

The Commonwealth Association of Tax Administrators



cata
Newsletter

27th CATA Conference/Workshop 10th General Meeting in Mauritius

CATA Conference 2007 AMP/CTIC 2006 (TOIT) 2006

Annual Management Committee Meeting in May

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Editorial

The importance of selectivity

Compliance of laws, rules and regulations falling under their respective jurisdictions is a key function of all administrations. The larger the administrative base, the more difficult and complex it is for administrations to ensure compliance of its primary targets, goals and objectives. Administrations therefore adopt mechanisms that allow random checks and selected inspections in order to minimise administrative burden as well as make their operations as cost effective as possible. The tools most commonly employed by tax administrations to safeguard revenue interests under such strategy are popularly known as risk evaluation and selected audits. This approach is not unique to tax administrations. Police departments stop and search cars randomly or under pre-determined risk indicators, Customs authorities at airports stop and inspect a limited number of incoming passengers based on their risk criteria as part of their compliance activities. The age of universal checks is long gone. That being the case, it is very important now for tax administrations to develop and specialise in techniques of risk evaluation and analysis as well as adopt sound management approaches that ensure that all or at least most risks are fully covered to safeguard revenue interests and maximise compliance.

As always, getting best use of limited resources is the central theme. One way to do that is by taking the selective option as against the "across the board" approach. Once the former approach is adopted, it is important to develop strategies and matching tools to proceed in a systematic and methodical way. There are multiple dimensions of this problem, including external factors, skills and technologies, human and financial resources, enforcement needs vis-à-vis promotion of voluntary compliance, etc. The starting point has to be setting of primary goals, identification of anticipated problems and deciding on matching solutions.

Tax administrators all round the world generally agree that the starting point for effective taxation has to be the development of a comprehensive database of taxpayers. Before the emergence of the electronic revolution, achieving this objective through manual process was a dauntingly painstaking task and often rewarded with limited success. Even when a relatively reliable database was created, updating it on a regular basis was a resource heavy and thankless yet essential exercise. Fortunately, that has substantially changed with the availability of electronic data processing facilities. Not only is it more reliable and

systematic, it lends itself to easier updating and data matching, both internally as well as with external databases. The best part is that information technology is developing and expanding more rapidly than perhaps any other field of modern life. When new hardware arrives in the market, amongst other features, the most prominent one is the increased processing speed and accuracy. Therefore investment in modern information technology has to be top of the priority list of tax administrations. There is further good news for tax authorities in developing countries making a late start in that there is plenty of experience and best practices to share in fast tracking their way up the automation ladder. Once that is achieved, computer audits provide a far more efficient way of making the best use of data bases for selective but meaningful and productive tax audits.

While strategies to tax traditional ways of doing business are relatively familiar territory for tax administrations, the area which is of relatively more recent introduction is that of electronic commerce. The network economy operated through the internet has created a global electronic market place, where even the petty local trader selling for instance locally developed hair growth herbal oil can operate globally. That traditionally was the domain of multinationals only and this new global outreach has serious implications for income tax and VAT. At domestic levels, sale of goods and services through web sites is threatening to push high street stores out of business. The Internet has evolved faster than all expectations. To put it in perspective, it took 38 years before 59 people had a radio, another 13 years before households were watching TV. Yet, in only an initial three years period, 50 million users had plugged into the Internet. It has taken by surprise and even embarrassed some very high profile experts through statements that the authors came to regret later, such as the famous quote made about two decades ago, "There is no reason why anyone would want to have a computer in their home". CATA took a lead role in creating awareness amongst its members of the challenges posed and opportunities provided by electronic commerce and information technology in general by deliberating the subject at its annual conference in Belize in 1999 and soon thereafter revisiting the subject again as co-sponsors of a global conference on electronic commerce in Montreal. There is lot that still needs to be done, even fully understood in this area.

In the past opinions about the effectiveness of setting up specialised audit sections as against conducting tax audits on a territorial basis varied considerably. There were arguments for and against both approaches but in more recent times the trend has drifted decisively towards specialisation. The increasing complexity of business and industrial processes, emergence of innovative financial instruments and practices, electronic commerce, etc. have pushed the argument almost conclusively in favour of specialised units and personnel. That is consistent with the selectivity approach; fewer but

more intense audits. A number of tax authorities have moved or are moving in the direction of creating another category of audit units, namely, for large or medium scale taxpayers. Given the high percentage of revenue intake from large taxpayers, especially in developing countries, it is important to not only place higher emphasis on productive tax audits but also equally important for tax authorities to provide higher quality and more efficient services to their more valued customers. Given that most large taxpayers are usually the ones with organised and systematic accounting records and procedures, the task is easier to handle if properly organised. The trend is spreading fast and wide at present and the demand for access to best practices in this area is on the rise.

Once the principle of selective audits is accepted and adopted, the selection process becomes a very important element of the total strategy. In the initial stages of the introduction of self assessment systems, cases of taxpayers were mostly selected for audits on somewhat random basis. The obvious draw back of that approach was that many of those selected were eventually found to be compliant taxpayers. That experience emphasised the need for a systematic approach that minimised the risk of wastage of time and resource in unproductive shots in the dark. Two broad approaches are normally followed. The first, a macroeconomic one based on data analysis of trends and performance of specific industries or broad economic sectors in the national or even international economies. If noticeable trends warrant investigative action, then tailor-made programmes and strategies for audits are developed to deal with the perceived threat to revenue or opportunity, where a particular industry or sector has performed exceptionally well. The second approach is related to a systematic scrutiny of tax returns, taxpayer records and history, etc. Matching departmental data against external information on a case to case basis is an important component of this operation. The idea in both cases is to identify taxpayers who appear to merit special attention or for identification of risks to revenue.

A related issue to selectivity is that of creating a general deterrence amongst the total taxpayer population. Is it possible that a taxpayer who does not get selected for audits for a number of years because none of the identified risks or selection criteria were relevant in his case is likely to risk getting away with it? Studies indicate that taxpayer behaviour is controlled more by his perception of threat than by the actual threat itself. It is therefore important for tax administrations to highlight and showcase through the print and electronic media on a regular basis, cases of tax evasion and avoidance, especially where available, of high profile taxpayers detected through the screening process. It is only through an intelligent combination of a sound selection process and manifestation of the resolve and determination of tax administrations not to allow cases of tax evasion and avoidance to slip through the tax net that best results can be achieved.

Twenty-Seventh CATA Annual Technical Conference/Workshop and Tenth General Meeting 2006

CATA's Twenty-Seventh Annual Technical Conference/Workshop and Tenth General Meeting will be held in Mauritius from 13th to 18th August 2006. The Tenth General Meeting will be held on the afternoon of Sunday 13th August followed by the Technical Workshop commencing on Monday 14th August 2006.

Venue and Hotel Accommodation:

The conference will be held at Swami Vivekananda International Convention Centre, Domaine Les Pailles, Port Louis, Mauritius. Three hotels, all in Port Louis, will accommodate the delegates. The following special rates for bed & breakfast apply and are inclusive of all taxes. The rates have been quoted in Mauritius rupees and at the current currency exchange rate are also shown in (nearest) US Dollars.

Le Labourdonnais Waterfront Hotel (5-Star)			
Rates per night on bed & breakfast			
Room category	Single (rupees)	Double (rupees)	No. of rooms available
Deluxe	3,450 (US\$112)	4,500 (US\$47)	30
Superior	3,800 (US\$124)	4,990 (US\$163)	30

Le Suffren Hotel & Marina (4-Star)			
Rates per night on bed & breakfast			
Room category	Single (rupees)	Double (rupees)	No. of rooms available
Standard	2,600 (US \$ 85)	3,600 (US \$ 117)	30
Twin	2,600 (US \$85)	4,000 (US \$ 130)	30

Le Saint Georges Hotel (3-Star)			
Rates per night on bed & breakfast			
Room category	Single (rupees)	Double (rupees)	No. of rooms available
Standard	1,500 (US \$49)	1,950 (US \$ 64)	30
Junior Suite	1,800 (US \$ 59)	2,340 (US \$ 76)	30

Most major credit cards (Visa, MasterCard, American Express, Diners, etc.) are accepted by the hotels.

Topics:

The following two topics will be discussed at the conference/workshop:

1. **Strategies for taxation of the self-employment sector.**
2. **Practical approaches towards ensuring integrity in tax administration.**

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 I** of the Conference circular sent out to all members recently. It is also available for viewing and downloading on CATA's web site. Given the fact that this year's conference will be held relatively early, **due date for submission of background papers is 31 March 2006**. Special guests do not have to furnish background papers.

Visas:

Delegates are advised to check their visa requirements for travel to Mauritius well in advance either through their travel agency or the Mauritius 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 final destination. In some cases Visas may be required for transit or transfer points during the journey.

Health requirements:

There are no specific health requirements for the participants. There are no major communicable diseases, including Malaria in Mauritius. However, those coming from the following countries should have a valid Yellow Fever Vaccination Certificate:

Cameroon, Gambia, Ghana, Kenya, Tanzania, Uganda and Zambia.

Climate:

Mauritius has a moderate climate with some rainfall expected during the August period. During the Conference/Workshop period the average temperatures should range between a minimum of 14°C and a

maximum of 29°C with rainfall averaging 0.1 mm. Humidity is expected during that period. Light clothing is recommended during day times with warm clothing ideal for the evening.

Registration:

Delegates nominated to attend the conference and special guests and observers are requested to forward their Registration Forms sent out as **Annex II to the Conference circular**, duly completed to reach the **Conference/Workshop Co-ordinator** (with a copy to the CATA Office) no later than **30th April 2006**.

Delegates are advised to book their hotel rooms early **through the Conference/Workshop Co-ordinator**.

Financial Assistance:

A limited number of fellowships will be available from the Commonwealth Secretariat's Governance and Institutional Development Division (GIDD). Successful participants will receive CFTC awards to cover subsistence only. No other allowances are payable. **Applicants must ensure that their applications for funding are approved by and routed through COMSEC's designated Point of Contact in their respective countries.** Information about designated POCs is available on CATA's website.

Applications not so endorsed will **NOT** be considered by GIDD. Under GIDD's current and very strict guidelines, if a participant approved by GIDD for funding fails to attend the Conference, the approved amount will lapse and will not be paid to his substitute, if any, without the prior written consent of GIDD.

The cost of participants' air travel (to and from Mauritius) will have to be met by the nominating government.

Conference/Workshop Co-ordinator:

Mr. Tegharassen Moorghen, Deputy Commissioner of Income Tax, is the **Conference/Workshop Co-ordinator**. He can be contacted as follows:

Tel No. (230) 201-1835 (Office)
(230) 732-2347 (Mobile)
Fax No. (230) 212-9246
Email cata2006@mail.gov.mu

Details of the Conference/Workshop and General Meeting programmes will be circulated to all members and invited Special Guests in due course. The website for the 2006 Conference and that of CATA will also be updated regularly on conference related matters.

