

TAXPAYER ASSISTANCE

A CASE STUDY

presented by Mr. Henry Hochoy
Chairman, Board of Inland Revenue
Trinidad and Tobago

So that the Assembly may fully understand and appreciate the difficulties encountered by the Trinidad and Tobago tax administration in the enforcement of its tax laws and in the resulting collection of tax revenues, I have attached to the case study hand-out a brief history of the political and economic development of my country.

Introduction

Income Tax as a system of raising public revenue was introduced in Trinidad and Tobago in the course of the year 1918 and then primarily to assist in meeting expenditures occasioned by the Great War of 1914-1918.

At that time, Trinidad was a Crown Colony of Great Britain, mainly dependent on the sugar and cocoa industries, with a migrant population of less than 400,000.

As far back as 1823, requests had been made by the planters for some form of self-government that would confer a reasonable control over taxation and expenditure. The Secretary of State for the Colonies refused to entertain these requests on the grounds that the principles of self-government were not applicable in a society much as that which existed in Trinidad and Tobago. Complete control, therefore, of Trinidad and Tobago continued to rest in the hands of the British Government.(1) This dependence on a Government that was "not of the people" contributed to a situation which perhaps aggravated the universal antipathy to taxation and, especially, to taxes on income.

In time, this antipathy grew and developed almost into a tradition of disregard for tax laws.

This is one of the situations, -fifty years after that first Income Tax Ordinance was passed-, that the Tax Admini

(1) "History of the People of Trinidad and Tobago"
by Eric Williams.

stration of Trinidad and Tobago is seeking to correct by means of Taxpayer Assistance.

This service is a new venture in Trinidad and Tobago. Over the years, a limited number of taxpayers sought assistance in the preparation of their tax returns, especially during the filing period. No particular section of the staff had been assigned to this duty, but persons seeking assistance were directed to the Supervisor of Assessments, who either gave the required assistance to the taxpayers or assigned members of his staff to this duty as the need arose. Some taxpayers made direct approaches for assistance to members of the staff whom they knew. Ten years ago or so there were perhaps less than ten certified tax practitioners in the private sector, while the number of bookkeepers who catered for business to the small business man were generally not beyond reproach and indulged in improper practices when rendering the annual tax returns of the business.

Pay-as-you-earn

In 1958, two connected developments emphasized the need for a permanent Taxpayer Assistance Service. One such development was the introduction of the Pay-as-you-Earn Tax Deduction System; the other was the subsequent increase in the number of returns filed. The increase was of approximately 100 percent in the employee group of taxpayers. Of these returns, in a large number of cases, tax was over-deducted and taxpayers expected these refunds to be issued instantly. Pressure was brought to bear on the Division by these persons who called in large numbers at the tax office demanding their refunds. I think I do not overstate the case to say that the situation was chaotic. Immediate plans were made to speed up our procedures and to educate the public on the new system of tax deduction. Officers were detailed to visit businessmen in order to instruct them in the use of the tax tables and to explain the provisions of the law governing the system. (Two pamphlets explaining the responsibilities of the employer and of the employee had been issued before implementation of the new system but it seemed that in many cases the pamphlets had not been carefully, if at all, studied by the taxpaying public).

The Tax Administration also discovered, as a result of these visits, that a number of small businesses functioned without any organised accounting system. The problem was largely one of a low level of education among the small proprietors and businessmen. During these interviews, Revenue

Officers offered advice and guidance on the basic accounting procedures required by our laws.

In addition, members of the staff were assigned the duty of assisting taxpayers in the preparation of their tax returns during the filing period.

From the type of assistance sought and the imperfections predominating in the returns filed without assistance, the need for the establishment of a permanent Information and Assistance Service was recognized to speed up the processing of returns.

It is perhaps characteristic of the attitude to taxation, that the number of returns filed increased when taxpayers felt that they had been over-deducted. In a large number of cases, however, examination of the returns revealed that not all claims were allowable. Spurious claims were made, not necessarily with intent to defraud, but mainly because of ignorance of the tax laws.

In designing a Taxpayer Assistance programme suitable to the needs of Trinidad and Tobago, some emphasis was given to the development of a tax consciousness in all categories of taxpayers by spotlighting the responsibilities as well as the rights of taxpayers.

