



**CARIBBEAN
POLICY
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INSTITUTE**

**R164
SEPTEMBER 2016**



IMPROVING TAX COMPLIANCE IN JAMAICA



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Part of this publication is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents are the sole responsibility of CaPRI and do not necessarily reflect the views of USAID or the United States Government.

ACKNOWLEDGEMENT

This study was made possible with the support of the United States Agency for International Development (USAID), through the programme for Strengthening Public Financial Management in Latin America and the Caribbean (PFM-LAC).

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CaPRI's research and dissemination work is supported by the following socially responsible corporations:



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1. OVERVIEW

The purpose of this study is to identify ways to improve tax compliance in Jamaica. In order to do so, a survey of literature in tax compliance was conducted to ascertain the techniques that have and have not been working in other countries. Recent reforms implemented by the tax authority in Jamaica, Tax Administration Jamaica (TAJ), were then identified and compared with international best practice. The next step was to conduct a survey of businesses to determine how knowledgeable the public is about the reforms that have been taking place and whether or not they are making use of the new services that have become available. The report therefore provides information which may be useful for educating the public on how to comply with paying

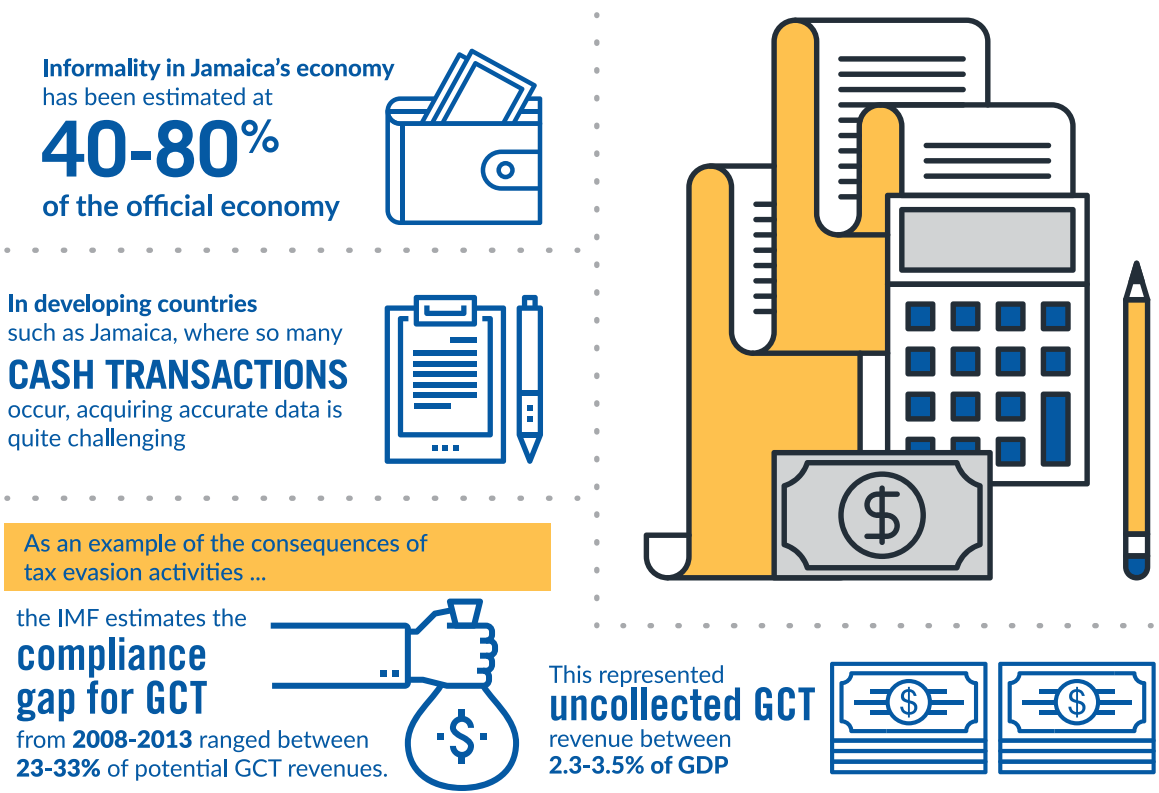


their tax obligations. It also provides some information on how to move towards a modern tax administration regime and thereby outlines strategies for improving the performance of tax administration in the future.

Tax compliance can be defined generally, as adhering to all the laws of the country as it pertains to the paying of taxes. More specifically, it involves “taxpayers’ willingness to comply with tax laws, declare correct income, claim the correct deductions, relief and rebates and pay all taxes on time” (Palil and Mustapha, 2011: 558). Implicit in tax compliance is a certain ‘willingness’ on the part of the taxpayer to do what is expected of him/her by law. While there are certain enforcement measures that tax authorities can take to ensure that taxpayers file and pay all the taxes for which they are liable, in recent years there has been a strong emphasis on voluntary compliance. The Internal Revenue Service (IRS) in the United States views tax compliance as taxpayers filing “accurate, timely, and fully paid returns without IRS enforcement efforts” (Jackson and Millivan, 1986). Modern approaches to increase voluntary compliance have involved improving tax services offered by the tax authorities and educating the public on their obligations. The TAJ recently embarked on a compliance plan in which it targets various aspects of compliance, including registration, filing, payment, and reporting. Important to all these facets of tax compliance is the fact that citizens must be aware of the tax laws in order to, in addition to willingness, be able to comply with them.

One of the main challenges when trying to measure and ensure compliance is the informality of a large share of economic activity in Jamaica - businesses which operate without being registered. In Jamaica. There is a high incidence of unregistered companies. These companies do not report their income to any authority and do not file or pay taxes. Previous estimates of the scale of informality in the Jamaica economy have put it between 40 and 80 percent of the official economy (Torero et al., 2006; Witter and Kirton, 1990). Significant levels of informality among businesses have implications for revenue collection and enforcement costs.

Another means of non-compliance is the underreporting of income. This may take place at the individual level whereby some persons may have second or third jobs for which their income is not taxed at source. They may feel that since taxes are being deducted at their main job, they do not need to report any additional income. Underreporting also occurs among businesses. A firm may indeed be registered and it may file or pay taxes but may report a lower level of turnover or profit, report an inaccurate number of paid employees, or underreport the wages paid to these employees. It may also conduct transactions ‘off the books’ by making payments in cash which cannot be traced easily by tax officials. It is difficult and costly for tax authorities to verify whether or not the reported amounts are correct. In developing countries such as Jamaica, where so many transactions occur on a cash basis, acquiring accurate data is quite challenging. As an example of the consequences of tax evasion activities, the IMF estimates that the compliance gap for the General Consumption Tax (GCT) between 2008 and 2013 ranged between 23 and 33 percent of potential GCT revenues. This represented uncollected GCT revenue measuring between 2.3 to 3.5 percent of GDP (Ueda and Thackray, 2015). Trying to detect evasion through audits and inspections can be expensive and so strains the resources of tax administration departments.



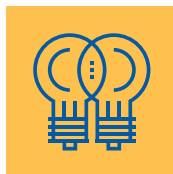
While some businesses may intentionally try to avoid paying taxes, there is also the issue that firms, especially small and/or new ones, may not be aware of all their tax obligations. There may be businesses that are desirous of being tax compliant and who think they are being compliant but in actuality, they are not following all the tax laws. This underscores the importance of tax education and having a tax process that is simple and easy to follow. It is the taxpayers' responsibility to make sure that they are aware of all their obligations. However it is in the tax authority's interest to ensure that citizens are educated about all their tax responsibilities and are able to comply.

The challenge is to provide incentives for individuals and firms to be compliant. In order to identify appropriate incentives, a review of recent best practices in the area of tax compliance is conducted. The purpose of the review is to identify new measures that have been successful in improving compliance in other countries. These best practices and lessons learnt are presented in Section 2. Section 3 discusses various reforms that have been introduced by the TAJ in the past five years in an attempt to increase compliance. We discuss how these reforms compare with international best practices. In Section 4, we present the results of an island-wide survey of firms, looking at the extent to which they are aware of the recent reforms and how their behavior and general attitude towards compliance has been influenced. Section 5 brings together all the data collected during this study and presents an overall analysis on how the recent reforms have affected compliance. We conclude by outlining potential measures to improve Jamaica's tax performance.



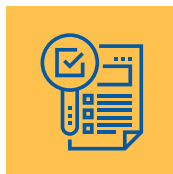
SECTION 2

In this section we present 'best practices' and lessons learnt in improving tax compliance in other countries.



SECTION 3

Discusses various reforms that have been introduced by the TAJ in the past 5 years in an attempt to increase compliance. We discuss how these reforms compare with international best practices.



SECTION 4

We present the results of an island-wide survey of firms, looking at the extent to which they are aware of the recent reforms and how their behavior and general attitude towards compliance have been influenced.



SECTION 5

Brings together all the data collected during this study and presents an overall analysis on how the recent reforms have affected compliance.

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2. INTERNATIONAL BEST PRACTICES IN TAX SERVICES TO ENCOURAGE COMPLIANCE

The tax compliance literature is based on two schools of thought – the coercive approach and the persuasive approach. The coercive approach, otherwise called the deterrence or stick-based approach, encourages tax compliance through civil penalties and tax audits (Akhand, 2012), instilling harsh penalties for non-compliance in order to “scare” taxpayers into compliance. Conversely, the



persuasive approach—also called the collaborative, cooperative or carrot-based approach—induces tax compliance by influencing tax morale through increasing taxpayer services, simplifying the laws that govern the paying of taxes and through enhanced mutual understanding (Akhand, 2012). Akhand (2012) uses analysis of survey data and interviews to show that a mixture of the two approaches is more effective than using just one.

Bangladesh provides an interesting case study as to the effectiveness of the combination of these measures in achieving tax compliance. Akhand (2012) examines how various coercive and persuasive instruments have been able to induce tax compliance among corporate taxpayers in Bangladesh. The coercive instruments looked at were: tax penalty¹, tax audit, imprisonment and marginal tax rate². The persuasive policy tools examined were: taxpayer service, simplified tax law and mutual understanding³. Akhand (2012) found the coercive approach to be the more dominant of the two. However, combining both techniques was found to be even more effective than when each was used separately.

While the ideal tax system would entail a combination of both kinds of measures, coercive instruments such as penalties and audits involve considerable costs for tax administrations. Tax administrations aim to optimize tax collections while minimizing administration costs and taxpayer compliance costs (Okello, 2014). Okello (2014) argues that the most cost-effective systems of collecting taxes are those that encourage most taxpayers to voluntarily comply, leaving tax authorities to focus their enforcement efforts on a more limited number of tax evaders. Tax administrations can influence the likelihood of a taxpayer being willing to voluntarily comply by:

1. Adopting a service-oriented attitude toward taxpayers, educating and assisting them in meeting their obligations;
2. Creating strong deterrents to non-compliance through effective audit programs and consistent use of penalties; and
3. Being transparent and being perceived by the public as honest, fair and even-handed in its administration of the tax laws (Okello, 2014).

Voluntary compliance can be best achieved through a self-assessment system (SAS). Under SAS, taxpayers calculate and pay their own taxes without the intervention of a tax official (Okello, 2014); therefore, there is greater responsibility placed on the taxpayer to adequately assess their tax liability. Official assessments are only done if there are discrepancies that arise from tax audits or a taxpayer fails to file a return. However, even though this assessment system has worked in many developed economies such as Japan and the United States, the SAS has widely failed to fulfil the revenue and compliance expectations in developing countries. For instance, in Bangladesh, where it was first introduced in 1981, it instead increased under-reporting and tax evasion (Chowdhury, 2014). Currently in Bangladesh, as in several other developing countries (Jamaica included), the tax system is a mix of self-assessment and official assessment.

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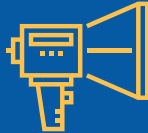
In developing countries, several hindrances to tax compliance make self-assessment rather problematic. Chowdhury (2014) identifies some of them: in the case of Bangladesh: complex tax systems, obsolete tax laws, uneven distribution of the tax burden, inefficient tax administration, inadequate tax reforms, excessive tax incentives, and tax evasion. Anyaduba, Eragbhe and Kennedy (2014) also agree with these hindrances as it relates to Nigeria and stress the importance of public awareness and education

1 A tax penalty is a punishment for non-payment of taxes. It usually involves paying a fine.
2 The marginal tax rate is the percentage of tax paid on each additional dollar of income.
3 Mutual understanding is the expectation that everyone will obey the tax laws.


programs and having a robust tax administration framework in place. Chowdhury (2014) goes a step further and also proposes systematic reform and a mutual understanding between the State and its taxpayers as recommendations for addressing these problems and increasing tax compliance in Bangladesh and other emerging economies like Pakistan and India. Jamaica has also adopted such a strategy with extensive tax reforms and a massive public education campaign.

Japan was one of the first countries to adopt a self-assessment system in its tax regime in 1947 (Sarker, 2003). At the time the Japanese SAS identified four pillars of success for improving tax compliance. They were public relations, tax education, tax consultation, and guidance and examination. These pillars tie back to one of the fundamental ways of promoting voluntary compliance: “adopting a service-oriented attitude toward taxpayers, educating and assisting them in meeting their obligations.” While the SAS is problematic for developing countries, there are circumstances under which it can work and should be encouraged. Okello(2014) shows that these include the existence of clear and simple tax laws, good service to taxpayers, simple filing and payment procedures, simple filing and payment procedures etc. In recent years, improvements in taxpayer services and information from the tax authorities have been endorsed as cost-effective ways of promoting tax compliance, particularly amongst cash-strapped countries like Jamaica.

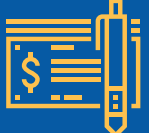
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Public Relations



Tax Education



Tax Compliance



Guidance & Examination

2.1 TAXPAYER SERVICES

Modern tax administrations should adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their tax obligations (Okello, 2014). It is therefore important that taxpayers receive clear information describing their obligations, the taxes applicable, and when and where they are payable. To this extent, taxpayers need to be informed about changes to the laws and they should have easy access to information and tax forms. Tax administrations should also be equipped to provide taxpayers with advice and information through, for example, call centers, web sites and public seminars (Okello, 2014). A review of the literature pertaining to the most common practices by tax administrations globally reveals the following as the most effective in improving tax compliance and revenue collection.

Taxpayer segmentation

USAID (2013) shows that the international trend is for tax administrations to separate taxpayers into major taxpayer segments (e.g., large businesses, medium-sized enterprises, small and micro enterprises and individuals). This allows the authorities to better understand and develop organizational structures and compliance strategies that best address their particular characteristics (Okello, 2014). The most common segmentation strategy has been to establish a Large Taxpayer Office (LTO) to provide services to the relatively small number of major taxpayers who contribute the bulk of tax revenues. This approach makes sense from an administrative cost-benefit point of view as it allows the tax authority to maximize revenue collection at considerably lower costs (World Bank, 2007). More recently, some countries have even established Medium Taxpayer Offices (MTOs) to concentrate on the needs of that particular segment.

