

Standard Summary Project Fiche

1. Basic Information

- 1.1 CRIS Number:** BG 2005/017-353.08.03
- 1.2 Title:** Alignment with the Acquis on Taxation and Strengthening of the Administrative Capacity of the Revenue Administration
- 1.3 Sector:** Customs and Finance
- 1.4 Location:** Bulgaria, Sofia
Ministry of Finance and Bulgarian Tax Administration/National Revenue Agency
- 1.5 Duration:** Multi-annual (Phase 1: 2004 - Phase 2: 2005 - Phase 3: 2006)

2. Objectives

2.1 Overall Objective:

Creating a business friendly environment in the country, clear and efficient revenue collection and administration through harmonisation of Bulgarian tax legislation with the Acquis and strengthening the administrative capacity of tax/revenue administration in the process of accession to the European Union, including implementation of the Intrastat system in Bulgaria. Creation of conditions for continuous and sustainable development of the revenue/tax administration in compliance with the EU requirements and standards and effective implementation of Acquis in the field of taxation/social security and efficient use of IT for improvement of services and strengthening of the key operational functions of the administration.

2.2 Project purpose:

Project 1: Tax Policy

Implementation of the *acquis* in the area of direct and indirect taxation, administrative co-operation and mutual assistance

Implementation of EU best practices in the field of direct and indirect taxation

The staff dealing with tax policy to gain sufficient knowledge of the European Court of Justice practice regarding taxation

Promotion of the tax policy and the role of the EU tax legislation

Project 2: Institutional development of the revenue administration

Improvement of the capacity of the tax/revenue administration and its transformation into a modern administration serving the society, enjoying the public confidence, applying the best practices of the European Union, underpinned by uniform Acquis application practice and effective use of VIES systems database, and meeting the pre-accession requirements.

Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria

Development and implementation of the computer tools, necessary for the implementation of the Intrastat system in the tax/revenue administration of Bulgaria, including the Declarants` Register, the software applications for the Providers of Statistical Information (PSIs), the web-based

technologies for collection of Intrastat declarations and the automated verification/validation of raw data.

Project 4: Strengthened IT support for the operation of the revenue administration and its client services

Improvement of the capacity of the revenue administration in the area of information technologies, enlarging the IT support for the business units and enhancing the on-line administrative services provided to clients in line with the national e-government strategy.

2.3 Accession Partnership (AP) and NPAA priorities

The Bulgarian Tax Administration is in process of reform and modernisation in compliance with the requirements of the European Union to the tax administrations of the candidate countries. Along with the legislative changes, related to the adoption of the *Acquis*, a number of improvements of the work of the tax administration are implemented in order to achieve the key indicators of the Fiscal Blueprints of the European Commission.

The priority areas for development of the administrative capacity of the tax administration, subsequently the revenue administration (after the establishment of the National Revenue Agency), are described in the Accession Partnership and the Road Map, while the concrete actions that need to be undertaken are included in the negotiation position on Chapter 10 Taxation.

Accession Partnership priorities:

Sector Taxation

Tax Policy

Short-term priority: “Align VAT legislation and develop a timetable for alignment of excise duties; ensure that new tax measures comply with the principles of the Code of Conduct for Business Taxation”;

Medium-term priority: “Full alignment with the tax *Acquis* including the Community’s transitional VAT regime; review existing laws and ensure compatibility with the Code of Conduct for business taxation”.

Improved administrative capacity in the main functional areas of the revenue administration

"Strengthen administrative capacity and control procedures including administrative cooperation and mutual assistance between different parts of tax and customs administrations, with a view to increasing tax compliance, improving the collection of revenues and the management of VAT refunds. Develop IT systems so as to allow for the exchange of electronic data with the Community and its Member States."

Sector Statistics

“Start the preparation for the Intrastat system”.

Roadmap priorities:

Chapter 10: Taxation

Short-term: “Develop an updated business strategy for the tax administration and approve other linked strategies, such as audit strategies and the creation of a unified National Revenue Agency.”

“Continue alignment of the tax legislation in VAT and excise duties.”

Medium term:

- Strengthen the tax administration.
- Start to take steps to ensure the computerised tax information system is fully operational, including links to the customs information system and interconnectivity with EC systems ahead of accession.

Long-term: “Complete alignment of the tax legislation, except where transitional arrangements were agreed, and transpose all provisions of VAT transitional regime one year ahead of accession; ensure compliance with the Code of Conduct for Business Taxation.”

Chapter 12: Statistics

Medium term: Carry out preparatory work for the introduction of Intrastat

Negotiation position on Chapter 10 Taxation: outstanding actions

- development and implementation of new operational procedures in connection with the expanded scope of activity related to the NRA establishment
- training and qualification of staff in connection with the new procedures;
- development and implementation of a modern and highly functional integrated tax information system capable of establishing connection and exchange of information with the information systems of other relevant institutions;
- providing the necessary premises
- implementation of a computerised system for selection
- training of team leaders to perform international audits;
- establishment of a unit for detection of tax frauds and development of methods for detection and prevention of tax fraud;
- more efficient taxpayer service to improve voluntary compliance;
- implementation of an integrated tax information system;
- ability to perform administrative co-operation and exchange of information functions.
- the entry into force of the remaining part of the relative legislation
- existing discrepancies with the Acquis will be gradually eliminated before the date of accession of the Republic of Bulgaria to the EU by consecutive amendments of the VAT Act
- The Bulgarian legislation will fully implement the principles of Code of Conduct for Business Taxation
- Directive 90/434/EEC on common system of taxation applicable to companies of different Member States concerning mergers, divisions, transfers of assets and exchanges of shares, and Directive 90/435/EEC on common system of taxation applicable to parent companies and subsidiaries of Member States will be transposed in the Bulgarian legislation

EC's Regular Report for 2003

“Bulgaria’s indirect tax legislation is to a significant extent aligned with the acquis. Further alignment is though still needed in the area of VAT, in particular with regard to the alignment of the definitions of the taxable scope and the taxable place, the scope of exempt transactions, as well as the introduction of the special schemes for second-hand goods and travel agents.

As regards direct taxation, Bulgaria has to abolish its withholding taxes applied on dividends repatriated, and on interest and royalty payments from Bulgarian subsidiaries to EU mother companies, and to further align its legislation with the acquis. The review of its tax legislation should be continued in order to eliminate potentially harmful tax measures so as to comply with

the Code of Conduct for Business Taxation upon accession to the same extent as current Member States.”

“In the area of administrative co-operation and mutual assistance ensuring that the computerised tax information system is fully operational, and interconnectivity with EU IT systems is established should remain a priority. Bulgaria should take further measures to ensure that the tax administration has the necessary human resources, with adequate qualifications, to manage the various IT projects in this field.”

“Despite a number of positive developments during the reporting period, significant further efforts are needed to strengthen the tax administration. Bulgaria should address the need to improve the effectiveness of tax compliance, collection of revenues and VAT refund management by enhancing the efficiency of the entire tax administration. Particular attention should be given to internal control, audit and fraud investigation.”

EC’s Regular Report for 2004

“Some encouraging developments targeted at upgrading administrative capacity can be noted with regard to reducing staff turnover, introducing e-services for individuals and business entities, and improving staff and training policies, including standards of ethics. These efforts should continue, in order to improve tax compliance and revenue collection.”

“Although it has continued to make steady progress and improved its tax collection record, Bulgaria must continue its efforts to modernise its tax administration. In this context, the NRA, which was set up in 2002, should continue the process of taking over full competence from the GTD. Particular attention should be paid to timely and effective completion of the transformation, thus ensuring the stability and capability of the new structure and its staff.”

“Strong efforts to ensure the timely adoption of the envisaged measures and their full application should contribute to the establishment of an adequate implementing capacity. Efforts should continue as concerns specifically IT systems (interconnectivity with EU systems).”

Fiscal blueprints

The Fiscal Blueprints exercise was launched in 1999 by the EC to evaluate the administrative capacity of the tax administration to implement and control the tax Acquis. Eleven Fiscal Blueprints have been developed each representing “a pillar of best practice for operating a modern tax administration”. The Blueprints have three-fold purpose: to serve as a guide for the reform process in the tax administration, to be used by the Commission as benchmarks to measure shortfalls and improvements and as means of directing technical assistance. They cover the following 11 areas:

- Legislation;
- Rights and obligations of taxpayers;
- Ethics;
- Organisation and Management;
- Human Resources Management;
- Training;
- Communication;
- Revenue Collection and Enforcement;
- Fiscal Control;
- Administrative Co-operation & Mutual Assistance;

- Information Technology.

The Fiscal Blueprints establish the strategic objectives and the key indicators to which the administration should respond.

2.4 Contribution to National Development Plan (and/or Structural Funds Development Plan/SDP)

Not applicable

2.5 Cross Border Impact

Not applicable

3. Description

3.1 Background and justification:

Government Programme

One of the key priorities of the Government Programme “People are the Wealth of Bulgaria” is the financial policy, which has to play the decisive role in ensuring sustained growth and boosting prosperity. According to the programme, the Government will formulate a thoroughly new financial policy and particularly a public finance policy, which will optimise the share of the public sector and development of private enterprise. A key instrument in achieving the Government’s objectives is an adequate and consistent tax policy to boost economic growth. The programme envisages measures to cut the direct taxes that will let the individuals and the businesses retain earnings, push up demand, promote investment and business and improve the budget revenue performance in the long run. A clear and efficient revenue collection and administration procedure by applying the EU best practices will result in improved collection of customs duties, taxes and excise.

Another key priority of the Programme is the development of an effective public administration, which will be achieved, among other things, through the development of the information and communication environment and through the creation of preconditions for fast and efficient on-line access to the services provided by the administration.

Under the strategic paper named **Tax Policy 2003-2005** the development of the tax policy is bound with the requirements of the *Acquis* in the area of taxation and the main objective is the abolition of discrepancies and harmonisation of the tax legislation with the *Acquis*, adhering to the commitments undertaken in the negotiation process. Another key objective laid down in the strategic document, is the simplification of the tax system and its effective administration through creating the appropriate service environment and enhancing the capacity of the tax administration. In pursuance of this objective, one of the proposed measures is the reduction of red tape in the tax administration through establishing the National Revenue Agency, accelerating the audit implementation, strengthening the internal control at regional level and examining the possibility of creating tax police. Another measure is the enhancement of the client services of the tax administration through creating a clear legislative programme, improving the dialogue with the business, improving the mechanisms for feedback from the taxpayers, etc.

The main objective of the **E-Government Strategy of the Republic of Bulgaria** is to organise and support at the highest government level a long-term process of e-government implementation.

The strategy outlines the nature of e-government and its significance for the whole society; identifies the strategic goals of e-government, as well as the organisation and management of the related processes.

The document is of long-term significance for the highest governmental and political levels and will provide guidelines for the development of various specific current and future e-government projects, in line with its goals, principles and priorities.

One of the main strategic objectives that the Bulgarian government sets in the area is to form organizational, communication and information environment for effective and transparent functioning of the public administration in accordance with the principles, standards and best practices of the European Union. One of the main areas of focus to achieve this objective would be organizational and technological upgrading of the public administration, which means better interaction among institutions in the public administration, establishment of an integrated information and management environment providing opportunities for rapid, efficient and effective electronic access to services, thus limiting the development of corruption practices. The general good governance principles set out in the Strategy for Modernization of the Public Administration, as well as these, confirmed in the Declaration of the Ministers of the EU Member States and the Applicant Countries (Brussels, November 29, 2001) will also be applied, depending on the specific national conditions and the nature of projects. The implementation of e-government will be matched with the work done for the National Anti-Corruption Strategy.

In the definition of projects in this area the focus is put on:

- Data identification
- Data security and protection
- Integrated approach in project implementation
- Single entry and multiple use of data

As urgent projects of key importance for the future development are identified the design and development of an integrated electronic services system using institutional, inter-institutional and national information systems and the development of a Unified Crime Prevention Informational System.

In light of the harmonization of Bulgaria's administrative practices with those of EU, priority will be given to the automation of the services, which have been selected as indicators for the evaluation of e - government in the e-Europe Action plan, adopted by a Council Resolution No 5197/03, based on the Conclusions of the European Council of Seville, June 21-22, 2002, and Barcelona, March, 15 – 16, 2002, Commission Communication of February 05, 2002 on the E-Europe Benchmarking Report 2002 and Commission Communication of November 21, 2002 on E-Europe 2005: Benchmarking indicators. As indicators for evaluation of the development of E-Government the European Commission has adopted a list of on-line performed basic public administrative services –12 for citizens and 8 for business, among which are:

Public Administrative Services Provided to Citizens:

- Personal income tax: tax returns, notices
- Social security, Unemployment benefits, Child allowances, Health costs, Scholarships. Personal documents (identity cards, passports, driving licenses).

Public Administrative Services Provided to Businesses:

- Social security for the employees
- Corporate income taxes: tax returns, notices
- VAT: tax returns, notices.

Since April 23, 2004 the Bulgarian Tax Administration has introduced online payment of taxes. During the first 12 days /between 23 April – 04 May 2004/ 1157 taxpayers have registered to

pay their taxes on-line. The number of payments is 2698 and the total amount of taxes paid on-line is 131192 leva¹.

