

Tax Authority

Country X

Preparations for the Large Taxpayer Unit

A step by step guide

Kieran Holmes  
[www.kieranholmes.com](http://www.kieranholmes.com)

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## 1. Introduction

The Government of Country X is moving to establish a Large Taxpayer Unit (LTU) as part of its preparations for the introduction of the forthcoming General Sales Tax (GST) which is currently before the parliament.

The establishment of the LTU will amount to a complete break with existing procedures as the LTU will deal with all the tax affairs of the largest one thousand taxpayers in Country X on a functional basis. Currently the Tax Authority (TA) is structured by tax i.e. there is a separate tax file and a separate tax office dealing with the income tax, employee withholding tax and indirect tax liabilities of taxpayers. This means that taxpayers have to file tax returns at three different locations and that there is insufficient matching of data shown on the separate returns by tax officers. Under the proposed new functional structure for the LTU there will be only one tax file for each taxpayer and one location for filing returns. Thus filing procedures will be streamlined and tax officials will be able to quickly compare data shown on different returns.

A Presidential Decree establishing the LTU was signed into law on 18 June 2000. The Presidential Decree divides the LTU into 5 departments rather than the more typical 4 departments. The decree allows for branches in the Governorates with control exercised by TA headquarters. The existing Corporate Tax Office (CTO) will act as the LTU during the transitional period when the LTU is being established.

The Tax Authority has formed an LTU Implementing Committee (LTUIC) comprised of senior staff within the Headquarters and City 1 tax offices. The Deputy Chairman of the Tax Authority heads the LTUIC.

This document sets out a step-by-step guide for building the new LTU. It discusses: -

- the functional structure of the LTU,
- the definition of large taxpayers,
- the selection of staff and the establishment of performance indicators,
- the transfer and merging of files,
- the notification of taxpayers,
- income tax self assessment,
- the payment of taxes through the banks,
- staff training,
- computerisation of the LTU,
- job descriptions and person requirements,
- a draft Ministerial Decree,
- a draft Chairman's Decree,
- draft mission statements for the LTU,
- draft self-assessment amendments to the income tax law, and
- draft immediate training needs for the LTU.

It also includes a detailed timetable for the most important steps to be taken from now until the end of the calendar year.

## 2. Functional structure of LTU

### Function Based Structure versus Tax Based Structure

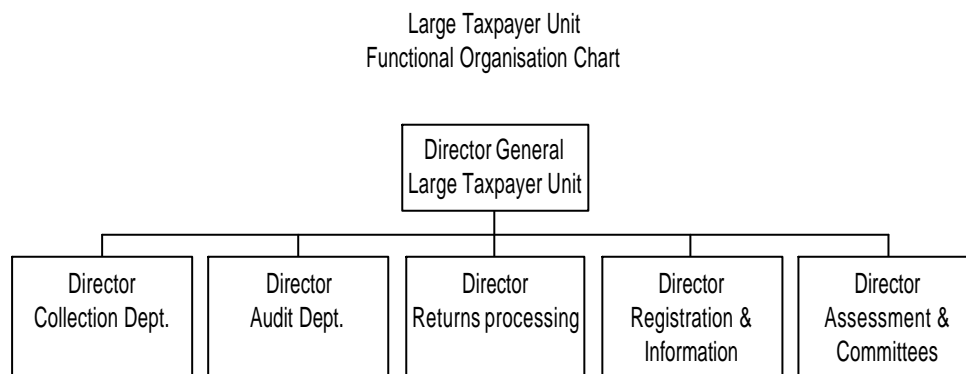
Currently the Tax Authority is organised on a tax-based structure that involves the separate administration of direct and indirect taxes. A company in City 1 may therefore have to file its returns at three different locations. It would file its income tax return at the Corporation Tax office, the return for its employees at the Employee Withholding department of the Capital office and the TPCS return at the TPCS department of the City 1 Capital office. A better administrative and compliance solution would involve keeping all of the tax affairs of each taxpayer on the same file and within the same office. However this is a big organisational change to make for the entire Tax Authority and it is recommended therefore that this change be made only for the proposed new LTU at this time. The proposed function-based structure of the LTU is discussed in more detail below.

### Functional structure

As per the Presidential Decree, the LTU is organised into 5 departments as follows: -

1. Registration and Information
2. Accounting and returns
3. Auditing and control
4. Assessment and committees
5. Collection

The functional structure is expressed diagrammatically as follows: -



The above posts will be located in the headquarters of the TA. Job descriptions for each of these posts are included in Appendix 1 of this report.

The Director of each department will supervise the operations of each function within each LTU branch. For example the Director of the collection department will supervise all of the collection activities in all of the branches, including reports on collection, debt recovery and action taken against non-filers.

## Branch structure

There are approximately 500 large taxpayers whose places of business and/or headquarters are located outside City 1 (see table in section 3 below). These taxpayers will be GST registered taxpayers and therefore the TA has to decide quickly on how these taxpayers will be administered.

The guiding principles should be: -

- Convenience to the taxpayer and to the tax administration, and
- Files for these taxpayers must be amalgamated and dealt with on a functional basis in the same way as for City 1 registered large taxpayers.

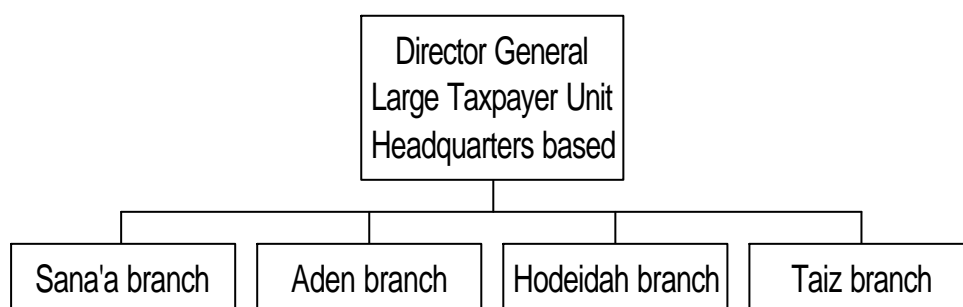
The options are: -

- Deal with all large taxpayers in the City 1 LTU office,
- Go with the option of having LTU branches in some Governorates (maximum of 4 such branches), or
- Allow the tax offices in the Governorates to receive returns in respect of large taxpayers and audit such taxpayers under the supervision of the LTU (least attractive option).

