

# Tax Database System - Review and Assessment

## Overview

The Republic of the Marshall Islands (RMI) Ministry of Finance has expressed a desire to improve their tax database system, which in turn should improve internal revenue generation. Therefore, improved domestic revenues will promote greater fiscal stability. Although similar in many aspects to the Republic of Palau (ROP), the RMI does have some distinct and unique differences.

- The RMI does not issue a national business license except in the case of non-citizen business entities.
- The two local governments, Kwajalein Atoll Local Government (KALGOV) and Majuro Atoll Local Government (MALGOV), issue the business license and also collect taxes.
- Although the business license is valid for one year, expiration dates vary throughout the calendar year based upon date of issuance.
- Not only are the two local governments 500 miles apart, the two RMI tax offices, Majuro and Ebeye, are respectively the same in distance.

Currently, the business license and tax filing process is as follows:

- 1) A non-citizen business entity must obtain a Foreign Investment Business License (FIBL) from the Attorney General's office;
- 2) A business entity must obtain a business license from the local government (MALGOV or KALGOV);
- 3) The business entity then requests an Employer Identification Number (EIN) from the Marshall Islands Social Security Administration (MISSA) upon presentation of the local government's business license;
- 4) The business entity now begins the national tax reporting process.

There are six tax forms used at the national level at this time. These are briefly described as follows:

### Form 090 – Business Gross Revenue Tax Quarterly Return

Each business entity is required to file and pay the calculated taxes on a quarterly basis. This tax is based upon the gross revenues of the business entity. Penalties and interest are associated with late filings.

### Form 093 – Non-Resident Gross Income Tax Return

Each business entity is required to file and pay the withheld taxes on a quarterly basis. This tax is specific to non-resident employees working short-term for a business entity within the RMI. Penalties and interest are associated with late filings.

Form 1178 – Four Weeks Periodically Withholding Return

Each business entity is required to file and pay the withheld taxes on a monthly basis. This tax is specific to employees of the business entity. Form 1178A is used to identify each employee, their wages and tax calculation. Penalties and interest are associated with late filings.

Form 1180 – Employer’s Non-Resident Worker Fee Quarterly Return

Each business entity is required to file and pay the withheld taxes on a quarterly basis. This tax is specific to non-citizen employees based upon hours worked. An additional form is used to provide employee detail. Penalties and interest are associated with late filings.

Form 095 – Immoveable Property Gross Income Tax Quarterly Return

Each business entity paying land lease fees is required to file and pay the calculated taxes on a quarterly basis. Penalties and interest are associated with late filings.

Form H002 – Hotel & Resort Tax Interim Return

Each business entity providing lodging accommodations is required to file and pay the calculated taxes on a monthly basis. This tax is based upon the amount collected for room occupancy. Penalties and interest are associated with late filings.

Previously, the Asian Development Bank (Stela B. Montejo) issued two reports in April, 2002 and June, 2002 that addressed many tax issues including the implementation of a Tax Management Information system (TMIS).

As a part of the April, 2002 ADB report, a Memorandum of Agreement (MOA) between the Ministry of Finance (MOF), Registrar of Foreign Investment (RFI), MISSA, KALGOV and MALGOV was drafted in April, 2002. All parties have not signed this document. However, this MOA addressed issues dealing with sharing of data and providing a tax clearance process prior to a business license being issued in addition to a general working framework for improved accountability.

An overall review was conducted during this ten day period to gather information, meet with the stakeholders and develop a strategy towards implementation of a Tax Management Information System (TMIS), which addresses many of the needs and requirements of the stakeholders.

**Findings**

The process of business licensing and tax reporting does not have adequate checks and balances for reporting at present. Should the business entity never follow all the steps as previously defined, there is not an easy way to identified the violators. At present, the tax office would not know about a business entity unless a tax return was filed. Likewise,

social security would not know about a business entity unless an EIN was requested. However, in both of these cases, the business entity has a valid business license.

In addition to the 'lost' employers as indicated above, employees can virtually disappear from the tax roles as well by moving to another employer who doesn't report wages paid. Therefore, interaction with labor and immigration may be warranted in the future.