With respect to small taxpayers, the most populated taxpayer segment, developing countries traditionally have not put much emphasis on facilitating tax compliance among this group (World Bank, 2007) but this trend is changing. The common practice now is to introduce presumptive tax measures⁴ which allow small taxpayers to opt to pay, for example, a standard assessment based on occupation; an estimated assessment based on income activity; a minimum tax; or simple turnover tax, rather than be subject to more complex income tax requirements (USAID, 2013). According to the USAID report, presumptive taxation for small taxpayers has gained a lot of traction in recent years because it addresses concerns of both the government and the taxpayer. It curbs widespread non-compliance without employing excessive government resources and provides taxpayers with a simplified option for tax compliance without requiring full financial transparency (USAID, 2013).

The Indian state of Bihar, one of that country’s poorest, provides a success story where taxpayer segmentation and a presumptive tax scheme for small businesses was recently implemented with extraordinary results. Tax reforms in Bihar in 2010 separated

⁴ In a presumptive tax regime, tax liability is computed using means other than the usual taxpayer accounting rules. This is usually done to simplify tax computations for small taxpayers or taxpayers in specific sectors (USAID, 2013).

taxpayers into two groups: small and medium to large. Among other measures, the government introduced a flat tax scheme for sales taxes from small businesses with turnover below a certain threshold. It also replaced quarterly statements with a single annual statement. The scheme relied on small business self-assessment rather than scrutiny by tax officials. More small businesses have been registering and filing taxes since the introduction of the scheme. In addition, revenue collection from the value-added tax increased by nearly a third in FY 2013 (Narayanan, 2013).

Simplifying the tax process

Many people do not pay tax simply because the compliance cost is too high. The tax system has been cited among the top five obstacles to doing business (World Bank, 2007). Among the main issues surrounding the tax system are:

- i. Large number of business taxes to pay;
- ii. Lengthy and complex administrative procedures;
- iii. Complex tax legislation; and
- iv. High tax rates.

The Doing Business report found a direct relationship between burdensome taxation and the level of informality in a country (World Bank, 2007).

An effective way to encourage taxpayers to voluntarily pay their tax obligations is to reduce the cost of compliance by making it as simple and easy as possible to navigate the tax process. This starts with **simplifying the tax laws** to make them clear and easy to execute. In some countries, the number of tax rates has been reduced and a flat tax applied across certain hard-to-tax segments. Presumptive tax regimes for small taxpayers would be one such example.

Simplification has also been introduced in the filing and payment process. More tax administrations have been moving towards **electronic filing and payment systems**, often making it mandatory among large taxpayers. Electronic systems can reduce the amount of time it takes for businesses to fill out multiple forms with similar information, as well as cut down on time spent waiting in line to file returns and make payment at the tax office. There has also been a trend towards **reducing the number of forms** a taxpayer has to submit and **consolidating the number of filings per year**. In some countries, the registration process itself has been revamped to allow businesses to register with multiple government agencies in one step, what has been commonly called '**one-stop-shop**' registration. For example, Costa Rica successfully reduced the requirements for starting and operating a small business by introducing a multi-agency network that facilitates one-stop filing of all the necessary documentation for business formalization. Use of a common network also encourages information exchange between the institutions involved (World Bank, 2007).

Simplification

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ELECTRONIC FILING
AND PAYMENT SYSTEMS

In the state of Bihar, electronic filing was introduced among medium and large firms in 2010. In 2012, Bihar expanded opportunities to make e-payments by allowing taxpayers to pay through more than 40 banks. These measures resulted in considerable savings in compliance costs for private businesses (World Bank, 2013). The Government of Bihar also simplified the filing and payment process for small businesses by requiring them to make one annual payment and fill out a simple one-page return. By simplifying the taxpayer system, Bihar has encouraged small taxpayers to formalize.

Communication and information dissemination

A critical role of taxpayer services is to provide taxpayers with the information and assistance they need to enable them to meet their tax obligations. The recent global trend is for tax administrations to have a dedicated unit responsible for programs, product design, planning and coordination of initiatives related to taxpayer services (USAID, 2013). Common measures which have been undertaken are channels to facilitate public education such as communication campaigns via the news media, town hall meetings, or even school education programs. In the case of Bihar, a massive communication campaign was undertaken to ensure that the new tax procedures were widely disseminated. The campaign included open houses, mass advertising and the distribution of handbills (World Bank, 2013).



Communication measures have been accompanied by efforts to improve customer service. This may be across the general population of taxpayers with the establishment of call centers with staff available to answer taxpayers' questions. It may also be more targeted through specific offices for different segments of taxpayers such as within the context of the LTOs or MTOs. Some countries, like Indonesia, have introduced account representatives who are assigned to specific taxpayers and are charged with forging a close relationship with them – so called 'Know your Taxpayer programs'. In Indonesia, every company is assigned as account representative who can be contacted whenever needed as a resource person for advice (World Bank, 2007).

Other services

There have also been instances when the government of a country has offered services outside of the typical tax services in order to facilitate compliance. In 2014, the Government of Benin launched the 'entreprenant status' – a simplified and free legal regime offered to small informal businesses to enter the formal economy. In addition to information on the new legal status and its benefits, the programme offered non-standard benefits such as business training, counselling services, and support to open a bank account; as well as tax mediation services.⁵ Business registration (which in Benin also means tax registration) was shown to increase as much as 15.8 percentage points among those receiving the additional services (Benhassine et al, 2015).



REDUCING THE
NUMBER OF FORMS



CONSOLIDATING THE
NUMBER OF FILINGS PER YEAR



'ONE STOP SHOP'
REGISTRATION

The creation of special service centres for micro and small businesses could be an innovative approach to facilitate small business compliance. These could be either integrated into small taxpayer offices or created as separate centres in cooperation with other government departments (World Bank, 2007). In developing countries, this could also present an opportunity to establish public-private partnerships. France has established management centres for small businesses, offering a range of services in the fields of accounting, finances, taxation, legislation and economic and social affairs. Access to the services requires membership and includes a tax reduction of up to 25% (World Bank, 2007). The initiative is supported by the French tax administration.

Compliance can be broken down into other components such as registration, filing and payment, all of which are essential to the success of an efficient tax collection system. Methods of collecting taxes have evolved and more countries are moving towards voluntary compliance regimes which rely heavily on tax services and tax education, with strategic deterrent tax measures in handling delinquent taxpayers. Developing economies like Jamaica face difficulties in fully implementing a voluntary regime due to limited financial capacity and technical constraints. However, the international evidence indicates that a lot can be achieved through simple, cost-effective strategies.

⁵ The premise for tax mediation was to provide some form of protection in case the tax inspectors abused their power with newly formalized businesses.

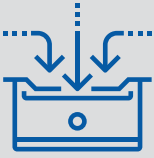
3. RECENT REFORMS TO PROMOTE TAX COMPLIANCE IN JAMAICA

Tax Administration Jamaica (TAJ) is focused on increasing its efficiency and effectiveness in an effort to improve compliance and increase revenues. In order to accomplish this it has devised the National Compliance Plan (NCP) to be implemented between fiscal year 2014/15 and 2016/17. During interviews with personnel from the TAJ, it was reiterated that the new compliance model



was based on encouraging voluntary compliance through service, education and enforcement. We discuss changes implemented in each of these areas, with emphasis on tax services.

3.1 IMPROVED TAX SERVICES



Amalgamation of NIS, NHT and Education Tax

In 2012, the TAJ started the process to harmonize filing and payment of the NHT, education, and NIS taxes to make the process easier. Previously, three separate forms had to be filled out and individuals and companies would have to file and pay each separately at three different government agencies. Now, as in the words of the popular tagline, it is “one form, one payment, one place”. Forms SO1 and SO2 were introduced, allowing employers to prepare a single report for monthly and annual obligations for taxes and statutory contributions, respectively. In addition, the number of times businesses have to submit payroll deductions each year has also been consolidated. Previously, payments had to be made 12 times per year (once a month); now payments have been reduced to a quarterly basis. The amalgamation project was a collaboration among the TAJ, the National Housing Trust, National Insurance Scheme, HEART Trust NTA and the Ministry of Finance and Planning.



Introduction of New Information Management System

As part of the National Compliance Plan, in February 2015, the TAJ introduced the first of three phases of a new information management system called RAiS, short for Revenue Administration Integrated System. RAiS includes both e-service and administrative components. The e-service component, when complete, will allow taxpayers or their representatives to manage their accounts online. This includes accessing their filing and payment history, arranging a payment plan, applying for a refund, objecting to an assessment done, and applying for taxpayer registration numbers (TRN) and tax compliance certificates (TCC). The administrative component will allow the tax authorities to manage and track accounts which are in arrears. The initial implementation of RAiS in February 2015 focused on a limited number of taxes, namely the General Consumption Tax (GCT), Special Consumption Tax (SCT), Guest Accommodation Room Tax (GART), and Telephone Call Tax (TCT). The second phase of the roll-out on December 7, 2015 included the income tax (both individual and corporate), all payroll taxes and the asset tax.

Additional functionalities that were also introduced in December 2015 included:

- TRN registration,
- Document certification,
- Tracking of tax partner relationships and requests for TCC,
- Automatically applying penalties for failure to file,
- New features such as garnishments, liens, discovery, warehouse and leads.

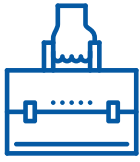
RAiS can be accessed by logging onto: www.jamaicatax.gov.jm and selecting manage my accounts. After the third phase, scheduled for September 5, 2016, RAiS will be complete. At this stage taxpayers will have access to a range of online services relating to stamp duty and transfer tax, withholding taxes, environmental protection levy, betting gaming and lottery taxes and trade and business taxes. On the administrative side, the TAJ will also broaden its use of RAiS to manage tax arrears, generate letters and assign work items related to the additional tax types.



New Business Registration ‘Super Form’

In January 2014, the “super form” was introduced. The super form allows ‘one stop’ business registration at one government office instead of several different government agencies. With the super form, a person can register a business by just visiting the Companies Office of Jamaica.⁶ The super form, called Business Registration Form 1 (BRF 1), consolidates the certificate of incorporation, NIS, TRN, GCT, NHT, HEART registration and TCC.

⁶ The Companies Office of Jamaica is located at 1 Grenada Way, Kingston 5, telephone number (876) 908-4419-26.



Establishment of Large Taxpayer Office (LTO)

In 2009, the TAJ made a step towards taxpayer segmentation by instituting a Large Taxpayer Office (LTO). The LTO was established to facilitate taxpayers who have taxable sales of more than \$500 million or pay taxes exceeding \$50 million per year. The facility provides a range of services specifically targeted to the large taxpayer, including assigned client relationship managers to give more personalized service. The establishment of the LTO was aimed at improving efficiency for both the revenue department and the large taxpayers. Jamaican tax data show that 3% of taxpayers pay 80% of the taxes (MOF, 2012).



Expanded Use of Electronic Services

The TAJ has been expanding usage of its electronic services, both e-filing and e-payment on a phased basis. In March 2014, businesses employing 20 or more persons were required to file the Employers' Annual Return electronically via the TAJ Tax Portal. In January 2015, mandatory electronic filing for annual returns was extended to all employers.



Consolidated Income Tax Form For Self-Employed Persons

In January 2015, a new consolidated income tax form was introduced for self-employed persons. This allows individuals to use one form to report on their annual income tax and payroll contributions. The new Self-employed Persons Annual Return of Income, Taxes and Contributions (Form S04) allows individuals to use one form to report on their annual income tax, education tax as well as their individual NHT and NIS contributions. The S04 form replaces the IT01, ET01 and NHT and NIS annual declarations which previously had to be completed and submitted at three (3) separate agencies, with separate payments. A consolidated estimated return form S04a was also introduced, to be used by self-employed persons to report their projected income, taxes and statutory contributions. This replaces the IT07 form.



Customer Care Centre

In order to help taxpayers feel like valued customers, the TAJ established two one-stop tax service centres a few years ago. These service centres issue taxpayer identification numbers and tax compliance certificates, collect stamp duty and transfer taxes, and receive tax returns and payments. They are also equipped with electronic numbering systems, and taxpayers are provided chairs to await their turns in getting services. Gallagher et al (2009) argue that such efforts go a long way toward making taxpayers feel like real customers.

3.2 PUBLIC EDUCATION PROGRAMME

According to the Director of Communications at Tax Administration Jamaica, the TAJ has an extensive public education programme that ranges from traditional types of media such as print, television and radio to modern social media tools such as Facebook and Twitter. They also organize town hall meetings, seminars, workshops, and monthly mobile business clinics. In addition, there are specific initiatives targeting school children to raise awareness from an early age. New developments in tax administration are sent in timely press releases to the various media houses and are automatically posted on the TAJ's website.



Customized Programmes

The TAJ's public education campaign makes use of taxpayer segmentation strategies, customizing communication methods to the specific type of taxpayer being targeted. Under the National Compliance Plan, employers with 20 or more employees are supported by visits from TAJ teams, calls from the customer care centre, reminders through the news media and the distribution of brochures. Micro, small and medium enterprises (MSMEs) have access to teams of taxpayer education officers whose responsibility is to ensure that these businesses are informed of the latest initiatives and requirements. With respect to larger enterprises, client relationship managers in the Large Taxpayer Office (LTO) are assigned to a group of companies to give more personalized service.

There are seven teams of taxpayer education officers across the island. They are required to know the specific needs of their group of taxpayers and customize a tax programme unique to those taxpayers. It is the job of the officers to ensure that the taxpayers assigned to them are filing and paying on time. There is emphasis on the taxpayer education officers "knowing their taxpayers" which also entails being able to identify unregistered firms. The "know your taxpayer" concept, which was used successfully with the large taxpayers, has been expanded to include smaller companies as well.



Schools Tax Education Programme (STEP)

Key to fostering a culture of compliance is the education of the young. As such, several years ago, the TAJ implemented the Schools Tax Education Programme (STEP) in high schools. This programme has now been expanded to include primary and tertiary institutions, including vocational training schools. During the 2013/14 fiscal year, over 100 schools across the island were visited. The programme runs from September to March each year. It introduces students to important tax topics such as: (1) Jamaica's tax system; (2) various types of taxes (GCT, income tax, payroll taxes, property tax); (3) the importance of paying taxes; (4) how to start a business; and (5) applying for a tax registration number (TRN). The thinking underscoring STEP is that creating an awareness of tax morale and voluntary compliance from an early stage in life will eventually lead to a culture of tax compliance.



Social Media

The TAJ maintains a dominant presence on social media. They have a Facebook page, a Twitter account, an Instagram account, as well as videos on Youtube. As of June 30, 2016, the TAJ had 4004 Twitter followers and 2,372 Facebook friends.⁷ This is another way in which they are demonstrating a desire to stay connected with the youth by making use of modern technology.



