

The Commonwealth Association of Tax Administrators



cata
Newsletter

CATA Conference in Yaounde, Cameroon - 9 to 14 November 2008

Dates for AMP, CTIC, TOIT and CMDP 2008 announced

New Country Reps & Correspondents

No.1 of 2008

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Editorial

Balance between enforcement and voluntary compliance

More than two decades ago when I was working with my parent tax department, I was dealing amongst other things with the issue of taxpayer education and motivation. The board of revenue was spending millions in pursuit of promoting voluntary compliance based on appeals to taxpayers sense of patriotism, social responsibility, etc. My primary responsibility related to international taxation. During that period, I was visited by a representative of a developed country under the exchange of information programme. During that visit, that person saw the large advertisement drafts for leading newspapers on my desk and asked

me if I was dealing with the subject. When I confirmed my role, his response was sharp and blunt. He said that nothing would change with all those sentimental appeals and financial investments as long as there were no concurrent news items stating that specific high profile individuals had been successfully prosecuted for tax evasion and put behind bars. More or less at the same time, I stumbled across a theoretical research model on tax evasion. It concluded that taxpayers rely on their judgement whether to risk tax evasion or not based on their “perception” of the ability and effectiveness of tax authorities in detecting tax evasion. If their perception leads them to believe that there is a strong likelihood of their tax administration succeeding in detecting their effort to avoid or evade tax, they will comply. If their perception leads them to believe that there is a strong likelihood of getting away with it, they will always decide in favour of trying to get away with it.

Economic and fiscal policies tend to pass through phases following the Greek principle of “Enantiodromia”, a concept introduced by the ancient Greek philosopher, Heraclitus and used extensively by Carl Jung in his theories called Analytical Psychology. In short, the principle advocated that the superabundance of any force inevitably produced its opposite. In relatively recent times, there is no shortage of experiences where external consultants or agents of the silly “change for the sake of change” philosophy have set back institutions and destroyed the very fabric, successful operations and culture upon which such institutions have thrived and delivered over long periods of time. There are many instances where the historical shift from enforcement to voluntary compliance, has swung the pendulum so senselessly and disproportionately to the other extreme that after wasting several years, moves were put in place to restore the equilibrium. During more or less the same period as referred to before, a newly appointed chairman of a board of revenue from the private sector from a member country visited CATA secretariat and

during exchange of views stated that he had advised his prime minister to declare a tax amnesty at a zero rate of tax. His perception was that once taxpayers registered with tax authorities with that incentive, it would be easy to recover all evaded tax in subsequent years!

Tax administrations need to first demonstrate their ability to detect evasion and pursuing evaders before seeking to promote voluntary compliance. Before that ability is clearly demonstrated, no amount of appealing, promised incentives for compliance or hollow threats of punitive action will ever lead to fruitful results. The sequence is generally reversed in situations where the tax administrations know deep down that they do not have the ability to enforce compliance whether for lack of information, political will or the sheer absence of enforcement mechanisms. Enforcement invariably involves taking relatively difficult political and economic decisions, anti-evasion measures, increasing documentation of economic transactions, strengthening prosecution and penalty regimes, etc. When governments are not doing well at the polls or non-representative governments are in power and faced with public discontent, it is always politically convenient and prudent to step back and not invite further pressure from strong economic lobbies. Sometimes governments that feel they are not likely to be re-elected at the next polls will also tend to leave the difficult decisions to their

successors. As long as economies do well, withholding and presumptive taxes can yield a fair bit of revenue intake without the need for intensive audits or other strong compliance measures in individual cases or even multinationals. It is when economies take a down turn that the inherent weaknesses of such collection techniques are exposed.

The long term problem with such short term measures is that conditioned habits develop over a period of time and then it is very difficult to bring about any change. More often than not, incoming governments will have made high sounding promises to the electorate on more financial and economic discipline in policies and practices but if on assuming power, they are faced with having to make difficult choices, pressure groups used to freedom from strict compliance practices will always sense where and how pressure can be applied to loosen the grip. It is a vicious and self perpetuating cycle and at the end of the day, the single most important factor in determining success is the strength of political will and level of political stability at any given point in time in any country. Without that decisive intervention, tax administrations stand very little chance of success on their own. Cyclical adjustment moves in opposite directions will be the norm based not on merit but more on easy decisions that provide temporary political relief while compromising long term national interests.

CATA NEWS

TWENTY-NINTH CATA ANNUAL TECHNICAL CONFERENCE 2008

Arrangements for the 29th CATA Annual Technical Conference in Cameroon are going ahead as planned. The Conference Programme has almost been finalised. A number of delegates have already registered. Invitations have been extended to special guests from non-member countries and international organisations. The Conference will be held at the Hilton Hotel Yaoundé. . The following two topics will be discussed at the Conference/Workshop:

- 1. Role of taxation in economic development.**
- 2. Information Technology - Opportunities and Challenges for Tax Administrations.**

Countries that have not sent in their respective Background Papers are again reminded to send their contributions not later than the extended date of 15 June 2008.

Important information about the Conference can be obtained from the CATA website at www.cata-tax.org.

COMMONWEALTH MANAGEMENT DEVELOPMENT PROGRAMME (CMDP) 2008

CATA is pleased to announce that the Commonwealth Management Development Programme for tax officials for 2008 will be held at the **Mauritius Revenue Authority Headquarters in Port Louis, Mauritius**. The workshop will be held from **4 August to 12 September 2008**. Trainees will be accommodated at **Manisa Hotel, Flic en Flac, Mauritius**.

CFTC Awards

A limited number of fellowships will be available from the Commonwealth Fund for Technical Co-operation through

Commonwealth Secretariat's Governance and Institution Development Division (GIDD), for candidates from the African, Asian, Caribbean, Mediterranean and South Pacific regions. These awards will cover the Course Fee including:

- * Training fees
- * Accommodation for the duration of the Course
- * Cost of meals for the duration of the Course.