The Corporation Tax Office (CTO), which is currently acting as the LTU during the transitional period has an office in City 1, with a branch in City 2. Given the number of large taxpayers located outside City 1 (there are slightly more large taxpayers in City 4 than in the City 1 Capital office) it is possible that a branch structure will prove to be the most realistic option. However the need for branches should be reviewed once filing and paying through the banking system is established (see section 8 below).

The following diagram shows a proposed structure for the LTU with four branches City 1, City 2, City 3 and City 4<sup>1</sup>.

### LTU structural organisation



The following rules should apply to large taxpayers located in the branches: -

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<sup>1</sup> It may be possible for the large taxpayers in City 3 to file their returns in City 2, thus limiting the number of branches to three.

- Taxpayers will be allocated to a branch based on the location of the taxpayer's headquarters. A taxpayer whose headquarters are in City 1 but who has a factory in City 3 will be allocated to the City 1 LTU in respect of all tax activities, including those relating to the City 3 factory.
- Large taxpayers whose headquarters are not located in any branch will be assigned to the branch nearest to where the taxpayer's headquarters are located.
- Each branch will report directly to the DG, Large Taxpayer Unit in the headquarters.
- During the transitional stage the City 1 Corporation Tax Office will act as the City 1 LTU branch. A separate LTU branch will be established in the [City 2, City 4 and City 3] tax offices.

### **Implementation of the Presidential Decree**

Article 10 of the Presidential Decree establishing the LTU obliges the Minister of Finance to issue the decrees and directives necessary to implement the Presidential Decree. The Ministerial Decree will deal with items such as the appointment of staff, the preparation of a staff training plan, the transfer of files, the cut-off date for submission of declarations to the LTU and the notification of these dates to taxpayers.

A draft Ministerial Decree is included at Appendix 2 of this report.

### 3. Definition of large taxpayers

The Tax Authority considers the essential definition of a large taxpayer as a taxpayer whose turnover exceeds \*\* 30,000,000 per annum. The turnover limit of \*\* 30,000,000 is also the turnover limit for registration under the new GST law.

Using the turnover criteria the TA identified the following numbers of large taxpayers nationwide. While most large taxpayers will be companies it must be remembered that sole traders and partnerships that meet the turnover requirement will also fall to be registered as large taxpayers<sup>2</sup>.

Tax office	Number of large taxpayers
City 1 Corporation Tax	300
City 1 Capital	223
City 2	76
City 3	63
City 4	226
Others	72
Total	960

All of these taxpayers will be registered for GST purposes.

However the LTU will also deal with large taxpayers that would not normally fall to be registered for GST purposes. These include the oil and exploration companies (and their suppliers), the banks and financial institutions, the embassies and international organisations and the Government, including state-owned companies.

Therefore large taxpayers are defined comprehensively as: -

1. Taxpayers whose annual turnover reach or exceed the amount of \*\* 30,000,000.
2. All banks and financial institutions operating in Country X.
3. All embassies, regional and international organisations in Country X.
4. All persons engaged in the exploration and extraction of oil, gas or any mineral, metal or natural resource of Country X and persons engaged in the supply of any service or facility to such persons.
5. The Government of Country X.

Article 2 of the Presidential Decree establishing the LTU obliges the Chairman of the TA to issue a decree defining large taxpayers. A draft Chairman's decree is included in Appendix 3 of this report.

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<sup>2</sup> In Country X partnerships are treated as distinct entities separate from the partners.



## **4. Selection and appointment of staff and establishment of performance indicators**

The immediate starting point is the appointment of the General Director, Deputy Director and administration Directors of the LTU. The Minister of Finance should make these appointments on the advice of the Chairman of the TA. Under the proposed branch structure of the LTU, these appointments should be headquarters based staff. The nominations and appointments should be made as soon as possible.

The Tax Authority must ensure that the persons nominated will be of the highest integrity, technical competence and administrative experience so that the incumbents will enjoy the complete confidence of large taxpayers, thus leading to the highest possible level of voluntary compliance.

Since the CTO is charged with carrying out the duties of the LTU during the transitional period it is assumed that most of the existing staff of the CTO will become LTU staff, at least during the transitional period. However the selection of staff from the level of Heads of Section downwards should be made by the senior LTU staff in conjunction with the Chairman of the TA. The objective should be to select staff on the basis of their merits only. Staff with specialist skills should be transferred in to the LTU from other departments as required.

The LTU staff must be immediately made aware of their job descriptions. The staff should know what is expected from them and to whom they must report.

The next step is to establish performance indicators as a means of measuring staff performance.

### **Performance**

In order to guarantee performance within the Large Taxpayer Unit it will be necessary to set indicators of good performance for staff and then to manage the performance of staff by reference to the agreed indicators.

Performance indicators should be agreed between the LTU senior management and the TA. These indicators will permit the LTU to closely measure performance, identify problems and implement action plans to resolve those problems.

### **Performance management**

The DG responsible for managing the LTU will need to ensure that: -

- the LTU is operating efficiently,
- good tax compliance by large taxpayers is being achieved, and
- revenue due by large taxpayers from all taxes is being received on time.

The LTU's performance indicators must be based on effectiveness and efficiency and therefore they must measure activities as well as outputs. Some performance indicators are suggested below.

### **Activity based indicators**

Some suggested indicators are:

- Number of returns processed by LTU within, say, 3 weeks of receipt,
- Number of audits undertaken by each officer,
- Total number of audits undertaken by LTU personnel classified by type of audit,
- Identification of net errors in excess of, say, \*\* 100,000 in 50% of risk based visits, and
- Number of successful prosecutions undertaken by LTU.

### **Output based indicators**

Some suggested indicators are:

- the level of compliance by large taxpayers (total number of taxpayers filing returns as a percentage of the total number of taxpayers) ( target: 100% by the end of the first year of operation).
- the level of revenue collected from large taxpayers (target: real increases each year)
- the level of outstanding tax debt as a planned percentage of total expected revenues (target: 5% at any one point in time)

Finally senior management of the LTU must ensure that all staff are fully aware of the mission of the LTU. A draft mission statement for the LTU as well as individual mission statements for each of the functional departments is included in Appendix 4 of this report.