Dates for CATA Conference 2007

Mr. Michael Waweru, Commissioner General of the Kenya Revenue Authority has confirmed that Kenya will host the CATA Conference from 6 to 10 August 2007. Further details about conference topics, venue and logistics will be announced in due course.

Advancing Management Potential (AMP) 2006

CATA is pleased to announce that Her Majesty's Revenue & Customs (HMRC) of the United Kingdom have completed all arrangements to run the Advancing Management Potential (AMP) training programme for 2006. It is intended for a maximum of fifteen participants.

Dates:

Internet: 5 June to 16 July 2006
Residential: 31 July to 15 September 2006
Internet: 2 October to 31 December 2006

Venue:

HMRC College, Lawress Hall, Lincoln where accommodation and meals will be provided.

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

Course Director:

John Hudson.

Course Content:

AMP will provide participants with opportunities to develop innovative options for resolving tax administration issues of current concern, and to examine some important taxation issues in a highly practical manner

Delegates will also have the opportunity to:

- * Make the most of their abilities by personal development planning
- * Explore the latest management concepts and techniques
- * Improve and practise fundamental leadership skills such as communication, decision making and problem solving
- * Widen their knowledge and appreciation of domestic and international taxation issues through the exchange of views and ideas, presentations and exercises

- * Meet and discuss management and technical issues with senior experts and leaders from the UK's HMRC and from other tax administrations
- * Meet and exchange ideas with fellow delegates from around the world
- * Develop ideas and solutions to problems in their own organisation through project work
- * Use the latest training and development techniques
- * Learn how to make the most of the internet and other resources for research purposes.
- * Visit HMRC operational offices and discuss live issues with a range of front line managers and specialists.
- * Relate what they learn to their own and their administration's situation back home, so that they return better able to contribute to organizational goals.

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 £ 8500.00 per participant.

Applications:

Applications should be forwarded to reach the Course Administrator:

Mr Sean Rabbett
 HM Revenue and Customs
 1st Floor, Dorset House
 Stamford Street
 LONDON SE1 9PY
 Tel No: 0044 20 8929 2677
 Fax No: 0044 20 8929 6757
 Email: Sean.Rabbett@hmrc.gsi.gov.uk

Additional information and on-line application forms can be obtained through HM Revenue and Customs web site at: www.hmrc.gov.uk/intassist and CATA's annual Circular sent out to all members which is also available on CATA's web site at: www.cata-tax.org.

Funding:

Nominees are strongly advised to start seeking their funding as soon as possible. **Confirmation of funding must be received by 23 June 2006.**

Cut Off:

The closing date for all applications is **19 May 2006**. Soon after this date candidates will be contacted by the Course Administrator. The online course will commence on **5 June 2006**.

Commonwealth Tax Inspectors Course (CTIC) 2006

CATA is also pleased to announce that Her Majesty's Revenue & Customs (HMRC) of the United Kingdom have completed all arrangements to run the Commonwealth Tax Inspectors Course (CTIC) 2006 for compliance/audit officials for 2006. It is intended for a maximum of fifteen participants.

Dates:

Internet: 5 June to 16 July 2006
 Residential: 31 July to 15 September 2006
 Internet: 2 October to 31 December 2006

Venue:

HMRC College, Lawress Hall, Lincoln, where accommodation and meals will be provided.

HMRC Offices, Castle Meadow, Nottingham with participants being accommodated in a nearby hotel on a bed and breakfast basis.

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

Course Director:

Adrian Turner.

Course Content:

The course is intensive and demanding. It is designed for officials who are involved in:

- * Examination of business accounts and/or
- * Dealing with the training and management of compliance and enquiry staff.

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 or management of new appointees in this field. A working knowledge of English is essential.

Course Fee:

The Course Fee of £8500.00.

Additional information and on-line application forms can be obtained through HM Revenue and Customs web site at: www.hmrc.gov.uk/intassist and CATA's annual Circular sent out to all members which is also available on CATA's web site at: www.cata-tax.org.

Applications:

Applications should be forwarded to reach the Course Administrator:

Mr Sean Rabbett
HM Revenue and Customs
1st Floor, Dorset House
Stamford Street
LONDON SE1 9PY
Tel No: 0044 20 8929 2677
Fax No: 0044 20 8929 6757
Email: Sean.Rabbett@hmrc.gsi.gov.uk

Funding:

Nominees are strongly advised to start seeking their funding as soon as possible. **Confirmation of funding must be received by 23 June 2006.**

Cut Off:

The closing date for all applications is **19 May 2006**. Soon after this date candidates will be contacted by the Course Administrator. The online course will commence on **5 June 2006**.

Taxation of International Transactions (TOIT) 2006

Arrangements are underway to hold the Workshop on Taxation of International Transactions for senior and middle level tax officials for 2006. The Workshop will again be hosted by the Inland Revenue Board of Malaysia.

Duration

This three-week workshop is expected to be held from 7 - 25 August 2006.

Venue and Accommodation

The Workshop will be held at:

The National Tax Academy
Inland Revenue Board of Malaysia
Persiaran Wawasan
43650 Bandar Baru Bangi
Selangor
MALAYSIA

This is a residential programme; accommodation and meals will be provided at the National Tax Academy.

Annual Management Committee Meeting 2006

The annual meeting of the Management Committee of CATA will be held at Quadrant House and Marlborough House, London on **9 and 10 May 2006**, respectively. It will be preceded by the meeting of the Performance Evaluation Committee on Monday, 8 May 2006. This will be the last meeting of the present Management Committee. A new Committee will be elected at the 10th General Meeting of CATA scheduled to be held in Mauritius on 13 August 2006.

Appointments and Retirements

New Country Representative

The former Department of Taxes in Botswana has recently been transformed into a revenue service and Mr F Modise has been appointed Commissioner General of the service. He is now the new Country Representative for Botswana for purposes of CATA in place of Mrs. G Mbanga who served in that capacity for a number of years.

New Country Correspondents

Ms Jenny Overland, Tax Administration Reform Adviser, Inland Revenue Division, Solomon Islands has been appointed Country Correspondent in place of Mr John Hayes, who has now left the Division after almost two and a half years of service.

Mr Lincoln A Marais, Manager, International Co-operation and Development, South African Revenue Service (SARS) is now the Country Correspondent.

Visit the CATA Website
<http://www.cata-tax.org>
for more information

Secretary-General Disappointed by WTO Outcomes in Hong Kong

Commonwealth Secretary-General Don McKinnon has expressed deep disappointment over the recently concluded World Trade Organisation (WTO) ministerial conference in Hong Kong. The event took place from 13 to 18 December 2005.

“While it is encouraging that the conference did not end in deadlock, as at Seattle and Cancun, it is still a matter of regret that the level of ambition displayed over the last week did not come anywhere close to what Commonwealth leaders urged at their summit in Malta only three weeks ago,” said Mr McKinnon.

“Some progress has been made at Hong Kong. A deadline of 2013 has been set for the elimination of agricultural export subsidies; there is also some agreement on providing duty and quota-free access for 97 per cent of the exports of the poorest countries to the markets of the developed countries.

“Unfortunately, this comes nowhere near meeting the original target of reaching agreement on negotiating modalities for agricultural and manufactured products, and making concrete progress on negotiations for services, rules, trade facilitation and on the development dimension of the Doha Round. More needs to be done to address the special needs of poor countries and vulnerable small economies. It is extremely disappointing that the negotiations continue to be characterised by a ‘business as usual’, mercantilist approach. The reality is that the WTO’s dynamics have changed and the Doha Round can no longer be concluded by the advanced countries; Europe, North America and Japan cannot hope to carve up a deal among themselves and thrust it on everyone else.”

The Secretary-General stated that trade issues should not be left to trade negotiators and technocrats. Greater strategic vision, statesmanship and political will, he stressed, are needed.

“There is no more room for soft options if a Development Round is not to remain an empty slogan. That is why I strongly support efforts by UK Prime Minister Tony Blair to convene a summit of the leaders of the G8 and five key developing countries early next year.”

Mr McKinnon said the Commonwealth leaders’ Valletta Statement on Multilateral Trade that had been issued in Malta in November 2005 demonstrated the importance placed on trade negotiations at the highest political level. “The most difficult political decisions demand the engagement of Heads of Government. They now need to ensure that their trade negotiators come back with a meaningful agreement by the end of 2006 that delivers the development dimension everyone is looking for.”

The Secretary-General emphasised that increased trading opportunities are not only the most potent weapon in the fight against poverty, but they are also an important element in strategies to combat terrorism, illicit migration and drug trafficking. The full text of the Valletta Statement on Multilateral Trade is available at www.thecommonwealth.org.

The Commonwealth’s Four Priority Areas for Doha Trade Talks

The Commonwealth is focusing on four key areas to help make a real, practical difference to the success of the Doha Development Round of World Trade Organisation (WTO) talks. Commonwealth Secretary-General Don McKinnon outlined these priority areas in a speech delivered at Cumberland Lodge in the UK on 6 February 2006.

The first is the promotion of duty-free and quota-free market access for least developed countries (LDCs). Mr McKinnon stated that analytical work will be carried out to examine the implications of developed countries’ offer of duty-free and quota-free access for 97 per cent of goods from LDCs and the impact on imported goods that fall under the remaining 3 per cent which will be subjected to customs duties and quotas. “The impact of the ‘duty-free, quota-free’ offer could be minimal-to-nil,” said the Secretary-General. “However, for the exporting LDC, this security of market access on a non-reciprocal preferential basis could also be of considerable potential value. The talks in the coming months need to nail down this provision. It must be clear which countries will actually provide access and what the level of benefit really is.

“There must be good faith trade concession to poor countries, not empty devices intended simply to placate

the LDCs. Similarly, the rules of origin must be reasonable and reflect the levels of industrial development of LDCs. They must not be devices to frustrate genuine exports from LDCs.”

The second priority area for the Commonwealth is to analyse the ‘Aid-for-Trade’ initiative agreed by the G8 leaders at Gleneagles, UK, in 2005 aimed at strengthening supply-side capacity and trade-related infrastructure. Mr McKinnon stressed that innovative work is needed to flesh out the details to ensure that this initiative is acceptable and beneficial on a sustainable basis to developing countries. “We need to find fresh ways of providing support that will help LDCs to produce and trade in goods and services on a competitive basis. Whatever formula is devised must be backed by adequate funding. Donors and Bretton Woods institutions have a role in the operation of this ‘Aid-for-Trade’ facility, and since the purpose is distinct from the financial support they usually provide for balance of payment purposes and development support, its structuring must be tailored differently,” he stated.

