

**Standard Summary Project Fiche – IPA centralised National and
CBC programmes
Tax Administration**

1. Basic information

1.1 CRIS Number: 2007/19300

1.2 Title: “Improving capacities for better efficiency and functionality of the Tax Administration work in accordance with European standards”

1.3 Sector: European Standards/Internal Market/Tax Administration 03.16

1.4 Location: Podgorica, Montenegro

Implementing arrangements:

1.5 Contracting Authority (EC):

The Contracting Authority is the EC Delegation in Montenegro

1.6 Implementing Agency:

The Implementing Agency is the European Commission

1.7 Beneficiary (including details of project manager):

Beneficiary: Tax Administration of Montenegro.

Project manager: Ms Lidija Seckovic, Adviser, Tax Administration of Montenegro

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Ministry of Finance

1.8 Overall cost:

€900,000.

1.9 EU contribution (IPA):

€900,000.

1.10 Final date for contracting:

Two years from the date of conclusion of the Financing Agreement.

1.11 Final date for execution of contracts:

Four years from the date of the conclusion of the Financing Agreement.

1.12 Final date for disbursements:

Five years from the date of the conclusion of the Financing Agreement.

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective of the Project is to assist the Government of Montenegro in order to strengthen the fiscal system in its process of accession to the EU.

2.2 Project purpose:

The purpose of this project is to support the Montenegro Tax Administration (MTA) to achieve the legislative implementation, procedural, human resource and information technology goals as set out in the MTA Working Plans as well as to support the Ministry of Finance with the further alignment of Montenegrin Taxation legislation and procedures with the EU acquis.

2.3 Link with AP /NPAA /EP/ SAA

The **Stabilisation and Association Agreement** (March 2007, SAA) addresses tax administration in Article 100. Improving Montenegro's fiscal system and restructuring tax administration are identified as key reform priorities with a view to ensuring effectiveness of tax collection and the fight against fiscal fraud. It also calls for due account to be taken of priority areas related to the Community *acquis* in the field of taxation and in the fight against harmful tax competition based on the principles of the Code of Conduct for business taxation agreed by the Council on 1st of December 1997. (See annex 3 for more details.)

The **European Partnership Document** (January 2007, EP) includes '*Short-term Priorities - European Standards - Internal Market - Customs and Taxation*' which the Montenegrin authorities are required to address. These include:

- Continue to modernise customs administrations in order to ensure a high level of administrative capacity and to fight against corruption, cross-border crime and fiscal evasion.
- Amend and implement legislation in the area of rules of origin in order to introduce a legal basis for the application of the EC rules of origin for the purposes of the autonomous trade measures.

- Improve implementation of tax laws, focusing on revenue collection and control in order to reduce tax fraud.
- Apply the principles of the code of conduct for business taxation and ensure that new tax measures are in conformity with those principles.

(See annex 3 for more details.)

2.4 Link with MIPD

Under the main priorities and objectives of European Standards sector, the MIPD envisages expected results to be the alignment of “customs and taxation legislation with the *acquis*; and upgraded operational capacity of the Customs and Tax Administration.” In order to accomplish these priorities program implementation will focus on capacity building and appropriate investments earmarked for Customs and Tax administration.

2.5 Link with National Development Plan

The Republic of Montenegro has not yet approved its National Development Plan.

2.6 Link with national/ sector investment plans

The principal national document is the Government’s Action Plan against corruption and organized crime in line with EU principles. The Action Plan outlines concrete measures for the next three years as laid down by the Programme, adopted by the Government on July 27th 2005. The Action Plan is focused on legislation against corruption, money laundering and tax evasion. The proposed project in tax administration is in line with the Action Plan.

3. Description of project

3.1 Background and justification:

The Commission’s 2006 Progress Report on Montenegro underlined that in the field of taxation, Montenegro has a VAT system which is broadly in line with the *acquis* and has amended its legislation introducing a reduced rate of 7% that replaced previous exemptions. Until 1 January 2006 a single VAT rate of 17% was applied with a large number of exemptions.