Partnerships

As part of its public education campaign, the TAJ has partnerships with various associations such as the Jamaica Business Development Commission (JBDC) and the Government Communications Network, as well as Local Governments island-wide. Through these partnerships, it is able to conduct social events such as seminars, workshops and business clinics. At these events, the taxpayers' rights and responsibilities are made clear and the participants are familiarized with the various forms for filing taxes and made aware of any changes to tax policy. Taxpayers are also informed of how their tax dollars are being used by the government, in line with the international practice of emphasizing the benefits received from paying taxes. Moreover, the partnerships facilitate timely feedback from hosting associations, which is used by the TAJ to improve its standards and to increase its efficiency. These partnerships have certainly paid off as the TAJ was able to report a significant increase in property tax collection for FY 2014/15 after partnering with local governments in an island-wide campaign to educate the public on their responsibility to pay their property taxes (Jamaica Observer, May 2015).⁸

3.3 ENFORCEMENT

Akhand (2012) and USAID (2013) have shown that strong enforcement mechanisms are also an important element in persuading taxpayers to comply. In recent years, the TAJ has made some strategic changes to its enforcement mechanisms by emphasizing risk-based management by taxpayer segments and the use of alternate sources of information to make their inspection and audit programs more effective.



Use of Third Party Information

In the 2013-2014 fiscal year, the Access to Third Party Information Act was passed. This gives the Commissioner General of the TAJ the authority to request third party information from businesses, and public agencies. It is anticipated that this will help the TAJ to identify delinquent companies and/or individuals who are either not paying taxes at all or who are underpaying.



Audits and inspections

The TAJ also conducts audits and inspections. Table 3.1 gives a summary of the audit results for the past few years. As illustrated in the table the tax yield for audits in fiscal year 2015/2016 was \$3.1 billion. This was obtained from a total of 724 audits conducted during the period. The LTO conducted 76 audits, 10 of which were on individuals while the others were corporate.

⁷ Their Instagram handle is [jamaicataxonline](https://www.instagram.com/jamaicataxonline) and their youtube address is www.youtube.com/user/watchtaj.

⁸ http://www.jamaicaobserver.com/news/TAJ-hails-partners-for-increase-in-property-tax-collection_18880043

Table 3.1

AUDIT RESULTS				
Number of Taxpayers Audited				
	Actual	Actual	Actual @ Dec 2015	Tax Yield \$(b)
Segments	2013/14	2014/15	2015/16	2015/16
LTO Corporate	56	78	66	2.08
LTO Individual	22	25	10	0.05
Medium to Micro	899	1,129	648	0.97
Total	977	1,232	724	3.10

Source: TAJ



Other Measures

The TAJ also has a customer call centre that facilitates both incoming and outgoing calls. Individuals and businesses are given a reminder 30 days after missing due dates. If the party remains non-compliant the case is turned over to the compliance section which follows up. The TAJ has been known to “name and shame” delinquents in the courts. However this enforcement measure is a last resort. Numerous reminders and warnings are usually given before such action is taken.

The TAJ is dedicated to improving Jamaica’s tax system. Towards this end, over the past few years it has implemented a number of new strategies aimed at modernizing the system and increasing compliance. The focus has been on increasing voluntary compliance through service, education and enforcement. The TAJ officials interviewed indicated that the changes implemented have been successful thus far. In an ICAJ taxation seminar in September 2015, the Commissioner General noted that during the first quarter of fiscal year 2015/2016 the TAJ collected 53% more in arrears than in the same period in the previous fiscal year. Additionally the total tax revenue collected in the first quarter of fiscal year 2015/2016 was \$59,714.50 while the target was \$57,933.60.

4. BUSINESS SURVEY

A countrywide survey of businesses in Jamaica was conducted to assess their awareness of the recent tax reforms and determine the extent to which these changes have improved compliance. For a summary of the methodology that guided the data collection for the survey, see the appendix. This section describes the main characteristics of the businesses interviewed.

As Figure 4.1 and Table 4.1 indicate, the achieved sample distribution by business type and parish is representative of the population of businesses. We see that the majority of businesses in Jamaica tend to be sole traders and tend to be located in more urban areas like Kingston and St. Andrew.

Figure 4.1: Decomposition of population and sample by legal status

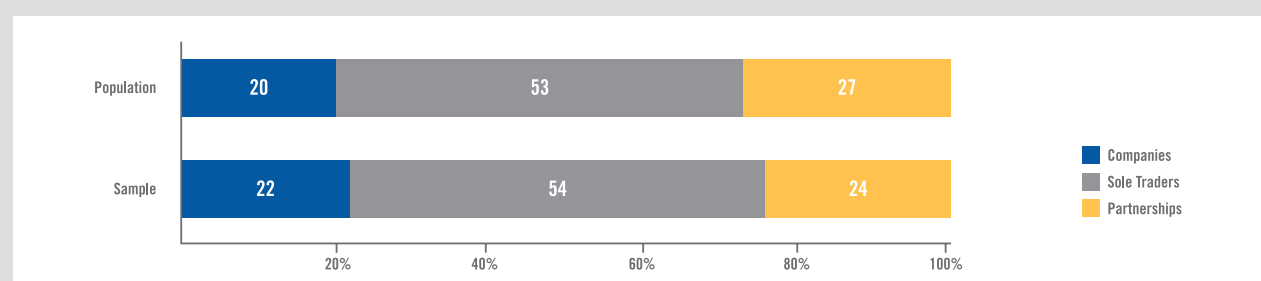


Table 4.1: Decomposition of population and sample by parish⁹

Parish	Actual	Actual
Clarendon	5	4
Hanover	1	1
Kingston	7	7
Manchester	4	5
Portland	1	1
St. Andrew	43	41
St. Ann	4	3
St. Catherine	16	17
St. Elizabeth	2	2
St. James	7	6
St. Mary	2	2
St. Thomas	2	5
Trelawny	1	1
Westmoreland	3	3
Total	100	100

⁹ When the firms were stratified by parish, the population total was reduced to 223,167 because not all firms had the relevant information entered correctly in the data file.

4.1 PROFILE OF BUSINESSES

We examine the firms in the sample on the basis of several demographic variables including size, age, location, business sector and ownership. We also make an attempt to analyze compliance patterns by distinguishing between firms that did not file any taxes in 2015 and firms that filed at least one tax.¹⁰ Non-compliance is defined as not filing any taxes in 2015. Approximately 30% of businesses in the sample did not file any taxes for 2015 as shown in Figure 4.2.

Note: Compliant refers to firms that filed at least one tax in 2015 while non-compliant firms are those that did not file any taxes in 2015.

The survey revealed that most of the firms in the sample were small and young. Figures 4.3 and 4.4 give the breakdown for size and age. 84% of firms in the sample can be classified as micro enterprises, with a gross annual turnover of less than \$11 million a year.¹¹ This is very similar to the distribution of firms within the TAJ database which has information on businesses' annual revenue and so can be regarded as representative.¹² Figure 4.3 also shows that a larger share of non-compliant firms were micro enterprises compared to compliant firms.

When we look at the age distribution, Figure 4.4 illustrates that overall 71% of firms had been in operation for 10 years or less, with this share being higher for non-compliant businesses. Notably, approximately 40% of firms overall had been operational for five years or less, and about 4% for less than one year. No firm in the sample was more than 54 years old.

The survey also revealed that the majority (98%) of firms employed 10 or fewer workers, with almost 50% of firms having 1-3 employees (Figure 4.5). For non-compliant businesses, almost two-thirds had between one and three workers. The foregoing information on size and age implies that the findings from the survey will not significantly reflect the experiences of large firms, which have been around for a substantial period.

Figure 4.2: 'Compliant' vs. 'non-compliant' firms

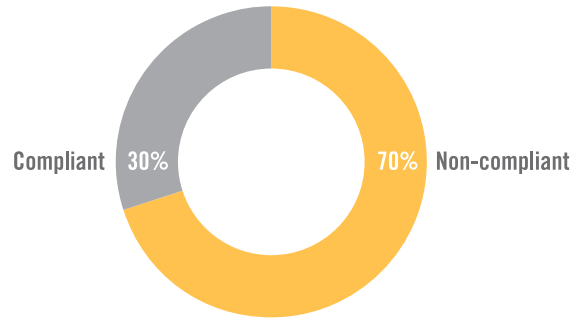


Figure 4.3: Decomposition of firms by size

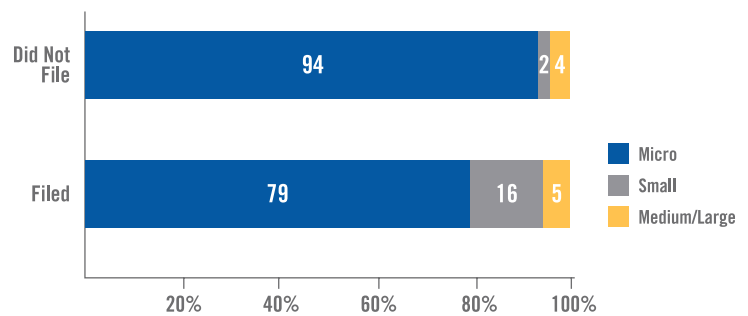


Figure 4.4: Decomposition of firms by age

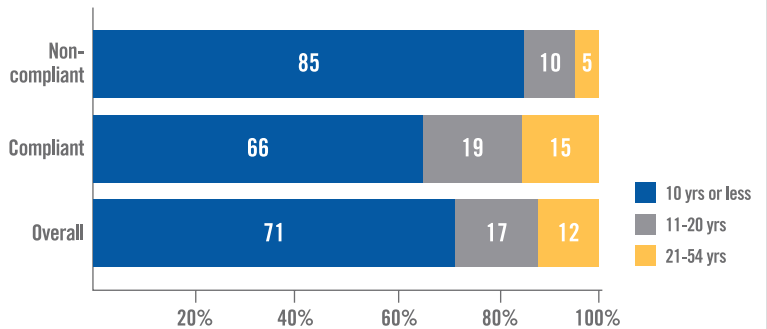
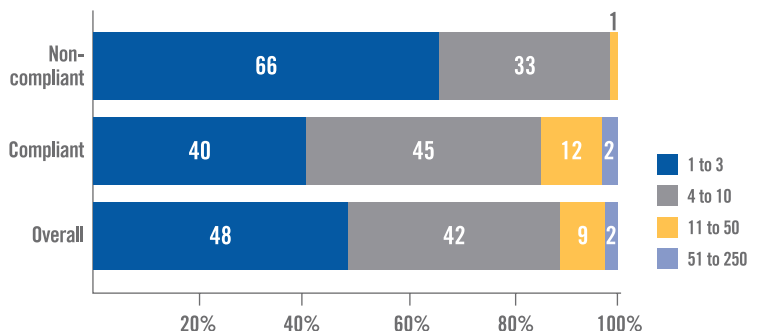


Figure 4.5: Decomposition by number of employees



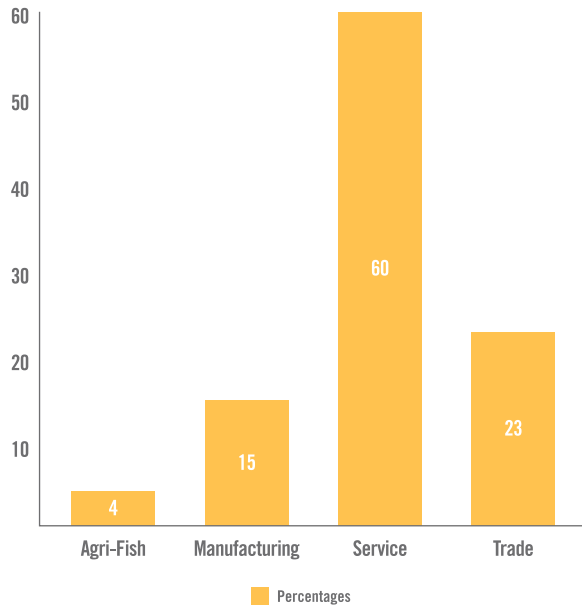
¹⁰ The taxes included here are payroll taxes, income tax and GCT.

¹¹ For this report, micro enterprises are those that have a gross revenue of less than \$11 million per year; small firms have a gross revenue between \$11 million and \$100.9 million; and medium/large firms have a gross revenue of \$101 million or above.

¹² The TAJ classifies micro firms as those which report turnover of less than \$10 million, small firms as those that have turnover in the range of \$10 million to \$149.9 million and medium/large firms as those that report turnover of \$150 million and above. In 2014, approximately 77% of businesses in the TAJ database were classified as micro enterprises.

Looking at the breakdown of firms according to business sector, we see that most firms (60%) were in the service sector (Figure 4.6). The distribution of firms across sectors was approximately the same for both compliant and non-compliant firms, as well as for firms of different sizes.

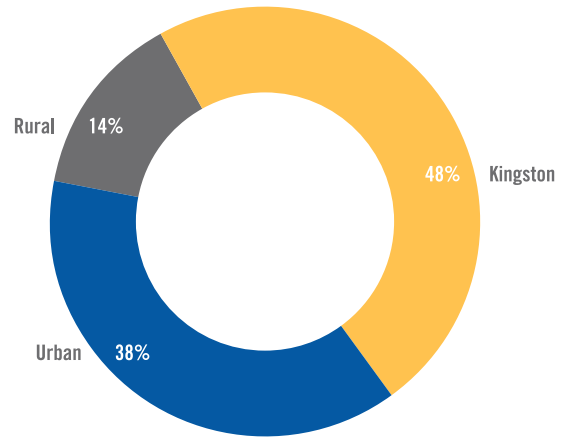
Figure 4.6: Distribution of firms in the sample by business sector



A breakdown of the sample by area of economic development shows that the majority of businesses were located in urban areas, with Kingston and St. Andrew having the highest concentration (48%). As Figure 4.7 shows, 39% of firms were in other urban areas and 14% were from rural parishes.¹³ The same basic pattern holds for both compliant and non-compliant firms.

¹³ Other urban areas include the parishes of Clarendon, Manchester, St. Ann, St. James, St. Catherine, and Westmoreland, while the rural parishes are St. Thomas, St. Mary, Portland, Hanover, St. Elizabeth and Trelawny.

Figure 4.7: Breakdown by location of businesses



We also examine ownership of businesses by sex of the owner/operator. Overall, 39% of firms were owned by multiple owners while only 23% were solely female owned (Figure 4.8). With respect to the type of premises in which business was conducted, 47% of compliant firms operated out of an office, but the corresponding share for non-compliant firms was only 14% (Figure 4.9). For non-compliant firms, the majority were either in retail or home-based.