The third area is to assess the adjustment costs faced by small and vulnerable economies and LDCs that wish to take advantage of trading opportunities and concessions arising from the Doha Round. “How does a small economy with limited options cope when its preferential trade access arrangements are phased out? What are the alternatives? The Commonwealth has already been doing work in this area, and has made some innovative proposals in the past — a fund for the private sector, for instance. This would re-tool and retrain a business and its employees if they were forced by economics out of a protected industry and needed to start afresh,” said the Secretary-General.

The fourth priority is to examine and provide information on the implications of earlier and greater reductions in domestic subsidies for cotton in developed countries. Mr McKinnon pointed out that this impacts on Commonwealth cotton producers and exporters such as Uganda, United Republic of Tanzania, and Zambia, as well as four West African countries that have been at the heart of discussions about cotton to date.

The Secretary-General said while export subsidies on cotton will be eliminated by developed countries at the end of 2006, measures must be taken to ensure that domestic subsidies are also removed. “Reforming the trading system is continuing to be a challenge for us all. But the momentum to bring the Doha Round to a successful conclusion must not be allowed to slow down. If countries are to gain and grow from participating in

international trade, they need fair access to foreign markets. They must be able to compete in their target markets without their comparative advantages being negated by excessively high tariffs, or non-tariff barriers for that matter. Similarly, any competitive advantages they might have must not be denied by the distortions caused by export subsidies and certain domestic price support schemes,” Mr McKinnon emphasised.

The full text of the Secretary-General’s speech is available at www.thecommonwealth.org.

Swift Action Needed on WTO Outcomes

Concerted action must be taken by the Commonwealth in the first half of 2006 to build on the outcomes of the recent World Trade Organisation (WTO) meeting in Hong Kong in December 2005, said Commonwealth Deputy Secretary-General Winston Cox. He urged Commonwealth states, particularly developing countries, not to spare any effort in contributing to the detailed negotiations that must be completed by the mid-year deadline if they want to ensure that development remained at the centre of this trade round.

Speaking at a meeting of The Round Table at Cumberland Lodge in Windsor, UK, on 5 January 2006, Mr Cox also stressed the need for developed countries to help poor countries trade their way out of poverty. “More debt relief, and more and better aid are welcome, but they are of limited value unless the industrial countries reduce their trade distorting subsidies and open their markets to the products of poor countries,” he stated. “Trade negotiators seem only too often to be unaware of or ignore the link between trade, debt and poverty. Countries that can sell their goods and services at competitive prices in the international market by and large can also pay their debts. Countries with improving terms of trade will grow out of poverty, transform their economies and experience increasing levels of economic participation.”

Mr Cox warned that without fair trade and market access, many countries would sink further into poverty. He said increased trading opportunities are “one of the most potent means we have at our disposal for combating global poverty.”

The Commonwealth, Mr Cox stated, would continue to be a strong advocate for vulnerable small states and would keep their concerns on the international agenda. These included the erosion of preferential trading arrangements; growing debt burdens; and additional demands and compliance costs associated with global

efforts to combat terrorism. Other concerns, he added, were the increased environmental risks and more frequent and severe natural disasters; the spread of HIV/AIDS; and rising levels of youth unemployment.

On development, Mr Cox said the Commonwealth aims to strengthen efforts to bridge the digital divide and to explore innovative approaches to strengthen dialogue, networking and collaboration on trade and economic issues. Enhancing interaction with other organisations to build a common approach against extremism and intolerance is, he stated, another goal of the Commonwealth. The reaffirmation of these commitments was made at the recent Commonwealth Heads of Government Meeting in Malta in November 2005.

The Deputy Secretary-General emphasised that the Commonwealth would continue to strengthen and promote democracy and good governance, observe elections, support the rule of law, fight corruption, combat money laundering and the financing of terrorism, support public sector reform, and promote sustainable economic growth and development.

Respect for Religious and Cultural Sensitivities Critical for Global Harmony

Religious and cultural sensitivities must be respected in order to build harmony in our world, said Commonwealth Secretary-General Don McKinnon at a Special Lecture he delivered under the auspices of the Aga Khan Foundation in Karachi, Pakistan, on 17 February 2006.

He stressed the importance of mutual respect and understanding across faiths and communities, and warned against those who try to create discord and divisions among various peoples. "Efforts are being made constantly by those with sinister interests to divide people, by appealing to primordial instincts which fragment humanity," said the Secretary-General.

"Violence is not the answer. That will only fuel the cycle of hatred. Respect for others and their points of view cannot be imposed nor demanded at the end of a fist or a gun; it must be built up through dialogue, understanding and goodwill."

Mr McKinnon stated that the Danish cartoons controversy, which resulted in widespread protests in the Muslim world, has sharpened tensions in a world being made ever smaller by the forces of globalisation. This globalisation has facilitated greater interaction

with people of different races and ethnic and religious groups, and yet, he said, "there are those who seek to force these groups apart, expounding chauvinism, intolerance, threatening behaviour and extremism."

He continued: "It is not a matter of Islam versus Christianity. Extremists who distort the pillars of a faith are not peculiar to any one religion — sadly, they all have their share of them. Faith does not explain ethnic genocide or inter-clan warfare, nor why appealing to racial prejudice wins votes in some elections. Alienation, marginalisation, exclusion are phenomena that have many roots — religion, language and culture are among them. But so too are poverty, illiteracy, environmental degradation and perceived political injustice."

The Secretary-General noted that the advancement and globalisation of technology today enables words and images to move rapidly and largely unchecked around the world. This has brought about tremendous freedom, opportunity, as well as abuse. The challenge, he said, is to use the channels of communication and freedom responsibly.

Mr McKinnon pointed out that the Commonwealth serves as an excellent example of unity in diversity, with its members comprising every major religious and ethnic group. "We believe that this comparative advantage makes the Commonwealth well placed to lead by example, work with others, and campaign actively on the world stage for justice, tolerance and respect. That is why our leaders asked me in Malta to explore initiatives by which the Commonwealth can not only contribute to the growing international efforts to promote cross-cultural dialogue in a way which adds value, but also how it can use best practices from successful examples within its own ranks to enhance in practical ways mutual understanding and respect, and social harmony."

He said South Asia is a region which has seen — and continues to witness — examples of religious extremism, ethnic conflict, economic deprivation and challenges to democratic practice. He pointed out that Pakistan itself has paid a heavy price — politically, economically and socially — for the conflict in Afghanistan in the 1980s and the war against terror after the events of 11 September 2001. "We all have to work harder to ensure that people in any society, wherever they live, are not made to feel that they are outsiders, that they are marginalised, that they don't have equality of opportunity, that they must simply give up in despair on their children's future."

The Secretary-General's speech was titled 'Shaping the Global Agenda: Role of the Commonwealth'. In it, he also touched on issues of democracy and good governance, including the Commonwealth's position on democracy in Pakistan, as well as free and fair multilateral trade and their impact on sustainable development.

The full text of the speech is available at www.thecommonwealth.org.

Greater Financial Support Needed for CFTC to Assist Countries in Attaining MDGs

With 31 Commonwealth member countries making only slow progress towards attaining the Millennium Development Goals (MDGs), it is even a greater priority for the Commonwealth Fund for Technical Co-operation (CFTC) to increase technical assistance to them. In order to do so, said Commonwealth Deputy Secretary-General Winston Cox, the CFTC needs additional resources to consolidate what progress has already been made. Many of these countries continue to need technical assistance and advisory services in international trade policy and competitiveness; debt management; enterprise development; public sector reform; good governance; and capacity-building for sustainable development.

"Despite success in attracting significant support from developing member countries, as well as extra-budgetary resources from partners for specialised projects and interventions, it is clear that additional core financial support for the CFTC from developed member countries is required. It is only through a robust CFTC that the Commonwealth Secretariat can increase the impact of its programmes and help to consolidate the significant gains already achieved," stated Mr Cox in his Foreword to the 2005 edition of 'The Commonwealth Fund for Technical Co-operation: Advancing Development and Building Prosperity'.

Member countries have been urged to increase their contributions to the CFTC by six per cent annually in real terms. This will enable the CFTC to provide assistance to Commonwealth countries in areas such as good governance, public sector development, debt management, trade development and investment promotion, and human resource development.

Mr Cox said the CFTC focuses on Commonwealth countries that are threatened with marginalisation and whose share of global trade and investment has been declining — the 18 Commonwealth African states and 32

small states, six of which are in Africa. One-third of the CFTC's annual resources are targeted at Africa, he stated. "We look to all member states to support the CFTC in its endeavours to build a safe, healthy, prosperous world through political, economic, social and environmental progress in developing countries," Mr Cox added.

How Caribbean Countries will Benefit Eight-fold from Additional Contributions to CFTC

If all contributors to the Commonwealth Fund for Technical Co-operation (CFTC) give an additional 6 per cent annually to the fund, Caribbean member countries would only pay an additional £40,000 a year in total. Yet, they would gain over £300,000 more than now in technical assistance from the fund.

Speaking at the opening of a three-day biennial CFTC Caribbean Regional Consultation in St George's, Grenada, on 25 January 2006, Commonwealth Deputy Secretary-General Winston Cox stated that over the past two years, the Caribbean region had benefited from more than £3 million (EC\$16 million) worth of technical co-operation assistance from the Commonwealth. This includes providing trade policy assistance through regional trade policy advisers stationed at the Caribbean Community and Organisation of Eastern Caribbean States Secretariats; and eight trade policy analysts to support CARIFORUM (a forum of Caribbean ACP states) member countries in undertaking policy analysis, formulation and negotiations.

The formulation of the Caribbean's demand and offer in the Economic Partnership Agreements with the European Union and the development and marketing of professional services through assistance to the Caribbean Export Development Agency are further examples of CFTC assistance.

A regional adviser on debt has also been stationed at the Eastern Caribbean Central Bank in St Kitts and Nevis to assist with the recording and management of debt. Support has also been provided for the Caribbean Financial Action Task Force Secretariat to build its capacity to combat money laundering and the abuse of the region's financial services to finance terrorism. To enhance good governance and public sector reform, 20 long-term advisers have been provided to strengthen the Caribbean's public sector institutions.

Apart from addressing the Caribbean's needs in capacity-building to benefit from trade liberalisation and promote economic diversification, Mr Cox said the

Commonwealth Secretariat has also assisted member countries in combating HIV/AIDS through the establishment of a joint Commonwealth/UNESCO academic chair on HIV/AIDS and Education at the University of the West Indies held by Dr David Plummer. This post will help facilitate the development of a regional response to HIV/AIDS through the education sector. A Commonwealth initiative has also been designed to assist the Caribbean in countering the adverse domestic effects of permanent migration of teachers and nurses.

The Deputy Secretary-General stated that efforts are being made to meet the priorities outlined by Caribbean member countries, which include support for regional integration; building human resources in legislative drafting and legal reform; enhancing security to combat drug trafficking and terrorism; bridging the digital divide; and youth development.

