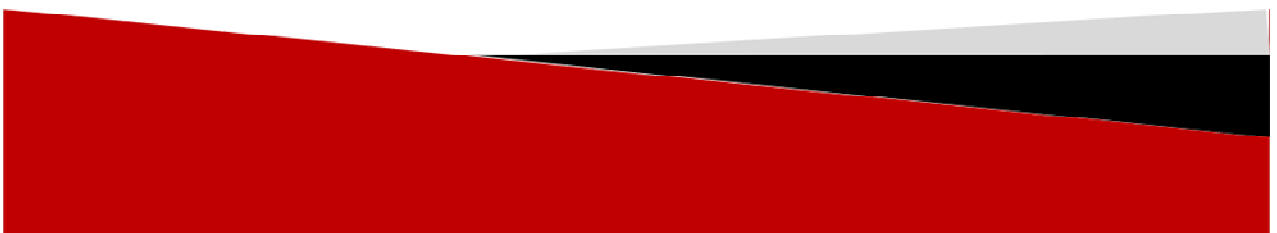

Overview of the Proposed Trinidad and Tobago Revenue Authority

Presented by:
Dr. André Vincent Henry
Chairman
TTRA Management Company
Limited

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Employees of Inland Revenue Division
& Customs and Excise Division



POTENTIAL IMPACT OF TTRA

I imagine that if I were to ask how many people in this room are taxpayers, all of us would raise our hands. Whether it is income tax, corporation tax, VAT, or customs duties we are all affected by taxes. I also imagine that if I were to ask how many of us have experienced difficulties with the way that the tax laws are administered, many of us would raise our hands and we could cite an unsatisfactory experience in the length of time for returns to be processed and refunds issued, the quality of customer service that we have received when interacting with the various tax administrations, our sense of fairness and equity, concerns we have about whether everyone is bearing his/her share of the responsibility for taxes, the manual procedures at Customs and Excise Division, and the overall high transaction cost of doing business.

OUTLINE OF THE BRIEFING

The purpose of the briefing this morning is to share with you how the proposed Trinidad and Tobago Revenue Authority will seek to make the fulfilment of this civic responsibility as painless as possible. The discharge of this responsibility by a taxpayer should be responded to with courtesy, and a customer service experience that almost has the taxpayer

muttering, “Like paying tax in Trinidad and Tobago nice now”.

My brief presentation will contain the following sections:

1. Diagnostic of revenue collection management in Trinidad and Tobago
2. Outline of the Revenue Authority Model
3. Application of the model to Trinidad and Tobago:
 - a. Mandate (addressing powers, functions and limitations)
 - b. Institution Architecture (addressing transparency, equity, leakage, enforcement and compliance)
 - c. Organisation Design (addressing structure, strategic human capital management and employee experience)
 - d. Stakeholder Relations (addressing customer interface customer experience, taxpayer rights, partnering)
4. Challenges to implementation (legacy HR, legacy IT, physical infrastructure).

DIAGNOSTIC OF REVENUE COLLECTION MANAGEMENT IN TRINIDAD AND TOBAGO

In 1993, the Government came to the conclusion 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; the increases in transaction costs to business and their impact on productivity and competitiveness; and general complaints of dissatisfaction from taxpayers. As a consequence, Government sought and obtained technical assistance from foreign governments with respect to both domestic taxes and customs.

By 2002, Government was still not satisfied that the two divisions were delivering value for money and customer care to the people of Trinidad and Tobago and whether the existing system was adequate to meet the needs of a rapidly developing economy in a challenging international environment. Government appointed a committee comprising representatives of the private sector and government (including then current and former staff of the two divisions) to examine the institutional framework of revenue collection in Trinidad and Tobago.

That Committee, headed by a former president of the Trinidad and Tobago Chamber of Industry and Commerce, observed the following deficiencies in the existing institutional framework:

- Deficient human resource management processes
- 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
- High incidence of corruption and corrupt practices
- Inefficient systems for internal investigation and enforcement
- Inadequate information exchange and co-ordination between the administration and of various taxes levied
- Poor customer relations
- Anti-business rules and regulations
- Lack of appropriate information technology systems
- Poor physical infrastructure and accommodation
- Deficiencies in the legislative framework.

The Committee also concluded that the revenue authority

model of revenue collection management provided an excellent framework to tackle these deficiencies.