At present, the paid tax filings are recorded in an Access database in Majuro. Only a summary record is maintained for each filing. Employee detail information is not maintained. The Chief of Revenue and Taxation maintains an Excel spreadsheet which track filings and payments of the larger taxpayers, which number approximately fifteen or so. At this point, there is not an easy way to identify non-filers. Although Ebeye was not visited, the same situation exists there as well.

The RMI recently completed the installation of a new Financial Management system that included new software and additional hardware. Network connectivity within the Majuro Capitol building is currently available. A server is also installed in Ebeye. Connectivity between the two locations, Majuro and Ebeye, is currently being explored. National Telecom Authority (NTA) has proposed a 64Kbps leased circuit at a cost of \$1,900 per month between Ebeye and Majuro. It appears that sufficient server capacity is available to support a tax database. Additionally, minimum expense would be required to connect two computers in the tax office to the network.

The Customs office uses the PC Trade software and is currently connected to the network. An upgrade is being planned for this software. Although tax is collected on goods arriving, this system is used to record and identify the types and volumes of goods as well as the tax collected. In that goods are not released to the business entity until the fees are paid, Customs becoming an integral part of the licensing process is not warranted at this time. However, the resultant data in the PC Trade software should be part of a tax database for informational and audit purposes.

MISSA has agreed in principle to providing initials data sets (employer and employee) to establish a tax registry. Once a tax registry has been successfully established with tax return details, data can be exchanged between MOF and MISSA for auditing purposes.

During a meeting with MALGOV, it was determined that that business license renewal occurs every year, which then must be renewed every 12 months. It was also noted that an FIBL holder is not required to have a business license during the first year. MALGOV does have an Access database that contains licensing and taxation data. However, the database is missing the EIN as assigned by MISSA.

## **Recommendations**

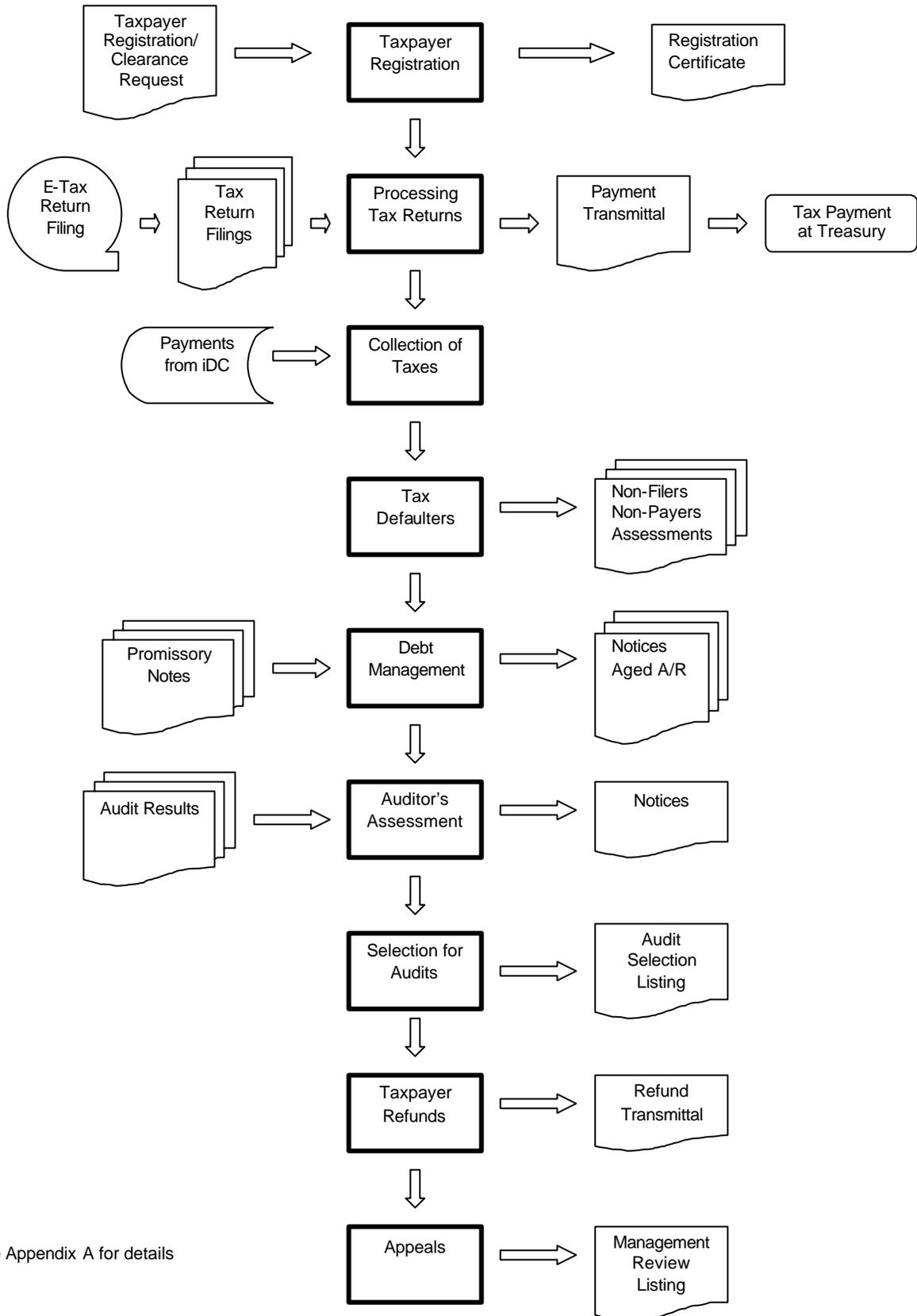
Based upon the interviews conducted and information gathered, it appears that all parties are ready to move forward. Therefore, the following recommendations are inline with these and other report findings.