The cost of the participant's air travel (to and from Port Louis) will have to be met by the nominating government. Form GID/1 duly completed should be forwarded through the local Point of Contact to reach GIDD no later than 30 June 2008.

The annual CMDP circular containing details about the workshop can be downloaded from the CATA web site at www.cata-tax.org. **Mr. Magen MAUNIKUM** will be the Course Director for CMDP 2008. He can be contacted at:

**Team Leader,
Mauritius Revenue Authority
Level 7, Eham Court
Cnr Mgr Gonin & Sir Virgil Naz Street
Port Louis, Mauritius
Tel: 207-6000 Extension 2709
Fax: (230) 207-6017
Email:
dhoojanaden.maunikum@mra.mu**

Course Objectives

The course is open to senior tax officials from the Commonwealth countries and course objectives include:

1. Extend participant's management perspective and skills.
2. Enable participants to review and revisit their management practices.
3. Develop participant's confidence to enable them to apply new skills to the workplace.
4. Challenge participant's current thinking and practice.

5. Create an active learning environment.
6. Model team work and team learning processes.
7. Broaden participant's knowledge of certain key areas of tax administration.
8. Examine trends in Commonwealth tax administrations.
9. Share and examine different and best practices in certain areas of tax administration.
10. Design and present as "best practice" a part of the taxation system.

A limited number of fellowships will be available from the Commonwealth Fund for Technical Co-operation through the Commonwealth Secretariat's Governance and Institution Development Division (GIDD) for candidates from the African, Asian, Caribbean, Mediterranean and South Pacific regions.

Application procedures are detailed in the workshop Circular No. 7 of 2008. The total cost of CMDP 2008 participation per person will be **£2400**. This includes training fee, accommodation, meals, and transport for official purposes.

COMBATING TAX EVASION IN DEVELOPING ECONOMIES (CTEDE) 2008

This was a special two-week workshop on Combating Tax Evasion in Developing Economies and was held in Port Louis, Mauritius from 17 to 28 March. It was a joint project between CATA and the Commonwealth Secretariat's Governance and Institution Development Division (GIDD).

30 participants took part in the workshop, of which 18 were external participants representing 8 countries. Another batch of 12 officers from Mauritius, the host country also attended. This was a new and additional workshop organised by CATA and it was heavily oversubscribed. A number of other applicants unfortunately could not attend despite the workshop participation size being increased from the originally planned number of 25 to 30 participants.

CATA will explore the possibility of repeating this workshop at another suitable location later this year. The names of the participants are as follows:

1. **Mrs Ramatou Harr Ceesay (The Gambia)**
2. **Mrs Elizabeth Lloyd King (The Gambia)**
3. **Mr Louie Gillen (The Gambia)**
4. **Mr Essa Jallow (The Gambia)**
5. **Mr Ezekiel Kasuku Obura (Kenya)**
6. **Mr Patrick Mutiso Ngoku (Kenya)**
7. **Mr Simon Sainingu (Kenya)**
8. **Ms Taamba Rosalia Nafuka (Namibia)**
9. **Ms Labrisca Lorraine Powell (St Kitts & Nevis)**
10. **Mrs Gcinile Priscilla (Swaziland)**
11. **Mrs Ntombifuthi Dlamini (Swaziland)**
12. **Mr Yessa D B Sanga (Tanzania)**
13. **Mr Kee Heng Soh (Singapore)**
14. **Mr Ming Siang Lim (Singapore)**
15. **Mrs Mahlape Lisene (Lesotho)**
16. **Mrs Ithabeleng Sylvia Theko-Mohloai (Lesotho)**
17. **Miss Lebohang Kaaba (Lesotho)**
18. **Mrs Rebecca Ralebakeng (Lesotho)**
19. **Mr Aboo Samad Aullybux (Mauritius)**
20. **Mrs Marie Noelcie Christiane Soo Lee Lin Wong Yin Sang (Mauritius)**
21. **Mrs Sooneeta Ramphul (Mauritius)**
22. **Mr Ramatoollah Suffee (Mauritius)**
23. **Mrs Tayshree Kumaree Goburdhone (Mauritius)**

- 24. **Mrs Françoise Ah Kay Mun**
(Mauritius)
- 25. **Mr Azad Noor Baccus (Mauritius)**
- 26. **Mr Ashok Kumar Seeballuck**
(Mauritius)
- 27. **Mr Ker Singh Bundhoo (Mauritius)**
- 28. **Mr Shyam Kumar Nadan**
(Mauritius)
- 29. **Mr Manoj Kumar Sobrun**
(Mauritius)
- 30. **Mr Tanuja Devi Udhin (Mauritius)**

**MANAGEMENT COMMITTEE
MEETING (MCM) MAY 2008**

The Management Committee of CATA held its annual meeting in London on 8 and 9 May 2008. It was preceded by the meeting of the Performance Evaluation Committee a day earlier.

The Committee approved the following recommendations of the Performance Evaluation Committee regarding nomination of Regional Directors and Country Correspondents for their performance and contribution to CATA's activities during the calendar year 2007:

Nomination of Regional Director

Mrs. Farida Amjad Pakistan

Nomination of Country Correspondents for 2007

Ms Kristy Dam Australia
 Ms Christina Lee Canada
 Mrs Athina Stephanou Cyprus
 Mdm Ruedah Karim Malaysia
 Mr Muhammad Riaz Pakistan

Venue for CATA conference 2010

Following the continued suspension of Fiji from the Councils of the Commonwealth, offers are invited from other member

countries interested in hosting the CATA conference in 2010. formal offer letters may be addressed to the Executive Director at the CATA Secretariat in London as soon as possible.

