



Office of the Director of Audit

Saint Vincent and the Grenadines



REPORT ON A PERFORMANCE AUDIT OF THE VALUE ADDED TAX



INLAND REVENUE DEPARTMENT

2016 - 2018



To: The Honourable Minister of Finance

Sir,

Pursuant to section 14 of the Audit Act, CAP 245 of the Laws of St. Vincent and the Grenadines, Revised Edition 2009, I have the honour to submit a special report on a Performance Audit conducted on the Value Added Tax, Inland Revenue Department, for the period January 2016 to April 2018, for tabling in the House of Assembly.

A handwritten signature in cursive script, reading 'Browne', written over a horizontal line.

Mrs. Joan Browne

DIRECTOR OF AUDIT

18th October, 2021

The word "Acknowledgment" is displayed in a green, serif font. The letter "A" is significantly larger and stylized, with a gold ribbon-like banner looping underneath it. The banner is three-dimensional and has a metallic sheen.

Acknowledgment

The Audit Office wishes to express its gratitude to the Comptroller, management and staff of the Inland Revenue Department (IRD) for the invaluable efforts exerted in providing information and support; and facilitating meetings during the conduct of the Performance Audit.



The Value Added Tax

Performance Audit Report

This report articulates the results of the Performance Audit of the Value Added Tax (VAT) conducted by the Audit Office of St. Vincent and the Grenadines under the authority of section 75 (1) of the Constitution Order of St. Vincent and the Grenadines, Chapter 10 of the Revised Laws of St. Vincent and the Grenadines 2009 and the Audit Act No. 29 of 2005, Chapter 245 of the Laws of St. Vincent and the Grenadines, Revised Edition 2009.

A Performance Audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities and resources, contributes to a public service that is ethical and effective, and accountable to Parliament and citizens.

Audit topics are selected based on their significance and, while the Office may comment on policy implementation in a Performance Audit, it does not comment on the merits of these policies.

Performance Audits are planned, performed, and reported in accordance with International Organisation of Supreme Audit Institutions Standards, ISSAI 300, Fundamental Principles of Performance Auditing and Office policies. They are conducted by qualified auditors who:

- establish audit objectives and criteria for the assessment of performance,
- gather the evidence necessary to assess performance against the criteria,



- report both positive and negative findings,
- arrive at conclusions based on the established audit objectives, and
- make recommendations for improvements when significant differences between criteria and assessed performance are detected.



Abbreviations

AC.....	Assistant Comptroller
BOJ.....	Best of Judgement
CARTRAC.....	Caribbean Regional Technical Assistance Centre
CIR.....	Comptroller of Inland Revenue
CIT.....	Corporation Income Tax
ECEMP.....	Eastern Caribbean Economic Management Programme
FATCA.....	Foreign Account Tax Compliance Act
IMF.....	International Monetary Fund
IRD.....	Inland Revenue Department
ISSAIs.....	International Standards of Supreme Audit Institutions
LM.....	Large and Medium
MOF.....	Ministry of Finance
NFU.....	Non-Filers Unit
SAC.....	Senior Assistant Comptroller
SIGTAS.....	Standard Integrated Government Tax Administration System
SM.....	Small and Micro
TIN.....	Taxpayer Identification Number
VAT.....	Value Added Tax

Table of Contents



	Page
MAIN POINTS	1-6
INTRODUCTION	7-8
<ul style="list-style-type: none"> • Focus of the Audit..... • Observations and Recommendations..... 	9-10 11
CHAPTER 1. IMPLEMENTATION OF THE REFORM	12-15
<ul style="list-style-type: none"> • The IRD has embarked on a tax reform to establish a modernised tax administration exclusively focused on improving productivity and efficiency..... • IRD reported that it has successfully implemented some aspects of its reform, however; the department encountered challenges during implementation..... • There is an absence of an external reporting framework in which reports on revenue performance is communicated to the Ministry of Finance and the Accountant General’s Office by the comptroller of IRD..... • Recommendations..... 	12 - 13 13 14-15 15
CHAPTER 2. HUMAN RESOURCE MANAGEMENT	16-18
<ul style="list-style-type: none"> • There is insufficient staff to facilitate the effective administration of VAT..... • There is a lack of training in the application of the VAT legislation..... • Recommendations..... 	16 17 18

CHAPTER 3. REGISTRATION, CANCELLATION OF REGISTRATION AND E-FILING OF RETURNS 19-22

- | | |
|-------------------------------------|-------|
| • Cancellation of Registration..... | 19 |
| • E-Filing of Returns..... | 20-22 |
| • Recommendations..... | 22 |

CHAPTER 4. POST ASSESSMENT AUDITS

23-25

- | | |
|--|----|
| • There is insufficient human resource to provide adequate audit coverage of taxable persons..... | 23 |
| • The IRD develops adequate planning to determine cases for VAT audits. However, the number of projected cases to be audited was disproportionate to available human resource..... | 24 |
| • There was no evidence that verification of input tax claimed on importation of goods, was performed by the auditors..... | 24 |
| • Recommendations..... | 25 |

CHAPTER 5. COLLECTIONS AND ENFORCEMENT

26-42

- | | |
|--|-------|
| • There is no evidence that risk profiles on taxable persons were developed to facilitate the segmentation of the debtor population..... | 26-27 |
| • There is inadequate human resource to perform the accounts receivable activities | 27-28 |
| • The established procedures for the recovery of arrears were not always adhered to by Collection Officers..... | 28-29 |

CHAPTER 5. COLLECTIONS AND ENFORCEMENT CONT'D

• First late payment reminders were not issued promptly to persons who did not remit VAT payable within the statutory period.....	30
• There was no evidence that the unit responsible for the management of accounts receivable was monitored or evaluated periodically	31
• Some recovery methods impossible by law were either unsuccessfully enforced or not executed by the IRD.....	32-33
• Aspects of the accounts receivable management strategy were found to be deficient hence; the strategy had minimal impact on the restriction of receivables...	33
• Application of VAT payment and assessment in the absence of VAT returns were not, in all instances, carried out in accordance with the VAT Act.....	36
• Audits were not conducted prior to the transfer of credit from one company to an affiliated company.....	38
• Information produced by the Headquarters and SIGTAS did not reconcile with information on taxable persons' files.....	39 -40
• The lack of training in the VAT Legislations has negatively impacted the competency of personnel involved in the accounts receivable activities.....	40-41
• Recommendations.....	41-42

CONCLUSION

43-46

• About the Audit.....	45
------------------------	----

• Audit Objectives.....	45
• Audit Scope.....	45
• Audit Methodology.....	46

APPENDICIES

47-77

• Appendix I – Audit Objectives and Criteria.....	47-49
• Appendix II – Number of taxable persons who were in arrears of VAT at November at November 30, 2017, and their VAT liability.....	50
• Appendix III – Taxable persons who had not lodged VAT Returns at November 30, 2017 and the total of outstanding period.....	51
• Appendix IV – Penalty and Interest payable on monthly tax due by KDLT for the year 2016.....	52-53
• Appendix V – List of Recommendations.....	54-77



Value Added Tax

Main Points

What we examined

VAT was implemented in St. Vincent and the Grenadines on 1st May 2007. It was introduced to increase tax revenue, broaden the tax base and add equity to the system of taxation. The implementation of VAT has resulted in the abolition of various tax types such as consumption tax, hotel tax, entertainment tax; telecommunications surcharge tax and stamp duty on receipt. The IRD, which falls under the purview of the Ministry of Finance, is mandated the responsibility under the VAT Act, for the administration of VAT relating to local supply of goods and services. The Customs and Excise Department is responsible for administering VAT relating to the importation and exportation of goods. However, the audit was limited to IRD and did not assess the performance of the Customs and Excise Department in the administration of VAT.

At the financial year ended December 31, 2016, the actual VAT revenue of \$71,732,163 exceeded its projected revenue by \$43,202.06. However, it was noted that the Government had recorded a total decline of \$1,280,970.00 in VAT revenue collected by the IRD over the years 2013 – 2015. Further, the VAT accounts receivable was recorded as \$68,833,782.00 at the end of the fiscal year 2016 which is almost equivalent to the year's total collection. Accounts receivable create a direct impact on government's cash flow and financial position as unpaid amounts can lead to cash shortages, resulting in government's inability to meet its obligations from the revenue generated.

Additionally, challenges are encountered by regional tax administrators, including the fast-growing rate of receivables and the problems confronting tax departments in its management.



Further, at the IX Congress of Caribbean Organisation of Supreme Audit Institutions (CAROSAI) held in Trinidad and Tobago in March 2013, audits of the major revenue collecting agencies in the Caribbean were identified by member states as areas which necessitate greater focus.

We examined how the IRD manages the administration of VAT, primarily, cancellation of registration of taxable persons who no longer satisfy the threshold for registration, efficiency and effectiveness of the e-filing system, human resource management, timely audits of taxable persons and the systems and efforts employed in collection of outstanding taxes.

Details of the audit work conducted are provided in the **About the Audit** section of the report, page 50 – 51.

Why it is important

VAT, which is an indirect compulsory levy on the provision of goods and services, mobilises domestic revenue, which is necessary for financing the government's operations, thereby providing socio-economic benefits to citizens. In addition to allowing everyone to pay his fair share of taxes, there are other benefits which are derived from the implementation of VAT. VAT provides for the removal of the input tax on inputs used in the manufacturing of goods exported, thus enabling domestically produced goods to become more competitive on regional markets. Also, relief from tax on capital goods will encourage investment.

VAT has become a pivotal component of the tax system of St. Vincent and the Grenadines, as is the case with other developing and transitioning economies. It was introduced to increase tax revenue, broaden the tax base and add equity to the system of taxation. Hence; it is regarded as a critical instrument for mobilising domestic revenue and ensuring economic stability.



The IRD, which falls under the ambit of the Ministry of Finance and Economic Planning, is responsible for administering tax laws and ensuring taxpayer compliance, on behalf of the Government of St. Vincent and the Grenadines. Accordingly, the department has an ultimate responsibility to ensure that taxes are collected, protected and properly accounted for in an efficient and timely manner, in accordance with relevant laws.

The primary purpose of taxation is to raise revenue to finance public expenditure. Most governmental activities are financed by taxation; hence, it is of paramount importance that tax revenue is managed by an efficient and effective tax administration system. Further, taxpayers' perception of the tax administration system could be an impetus that influence their behaviour, as tax payers will be less motivated to defray their tax obligation if they perceive that outstanding taxes will not be collected by government. Poorly managed VAT, including non-collection or untimely collection of revenue, can have a direct impact on the Government's cash flow and financial position as there may be a shortage of funds, resulting in government's inability to meet some of its commitments.

The efficient and effective administration of VAT will aid in the enhancement of taxpayers' compliance and increase revenue generation.

What we found

Implementation of the Reform

- The IRD has embarked on a tax reform to establish a modernized tax administration, exclusively focused on improving productivity and efficiency;
- IRD reported that it has successfully implemented some aspects of its reform; however, the department encountered challenges during implementation; and



- There is an absence of an external reporting framework in which reports on revenue performance is communicated to the Ministry of Finance and the Accountant General's Office by the Comptroller of IRD.

Human Resource Management

- There is insufficient staff for the effective administration of VAT. As a consequence, a large percentage of planned audits were not conducted on VAT taxable persons by the Audit and Investigation Unit; neither were various debtors pursued by the Collections and Enforcement Unit; and
- The absence of training in the application of the VAT legislation has impacted on the accounts receivable activities.

Registration (Cancellation of Registration and e filing of returns)

Cancellation of Registration

- The cancellation of registration for registered persons who no longer satisfy the registration threshold was not completed by the IRD; and
- The National Register of Persons Registered for VAT was not maintained in accordance with the VAT Act.

E-filing of Returns

- The e-filing system experienced technical problems that frequently impeded the filing of returns.

**Post Assessment Audits**

- There is inadequate human resource to provide adequate audit coverage of taxable persons; hence, audits were either not executed or were conducted sporadically on taxable persons;
- The number of annual projected VAT audits was disproportionate to available human resource; and
- There was no evidence that verification of input tax claimed on importation of goods was performed by the auditors;

Collections and Enforcement

- There is no evidence that risk profiles on taxable persons were developed to facilitate the segmentation of the debtor population for different collection strategies;
- There was inadequate human resource to perform the accounts receivable activities. Consequently, all cases of arrears were not pursued;
- The established procedures for the recovery of arrears were not always adhered to by Collection Officers;
- First Late Payment Reminders were not issued promptly to persons who did not remit VAT payable within the statutory period;
- There was no evidence that the Unit responsible for the management of the accounts receivable was monitored or evaluated periodically;



- Some recovery methods imposable by law were either unsuccessfully enforced or not executed by the IRD;
- Aspects of the accounts receivable management strategy were found to be deficient; Hence' the strategy had minimal impact on the restriction of receivables;
- The application of VAT payment and assessment in the absence of VAT returns were not, in all instances, carried out in accordance with the VAT Act;
- Audits were not conducted prior to the transfer of credit from one company to an affiliated company;
- Information produced by the Headquarters Unit and SIGTAS data base did not reconcile with the information on taxable persons files; and
- The lack of training in the VAT Legislations has negatively impacted the competency of personnel involved in the accounts receivable activities.



Introduction

The IRD, which falls under the ambit of the Ministry of Finance and Economic Planning, is responsible for advising government on tax policies, administering tax laws and ensuring taxpayer compliance on behalf of the Government of St. Vincent and the Grenadines (SVG). Accordingly, the department has an ultimate responsibility to ensure that tax laws are efficiently administered and taxes are collected, protected and properly accounted for in an efficient and timely manner in accordance with applicable laws.

