

## **ELECTRONIC FILING OF PAY-AS-YOU-EARN (PAYE)**

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*Contents: Introduction. 1 Brief overview of Barbados. 2. Electronic filing in Barbados. 3. Recommendations and conclusions.*

### **INTRODUCTION**

#### **General Framework**

The subject under discussion is Electronic Filing in a PAYE environment. In discussing this topic, special focus has been concentrated on the Barbadian experience and the perceived advantages and disadvantages which were encountered in setting up this system.

The age of technology has overwhelm our lives to the extent that the once touted and reliable paper based mailing systems has been rendered virtually redundant and replaced by the electronic mail or email, where practically every individual worldwide possesses an email address and in some cases more than one.

The internet has become an essential ally in our everyday existence where it has evolved from being a luxury to being the necessity for life. The smartphone and the tablet is a vital part of our armoury where people do not leave home without them.

It is therefore not surprising that the introduction of electronic filing would have been introduced as a matter of choice throughout the tax paying world. Electronic filing is a fairly recent phenomenon worldwide. The Internal Revenue Service of the United States (IRS) introduced form of electronic filing in 1986 some twenty eight years ago, with the primary goal at that time being to lower operating costs and paper usage.

## 1. BRIEF OVERVIEW OF BARBADOS

Barbados is a relatively small jurisdiction both in terms of physical size and the size of the population. The total population of the country is approximately 280,000 people and approximately 50% of this population account for the total labour force. This total includes self-employed and employees and many who would not be considered as PAYE candidates, which is the subject of this discussion. The amount of workers who would therefore remit their taxes through the PAYE system is approximately 25% of the total labour force or around 35,000.

'Pay As You Earn' more commonly referred to as PAYE is a withholding tax, whereby the tax is deducted from the employees' salary or wages by the employer and paid over to the state. PAYE was introduced in Barbados in 1957 and over the years, it has seen many changes and amendments. Currently every employee who earns a wage or salary of more than US\$240.50 per week or US \$1041.50 per month is liable to PAYE.

Tax on the earnings of employees is conducted under a non-cumulative Pay As You Earn system. An employee, during his term of employment is entitled to file a declaration form with his employer claiming the personal allowances to which he is entitled. These allowances can include both personal and children. The employer in turn deducts tax for each pay period with reference to the appropriate tax bracket and the allowances claimed. Each pay period, whether on a weekly, bi-monthly or monthly basis is treated separately, and therefore the cumulative pay and tax deductions are not taken into consideration. If there is an outstanding balance of tax owing, this would be shown on the annual tax return which must be filed by the 30th April of the following year.

Conversely, if the tax has been overpaid, the employee is entitled to a refund on the paid. Reverse Tax Credit In Income Year 2009, employed individuals who earned less than US \$9,000 per annum enjoyed the benefit of a grant of US \$650. Bear in mind that other individuals are granted a personal allowance of US \$12,500 per annum while pensioners age 60 and over are exempt from tax on the first US \$20,000 of their annual income. It would be recognized that those individuals who earned less than US \$9,000 per annum would not have been required to pay income tax and therefore could not have enjoyed a refund. As stated above, those benefitting from the reverse tax credit would not have been included in this category

## 2. ELECTRONIC FILING IN BARBADOS

Electronic filing in Barbados is a relatively new undertaking. This feature was first introduced in 2009 and is envisaged to replace the paper based filing system which has existed from the inception of Income tax. This system was touted as an improvement on the manual system of filing and would ensure that there was more accuracy and transparency in the system. Further it would guarantee that the returns would be processed in a timelier manner.

This saw a quantum leap from the old system to the new one.

There are three major players in the submission of income tax (PAYE). These are

1. The Employee
2. The Employer
3. The Third Party Providers

Under the previous paper based system, the following steps had to be taken.

- **The submission of the employee declaration form**

All employees must complete this form. It allows the employer to determine the relevant tax bracket under which the employee will be assessed. Each employed person is entitled to a basic starting allowance of \$12,500. This figure can increase depending on the amount of the allowances that person has claimed. The tax bracket enables the employer to deduct the correct amount of tax from each employee

- **The PAYE tax deduction remittance form by the employer**

After taxes have been deducted from all persons liable to tax the employer is obligated to pay all sums over to the state on or before the 15th of the month following the month in which it was deducted. This form is used to remit all sums to the Authority. Employers must include their Account Numbers to facilitate that the sums remitted are placed on the correct account.

