**Problem Matrix**

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| **Belize Tax Administration Modernization** | | |
| * 1. **The economy of Belize is challenged by low economic growth.** During the period of 2008-2014, the average annual growth rate was 2.7%, while in 2015-2018 it decreased to 1.7%.[[1]](#footnote-1) Although the recovery after the recession of 2016, growth expectations for the medium-term remain modest at 2%.   2. **Low economic growth has been associated with fiscal imbalances and a persistent accumulation of public debt.** Between 2015-2018, total expenditures averaged 33.5%% **while** **revenue** averaged 28.3% % of GDP. This has contributed to recurrent fiscal deficits and increase debt financing. The debt-to GDP ratio increased from 79.3% in 2015 to 94.2% in 2018.[[2]](#footnote-2) The lack of fiscal space has constrained the country to make priority investments to promote economic growth.   3. In March 2017, the Government reached a restructuring agreement with private external bondholders on its US$526 million bond[[3]](#footnote-3) (about 30% of GDP) and initiated a fiscal consolidation program. As part of the agreement, the authorities committed to a fiscal consolidation program, geared towards the tightening of the fiscal stance by 3.0 percentage points in fiscal year (FY) 2017/2018 and to maintain a primary surplus of 2.0% of GDP for the subsequent three years. As a result of the measures, the primary fiscal balance in FY 2017/2018 increased to a surplus of 1.3% of GDP[[4]](#footnote-4) The bulk of the fiscal adjustment has been through reduced government investment, mainly the wage bill and capital spending, which probably affected growth.[[5]](#footnote-5)   4. In the FY 2018/2019, the Government continues the fiscal consolidation program.[[6]](#footnote-6),[[7]](#footnote-7) The parliament approved revenue-enhancing measures to increase revenues by 0.5% mainly through: (a) broadening the base of GST by removing zero-rated items; (b) higher excises on fuel; (c) higher import duties on selected items. The measures include decreasing on expenditures, mainly the wage bill and capital spending.[[8]](#footnote-8)   5. To reach a successful and sustained revenue mobilization the Government requires a strong tax administration (TA). Revenue mobilization needs to take a more holistic approach that includes a modernization of tax institutions, covering a broad spectrum of legal, technical and administrative measures, and notably increasing the use of automation, information and communications technology.[[9]](#footnote-9)   6. **Justification.** Domestic taxes in Belize are administered by two separate departments. The Income Tax Department (ITD) is responsible for corporate and personal income taxes, as well as business tax, and the Department of General Sales Tax (DGST) administers the domestic General Sales Tax (GST).[[10]](#footnote-10) International trade tax and GST on imports are administrated by the Customs and Excise Department (CED). Although all three departments are all under the structure of the MoF, these types of organizational approaches (domestic taxes separated in two different departments) result in the duplication of functions (dual registration system with double data bases, doubled return and payment processing), inefficiencies (additional costs for the administration), and compliance burdens for taxpayers. They have also proven to be ineffective in managing taxpayer compliance (including audit and collection enforcement) in a holistic manner[[11]](#footnote-11). | | |
| **Main Problem-** Insufficient levels of revenue collection to promote fiscal sustainability.  **General Objective** – The main objective of the project is to strengthen TA aiming at increasing revenue collection, through the following specific objectives: (i) increasing the effectiveness of the government to collect taxes, through improvement in the TA governance; (ii) increasing tax administration efficiency, through improvement in the operational processes and modernization of the technological infrastructure.  **Impact and outcomes.** The impact indicator is tax revenue. The expected outcomes indicators, among others, are: (i) Efficiency – Administrative cost to collect / tax revenue collected; and (ii) effectiveness – number of declarations filed on-time/number of declarations expected to be filled. | | |