Mr Cox emphasised that the Commonwealth will continue to provide practical assistance to the Caribbean to benefit its citizens. He called on Caribbean countries to support the increase in the resources of the CFTC in line with the commitment by Commonwealth leaders at their summit in Malta in November 2005.

PUBLICATION:

New Publication: 'Commonwealth Heads of Government Meeting Reference Report 2005'

Democracy must promote liberty, not deny it, just as development must promote and not deny economic freedom, said Commonwealth Secretary-General Don McKinnon. The Secretary-General shared this point in a commemorative publication for the Commonwealth Heads of Government Meeting (CHOGM) 2005, held in Malta from 25 to 27 November.

Under the theme 'Strengthening Development and Democracy through Partnership and Prosperity', Mr McKinnon stated development could no longer be thought of simply in terms of Gross Domestic Product, as development is about possibilities first and production second. Mirroring the view of development, he noted that democracy is about expanding opportunities and strengthening human capabilities. "There has to be a core commitment to the central institutions of democracy as those institutions are there to provide for the political freedom of the people. Development does not work if it is top-down and

excludes people. It thrives on participation. Democracy, too, needs to be participatory — at national and local levels and at all intermediate stages," said the Secretary-General.

According to Mr McKinnon, this year's CHOGM, themed 'Networking the Commonwealth for Development', focused on enhancing the partnerships that exist and could exist in the Commonwealth, and can be put to best use in strengthening democracy and promoting pro-poor development. "To do this effectively requires a clear and shared vision and commitment by all concerned. Development has been at the heart of the Commonwealth thinking as we work to end poverty, improve access to primary education, promote gender equality and combat HIV/AIDS. Such are the elements which underpin and sustain our shared vision."

The Secretary-General emphasised that partnerships can bring gains on an international and regional level. "The success of any partnership, though, is measured by the positive changes it brings to people on the ground. If they can experience a better standard of living, better employment, better health care — if those suffering from HIV/AIDS can get the medicines needed to bring a better quality of life — it will be worth it," said Mr McKinnon.

Visit the CATA Website
<http://www.cata-tax.org>
for more information

News from Members

AUSTRALIA

Country Correspondent: Pam Mitchell

Further change challenges for the Australian Tax Office

The new year brings a busy period for the Tax Office as we prepare for the second release of the easier, cheaper, more personalised program which will roll out from May to December 2006.

In the first release of the program the client relationship management system and supporting new business processes was rolled out from September to December 2005. This new software for client contact staff provides a more integrated view of a client's accounts, issues and interactions within the Tax Office.

The second release builds on the first release and will bring some of the biggest changes the Tax Office has ever seen with over 12,000 staff being affected. The second release introduces enterprise-wide business processes and new systems across the Tax Office enabling improved client service and integrated management of client related work.

From May 2006 we will progressively scan all letters coming into the ATO. This means that call centre staff will have access to images of correspondence when dealing with a taxpayer's enquiry.

The client contact software will be extended to call escalation staff which will mean that all information provided by the client is immediately available to call escalation staff, saving time and effort for both staff and clients.

During this period we will also replace our 180 existing case management systems with one Siebel based system. This will have the effect of bringing together a single view of client.

With the design phase for the second release complete, the focus for the next few months is on roll out plans across all affected areas. The challenges are significant and include:

- Rolling out the systems—some of which are interdependent—to 600 new teams in 50 locations nationally over a period of seven months
- Different workforces will receive different combinations of new systems and processes at

different times adding a high level of complexity to the roll out schedules

- Introducing new technology and processes and moving to an enterprise-wide approach requires significant preparatory work and a shift in how staff approach their work
- Not all of the functions of the new systems will be available until the third release is fully rolled out in January 2008. This means that staff will need to use a combination of new and old systems until then.
- The release coincides with a busy period for the Tax Office and the community, and normal business needs to continue without disruption.

Further updates on our progress with the easier, cheaper and more personalised program will be provided in future newsletters.

Growing Talent in the Australian Tax Office

Organisations across Australia face a critical shortage of executive talent in the next 10 years brought about by an ageing workforce, downsizing in the 1990s across the private sector, and the changing nature and increasing complexity of executive roles.

The Australian Public Service Commission's 2005 report "Managing and Sustaining the APS Workforce", highlights the impacts of an ageing workforce across the public service "Agencies will need to develop strategies ... to replace the 70% of current SES and 55% of current EL2s who are aged 45 or over"¹. Outside the public sector 78% of organizations report difficulties in finding skilled staff, and half of those who are promoted to top management jobs fail².

Given these challenges, it is very important that the ATO identify the next generation of senior leadership, and find ways to develop them more quickly than has commonly occurred.

Identifying future potential is not as simple as it might first seem. Traditional methods of identifying future

¹ Australian Public Service Commission, Managing and Sustaining the APS Workforce, Management Advisory Committee Report 5, 2005.

² Development Dimensions Australia, Leadership Forecast Study, 2003.

leaders focus on current and past performance, but this does not take into account the leap in skills which exists between operational leadership and senior leadership.

Based on research by the Corporate Leadership Council and others, ATO People and Place has developed criteria, which it is piloting, to discuss the future potential of junior leaders. The criteria include:

- Leadership and integrity—for example, does the individual take on informal leadership roles; do they role model the ATO's Integrity Framework
- Energy and agility—e.g. does the individual adjust easily to changing demands; do they persevere when faced with barriers
- Personal development orientation—e.g. does the individual accept and act on feedback; are they committed to development
- Decision making and risk analysis—e.g. can the individual make decisions in ambiguous circumstances; can they identify and analyse risk
- Intellect—e.g. does the individual think broadly; do they consider future conditions and needs
- Current performance.

Managers have used these criteria to identify and discuss the potential of their junior staff. ATO People and Place have also identified the experiences which have contributed to the success of our senior leaders. In the next phase of this pilot, the ATO will look at how expose high potential junior staff to these experiences through job redesign, mentoring, and special projects.

Prosecution Case Selection

The Tax Office's Prosecution Policy contains general guidelines as to what types of matters should receive priority when it comes to selecting suitable cases for prosecution. For example:

- cases involving persistent offenders i.e. taxpayers who have not changed their attitude to compliance after reasonable opportunity to do so and the overall compliance risk is high;
- cases involving serious or blatant breaches of the law (e.g. maintaining more than one set of records);
- cases which are representative of significant/prevalent non-compliance practices and which, if prosecuted on a timely basis, may have a wider compliance impact;
- cases where other responses e.g. administrative penalties, are either inappropriate or no longer

appropriate i.e. will not obtain current and future compliance;

- cases where the charge adequately reflects the nature and extent of the noncompliant conduct disclosed by the evidence; cases involving significant or serious taxation fraud;
- and cases for which there are no other effective responses or sanctions (e.g. refusal to answer questions where required by law).

In conducting prosecutions for non lodgement of return, the following points are taken into consideration and particular priority is to be given to cases that fall into these categories:

- the amount of revenue involved;
- that involve repeat offenders; or
- where prosecution may be the only strategy left to obtain lodgement of a return from a person who fails to respond to correspondence, telephone calls and notices relating to the non-lodgement of a return.

The work plans that the Tax Office has developed for lodgement enforcement action (including non lodgement prosecutions) reflects the prosecution priorities as stated in the Tax Office Prosecution Policy. For instance the Tax Office has recently undertaken a major lodgement enforcement exercise against high level tax payers who were late lodging their 2004 income tax returns. Notwithstanding the fact that the majority of these cases were only just overdue, these cases were still selected for action as even a small delay in the lodgement of high level tax returns has a significant impact on tax revenue.

Another major lodgement project has targeted persons involved in the legal profession. Tax Office research has shown that this particular profession has a high degree of non compliance with lodgement obligations. The average level of tax payable by members of this profession was moderately high and it was also considered because of the nature of the profession that priority prosecution action was warranted. Prosecution of individual solicitors and barristers has received wide media coverage throughout Australia and within the relevant legal regulatory bodies.

During the 2005 calendar year the Tax Office prosecuted 5,776 cases with an outcome of \$14,728,353 in fines and costs awarded and 65 custodial sentences handed down.

CYPRUS

Country Correspondent: Mrs Athina Stephanou

In the last few months there have been a few legal changes in the field of Direct Taxation either due to our accession to the European Union or due to our initiative to proceed to actions that will enable the immediate collection of taxes and clear up of old debts.

1. In July 2005 the Parliament passed regulations issued by the Council of Ministers with force until 31.12.2007 and purpose to assist taxpayers that have real difficulty in settling part of their taxes. At the same time the Department will benefit from the immediate collection of taxes due, for which no real difficulty is faced in being settled.

The regulations provide the following:

- Taxpayers that owe taxes for the tax years until year 1999 inclusive, can apply to the Director of Inland Revenue to write off specific tax assessments, inclusive interest and penalty, provided that the taxpayer can prove that he faces real difficulty in settling the specific tax assessments. He must also prove that he did not undergo any actions to avoid payments on the specific tax assessments. Matters that will be taken into account in deciding whether there has been a real difficulty are the taxpayers financial, family, professional and health situation.
- The final decision for the write off lies with the Council of Ministers based on the proposal of the Director of Inland Revenue sent through the Minister of Finance.
- For the Director of Inland Revenue to proceed to such a proposal, the taxpayer must accept in writing to settle all other tax assessments due within 3 months of the approval of the Council of Ministers.

2. To be in line with the EU Directive Parent and Subsidiary Companies, our Income Tax Law has been amended so that if a resident company or a permanent establishment in Cyprus receives dividends from a company resident in another country of the European Union and these dividends are taxed in Cyprus under any of the Laws administered by IRD ,then not only the withholding tax on dividends received will be given as a tax credit from Cyprus tax but also the tax paid, by the company paying the dividend and by its subsidiaries, on the profits from which the dividend was paid. The above does not apply in the case of receipt of dividends due to the dissolution of the company paying the dividend. The above tax credit applies irrespective of

size of shareholding. The purpose of the amendment was to avoid double taxation of the same profits within the European Union.

3. To be in line with the new directives issued in the year 2004 relating to mutual contribution of tax authorities of EU countries in the field of Direct Taxation our corresponding Law has been amended with the following main amendments:

- The Tax Authority in Cyprus when collecting information required by another Tax Authority within the European Union, to enable it to correctly assess tax on income, capital and insurance premiums, will act the same way ,on behalf of the other Tax Authority as it would act on its behalf or on behalf of another Authority in Cyprus. Information will only be passed if the other Tax Authority is committed to keep the information received confidential with rules as strict as those in Cyprus.
- After the request of another Tax Authority within the European Union the Tax Authority in Cyprus must notify the taxpayer, in accordance with our Laws and regulations on notifications, all acts and decisions of the other Tax authority that relate to the application of its Laws on income , capital and taxation of insurance premiums.
- In case of taxpayers that are of common interest to different countries within the European Union, simultaneous audits, either by the suggestion of Cyprus Tax Authority or the requirement of another Tax Authority, can be carried out, if such audits will be more effective in the combat of tax evasion and avoidance, than if each country carries out such audits on its own. Each Tax Authority appoints a representative to lead and coordinate the audit.