The Montenegro Excise Law, in force since April 2002 and amended in January 2006, is broadly in line with the *acquis*. Excise duties are levied only on EU excisable goods and there are no discriminatory duties differentiating between domestic and foreign products. The legislation provides for a tax rate of 9 % on corporate income and up to 15 % on personal income.

Reforming Montenegrin tax legislation dates back to 2001 when the first steps were taken towards harmonising the country’s tax regime with the EU *acquis*.

Subsequently, various laws have been adopted, including: Tax Administration Law, Law on Value Added Tax, Corporate Profit Tax Law, and Law on Personal Income Tax, Excise Tax Law, and Law on Real Estate Sales Tax.

VAT was introduced in April 2003 and is now the main source of revenue for the Montenegrin state budget. Amendments to the law on VAT were enacted in 2003 and 2006.

The Tax Administration falls within the competence of Ministry of Finance. The Tax Administration can initiate amendments to current legislation. New tax legislation has to be initiated by the Ministry of Finance. The Tax Administration has been re-organised into eight local branch offices and a national central/head office.

Steps have also been taken to keep taxpayers informed, with new guide books on tax reform, presentations for certain categories of taxpayers, press and electronic media coverage, and a Tax Administration website. In addition, two Call Centres have been set up for taxpayers.

Both the Ministry of Finance and the Tax Administration have benefited from advisory support provided by EU CAFAO.¹ As part of their 2007 working programme, EU CAFAO has supported the Ministry of Finance on strengthening the VAT system with amendments to the legislation that enhance its alignment to the EU VAT directives. It has also developed a VAT Risk Management system for the Tax Administration. Implementation of the system is subject to ongoing modifications of the Tax Administration's IT systems.

Donor assistance received by the MTA and the Ministry of Finance – as exemplified by EU-CAFAO / USAID and the World Bank – has contributed to considerable progress in the operational structure and enforcement capacity of the Tax Administration and the capacity of the Ministry of Finance to drive the legal harmonization process. However, it is necessary to continue this work in progress in order to fully align Montenegrin tax regulations and administrative conditions with European standards. Areas that also continue to require attention include:

- Further progress is needed on computerisation procedures in tax administration.
- Risk analysis procedures have not yet been fully implemented.
- The fight against corruption requires reinforcement in order to achieve a non-discriminatory application of tax laws.
- On customs and excise tax, Montenegro needs to upgrade its administrative procedures and collection efforts in order to continue implementing commitments under the SAA.

The proposed project will provide capacity building support for the Montenegrin Tax Administration in order to align tax-related legislation and implementing regulations with the EU acquis. More specifically, this includes:

- VAT alignment;

¹ EU CAFAO is the European Union – Customs and Fiscal Assistance Office. Its representation in Montenegro is focusing on supporting the Montenegrin Customs Administration (in reforming customs infrastructure, management, legal implementation), Tax Administration and the Ministry of Finance.

- Alignment of Excise Law and duties;
- Improving administrative control, collection and tax inspection services.

This proposed project will also provide selected support to the Ministry of Finance for the alignment of Montenegrin Indirect Taxation legislation and procedures with the EU acquis. Assistance will be provided to ensure that all tax measures are in accordance with EU best practice and conform to the principles of the Code of Conduct for Business Taxation. The MTA will moreover be assisted with the upgrading of its IT system.

3.2 Assessment of project impact, catalytic effect and sustainability (where applicable)

This Project is designed to enable the Tax Administration to modernise and develop its operational capacity so that it can implement the legislative tax reforms.

It is expected to result in the improvement of tax legislation, introduction of more effective collection measures and prevention of tax fraud, as well as strengthening cooperation with EU countries. The impact assessment will be guided by the overall performance of the Tax Administration.