OUTLINE OF THE REVENUE AUTHORITY MODEL

The Revenue Authority Model is not new. The trend of Governments reverting to the semi-autonomous agency framework for managing revenue collection goes back to the mid-eighties and the countries which have established revenue authorities are found in all stages of development and on every continent. They include: the United Kingdom, New Zealand and Canada; Uganda, Tanzania and Zambia; Peru, Bolivia and Mexico; Bosnia and Macedonia; Philippines, Malaysia and Singapore; Jamaica, Barbados and Guyana.

The experience with the framework has not been totally positive in all countries and that can be expected. I note therefore that we have the opportunity to understand better what works, what the challenges are and how they may be addressed to ensure that Trinidad and Tobago could best benefit.

The key argument in favour of the 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 require a management framework that can be anticipatory and proactive and flexible. Quite frankly, it has been found that efforts to achieve these characteristics in the context of public service rules have not borne much fruit.

In the case of Trinidad and Tobago when once the recommendations of the Committee were accepted in November 2002, there was not an undue and ill-considered rush to establish the TTRA. Additional technical assistance was sought and received from the Caribbean Technical Assistance Committee (CARTAC) and the International Monetary Fund. Moreover, in 2007, the Government engaged the services of Maureen Kidd and William Crandall, internationally respected revenue authority specialists and veterans themselves from the Canada Revenue Agency, to advise on the process of implementation of the decision to establish the TTRA.

Then in June of last year, the Trinidad and Tobago Revenue Authority Management Company Limited (TTRAMCoL) was established as a special purpose company with the focused mandate to bring the TTRA into being.

I would now like to briefly outline how TTRAMCoL has approached the operationalising of the decision to establish the TTRA:

1. First we ensured that we had an **Understanding of the Government's Mandate in establishing the TTRA**

which could be summarised as:

- a. Ensuring compliance with the tax laws of Trinidad and Tobago to minimise leakage
- b. Ensuring the transparent and equitable enforcement of the tax laws of Trinidad and Tobago
- c. Contributing to the control and security of the country's borders
- d. Improving constituent services
- e. Maximising effectiveness and efficiency of the institution through the harvest of its human capital and the leveraging of technologies

f. Internalising high professional values, ethics and integrity in the core of the organisation.

2. **Benchmarking** – TTRAMCoL reviewed the establishment, structure and operating successes of revenue authorities worldwide and decided to benchmark our design against Her Majesty’s Revenue and Customs of the United Kingdom (HMRC). We were also able to establish a relationship with HRMC and have made several requests for information which were facilitated directly by personnel of HMRC.

3. **Review of the modernisation processes under way in the Inland Revenue Division and the Custom and Excise Division** – In particular, the focus was on the information technology platforms which will form the foundation for executing the functions of revenue collection and administration in the TTRA. This process included receiving detailed presentations from the providers of the information technology systems and from the staff operating those systems.

4. **Creating a framework for investigation** – We articulated a clear process and work plan for the establishment of the TTRA, including the design of the organisation’s structure.

5. **Creating a functional design for the TTRA** – Based on the comparative research and benchmarking for best practice, the Board established a functional model which identified the key functional processes that a modern revenue authority should pursue.
6. **Conducting a detailed business process review of Domestic Tax and Customs** – Using several teams, the Board identified every process and procedure which the TTRA will be required to execute as a modern revenue authority. In effect, we confirmed the ‘as is’ of the existing processes, before arriving at the ‘to be’ processes, taking into consideration the new technology as well as revised operating strategies.
7. **Conducted time and level of effort analysis** – The business process reviews were supplemented by detailed interviews to determine the level of effort and time required to conduct various processes.
8. **Engaged the executive and other personnel of the two existing divisions** – The Board of TTRAMCoL and its teams constantly engaged the executive of the two existing divisions.

Application of the Model - Mandate

If you listen to some of the comments concerning the TTRA, you would believe that the institution would be a supra-governmental organisation with powers that in some cases actually outstrip the Parliament. In reality, the TTRA is a clearly focused institution with narrowly defined responsibilities.

Application of the Model - Legislative Framework (Functions of the TTRA)

The TTRA under the proposed legislation will have three functions:

- The collection of taxes under the revenue laws
- The administration of the revenue laws, that is to say with respect to the collection of revenue.
- The enforcement of the revenue laws, that is to say with respect to the collection of revenue.

It is important to appreciate that there is no policy function identified. Indeed, one of the discussions that take place internationally in assessing the revenue authorities is the intersection of the administration of collection and the policy issues related to tax policy. Most seem to agree that

Revenue Authorities need to keep the focus on the former and leave the latter to policy makers in ministries of finance. We should note, however, that in ensuring the effectiveness of collection management it will be important for the TTRA to provide advice on issues related to the risk to collection.