The purpose of the Law on Mutual Contribution of Tax Authorities of EU countries in the field of Direct Taxation (income, capital, insurance premiums) was to legislate co-operation amongst Tax Authorities with aim to combat tax evasion and avoidance within the E.U.

4. A very important change for the combat of tax evasion and avoidance is the agreement amongst EU countries (it includes and Gibraltar) and certain territories and third countries to automatically exchange information amongst them, as from 1.7.2005 ,on interest received/earned by non resident individuals, in one of the above countries/territories, with the Tax Authorities of their country of residence, provided their country of residence is one of the above countries/ territories. Bear in mind that interest received in

Cyprus by non-residents is totally exempt from tax. The territories are the dependent territories of UK and Holland i.e. Isle of Man, Guernsey, Jersey, Anguila, Netherlands Antilles, Aruba, Virgin Islands, Cayman Islands, Monserrat, Turks and Caikos Islands. The third countries are Switzerland, Lichtenstein, San Marino, Andorra and Monaco. For a transitional period certain territories and countries (EU, third) will not give but will accept information. The transitional period will end when the Council of European Union agrees by unanimity that the United States of America is committed to exchange information, upon request, in accordance with the OECD Model Agreement with respect to interest payments, as defined in the Directive on taxation of savings income in the form of interest payments, made by paying agents established within the US to beneficial owners of EU countries / certain territories / third countries .These territories and countries will deduct tax at source over and above the provisions of local tax or Double Tax Agreement .They are: Isle of Man, Guernsey, Jersey, Netherlands Antilles, Virgin Islands, Turks and Caikos Islands, all third countries and the EU countries Austria, Luxembourg and Belgium.

In July 2005 the Parliament passed regulations issued by the Council of Ministers for the adoption of the Directive on taxation of savings income in the form of interest payments. The main provisions of the regulations are:

- Every resident paying agent of interest must within 3 months of the end of the tax year, provide the following information to the Tax Authorities in Cyprus for every non resident individual who is the beneficial owner of interest:
 - o his identity ,address and country of residence
 - o his account number or the details that lead to the rise of interest and interest earned.

The paying agent must provide his name and address as well. Where payment is made to another non-resident paying agent, the name, address and total amount of interest paid to the latter paying agent is declared.

- The IRD must pass the information received from the paying agents to the other E.U countries / territories (except in accordance with bilateral agreements to Anguila, Cayman Islands and Turks and Caikos Islands) /third countries, within 6 months from the end of the tax year.
- Interest payments mean:
 - a) Interest paid or credited to an account, relating to debt claims of every kind, interest from

government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures; penalty charges for late payments shall not be regarded as interest payments.

- b) Interest accrued or capitalized at the sale, refund or redemption of debt claims
- c) Income deriving from interest payments, distributed by:
 - (i) UCITS (i.e undertakings for collective investment in transferable securities) authorised in accordance with directive 85/611/EEC;
 - (ii) person who opted to be considered UCITS;
 - (iii) undertakings for collective investment established outside the territory to which the Treaty establishing the European Community by virtue of Article 299 thereof applies;
- d) income realized upon the sale, refund or redemption of shares or units in the following undertakings or entities, if they invest directly or indirectly, via other undertakings for collective investment or entities referred to below, more than 40% of their assets in debt claims as referred to in (a):
 - (i) UCITS (i.e undertakings for collective investment in transferable securities) authorized in accordance with directive 85/611/EEC
 - (ii) person who opted to be considered UCITS
 - (iii) undertakings for collective investment established outside the territory to which the Treaty establishing the European Community by virtue of Article 299 thereof applies.

However, income mentioned under (d) will be included in the definition of interest only to the extent that such income corresponds to gains directly or indirectly derived from interest payments within the meaning of (a) and (b).

Other Matters

1. The Double Tax Agreement made with Lebanon was ratified on 14 April 2005 and will be applied as from 1.1.2006. The DTA is based on the OECD Model. Cyprus has 33 DTA covering 41 countries. The DTAs with the Socialist Federal Republic of Yugoslavia, Czechoslovak Socialist Republic and the Union of Soviet Socialist Republics are still in force. With

Bilateral agreements, the first DTA covers Yugoslavia and Slovenia ,the second DTA covers Slovakia and Czech Republic and the third DTA covers Ajerbaizan, Armenia, Kyrgyzstan, Moldavia, Tanzikistan, Uzbekistan and Ukraine.

FIJI ISLANDS

News Despatch by: Mr David Tansey

The Fiji Islands Revenue & Customs Authority (FIRCA) is in the process of compiling its Annual Report for the fiscal year ended 31 December 2005, which should be available in April 2006. Preliminary figures point to another good year.

Revenue Performance

The 2005 year saw continued revenue growth, with total collection of FJD\$1,064M. Total revenue has increased by 13.4% since 2003, and by 49.6% since 2000, the year in which political turmoil damaged the economy with flow-on consequences to tax collection. The restoration of political stability and economic strength, combined with improvements in revenue compliance and systems, is reflected in the strong revenue growth over the last 5 years.

The 2005 revenue collection dissected by component is shown in Table 1.

The removal of VAT from kerosene and six basic food items, effective 1 January 2006, is expected to cost the revenue \$40M p.a. This will be offset by the introduction of a new duty, called import excise duty, and a 5% surcharge on accommodation component of hotel bills.

The import excise duty commenced on the day of the Budget address (4 November 2005) and so has already made a contribution of \$1.8M in the 2005 year. The new accommodation surcharge will not come into effect until 1 April 2006, so as not to disadvantage hoteliers who have sold prepaid accommodation packages that did not include the surcharge. Tourist arrivals for 2006 are expected to be the highest ever at 576,000, which will keep this revenue source buoyant.

Large/International Audit

FIRCA does not have a Large Taxpayer Unit, but it has the Large/International Audit section, established in January 2005 upon the appointment of the National

Table 1.

Revenue component	\$M
Pay As You Earn (PAYE)	180.4
Withholding & dividend tax	13.2
Income tax – companies	148.3
Income tax – sole traders	29.1
Contractors 15% withholding tax	7.0
Other	2.8
Total income tax – gross	380.9
Refunds	(33.6)
Total income tax – net	347.3
Import VAT	286.1
Government VAT	70.3
Domestic VAT	212.8
Total VAT – gross	569.2
Refunds	(153.0)
Total VAT – net	416.2
Fiscal duty	215.4
Excise duty	76.3
Export duty	11.4
Misc fees & charges	3.1
Import excise duty	1.8
Total customs – gross	308.1
Rebates	(7.0)
Total customs revenue - net	301.1
Total revenue	1,064.6

Manager. The Large/International area conducts audits on the largest taxpayers (150 in number), taxpayers with contentious international issues, government departments and statutory authorities, non-profit bodies and film-making incentives.

During 2005 the large taxpayer group was subject to a risk analysis, and cases chosen for audit. International cases were referred from the tax clearance area for investigation. In the year, 87 audits were completed with assessments raised of \$13.6M. The section also conducted taxpayer education and contributed to improvements in policy and legislation.

Debt and Lodgement

The Debt Management Unit (DMU) performed well in 2005 with cash collection of \$44.3M. The Lodgement Enforcement Unit (LEU) obtained lodgement of returns resulting in assessments of \$25.4M. These two units were established in 2000-01 by the Institutional Strengthening Project sponsored by the Australian aid agency AusAID.

2006 Revenue Forecast

The total revenue forecast for year ended 31 December 2006 is \$1,164M, a 9% increase over 2005 actual collection.

GHANA

Country Correspondent: Mr Sly Doggu

Administrative Changes

Mr K Adjei-Djan has relinquished his position as Acting Commissioner of Internal Revenue while Mr J F Odartey Blankson, Commissioner of VAT Service, has been assigned additional responsibility as Acting Commissioner of the Internal Revenue Service with effect from August 2005.

The Deputy Commissioner, Operations, Mrs Phyllis D Nartey has proceeded on leave prior to her retirement on 9 May 2006 after 36 years of dedicated service in various capacities. Mr George Adeyiga has been assigned to act as Deputy Commissioner, Operations, with effect from 8 February 2006.

The Acting Deputy Commissioner in charge of Research, Planning and Monitoring, Mr G A Eminsang, has retired from the Service with effect from 30 January 2006. Mr Martni Adane has stepped into his shoes as the Acting Deputy Commissioner, RPM.

Reduction in Tax Rates

Following the 2006 Budget Statement made by the Minister of Finance and Economic Planning, various tax rates have been reduced with effect from 1 January 2006 as follows:

- i) Corporate Tax
Reduced from 28% to 25%
- ii) National Reconstruction Levy
Further reduced as follows:
Part A Companies (Large-size Finance and Insurance companies)
7.5% to 5.5%

Part B Companies (Medium-size Finance and Insurance companies)

5% to 2.5%

Part C Companies

3.5% to 0%

All other Companies

1.5% to 0%

iii) Resident Individual Income Tax

- Tax-free threshold increased from ₵1,800,000 to ₵2,400,000 pa.
- Income bands expanded.
- Top marginal rate reduced from 28% to 25%.

iv) Taxation of Overtime earnings

- Threshold of taxable overtime increased from ₵300,000 to ₵1,200,000 per months at the rate of 2.5%.
- Overtime between ₵1,200,000 and ₵400,000 per month at the rate of 10%.
- Above ₵4,000,000 per month, amount to be added to salary and taxed at the appropriate rate.

v) Minimum Wage

- Tax on minimum wage abolished/waived.
- Excess of up to 5% of minimum wage to be taxed at 2.5% flat.
- Any employee earning above 5% of minimum wage will be taxed at normal rates.

Tax Exemptions

- i) Tax Exemption granted on Capital Gains accruing to companies listed on the Ghana Stock Exchange extended by 5 years to the end of December 2010.
- ii) 5 years tax exemption from company, dividend and capital gains tax for Venture Capital financing companies.

Carry Forward or Losses

- i) Carry over of losses was until now limited to farming, mining and manufacturing businesses. The incentive has been extended to cover agro-processing, tourism and ICT industries.
- ii) Losses from disposal of shares during the tax exemption period for Venture Capital financing companies may be carried forward for 5 years after the exemption period.

Tax Deduction

- i) Financial institutions which invest in Venture Capital financing companies (as subsidiaries) shall

be allowed to deduct an amount equal to the full amount of their investment.

- ii) An individual may deduct any mortgage interest in respect of a borrowing employed in constructing or acquiring residential premises.