Figure 4.8: Ownership of firms by gender

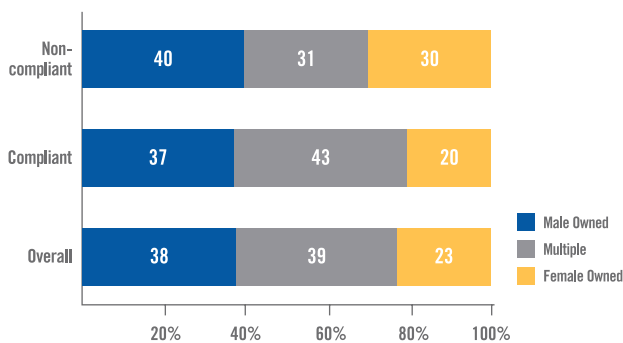
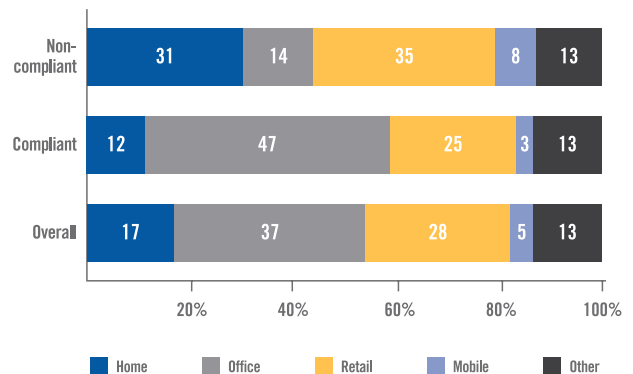


Figure 4.9: Decomposition by type of premises



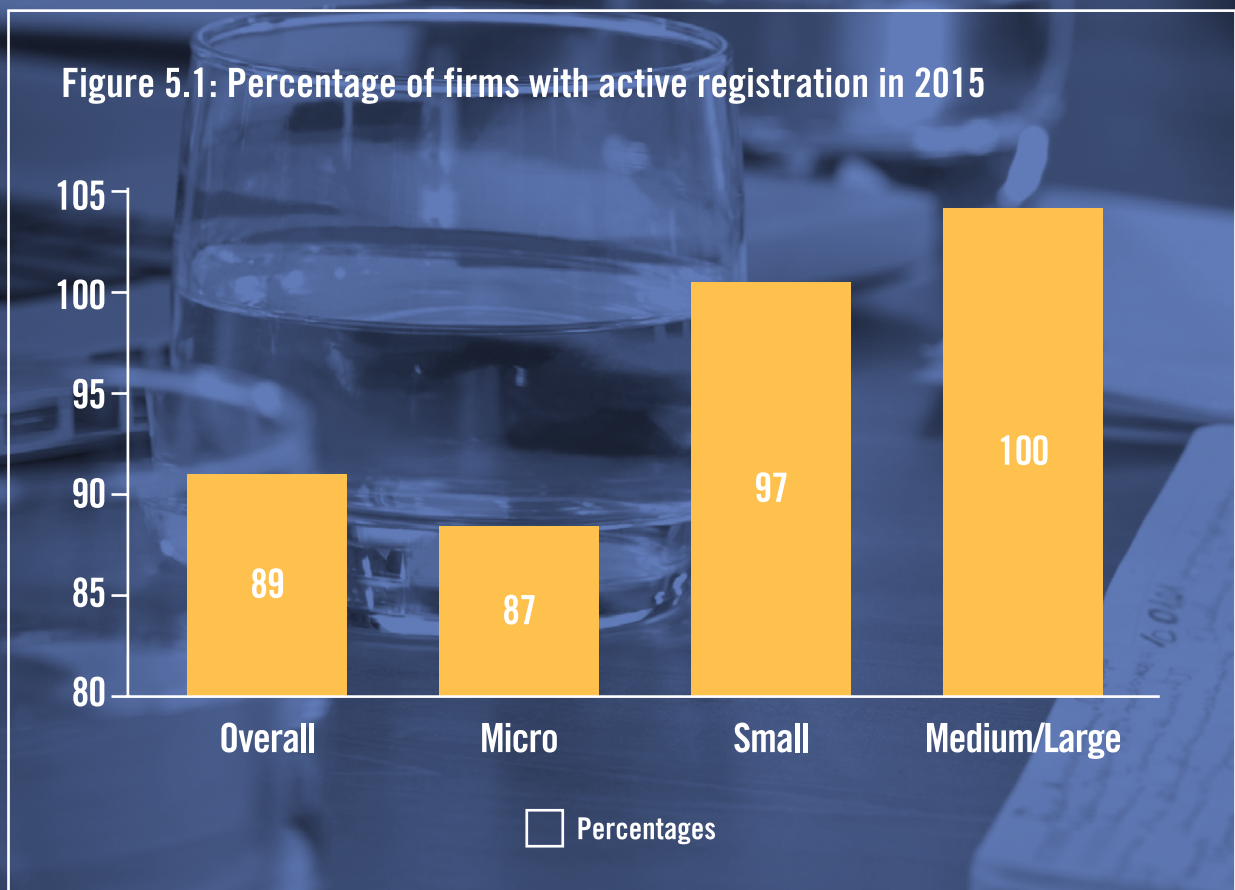
The above indicates that the typical firm in the survey was likely to be a young micro enterprise, operating in the service sector. Non-compliant firms were more likely than compliant firms to be small with a few employees. They were also more likely to be retail or home-based.

Decomposition of the sample by different categories is important because, as stated in the literature review, taxpayer segmentation is an important tool in encouraging tax compliance. The tax authority needs to know what the different groups are in the tax base so that appropriate strategies and services can be devised to target them. This promotes a more focussed approach to tax administration.

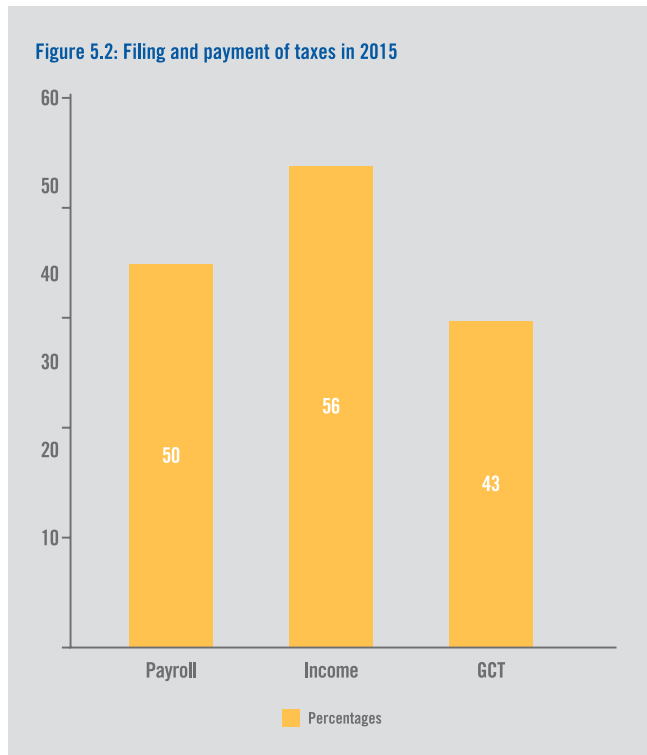
5. ANALYSIS: TAX COMPLIANCE PATTERNS

5.1 COMPLIANCE PATTERNS

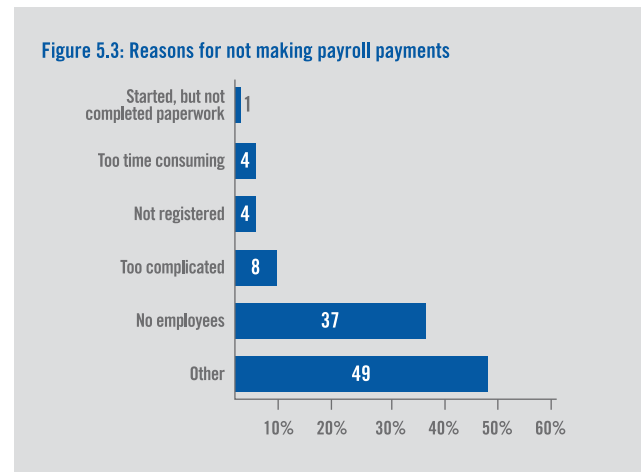
Notwithstanding that the businesses were selected from the Companies Office of Jamaica's database, the interviews revealed that registration for some 11% of the sample was not current in 2015. As shown in Figure 5.1, registration was most likely to have expired without renewal for micro enterprises (13%) and to a lesser extent small businesses (3%). Having business registration up-to-date is a minimal requirement for compliance. Firms in trade and services were more likely than those in manufacturing to have their registration current; while companies (LLCs) were more likely than sole traders and partnerships.



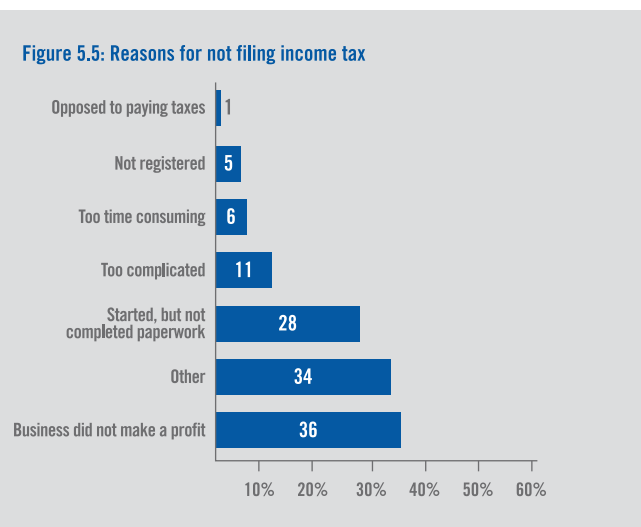
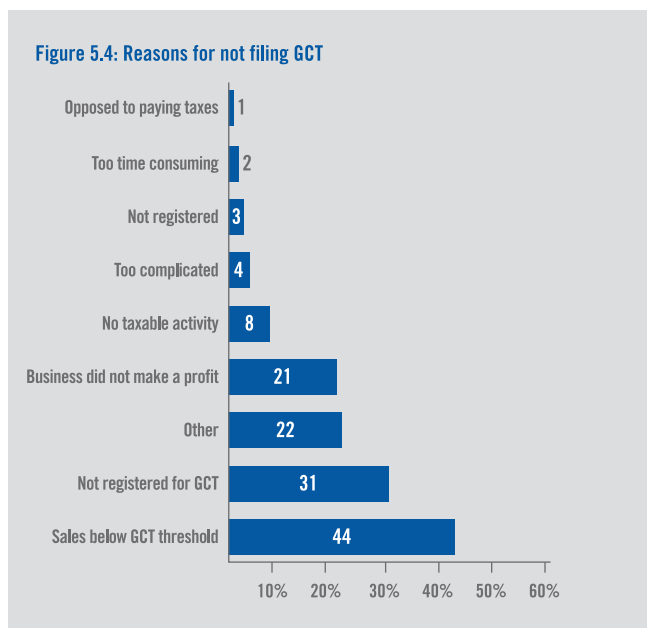
We further explore tax compliance patterns by the filing and payment of taxes as reported by the firm. Barring special exemptions, all businesses resident in Jamaica are required by law to file income tax returns whether or not there is a tax liability. From the survey sample, only 56% filed income tax returns. The percentages were even smaller for firms filing payroll deductions and GCT (See Figure 5.2). Overall, 30% of the sample paid no tax at all.



The low shares for payroll deduction and GCT are not a true reflection of non-compliance as approximately 37% of firms had no paid employees and so would not need to file separate payroll deductions.¹⁴ About 75% of firms were either not registered for GCT or had sales below the GCT threshold. See Figure 5.3 and Figure 5.4 for reasons given for not filing payroll deductions and GCT. The reported shares from the income tax, however, give a similar picture and are more credible. Among the main reasons given for not filing income tax was that the business did not make a profit or that they had started, but not completed the paperwork (Figure 5.5). The types of firms which were most likely to file income taxes were larger, older, located in urban areas and operated from an established office space.



¹⁴ Self-employed persons file one form with their income tax and statutory deductions.



Given these compliance patterns, there seems to be some success in the TAJ's strategy of segmenting taxpayers and focusing on larger businesses, who are responsible for the most of the tax revenue. Compliance rates are much higher among larger-sized businesses.

5.2 USAGE OF E-SERVICES

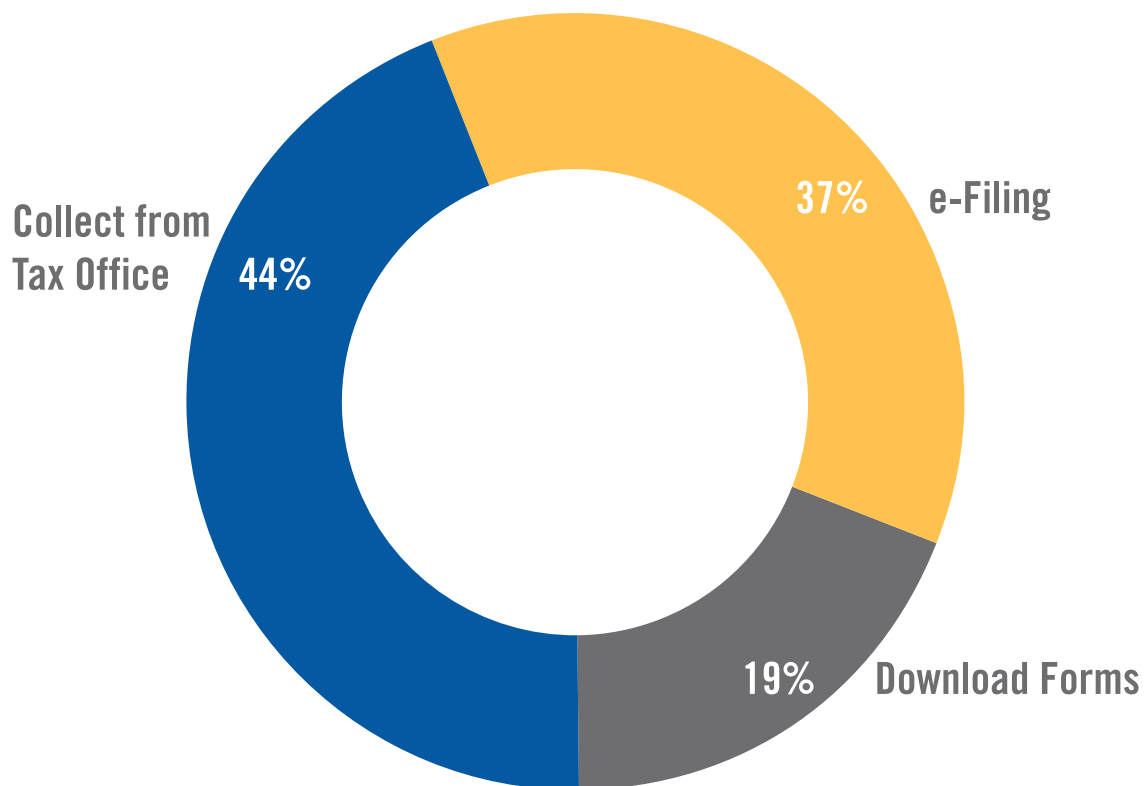
For the 70% of firms that filed or made some kind of tax payment, we explored to what extent the TAJ's electronic systems for filing and paying were utilized. This is to ascertain whether underutilization of available resources is a contributing factor to non-compliance. We specifically look at usage of e-services by different groups of businesses. Here again we are trying to determine whether or not it may be necessary to implement strategies that target certain taxpayer segments.