IT strategy in the taxation subsector

The Steering Committee for IT has decided to update the NRA IT Strategy developed in 2002 with the assistance of Deloitte and Touche. A proposal for update has been agreed by the Project Office and submitted for approval to the management of the Tax Administration/National Revenue Agency. The proposal contains as priority IT support system the electronic archive.

Strengthening of the capacity for Fiscal Fraud Investigation

At present there is a specialized structure for tax fraud investigation within the tax administration, responsible for the anti-fraud prevention and investigation activities and will benefit from the envisaged interventions and support, provided through Phare.

During its regular session on March 25, 2004 the Council of Ministers approved a draft law on the establishment of a National Fiscal Investigation Agency. The National Fiscal Investigation Agency is planned to be a specialized government authority for pre-trial penal proceedings of fraud and crimes against the tax and social security system directly reporting to the Minister of Finance. Its composition will be defined by amendments to the Structural Regulation of MoF.

If at the moment of starting the contracting and implementation procedures the NFIA is not-institutionalised, the beneficiary will be the existing structure within the revenue administration.

Call center

A Strategy for effective communication in the course of reform in the administration of public revenues whose main objective is to plan the NRA long-term communication so as to ensure the smooth progress of reform in administering public revenues and developing an effective public relations unit within NRA has been developed with funds by the Japanese government. The implementation of the strategy is financed by funds from a World Bank Loan BUL 4699. As a sub-goal has been planned the expanding the capacity of the public relations department. The centralization of tax structures countrywide has restricted the access to the administration and imposed introduction of new alternative methods for contact with the tax authorities. The Call-center is one of the most convenient and cheap ways to get information related to taxes, taking into account the fact that over 90% of the Bulgarian population has access to telephone infrastructure.”

Intrastat

Intrastat system covers the exchange of statistical information on trading in goods between the Members States of EU. But the system is very closely connected to the intra-community VAT system, because both tackle the commercial transactions between EU traders in goods, there are similar data fields in both declarations and even in VAT returns there are boxes where information about the volume of intra-community trade and partner should be filled in.

Decision No 409/20.06.2002 of the Council of Ministers regulates the distribution of responsibilities among the Bulgarian Tax Administration and the National Statistical Institute for the operation of the Intrastat system in Bulgaria. Teams have been formed in both institutions and a pilot survey on Intrastat has been performed in the first half of the year 2003

¹ Figures updated March 2005

alongside with all other candidate and acceding countries. A Strategy and a Framework Plan for the implementation of the Intrastat system have been developed and approved by the Ministry of Finance. Recently, the General Tax Directorate (GTD) and National Statistical Institute (NSI) have jointly developed a draft for detailed distribution of the responsibilities and activities between the two institutions for the period of preparation for implementation of Intrastat system in Bulgaria and for its real operation after the accession of our country to EC. According to this distribution GTD is responsible for the setting-up of the Declarants register and collection/automated processing of Intrastat declarations, while NSI is responsible for the follow-up processing of the information and sending it to Eurostat. These documents serve as a basis for the current and future projects that will be implemented by the Bulgarian Tax Administration and the National Statistical Institute in the area of Intrastat.

Currently, the Bulgarian tax administration at the Ministry of Finances is responsible for the complete process of administering and collection of the government taxes, including personal income tax and profit tax, local and municipal taxes, most of the excise duties and value-added tax. BTA is in a process of transformation from a tax into a revenue administration. In view of the planned transformation of the tax administration into revenue one, a new Decision of the Council of Ministers is needed in order to determine the new obligations for NRA in connection with the implementation and operation of the Intrastat system. On that basis the future legislation on Intrastat will be developed and accepted.

Efficient and uniform Acquis Communautaire application in the field of taxation

The aim of project activities in this area is to meet the necessity to enhance the administrative capacity for efficient and uniform tax Acquis application (legislation in force and forthcoming).

From the moment after accession of Bulgaria to the EU the revenue administration is obliged to directly apply the Acquis together with Bulgarian tax legislation. The project implementation will lead to training and preparation of tax authorities to apply the Acquis immediately after the expected accession date. In this respect, it is necessary to study the fiscal effects of Eurointegration and the harmonisation of the taxes within the European Community.

The Methodology and Appeals Department within the Tax Administration is responsible for the effective and uniform application of tax legislation, as well as the uniform practice on appeals of tax acts. The officers in these departments maintain the correct, exact and uniform application of the tax legislation, observing the principles of objectivity, good will and professionalism. The fiscal interests of the state, subsequently the EU fiscal interests, as well as the interests of the tax subjects, are guaranteed by the uniform application of the tax legislation.

Transfer pricing

As a result of the EU integration process the Bulgarian economy becomes more open for foreign investors. After the accession of Bulgaria to the EU the cases of practicing the rules **for transfer pricing** by the tax authorities will be increased. The Bulgarian tax administration has almost none experience and practice regarding transfer pricing. By contrast with the other OECD and EU member-countries we do not have developed methodology for application of transfer prices – all these countries follow the OECD Transfer Pricing Guidelines, but they are unknown in Bulgaria.

Improved services to foreign persons

During project implementation the practice of registration and services to foreign persons in the member-countries would be reviewed and transfer of knowledge and experience will be accomplished, which will result in **improved services to foreign persons**, improved tax control, increased collection of receivables leading to improved effectiveness of the whole administration.

E-audits and tax control

Following the accession of Bulgaria to the EU and the implementation of the related legislative changes, **for the tax control purposes** the tax auditors should acquire new knowledge about the place and method of taxation of the various intracommunity transactions. Having in mind the abolition of customs control and the existence of the VIES system, the specific audit and control methods for the delivered supplies will change, and the risk assessment and selection of taxable persons to be audited will become priority as well. At the same time there will be VAT tax fraud cases, involving persons from different member countries /Carousel-frauds/, and Bulgarian auditors at the moment need more information and knowledge transfer in this field. With a view to the broadening of the international co-operation and the proven effectiveness of the electronic audits compared to the traditional auditing methods, it is necessary to develop a project for the implementation of those methods in Bulgaria.

For the tax control purposes there is an objective necessity for the purchase or development of a software, by means of which taxpayers, who had concealed taxes, revenue, income, property, to be detected automatically by using the information for tax subjects collected by the tax administration (databases of the VIES system included), as well as that from the data base of the National Social Security Institute (NSSI), National Electricity Company (NEC), Bulgarian Telecommunications Company (BTC), the Customs Agency, National Statistical Institute (NSI), Ministry of Justice, Frontier Police etc.

The product should be able to perform selection of taxpayers, who had committed or who are potential perpetrators of typical tax frauds when carrying out intra-community and local supplies based on a pre-defined profile.

Enforced collection and recovery of claims

In the field of **enforced collection of tax liabilities** it is necessary to increase the staff capacity of the Collection function through knowledge transfer and expertise on the Acquis regarding state fiscal aids, creditors' protection and mutual cooperation in recovery of claims, based on best practices in the MSs.

Internal control

With a view to provide **effective preventive, current and following control of the internal systems of the organization**, it is necessary to strengthen the administrative capacity of the Internal Control Department. That will ensure the operation of a reliable control system with incorporated internal control mechanisms, which will enhance the timely and informed managerial decisions for the necessary actions. The objective is to undertake preventive, not corrective measures. It is necessary to raise the inspectors' knowledge and skills to apply the administrative and anti-corruption legislation consistent with the best practices, rules and standards for internal control and corruption prevention according to Acquis. The planned actions will result in strengthening the revenue/tax administration capacity and in such a way the necessary prerequisites to guarantee the Community' financial interests by the EU accession date will be available.

Composition of the Sector

The Beneficiaries of the projects under this Project Fiche are from Subsector Taxation and include the Tax Policy Directorate at the Ministry of Finance and the Bulgarian Tax/Revenue Administration

The Tax Policy Directorate was set up in April 2000 as a result of consultations with the IMF. By setting up this Directorate tax legislation methodology and preparation has been separated from the implementation of tax regulation. The Directorate is responsible for identifying discrepancies and proposing amendments to the Bulgarian tax legislation (Personal income and

corporate taxes, local and municipal taxes, VAT and excise duties), including those ones in view of harmonising it with the *acquis*.

Initially the directorate consisted of two Departments: Tax Legal Act and Analyses and Forecasts. With the growing need of amendments to current tax legislation in view of harmonizing it with *acquis*, a new Fiscal Integration Department was created in order to increase the administrative capacity of the Directorate regarding EU harmonization. The Department has been functioning ever since. A number of amendments have been made with the purpose of clearing the discrepancies between the current tax system and the requirements set by *acquis*. Yet, there are still issues that are not implemented and transfer of expertise is expected to play an essential role in that. Almost nothing has been done to implement the principles of directives for direct taxation. A considerable amount of work has been done concerning VAT harmonization, but there are further issues to consider, especially the VAT transitional regime.

The multi-annual programming will give the Tax Policy Directorate a continuous approach to the unresolved matters, keeping and further developing the legal, operational and administrative capacity of its staff.

The National Fiscal Investigation Agency is planned to be established under the Ministry of Finance.

At the end of December 2002, the Law for the Establishment of the National Revenue Agency (NRA) from 01.01.2003 was adopted and within a two-year period the NRA shall perform all preparatory activities for its real operation. NRA establishment project featured in the memorandum signed with the IMF in the year 2002 and was included in the Government's economic program in the year 2001. In June 2003 a Loan Agreement was signed for financing of a huge project for Revenue administration reform between Republic of Bulgaria and the International Bank for Reconstruction and Development (IBRD). The main objective of the Revenue Administration Reform Project (RARP) is to stimulate the establishment and functioning of a stable system for collection of public receivables in Bulgaria through creation of efficient economic system, which should support private sector development and be relevant to the EU accession requirements. The successful establishment of NRA goes through a comprehensive program for Tax Administration restructuring and modernization, so that it can meet the requirements for integration of NSSI collection functions in the new agency.

Deficiencies in terms of legislation and administrative structure

In view of the priorities laid down in the pre-accession documents and the government strategic papers, the following deficiencies in terms of administrative structure, institutional and administrative capacity, which are included in the Multiannual Indicative Sub-Sectoral Programme are identified:

Need for further harmonisation with the *Acquis*, in particular in the areas of VAT, direct taxation, administrative co-operation and mutual assistance – implementation of the directive on mutual assistance for the recovery of claims relating to certain levies, duties, taxes and other measures; implementation of the EU best practices regarding taxation small and medium enterprises, household taxation, investigation of most significant ECJ cases regarding taxation; promotion of the tax policy and the role of the EU tax legislation;

- Need to increase the capacity and optimise the activities of TTD – Large Taxpayers (TTD-LTP) in view of its integration within the National Revenue Agency
- Development of a system of criteria and instruments for organisational efficiency assessment;

- Need to improve the efficiency and effectiveness of the main operational functions (enforced collection, etc.);
- Need to strengthen the IT services to both the revenue administration and the clients in areas which are not covered by the NRA project such as, e-government, electronic archive management system.
- Need to establish information centres through a hot line whose functions will be complementary to the call-centre;
- Strengthening of the National Fiscal Investigation Agency within the Ministry of Finance;
- Support for the development of fully operational CLO;
- Development and implementation of the Intrastat system in Bulgaria.

Assistance under Phare programme for this period is planned to be provided through projects, which will contribute to further development and practical implementation of the achieved results within the framework of the completed Twinning project BG/FI/IB/006 “Reform and modernization of Bulgarian Tax Administration”, performed together with partners from three EU Member States – the Netherlands, Sweden and Ireland. Project activities will be an important addition to the Revenue Administration Reform Project, funded by the World Bank, and a natural continuation of the work in some areas of the already completed Phare 2000 Twinning Project “Reform and Modernisation of Bulgarian Tax Administration”, defined as priorities, where the achieved results should be further developed, customized and integrated in a National Revenue Agency.

The main goal of the planned project activities is to provide for further sustainable institutional development and establishment of uniform practice for application of harmonized tax legislation, building on the results of all preceding projects, aiming at strengthening the administrative capacity.

3.2 Sectoral Rationale

Not applicable

3.3 Results

3.3.1 Project 1: Tax Policy

3.3.1.1 Purpose

Implementation of the *acquis* in the area of direct and indirect taxation, administrative co-operation and mutual assistance

Implementation of EU best practices in the field of direct and indirect taxation

Promotion of the tax policy and the role of the EU tax legislation

The staff dealing with tax policy to gain sufficient knowledge of the European Court of Justice practice regarding taxation

3.3.1.2 Results

Subproject 1: Full harmonisation of Bulgarian tax legislation with the requirements of the acquis

Result 1: Discrepancies between the Bulgarian VAT legislation and the *acquis* removed

Result 2: Discrepancies between *acquis* and the Bulgarian Direct taxation legislation removed

Result 3: Discrepancies between *acquis* and the Bulgarian legislation in the area of Administrative Co-operation and Mutual Assistance removed;

Subproject 2: Implementation of EU best practices in the field of taxation and Promotion of the tax policy and the role of EU tax legislation

Result 2: EU best practices regarding taxation of small and medium enterprises (SMEs) implemented in Bulgarian tax legislation;
Result 3: EU best practices regarding family taxation implemented in Bulgarian tax legislation;
Result 4: EU best practices regarding taxation of companies of the financial sector implemented in Bulgarian tax legislation;
Result 5: Developed expert knowledge of the staff dealing with tax policy on European Court of Justice practice regarding taxation
Result 6: Public awareness of the EU tax legislation and the EU best practices in this field

3.3.2 Project 2: Institutional development of the revenue administration

3.3.2.1 Purpose

Improvement of the capacity of the tax/revenue administration and its transformation into a modern administration serving the society, enjoying the public confidence, applying the best practices of the European Union, and meeting the pre-accession requirements.
Development of a uniform practice for the application of tax Acquis and sustainable development the administrative capacity, specifically in the area of tax Acquis interpretation and application methodology; improved services to foreign taxpayers, tax control of intra-community transactions (e-audits and tax fraud prevention and investigation using the databases of VIES system), tax enforcement (recovery of claims) and internal control of related business processes.

