumptive tax is questioned by many quarters. Many people argue that it is against the basic concept of income tax. Some even go no to say it constitutes a levy and not income tax at all. The efficiency of entrepreneurship of different persons engaged in the same trade can not be similar. Some persons may have to incur interest as they have loan for the business where as those who do not have loan do not have any interest expense. Similarly, depreciation may vary according to the cost of the vehicle even if it may vary from year to year, if depreciation is applied on methods other than straight line method. Again the receipt of businesses may vary on the basis of route of passenger vehicles. Further the tax rate is different between corporate and non-corporate sector. Individuals have thresholds where as the corporate taxpayers does not have any threshold. So similar incomes will result in different amounts of tax between a corporate and a non-corporate taxpayer. This again attacks the basic principle of presumptive tax or similar tax for similar income.

Despite such criticisms, it has many advantages. The assessment is simple, transparent and foreseeable. It is implemented at a very low cost by the tax administrators. Since it is simple and specific, it earned the confidence of many taxpayers. Tax administrations can also forecast their collection and realise the collection at ease. It also has a high rate of compliance and non-compliance can be detected easily. It does not also result in refund. For all these benefits many countries are extending the scope of presumptive taxation.

Bangladesh and Pakistan have further extended this concept by introducing withholding tax on certain items like commercial import, contract work business, etc. as the final discharge of tax liability. This extension, however, brought in further complications. The profit determined on the basis of taxes withheld varies from accounting profit.

Policy makers are now trying to avoid tax litigation and delay in finalising tax liability. Many taxpayers feel easy in this procedure because they don't need to face tax audits, appear many times in the tax office and to hire tax lawyers as well as to produce lots of supporting documents.

CANADA

Country Correspondent:

Mrs Christina Lee

CANADA CUSTOMS AND REVENUE AGENCY LAUNCHES NEW SERVICES FOR CHARITIES

On 3 December 2002, Elinor Caplan, Minister of National Revenue, announced new Canada Customs and Revenue Agency (CCRA) services – including improved Website information – that will make it easier for people to get information about registered charities and reduce the workload for charities in dealing with the CCRA.

The new services come as a result of extensive consultations with charities, the public, and other stakeholders in recent years. The consultations were part of the CCRA's Future Directions Initiative (**www.ccra.gc.ca/futuredirections**).

"The CCRA is strongly committed to providing better service to our clients, and using new technology dramatically improves the service we can offer", said Minister Caplan. "These new Internet services make more information available more easily, and I think this is a real advantage for charities and the generous Canadians who support them."

The new Web services complement the information and the searchable list of all Canadian registered charities is already on the CCRA Website (**www.ccra.gc.ca/charities**). The new services include:

- **Online display of annual information returns**

  The publicly available parts of charities' annual information returns are now available online.

  At this time, only returns from the 2000 tax year are available. Work continues on adding more recent years, and the list will become current as soon as possible.

- **Online lists of charities**

  In addition to the existing list of all Canadian registered charities, two new lists have been added and will be updated weekly:

  - charities that were registered within the previous 12 months; and
  - charities whose registered status was revoked within the previous 12 months.

As well, the consultation undertaken by the CCRA with registered charities and voluntary-sector stakeholders made it clear that many charities considered their annual information return difficult to complete because of its length and complexity. The CCRA has therefore worked in close cooperation with the Joint Regulatory Table (JRT) to develop a new form. The JRT is part of the Voluntary Sector Initiative, which is a co-operative initiative of the voluntary sector and the Government of Canada (**www.vsi-isbc.ca**).

As a result, a new *Registered Charity Information Return* (called the T3010A) is being introduced in 2003. A sample of the return is available on the CCRA Website at (**www.ccra.gc.ca/charities**).

"The redesigned form is much shorter and easier to use than the previous one," said Minister Caplan. "This was very important for charities, and it's a great example of the direct and positive outcomes of our more collaborative approach."

Other services that have been introduced as a result of the consultations include extending the Charities Call Centre's hours of service (1-800-267-2384 [English] or 1-888-892-5667 [bilingual] and a much faster average turnaround time for processing applications to become a registered charity (from four months to four weeks).