## **5. Transfer and merging of files**

Of the approximate 1200 files with the City 1 Corporation Tax Office (CTO), approximately 300 relate to large taxpayers. That means that approximately 900 files need to be transferred OUT of the CTO. The CTO only needs to settle these files up to and including the year of income 31/12/99 at the latest i.e. the year of income for which the year 2000 assessments relate.

These files are of no interest to the new LTU. Most of these files relate to City 1 based companies and therefore most of them will fall to be transferred to the City 1 Capital Office (SCO). Many of these files will already be settled for the 1999 year and some will contain no returns at all (non-filers). Only a relatively small number will have audits in progress and there is no reason why these files cannot be transferred to the SCO along with a note of progress made to date and issues outstanding. SCO auditors should then settle the outstanding liabilities in these cases.

The 300 large taxpayers remaining within the CTO need to have their papers combined with the TPCS and Employee Withholding files relating to these taxpayers, most of which are currently in the SCO. Since taxpayer files already exist within the CTO it is only necessary to arrange for the papers to be amalgamated.

The next step is to transfer the Income Tax, TPCS and Employee Withholding files of the large taxpayers currently dealt with by the SCO to the CTO.

In summary the steps to be followed are: -

### **First Stage – City 1**

Step 1. Transfer the TPCS and Employee Withholding files in respect of the 300 large taxpayers identified by the Corporation Tax Office from the Capital Tax Office to the Corporation Tax Office. These files will then be merged with the existing files in the Corporation Tax Office.

Step 2. Transfer the large taxpayer files (Income tax, Employee Withholding and TPCS) identified by the City 1 Capital Tax Office to the Corporation Tax Office. In this case there are no existing files in the Corporation Tax Office and this office will need to add these taxpayers to its list of taxpayers and merge the files.

Step 3. Transfer OUT of the Corporation Tax Office those company files that are not regarded as being large taxpayer files i.e. those with a turnover of less than \*\* 30,000,000. It is anticipated that most of these files will go to the City 1 Capital Tax office.

Second stage – Repeat this process for branches of the LTU outside City 1.

### **Amalgamation of files**

As stated above there will be only one tax file per taxpayer. But since each tax file will contain information on three different taxes it is important to design a system for keeping papers relating to each tax separate.

Therefore the first step is to design and prepare file separators. The file separators should be capable of holding the returns and supporting documentation as well as any correspondence between the taxpayer, the taxpayer's agent and the TA. The file separators should be capable of holding papers for a full year. Ideally file separators, declarations and other forms should be colour coded for each tax so as to facilitate filing of information. Information on how to prepare file separators has already been provided to the CTO but it is not known if these have yet been prepared.

Referring to the steps outlined on the previous page, once the TPCS and employee withholding papers for the 300 taxpayers currently residing in the CTO have been transferred they should be weeded and placed in the respective file separators for each tax in each file. At the end of the exercise there should be 300 tax files, each containing three file separators and each file separator containing papers relating to each tax.

The CTO will then need to open a new file in respect of each new taxpayer transferred to the CTO and ensure that file separators for each tax are placed on the new files. Papers transferred in to the CTO in respect of these taxpayers should be weeded and placed in the respective file separators.

The dates for transfer of files, the establishment of cut-off dates and the notification of these to taxpayers are all dealt with in the following section.

## **6. Notification to taxpayers**

Taxpayers need to be informed as to which office they should send their returns and by when. Therefore the TA needs to decide on a cut-off date. The existing tax offices will deal with declarations due up to the cut-off date and declarations due after the cut-off date will be handled by the LTU. There will be a different cut-off date for income tax due on profits. Once the TA agrees the cut-off dates, they must be communicated quickly to taxpayers.

### **Cut-off date for income tax due on profits**

Currently tax offices are dealing with declarations for the years of income ended 31/12/99 and prior. Therefore the declarations due for the year of income 31/12/2000, due in April 2001, will be the first returns of profits handled by the LTU. Taxpayers will need to be informed to submit these returns to the LTU.

### **Cut-off date for employee withholding and TPCS declarations**

If papers are to be transferred in December then the last declarations for TPCS and employee withholding submitted by taxpayers to the existing tax offices should be for the month of November 2000. These declarations and outstanding matters relating to previous declarations will be settled by the tax offices in December in time for the papers to be transferred to the CTO in December as planned.

It follows therefore that the CTO will need to make arrangements to receive the December TPCS and employee withholding declaration from large taxpayers and to conduct the end-of-year reconciliation of these returns.

Some TA senior staff would prefer to allow the existing tax offices deal with the declarations due until the end of the year as this is viewed as a more natural cut-off date. While this is true it must also be recognised that delaying until the end of the year will mean that files will not be transferred until January 2001 at the earliest and therefore the effective start date of the LTU will also be delayed.

A decision needs to be taken quickly, as taxpayers will need to be informed in good time where and when declarations are to be filed.

If the GST law is enacted in October that means that the LTU will have at least 6 months experience of dealing with large taxpayers before the GST declarations will be filed.

## **7. Income tax self assessment**

### **What is self-assessment?**

Self-assessment is where the taxpayer completes a tax declaration for the period in question, calculates the tax base, calculates the tax due and sends the declaration along with the payment of the tax to the Tax Authority.

Self-assessment is different than revenue assessment, which is the current system used for income tax returns in Country X.

The main changes (and advantages) of self-assessment are as follows: -

- The declaration must include the taxpayer's taxable income for the year and the tax payable on that taxable income,
- The declaration is treated as though it were an assessment,
- The declaration is accompanied by payment of the tax, and
- Audit takes place after the filing of the declaration thus allowing the LTU to audit selectively according to risk.

### **Declarations submitted to the LTU.**

The LTU will receive declarations from taxpayers as follows: -

- TPCS declarations and, later, GST declarations,
- Employee withholding declarations, and
- Income tax declarations in respect of companies, sole traders and partnerships.

The first two classes of declarations are essentially self-assessed declarations. That is they are declarations where the taxpayer makes the calculation of the tax base and the tax and is obliged to send payment of the tax along with the declaration.

In order to put all the taxes due by large taxpayers on the same footing it will be necessary to amend the income tax law to allow for self-assessment to apply to large taxpayers. This should be done as soon as possible and in respect of the year of income ended 31 December 2000. As mentioned in the previous section, the declarations for the year 2000, due by the end of April 2001, will be the first income tax declarations to be filed with the LTU. These declarations should be filed under self-assessment.

