

Taxin' Ur Brain

SUDOKU

SUDOKU is very easy to play. First you have to fill in all the empty boxes with numbers ranging from 1 to 9. However, each number can appear only ONCE in a row and only ONCE in a column and only ONCE in each group of nine (9) boxes within the grid.

Good luck!

						8		
7	8	1	6	5				2
5			1	9		7		6
				1				
	3							1
4			2		7		6	9
		9		2				3
3	5	8		4				
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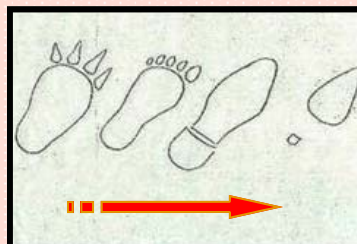
OFFICE LAUGHS

He got an email that was actually work-related... the shock was too much



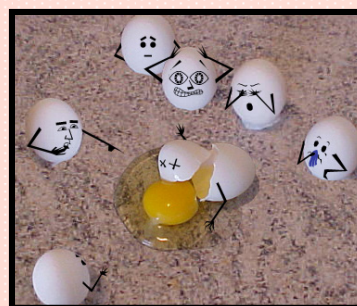
...

The evolution of authority



...

Tragedy.



...

What do you call a mushroom that runs into a bar and buys a round of drinks for everyone?

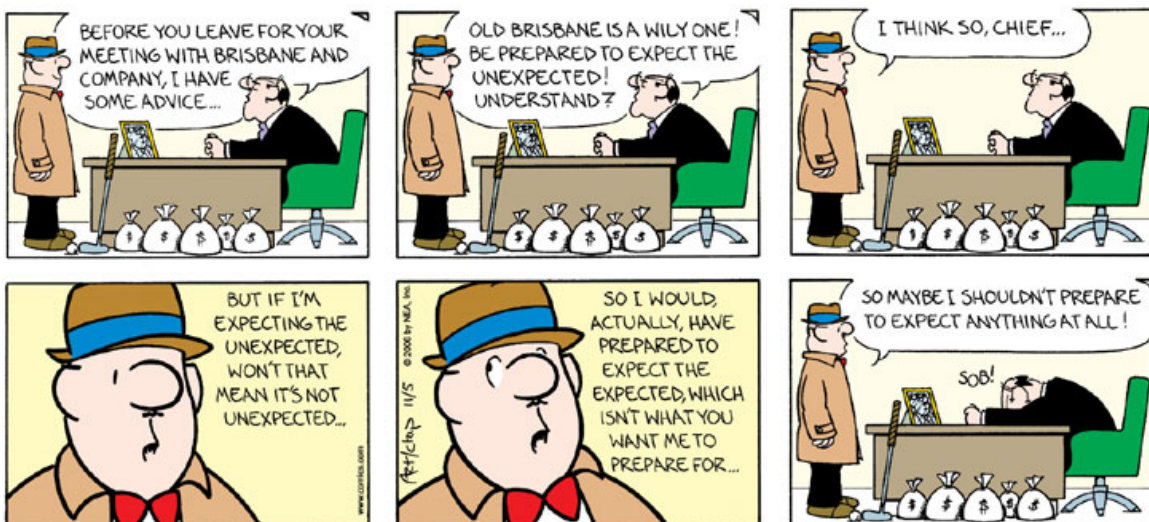
- I guess that would be a **Fun Guy**.

CHUCKLES

THE BOON LOSER



by Art & Chip Sansom



For further information call the Customer Service Unit of the Inland Revenue Department at telephone numbers (758) 468 4735 / 4766 or e-mail us at ird_relations@candw.lc



REVENUES

Before, everyone stood waiting for service... Now, Tax Service is more receiving, with seats and private cubicles!

BEFORE



AFTER



WHAT'S INSIDE

Editorial	2
Revenue Collections: July - September 2006	3
Innovations & Options in Tax Administration of the Underground Economy	4
Address by CARICOM Secretariat at COTA Opening	8
Tax Administration Prosecutes Directors &	10
Over the Hump!	11
Taxin' Ur Brain & Chuckles	12

CUSTOMER SERVICE'S MAKE-OVER!

A NEW LOOK FOR A NEW DAY



The newly renovated and improved Customer Service Front Desk

It took a little bit more time than expected - actually, it took the whole summer of 2006 to complete this project. But when it was unveiled, a sea of smiles deluged the entire third floor! Yes, the renovated Customer Service front desks and Cash Unit's Cashier booth were finally unveiled, and boy

did it make both Tax Officer and Taxpayer happy! Before, taxpayers had to stand and wait whilst dealing with Customer Service officers, where their personal business could've easily been overheard and exposed to the eyes of other taxpayers - now the taxpayer can sit in an individual cubicle where information is

discreetly exchanged. Before the Cashier booth was more make-shift, as well as less safe in its space design - now, there is more space for bookkeeping and holding files and a bit more security in structure. A wonderful investment in these two critical Units of the Department occurred: a new look for a new day! ✱

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DOES OFFICE DESIGN EQUAL PRODUCTIVITY?