"All of these things are important early successes in the CCRA's long-term plans to better serve Canada's charities," said Minister Caplan. "A stronger voluntary sector is something that ultimately benefits all Canadians."

Canada Customs and Revenue Agency – Voluntary Disclosures Program

The purpose of the Canada Customs and Revenue Agency's (CCRA) Voluntary Disclosures Program (VDP) is to promote voluntary compliance with the accounting and payment of duty and tax provisions under the *Income Tax Act, Excise Tax Act, Customs Act* and the *Customs Tariff Act*. This program encourages clients to come forward and voluntarily correct deficiencies to comply with their legal obligations. It is a fairness program that allows clients to self-correct. The program provides a greater level of fairness to all clients and stakeholders.

Clients can make disclosures to correct inaccurate or incomplete information, or to disclose information, not previously reported. The Canada Customs and Revenue Agency has the legislative authority to waive or cancel penalties, in whole or in part, when a voluntary disclosure is made and an assessment resulting in a balance outstanding is based on that disclosure. The client will still have to pay the taxes and duties owing, plus interest. Relief is determined on case-by-case basis if the disclosure meets the following validity conditions:

1. The disclosure is voluntary, meaning that it cannot be made where the client is aware that an audit, investigation, or other enforcement action has been initiated by the CCRA or other authorities or administrations with which the CCRA has information exchange agreements.
2. The CCRA determines that the disclosure is complete. The CCRA reviewing officer may request additional substantiating information from the client in order to make that determination. If it is determined that a disclosure contains material errors or omissions, the disclosure will not qualify as a **voluntary disclosure**. The information, nevertheless, would be processed and interest and penalties can be applied on the entire amount.
3. The disclosure must involve at least one penalty. If no penalties apply to the information disclosed, the client can submit the information through the regular process of requesting an adjustment.
4. The disclosure must include information that is:

- at least one year past due, or
- if less than one year past due, not initiated simply to avoid the late filing or instalment penalties (*Income Tax Act* and *Excise Tax Act*)

If the disclosure request satisfies all the four conditions outlined in the VDP policy, the CCRA will not prosecute or apply penalties to the amounts or information being disclosed. The client has the right to a recourse process should the disclosure request be denied by the CCRA.

INDIA

Country Correspondent:

Mr S K Chowdhari

India has been implementing wide-ranging reforms in the economic field. This has also necessitated a re-look at the tax policies as well tax administration. The tax policies and tax administration are being given a close look and are in the process of being re-cast to function as catalysts for the fast-pace changes. With this objective in mind, the Finance Ministry had constituted a Task Force on Direct Taxes under Dr V L Kelkar, Adviser to the Finance and Company Affairs Minister, with the following objectives.

Objectives of the Tax Force

- Reform of tax administration
- Personal taxation reform
- Corporate tax reform
- Taxation of capital gains

- Treatment of other entities

The Task Force after detailed deliberations, prepared a Consultation Paper which was made public in November 2002 for eliciting wider public opinion, not only from the experts but also from the common man. After going through the responses from various organisations, representatives of various sectors, Chambers of Commerce as well as from the common man, the Task Force has prepared its recommendations for wide-ranging changes in several areas, including tax policy and tax administration. Some of the major recommendations of the Task Force are as under:-

Recommendations of the Task Force

- Increased emphasis should be placed on the computerisation and usage of electronic media to make the Income Tax Department taxpayer friendly.

- Expenditure on taxpayer service be increased from the present rate of one percent of the total expenditure on tax administration to at least five percent.

- Requirement of quoting Permanent Account Number (PAN) must be extended to cover all financial transactions.

- Tax structure should comprise low rates, few exemptions, incentives, surcharges and temporary measures.

- Basic exemption limit should be at a moderate level, an appropriate balance between the tax liability at the lowest level, administrative cost of collection and compliance burden of the smallest taxpayer.