In implementing this programme, the administration is also up against the problem of semi-literacy.

A fair percentage of the workers in the lower income levels, has not had the benefit of education beyond the primary level, and in this group there are hundreds of those who, although able to speak the English language comprehensively, cannot write legibly. Also, in the self-employed area, a good number of the smaller commercial enterprises in the retail grocery and textile distributive trades, are owned by migrant settlers, Chinese and Syrian respectively. These individuals possess a meagre knowledge of the English language and although the tax laws require accounts of their business to be kept in the English language, they generally do not comply and at the end of each year they engage the services of a bookkeeper to compile a final statement of the year's business.

The present state of complexity of the Income Tax laws also presents an obstacle to the attainment of compliance with their requirements. Moreover, the substantive laws and amendments are not readily available as several of them have gone out of print. There is no approved revision or consolidation

validation since 1950/1. It is therefore difficult for taxpayers to ascertain their rights and responsibilities.

Categories of Taxpayers

Under our present system of tax administration, taxpayers are classified under 6 Groups or Heads:

- Group 1: Corporations, including Insurance Companies
- Group 2: Employee-taxpayers (Private Sector)
- Group 3: Self-employed - including professionals, traders, farmers, etc.
- Group 4: Non-residents
- Group 5: Government employees
- Group 6: Employee-taxpayers whose allowances exceed their income, but from whose salary or wages tax deductions were made under the Pay-as-you-Earn Tax Deduction System

Our annual tax return forms are designed to meet the requirements of each category of taxpayers. The forms now in use are:

- Form 1A: For use by employee-taxpayers whose chargeable (1) income from all sources exceeds \$4,800
- Form 1B: For use by self-employed taxpayers
- Form 1C: A short two-page form for use by individuals whose income solely consists of salary, wages or pension, not exceeding \$4,800
- Form 1D: For use by corporations
- Form 1E: For use by insurance companies
- Form 1F: For partnerships, joint ventures, trusts and estates

Future plans include reducing the number of forms now in use and simplifying them to facilitate proper and correct completion of the same and to speed up the returns processing operations.

Employee-taxpayers

Of the six categories of taxpayers, the largest are the employee groups, that is, Groups 2, 5 and 6. Because of their low level of education, these individuals find difficulties in completing income tax forms.

(1) Chargeable income is the taxable amount remaining after all deductions and claims allowable under the Ordinance have been granted

Under the Pay-as-you-Earn, or Tax Deduction System modelled after the Canadian pattern, tax is withheld from the earnings of these persons and the amount of tax withheld is based on a declaration of personal allowances completed by the employee and filed with the employer. The problem lies in the fact that many incorrect claims for personal allowances are made by these taxpayers, this fault occurring mainly in the lower income levels of employees who are ignorant of the rules governing the granting of the personal allowances: namely, the wife, child, dependent relative, housekeeper and Life Assurance Allowances. For example, many taxpayers claim the wife allowance for a common-law wife (in Trinidad and Tobago this allowance is made only in respect of a marriage which is registered according to the law); the child allowance, which under the Trinidad and Tobago Ordinance is granted in respect of a child in the custody of, and wholly maintained by, the taxpayer, in a large number of cases is claimed by putative fathers who cannot prove custody nor give evidence of having maintained the children. Nor are the very complex and complicated provisions governing the granting of allowances in respect of insurance premiums paid, readily construed by the average taxpayer.

Initially, therefore, our Taxpayer Education Service is directed mainly to the employee-taxpayers so as to reduce the overload of enquiries and interviews involved in determining their right to claims.

The level of non-compliance among individuals whose only source of income is earned income is not an overwhelming or insurmountable problem (even though the number of returns received is on the average a little more than 50% of the employee taxpayers registered on our tax roll) (1). The income of these persons is reported by the employers and assessments can be made on the information supplied. The problem here is one of insufficient staffing which under our current re-organisation scheme we hope to correct.

- (1) Possible reasons for the apparently high rate of noncompliance in this group could be:
 - (i) that previous to September 1969, the law did not require returns to be filed where there was no chargeable income and consequently no tax liability
 - (ii) that small claims were not made because of the bother of form filling and delay by the Revenue in settling the claim
 - (iii) that many taxpayers are not regularly employed from year to year and our coding system still requires them to be included in the tax roll.