VAT, which is an indirect compulsory tax levied on the supply of goods and services by a taxable person in St. Vincent and the Grenadines (SVG) and on the importation of goods, was implemented on 1st May, 2007. It was introduced to increase tax revenue, broaden the tax base and add equity to the system of taxation. The introduction of VAT has resulted in the abolition of various tax types such as consumption tax, hotel tax, entertainment tax, telecommunications surcharge tax and stamp duty on receipt. The IRD is responsible for the administration of VAT and has its mandate enunciated in the Value Added Tax Act No.25 of 2006, Chapter 445 of the Laws of SVG Revised Edition, 2009.

Prior to the commencement of VAT, a Unit was established to manage the implementation and subsequent administration of this tax. The Unit was housed at a separate location from the IRD and was allocated human resources to administer VAT. The VAT Unit performed some independent functions namely: registration and auditing of taxable persons; however, the activities of assessment, collection and enforcement were performed directly by the IRD. In order to increase operational efficiency, the VAT Unit was relocated to IRD's headquarters and integrated into IRD's mainstream in 2010. Consequently, activities pertaining to VAT are performed by designated staff within the IRD.



Although the IRD has authority for the collection of taxes, which it is required to collect by law, it has delegated its authority to the Treasury and Accounting Services for five (5) Sub Treasuries (Bequia, Canouan and Union Island, located in the Grenadines and Georgetown and Barrouallie) to collect taxes on its behalf. However, the enforcement of actions for the recovery of outstanding taxes remains the responsibility of the IRD.

At the implementation of VAT, a supply of goods and services was subject to the standard tax rate of fifteen percent (15%) except those exempt and zero-rated by law, while a rate of ten percent (10%) was applied to tourism-related activities. The registration requirement was imposed on any person who made taxable supplies in SVG other than a person whose annual turnover was less than \$120,000. The VAT standard rate and the rate for tourism related activities were amended to sixteen percent (16%) and eleven percent (11%), respectively, while the threshold was increased to \$300,000 by Act No. 5 of 2017, with effect from 1st May, 2017.



Focus of the audit

The objectives of our audit were to determine whether the IRD observes the principles of economy¹, efficiency² and effectiveness³ in the administration of VAT and to assess the practices and controls established by management to ensure that:

- I. persons eligible for registration are identified and registered;
- II. delinquent taxable persons who do not lodge VAT returns and or remit VAT due within the stipulated time are identified;
- III. audits are conducted to determine the accuracy of information submitted in VAT returns; and
- IV. that VAT due is collected, protected and properly accounted for.

To attain the stated objectives, we examined whether the IRD has:

- appropriate management practices;
- adequate human resources to perform the administration of VAT;
- adequate monitoring mechanism to evaluate employees' and Units' performance;
- an established reporting framework to report the IRD's economic performance; and
- implemented adequate systems, policies and procedures to collect taxes owed to the Department and reliably measure and report on the effectiveness of the collection efforts.

The audit covered the period from January 2016 to April 2018, and examined all the related and available information provided by the IRD.

¹ Economy: The principle of economy means minimising the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price. (ISSAIs 300)

² Efficiency: The principle of efficiency means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

³ Effectiveness: The principle of effectiveness concerns meeting the objectives set and achieving the intended results.



More details about the audit objective, scope, approach and criteria are expressed in the **About the Audit** section of this report.



Observations and Recommendations

This section presents the findings and observations, analysis of situations and recommendations for improvement, in cases where operations deviated from established criteria. It is divided into five (5) chapters:

1. Implementation of the Reform
2. Human Resource Management
3. Registration (Cancellation of Registration and e-filing of returns)
4. Post Assessment Audits
5. Collections and Enforcement



Chapter 1. Implementation of the Reform

The IRD has embarked on a tax reform to establish a modernized tax administration, exclusively focused on improving productivity and efficiency.

1.1 In 1996, Eastern Caribbean Economic Management Programme (ECEMP) conducted a full review of the tax system in St. Vincent and the Grenadines to assess IRD's performance in tax administration. A subsequent review was undertaken in 2005 with the assistance of the International Monetary Fund (IMF) and Caribbean Regional Technical Assistance Center (CARTAC) focusing on the weaknesses in the tax system. The reviews identified inefficiencies in the tax system and as a result, VAT was introduced in 2007. IRD was confronted with the challenges of addressing the inefficiencies as well as embarking on structural reform. In an effort to address structural reform within the department, a review of the organisation structure and system was undertaken in 2014 - 2015 by CARTAC and the implementation of the reform was initiated in 2016.

1.2 The objective of the reform is to establish a modernised tax administration, exclusively focused on improving productivity and efficiency hence, the following projects were identified:

- Segmentation of the taxpayer base to ensure greater focus on risk management;
- A Performance Management System which requires reporting at various level of the organisation;
- Introduction of a Modern Property Tax Billing System;
- Training in audit skills to improve competency levels;
- Cleaning of tax payers' data base to remove duplicate registration;
- Amendment to the VAT legislation to achieve higher levels of efficiency in managing this tax type;
- Attaining Foreign Account Tax Compliance Act (FATCA) compliant status;



- Establishment of a Headquarters Division with the responsibility for Strategic Planning, Monitoring and Design; and
- Establishment of a proactive 'New Assessment Management System' to restrict the growth of tax arrears.

IRD reported that it has successfully implemented some aspects of its reform; however, the department encountered challenges during implementation.

1.3 The IRD has reported that it has successfully implemented some aspects of its reform projects such as the implementation of work plans, development of procedure modules, segmentation of taxpayers into Large and Medium (LM) and Small and Micro (SM) taxpayers, segmentation along functional areas, removal of duplicate registration from taxpayers' data base, data analysis and production of monthly reports by units. However; the department encountered challenges during implementation, namely - inadequate accommodation, absence of a website and outdated technology.

1.4 One of the critical emergences from the reform is the establishment of a Strategic, Design, Planning and Monitoring Division, herein after referred to as Headquarters. The Headquarters' responsibilities are to provide support, direction and guidance on how programmes should be managed, provide administrative input on tax policy; perform revenue monitoring and forecasting within IRD; establish consistent and modern operating procedures, and be the focal point for IRD strategic planning. In alignment with the Unit's responsibilities, the Unit has introduced a Performance Management System, which requires internal reporting at various levels of the organisation.



There is an absence of an external reporting framework in which reports on revenue performance is communicated to the Ministry of Finance and the Accountant General's Office by the Comptroller of IRD.

1.5 Information obtained from IRD's personnel reveals that the IRD has established a reporting framework which mandates all employees to submit monthly productivity reports to supervisors. Additionally, Assistant Comptrollers (AC) and Senior Assistant Comptrollers (SAC) of each Unit are required to prepare monthly operational reports. All monthly reports are transmitted to the Headquarters for analysis and the SACs are held accountable for his/her Unit's performance. Further, the Headquarters produces an operational report on IRD's performance, which includes observations and recommendations to improve operations. The operational report is transmitted to the Comptroller and discussions are held accordingly.

1.6 Although we were provided with the guidelines for reporting, we were unable to determine whether reports for specific periods within the period under review, were produced in accordance with the guidelines, as our request to review copies of monthly reports was denied by the Comptroller.

1.7 We found that although the department has established an internal reporting framework, there is an absence of an external reporting framework in which reports on revenue performance is communicated to the Ministry of Finance (MOF) under whose ambit the IRD falls. Although the Comptroller stated that the IRD is required by the Ministry of Finance to submit monthly reports on revenue performance to the Ministry, he further intimated that the reports are only produced and submitted on the request of the Ministry of Finance. The reasons for the non-submission of monthly reports were not provided by the Comptroller.

1.8 Further, the Comptroller is mandated under regulation 99(1) (a) and (b) of the Finance Administration Regulations 2009 to submit not later than thirty days after the end of the



reporting financial year, to the Accountant General, return of arrears of revenue for the reporting financial year and the previous six financial years. This must submit not later than seven days after the last day of the month, monthly reports of arrears of revenue from the reporting financial year and the previous six financial years that are recovered in the reporting month. However; we found that this statutory requirement is not adhered to by the Comptroller.

1.9 Recommendations

1. The IRD should continue to implement the reform projects to ensure the establishment of a modernised tax administration, to improve productivity and efficiency;
2. The Comptroller should:
 - I. submit monthly reports on revenue performance to the Director General, Finance and Planning, as requested by the Ministry of Finance; and
 - II. submit the return of arrears of revenue to the Accountant General as is required by regulation 99(1) (a) and (b) of the Finance Administration Regulations 2009.



Chapter 2. Human Resource Management

There is insufficient staff to facilitate the effective administration of VAT.

2.1 The IRD's human resource allocation is insufficient for the effective administration of VAT. As a result, the audit and collection and enforcement functions of the VAT administration were negatively impacted. We found that eighty-one (81%) percent of planned audits were not conducted on taxable persons by the Audit and Investigation Unit neither were various debtors pursued by the Collections and Enforcement Unit. We were informed by personnel that although there was provision for a complement of eighteen (18) and twenty-one (21) Officers at the Collections and Enforcement and Audit and Investigation Units, respectively, the Units are staffed with eight (8) and fourteen (14) Officers who have responsibility for the collection of receivables and audit of taxpayers for all tax type, respectively.

2.2 According to statistics depicted in the IRD's 2018 – 2020 Corporate Plan, a total of one hundred and ninety-four (194) VAT audits were planned for the year 2016; however, only thirty-seven (37) or nineteen percent (19%) were executed. Notwithstanding the insufficiency of staff, we found that the number of scheduled VAT audits was not proportionate to the existing human resource. It was also noted on the list of arrears for 2017 that a total of three hundred and eighty-five (385) taxable persons were in arrears of **\$67,390,166.65** for VAT; however, only one hundred and forty-two (142) or thirty seven percent (37%) were assigned to Collection Officers.

2.3 It is envisaged that performance at the aforementioned Units will further decline if additional staff is not provided, due to the expansion of tax type. The Government of St. Vincent and the Grenadines has, in its 2018 budgetary presentation, introduced a Climate Resilience Levy Tax, with effect from 1st May, 2018. Accordingly, the Units will be required to



deploy its inadequate human resources to fulfill the increased demands resulting from the introduction of the levy tax. Comprehensive details on the inadequacy of staff and its impact on the administration of VAT are articulated in subsequent chapters on Collections and Enforcement and Post Assessment Audits.

There is a lack of training in the application of the VAT legislation.

2.4 The IRD does not have a training plan or policy; however, each Unit is required to identify its training needs and submit the information to the Headquarters Unit which is responsible for training. We were informed by personnel that, although the Headquarters Unit was informed that most of the Collection Officers lacked training in the application of the VAT legislation; no formal training was conducted by the Headquarters Unit. Personnel further stated that knowledge was imparted to the specified Collection Officers by other Officers in the Unit who are conversant with the VAT legislation. The absence of training in the application of the VAT legislation has impacted on the accounts receivable activities, as the Collection Officers who have limited knowledge of the VAT Act take a longer time to process cases of receivables or do not pursue taxable persons who have a VAT liability.

2.5 Training and development are continuous processes. These processes are designed to assist individuals in enhancing job performance by improving or increasing their knowledge and skills. Therefore, a training policy, which is the framework to manage the assessment, design and execution of employee training initiatives and programmes, ensures that employees acquire the requisite skills to execute their duties. Accounts receivable activities necessitate a range of knowledge and skills; hence, training of staff is essential for management to maximise its recovery efforts.



2.6 Recommendations

The Comptroller should ensure that:

- there are sufficient human resources with the required skills and experience to provide adequate coverage of taxable persons by the Collection and Enforcement and Audit and Investigations Unit; and
- there is a training programme to develop staff capacity in the management of the Collection and Enforcement activities.



Chapter 3. Registration (Cancellation of Registration and e-filing of Returns)

3.1 The Value Added Tax was implemented in St. Vincent and the Grenadines with effect from 1st May, 2007. The Act required all persons whose value of supplies made within a twelve-month period, which was equal to or greater than one hundred and twenty thousand dollars (\$120,000), to apply for registration. In 2017, there was an amendment to the VAT Act, which increased the threshold from one hundred and twenty thousand dollars (\$120,000) to three hundred thousand dollars (\$300,000), with effect from 1st May, 2017. As a result, registered persons who continue to make taxable supplies but do not exceed the registration threshold may apply for cancellation of registration in accordance with section 11 of the VAT Act.

Cancellation of Registration

The cancellation of registration for persons who no longer satisfy the threshold was not completed by the IRD

3.2 The IRD commenced the cancellation of registration on June 30, 2017, to remove taxable persons from the SIGTAS database who no longer satisfy the current threshold of \$300,000. At the commencement of the cancellation of registration process, there were approximately 1,400⁴ taxable persons. We were informed by personnel at the Small Tax Payers and Registration Unit that the department is expected to cancel approximately 500 registrations; however, the time frame in which the cancellation should be completed was not provided. As at May 23, 2018, fifty-one (51) registered persons submitted applications for cancellation of registration. Forty-seven (47) registrations were cancelled by the Comptroller.

⁴ Statistic was provided by the IRD



3.3 We found the process of cancellation was slow, as approximately ten percent (10%) of the projected cancellation was completed within nearly one (1) year of the commencement of the cancellation process. The delayed cancellation of registration of all eligible taxable persons may result in the risk of continued collection of VAT by registered persons who no longer satisfy the registration threshold, as a person cannot cease to be a registered person until the registration is cancelled, in accordance with section 11 (8) (a) of the VAT Act. Consequently, VAT collected may not be remitted to the IRD. Further, the IRD has an undocumented policy in which the tax liability of person(s) eligible for cancellation of registration must be liquidated prior to cancellation, contrary to section 11 (8) (d) of the VAT Act. However, the amounts outstanding by some persons who applied and are eligible for cancellation of registration were not collected by the IRD. The Act requires a person whose registration is cancelled under the section to lodge a final VAT return and pay all VAT due, including VAT, if any, due as a result of subsection (6), within fifteen days after the date of cancellation.