3.3.2.2 Results

Subproject 1: Institutional development of the revenue administration - stage 1

Component 1: Enforced collection of public liabilities

Result 1: Developed criteria for classification of risk debtors;
Result 2: Developed system of enforcement measures against persons with accumulated tax liabilities from financial frauds;
Result 3: Developed manual on communication techniques for negotiating voluntary compliance. Developed plan for implementation of these communication techniques at all TA levels.

Component 2: Organisation and Management of managerial staff training

Result 1: Organisation and Management of managerial staff training

Component 3: Institutional development of the CLO

Result 1: Prepared 2006 Action Plan.
Result 2: Discussion on the international standards, news and trends in the field of the mutual assistance and exchange of information.
Result 3: Prepared materials for training of tax administration employees on mutual assistance and exchange of information. Trained contact persons at local level.
Result 4: Action plan prepared for Information campaign for taxpayers (companies) on changes to VAT regime and the procedure for declaring intra-community transactions. Information campaign materials elaborated.

Component 4: Strengthening the capacity of the National Fiscal Investigation Agency aiming at higher level of effectiveness of fighting tax-fraud

Result 1: Established system and developed criteria for tax fraud selection for criminal prosecution
Result 2: Developed methods and instruments for detection and prevention of fraud
Result 3: Specialised training on criminal investigation in cases of fiscal fraud – tax fraud, social and health insurance fraud;
Result 4: Technical specifications and supply of equipment and software.

Subproject 2: Institutional development of the revenue administration - stage 2

Component 1: Uniform practice for tax Acquis application (legislation in force and pending), including the provisions of the Treaty of Rome, concerning the taxation of the EU member states and decisions of the European Court of Justice, based on those provisions.

Result 1: Developed methodological instructions for the uniform tax Acquis application.

Result 2: Formed experts team, acquainted with the Acquis, trained for trainers on Acquis implementation (directly applicable and transposed into the national tax legislation)

Result 3: Developed manual, containing information and instructions for application of the provisions of the Treaty of Rome and the decisions of the EU Court of Justice, with decisions of the Court attached (in Bulgarian and English language).

Result 4: A trained team of trainers on the practices for application of the provisions of the Treaty of Rome and decisions of the EU Court of Justice, based on them, concerning the taxation in MSs.

Component 2: Uniform registration and improved services to foreign persons

Result 1: Draft proposals for legislative amendments, related to the registration of foreign persons in Bulgaria

Result 2: Methodology for registration of foreign persons

Result 3: Procedures for servicing foreign persons

Component 3: Improvement of the administrative capacity of tax control function in connection to the accession of the country to EU.

Result 1: Knowledge acquired by the auditors concerning the forthcoming changes in the tax legislation, especially in the tax treatment of various intracommunity transactions.

Result 2: Acquired techniques for control of intracommunity transactions and skills for the use of the VIES system database for tax audits purposes.

Result 3: Acquired knowledge of the capacity for use of the VIES system when performing risk analysis and selecting taxable persons for audit.

Result 4: Staff trained for conducting computer audits (e-audits).

Result 5: Acquired knowledge and skills for detection of and counter-action against tax frauds, committed by using intracommunity transactions for automated detection of persons, participating in such frauds.

Result 6: Development of Needs Assessment and Technical Specifications for software application for automated tracking of fraudulent taxpayers, potential and actual, while performing intracommunity and local transactions, based on pre-defined profile.

Component 4: Transfer pricing

Result 1: Methodology for transfer pricing

Result 2: Transfer pricing expert teams

Component 5: Improvement of the capacity of the Collection Department for application of the Community legislation in compliance with the European practice:

Result 1: Established team of experts, trained to implement the Acquis Communautaire in the field of the fiscal state aid,

Result 2: Developed instructions for Acquis implementation (based on a study and analysis of the European experience) in the field of creditors' protection during transformation of trade companies, joint and several liability for unpaid taxes in the MSs of the EU.

Result 3: Developed working procedures for recovery of claims and securing measures (Directive 76/308).

Component 6: Enhancing the administrative capacity of “Internal Control” Department in connection with the control of the internal systems of the organization

Result 1: Acquired knowledge and skills by the inspectors for implementing the Community administrative and anti-corruption legislation, equipped for its application in organizational management.

Result 2: Developed and implemented procedures for internal audits and internal administrative investigations

Component 7: Increased capacity and optimised activities of TTD in view of its integration within the National Revenue Agency– Large Taxpayers

Result 1: Increased capacity and optimised activities of “Large Taxpayers” Territorial Tax Directorate

Result 2: Needs Assessment and technical specifications elaborated

Subproject 3: Development of a system of criteria and instruments for organisational efficiency assessment

Result 1: Implemented system of criteria and instruments for organisational efficiency assessment

Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria

3.3.3.1. Project purpose

- Development and implementation of computer applications and web-based technologies for the Implementation of the Intrastat system in Bulgaria;
- Experimental operation of the Intrastat system in Bulgaria

3.3.3.2 Results

Component 1: Development of computer applications and web-based technologies for the Intrastat system

Result 1: Developed and approved technical and functional specifications for the Declarants Register;

Result 2: Developed and approved technical and functional specifications for the software applications for the Providers of Statistical Information (PSIs);

Result 3: Developed and approved technical and functional specifications for the web-based technologies for collection of Intrastat declarations and for automated verification/validation of raw data;

Component 2: Supply of Intrastat hardware and software

Result 1: Supply of hardware

Result 2: Supply of software

Component 3: Experimental implementation of the Intrastat system

Result 1: Carried-out Second Pilot Intrastat Survey in Bulgaria and tested legislation, methodology and logistics;

Result 2: Implemented and tested Declarants register, computer applications for PSIs and web-based technologies for collection of raw data for the Intrastat system;

Result 3: Achieved adequate level of readiness of the PSIs for compliance with the Intrastat system and for the submission of data with the required quality;

Result 4: Trained staff for the operation of the Intrastat system.

3.3.4. Project 4: Strengthened IT support for the operation of the revenue administration and its client services

3.3.4.1 Project purpose

Improvement of the capacity of the revenue administration in the area of information technologies, enlarging the IT support for the business units and enhancing the on-line administrative services provided to clients in line with the national e-government strategy.

Subproject 1: E-Government in service to the taxpayers: developing and enlarging on-line administrative services

Result 1: Enhanced and improved existing on-line taxpayer services, provided by BTA/NRA. Implemented EU standards in this area.

Result 2 Implemented new on-line taxpayer services;

Result 3: Enhanced administrative capacity of the administration in the taxpayer services and on-line administrative services.

Subproject 2: Acquisition and implementation of an electronic archive management system and its integration with the information system of BTA/NRA;

Result 1: Prepared gap analysis and needs assessment of the current practices in BTA/NRA for document flow and archive management and recommendations for development; prepared functional technical specifications of the system;

Result 2: Minimized risks in the implementation of the electronic archive management information system and its integration with NRA's information system and performance and quality measurement of the project

Result 3: Enlarged access for taxpayers to information in line with the Strategy on establishment of e-government by integration of electronic archives in the set of administrative services provided on-line;

Result 4: Improved data entry and data processing capacity of BTA/NRA;

3.4 Activities

Project 1: Tax Policy

The activities in the twinning should comprise the transfer of expertise from the experts of the Member State in question. Those activities will take the form of seminars, workshops or study visits.

Subproject 1: Full harmonisation of Bulgarian tax legislation with the requirements of the acquis

Contract 1 (2004): Twinning

Component 1: Value Added Tax;

Presentation of the main principles and mechanisms of the relevant Directives:

2001/115/??

- Background for the adoption of the Directive
- Legal and technical requirements as regards electronic invoicing
- Common arrangements governing the use of electronic invoicing; electronic storage of invoicing; self-billing and outsourcing of invoicing operations

2002/38/??

Special scheme for non-established taxable persons, supplying electronic services to non-taxable persons

- Definitions
- Place of taxation
- Fiscal obligations
- others

79/1072/???

- Background for the adoption of the Directive
- Persons liable for refund of VAT under the Directive
- Requirements for refund of VAT
- Applications for refund
- Procedure of refund

Presentation of the main principles and mechanisms of Directive 91/680/??? on the intracommunity trade - abolition of fiscal frontiers

- Scope
- Taxable persons
- Place of transaction
- Exemptions
- Taxable amount and rate applicable
- Obligations of persons liable for payment
- Right of deduction
- Special schemes

Identification of the texts in the existing law that should be amended

Drafting the legal act

Component 2: Direct Taxation;

Introduction to the principles of the Parent - Subsidiary Directive (90/435/EEC)

- Background for the adoption of the Directive
- Definitions
- Withholding tax
- Treatment of dividend income

Introduction to the principles of the Merger Directive (90/434/EEC)

- Background for the adoption of the Directive
- Definitions
- Treatment of mergers, acquisitions, split-offs, etc.

Introduction to the principles of the Interest and Royalties Directive (2003/49/EC) and the Savings Directive (2003/48/EC) and Directive 99/62/EC

- Tax package
- Definitions
- Application and non-application of withholding taxes
- Exchange of Information

Preparation of a manual for assessment of harmful tax measures under the Code of Conduct for Business Taxation

Identification of the texts in the existing law that should be amended

Drafting the relevant amendments to the legal acts

* There will be one study visit for both Component 1 and 2 (5 officials dealing with EU harmonization in the area of direct and indirect taxation). The study visit is intended to give further practical knowledge on the administrative procedures for adopting and administering the legislative amendments implementing Directive 91/680/??? on the intracommunity trade - abolition of fiscal frontiers and Direct taxation directives

Component 3: Administrative Cooperation and Mutual Assistance;

Introduction to the principles of Directive 76/308/EEC on mutual assistance for the recovery of claims relating to certain levies, duties, taxes and other measures and Directive 2002/94/EC on the implementation of the provisions of Directive 76/308/EEC

Identification of the texts in the existing law that should be amended

Drafting the relevant amendments to the legal acts

Reviewing and amending the Drafted Act implementing the Directive (77/799/EEC) and Regulation 1798/2003

Subproject 2: Implementation of EU best practices in the field of taxation and Promotion of the tax policy and the role of EU tax legislation

Contract 1 (2005)

Component 2: Taxation of Small and Medium Enterprises;

A1.1 Examination of the practices in the EU member-states regarding taxation of small and medium enterprises (SMEs)

A1.2 Examination of the experience in Home State Taxation of small and medium enterprises (SMEs)

A1.3 Make recommendation on applicable schemes regarding taxation of small and medium enterprises (SMEs)

A1.4 Draft amendments to the legal acts

Component 3: Family Taxation;

A2.1 Examination of the practices in the EU member-states regarding family taxation

A2.2 Make recommendation on applicable schemes regarding family taxation

A2.3 Draft amendments to the legal acts

Component 4: Taxation of Financial Sector;

A3.1 Examination of the practices in the EU member-states regarding taxation of companies of the financial sector

A3.2 Make recommendation on applicable schemes regarding taxation of companies of the financial sector

A3.3 Draft amendments to the legal acts

Component 5: Investigation of ECJ practice

A4.1 Presentation of the main decisions of the European court of Justice (ECJ) in the field of direct and indirect taxation

A4.2 Preparation of Report on the main decisions of ECJ regarding direct and indirect taxation and possible implication for Bulgarian tax legislation

Component 6: Promotion of the tax policy and the role of EU tax legislation

A5.1 Training of relative target groups in general aspects of the EU tax legislation**

A5.2 Training of relative target groups in VAT and Direct taxation **

A5.3 Identification of further training needs in the area of taxation

A5.4 Publishing of a brochure for Bulgarian tax policy and the role of EU tax legislation

* There will be one study visit for Components 1 - 4 (8 officials dealing with the relevant taxation matters). The study visit is intended to give further practical knowledge on the implementation of the EU best practices in the area of Taxation of Small and Medium

Enterprises, Family Taxation and Taxation of Financial Sector, as well as for the experience in implementation of International Accounting Standards

** The relative target groups comprise of Business Associations as well as Labour Unions:

- Bulgarian Chamber of Commerce
- Civil Union for Economic Initiative
- BIBA
- Bulgarian Industrial Association
- Employer's Union in Bulgaria
- Confederation of Independent Trade Unions in Bulgaria
- Trade Union "Podkrepa"
- Others

Project 2: Institutional development of the revenue administration

Subproject 1: Institutional development of the revenue administration - stage 1(2004)

Contract 2 (2004): Twinning

Component 1: Enforced collection of public liabilities

Result 1: Developed criteria for classification of risk debtors

- ?1.1. Analysis of the current situation
- ? 1.2. Exchange of experience
- ? 1.3. Transfer of experience and best solutions in the field of enforcement.
- ? 1.4. Elaboration of measures related to the classification of debtors.