Venue for CATA Conference 2011

The Management Committee accepted an offer from Nigeria for hosting the CATA Conference in 2011.

Appointments

Brunei Darussalam



Mr Hj Hisham bin Hj Mohd Hanifah, Acting Director (Revenue) has recently replaced Mr Hj Abdul Hamid bin Hj Janudin as **Country Representative** in the Ministry of Finance of Brunei Darussalam.

Canada



Lyse Ricard was appointed as Assistant Commissioner, Compliance Program Branch in May, 2007. After working in the private sector, Lyse Ricard joined the Office of Auditor General in 1981 and worked in both the Ottawa and Montreal offices.

In 1998, Ms. Ricard joined Citizenship and Immigration Canada as Director General, Finance and Administration, until she was appointed Assistant Deputy Minister, Centralized Services Delivery and Corporate Services and more recently, she was Assistant Deputy Minister, Operations, Citizenship and Immigration Canada.

Before joining the Canada Revenue Agency, Lyse Ricard was Assistant Auditor General at the Office of the Auditor General of Canada.

India

Shri Ashutosh Dikshit, Joint Secretary (TPL-II), Central Board of Direct Taxes has taken over as **Country Representative** in place of Shri Arbind Modi.

Trinidad & Tobago

Ms Deokie Hosein, was recently appointed Commissioner of Inland Revenue in the Inland Revenue Division of **Trinidad & Tobago**. She will be the new **Country Representative** in place of Mr Rajram Basdeo. Mr. Basdeo served on the Management Committee of CATA for several years and was associated with CATA for a long time as a very popular and well respected member. CATA takes this opportunity to wish him the very best for the future.

New Regional Director (European Region)

Malta

Mr Randolph Aquilina, Assistant Director (Technical) has now been appointed the new Regional Director for the European Region. He replaces Mr Carmel Conti, who left his previous position last year on being appointed Director General of the Tax Compliance Unit.

New Country Correspondent

Malta

Mr Patrick Mifsud, Senior Principal Officer (Technical) has been appointed Country Correspondent in place of Mr Randolph Aquilina, Assistant Director (Technical).

CATA/CRA's e-Learning Product

CATA and the Canada Revenue Agency (CRA) are pleased to announce the introduction of a new E-learning product – Tax Audit Fundamentals (TAF), for use by CATA members. TAF is an interactive learning experience designed to take new auditors through each stage of conducting an audit. It may be completed entirely online, or alternatively downloaded in PDF format for offline use. An exercise is presented at the conclusion of each unit of TAF to reinforce the learning objectives. There is also a final exercise at the end of the product to enable the learner to check the level of comprehension of basic auditing attained. We encourage all users to provide feedback about TAF to the CRA through the questionnaire included as part of the product. The CRA will monitor user feedback on an ongoing basis.

To access TAF please log in to the members area* and select "e-learning: Tax Audit Fundamentals".

TAF was developed by the CRA, in consultation with the CATA Secretariat. CATA and the CRA would like to thank the many volunteer countries who tested the pilot version of TAF, following the 28th Annual Technical Conference in Nairobi, Kenya. Their valuable feedback was of great assistance in the preparation of the final product. CATA Secretariat also records the deep gratitude of all CATA members to the CRA for this innovative contribution towards the promotion of CATA's aims and objectives, made in accordance with the CRA's commitment to provide additional resources to the CATA Secretariat.

*If you have not previously registered for the members area of the new web site you will need to register first. Just select "Members area" (left sidebar of the site) followed by "register", provide the information requested and click "Create new account".

OTHER NEWS

Kamalesh Sharma takes over as Commonwealth Secretary-General



Leading Indian diplomat assumes office with "confidence and enthusiasm"
Kamalesh Sharma,

one of India's most distinguished diplomats, took office as Commonwealth Secretary-General on 1 April 2008. He succeeded Don McKinnon, who stepped down when his eight-year tenure ended on 31 March 2008.

Mr. Sharma was appointed to the post last November by Commonwealth Heads of Government at their biennial meeting in Kampala, Uganda. "I take up office with confidence and enthusiasm. I am grateful to the leaders of our 53 member countries for the trust they have placed in me to carry forward the work of the Commonwealth," said Mr. Sharma, who served as India's High Commissioner to the United Kingdom before his appointment as Secretary-General.

"It is an honour and privilege to serve this great organisation. The Commonwealth is a great global good. It is a force for genuine and creative partnership in addressing our collective challenges. I look forward to building on its strengths and achievements."

Mr. Sharma praised Mr. McKinnon for his contribution to the Commonwealth's twin and mutually reinforcing goals of promoting democracy and development. "I congratulate Don for outstanding leadership and commitment during his term as Secretary-General."

The new Secretary-General stated he intended to put the potential in sharing mutual strengths, issues of women and young people, as well as development challenges faced by small states in particular, among his priority concerns.

"I will encourage innovativeness and resourcefulness," said Mr. Sharma, a Delhi and Cambridge-educated diplomat whose career has included serving as a Special Envoy of the United Nations Secretary-General to Timor Leste, acting as Spokesperson for developing countries in the UN Conference on Trade and Development (UNCTAD) during the Uruguay Round of trade talks, and chairing the working group on Financing for Development which led to the Monterrey Consensus.

Botswana's Mrs. Masire-Mwamba appointed new Deputy Secretary-General

Gabaipone Mmasekgoa Masire-Mwamba to succeed Uganda's Florence Mugasha Commonwealth Secretary-General Kamalesh Sharma announced on 10 April 2008 that he had appointed Mrs. Gabaipone Mmasekgoa Masire-Mwamba, from Botswana, to the post of Commonwealth Deputy Secretary-General.

