

Address By
Senator the Honourable Allyson West
Minister in the Ministry of Finance
To The
American Chamber of Trinidad and Tobago

Wednesday 4 October 2017

Ladies and Gentlemen

In his statement delivering the national budget on Monday, the Honourable Minister of Finance emphasized to the national community that a paradigm change was necessary to guide our country through the current economic challenges. The Minister also indicated that a critical aspect of this paradigm was the imperative of collective action and responsibility.

In the last three months, since assuming this office I have been struck that there is no shortage of advice on what must be done. Stakeholders of all stripes have been weighing in. At the same time, I have been struck at the ease with which different stakeholder groups and individual stakeholders can offer suggestions on what the contributions and sacrifices of others should be, with very little indication of what sacrifices and contributions they themselves need to make.

It is with the expectation that the Government would benefit from a meaningful dialogue with AMCHAM that I am very pleased to be here with you this morning.

One important initiative for the national budget this year is the transformation of the revenue collection system in the country, specifically the establishment of the Trinidad and Tobago Revenue Authority. As the Minister of Finance announced yesterday, the Government has decided that the Trinidad and Tobago Revenue Authority will be established in 2018.

We can all expect that there will be many views expressed about the policy decision to establish a revenue authority and, in more detail, the form that the TTRA should take. I want to take this opportunity to walk you through some key considerations that are guiding Government's action in this regard.

The Problem

First is the problem that we are trying to address by changing the revenue administration systems and specifically by using the revenue authority model to do so.

In 1993, the Government concluded that the management of revenue collection in Trinidad and Tobago was not optimal. This was based on

- anecdotal and other evidence of inefficiencies in processes;
- increases in transaction costs to business and their impact on productivity and competitiveness; and
- general complaints of dissatisfaction from taxpayers.

Consequently, Government sought and obtained technical assistance from foreign governments with respect to both domestic taxes and customs duties.

In 2002, Government appointed a committee, headed by Mr. Gordon Deane, to review the revenue administration system. The Committee identified the following weaknesses in the system

- Deficiencies in the legislative framework
- Anti-business rules and regulations
- Poor customer relations
- High incidence of corruption and corrupt practices
- Deficient human resource management

- Inadequate management capability, accountability and training
- Inadequate staff development, training and accountability
- Lack of control over and accountability for budgetary allocations
- Inadequate employee compensation packages
- Inefficient systems for internal investigation and enforcement
- Inadequate information exchange and co-ordination between the administration and between the various taxes levied
- Lack of appropriate information technology systems
- Poor physical infrastructure and accommodation

Two of these deficiencies have been addressed:

- Significant, but still insufficient upgrades in the use of technology – GENTAX and ASYCUDA World
- Improvement in physical infrastructure with the completion of the Customs and Inland Revenue Department towers of the Government Plaza

The Deane Report; work by the Caribbean Technical Assistance Centre (CARTAC) and other technical assistance inputs, as well as practical experience, have clearly demonstrated that attempting to effect

meaningful transformation within the current legal, regulatory and organisational framework has not worked.

The decision to establish a revenue authority was made in November 2002 and a project implementation committee within the Public Service was established. As if to give testament to challenges faced, nothing much was done. In 2009, Government established a special purpose company, the Trinidad and Tobago Revenue Authority Management Company Limited, to set up the TTRA. During that effort, there was considerable discussion in the national community about the TTRA; much of it channeled by misinformation for which GORTT must accept some responsibility as it failed to clearly indicate at the time how the country would benefit from the establishment of a revenue authority.

As the Minister of Finance noted in his Budget Presentation on Monday, during 2009 and early 2010 significant advances were made in establishing the TTRA. However, with the advent of the new Government, the UNC administration abruptly stopped all that work. I don't think that I am exaggerating here when I note that the UNC Administration quickly realised the value that the TTRA would have added, and/or the deficiencies in the current structure of tax administration, but chose political expediency over good policy.

Let us look briefly at the question of leakage. First the “tax gap”: *The Tax Gap is defined as the difference between tax actually collected and what should be collected.*

Professor Karl Theodore and his associates at the University of the West Indies have completed a preliminary study in which they estimated that the Tax Gap is between 11 percent and 18 percent, or between TT\$12 billion and TT\$15 billion. Estimating recovery of 68% of that shortfall, the shortfall of revenue by tax type is as follows:-

- Corporate Tax Gap **TT\$5.1 billion** and **TT\$6.6 billion**
- VAT gap between **TT\$1.9 billion** and **TT\$2.4 billion.**

Much of this is believed to be as a result of failure to collect taxes from the informal economy which is forecasted to be an estimated 28% of real GDP.

The IMF identified a similar shortfall in tax on income.

The key to addressing tax compliance and collection is the creation of a transparent tax system, in which taxpayers are motivated to freely comply. Criteria for such a system includes equitable distribution of the tax burden. In Trinidad and Tobago there is a serious question of the tax net or the range of tax coverage. It is commonly felt that a significant segment of certain categories of economic actors do not bear their fair share of taxes,

while benefiting from the services provided by the State (and many of them complain about the quality of those services): they include

- Doctors
- Lawyers
- Insurance professionals
- Taxi drivers
- Food vendors
- Carnival band producers
- Artistes and sports persons

In other words, we have wage earners who are relentlessly taxed by the week or the month; who may be living from pay cheque to pay cheque while a wide range of persons making quite a good living, driving luxury vehicles and benefitting from government subsidies paid for by the said wage earners are not paying much if anything in the way of direct taxes. This is regressive and repressive.