Under Finance Act 2 of 1969, any individual whose total income from all sources amounts to \$1,500 but who, after claiming the reliefs to which he is entitled, has chargeable income, is also required to file.

Under this Act, a company whether it has made a gain or a loss must also file, as well as a company to which exemptions have been granted under the Pioneer Act or other legislation.

Self-employed Taxpayers

This group includes persons engaged in the practice of their professions and in the operation of commercial, industrial, transport, communications and general services. Of these taxpayers (excluding professionals) 93.8 percent are persons who either had no formal education or attended primary schools only. (1) A large number of migrant small traders speak little or no English, for example the Chinese and Syrian traders, and are therefore unable to keep records of account in the English language.

Taxpayers in this group are ready victims of fraudulent and inefficient bookkeepers. The law requires the self-employed taxpayer to keep books of account in the English language. To the majority of these taxpayers, this appears to be an overwhelming responsibility. To others, it appears to be a trap to extract tax where no tax is due. Here again our Service sets out to dispel these fears and to convince the self-employed that the law requires the simplest accounts to be kept and that it is to his advantage to keep such accounts. The level of compliance is understandably very low in this group. Just about one-third of the taxpayers registered on our roll actually file. (2)

There are many cases of under-reporting of income, some deliberate and some through ignorance of the provisions of the law.

(1) As to 1965. Publication N°6 Central Statistical Office page XI.

(2) Prior to Amendment Act 32 of 1969, a self-employed person who, by his own calculation suffered a loss, did not file. Nor did taxpayers exempt under Pioneer Aid, file. (See also Footnote 1 on Page 297).

Corporations

This is an area of disappointingly low compliance. Only 40% of the companies registered on our roll filed in 1969. Because of the insufficiency of tax practitioners, quite a number of corporations file their returns late, so that we anticipate these to be filed during 1970. Also, until the law was amended in the latter part of 1969, companies which suffered a loss in their trading period were not required to file; nor were tax exempt corporations required to file. (See Footnote N°1 on Page 297).

Objectives of the Taxpayer Assistance Service

Our task is then threefold:

1. To develop an awareness of the benefits to the country to be derived from compliance with the tax laws;
2. To explain the provisions of the tax laws in the simplest terms; and
3. To assist and encourage taxpayers to comply with the law.

Taxpayer Education

Our programme for Taxpayer Education, the right arm of our Assistance Service was formally initiated last year, through features in the newspapers, on radio, on television and by means of lectures to Associations and Groups: The Junior Chamber of Commerce, Lions, Rotary, Teachers' Associations, Trade Unions, large commercial enterprises, church groups. (We are also in touch with some Professional Associations to develop a simple form of accounts which could be adopted by their members).

The features in the press, on radio and on television were presented in question-answer form directed mainly to the employee-taxpayer and covering such problems as were most frequently encountered by the taxpayer. We feel that if this group could be educated to file accurate returns, the heavy load of enquiries involved would be reduced, thus making it possible to assign more manpower to the examination of income-producing returns of the self-employed and corporate taxpayers and to tracing defaulters and combating evasion.

In addition, publicity was given to items of general interest for taxpayers and to significant innovations in our reorganisation; for example, to the introduction of Automated Data Processing and to the graduation of officers from our Training School.

The programme for Taxpayer Education implemented in the course of last year's filing period included:

- (a) Tax Tips. A question-answer series published in one of the Sunday papers. Eight such features were published between March 9 and May 11.
- (b) Tax Tips. A similar series over the two radio stations. On one station, the series ran every day Monday through Friday and on the other, it was broadcasted three times a week.
- (c) Tax Tips. Six features telecast on Trinidad and Tobago Television between March 26 and April 31.
- (d) Tax Seminar. An all-day seminar sponsored by the Junior Chamber of South Trinidad. Papers were presented by the three training officers of our Division. Ninety-five persons participated in the seminar, for which each participant paid the Chamber a fee which helped to defray expenses.
- (e) P.A.Y.E. Courses. A series of one-day P.A.Y.E. Courses for Accounting and Payroll clerks employed by commercial firms and by Statutory Bodies. The purpose of these courses is that of explaining the provisions of the law governing the Pay-as-you-Earn System of Tax deduction. Nine courses were conducted and 147 persons attended. In 1968, similar courses were conducted for payroll and accounting clerks from Government offices.
- (f) Lectures to Students and Teachers of a Technical School in Port of Spain. Twenty-one attended.
- (g) Lectures organised at the request of a Church Group. Twenty-four attended, including clerical workers, tradesmen, civil servants, teachers.