Result 2: Developed system of enforcement measures against persons with accumulated tax liabilities from financial frauds;

- ? 2.1. Analysis of the current situation;
- ? 2.2. Exchange of expertise and best solutions in the area of combat against tax fraud with specific enforcement measures.
- ? 2.3. Development of a system of enforcement measures for cases of financial fraud.

Result 3: Developed manual on communication techniques for negotiating voluntary compliance. Developed plan for introduction of these communication techniques at all TA levels.

- ?3.1. Training of trainers at central level in techniques for communication with debtors aiming at encouragement of voluntary compliance
- ?3.2. Training of trainers at territorial level in techniques for communication
- ?3.3. Development of communication manual with techniques for negotiating voluntary compliance. Developed plan for implementation of these communication techniques at all TA levels

Component 2: Organisation and Management of managerial staff training

Result 1: Organization and management of managerial staff

- ?1.1. Concept paper on organisation and management of managerial staff
- ?1.2. Programme for managerial staff training
- ?1.3. Programme for evaluation of management capacity

Component 3: Institutional development of the CLO

Result 1: Prepared 2006 Action Plan

- ?1.1. Review and update of the Concept paper on the establishment of a CLO in BTA and Action Plan up to 2007;
- ?1.2. Development of short-term 2006 detailed plan;

Result 2: Discussion on the international standards, news and trends in the field of the mutual assistance and exchange of information;

- ?2.1. Study the experience of a EU member state
- ?2.2. Study the experience and problems in new Members States (from the 1st wave in 2004)
- ?2.3. Assessing the role of CLO in the exchange of information on the direct taxes in the European countries and their experience in this field. Possibilities for exchange of information with EU Member states before accession in EU and exchange of information with non EU Member states through CLO;
- ?2.4. Assessing the role of CLO in satisfying claims/appeals concerning VAT, which have arisen in other Member States;

Result 3: Prepared materials for training of tax administration employees on mutual assistance and exchange of information. Trained contact persons at local level.

- ?3.1. Study the experience of a member state;
- ?3.2. Development of a training program for tax/revenue administration employees training (EU VAT legislation, EU VAT fraud specificity, aspects of cooperation between the tax administrations of EU member states, etc.);
- ?3.3. Development of training materials (instructions/procedures/manuals, cases, etc.);
- ?3.4. Training of contact persons.

Result 4: Action plan prepared for Information campaign for taxpayers (companies) on changes to VAT regime and the procedure for declaring intra-community transactions. Information campaign materials elaborated.

- ?4.1. Participation in the development of an approach to inform the society and the taxpayers about new obligations, responsibilities and opportunities;
- ?4.2. Preparation and approval of a plan for organisation of information campaign for taxpayers on changes to VAT regime;
- ?4.3. Development of materials for the information campaign.

Component 4: Strengthening the capacity of a National Fiscal Investigation Agency within the Ministry of Finance / General Tax Directorate respectively, aiming at higher level of effectiveness of fighting tax-fraud

Result 1: Established system and developed criteria for tax fraud selection for criminal prosecution, as well as methods and instruments for prevention and detection of tax fraud;

- ?1.1. Development of criteria for reporting tax administration cases, which should be transferred for further investigation to the National Fiscal Investigation Agency;
- Evaluation of the developed criteria.

Results 2: Developed methods and instruments for prevention and detection of fraud

- ?2.1. Investigation of best practices and development of methods and instruments for prevention and detection of fraud
- ?2.2. Pilot implementation of developed criteria and methods

Result 3: Specialized training on criminal investigation in cases of fiscal fraud – tax fraud, social and health insurance fraud

- ?3.1. Training on criminal investigation in cases of fraud.

Result 4: Technical specifications for supply of equipment and software

?4.1 Preparation of needs assessment and technical specifications for supply of equipment and software

Contract 4 (2005): Supply of equipment/hardware & software for institutional development of the revenue administration (For list of indicative equipment, see Annex 4)

To Component 3: Establishment of the National Fiscal Investigation Agency within the Ministry of Finance / General Tax Directorate respectively, aiming at higher level of effectiveness of fighting tax-fraud.

Result 5: Technical specifications for supply of equipment and software

?5.1 Supply of specialised equipment and software for fiscal investigation and training;

?5.2. Supply of hardware/ software for the employees working on fiscal investigations

Subproject 2: Institutional development of the revenue administration - stage 2

Contract 2 (2005): Twinning

Component 1: Uniform practice for tax Acquis application (legislation in force and pending), including the provisions of the Treaty of Rome, concerning the taxation of the EU member states and decisions of the European Court of Justice, based on those provisions.

Result 1: Prepared methodological instructions for implementation of Acquis Communautaire.

- 1.1. Review and analysis of the main principles of Acquis in the field of taxation
- 1.2. Analytical review of the Acquis Communautaire (in force and forthcoming), compared to the national legislation and transfer of experience for the elaboration of methodological instructions for the establishment of unified practice on its implementation.
- 1.3. Development of methodological instructions for the implementation of Acquis Communautaire in the field of taxation (in force and pending)

Result 2: Formed training team of experts (acquis team), acquainted with Acquis Communautaire in the field of taxation (in force and forthcoming).

- 2.1. Transfer of knowledge and experience in Acquis Communautaire (directly applicable and transposed into the national tax legislation), in force and forthcoming.
- 2.2 Training of trainers in the Acquis application practice.

Result 3: A trained team of trainers in practices for application of the provisions of the Treaty of Rome, concerning taxation in the member countries of EU and decisions of the European Court of Justice, based on them.

- 3.1: Analytical review of the provisions of the Treaty of Rome related to taxation.
- 3.2 Training of trainers in practices for application of the decisions of the European Court of Justice based on the provisions of the Treaty of Rome.

Result 4: Prepared Manual with information and instructions for the implementation of the provisions of the Treaty of Rome and the decisions of the Court of Justice, with enclosed decisions of the Court (in Bulgarian and English language).

- 4.1. Detailed analysis of the best practices for implementation of the Treaty of Rome provisions and the decisions of the Court of Justice.
- 4.2 Development of a Manual with information and instructions for implementation of the provisions of the Treaty of Rome and the decisions of the Court of Justice in Bulgaria in compliance with the best European practices.

Component 2: Unified registration and improved services for foreign persons

Result 1: Draft proposals for legislative amendments, related to the registration of foreign persons in Bulgaria

- 1.1. Review and analysis of the legislation in force in compliance with the Acquis.
- 1.2. Drafting of proposals for legislative amendments.

Result 2: Methodology for registration of foreign persons

- 2.1. Review and analysis of the European practice for registration of foreign persons.
- 2.2. Development of methodology for registration of foreign persons.

Result 3: Procedures for servicing foreign persons

- 3.1. Acquaintance with the best practice for registration and servicing of foreign persons.
- 3.2. Elaboration of procedures for servicing of foreign persons.
- 3.3. Training of trainers – employees from the Registration and Taxpayers Services department for servicing of foreign persons.

Component 3: Improvement of the administrative capacity of tax control function in connection to the accession of the country to EU.

Result 1: Knowledge acquired by the auditors concerning the forthcoming changes in the tax legislation, especially in the tax treatment of various intracommunity transactions.

- 1.1. Transfer of knowledge on general provisions in the tax legislation of the EU Member-states;
- 1.2. Training on taxation of intra-community transactions.

Result 2: Acquired techniques for control of intracommunity transactions and skills for the use of the VIES system database for tax audits purposes.

- 2.1 Familiarization of the auditors with the best practices for control on intra-community transactions (techniques for tracing of production and cash flows)
- 2.2. Training of auditors of the capabilities to use the VIES system database in tax audits.

Result 3: Acquired knowledge of the capacity for use of the VIES system when performing risk analysis and selecting taxable persons for audit.

- 3.1. Familiarization with EU practice for risk assessment and selection for audits through the VIES database.

Result 4: Staff trained for conducting computer audits (e-audits).

- 4.1 Familiarization with EU practice for performing of e-audits;
- 4.2 Analysis of acquis covering this area and preparation of proposals for legislative framework for e-audits implementation;
- 4.3 Presentation of computer applications, used in EU, for e-audits performance and provision of expertise and assistance for selection of the most suitable applications for introduction in Bulgaria, in form of Needs Assessment.
- 4.4 Provision of assistance in the development of Technical specification for supply of software application for e-audits.
- 4.5. Technical assistance in development of procedures for e-audits.
- 4.6 Training of auditors for e-audits performance.

Result 5: Acquired knowledge and skills for detection of and counter-action against tax frauds, committed by using intracommunity transactions for automated detection of persons, participating in such frauds.

- 5.1. Familiarization of auditors with best practices for counter-action and detection of tax frauds, committed through intra-community transactions.
- 5.2. Transfer of expertise for automated detection of persons, participating in intra-community transaction frauds.

Result 6: Development of Technical Specifications for software application for automated tracking of fraudulent taxpayers, potential and actual, while performing intra-community and local supplies, based on pre-defined profile.

6.1 Preparation of Needs Assessment and Technical specifications for purchase or development of software application for automated detection of taxpayers, evading payment of taxes, income, profit, property etc., as well as potential fraudulent taxpayers.

Component 4: Transfer pricing

Result 1: Methodology for transfer pricing

- 1.1. Acquaintance with the OECD Transfer Pricing Guidelines and the best practices on the implementation of transfer prices in the EU member-states
- 1.2. Development of transfer pricing methodology for the purposes of the Bulgarian revenue / tax administration.

Result 2: Transfer pricing expert teams

- 2.1. Establishment of an expert team of trainers and training in transfer pricing methodology and its application.
- 2.2. Training of experts in transfer pricing methodology and its application, jointly performed by project consultants and trained Bulgarian experts (as per p.2. 1)

Component 5: Improvement of the Collection department capacity in implementation of Acquis in accordance to the EU practice

Result 1: Establishment of a team of experts, trained in the implementation of Acquis Communautaire in the field of fiscal state aids.

- 1.1. Acquaintance with the practice of the European Court of Justice in the field of fiscal state aids.
- 1.2. Developed rules and regulations for the implementation of Acquis in accordance with the best European practices in that field
- 1.3. Establishment of an expert team and training of trainers in implementation of Acquis in the field of fiscal state aids.

Result 2: Developed manual, comprising comparative analysis of the experience in the field of joint and several liability of third parties for unpaid taxes in the member countries of the EU as a tool against VAT fraud.

- 2.1. Study and analysis of the European practice in the field of joint and individual liability of third parties as a tool for fighting against tax fraud with VAT;
- 2.2. Development of rules and instructions for implementation of Acquis in that field jointly with EU and Bulgarian tax experts.
- 2.3. Training of trainers in the field of joint and several liability within the European Union.

Result 3: Developed model of procedures for recovery of claims and securing measures (Directive 76/308).

- 3.1. Acquaintance with the European practice in that field
- 3.2. Development of working procedures model for tax recovery of claims and securing measures.
- 3.3. Training of trainers (Experts from the Collection and the Methodology and Appeals Departments of the revenue/tax administration) on the implementation of Directive 76/308.

Component 6: Enhanced administrative capacity of “Internal Control” Department in connection with the control of the internal systems of the organization

Result 1: Acquired knowledge and skills by the inspectors for implementing the Community administrative and anti-corruption legislation, equipped for its application in organizational management.

Training of trainers in anti-corruption techniques (business processes, in-building of internal control mechanisms, preparation of analysis in support of timely administrative anti-corruption decisions of senior management;

- 1.1. Training of trainers in EU best practices on preventive (ex-ante) and subsequent (ex-post) internal control of the systems;

Result 2: Developed and implemented procedures for internal audits and internal administrative investigations

- 2.1. Transfer of experience in EU Member-states practice and the procedures and instruments for internal audit and internal administrative investigation;
- 2.2. Development of procedures for internal audits and internal investigations aiming at future certification of business processes within the Internal Control Department.

Component 7 Increased capacity and optimised activities of Territorial Directorate “Large Taxpayers and Contributors” in view of its integration within the National Revenue Agency

Result 1: Increased capacity and optimised activities of “Large Taxpayers” Territorial Tax Directorate

- 1.1. Reviewing the functional organisation and implementation of integrated operative processes, consistent with the specific work conditions with large taxpayers and contributors;
- 1.2. Improving the procedures and systems for Territorial Directorate “Large Taxpayers and Contributors”, consistent with the best practices;
- 1.3. Employees training and exchange of experience to ensure provision of various services to large taxpayers and contributors, related to the use of international accounting standards, audit of companies, using computer accounting programs, use of computer programmes in large taxpayer audits;
- 1.4. Development of specific criteria for risk selection and management for Territorial Directorate “Large Taxpayers and Contributors”;

Result 2: Developed technical specifications

- A2.1. Developed needs assessment and technical specifications.

Contract 1 (2006): Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration

To Component 3 (Twinning project 2, stage 2): Supply of software for e-audits and tax fraud investigation (use of VIES database)

Supply of technical equipment for the call-center.

