



Government of St. Lucia

**OFFICE OF THE DIRECTOR OF AUDIT
PERFORMANCE AUDIT REPORT**

INLAND REVENUE – DIRECT TAXES

FEBRUARY 2014

The Saint Lucia Constitution Order No. 12 of 1978 and the Audit Act establishes the role, mandate and responsibilities of the Director of Audit.

The Office of the Director of Audit conducts its audits under the authority of the Revised Laws of Saint Lucia Ch. 15:19. (Audit Act)

This audit was an independent, objective, and systematic assessment of how well the Inland Revenue Department managed its collection activities for direct taxes namely Personal, Corporate, Withholding and Property taxes.

The Office of the Director of Audit has prepared this report for presentation to the Parliament of Saint Lucia.



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OUR MISSION

The Office of the Director of Audit exists to assist Parliament in holding the Government to account for its management of the country's finances and Public Service. We do this by monitoring and reporting on whether monies appropriated by Parliament were applied as appropriated; whether expenditure conforms to the authority that governs it; and on the efficiency, economy, and effectiveness of Government's operations.

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Key Facts

\$740,832,971

Value of tax arrears for direct taxes at 2014

60,377

Number of accounts with tax arrears

\$0

Value of arrears that IRD has ever asked Cabinet to write off

\$2,968,723

Average value of top thirty three (33) accounts with arrears over \$1,000,000

87%

Percentage of tax arrears two years and older

	2011/12	2012/13	2013/14
Direct tax collections is on the decline	197,384,328.14	177,967,297.29	168,544,461.06

Acknowledgements

This report presents the results of our audit on the assessment of the effectiveness of the management of direct taxes by the Inland Revenue Department.

The Director of Audit gratefully acknowledges the kind assistance, support and cooperation of the management and staff of the Inland Revenue Department.

The Director also extends her sincere appreciation to the audit team and to other staff members who contributed towards this audit.

1. Executive summary

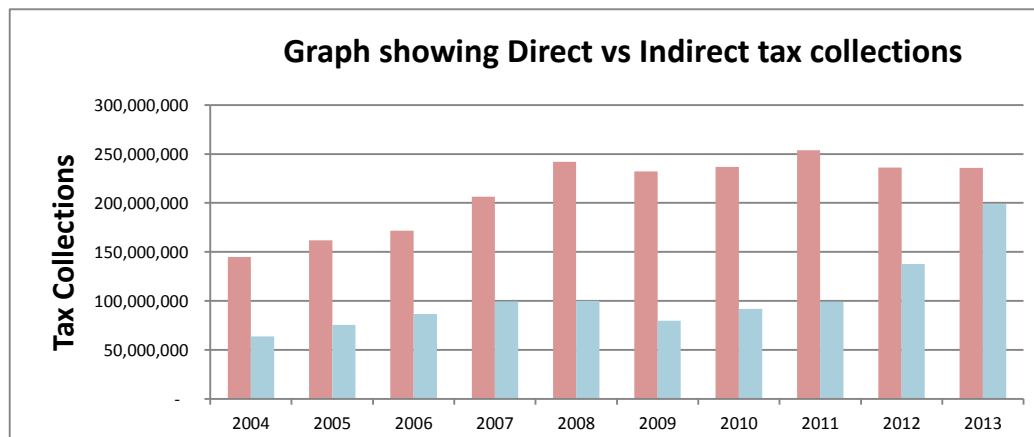
- 1.1 The audit of direct tax focused on strategies for collecting revenue and managing arrears, promoting voluntary tax compliance (taxpayer education), the IRD's preparedness for revenue collection (staff training) and information technology support (SIGTAS).
- 1.2 We developed Six (6) audit criteria associated with our audit objectives as well as questions for each line of enquiry (**See appendix 1**). Management agreed to the suitability of our audit criteria as reasonable standards for assessment of the IRD.
- 1.3 We found that the Department's strategies for collecting revenue and managing arrears were not effective in maximizing revenue collection. There were high levels of tax arrears primarily due to the lack of a robust strategy to minimize arrears primarily in the areas of personal and corporation taxes. Total arrears were \$740,832,971 of which 87% was over two year old.
- 1.4 Though collection targets are set we saw, no evidence of a strategy documented or otherwise aimed at ensuring that the Department met these targets. The IRD does not measure the tax gap and has fallen short of its direct tax targets for all three years.
- 1.5 The Department spent much effort on taxpayer education, however, the focus was limited and efforts were ineffective as the Department focused more on education of walk-in taxpayers rather than the wider public. We found little evidence of monitoring and review of activities and methods geared toward taxpayer education.
- 1.6 The version of the information system (SIGTAS) that the Department uses is old and cannot perform key functions for the efficient and effective delivery of service. Though policies and procedures to ensure security and control over information exist, they have not been officially rolled- out to staff.
- 1.7 The IRD was ineffective in its efforts at getting staff prepared for revenue collection. Faced with a declining budget, the IRD training programs have been reduced to bare minimum, without consideration for the type of training employees need to perform basic job functions and to protect taxpayer rights. Training activities were ad hoc and was not centrally coordinated through the Administration Unit responsible for human resources. However, we found that the benefit of training was measured and added value in the audit section. We are unable to say the same for the collection section.
- 1.8 To improve the efficiency and effectiveness of the management and collection of direct taxes the IRD should consider the following recommendations contained in this report:

2. Introduction

- 2.1 The National Audit Offices of member countries of the Caribbean Organization of Supreme Audit Institutions (CAROSAI) mooted the idea of a cooperative parallel revenue audit as a focus area for the financial year 2014-15 to build the SAI capacity in auditing the revenue departments.
- 2.2 Therefore, following a discussion at the IX Congress of CAROSAI held in Port of Spain, Trinidad and Tobago, in March 2013, CAROSAI initiated a dialogue with the IDI (INTOSAI Development Initiative) for cooperation on a programme to implement the Cooperative (Parallel) Audit Methodology for audit of revenue departments.
- 2.3 A decision was taken to audit direct tax because it is one of the largest sources of revenue for the Government of Saint Lucia. In addition, Caribbean Governments have to grapple with the reality of meeting increasing social obligations with limited and declining resources. In order to improve the fiscal situation, policies and strategies to maximize tax collection, reduce debt and to effectively manage scarce resources are major priorities for these Governments.
- 2.4 Therefore, in order to maximize revenue collection there is need for a strategic and, comprehensive approach aimed at improving revenue administration processes, allowing citizens to more easily comply with relevant laws and regulations.