- Number of tax slabs should be few and their ranges fairly large to minimise distortions arising out of bracket creep. The existing three slabs of income tax rate schedule should be replaced by two slabs. Incomes between Rs. 100,000/- and Rs. 400,000 should be taxed at the marginal rate of 20% and all incomes above Rs. 400,000 at 30%.

- Ceiling on the amount of mortgage interest deductible for taxable income purposes should be reduced from the existing level of Rs. 150,000/- to Rs. 50,000.

- Dividends received from Indian companies should be fully exempt.

- Corporate tax should be reduced from the existing level of 36.75% to 30% in respect of domestic companies and to 35% for foreign companies.

- Exemption should be given to long-term capital gains on listed equity.

- Minimum Alternate Tax should be abolished.

- Income of Mutual Funds derived from short-term capital gains and interest should be taxed in the hands of the Mutual Fund.

- Long-term capital gains arising to the investor out of sale of units of Mutual Funds should be exempt from income tax.

The recommendations of the Task Force are under active consideration of the Ministry of Finance and Company Affairs. The Finance Bill, 2003 will be presented by the Finance Minister in the Parliament on 28 February 2003. It is expected that some of the recommendations having far-reaching implications on the economic scenario of the country would be reflected in the Finance Bill, 2003.

KENYA

Country Correspondent:

Ms Alice A Owuor

REVENUE PERFORMANCE

Kenya Revenue Authority (KRA) collected a total of Kshs. 95,953 Million against a target of Kshs. 98,147 Million in the first six months of 2002/2003 financial year achieving a cumulative performance rate of 97.8%.

This represents an impressive growth of Kshs. 6,552 Million or 7.3% compared to a similar period in 2001/2002.

On the other hand in the month of December 2002, a total of Kshs. 18,195 Million was collected against a target of Kshs. 18,107 Million achieving an exemplary performance rate of 100.5% or Kshs. 88 Million above target.

The improved revenue collection is a result of improved administrative measures the Authority has undertaken over a period of time including among others, intensified management of arrears and control of counterfeit goods.

SECOND CORPORATE PLAN 2003/4 – 2005/6

The preparation of the second corporate plan is now underway and when complete is to serve as a guidance to the functional planning processes across all departments during the next three years by identifying the objectives and key achievements of the authority which would form an important element of the plan.

The strategic goals and objectives which are outlined in the plan are the results of widespread consultation between policy makers, taxpayers, staff and other stakeholders as well as a review of the operating environment among other important aspects considered.

SENIOR APPOINTMENTS

KRA recently promoted several officers to senior positions as follows:-

1) Mr Karmanga G Nyithambe was promoted to Financial Controller's position having acted in the same capacity for several months.

2) Mr Gaulke M Obbayi rose through the ranks to become the Head of Investigations Department having been a Deputy Commissioner of VAT.

3) Mr Rukunga Ncebere moved from the position of Deputy Commissioner in Income Tax Department to Head of Tax Programmes and New Business Initiatives Unit at the Headquarters.

4) Mr Tobias O Konyango became Deputy Chief Manager of Research and Corporate Planning. He is also a member of the EARATC.

5) Mr Philip Odeny who is a member of the fiscal team to the Treasury, and is the current Chairman of the East African Revenue Authorities Technical Committee (EARATC) was promoted to the position of Deputy Commissioner of VAT Department.

6) Mrs Mary Mwangi became Deputy Commissioner of VAT Department moving from Income Tax Department.

7) Mr Omar A Ali also became Deputy Commissioner of VAT Department in charge of Collections and Refunds.

8) Ms Beatrice M Memo was confirmed as Deputy Commissioner of Southern Region in the Customs & Excise Department having held the same position in an acting capacity.

9) Mrs Rose W Namu also moved up to be a Deputy Commissioner in Customs & Excise Department.

10) Mr Gabriel Kitenga joined the two ladies as Deputy Commissioner of Customs & Excise Department.

11) Mr Alphonse Ntogaiti moved back to Income Tax Department as a Deputy Commissioner.

12) Mr Joseph M Maina became the Deputy Head of Tax Programmes and New Business Initiatives Unit (TP & NBI).