5.2.1 E-FILING

More than a third (37%) of the businesses surveyed submitted tax returns electronically during 2015 (Figure 5.6) This was notably larger than in 2014 when it was reported that approximately 26% of businesses had used the e-filing system (IFC, forthcoming). The TAJ's mandatory requirement for all employers to file annual returns electronically, starting in January 2015, contributed to this increase. However, a large percentage (44%) of firms still opted to collect and submit their forms manually at the tax office. The remainder (19%) admitted to using the TAJ's e-services to download the forms, but still went into the tax office to submit them.

Figure 5.6: Methods of submitting tax returns

n = 101



Not surprisingly, the use of e-filing was skewed towards larger businesses (83% of filers), while only 31% of the micro and 44% of the small firms chose to do so (See Figure 5.7). There was also a difference in usage by location with 44% of the firms in Kingston and St. Andrew that filed choosing e-filing, while only 33% of firms in other urban areas and 21% in rural areas using the online facility. The difference is even more striking when we examine the breakdown by legal status. The majority (61%) of companies that filed did everything online while only 33% of partnerships and 16% of sole traders chose to do so. Among business sectors, firms in manufacturing were most likely to file tax returns electronically (46%); while services and trade were 37% and 31%, respectively.

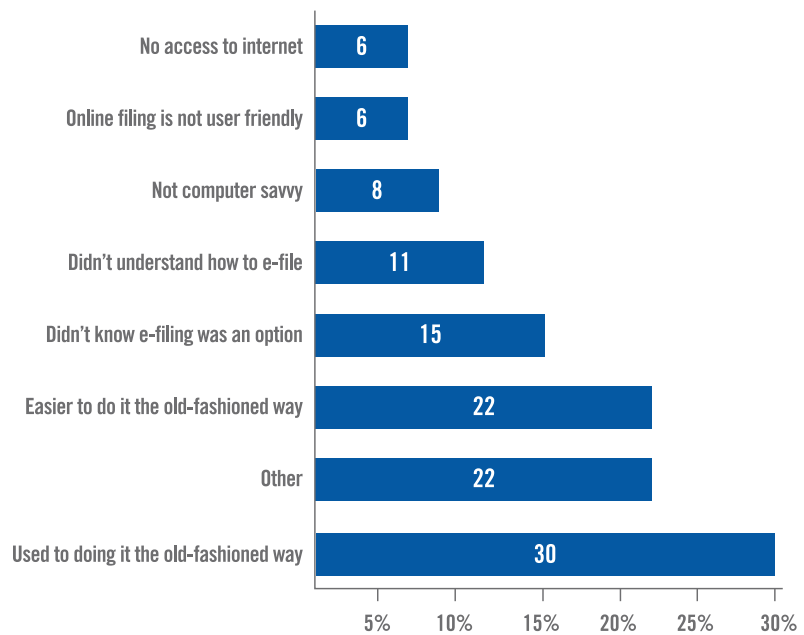
Figure 5.7 Breakdown of e-filing usage



We further examined firms' reluctance to file taxes online. The most popular reason for not filing taxes online seemed to be inertia. Some 30% of the firms that did not e-file said that they were "used to doing it the old-fashioned way", while 22% said it was "easier to do it the old-fashioned way". Despite the TAJ's emphasis on public education, another 15% of businesses said they did not know e-filing was an option. The main reasons for not filing taxes electronically are presented in Figure 5.8.

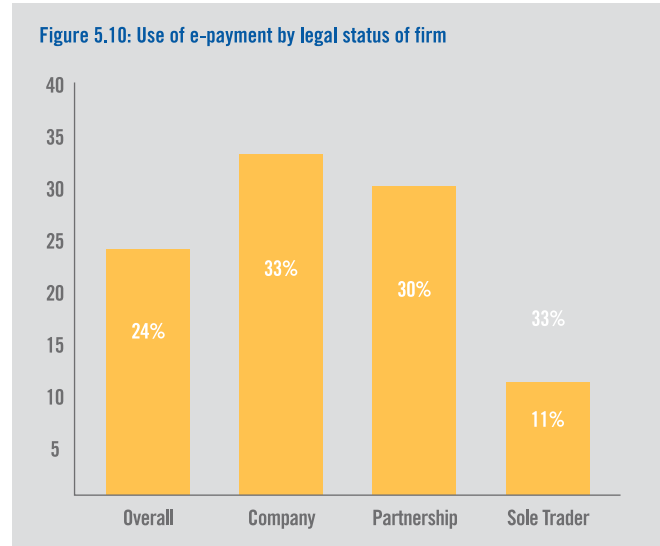
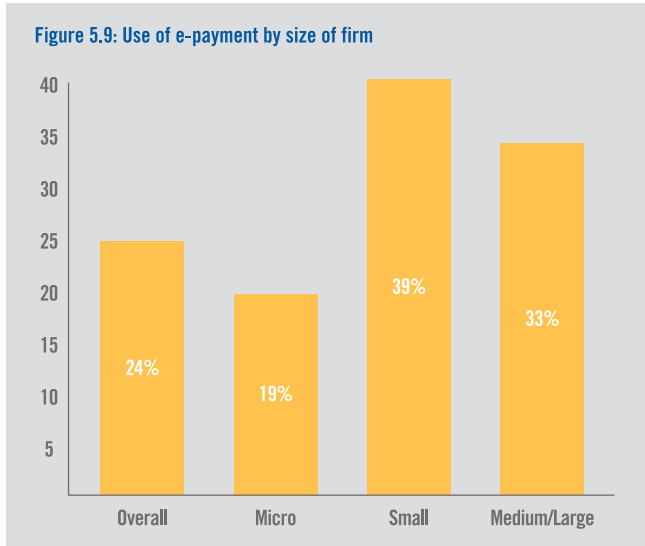
Figure 5.8: Reasons for not using e-filing services

n = 64

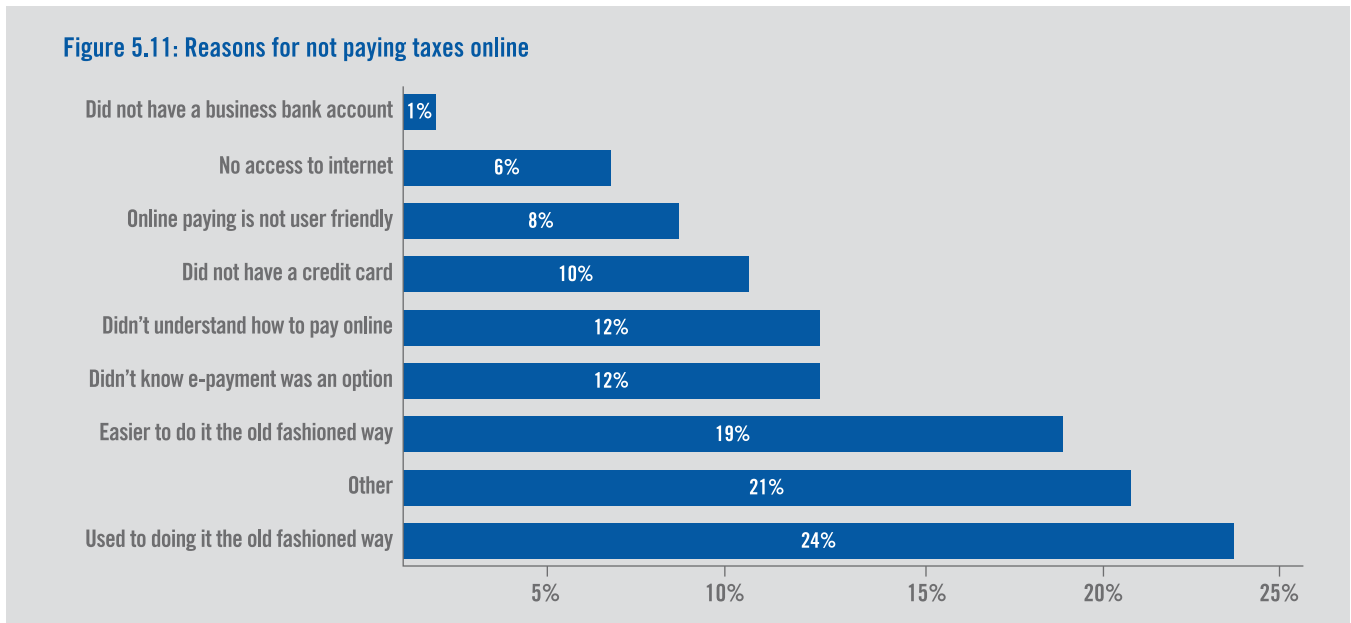


5.2.2 E-PAYMENT

The proportion of firms choosing to use the e-payment facility was less than the share that chose to file returns electronically. Only 24% of firms paid taxes online compared to the 37% which e-filed. The biggest disparities came from larger businesses, most of which had filed electronically due to the mandatory requirement for employers, but only about a third of medium/large firms or companies also ended up making payments electronically (Figure 5.9 and 5.10). Notably, the disparity was not as wide for small businesses with 39% paying online while 44% had also filed tax returns online.



Reasons for not paying taxes online were similar to those for not filing electronically. Most firms were just too accustomed to going in to the tax office to pay and found it easier to continue doing so (Figure 5.11). Still, there were those who didn't know e-payment was an option and did not understand how to pay online. For those businesses which had filed electronically, besides being accustomed to paying the old-fashioned way, not having a credit card was a notable hindrance.



5.2.3 TAXPAYERS' IMPRESSIONS OF THE E-SERVICES SYSTEM

The firms that used the TAJ's e-services had a good experience with the system. The overwhelming majority (92% for e-filers and 88% for e-payers) felt that having the opportunity to file tax returns or make payments online made the process easier and/or cut down on the time it took to comply with tax obligations. Additionally, most firms which used the service (76%) found the system to be user-friendly. The majority agreed that having the opportunity to file and pay online made it more likely that the business would pay taxes in full and on time.

The use of electronic systems can substantially cut down on compliance costs for businesses by reducing the need to go to the tax office and wait in line. It can also make it easier for the government to track business activities. In the case of Jamaica, the TAJ needs to do more to encourage the use of online services, particularly e-payments. Currently, payment may only be made by credit card or bank accounts from Scotiabank. Expanding the service to include other banks could increase the usage of the system.

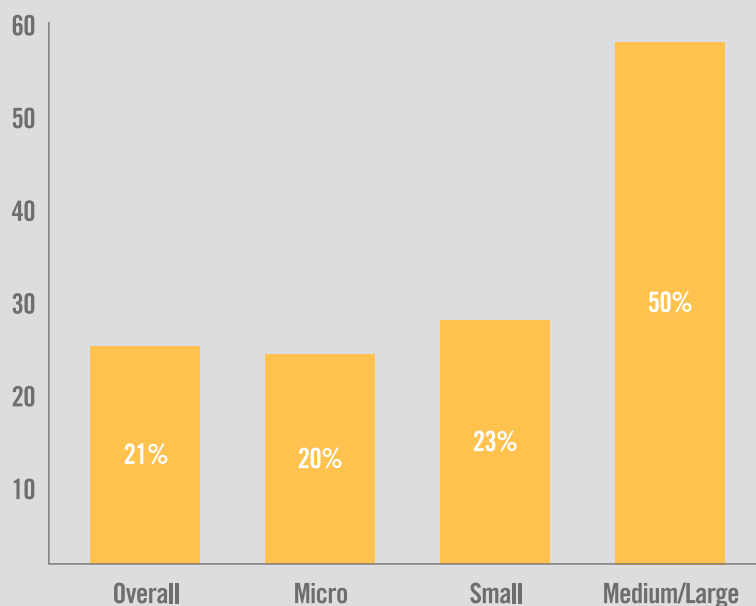
5.3 TAJ COMMUNICATION METHODS

All firms in the survey were asked about their experience with the TAJ's communication methods to assess the effectiveness of its public education programs.

5.3.1 INTERACTION WITH TAJ

In spite of the TAJ's intense public education campaigns, the information seems not to be reaching the majority of taxpayers. Only about 21% of firms said that they had ever been contacted by the TAJ to educate them about their rights and responsibilities, familiarize them with the various tax forms and/or to educate them about paying their taxes (Figure 5.12). Medium/large firms had experienced more contact with the TAJ than the smaller firms, presumably through the Large Taxpayer Office and outreach activities targeted at this taxpayer segment. Similarly, firms that had filed taxes were more likely to have been contacted by the TAJ than those which had not. For firms which had been contacted, the three most popular methods were by telephone, being visited by a TAJ team and via email, respectively.

Figure 5.12: Percentage of firms that had been contacted by the TAJ in 2015



Only 21% of firms



said they had ever been contacted by the TAJ

to educate them about their rights and responsibilities, familiarize them with the various tax forms and/or to educate them about paying their taxes



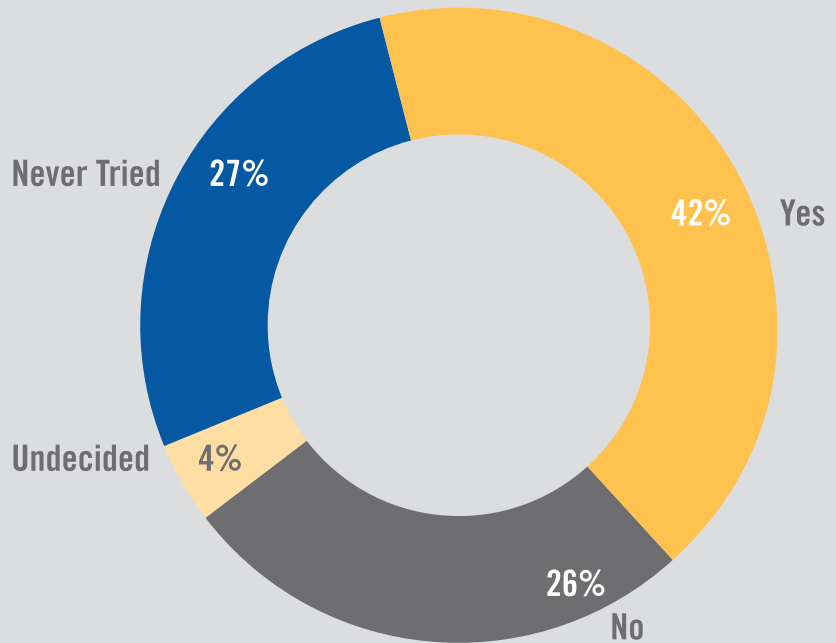
Medium/large firms

had experienced more contact with the TAJ than the smaller firms

Figure 5.13: Percentage of firms that contacted the TAJ

With respect to interaction initiated by businesses, 42% of firms surveyed said that they found it easy to contact the TAJ to clarify issues and address concerns (Figure 5.13). This opinion was fairly consistent across size, sector and location. However, about a quarter of firms surveyed were of the opposite opinion, and 27% had never tried to contact the TAJ and so could not comment.