A modest beginning, but I am pleased to say that we have received full cooperation from the communications media, and those availing of our services have expressed appreciation for these services and the hope that they will be continued and expanded.

This year we have undertaken a series of lecture-demonstrations at Community Centres throughout Trinidad. This project was planned in cooperation with the Division of Community Development whose Director and Staff gave enthusiastic support to the idea. Plans were made to conduct lectures demonstrating the correct way to complete an Income Tax Form at 22 Community Centres in the sugarcane, oil and other industrial areas, as well as in middle and lower income residential districts. With the aid of a blow up of an income tax form, the lecturer demonstrates the correct way of completing a form and explains the provisions of the law governing the declaration of income and the claiming of reliefs. Anyone seeking help in the actual preparation of the return will be assisted.

This series is designed mainly for the middle and lower income groups, of primary education level and it also serves to introduce the youth of the district (who are encouraged to use the Community Centres) to the principles of taxation.

At the time of writing, five of these lecture-demonstrations have been conducted, in the oil belt, in an industrial area, in a residential district in Port of Spain, and in a "mixed" district: agricultural, residential, small business.

The attendance so far has not been very good, about 40 on the average; the lecture in the oil area drew the largest audience -70- and about 60 attended the lecture in a middle income residential district in Port of Spain.

Promotion of the series include:

- (i) Display of posters in the district (viz. "Take the worry out of tax time, let the taxman help you complete your income tax return. Be at the Belmont Community Centre on Thursday January 22").
- (ii) Free Television and radio spots.
- (iii) Paid newspaper advertisements.
- (iv) A mobile public address unit to cover the main street of the town or village, advertising time and place of lecture. This form of advertising will be used in the sugar areas with the loan of a unit from one of the sugar companies.

Apart from affecting the actual attendance at these lectures, the advertising campaign for this project will focus attention on taxation and pave the way for other projects.

A Simple Tax Guide for Individuals

Plans for the future include the publication of a Simple Tax Guide for individuals. The Guide sets forth the provisions of the Income Tax Ordinance governing the declaration of income and the claiming of personal reliefs by individuals.

The booklet is divided into eight parts, viz:

- PART I: Identification and General Declaration
- II: Declaration of Income - General Notes
- III: Declaration of Income - Sources
- IV: Payment under Covenants
- V: Withholding Tax
- VI: Double Taxation Relief
- VII: Personal Reliefs
- VIII: Computation of the Tax

This Guide the administration hopes to have issued some time during 1970.

Taxpayer Assistance

A section of our Division is now permanently assigned, during regular working hours, to the duty of answering enquiries and assisting taxpayers in the preparation of returns. Over 9,000 persons were assisted by this section last year.

During the filing period, additional staff is assigned to this section for the sole purpose of assisting taxpayers in completing their returns. A little more than 1000 persons availed themselves of this service during 1969.

The assistance service was also extended from 4.30 p.m. to 6.00 p.m. for a period of about three weeks before April 30, the last day for filing. We also introduced a Telephone Answering Service which operated between 6.00 p.m. and 9.00 p.m. A little over 200 persons made use of these two additional services. However, we are convinced that the services are useful means in the administration of our tax laws and that, with a vigorous publicity and promotion campaign, more taxpayers will be persuaded to use these services. This year, our assistance service will be initiated in our district offices.

Our promotional campaign will include the use of Cartoons in the newspapers and the use by the postal agencies of a stamp-cancelling die, with the slogan: "File your Income Tax Return and pay the balance due before April 30".

Last year there was an increase of more than 100% in the returns filed in the first three months of the year and an overall increase of 15%. This increase, we feel, is partially attributable to our publicity campaign.

Looking Ahead

In taking these first tentative steps in educating and assisting the taxpaying public, we are aware of the local historical resistance to taxation and our efforts are directed towards wooing the taxpayer rather than to directly threatening him. In our training programme this characteristic of our tax administration is stressed. In this context we also realise the need to educate the younger generation on the principles of taxation; towards this end we are considering the possibility of arranging, in conjunction with the Ministry of Education, lectures for senior students of primary and secondary schools, and for university students.