E-Filing of returns

The e-filing system experienced technical problems which frequently impeded the filing of returns.

3.4 E-filing was initiated as an OECS pilot project involving four (4) OECS countries- the Commonwealth of Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines. The intent of the project was to develop an on-line registration and electronic tax filing sub system to interface with the Tax Management System, and further migrate as a regional program. The project required the current tax administration system, SIGTAS, to be upgraded in order to facilitate e-filing and later allow for the integration with the banking system for e-payments. The participating countries were required to have two participants to be involved in (1) designing the on-line module to implement e-filing and e-payment; and (2) enhancing SIGTAS



program in order to accommodate the e-filing modules and improved the reporting aspect of the program.

3.5 The e-filing system was introduced in St. Vincent and the Grenadines in October 2013, with VAT being the first tax type to be implemented. The primary objectives for the implementation of e-filing were to improve efficiency and enhance taxpayer services by affording taxpayers an opportunity to self-register and submit returns on-line.

3.6 According to information obtained from personnel, online self-registration is permissible only for individuals who are self-employed (hence; the registration of companies, government entities, foreign governments or local government authorities, councils or similar bodies is performed by the IRD), however, individuals were registered by the IRD due to failed attempts at online self-registration. Further, an examination of the IRD's Corporate Plan 2018-2020 and data submitted by IRD revealed that a total of seven thousand, six hundred and eighty-six (7,686) and nine thousand, seven hundred and seventy-five (9,775) VAT returns were filed for 2016 and 2017, respectively. However, we noted that four thousand, five hundred and twenty-seven (4,527) or fifty-nine percent (59%) and three thousand, eight hundred and fifty-three (3,853) or thirty nine percent (39%) of the amounts filed for 2016 and 2017, respectively, were filed electronically. We found that although there was an increase in the total VAT returns filed in 2017 compared to 2016, the number filed electronically had decreased by fifteen percent (15%). Information obtained from personnel at the IRD revealed that the e-filing system was experiencing technical problems, which precluded taxpayers from efficiently utilising the system.

3.7 We were informed that during the developmental stage of the project, there were "communication issues" with the front-end developer of the e-filing module, which resulted in St. Vincent and the Grenadines developing the e-filing module independently from the other



countries, following communications with the consultants. Further, it was stated that the e-filing system, during its inchoative stage, began encountering connectivity problems, which precluded taxpayers from efficiently utilising the e-filing system. However; the Information Technology (IT) Unit within the department was unable to rectify the problem as the employee who developed the e-filing module on behalf of St. Vincent and the Grenadines resigned from the IRD without transferring requisite information relating to the e-filing module to the Unit. Further, the IRD could not seek assistance from its counterparts in Dominica, Grenada and St. Lucia in order to resolve the problem, due to the countries' lack of information pertaining to St. Vincent and the Grenadines' e-filing module.

3.8 Recommendations

1. The VAT Act should be amended to provide for the application of penalty on a taxable person who did not lodge a final VAT return and pay VAT due, in accordance with the Act;
2. The Comptroller should ensure that:
 - a. information relating to the development of IT systems and modules are documented and transferred to the Information Technology Unit to aid in the identification and rectification of problems and facilitate business continuity; and
 - b. there is dialogue with the former employee who developed the e-filing module in order to obtain information relating to the development of the module, to enable rectification of the problem.



Chapter 4. Post Assessment Audits

There is insufficient human resource to provide adequate audit coverage of taxable persons.

4.1 The Audit and Investigation Unit (hereinafter referred to as the Audit Unit) is responsible for identifying non-compliant behaviours and determining the accuracy of information submitted in returns, by reviewing returns filed and records maintained by tax payers, as well as utilising other sources of information.

4.2 The Audit Unit is comprised of two Sections; LM and SM. The Audit Unit has provision for twenty-one (21) Officers; however, it is operating on a complement of fourteen (14) persons. A total of eight (8) and six (6) auditors, respectively, are allocated to the LM and SM Audit Sections and are responsible for auditing all tax types for four hundred and fifty-one (451) and nine thousand, two hundred and forty-two (9,242) tax payers, respectively. The ratios of auditors to LM and SM tax payers are 1:56 and 1:1,540, respectively. Accordingly, the auditors currently deployed are insufficient to provide adequate audit coverage of tax payers. As a result, VAT audits were adversely affected.

4.3 A sample of files was selected to assess the timeliness and frequency of VAT audits conducted on taxable persons from the time of registration. We found that audits were either not executed or were conducted sporadically. Although there is need for an increase in human resources, the IRD's current plant does not have the capacity to accommodate additional staff and deliver quality service to tax payers; hence, the IRD is operating without the requisite staff complement.



The IRD develops adequate planning to determine cases for VAT audits. However, the number of projected cases to be audited was disproportionate to available human resource.

4.4 The IRD employs a systematic approach to the selection of cases for VAT audits. The selection of cases is determined by a set of variables including the number of man hours available to each auditor. Although the IRD develops adequate planning to determine the cases for VAT audits, we found that the number of projected cases for 2016 and 2017 were disproportionate to the number of available auditors, considering the ratios of auditors to tax payer segment of LM and SM are 1:56 and 1: 1,540, respectively, for all tax types.

4.5 According to information provided by the IRD, there were approximately 1,400 VAT registrants at June 30, 2017. Statistics provided in the IRD's 2018 – 2020 Corporate Plan and information submitted by the IRD revealed that a total of one hundred and ninety-four (194) and twelve (12) VAT audits were planned for the years 2016 and 2017, respectively; however, only thirty-seven (37) and six (6) or nineteen percent (19%) and fifty percent (50%) were executed, respectively. The statistics also show that approximately 3% and .5% of the VAT registrants were audited during 2016 and 2017, respectively. We noted that the number of scheduled audits for the years 2016 and 2017 fell short of actual audits by one hundred and fifty-seven (157) and six (6), respectively. The projected number of audits for 2017 was reduced by 182 or ninety four percent (94%) compared to the targeted number for 2016.

There was no evidence that verification of input tax claimed on importation of goods, was performed by the auditors.

4.6 In accordance with the established procedures employed at the Audit Unit, designated Officers are required to perform monthly verification of input tax claimed for the importation of goods presented in VAT returns against information submitted monthly by the Customs and



Excise Department. However, we could not determine from the files examined whether this procedure was executed for the period under review, due to the absence of verification notes and auditors' signature. We were informed by an auditor that, although there is an absence of verification notes, the procedure was conducted by the responsible auditors. Further, there was no evidence that the files had supervisory oversight to ensure that the auditors were complying with the department's policy. Input tax paid is a variable in determining the VAT payable by a taxable person; therefore, it is critical that the accuracy of input tax claimed not only be determined by the department, but that verification thereof can be ascertained by internal and external review.

4.7 Recommendations

1. Adequate accommodation should be provided urgently to the IRD to house the staff necessary for effective tax administration;
2. Annual audits should be proportionately planned in accordance with the number of available auditors in order to achieve realistic outcomes;
3. Verification notes for input tax certified should be documented on the taxpayer's file to indicate that the activity was performed by the auditor; and
4. VAT returns submitted should receive monthly supervisory review to ensure that the input tax claimed for the importation of goods is being certified by the responsible auditor(s).



Chapter 5. Collections and Enforcement

5.1 The Collection and Enforcement Unit is responsible for collecting revenue approved annually by Parliament for the Inland Revenue Department and receivables from prior years. The collection of revenue presents challenges for Tax Administrators as it is based on a self-assessment tax system which allows resident individuals and companies to compute their taxable income and tax liability as well as remitting payment of tax when it becomes due. Consequently, the risks associated with this system are non-compliance in the filing of returns and remittance of taxes. In response to these risks, the IRD has developed strategies to manage its accounts receivables.

5.2 In assessing the department's performance in the management of VAT, we determined whether there were systems and controls to account for and safeguard revenue collected, respectively. We found that there are internal controls to safeguard cash collected daily and that the controls are adequate and are functioning as intended. Further, moneys collected are deposited daily into the Accountant General's Current Account and are brought to account in the Treasury Accounts. In addition, there are controls to preclude the alteration of data in the electronic data base by unauthorised personnel, in order to protect the integrity of the data. Notwithstanding the foregoing, the following were identified in the management of receivables:

There is no evidence that risk profiles on taxable persons were developed to facilitate the segmentation of the debtor population.

5.3 Risk profiling allows for the segmenting of debtors with similar characteristics such as payment history and current balances. The groups can be further profiled according to their



level of risk of non-payment, thereby directing more robust collection efforts to debtors who create a higher risk for non-collection. We were informed by personnel that, although there is a committee which conducts risk assessment of debtors, no risk assessment report was prepared by the committee. Further, we were informed that there were no documented criteria to conduct risk assessment; hence, debtors' risk profile was determined by the Collection Officer's years of experience with "dealing" with the tax payer and a risk profile is assigned in accordance with the department's rank, which is high, medium or low. However, an examination of the list of VAT Arrears for 2017 and the lists of debtors assigned to the Collection Officers revealed that no ranking was assigned to the debtors.

5.4 In addition, cases of receivables were not assigned to Collection Officers based on debtor's risk profile and seniority of Officers. We found that most of the cases in the Small and Micro segment were assigned to a Junior Tax Officer. We were informed by personnel in the Unit that most of the cases were assigned to the Officer due to her knowledge of the VAT Legislation.

5.5 In addition, we found that the collection strategies employed in the collection of receivables were not as a result of the debtor's risk profile as all cases were pursued via the established procedures for collection.

There is inadequate human resource to perform the accounts receivable activities.

5.6 The Collections and Enforcement Unit has provision for a staff of eighteen (18) Officers, ten (10) of whom are allocated to the LM taxpayer segment while eight (8) are allotted to the SM. However, the Unit is currently staffed with eight (8) Officers; five (5) and three (3) are assigned to LM and SM segment and have responsibility for the collection of receivables from 451 and 9,241 taxable persons, respectively. The ratios of Collection Officers to LM and SM taxable persons are **1:90** and **1:3,080**, respectively. Hence, the current staff is inadequate to effectively



perform the accounts receivable activities. Further, the inadequacy of human resource is exacerbated as some Collection Officers are utilised to perform other activities not related to collection of receivables. However, although there is need for additional staff to perform the receivable activities, there is constraint to the increase in personnel as the current plant does not have the capacity to accommodate increased human resources as it is congested, decrepit and has outgrown its ability to accommodate a modern tax administration. We were informed by personnel of the IRD that the Ministry of Finance had identified a new plant and was in the process of acquisition.

5.7

Due to the insufficiency of staff to efficiently pursue cases of arrears, we were informed by personnel (the SAC ag) of the Collections and Enforcement Unit that she had made a decision that cases of receivable with a balance that is less than **\$50,000.00** will not be assigned to a Collection Officer, albeit that the decision was not approved by management. Notwithstanding the foregoing, we noted that seventy-four (74) of the cases of receivable with a liability less than \$50,000 were assigned to Collection Officers. The list of receivables at November 30, 2017, showed that a total of three hundred and eighty-five (385) taxable persons were in arrears of **\$67,390,166.65** for VAT; however, only one hundred and forty-two (142) or 37% (inclusive of the 74 cases with a liability less than \$50,000) were assigned to Collection Officers. Taxable persons who were in arrears and the amount outstanding at November 30, 2017 are shown at **Appendix II.**

The established procedures for the recovery of arrears were not always adhered to by Collection Officers.

5.8 In accordance with the established procedures for the recovery of arrears, Collection Officers are required to document, in the designated field in SIGTAS, information pertaining to



actions and decisions taken during the process for recovery of receivables as well as retaining the requisite supporting documentation on the respective taxable person's file. An examination of the designated field revealed that no information was recorded for several taxable persons whose files were examined. In some instances, we found that the period for which taxable persons were last contacted was 2012. Notwithstanding the established procedures, we examined the respective files to ascertain whether the requisite information was documented therein. We noted that no information was contained in the files. The absence of documentation is an inference that these taxable persons were not contacted during the period under review.

5.9 Further, we found that there were instances where the following documentation were absent from taxable persons files: spread sheet outlining taxable person's liability (which should be computed by the Collection Officer in accordance with the Unit's established policy), minutes of meeting held with taxable persons, copies of payment agreement made between the IRD and the taxable person and copies of garnishee issued.

5.10 In addition, we found that some taxable persons who were reported to have made verbal agreement to liquidate their liability by installments, reneged on their agreement; however, there was no evidence that any follow-up action was taken by the Officers, although Part XI of the Income Tax Act which governs the recovery of VAT stipulates that if there is a default in payment of any installments for which any tax is permitted to be paid by installment, the whole of the balance of tax outstanding shall become due and payable forthwith. Further, we found that the system did not automatically alert Officers that a taxable person was in default of payment.

5.11 Despite the irregularities identified, it appears that there is no monitoring by supervisors to ensure that the Collection Officers are adhering to the processes for collection of receivables and that the accounts of debtors are satisfactorily managed by the Officers, since the files



examined were devoid of supervisor’s review notes. The effective management of receivables is a shared responsibility between Collection Officers and supervisors. Accordingly, Collection Officers should persistently review the accounts of taxable persons who are in arrears to ensure that (1) new defaulters are pursued without delay, (2) taxable persons who have a liability are meeting their obligations and (3) prompt remedial actions are taken whenever defaults in payment are detected. Also, it is imperative that supervisors review cases assigned to Collection Officers in order to monitor the performance and behaviour of the Collection Officers and taxable persons, respectively.