| **Component I. Strengthening Tax Administration Governance (US$545,562).** | | |
| **Problem Specific 1** – Insufficient effectiveness of the government to collect taxes,  **Objective Specific 1** – increasing the effectiveness of the government to collect taxes, through improvement in the TA governance Tax filling compliance rates is our outcome indicator for tax administration effectiveness, | | |
| **Causes** | **Magnitude and evidences** | **Products / Solutions** |
| 1.1 **Organizational structure challenges.** The ITD and DGST, which manage domestic taxes, are organized by tax type, instead of by functions,[[12]](#footnote-12) carrying out their operations separately, causing low efficacy and efficiency in the domestic tax collection, low taxpayer compliance[[13]](#footnote-13), as well as deficiencies in taxpayer services.[[14]](#footnote-14) There is already a draft law to merge ITD and DGST, however the government lacks technical support to disseminate and implement the new Domestic Tax Department. | Of 126 countries currently administer VAT, only 10 have separate departments for VAT and income taxes (FAD/IMF 2014 report). In the Caribbean region: Belize and Surinam.  Cost of collection is 2.0% while the regional average is 0.1.05%. (*Las administraciones tributarias recaudación-costos-personal*, CIAT, 2018).  FAD/IMF 2014 report. | 1.1 New business model,[[15]](#footnote-15),[[16]](#footnote-16) organizational structure, comprising workshops for communication/dissemination: (i) to support change management activities; (ii) the new business model; (ii) the strategic plan; and (iii) the legislation. |
| 1.2 **Inadequate internal assurance mechanisms** **to ensure accountability and transparency.** There are insufficient internal affairs policies and actions, and lack of internal audit to promote transparency in the TA processes. [[17]](#footnote-17),[[18]](#footnote-18) | Information provided by DGST and ITD.  Corruption, Taxes and Compliance, 2017 (IMF). | 1.2 Internal control model, comprising management control, internal audit, and internal affairs, which will be supported by ITAS, comprising: (i) technical assistance to develop the conceptual model and the corresponding operating manuals: (ii) a system to support the model operation; and (iii) training in internal control technics.[[19]](#footnote-19) |
| **Component II. Improvement of Operational Processes (US$1,749,428).** | | |
| **Specific Problem 2** – Low efficiency in tax collection.  **Objective specific 2** – increasing tax administration efficiency, through improvement in the operational processes and modernization of the technological infrastructure. | | |
| 2.1 **The taxpayer register contains duplicate and incorrect records.** The ITD registry contains approximately 27,000 taxpayers, of which less than 30% are active. The DGST registry contains around 5,000 taxpayers, of which 10% are inactive.[[20]](#footnote-20) | FAD/IMF 2014 report. | 2.1 Integrated taxpayer registration model, common for all tax departments and systems aiming at facilitating the registration and ensure the adequacy and accuracy of the information, comprising: (i) data cleansing and data migration to the new ITAS; and (ii) workshops to disseminate the new registration model. |
| **2.2 Limited human resource technical capacity.** The combined staff for both TA departments totals 240 employees, 67 are auditors. They present lack of training in key areas, such collection and audits. [[21]](#footnote-21) Most of the auditors are not accountants or professionals in related fields.[[22]](#footnote-22) | Belize Tax Administration Modernization Report. September 2018.  Information provided by DGST and ITD. | 2.2 Human resource strengthening plan, comprising: (i) identification of skill gaps of the TA personnel[[23]](#footnote-23); (i) implementation of an e-learning platform; and (iii) permanent training program |
| **2.3 Insufficient attention is given to large taxpayers.** Although a large taxpayer unit (LTU) was recently implemented, there are only four auditors allocated in the unit, in charge to overview 243 large taxpayers. These taxpayers are responsible for 59%[[24]](#footnote-24) of revenue collection. There are no taxpayer segmentation criteria officially established and the correspondent procedures to be applied.[[25]](#footnote-25) | Compliance Management of Large Business, 2009 (OECD). | 2.3 Taxpayer segmentation and risk-based compliance management model to identify, prioritize, and mitigate risks in the TA operations, including workshops to disseminate the new model. |