### **Adjustments to assessments**

As mentioned above the great advantage of self-assessment is that it allows honest taxpayers to file their declarations and pay their taxes without having any interactions with the Tax Authority. The advantage for the Tax Authority is that the tax is paid earlier than would be the case under a revenue-assessed system. Another advantage is that the Tax Authority is now free to concentrate its resources on those taxpayers that it believes have not filed honest declarations or who indeed have not filed any declaration. Of course self-assessment must be backed up with a strong system of penalties for non-filing of declarations and for under-statement of income.

Within the LTU all declarations will be screened, checked for mathematical accuracy and other basic indicators and compared to a pre-determined set of risk criteria. Those declarations showing a high risk will be audited.

It is suggested that the Tax Authority would be allowed up to four years from the date the declaration is filed to conduct an audit. If the Tax Authority needs to make any adjustments to the declaration these can be done by means of an additional assessment within that time period. Of course an additional assessment may be made at any time in the case of tax evasion or fraud. There is no time limit on tax evasion or fraud.

To be fair it is also suggested that the taxpayer would be allowed up to four years to file an application with the Tax Authority for an amendment of a self-assessment.

## **Rulings**

To provide for certainty of law within the system of self-assessment it is suggested that the Tax Authority would introduce a simple ruling system applicable only to self-assessment taxpayers. Under this system a taxpayer that was in any doubt about the tax effects of a particular transaction or transactions would apply, in writing, to the Tax Authority for a ruling on the tax effects of the transaction. Providing the taxpayer has made a full and true disclosure of all aspects of the transaction and the transaction has proceeded accordingly, the ruling shall be binding on the Tax Authority. Of course if the taxpayer has not made a full and true disclosure of all aspects of the transaction or if the transaction did not proceed in all material respects as described in the taxpayer's application, the ruling would not be binding on the Tax Authority.

A draft amendment to the income tax law designed to allow large taxpayers to file income tax declarations on a self-assessment basis is included at Appendix 5 of this report<sup>3</sup>.

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<sup>3</sup> This draft has been prepared by Lee Burns, consultant to the IMF Legal Department in consultation with Kieran Holmes, FAD resident expert in Country X.

## **8. Payment of taxes through the banks**

Given the relatively small number of taxpayers that will be located within the LTU, the organisation of the payment of taxes through the banking sector should not be a difficult task. The advantages of organising the payment of taxes through the banks are as follows: -

- It reduces tax collection and compliance costs,
- It speeds up the crediting of revenue to the government, and
- It minimises face-to-face contacts between taxpayers and tax collectors.

Legislative changes to allow for the payment of taxes through the banking system may be necessary. This must be considered by the Tax Authority.

### **Filing of returns via the banks**

If it is accepted that taxes should be paid through the bank then it is strongly recommended that taxpayers would file their returns with the bank at the same time as they make their payments. The bank would then credit the payment to the relevant account, stamp the return to show that the payment was received and forward the returns on to the LTU, probably in batches of 20 returns. The advantages of this system are as follows: -

- Taxpayers would file returns and pay tax at the same place (the bank),
- All accounting for the payment will be done at the bank, and
- There is no need for further formal reconciliation.

### **Negotiation with banks**

It will be necessary to negotiate a contract with a bank or banks in relation to the receipt of tax payments. The contract should specify the services the bank will supply to the Tax Authority, the compensation to be paid for such services and the sanctions that will apply in the event of the bank's failure to comply with the contract. A separate paper outlining guidelines for negotiation with the banks will be prepared in advance of negotiations.



## **9. Staff training**

The TA has already prepared a detailed three-year rolling training plan for its entire staff including LTU staff<sup>4</sup>. For ease of use the training needs of the LTU have been broken out into a separate plan. However it is stressed that the LTU training plan is a sub-set of the overall TA training plan. The overall training plan anticipates training being provided from both internal and external sources.

The immediate training needs of the LTU staff are included at Appendix 6 of this report.

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<sup>4</sup> Tax Authority Country X, Three-year rolling training plan 2000 – 2002, June 2000.

## 10. Computerisation of the LTU

To ensure that the LTU will work efficiently and effectively, the TA will have to consider the introduction of computers. Computers are essential for the speedy identification of non-filers and stop-filers for recording payments and updating ledger files, for preparing exception reports for risk-based auditing purposes and for preparing detailed revenue collection reports for headquarters.

The TA has already prepared a detailed and fully costed Information Technology Options Plan<sup>5</sup>. The plan advocates the implementation of computerisation on a phased basis, using off-the-shelf software packages. The phased introduction of computers should begin with the computerisation of the new GST activities under Phase 1 and moving on to the full computerisation of the LTU under Phase 2. Phases 3 and 4 deal with the extension of computerisation to the remainder of the TA.

The task now is for the TA to establish a small Computerisation Evaluation Committee (CEC), which will evaluate the competing software packages and select the most appropriate package for Country X. The Ministry of Finance will then need to submit the plan to donors for consideration of funding along with details of the package selected. Phase 3 of the Strengthening Economic and Financial Management Project is likely to commence formally in early November and this project is a likely source of funding.

The TA should now establish the CEC.

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<sup>5</sup> Country X Tax Authority Information Technology Options Plan, June 2000.

## 11. Time table of major activities

Set out below is a suggested timetable of activities necessary to complete the formation of the LTU.

Activity	Responsible authority	By when
Take decision on branch structure of LTU	Chairman of Tax Authority	October 2000
Approve Ministerial Decree and Chairman's Decree	Tax Authority and Ministry of Finance	October 2000
Enact Ministerial Decree	Minister of Finance	October 2000
Enact Chairman's Decree	Chairman of Tax Authority	October 2000
Appoint LTU Gen. Manager	Chairman and Minister	October 2000
Approve job descriptions	LTUIC	October 2000
Approve draft Self Assessment legislation	Tax Authority and Ministry of Finance	October 2000
Prepare first draft of LTU training plan	Adviser	Done
Design file separators and other forms that are needed	CTO staff with assistance from adviser	November 2000
Decide on cut-off date for declarations to be filed with LTU	Chairman, Tax Authority	November 2000
Advise taxpayers on cut-off dates for filing declarations (i.e. which declarations are to be filed where)	Chairman, Tax Authority	November 2000
Appoint LTU Administration and branch managers	Chairman of Tax Authority	November 2000
Review suitability of CTO staff and staff from other offices for LTU work	Chairman and senior LTU officers	November 2000
Appoint Heads of sections, reviewers and auditors	Chairman and senior LTU officers	November 2000
Make LTU staff aware of job descriptions	Senior LTU staff	November 2000
Appoint Computerisation Evaluation Committee	Chairman of Tax Authority	November 2000
Submit Computer Options Plan to donors	Tax Authority and Ministry of Finance	November 2000
Arrange rentals and furnishings for LTU branches	Chairman and senior LTU officers	November 2000
Train staff in procedures for dealing with merged files	Adviser	November 2000
Prepare paper on negotiation with banks	Adviser	November 2000
Commence initial negotiations with banks re payment of tax and filing of declarations through banks	TA team (selected by Chairman)	November 2000