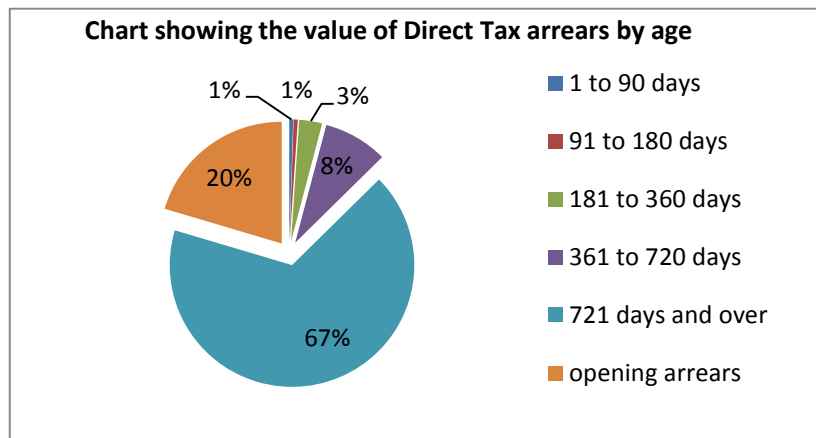
3. Background

- 3.1** The Inland Revenue Department falls under the auspices of the Ministry of Finance, International Financial Services and Economic Affairs. One of the main functions of the Inland Revenue is the assessment and collection of taxes. The Department also functions in an advisory capacity to the Minister of Finance & Planning who is the Prime Minister and to the Permanent Secretary.
- 3.2** The Department's main goals are: (1) To encourage and achieve the highest possible degree of voluntary compliance in accordance with the tax laws and regulations (2) To advise the public of their rights and responsibilities; (3) To determine the extent of compliance and the cause of non-compliance; (4) To do all things needed for the proper administration and enforcement of the tax laws by administering legislation fairly, uniformly and courteously; and (5) To continually search for and implement more efficient and effective ways of accomplishing their mission.
- 3.3** Its mission is to be committed in its impartial treatment of its customers. It aims to provide an efficient, professional and courteous tax service, while administering the relevant tax laws on behalf of the Government and people of Saint Lucia.
- 3.4** The Department's structure includes the following sections:
- 1 Administration and Accounts
 - 2 Collections
 - 3 Audit
 - 4 Property Tax
 - 5 Data Processing
 - 6 Value Added Tax
- 3.5** A core responsibility of the IRD is to inform and educate taxpayers of their obligations, process returns, collect and enforce the collection of taxes. In that regard the IRD has to create an environment where citizens have a strong will to "do the right thing," where it is easy for them to do so, and where the tax system is seen as legitimate and fair. The perception that a tax system is effective, efficient, and fair is a fundamental component of public confidence.
- 3.6** Direct tax revenue collection steadily increased to peak at \$253,964,740 in the 2011/12 year of income. In 2013/14, the value of direct tax collected was 235,841,436. Revenue collected from direct taxes fell slightly over the audited period. Revenue collected from direct taxation was reduced by \$18,123,304 in 2013/14 or 7.68% lower than in the 2011/12 income year.



Source: IRD revenue statements

3.7 The value of direct tax arrears at Inland Revenue at the time of the audit was \$740,832,971. Less than 1% of this figure represented “new debt” (between 1 and 60 days) or “old debt” (61 to 90 days). Interestingly, the Department categorized eighty-seven percent (87%) of these taxes as uncollectable (over 2 years). However, the Department has never written to Cabinet to have uncollectable arrears written off.



Source – IRD aged listing generated by SIGTAS

3.8 Based on revenue statistics produced by the IRD, we determined that arrears of taxes represent an increasing share of the revenue collected, and in 2013/14 it represented about one fifth (1/5) of collections as shown in the table below.

	2011/12	2012/13	2013/14
Direct tax collections	197,384,328.14	177,967,297.29	168,544,461.06
Arrears contribution	36,655,084.06	34,471,011.81	38,105,139.56
Arrears contribution %	18.57	19.37	22.61

Source: IRD monthly revenue collection statements

3.9 When taxpayers do not voluntarily comply with their tax obligations, the Department must take the necessary steps to enforce compliance in accordance with the Income

Tax Act Chapter 15.02 of the Revised Laws of Saint Lucia. Enforcing compliance adds to the cost of collecting tax. The Department's collections process (**see appendix 2**) involves initially sending notices by mail, contacting the taxpayer by phone, and sometimes visiting in person. If these actions fail to recover amounts owing, the Department has the option of other enforcement measures such as garnishments or registering liens and warrants for seizure and sale of the taxpayer's property.

3.10 Audit Objective and methodology

3.12 The objective of our performance audit was to assess the effectiveness of the management of direct taxes at the IRD by examining key aspects of revenue collection.

3.13 In achieving the objective we gathered sufficient, competent and appropriate evidence, reported findings, concluded against the established audit objectives and where appropriate, made recommendations for improvement where significant deficiencies were identified.

3.14 The methodology involved:

- Documentation review including policies, procedures guidelines and internal reports
- Interviews with senior management of the IRD from the following departments - Administration, Customer service, Collections – (Personal income, corporation and property tax), Enforcement, Intelligence and Data processing
- Physical examinations
- Analysis of data generated by IRD

3.15 Exception - We did not assess in detail, the accuracy of collection and debt data generated by the main computer system SIGTAS.

3.16 Audit Scope

3.17 The audit focused on the following direct taxes for the past three years 2011/12 - 2013/14

- Personal Income
- Corporate Income
- Withholding
- Property tax

3.18 The key lines of enquiry were:

1. The IRD's strategy to efficiently and effectively collect revenue and manage arrears;
2. The IRD's strategy to promote and support voluntary tax compliance;
3. The IRD' preparedness for revenue collection in terms of staff training; and
4. The IRD's IT support for revenue collection and debt reduction.

3.19 We present our findings and recommendations below:

CHAPTER ONE

4. Strategies for Collecting Revenue and Managing Arrears

- 4.1 The collections process includes coordinated, appropriate, and timely activities aimed at maximizing collection of taxes. The Income Tax Act Chapter 15.02 of the Revised Laws of St. Lucia specifies the procedures that the Department should follow when collecting and enforcing collection of revenue.
- 4.2 Further, some of the stated goals of the Department are to determine the extent of compliance and the cause of non-compliance, and to do all things needed for the proper administration and enforcement of the tax laws.
- 4.3 We expect that the Collections Unit would have a comprehensive and robust strategy that would include revenue targets, performance measures, monitoring and reporting against targets. Such strategy would involve a structured process for increasing compliance as well as a range of collection tools culminating with a transfer of difficult taxpayers to the enforcement unit.
- 4.4 If debt is not properly managed, it can become uncollectable, decline in value, or even become a burden to the IRD due to the associated cost of collection. Therefore, the Department has a duty to manage its tax debt effectively and efficiently.
- **The amount outstanding for direct taxes is high with no documented plan to reduce the debt.**
- 4.5 We examined the IRD's aged listings of debt from direct taxes and found that the listing shows 60,377 taxpayers accounts in arrears with a total value of \$740,832,971 as shown in the table below. This figure did not include amounts outstanding for returns filed but not assessed and arrears for property tax. Our examination of the aged debt analysis also revealed that 87% of the aged tax arrears were over two years old.