Mrs. Masire-Mwamba will succeed Mrs. Florence Mugasha of Uganda who will soon be leaving after six years in post. Mr. Sharma said: "I am truly delighted to be able to make this appointment. From an exceptional field of candidates from six countries, Mrs. Masire-Mwamba offered a wealth of experience in a broad range of areas of our work. I am confident that the Commonwealth will benefit enormously from the significant contribution that Mrs. Masire-Mwamba will make."

He paid tribute to Mrs. Mugasha, saying: "The Commonwealth has benefited greatly from Mrs. Mugasha's wisdom and leadership, and we wish her well in her future endeavours."

Responding to the appointment, Mrs. Masire-Mwamba said: "I am honoured to have been given this great opportunity and I look forward to working in the service of the Commonwealth." Mrs. Masire-

Mwamba will report to Mr. Sharma on political affairs, legal and constitutional affairs and youth affairs, and she will also oversee the Commonwealth Secretariat's Corporate Services Division, Human Resources Section and the Human Rights Unit.

She will work alongside Commonwealth Deputy Secretary-General Ransford Smith of Jamaica, in post since August 2006, who reports to Mr. Sharma on economic affairs, and the Secretariat's activities in governance and institutional development, social transformation, and special advisory services.

Mrs. Masire-Mwamba has held a number of high level positions, including those of Chief Executive of Botswana's Investment Promotion Agency (BEDIA); Group Manager of Corporate Business and Regulatory Affairs for the Botswana Telecommunications Corporation; and UK Business Development Manager for the Commonwealth Telecommunications Organisation.

Commonwealth Day Message from Her Majesty - Strive to match words and good intentions with deeds

Message from Her Majesty the Queen on Commonwealth Day 2008
Her Majesty Queen Elizabeth II, who is Head of the Commonwealth, has said that all actions which help protect the environment can "have a real and positive effect on the lives of others."

In her Commonwealth Day message, the Queen highlighted the Nile River, as an example which illustrates many of the challenges facing the "global environment as a whole" which, she said, "can not alone sustain our lives as once it did."

The Nile, which is the longest river in the world stretching for 4,187 miles, is the main source of water for the nine nations which make up the Nile basin. For all its impressive size, the water provided by the

river is barely enough to satisfy the estimated 123 million people who depend on its waters for survival.

"Our own attitudes to the environment, and the use we put it to, may have consequences for people on every continent and for every ocean and sea," the Queen warned.

The Queen also said in her message that it is "important to remember that the environmental choices available in some countries may not be an option for others." "In some parts of the world, for example, fossil fuels can be used more sparingly and buildings can be made of more efficient, sustainable materials; but it is far harder to expect someone to adapt if he or she relies on the trees of a local forest for fuel, shelter and livelihood. If we recognise the interests and needs of the people who are most affected, we can work with them to bring about lasting change," the Queen observed.

With regard to pollution, the Queen wrote that those who pollute the least – particularly in the world's least-developed nations – appear to be the most affected by the impact of climate change as well being the least equipped to cope with it.

Commonwealth lifts Pakistan suspension

"Government of Pakistan has taken positive steps to fulfil its obligations," CMAG says.

The Commonwealth Ministerial Action Group (CMAG), which addresses serious or persistent violations of the

Commonwealth's values and principles, said on 12 May 2008 that it had lifted Pakistan's suspension from the councils of the Commonwealth with immediate effect. CMAG comprises Ghana, Malaysia, Namibia, New Zealand, Sri Lanka, Uganda, United Kingdom, Papua New Guinea and St Lucia.

Members News

Australia

Country Correspondent:
Ms Sarah Safransky



Wealthy and wise booklet

A booklet providing advice to Australian resident high wealth individuals, *Wealthy and wise: A Tax guide for Australia's wealthiest people* was launched by the Commissioner on March 31 2008. The booklet is a guide to tax compliance for wealthy individuals. It provides a reference for the wealthy to maintain high standards of governance over their tax affairs, in consultation with their adviser. The booklet describes the strategies and processes the Tax Office employs to ensure the compliance of wealthy individuals and discusses the issues and characteristics that will attract our attention and constitute a risk. The booklet can be found on the ATO website at <http://www.ato.gov.au>.

Tax Information Exchange Agreement between Australia and Netherlands Antilles

A Tax Information Exchange Agreement (TIEA) between Australia and the Netherlands Antilles was announced by the Assistant Treasurer on 2 May 2008 and has effect from 1 January 2007. The TIEA provides a legal basis for full exchange of information, for both criminal and civil tax matters, between Australia and the Netherlands Antilles. The agreement aims to improve transparency and establish effective information exchange for tax purposes and provides important momentum to achieve the aims of the OECD's Harmful Tax Practices Initiative and related Global Forum on Taxation.

eLibrary

The ATO has a new suite of online research tools to deliver legal and business information directly to ATO staff via their desktop computer. It was developed internally by Library and Information Services and has been well received by staff and externals who have been given the opportunity to test the product. eLibrary allows users to run keyword searches simultaneously across a range of legal and business information databases. The eLibrary also provides users with access to information such as book reviews and summaries, tables of contents, newsfeeds and a Best of Web Internet search tool.

Integrated Curriculum project

The ATO currently has a range of programs and products to help employees with their ongoing learning and development. The Integrated Curriculum project aims to consolidate the various ATO learning and development activities into a streamlined ATO-wide framework. Once in place, the framework will provide a set of interdependent topics that can be used to develop individually-tailored programs based on a person's background, experience and job requirements. This in turn will support the development of a capable, highly skilled workforce.

Scholarships to indigenous students

The ATO is participating in a school to work program for indigenous students and over 20 scholarships have been awarded. The Indigenous School to Work program promotes promising and motivated indigenous youths by increasing training and development opportunities and encouraging students to complete their secondary studies and progress to tertiary study.