Note: Survey question asked: "Do you find it easy to contact the TAJ to clarify any issues or address any concerns you may have?"

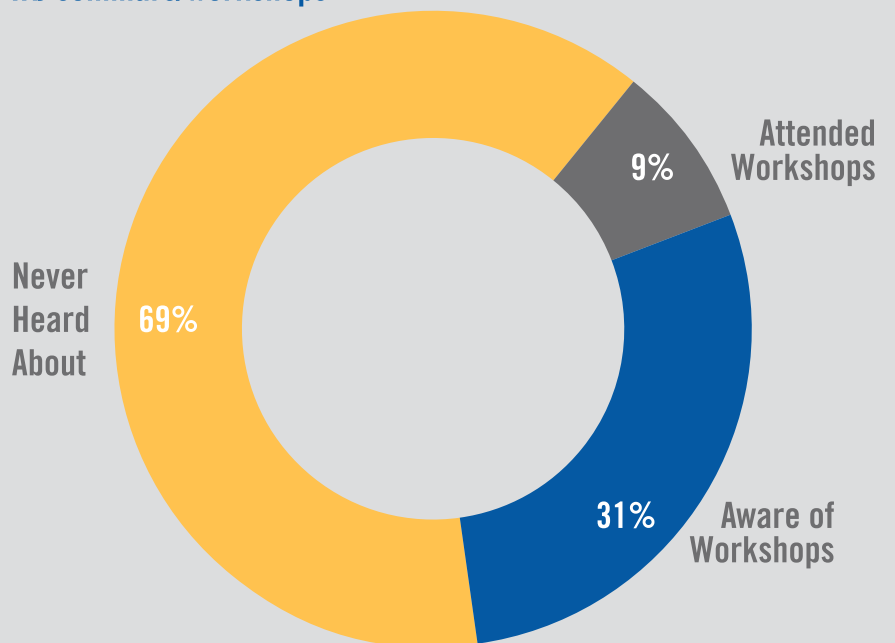


Given the TAJ's strategy of focusing primarily on large taxpayers, it is not surprising that the interaction rates are so low among smaller enterprises. The TAJ does not have the resources to reach out to everyone individually. However, the use of more widespread measures to disseminate information has been met with limited success, and in some cases, downright apathy. We explore two such methods of outreach.

Figure 5.14: Percentage of firms that have heard about TAJ seminars/workshops

TAJ seminars/workshops

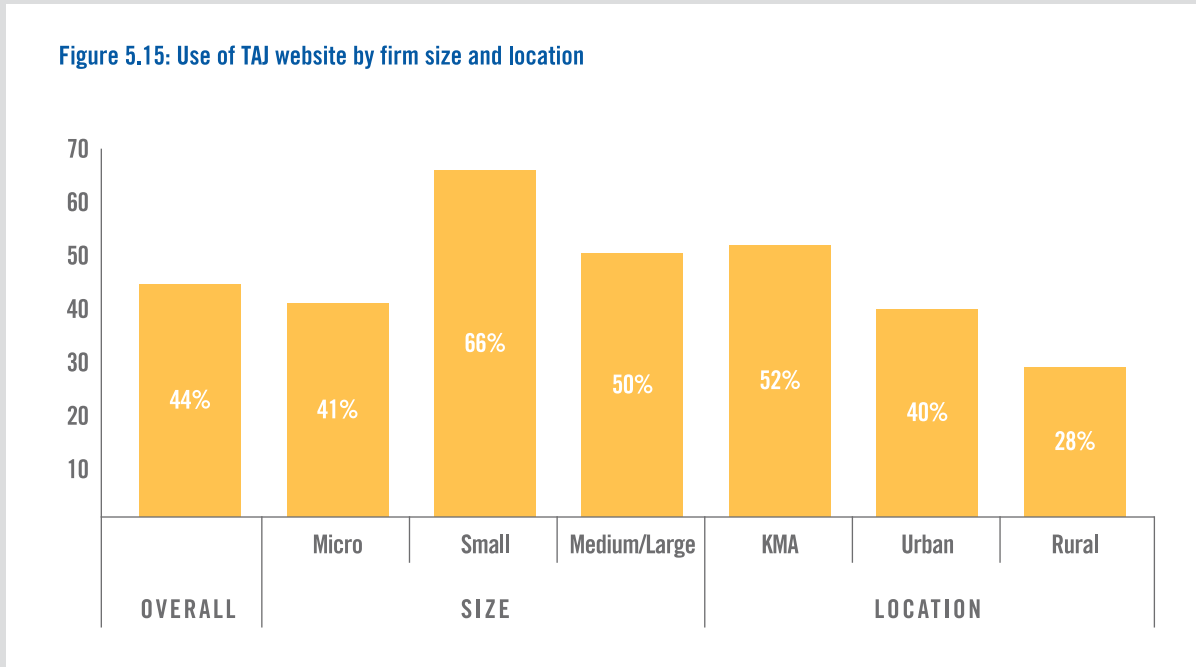
Roughly 31% of businesses surveyed had heard about seminars and/or workshops conducted by the TAJ to educate businesses on the basics of various taxes (Figure 5.14). However, of those who heard about the seminars, only 29% of them had attended. This represents less than 10% of the total sample. The main reason offered for not attending any seminars was being too busy. Additionally, about 26% of firms said that they did not attend because they already had the information so the seminars were unnecessary.



TAJ website

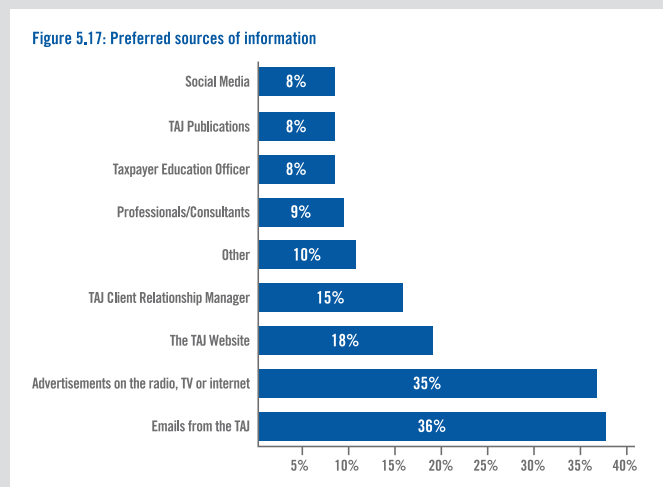
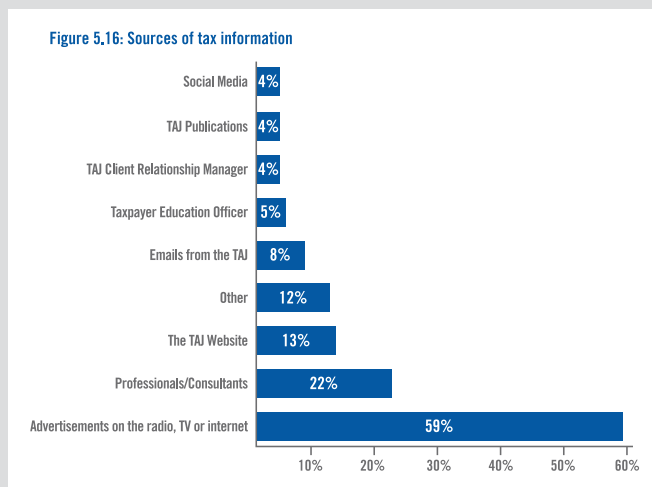
Overall, only 44% of firms surveyed had ever visited the TAJ website. These were more likely to be small sole traders and partnerships or larger companies. The majority of micro enterprises had never visited the TAJ website (Figure 5.15). There was also considerable disparity by location, with firms in rural areas having the least interaction with the TAJ website. Nevertheless, among firms which had used the site, approximately 58% found it user-friendly, and 92% of those firms felt it was informative. The TAJ needs to do more to promote the use of its website among a wider range of taxpayers, as internet coverage across the island continues to improve.

Figure 5.15: Use of TAJ website by firm size and location



5.3.2 SOURCES OF INFORMATION

Traditional media outlets such as radio, television and the newspaper were the main source of information for the firms in the sample. Approximately 59% of them stated that they usually find out about changes to how they should pay their taxes via those sources (Figure 5.16). The second most popular source of information was through professionals or consultants such as accountants and auditors. The TAJ website was a distant third, with only 13% of firms finding out about changes in tax policy from that source. This pattern of acquiring information was fairly consistent across size, sector, location and legal status of firms.



However, when asked about their 'preferred' source of information, more than a third of firms indicated they would prefer to receive information about tax changes by emails from the TAJ, followed by the traditional news media and the TAJ website (Figure 5.17). This response was fairly consistent across the various types of firms. It appears that firms prefer to have the information pushed to them rather than having to go in search of it whether by perusing the website or by attending seminars or workshops.

The data indicate that this may be a time issue. Business owners may be too busy to go in search of the information so it is most efficient for them if the information goes directly to them. In reality, business owners may give low priority to gathering information about new tax measures, preferring to focus on their business operations. The onus is therefore on the TAJ to make acquiring this information as easy as possible, with minimal effort. For instance, firms may be reluctant to read reams of information on the website. In this case, the use of short video clips would be a more effective way of conveying new information. Attention-grabbing radio and television advertisements should also continue to be a main part of the communications strategy.

5.4 KNOWLEDGE OF RECENT CHANGES IN TAX POLICY

Even if businesses did not interact directly with TAJ, another way to assess the effectiveness of TAJ's communication methods or public education strategies is to see how much persons know about recent changes that have taken place. Respondents were asked about their knowledge of recent changes in tax policy and tax services.

Overall, knowledge of recent changes in tax policy was skewed depending on the type of firm, the extent to which the reform affected the firm, and the length of time since the reform had been in effect. For instance, as Table 5.1 shows, a fairly large proportion of businesses were aware of the consolidation of the NHT, NIS and education payments, which was implemented in 2012 and which affects virtually all firms. Similarly, the introduction of the Minimum Business Tax in April 2014 seems to have come to the attention of a large share of the firms surveyed. On the other hand, only a quarter of the firms were aware of the new Revenue Administration Information System (RAiS), phase one of which was introduced in February 2015. There was fair knowledge of other online services, however, such as online account management which was already available under the TAJ online tax portal.

Somewhat concerning is the fact that only 30% of the self-employed were aware of the new consolidated income tax form introduced for self-employed persons in January 2015. The new format allows individuals to use one form to report on their annual income tax and payroll contributions. More widespread knowledge of this simplification could induce more self-employed individuals to become compliant.

Table 5.1: Knowledge of Recent Changes in Tax Policy

Tax Policy Change	(% of Firms Aware)
Consolidation of NHT, NIS and education taxes	63%
Minimum Business Tax	62%
Manage account and track filing and payment history online	58%
Arrange payment plan for taxes online	38%
Access to third party information law	35%
Online filing for large firms	33%
National Compliance Plan	30%
Reduction in number of payments for self-employed taxpayers (% of self-employed)	30%
Reduction in CIT rate	29%
RAiS	25%

Generally, non-compliant businesses were less informed than those which had filed taxes in 2015 (Figure 5.18). The survey data also show variation along other characteristics. Larger firms are generally more knowledgeable about tax changes than smaller firms. (Figure 5.19). Companies tended to be more informed of changes than sole traders and partnerships. For example, 37% of companies had heard of RAiS while only 20% of sole traders and 25% of partnerships knew about it (Figure 5.20).