The proposed project will support the improvement of the Tax Administration into a small but efficient institution which will significantly increase the tax collection rate and thus increase the government revenues. More efficient and transparent Tax Administration aligned with EU standards will therefore have a catalytic effect on the economy by helping to create the stable environment necessary to attract foreign and domestic investors. By becoming a lean efficient organisation, whilst also significantly increasing the volume of taxes it collects, the Tax Administration should assure its sustainability.

3.3 Results and measurable indicators:

The proposed project will address three key areas that require additional intervention. These are:

- Continued harmonisation of Montenegrin legislation, regulatory procedures and administrative practises. Measurable indicators will be the initiatives to amend VAT legislation for further alignment to EU Directive No. 112. Equally, amendments to laws on personal income tax and corporate taxation as well as the implementation of new administrative procedures will serve as benchmark indicators (see log-frame in the Annex 1 for more details)
- The Montenegrin Tax Administration will also be assisted in improving its data collection capacity with the provision of IT hardware and software upgrades as well as additional IT staff training opportunities. Impact performance will be identified – inter alia - in terms of increased direct tax and VAT collection as well as improved statistical data of tax receipts (see log-frame in the Annex 1 for more details).

- The MTA's capacity to increase collection performance of direct taxes and VAT is also dependent on improved audit and inspection resource, including targeted staff training facilities as well as the expansion in the usage of electronic reporting tools. A key measurable indicator will consist in decreased numbers of citizens' appeals against tax administrative decisions (see log-frame in the Annex 1 for more details).

3.4 Activities:

As indicated in the previous section, the key areas to be addressed concern approximation of tax legislation and regulatory procedures in Montenegro to the EU acquis. The Montenegrin Tax Administration and the Ministry of Finance are the key stakeholders in the project. The proposed activities are intended to complement previous project assistance provided by a variety of donors, in particular the EU CAFAO Montenegro mission (see section 3.6 for more details). The principal activities of the project will include the following:

- **Component 1.** Approximation of tax legislation and regulatory procedures
 - Proposals for amendments to the VAT Law;
 - Proposals for amendments to the Income Tax Law and Profit Tax Law;
 - Support to develop new administrative procedures.
- **Component 2.** MTA Collection
 - Support to enhance collection procedures;
 - Develop a computerized tax collection risk assessment system;
 - Support for staff training;
 - Support to work shops and seminars.
- **Component 3.** Taxpayers service
 - Support improvement of taxpayers' compliance by designing and realizing campaigns for targeted groups of taxpayers;
 - Support to develop tax brochures, pamphlets and tax guides;
 - Support for work shops, seminars and media campaigns;
 - Support to develop an improved MTA web site.
- **Component 4.** Information technology
 - Improvement of the MTA IT infrastructure including procurement;
 - Support for the increased use of open source technologies;
 - Support for training of MTA IT staff;
 - Support for creating knowledge of EU systems, namely interoperability and interconnectivity.

- **Component 5. Control and inspection**

- Support to improvement of audit and inspection procedures;
- Support to implementation of a tax and Vat Risk management System;
- Support to training activities for MTA tax inspectors;
- Support to development of new IT software for enhanced utilization and exchange of internal and external information sources;
- Support to development of computerized audit monitoring and reporting tools, including a computerized reporting tool.

Indicatively the Component 2 envisages training of 45 employees of the Tax Administration, the Component 3 from 15 to 20 employees, the Component 4 approximately 40 employees and the Component 5 from 60 to 70 employees. In total it means that between 160 and 175 employees of the Tax Administration will benefit from the training provided by this Project.

It is anticipated that the above activities will be implemented through by one service contract(s) of approximately 12 - 15 months duration and 2 supply contracts. Alternatively, if appropriate expertise cannot be sourced via a service contract, a service contract combined with a twinning light or a grant agreement with an EU member state institution (official or mandated body) following a call for proposals is envisaged whereby the Commission contribution will cover 100% of the eligible cost of the contract. The eligible cost of all contracts will be 100% funded by the EC.