BY KURTWELL FELIX—TAXPAYER RELATIONS OFFICER

TODAY'S workplace is designed, as opposed to the workplace of the past, with the ideology of easy and efficient mobility into a workspace and the immediate commencement of fulfilling the entity's objectives. This modern design also includes a focus on teaming, as well as on a pleasing of the senses, in order to improve the temperaments of both worker and client. This, thusly, enhances the circumstances for improved productivity. As an added note, this design is also based on economics, where an empirical emphasis is placed on efficiently using funds available for a cost-effective workroom.

Many entities are realizing the link between workplace quality and employee productivity, inadvertently stimulating a better realization of the entity's. This can occur as the result of a good office design elevating office morale and pride, thereby promoting the office's image and identity.

When an office wants to change its design for the purpose of increasing productivity, as well as customer and employee satisfaction, a few

elements should be considered:

Office Culture

The entity's culture or *modus operandi*, must be understood. Questions such as: "What are its values?" "Who are its customer?" "Who are the people working there?" should be asked. A design that defines space, circulation and function should very well take into account office culture.

Entity Identity

What is the mission of the entity? What message is brought to its clientele and how do they view it? This should guide the design of the office, promoting an environment reflective of the entity's identity.

Organizational Structure

The nature and manner of the workflow must influence an office's design: "How does work come to the entity?" "How does information get processed, communicated and transmitted?" "Which areas of managerial space needs to be more private, or needs to be in proper view for monitoring?" Efficiency of the entity's workflow and organization should take into account design.

Technology

Technological advances have great influence on an entity's functions, as it makes certain matters more

efficient, quick and easy to access or manage. With the computer and its peripherals, for example, efficient space design and management are critical to the availability of technology and its support and innovation to the workplace's efficiency.

Flexibility

Although available space must be utilized, an entity must have a foresight where the propensity to increase staff, as well as transfer staff to new locations, along with making way for more technology and office peripherals. Office flexibility takes issue as well, since unforeseeable circumstances would require the office to adapt and accommodate. A good design will also take this into account.

Indeed, through these factors, the Customer Service and Cash Units of the Department have been analyzed and redesigned to promote a more comfortable and efficient workspace for both employee and taxpayer. This new design was implemented with the objective of improving conditions for increased productivity. Alas, the workspace has been properly managed and the look is more professional... to progress and the Department! ✖

INSPIRATIONAL COR-

OVER THE HUMP!

BY ANONYMOUS

THE problems you face will either defeat you or develop you—depending on how you respond to them.

Unfortunately, most people fail to see how God wants to use problems for good in their lives. They react foolishly and resent their problems rather than pausing to consider what benefit they might bring.

Here are five ways God wants to use the problems in your life:

1. God uses problems to **DIRECT** you. Sometimes God must light a fire under you to get you moving. Problems often point us in a new direction and motivate us to change. Is God trying to get your attention? Sometimes it takes a painful situation to make us change our ways

Proverbs 20:30

2. God uses problems to **INSPECT** you. People are like tea bags...if you want to know what's inside them, just drop them into hot water! Has God tested your faith

with a problem? What do problems reveal about you? When you have many kinds of troubles, you should be full of joy, because you know that these troubles test your faith and this will give you patience.

James 1:2-3

3. God uses problems to **CORRECT** you. Some lessons we learn only through pain and failure. It's likely that as a child your parents told you not to touch a hot stove. But you probably learned by being burned. Sometimes we only learn the value of something...health, money, a relationship... by losing it. It was the best thing that could have happened to me, for it taught me to pay attention to your laws.

Psalms 119:71-72

4. God uses problems to **PROTECT** you. A problem can be a blessing in disguise if it prevents you from being harmed by something more serious. Last year a friend was fired for refusing to do

something unethical that his boss had asked him to do. His unemployment was a problem - but it saved him from being convicted and sent to prison a year later when management's actions were eventually discovered. You intended to harm me, but God intended it for good...

Genesis 50:20

5. God uses problems to **PERFECT** you. Problems, when responded to correctly, are character builders. God is far more interested in your character than your comfort. Your relationship to God and your character are the only two things you're going to take with you into eternity.

We can rejoice when we run into problems... they help us learn to be patient. And patience develops strength of character in us and helps us trust God more each time we use it until finally our hope and faith are strong and steady.