Continuing on from our last update, the Change Program is now four months into

one of its biggest releases. Given the scale, we have made considerable effort to ensure that the impact on staff and the community are minimal. To ensure this, the Program has adopted a phased approach, whilst also continuously consulting and engaging with the community using a number of forums.

Following [on from a number of technical deployments](#), we have recently completed our first business deployment for 2008, using Integrated core processing (ICP) to process Fringe benefits tax (FBT). This has provided our first opportunity to see Siebel and Integrated core processing (ICP) working together as integrated business systems.

For the first time, Tax office staff can now process FBT work using this new system.

With July fast approaching, the Change Program is now focusing attention on Release 3.2, where we will progressively replace our current Superannuation systems.

We will continue with our system of intensive monitoring, tracking and planning. In this we will ensure that there is minimal disruption, and that we continue to deliver on government policy.

Brunei Darussalam

**Country Correspondent:
Mrs Rina Hayane Haji Sumardi**



INCOME TAX ACT (AMENDMENT) ORDER, 2008

At the 4th session of the Legislative Council Meeting, held on 5th March 2008, YB Pehin Orang Kaya Laila Setia Dato Seri Setia Haji Abd Rahman bin Hj Ibrahim, Minister of Finance II, announced that with the consent of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, the Government of

His Majesty the Sultan and Yang Di-Pertuan has introduced various amendments to the Income Tax Act (Cap 35) effective from 1st January 2008. The changes were introduced as an effort by the Government to assist small businesses and encourage investments and entrepreneurial activities in certain sectors. Some of the measures that have been introduced are as follows:

1. Corporate Tax Rate (Section 35)

The corporate tax rate is reduced from the initial 30% of the chargeable income to 27.5% for the Year of Assessment (YOA) 2008. However, for the YOA 2009 and its subsequent years, the rate is further reduced to 25.5%.

An income tax threshold has also been introduced aiming to reduce tax burden of Small and Medium Enterprises (SMEs) as follows:

- (a) The first B\$50,000.00 of the chargeable income will be taxed at 25% of the applicable tax rate;
- (b) The following B\$50,000.00 will be taxed at 50% of the applicable tax rate; and
- (c) The remaining balance of the chargeable income will be taxed at the applicable tax rate i.e. 27.5% for YOA 2008 and 25.5% for YOA 2009 and onwards.

Newly incorporated or registered companies in Brunei Darussalam are also entitled to partial tax exemption whereby the first B\$100,000.00 of the chargeable income will be exempted from taxes during the first 3 consecutive Year of Assessments falling within or after YOA 2008. However, the balance of the chargeable income will still be taxed at the applicable tax rate of that year of assessment.

2. Amendments to Deductible Expenses

With the new Income Tax Act (Amendment) Order, 2008, there are also changes to the deductible expenses. There are as follows:

- (a) Payment of *Zakat, fitrah* or any religious dues to Islamic religious on which is made in any written law is categorized as deductible expense; and
- (b) A capping on deductible expenses and capital allowance in relation with motor vehicles is also introduced. With effect from 1st January 2008, under section 16(4) and 16(5), a restriction to a maximum limit of \$50,000.00, is applied to a motor vehicle which is constructed or adapted for the carriage of not more than 7 passengers (not including the driver) with weight not exceeding 3,000 kilograms. This is only applicable to motor vehicles bought on or after 1st January 2008.

Section 11 (1A) of Income Tax Act (Cap 35) also restricts deduction on expenses incurred on motor vehicles that costs more than \$50,000.00. The amount of expenses deductible for tax purposes shall be limited to the proportion that \$50,000.00 bears to the actual costs of the motor vehicles. For instance, a car which costs \$60,000.00 with \$10,000.00 maintenance expenses (including fuel and repair), will be entitled to a deduction allowable of \$8,333.00 for the YOA.

3. Initial and Annual Allowance for Industrial Building and Structures (Section 13(1) and 13(2))

The rate for claims on Capital Allowances i.e. Initial and Annual Allowance for Industrial Building and Structure is

increased from the initial 10% and 2% to 20% and 4% respectively. The increase is attributed to the effort made by the Government to encourage and promote more investment in the manufacturing and industrial sector.

4. Definition of Industrial building or structure (Section 15(1))

The definition of Industrial building or structure has also been widened to include capital expenditure on the construction of a building or structure which is occupied for the purposes of the trade of hotel-keeping. This additional scope is in line with the effort of the Brunei Government to promote the tourism sector. Any building or structure which was operating before 1st January 2008 is only eligible to claim Annual Allowance at the rate of 4% per annum. Claims for the initial allowance for such buildings will only be applicable to the Capital Expenditure incurred on buildings or structures completed on or after 1st January 2008.

5. Scope of Withholding Tax

With effect from 1st January 2008, withholding tax is levied on the following payments which are sourced or deemed to be sourced in Brunei Darussalam: (a) Interest, commission, fee and other payments relating to any loans; (b) royalties or other lump sum payments for the use of movable property; (c) Know-how payments for the use of scientific, technical, industrial or commercial knowledge or information; (d) management fees; (e) technical assistance and service fees; (f) rent for the use of movable property; and (g) any remuneration paid by a company to a director who is not resident in Brunei Darussalam.

Tax must be withheld from payments made to non-resident on or after 1 January 2008 at the following rates i.e. 15% for transactions (a) and (f); 10% for transactions (b) and (c); and 20% for transactions (d), (e) and (g).

Prior to the amendment, withholding tax was only levied on the abovementioned payments (a) to (g) when their physical transactions were deemed to have been carried out.

However, as of the effective date, withholding tax will be imposed on the payments that are deemed to have been paid by a person to another person although it is not actually paid to that other person. This refers to a situation whereby those payments are reinvested, accumulated, capitalized, carried to any reserve or credited to any account either by or on behalf of that other person.