Much ground remains to be covered but, with the increase in educational facilities and a development of a tax consciousness in our community, we are working towards the goal of obtaining a full measure of voluntary compliance from the taxpaying public.

APPENDIX TO THE CASE STUDY

PRESENTED BY TRINIDAD AND TOBAGO

A brief History of the Political and Economic
Development of Trinidad and Tobago

POLITICAL HISTORY

The islands of Trinidad and Tobago situated at the southern extremity of the chain of islands in the Caribbean lying between North and South America were discovered by Christopher Columbus in 1497 and were annexed by the Spanish Crown. The islands remained virtually unsettled by colonists until some 200 years later, and were eventually ceded to England at the close of the 19th Century. They remained under English sovereignty since that time and it was only after the end of the Second World War that a certain measure of self-government was granted. In 1962, the English Government granted the islands full independent status. Today, Trinidad and Tobago comprise one of the small nations of the Caribbean yet retaining its ties to the British Commonwealth. In 1967 the nation was admitted into membership of the OAS and has since been developing its association with Latin America.

POPULATION HISTORY

The Islands of Trinidad and Tobago comprise 1,980 square miles and contain a population of just over a million persons. Approximately 40% of the population is of negro stock, 36% of East Indian origin, the remainder consisting of minority groups of English, French, Spanish, Portuguese, Chinese and Syrian descendants. English is the spoken and written language but large racial groups like the East Indian have succeeded in retaining their ancestral habits and customs and even their Hindi language. The country prides itself on the existing racial harmony and on its political stability.

ECONOMIC HISTORY

Trinidad and Tobago like other colonies of the British Empire were designed to provide the raw materials for the metropolitan power. Large portions of the land were put under sugar cane production for which in the early days of English rule, slaves were brought from Africa and indentured labourers introduced from India and China. Today, more than 50% of the arable land is still under sugar cane cultivation owned by one of the largest sugar producing companies in England. Other plantations on a large scale are in the coconut, cocoa, citrus and coffee industries. At present, a great portion of the East Indian population is still engaged in agricultural employment on the sugar plantations although mechanisation has to some extent curtailed this avenue of employment. Others who are still closely attached to land cultivation, cultivate small holdings in vegetable and market garden crops.

The mainstay of the Trinidad and Tobago economy has been, within the past 25 years, mineral oil. Before that time, asphalt extracted from the world famous Pitch Lake was one of the island's most lucrative export used principally in all of the developed countries of the world for road building. Within recent times, unfortunately for Trinidad and Tobago, this export mineral has had to take a second place since other forms of material are being used in road construction. Although this country's production of oil compares very unfavourably with other main suppliers in the world, there is no doubt that this industry has contributed enormously to the economic growth of Trinidad and Tobago. In 1968, direct tax and royalty revenues accounted for more than one-third of the national revenue. The petroleum industry alone employs about 15,000 (1) of a labour force of 350,600 (2).

Within the past ten years there has been rapid expansion in the manufacturing and industrial fields. The following table shows the distribution of the labour force for the years 1956 and 1967:

	1956 (4)	1967 (5)
Total employment	250,100 (3)	307,500
Agriculture, Forestry, Hunting, Fishing	65,000	68,300
Mining, Quarrying, Manufacturing	57,000	61,900
Construction (including electricity, gas and water)	28,100	35,200
Commerce	28,000	48,600
Transport and Communication	19,000	21,100
Services	53,000	72,400

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- (1) As to November 1966. Quarterly Economic Report, July to September 1969: table 27, page 24.
 - (2) As to 31st December, 1966. Quarterly Economic Report, July to September 1969: table 30, page 27.
 - (3) Trinidad and Tobago Today (Central Statistical Office-Publication N°1) p.32.
 - (4) Trinidad and Tobago Today (Central Statistical Office-Publication N°1) p.35.
 - (5) Quarterly Economic Report, July to September 1969. Table 31, page 28.

Unfortunately, economic expansion has not kept pace with population growth so that, despite these trends towards expansion, the employment situation remains a big burning sore to the Trinidad and Tobago Government. Reports indicate the figure to be about 15% of the labour force. (1)

The following table shows the rise in tax collections in relation to the gross revenue of the country.