A Tax Tables Booklet was prepared for the use of all employers. This contained a set of instructions to each employer. These instructions were designed to assist the users in deducting the correct amount

of tax. They will also advise the employer what amounts are taxable, what amount must be deducted for the month from the employee and how to account for the amounts deducted.

It is important to note that persons who are employed with more than one employer would complete and file one Employee Declaration Form only with the employer of his or her choice. The employee will not be entitled to any allowances in the deduction of P.A.Y.E. from the second employer. Any adjustment will be made at the annual filing time.

- **Third party providers**

In determining the amount of allowances that a tax payer was entitled to, he or she would have been required to submit to the Authority on filing, evidence that he had engaged in an activity that allowed him a benefit. These has included

1. Interest paid on residential mortgage loans.
2. Allowable savings at certain financial institutions.
3. Insurance premiums for property
4. Pension plan contributions and withdrawals
5. Mutual fund purchases and withdrawals
6. Purchaser of shares in public companies
7. Social security benefits
8. Information on other taxable transactions, such as withholdings and remittances.
9. Contributions to charities and other covenants.

The introduction of E-filing has eliminated most of the errors that were long associated with the paper base filing system and has seen increased efficiency in the processing of returns.

The PAYE Tax Deduction Remittance Form previously referred to, has been eliminated and replaced by electronic uploading of the information. This has seen a marked reduction in paper used and resources required to input these information into the system, It has therefore meant that human resources can be deployed to other areas where there are more required.

The direct uploading of third party information has by far been the most derived benefit for the tax departments. As previously alluded to, the third party information was submitted on filing to the department, by the taxpayer.

By ensuring that the information from the third-party providers is submitted directly to the Authority, it has eliminated instances of overstating and creative submissions that has plagued the system over the years. It however was not without its challenges. This has incurred in those instances where the Third Party Provider has failed to file the correct information or to provide the correct Tax Information Number.

The systems has eliminated the need to consult tax calculation tables, as the calculations are performed seamlessly and has the facility to calculate whether the taxpayer is liable for paying or is entitled to a refund.

### **3. RECOMMENDATIONS AND CONCLUSIONS**

#### **Recommendations**

With the many technological advances being unleashed on the public, it is essential that the state agencies remain on the cutting edge for greater efficiency.

Currently the smartphone is gaining ascendancy over other instruments of transmission. It is therefore vital that the working screen size is adjusted to accommodate that small size.

The agencies must ensure that there sufficient computing capacity during the filing period. During the filing period, a greater bandwidth is required to ensure that the taxpayers are able to access the System.

The agencies must ensure that the electronic form is easy to understand and complete. In the past, especially with the paper based systems, the forms have been fraught with complexities and intricacies that only “experts” can decipher.

A greater partnership must be established with the third party providers. They must be registered and frequent contact should be kept to ensure that there is compliance in submitting the information.

In the most cases, the majority of person filing in the PAYE system expect to receive a refund. Incentives can be offered to “reward” those early filers with speedy returns. However, facility must be put in place to ensure that persons can pay their taxes electronically at the same time.

There is a need to ensure that there is customer confidence in utilizing the system. Therefore security must be paramount in maintaining the system. We must exercise a greater degree of vigilance especially in these troubled times of computer breaches and identity theft. It is vital that the filing systems are secure and offer a greater sense of confidence for the users of the programmes.

### **Conclusions**

It is without question that there are many benefits to be derived from the introduction and maintenance of an electronic filing system in the PAYE system.

We have identified considerable savings in monetary terms, in time management and in human resource allocations. We have noted that by replacing the physical paper based files with electronic copies, there would be reliable storage and by extension, a speedy retrieval of electronic information. It is without question that there would be a reduction in data capture errors, which result formerly from officers having to physical key in the information after it has been submitted.

There is an obvious savings from eliminating the need for stationery and the use of the traditional postal services. There is also the added environmental benefit in going to a paperless office.

We have also observed in the few years that the system has been in place the speedier processing times which have been available to tax payers. This has led to an improved customer service and customer relations, and it has been reinforced by the availability and dissemination of online taxpayer education.

From an administrative viewpoint there would be an enhanced and improved tax administration. There will be increased vigilance and this would include the detection of non-compliance and tax avoidance which are still prevalent in current systems. This will be achieved in collaboration with the expansion of third party information. It would therefore be easier to capture those potential taxpayers who now "fly below the radar".

If this discussion was made a few years ago, we would have alluded to electronic filing as the preferred mode of submission of the future. We can now say with all assurance that the future has come and this is now the preferred system of the present and going forward. We can only improve on this mode of transmission.