LESOTHO

Country Correspondent: Mr Setsoto Ranthoca

1. Legislative Changes and Developments

The Minister of Finance and Development Planning, Dr Timothy Thahane made the following changes which are effective from 1 April 2006, the start of the new fiscal year.

Corporate Tax Rates

- The general corporate tax rate has been reduced from 35% to 25%.
- The rate applicable for manufacturing and commercial farming has been reduced from 15% to 10%.
- A further 0% rate has been introduced for companies exporting 75% or more of their products to outside the Southern African Customs Union (SACU) comprising of Lesotho, Namibia, Republic of South Africa and Swaziland.

Individual Tax Rates and Threshold

- The lower of Lesotho's two tax bands has been increased by 5%. It therefore, means that the first M33 075 will be taxable at 25% while the excess over M33 075 will be taxed at 35% being the top rate for individuals.
- The tax credit available to resident individuals has also been increased by 5% to M2 911 per annum. Effectively individuals will start paying taxes if their income is M11 642 per annum.

Objectives of the Changes

- To align Lesotho with the rest of the Southern Africa Development Community (SADC) and help enhance Lesotho's competitiveness in attracting foreign direct investment. Before the changes the country had one of the highest tax rates in the region.
- To combat transfer pricing and profit shifting schemes by foreign owned companies.
- To encourage private sector growth as part of Lesotho's diversification strategy.
- To help support the textile sector to recover.

Impact of Rates Changes on Tax Revenues

- The reduction in the tax rates has resulted in decreased revenue forecast in the direct taxes. The overall tax cut amounts to 3.2% of the 2005/2006 M922.1 million target.
- Total tax revenue for the coming year 2006/2007 is however, expected to increase by 20% to M4 794.5 million as a result of increases in the indirect taxes.

2. Administrative Developments

Computerisation

- The Income Tax division computerisation has entered its final stage which focuses mainly on training of all staff and rectifying of system errors identified during the testing stage. The system is to go 'live' beginning of May 2006.
- The Lesotho Revenue Authority (LRA) has also introduced its intranet. The main purpose behind the project is to improve communication and provision of information to the internal stakeholders. The key features of the LRA intranet include: daily revenue collection updates, notice board, information on all operating divisions and support units, LRA Board and management decisions, Commissioner General's column, publications and LRA policies.

Corporate Governance

The new Commissioner General is likely to take the position from 1 March 2006 once all the formalities have been finalised.

MALAWI

Country Correspondent: Mr Peter Chikabadwa

Expanding the Tax Base

The MRA is keen on expanding its tax base. To realize this goal it has initiated two projects, namely the Tax Compliance Project and the Taxpayer Data Compliance Project.

Tax Compliance Project

Under the Tax Compliance Project, the Income Tax Division will be carrying out a tax compliance exercise which will run for approximately three months starting in March. The exercise is intended to cover the whole country and will be run from the country's cities namely Blantyre in the South, Lilongwe in the Centre and Mzuzu in the North.

The exercise will involve making physical visits and the major activities in the exercise will be:

- identification and registration of new taxpayers
- verification of the status of taxpayers with debts but with dormant accounts and
- taxpayer education.

While identification and registration of new taxpayers will contribute to the base, it is hoped that verification of the status of taxpayers with inactive or dormant accounts will help in cleaning up the database, which has for a long time included taxpayers who no longer file returns either because they are out of business or they are dead. It is important for these to be removed from the system because otherwise they tend to overstate the actual amount collectible.

Taxpayer education is expected to contribute directly to compliance in terms of registration, filing and payment.

Taxpayer Data Compliance Project

With all the country's revenue divisions now operating under one roof following the establishment of the MRA, for the first time an initiative has been made to take advantage of the current organizational setting. Management set in motion a process of putting in place mechanisms to enable information sharing between the divisions to recover revenue. It is believed that by sharing information, individual divisions will be able to increase their revenue by both broadening their tax bases and by recovering revenue through capturing transactions that would have otherwise not been reported.

The Customs Division which captures import and export data through the ASYCUDA++ system is the major supplier of information to the Income Tax and VAT Divisions, which analyze the transactions to identify new taxpayers and also get leads on and capture unreported transactions. As the VAT and Income Tax registration systems are different, a comparison of the registers is also made by each of the two divisions namely Income Tax and VAT.

The Income Tax and VAT Divisions are also getting and making use of data from external agencies (both government and non-government), especially affiliation records for particular professionals like lawyers, doctors, engineers and architects to identify new taxpayers.

Other Highlights

Capacity Building

Between 6th February and 17th February 2006, selected officers from both the core and support divisions and

departments of the MRA, underwent a Training of Trainers course at the Authority's Institute of Tax Administration in Blantyre.

The course was organized by officials from the US Treasury who are providing technical assistance under the Millennium Challenge Account. It was officially opened by the Commissioner General of the MRA, Mr MJM Phiri on 6th February 2006.

Management believes the course will significantly contribute to the Authority's training capacity.

Record Collection

In January 2006, the Income Tax Division collected MK 3.03 billion, becoming the first Division to pass the MK 3 billion mark in a single month in the history of tax revenue collection in the country. This did not go without the notice of the Commissioner General, who personally congratulated the officers at their Divisional meeting. The Division's target for the year stands at MK 24.6 billion while that for the MRA stands at MK 58.0 billion.

MALAYSIA

Country Correspondent: Madam Asriah Shaari

Malaysia Tax Highlights for 2006

The Malaysian 2006 Budget with the theme 'Strengthening Resilience, Meeting Challenges' was presented by the Rt Hon Dato' Seri Abdullah Badawi on 30th September 2005. To generate greater quality growth in the near term that can contribute towards laying a strong foundation for long term sustainable growth the Budget focused on the following strategies:

- Implementing proactive Government measures to accelerate economic activities
- Providing a business friendly environment
- Developing human capital
- Enhancing the well-being and quality of life of Malaysians

With these strategies as a platform, the proposed amendments to Direct Taxation included:

- **Introduction of Group Relief as Tax Treatment**
Group relief is to be provided to all incorporated resident companies limited to 50% of current year unabsorbed losses to be set-off against the income of another within the same group subject to certain stipulated conditions.

- **Streamlining Tax Treatment for Pioneer Status Companies**

Presently companies enjoying pioneer status are not allowed to carry forward losses and capital allowances incurred during the pioneer period to the post-pioneer period and this treatment does not benefit loss-making pioneer companies. To further enhance the effectiveness of this incentive, it was proposed that accumulated losses and unabsorbed capital allowances incurred by companies during the pioneer period be allowed to be carried forward and deducted from post-pioneer income of a business relating to the same promoted activity or promoted product.

- **Review of Tax Treatment on Losses and Unabsorbed Capital Allowances**

Currently companies are allowed to carry forward their accumulated losses and unabsorbed capital allowances to be set off against their future income. Such treatment is accorded for an unlimited period of time. To discourage companies from taking advantage of loss-making companies, it was proposed that accumulated losses and unabsorbed capital allowances of a company be not allowed to be carried forward in the event there is a change of more than fifty percent in its shareholdings.

- **Tax Treatment on Income of Investment Holding Company**

Currently the income of an investment holding company (IHC), which normally consists of dividends, rental and interests is deemed as passive income and is allowed only twenty-five percent of permitted expenses. To enhance investments by IHCs, it was proposed that the income of IHCs listed on the Malaysia Stock Exchange be treated as business income and its expenses be given full deduction for the purpose of income tax.

- **Extending the Scope of Allowable Expenses for Companies**

To reduce the cost of doing business and enhance corporate compliance it was proposed that expenses incurred on audit fees by companies, which are currently not eligible for deduction for tax purposes, be deemed as allowable expenses for deduction in the computation of income tax.

- **Review of Tax Treatment on Small Value Assets**

Currently qualifying expenditure on assets is given deduction in the form of capital allowances over a period of time. To simplify the computation of

capital allowances for small value assets it was proposed that capital allowances on qualifying expenditure on such assets be given 100% allowance for assets of value not exceeding RM1,000 each. However, the total value of such assets are capped at RM10,000.

- **Tax Treatment on Estimated Losses of Low Cost Housing Projects**

Property developers are required by the Government to undertake low cost housing projects which are often not profitable for the developers. To encourage property developers to build more low cost houses it was proposed that the estimated losses of low cost housing projects, which are currently not allowed to be set off against estimated profits of other property development, be allowed as a set off, in the preparation of estimates of tax payable for the current year.

- **Extending the Scope of Industrial Building Allowance**

Currently, only specific promoted buildings are given Industrial Building Allowance (IBA). Buildings occupied by Multimedia Super Corridor status (MSC) companies in Cyberjaya (Malaysia's version of the Silicon Valley) are not eligible for IBA. To encourage the construction of more buildings in Cyberjaya for use by MSC status companies, it was proposed that IBA for a period of 10 years be given to owners of new buildings occupied by MSC status companies in Cyberjaya.

- **Tax Incentive for Industrialised Building System (IBS)**

The use of IBS needs to be promoted in the local construction industry as a key construction technique. This system will enhance the quality of construction, create a safer and cleaner working environment as well as reduce the dependence on foreign workers. Expenses for the purchase of moulds to manufacture IBS components are given capital allowances for 8 years. To promote the use of IBS in the construction industry, it was proposed that Accelerated Capital Allowance (ACA) be given on expenses incurred on the purchase of moulds used in the production of IBS components. The ACA is to be fully written off within a period of 3 years.

- **Review of Tax Exemption on Royalty from Artistic Works**

Currently, an individual resident who receives

royalty income or payment from the publication of, or the use of or the right to use, any artistic works (other than any original painting) and recording discs or tapes, is given income tax exemption up to RM6,000 a year. To further encourage Malaysians to produce artistic works, it was proposed that income tax exemption on royalty or payment from publication of, or the use of or the right to use, any artistic works (other than original paintings) and recording discs or tapes be increased to RM10,000 a year.

- **Enhancing the Competency of Tax Agents**

Currently, a person who has a degree and at least five years experience in tax and can be considered for approval by the Minister of Finance to be a tax agent. To enhance the competency of tax agents, it was proposed that anyone who wishes to offer tax services be licensed under the Income Tax Act.

Overall the 2006 Budget is mildly expansionary and would assist in pushing growth. The financial position of the Malaysian Federal Government is projected to improve further and strengthen in 2006, on account of a more favourable economic outlook, particularly for greater private sector activities. Consistent with the thrusts of the Budget 2006, allocation is focused on accelerating economic activities, providing a business friendly environment, enhancing the well being and quality of life of the people and developing human capital. In addition, attention is also given towards improving public sector service delivery and ensuring national security.

NEW ZEALAND

Country Correspondent: Ms Kate Lukey

Meeting the needs of young taxpayers

Inland Revenue New Zealand has developed an innovative new website called “What’sTax” aimed at young people starting their first job. The site, www.whatstax.govt.nz, was launched in August 2005 and aims to give young people a resource to help them understand their basic tax obligations when they start work.