3.5 Conditionality and sequencing:

The project includes the following conditionality:

- 1) Appointment of adequate qualified staff (including translators) by the beneficiaries (both the Montenegrin Ministry of Finance and the Tax Administration) before the launch of the tender process;
- 2) This commitment extends to the allocation of working space and facilities by the beneficiary for technical assistance before the launch of the tender process;
- 3) Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per work plan of the project;
- 4) Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan;

In the event that conditionality is not met, suspension or cancellation of projects will be considered.

3.6 Linked activities

USAID have funded a range of activities in the wider area of tax administration, including auditing. Technical assistance to the Tax Administration was provided between 2001 and 2005 through a USAID funded consultancy, Barents Group/Bearing Point. This assistance included the provision of training resources, the production of brochures, the setting up of a Call Centre for taxpayers. They also provided assistance for the audit sector where the main elements were:

- Creation of inspection control procedures;
- Training of inspectors for the control/audit of Value Added Tax;
- Training of inspectors for the control of Personal Income Tax;
- Preparation of guidebooks for VAT payments.

EU-CAFAO Montenegro has supported the Tax Administration since 2005. The main objective of the EU CAFAO Montenegro assistance is focused on human resource capacity building in the following areas:

- Increase the administrative capacity to implement amended tax legislation aligned with the EU acquis.
- Strengthening the administrative capacity of the Tax Administration, including its fight against corruption and tax fraud.
- Training, especially on inspection and control.
- A risk management sub-project developed during the last quarter of 2006 and now adopted the Tax Administration.
- Assistance for the modernisation of the Tax Administration's IT system with the support provided by a local regional expert and an international expert.

The Tax Administration is also currently benefiting from a €1.2 million World Bank loan for software development to create a new IT-based tax collection and registration system.

Proposed activities of this project complement assistance provided to MTA by EU-CAFAO Montenegro. Namely the Component 1 represents the continuation of the support to the Ministry of Finance regarding completion of a full review of the tax legislation and drafting of proposals for amendments of tax laws to ensure full legislative conformity with EU best practice and EU acquis.

The Component 2 ensures unhindered provision of advice to the Tax Administration regarding implementation of the risk management system to facilitate the full utilization of the system and the inclusion of the direct taxes into the system.

The Component 3 represents continued assistance to The Tax Administration regarding future developments and modifications of the MTA IT Systems focusing on open source technologies.

Component 4 builds on previous assistance to develop cooperation between MTA and MCA including electronically exchange of information.

Component 5 represents the continuation of training activities especially regarding audit and investigation for field inspectors

3.7 Lessons learned

A coherent and effective tax collection system is essential in attracting foreign direct investments in Montenegro and in the development of the domestic economy. Montenegro is actively combating tax avoidance and evasion. The Tax Administration is taking proactive measures to improving revenue collection and enforcement as recently illustrated in the “Report on collection of taxes, contributions and other budgetary revenue for the period I-III 2007”. This shows that revenue collection rose by 22% in the first quarter of 2007 (when compared to the same period in 2006).

4. Indicative Budget (amounts in €)

Activities	TOTAL COST	SOURCES OF FUNDING										
		EU CONTRIBUTION				NATIONAL PUBLIC CONTRIBUTION				PRIVATE		
		Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *
contract 1	800,000	800,000	00	100		0	0				0	0
contract 2	100,000	100,000	00		100	0	0				0	0
TOTAL	900,000	900,000	100	100	100	0	0				0	0

* expressed in % of the Total Cost

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	Q2 2008	Q3 2008	Q3 2009
Contract 2	Q2 2008	Q3 2008	Q4 2008

6. Cross cutting issues (where applicable)

The mainstreaming of the cross cutting issues is addressed on two levels:

- 1) How the internal policies, structure or operating procedures of the beneficiary will conform with or promote the cross cutting issues set out

- 2) How the project's outputs (e.g. laws, regulations, policies, action plans, etc.) will address the cross cutting issues set out below.