Romans 5:3-4

Here's the point: God is at work in your life - even when you do not recognize it or understand it. But it's much easier and profitable when you cooperate with Him. Success can be measured not only in achievements, but in lessons learned, lives touched and moments shared along the way. ✖

structures and national budgetary deficits. Therefore, as the Community moves towards adopting a tax harmonization strategy, COTA could be expected to advise on issues such as:

- ◆ The tax treatment of Temporary Service Providers - consultants, artisans;
- ◆ The adoption of standardized systems and procedures to allow for consistency in tax administration and management;
- ◆ The use of region-wide information technology systems (particularly, software) by tax administrations;
- ◆ Modalities for standardized training of tax administrators and

sharing of scarce specialized resources across the Community;

- ◆ Joint execution of taxpayer assistance programmes;
- ◆ Institutionalization of information exchange and sharing among tax administrations as a deterrent to tax evasion, given the rise of cross-border activities.

Indeed, your theme - *Building Strong Economies through Innovative Tax Policies and Administration* - signals your readiness to transform your Association into an Advisory Body of the Community. COTA was formally constituted here in Saint Lucia in 1971. Perhaps, it is the right time and place to start the

process of transforming COTA. I stand ready to provide my support to advance this initiative.

I understand that COTA operates within a clearly defined Constitution that provides for arrangements for collaboration and coordination of information exchange, training and technical assistance and advisory as well as research on taxation issues. I also understand that COTA's Constitution only provides for direct tax administrators thereby excluding other tax administrators. This limitation needs to be addressed urgently, given the move by several Member States towards the creation of comprehensive tax administration agencies with responsibility for the administration of both direct

and indirect taxes.

Finally, I urge you to undertake an immediate review of your Constitution to determine whether the stated objectives are adequate in the changing regional tax administration environment and in accord with the future role of COTA as a prospective advisory Body of the Community. I also urge you to take immediate steps to make any adjustments which may be required. Time is of the essence.

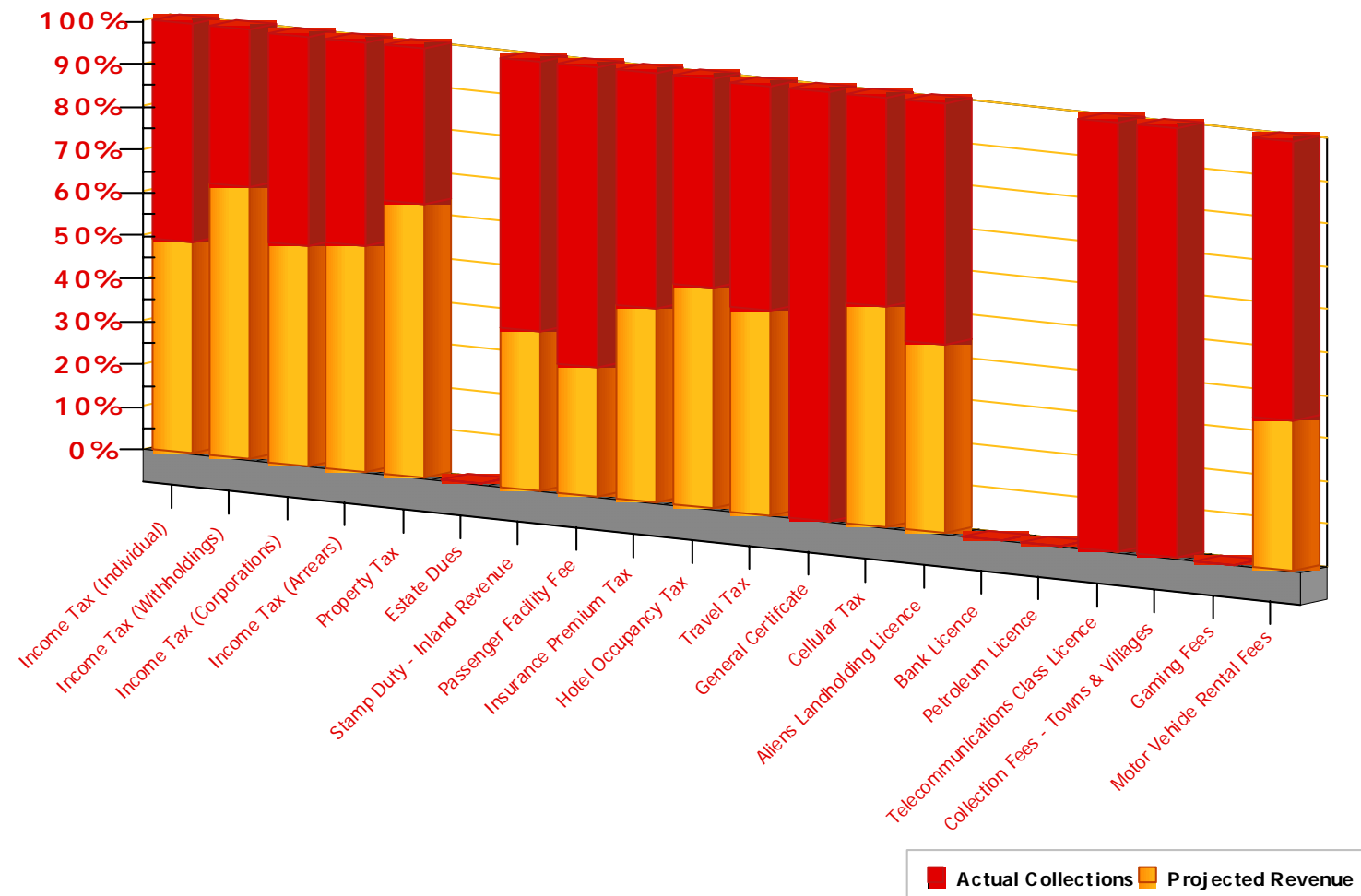
In closing, I would like to convey warm greetings from the Secretary-General of the Caribbean Community and join him in wishing you fruitful and constructive deliberations over the next few days. ✖