***Application of the Model – Legislative Framework
(Functions of the Board)***

In the legislation, the functions of the Board have also been clearly defined and are limited to:

- Approving management policies in relation to:
 - Finances including procurement
 - Human Resources, including recruitment, remuneration, promotion, training and development, performance assessment, conditions of work, discipline, termination of employment and superannuation benefits.
- Approving:
 - Service standards and performance targets
 - Code of conduct for the employees
 - The strategic plan, budget and annual report
 - Establishing the mandate for collective bargaining

and approving collective agreements.

- Ensuring
 - Probity in using and allocating resources, that is to say in respect of the allocation provided by Government for the operations of the TTRA, not, and I repeat, in the management of revenue collected
 - The use of modern corporate governance procedures and practice
 - Overseeing the internal audit of the Authority.

***Application of the Model - Legislative Framework
(Limitations on the Powers of the Board)***

It is important to note which responsibilities do not fall within the purview of the Board of Management of the TTRA.

The Board of the TTRA cannot provide specific directions to the Chief Executive Officer or any employee of the Authority with respect to the functions of the Authority. That is to say, the Chairman of the Board, will not be in a position to phone up the Chief Executive Officer or any other employee and tell him or her to pull the tax records of my neighbour and take

any particular action; the Chairman will not have the authority to fast track the processing of the return of his / her wife or child.

May I therefore reiterate that the Board, or any member of the Board, is prevented from having access to any information concerning any taxpayer, individual, or company which has been obtained by the Authority during the course of its functions.

The Board, or any member of the Board, will also not have access to any documents or other information concerning legal action brought by or brought against the Authority.

Institution Architecture - Fundamental Principles

In designing the architecture of the TTRA, TTRAMCOL sought to establish some fundamental principles. These were:

1. The TTRA is being established to provide a superior set of services to the people of Trinidad and Tobago through the transparent administration of the tax laws of the country.
2. The TTRA should be operated based on principles of

equity, integrity, probity and transparency.

3. The TTRA is being established to provide public goods for the people of Trinidad and Tobago.
4. The effective and efficient operation of the TTRA will ensure that the Government and the people of Trinidad and Tobago will have available more resources to provide superior services to the country.
5. The TTRA is obligated to serve all the people of Trinidad and Tobago without favour.

Institution Architecture – Transparency

One of the main factors informing the Government's decision to establish an integrated revenue authority is the need to separately address the need for transparency, oversight and compliance. Neither the IRD nor the CED has a dedicated Internal Affairs Division that would address investigation of fraudulent practices in the respective divisions. TTRAMCoL has proposed the establishment of an Internal Affairs Unit in the TTRA, which will be part of an integrated Internal Audit and Internal Affairs Department. It is important to note that while this unit will have an administrative reporting line to the Chief Executive Officer; it has a direct report line to the

Board of Management of the TTRA as a means of ensuring its independence.

Additionally, in our approved structure the internal audit function has been expanded in the proposed TTRA structure to give further organisational support to the drive for greater transparency.

To further improve transparency, we have addressed the need to separate the functions of tax processing and compliance in domestic tax. In the proposed structure, there is a clear line of demarcation.

The other major initiative is strengthening of the investigative capacity for both tax fraud and criminal fraud.

Institution Architecture – Leakage

Some estimates put leakage in the collection system as high as five per cent of gross domestic product. A number of initiatives have been employed to address these occurrences. First, a strategic view has been taken to understand taxpayer needs and behaviour and the reasons for compliance and non-compliance.

Second, we are proposing to increase the rigour with which the management approach to tax administration will be on the basis of tax-payer type. This is in keeping with best practice and has implications not only for the effectiveness of the collection process, but also for the quality of the customer interface.

Third at the functional level, we have built into the structure a number of design aspects to maximise revenue. On the domestic tax side, these include an increase in the number of positions assigned to the compliance function so that opportunities for revenue maximisation among energy based financial firms with international operations, value added tax, medium and small companies and individual taxpayers can be enhanced. In addition to designing the compliance structure by taxpayer type there is also an increased focus on monitoring and intelligence and the strategic management of criminal tax fraud facilities.

On the Customs and Excise side there has been an increase in the staffing of the enforcement function especially in the areas of marine and on-shore response. It is anticipated that these initiatives will result in a greater control over the border protection function and better monitoring and

surveillance of imports. Both the enforcement and compliance functions will be intelligence driven and risk managed. To accomplish this, the TTRA structure has built-in significant intelligence management capacity reflected in a new intelligence unit for the Customs and Excise aspect, as well as a risk management capacity which forms part of the Corporate Technical Support arms of the TTRA.