Transfer files	Chairman and senior LTU officers	December 2000
Merge files	Senior LTU officers	December 2000
Agree performance indicators	Chairman and senior LTU officers	December 2000
Decide on branch budgets and targets; integrate LTU within TA plan.	Chairman and senior LTU officers	December 2000
Decide on mission, vision, strategic objectives and tasks of LTU (incl. branches)	Chairman and senior LTU officers	December 2000
Train staff in Mission, etc.	Senior LTU officials	December 2000

## **Appendix 1 – Job descriptions and person requirements**

### **General Director (1)**

#### Job description

The General Director will be directly responsible to the Tax Authority for the overall administration and management of the Large Taxpayer Unit and will report directly to the Tax Authority on all matters relating to the taxation of large taxpayers.

Specifically, the General Director will be responsible for: -

- The overall management, control and direction of the LTU, including its branches, and within the guidelines prescribed in the LTU Implementing Order,
- The receipt of reports from Branch Directors and the dissemination of these reports to the Directors of the relevant Administrations.
- The receipt of reports from the Directors of the Administrations and the dissemination of these reports to Branch Directors.
- The provision of speedy reports on the performance of the LTU to the Chairman of the Tax Authority, (these may be required on a daily, weekly or monthly basis),
- The provision of advice to the Chairman on all matters of a legislative or administrative nature that have a bearing on the taxation of large taxpayers, and
- Such other duties relating to the taxation of large taxpayers as may be assigned from time to time by the Chairman of the Tax Authority

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

#### Job specification

The person appointed will hold the following minimum qualifications: -

- A bachelor's degree in a related qualification such as Law, Accountancy, Economics or Management,
- 10 years technical and administrative experience within the Tax Authority of which 3 years have been spent at the level of General Director.
- Proven leadership ability and the ability to evaluate the work of subordinates.

## **Deputy Director (1)**

### Job description

The Deputy Director will assist the General Director in the day to day running of the Large Taxpayer Unit and will report directly to the General Director.

Specifically, the Deputy Director will be responsible for: -

- Assisting the General Director with the operations of the LTU,
- In the absence of the General Director, the overall management, control and direction of the LTU, including its branches and within the guidelines prescribed in the LTU Implementing Order,
- The supervision of all staffing matters, including training,
- The supervision of the taxpayer education, publicity, statistics and information functions,
- Such other duties as may be assigned from time to time by the General Director.

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

### Job specification

The person appointed will hold the following minimum qualifications: -

- A bachelor's degree in a related qualification such as Law, Accountancy, Economics or Management,
- 10 years technical and administrative experience within the Tax Authority of which 3 years have been spent at the level of General Director.
- Proven leadership ability and the ability to evaluate the work of subordinates.

## **Administration Director (5)**

### Job description

A Director will be appointed to each of the following Administrations: -

- Registration and Information
- Accounting and Returns
- Auditing and Control
- Assessment and Committees
- Collection

The Director will be directly responsible to the General Director for the overall management of the Administration and will report directly to the General Director on all matters relating to the Administration in accordance with the terms and guidelines set out in the LTU Implementing Order.

Specifically, the Director will be responsible for: -

- The overall management, control and direction of the Administration,
- The examination of reports from Branch Directors in so far as they relate to the Administration and the provision of speedy comments and instructions to the Branch Directors (via the General Director) regarding the performance of the Administration in the branches,
- The provision of speedy reports on the performance of the Administration to the General Director, (these may be required on a daily, weekly or monthly basis), and
- Such other duties relating to the operations of the Administration as may be assigned from time to time by the General Director.

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

### Job specification

The person appointed will hold the following minimum qualifications: -

- A bachelor's degree in a related qualification such as Law, Accountancy, Economics or Management,
- 5 years technical experience within the Tax Authority of which 3 years have been spent at the level of Head of Division.
- Proven leadership ability and the ability to evaluate the work of subordinates.

## **Administration Director (Branches) (5)**

### Job description

Branches of the LTU will be established in the Governorates at the level of Administrations. Each Branch will be assigned an Administration Director.

The Administration Director will be directly responsible to the General Director for the overall management of the Branch in the Governorate. The Administration Director will report directly to the General Director on all matters relating to the operations of the Branch in accordance with the terms and guidelines set out in the LTU Implementing Order.

Specifically, the Administration Director will be responsible for: -

- The overall management, control and direction of the Branch,
- The receipt of specific reports from Heads of Sections on the performance of each of the 5 sections within the Branch.
- The provision of speedy reports on the performance of the Branch to the General Director, (these may be required on a daily, weekly or monthly basis), and
- Such other duties relating to the operations of the Branch as may be assigned from time to time by the General Director.

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

### Job specification

The person appointed will hold the following minimum qualifications: -

- A bachelor's degree in a related qualification such as Law, Accountancy, Economics or Management,
- 8 years technical experience within the Tax Authority of which 3 years have been spent at the level of Head of Division.
- Proven leadership ability and the ability to evaluate the work of subordinates.



## Head of Section

Each Branch in the Governorates will appoint a Head of Section for each of the following sections in the Branch: -

- Registration and Information
- Accounting and Returns
- Auditing and Control
- Assessment and Committees
- Collection

Each Head of Section will be directly responsible to the Branch Director for the overall management of the Section within the Branch. The Head of Section will report directly to the Branch Director on all matters relating to the operations of the Section in accordance with the terms and guidelines set out in the LTU Implementing Order.