- Implement the MOA with the following adjustments:
  - MISSA #2 shall provide data monthly
  - Eliminate RFI's #2 requirement for EIN prior to FIBL
  - Local Government #4 should be a monthly requirement
- Require all financial institutions to have an EIN on business accounts
- Acquire and connect computers and printers for the Tax office
- Implement a Tax Management Information System as specified in the following illustration and attached Technical Specification.

## **Summary**

A luncheon workshop was held with all stakeholders to review and discuss these findings. The result of the workshop is this document in its final state. At this point it appears that all concerned parties are ready to move forward. The following flowchart depicts a reasonable and solid solution toward implementing a Tax Management Information System (TMIS). Although many other facets, check and balances might be explored at this time, it is this consultants belief and opinion to implement a basic straightforward system initially and then expand its capability later.

## Tax Management Information System



See Appendix A for details

## Technical Specification

Based on the needs of the Ministry of Finance, the following work is anticipated in implementing a Tax Management Information System (TMIS).

- Provide a suite of programs as described in the Basic System Requirements (Appendix A)
- Provide electronic media interfaces to/from external sources
- Provide the ability to electronically convert existing data sets
- Provide an interface to post cash receipts from the MOF iDC system
- Provide implementation, training and on-going support

In order to properly evaluate a complete solution, there are six areas of consideration:

- Scope of Implementation
- Implementation
- Software Acceptance
- Training
- Warranty, Maintenance, Support
- Software Documentation

A more in-depth description of each of these areas is provided the following paragraphs.

### Scope of Implementation

Develop/provide and implement a suite of programs, which will meet the requirements are outlined in Appendix A. Any software tools, drivers, run-times or other necessary software must be included to provide a turn-key system..

Provide data conversion scripts, tools and interfaces as further described in Appendix B.

Provide some additional hardware as defined in Appendix C. All Personal Computers should be Windows 2000 or Windows XP Professional. HP laser printers are the printers of choice.

The software application layer and database layer must be Open Data Base Compliant (ODBC). A Structured Query Language (SQL) tool (ie Crystal Reports, etc) should be included to perform ad hoc query and reporting.

The database layer must be able to synchronize between two servers located at two distant locations. Real-time synchronization is not necessarily required.

The MOF may require certain files and/or data elements to be exported using either of the following tow file formats: ASCII flat file, and Microsoft Excel 2000 format.

The standalone tax filing data entry module must be able to operate efficiently on a Windows based Personal Computer (PC) running at 400 Mhz, with 64 Mb of RAM, and use no more than 10 Mb of available hard drive space.

All software modules must use industry standard software and hardware

## **Implementation**

The success of any system implementation is to have a plan. The plan must categorically identify the steps necessary towards a successful implementation, levels of effort required by all parties and specific timelines.