Table showing the value of Tax Arrears by Tax Types

Tax types	No. of Accounts	Arrears value
Personal Income Tax	37,868	370,698,739
Corporate Income Tax	2,921	267,286,354
PAYE	17,480	80,143,474
Contract Tax	2,108	22,704,404
	60,377	740,832,971

Source: IRD aged listing of arrears as at 2014

4.6 The Collections Unit of the IRD did not have a plan/strategy, documented or otherwise to establish objectives, targets, timelines, and performance measurements and reporting against those timelines.

4.7 Given the extent of the arrears of revenue, without a comprehensive and robust strategy, it is unlikely that the Department would be able to effectively manage revenue administration.

- **The IRD does not measure the tax gap**

4.8 The tax gap is a performance measure of the effectiveness of a modern tax administration. It is the difference between the taxes that would have been due if all taxpayers had reported all of their activities and transactions correctly, and the tax actually collected. Revenue agencies use the tax gap to improve the effectiveness of core collection, assessment, enforcement functions through risk profiling.

4.9 We found that the Department does not measure its tax gap. The Department only measures the gap between actual revenue collected and revenue projected.

4.10 A review of the Departments process for setting targets and monthly projections revealed that the Department does not use any proven tax forecasting methodologies for corporate and individual income taxes. We were informed that the head of the Collections Unit uses historical data and his professional knowledge and experience to set these targets. After, these targets are ratified by the Ministry of Finance, the Collections Unit develops a schedule, to allocate the projected revenue into monthly collectible amounts. The Unit reviews projections each year in the month of October.

4.11 We compared the IRD’s projected and collected revenues for the period 2011/12 – 2013/14 and found that the Department had fallen short of the targets for all three years as shown in the table below.

Table showing comparison between projected and actual collections – Direct Taxes

PERIOD	PROJECTED REVENUE	COLLECTED REVENUE	VARIANCE	VARIANCE AS A % OF PROJECTED REVENUE
2011/12	267,500,000.00	253,964,740.00	-13,535,260.00	-5.06
2012/13	286,000,000.00	236,011,642.00	-49,988,358.00	-17.48
2013/14	240,000,000.00	235,841,436.00	-4,158,564.00	-1.73

Source – IRD revenue projection and collection statements

4.12 Reliance on this measure means that the Department can tell where it is in relation to its projections. However, the IRD would not be able to determine whether it is collecting, all of the tax that it should theoretically collect based on its interpretation of the tax law.

4.13 The need for realistic revenue forecasts cannot be overemphasized. From a macro perspective, realistic revenue targets are important inputs for effective and efficient public expenditure management. At the micro level, it serves as effective standards of measurement against which the performance of tax collecting agencies are assessed.

- **Insufficient actions to pursue delinquent accounts**

4.14 The timeliness of collection actions is an important factor in the successful recovery of amounts owing. The probability of full collection on a delinquent account drops dramatically as time passes.

4.15 The Income Tax Act, Sections (97(3), 113,114, 121, 119,118, and 130) highlight enforcement measures in recovering taxes owed. We expect Inland Revenue to put systems and procedures in place to increase revenue by promptly pursuing taxpayers who are not meeting their filing and payment obligations.

4.16 Our examination revealed that the Department was not efficient in identifying and pursuing delinquent accounts. There were a number of situations, which contributed to this inefficiency.

(1) The information system used by the IRD (SIGTAS) was unable to flag an account at the point where the payment was due. Collection officers had to perform this

task manually by perusing the database and trying to identify accounts where payments were due. This resulted in the process being very inefficient, time consuming and did not identify all taxpayers with outstanding payments.

- (2) We saw no evidence to conclude that accounts were being prioritized on the basis of risk, using criteria such as the amount owing, number of times or length of time in collections, whether there is a history of broken promises, and if any legal action has already been taken.
- (3) The Department uses a method of batching returns regardless of whether it shows a refund or liability on filing. These batches are processed depending on the number of officers available and the speed at which they work. This practice means that the processing of returns with liabilities can take months after being officially filed.

We analysed a sample of two hundred and seventy two (272) returns to determine the average lag time between the date of filing and the date of assessment. We found that on average the Department took about twenty-nine (29) months to assess a return after it was filed by a taxpayer. Out of the two hundred and seventy two (272) returns examined, sixty-eight (68) or twenty-five percent (25%) had liabilities amounting to \$403,838.17.

Table showing the average time to process an assessment at IRD

Tax type	No. of returns	Assessment results			Average lag time of assessments (Months)
		Owed	Refunds	Nil	
Withholding	16	-	-	16	21
Corporate Income	42	12	4	26	16
Personal Income	214	56	118	40	32
Totals	272				29

Source: IRD (SIGTAS)

The implications of such late assessment i.e. (29 months after filing), means that taxpayers may have difficulty finding funds to pay for arrears, especially if their returns showed they were entitled to a refund at the time of filing. This happens, despite the fact that Inland Revenue allows thirty days within which to pay the liability if it showed a refund at filing.

Another implication is that the arrears from these returns have become “old” according to the Department’s classification of “old accounts”, which means that collection may be difficult or impracticable. Exacerbating this issue is the fact that the Department does not record the value of individual taxpayers’ arrears

if any, at the time of filing, even though the taxpayer has not yet been officially assessed.

- (4) The enforcement section of the Department has the responsibility to use stronger methods to obtain payment when efforts by the collection section are not successful. The Income Tax Act Chapter 15.02 of the Revised Laws of St. Lucia gives the Comptroller of Inland Revenue the power to:
- Distrain upon the goods and chattels of individuals who have arrears,
 - Place legal holds on immovable property,
 - Sell by public auction goods and chattels distrained upon for a period of time,
 - Sue for and recover tax owed through a court of competent jurisdiction, and
 - Ask cabinet to exempt or remit such taxes.

The Enforcement Unit has the responsibility to apply the relevant enforcement procedure from the Tax Act.

Using statistics from the Enforcement Unit, we compared the total arrears collected by enforcement actions to the total IRD arrears figures for the three financial years. Details are shown in the table below:

Table showing enforcement’s contribution to or impact on reducing arrears

Income Year	Collections from enforcement	Collections from enforcement as a % of total arrears collected by IRD	Collections from enforcement as a % of total revenue collections
2013/14	3,985,261.35	8.16	1.69
2012/13	2,590,899.28	6.97	1.10
2011/12	2,134,342.76	5.23	0.84

Source: IRD collection statements and enforcement statistics

Based on the comparison conducted, enforcement activities contributed to an average of 6.79% of total arrears collection per year over the period 2011/12 – 2013/14. Further, we noted that enforcement’s activities contribution to total collection was only about 1% per year over the same period.