Institution Architecture – Risk Management

Directly related to the proactive addressing of leakage, but also with implications for the integrity of the entire revenue administration process are the innovations proposed with regard to risk management.

The revenue collection management and border protection mandate given to the TTRA is central to the governance framework of the country. The creation of the institution provides an opportunity to structure and institutionalise a strong enterprise risk management system into the organisation. This is a completely new strategic focus and is one of the differentiating elements from the existing divisions. The purpose is to reduce risk revenue collection exposures emanating from new business models, new ways, products and advanced technologies which might reduce

revenue collection and to enable the TTRA to allocate and use resources as efficiently and effectively as possible.

Institution Architecture - Efficiency

The TTRA is planning to use five (5) strategies to maximise efficiency.

1. The application of information technology to leverage its internal business processes to continuously improve its product offerings. On its primary customer applications of ITPS and CBCS this will be done by the increased use of enterprise analytics in the ITPS package and under CBSC with the roll out of ASYCUDA World to all importers.
2. The implementation and system-wide application of enterprise analytics will enable deeper insight into the taxpayer and importer profiles allowing for a knowledge-driven response to customer needs.
3. TTRA's structure also reflects the rationalisation of shared/common services both in the Technical Support and Corporate Support aspects of the organisation. The Technical Support aspect will amalgamate both common services such as legal and appeals, and provide structure for new services such as risk

management, quality control/quality assurance and planning and modernisation.

4. A streamlined executive management structure with clear accountabilities.
5. Institutionalisation of a continuous improvement framework that is a central part of a comprehensive system to manage and improve the quality output.

Organisation Design - Human Capital Management

In the current framework, the IRD and the CED are part of the Ministry of Finance and are governed by the rules and regulations of the central public service. In both cases, there is no real robust strategic human capital management function residing in the respective departments and able to provide proactive strategic direction. For the most part, only routine personnel administration issues are dealt with in the divisions. As a consequence, there are deficiencies in processes and results of:

- Recruitment and selection
- Career planning
- Promotion and advancement
- Learning, growth and development

- Human capital formation
- Performance Management
- Rewards and Compensation.

In the TTRA, there is a clear responsibility for understanding and anticipating the human capital needs of the organisation and ensuring that they have been identified and that they are available to support the strategic TTRA goals. The TTRA will achieve this through:

- **Workforce planning and organisation** - This will include the development and continuous improvement of the organisational structure of the TTRA; the mapping and development of business processes and the recruitment and selection and retention of appropriate candidates to perform and fill the roles identified by the process mapping activities.
- **Performance management** - Developing new systems and performance standards that are aligned to the strategic transformation goals of the organisation to encourage excellence and increased productivity.
- **Compensation** - Establishing and then managing new rules for compensation.
- **Staff relations** - Managing the collective bargaining process through constructive and collaborative

relations with the workers and their duly recognised representatives. Included in this will be the management of employee relations, the development of dispute management processes including a complaint or grievance process that will be centrally managed.

- **Training and Development** – TTRA will institutionalise the process of continuous learning and growth of its employees.

Organisation Design - Employee Experience

The 2002 Committee identified that one of the fundamental shortcomings of the current institutional framework is that a number of human resources issues are not effectively addressed. The TTRA proposes to provide a superior employee experience, which recognises each employee, not only as the primary source of the value proposition for the TTRA, but also recognises the employee as a unique individual having an inherent value in and of herself.

To facilitate the delivery of the Customer Experience, we will define the Employee Experience that will detail what the employees of the TTRA can expect of the organisation and also let them know what the organisation expects of them.

The basic features of the employee experience would include:

- Structured employee orientation to the philosophy, values, vision, mission and expectations of the TTRA
- Providing a good work environment with clear values and goals
- Investing in human capital development and continuous improvement
- Ensuring fair treatment and equitable pay
- Demanding results while caring about people
- Having a clear performance management system that gives frequent, direct and honest feedback about performance and opportunities
- Providing clear opportunities for professional development and career mapping for employees.

Stakeholder Relations - Customer Interface

It is recommended that an effective approach is an organisation that acknowledges that taxpayers in different populations or groupings usually have different issues/problems in complying with the tax laws, and can

have significantly different opportunities and reasons for non-compliance. This recognises the need for segmenting the market into strategically important sectors or segments, with an emphasis on “client focus”, that is, a focus on taxpayer needs rather seeking to have taxpayers adapt to the revenue authority's needs. The advantages of such a system are seen in greater client satisfaction and increased compliance.