### **IMPLEMENTATION PLAN**

The overall implementation plan should allow for a phased approach if at all possible with respect to the software modules as identified. Should the entire suite of programs be so integrated then a phased implementation plan is not required for these software modules.

### **SCHEDULING**

As part of the overall implementation process, software changes and specification changes are inevitable. An effective mechanism must be agreed to with respect to proper notifications as to changes, which may affect scheduling. Therefore, clear definitions, timelines and points-of-contact must be established by both parties. Areas to be addressed should include but not limited to:

- Last point in time for modifications to the software
- Days required to complete development/modification of software
- Days required to complete all services
- Coordination of installation, configuration, and testing so as to minimize disruption normal business activities
- Identify after normal business hours or weekend requirements

### **MOF RESPONSIBILITIES**

The MOF's responsibilities must be clearly defined in the implementation process. Participation is essential during the initial stages of implementation. Then more specific participation will undoubtedly be required as the software modules are installed. There will be requirements for testing, data entry and training which need to be clearly identified.

## **Software Acceptance**

A procedure must be established whereby both parties have agreed to guidelines identifying and indicating completed tasks. The implementation plan will be a useful tool in identifying milestones, which in turn may be completed tasks. In any case, the MOF must be satisfied that the task is completed to their satisfaction. As part of the MOF responsibilities, the single point-of-contact must be in a position to accept full responsibility for acceptance and completeness.

The software modules must meet the functionality and performance requirements specified in Appendix A. The MOF will expect problem-free tax operations, correct execution of applications and functions, and evidence that they are available in a secure environment. The main goals to be met are simplified user operation, and increased efficiency. The implementation plan for all software modules must be specified. That plan will identify software delivery by phase and software acceptance testing will commence upon written notification that software is installed correctly and ready for test. The MOF will test the delivered software for conformity to the agreed to specifications.

## **Training**

The MOF preference is for on-site training. The MOF has a computer training room. Scheduling is required with advance notification. The equipment is set up on the LAN and should replicate the equipment in the Tax Office. There should be different types of training as discussed below.

### **TECHNICAL TRAINING**

The training objective for technical training is to allow MOF technical personnel to complete a full installation of all modules to their respective environments, establish any database linkages required, and install and configure PCs to operate the software in the correct environment. They will also learn specific restart and recovery procedures.

### **USER TRAINING**

Two levels of user training are required: basic and advanced (or overview and extended). The objective for basic user training is to make a user familiar with the software, software capabilities, reporting tools, printing tools, communications and export tools. Minimally, the basic user will be able to operate the software sufficiently to input new data into the software correctly, find information by the software and process pre-defined queries.

## SUPERVISORY TRAINING

The objective for supervisory training includes all functions of basic and advanced training plus: setting permissions for basic and advanced users, and correcting input errors in any file made by any user. In smaller systems, the Technical and Supervisory training may be combined.

### **Warranty, Maintenance, Support**

The software should be warranted for at least one year as described below. The availability of support and maintenance should be available for at least an additional two years. The MOF may purchase the post-warranty maintenance, and any other specified ongoing support services, on an annual basis and without further obligation after each year.

The Ministry of Finance expects that:

#### WARRANTY EXPECTATIONS

All software developed/modified will include a first-year warranty against defective operation on equipment originally installed.

A 100 percent warranty will apply to the software, labor, and maintenance for the first year after the final acceptance, at no charge.

The one-year warranty will begin at the point that all modules are delivered, tested, and accepted by the MOF.

All repairs made under warranty shall be at no additional expense to MOF, including parts, labor, software, transportation, meals, lodging and any other associated costs except as indicated in the Implementation Plan.

#### SPECIFIC WARRANTIES

All warranties expressed or implied for supplied third-party software are as presented by the original software developer/publisher and limited to their warranty statement.

#### POST WARRANTY MAINTENANCE OPTIONS

The following subsections pertain to maintenance under both the warranty and post-warranty periods.

#### SUPPORT SERVICES

All support services, as a part of software maintenance must be identified with their associated costs.

#### MOF RESPONSIBILITIES

Procedures must be established to clearly identify the responsibilities of MOF with respect to securing software assistance. The MOF also agrees to practice prudent behavior with respect to security, backups and off-site storage of data files, programs and other system related recovery items.