JULY TO SEPTEMBER 2006

BY DENISE REGIS—MISC. TAX SUPERVISOR

Collections [EC Dollar (Millions)]

Percentage Ratio



TAX ADMINISTRATION PROSECUTES COMPANY DIRECTORS & OFFICERS

COURTESY JAMAICA TAX ADMINISTRATION—www.jrs.gov.jm/

JAMAICA — As the Tax Administration continues its compliance activities against delinquent taxpayers, thirty-five (35) companies and sixty-six (66) Directors and Responsible officers have faced criminal prosecution for failure to pay PAYE Income Tax and Education Tax during the last six months.

Court action has resulted in approximately \$53M in outstanding PAYE Income

Tax and Education Taxes being paid. Matlaw Construction Company Limited, X-News Limited, Deryck A. Gibson Limited, Hagley's Auto Supplies Limited, The Printing House Limited, I.C.S. 2000 Limited, Coles Hardware Limited, Selective Auto Parts Limited and Franklyn D. Resort Limited and their respective company directors have been fined by the Court.

The Income Tax Act requires employers to deduct Income Tax and Education

Tax from the income of employees, and to pay these amounts to the Collector of Taxes, Inland Revenue Department (IRD) within fourteen (14) days after the end of the month in which it is deducted. Any person who fails to pay PAYE Income Tax commits an offence which carries a maximum fine of \$1M or three times the unpaid tax, whichever is greater. In default of payment, the guilty party may be sentenced to a term of imprisonment of up to twelve (12) months, with or without hard labour.

In the case of Education Tax, an employer who fails to pay to the Collector of Taxes sums deducted shall, if convicted, be liable to a fine of up to \$5,000 or three times the unpaid tax, whichever is greater. If in default of payment, the guilty party may be imprisoned with or without hard labour for a period of up to twelve (12) months.

It should be noted that in the case of a company, the Directors might be liable to prosecution separately and jointly along with the company. ✖

THE total revenue reported for the quarter has been calculated as the figure of **\$62,292,187**. We have surpassed our projections by an approximated **\$365,187**.

The following heads excelled in their performance:

Income Tax (Individuals)
The main reasons for this are: general increases in salary levels; the salary increases granted to government employees; and, a general increase in the level of compliance.

Stamp Duty
This head continued to perform very well. There

were many transactions recorded for this quarter.

Insurance Premium Tax
This head normally records 100% level of compliance, and this quarter was exception.

Overall, the other heads performed fairly well, and the shortfalls were

miniscule enough to be declared "insignificant."

Again, we would like to congratulate all staff members for their cooperative and steadfast performance during this trimester. ✖

INNOVATIONS & OPTIONS IN TAX ADMINISTRATION OF THE UNDERGROUND ECONOMY

BY ERIC D EUSEY—COMMISSIONER OF INCOME TAX BELIZE

OVERVIEW

The underground economy is defined by one encyclopedia as all commerce that is not taxed. The market consists of and includes not only legally prohibited commerce such as drugs, prostitution, and gambling, but trade in legal goods and services when income is not reported and consequently taxes are evaded through money laundering payment in cash or kind. Underground economy transactions are typically cash transactions to avoid tracing or complex financial operations involving the use of multiple subsidiaries and tax havens.