We examined fifty-six (56) cases entering the enforcement unit over the period of the audit to determine the tools that the enforcement unit used to get taxpayer to settle their debt. We found that out of those fifty-six (56) cases only nine (9) were settled and closed over the three year period as shown below:

Table showing the enforcement tools applied to cases received by the unit

ENFORCEMENT TOOL APPLIED	2011/12	2012/13	2013/14	Total	CASES CLOSED
Payment plan	0	0	0	0	0
Garnishment of income or wages	0	0	0	0	0
Legal Hypothec	18 [^]	5	19 [*]	42	7
Legal Hypothec & Judgment Debt	2	3	5	10	2
Judgment Debt	2	1	1	4	0
Sale of Assets	0	0	0	0	0
TOTALS	22	9	25	56	9

Source: Enforcement's records of cases received for enforcement action

[^]One garnishment order started after a Legal Hypothec had been executed

^{*}Two taxpayers started payment plans after a Legal Hypothec had been executed

4.17 Further, we found that the unit did not utilize the full extent of the Act i.e. distraint of chattels and goods or court actions to recover taxes. Enforcement activities primarily consisted of the placement of legal hypothecs on assets, and having the Court rule on tax arrears as debts owing to the state. However, these instruments, once placed, may remain there for any length of time without forcing the taxpayer to attempt to settle the debt. Consequentially, enforcement cases have remained unsettled as evidenced by the 16% (9 out of 56) rate of closure of cases for the period under review. We were informed that some taxpayers have even found ways to get around both of these tax enforcement instruments.

4.18 Given the critical role that enforcement plays in the compliance process, all avenues should be pursued to reduce arrears and increase revenue collection. Further, if taxpayers are not convinced that the Department will assess returns in a timely manner or take appropriate action to collect taxes owing, compliance will decline to the detriment of the country's revenue base.

- **Property tax arrears could not be quantified and projected collections were not met**

4.19 The Land and House Tax Act Cap. 15.13, Section 3(1) states:
The Comptroller shall annually raise, levy, collect and pay into the Treasury a tax on all immovable property whether land or house—

- Situated anywhere in Saint Lucia; and
- Included in the tax rolls prepared under the authority of this or any other law, at such rates as are prescribed in Schedule 2.

- 4.20** Further, Section 10 of the act states that the Minister may appoint a Comptroller, whose duty shall be to make assessments for taxes throughout Saint Lucia, to compile the tax rolls, and to carry out such instructions as may be issued to him or her by the Director of Finance and Planning for his or her guidance.
- 4.21** The Property Tax Section of the IRD has the responsibility to carry out this function.
- 4.22** Based on the above requirements we expect the IRD to have measures in place for the effective administration of property tax.
- 4.23** Our analysis of data reported on property tax collection revealed shortfalls in revenue collection of \$10,632,056 and \$5,088,067 for the financial year 2011/12 and 2012/13 respectively. During that two-year period, the projected collections from property tax were revised downwards by five million dollars from \$15,000,000 in 2011/12 to \$10,000,000 in 2012/13. In the financial year 2013/14, the IRD recorded an excess in property tax collection of \$3,201,948. In that year, projected collections were reduced by another five million dollars from the previous year's projection to \$5,000,000.

Table showing a comparison of Property Tax projections and collections

Year	Actual Collection	Projection	Variance	Variance %
2011/12	4,367,944	15,000,000	(10,632,056)	(70.88)
2012/13	4,911,933	10,000,000	(5,088,067)	(50.88)
2013/14	8,201,948	5,000,000	3,201,948	64.04

Source: IRD projection and collection statements

- 4.24** It appears that the IRD is revising annual projections based on actual collections instead of stepping up collections mechanisms to meet the approved projections. The trend revealed in the table above brings into question the soundness and effectiveness of the IRD's budgetary and collection processes for property tax. We were not given any reports or detailed analysis of property taxes to justify the trend noted above.
- 4.25** We also found that Inland Revenue is unable to quantify the amount of debt for property tax. We were informed that the property tax data is not in a format that allows a seamless conversion and integration into the property tax module of SIGTAS (SIGTAS-PT).
- 4.26** In 2004, the Government of St Lucia undertook a project of institutional strengthening of the IRD with the objective to reviewing the current billing and collection practice processes for property tax. The project was to recommend improvements in

preparation for SIGTAS-PT. There was to be a complete revaluation exercise of properties that would provide the majority of data to populate that module and the requirements for conversion into SIGTAS PT.

4.27 In order to process arrears into SIGTAS PT the following details were required:

- The tax year of arrears
- The balance to be paid from each previous tax period
- The amount of accumulated interest from each previous tax period
- The amount of penalty if any
- The unique property ID in SIGTAS-PT for the property

4.28 The preparation of SIGTAS-PT was outside the scope of the project however, it was the consultant's view that IRD make operational improvements that would assist with the preparation.

4.29 We note that to date, over ten years later the SIGTAS-PT module is not operational. As a result, the Department uses a manual system for the administration for property tax, which cannot keep track of pertinent information.

- **The IRD does not have accurate taxpayer contact information**

4.30 For proper administration of property tax, it is important that the Department has and keep updated, information on taxpayers such as their correct mailing addresses and contact information.

4.31 We found that the IRD was unable to effectively contact and pursue defaulters because the Department did not have accurate information on taxpayer mailing addresses or location particularly in relation of assessments for property tax payers. Consequently, the Department had on its premises, thousands of returned mail sent to taxpayers to inform them of their property tax assessment. Some of the returned mail is shown below:

Photo showing boxes of returned mail to the IRD



Photo taken by Audit 06 June 2014 10:30 am - Property tax office Sunny Acres

4.32 The implication is that if the IRD cannot contact or locate taxpayers because of inaccurate or outdated information, it will be unable to collect all revenue, outstanding or otherwise. This also means that the Unit will be unable to meet its collection targets. Given the substantial amount of debt that currently exists at the IRD, there is dire need to curb its escalation in the Property Tax Unit.

- **The IRD does not issue exit certificates**

4.33 Section 151 paragraph 2 of the Income Tax act states “*Subject to the provisions of rule 3 a person shall not leave or attempt to leave the State unless the person so leaving or attempting to leave has in his or her possession an exit certificate in the Form A contained in the Schedule duly signed by or on behalf of the Comptroller certifying that he or she*

(a) does not owe any income tax; or

(b) has made satisfactory arrangements for the payment of any income tax payable by him or her.”

4.34 This rule existed under the Income Tax Act of 1965. This Act was repealed and replaced by Chapter 15.02 of the Revised Laws of St. Lucia (the Income Tax Act 2006). However, these rules continue in force under Section 153 of the new Act. The Act further exempted a number of persons including nationals.

4.35 We found that the Department was not enforcing the use of the exit certificates. Although the cost of the certificate is quite low and the administrative cost of collection may be higher than the actual collections for certificates, there is a greater opportunity to identify persons who are earning income in St. Lucia but are not paying the taxes due to the state. Those amounts can be significant and worth the cost of enforcing the exit certificate.