First Late Payment Reminders were not issued promptly to persons who did not remit VAT payable within the statutory period.

5.12 First Late Payment Reminders were not issued promptly to persons who did not remit VAT payable to the Comptroller within fifteen (15) calendar days after the end of the tax period. We found that First Late Payment Reminders issued in 2017 relate to tax periods prior to 2017 while some Reminders relating to tax periods for 2017 were issued in 2018. Tardiness in issuing First Late Payment Reminder results in an increase in the age and amount of receivable. Examples of First Late Payment Reminders issued are illustrated in **Table I**.

Table I shows the date of First Late Payment Reminders and period to which they relate.

Table 1

Taxpayer	Date of First Late Payment Reminder	Tax Period to which Late Payment Reminder Relates
XXXX10	28 th February 2017	December 2014 to January 2017
XXXX11	6 th July 2017	1 st -31 st May 2009
XXXX12	24 th November 2017 8 th March 2018	1 st -31 st March 2016 1-30 th September 2017



There was no evidence that the unit responsible for the management of the accounts receivable was monitored or evaluated periodically.

5.13 Monitoring and evaluation of the operations of the accounts receivable management strategy allow management to evaluate performance against goals, identify weaknesses in the system and effect immediate remedial actions to improve its collection efforts. However, we could not determine whether the Collections and Enforcement Unit was monitored by management in order to evaluate its performance. We were informed by personnel that the IRD's reporting frameworks mandates all employees to submit monthly productivity reports to supervisors, including monthly operational reports by Assistant Comptrollers and Senior Assistant Comptrollers of each Unit. All monthly reports are transmitted to the Headquarters for analysis and the SAC's are held accountable for his/her unit's performance. Further, the Headquarters produces an operational report on IRD's performance, which includes observations and recommendations to improve operations. The operational report is transmitted to the Comptroller and discussions are held accordingly.

5.14 Although we were provided with the guidelines for reporting, we could not determine whether monthly performance reports on the Collections and Enforcement Unit were generated and submitted to Headquarters for the period under review, as a request to review copies of monthly reports, inclusive of the operational report on IRD's performance, was denied by the Comptroller. Hence, we could not determine whether the Unit responsible for the management of the accounts receivable was monitored or evaluated periodically by the Headquarters. Moreover, we could not evaluate the effectiveness of methods utilised to collect receivables for 2017, as information requested on the amount of money collected by collection method for that period was not provided by the IRD.



Some recovery methods impossible by law were either unsuccessfully enforced or not executed by the IRD.

5.15 Pursuant to section 92 (2) (a) of the VAT Act, the Comptroller issued notices (garnishees) to representatives who had or would become in possession of money for persons who had a VAT liability; requesting that they remit a specified amount of money held to the Comptroller. We found that moneys were not always recovered via the notices issued. Upon inquiries made to ascertain the reasons which impeded the enforcement of garnishees, we were informed by personnel that on the issuance of a garnishee to a representative, the taxable person is informed of the enforcement action. Hence, in cases where garnishees were issued to the commercial banks, some taxable persons depleted their accounts in order to preclude the garnishee from being enforced and or discontinued the deposit of moneys to the account, rendering the recovery efforts futile. Further, we were informed that obtaining moneys from the bank accounts of persons in the legal profession was very challenging and, in several cases, unsuccessful, as the IRD is usually informed by the lawyers that moneys held in their accounts are the property of their clients; hence, amounts could not be paid to the Accountant General.

5.16 Section 52 (1) of the VAT Act provides for the Comptroller to enter a place and seize goods in respect of which the Comptroller has reasonable grounds to believe that VAT that is or will become payable in respect of the supply or import of the goods has not been or will not be paid. Nonetheless, we found no documentary evidence on the files reviewed which indicated that the Comptroller had exercised his authority. We were informed by personnel that the Comptroller was unable to proceed with seizure of goods due to challenges encountered in identifying an adequate and secured facility to safeguard goods that are confiscated.

5.17 In addition to the aforementioned methods of recovery, Part XI of the Income Tax Act, as provided for by the VAT Act, authorises the Comptroller to collect and recover amounts due and payable under the VAT Act by court action and distraint. A court action allows for any



unpaid tax to be sued for and recovered by the Comptroller in any court of competent jurisdiction. However, we found no documentary evidence on the files examined that court proceedings were initiated by the Comptroller for the recovery of receivables for the period under review.

5.18 With respect to distraint, where a person fails to pay any tax when it becomes due and payable, the Comptroller may file a certified warrant with the bailiff. The warrant mandates the bailiff to proceed to levy on property of the person named in the warrant to such extent as is necessary for the recovery of the unpaid tax and to meet any proper charges of the bailiff. This warrant filed by the Comptroller has the same effect as a civil judgment given by a court of competent jurisdiction in favour of the Comptroller for a debt of the amount specified in the warrant. We found no proof that the Comptroller filed such warrants with the bailiff during the period under review.

Aspects of the accounts receivable management strategy were found to be deficient; hence, the strategy had minimal impact on the restriction of receivables.

5.19 The IRD employs systems for the early identification of persons who did not lodge a VAT return or remit VAT payable within the statutory time frame of fifteen (15) calendar days, after the end of the tax period. The department's policy requires a person who did not lodge a VAT return by the due date to be identified monthly, while persons who did not remit VAT payable within the stipulated period should be identified two (2) days subsequent to the fifteenth day on which it was due and payable. We were informed by personnel of the IRD that the policies and procedures for identification of persons were undocumented.

5.20 In order to facilitate systematic and timely monitoring of Corporation Income Tax (CIT) and VAT returns, a Non-filers Unit (NFU) was established in January 2017, pursuant to the reform that was undergone by the IRD in 2016. The objective for the establishment of the Unit was to



improve organisational efficiency by identifying tax payers who did not lodge CIT and VAT returns within the statutory time frame, in order to increase collection and enforcement, thereby restricting or reducing arrears.

5.21 In preparation for the Unit's operations with effect from January 2017, a list of LM and SM tax payers who did not file VAT returns was generated and submitted to the NFU on the 11th November, 2016. During 2017, two (2) updated lists were further transmitted to the unit in March and November. The IRD actually commenced monthly identification of VAT non-filers in 2018. The updated list of taxable persons who did not file VAT returns as at November 2017 was examined. We found that a total of six hundred and two (602) persons did not lodge VAT returns as at October 31, 2017. The aggregate number of tax periods outstanding ranged from one (1) month to eighty-three (83) months. We found that, although the Unit is required to issue Notices of Reminder to and conduct assessments (Best of Judgment (BOJ)) assessments) of the VAT payable by a taxable person in the absence of VAT returns, neither Notices of Reminder nor BOJs were issued to ninety six percent (96%) of taxable persons whose files were examined. The Assistant Comptroller-NFU-explained that the IRD was focusing on LM CIT non-filers; hence, taxable persons who had not lodged VAT returns were not pursued. The non-pursuit of VAT receivable presents grave financial implications as the arrears for VAT stood at **\$68,687,913.84** as at December 31, 2017. VAT receivables will continue to accrue, if remedial action is not taken to ensure that these taxable persons are informed of their liability and recovery actions are initiated. Accounts receivable is an asset; however, if it is not managed well, it can become uncollectible, resulting in the reduction of actual revenue. The more aged receivables are, the greater the likelihood that they would not be collected. Therefore, the IRD has a duty to manage its accounts receivable effectively, as part of prudent fiscal management.

5.23 In order to determine whether identification was performed in accordance with the department's policy, the lists of non-filers for 2018 were requested; however, only the list for April 2018 was presented. We were informed by personnel of the NFU that the lists for the



periods January to March 2018 could not be located. We noted that the list of names of persons who did not file VAT returns for the period 1st - 30th April, 2018 was submitted to the NFU on 11th June, 2018. The Assistant Comptroller, who was responsible for managing the unit, expressed that he did not receive training in identification of non-filers; hence, he was unable to generate the list of non-filers within the Unit.

5.24 Although the NFU was responsible for identifying persons who did not lodge a return within the stipulated period, identification of non-filers was performed by the Headquarters Unit and the list of non-filers was transmitted to the NFU. On receipt of the list at the NFU, the Unit audits the taxable person’s tax account in order to ascertain the tax periods for which returns are outstanding and to determine the accuracy of data submitted by the Headquarters Unit. We found the activities performed by the NFU to be counterproductive since both the Headquarters and NFU carry out the same functions.

5.25 In addition to the system for identification of non-filers of VAT returns, the system for detecting persons who did not remit VAT payable by the due date was also evaluated. The list of persons who did not remit VAT payable for 2016 and 2017 were requested; however, they were not presented for examination as they could not be retrieved by the Collections and Enforcement Unit. The lists that were available were for the periods January, February and April 2018, which were presented for examination. We found that the lists presented were generated later than two (2) days after the fifteenth of the month contrary to the established policy. The dates on which the lists were generated are portrayed in **Table 2** hereunder.

Table 2 shows dates on which list of persons who did not remit VAT payable, were generated for 2018.

Table 2

Tax Period	Date List was Generated
January 2018	26/02/2018
February 2018	09/04/2018
April 2018	23/05/2018



5.26 We were informed by personnel of the Collections and Enforcement Unit that, although non-compliant taxable persons should be identified on the second day subsequent to the fifteenth of the month, identification is not performed by the stipulated time. We were also informed that taxable persons were not identified within the department's stipulated time frame as all VAT returns lodged at the Unit on the fifteenth of the month were not submitted within two days to the Data Capture Unit for assessment. Further, personnel explained that if the list were to be generated within the stipulated time frame of two (2) days, the names of persons who did not remit VAT payable by the due date and their tax liability will be inaccurate, as the list will contain the names of persons who had made payments but whose returns had not been assessed.

Application of VAT payment and assessment in the absence of VAT returns were not, in all instances, carried out in accordance with the VAT Act.

5.27 Section 92 of the VAT Act stipulates that, in addition to an amount of VAT which is due and payable, an amount of interest or penalty payable, a payment made by the person in respect of the VAT, shall apply first, to reduce the amount of interest due and payable, then to the extent that the payment exceeds the amount of interest, to reduce the amount of penalty due and payable and then, to the extent that the payment exceeds the sum of the penalty and interest, to reduce the amount of VAT due and payable. However, we found that payments made by taxable persons who had VAT, interest and penalty due and payable were, in instances, applied only to the VAT due, contrary to the VAT Act.

3.9 The VAT Act requires a taxable person to lodge a VAT return for each tax period (a calendar month) no later than fifteen (15) calendar days after the end of the period. Further, the Act bestows the authority on the Comptroller to make an assessment of the VAT payable by a taxable person if the person fails to lodge a VAT return as required under the Act. We noted



that prior to 2017, there were instances where IRD's assessment of VAT payable, in the absence of VAT returns for outstanding periods January to December, were not done for each tax period. Instead, an assessment was done for the month of December, using an aggregate for the twelve (12) tax periods, contrary to the VAT Act. The Assistant Comptroller-NFU was apprised of our observation and explained that management advised that conducting BOJ assessment for each tax period outstanding from January to December will be time consuming; hence, this alternative assessment method should be used. This method of assessment creates a financial implication since the penalty and interest arising will be understated and ultimately, the liability of the taxable person will not be accurately reflected for the entire twelve-month period. For example, taxable person Z did not lodge VAT returns for the period January 2010 to December 2016; hence, assessments were done using the aggregate method for the month of December for each year. The assessment made for December 2016 resulted in a total tax liability of **\$31,876.84**, of which **\$14,230.70** represented VAT liability, **\$14,230.78** penalty and **\$3,415.36** interest, as at 23rd May 2018. The amounts of **\$14,230.78** and **\$3,415.36** for penalty and interest, respectively, as computed using the aggregate method, varied from the amounts of **\$117,500.00** and **\$4,180.65** that should have been recorded, by \$103,269.22 and \$765.29, respectively, had the assessments made for each tax period (individual months), as computed in Table at **Appendix IV**.

3.10 Further, we noted that, although the assessment for the month of December, 2016 was computed on the aggregate taxable supplies for the periods January to December, 2016, SIGTAS data base reflects the period January to November as being outstanding. The penalty and interest that would have accrued on the monthly tax liability for tax periods January to December 2016, are shown at **Appendix IV**.



Audits were not conducted prior to the transfer of credit from one company to an affiliated company.

5.30 A request made by taxable person **Y** (hereinafter referred to as the applicant) for the transfer of credit from its account to reduce or liquidate VAT liability for an affiliated company, **X**, was approved by the Comptroller. According to the tax return filed by the applicant for tax period November 2017, the applicant had a total tax credit of **\$8,272,192.07**. Records maintained on the applicant's file revealed that VAT credits were previously transferred from the applicant's VAT account to the affiliated company, **X's** account, with effect from 15/02/2011, at the request of the management of the applicant. We noted that the applicant's excess credit increased drastically to in excess of **\$1,000,000** for some tax periods during 2011 to 2014. In some instances, the excess credit recorded for a tax period was in excess of **\$3,000,000** and **\$4,000,000**.

5.31 We were informed by personnel of the Collections and Enforcement Unit that the transfer of credits was verbally approved by the Comptroller; however, all of the Application for Transfer Forms were devoid of the Comptroller or his delegate's signature. The records revealed that during 2013, the applicant had a total credit of **\$26,585,028.40**, **\$24, 122,457.82** of which was transferred to liquidate VAT payable by its affiliate company, **X**.

5.33 We found that, although the excess credit and frequency on which it was claimed by the applicant were significant, there was no documentation which indicated that the applicant's file was referred to the Audit and Investigation Unit by the Collections and Enforcement Unit for the conduct of an audit to determine the authenticity of the tax credits, prior to the transfer of credits. Although the applicant was registered for VAT in 2007, a VAT audit was not conducted on the applicant until January 2018. Excess credit claimed by the applicant for 2013 and the amount transferred to its affiliate company, **X**, is schematically expressed in **Table 3**.