6.1 Equal Opportunity

There is an extensive legislation in Montenegro related to the Equal opportunity issue. The Project will make sure that the internal policies, structure or operating procedures of the beneficiary will conform with or promote Equal opportunity issue.

The MTA Office has an equal opportunity policy. This is demonstrated by the fact that inside the MTA senior positions in management are predominantly held by female staff, including the Director and two Deputy Directors. In addition, the Tax Administration Office has stipulated employment objectives for handicapped and disabled persons, in accordance with Government regulations.

6.2 Environment

There is an extensive legislation that has been developed on environment protection. The Project will take appropriate activities in regard to environment as and when it becomes applicable.

6.3 Minorities

There are current legislative provisions for the protection of minority rights. The proposed project will make sure that the internal policies, structure or operating procedures of the beneficiary will conform with or promote the Minority issue. Indeed minorities are widely represented throughout the Tax Administration, including senior management.

ANNEXES

- 1 - Log frame in Standard Format
- 2 - Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3 - Reference to laws, regulations and strategic documents:
 - Reference list of relevant laws and regulations
 - Reference to AP /NPAA / EP / SAA
 - Reference to MIPD
 - Reference to National Development Plan
 - Reference to national / sectoral investment plans
- 4 - Details per EU funded contract

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX for Project Fiche		Programme name and number: Improving capacities for better efficiency and functionality of the Tax Administration work in accordance with European standards	
Tax Administration		Contracting period: 2 years from the date of conclusion of the Financing Agreement	Disbursement period: 5 years from the date of the conclusion of the Financing Agreement
		Total budget : €900,000	IPA budget: €900,000
Overall objective	Objectively verifiable indicators	Sources of Verification	
To assist the Government of Montenegro in the process of integration into the EU through the modernization of the Tax Administration in the facilities, legislative and in other specific areas.	<p>4. Increase of revenue and registered tax payers.</p> <ul style="list-style-type: none"> • Legislation approximated to EU standards • Procedures are more in line with EU standards • IT systems support the fore-mentioned reforms • Improved image of the Tax Administration in public and the 	<p>Internal evaluations of the beneficiary institutions Tax Administration interim and annual reports EU country reports and IMF reports.</p>	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
The purpose of this project is to support the Montenegro Tax Administration and its Branch Offices to achieve the legislative, procedural, human resource and information technology goals as set out on its strategic plans.	<ul style="list-style-type: none"> • Overall objectives related to reforms met • Quantifiable results 	<ul style="list-style-type: none"> • Quantifiable changes in areas of legislations, institutional reform, procedures and IT operations 	<ul style="list-style-type: none"> • Commitment of Ministry of Finance to support and oversee fiscal reforms and the MTA's strategic plans. • Commitment of MTA to accomplish reform • Sustained Human and Financial Resource allocation to such reforms • Retention of and upgrading of investments (i.e. trained staff and IT systems)
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<u>Component 1</u> - Harmonization of Legislation, Procedures and Practices by approximating tax and excise legislation and procedures on the EU acquis, specifically on VAT, Excise and Tax on Income as outlined in the NPISAA	<ul style="list-style-type: none"> • Additional and wider range of approximation measures implemented • Number of fiscal laws prepared and send for approval to the Montenegrin Parliament 	<p>Internal evaluations of the beneficiary institutions Tax Administrations interim and annual reports</p> <ul style="list-style-type: none"> • Amended law on VAT further aligned in accordance with the EU's Directive 112 on VAT • Amended laws on personal income tax, profit tax and excise taxes partially in line with EC directives in this area • New administrative procedures implemented. 	<ul style="list-style-type: none"> • Commitment of MTA to follow through reforms