To Component 7 (Twinning project 2, stage 2): Increased capacity and optimised activities of TTD – Large Taxpayers

Supply of software and equipment for enhancing the administrative capacity of the revenue administration

Subproject 3: Development of a system of criteria and instruments for organisational efficiency assessment

Contract 3 (2005): Technical assistance for development of a system of criteria and instruments for organisational efficiency assessment

Result 1: Implemented system of criteria and instruments for organisational efficiency assessment, in connection with TA’s restructuring and NRA future activities

A1.1. Development of System of criteria and instruments for organisational efficiency assessment through:

- review of the leading EU practices in the area;
- selection of a system and defining its scope;
- identifying criteria and quality and quantity assessment indicators and developing technical specifications of the necessary software;
- identifying methods and sources for collection of necessary information for criteria and indicators;
- preparation of resource assessment, necessary for system development and functioning;
- preparation of pilot organisational efficiency assessment of units on central level and in some TTDs

Contract 1 (2006): Supply of software for organisational efficiency assessment, its customisation, implementation and testing

- development of system software application;
- implementation and testing;

Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria

Contract 3 (2004): Technical Assistance

Component 1: Development of software applications and web-based technologies for the Intrastat system

Result 1: Developed and approved technical and functional specifications for the Declarants Register;

?1.1. Development of technical and functional specifications for the Declarants Register;

Result 2: Developed and approved technical and functional specifications for the software applications for the Providers of Statistical Information (PSIs);

?2.1. Development of technical and functional specifications for the software applications for the Providers of Statistical Information (PSIs);

Result 3: Developed and approved technical and functional specifications for the web-based technologies for collection of Intrastat declarations and for automated verification/validation of raw data;

?3.1. Development of technical and functional specifications for the web-based technologies for collection of Intrastat declarations and for automated verification/validation of raw data;

?3.2. Development of technical and functional specifications for a system for automated verification/ validation of raw data.

Component 3: Experimental implementation of the Intrastat system

Result 1: Carried-out Second Pilot Intrastat Survey in Bulgaria and tested legislation, methodology and logistics;

?1.1. Organisation and conduct of Second Pilot Intrastat Survey in Bulgaria;

?1.2. Analysis of the results of the survey and final amendments of legislation, methodology and logistics;

Result 2: Implemented and tested Declarants register, software applications for PSIs and web-based technologies for collection of raw data for the Intrastat system;

?2.1. Experimental implementation of Declarants register, software applications for PSIs and web-based technologies for collection of raw data for the Intrastat system;

?2.2. Analysis of the results and corrections of the software;

Result 3: Achieved adequate level of readiness of the PSIs for compliance with the Intrastat system and for the submission of data with the required quality;

?3.1. Organisation and conduct of information campaigns for PSIs;

?3.2. Training campaigns for PSIs for usage of software and electronic submission of declarations;

Result 4: Trained staff for the operation of the Intrastat system.

?4.1. Preparation of training materials;

?4.2. Selection, recruitment and training of staff for operation of the Intrastat system;

Contract 4 (2004): Supply of computer hardware, software, telecommunication and digital office equipment for the computer applications and web-based technologies for the Intrastat system.

Component 2: Supply of hardware and Intrastat software

Result 1: Supplied hardware according to Lot 1.

Result.2: Supplied software according to Lot 2.

Project 4: Strengthened IT support for the operation of the revenue administration and its client services

Subproject 1: E-Government in service to the taxpayers: developing and enlarging on-line administrative services

Contract 5 (2004): Technical Assistance

Result 1: Enhanced and improved existing on-line taxpayer services, provided by BTA/NRA. Implemented EU standards in this area

A1.1. Analysis of existing on-line taxpayer services

A1.2. Improvement and enhancement of existing on-line taxpayer services

A1.3. Implementation of EU standards and best practices

Result 2: Implemented new on-line taxpayer services.

A2.1. Development and integration of new on-line administrative services in line with the Bulgarian national e-government strategy and EU standards.

A2.2. Supply of new hardware and communication equipment for development of the current IT infrastructure used for the provision of on-line services.

Result 3: Enhanced administrative capacity of the administration in the taxpayer services and on-line administrative services.

A3.1. Technical assistance and training for IT experts in GTD/NRA in the area of development, integration and maintenance of web-based systems providing on-line administrative services

Contract 4 (2005): Supply (For list of indicative equipment, see Annex 4)

To Result 1: Enhanced and improved existing on-line taxpayer services, provided by BTA/NRA. Implemented EU standards in this area:

Supply of new hardware and communication equipment for development of the current IT infrastructure used for the provision of on-line services

To Result 3: Enhanced administrative capacity of the administration in the taxpayer services and on-line administrative services

A3.1. Encourage and popularise the use of on-line administrative services by individuals and businesses.

A3.2. Provision of universal digital certificates under advantageous conditions;

Subproject 2: Acquisition and implementation of an electronic archive management system and its integration with the information system of BTA/NRA

Contract 5 (2005): Technical Assistance

Result 1: Prepared gap analysis and needs assessment of the current practices in BTA/NRA for document flow and archive management and recommendations for development; prepared functional technical specifications of the system;

A1.1. Gap analysis and needs assessment of the current practices in BTA/NRA for document flow and archive management;

A1.2. Development of functional and technical requirements to the electronic archive management system, including development of technical specifications for proposed equipment

Result 2: Minimized risks in the implementation of the electronic archive management information system and its integration with NRA's information system and performance and quality measurement of the project

A2.1 Risk analyses

A2.2 Proposals for actions for minimizing the risks for the implementation of the project

A2.3 Support to the development and implementation of a set of indicators of achievement, which will be used for periodical performance measurement

A2.4 Proposal for time frame of the project

Result 3: Enlarged access for taxpayers to information in line with the Strategy on establishment of e-government by integration of electronic archives in the set of administrative services provided on-line;

A4.1. Integration of electronic archives into administrative services provided on-line

Contract 2 (2006): Supply

To Result 2: Implemented electronic archive management information system and integrated with NRA's information system;

A2.1. Supply of IT equipment and system software;

A2.2. Supply of electronic archive management information system (application software) and its integration into IIS of NRA;

A2.1. Training of IT experts and end users in the area of maintenance, management and exploitation of the system;

Result 4: Improved data entry and data processing capacity of BTA/NRA;

A3.1. Development of system functionality - possibility to enter and process documents through OCR technology

3.5. Linked Activities

Twinning Project BG/2000/IB/FI/06 "Reform and modernization of Bulgarian Tax Administration"

Within Phare 2000 programme a Twinning Project BG/2000/IB/FI/06 "Reform and modernisation of Bulgarian Tax Administration and harmonisation of Tax Legislation" was implemented, which lasted 21 months and was successfully completed in May 2003. It covered most tax administration functions with key importance for effective and efficient functioning of the administration – strategic planning and change management training, internal and external communications, taxpayer service, tax control, tax methodology, appeals, internal control, human resource management and training.

One of the key results was "Harmonisation and codification of substantive tax legislation". The Tax Policy Directorate and particularly Fiscal Integration Department played an important role in this result area.

As a result of the Twinning project two new administrative structures were established:

- the Methodology and Appeals Department within the General Tax Directorate (GTD) as well as Methodology and Appeals Departments in six territorial tax directorates;
- the Central Liaison Office (CLO) for implementation of administrative cooperation and information exchange with the EU and EC member-countries based on the VIES system (whose databases are planned to be effectively used in this project for the tax control purposes)

Projects 1 and 2 planned under the National Programme Phare 2004-2006 take as a starting point the achievements of the Phare 2000 Twinning project and are, where applicable, based on the recommendations of the Final Report to the EU .

Revenue Administration Reform Project (RARP)

As a result of the WB and IMF support in the period 2000-2003 a significant progress in the National Revenue Agency Establishment Project was achieved. On November 14, 2003 The Parliament approved a National Revenue Agency Act (NRAA) and Headquarters were created, responsible for further implementation of the project. According to NRAA NRA Headquarters, together with TA and NSSI, are responsible for establishment of NRA organizational structure and for implementation of structural changes in TA and NSSI, connected to the transition of TA activities and NSSI collection activities into the NRA. The objectives, scope and benefits of NRA establishment both for the community and the state were elaborated. The main strategies for objectives' achievement and a detailed working plan, provided with the necessary resources, were identified. The project received full support from the Bulgarian Government, business taxpayers and community as a whole. In support of NRA Establishment Project on June 18, 2003 a Loan Agreement was signed (Revenue Administration Reform Project) between Republic of Bulgaria and IBRD, which was ratified by Bulgarian Parliament with an Act, approved on July 16, 2003.

The overall objective of the Project as it was mentioned above is to promote a sustainable revenue collection system for Republic of Bulgaria through the establishment of National Revenue Agency (NRA) on purpose of an economically efficient public revenue collection system that facilitates private sector development and complies with requirements for the European Union (EU) accession. The Project has six components: Policy Support, Management and Organizational Development, Operations Development, Outreach Services, Facilities Upgrading, and Programme Management, and will be implemented over a period of six years.

The Revenue Administration Reform Project aims at implementation of an integrated information system. There is an ongoing process of selection of company whose revenue management software would be used. By June 2004 it would be clear functionalities are provided by the system. By the end of 2004 the company would customize its product to the needs of the Bulgarian revenue administration. Approximately four months are needed for the implementation of the system within the country so that the basic functionality is implemented. The first stage of the implementation of the NRA information system would be completed at the start of the planned Phare projects and this would allow the start of the work on the applications.

In January 2004 a bilateral technical assistance was agreed between the National Revenue Agency and the **UK Department for International Development** within the framework of which part of subcomponent II-2 Human Resource Management within Component II Management and Organisational Development of the RARP Project would be implemented during the period February 2004 – March 2005. The activities include: NRA staff consolidation strategy, NRA pay policies and procedures, a staff complementing model, recruitment, selection and appointment procedures; career development policies, and the role and structure of local human resource management units.

When the **DFID** project is completed in March 2005 further assistance would be needed for the following:

- General support on the implementation of the Staff Consolidation Strategy²;
- Enabling the development of a professional HR function by ensuring the recruitment, training and support of HR staff at a local level;
- Implementation of the staff complementing system in the context of consolidation and the introduction of new integrated business processes;
- A full scale job evaluation exercise based on the new structure and new business processes;
- Continued development of an NRA HR Strategy. Such a strategy should address the longer term needs of the NRA in respect of the number and skills of staff required and the desired culture of the organisation e.g. to be more customer focused;
- A review of the effectiveness of any new pay arrangements;
- A Senior Management Development Programme.

Part of the Component II.3. Training Capacity Development would be implemented with the assistance of consulting services funded by the World Bank. The following would result from these services: developed and implemented training, retraining and qualification strategy, established integrated system for training, retraining, qualification and career development, established modern training centers.

BG 0203.13: Development and implementation of VIES requirements and EU interoperability standards in the Tax Administration

The purpose of the project is to develop and implement the VIES (VAT Information Exchange System) requirements and integrate these requirements into the IIS (Integrated Information System) National System. The adaptation and computerisation represents a EU requirement, stated in the legal basis of this business, which also specifies mandatory computerization as an Accession requirement. The successful completion of this project will support the efficient management of the tax administration and its operational activities, the effective administrative co-operation with EU member states and DG TAXUD and the enhanced communication with stakeholders.

Specifically, this project includes the development, implementation and integration of the VIES system and application software, supply and installation of computer hardware and telecommunication equipment and Technical Assistance and technical training in system and application software and management of the development processes.

In August 2003 a Steering Committee on Information Technologies (SCIT) in the Bulgarian TA and NRA HQ has been established to ensure full co-ordination, continuity and complementarity of all activities in the IT area (including VIES and NRA Revenue Management System). Participation of Representatives of GTD, NRA Head Office and the Ministry of Finance in SCIT would guarantee a good co-ordination between NRA Revenue Management System (RMS) Project and the VIES Project, within the context of the IT policy at Ministerial level.

Extension of disbursement period was requested by the beneficiary and official approval has been granted.

Implementation of the Contract activities has started in December 2004 and a Project Board was set up in January 2005.³

National Phare-2003 Programme

Twinning light Projects 2003:

² NRA Staff Consolidation Strategy was officially approved on 15 March., 2005 by NRA Board of Directors

³ Updated March, 2005

- Methodology and appeals function – “Development and Improvement of the Operation of the Methodology and Appeals Departments at the Bulgarian Tax Administration and the National Revenue Agency” – the aim of the project is strengthening the capacity of the department in the process of transformation of the tax administration into revenue administration; application of the systematic-approach-to-training method for training revenue officials and development of a concept for the content of a Bulletin as a tool to achieve uniform and unified implementation and interpretation of the **Bulgarian** tax legislation
- Intrastat Department – “Development of Legislation, Methodology and Logistics for the Intrastat System in Bulgaria” is formation of legal framework for implementation of the Intrastat system in Bulgaria, preparation of a due methodology and development of logistic methods for implementation and functioning of the system in Bulgaria, including working procedures and resources.

CCN/CSI Gateway

The installation of a CCN/CSI gateway within the National Customs Agency is planned for the end of the year. The gateway will be jointly used by National Customs Agency and the Bulgarian Tax Administration and will ensure the connection between their information systems (including VIES) with EU systems.

A project on establishment, administration and support of a Centre for communication and exchange of information with the EU has started. The project has been initiated by the Customs Agency according to Order No 685/22.10.2002 of the Minister of Finance, but it is a joint project of the National Customs Agency and the General Tax Directorate. The project envisages that the technical team on administration and support of the centre includes experts from both administrations.