RETIREMENTS

The following Senior Officers retired recently after long service to the organisation.

1) Mr Kenneth Levi –

Deputy Commissioner VAT.

2) Mr Julius B Miyumo –

Head of Tax Programmes & NBI.

3) Mr Winston Pessa –

Head of Investigation Department.

EVENTS AND MEETINGS

1) The East African Revenue Authorities Technical Committee (EARATC) held their 22nd meeting from 29th to 31st January 2003 in Nairobi, Kenya which was attended by Kenya, Uganda, Tanzania and Rwanda Revenue Authorities. The theme was "Challenges of Liberalisation and Regional Blocks to Tax Administration".

Other issues discussed included among others:-

- Quality Assurance Programme.

- Training Implementation Action Plan.

- Anti-Smuggling Action Plan

- Transfer Pricing.

- Implementation for Recommendations on the Informal Sector.

2) **Performance Awards**

The Income Tax and VAT Departments held end of year staff parties in December 2002 during which both department's best performing officers for the year were given certificates of recognition for their dedicated service to motivate them.

3) The Commissioner General and Commissioner of Income Tax hosted the Annual Luncheon in honour of the Nairobi North and South Local Committees on 9th December 2002 during which the Commissioner General commended the members for their professional conduct during their deliberations in hearing cases under appeal taken before them.

4) **Anti-graft Crusade**

KRA has had 29 offices trained as Integrity Assurance Officers (IAO) under the Government's Public Service Integrity Programme (PSIP) preparing them in readiness to offer technical expertise on the implementation of corruption prevention activities as well as to conduct anti-corruption education and awareness programmes. The motto of these crusaders is "Zero Tolerance to Corruption".

5) **Relocation of KRA**

The Customs & Excise Department's Head Office has now relocated to the Ultra Modern Times Tower bringing to realisation our dream of offering integrated revenue administration service under one roof and therefore making it not only cheaper and more convenient to communicate across all departments but also improving service delivery to our taxpayers.

6) KRA together with other Stakeholders such as the Ministry of Trade & Industry, Export promotion Council etc. held a week long Trade and Investment Promotion event from 11th – 15th November 2002 in Cape Town, South Africa.

The activities included exhibition of Kenyan Products, Workshop on Trade, Investment & Tourism.

The objective of this event was among others to exploit market opportunities available in Kenya in both direct investments and joint ventures for potential South African Investors as well as other issues related to tariff and non-tariff barriers to trade between the two countries.

SEMINARS

1) The Income Tax Department has started a series of in-house refresher courses for technical staff deployed in the Taxpayer Audit Programme to enhance their skills and improve their performance in their audit work.

So far two groups totalling 55 officers have gone through the one week seminar.

Resource persons have been sourced from within among the highly experienced officers and the topics being covered include:-

- Taxation of Employment Income

- PAYE Audit Process

- Retirement Benefit Schemes

- Withholding Tax.

2) A one-week Personal Skills Management Seminar covering communication, listening and writing skills, motivation, self-development, time management, delegation and decision-making among others was also conducted for 16 officers in the KRA Training Institute. The objective was to sharpen their skills and enable the officers to manage themselves better before they can manage those below them.

MALAYSIA

Country Correspondent:

Ms Nurul Aim Bt. Ahmad

PROPOSED CHANGES TO MALAYSIAN TAX LAWS

(1) REDUCTION IN INCOME TAX RATE FOR SMALL AND MEDIUM SCALE COMPANIES

Presentation Position

Currently all companies in Malaysia are subject to corporate tax at the rate of 28%. Taking into consideration all the tax incentives available, the effective rate is much lower. However, small and medium scale companies do not benefit much from these tax incentives compared to large companies. As such, the tax rate is much higher.

Proposal

In line with the Government's policy to further promote domestic investment by small and medium scale companies, it is proposed that such companies with paid-up capital of RM2.5 million and below be subject to corporate tax rate of 20% on chargeable income of up to RM100,000. For chargeable income in excess of RM100,000, the corporate tax rate of 28% is still applicable.

Effective from

Year of Assessment 2003.