Table 3 shows total credit claimed by applicant Y for 2013 and amount transferred to its affiliate company, Z.

Table 3

Tax Period	Excess Credit Claimed by Company Y	Credit Transferred to Company X	Date of Transfer of Credit to Company X
	\$	\$	
January	2,274,995.72	2,545,324.09	20/08/13
February	2,756,723.40	2,717,151.95	20/08/14
March	2,551,350.06	2,432,186.41	20/08/14
April	1,648,988.03	1,604,255.21	21/08/14
May	3,111,018.96	2,816,650.23	21/08/14
June	1,502,041.09	1,193,253.61	21/08/14
July	3,715,208.19	3,275,096.91	Date of transfer could not be ascertained from records retained on Tax payer's file.
August	575,968.00	283,655.58	22/08/14
September	4,472,573.44	4,083,299.92	22/08/13
October	1,853,121.70	1,403,019.97	25/08/14
November	1,909,867.69	1,553,990.01	22/08/14
December	213,172.12	214,573.93	22/08/14
Total	26,585,028.40	24,122,457.82	

Information produced by the Headquarters and SIGTAS did not reconcile with information on taxable persons' files.

5.34 A total of twenty-one (21) files were selected from the list of Non-filers for 2017, which were transmitted to the NFU. The files were selected to assess the accuracy of the outstanding tax periods submitted by the Headquarters, which was extracted from SIGTAS. Of the files



selected, three (3) were not presented for audit examination as we were informed that they could not be located. A total of eighteen (18) files were examined. In accordance with the records maintained on the files, there were variances between taxable persons' total outstanding tax periods submitted by the Headquarters and the total outstanding periods audited. We found that the total outstanding tax periods submitted by the Headquarters for eighty three percent (83%) of the sample size was less than the total period computed by the Audit office. As a result of conflicting information produced by SIGTAS, the Headquarters and information maintained on taxable persons' file, the VAT liability transmitted to taxable persons will be inaccurately stated. The taxable persons and the total audited outstanding tax periods are shown at **Appendix III**.

The lack of training in the VAT Legislations has negatively impacted the competency of personnel involved in the accounts receivable activities.

5.35 The success of a Unit is contingent upon, among other factors, the competency of its human resource. Accordingly, it is imperative that a Unit is equipped with trained staff to efficiently and effectively execute its duties, in order to achieve the Unit's mandate. Interviews conducted with the Officer responsible for the NFU revealed that the training, which is necessary to enable the production of the list of non-filers, was not imparted to him; hence, he is unable to generate the list within the NFU. Also, the employees within the Unit possessed limited knowledge of the VAT Act; hence, all BOJ Assessments for VAT cases of non-filing referred to the Unit were performed by the Officer responsible for the Unit. Consequently, the employees' lack of training increases the delivery time for the issuance of Reminder Notices and BOJ assessments. We were also informed by other personnel that most of the Collection Officers are not conversant with the VAT legislations; therefore, cases of VAT receivable assigned are not pursued by the Officers. We found that Officers, lack of training in the VAT



Legislations has resulted in the pursuit of fewer cases, thereby preventing the restriction of arrears.

5.36 Recommendations

1. The guidelines for facilitating risk profiling of debtors should be documented. In addition, a risk assessment report should be prepared by the committee and transmitted to the Collections and Enforcement Unit to assist in the determination of strategies to be used in pursuing the collection of receivables;
2. Adequate accommodation should be urgently pursued and provided to the IRD to house additional staff, in order to improve the operations of the department;
3. Collection Officers should document information and retain the necessary documentation in accordance with the department's procedure for recovery of arrears;
4. The Collection Officers should monitor the accounts of taxable persons to determine whether payment obligations were fulfilled and take immediate action(s) where default in payment is detected;
5. Personnel responsible for the management of the Collections and Enforcement Unit, should review cases of receivable assigned to Collection Officers, to ensure that the Officers are complying with the procedures for recovery of arrears;
6. The Comptroller should endeavour to execute all methods enforceable by law, for the recovery of VAT receivables;



7. All VAT returns lodged at the Collections and Enforcement Unit on the fifteenth day of each month should be submitted promptly to the Data Capturing Unit in order to facilitate identification of persons who did not remit VAT payable by the due date, in accordance with the department's policy;
8. The Inland Revenue Department should document its accounts receivable management strategy and the policy and procedures for the identification of persons who did not file a VAT return or remit VAT due by the stipulated date;
9. The Non-filers Unit should be granted autonomy for the identification of persons who did not lodge a VAT return within the statutory period in order to improve efficiency. Also, persons identified should be pursued to recover outstanding taxes;
10. The conduct of assessments in the absence of VAT returns should be performed for each tax period for which the return is outstanding in accordance with the VAT Act;
11. The Comptroller should ensure that an audit is conducted on a taxable person who requests a transfer of credit, prior to the authorisation and transfer of same;
12. The information produced by Headquarters and SIGTAS data base should be reconciled to reflect the information contained in taxable persons' file;
13. The Comptroller should ensure that all staff involved in the accounts receivable activities receive training in the administration of the VAT Legislations and other requisite training, to enable efficient and effective pursuit and management of cases of VAT receivable and correct application of payments;



CONCLUSION

VAT is a pivotal component of the tax system of St. Vincent and the Grenadines. It contributes to the generation of revenue that is required to finance public expenditure, thus ensuring fiscal stability. Although the IRD has embarked on laudable reform initiatives to improve the administration of this tax type and has successfully implemented some of the initiatives, the need for improvement in the management of VAT has been identified. It is envisaged that if the deviations and challenges detected remain unaddressed or receive minimal remedial attention, revenue collection will ultimately be affected as VAT receivables will continue to accrue; hence, potentially creating a direct impact on the Government's cash flow and financial position and precluding the IRD from effectively achieving its mandate.

The issues identified in this report are intrinsic and extrinsic to the department and; therefore, require the efforts of management of the IRD and external stakeholders, respectively, to ameliorate the administration of VAT. It is recognised that management has a responsibility to administer the VAT diligently and with judicious care; however, it is critical and equally important that the tax administration be afforded the resources and assistance necessary to improve its efficiency. Accordingly, it is crucial that the MOF etc. provide a plant that has adequate capacity and is conducive to a modern tax administration, additional human resource, advocate the amending of the VAT laws to provide for additional or harsher penalties and; also, facilitate the Comptroller in exercising his statutory powers, where applicable.

The effective management of VAT encompasses the collection of revenue. Hence, it is important that the IRD execute VAT related activities in a manner that will result in greater efficiency in the collection of VAT, thus minimising the receivables. Accounts receivable is an asset; however, if it is not prudently managed, the age gap would widen, the arrears would continue to accrue and the probability of collecting these arrears would significantly be



reduced. Accordingly, it is incumbent on the IRD to improve the management of VAT in order to optimise value for all stakeholders.



About the Audit

All of the audit work in this report were conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). While the Office adopts these standards as the minimum requirement, we also applied best practices in the conduct of the audit.

Audit Objectives

The objective of the Performance Audit was to determine whether the administration of the VAT is operating in accordance with the principle of economy, efficiency and effectiveness and, where appropriate, issue recommendations for improvement based on analysis of audit findings. Our assessment included determination on whether the department has:

- appropriate management practices;
- adequate human resources to perform the administration of VAT;
- adequate monitoring mechanism to evaluate employees' and Units' performance;
- an established reporting framework to report the IRD's revenue performance; and
- implemented adequate systems, policies and procedures to collect taxes owed to the department and reliably measure and report on the effectiveness of the collection efforts.

The audit objectives and criteria are found at **Appendix I**

Audit Scope

The audit focused on the management of VAT at the Inland Revenue Department and encompassed the period January 2016 to April 2018.



Audit Methodology

The review included examination of the Value Added Tax Act Chapter 445, the Income Tax Act Chapter 435 of the laws of St. Vincent and the Grenadines, Revised Edition 2009, internal documents relating to the administration of VAT, interviews with the Comptroller, senior personnel and selected employees in the Department. Reviews of systems, SIGTAS data base, taxable persons' files, accounts and other records were also undertaken. Good practices in the administration of VAT were also examined. The draft report was transmitted to the Comptroller for management's agreement and or disagreement with the audit results. Management's responses were submitted by the Comptroller and, where appropriate, the Director provided her comments on Management's responses. Management's responses and the Director's comments are enunciated at **Appendix V** in this report.



Appendix I

Audit Objective (s) and Criteria

To determine whether IRD follows accepted human resource management practices and the adequacy of the practices.	
Criteria	Source
There should be clearly defined lines of responsibility throughout the organization.	Best Practice
There should be an existence of performance standards to measure results.	Best Practice
There should be an existence of a training plan.	Auditors Assessment
<p>To determine whether: IRD has cancelled registration for all persons who no longer satisfy the threshold for registration.</p> <p>IRD employs systems to identify persons whose registration should be cancelled and who also have a VAT liability.</p> <p>IRD has an effective electronic system to facilitate taxpayers' online self-registration and e-filing of VAT returns.</p>	
Criteria	Source
The registration for persons who no longer satisfy the threshold of \$300,000, should be cancelled by the Comptroller	VAT Act
IRD should inform citizens of persons who are no longer eligible to charge and collect VAT.	Auditors Assessment
IRD should conduct field visits to: <ul style="list-style-type: none"> a) Determine whether persons whose registration was cancelled, have immediately ceased to use any documents that identify them as a registered person. b) Verify that cash registers are no longer programmed to charge VAT. 	Auditors Assessment
IRD should ensure that VAT registration certificates and certified copies thereof, issued to persons whose registration was cancelled, are returned to the Comptroller	VAT Act
There should be a system to identify taxable persons whose registration should be but also have a VAT liability.	Auditors Assessment
There should be an existence of system to account for persons	VAT Act



whose registration was cancelled.	
There should be an efficient electronic system to facilitate e-filing of VAT returns	Auditors Assessment
To ascertain whether IRD develops adequate audit planning to determine selection of cases for VAT audits.	
To determine whether IRD conducts timely post assessment audits to determine accuracy of information submitted in VAT returns.	
Criteria	Source
There should be adequate audit planning to facilitate post assessment audits, in order to determine accuracy of tax liability and refunds.	Auditors Assessment
There should be established time frame in which post assessment audits are conducted to determine accuracy of tax liability and refunds.	Auditors Assessment
There should be a procedural manual to guide the conduct of audits which should be available to auditors.	Auditors Assessment
There should be sufficient human resource to provide adequate audit coverage of taxable persons.	Auditors Assessment
<p>To determine whether:</p> <p>systems and procedures exist within the department to facilitate the remittance of output tax to the IRD within the statutory time frame</p> <p>the IRD has developed strategies to curtail the growth of VAT accounts receivable and the effectiveness of the strategies;</p> <p>the IRD conducts risk assessment and develop risk profile to determine strategies for the collection of VAT receivables;</p> <p>the enforcement process for the collection of receivables is efficient and effective;</p> <p>management of the IRD monitors and reports on its performance activities;</p> <p>there are documented procedures to guide the accounts receivable process;</p> <p>the IRD has adequate and trained human resource to perform the accounts receivable activities; and</p> <p>the accounts receivable activities were carried out in accordance with the VAT legislations.</p>	



Criteria	Source
There should be systems for the identification of delinquent tax payers who did not file a VAT return or remit VAT due within the stipulated period.	Auditors Assessment
Procedures for guiding the accounts receivable activities should be clearly documented and made available to employees.	Auditors Assessment
The accounts receivable activities should be performed in accordance with the VAT legislations and the department's policies.	Auditors Assessment
Debtors risk profile should be developed to determine the method of enforcement action.	Best Practice
Management should monitor and evaluate the performance of the Collections and Enforcement Unit; and	Auditors Assessment
There should be adequate and competent staff to perform the functions of the Collections and Enforcement Unit.	Best Practice

**Appendix II**

Number of taxable persons who were in arrears of VAT at November 30, 2017, and their VAT liability.

VAT Liability	Number of Tax payers	Percentage %
< \$1,000.00	58	15
> \$1,000 < \$5,000	98	25
> \$5,000 < \$10,000	47	12
> \$10,000 < \$20,000	34	9
> \$20,000 < \$50,000	43	11
> \$50,000 < \$100,000	30	8
> \$100,000 < \$500,000	52	14
> \$500,000 < \$1,000,000	9	2
> \$1,000,000 < \$4,000,000	12	3
> \$4,000,000	1	.25
> \$20,000,000	1	.25
Total	385	100


Appendix III

Taxable persons who had not Lodged VAT Returns at November 30, 2017 and the total outstanding periods.