#### RESPONSE and REPAIR

The MOF expects reasonable response to inquiries and/or issues. Due to the physical location of the RMI, a 24 to 48 hour response will be considered reasonable.

#### REMOTE MAINTENANCE

The MOF may provide secured remote access to the system for issue analysis and corrections. The MOF should also agree to provide a copy of the database periodically for support purposes.

#### TROUBLE REPORTING

Procedures should be clearly identified as to reporting incidents and requesting assistance.

#### UPGRADES and UPDATES

Software upgrades/updates for corrections, enhancements are to be provided as part of the first-year warranty. After the first-year warranty, maintenance and enhancements are subject to price negotiation.

### **Software Documentation**

At a minimum, two types of documentation are required. In some limited cases, these two types can be combined. However, it is best to keep them separated so as not to confuse the typical user.

#### USER'S GUIDE

Each module of software requires a users' guide, or help software built into the program (example: Microsoft Office help). Regardless of the option selected, the information presented must be focused on getting new personnel productive on inputting data to a particular module, selecting standard reports and processing them and performing ad hoc queries. Very simply, this guide must provide at a minimum 'how-to' illustrations. Updating the guide as new versions of the software become available is a part of the maintenance agreement.

## SYSTEM ADMINISTRATOR'S GUIDE

The system administrators' guide may be a hardcopy document or delivered on CD in Adobe Acrobat format. The guide will provide detailed instructions on configuring and setting up the network software for use on servers and user software on PCs. It will include directions for setting up required multi-tier security (permissions), client/server relationships, mapping databases to the application, describing necessary changes to services operating on the network, setting up printers, and backup procedures. It will include any special instructions necessary for setting up client PC's to work over a TCP/IP network, and to map the database to the application. The guide must be oriented specifically to the local infrastructure. Updating the guide as new versions of the software become available is a part of the maintenance agreement.

## Appendix A – Basic System Requirements

### GLOSSARY OF TERMS

Additional assessment	an assessment of tax where a primary assessment has already been issued and no tax return filed.
Branch Premises	premises (locations) where business is conducted
Defaulter	an entity that has failed to file or pay taxes by the due date.
Economic Activity Code	Based on the first 3 digits of the International Standard Industrial Classification (ISIC)
Legal entity	a sole proprietor, partnership, corporation, government department, association, etc
Mature debt	tax that can be enforced without legal constraint or time limit
Primary assessment	tax that can be enforced without legal constraint or time limit
Over- declaration of tax	tax overstated on a filed return
SSN	Employee Social Security Number
TIN or EIN	Taxpayer Identification Number or Employer Identification Number (EIN)
Under-declaration of tax	tax understated on a filed return

## **BASIC SYSTEM REQUIREMENTS**

### **Taxpayer registration**

Taxpayer registration will provide the tax administration with a master entity record of all business entities, the types of taxes businesses are required to pay and their main economic activity. The data on the register will be captured mainly from registration forms. The registration process will include using the Employer Identification Number (EIN) (referenced as TIN for the remainder of this document) as assigned by social security and the issue of a certificate of registration. The data stored should include branch locations, owner, corporate and partnership details.

All businesses will be classified according to their main economic activity and this will need to be verified along with other registration particulars prior to data entry. The system should report taxpayers by economic activity.

An individual's social security number, currently used to record withholding tax by employee, does not have 'construction rules' and posting errors are commonplace. With many citizens having more than one job it is essential that all withholdings of income tax be accurately allocated to each employee. Therefore, using the employee master from MISSA will provide edited verification. This will also allow collection of underpayments of income tax.

In the future, it may become advantageous to identify branch locations using a sub-code, which would provide further and more accurate economic activity reporting.

The TIN could be something like 400-440-00 for the primary business entity with branch locations coded like 400-440-01, 400-440-02, etc.

All input screens for 'data capture' after registration should start with the TIN and validation of the number entered. A lookup interface should also be provided.

The system must provide for 'data capture' using the registration forms and a screen to view, add, change or delete registration particulars as appropriate. The minimum additional fields required are:

- Date of de-registration for all taxes
- Date of de-registration field for each tax type
- FIBL Number, if applicable
- Importer indicator – Y
- Exporter indicator – Y
- Trader Groups for audit purposes (1 - 4)
- Annual turnover - to be update following process of GRT returns
- Annual turnover - previous year

The registration system will issue/ amend Tax Registration certificates.