4.36 The implications of the discontinuation is the risk that some categories of workers especially professionals who are non- residents are able to do short term work in Saint Lucia and leave without paying any taxes. This possibility highlights the need for Inland Revenue to enforce the use of exit certificates for such individuals and forge stronger partnerships with agencies such as the Labour Department and the Ministry of Health that issue those individuals with the permits necessary to operate or work in Saint Lucia.

RECOMMENDATIONS

To maximize collection and to measure the effectiveness of its collection efforts the IRD should:

- *Develop and implement a comprehensive and robust strategy / action plan with a view to reducing arrears of revenue and keeping it at a minimum.*
- *Establish a risk methodology for prioritizing collection efforts. IRD should periodically assess this methodology to determine whether it is ranking accounts for action appropriately and consistently. The department should then develop guidelines to encourage collection staff to use the risk scoring to prioritize their work;*
- *Measure the tax gap and explore the use of proven tax forecasting methodologies for corporate and individual income taxes;*
- *Put measures in place to promptly identify and pursue delinquent accounts using all available collection and enforcement tools as guided by the Tax Act.*
- *During the conduct of an assessment of property, verify mailing address given by the property holder using tangible evidence such as utility bills etc.*
- *Develop and implement clearly defined benchmarks/targets and performance measures for collection, both for the collection section itself and for individual collection staff. The IRD should also have an action plan to correct any inefficiencies identified.*
- *Seek ways to make assessment of batches more efficient and timely;*
- *Seek professional assistance in converting and integrating the Property Tax data into SIGTAS or to invest in another suitable information system to adequately support the proper administration of Property Tax*
- *Enforce the use of the exit certificate.*

Management's Comments

The audit findings are fairly accurate and confirm IRD's analysis of revenue collection and the management of arrears. The current structure and outdated management information systems are the major hindrances to efficient and effective operation. One of the spillover effects is the tardy payment of refunds. As such, the Department has not been very aggressive in enforcing collection action since it has not been able to pay timely refunds to the taxpaying population.

Property Tax

With respect to property tax, it is indicated on page 17 of the report "we were not given any report or detailed analysis of property taxes to justify trends noted above". The low collection of approximately \$4mil for income years 2011-2013 was due primarily to the high level of exemptions (pensioner /age 60 and above, first time home owner, house hold income of less than \$6,000 and newly built commercial property) and

incentives (World Cup and Tourism Incentives) which caused a significant erosion of property tax revenue collection.

In the income year 2013-2014, collection improved as a result of:

- Increased valuation of residential and particularly commercial properties*
- Offsetting property tax liability against income tax refunds*
- Enforcing section 54 of the Income Tax Act. This section requires the disallowance of mortgage interest if the property tax is not paid. This serves as an incentive for taxpayers to settle the property tax liability in a timely manner.*

On page 18 – “The IRD does not have accurate taxpayer contact information”

The Department estimates that approximately 20%-40% of notices sent to taxpayers return to the Department. This is not due solely to inaccurate information or location but to the following:-

- 1. Poor postal service*
- 2. Taxpayers refusing to collect mail from IRD*
- 3. Poor house numbering system island wide*
- 4. Taxpayers changing addresses and failing to inform the Department*

CHAPTER TWO

5. Promoting Voluntary Tax Compliance

5.1 Studies have shown that taxpayers who are well informed about their tax obligations and who are aware of the actions of the tax authorities to ensure compliance tend to voluntarily comply with the regulations. Taxpayer education is thus a strategy for improving voluntary compliance and delivery of services to the taxpayer. Taxpayer Education involve disseminating pertinent information, counselling and support to taxpayers, through different media, such as brochures, flyers, newspaper articles, newsletters, television, radio programs, websites, seminars, and front desk help.

5.2 Some of the Department's stated goals include, advising the public of their rights and responsibilities and to encourage and achieve the highest possible degree of voluntary compliance in accordance with the tax laws and regulations. Therefore, we expect that the Department would have a comprehensive programme or strategy for educating taxpayers.

- **Lack of a structured taxpayer education programme**

5.3 We found that there was no work plan or strategy documented or otherwise for taxpayer education that provided guidance on:

- what methods use for the various categories of taxpayer
- How often to use those methods
- Assessment of the methods for desired impact
- Identifying new education methods

5.4 We interviewed management of the taxpayer education unit who confirmed that there was no real structure for taxpayer education. There was no education unit or programme and taxpayer education was part of administration. We requested the yearly work plan of the administration section to identify planned activities for taxpayer education. The administration section could not produce its work plan.

5.5 The audit team found that the administration personnel performed education activities mainly through specific requests by the different categories of taxpayers for example nurses, Chamber of Commerce, tax accountants etc. Some of the methods and activities included radio programmes, distribution of brochures and the IRD's website.

5.6 We examined the information that the IRD used for its taxpayer education activities for example brochures, website, and presentations. They were mainly in the form of the following brochures:

- TD5 Attachment – Employer Guide

- TD5 Attachment – Employer Annual Return
- Responsibility of Taxpayers
- Record Keeping for Business
- Guidelines for Self employed
- Appeal Commissioners
- General Information for You- Taxpayer

- 5.7** We found that though the brochures were informative they were not widely circulated. At the time of the audit there were only six (6) brochures on the shelf available to the public at the main office, three (3) brochures on VAT and three (3) brochures on property tax. Our audit also revealed that the Department focused more on the taxpayers who came to the Department to provide education services rather than going out to educate taxpayers. Our tour of the Department’s website showed that the last update was in the financial year 2010. We were informed that the website is currently under reconstruction.
- 5.8** Given the importance of taxpayers’ education, we examined the budget for the administration section but found no specific provision for educational activities. The audit team further examined the administration expenditure accounts (109-Office & General Expense) and 110-(Supplies & Materials) to identify and document spending for taxpayer education. However, we found no expenditure records of taxpayer education activities.
- 5.9** Management explained that there was a lack of funding for taxpayer education. Much of the funds, initiatives and activities for taxpayer education came from a project to introduce VAT to St Lucia. The project specifically targeted VAT information. However, the Administration Unit took advantage of that project to encourage voluntary compliance of all other taxes.
- 5.10** Management was confident that the education activities they were performing were successful based on all the feedback that it received via phone, letters and some e-mails. However, they could not substantiate that success with tangible evidence. Moreover, there was no documentary evidence to confirm that the unit monitored its methods or activities, or whether it measured efficiency or effectiveness of these education programmes.
- 5.11** We conducted a small survey on twenty (20) walk – in taxpayers to determine whether they were satisfied with the level and quality of information that they had received from the IRD and whether they left the department better informed. Most persons indicated that they found it very easy to communicate and get information. Fifty (50) percent of the taxpayers were satisfied with the information they received while the other fifty (50) percent indicated that the information they received still needed further clarification. Most persons indicated that the information they received did not

- encourage them to file and pay their taxes on time because (1) there were no incentives for doing so, (2) it took too long to pay them their refunds and (3) the penalties and interest did not encourage compliance.
- 5.12** The lack of a dedicated unit within the organization structure for taxpayer education may have contributed to the fact that there is no policy or programmes for education.
- 5.13** Education is very important to voluntary compliance. The lack of an education policy or strategy could be contributing to uninformed taxpayers who do not voluntarily comply. Further, it leads to high enforcement costs and high arrears as evidenced by IRD's aged arrears listings.
- 5.14** In addition, if the Department is not measuring the impact of its activities or feedback from taxpayers, it may not be able to determine the effectiveness of those activities or take corrective action where necessary.