<p><u>Component 2:</u> - MTA Collection Department</p>	<ul style="list-style-type: none"> Improved computerized collection systems delivered and operational <p>Increased usage of open source technologies and computerized tools in the collection and taxpayer monitoring processes</p> <p>Training activities performed and 45 employees trained.</p>	<ul style="list-style-type: none"> Delivered IT upgrades for collection Increased direct tax and VAT collections Increased taxpayers compliance Trained collection staff 	<p>Commitment of MTA to follow through reforms</p>
<p><u>Component 3: - Taxpayers Service</u></p>	<ul style="list-style-type: none"> Tax campaigns developed and executed Brochures, pamphlets and tax guides developed Work shops and seminars developed and performed MTA web site improved Between 15 and 20 employees trained 	<ul style="list-style-type: none"> Improved taxpayers satisfaction and compliance Decreased number of appeals MTA public image improved Increased communication and interaction between MTA and taxpayers through the internet. 	<p>Commitment of MTA to follow through reforms</p>
<p><u>Component 4: IT</u></p>	<p>Delivered IT hardware and software upgrades</p> <p>Increased usage of open source technologies in the tax administration</p> <p>Trained IT staff</p> <ul style="list-style-type: none"> Staff knowledge of EU systems, from the interoperability and interconnectivity aspects Approximately 40 employees trained. 	<p>Delivered IT hardware and software upgrades</p> <p>Increased usage of open source technologies in the tax administration</p> <p>Trained IT staff, specifically on the Oracle platform</p> <ul style="list-style-type: none"> Staff knowledge of EU systems, from the interoperability and interconnectivity aspects 	<p>Commitment of MTA to follow through reforms</p>
<p><u>Component 5: Control and Inspection</u></p>	<p>Improved tax audit and inspection procedures adopted</p> <p>Direct Tax and VAT Risk Management System implemented and operational</p> <p>Increased usage of open source technologies and computerized tools in the audit and inspection processes</p> <p>Between 60 and 70 audit and inspection staff trained</p>	<ul style="list-style-type: none"> Increased collections of direct taxes and VAT Improved audit and inspection management systems Trained audit and inspection staff Improved audit and inspection quality and performance 	<p>Commitment of MTA to follow through reforms.</p>
<p>Activities/Components or input</p>	<p>Means</p>	<p>Costs</p>	<p>Assumptions</p>
<p><u>Component 1 -</u> Harmonisation of Legislation, Procedures and Practices by approximating tax and excise legislation and procedures on the EU acquis, specifically on VAT, Excise and Tax on Income as outlined in the NPISAA</p>	<p>Initiate proposals for draft amendments to the VAT Law partially in accordance with the EU's Directive 112 on VAT drafted</p> <p>Initiate proposals for amendments to the Income Tax Law and the Profit Tax Law in line with EU directives and the EU Code of Conduct For Business Taxation in this area drafted</p> <p>Initiate proposals for the alignment of Montenegrin Indirect Taxation legislation and procedures with the EU acquis</p> <p>Support to development of new administrative procedures and training support in connection with implementation of new tax laws and insurance of alignment to best EU practise</p>	<p>125,000</p>	<p>* Commitment of MTA to follow through reforms</p>