In terms of payment, it should be submitted to the Collector of Income Tax by the 15th of the next month following the transactions. Failure to pay within the specified period, the tax payer shall be charged by the following penalties:

- (a) A sum equal to 5% of the tax payable shall be imposed for payments later than the 15th of the month following the date of transaction; and
- (b) However, if a payment is still not yet paid after 30 days of the 15th month, an additional penalty of 1% shall be payable for each completed month that tax is not paid, up to a maximum of 15%.

6. Power to compound

An additional provision is also introduced under section 78(3) of the Income Tax Act (Cap 35) whereby the Collector of Income Tax has the power to compound any offences under Section 78(1).

For further information, please visit our website at <http://www.mof.gov.bn>

Canada

**Country Correspondent:
Christina Lee**



Appointment of Taxpayer's Ombudsman

On February 21, 2008, the Minister of National Revenue announced, the appointment of Mr. Paul Dubé to a three-year term as Canada's first Taxpayers' Ombudsman. The creation of the Ombudsman's office and appointment of Mr. Dubé is reflective of Canada's commitment to ensure that its taxpayers receive fair and transparent treatment in their dealings with the Canada Revenue Agency (CRA).

The role of the Ombudsman is to be an independent and impartial officer who operates at arm's length from the CRA. He reports directly to the Minister of National Revenue and his mandate includes:

- Reviewing complaints made by taxpayers with respect to service-related issues including the service rights outlined in the Taxpayer Bill of Rights.
- Identifying and reviewing systemic and emerging service-related issues that have a negative impact on taxpayers.
- Facilitating taxpayer access to the CRA.
- Providing information to taxpayers about the mandate of the Ombudsman.
- Providing advice to the Minister of National Revenue about service-related matters in the CRA.

In relation to taxpayers' dealings with the CRA, where appropriate, the Ombudsman can make recommendations to the CRA to take such actions as:

- Give further reasons for a decision.
- Correct a misunderstanding, omission or oversight.
- Offer an apology.
- Change a policy or procedure.
- Make changes to systems or applications.
- Review its service standards.
- Consider further staff training.

The Ombudsman's Office only reviews complaints once they have already been addressed through the complaint resolution mechanisms within the CRA, which includes the CRA Service Complaints program. It does not have the authority to make binding recommendations on the CRA or direct the CRA to take action; it will not review complaints related to tax policy or program legislation; it will not review issues that have or could go before the courts; and, it does not have the authority to discipline any person for their actions.

The Ombudsman will submit an annual report on the activities of his office to the Minister of National Revenue. Sixty days after the report has been tabled in Parliament by the Minister, it may be released to the public.

A liaison unit has been established in the CRA to support the Ombudsman's office. It will respond to requests, review recommendations from the Ombudsman, forward issues for action where appropriate, and raise high profile or systemic issues to senior management.

The creation of the Taxpayers' Ombudsman Office, the launch of the CRA Service Complaint program, and the creation of the Taxpayers Bill of Rights are examples of the CRA's continuing efforts to address the concerns of taxpayers and improve service to Canadians.

Canada Revenue Agency Service Complaints Program

On May 28, 2007, the Canada Revenue Agency (CRA) instituted a new formalized complaint resolution process aimed at improving the way it handles service-related complaints such as mistakes, undue delays, poor or misleading information, and staff behaviour.

The CRA - Service Complaints program will:

- Create public awareness about how to complain to the CRA.
- Gather, track and analyze information throughout the complaint process.
- Allow us to analyse trends and identify systemic issues, with the goal of improving service to taxpayers.
- Ensure that the CRA continues to provide high-quality and timely responses to taxpayers.
- Allow the Agency to react to taxpayers' feedback and, in some cases, adapt our programs to meet the needs and expectations of Canadians.
- Uphold the *service rights* outlined in the [Taxpayer Bill of Rights](#)

There is no cost to filing a service-related complaint. The time it will take to resolve a complaint will depend on the complexity of the issue. All information that the taxpayer provides is protected under the Privacy Act.

Malta

**News Despatch by:
Mr Randolph Aquilina**

Exchange of Information

Amendments have recently been effected in the Income Tax Act in order to give powers to the Commissioner of Inland Revenue to collect information which is required to be provided to foreign tax authorities in terms of reciprocal international arrangements for the exchange of information.

Electronic Business

In 2005, rules were issued to encourage electronic business by providing for tax credits to companies engaged in acquiring or developing computer software or hardware for such purposes. These rules were amended recently to provide for a larger tax credit as well as to open up applicability of these rules to SMEs including sole traders.

Distribution of Company Profits

As we had reported in a previous dispatch, Malta reached an agreement with the European Commission that effectively preserves intact its imputation tax system. As from 1 January 2007 Malta's full imputation system was amended so that both resident and non-resident shareholders became entitled to the same tax refunds in respect of underlying tax on distributed company profits.

Essentially the logic of the imputation tax system remained unaltered: companies are taxed at 35% and upon a distribution the shareholders are entitled to the tax refunds. The differences of substance are that the tax refunds are available to all shareholders in respect of the distribution of all profits other than those derived from immovable property. The tax refunds under the new system are not materially different from those applicable under the old system. Resident shareholders are taxed on the dividend and tax refund at 35% while non-residents are not subject to tax in Malta on such income.

As a result of these changes, which had been incorporated in the Income Tax legislation, companies need not restrict their activities to international activities in order to be eligible for the tax refunds.

Complementary to the amendments to the main acts, rules were issued in the early months of 2008 to provide for the creation of two new tax accounts. Profits which have been subject to a final withholding tax, or which are exempt from tax altogether, are allocated to the Final Tax

Account, while profits that are in any way derived from immovable property situated in Malta are allocated to the Immovable Property Account.