Recommendations

The IRD should:

- ***Have a dedicated team or unit within its structure with the responsibility for taxpayer education;***
- ***Develop a comprehensive plan or strategy for taxpayer education ;***
- ***Target educational campaign at taxpayers with a high risk of non-compliance. Develop a quality assurance system for taxpayers to measure and ensure feedback via telephone, e-mail, website, and social media;***
- ***Justify and seek adequate funding for taxpayer education based on annual work plan.***

Management's Comments

Promoting Voluntary Tax Compliance

The findings on taxpayer education are accurate. A newly approved structure and the corporate strategic business plan for the period 2014 – 2017 will adequately address this deficiency.

CHAPTER THREE

6. The IRD's Preparedness for Revenue Collection (staff training)

6.1 With the growing complexity and constantly changing tax laws, it is critical that employees receive prompt and appropriate training and education in order to provide taxpayers with complete and accurate service.

6.2 Employee Training is an essential activity for all organizations. Through training employees are provided with the key knowledge and skills required to perform their job. In addition to basic training, the delivery of continuing training in a timely and appropriate manner to employees is essential to the core functions of an organization.

6.3 As a major collector of Government's revenue, it is critical that staff members, especially those in the Collection Unit, be adequately trained in current and more advanced collection techniques to enable the Department to meet its annual targets.

- **Inadequate coordination and documentation of training**

6.4 The IRD's training policy and plan states that a training needs assessment shall be conducted every three years. The purpose of training was to improve the quality of performance by the department. Another objective is to improve productivity, employment attitude, efficiency and effectiveness.

6.5 Based on the above policy and given the importance of increasing collection, we expect that the IRD would ensure that it has well trained staff that possesses the necessary skills to maximize the collection of revenue. In addition, we expected that the human resource department would undertake the responsibility for staff development and training activities.

6.6 We requested training information from the HR unit to determine whether:

- The IRD had a framework that sets out the regularity and timing of training for its collection officers
- The Department actively sought opportunities to help employees diversify their skills or gain exposure to more advanced collection techniques in order to improve productivity, employment attitude, efficiency and effectiveness
- The Department have specialized modules/manuals or other reference material to guide officers in their collection actions

6.7 We noted that training was not coordinated through the Administration Unit responsible for HR. Instead, supervisors would identify individuals requiring training and coordinate the activities themselves.

Further, due to the uncoordinated manner in which training was conducted, there were no specialized training modules/manuals or other reference material to guide officers in their collection actions or to assist them in performing their duties with the required job competencies. In addition, there was no evidence of reporting on training done.

6.8 We also requested training schedules for the last three years but received only one schedule for the period January – December 2014 from the HR Department. As a result, we could not determine the nature or extent of the training undertaken by the IRD for the periods prior to January 2014. However, IRD was able to provide us with evidence that linked the increase revenue performance with specialized forensic training conducted during the period. Their records showed that additional collection of corporation tax of \$29.3 million (see table below) was due to specialized forensic training given to IRD auditors. This training was done at a cost of \$497,827.02 during the audited period. However, the total spent for consultant fees for forensic audit training was \$1,427,020.30 during the six-year period 2008/2009 to 2013/2014.

Table showing additional revenue collected because of training given to IRD auditors

Year	Additional income (millions)	Cost of training (consultancy fees)
2011/2012	9.115	0.
2012/2013	3.174	291,743.23
2013/2014	16.966	206,083.79

Source: Information produced from administration section

6.9 Clearly huge benefits can be derived from training staff and this training should not be limited to staff from the audit section of the department. Given the significant amount of arrears of taxes, it is critical for staff of the collections and enforcement sections of the Department to receive specialized training in the conduct of their duties so that they can exercise good judgement in deciding when and how to collect a debt. Though the Department is faced with financial constraints, the benefits that could be realized from specialized training for critical staff may far outweigh the cost as seen with the outcome of the forensic audit training.

6.10 We interviewed the Assistant comptroller (ACIR) responsible for Administration who informed us that because there was only one officer

responsible for administration who also had to perform HR functions, more emphasis was placed on administration activities causing HR to suffer.

- 6.11** The ACIR admitted that the current situation is not ideal and that the IRD is taking corrective action. We saw evidence of efforts by the human resource section to develop an HR policy and plan.

Extract from training policy and plan.

COURSE TITLE	SCHEDULED PERIOD	FREQUENCY
Audit techniques	September	Every other year based on work plan of the Audit Section and the specific goals of the Department.
Basic collection procedures	October	Every other year (as necessitated per new recruits)
St. Lucia income tax law & practice	July	Annually (as necessitated per new recruits)
Analysis of financial statements	April	Annually
Net worth method of assessment	June	Every other year

- 6.12** The audit team verified that the IRD undertook training for heads of departments, supervisors and other staff during the audited period. However, the IRD did not produce evaluation reports on the training undertaken.

Recommendations

- *The IDR through its HR section should co-ordinate all training and provide clear, centralized guidance to their staff particularly the collection staff through a comprehensive training regime. The regime should include documented needs assessment, training plan, reports and evaluations.*
 - *Specialized modules, modules/manuals or other reference material should be developed to guide officers in their collection actions.*
- *The HR section should actively seek opportunities to help employees diversify their skills or gain exposure to more advanced collection techniques.*

Management's Comments

The IRD's Preparedness for Revenue Collection (Staff training)

The ad hoc training and inadequate taxpayer education will be addressed in the proposed restructuring of the Department. We have finally received approval for the establishment of an HR Unit given the importance of taxpayer education in fostering voluntary compliance and to adequately address the HR issues for a staff complement of approximately one hundred and seventy (170) employees.

