

# 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 It is outdated and inconsistent and leads to inefficiencies.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](mailto:taxreview@mof.gov.sb)  
by **20 September 2017**