How does the underground economy manifest itself? Invariably it will show itself in the form of cash. What type of cash? It will be cash pending a purchase transfer or deposit, often in huge quantities. But for the most part cash only forms part of the mundane issue of doing business from day to day.

The size of the underground economy is

estimated, by various think tanks and scholars, to be in the trillions of dollars. Somewhere in there our small nation states have a fraction of the total. This poses a huge problem for government both on principle and quantitatively. On principle millions of dollars in tax revenues are forgone due to non-compliance and under reporting when it should not be so. Quantitatively many governments fall short when they have to address the problem due to lack of capacity.

Most governments around the world now operate under deficit spending. Collecting its fair share of revenues from the non-compliant economy should help reduce the deficit. It is not being suggested that revenues earned from this sector will erase a deficit, as it is known for some governments there is a greater propensity to spend than to collect taxes.

In any event, sooner or later, reality dawns and governments have to increase taxes to meet ever-increasing expenditures. When this happens the increase falls on those who are already

compliant and paying. The increase does not fall on those outside of the tax net. These persons have to be processed and made to be compliant.

The underground economy is anything but stagnant, it grows, it assimilates. It represents in many respects the hallmark of entrepreneurial activity and ingenuity.

Therefore the responsibilities and burdens placed on tax administrations to address non-compliance are heavy and serious. Often times administrations are not provided with sufficient resources to address the various issues that fall squarely at their feet. However like true professionals they must respond and find solutions.

THE LEGAL FRAMEWORK

In almost all tax regimes the Income Tax Law does not define income. This is both wise and practical. There are many types and streams of income and to define it in the tax statute would have placed limitations on the administration as to what income can be assessed. The way the statute qualifies income is by listing exemptions on

certain types of income, which cannot be taxed. This list will vary from administration to administration. Each must cut its cloth according to its fit.

The other important distinction about the tax statute is that it doesn't discriminate between legal and illegal income. The tax is on income period. This is a simple characteristic of the law but extraordinarily effective. This feature in the law alone gives the tax assessor the ability to reach out and assess income, particularly in the underground economy, which would normally be beyond his grasp.

How many persons who are engaged in illegal activity will come to the Tax Office and say, "Mr. Commissioner I have been involved in an unusual business and I want to make a declaration so I can pay my taxes, taxes to the society from which I make a living." How many? They will not be forthcoming so it is incumbent on the tax administrator to seek them out and assess them.

The other consideration in assessing income is

initiating the necessary transformation and modernization of our economies to accommodate the rising expectations of our citizens. As the guardians of the public purse, tax administrators are in a unique position to support the mobilization of the resources required to allow our Governments to effectively discharge their responsibilities within the Community.

Article 44(1)(e) of the Revised Treaty of Chaguaramas provides for the adoption by the relevant decision-making Community Councils of appropriate measures for the "convergence of macro-economic performance and policies through the coordination or harmonization of monetary and fiscal policies, including, in particular, policies relating to interest rates, exchange rates, tax structures and national budgetary deficits". Also, Article 90 addresses the internal tax regime which should be applied to goods of Community origin while Article 52(6)(b) provides for "the avoidance of double taxation" within the context of CARICOM States undertaking to "establish and maintain appropriate macroeconomic policies supportive of efficient production within the Community".

In keeping with these provisions, the CARICOM Secretariat has commenced work on the preparation of proposals towards the harmonization of the tax

systems within the Community. It is intended that this work will build on previous initiatives such as the proposals for the harmonization of corporate tax structures, which have been on the agenda of previous Technical Conferences of COTA, and for which resolution is still outstanding. The best practice principles implicit in Instruments such as the Intra-CARICOM Double Taxation Agreement will underpin any tax harmonization proposals which will be placed before the Community.

Moreover, the Secretariat recognizes the need to adopt a strategic incremental approach to the harmonization of tax systems in the Community. In this regard, the objective of tax harmonization should be the achievement of a taxation system which would improve the Community's collective welfare while taking into account the individual needs of Member States. Such a harmonized taxation system should result in an improved incentive structure for economic activity and increased revenue mobilization from a more efficient tax administration. The role of tax administrators in the pursuit of these objectives will therefore be critical in the effort to modernize and improve the efficiency of the tax systems in Member States, and the Community, in general.

The CARICOM Council for Finance and Planning, at its Fifth Meeting on 6 September 2001,

established a Working Group on Fiscal Policy Harmonization to spearhead this exercise. It is my understanding that COTA is represented on this body. It is my hope, that COTA, through its representative, will be an active participant in the activities of the Working Group.