(2) REVIEW OF WITHHOLDING TAX on SERVICES

Present Position

Payments for services rendered by non-residents are currently subject to withholding tax of 10% regardless of whether the services are performed in or outside Malaysia. These payments are for services rendered to obtain technical advice, assistance or technical services in relation to management or administration of any project. Such payments are deemed to be derived from Malaysia if:-

(i) the responsibility for payments lies with the Government or a resident; or

(ii) the payments are charged as an outgoing expense in the accounts of a business carried on in Malaysia.

Proposal

To reduce the cost of doing business it is proposed that payments to non-residents for services rendered abroad be not liable to withholding tax of 10%.

Effective from

21 September 2002.

(3) REDUCTION IN WITHHOLDING TAX RATE FOR NON-RESIDENT CONTRACTORS

Current Position

Presently any payment to a non-resident contractor under a contract is subject to withholding tax of 15% for income tax of the company and 5% for its non-resident employee. This withholding tax is an advance payment as the actual amount of tax payable by the non-resident contractor and its employees will be finalised upon completion of the contract.

Proposal

To ensure that a non-resident contractor is not burdened with excessive withholding tax compared to the actual amount of tax payable, it is proposed that the rate of withholding tax be reduced from 15% to 10% for the company and from 5% to 3% for its employees.

Effective from

21 September 2002.

MALTA

Country Correspondent:

Mr Carmel Conti

The Maltese Parliament has recently enacted legislation to implement various measures announced by the Government in its Budget Estimates for 2003, amongst which, measures affecting taxation. Some of these measures pertain to international obligations and are outlined below.

Malta is on the brink of becoming a member of the European Union. Negotiations were concluded on 13 December 2002. A national referendum on EU membership will be held on 8 March 2003.

Malta has now brought its tax laws and practices fully in line with the *acquis*. Although the European Community Treaty does not call for direct taxes to be aligned, there has to be a measure of harmonisation and coordination where direct taxation has an impact on the so-called "four freedoms" (free movement of goods, person, services and capital) and the right of establishment for individuals and companies.

Malta's position vis-à-vis the European Union's directive; and 3. the Mutual Assistance directive), the Arbitration Convention and the Code of Conduct for business taxation, is as follows.

With respect to the MERGERS DIRECTIVE [aimed at cutting down tax measures that might hamper cross-border business re-organisation] tax legislation now makes it possible for Malta to conform to the Union directive. The amendments, which were passed through Parliament during January 2003, empower the Finance Minister to issue regulations providing for the tax treatment of companies and shareholders in case of cross-border company mergers, divisions, transfer of assets and exchange of shares. These will be brought into force immediately upon Malta's eventual possible accession.

As regards the PARENT- SUBSIDIARY directive [aimed at abolishing double taxation of profits distributed between parent companies in one member-state and their subsidiaries in another member state], Maltese legislation is already in line with the *aquis*.

The MUTUAL ASSISTANCE DIRECTIVE: Malta already has an extensive treaty network, including 12 of the 15 member states of the EU [i.e. excluding Spain, Greece and the Republic of Ireland] and also with some of the candidate countries which will be joining the European Union in 2004. These treaties provide for exchanges of information mainly on the standard contained in the OECD Model Tax Convention on Income and on Capital.

The January 2003 amendments ensure that on accession Malta will be able to exchange information with <u>all</u> member states of the EU – even with those countries with which Malta does not have a tax treaty. Currently, information may be exchanged under the relevant provisions of the tax treaties already concluded. The tax treaties concluded by Malta with the EU member states contain provisions very similar to those found in the Arbitration Convention. Malta will be in a position to accede to the Convention on membership.

The amendments concern various other administrative and technical topics, including a deduction for expenses incurred for research and development. The allowable deduction for research and development has been increased from 120% to 150% of the original cost.

The Union's Code of Conduct for business taxation is aimed at assessing business taxation on the possible impact of unfair competition and in particular on the location of business. Malta continually and closely monitors the developments in all that regards the code of conduct for business taxation. For the past years, Malta has not introduced any new regime that may be construed as constituting "harmful tax practices" within the meaning of the code of conduct. As regards harmful tax practices, the OECD has excluded Malta from its published list of tax havens for the purposes of its initiative on harmful tax competition.