All staff in the tax office should have on-line access to the system and the ability to carry out name searches. Data-capture for registration purposes should be restricted to the staff processing registration forms.

Customs should be provided with 'read only' access to the taxpayer register at the Customs Office, the airport and seaport. Registered importers should be required to show their TIN on all import entries.

The taxpayer register will link with processes for:

- issuing and processing tax returns;
- raising assessments for non-filer;
- processing auditors' assessments;
- accounting;
- audit selection; and
- measures of performance and management information

Maintenance of the register and the quality of data are critical to the operation of all linked procedures and security should be provided through user and password controls. Registration and de-registration procedures should **not** be carried out by the same person to avoid collusion or internal fraud.

Changes to the taxpayer details on the register should be reported to the Chief of the Tax Division who will be required to carry out and evidence management checks. The significance or importance of these checks significantly increases where refunds, to taxpayers, are involved (this is a frequent occurrence under a VAT).

The registration system should report monthly:

- number of tax registrations and the movements in the register
- number of taxpayers by each type of tax
- number of importers and exporters

The registration system and taxpayer ledger should be capable of collecting all government taxes and duties.

- Individual Income Tax (including withholding tax)
- Gross Revenue Tax
- Net Profit Tax
- VAT
- Sales Tax
- Import tax (or duty)
- Hotel/Room Tax
- Excises

## **Processing tax returns**

All tax return details will be posted to a return history file and the tax to the taxpayer's ledger account. Nil returns will be required for periods where no trading takes place and they will be recorded on the system as 'nil' returns. The return history file will be available on screen and as a report for auditors and other tax office staff.

Data capture from the summaries of Withholding Tax should also be posted to an employee database. This will allow separate processing and checking of an individual's income tax from all sources of employment against individual allowances and tax brackets. The system will provide for both monitoring of tax withheld from each employee and notification to the principal employer where the level of an individual's withholding needs to be increased or decreased to avoid under/ overpayments of tax. At the end of each year the system will calculate the final amount of withholding tax for each employee after all employer statements have been filed. Under-payments of withholding tax should be notified to the principal employer.

Data input methods should consist of the following to provide flexibility. The main intention is to reduce the data entry burden within the Tax Office especially when processing employee detail.

- On-line data entry screen with validation
- Electronic media transfer (ie RMI payroll from iDC system)
- Stand-alone tax filing data entry module with electronic media transfer

The return processing system should produce reports of:

- number of tax returns processed each day and the numbers of correct and error returns (error returns should remain flagged until corrected).
- number of returns received by tax type for each month compared to the number of returns expected for the relevant period.

## **Collection of taxes**

All tax payments, including arrears and assessments of tax, will be made directly to the RMI Treasury. The Tax Office will issue computer printed transmittal slip that will provide the following minimum information:

Treasury Account Number  
Type of tax  
Taxpayer's name  
Taxpayer Identification Number (TIN)  
Tax Payment to be paid

Penalty amount to be paid  
Interest amount to be paid

All of the information as indicated should be encrypted into a bar code to assist the payment processing function at Treasury. Frequently, the Treasury should either transmit the details to the Tax Office system or download the data onto a floppy disk to be collected the next working day. At a minimum, the transmittal slip must have the receipt number recorded with amount paid and passed back to the Tax Office. Thus taxpayers' ledger accounts can be updated with accurate information.

The tax office should be notified of referred (bounced) checks and the system should provide for direct update of the taxpayer's ledger account.

Reports should be produced on demand for:

- daily revenue receipts
- receipts by tax type for current month/ same month previous year/ difference/ percentage difference
- revenue received on or before the due date and aged arrears
- taxpayer statements (ledger)
- write-off of taxes, penalty and interest
- tax, penalty and interest assessments
- canceled checks
- errors

The Ledger should contain control accounts for financial management and audit.

### **Tax Defaulters - Stop and non-filers**

Reminders should be issued to taxpayers that fail to file by the due date. This process should be carried out 5 days after the due date to enable the issue of primary assessments, 30 days after the reminder, to taxpayers who remain in default. The system should provide the facility to reduce the timetable for issuing primary assessments and suppress reminders.