Tax payer	Audited Period for which VAT Returns are Outstanding	Total Tax Period Submitted by Headquarters	Total Number of Audited Outstanding Tax Period	Variance
XXXX13	Oct - Dec 2009 Jan 2010 - Oct 2017	83	97	14
XXXX14	Mar 2008 Dec 2009 - Dec 2016	83	95	12
XXXX15	May 2008 – Oct 2017	83	114	31
XXXX16	May 2007- Oct 2017	83	126	83
XXXX17	May 2010 - Oct 2017	79	90	11
XXXX18	May 2010, June 2010 October 2010 Dec 2010 - Oct 2017	75	86	11
XXXX19	Sept 2013 - Oct 2017	39	74	35
XXXX20	Aug 2008 - Oct 2017	82	111	29
XXXX21	Oct 2012 - Oct 2017	78	61	17
XXXX22	Feb 2009 - Oct 2017	83	105	22
XXXX23	Jan 2008 - Oct 2017	83	118	35
XXXX24	Aug 2009 - Sept 2015 Nov 2015 - Oct 2017	81	98	17
XXXX25	Oct 2010 - Nov 2010 Jan 2011 - May 2011 July 2011 - Oct 2017	81	83	2
XXXX26	Period outstanding could not be determined from the records maintained on TP's	82	Could not be determined	Could not be determined
XXXX27	Sept 2011 - Oct 2017	64	74	10
XXXX28	July 2011 - Oct 2017	66	76	10
XXXX29	Company is exempted from taxes	63	Nil	(63)
XXXX30	Jan 2012 – Oct 2017	60	70	10
XXXX31	FILE COULD NOT BE LOCATED AND; THEREFORE, WAS NOT PRESENTED FOR EXAMINATION			
XXXX32	FILE COULD NOT BE LOCATED AND; THEREFORE, WAS NOT PRESENTED FOR EXAMINATION			
XXXX33	FILE COULD NOT BE LOCATED AND; THEREFORE, WAS NOT PRESENTED FOR EXAMINATION			



Appendix IV

Penalty and Interest Payable on Monthly Tax Due by Taxable Person Z for Year 2016										
Tax Period	Tax Due⁵	Penalty			Total Penalty	Interest Due			Total Interest	Total Liability
		2016	2017	As at May 23, 2018		2016	2017	As at May 23, 2018		
January	\$1,185.89	\$5,500.00	\$6,000.00	\$2,500.00	\$14,000.00	\$195.69	\$213.48	\$88.95	\$498.12	\$14,498.12
February	\$1,185.89	\$5,000.00	\$6,000.00	\$2,500.00	\$13,500.00	\$177.90	\$213.48	\$88.95	\$480.33	\$13,980.33
March	\$1,185.89	\$4,500.00	\$6,000.00	\$2,500.00	\$13,000.00	\$160.11	\$213.48	\$88.95	\$462.54	\$13,462.54
April	\$1,185.89	\$4,000.00	\$6,000.00	\$2,500.00	\$12,500.00	\$142.32	\$213.48	\$88.95	\$444.75	\$12,944.75
May	\$1,185.89	\$3,500.00	\$6,000.00	\$2,500.00	\$12,000.00	\$124.53	\$213.48	\$88.95	\$426.96	\$12,426.96
June	\$1,185.89	\$3,000.00	\$6,000.00	-	\$9,000.00	\$106.74	\$213.48	-	\$320.22	\$9,320.22
July	\$1,185.89	\$2,500.00	\$6,000.00	-	\$8,500.00	\$88.95	\$213.48	-	\$302.43	\$8,802.43

⁵Monthly tax due was derived by dividing the aggregate tax of \$14,230.70 due for December 2016, by twelve months as a result of the assessment method used.



Penalty and Interest Payable on Monthly Tax Due by Taxable Person Z for Year 2016										
Tax Period	Tax Due⁵	Penalty			Total Penalty	Interest Due			Total Interest	Total Liability
		2016	2017	As at May 23, 2018		2016	2017	As at May 23, 2018		
August	\$1,185.89	\$2,000.00	\$6,000.00	-	\$8,000.00	\$71.16	\$213.48	-	\$284.64	\$8,284.64
September	\$1,185.89	\$1,500.00	\$6,000.00	-	\$7,500.00	\$53.37	\$213.48	-		
October	\$1,185.89	\$1,000.00	\$6,000.00	-	\$7,000.00	\$35.58	\$213.48	-		
November	\$1,185.89	\$500.00	\$6,000.00	-	\$6,500.00	\$17.79	\$213.48	-		
December	\$1,185.89	\$0.00	\$6,000.00	-	\$6,000.00	\$0.00	\$213.48	-		
Total	\$14,230.68	\$33,000.00	\$72,000.00	\$12,500.00	\$117,500.00	\$1,174.14	\$2,561.76	\$444.75	\$266.85	\$7,766.85



Appendix V

List of recommendations

The following is a list of recommendations found in Chapters 1 to 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The number(s) in parentheses signifies the paragraph(s) where the topic is discussed.

RECOMMENDATIONS	MANAGEMENT'S RESPONSE
Implementation of the Reform	Responses dated 16th October, 2020
1.9 The IRD should continue to implement the reform projects to ensure the establishment of a modernised tax administration, to improve productivity and efficiency. (1.1-1.4)	<p>The Reform of the IRD which commenced in 2016 is a work in progress. Notwithstanding the constraints experienced by the IRD, we have seen benefits from the implementation namely:</p> <ol style="list-style-type: none"> 1. taxpayer segmentation which has led to more effective management of the taxpayer population and risk identification; 2. streamlining and rationalization of the IRD's operations; 3. an increase in the efficiency of revenue forecasting and budgeting; 4. enhanced revenue mobilization. <p>In relation to the specific challenges identified in the Report –</p> <ol style="list-style-type: none"> 1. While the IRD has not yet achieved its full complement of staff, new positions have been created and filled over the past 3 years. However due to space constraints, a temporary hold has been placed on the recruitment of new staff. A building was purchased to address the issue of accommodation. 2. The IRD is in the process of creating its website which will go live by the first quarter of 2021. 3. The deficiencies in the IRD's SIGTAS software are known and recognized. Recommendations for the replacement of the software have been made and it is

**RECOMMENDATIONS****Implementation of the Reform****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

expected that the application will be replaced upon procurement and acceptance of a suitable replacement.

One of the positive outcomes of the IRD Reform is the production of summarized monthly reports on our operations. These reports provide indicators of individual and section productivity and performance, and compares budgeted to actual performance for all sections under the IRD's operations.

The IRD extended its full co-operation to the audit staff during the period of audit. Furthermore, all requests for documentation made to the Comptroller, were complied with. At all material times, the monthly reports which are produced by the Headquarters Unit were, and are available to the audit staff.

DIRECTOR OF AUDIT'S COMMENTS ON MANAGEMENT'S RESPONSE

Copies of monthly productivity reports generated by employees, Units within the IRD and the operational report on IRD's performance produced by the Headquarters Unit, were requested during a meeting convened at the IRD on December 8, 2017, with members of the Headquarters Unit, including the Deputy Comptroller with responsibility for operations of the Unit. The Deputy Comptroller informed the auditors that the permission of the Comptroller would have to be sought, for the granting of access to the reports. Subsequently, the Deputy Comptroller informed the Deputy Director of Audit that the Comptroller

**RECOMMENDATIONS****Implementation of the Reform**

1.9 The Comptroller should submit:

- i. monthly reports on revenue performance to the Director General, Finance and Planning, as requested by the Ministry of Finance; (1.7) and
- ii. the return of arrears of revenue to the Accountant General as is required by regulation 99(1) (a) and (b) of the Finance Administration Regulations 2009. (1.8)

Human Resource Management

2.6 The Comptroller should ensure that:

- i. there are sufficient human resources with the required skills and experience to provide adequate coverage of taxable persons by the Collection and Enforcement and Audit and Investigations Units; (2.1-2.2) and
- ii. there is a training programme to develop staff capacity in the management of the Collection and Enforcement activities. (2.4)

MANAGEMENT'S RESPONSE**Responses dated 16th October, 2020**

did not accede to the request for the Audit Office's external review of the reports. Therefore, the Comptroller's claim that the productivity reports were at [all material times available to the auditors](#) is erroneous or the information communicated to the Deputy Director of Audit was inaccurate.

At present, these reports are forwarded to the Ministry of Finance upon demand. Going forward, the IRD will forward these reports to the Ministry of Finance on a monthly basis.

The IRD acknowledges the effect of Section 99(1)(a) and (b) of the Regulations to the Finance Administration Act; and our obligations thereunder. The IRD and the Accountant General are currently working out the reporting mechanism in order to become compliant with this law. It is envisioned that by January 2021, the relevant reporting mechanism will be effected.

Responses dated 16th October, 2020

One of the major outcomes of the IRD's Reform is a comprehensive staffing and Human Resource Development plan. This Plan identifies optimum staffing requirements for all sections of the IRD's operations. Job descriptions have been developed for all 72 positions in the IRD and forwarded to the PSRU for approval.

**RECOMMENDATIONS****Human Resource Management****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

At this stage, the ratio of staff to taxpayers is not one that would provide for an optimal quality of taxpayer service and consequently, revenue yield. At full implementation, this Plan would result in an increase in staff numbers and capacity. The move to a new headquarters would provide the necessary space to accommodate the required staff.

The Reform process has triggered increased specialization in the various sections of operation in the IRD. The focus of training is unique to the individual sections. The training given to Collections Officers is targeted towards Collections methodologies and case management; while the Audit section, for example, is exposed to more technical training on the application of the VAT legislation.

Under the ongoing Reform, several training sessions have been conducted by CARTAC, which has been assisting in the Reform process; namely in the areas of –

- Collections
- Case Management
- Enforcement
- Auditing and accounting
- Legislative reform

Registration (Cancellation of Registration and e-filing of Returns)**Response dated 26th June, 2020**

The process for deregistration of a taxable person is guided by Section 11 of the Value Added Tax Act. However, this must be applied having full regard to the practicality of administrative efficiencies

**RECOMMENDATIONS****Registration (Cancellation of Registration and e-filing of Returns)****MANAGEMENT'S RESPONSE****Response dated 26th June, 2020**

and good professional judgment. It requires several key considerations:

- i. An on-going assessment of a taxpayer's level of taxable supplies over several tax periods, to establish consistency in falling beneath the threshold.
- ii. The uniqueness of VAT reporting in specific business sectors which may pose significant challenge in placing reliance upon information reported on returns.
- iii. Differential VAT treatment relative to sectors such as the Hotel and Tourism, which may result in temporary reporting below the VAT threshold as business undergo construction or other developmental projects; or, during the off-season when business activities are relatively low.

Following the 2017 amendment to the Value Added Tax (VAT) Act Section 9, the registration threshold increased from \$120,000 to \$300,000. The Department estimated that a total of 500 existing Vat registrants would fall below this new threshold and thus eligible for VAT deregistration.

A further scrutiny of the initial potential candidates for deregistration showed that many taxable persons were marginal in the VAT reporting, that is, was falling just above or below the threshold and required further monitoring. Additionally, several persons were found to be within category (ii) and (iii) above rendering their status uncertain. In many instances, the Department has opted to maintain the registration profile of these persons notwithstanding the current status of taxable supplies being made.



RECOMMENDATIONS

Registration (Cancellation of Registration and e-filing of Returns)

MANAGEMENT'S RESPONSE

Response dated 26th June, 2020

Accordingly, as illustrated in the foregoing, the process of deregistration is not automatic and requires some level of verification to ensure that a person is properly qualified for deregistration. Section 11(2) of the VAT Act states that a person may apply for deregistration while Section 11 (4) instructs that the Comptroller must cancel the registration of a person who has not applied for cancellation if he is satisfied that the person **has ceased making taxable supplies**. As such deregistration is a complex matter, cannot be applied carte blanche and is best applied case by case on a continual basis.

At the time of the VAT performance audit, a total of 51 applications for deregistration was received and 47 processed.

The Department has continued to engage the public through direct taxpayer communications, public notifications via 'As a Matter of Tax' program' to issue reminders and increase awareness among persons, of the requirement to file for VAT deregistration.

To date a total of 421 persons have been deregistered for VAT inclusive of 354 who were removed in accordance with Section 11 (4).

Importantly, it must be pointed out that the lack of adequate human resources as referred to in your draft report 'Chapter 2: Human Resource Management has severely restricted the level of verification checks required to carry out this important exercise. As such, the Department is constantly faced with the challenge of balancing the allocation of its limited resources to attain optimal returns on the use of human capital.

**RECOMMENDATIONS****Registration (Cancellation of Registration and e-filing of Returns)****MANAGEMENT'S RESPONSE****Response dated 26th June, 2020**

We therefore assert that due to resource deficiencies', the Department cannot accurately assess all persons eligible for VAT deregistration. Continued reliance is place upon individual taxpayer assessment of scale of operation and the decision to apply for deregistration following which the relevant verification checks are done.

3.4 "The delayed cancellation of registration of all eligible taxable persons may result in the risk of continued collection of VAT by registered persons who no longer satisfy the registration threshold...VAT collected may not be remitted to the IRD"

A taxable person who is eligible for deregistration but not deregistered effectively remains a taxable person eligible to collect VAT, file Vat returns and remit VAT in accordance with the VAT Act. Where VAT returns are not filed, the Comptroller can raise Judgement assessments in accordance with Section 45 of the VAT Act. Accordingly, the risk referred to above regarding the non-remittance of VAT to the Department is either non-existent or significantly minimized.

"Further the IRD has an undocumented policy in which the tax liability of person(s) eligible for cancellation of registration must be liquidated prior to cancellation, contrary to section 11 (8) (d) of the VAT Act.

The Department fully accepts the prescriptions of Section 11 (8) (d) of the VAT Act. However, the reference to an undocumented policy in this regard asserts a misunderstanding of the process relating to cancellation of registration. The registration of a taxable person for VAT requires, nter alia, the use of our computerized system

**RECOMMENDATIONS****Registration (Cancellation of Registration and e-filing of Returns)****MANAGEMENT'S RESPONSE****Response dated 26th June, 2020**

(SIGTAS) to attach that particular taxpayer to the tax type, VAT. Similarly, for a cancellation to take place, SIGTAS must be employed to detach that person from VAT.

For purposes related to ensuring appropriate safeguards and sound integrity, SIGTAS is designed to prohibit the removal of a taxpayer from the database where among other conditions, there are taxes outstanding. By virtue of this inherent protective barrier, a VAT registrant cannot be deregistered unless all outstanding debts are settled.