“What’sTax” is very much in line with Inland Revenue’s strategic plan which focuses on helping make it easier for people to comply with their tax obligations. Educating young people and encouraging voluntary compliance is a strong message Inland Revenue New Zealand wants to send to the community.

“We want to increase the level of understanding amongst this group and introduce compliance messages early. The site has also given our field teams a really useful and modern tool to promote to young people,” Inland Revenue Design Advisor George Vaaulu says.

Providing a resource using language young people can understand, via a website designed specifically to appeal to them, creates a positive relationship with Inland Revenue from the start.

“What’sTax?” provides answers to the basic questions people have about tax. There are links throughout the site back to the main Inland Revenue site which answer the more detailed questions, as peoples’ needs become more complex.

Some of the information featured on the site includes:

- What an IRD tax number is, and how to apply for one.
- Understanding what a tax code is, and choosing the right one.
- How the money is used to pay for the public services that we rely on in New Zealand such as health, education and policing.

Young people were involved early in the design stages of the site to make sure it was both an appealing and useful tool. Initial feedback on the site has been really positive.

“It’s an innovative step for the department and a great way to build positive relationships with our future customers,” Inland Revenue National Advisor Geoff Oldham says.

Project brings benefits for customers and costs

An ever-present challenge facing modern tax administrations everywhere is balancing the prudent use of government funding with efficient delivery of services to taxpayers and social policy customers. In an environment where voluntary compliance is essential in maintaining the flow of funds to the Treasury, public perception and confidence in the tax administration plays a critical part. We are all aware that people need to know that public monies are used as effectively and efficiently as possible.

This was one of the drivers behind New Zealand Inland Revenue Department’s print supply project, which looked for a more efficient way to manage the whole print supply chain. This article discusses components of Inland Revenue’s print supply chain, insourcing and outsourcing options, benefits achieved and lessons learnt throughout the project.

Improving the Print Supply Chain

Inland Revenue's department-wide print supply chain includes:

1. Management of stationery inventory
2. Print design services (editing and design)
3. Print procurement (best price print suppliers)
4. Warehouse and distribution (logistics)
5. Personalised outputting (bulk outputs of personalised tax statements, requests for payment etc.)
6. Invoicing and payment processing
7. Communication channels.

The print supply chain project brief covered the first four areas – managing inventory, print design and procurement, and distribution logistics.

In 2003 these activities were all carried out in-house. Inland Revenue's request for proposal (RFP) process brought all four elements to the market, with the aim of securing a single provider for an integrated service. The intention was that the chosen provider would either provide the specialist services required directly, or facilitate the delivery of service through a third party.

A single company able to manage the integrated service was appointed in June 2003. After transition, the in-house print design unit was disestablished, although a small editing facility was retained.

From mid-2003 to present day Inland Revenue continues to experience benefits and achieve improvements in efficiency by using this single provider. The company, in addition to providing design and procurement services, contributes to better management of the relationship between design, warehouse and the external provider of output printing.

One key result is better service delivery to customers and better planning for managing customer enquiries, because there is more certainty in getting products such as tax returns, personal tax summaries and payment requests out to customers during the peak tax season.

Lessons learnt

The project implementation review has highlighted several key issues in moving from an in-source to an outsource provider. Lessons learnt include:

1. A robust induction process for the external service provider is required to ensure that knowledge around the department's decision-making processes is transferred. This is essential to ensure that changes through new initiatives are implemented effectively.

2. The new service provider will introduce initiatives for improved processes, standards and procedures. The culture of the department has a real impact on the way these changes are introduced, and the service provider needs the department's assistance to ensure they are successful.
3. The intention of the contract was for the service provider to identify and drive initiatives to deliver efficiencies. However it became clear that such initiatives could not be developed and carried out in isolation from the business. Consequently unplanned business resources were drawn into this work with the service provider.

The Future

The print supply chain project has provided very useful information for Inland Revenue. As we progressed through implementation, much discussion was generated on the entire print supply chain and how it links together. Those discussions have highlighted what we still have to learn about the print supply chain.

There are questions like:

1. Which customer activities generate what print output?
2. What is generating increasing output volumes year by year?
3. What other impacts do print supply chain outputs have on business units that deal with frontline customer contacts?

Such questions have identified the need for a strategic and operational plan for the entire print supply chain that will look right across the department and identify additional opportunities for efficiencies. A relationship manager for the print supply chain to oversee and take accountability for the entire process is an option.

Inland Revenue is continuing to explore these opportunities.

SINGAPORE

News Despatch by: Ms Sunita Kapoor

Income Tax Treatment on Financial Assets and Liabilities

1. With effect from 1st January 2005, companies with annual periods beginning on or after 1st January 2005 have to comply with Financial Reporting Standard 39-Financial Instruments: Recognition and Measurement (FRS 39) for accounting purposes.

2. The FRS 39 was issued by the Council on Corporate Disclosure and Governance (“CCDG”) in May 2003. The objective of the FRS 39 is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.
3. With the mandatory adoption of the FRS 39 for accounting purposes, companies will now have to reflect their financial assets and liabilities at market values in their financial statements. To minimise tax adjustments, the income tax treatment of financial assets and liabilities has been changed so as to be closer generally to the accounting treatment.
4. The Electronic Tax Guide titled “Income Tax Implications Arising from the adoption of FRS 39- Financial Instruments: Recognition & Measurement” available at www.iras.gov.sg contains the details on the change to the income tax treatment of financial assets and liabilities.

35th SGATAR Meeting

1. The 35th Meeting of the Study Group on Asian Tax Administration and Research (“SGATAR”) was held at the Swissotel the Stamford, Singapore from 21st to 24th November 2005. The event was organised by the Inland Revenue Authority of Singapore.
2. Delegates representing the 13 SGATAR members, namely Australia, the People’s Republic of China, Hong Kong SAR, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Chinese Taipei, Thailand and the Socialist Republic of Vietnam attended the meeting.
3. In addition observers from the Asia-Oceania Tax Consultants’ Association, Negara Brunei Darussalam, Cambodia, Macao Special Administrative Region, Papua New Guinea and the Ministry of Finance of Singapore were also present during the meeting.
4. Working groups were formed to discuss 3 topics namely Cost Efficiency in Tax Administration, Relationship with Taxpayers and Tax Agents and Tax Treatment of Benefits-in-Kind.
5. Chaired by Mdm Rosnah binti Tahir of Malaysia, the Working Group on Cost Efficiency in Tax Administration found that both insourcing and outsourcing can contribute equally to the delivery of more efficient and effective practices within tax administrations. The end result will also be higher

quality of services for their customers and stakeholders. However, the issue of the duty to maintain the confidentiality of taxpayer information is a restrictive force against outsourcing.

6. Chaired by Mrs Chia-Tern Huey Min of Singapore, the Working Group on Relationship with Taxpayers and Tax Agents found that strategies have been put in place in all member jurisdictions to change and improve the quality of such a relationship. The spectrum of these strategies include changes in policy, an articulation of mission, changed administrative practices, a change in staff perspective and increased investment in IT orientation and services.
7. Chaired by Mr Takuo Komori of Japan, the Working Group on Tax Treatment of Benefits-in-Kind found that all SGATAR members are facing similar challenges in taxing benefits-in-kind, particularly on how to value them in an equitable and realistic manner. It was concluded that it is important to establish clear definitions of what constitutes a benefit to an employee and to ensure that they should not give rise to significant compliance costs for taxpayers as well as enforcement costs for the tax authority.

Avoidance of Double Taxation Agreement with the Republic of Fiji Islands

A new Agreement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income was signed on 20th December 2005 between the Government of the Republic of Singapore and the Government of the Republic of Fiji Islands. The new Agreement will enter into force after ratification by both countries.

With the signing of this Agreement, Singapore has signed comprehensive Avoidance of Double Taxation Agreements with 55 countries.

SOLOMON ISLANDS

Country Correspondent: Ms Jenny Overland

2005 In reflection

2005 was a successful year for Solomon Islands Inland Revenue Department (IRD):

- total revenue collected of \$364.6 million increased by \$65.5 million or 21.9% over the revenue collected in 2004, and was 18.8% higher than forecast;

- changes to PAYE laws mean that from 2007 most salary and wage earners will no longer need to file a tax return;
- a new computer system (Revenue Management System - RMS) was introduced that will assist in modernising business processes and improving compliance. The first step was the assignment of a single taxpayer identifier number (TIN) to taxpayers;
- a large taxpayers unit was created and a new Customer Service Centre was opened;
- a successful outreach and community support program was conducted; and
- a large number of staff participated in either full time or part time study.

In late 2005 the Government released a discussion paper *A Better Tax System for Solomon Islands*. This paper outlined a range of tax reform proposals including the introduction of a VAT. Progress on this initiative will depend on the incoming Government after the election due to be held in April 2006.

2006 – Growing our tax administration capability

2006 presents many new challenges as IRD continues to grow its administrative capability. In 2006, IRD aims to collect an estimated \$386.1 million, 13.2% more than 2005.

The IRD annual planning process identified four key focus areas for 2006:

- Improve voluntary compliance
- Develop the tax system
- Develop organisational capacity
- Develop IT systems

IRD is also in the process of developing a strategic plan for 2006-2008 that will underpin a range of administrative reforms and provide a clear picture of the longer term growth of the organisation and measures for assessing performance.

Management changes

To support the progress of IRD in 2006, the management team has been restructured. Five advisers from Australia and New Zealand under the Regional Assistance Mission to Solomon Islands (RAMSI) are providing support to the local staff.

Ronnie Piva remains Acting Commissioner in 2006. In late 2005, **Michael Hewetson** from New Zealand joined IRD as Deputy Commissioner on a 2 year placement. Michael brings a wealth of experience to the

Department having previously headed up Internal Audit, Finance and Processing operations in NZ Inland Revenue. Michael has considerable experience as an investigator and has managed regional delivery of audit, services and debt collection for 8 years.

Large and Small Business & Employment sections will be led by Assistant Deputy Commissioners **Eric Saelea** and **Mark Nipperus** (RAMSI). Corporate Services Section is headed by Assistant Deputy Commissioner **Sam Tolirum**. Audit Section is led by Assistant Deputy Commissioner **Gary Calcott** and senior auditor **Narash Lala** (both with RAMSI). Tax Reform projects are led by Assistant Deputy Commissioner **Roy Keleni** and **Jenny Overland** (Taxation Administration Reform Adviser – RAMSI).

After almost two and a half years in Solomon Islands **John Hayes** finished his time with the Division on 9 February. John made significant contributions to the development of IRD with a particular focus on the PAYE changes and introduction of the new computer system.