NEW ZEALAND

Country Correspondent:

Ms Raelene Cook

INLAND REVENUE'S E-ENABLEMENT STRATEGY

New Zealand's Inland Revenue has announced an e-enablement strategy to bring taxpayers online.

Launched in September 2002, the e-enablement plan has identified 52 online initiatives that will be introduced gradually over the next five years.

The Inland Revenue website **(www.ird.govt.nz)** will be continuously updated and improved. All major forms are already on the site for customers to download without focus now on enabling these forms to be completed and submitted electronically.

Priority will go to:

- introducing filing and paying online
- introducing ways for taxpayers and other customers to access information online, and
- making electronic forms, calculator tools and reminder systems accessible online

The plan takes into account a growing demand by New Zealanders to deal with the Government electronically. More than a third of the country's homes have internet access and for some people the internet has become the preferred way to do business.

By October 2003, taxpayers will be able to view their personal tax account information via the website. Eventually, all the department's external services will be available electronically.

Online services will offer taxpayers an alternative way to deal with Inland Revenue but will not replace the more traditional delivery modes, such as paper, telephone and personal contact. E-enablement is designed to increase the range and quality of services that can be obtained, making it easier for taxpayers to comply.

Inland Revenue's e-enablement strategy will build on two successful electronic services already in operation. These services are e-File, which has allowed New Zealand tax agents to file income tax returns electronically since 1992. The other service is ir-File, which has enabled employers' monthly schedules (PAYE) to be filed electronically since 1999.

One of the first e-enablement activities to be rolled out in 2003 allows tax agents to file GST returns online through the department's website. The service will be available in January following a successful pilot study involving more than 250 tax agents and businesses.

Participants in the GST pilot study contributed to the design of the form. They reported that the electronic system simplified the process. Inland Revenue is now shifting its focus to introducing electronic filing for income tax and fringe benefit tax returns.

Inland Revenue is one of the largest information technology businesses in New Zealand, both in the use of technology and in encouraging people to interact with it electronically. It works alongside the New Zealand Government's e-government unit to support its focus on encouraging citizens to gain access to government information and services using the internet.

SINGAPORE

Country Correspondent:

Mr Andy Seah Yong Luck

INCREASE IN GOODS & SERVICES TAX (GST) RATE FROM 3% TO 4%

1) GST was introduced in 1994 to broaden Singapore's tax base and reduce her reliance on direct taxes. Since 1994, the GST rate has remained at 3%.

2) For YA 2003, the Government has reduced the corporate income tax rate from 24.5% to 22% and the top marginal personal income tax rate from 26% to 22%, with corresponding cuts in all income bands. Correspondingly, to offset part of the revenue loss arising from the reduction in corporate and personal income tax rates, the Government had previously decided to raise the GST rate from 3% to 5% with effect from 1 January 2003.

3) However, to alleviate the impact of the GST increase in the current economic climate, Minister for Finance has decided to phase in the increase of the GST rate in two steps. The GST rate will therefore be increased to 4% for the year 2003 and 5% for the year 2004 and subsequent years.

4) To cushion the impact of the GST increase on Singaporeans, especially lower-income households, a comprehensive off-set package comprising Economic Restructuring Shares and other rebates was also announced previously. The offset package remains unchanged despite the change to adopt a phase-in approach. This off-set package will ensure that most households are no worse off during a 5-year transition period.

5) In addition, to addressing public concern over the possibility of undue price increases, the Government has set up a Committee to Combat Profiteering that will deal with any complaints of profiteering or unjustified price increases.

6) More details on the GST rate increase can be found in the electronic tax guide "GST Rate Change – A Guide for GST – registered businesses (Revised Edition)" available no the IRAS website (**http://www.iras.gov.sg**).