New rules establish the registration procedure for companies claiming refunds and extend the filing period for such companies.

Nigeria

**Country Correspondent:
Mr Malik Tukur**



VALUE ADDED TAX (AMENDMENT) ACT

This is covered by Gazette no.63, vol.94 of 15th June, 2007 and addressed the following issues:

4.1 Rate of Tax:- Section 4

The 5% rate of VAT, which was adopted at the commencement of VAT in 1994 is still the lowest in the West African sub-region and in line with the ECOWAS Protocol Agreement, Nigeria is required to drive the VAT harmonization project within the Region, which will ultimately lead to convergence at the rate of 15% by 2009. For this reason, the rate of VAT has been increased to 10%. Goods on the exemption List will continue to enjoy VAT exemption, while exported goods will also be accorded zero-rated status.

4.2 VAT Zero-Rated Status:- Section 4

In order to encourage manufacturing of goods for export, the Act now accords zero-rated status to non-oil exports. Zero-rated means the goods in question attract zero rate tax. It is a concession which is in accord with VAT practices all over the worlds and allows the manufacturer to

claim input VAT incurred in the course of production. This VAT concession will apply only to:

- Non-oil exports which refers to all exports apart from Petroleum as defined in the Petroleum Profit Tax (PPT) Act.
- Goods and services purchased for use in humanitarian donor-funded projects which refers to projects undertaken by non-governmental organizations, religious and social clubs or society recognized by law whose activity is not for profit and in the public interest.
- Goods and services purchased by Diplomats.

4.3 Agency Responsibility:- Section 10A

In order to ensure that all funds accruable to Government are properly accounted for, agency responsibility is hereby imposed on companies which operate in the oil and gas industry as agents for the collection of VAT as currently applicable to MDAs. Companies in this sector are now required to withhold VAT due on contracts being awarded by them and to remit such withheld sums directly to FIRS.

4.4 Tax Invoice Requirement:- Section 11A

Every supplier of goods or services is mandatorily required to issue Tax invoice to its customer. The Tax Invoice should provide full information on all transactions being conducted and must particularly reflect VAT charges on invoices. For example, supermarkets, hotels and traders are required to issue tax invoices to all their customers. For businesses that have embraced the use of business machines, VAT element should be configured in all their softwares in order to ensure that at the point of payment for goods or services consumed, receipts issued to the customers duly reflect VAT.

4.5 Monthly Rendition of VAT Returns:- Section 12

The period for the rendition of monthly VAT returns has been changed from 30th day to 21st day of the month after the month of transaction. The Act has provided penalties and sanctions to discourage any violations. Failure to comply with this provision attracts a penalty of N5,000 for every month in which the failure continues. Other offences and penalties are as contained in the Value Added Tax (VAT) Act.

4.6 Accountability under VAT Act:- Section 12(3)

All Agents of VAT collection, among which are MDAs, companies operating in the Oil and Gas sector, Traders, etc are henceforth to be held accountable for all deductions made or expected to be made by them under the VAT Act. In this connection, contractors will no longer be saddled with the burden of additional VAT imposition.

4.7 Dispute Resolution:- Section 16

The amended Act has provided for the creation of a first level of appeal at the Tax office level for taxpayers who may feel aggrieved with any VAT assessment levied on them. The provision in the amended Act is a replication of an existing law in the Companies Income Tax Act (CITA).

4.8 Tax Appeal Tribunal:- Section 16(4) and (5)

The new VAT amendment Act has established Tax Appeal Tribunal to replace the VAT Tribunal and other Appellate Courts. Henceforth, the Tax Appeal Tribunal will handle all tax cases. The Act provides that appeal from the decisions of the FIRS should be made to TAT and from the Tribunal to the Federal High Court.

4.9 Derivation Index for VAT Distribution:- Section 36

The Act provides that not less than 20% weight should be allotted to derivation by way of encouraging VAT compliance among States and Local Government Councils. The benefit of this provision is the likely encouragement that is provided to States and Local Government Councils whenever they support FIRS Tax offices in the effort to maximize VAT collection for each jurisdiction.

4.10 Definition of Taxable Persons:- Section 42

The definition of taxable persons has been widened to accommodate all sizes of businesses and economic activities, with the exception of goods or services exempted under the VAT Act. To this end, all newspaper houses, hotels, supermarkets, restaurants, retail outlets, etc. are taxable persons under the VAT Act.

Pakistan

Country Correspondent:
Mr Muhammad Riaz



Pakistan – Czech Republic Tax Treaty:

Two-members Pakistan tax delegation headed by Mrs. Farida Amjad visited Czech from 21-26 April 2008 to negotiate the Convention for the Avoidance of Double Taxation between Pakistan and Czech Republic. The convention is hoped to be initialled during the second round scheduled to be held in Islamabad.

Federal Board of Revenue takes this opportunity to renew to the CATA Secretariat, the assurance of its highest consideration.

Singapore

Country Correspondent:
Ms Yvonne Lay



Highlights from Singapore Budget 2008

The Minister for Finance, Mr. Tharman Shanmugaratnam, presented the Singapore Budget 2008 with the theme “Creating a Top Quality Economy, Building a Resilient Community” on 15th February 2008. The following are some major tax measures and changes that were announced:

1. CORPORATE INCOME TAX

1.1 Liberalization of the Tax Exemption Scheme for New Start-up Companies

Currently, under the tax exemption scheme for new startup companies, any company that meets the qualifying conditions will enjoy full tax exemption on their normal chargeable income (excluding Singapore franked dividend) up to \$100,000 for each of the company’s first 3 consecutive years of assessment (YAs). With effect from YA 2008, a qualifying company is also granted partial tax exemption of 50% on the next \$200,000 of such income or an amount up to \$100,000 for each YA.