This Administration is committed to addressing this imbalance, to not, as a general rule, seeking to increase taxes on the compliant while the non-compliant continue to operate with impunity. This administration is committed to establishing the TTRA.

Why a Revenue Authority

The fundamental key argument in favour of a semi-autonomous revenue authority is the dynamic work of revenue administration, with the changing ways in which money is made, transacted, transferred and moved between accounts and countries. The international use of money for all kinds of legitimate and illegitimate reasons requires a management framework that can be anticipatory, proactive and flexible. Quite frankly, it has been found that efforts to achieve these characteristics in the context of the public service rules have not borne much fruit.

Given the economic challenges that we are facing with energy revenues down by ninety percent over the last five years, there is an urgent need to ensure that the country has the resources to provide the services that our citizens expect and deserve.

A revenue authority is a revenue administration whose governance regime provides more autonomy than a normal department in a ministry. Revenue authorities have been established in almost fifty countries throughout the world, such as Botswana, Canada, Guyana, Jamaica, Kenya, Malawi, Malaysia, Mauritius, Mexico, Peru, Singapore, Tanzania, Uganda, the

United Kingdom, Venezuela and Zambia. The Revenue Authority governance model has been cited as an avenue

- to improve revenue generation and compliance with revenue laws;
- to offer a more efficient service to taxpayers along with a more professional staff complement; and
- to enhance the capacity to address issues of malpractice and corruption.

The philosophy guiding the design of the TTRA is to ensure the establishment of an organisation that allows for transparent, efficient and effective operation in a flat structure with clear role definition and accountabilities.

Given the need for the TTRA to facilitate economic growth and development while simultaneously protecting the country's borders from the movement of illicit goods and money laundering, the approved organisational structure should ensure:

- The separation of functions to reduce conflict of interest to a minimum
- The strengthening of the enforcement arm of Customs
- The strengthening of the investigation capacity for both tax and commercial fraud

- The creation of a robust internal affairs function
- The strengthening of the internal audit function
- Separating the functions of tax processing and tax audit
- Readily available taxpayer services in strategically located, properly staffed public offices
- The location of a range of taxpayer services in each office
- The use of information and communication technologies
- A robust two-way communication flow between the TTRA and its clients.

The Implementation Process

The Government has set itself, or should I say it has set me, some very tight timelines to achieve the objective of bringing the TTRA on line. As the Minister of Finance noted on Monday, the TTRA will become operational during the current Fiscal Year. This is a stretch target but we believe it is achievable, and more importantly, it is necessary. The work programme for implementation is broken down into six main components:

First, we will ensure that the revenue authority model that we use will be “fit for purpose” Trinidad and Tobago. Going into this implementation phase, we have already changed some fundamental characteristics that had marked the iteration that was proposed back in 2009. To arrive at the

model, we are conducting an intensive benchmarking exercise, looking at those countries that have established RAs. We are looking especially at enabling legislation; governance systems and structures; human resource management systems; operational efficiencies; work rules.

Second, we are building strong performance management systems, including individual and institutional performance management and a robust monitoring and evaluation framework.

Third, we are determined that the TTRA will be responsive to the needs of the country and responsive to the changes in the operating environment. It is accepted that revenue administration is a very dynamic process that is continually changing. This requires a RA to be anticipatory, flexible and agile to meet the changes in the environment. We have set four outputs to achieve this –

- (a) a fit for purpose organisation designed for agility;
- (b) strategic and business plans that are aligned for agility;
- (c) reengineered business processes; and
- (d) transparent work rules.

Fourth, revenue collection is the core mission of the TTRA. The objective of this component is to ensure that the TTRA performs this function well. This objective is focused on efficiency, that is, ensuring that the TTRA “does things right”. The elements of this objective include

- rationalisation of services,
- improved collection,
- facilitation of trade and commerce,
- enhanced border security, especially relevant to Customs, and
- improving compliance through improved customer focus and service.

Fifth, we have learnt from the 2009 experience that the benefits of transparent revenue collection needs to be shared with the national population. We therefore, will employ a very robust stakeholder strategy that will be designed to accomplish two major objectives. One will be to ensure that various stakeholders not only understand why the TTRA should be established but also why they would buy-into the concept and objectives of the TTRA. Equally important to us, is to receive stakeholder input in the design of the TTRA and in the transition process.

Sixth, is the actual transition process that will ensure business continuity in the administration of the revenue collection and protection of the country's revenue, in other words, a seamless transition from the current state to the TTRA. The elements of this component are ICT transition, HR transition, records transition and a change management process.

Conclusion

Ladies and gentlemen, having spent the last twenty-five years in the private sector, experiencing the frustrations of an inefficient and quite opaque tax system, I am convinced of the need for a change in paradigm in this area. I welcome the input from, and the full support of, AMCHAM to effect this change.