30 days after the reminders, the system should:

- primary assessments for tax penalty and interest to late and non-filers
- penalty and interest notices to those taxpayers who filed late
- Issue interest-only notices to taxpayers for late or non-payments
- And update the taxpayers' ledger accounts.

Primary assessments should be based on the recorded liabilities (assessed or declared) for

the previous 4 periods. Primary assessments should be canceled on receipt of the, relevant tax return and any penalty or interest revised and notified of the taxpayer.

2<sup>nd</sup> and subsequent primary assessments issued to stop or non-filers should be inflated by 10% on the first occasion, 10% on the second, and finally 5% until a maximum of 25% has been added. Repeated acceptance and/ or payment of an assessment indicates that the true amount due is probably greater (taxpayers should, therefore, be audited if they repeatedly accept and pay assessments).

Currently, the interest is .5% for each period of 30 days in default. The penalty for late filing is 1% subject to \$5.00 minimum. The computer system should include the facility to vary penalty and interest rates.

A debt matures immediately if it appears on a tax return but if a primary assessment is made it matures 5 days after the assessment has been issued. Only mature debts should be notified to the debt management case tracking system. This reduces the number of tax arrears cases requiring enforcement action. It also removes cases that resolve due to the issue of a reminder or a primary assessment.

The system should produce for each tax period reports of:

- number of late filers
- number of reminders issued
- number of primary assessments issued and an audit trail
- number of penalty and interest notices issued and an audit trial

### **Debt management (collection of arrears)**

The ledger should trigger the notification and update of a debt case-tracking system where the debts have matured (Assessed debts can only be collected after notification and expiry of the period of grace) and can be collected, including time to pay cases where an installment has not been paid. Reports will be generated to show aged debtors and debts by size. Debts under \$5 should not be notified to the case tracking system but should be carried forward as an outstanding balance on the ledger. The administrative cost of collecting small debts is disproportionately high and diverts resources from pursuing large debts.

Where time to pay (promissory notes or agreements) has been granted, the amount of tax should be suspended and the liability released as each installment becomes due. Thus the computer system can monitor and report on missed payments via the case tracking system.

The debt management case tracking system should record all contact with the taxpayer (note pad facility) and show the dates default and demand notices were issued. Form

notices and letters should be produced for:

- Warning that the debt will be referred to the Courts for collection
- Warning that the business license may be revoked
- Notification that the business license has been revoked
- Other form letters

Monthly reports to be produced:

- 'aged debtors' , over 1 month, over 6 months and over 1 year.
- No of cases in the debt management case tracking system
  - Opening number of cases, value of debt by tax code (time to pay cases should be separately identified)
  - new cases in the month and value of debt by tax code
  - number of cases cleared and value of arrears collected by tax code
  - number and value of debt at month end
- Percentage of tax arrears collected through time to pay agreements (ideally this should be no more than 5%)

The Debt Management Unit should monitor the largest taxpayers in Trader Group 1 to ensure the all payments are made on or before the due date. All late returns or payments should be followed up with a telephone call. Separate reports should be produced (from the ledger) showing:

- Numbers of tax returns received by the due date
- Number of late returns
- Payments received on or before the due date.

### **Auditors assessments**

Auditors will raise pro-forma assessments showing under and over-declarations of tax (for each type of tax). The computer system will calculate and print an assessment form showing any tax under-declared, over-declared or additionally assessed as due, together with any penalty and or interest. The separate amounts will be posted to the taxpayer's ledger account.

The computer system will determine the level of any penalty from the coding on the pro-forma assessment. The system should provide for 3 or more penalty rates for:

- The net tax under-declared in any period for any tax - [10%]
- for tax evasion - [50%]
- for repeated tax evasion [100%]

The system should allow the penalty rates to be varied.

Once an assessment is issued it should only be amended by reduction or cancellation. Where tax has been under-assessed a separate notice of assessment should be issued for the additional tax due. The system should provide for at least 3 under-declarations for each tax period.

### **Selection for audit and measures of performance**

The system of selecting taxpayers for audit should be kept as simple as possible using the following criteria:

- time since last audit
- turnover
- Tax yield
- Previous under/over-declarations of tax
- payment performance
- missing tax returns
- economic activity

Businesses should be divided into 4 trader groups based largely on turnover and tax yield; these groups should be reviewed annually. Trader group 1 should be restricted to the largest businesses that produce the bulk of the revenue yield - these should be visited annually. The allocated trader group should be recorded in the registration master file.