However, my vision for COTA does not end with participation in the Working Group on Fiscal Policy Harmonization. I am mindful of the foresight of the Community's then Standing Committee of Ministers of Finance, implicit in the 1972 Standing Order which established COTA, that this Body should be a Standing Advisory Committee of the Standing Committee of Ministers of Finance.

In our restructured institutional arrangements for the governance of the CSME, the Standing Committee of Ministers of Finance has been replaced by the Council for Finance and Planning (COFAP). The Revised Treaty of Chaguaramas, at Article 14, gives COFAP the responsibility to "promote and facilitate the adoption of measures for fiscal and monetary co-operation among the Member States, including the establishment of mechanisms for payment arrangements".

Article 18 of the Revised Treaty also makes provision for the appointment of 'Bodies' of the Community. The existing Bodies of the Community are - the Legal Affairs Committee, the Budget Committee and the

Committee of Central Bank Governors. Articles 14 and 18 of the Revised Treaty give the Committee of Central Bank Governors specific responsibility to make recommendations in its area of competence to COFAP. I see no reason why COTA should not be given similar responsibility in its area of competence. However, to make this a reality, you must begin to conceptualize a role for COTA within the framework of the CSME, particularly the Single Economy.

We must begin to explore the possibility of having COTA designated a Body of the Community in accordance with Article 18 of the Treaty. You will need to review your Constitution, in particular "the objectives for which COTA is established" in order to make you more proactive if you were to discharge the responsibilities of a Body of the Community. COTA could be a forum for resolving problems associated with the harmonization of tax systems in the Region.

As a Body of the Community, COTA could be required to provide advice on tax policy and administration issues to the relevant Councils, namely the Council for Finance and Planning (COFAP) and the Council for Trade and Economic Development (COTED). These Councils have joint responsibility for adopting appropriate measures for the harmonization of, inter alia, policies relating to tax

ADDRESS BY CARICOM SECRETARIAT, AT THE OPENING OF THE 19TH GENERAL ASSEMBLY & TECHNICAL CONFERENCE OF COTA, 24 JULY 2006

MR. Master of Ceremonies, Hon. Prime Minister of Saint Lucia, ministers of the Government Father Jerry Bernier President of COTA Executive Secretary of C O T A Distinguished Delegates Invited guests Ladies and Gentlemen Members of the media

I am especially honoured to address this Opening Ceremony on the occasion of the 19th General Assembly and Technical Conference of the Caribbean Organisation of Tax Administrators (COTA).

This General Assembly and Technical Conference is being convened at a most propitious time in our history - a time of considerable change in the economic landscape of our countries and our Region, a time when I am proud to announce that the Caribbean Community is well on its way to establishing a Single Market and Economy.

As you may be aware, as of 3rd July 2006, the CARICOM Single Market now comprises twelve (12) Member States with the signature of the

“Declaration of Participation” by the Prime Ministers of Antigua and Barbuda, Dominica, Grenada, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines. They joined the Prime Ministers of Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago who inaugurated the Single Market on 30 January 2006. The signing ceremonies on 30 January and 3 July 2006 do not mark the end of the Single Market process. While we continue to fine-tune the implementation of the Single market, we are at the same time focusing increasingly on the Single Economy process so that we may proudly proclaim our Community as the CARICOM Single Market and Economy (CSME) in the not too distant future. At the Twenty-Seventh Meeting of the Conference of Heads of Government of the Caribbean Community on 3-6 July 2006, Heads of Government agreed that we must work assiduously towards the establishment of the framework for the Single Economy by 2008.

A few years ago, my predecessor, Mr. Byron Blake, on an occasion similar to this, asked you to

“imagine a COTA Meeting in 2014”. In asking that question, he was referring to the changes in economic structures, economic policies and economic management tools that would be required at that time - a time when public revenue mobilization will become more skewed towards direct taxation.

Today, I will not ask you to “imagine,” for the future is already here. Our Single Market is in place and the Single Economy is imminent. Our economic structures are undergoing transformation - the Services sector, characterized by new tertiary activities, is beginning to overtake the traditional goods sector; the shift from international trade taxes to more endogenous forms of revenue mobilization has begun, as many governments are either in the process of installing or considering the adoption of Value-Added Tax (VAT) systems. Pursuit of joint production and trading strategies along with the adoption of coordinated policies represent the hallmark of the Single Economy process.

Ladies and Gentlemen, the Single Market was established through primarily governmental legislative and administrative measures.