<p><u>Component 2:</u> - MTA Collection Department</p>	<ul style="list-style-type: none"> • Support to enhancement of tax collection procedures including development of a computerized tax collection risk assessment system and a system for selection and monitoring of credit tax returns • Supporting improvements of IT systems regarding management of all taxpayers collection related data • Supporting training activities for MTA Collection staff • Support to improvement in taxpayers compliance by designing and realisation of general tax campaigns and campaigns for special targeted groups of taxpayers, including development of brochures, pamphlets and tax guides. Furthermore to develop and perform work shops, seminars, media campaigns and development of an improved MTA web site 	<p>250,000</p>	<ul style="list-style-type: none"> • Commitment of MTA to follow through reforms
<p><u>Component 3:</u> - Taxpayers Service</p>	<ul style="list-style-type: none"> • Support to improvement in taxpayers compliance by designing and realisation of general tax campaigns and campaigns for special targeted groups of taxpayers, including development of brochures, pamphlets and tax guides. Furthermore to develop and perform work shops, seminars, media campaigns and development of an improved MTA web site 	<p>25,000</p>	<ul style="list-style-type: none"> • Commitment of MTA to follow through reforms
<p><u>Component 4:</u> – IT</p>	<ul style="list-style-type: none"> • Supporting improvements of MTA IT systems by upgrading current hardware and software. • Supporting increased use of open source technologies in the MTA • Supporting training activities for MTA IT staff • Supporting the creation of knowledge of EU IT systems from the interoperability and interconnectivity aspects 	<p>250,000</p>	<ul style="list-style-type: none"> • Commitment of MTA to follow through reforms and to ensure retention of trained IT staff
<p><u>Component 5:</u> Control and Inspection</p>	<ul style="list-style-type: none"> • Supporting improvement of general tax and VAT audit and inspection procedures. • Supporting implementation of a tax and VAT risk management system • Supporting training activities for MTA tax inspectors • Support development of new IT software for enhanced utilization and exchange of internal and external information • Support to implementation of computerized audit monitoring and reporting tools 	<p>250,000</p>	<ul style="list-style-type: none"> • Commitment of MTA to follow through reforms

ANNEX 2: Amounts (in €) Contracted and disbursed by quarter for the project:

Contracted	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Contract 1.	800,000			
Contract 2	100,000			
Cumulated	900,000	900,000	900,000	900,000
Disbursed	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Contract 1.	400,000			400,000
Contract 2		100,000		
Cumulated	400,000	500,000	500,000	900,000

ANNEX III -Reference to laws, regulations and strategic documents:

- Reference list of relevant laws and regulations

Laws

- Tax Administration Law – passed on December 27th, 2001 and entered into force on January 1st, 2002;
- Corporate Profit Tax Law (Law on Tax Profit of Legal Persons) – passed on December 27th, 2001 and entered into force on January 1st, 2002;
- Law on Personal Income Tax Law – passed on December 27th, 2002 and entered into force on July 1st, 2002;
- Law on Value Added Tax – passed on December 27th, 2001 and entered into force on April 1st, 2003;
- Excise Tax Law – passed on December 27th, 2001 and entered into force on April 1st, 2002;
- Law on Real Estate Sales Tax – passed on December 18th, 2003 and entered into force on December 26th, 2003;
- Law on Tax on Turnover of Used Passenger Motor Vehicles, Vessels, Airplanes and Aircrafts – passed on September 24th, 2003 and entered into force on October 8th, 2003;
- Law on Tax on Games of Chance and Entertainment Games – passed on July 28th, 2004 and entered into force on August 10th, 2004;

Rulebooks

- Rulebook on the form and content of the application for registration of taxpayers- passed on May 8th, 2002;
- Rulebook on the form and content of the report on payment of the withholding tax – passed on July 24th, 2002;
- Rulebook on conditions and procedure of the public sale of the taxpayers` property – passed on May 21st, 2002;
- Rulebook on implementation of the Law on Value Added Tax – passed on November 18th, 2002;
- Rulebook on implementation of the Excise Tax Law – passed on April 15th, 2002;
- Rulebook on use of cash register boxes and the manner of tallying turnover of goods and services through the cash register boxes – passed on April 7th, 2003

Amendments to these laws that are passed, as well as the proposed amendments that are pending, can be found on the website of the Ministry of Finance in English.

www.ministarstvo-finansija.vlada.cg.yu

- Reference to AP /NPAA / EP / SAA

The **European Partnership Document** (27.1.2007 *EN Official Journal of the European Union L 20/21*) under *Short term priorities - European standards - Internal Market - Customs and taxation* elaborates that in order to address these priorities Montenegro should: "... Further align tax legislation with the *acquis*. Improve implementation of tax laws, focusing on revenue collection and control in order to

reduce tax fraud. In addition, the document argues to "apply the principles of the code of conduct for business taxation and ensure that new tax measures are in conformity with those principles."

