

Tax Review

SICCI Consultation Session

Tax Administration

Tax Review Consultative Committee

Tax Administration

- ▶ Effective administration is essential for public confidence in the system and this helps to:
 - ▶ Encourage voluntary compliance
 - ▶ Reduce costs for both taxpayers and revenue authorities
- ▶ Effective tax administration needs to be based on strategies to develop relationships between the revenue authorities and taxpayers.
- ▶ Well informed taxpayers are much more likely to comply with the law than those who do not understand their obligations

Tax Administration

- ▶ The tax administration legislation is spread across the individual tax acts. It is outdated and inconsistent and leads to inefficiencies.
- ▶ IRD and Customs have different arrangements and they do not work together as well as they could.
- ▶ The current legislation does not support modern forms of administration, such as:
 - ▶ Self-assessment
 - ▶ Electronic lodgement and payment

Compliance

- ▶ Compliance is currently poor:
 - ▶ Lodgement of returns needs to be improved
 - ▶ Unpaid tax debt is high and increasing
 - ▶ Taxpayers often do not understand the law and may not know what is required of them
- ▶ Poor compliance tends to lead to even worse compliance as taxpayers see that others gain an advantage if the laws are not adequately enforced.

Compliance

- ▶ The most effective way to achieve good compliance is to:
 - ▶ Ensure the system is simple so that taxpayers can understand their obligations
 - ▶ Focus on fairness and equity so that taxpayers do not feel disadvantaged
 - ▶ Implement efficient systems to reduce costs for both taxpayers and the authorities

Self-Assessment

- ▶ Self-assessment is based upon the idea that taxpayers understand their affairs best and can calculate their own liabilities
- ▶ Under self-assessment the taxpayers lodge their returns and make payments due on that basis.
- ▶ The tax authority accepts the return as accurate unless there is an identified problem.

Self-Assessment

- ▶ The tax authority retains the right to amend self-assessments and apply penalties for incorrect returns.
- ▶ A viable self assessment system depends on an active and effective audit program to ensure that taxpayers are paying the right amounts of tax.
- ▶ Audit systems are usually based on targeted risk assessment of taxpayers based upon their tax history and comparing their affairs to others in similar situations.
- ▶ Ideally, audit is based on computerized case selection.

Resources

- ▶ Resources for tax authorities are inadequate
- ▶ There is approximately 1 IRD staff member for every 6000 Solomon Islanders. This is low by most standards and causes challenges for administering the legislation effectively.
- ▶ A particular challenge is the ability to educate taxpayers on how to fulfill their obligations.
- ▶ There is also limited capacity to plan and develop new approaches.

Tax Administration

- ▶ The cost of the administering the system is low but this is a problem, not a sign of efficiency.

Country	Cost of Collection (per 100 units of revenue)
Fiji	1.16
Kiribati	1.07
Samoa	3.2
Solomon Islands	0.6
Tonga	6.9

What can be done to improve the administration of the tax system?

- ▶ **Introducing a Tax Administration Act** - with all administrative provision in the one Act.
 - ▶ Ensuring consistency in requirements and penalties, incorporating things such as self-assessment and modernise mechanisms - such as electronic payments.
 - ▶ Could include a clear regulatory framework for tax agents and formalise their role as important intermediaries in the tax system.
- ▶ **Better interface with tax authorities** - more information (rulings and guidance), easy interactions, including use of electronic systems.
- ▶ **Organisational Review** - consideration of change to improve collaboration between CED and IRD to ensure accountability, improved efficiency and economics of scale.
- ▶ **Resourcing** - review of additional resourcing and internal organisation of IRD.

Questions?

Tax Administration

- ▶ Q. How could your interactions with the tax system be improved (how could interacting with the tax system become less onerous on you or your business)?
- ▶ Q. What are your specific views on your interactions with CED and IRD?
- ▶ Do you have access to information on the tax system or how IRD or CED operate/interpret the tax law?

Have Your Say

Submissions can be sent to the
taxreview@mof.gov.sb
by **20 September 2017**