The Single Economy will require the active collaboration of all stakeholders, both public and private, in the adoption and implementation of coordinated policies and measures. So, today, I ask you - the members of COTA - to be an active collaborator in the Single Economy process. **Indeed, I challenge you to become the initiators of modern and effective tax administration measures supportive of the Single Economy.**

The CARICOM Single Economy is being pursued at a time when our countries are facing challenges in our efforts to create equitable societies. Reduced earnings from our traditional exports, loss of export markets, global competition to the major services such as tourism and financial services, coupled with further reductions in international trade taxes arising from our liberalization efforts (both unilateral and as a result of international agreements to which we are, or may soon become, signatories) are only some of the factors conditioning our economic choices. At the same time, our Governments are confronted with the demands for the State to become more proactive in

that it should be of a revenue nature as income from the sale of an asset is normally not taxable as it is capital in nature.

Several cases have been decided in the U.K jurisdiction that makes clear the reasoning for assessing certain types of income. Reference will be made to a few examples.

In *Mann v Nash* (16 TC 523) the Appellant Mann operated certain automatic machines for public use and which in due course was illegal. The profits from the operation of the machines were assessed to tax. Mann appealed the assessments on the grounds that the operations of the machines were illegal. It was held that the profits from the illegal activities were subjected to tax. In this same case it is necessary to quote the learned judge Justice Rowlatt, “The revenue representing the state is merely looking at an accomplished fact. It is not considering it; it has not taken part in it; it merely finds profits made from what appears to be a trade, and the revenue laws happen to say that the profits made from trades have to be taxed and they say, “Give us the tax”. It is not to the purpose in my judgment to say: “But the same state that you represent has said they are

unlawful; that is immaterial altogether and I do not see that there is any contact between the two propositions.”

In *Southern v AB* and *Southern v AB Ltd.* both AB and AB Ltd carried on the business of street betting. No part of the business done by the two persons was lawful betting and their activities involved offences for which penalties could be imposed by the civil authority. The assessment raised by the Inspector of Taxes was initially discharged by the special commissioners. But Southern the Inspector appealed and the Court held that although the businesses carried on by the Respondents were unlawful they nevertheless continued a trade and the profits there from were properly assessable to tax.

In *Cooke v Haddock* (39 TC 64) the Appellant purchased a farm and 72 acres of land. He submitted development pleas to the local authority for approval and sold 23 plots of the land he had bought. It was held that he was trading in land and the profits from the sales were assessable for tax.

Even isolated transactions can be classified as a trade or adventure in the nature of trade for the purpose of the tax law. In *Rutledge v C.I.R* (14 TC

490) the Appellant had purchased a large quantity of paper, which he later sold at a handsome profit. It was focused by the Court that the profits were subject to tax as it was an adventure in the nature of trade.

In *Attorney General v Johnstone* (10 TC 758) Justice Rowlatt had this to say, “This is a very bad case. Here is a man who says he put down £300 bone fide when he was making £1,500 and had been making it for years.”

“Do you tell me that a man who can conduct a successful business - he says he does it all by himself - making £1,500 a year does not know at the end of the year what his books show? His banking account will tell him; his household expenses will tell him; what he has in his pocket will tell him. He would know if he made £300 or £1500. It is no use putting up this argument to me or to anybody else who knows anything of human affairs.”

There are many decided cases that distinguish what income is taxable and what is not. These are only a few to show that the necessary legal guidance is available for taxing various sources of income.

COMMON AREAS FOR UNDERGROUND ACTIVITY

The following are some of

activities that are common players in the underground economy. The list is not exhaustive but gives a clear view of areas of economic activity that have a strong tendency to under report and neglect to report its income.

Alcohol and Tobacco These are popular items, high in demand in most countries. When custom duties or excise duties are high, there is strong tendency to acquire these goods for people without paying the required duties. Once that is achieved it becomes convenient not to report sales for tax purposes too.

Real Estate

Beach front and good residential properties are in high demand. Many real estate transactions done by individuals not registered or licensed as realtors. Many conveyances not recorded on a timely basis. Many sales done in each. Level of sophistication in transactions increasing. Need to be monitored closely.

Construction Industry

Traditionally difficult to police from tax administration angle. Voluntary compliance very poor. Many operators with plenty cash basis transactions. Contractors, sub-contractors, electricians, carpenters, plumbers,

masons, etc. Many freelance operators.

Gambling and Lotteries

Huge cash basis activity - strong tendency to under report if proper controls and organization not in place. Needs to be monitored closely. Potential for money laundering where large cash operations occur monthly.

Drug Trafficking

Illegal activity with huge cash value. Least compliant among those in underground activity. Assessments have to be made where there is possession of visible assets e.g. houses, cars, boats, real estate etc. and when there are seizures of significant amounts of drugs or cash.

Jewelry, Cell phones, CDs and DVDs

Easily concealed items, high in demand by public. Easy to slip past customs. Easy to let retail sales go unrecorded and unreported especially by small retailers.

Car Dealers

Many second hand car dealers with no established place of business. Difficult to track, as they are constantly on the move.