CHAPTER FOUR

7. Information Technology Support

- 7.1 The use of an integrated information management system is essential for the proper administration of taxes. Revenue collection agencies are under constant pressure to collect more revenue with fewer resources. Revenue authorities are also faced with customers demanding value for money. Customers demand faster, easier and more transparent services. To address these challenges there is need for tax collection agencies to use advanced information and communication technology (ICT) systems to assist in the administration of taxes.
- 7.2 The IRD uses an ICT system called “Standardized Integrated Government Tax Administration System (SIGTAS). The IRD uses the 1990 version of the software. The current version used by similar tax collecting agencies is SIGTAS 2 or GENTAX
- 7.3 We expect that with the support of the ICT system, the payment, collection, enforcement and debt management activities would be enhanced and would be conducted with a high level of efficiency and effectiveness.
- 7.4 In addition, revenue agencies work with confidential financial and personal information, therefore maintaining confidentiality of individuals and business is of paramount importance.
- **The revised security policy was not circulated to all staff**
- 7.5 All IT systems require adequate/appropriate policies to ensure control over access, and security of information. We expect that the IRD would have documented policies and procedures over the management of SIGTAS. We also expect the IRD to make available to staff those policies and procedures.
- 7.6 We saw evidence to confirm that the IT Unit had policies and procedures in place for dealing with the security of information. The IRD informed that new policies have been developed and updated under the National ICT Office for the entire Government Service. Those policies are followed by the IT section of the IRD but the other staff has not yet received those policies.

7.7 This situation increases the risk of uninformed staff members breaching certain protocols and procedures through lack of knowledge, which may impact negatively on how they execute their duties.

7.8 We developed a checklist for IT security, which covered the following:

- Physical and Logical Security;
- Backup and Operations Continuation Plan; and
- Virus Protection and Software.

7.9 We tested the elements on the checklist with the actual environment and we were satisfied that the IT environment met all of the criteria and elements of the checklist.

- **Controls over the recording of revenue were adequate**

7.10 We conducted systems documentation and a walk through test on revenue transactions to determine whether the controls over the recording of revenue were adequate

7.11 We were satisfied that the controls in place using the information system SIGTAS were working and that the revenue statements generated adequately reflected the cash collected from all tax type.

- **SIGTAS is unable to generate some vital reporting information**

7.12 An effective information system is necessary to manage service delivery and to identify opportunities to improve strategic and operational planning as well as performance. Such systems should be able to assist these processes by generating reports through which the Department's performance can be measured.

7.13 We expect that the information system SIGTAS would have reporting features that would assist management in analysing data and identifying trends for appropriate collection action.

7.14 The Department was asked to provide us with the following reports for all tax types:

- Aged listing of arrears (property tax)
- Debt to revenue ratios
- Comparative revenue collection and percentage of current revenue represented by arrears
- Total debt position (all taxes)

7.15 However, we were not given the information requested because we were informed that the information could not be generated from the system.

7.16 This situation increases the risk of high debt, timely contact with taxpayers and under collection of property tax as mention earlier in the report because it impedes effective monitoring.

7.17 We also found that the system SIGTAS was not configured to do the following monitoring operations:

- flag an account when payment fell due;
- flag inconsistencies in payments; and
- identify cases to be forwarded for enforcement action.

7.18 We interviewed management of the data processing unit at the IRD who indicated that SIGTAS cannot routinely generate the above reports however, information is available but it would require some manual processes to get them into the required report format. Management further stated that to obtain the true total debt position, the IRD would need to clean its records due to the amount of uncollectible taxes within the database.

7.19 We saw evidence of the following system reports:

- listing of non-filers
- list of taxpayers with arrears (except for property tax) and
- reports of revenue collected by tax type

7.20 We also noted that SIGTAS is unable to support the auditing function due to the non-generation of key logs. The non-generation of these critical reports highlighted above poses a great limitation in management's ability to properly analyse information to make informed decisions.

7.21 According to management, after many innovations and upgrades, SIGTAS has outlived its capacity. The IRD still engages in manual processes. There is need to acquire a new system with greater capabilities, for example, performing risk analysis etc. The Department has identified a replacement system in GENTAX or SIGTAX2, but is unable to acquire the system due to the high cost involved. The

Department believes that it needs a proper Tax Management System in place if it is to adequately control and monitor its tax activities, and produce statistics and reports important to a risk-based system of taxation.

- 7.22** Based on the shortcomings highlighted on the IT system, we believe that the system is a factor, which hampers the efficient and effective collection of taxes.

RECOMMENDATIONS

The IRD should

- ***Continue to explore the possibility of acquiring a new system jointly with other OECS countries that use SIGTAS to minimize the cost of acquisition. The new system should be able support the following functions:***
 - ***property tax and audit functions***
 - ***generation of complete, accurate and up-to-date information on debtors' accounts to allow collections to capture defaulters as their debts becomes due.***
 - ***automatically flag and create a report with the following criteria including (1)accounts past the due date(immediately after the due date)(2)accounts past 15 days and (3)accounts past 30 days***
- ***Ensure that IT policies and procedures are circulated to all staff including any updates;***
- ***Capture data relating to property tax in a format that would allow it to be inputted into SIGTAS-PT.***

Management's Comments

Information Technology support

We totally agree with the limitations of SIGTAS. These have been well documented and requests have been made for its replacement. A regional sub-project under the auspices of the Canada Funded Supporting Economic Management in the Caribbean (SEMCAR) project has been approved by the Steering Committee to develop and deliver enhanced functionalities in SIGTAS to countries who have agreed to join this initiative. To date five ECCU countries including Saint Lucia have agreed to participate and the project is being guided by the SEMCAR Program Management Team (PMT) comprising IMF and World Bank

counterparts. The initial enhancements will cover the areas of Taxpayer Registration and Management Reports and should be completed by September 2105.

The Department is also working feverishly towards obtaining a replacement for SIGTAS. In October 2014 vendors were invited to make presentations in respect of Off-The-Shelf Tax Information System that are available to meet our needs. The presenters were CRC Sogema-SIGTAS World, Fast Enterprise-Gentax and Datatorque- Revenue Management System (RMS). This is still work in progress; however it must be noted a suitable replacement cost over US\$20mil.

We disagree that the recording of revenue is "adequate". Cash has always been reflected accurately. Adequate suggest that there's much room for improvement.

8. Conclusion

8.1 We conclude that the IRD was not effective in its management of direct taxes as it related to key aspects of revenue collection. We base our conclusion on the following:

- Huge amount in direct tax arrears and no major strategy to reduce the debt - 60,377 accounts with a total value of \$740,832,971 in arrears.
- 87% of the aged tax arrears for direct taxes were over two years old.
- Enforcement activities only contributed 6.79% to arrears reduction and 1% to overall revenue collection.
- IRD is unable to quantify the total arrears for property tax.
- IRD has fallen short of its targets for the collection of direct taxes for all three years audited.

Year	Under collection
2011/12	-13,535,260.00
2012/13	-49,988,358.00
2013/14	-4,158,564.00

- There were declines in Property tax collections in 2011/12 and 2012/2013 despite projections being reduced by 5 million for each those two years as shown below:

year	projection	collection
2011/12	15,000,000	4,367,944
2012/13	10,000,000	4,911,933
2013/14	5,000,000	8,201,948

- Taxpayer education needs strengthening.
- The training regime to assist collection officers to improve productivity, employment attitude, efficiency and effectiveness was ineffective.
- The version of the information system (SIGTAS) in use is old and outdated and does not effectively support tax administration.