DIRECTOR OF AUDIT'S COMMENT ON MANAGEMENT'S RESPONSE

The process for the cancellation of registration was provided by personnel within the Inland Revenue Department (IRD). We were informed that, the process whereby the tax liability of person(s) eligible for cancellation of registration must be liquidated prior to cancellation, is a policy of the department. Further, enquiry revealed that the policy was not documented. Therefore, we do not concur that our reference to an undocumented policy in this regard asserts a misunderstanding of the process related to cancellation of registration but, instead, aver that IRD failed to provide us with appropriate information, that is - SIGTAS is designed to prohibit the removal of a taxpayer from the database where among other conditions, there are taxes outstanding. However, an examination of the list of names of persons whose registration was cancelled (which was provided by the IRD) and SIGTAS data base, confutes this claim, since nine (9) VAT registrants were deregistered despite outstanding VAT liability. Details of VAT registrants, date of deregistration and VAT liability are schematically depicted hereunder.



RECOMMENDATIONS

Registration (Cancellation of Registration and e-filing of Returns)

MANAGEMENT'S RESPONSE

Responses dated 16th October, 2020

Taxpayer	Date of Request for Cancellation	Date of Cancellation	Arrears at Date of Cancellation \$
XXXX1	28/04/17	30/06/17	26,077.24
XXXX2	26/04/17	30/06/17	81.26
XXXX3	14/02/18	28/02/18	4,914.01
XXXX4	15/05/17	30/06/17	7.70
XXXX5	28/04/17	30/06/17	133.47
XXXX6	05/04/18	30/04/18	893.84
XXXX7	04/12/17	31/03/18	315.86
XXXX8	02/05/17	30/06/17	10,825.55
XXXX9	29/12/17	31/01/18	667.47

3.10 The VAT Act should be amended to provide for the application of penalty on a taxable person who did not lodge a final VAT return and pay VAT due, in accordance with the Act; (3.4)

In 2017, the VAT Act Cap. 445 was amended to increase the VAT threshold from \$120,000 to \$300,000. Following the amendment, the IRD, through data analysis, identified taxpayers which fell below or on the cusp of the amended threshold. A Plan was thereafter developed to process the applications submitted by these taxpayers for the cancellation of their VAT registration due to the increase in threshold.

It must be noted that failure to meet the threshold does not automatically trigger a cancellation of registration. The IRD considers the following factors to be pertinent in this regard:

1. Taxpayers whose taxable supplies fluctuate over several tax periods, thereby making it difficult to forecast whether the value of their annual taxable supplies would be over or under the threshold.
2. Persons who are required under Section 9(4) of the VAT Act Cap. 445, to remain registered irrespective of whether the value of their taxable supplies falls below the threshold i.e. government entities; promoters of public entertainment; proprietors of a place of public entertainment; suppliers of holiday/hotel accommodation; regional organisations and diplomatic missions.

**RECOMMENDATIONS****Registration (Cancellation of Registration and e-filing of Returns)****MANAGEMENT'S RESPONSE****Response dated 26th June, 2020**

3. The IRD's SIGTAS software is designed to prohibit the removal of VAT registered persons where there is an outstanding liability in the system. By virtue of this inherent protective barrier, a VAT registrant cannot be deregistered unless the outstanding liability is cleared. Notwithstanding the provisions of Section 11(8)(d) of the VAT Act Cap. 445, the IRD acknowledges that the safeguards provided through the SIGTAS function are vital to ensure that outstanding amounts are collected.

DIRECTOR OF AUDIT'S COMMENT ON MANAGEMENT'S RESPONSE

Regarding Management's response articulated at bullet 3 above, the Director's comment at page 61 is proffered.

A total of 421 persons have been deregistered for VAT, inclusive of 354 who were removed in accordance with Section 11 of the VAT Act Cap. 445.

The IRD implemented an E-filing system in 2013 to provide a convenient option for taxpayers to self-register and file returns. While the uptake and use of the system was highly satisfactory; in recent times the IRD experienced technical challenges which have impacted negatively on the use of the platform.

The IRD recognizes the need for a modern and fully functional E-filing and E-payment system. Recommendations for the replacement of the system have been made and it is expected that the system will be replaced upon procurement and acceptance of a suitable replacement.



RECOMMENDATIONS	MANAGEMENT'S RESPONSE
<p>Registration (Cancellation of Registration and e-filing of Returns)</p> <p>3.8 The Comptroller should ensure that:</p> <ul style="list-style-type: none"> i. information relating to the development of IT system and modules are documented and transferred to the information Technology Unit to aid in the identification and rectification of problems and facilitate business continuity; (3.7) and ii. there is dialogue with the former employee who developed the e-filing module in order to obtain information relating to the development of the module, to enable rectification of the problem. (3.7) 	<p>Responses dated 16th October, 2020</p> <p>The IRD implemented an E-filing system in 2013 to provide a convenient option for taxpayers to self-register and file returns. While the uptake and use of the system was highly satisfactory; in recent times the IRD experienced technical challenges which have impacted negatively on the use of the platform.</p> <p>The IRD recognizes the need for a modern and fully functional E-filing and E-payment system. Recommendations for the replacement of the system have been made and it is expected that the system will be replaced upon procurement and acceptance of a suitable replacement.</p>
<p>Post Assessment Audits</p> <p>4.7 Adequate accommodation should be provided urgently to the IRD to house the staff necessary for effective tax administration. (4.3)</p> <p>4.7 Annual audits should be proportionately planned in accordance with the number of available auditors in order to achieve realistic outcomes. (4.4)</p> <p>4.7 Verification notes for input tax certified should be documented on the taxpayer's file to indicate that the activity was performed by the auditor. (4.6)</p>	<p>Responses dated 16th October, 2020</p> <p>The issue of accommodation was addressed in Section 1 above.</p> <p>Effective 2017, the IRD's budgeted number of audits is planned in accordance with the number of available auditors and direct hours available. Similarly, VAT cases are assigned to Collections Officers based on the number of available Officers and available direct hours. This process is monitored by the Headquarters Unit.</p> <p>Responses dated 26th June, 2020</p> <p>The Inland Revenue Department recognizes the importance of validating input tax claims reported on monthly VAT returns filed and its relationship to VAT revenue generated. This is evidenced in our established audit procedure guide as correctly referred to in the draft report. In years past, a designated officer was assigned to perform these</p>

**RECOMMENDATIONS****Post Assessment Audits****Post Assessment Audits**

4.7 VAT returns submitted should receive monthly supervisory review to ensure that the input tax claimed for the importation of goods is being certified by the responsible auditor(s) (4.6).

MANAGEMENT'S RESPONSE**Responses dated 26th June, 2020**

checks and report information to the Audit unit for further action where necessary. Again, due to our limited resources, the Department has restricted the use of this practice to all audits performed where goods are imported.

Auditors regularly corroborate VAT on imports filed on VAT returns by referring to the Customs import data. Such confirmation is documented and filed as part of the Audit Report – document completed at the end of each audit; and shown on working paper: Work Paper Reference C-3.-#1.

The practice of using the Customs data as third-party confirmation of input tax claims on imports predates initiation of the establishment of the Memorandum of Understanding between the Inland Revenue Department and the Customs & Excise Department involving the exchange of information for tax purposes.

Responses dated 16th October, 2020

All documentation in relation to completed audits is contained in the audit reports which would include the auditors' working paper reference numbers.

All input VAT claimed by taxpayers is verified upon audit. However, the IRD recognizes the importance of conducting monthly verification of input VAT paid at the Customs and Excise Department. This practice was previously implemented, but due to human resource constraints and accommodation deficiencies, it was discontinued. The IRD intends to resume this practice, once the identified deficiencies are addressed.

**RECOMMENDATIONS****Collection and Enforcement**

5.36 The Guidelines for facilitating risk profiling of debtors submitted, should be documented. In addition, a risk assessment report should be prepared by the committee and transmitted to the Collection and Enforcement Unit to assist in the determination of strategies to be used in pursuing the collection of receivables. (5.3-5.5)

MANAGEMENT'S RESPONSE**Responses dated 26th June, 2020**

As part of the modernization process under the ongoing reform initiative with expert guidance and assistance from the International Monetary Fund (IMF) and the Caribbean Regional Technical Assistance Center (CARTAC), the Department embarked on the segmentation of its tax population using a series of objective criteria in 2015. Among the multiple criteria engaged, the level of debt was a critical factor used to rank all taxpayers for revenue risk. This resulted in the establishment of the Large and Medium Taxpayer Division and the Small and Micro Taxpayer Division.

Based on the foregoing, the debtor population is in fact segmented and forms part of existing structural mechanism to monitor and manage revenue risk. Taxpayer population is reviewed annually to ensure and risk are properly assessed and taxpayer assigned to the correct segment.

For the purpose of risk profiling of taxpayers with accounts receivable, the Department has employed a number of measures to rank its accounts receivables, all of which cannot be quantified. These include:

- Local knowledge of taxpayer behavior
- Past compliance history using Sigtas records – filing, payment
- Value of Accounts Receivable - dollar amount
- Type of Accounts Receivable – Tax, Interest, Penalty

Once the list of accounts receivables is identified for each fiscal period, relevant personnel are engaged as a group to assess and assign risk profiles as High, Medium, Low to each account. This is then incorporated into the Annual Collection Plan developed at the Headquarter Unit and communicated to Management.

**RECOMMENDATIONS****Collection and Enforcement****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

The IRD utilizes various risk profiling techniques to assess the level of risk of each tax debtor. Case assignment and procedures/protocols would be applied based on the level of risk inherent in a given case.

The IRD however recognizes the need for a more detailed risk profiling system which would include the stratification of tax debtors into segments based on specific criteria.

Additionally, the process of documenting the procedures and processes into a coherent risk profiling policy will be completed by the first quarter of 2021.

It must be noted however, that modern risk profiling is data driven; and at present, the existing SIGTAS software, as noted, lacks the required functionalities in order to perform the tasks at hand.

Annually, a risk profiling assessment is conducted on all taxpayers with outstanding VAT amounts by the executive of the IRD, Collection Managers and the Headquarters Unit. The outcome from this assessment is to profile and segregate the debtors' population based on compliance history.

The IRD recognizes the need to document the indicia used in segregating taxpayers during this assessment exercise; and will implement same by January 2021

Cases are assigned by Collections Managers to Officers based on the assessment done on each case. This assessment would take into consideration the risk profile of each tax debtor, among other factors.

**RECOMMENDATIONS****Collection and Enforcement**

5.36 Adequate accommodation should be urgently pursued and provided to the IRD to house additional staff, in order to improve the operations of the department. (5.6)

MANAGEMENT'S RESPONSE**Responses dated 16th October, 2020**

The issue relating to accommodation has been addressed in Section 1 above.

The IRD is unaware of a policy, written or otherwise, which provides for the non-assignment of VAT cases with liabilities of less than \$50,000; and categorically denies that this practice existed.

All cases with collectible VAT amounts are assigned to Collections Officers based on the risk assessment conducted.

DIRECTOR OF AUDIT'S COMMENTS ON MANAGEMENT'S RESPONSE

The information communicated in paragraph 5.7 of the report, informing that VAT cases with liabilities of less than \$50,000.00 were not assigned to Collection Officers due to insufficiency of staff to efficiently pursue cases of arrears, was conveyed to the auditors by the Senior Assistant Comptroller (Ag), Small and Micro Tax Payers, Collections and Enforcement, during a discussion on 23rd May, 2018. In ascertaining whether the decision was approved by management, the SAC (Ag) intimated that the decision was undertaken by her; however, it was not approved by management. Further, she explained that due to the population of 9,241 for Small and Micro Taxpayers and the staff complement of three (3) Officers to audit same, it was necessary to undertake the decision. It is critical to mention that the results of the audit were determined by observed deviations and non-compliance, through the examination of the IRD's records; and information obtained from the Department's personnel via interviews. These are established methodologies of obtaining audit evidence and information. Further, it is anticipated that verbal



RECOMMENDATIONS

Collection and Enforcement

MANAGEMENT'S RESPONSE

Responses dated 16th October, 2020

5.36 The Collection Officers should document information and retain the necessary documentation in accordance with the department's procedure for recovery of arrears. (5.8-5.9)

information communicated by the audited entity's personnel is provided with veracity and; hence, it is upon this information that the auditors rely. Therefore, Management's denial that the aforementioned practice existed, can either be construed as an attempt to confute the audit findings or is evidence that management and the executive are not always cognizant of the Units' operational practices.

The IRD recognizes the need for a standardized procedure in relation to the nature of documentation held on taxpayers' files.

While spread sheets, payment agreements, meeting minutes and garnishee orders are the main documents that would be generated by Collections Officers, not every case would require the production of all of these documents.

The IRD recognizes the need to have greater standardization of documents used in the Collections process and the utilization thereof; and intends to complete this process by the first quarter of 2021. Notwithstanding this, the lack of documentation referencing payment agreements, does not impact negatively on the IRD's ability to collect the amounts outstanding.

5.36 The Collection Officers should monitor the accounts of taxable persons to determine whether payment obligations were fulfilled and take immediate action(s) where default in payment is detected. (5.10)

No response was submitted by management.

5.36 Personnel responsible for the management of the Collections and Enforcement Unit, should ensure that evidentiary documentation is retained on files, to confirm supervisory review of cases of receivable assigned to Collection Officers, to

The IRD vehemently denies the allegation that there is no monitoring done by Collections supervisors. Collections Officers are continuously monitored and there is a reporting mechanism in place to provide updates to supervisors.

**RECOMMENDATIONS****Collection and Enforcement**

ensure that the Officers are complying with the procedures for recovery of arrears. (5.11)

MANAGEMENT'S RESPONSE

Responses dated 16th October, 2020

Notwithstanding this, the IRD recognizes the need for documentation of the monitoring mechanisms used by Collections supervisors; and intends to effect same by the first quarter of 2021.