To signal the government’s continued efforts to support entrepreneurship in Singapore and in recognition of start-ups funded by venture capitalists, the Minister for Finance has decided to extend, with effect from YA 2009, the tax exemption scheme for new start-up companies to a newly incorporated company that also has corporate shareholders. To qualify for this tax exemption scheme for any of their first three YAs, such newly incorporated company must have at least one

shareholder who is an individual holding at least 10% of the total number of issued ordinary shares of the company throughout the basis period for the YA of claim.

1.2 Tax Incentive for Fixtures, Fittings & Installations

Currently, the costs of most fixtures and fittings (unless they are part of an industrial building which qualifies for industrial building allowance) do not qualify for capital allowance under the Singapore Income Tax Act, because the costs incurred are in relation to the business setting within which the business is conducted and not on the provision of plant and machinery.

Many businesses incur costs of fixtures and fittings as part of their renovation expenses. To help reduce business costs, in particular those of the smaller businesses in the service sector, the Minister for Finance has decided to grant a special allowance for the costs of fixtures, fittings and installations (which do not relate to the structure of the building or expansion of space) to be written down over a period of 3 years, subject to an expenditure cap of S\$150,000 for every 3 years for each taxpayer.

1.3 Measures to Encourage Research & Development (R&D) in Singapore

As part of the Government's aim to make Singapore one of the most competitive places for companies to do R&D, tax deductions allowed for R&D done in Singapore would be increased from 100% to 150%, and the requirement that the R&D done in Singapore must be related to a company's existing business will be lifted. Secondly, companies will be granted R&D tax allowances each year, up to an amount of 50% of the first \$300,000 of their chargeable income. Thirdly, a new R&D Incentive for Start-Up Enterprises (or RISE) will be introduced to help high-tech start-ups. The Government recognizes that turning R&D into marketable products usually takes time,

during which the start-ups may have no taxable income, and will carry forward their losses for tax purpose. RISE will allow the companies to convert immediately these losses into cash grant of up to about \$20,000, as long as they incur at least \$150,000 during the year for doing R&D in Singapore.

2. INDIVIDUAL INCOME TAX

2.1 Personal Income Tax Rebate for Resident Individuals

As part of Singapore's surplus sharing exercise, Minister for Finance has decided to grant a one-off personal income tax rebate of 20% for all resident individual taxpayers for YA 2008. The rebate will be capped at \$2,000 for each taxpayer. Having this quantum allows the Government to target at those below the top income bracket.

2.2 Changes to Not Ordinarily Resident (NOR) Taxpayer Scheme

The Not Ordinarily Resident (NOR) Scheme was first introduced in Budget 2002 with the objective of attracting talents to relocate to Singapore. Under the scheme, an individual who is accorded the NOR status (NOR taxpayer) can enjoy one or more of the following tax concessions provided that the qualifying criteria of each of the tax concessions are met:

- (a) time apportionment of Singapore employment income;
- (b) tax exemption on pre-assignment income remitted to Singapore; &
- (c) tax exemption on employer's contribution to non-mandatory overseas pension or provident fund or social security scheme

To enhance the efficiency and effectiveness of the NOR scheme in attracting and retaining top talents, Minister of Finance has decided to make the following changes that will take effect from YA 2009:

Time Apportionment Concession

- (a) replace the 10% qualifying tax rate with a minimum Singapore employment income threshold (before apportionment) of \$160,000;
- (b) lift all restrictions on Singapore employment income subject to time apportionment, except for director's fees;

Non-mandatory Overseas Contribution Scheme Concession

- (c) allow tax exemption only if NOR taxpayer derives a minimum income threshold of \$160,000 from his Singapore employment (before apportionment); and
- (d) allow tax exemption only if the employer of NOR taxpayer does not claim a tax deduction for the contributions made to non-mandatory overseas pension or provident fund and social security scheme.

3. GOODS & SERVICES TAX

3.1 Enhancement of Remission Granted to Singapore Real Estate Investment Trusts (S-REITs) and Their Special Purpose Companies (SPVs) for the Holding of Overseas Non-Residential Properties

To consolidate Singapore's status as a regional REITs hub and to promote growth in Singapore registered business trust market, the 2006 GST remission will be enhanced to allow the S-REITs, Registered Business Trusts in infrastructure business, ship leasing and aircraft leasing (qualifying S-RBTs) and their SPVs to claim GST on their business expenses except for disallowed expenses under Regulations 26 and 27 of the GST (General) Regulations. The enhanced remission will take effect from 17 February 2006 to 17 February 2010 (both dates inclusive) and will be granted based on a new set of qualifying conditions and rules.

4. OTHERS

4.1 Extension of the Scope of Unilateral Tax Credit (UTC) under Section 50A

To encourage more businesses to expand overseas and draw more companies to set up headquarters in Singapore, the Minister for Finance has decided to extend UTC to all foreign-sourced income remitted from non-treaty countries by any person resident in Singapore who has suffered foreign tax on the foreign-sourced income remitted to Singapore. All other prevailing conditions for granting UTC remain unchanged.

4.2 Abolition of Estate Duty

To encourage high net worth individuals to bring their assets into Singapore and thus supporting the growth of the wealth management industry, Minister for Finance has decided to abolish the Estate Duty for deaths occurring on or after 15 February 2008.

Full details of Singapore Budget 2008 can be found at (http://www.mof.gov.sg/budget_2008/index.html)

Singapore's Avoidance of Double Taxation Agreements Network

Singapore has in place 61 Comprehensive Avoidance of Double Taxation Agreements (out of which 58 had been ratified) and 7 Limited Agreements. The full text of the Agreements can be found at the IRAS website (www.iras.gov.sg).