Management's Comments

The above inefficiencies are well documented by the IRD. Over the last few months, the IRD did an independent, thorough analysis which revealed similar deficiencies in its processes, procedures and debt management. The IRD was therefore able to justify a major restructuring which was approved by Cabinet on march 2nd, 2015.

The deficiencies cannot be addressed in isolation hence a complete overhaul is required and the implementation of the new structure and measures take effect from July 01, 2015 to be fully implemented over a period of 24 months.

Appendix 1

Audit criteria and questions

OBJECTIVE : To assess the effectiveness of the management of Direct taxes in St. Lucia (IRD Department) by examining key aspects of revenue collection.
Assertion The collection process of direct taxes is integrated and is aimed at maximising revenue collection.
Criteria: A clear and well-established process of collection for tax due. An overall collection strategy with clear goals and objectives Performance measurements for those goals and objectives Reporting against set goals and objectives Adequate resources (collection officers and managers) with appropriate guidance and training to undertake collections activities. Appropriate information technology systems to support the collections
(1) Promoting voluntary compliance and taxpayer responsibility Main question 1 : How does the IRD promote the voluntary compliance taxpayer responsibility?
Sub-question : 1. Is there action by the Inland Revenue Department in informing taxpayers of their tax obligations? (communication or compliancy policy/strategy) 2. What methods do the Department employ to get taxpayers to declare and pay their tax liability? 3. Are those methods monitored and reviewed?
(2) Collection and enforcement strategy Main-question 2: Does the IRD have an overall collection and enforcement strategy?
Sub-questions : 1. Does the collection strategy identify: <ul style="list-style-type: none">• Clear goals and objectives,• Performance measurements / targets• Regular reporting against stated objectives• Quantify the arrears due for all direct taxes 2 Does the IRD have specific procedures to identify and is IRD timely in its actions to pursue avoiders and evaders 3: Does the IRD have Specific procedures to reduce tax arrears?
(3) HR guidance and training Main-question 3: Does the IRD provide staff responsible for collection with appropriate guidance and training?
Sub-questions : 1. Does Inland Revenue have a framework that sets out the regularity and timing of training for its collection

officers?

2. Does the Department actively seek opportunities to help employees diversify their skills or gain exposure to more advanced collection techniques?
3. Does the Department have specialized modules/manuals or other reference material to guide officers in their collection actions?

(4) IT support:

Main-question 4: Does the IRD have appropriate information technology systems to support the collections process?

Sub-questions :

1. Does the IT system supporting the collection of direct taxes have the ability to:
 - prompt a collection action
 - the ability to flag inconsistencies in payments by taxpayers
 - Does the IT system have sufficient security controls such as:
 - An information security policy that controls the actions of internal users and third parties;
 - Access controls;
 - Segregation of duties
 - Generation of Logs
 - System monitoring and regular reporting

Audit team

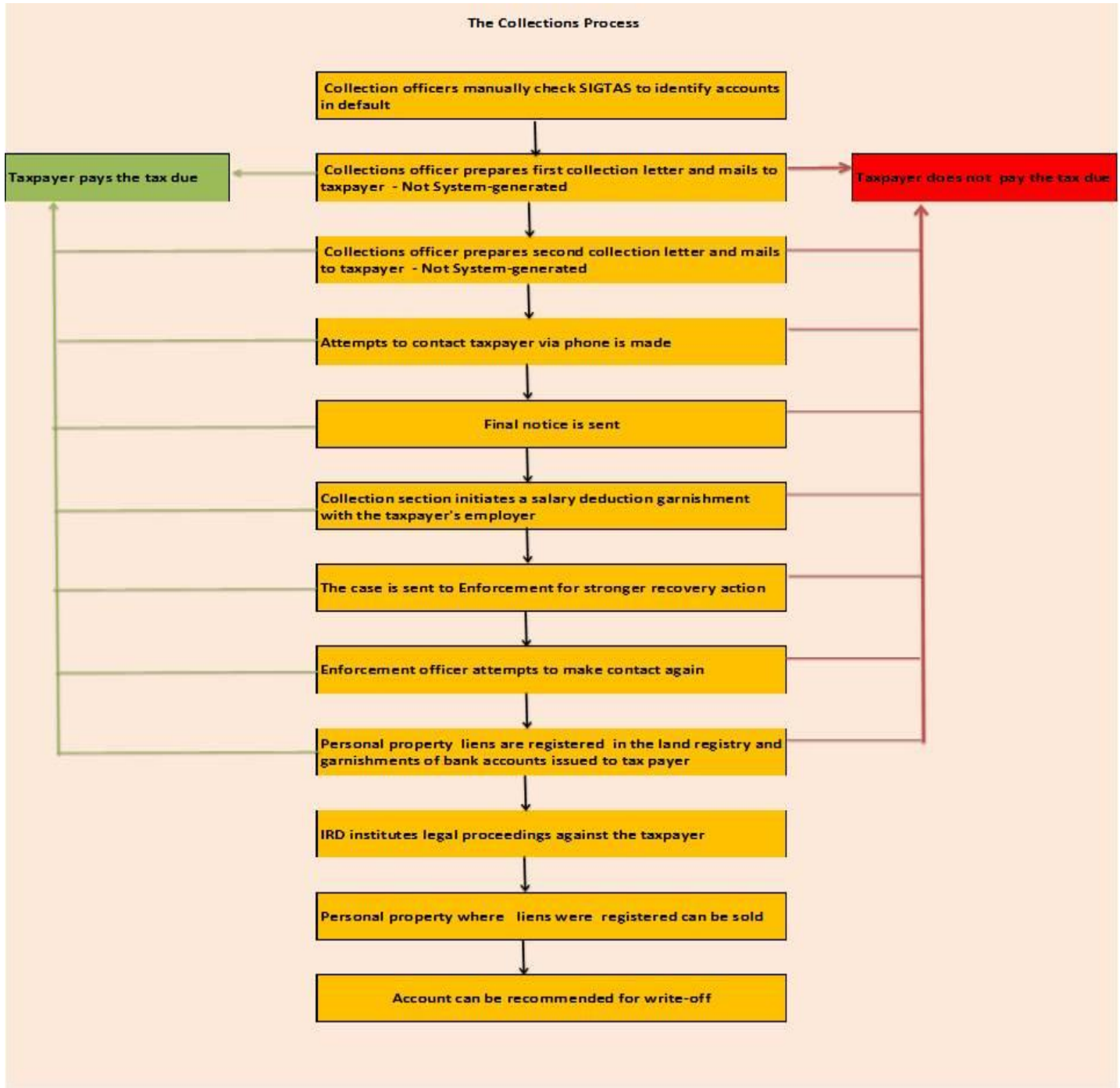
Carlisle Marshall

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Appendix 2

The chart below summarizes the outstanding tax collection process.



Source: Prepared by Audit based on information from IRD