Stakeholder Relations - Customer Experience

In the same manner that we have defined what a superior employee experience should be we are in the process of defining what a superior customer experience should be for clients of the TTRA. What the customers of the TTRA can expect of the organisation will be detailed in the Customer Experience.

One of the primary issues identified in the decision to establish the TTRA is the level of service that is delivered to client. As I noted earlier, paying taxes is not normally embraced and therefore there is a natural inclination for the taxpayer to be very critical of the interface with the agency. TTRA proposes to develop a superior customer experience that would take away at least some of the edge on paying

taxes. This will be done through:

- Communicating to all employees the importance of treating clients with respect and sensitivity
- The creation of convenient personal interface opportunities for clients to interact with the TTRA
- Leveraging technology to increase the convenience delivered to customers
- Continuous education of customers about their rights.

We will ensure that one of the criteria for assessing the performance of staff would be the quality of the customer experience.

Stakeholder Relations - Taxpayer Rights

Out of this issue of customer experience, I want to highlight taxpayer rights. I am sure that many taxpayers feel disempowered when dealing with tax administration officials. International best practice has demonstrated that when taxpayers have a clear sense of their rights and an appreciation that these rights are respected by the revenue administration agency, voluntary compliance increases.

A basic charter of taxpayer rights will include:

- The right to be informed, assisted and heard
- The right of appeal
- The right to pay no more than the correct amount of tax
- The right to certainty
- The right to privacy
- The right to confidentiality and secrecy.

Naturally, the charter of taxpayer rights will include an outline of taxpayer obligations including:

- The obligation to be honest
- The obligation to be co-operative
- The obligation to provide accurate information and documents on time
- The obligation to keep records
- The obligation to pay taxes on time.

CHALLENGES TO IMPLEMENTATION

The transition to the TTRA has significant transactional and transformational implications, not only for revenue

collection, but, given the importance of the revenue involved, it also has implications for the provision of public goods.

The revenue authority model is not well known by most in the society and there has been much speculation about the form and functions of the TTRA. This and a number of legacy issues have presented challenges in the transition and I would close by briefly highlighting some of these challenges and sharing with you how we have been managing them.

Challenges to Implementation - Business Continuity

There are two primary concerns that exist with regard to business continuity.

The first relates to minimising any leakage during the actual period of transition. I noted earlier that there is a leakage of revenue as a result of the weaknesses in the current revenue collection management framework. With the uncertainties that come from any transition process it is important that the incidence of leakage does not increase.

Naturally the best way to deal with that would be to ensure that staff in the existing institutions are as motivated and focused as possible. We would like to engage workers and their representatives in a constructive manner in order to manage this situation recognising the constraints present.

More important than ensuring business continuity during the transition is ensuring the long-term effectiveness of the revenue administration process in the long term. We want to ensure that the process of transition is as seamless as possible and that we do not import into the TTRA anything that would reduce the integrity of the new organisation.

Challenges to Implementation - Legacy HR

Government has taken a policy decision that the staff at the existing revenue collection agencies would be offered separation packages and offered opportunities to apply in an open and transparent process for engagement by the TTRA on terms and conditions that I expect to be substantially enhanced when compared to their present terms and conditions.

Ladies and Gentlemen, we understand the discomfort that such uncertainty can engender and we are appreciative of the duty of care that we have to make this transition as non-stressful as possible, but we also recognise that it cannot be stress-free.

We will seek to be open with workers and their representatives with a view to addressing their concerns. For what it is worth, we give our commitment to the workers at the Customs and Excise Division and the Inland Revenue Division, that the TTRA values the immense human and social capital that has been formed over the years and that we would do nothing to jeopardize these assets.

Challenges to Implementation - Legacy IT

Significant resources have been expended within the last decade investing in information technology improvements as part of the on-going reform processes in Inland Revenue and Customs and Excise. In the Division of Inland Revenue these have included the Integrated Tax Processing System for income taxes and the Computer Assisted Mass Approval System for property tax and, in the case of Customs and Excise, the current reform process is upgrading to the

Customs and Border Control System with ASYCUDA World as the software platform.

These three information technology enablers are at different stages of readiness and one of our challenges to ensure the smooth and quick conclusion of their implementation and their integration into the operation of the TTRA together with whatever finance, HR and property, security and other information technology we will use.