Specifically, the Head of Section will be responsible for: -

- The overall management, control and direction of the Section,
- The periodical review of all forms, manuals and procedures with a view to recommending improvements to the Branch Director,
- The provision of timely reports on the performance of the Section to the Branch Director, (these may be required on a daily, weekly or monthly basis), and
- Such other duties relating to the operations of the Section as may be assigned from time to time by the Branch Director.

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

## Job specification

The person appointed will hold the following minimum qualifications: -

- A bachelor's degree in a related qualification such as Law, Accountancy, Economics or Management,
- ? years technical experience within the Tax Authority of which ? years have been spent at the level of Head of Division.
- Proven leadership ability and the ability to evaluate the work of subordinates.

## **Reviewer**

### Job description

The Reviewer will be directly responsible to the Head of Section, Auditing and Control for the supervision of the audit function and will report directly to the Head of Section on all audit matters.

Specifically, the Reviewer will be responsible for: -

- The overall supervision of the audit staff including the review of all audit reports for technical and numerical accuracy,
- The allocation of daily and weekly duties to audit staff in accordance with the audit plan,
- Assisting auditors with the conduct of difficult cases, particularly those requiring prosecution, seizure of assets or any unusual or extraordinary treatment,
- Attending to objections filed by taxpayers,
- Assisting the Head of Section with the preparation of speedy reports on the performance of the Auditing and Control Section to the Branch Director, (these may be required on a daily, weekly or monthly basis),
- Such other duties relating to the audit function as may be assigned from time to time by the Head of Section.

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

### Job specification

The person appointed will hold the following minimum qualifications: -

- A bachelor's degree in a related qualification such as Law, Accountancy, Economics or Management,
- X years technical and administrative experience within the Tax Authority.
- Proven leadership ability and the ability to evaluate the work of subordinates.

## **Auditor**

### Job description

The auditor will be directly responsible to the Reviewer for the conduct of audits and will report directly to the Reviewer on all audit matters.

Specifically, the Auditor will be responsible for: -

- The examination of financial statements, tax returns, books, records and any other material relating to the tax affairs of tax payers,
- The conduct of desk audits, registration visits, GST refund audits, verification audits and comprehensive audits in accordance with the audit plan and the instructions of the Reviewer and Head of Section,
- Liaising with the Reviewer regarding the conduct of difficult cases, particularly those requiring prosecution, seizure of assets or any unusual or extraordinary treatment,
- Filing audit reports with the Reviewer and amending as necessary,
- Such other duties relating to the audit function as may be assigned from time to time by the Reviewer.

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

### Job specification

The person appointed will hold the following minimum qualifications: -

- A bachelor's degree in a related qualification such as Law, Accountancy, Economics or Management.

## **Tax Officer**

### Job description

The tax officer will be directly responsible to the Reviewer, Auditor and Head of Section for all filing, indexing and similar work relating to the maintenance of files and the recording of information.

Specifically, the tax officer will be responsible for: -

- Recording the receipt of returns and payments from taxpayers,
- Filing and the maintenance of all records, tax files, indexes of taxpayers, etc.
- Recording the movement of tax files, opening new files as required and generally maintaining the file archive,
- Issuing forms, letters and other communications to taxpayers, recording incoming mail, and
- Such other duties as may be assigned from time to time by the Reviewer, Auditor or Head of Section.

The Tax Authority will ensure that the person appointed will be of the highest integrity, technical competence and administrative experience such that the incumbent will enjoy the complete confidence of large taxpayers, leading to the highest possible level of voluntary compliance.

### Job specification

The person appointed will hold the following minimum qualifications: -

- [Secondary School Certificate]

## Appendix 2 – Draft Ministerial Decree

In God's name, the Merciful, the Compassionate

Ministerial Decree No. XX for the Year 2000,  
Regarding the implementing procedures of the  
Republican Decree No 140 of the year 2000 regarding  
the establishment of the General Directorate of Large Taxpayers

The Honourable Minister of Finance:

Having reviewed:

- The Constitution of the Republic of Country X,
- The Presidential Decree No 29 (1993) concerning the Tax Authority's Implementation Order,
- The Presidential Decree No 72 (1998) on the formation of the Council of Ministers and the appointment of its members, and
- The Presidential Decree (No 140 of 2000) on the formation of the General Directorate of Large Taxpayers,

and upon the proposal of the Chairman of the Tax Authority,

It is hereby decreed: -

1. The Tax Authority will appoint such persons of the highest integrity, technical competence and administrative experience as are necessary for the effective operation of the General Directorate of Large Taxpayers. The Chairman of the Tax Authority is hereby commissioned to issue a decree to that effect and the processes of selection and appointment are to be concluded before 30 October 2000.
2. The Tax Authority will prepare a detailed training plan specifying the training needs of the persons appointed to the General Directorate of Large Taxpayers as well as the resources required to meet those training needs. The training plan will be prepared before 30 October 2000.
3. The Tax Authority will make all necessary arrangements for the transfer of tax files relating to large taxpayers. Files will be transferred between the General Directorate of Large Taxpayers and other tax offices in City 1 and the Governorates.

4. The tax offices in City 1 and the Governorates will deal with the following returns before transferring tax files to the General Directorate of Large Taxpayers: -
  - a. Income tax returns (profits, professions and real estate) up to and including the year of income ended 31 December 1999,
  - b. TPCS returns up to and including the return for the month of October 2000, and
  - c. Returns on wages, salaries and the like (withholding) up to and including the return for the month of October 2000.

provided that in all cases files will be transferred to the General Directorate of Large Taxpayers in December 2000 regardless of whether or not there are issues outstanding. The transfer of said files shall be accompanied by a report and a schedule of arrears of outstanding tax.

5. The General Directorate for Large Taxpayers will deal with all returns due from large taxpayers commencing with the returns due for November 2000.
6. The Chairman of the Tax Authority will notify in writing all taxpayers designated as large taxpayers and such taxpayers will thereafter submit all tax returns in respect of taxes for which they are liable to the General Directorate for Large Taxpayers.
7. The Chairman of the Tax Authority will issue all the decrees and instructions necessary to implement this decree.
8. The application of this decree shall commence at the date of issuance and all parties concerned with its implementation shall be notified.

Issued at the Office of the Minister of Finance, City 1

Dated,

Signed,

Minister of Finance

## Appendix 3 – Draft Chairman’s Decree

In God’s name, the Merciful, the Compassionate.