Tourism Industry

Whereas it is easy to have the hotels registered, all

the tour operators and guides may not be. Plenty of cash circulates in this industry, is it all accounted for? Tourists generally give tips, individually these are small but aggregated for the day, week, or month could be substantial. Tips should be included on returns for tax.

Smuggled Goods

Any manner of goods could be smuggled across open borders. If a smuggler can get past customs, the propensity for him to report his sales to the taxman is about zero.

Professionals

These are well trained and highly skilled individuals who are mostly registered on the tax roll but have a problem accounting for all the cash taken in. There may be exemptions but I'll wager residents for these are in the minority.

Any Cash Basis Activity

There are many small businesses that provide goods for sale and services to those willing to pay. Invariably these operate on a cash basis, with record keeping incomplete or questionable. Some small businesses keep excellent records and file properly. Again there are in the minority. Electronic Commerce This is

an increasing phenomenon with the use of the Internet. A sale by electronic means is still a sale. How easy is it to include or exclude an electronic sale from the total days' sale? The U.S. based auction house, eBay has over 40 million regular users. Items are sold over the Internet for handsome profits. There are no known statistics to say how many users report their profits and pay taxes.

OPTIONS FOR TAX ADMINISTRATIONS

The underground economy is a reality. It is alive and well in every country whether it is officially recognized or not. It appears, for more than one, to be an unstoppable and irreversible fact of life. Huge sums of money are earned and go unreported every year. What better good can tax administrators do but to get some taxes out of this unreported economy.

Administrators can opt to do a field survey, which is comprehensive, and register all the visible business in their jurisdiction. This survey should be repeated every 4 to 5 years as the economy grows. After registration assessments and collection should follow closely behind. Level of yield can be up to 10 to 15 percent or more depending on level of non-compliance converted to compliance.

Tax administrators need to

decentralize their offices as far as is practical. Economic activity occurs in the field and administrations must have its offices as close to the hub of activity as is practical. This tends to increase compliance from taxpayers and improves intelligence for the administration.

The strongest option for the tax administration is for a comprehensive field audit programme sustained year in and year out. This programme if administered effectively should yield considerable results when most administrations have the power to assess up to 6 years of activity in the past. However the question will be asked 'how can you audit a person who does not keep records?' Several options are available:

- 1) Assess arbitrarily - persons can be assessed arbitrarily within reason
- 2) Compute his cost of living expenses for himself and family and dependents and convert to income after deducting capital cash inputs like loans.
- 3) Net Worth method - a person's net worth for a year is determined by computing his net worth for a year which will then be equivalent to his income for the year.
- 4) Capital Worth method - similar to Net Worth

method except that calculations are done on the gross capital acquired.

All of the above methods are very effective, but administrators need to exercise great care in determining the accuracy or reasonableness of the figures arrived at. Another effective tool is the application of withholding provisions on a broad stream of income that have a strong tendency to go unreported. These include but are not limited to:

- a) Contracts
- b) Dividends
- c) Commissions
- d) Royalties
- e) Payments to non residents for:
 - i) technical services
 - ii) management fees
 - iii) rental of plant and equipment

The other consideration in assessing income is that it should be of a revenue nature, as income from the sale of an asset

is not normally taxed, as it is capital in nature.

Administrations should note, and as they are well aware, even persons on the tax roll who file and pay taxes regularly also are prone to under report their taxable income. For this reason field audits must be a constant and permanent feature in any tax administration's menu of remedies to address the issue of under reporting.

CONCLUSION

The underground economy is a worldwide phenomenon. Some governments recognize this fact and tries to address the issues that arise from it. Some governments don't. The reasons for the underground economy are many: unemployment, the need to make a living, neglect, and greed to name a few. The purpose of the paper is not to identify the social and economic reasons why the underground economy exists but to identify

areas for tax administrators to address it. Whatever the root cause of their behavior, operators choose to be casual rather than formal in paying their taxes.

Governments and tax administrators must display the will and the capacity to deal with the phenomenon. Large jurisdictions may prefer to apply heavy or even draconian penalties to address the problem. They must be careful not to kill the goose that lays the eggs. Other administrations prefer a more moderate approach.

Whatever the mix of the remedies to fix the problem each administration must develop its own tax regime to address local conditions as they are. This will mean strengthening tax laws and enforcement capacity. Emphasis must be made on the need for a continuous presence out in the field, by way of audits, registration, collection, and compliance.

The field is where the economic activity occurs. Any administration that spends almost all the time in its offices will not only have the day past them by, but also, the underground economy will pass by, unnoticed.

Speech prepared by Eric D. Eusey— Commissioner of Income Tax BELIZE

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