Figure 5.18: Differences in tax knowledge by compliance

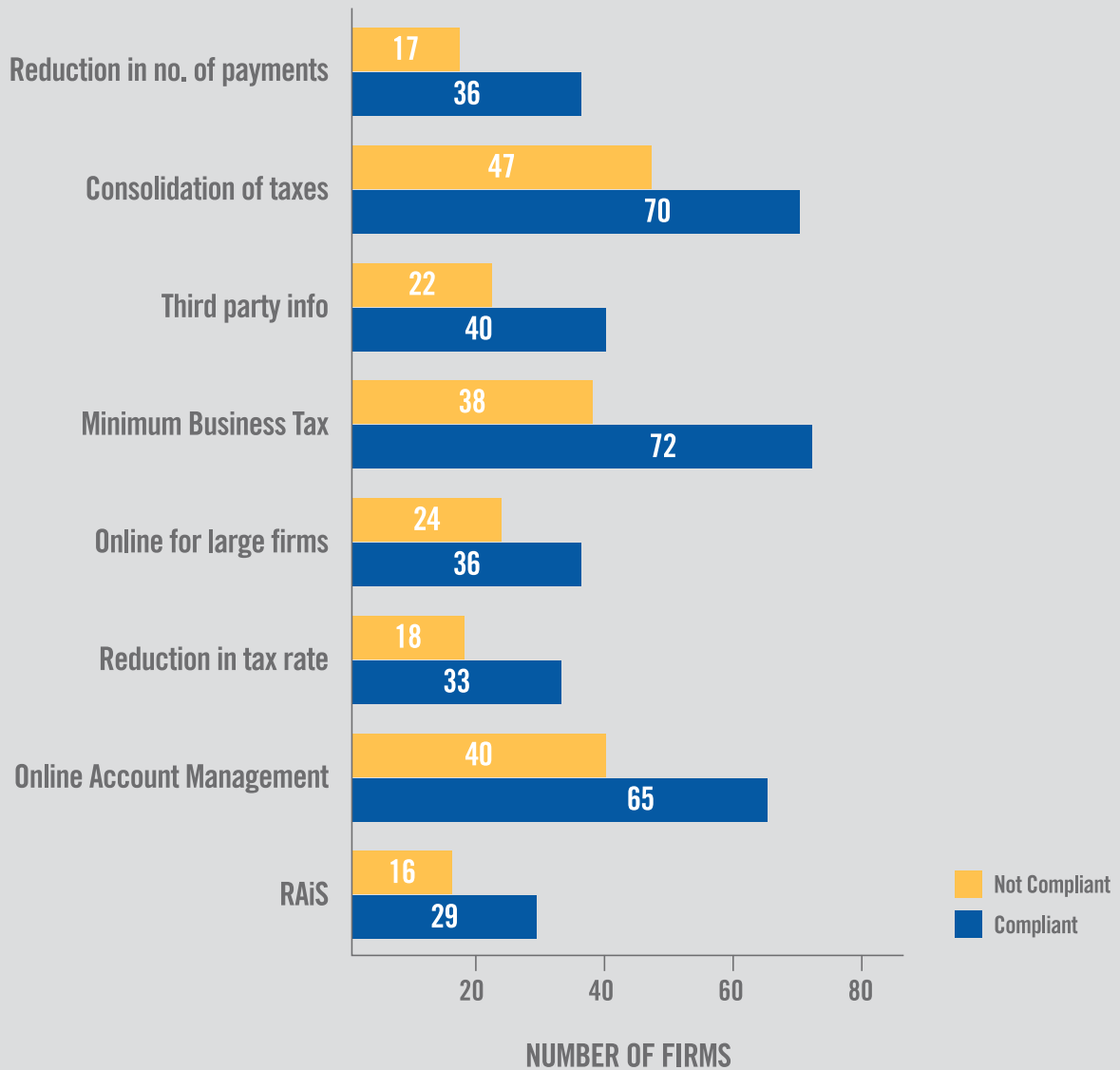


Figure 5.19: Tax knowledge by size of firm

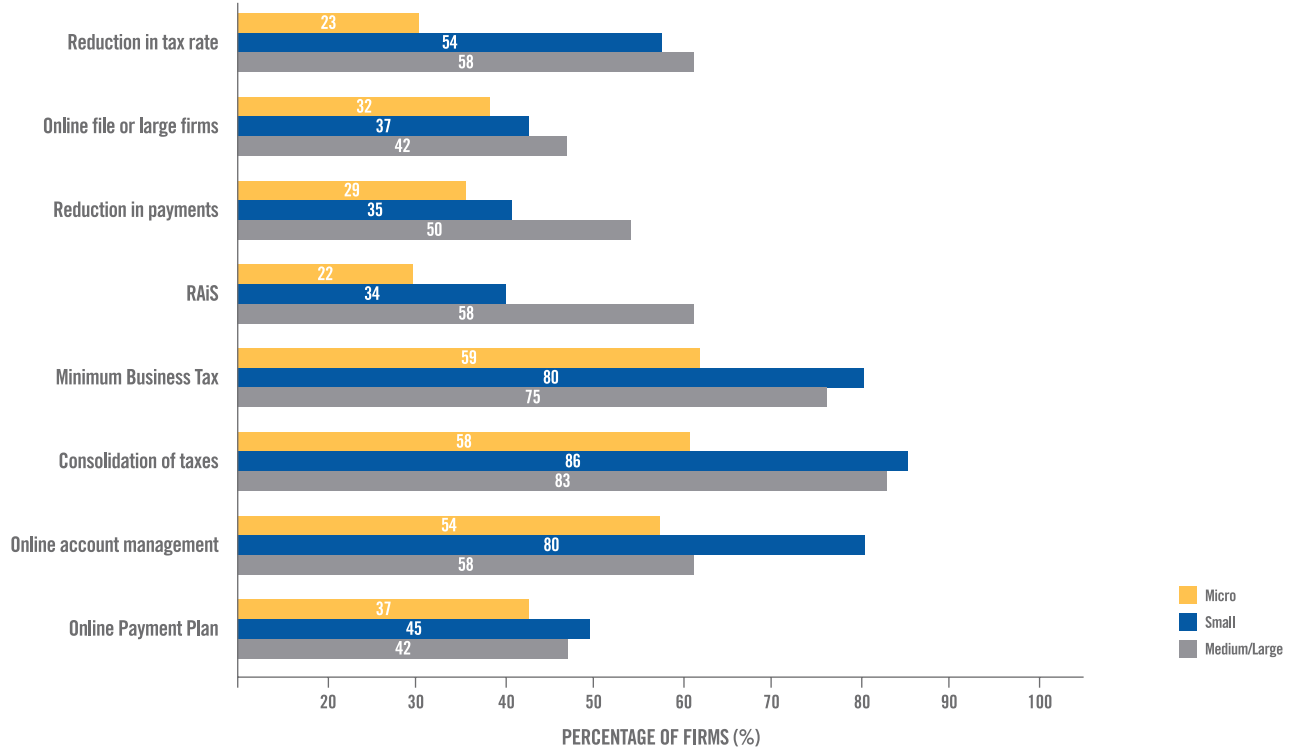
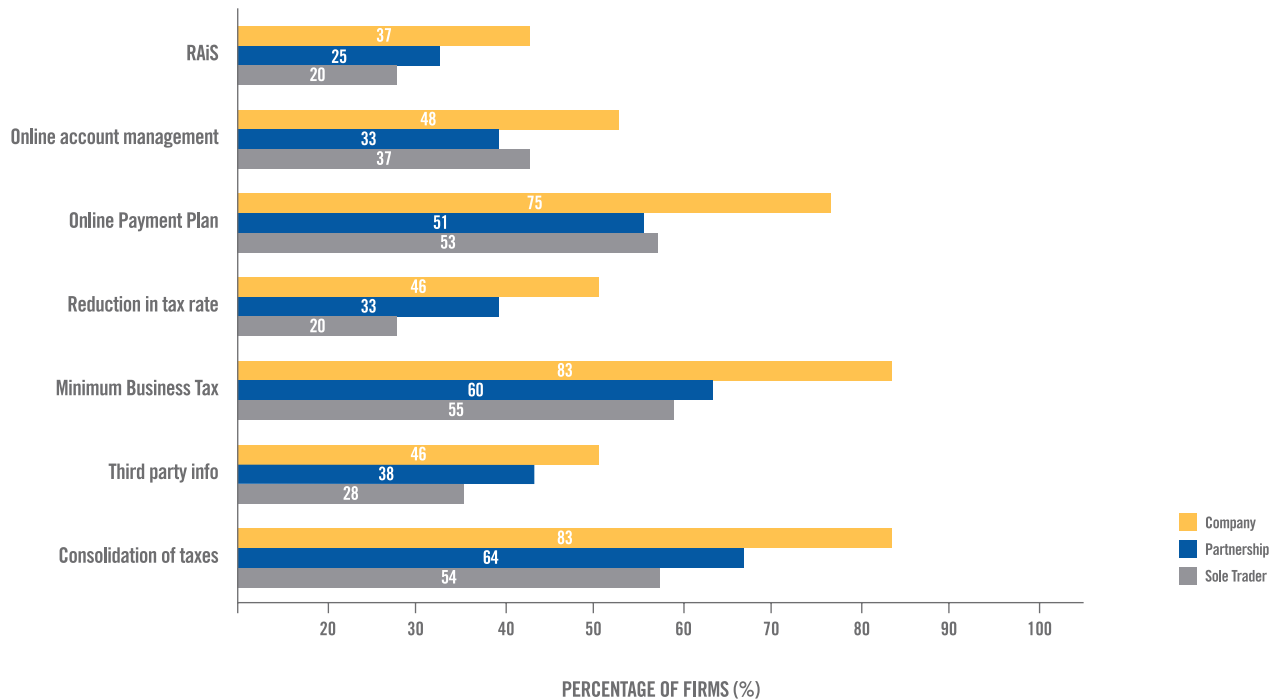


Figure 5.20: Tax knowledge by type of firm



5.5 EFFECTIVENESS OF TAX REFORMS IN IMPROVING COMPLIANCE INTENT

Before discussing the various reforms by the TAJ, businesses were asked about their intention to file and pay taxes in 2016. Approximately 81% of businesses indicated that they intended to file income taxes in the coming tax year (Figure 5.21).¹⁵ This is higher than the 56% which said they had actually filed income taxes in 2015 (Recall Figure 5.2). Interestingly, among this number was more than a half of businesses which had previously been non-compliant, that is, had filed no taxes at all in 2015 (Figure 5.22 and 5.23).

Figure 5.21: Overall tax compliance intent

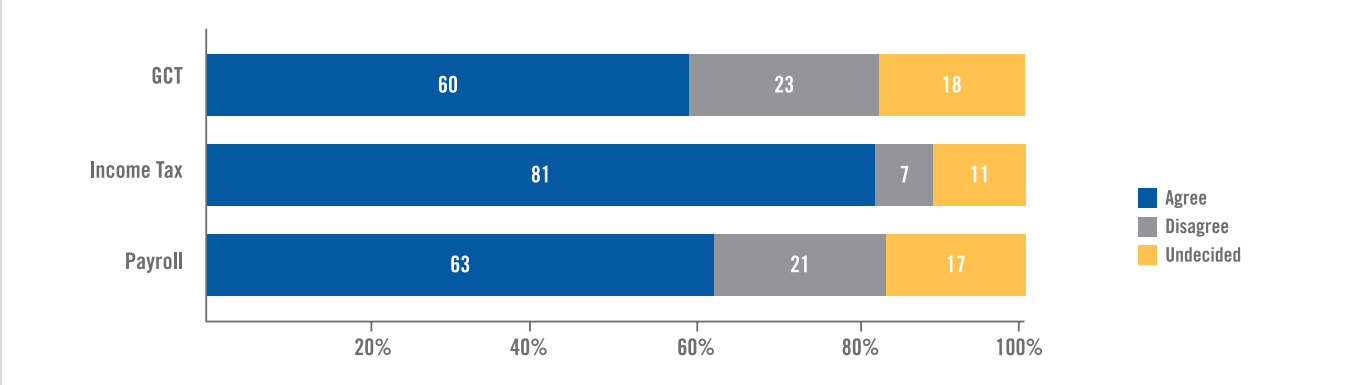


Figure 5.22: Tax compliance intent for “compliant” firms

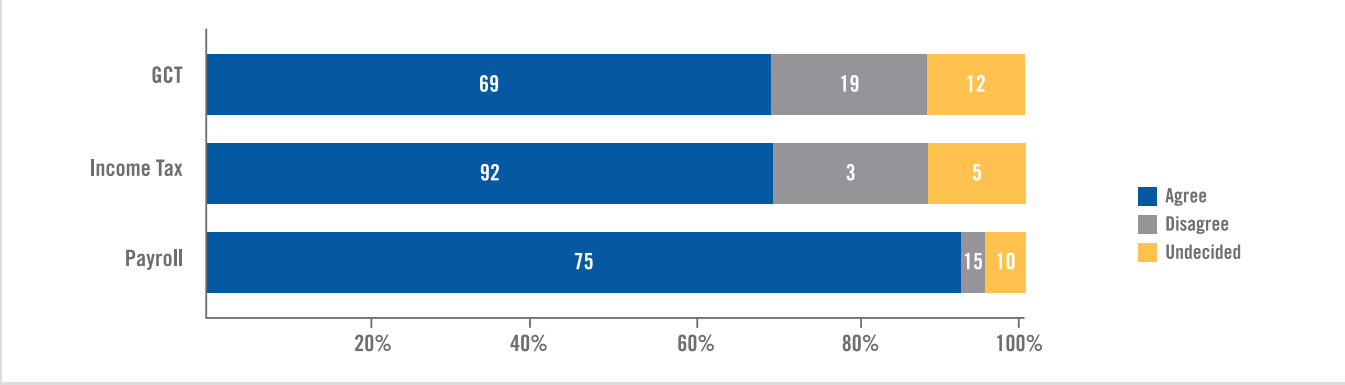
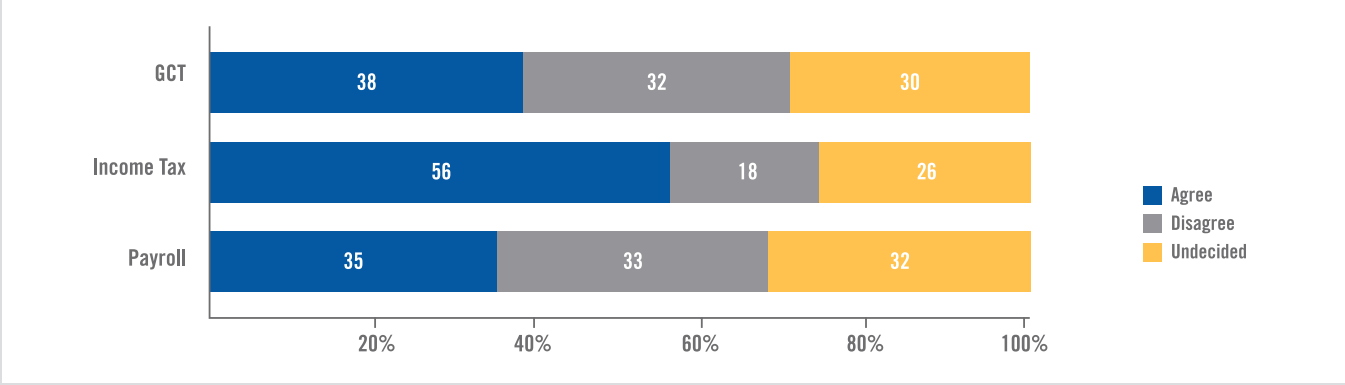


Figure 5.23: Tax compliance intent for “non-compliant” firms



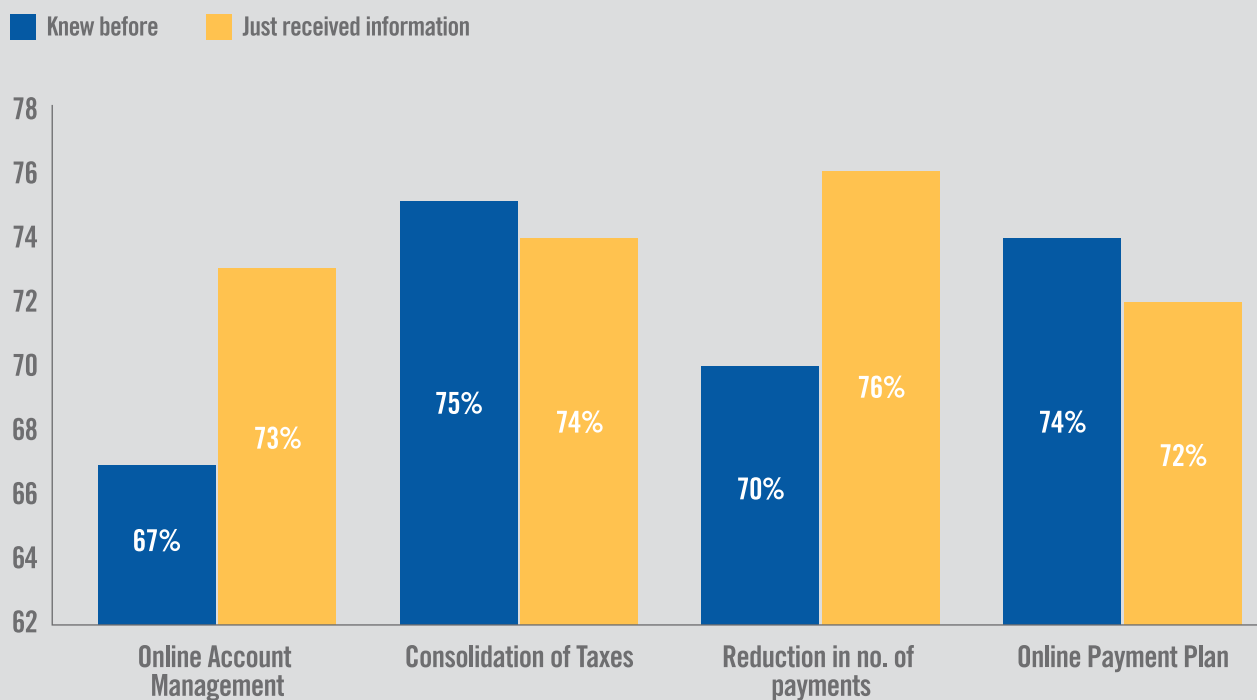
¹⁵ Of course, this statement cannot be taken at face value. Businesses may express an intention and not follow through. They may also falsely report their intent because they are fearful of being investigated by the tax authorities if they state otherwise. These caveats need to be considered when analyzing these findings.