In order to determine or allocate resources to each of the trader groups data capture of audit results is required. Each auditor must complete a work return that shows the audit start date, end date, the time taken for each audit in 1/2 hours and any under or over-declaration of tax. This data capture is required to provide data to inform the audit selection process (time lapsed since last visit, duration of audit and errors found) and assist the allocation of resources.

Auditors will carry out audit selection using the priority assigned by the selection system and by using screen views of taxpayers' history files and ledger details. They should use printouts of tax return information for audit purposes. Original tax returns should not normally be used for audit purposes.

The taxpayer's return history file should include 2 fields to record the total values of imports and exports recorded in Customs' PC Trade System. This will provide valuable audit data.

### **Taxpayer refunds**

The system should allow the processing of refunds to both registered businesses and individual taxpayers and update of the revenue control accounts for Withholding Tax,

GRT and other tax categories. Refunds to non-registered taxpayers should be recorded in the tax ledger using the appropriate SSN.

An authorization form should be used for data capture. The Treasury should be provided with a report of refunds to be made and a facility to update ledgers, if applicable.

## **Appeals**

Where an assessment is being reviewed or under appeal an inhibitor should be placed in the system to ensure that the debt under appeal is not enforced. All inhibits set should be reviewed monthly to ensure that they are properly set and should remain in force. The system should produce a monthly report of inhibits set or removed. The report must be made available for review and management checks.

## LEDGER CODES

### Tax return

Return received	001	Debit
Error return received	002	Debit
Corrected error return	003	Debit
Nil return received	004	Debit

### Tax payments

Payment received – allocated	010	Credit
Payment received – unallocated	011	Credit
Check not cleared	012	Debit
Transfer	013	Debit
Refund to taxpayer	014	Credit
Debt suspended - time to pay agreed	015	Credit
Time to pay - installment released	016	Credit

### Administrative write-off

Tax forgiven	020	Credit
Penalty waived	021	Credit
Interest waived	022	Credit

### Primary assessment

Issued - no return	030	Debit
Canceled - late return filed	031	Credit

### Auditor assessments

Tax under-declared	040	Debit
Tax over-declared	041	Credit
Additional assessment	042	Debit
Reduction of assessment	043	Credit
Assessment canceled	044	Credit

### Penalties and interest

Penalty for late filing	050	Debit
Interest charged for late payment	051	Debit
Reduction in penalty for late filing	052	Credit
Reduction in interest for late filing	053	Credit
Penalty taxpayer error	054	Credit

### Taxpayer refunds

Overpayment	060	Credit
Education (Withholding tax only)	061	Credit
Charitable contributions	062	Credit

### Transfers

Transfers between tax account codes	070	Debit
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### Appeals

Tax assessment suspended - collection inhibited	080	Credit
Tax assessment - suspension removed	081	Credit

## **Appendix B – Conversion Data Sets**

### Conversion

- 1) The Employer master file from MISSA should be parsed and used to establish the initial taxpayer database.
- 2) The Employee master file from MISSA must be parsed and used to provide employee validation.
- 3) The Access database from the Tax Office should be parsed and used to establish the initial database files.
- 4) The Access database from MALGOV should be used to help establish the initial taxpayer database.

### Implementation

- 1) Depending upon business license processing changes, the MISSA employer master file will be processed by TMIS at least monthly.
- 2) The MISSA employee master should be processed by TMIS at least monthly.
- 3) RMI payroll data should be provided electronically. This will maintain an accurate record of wages by employee number (SSN).
- 4) The tax payments from Treasury will need to be received and posted electronically.
- 5) The standalone tax filing data entry system will need to be received and processed electronically.

## **Appendix C – Additional Hardware Requirements**

Currently, the Ministry of Finance has two server platforms available with sufficient storage capability, HP Unix and Windows 2000. Therefore, any additional servers are not required at this time. However, some additional hardware is required for the Tax Office in Majuro. The Ebeye Tax Office was not visited.

Two systems are currently not connected the network. Either network interface cards can be installed or new desktop systems are acquired.

An additional network laser printer should be installed to facilitate the registration and filing process. This printer would be located on the main counter.