NEW onE-TIER CORPORATE TAX SYSTEM

1) To remove interference with companies' discretion to distribute their gains to their shareholders, to simplify the tax system and to reduce compliance costs, Minister for Finance has introduced a new one-tier corporate tax system with effect from 1 January 2003 to replace the previous imputation system.

2) Under this system, the tax paid by a company on its chargeable income is final and all dividends received by its shareholders will be exempt from tax in the hands of the shareholders.

3) The introduction of the one-tier corporate tax system will not alter the tax treatment of foreign dividends remitted back to Singapore. Such dividends will remain taxable in the hands of the shareholders and the applicable foreign tax credit will continue to be granted.

4) A 5-year transitional period (1 January 2003 to 31 December 2007) is, however, provided for resident companies with unutilised section 44 balances as at 31 December 2003 to remain on the imputation system (before moving to the new one-tier corporate tax system) for the purpose of paying franked dividends (i.e. dividends that carry tax credit). This is to allow resident companies some time to utilise their section 44 balances as at 31 December 2002.

5) More details on the new corporate tax system can be found in the electronic tax guide "New one-Tier Corporate Tax System" available on the IRAS website (**http://www.iras.gov.sg**).

IRAS WINS BEST ANNUAL REPORT AWARD

The Inland Revenue Authority of Singapore (IRAS) has won the Best Annual Report Award for Statutory Boards at the 29th Annual Report Awards for the second consecutive year. This award is given to statutory boards that have achieved the highest standard of excellence in the disclosure of their financial and operational information as well as their social responsibilities. 27 statutory boards participated in this year's competition. The award was presented to Commissioner Koh Cher Siang at the 29th Annual Report Awards Dinner on 15 January 2003.

The award-winning annual report "Inland Revenue authority of Singapore Annual Report 2001 – I Respond And Serve" is available on the IRAS website:

(http://www.iras.gov.sg)

UNITED KINGDOM

Country Correspondent:

Ms Angelia Burke

PRE BUDGET REPORT – 27 NOVEMBER 2002

Income Tax Allowances and National Insurance Contributions

Tax allowances

On 27 November the Chancellor confirmed the level of income tax allowances for 2003-04. From April 2003

- The personal allowance for people aged 65-74 will be £6,610, £400 more than if it had been increased in line with inflation.
- For people 75 or over, the personal allowance will be £6,720, £240 more than if it had been increased in line with inflation.
- The basic personal allowance for people aged under 65 will be frozen at £4,615.
- All other personal tax allowances will increase in line with inflation.

Income tax personal and age-related allowances 2003-04 (£ per year)

	2002-03	**Change**	**2003-04**
Personal allowance (age under 65)	4,615	(0)	4,615
Personal allowance (age 65-74)	6,100	(+510)	6,610
Personal allowance (age 75 and over)	6,370	(+350)	6,720
Blind person's allowance	1,480	(+30)	1,510
Married couple's allowance* (aged less than 75 and born before 6 April 1935)	5,465	(+100)	5,565
Married couple's allowance* (aged 75 and over)	5,535	(+100)	5,635
Married couple's allowance* - minimum amount	2,110	(+40)	2,150
Aged income limit	17,900	(+400)	18,300

*** Married couple's allowance given at the rate of 10 per cent**

Enterprise Britain: Supporting Small Business, Entrepreneurship and Innovation

New measures outlined in the Pre-Budget Report will benefit up to 200,000 businesses and entrepreneurs and take forward the Government's support for innovation.

The Government is committed to boosting enterprise in the UK to help raise productivity and regenerate disadvantaged areas. The Pre-Budget Report and Enterprise Britain: a modern approach to meeting the enterprise challenge set out a series of new measures to:

- improve the environment for small business investment and growth;
- cut red tape for small businesses and make it easier to comply with Government requirements;
- provide additional support to businesses in 2,000 Enterprise Areas – the 2,000 most deprived communities in the UK; and
- improve the quality and cohesion of support for small businesses at national, regional and local levels.

A Modern and Competitive Business Tax System

Further steps to remove distortions in the tax system and tackle market failures, to ensure that business decisions are made for commercial reasons, were announced in the Pre-Budget Report. The steps will also reduce the tax and compliance burden on business and maintain an efficient tax system that reflects the realities of today's business environment.