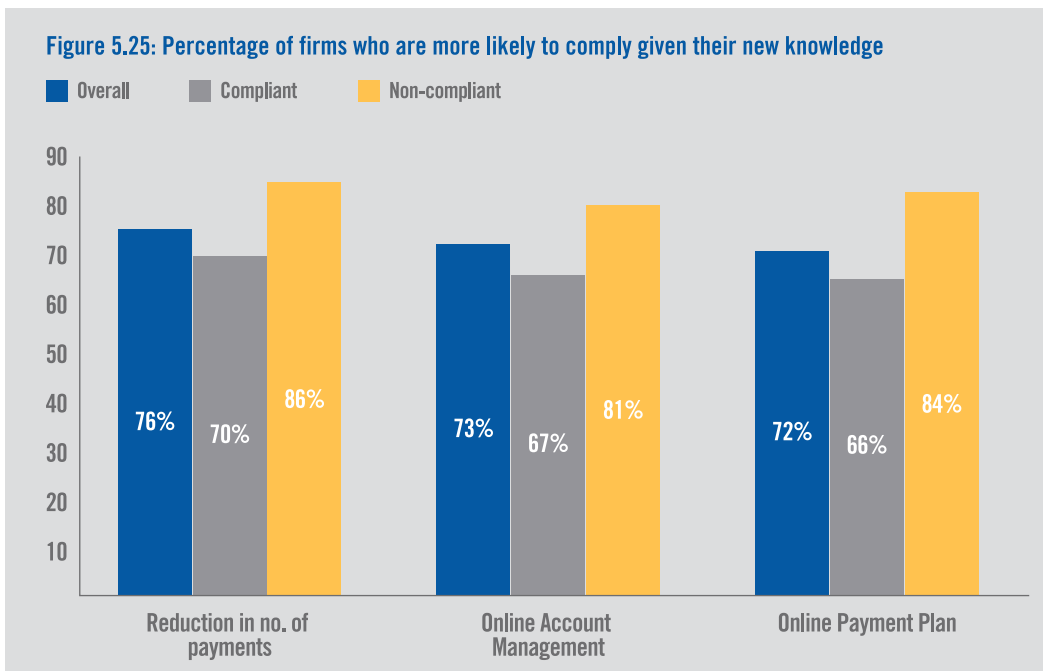


We examine to what extent improvements in the ‘intent’ to be compliant may be attributable to the reforms implemented by the TAJ. Overall, the survey results imply that the changes introduced may have led to an increase in compliance for those who were aware of them and could possibly lead to an even greater increase if more firms were made aware. For example, for those firms which knew about the harmonization of the NHT, NIS and education taxes, 75% of them said that amalgamation had increased their probability of filing and paying taxes (Figure 5.24). On the other hand, for those who were not aware before the interview, 74% of them said that receiving this information would increase their probability of filing and paying taxes. Similarly, of the self-employed firms that were aware of the reduction in the required number of filings, 70% of them said that this had increased their probability of filing and paying. While for the self-employed firms who were not aware, 76% of them said that receiving this information would increase their probability of filing and paying (Figure 5.24).

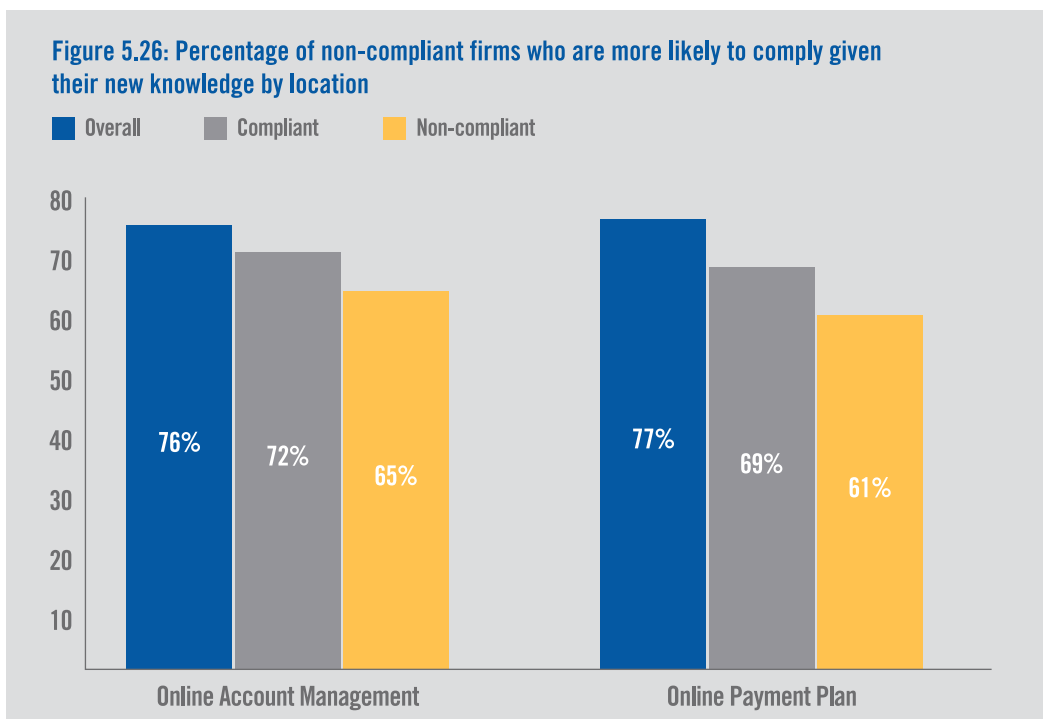
These numbers reflect more than just the share of businesses currently paying taxes. In fact, firms that had not filed any of the three taxes in 2015 indicated that they would be more likely to change their behaviour as a result of the reforms. Figure 5.25 shows the percentage of firms which said being made aware of the new information increased their probability of filing and paying among compliant and non-compliant businesses. Of course, this stated intention needs to be regarded with some degree of skepticism given the sensitive nature of the topic and the possibility of being investigated by tax authorities if non-compliant.

Figure 5.24: Likelihood of being compliant given new information





Rural firms were less enthusiastic than urban firms about the reforms that involved online access. As Figure 5.26 illustrates, only 65% of rural firms that did not know that they could manage their account online said that the new information had increased their probability of filing and paying. While 76% of firms in Kingston and St. Andrew and 72% of firms from other urban areas that were unaware of the new policy said that this information would change their behaviour. The situation is similar for those firms that did not know that they could arrange a payment plan for their taxes online.



These findings do suggest that greater efforts by the TAJ to promote the new reforms may eventually lead to higher compliance rates among businesses. One salient point emerging from the survey is that communication methods need to be more targeted to specific taxpayer segments. While considerable success has been achieved in targeting large taxpayers, corresponding strategies need to be developed for micro and small businesses as well. Certainly, the focus on large taxpayers is justified from a cost-minimization perspective. However, in thinking long term, it is important to also cultivate a culture of tax compliance that will involve bringing all taxpayers into the tax net. Policies specific to micro and small enterprises can help to achieve this.

6. CONCLUSION AND RECOMMENDATIONS

We conclude by summarizing the results of the study and giving recommendations on how to improve the current tax system. The study revealed that recently the TAJ has instituted a number of measures aimed at improving the tax system and increasing compliance. The details of the TAJ's new approach are outlined in the NCP and entail a strategy of improved tax services, tax



education and enforcement. Specific initiatives have been aimed at simplifying the tax process and include measures such as consolidation of the NHT, NIS and education taxes, a reduction in the required number of payments for self-employed persons and mandatory e-filing for employers. The TAJ has also pursued an extensive public relations campaign involving the use of traditional approaches like seminars and the news media, as well as more modern methods such as making use of social media and the internet.

However the results of the survey indicate that there is still more work to be done. The majority of the firms interviewed were generally unaware of the new measures. The good news is that the results of the survey imply that knowledge of these new measures would increase the likelihood of compliance. Despite the push to utilize social media, the results indicate that most firms still get their information the old fashioned way through the traditional media outlets like radio, television and the newspaper. Traditional media is also ranked above social media in terms of how firms prefer to get their information.

The results of the firm survey indicate that firms do not have much interaction with the TAJ. The majority (78%) of firms said that they had never been contacted by the TAJ to educate them about their rights and responsibilities or to familiarize them with the various tax forms and/or to educate them about paying taxes. The firms do not seem to want much interaction with the TAJ either. It is very telling that most (56%) of the surveyed firms had never even visited the website. A few of the surveyed firms even cited “word of mouth” as their usual method of obtaining tax information.

The review of international best practices indicates that the modern approach to tax administration involves a move towards voluntary compliance as opposed to coercive measures. However key to the success of voluntary compliance are taxpayer education and public awareness. Murphy (2008) discussed the importance of people’s perceptions and feelings. Education and public relations are germane to changing people’s attitudes towards compliance.

Taking all of the above into consideration, the following recommendations are being presented:



INCREASED TAXPAYER EDUCATION. The results of the firm survey imply that taxpayer knowledge is still lacking in several areas, particularly among smaller businesses. The TAJ implemented a number of measures to improve the tax process but the taxpayers still seem to be largely unaware of these measures. Further, the results indicate that knowledge of these measures will lead to an increase in compliance. It seems that firms like to have information go directly to them. The TAJ should make increased use of emails and phone calls to publicize changes that are introduced. They could also consider printing and disseminating flyers to firms across the island as ways of specifically targeting firms that may not be registered. The firms also seem to like the traditional media so use of advertisements in the newspaper and on the radio and the television would also be useful in publicizing information.

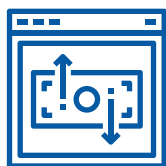
The vast majority of businesses felt that having the opportunity to file tax returns or make payments online made the process easier and/or cut down on the time it took to comply with tax obligations. Additionally the majority of firms that used it found it to be user friendly. The use of these online services cut down on compliance costs. Yet the majority of the firms surveyed are not making use of these services. Some firms indicated that they did not even know that these services were available. Public relations campaigns aimed at advertising these electronic services are one way to assist in improving the tax system. These campaigns should be particularly geared towards smaller firms and firms that are in the rural areas since the results suggest that larger firms in urban areas utilize the online facilities more. Once again here they should make use of the traditional media sources to get the word out to the businesses. Eventually, the TAJ should move towards making it mandatory for all taxpayers to file tax returns electronically.

Two of the main reasons given for not using the online services is that the firms are used to doing it the old-fashioned way and that they find it easier to do it the old-fashioned way. The TAJ provides services where they assist business owners in learning how to use the electronic system. Firms seem to be unaware of these sessions. If the TAJ can help to de-mystify the online system, firms may find it easier to do it online and eventually become accustomed to doing it that way instead. Increased promotion of these sessions will lead to more usage of the system, and hopefully an increase in compliance. These sessions can be promoted

The majority of the firms interviewed were generally unaware of the new measures. The good news is that the results of the survey imply that knowledge of these new measures would increase the likelihood of compliance.



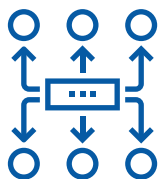
both through the use of traditional media and by using flyers. The key is to use the “old fashioned” way to contact them in order to get them used to doing things the more modern and more efficient way.



EXPAND PAYMENT OPTIONS. The current system only allows Scotiabank customers to pay directly from their account. Expanding the payment options to include other banks such as NCB and other financial institutions such as credit unions and building societies, will make it convenient for more firms to use the online system. In Bihar, for example, the tax authority expanded opportunities to make e-payments by allowing taxpayers to pay through more than 40 banks. If more firms have the option of paying directly from their bank accounts, this should lead to an increase in the usage of the e-filing and e-payment systems and a reduction in the cost of compliance. There may also be a role for the TAJ to play in partnering with other agencies or organizations (public/private) to facilitate smaller businesses to open bank accounts.



SIMPLIFY TAX PROCESS. One way to simplify the tax process is by introducing measures such as presumptive filing for small businesses. This has led to an increase in compliance in several developing countries. The TAJ could consider following a similar strategy of a flat tax for firms below a certain turnover threshold. This is different from the current business tax because the minimum business tax is payable whether or not the business receives any income that year. The minimum business tax does not replace the income tax for businesses. It must be paid in addition to income tax¹⁶. Another initiative introduced in the Indian state of Bihar to simplify the tax process, which can be considered in Jamaica, is the introduction of one annual payment and a simple one-page tax return for small businesses. Simplification of the tax process in Bihar has encouraged small taxpayers to become compliant. These measures can also work for Jamaica.



INTEGRATION WITH OTHER AGENCIES. Among the suggestions given by the firms to simplify or improve the tax process is an integration of the TAJ online system with that of other agencies such as NHT and NIS. Therefore, once one files and or pays taxes, the database of NHT and NIS will be automatically updated. This means that the firm will not have an issue proving payment to these agencies since it will already be in their system.

¹⁶ Individuals may claim a credit or refund if the minimum business tax exceeds the income tax due for that year.



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APPENDIX 1

SURVEY METHODOLOGY

The population for the business survey was obtained by combining two databases from the Companies Office of Jamaica. One database was comprised of companies (mainly limited liability companies) and the other one contained other types of businesses as well (mainly sole traders and partnerships). The total number of entities in the combined databases was 223,255. From this a survey sample of 300 firms was targeted. In anticipation of high refusal rates given the nature of the subject matter, a pool of 4,463 firms was selected, representing 2% of the population. The sample pool was chosen randomly after stratification according to parish and business type (the main identifiers in the database). In the end, a survey sample of 296 firms was achieved, with a margin of error of $\pm 5.8\%$ at a 95% level of confidence.

The primary method of data collection was face-to-face interviews with business owners or their representatives. However, the survey team faced significant challenges dealing with a low response rate of only 12% when comparing the daily number of scheduled interviews to the number actually conducted. There was a high number of cancellations and re-schedules (many of which never materialized). Therefore, toward the end of the fieldwork, in order to efficiently cover areas that were difficult to revisit, 10% of the sample was collected using telephone interviews. The sample pool list was also supplemented with the Jamaica Yellow Pages directory and in-field recruitment (cold call visits) to maximize responses. Despite the challenges faced, sound survey techniques were followed and the breakdown of the resulting sample by different categories was similar to that of the population.

NOTES

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