Decree No. XX for the Year 2000,  
Of the Chairman of the Tax Authority  
Regarding the definition and classification  
Of Large Taxpayers

The Chairman of the Tax Authority:

Having reviewed:

- The Presidential Decree No 29 (1993) concerning the Tax Authority’s Implementation Order,
- The Presidential Decree (No 140 of 2000) on the formation of the General Directorate of Large Taxpayers within the Tax Authority,

Decrees as follows: -

9. In implementing article 2 of the Republican Decree 140 of the year 2000, large taxpayers are defined and classified as follows: -
  1. Taxpayers whose annual turnover reach or exceed the amount of \*\* 30,000,000.
  2. All banks and financial institutions operating in Country X.
  3. All embassies, regional and international organisations in Country X.
  4. All persons engaged in the exploration and extraction of oil, gas or any mineral, metal or natural resource of Country X and persons engaged in the supply of any service or facility to such persons.
  5. The Government of Country X.
10. The application of this decree shall commence at the date of issuance and all those concerned with its implementation are to be notified.

Issued at the General Bureau of the Tax Authority.

Dated,

Signed,

Chairman,

Tax Authority.

## **Appendix 4 – Draft Mission statements for LTU**

### **LTU Mission Statement**

The mission of the Large Taxpayer Unit is: -

to deal with all of the tax affairs of the largest taxpayers in Country X in the most effective and efficient manner.

To achieve this mission the Large Taxpayer Unit will fulfil all of its responsibilities as detailed in the Presidential Decree establishing the LTU. In particular the LTU will: -

- Monitor and control the GST, TPCS and income tax returns of the largest taxpayers including the employee withholding returns;
- Take immediate action against non-filers and stop-filers to ensure that all returns and tax payments are received;
- Audit taxpayers in accordance with a detailed risk based audit plan;
- Develop a system of receiving tax payments via the banking system;
- Develop a comprehensive computer database and taxpayer monitoring programme;
- Provide regular tax collection and other management control reports to the Chairman of the Tax Authority in respect of the tax affairs of the largest taxpayers.

### **Administrations mission statements**

#### **Registration and Information**

The mission of the Registration and Information Administration is: -

to register every large taxpayer quickly and accurately and to provide information on all large taxpayers as quickly as possible.

To achieve this mission, the Registration and Information Administration will: -

- Process new applications for taxpayer registration within 2 working days
- Provide information and education to taxpayers within 5 working days of receipt of request for same,
- Provide information on changes in laws, regulations and procedures to taxpayers as the need arises.



## **Accounting and Returns**

The mission of the Accounting and Returns Administration is: -

to receive tax returns from every large taxpayer in respect of each accounting period for which the taxpayer has a tax liability.

To achieve this mission, the Accounting and Returns Administration will: -

- Maintain the files of large taxpayers
- Process declarations speedily
- Monitor and update taxpayer records.

## **Auditing and Control**

The mission of the Auditing and Control Administration is: -

to ensure maximum tax compliance by selectively auditing taxpayers in accordance with a comprehensive risk analysis programme.

To achieve this mission, the Auditing and Control Administration will: -

- Conduct audits in accordance with a comprehensive risk analysis programme
- Conduct educational visits as required
- Prepare cases for prosecution

## **Assessment and Committees**

The mission of the Assessment and Committees Administration is: -

to settle appeals fairly and in accordance with legal procedures

To achieve this mission, the Assessment and Committees Administration will: -

- process tax appeals in the shortest possible time within the limits of the law,
- uphold or amend assessments in accordance with appeal decisions,
- advise collection administration of results of appeals.

## **Collection**

The mission of the Collection Administration is: -

to collect tax payments from all liable taxpayers, to enforce returns and tax payments from non-filers and stop-filers and to prosecute tax defaulters in a speedy and efficient manner.

To achieve this mission, the Collection Administration will: -

- Collect all monies due from taxpayers
- Force delinquent taxpayers to file returns and make payments
- Take action to recover arrears of tax, including seizure of assets.

## Appendix 5 – Draft self-assessment amendments

### **Presidential Decree No. ?? of 2000 to Amend Certain Articles of Income Tax Law No. (31) of 1991 to Establish Self-Assessment for Large Taxpayers**

The President of Country X, having reviewed:

- The Constitution of the Republic of Country X;
- The Income Tax Law No. (31) of 1991, as amended by Law No. (13) of 1996 and Law No. (12) of 1999;
- Presidential Decree No. (72) of 1998 forming the Government and appointing its members;
- Presidential Decree No. (140) of 2000 establishing the Large Taxpayer Unit within the Tax Authority;
- Upon the recommendation of the Minister of Finance and the approval of the Council of Ministers:

Hereby decrees the following:

Article (1) This Decree shall be called the Decree to Amend Certain Articles of Income Tax Law No. (31) of 1991 to Establish Self-Assessment for Large Taxpayers.

Article (2) The following definitions are added to article (2) of Income Tax Law No. (31) of 1991 (as amended):

Self-Assessment Taxpayer	A taxpayer that is administered by the Large Taxpayer Unit.
Large Taxpayer Unit	The Large Taxpayer Unit established under Presidential Decree No. (140) of 2000.

Article (3) a. The following articles and paragraphs are hereby added to Income Tax Law No. (31) as amended as shown below: 66b, 69(e and f), 94c and 113.

b. The following articles from Income Tax Law No. (31) of 1991 as amended are hereby amended as shown below: 12, 13, 66a, 67b and 73.

1. Article (12): Associations of capital must forward their tax declaration to the Tax Authority within thirty (30) days from the day their General Assemblies approve the annual accounts, or within thirty (30) days from the last

day the Companies Law permits to obtain approval of the General Assembly for the final annual accounts, which show their profits or losses audited by a chartered accountant. The submission of the tax declaration must not be made later than the last day of April of the following year or, in the case of a taxpayer with a substituted tax period under article (8), must not be made later than the last day of the fourth month following the end of that period. The declaration must be accompanied by copies of the final accounts, the balance sheet and depreciation statement that the association has computed. The declaration must also be accompanied by a statement of the accounting principles on which all the figures shown are based. All attached documents and papers must likewise be signed by the chartered accountant with the opinion that they show the actual financial position of the association. The tax declaration for an income tax year of a self-assessment taxpayer shall state the taxable income of the taxpayer for the year and the tax payable (if any) on that taxable income.

