

## **Modernization of Customs, Excise and Value Added Tax Areas**

Despite making significant progress during the last decade the Barbadian economy continues to face challenges in an era of globalisation. Against this background and in accordance with the stated intention of transforming the tax system, the Government of Barbados, in collaboration with the Inter American Development Bank has embarked on the Modernization of the Customs, Excise and Value Added Tax (VAT) Areas Programme. The overall objective of the programme is to assist the Government in its efforts to improve the efficiency of its Customs and Excise Department in order to improve revenue collection; facilitate and expedite legitimate commerce and travel; detect and interdict transnational crime, and help improve Barbados' competitiveness in the global economy.

The Customs Modernization Project is part of the Government of Barbados' commitment to further public sector reform aimed at improving efficiency and economic performance. Since the last decade, the tax system has been transformed by a series of initiatives. The first steps were taken in 1992, with a simplification of personal income tax.

Customs and Excise Department (CED) modernization will facilitate adaptation to impending technological and economic developments that will significantly change the environment in which productive investment and foreign trade take place. In addition, by raising the level of efficiency in the administration of Customs, Excise and VAT, it aims to mitigate the revenue reduction effects of current and expected changes, while also strengthening the CED's law enforcement capacity in areas such as illegal narcotics, illegal firearms and ammunition, commercial fraud, money laundering and terrorism.

The Programme consists of the following four (4) components:

- (1) **Strengthening of Customs Operations** – to enhance the CED's ability to collect revenue, enforce prohibitions and restrictions and other laws to facilitate foreign trade operations while improving controls; reduce

administrative costs for users of services provided by Customs; and reduce the cost of customs administration. The deliverables for this component include: (i) implementation of a post-clearance audit system aimed at formalizing a risk analysis methodology as a standard procedure; (ii) training of IT human resources in Internet-related technologies in order to adequately prepare staff to deal with new technologies; (iii) drafting of Customs legislation reform, aimed at updating current legislation, taking into account recent advances in technology and modern procedures; (iv) establishment of an online authorization system for other agencies in order to provide an automated interface so that government agencies are able to authorize the clearance of goods in real time (e.g., health and agricultural related products); (v) implementation of workflow and document management system aimed at establishing a system that will help automate customs procedures and provide support documents scanned and available through automated means; (vi) provision of IT infrastructure for the complete automation of the CED; and (vii) achievement of ISO 9001 certification in order to help the CED's efforts to improve current procedures and quality.

- (2) **Modernising of the Administration of the Value Added Tax:** - to improve the efficiency of VAT by strengthening the process of registration, certification, filing of returns and payments, as well as the selection of audit cases and control. In this regard, the component will include the following deliverables: (i) development of a strategic IT plan aimed at facilitating the implementation of a new information system to manage the VAT system in Barbados; (ii) review of current legislation and the drafting of an amendment to the VAT legislation in order to allow for the incorporation of technological elements into the VAT system; (iii) development and implementation of a new information system providing tracking case assignment; selection of cases for auditing based on cross-referencing and risk analysis; arrears classification; systematic exchange

of information among Customs and Excise Department, Inland Revenue Department and other agencies; (iv) establishment of a risk analysis strategy for audit selection, providing support for the selection of cases, based on cross-referencing third-party information and risk analysis; and (v) execution of arrears collection clearance, which will allow for the handling and management of arrears accounts. The handling of case assignment and tracing will be based on criteria such as amount and age of debt or taxpayer history.

- (3) **Modernisation of Excise Taxes:** - to reform the Excise control system, in particular to transform the system from the physical stationing of officers in Excise facilities to a control system, relying mainly on periodic audits and a computerised system. This component includes the following deliverables: (i) development of a strategic plan for excise and new procedures and the definition of guidelines to improve current processes, especially those related to audit and control; (ii) review of legislation and drafting of amendments in order to provide support for audit-based controls; (iii) the development of an IT strategic plan aimed at improving current procedures, including the specifications of a new information system to manage excise processes; and (iv) the implementation of new information systems, following the IT strategic plan in order to replace all current manual procedures.
- (4) **Strengthening of the Administrative Support Areas:** - to reinforce the support areas of CED in order to provide a better service at a lower cost to technical areas. This component includes the following deliverables, (i) the development of personnel profiles and procedures manuals; (ii) the establishment of a training system and strengthening of policy, aimed at improving efficiency and effectiveness; (iii) implementation of permanent internal controls aimed at strengthening the monitoring of compliance and

applicability of procedures and regulations; and (iv) establishment of a permanent planning system in order to increase productivity through better planning.

Specifically, the programme seeks (i) to facilitate import and export trade and strengthen the Customs Administration by harmonizing and simplifying current procedures, improving the audit capacity and the institutional abilities to prevent and fight transnational crime and its negative consequences; (ii) to improve compliance with the VAT and Excise Tax obligation through the modernization of the main administrative processes, especially those corresponding to tax collection and audit; (iii) to strengthen the Department's institutional management capacity through the improvement of administrative processes and the implementation of mechanisms for the integration and strengthening of support systems (planning, internal control and human resources management).

Apart from improving the collection of customs revenue, the programme also seeks to reduce the average clearance time for imports and exports; a reduction in VAT arrears; a reduction in filing late returns, electronic filing of VAT returns, a reduction in the time to process VAT refunds, and a reduction in the operational costs for the Excise Division.

The total cost of the programme is estimated at \$11 million of which \$8.8 million will be financed by the Bank as a reimbursable loan. The Government of Barbados will contribute \$2.2 million. Given the scope of the project, the technical execution which commenced in January of this year is estimated to be completed in 42 months.

In order to effectively manage the program a structure consisting of a Steering Committee, Project Coordinating Unit and four working teams at the level of beneficiary units has been established. The responsibility of the Steering Committee is to give strategic and policy directives on the project. The Committee comprises representatives from the Customs and Excise Department, the Ministry of Finance, the Audit Department, Data Processing Department, Statistical Services, Accountant General's

Office, Barbados Chamber of Commerce and the Barbados Customs Brokers and Clerks Association. The day to day activities are managed by a Project Coordinating Unit headed by a Project Coordinator. The Programme comprises activities that involve the organisation of Work Teams whose function is to undertake the execution of activities applicable to (i) Customs; (ii) Excise (iii) Value Added Tax; and (iv) the Administration Division.

It is envisaged that the successful implementation of this programme will help improve Barbados' competitiveness as the country seeks to sustain economic growth and development in a global environment.