| 2.4 **Deficiencies in tax auditing process and systems.** Audit programs are mostly based on auditor’s opinion. In DGST, each auditor performs 3 to 6 assessments per year, which means that, considering the current staff, it would take approximately 10 years to inspect all taxpayers, which generates a low risk perception.[[26]](#footnote-26),[[27]](#footnote-27) | IDB report – Evaluation GST Department, 2018.  Fretes, V et al. More than Revenue: Taxation as a Development Tool, 2013 (IDB). | 2.4 New audit model making use of wider range of examination and risk-based techniques,[[28]](#footnote-28) comprising: (i) analytic tools for auditing; and (ii) workshops to disseminate de new model |
| 2.5 **Insufficient support for taxpayers to comply with their tax obligations in a cost-effective manner.** Taxpayers services are essentially paper-based and walk-in. Only 3% of GST filing declarations, 20% (GST) and 14% (ITD) payments[[29]](#footnote-29) are made through commercial banks.  **Difficulty to manage the arrears.** The total stock of tax arrears recorded by ITD is US$82 million and DGST is US$39.2 million (56% and 43% of annual revenue, respectively).[[30]](#footnote-30) Write offs of non-collectible have not been used. | Information provided by DGST and ITD. | 2.5 Enforcing collection model based on risk criteria, including workshops to disseminate de new model. |
| 2.7 **Difficulty to identify inconsistencies in taxpayer’s obligations.** Integrated **t**axpayer account is not in place to provide a taxpayer centric overview for tax control.[[31]](#footnote-31) | [2018 Government request for expression of interest for acquisition of ITAS](http://mof.gov.bz/uploads/files/fzj3rpjq.pdf).  There are 30,000 taxpayers in Income Tax and 5.000 taxpayers for GST, which does not have a centric overview tax control.  Information provided by DGST and ITD. | 2.6 Taxpayer account model to allow the TA to have a fast taxpayer centric overview, including workshops to disseminate de new model. |
| 2.7 **The taxpayers’ invoicing process control is ineffective.** It generates inaccurate information. In addition, the refund process is slow due to lack of reliable information to confirm the taxpayer credit.[[32]](#footnote-32) | FAD/IMF 2014 report.  There is no taxpayer´s control about invoice authorization sequence control | 2.7 Invoicing control model comprising a strategy for further electronic invoice implementation, including workshops to disseminate de new model. |
| **Component III. Modernization of Technological Infrastructure (US$**10,376,000**)** | | |
| **Specific Problem 3** – Insufficient electronic services available for taxpayers fulfil their obligations  **Objective specific 3** – reduce taxpayer compliance cost, through the modernization of technological infrastructure. | | |
| 3.1 **The technological infrastructure is insufficient to host a new Integrated Tax Administration System (ITAS) and to provide good taxpayer services.** The current data-center processing capacity is insufficient to support a modern ITAS functionality, including storage capacity and telecommunication resources.[[33]](#footnote-33), | CARTAC Report – Considerations to Implement an ITAS, 2018.  There is no registration, filing and payments electronic transactions. | 3.1 Information and Technology (IT) strategic plan, comprising: (i) basic software; (ii) hardware, servers, storage, telecommunication; (iii) information and cyber security; and (iv) e-tax portal |