SOUTH AFRICA

Country Correspondent: Mr Lincoln Marais

Discussion Paper on Tax Avoidance and the South African Income Tax Act

South Africa has been facing a growing problem with increasingly complex and sophisticated forms of impermissible tax avoidance, particularly by certain corporate taxpayers. The South African Revenue Service (SARS) and the National Treasury (NT) therefore recently reviewed the effectiveness of its applicable legislation on impermissible tax avoidance contained in Section 103 of the Income Tax Act (Act No. 58 of 1962). As a consequence, SARS and the NT released a discussion paper on 3 November 2005 on tax avoidance for public comment.

A key question the paper raises is the distinction between tax evasion, impermissible tax avoidance and tax planning. In brief, tax evasion is based on the non-disclosure of information to the tax authorities to evade tax; impermissible tax avoidance involves contrived arrangements that are designed to exploit perceived loopholes in the tax laws; while tax planning is based on the enjoyment of an attractive option in the tax legislation while suffering both the economic and legal consequences that flow from that option.

Experience both in South Africa and internationally has shown that the harm caused by impermissible tax avoidance is varied and pervasive. Short-term revenue

loss is clearly the most immediate and obvious problem, but it is by no means the only problem.

Trends in tax avoidance have been driven by several factors including globalization, deregulation (particularly in the financial markets), rapid advances in computer and telecommunications technology, and a new emphasis by many professional firms on the development and marketing of so-called "tax products".

The discussion paper recognizes that any attempt to strengthen the general anti-avoidance rule brings with it legitimate countervailing concerns. Chief among them are increased uncertainty for taxpayers, the inhibition of legitimate and/or innovative transactions, and perhaps most importantly, what has been described as an "uneasy tension" between the general anti-avoidance rule and the rule of law.

In light of these issues and concerns, the discussion paper proposes several major changes, which would, among others, introduce a non-exclusive set of factors to be considered in determining abnormality for schemes in the context of business and create a rebuttable presumption of "abnormality" where certain of those factors are present; change the existing subjective requirement to an objective determination based upon the relevant facts and circumstances; authorize the Commissioner to apply Section 103 in the alternative; and introduce new penalties for scheme promoters and for taxpayers that substantially underreport their income. The proposed amendments are intended to create a more effective deterrent to impermissible tax avoidance and to do so as fairly and efficiently as possible.

The discussion paper released for public comment is available from the SARS website (<http://www.sars.gov.za>). With these considerations in mind, SARS looks forward to a healthy and constructive dialog on the best way forward. An extended period for comment, running to 31 January 2006, had been provided to facilitate this dialog.

UNITED KINGDOM

Country Correspondent: Ms Jas Sahni

Major Tax Avoidance Schemem Closed Down

A major tax avoidance scheme has been closed down in a legislative move announced on 20 December 2005. The scheme was disclosed to HM Revenue & Customs (HMRC) under the disclosure regime in Finance Act 2004 and would have sought to artificially generate

losses by buying and selling the right to dividends on shares. It sought to exploit a perceived weakness in Section 730 Income and Corporation Taxes Act (ICTA). This section deals with the sales of a right to a dividend on shares where the shares themselves are not sold (a transaction known as dividend stripping). Subsection 3 provides where the right has been bought and then sold on before receipt of the dividend, the proceeds of the sale are not regarded as income of the seller. It has been argued that this exemption applies to a financial trader which nevertheless claims to deduct the cost of the strip in calculating its profits and losses for tax purposes. This has the effect that the financial trader makes a loss for tax purposes approximately equal to the cost of the strip.

Subsection (3) of Section 730 will be repealed and this repeal will be effective in relation to any sale, transfer or other realisation of a right to receive a dividend taking place on or after 20 December 2005.

Tackling Avoidance-Manipulation of Film Tax Reliefs

The UK Government will bring forward legislation, effective from 20 December 2005, to counter an avoidance scheme which seeks to side-step the current anti-avoidance rules preventing individuals exiting from film partnerships free of tax. The scheme attempts to exploit the film tax relief currently provided by Section 42 of Finance (no. 2) Act 1992 and Section 48 of Finance (no. 2) Act 1997 which is due to be replaced on 1 April 2006. The replacement relief will be targeted exclusively on film production companies and will not be available to investment partnerships and other financial intermediaries.

The changes will ensure that relevant partners incur a charge to income tax when they dispose of all or part of their rights to profits arising from a relevant trade in certain circumstances, whether or not they receive consideration for disposing of those rights. A relevant trade will be defined as one where film tax reliefs have been used in computing the trading profits or losses. The new rules will apply to individuals in certain partnerships where tax relief has been derived from trading losses generated by film tax reliefs.

Record Receipts for HM Revenue & Customs

HM Revenue & Customs (HMRC) accrued record receipts from taxes, duties and other revenue of more than £379bn in 2004/05, the department's first annual report revealed.

In the last financial year - which ended with the Inland Revenue and HM Customs & Excise merging to form HMRC - compliance work helped ensure that net VAT accrued receipts for 2004/05 increased by £3bn (4.2%) to just over £74bn, while income tax cash receipts increased by £9bn (8%) to £136bn due mainly to growth in incomes.

The report notes that since it was created on 18 April 2005, HMRC has brought together around 100,000 employees to form a single department responsible for more than 20 different taxes and payments, as well as protecting the UK's frontiers and facilitating trade across its borders.

The HM Revenue & Customs 'Annual Report 2004/05 and Autumn Performance Report 2005' was presented to Parliament on 19 December 2005. Copies of the report are available from the HMRC website at <http://www.hmrc.gov.uk/about/hmrc-report2005.pdf>

ZAMBIA

Country Correspondent: Mr Pumulo Akapelwa

Proposed Legislative Changes

The Minister of Finance and National Planning delivered his budget speech for the year 2006 on Friday 3rd February 2006 in which several proposals to amend the Income Tax Act and Mines and Minerals Act were tabled. The following are the main tax changes proposed to take effect from 1st April 2006.

- ❖ Pay As You Earn (PAYE)—Increasing the threshold of exempt income from K3,360,000 to K3,840,000 per annum and also adjust the tax bands for individuals as shown below:

2005/2006 Income Tax Year	2006/2007 Income Tax Year
First K3, 360,000 @ 0%	First K3, 840,000 @ 0%
Next K8, 640,000 @ 30%	Next K9, 858,240 @ 30%
Next K48, 000,000 @ 35%	Next K54, 768,000 @ 35%
Balance at 37.5%	Balance at 37.5%

- ❖ **Exempt dividend income earned by individuals on shares listed on the Lusaka Stock Exchange (LUSE) from tax.**

The measure is aimed at encouraging individuals to invest in the equity market and also to enhance growth of the capital markets as an alternative investment vehicle.

- ❖ **Allow environmental restoration costs made by mining companies during the economic life of the mine to be deductible for tax purposes.**

The aim of this measure is to allow mining entities to claim deductions for costs incurred on environmental restoration and rehabilitation as required of them by provisions of the Mines and Minerals Act to contribute towards the Environmental Protection Fund.

- ❖ **Extend the provision of tax incentives to all mining companies involved in mining of base metals other than copper and cobalt.**

This measure seeks to widen the application of these incentives to include those companies carrying out mining operations in the production of base metals thereby levelling the playing field for all large-scale mining holders.

Currently mining companies engaged in the mining of copper and cobalt enjoy the following incentives:

- Corporate tax rate at 25 per cent
- Dividends, interest, royalties and management fees at 10%
- Mineral royalty at 0.6 per cent of gross sales
- Carry forward of losses for 10 years
- ❖ **Provide for indexation of carry forward of losses and capital allowances for mining companies holding large scale mining licences.**

This measure seeks to allow mining companies to maintain real tax values of their capital assets and losses carried forward.

In this case indexation is referring to the automatic linkage between losses and capital allowances and the exchange rate of the kwacha to the United States Dollar.

- ❖ **Reduce the upper corporate tax rate for banks from 45 per cent to 40 per cent.**

The measure seeks to allow mining companies to maintain real tax values of their capital assets and losses carried forward.

In this case indexation is referring to the automatic linkage between losses and capital allowances and the exchange rate of the Kwacha to the United States Dollar.

- ❖ **Exempt dividends from tax for a period of 5 years from the date of first declaration for companies engaged in the assembly of motor vehicles and bicycles.**

This measure will provide incentives to companies wishing to invest in the motor vehicle and bicycle assembly industry in the country. This will enhance local value addition and will create employment.

- ❖ **Provide tax incentives to companies that will operate in the priority sectors under the proposed Zambia Development Agency Act as follows –**
 - a) Compute company tax at current rates on 50 per cent of the profits earned for a period of 5 years starting from the first year profits are returned.
 - b) Exempt dividends from tax for a period of 5 years from date of first declaration; and
 - c) Allow capital expenditure on improvement or for the upgrading of infrastructure to qualify for improvement allowance of 100 per cent of such expenditure.
- ❖ **Reduce the upper corporate tax rate for banks from 45 per cent to 40 per cent**

This measure is aimed at giving relief to the banks in order for them to have enough resources for onward lending to the private sector for investment.
- ❖ **Compensating Measures**
 - a) **Introduce a withholding tax at the rate of 45 per cent on payment to suppliers of goods and services who do not have a tax clearance certificate;**
 - b) **Exempt suppliers of goods and services from providing a tax clearance certificate if a transaction is K200, 000 or less; and**
 - c) **Introduce regulations that will empower the Minister of Finance and National Planning to review the threshold per transaction.**

This proposal seeks to allow such persons, partnerships, institutions, organisations or associations to transact with a supplier of goods or services even without the production of a tax clearance certificate, provided withholding tax rate of 45 per cent is applied. This is not final tax and may be claimed later on submission of tax return.

It further seeks to provide a threshold below which a tax clearance certificate will neither be required nor withholding tax applied.

Housekeeping Measures

- ❖ **Provide for a definition of permanent establishment in the Income Tax Act**

In order to align our legislation to international best practice, the measure will define and clarify what constitutes a permanent establishment. This definition is in line with the definition provided in the OECD model on double taxation.

This measure seeks to facilitate the administration of international taxation.
- ❖ **Amend section 66B of the Mines and Minerals Act to provide for –**
 - a) Due dates for submission of monthly mineral royalty returns. The due date is the 14th of the month following the month of sale.
 - b) Due dates of payment of mineral royalty. The due date for the payment of mineral royalty is the 14th of the month following the month of sale.
- ❖ **Amend the Income Tax Act so as to incorporate the following income tax incentives that are currently under the SEDB Act –**
 - a) Exempt micro and small enterprise from income tax for –
 - i) The first three years of operations for an enterprise operating in an urban area.
 - ii) The first five years of operations for an enterprise in a rural area.

Administrative Changes

Corporate Structure

There have been changes to the corporate structure of the Zambia Revenue Authority with the introduction of a new Division of Corporate Services. The Commissioner Corporate Services oversees the following directorates –

- Administration
- Human Resources, and
- Legal.

The Commissioner Corporate Services reports directly to the Commissioner General.