DIRECTOR OF AUDIT'S COMMENTS ON MANAGEMENT'S RESPONSE

The audit report, in paragraph 5.11, does not categorically articulate that there is no monitoring by Collection Supervisors. The paragraph communicates that "... it appears that there is no monitoring by Supervisors..." Further, the apparent absence of monitoring was inferred, since it was observed that the files examined were devoid of documentation to confirm supervisory review. Moreover, since the Audit Office's request to review the monthly productivity reports produced by employees and the Headquarters Unit was denied by the Comptroller, the auditors could not and have not provided a definitive conclusion.

There are various stages involved in pursuing a VAT liability. Once an assessment is raised for VAT, a notice of assessment is generated by the IRD's Data Capturing Unit and sent to the taxpayer. If the liability is not settled by the taxpayer, then the case is assigned to a Collections Officer.

The issuing of late Payment reminder notices is one stage in the Collections procedure, as indicated in the IRD Collections Procedure Manual, which is annexed hereto. Notwithstanding this, the absence of a Late Payment Reminder notice on file does not necessarily mean that one was required but was not sent. The absence of such

**RECOMMENDATIONS****Collection and Enforcement****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

may be due to one of the following reasons–

1.The debt is liquidated following notice of the assessment being given to the taxpayer; or

2. The taxpayer enters into a payment agreement.

As mentioned in paragraph 5.13 of the Audit Report, there is a systematic and institutionalized reporting framework at all levels in the IRD, including the Collections Unit. This allows for comprehensive monthly reports to be produced by the Headquarters Unit.

At all material times, these monthly reports were, and are available to the audit staff.

DIRECTOR OF AUDIT'S COMMENTS ON MANAGEMENT'S RESPONSE

The Director's comment at page 55 is upheld.

5.36 The Comptroller should endeavour to execute all methods enforceable by law, for the recovery of VAT receivables. (5.15-5.18)

The IRD utilizes various collection methods, namely garnishees, payment agreements and notifications among others. Amounts collected via these methods are contained in the Collections reports submitted to the Headquarters Unit on a monthly basis. At all material times, these monthly reports were, and are available to the audit staff. Furthermore, information could have been obtained from Collections Managers and the executive of the IRD.

DIRECTOR OF AUDIT'S COMMENTS ON MANAGEMENT'S RESPONSE

An initial request for information relating to the revenue yielded by each enforcement method during 2016 and 2017 was made to the Deputy Comptroller, LM taxpayers, at a meeting held at IRD on December 11, 2017. Further, subsequent requests were made to the Department for

**RECOMMENDATIONS****Collection and Enforcement****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

submission of the information; however, the information was not provided to the auditors. Hence, Management's intimation that revenue collected by enforcement methods could have been obtained from Collections Managers or the executive, implies that the information was not requested by the auditors. Therefore, this assertion is objected.

The Bank Garnishee is a collection mechanism that is frequently utilized by the IRD; however, for various reasons, outside the IRD's control, this method may not always yield the required results.

The IRD recognizes the various powers of enforcement given to the Comptroller under law. However, the yield from these enforcement tools would be best achieved through a collaborative approach with key external stakeholders.

In relation to the Comptroller's power to seize goods under Section 52 of the VAT Act Cap. 445, this method is not utilized due to there being no designated premises for the safe storage of seized goods, for example motor vehicles. Once premises are identified and acquired, the IRD will robustly pursue this method of enforcement. In relation to the prosecution of VAT cases, the IRD acknowledges this to be a potentially useful enforcement tool, and has initiated the relevant actions which would allow for the prosecution of defaulters as early as first quarter of 2021.

The IRD utilizes procedural guidelines which govern the operations of the Non-Filers Unit. These guidelines are documented and are available to the audit staff upon request.

Section 39(1) of the VAT Act Cap. 445 requires a VAT registrant to file a monthly return. However, there are VAT registrants who do not make taxable

**RECOMMENDATIONS****Collection and Enforcement****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

5.36 All VAT returns lodged at the Collection and Enforcement Unit on the fifteenth day of each month should be submitted promptly to the Data Capturing Unit in order to facilitate identification of persons who did not remit VAT payable by the due date, in accordance with the department's policy. (5.26)

No response was submitted by management.

5.36 The Inland Revenue Department should document its accounts receivable management strategy and the policy and procedures for the identification of persons who did not file a VAT return or remit VAT due by the stipulated date. (5.19)

No response was submitted by management.

5.36 The Non-filers Unit should be granted autonomy for the identification of persons who did not lodge a VAT return within the statutory period in order to improve efficiency. Also, persons identified should be pursued to recover outstanding VAT in accordance with VAT Act. (5.21 & 5.24)

No response was submitted by management.

5.36 The conduct of assessments in the absence of VAT returns should be performed for each tax period for which the return is outstanding in accordance with the VAT Act. (5.28).

The IRD recognizes the need to raise VAT assessments when required in accordance with the VAT Act Cap. 445. However there have been instances where, due to the large number of months outstanding, for example 60 months, the IRD deemed it more prudent to raise assessments per year rather than per month. The IRD is considering amending the law and procuring the technology required to facilitate the yearly



RECOMMENDATIONS

Collection and Enforcement

5.36 The Comptroller should ensure that an audit is conducted on a taxable person who requests a transfer of credit, prior to the authorisation and transfer of same. (5.33)

MANAGEMENT'S RESPONSE

Responses dated 16th October, 2020

assessment of VAT, as is the case with the PAYE.

Responses dated 26th June, 2020

The Department asserts that in all material cases, any request for transfer of credit is handled with utmost diligence and care. This means that all relevant checks are done to authenticate the credits claimed and very importantly, any existing related liability which may require a reduction by way of set-off against such credit are dealt with accordingly.

DIRECTOR OF AUDIT'S COMMENT ON MANAGEMENT'S RESPONSE

The records examined for company Y did not reveal any evidentiary documentation to confirm that the relevant checks asserted by Management, were carried out to authenticate the credits claimed by the company prior to the transfer of the material amount of **\$24, 122,457.82** in credits to its affiliated company. The occurrence of requisite checks or audits to validate the authenticity of credits claimed, should be verifiable by internal and external review. Moreover, our examination found no proof that audits were conducted on the said company Y, since its registration to collect VAT in 2007. We noted; however, via correspondence retained on the file maintained for the company, that a VAT audit was scheduled to commence in January 2018, which encompassed the period 2015 – 2017.

**RECOMMENDATIONS****Collection and Enforcement****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

Pursuant to Section 60(3)(b) of the VAT Act Cap. 445, hoteliers that are in the construction phase of operations are required to register for VAT, and consequently file monthly returns in accordance with Section 39(1). During the period of construction, these hoteliers would have input VAT but no output, thus they would be in a constant credit position.

The IRD has extended a concession to persons carrying on taxable activities under the Fiscal Incentives Act and the Hotel Aid Act in that they are allowed to utilize any available credits on a monthly basis; notwithstanding Section 44(1)(ii) of the VAT Act Cap. 445, which provides for the credits to be carried forward for 3 months. The basis of this concession is to allow for the immediate reinvestment of available credits back into their projects.

For the period under review, Company X was in a liability position, whereas Company Y had available credits due to be utilized; both were known related companies.

A policy decision was issued by the Ministry of Finance, directing the IRD to set off Company Y's VAT credits against the VAT liability incurred by Company X. This practice ended in October 2018.

The verification of all credits set off was completed by the IRD's audit unit.

**RECOMMENDATIONS****Collection and Enforcement**

5.36 The information produced by Headquarters and SIGTAS database should be reconciled to reflect the information in the taxable persons' file. (5.34)

MANAGEMENT'S RESPONSE**Responses dated 16th October, 2020****DIRECTOR OF AUDIT'S COMMENT ON MANAGEMENT'S RESPONSE**

Management asserts that verification of all credits set off was completed by the IRD's Audit Unit; however, it has not stated whether verification occurred prior to the set offs, in order to validate the accuracy of the input tax.

Responses dated 26th June, 2020

The problem highlighted relates to variances in outstanding tax periods for filing of returns for audited periods as per Sigtas records and Headquarters report. The incidence of variances occurring is agreed to and results from several factors:

- i. Best of Judgment (BOJ) assessments serves as assessment in lieu of a filed return.
- ii. While basis for BOJ assessments are ordinarily retained on file, copies of actual assessment mailed to taxpayers are not always evidenced on files.
- iii. Time lag between generation of headquarters report and time of audit.
- iv. Absence of e-filed returns on physical file.
- v. Deficiencies in SIGTAS resulting in different reports generating from different sources.

**RECOMMENDATIONS****Collection and Enforcement****MANAGEMENT'S RESPONSE****Responses dated 16th October, 2020**

5.36 The Comptroller should ensure that all staff involved in the accounts receivable activities receive training in the application of the VAT Legislations and other requisite training, to enable:

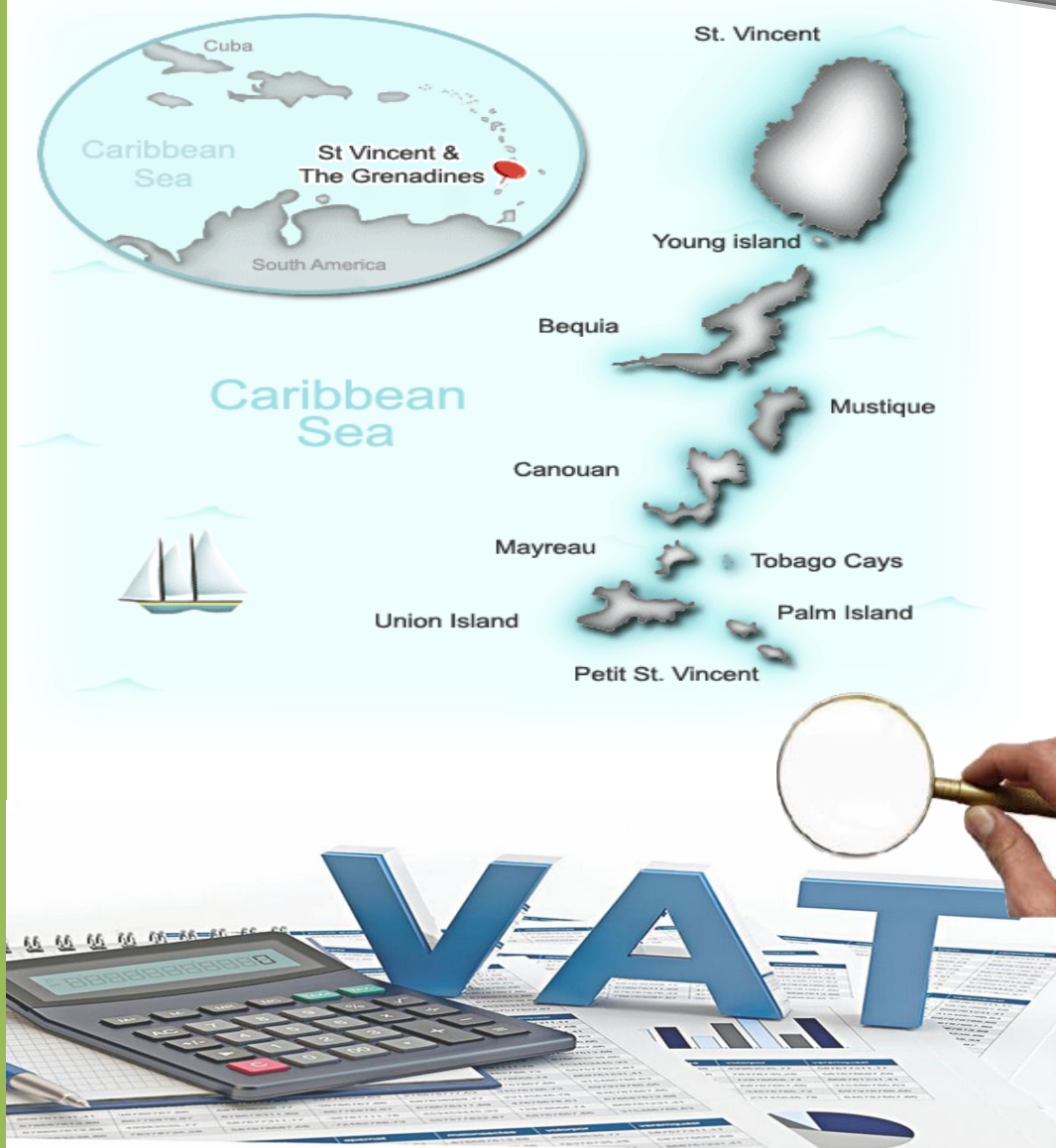
- i. efficiency and effective pursuit and management of cases of VAT receivable; and
- ii. application of payments to taxable persons 'account, in accordance with the VAT Act. (5.35 & 5.27)

The IRD's Headquarters Unit extracts a list of balances per taxpayer once per year. The records maintained on taxpayers' files would however reflect a different balance as a result of payments, reassessments, new assessments and the accumulation of interest and penalties; all of which would occur after the printing of the said list.

The IRD recognizes that there is need for continuous technical training for all staff involved in the administration of Value Added Tax.

Further to our response in 2.4 above, the IRD recognizes the importance of continuous staff training in the application of VAT and other tax legislation; and strives to increase its efforts at strengthening staff capacity.

The IRD acknowledges the requirement to apply payments first to interest, penalties then tax pursuant to Section 92 of the VAT Act Cap. 445. However, for example, there are instances where tax liabilities have not been completely finalized, as in the case of audits, but payments are made on account; the IRD has deemed it prudent to apply these amounts to the tax balance, as the full accumulation of interest and penalties would not yet be known.



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