| 3.2 **The computerized TA systems (SIGTAS) is obsolete and does not generate useful information for decision-making and tax compliance.** SIGTAS, an off-the shelf system was implemented in 2001 and updated in 2006. Currently, the functionality remains basically the same, presenting many deficiencies[[34]](#footnote-34), including low capacity for electronic transactions | Report: Review of IT Systems of the Tax Administration of Belize, 2017.  Good practices recommend 100% (TADAT Field Guide 2015). | 3.2 New ITAS[[35]](#footnote-35) integrated with other government systems, including customs,[[36]](#footnote-36) comprising: (i) registration; (ii) declaration processing and monitoring fillers; (iii) payments and refunds processing; (iv); taxpayer account and revenue accounting; (v) collection; (vi) audit and case management; (vii) objections and appeals; (viii) taxpayers services; (ix) risk management; and (x) supporting processes, including reporting, statistics and internal audit. Large taxpayers will pilot the new systems before their rollout to the broader population. |

1. IMF Article IV 2018. [↑](#footnote-ref-1)
2. IMF Article IV 2018. [↑](#footnote-ref-2)
3. The Government has restructured its external debt to commercial lenders three times between 2007 and 2017. The public debt-GDP ratio reached 93.6% of GDP in 2017/18. [↑](#footnote-ref-3)
4. Excluding the one-off capital transfer. [↑](#footnote-ref-4)
5. IMF Article IV 2018. [↑](#footnote-ref-5)
6. Paper: Assessing debt sustainability in Belize. [↑](#footnote-ref-6)
7. Central Bank press release. [↑](#footnote-ref-7)
8. [IMF Article IV 2018](https://www.imf.org/~/media/Files/Publications/CR/2018/cr18327-BelizeBundle.ashx). [↑](#footnote-ref-8)
9. Paper: Raising revenue (IMF 2018). [↑](#footnote-ref-9)
10. DGST has 5120 taxpayers in GST registry; ITD has 27.728 taxpayers in Business Tax Registry and 6.035 taxpayers in PAYE registry. [↑](#footnote-ref-10)
11. The integration of consumption and income taxes into one administration has accelerated during the last 5 years. Out of 12 countries that currently administer VATs, all, except Belize, have now adopted the integrated approach. Schlotterbeck, S. [Tax Administration Reforms in the Caribbean](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=18&ved=2ahUKEwiv6qPsnI3hAhWQON8KHRl-CzkQFjARegQIBhAC&url=https%3A%2F%2Fwww.imf.org%2F~%2Fmedia%2FFiles%2FPublications%2FWP%2F2017%2Fwp1788.ashx&usg=AOvVaw0T4DTaEBzMYfF07LmoA163). IMF, 2017. [↑](#footnote-ref-11)
12. Of 126 countries currently administer VAT, only 10 have separate departments for VAT and income taxes (FAD/IMF 2014 report). In the Caribbean region: Belize and Surinam. [↑](#footnote-ref-12)
13. Non-compliance is high. Non-filing average of 76% (ITD) and 85% (DGST) [↑](#footnote-ref-13)
14. Cost of collection is 2.4% while the regional average is 0.98%. (CIAT, 2018). [↑](#footnote-ref-14)
15. Current business process and To Be business process draft reports (Feb/2019). [↑](#footnote-ref-15)
16. Barreix and Zambrano, 2017. [↑](#footnote-ref-16)
17. Information provided by DGST and ITD. [↑](#footnote-ref-17)
18. Corruption, Taxes and Compliance, 2017 (IMF). [↑](#footnote-ref-18)
19. International good practices (TADAT). [↑](#footnote-ref-19)
20. FAD/IMF 2014 report. [↑](#footnote-ref-20)
21. Information provided by DGST and ITD. [↑](#footnote-ref-21)
22. Belize Tax Administration Modernization Report. September 2018. [↑](#footnote-ref-22)
23. The employees will be relocated in new functions. No dismissal are planned. [↑](#footnote-ref-23)
24. Data from 2016/2017, provided by the Government. [↑](#footnote-ref-24)
25. Compliance Management of Large Business, 2009 (OECD). [↑](#footnote-ref-25)
26. IDB report –Evaluation GST Department, 2018. [↑](#footnote-ref-26)
27. Fretes, V et al. More than Revenue: Taxation as a Development Tool, 2013 (IDB). [↑](#footnote-ref-27)
28. Audits have a sustainable effect deterring future evasion among audited firm. See: Pomeranz, Dina. 2013. “No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax”. Harvard Business School. [↑](#footnote-ref-28)
29. Good Practices recommend 100% of payments made electronically (TADAT). [↑](#footnote-ref-29)
30. Information provided by DGST and ITD. [↑](#footnote-ref-30)
31. [2018 Government request for expression of interest for acquisition of ITAS](http://mof.gov.bz/uploads/files/fzj3rpjq.pdf). [↑](#footnote-ref-31)
32. FAD/IMF 2014 report. [↑](#footnote-ref-32)
33. Review of IT Systems of the Tax Administration of Belize report, 2017. [↑](#footnote-ref-33)
34. Considerations to Implement an ITAS report, 2018. [↑](#footnote-ref-34)
35. The modality of acquisition is COTS (commercial off the shelf). The security will be defined for all functions. [↑](#footnote-ref-35)
36. ITD, DGST, Customs, and treasury are within MOF. [↑](#footnote-ref-36)