The contact persons for communication with the Technical centre of CCN/CSI have been appointed.

US Treasury Tax Programme

Assistance provided to the tax administration under US Treasury Tax Programme is based on a Memorandum signed in 1998 between the Ministry of Finances of the Republic of Bulgaria and the Ministry of Finances of the USA (US Treasury Tax Advisory Programme). All areas, in which the Programme may provide assistance to the Bulgarian tax administration, are described in the Memorandum. Until the present moment the programme has provided assistance for the improvement of the operative efficiency of tax administration in the following areas: taxpayers' service, tax audits, collection, internal security, development of Code of Ethics (in co-operation with EU experts under Twinning Project, Phare Programme-2000), development of the training centres, public relations. A future assistance is planned for managers training, specific audit techniques in the gambling area and development of “Appeals” function within the NRA. It is important that this programme is open and flexible and when the activities are planned and executed, a good co-ordination mechanism is created at the level of managers and experts, aimed at full synchronisation and avoidance of duplication and overlapping of activities.

Intrastat projects

In the year 2003, GTD and NSI prepared and conducted the pilot Intrastat survey in Bulgaria. It was organised in the frame of the Phare 2000 Multi-Beneficiary Program and supervised by Eurostat.

In the forthcoming years till accession to the EU, the preparation for implementation of the Intrastat system in Bulgaria will be supported by 3 technical assistance projects in the frame of the Phare Program:

A Twinning-light project under Phare 2003, which has been approved, is envisaged to cover the non-computer based activities, including harmonization of legislation, methodology and logistics (working procedures, forms, supporting documentation, etc.);

This Technical Assistance project, which covers all the computer-based developments of technologies for the operation of the Intrastat system, which according to the a.m. Decision of the Council of Ministers have to be performed by the Tax administration, including the Declarants` Register, the software applications for the Providers of Statistical Information (PSIs), the web-based technologies for collection of Intrastat declarations and the automated verification/validation of raw data;

A Technical Assistance project BG 0006.04.02 “Technical Assistance for Development of the National Statistical System” within the Phare-2000 National Program, currently being implemented in the National Statistical Institute, which covers the obligations of NSI in connection with the future implementation and operation of the Intrastat system, including quality of data, preparation of final data and submission to Eurostat and dissemination of data.

Ministry of Finance Phare Projects

Phare project BG02/IB-FI-03 Strengthening the administrative capacity to manage the *acquis* on state aid and improvement of the system for monitoring and control of state aid. The project aims at:

- Establishment of a functioning system of State Aid monitoring, notification and control with clear responsibilities and effective capabilities of all administrative bodies involved, namely the Ministry of Finance (MoF) and the Commission for Protection of Competition (CPC).
- Ensuring and maintaining an *acquis-communautaire-conform* State Aid enforcement practice of the control authority CPC and the State Aid monitoring authority at the MoF, in connection with the functions of all other concerned state bodies.

Phare project: BG 9910-01 “Reinforcing the Administrative capacity to manage the *acquis* in the field of competition” of CPC (its state aid sector)

Phare project: BG 9910.02 “Approximation of legislation in state aids field, institution building of State aids monitoring authority at the Ministry of Finance and setting up the national state aids monitoring system”.

3.6 Lessons learned

The projects planned under the National Programme Phare 2004-2006 draw on the lessons learned during the implementation of Phare 2000 Twinning project and are, where applicable, based on the recommendations of the Final Report to the EU prepared by the Pre-Accession Adviser. In addition, they address directly the recommendations of the 2003 Regular Report of the European Commission as quoted above.

An important conclusion drawn from the experience of the tax/revenue administration with projects from various donors is that it is necessary to establish an efficient coordination mechanism between these projects. Positive developments up to the moment to ensure coordination of activities in the tax/revenue administration:

- The Tax Director General is Executive Director of the NRA, and a Project Leader;
- A Project Office has been established in the Headquarters of the NRA by Order No 99/08.04. 2004 of the Executive Director of the National Revenue Agency and it is

reporting directly to the Executive Director, and is responsible also for Donor coordination. The Project Office includes the head of the Strategic Planning and change Management Dept., NRA, the head of Policy analysis and Support, NRA, the head of the Internal Control Dept., GTD, the head of the IT Dept., GTD and the head of the International Directorate of the NSSI.

- Steering Committee for IT (SCIT) is in place for coordination, control and monitoring of all IT activities (being crucial for the implementation of the integrated IT system (under the WB Loan-assisted project and the Phare 2002 VIES project)

On 5 December 2003 a Donor-coordination meeting was held in GTD, on coordination of assistance, provided to the tax administration by different donors: EU, WB, DFID, US Treasury. A general agreement reached that Coordination is crucial and when results are achieved by specific project activities, they would be absorbed and incorporated into subsequent project activities, financed by a different donor, thus all results would add up and lead to improved overall administrative capacity and sustainable development of the revenue administration.

It is proposed to set up a Programme Coordination Committee for project implementation under the National Phare 2004-2006 Programme, concerning the activities of tax, subsequently revenue administration. It will consist of representatives from NRA, Ministry of Finance, European Delegation Commission, World Bank and other donors and stakeholders, and will have regular meetings during project implementation.

As far as the capacity of the tax/revenue administration to manage IT projects, establishment of an IT Project Management Unit in GTD is envisaged to be in place. A task force has been established to specifically cover the Phare 2002 VIES Project and they will gain experience and qualification for Phare 2004 2006 projects as a next, complementing stage, of the developments in this area. Training and transfer of expertise on project management, risk management and quality management will be carried out within the framework of Component 3 of the VIES by the end of December 2004. Section “Strategy and Planning of the development of an integrated information system in GTD functions as an IT project management unit

The beneficiary institution for *Project 1 Tax Policy* is the Ministry of Finance, Tax Policy Directorate. As described above, it is responsible for enhancing the Bulgarian tax system and bringing it in conformity with the requirements of the EU membership. The Tax Policy Directorate took part in the Twinning project mentioned above named “Reform and Modernization of Tax Administration” (BG/2000/IB/FI/06). The results were quite satisfactory to both the Bulgarian part and the experts from the Member States involved. New staff of the Fiscal Integration Department within the Tax Policy Directorate has been employed and took important part in the activities under the Twinning.

The experience in project implementation has shown the necessity to further strengthen the **internal co-ordination mechanisms:**

- Participation of IT experts in activities, related with software applications development, supply and training, will be ensured to guarantee timely and adequate IT support.
- HRM experts to be involved in activities, related with train-the-trainer activities and trainers’ teams.
- Experts from the Tax Policy Department at the Ministry of Finance to be actively involved in legislative reviews and analyses and all tax Acquis related activities within the tax administration.

4. Institutional Framework

Beneficiary institutions under the National Phare 2004-2006 Programme will be:

Project 1: Tax Policy Directorate at the Ministry of Finance

Projects 2&3: Ministry of Finance, the Bulgarian Tax/Revenue Administration, which includes the Bulgarian Tax Administration, under the Ministry of Finance, and the National Revenue Agency (NRA), which Headquarters are already formed, the National Statistical Institute.

The beneficiary (Ministry of Finance) will be the institution within which *Project 1 Tax Policy* will operate. The Fiscal Integration Department has been founded to meet the requirements for further and more precise understanding of the acquis and to play a major role in harmonising Bulgarian tax legislation with acquis. As stated before, the Department deals particularly with EU integration in the field of taxation and this is expected to facilitate the actual functioning of the project. The staff is motivated and ready to develop their knowledge of the acquis in the area of taxation and successfully implement it in the local legislation. The project is intended to develop the legal, administrative and operational capacity of the employees of the Tax Policy Directorate but will not lead to any specific changes to the institutional framework.

The Bulgarian Tax Administration at the Ministry of Finances is responsible for the complete process of administering and collection of the government taxes, including personal income tax and profit tax, local and municipal taxes, most of the excise duties and value-added tax. The tax administration is in a process of transformation into a National Revenue Agency: the Tax Administration activities, connected with the collection of public receivables, will be integrated with the collection functions of the NSSI within the National Revenue Agency whose real functioning will start in 2005.

The Bulgarian Revenue Administration is reporting to the Minister of Finance and the Deputy Minister of Finance responsible for the area of taxation. The governing bodies of the Bulgarian Tax Administration are the Tax Director General and the Deputy Tax Director. The Agency's governing bodies are the Board of Directors and the Executive Director. The Board of Directors consists of the Minister of Finance, who is also its chairman, the directors of NSSI and NHIF, one deputy-minister and the Executive Director. The present NRA Executive Director is at the same time General Tax Director. The employees appointed at the NRA HQ are 137 and those of the tax administration countrywide at present are 9293.⁴

The structure of the Bulgarian tax administration is as follows:

- General Tax Directorate;
- 5 Regional Tax Directorates;
- 29 Territorial Tax Directorates;
- 1 Large Taxpayer Territorial Directorate;
- Tax Offices;
- Tax Bureaux and Extended Working Locations

At present the Tax Offices and Tax Bureaux are in transformation process.

In 2004 a considerable restructuring of the Tax Administration has began: the processes related to administration of revenues coming from the government budget were effectively separated from those related to local taxes and fees (LTF). The administration of government taxes is being centralized in the regional centers thus reducing the number of tax offices⁵ and the expenditures, improving the operational control. During the centralization of activities related to collection of government taxes and separation of LTF, delegation of administering LTF to municipalities has begun. By the end of 2004 agreements have been concluded with 138

⁴ Figure updated at 31.12.2004

⁵ Structure updated Dec. 2004

municipalities within the country. 13 front-offices were established outside the TTD with functions servicing the government taxes as the Extended Working Locations are kept.

At December 2004 25 territorial directorates (TTDs) operate under centralization of government taxes. By the end of 2005 completion of the process for the rest of the TTDs is expected, so that all the activities related to administration of government taxes (VAT, patent tax, excises, income tax, corporate income tax) are concentrated in the respective regional center.

Along with the process separation, restructuring of personnel commenced. Also a process for procurement and repairs of buildings by NRA is undergoing.

In parallel, a process of gradual merger of activities and departments has begun at a central level as major was the integration of the IT departments at GTD and NRA into one Information Systems (IS) Directorate. For 2005 it is planned the merger to continue also for the departments and activities with supporting functions. However the departments with operational functions (tax control, registration, taxpayer service, collection, etc.) keep their operation under GTD as required by the current legislation. They will be transferred within the NRA structure after adoption of the new legislation.

As indicated above, it is proposed to set up a Programme Coordination Committee for project implementation under the National Phare 2004-2006 Programme, concerning the activities of tax, subsequently revenue administration. It will consist of representatives from NRA, Ministry of Finance, Delegation of the European Commission, the World Bank and other donors and stakeholders, and will have regular meetings during project implementation.

In the area of information technology, an IT Steering Committee (SCIT) of the Bulgarian Tax Administration and the National Revenue Agency has been established in August 2003 with chairman of the Supervisory Committee the Tax Director General and Executive Director of NRA. Deputy Chairmen are two Deputy Directors, responsible for the IT sector in GTD and NRA, respectively. Members of SCIT are the Heads of the following departments of the GTD and the NRA: IT (GTD), CLO (GTD), Registration and Taxpayer services (GTD), Legal dept (GTD), Servicing Control and Collection (NRA) and from the Ministry of Finance - the Head of the IT department at the IS Directorate.

Concerning the investment components of projects 2 3 and 4 the Owner will be the NRA with the BTA having the right to use the supplied goods (software/hardware/equipment). The Owner of the equipment and software supplied under Project 2, Subproject 1, Component 4 "Strengthening the capacity of the National Fiscal Investigation Agency" would be the Ministry of Finance. Although the project foresees the development of software for the Providers of Statistical Information (PSIs), the latter cannot be beneficiaries because the developed software will be owned and distributed free of charge (according to the European practice) by GTD to PSIs.

Methodology and Appeals Function

By order of the Minister of Finance the Tax Methodology and Appeals Department (TMAD) was established and commenced its activities as from April 2003. On the 1st July 2003 by subsequent order of the Minister of Finance six territorial Tax Methodology and Appeals Departments were established at the following Territorial Tax Directorates – Large Taxpayers Sofia, Plovdiv, Varna, Burgas and Veliko Tarnovo. These six departments function as local tax methodology centers providing for the needs of uniform implementation of the tax legislation on local level.

The TMAD at the General Tax Directorate and TMAD in the Territorial Tax Directorates in particular have the following functions:

- Process modelling and generation of products to unify the practice on the application of the tax legislation, including the administrative and judicial tax process;
- Consultations and advice in the framework of the legislative process;
- Introducing the annual amendments in the tax legislation as well as the new tax laws;
- Organising and carrying out trainings of tax officials from all levels of the Bulgarian Tax Administration on the uniform implementation of the tax legislation.
- Administrative and Judicial Appeal.

Central Liaison Office

Specialized department “Central Liaison Office” within the General Tax Directorate has been established, by Order N 427/29.05.2003 of the Minister of Finances, effective from 01.06.2003. During the period 2004-2006, functions of this specialized department are related entirely with the establishment of the necessary preconditions for its effective operation as of the date of accession.

Concerning the investment components Owner will be the NRA with the BTA having the right to use the supplied goods.