The **Stabilisation and Association Agreement (SAA, March 2007)** addresses tax administration in Article 100 as follows:

Article 100
Taxation

The Parties shall establish co-operation in the field of taxation including measures aiming at the further reform of Montenegro's fiscal system and the restructuring of tax administration with a view to ensuring effectiveness of tax collection and the fight against fiscal fraud.

Co-operation will take due account of priority areas related to the Community acquis in the field of taxation and in the fight against harmful tax competition. Elimination of harmful tax competition should be carried out on the basis of the principles of the Code of Conduct for business taxation agreed by the Council on 1 December 1997. Cooperation will also be geared to enhancing transparency and fighting corruption, and to include exchange of information with the Member States of the European Union in an effort to facilitate the enforcement of measures preventing tax fraud, evasion and avoidance. Montenegro shall also complete the network of bilateral agreements with Member States, along the lines of the latest update of the OECD Model Tax Convention on Income and Capital as well as on the basis of the OECD Model Agreement on Exchange of Information on Tax Matters, to the extent that the requesting Member State subscribes to these.

- Reference to MIPD

In the MIPD document references to tax administration are as follows:

Under Main priorities and objectives of European Standards sector MIPD envisages on the page 25 expected results to be "Aligned customs and taxation legislation to the acquis; and upgraded operational capacity of the Customs and Tax Administration." In order to accomplish these priorities among Programmes to be implemented is the Capacity building and appropriate investments to the to the Customs and Tax administrations (page 26).

- Reference to National Development Plan

Not Applicable

- Reference to national / sector investment plans

Montenegro Tax Administration is taken part in the Government Action Plan for the implementation of the Program for the prevention of corruption and organized crime.

ANNEX IV: Details per EU funded contract where applicable:

For *TA contracts*: account of tasks expected from the contractor

See the above section 3.4 “Activities”

For *investment contracts*: reference list of technical specifications and cost price schedule

Technical Specification and Tentative Budget for Inofmation technology equipment (indicative)

Due to extensive changes in the overall business strategy, the Tax Administration is faced with the imminent need to modernize its IT infrastructure, including the redesign and implementation of the network infrastructure capable of supporting consolidated applications and centralized database system, as well as procurement of new working stations (computers along with operating system and software licences). Also, due to the outdated IT equipment based on older standards and network architecture, it became obvious that Tax Administration is not any more in position to fulfil the business goals in optimal way, based on current business processes and IT infrastructure (Hardware and Software) support.

The development of the new business processes and the business models are going to drive the development of new applications, databases, systems, and network infrastructure support. The environment in which Tax Administration operates and communicates with policy holders and contributors and institutions is changing, thus calling for an unavoidable redesign of the overall IT infrastructure support including peripheral network equipment such as computers and printers.

Another significant factor calling for unavoidable redesign of existing IT system is the age of equipment and the solutions in use. Due to missing investments into IT, Tax Administration was not in position to follow the development of IT technology and renovate its own IT equipment, solutions and skills accordingly. Now the existing technology is heavily outdated. To be able to catch and follow the development of IT, Tax Administration needs to replace the existing and to purchase additional computers and printers. Based on this, Tax Administration management and particularly IT management are facing the challenge of complex redesign of IT in all its' dimensions: technology, hardware, software, Network, applications, organization, skills etc. Implementation of this project will enable procurement of new “end user” equipment – new working stations and printers for employees. Procurement of the Hardware and Software will result in improved IT system, which will on a long term basis resulting in more efficient collection of taxes and more effective use of staff resources,

Hardware covers: workstations (computers) with LCD monitors and network printers (costs of above mentioned equipment should amount to approximately 70 - 85% of the total costs)

Software covers: operating system with basic office application package (costs of above mentioned software should amount to approximately 15 - 30% of the total costs).

ANNEX V: Organisational Chart of the Tax Administration