Steps announced include:

- introduction of a **statutory corporation tax deduction for the cost of providing shares for employee share schemes**, for accounting periods starting on or after 1 January 2003, to further encourage employee share ownership;
- a**bolition of North Sea Royalty with effect from 1 January 2003**, delivering a significant boost to companies and creating a stable long-term framework for investing in the North Sea; and
- **a consultation on reform of the Construction Industry Scheme**, to reduce the regulatory burden on construction businesses.

Corporation Tax and Employee Share Schemes

It was announced on 19 December that up to 5,000 companies stand to gain thanks to a new Government measure to encourage employee share ownership.

A statutory Corporation Tax (CT) deduction for the costs of providing shares for employee share schemes, announced in last month's Pre Budget Report, will be available for accounting periods starting on or after 1 January 2003. This will benefit companies that do not currently achieve a deduction by almost £100 million a year.

Draft legislation, explanatory notes and a Partial Regulatory Impact Assessment on the measure have been published today and are available on the Inland Revenue's website at

www.inlandrevenue.gov.uk/shareschemes/news/index.htm

Benefits In Kind: Interest Rate Frozen on Subsidised Loans

On the 12 December 2002 it was announced that, the income tax paid by an employee on a subsidised loan provided by their employer is based on the difference between the interest rate actually charged and what is known as the "official rate" of interest. At present the official rate is 5% and this will be frozen for the 2003-04 tax year, subject to review in the event of significant rate changes.

www.inlandrevenue.gov.uk

Leasing and Tonnage Tax

On 19 December the Paymaster General, Dawn Primarolo, announced that the next Finance Bill will contain a provision about capital allowances, leasing and the tonnage tax.

In order to place a check on the cost of the tonnage tax, there are rules that restrict the amount of capital allowances that can be claimed by a lessor for expenditure on a ship that is used for activities within the tonnage tax. These rules apply only to finance leases. Some lessors are, however, now offering long-term leases for ships that have many of the characteristics of finance leases without being finance leases in form. Such leases can be used to allow lessors to claim significantly more in capital allowances than had been intended when the tonnage tax was introduced. The new provision will extend the types of leases to which the restrictions apply. It will apply to leases entered into on or after today.

Draft legislation containing the new provision will be issued shortly. The Inland Revenue will consult with interested parties about the details of the legislation.

Serving the Community More than Ever

Inland Revenue Annual Report Issued

The Inland Revenue announced on 19 December in its Annual Report that over 3.6 million personal callers visited the Inland Revenue's national network of local enquiry centres during the year. 98.4% of these callers were seen within 15 minutes of their arrival - beating its target by over 3%.

The Department also processed over 3 million applications for Working Families' and Disabled Person's tax credits.

Publicity for the Child Tax Credit and the Working Tax Credit is well under way. Claims for these new tax credits are already arriving – on paper and electronically – in good time for the April 2003 start-date.

www.inlandrevenue.gov.uk/about/annual_reps.htm

What's The Inland Revenue Done For Us?

The Revenue have made it easier than ever to avoid the consequences of missing the Self Assessment deadline by providing face to face advice and support through its nation- wide network of local offices, 24 hour on-line filing and out of hours telephone Helplines.

Self Assessment returns for the tax year 2001/02 must be with the Revenue by 31 January 2003 and **returns not in by 1 February will be charged a £100 penalty.**

Also anyone who misses the 31 January deadline is more likely to be picked for an Inland Revenue enquiry into their tax affairs. And more penalties - of up to £60 a day - could follow the initial £100 penalty until the Return is sent in.

31 January is also the deadline for Self Assessment tax payments for 2001/02. Interest will be due on any payments that hit the Revenue's mat after that date, and there are surcharges on tax that is unpaid by 28 February 2003.

Anyone who needs help filling in their Return or has problems paying can get free advice from their local office or by calling the SA Helpline or visit the SA Helpline web page:

www.inlandrevenue.gov.uk