5. Detailed budget

in MEURO

	Phare Support				
	<i>Investment Support</i>	<i>Institution Building</i>	<i>Total Phare (=I+IB)</i>	<i>National Co-financing *</i>	<i>TOTAL</i>
Year 2004/Phase 1					
<i>Contract 1 (Tax Policy) Twinning</i>		<i>1,300</i>	<i>1,300</i>		<i>1,300</i>
<i>Contract 2 (Tax/Revenue administration /TRA/ Twinning)</i>		<i>0,950</i>	<i>0,950</i>		<i>0,950</i>
<i>Contract 3 (Intrastat) TA</i>		<i>0,600</i>	<i>0,600</i>		<i>0,600</i>
<i>Contract 4 (Intrastat) Supply</i>	<i>0,300</i>		<i>0,300</i>	<i>0,100</i>	<i>0,400</i>
<i>Contract 5 (E-government) TA</i>		<i>0,850</i>	<i>0,850</i>		<i>0,850</i>
Total Year 1	<i>0,300</i>	<i>3,700</i>	<i>4,000</i>	<i>0,100</i>	<i>4,100</i>

Year 2005	Phare/Pre - Accession Instrument support	Co-financing			Total Cost
€M		National Public Funds (*)	Other Sources (**)	Total Co-financing of Project	
Year 2005 - Investment support jointly co funded Contract 4 (TRA – Enhancement of adm capacity) Supply					
Supply (TRA - Fiscal investigation)	0.220	0.074		0.074	0.294
Supply (E-government)	0.150	0.050		0.050	0,200
Supply (Call-centre)	0.254	0.085		0.085	0.339
Investment support – sub-total	0,624	0,209		0,209	0,833
% of total public funds	max 75 %	min 25 %			

*In case of parallel co-funding (per exception to the normal rule), see the following special condition: **No parallel co-financing***

Year 2005 Institution Building support					
Contract 1 (Tax Policy) Twinning	0,700			0.700	0,700
Contract 2 (TRA)Twinning	1,236			1,236	1,236
Contract 3 (TRA Organisational efficiency assessment) TA (0.364) (E-archive) TA (0,500)	0.864			0.864	0.864
IB support	2,800				2,800

Total project 2005	3,424	0,209			3,633
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(*) contributions form National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises

(**) private funds, FIs loans to private entities

<i>indicative Year 2006</i> <i>Investment support</i> <i>Contract 1</i> ➤ E-archive (2,450) ➤ TTD Large Taxpayers (0,285) ➤ Organisational efficiency assessment (0,075) ➤ E-audits (1,600)	3.,307	1,103		1,103	4,410
<i>indicative Year 2006</i> <i>IB support</i>					
Total (indicative) project 2006	3,307	1,103		1,103	4,410

** National co-financing of 25% of the budget of the investment components and up to 10% of the Phare budget of the Twinning component will be provided from the State budget through the “National Fund” Directorate within the Ministry of Finance.*

The funds under “National Co-financing” column reflect the Bulgarian National contribution to the implementation of the project. These funds will be joint co-financing to be tendered in a single tender together with Phare funds. All operational and running costs and the maintenance of the equipment will be provided by the final beneficiaries

6. Implementation arrangements

6.1 Implementing agency

Programme Authorising Officer:
Secretary General – Ministry of Finance
102 Rakovski St.
1040 Sofia, Bulgaria
Tel: + 359 2 9859 2012
Fax: + 359 2 987 3929

The Central Finance and Contracts Unit will be the implementing agency responsible for tendering, contracting and disbursement procedures. CFCU Director
102 Rakovski St.
1040 Sofia, Bulgaria
Tel: + 359 2 9859 2772; + 359 2 9859 2777
Fax: + 359 2 9859 2773

Beneficiary institutions will be the Ministry of Finance, Tax Policy Directorate on *Project 1 Tax Policy* and Ministry of Finance, General Tax Directorate and the National Revenue Agency on Projects 2 and 3.

The “EU Integration and Phare Projects Implementation” Section within the International Operations Department in NRA will be responsible for organization, co-ordination and monitoring of project activities, reporting on the progress on a regular basis.

Details for Project 1

The implementation of the Project will be under the responsibility of the Head of Fiscal Integration Department within the Tax Policy Directorate. The Fiscal Integration Department (Project Implementation Unit – PIU) will be responsible for the organisation and carrying out the activities of the twinning. Its main functions will involve carrying out the operational and organisational activities, assisting and monitoring the implementation of the phases of the project and reporting on their successful and efficient realisation. The head of the Fiscal Integration Department (the PIU) act in the capacity of Senior Programme Officer

The individual activities will be carried out by the experts within the Fiscal Integration Department that deal with the different parts of the *acquis* in the field of VAT, Direct Taxation, Administrative Cooperation and Mutual Assistance.

Address: 102 Rakovski Str, 1040 Sofia, Bulgaria,
Phone No of the Director (+3592) 9859-2851,
Fax (+3592) 9859-2852

Details for Projects 2:

Responsible for project implementation will be one of the NRA Deputy Directors who will be project leader.

Details for Projects 3 and 4:

Responsible for project implementation will be one of the NRA/GTD Deputy Directors who will be project leader.

Membership of the existing Phare Implementation Unit is extended and consists of five experts, responsible for organisation, co-ordination, and monitoring and reporting and will perform the operative functions of project implementation and report.⁶

For project implementation under National Phare 2004-2006 Programme, concerning the activities of tax, consequently revenue administration, a Programme Coordination Committee will be formed. It will consist of representatives from NRA, Ministry of Finance, EC Delegation, World Bank and other donors and stakeholders, and will have regular meetings during project implementation.

For each separate project an expert working group will be formed, consisting of representatives of the above mentioned institutions.

A network of projects contact persons will be created.

6.2 Twinning

Project 1 Tax Policy will be carried out through a twinning contract between the tax administration of one or more EU member states and the Ministry of Finance, Tax Policy Directorate as beneficiary institution. Member states interested in obtaining further information should contact the Head of Fiscal Integration Department, Tax Policy Directorate, Ministry of Finance, 102 Rakovski Str, 1040 Sofia, Bulgaria, phone (+3592) 9859-2871, fax (+3592) 9859-2852, e-mail v.shikova@minfin.bg

Profile of the twinning team for Project 1, Contract 1:

Project Leader with overall management of the inputs of the member state(s). The Project Leader is expected to be a senior manager dealing with tax policy of the member state.

Resident Twinning Adviser, who will be responsible for the overall implementation of Project 1 Tax Policy in Bulgaria with the following profile:

- Extensive experience and competence (at least 10 years) in the tax policy area, in particular EU tax harmonization;
- Extensive experience (at least 5 years) in management of institutional development project;
- Familiar with the ECJ practice in the area of Taxation and at areas of at least two other Components of Phase 2
- Expertise with on the job training and daily knowledge transfer;
- Fluency in English;
- Computer skills.

Short-term experts with relevant experience and competence in the following areas for Contract 1:

- Value Added Tax;
- Direct Taxation;
- Administrative Cooperation and Mutual Assistance;

⁶ Information updated March 2005

Short-term experts with relevant experience and competence in the following areas for Contract 2:

- Taxation of Small and Medium Enterprises
- Family Taxation
- Taxation of companies of the Financial Sector
- ECJ practice in the area of Taxation

Concerning the Twinning contracts under Project 2, they will be delivered through a twinning contract with the tax administration of one or more EU member states. Member states interested in obtaining further information should contact Head of PIU, General Tax Directorate, 52 Dondukov Blvd, 1000 Sofia, Bulgaria, phone (+3592) 9859-3696 fax (+3592) 9859-3562, e-mail y.tzoneva@taxadmin.government.bg and Head of International Operations Department, National Revenue Agency, 52 Dondukov Blvd, 1000 Sofia, Bulgaria, phone (+3592) 9859-3064 fax (+3592) 9859-3562, e-mail l.todorov@taxadmin.government.bg.

Profile of the twinning team Project 2:

Project Leader with overall management of the inputs of the member state(s). The Project Leader is expected to be a senior manager in the tax administration of the lead member state. She/he must have good leadership skills and a broad knowledge of policies and processes in the area of tax administration, including the relevant EU Acquis. The Project Leader is expected to devote a minimum of 3 days per month to the project, including one visit every 3 months.

Twinning Resident Adviser who will be responsible for the overall implementation of Project 2 in Bulgaria with the following profile:

- Extensive experience and competence (at least 10 years) in the tax area, in particular in restructuring and modernisation activities;
- Extensive experience (at least 5 years) in management of institutional development project;
- Familiar with the tax and social security legislation and best practice of the EU administrations in those areas;
- Experience in change management and strategic planning;
- Expertise with on the job training and daily knowledge transfer;
- Fluency in English;
- Computer skills.

Short-term experts with relevant experience and competence in the following areas:

- Establishment and operation of tax anti-fraud units;
- Enforcement of public liabilities;
- Statistics, analysis and prognoses;
- IT project planning and management;
- Human Resources Management - strategy, methodology, evaluation of performance, remuneration and bonuses, planning of HR development, career path building, working environment;
- Training - methodology, preparation, delivery, assessment of effectiveness of training;
- Administrative co-operation and mutual assistance;
- Exchange of information - establishment and operation of CLO.
- Registration and service of foreign taxpayers from EU MSs;
- EU practice and software applications for e-audits;
- Operation of tax anti-fraud units;
- Fighting tax-fraud – audit techniques and control methods in tax fraud cases (Carousel frauds);

- Transfer pricing;
- EU practice in the field of joint and individual liability of third parties for unpaid taxes as a tool against VAT fraud, as well as tax collection and security measures (expertise on interpretation and application of Directive 76/308);
- Internal control and anti-corruption measures

The twinning contract will be with the tax administration of one or more EU member.

The twinning team will assist the beneficiary institution in defining the specification of the necessary equipment under the separate supply contract handled by the CFCU and evaluating bids.

6.3 Non-standard aspects

There are no non standard aspects. .

6.4 Contracts:

Phase 1: 2004

Project 1: Tax Policy

Contract 1 (2004) – Twinning Contract

Project 2: Institutional development of the revenue administration

Subproject 1: Institutional development of the revenue administration – stage 1

Contract 2 (2004) – Twinning Contract

Project 3: Development of computer tools and experimental implementation of the Intrastat system

Contract 3 (2004) – Service Contract for Technical Assistance;

Contract 4 (2004) – Supply contract for computer hardware, software, telecommunication and digital office equipment for the computer applications and web-based technologies for the Intrastat system.

Project 4: Strengthened IT support for the operation of the revenue administration and its client services

Subproject 1: E-Government in service to the taxpayers: developing and enlarging on-line administrative services

Contract 5: (2004) – Technical Assistance

Phase 2: 2005

Project 1: Tax Policy

Contract 1 (2005) – Twinning Contract at the sum of 0.700 MEUR

Project 2: Institutional development of the revenue administration

Subproject 2: Institutional development of the revenue administration – stage 2

Project 4: Strengthened IT support for the operation of the revenue administration and its client services

Subproject 4: Acquisition and implementation of an electronic archive management system and its integration with the information system of BTA/NRA

Contract 2 (2005): Twinning Contract at the sum of 1,236 MEUR

Contract 3 (2005): Technical assistance

Technical assistance for development of a system of criteria and instruments for organisational efficiency assessment at the sum of 0.364 MEUR

Technical Assistance for e-archive at the sum of 0.500 MEUR

Contract 4 (2005): Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration at the sum of 0,833 MEUR

- Supply of equipment for Fiscal Investigation at the sum of 0,294 MEUR
- Supply of equipment for Call center 0,339 MEUR
- Supply of equipment/hardware & software for developing and enlarging on-line administrative services at the sum of 0,200 MEUR

Phase 3: 2006

Project 2: Institutional development of the revenue administration

Subproject 2: Institutional development of the revenue administration – stage 2

Project 4: Strengthened IT support for the operation of the revenue administration and its client services

Subproject 4: Acquisition and implementation of an electronic archive management system and its integration with the information system of BTA/NRA

Contract 1 (2006): Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration at the sum of 4,410 MEUR

- Supply of equipment for TTD Large Taxpayers 0,285 MEUR
- Supply of software for organisational efficiency assessment, its customisation, implementation and testing at the sum of 0,075 MEUR
- Supply of equipment/hardware & software for e-archive at the sum of 2,450 MEUR
- Supply of software for e-audits and tax fraud investigation (use of VIES database) at the sum of 1,600 MEUR

As far as the Twinning contracts are concerned, in the event that no suitable twinning proposal is forthcoming, the project will be implemented through conventional technical assistance.

Concerning supply of software, in the event that no suitable proposals are forthcoming, the project will be implemented through conventional technical assistance.