2. Article (13): All taxpayers who maintain books of account must submit a declaration to the Tax Authority on or before April 30 of each year or, in the case of a taxpayer with a substituted tax period under article (8), by the end of the fourth month following the end of that period, which shows the amount of their profits and losses, audited by a chartered accountant. The declaration should be accompanied by copies of the final accounts, balance sheet, the depreciation statement prepared by the taxpayer, and a statement of the accounting principles upon which all the figures

shown in the declaration are based. All the aforesaid documents and papers must be signed by the chartered accountant with the opinion that they represent the actual financial position of the taxpayer. The tax declaration for an income tax year of a self-assessment taxpayer shall state the taxable income of the taxpayer for the year and the tax payable (if any) on that taxable income.

3. Article (66):

- a. Subject to paragraph b, tax shall be assessed based on the declaration filed by the taxpayer, after completion of any review or audit of the declaration particulars.
- b. The Tax Authority is taken to have made an assessment of the taxable income and the tax payable on that taxable income by a self-assessment taxpayer for an income tax year equal to those respective amounts specified in the taxpayer's declaration for that year. The Tax Authority is not required to review or audit the declaration particulars of a self-assessment taxpayer, although it may choose to do so under article (67). The Tax Authority is taken to have given the taxpayer notification of the assessment on the day the declaration is filed.

4. Article (67)b:

If the Tax Authority does not notify the taxpayer (other than a self-assessment taxpayer) of its refusal of his declaration within one year from the date of the Authority's receipt of the same, the declaration shall be considered as accepted, unless the Authority has failed to locate the taxpayer's address, or if such delay

was due to certain special or general circumstances.

5. Article (69)

- e. A self assessment taxpayer may file an application with the Tax Authority for an amendment of the taxpayer's self-assessment. Such application must be made within four (4) years after the date on which the taxpayer filed the declaration to which the assessment relates and include all information necessary for the Tax Authority in deciding the application.
  
- f. A self-assessment taxpayer has the right to object in writing within thirty (30) days from the date the taxpayer receives notification of the Tax Authority's determination on an application under paragraph e. If the objection is submitted after the period indicated above, provided that the Authority is convinced that such delay was caused by the taxpayer being abroad or for any other acceptable cause, the period may be extended by another fifteen (15) days from the date of expiration of the first period. A taxpayer dissatisfied with the Tax Authority's determination of the taxpayer's objection may appeal under Chapter IV of Part Two.

6. Article (73)

The reminder notice for settlement of tax is considered to be conclusive. However, the Tax Authority may make an additional assessment if it discovers that the taxpayer has not submitted a correct declaration, ~~when for example, the taxpayer hides taxable amounts, activities,~~

~~documents and the like, or he submits forged documents, or uses fraudulent means to avoid paying the whole or part of the tax. An additional assessment may be made at any time in the case of evasion or fraud. In any other case, it may be made within four (4) years after the date on which the taxpayer filed the declaration.~~ Also, in case a taxpayer does not submit his tax declaration, and the original assessment was made on an estimation basis, the Tax Authority may make an additional assessment if it discovers that there are new transactions or amounts, which were not considered in the estimation at the time the first assessment was made. This may happen when the taxpayer has previously provided incorrect statements, applied fraudulent methods or submitted statements which do not show the truth about his activities.

Without prejudice to the provisions of the Law dealing with offenses, the taxpayer must be notified of the additional assessment, the basis on which it was made, the original assessment and its basis, and the activities or amounts which were considered for the purpose of these assessments. The said additional assessment may be appealed against by the same method as the original assessment.

7. Article (94)

- c. The tax payable by a self-assessment taxpayer for an income tax year is due on the date the return for that year is required to be filed with the Tax Authority. The tax shall be paid at the Tax Authority or in accordance with any other arrangements made by the Tax Authority for payment of tax debts.

7. Article (113)
- a. The Tax Authority may, upon application in writing by a self-assessment taxpayer, issue to the taxpayer a written ruling setting out the Tax Authority's position regarding the application of the Income Tax Law to a transaction proposed or entered into by the taxpayer. Where the taxpayer has made a full and true disclosure of all aspects of the transaction relevant to the ruling and the transaction has proceeded in all material respects as described in the taxpayer's application for the ruling, the ruling shall be binding on the Tax Authority with respect to the application to the transaction of the Income Tax Law as it stood at the time the ruling was issued.
  - b. A self-assessment taxpayer has the right to object in writing within thirty (30) days from the date the taxpayer receives notification of the Tax Authority's determination on an application under paragraph a. If the objection is submitted after the period indicated above, provided that the Authority is convinced that such delay was caused by the taxpayer being abroad or for any other acceptable cause, the period may be extended by another fifteen (15) days from the date of expiration of the first period. A taxpayer dissatisfied with the Tax Authority's determination of the taxpayer's ruling application may appeal under Chapter IV of Part Two.

Article (4) This Decree has effect [for income tax year ending on 31 December 2000 and subsequent years. Where the taxable income of a self-assessment taxpayer is determined by reference to a period other than the twelve-month period ending on 31 December, this Decree shall apply to the first income tax year of the taxpayer ending after 31 December 2000.]

## Appendix 6 – Draft LTU immediate training needs

No of trainees	Topic	Qualifications needed by participants	Delivered by	Venue	Duration of course	Planned start date
10	File merging and file maintenance.	Tax Officers and clerical staff	Advisers	TA –LTU office	1 day	
10	Taxpayer registration	Tax Officers and clerical staff	Advisers	TA –LTU office	1 day	
10	Maintenance of ledger card system	Tax Officers and clerical staff	Advisers	TA –LTU office	1 day	
10	Identification of non-filers and stop-filers	Tax Officers and clerical staff	Advisers	TA –LTU office	1 day	
20	English language training	Senior and middle management in LTU	British Council	British Council Teaching Centre	2 x 6 weeks	
20	GST law, practice and procedures	Senior and middle management in LTU	Advisers	TA – LTU office	3 days	
20	Employee withholding procedures	Auditor within LTU	Advisers	TA – LTU office	3 days	
20	Management training	Senior and middle management in LTU	Advisers	TA – LTU office	2 weeks	
40/50	Basic accounting and audit training	Auditor within LTU	Out sourced	TA	2 x 2 weeks	