Year	Gross National Product (2) (In TT Dollars)	Gross Revenue (Tax and Non-tax) (In TT Dollars)	Income Tax Collected (In TT Dollars)
1957	\$ 640.0M (3)	\$100,731,973 (4)	\$42,187,820 (5)
1967	\$ 1,422.6M (6)	\$214,316,399 (7)	\$86,524,573 (8)

(1) As to 31.12.67: Quarterly Economic Report, July to September 1969: table 30, page 27:

Total Labour Force	363,700
Persons with jobs	307,500
Total unemployed	56,200
Unemployed as a % of labour force	15

(2) TT Dollar = .50 cents US

(3) Trinidad and Tobago Today (Central Statistical Office, N°1 page 19).

(4) Estimates of Revenue and Expenditure for the year 1959, page vii.

(5) Estimates of Revenue and Expenditure for the year 1959, page vii.

(6) Annual Statistical Digest 1967. Table 130, page 113.

(7) Estimates of Revenue for year 1969. Page vii.

(8) Estimates of Revenue for year 1969. Page vii.

TAXPAYER ASSISTANCE

C O N C L U S I O N S

There was general agreement on the importance of a program for taxpayer assistance as being one of the most effective means to encourage voluntary compliance. The importance of taxpayer assistance is still more significant in the case of medium and small taxpayers, particularly as regards taxes with a broad base.

An assistance program, to be permanently effective, just as any other activity within Tax Administration requires the establishment of a stable program and the allocation to a specialized service within that Administration of the necessary human and material resources in view of its multiplying effects in the way of additional receipts, such as they already exist in some countries (e.g. Trinidad and Tobago).

The different procedures that experience and technology make advisable in what concerns assistance to the taxpayer in complying with his tax obligations were discussed. Among the procedures discussed, were the following: promotion of the compilation of, and dissemination of information on, legal provisions; establishment of a permanent service for mass communications -particularly when tax deadlines are approaching- with utilization of the most up to date techniques that may be adapted to local conditions; preparation of instructions and formulae that may be easily understood by the average taxpayer; clear statement of the manner, place and time in which tax payments are to be made, utilizing all of the available means to avoid unnecessary loss of time by either encouraging the use of checks and mail services or by providing large and comfortable reception offices that should be technically designed.

It was also recommended that tax education be intensified at all levels, studying the possibility of resorting to advanced students in related fields to that purpose.

Special attention and emphasis were given to the advisability for the Administration to organize a stable advisory service to provide assistance to the taxpayer in all sorts of consultations. In this respect, a distinction is to be made between the simple consultations that are generally made by a great majority of taxpayers and the complex ones only connected with a limited number of taxpayers.

In what regards the former category, it was generally agreed that they should be answered promptly and directly, either personally, by telephone or in writing. As for complex questions, it was concluded that Tax Administration is ideally to reply to them all, without establishing this as an obligation in view of the existence of very special situations.

It was all the same decided that, if the Administration does not answer or if its opinion is not shared by taxpayer, the latter should seek a decision from competent bodies. Likewise, there was general agreement on the fact that if the consultation is made in a timely fashion, the taxpayer should be free from sanctions as long as he complies with the decisions made by the Administration or, if decisions are not issued, whenever he assesses the tax on the basis of his own interpretation and as long as no observations to this interpretation are made by the Administration.

With reference to changes of interpretation on the part of the Administration, there was discrepancy in opinions. While some members thought that the latest interpretation must have a retroactive effect in favor of, or against, the taxpayer, others considered that juridical tax relations had to be stabilized and that this implies that changes in interpretation should be enforceable only to future cases.

There was also agreement on the desirability - for the sake of equity, and always assigning precedence to any regulations and rulings to be issued - of a vast dissemination of the answers given to questions of a general nature, even within the administration, so that homogenous criteria may be always adopted.

The study of this topic concluded with a general recognition of the desirability of making a careful analysis, -within the powers of the Tax Administrator-, aimed at finding a way to simplify the payment methods through the utilization, as far as possible, of all mechanisms, procedures, organizations and institutions in existence in each country. A good example is that of the income tax withholdings system on salaries and wages which might be extended to an annual reconciliation to be made through the employer, or to the collection of real estate taxes through mortgagees that the Administration should especially select in view of their solvency.