7. Implementation Schedule

Phase 1: 2004

	7.1 Start of Tendering/ call for proposals	7.2 Start of project activity	7.3 Project completion
Contract 1: (Tax Policy) Twinning	July 2004	March 2005	Sept 2006
Contract 2: (Tax/Revenue Administration /TRA/) Twinning	July 2004	June 2005	May 2007
Contract 3: (Intrastat) Technical Assistance	January 2005	October 2005	May 2007
Contract 4: (Intrastat) Supply	January 2006	September 2006	April 2007
Contract 5: (E-government) Technical Assistance	January 2005	October 2005	May 2007

Phase 2: 2005

	7.1 Start of Tendering/ call for proposals	7.2 Start of project activity	7.3 Project completion

Contract 1: (Tax Policy) Twinning	February 2006	February 2007	Nov 2008
Contract 2: (TRA) Twinning	July 2005	June 2006	May 2007
Contract 3: (Organisational efficiency assessment) Technical Assistance (E-archive) Technical Assistance	January 2006	October 2006	March 2008
Contract 4: (Enhancement of adm. capacity) Supply : ➤ (TRA Fiscal Investigation) Supply ➤ (Call-centre) Supply ➤ (E-government) Supply	January 2006	October 2006	March 2007

Phase 3: 2006 (Provisional)

	7.1 Start of Tendering/ call for proposals	7.2 Start of project activity	7.3 Project completion
Contract 1: Supply ➤ E-archive ➤ TTD Large Taxpayers ➤ Organisational efficiency assessment ➤ E-audits	January 2007	October 2007	March 2008

8. Equal opportunity

Equal participation in the project by women and men will be assured. There will be no bias in relation to gender, ethnic origin, religious or political affiliation.

9. Environment

Not applicable

10. Rates of return

Not applicable

11. Investment criteria

11.1. Catalytic effect:

The Phare contribution will act as a catalyst for priority accession actions in the field of tax acquis application. It will further improve the capacity of the revenue/tax administration, and provide for its efficient operation and sustainable development in accordance with EU standards and practices.

11.2. Co-financing

The National Co-financing will be up to 10% of the contract value for Twinning contracts) and minimum 25% for Investment (Supply contracts) and will be provided from the state budget through the National Fund Directorate at the Ministry of Finance.

The National Co-financing will be contracted along with the Phare funds (Joint Co-financing)

11.3 Additionality

The Phare intervention does not displace other sources of financing as no alternative funds have been allocated for the proposed project.

11.4 Project readiness and size

High priority is attached to the tax control on EU intra-community transactions, specifically e-audits and tax-fraud prevention and investigation. .

11.5 Sustainability

All the equipment purchased will be in accordance with European Union norms and standards. The revenue/ tax administration is in a position to operate and maintain the specialized equipment effectively in the long run.

11.6 Compliance with state aids provisions

Not applicable

12. Conditionality and sequencing

12.1. Conditionality

- The Government will maintain a consistent policy in the area of tax reform, and adhere to the objectives on tax administration underlying the projects here, throughout project implementation.
- Projects to be implemented through twinning require the full commitment and participation of the senior management of the beneficiary institution.
- The senior management must be involved in the development and implementation of the policies and institutional change required to deliver the project results.
- Revenue administration management will provide the twinning partner with adequate staff and other resources to operate effectively.
- Participation of IT experts in activities under different project components will be ensured to guarantee timely and adequate IT support.
- There are two alternatives for the for real start of operation of the National Revenue Agency, which depend on adoption of the legislative framework. In the optimistic alternative the National Revenue Agency would become really operational as of January 01, 2005, while in the pessimistic one NRA would actually start operation as of January 01, 2006. During the donor coordination meeting on December 05, 2003, the management of the tax administration and the National Revenue Agency guaranteed that TA employees trained under Phare project would be transferred to the National Revenue Agency.
- As far as the administration of the Intrastat system in Bulgaria is concerned, a decision has not yet been taken on the final distribution of responsibilities among institutions. There is an effective Decision of the Council of Ministers, which delegates responsibilities for the drafting of the legislative framework of the Intrastat system in Bulgaria to the Ministry of Finance, the Tax Administration and the National Statistical Institute. It does not provide for responsibilities of the National Revenue Agency for the Intrastat system. A new Decision of the Council of Ministers is expected by the middle of 2004.
- The Call-centre Concept on the efficient structure, the model for organising the activities, the division of responsibilities, and the network with stakeholders, as well as the needs analysis and the technical specifications shall be developed with the assistance of other donors (World bank, Dutch grant) before Phare support for the Call-centre is provided.
- An updated IT strategy for the National Revenue Agency should be submitted to the European Commission Services as a precondition for launching IT related tenders.
- Independent needs assessments for all supply tenders are to be submitted to the European Commission Delegation before launching the related tenders.

12.2 Sequencing

Needs assessment & Technical Specifications (TS) for the 2005 supply of equipment for the fiscal investigation shall be prepared under 2004 Twinning contract *“Institutional development of the revenue administration – stage 1”*

Needs assessment and specialised assistance for development of the technical specifications - for supply of equipment for e-government, will be elaborated before the implementation of this project specific activities, for which the NRA / tax administration will request additional technical assistance support under the Project Preparation Facility (PPF).

Needs assessment & TS for the 2006 supply of software for e-audits shall be prepared under 2005 Twinning contract *“Institutional development of the revenue administration – stage 2”*

Needs assessment & TS for the 2006 supply of equipment for TTD Large Taxpayers shall be prepared under 2005 Twinning for contract *“Institutional development of the revenue administration – stage 2”*

Needs assessment & TS for 2006 supply of equipment for the e-archive shall be prepared under 2005 E-archive TA contract

Needs assessment & TS for 2006 supply of software for Organizational Efficiency Assessment shall be prepared under 2005 Organizational Efficiency Assessment TA contract

Needs assessment & TS for supply of equipment for the call center shall be prepared under other donor activities (World Bank loan and Dutch grant)

The ongoing Phare 2002 assistance for the development of VIES is intended to be completed in July 2006. The present Phare assistance under the Component 3 of the TRA 2005 Twinning contract (intended to start in October 2006) and the 2006 supply of software for e-audits (intended to start in October 2007) will be based upon the results achieved under the VIES project

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
4. Indicative technical specifications and functional descriptions for supply contracts (Year 1 and partially, Year 2)
5. List of relevant Laws and Regulations
6. Reference to relevant Strategic plans and studies
7. Supplementary information on Project Purpose “Implementation of EU best practices in the field of direct and indirect taxation”

Annex 1 to SPF			Programme name and number		
LOGFRAME PLANNING MATRIX FOR Alignment with the Acquis on Taxation and Strengthening of the Administrative Capacity of the Revenue Administration			Contracting period expires: Phase 2: 30.11.2007		Disbursement period expires: Phase 2: 30.11.2008
			Total Budget (MEURO) Phase 2 (2005): 3,633		Phare contribution (MEURO) Phase 2 (2005): 3,424
Overall objective		Objective ly verifiable Indicators		Sources of Verification	
Creating a business friendly environment in the country, clear and efficient revenue collection and administration through harmonisation of Bulgarian tax legislation with the Acquis and strengthening the administrative capacity of tax/revenue administration in the process of accession to the European Union, including implementation of the Intrastat system in Bulgaria.		<ul style="list-style-type: none">• Harmonisation with the Acquis on taxation• Perception of the business regarding the barriers to the development of private enterprise• Increased public trust• Improved revenue collection		<ul style="list-style-type: none">• EC regular reports• WB reports• Surveys with representative s of the business and the public at large	
Project purpose:		Objectively verifiable Indicators		Sources of Verification	Assumptions:
Phase I (2004) Project 1: Tax Policy Implementation of the <i>acquis</i> in the area of direct and indirect taxation, administrative co-operation and mutual assistance		Adoption of relevant draft laws and draft amendments to existing Legal Acts by 01.01.2007 to cover all commitments to date of accession		<ul style="list-style-type: none">• Project Reports• State Gazette	<ul style="list-style-type: none">o The Government will maintain a consistent policy in the area of tax reformo Government adopts the draft legal acts
Phase II (2005) Implementation of EU best practices in the field of direct and indirect taxation The staff dealing with tax policy to gain sufficient knowledge of the European Court of Justice practice regarding taxation Promotion of the tax policy and the role of the EU tax legislation		Adoption of draft amending and supplementing acts to implement any identified appropriate and applicable EU best practices in the field of direct and indirect taxation.			
Phase I & II & III (2004 & 2005 &2006) Project 2: Institutional development of the revenue administration Improvement of the capacity of the tax/revenue administration and its transformation into a modern administration serving the society, enjoying the public confidence, applying the best practices of the European Union, and meeting the pre-accession requirements. Phase I (2004) Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria Implementation of the Intrastat system in Bulgaria, ready to operate from the date of accession of Bulgaria to the EU: operating Declarants` Register, technical specification for software products for Providers of Statistical Information (PSI) and web-technologies for collecting of the Intrastat declarations, second pilot survey and experimental operation of the system.		<ul style="list-style-type: none">o Cost of one unit of revenue;o Voluntary compliance/ target revenue;o Collected revenue/ target revenue;o Detected value of fraud;o Adequate training capacity established;o Uniform practice in place on the application of the revenue legislationo CLO fully operational;o Preparedness for using the Intrastat system;o Client satisfaction with the service received; o Readiness of the Bulgarian Intrastat System for operation in real time from the date of accession.		<ul style="list-style-type: none">• Project Reportso Administrativ e capacity reviewso Sectoral Monitoring reportso Regular reports and informationo Surveys with representative s of the business and the public at large	<ul style="list-style-type: none">o The Government will maintain a consistent policy in the area of tax reformo Government adopts the draft legal actso Government adopts the draft legal actso Optimal staff of the Task Teamo Office for the Task Team

<p>Phase I, II & III (2004, 2005 & 2006) Project 4: IT support</p> <p>Improvement of the capacity of the revenue administration in the area of information technologies, enlarging the IT support for the business units and enhancing the on-line administrative services provided to clients in line with the national e-government strategy.</p>	<ul style="list-style-type: none"> ○ Increase in the use of IT; ○ Improved quality service and relations with the business; ○ Expanded on-line administrative services; ○ Reduced cost of one unit of revenue; <p>Increased detection and prevention of fraud.</p>	<ul style="list-style-type: none"> - Project reports - Review of the capacity of the staff 	Optimal staff of the Task Team
Results:	Objectively verifiable Indicators	Sources of Verification	Assumptions:
<p>Phase I (2004) Project 1 Tax Policy</p> <p><i>Subproject 1: Full harmonisation of Bulgarian tax legislation with the requirements of the <i>acquis</i></i></p> <p>Result 1: Discrepancies between the Bulgarian VAT legislation and the <i>acquis</i> removed Result 2: Discrepancies between <i>acquis</i> and the Bulgarian Direct taxation legislation removed Result 3: Discrepancies between <i>acquis</i> and the Bulgarian legislation in the area of Administrative Co-operation and Mutual Assistance removed;</p>	<ul style="list-style-type: none"> • Six Reports on the Principles of the relevant <i>acquis</i> • Draft legal acts or amendments to current law in the area of VAT, Direct taxation and Administrative Cooperation and Mutual Assistance 	Project reports	Sufficient and well qualified and trained staff of Tax Policy Directorate retained
<p>Phase II (2005) Project 1 Tax Policy</p> <p><i>Subproject 2: Implementation of EU best practices in the field of taxation and Promotion of the tax policy and the role of EU tax legislation</i></p> <p>Result 2: EU best practices regarding taxation of small and medium enterprises (SMEs) implemented in Bulgarian tax legislation; Result 3: EU best practices regarding family taxation implemented in Bulgarian tax legislation; Result 4: EU best practices regarding taxation of companies of the financial sector implemented in Bulgarian tax legislation; Result 5: Investigation of the European Court of Justice practice regarding taxation Result 6: Public awareness of the EU tax legislation and the EU best practices in this field</p>	<p>OVI 2-4 Three Reports on the applicable schemes regarding taxation of SMEs and household taxation and taxation of companies of the financial sector and draft amendments to the legal acts, if applicable. OVI 5 Report on the main decisions of ECJ regarding direct and indirect taxation and possible implications for Bulgarian tax legislation OVI 6 Increased public awareness of the of the EU tax legislation and the EU best practices by the date of project completion</p>	<p>Project reports</p> <p>Statistical data</p>	
<p>Phase I (2004) Project 2: Institutional development of the revenue administration Sub-project 1: Twinning project Phase I (2004)</p> <p><i>Component 1: Enforced collection of public liabilities:</i></p> <p>Result 1: Developed criteria for classification of risk debtors; Result 2: Developed system of enforcement measures against persons with accumulated tax liabilities from financial frauds; Result 3: Developed manual on communication techniques for negotiating voluntary compliance. Result 4: Developed plan for implementation of these communication techniques at all TA levels.</p> <p>Component 2: Human Resource Management: Organisation and management of managerial staff training</p>	<ul style="list-style-type: none"> • % increase of the collection of net outstanding debts • % increase of the number of seizures • % of voluntary compliance increased • % decrease of gross tax debt/ total tax revenue collected <ul style="list-style-type: none"> • Prepared concept paper on organisation and management of managerial staff training 	<ul style="list-style-type: none"> ○ Administrative capacity reviews ○ Sectoral Monitoring reports ○ Regular reports and information ○ Surveys 	<ul style="list-style-type: none"> ○ Full commitment and participation of the senior management of the beneficiary institution and development and implementation of policies and institutional change required to deliver the project results. ○ Consistent policy of GTD/NRA management in the

<p>Component 3: Institutional Development of the CLO Result 1: Prepared 2006 Action Plan. Result 2: Discussion on the international standards, news and trends in the field of the mutual assistance and exchange of information. Result 3: Prepared materials for training of tax administration employees on mutual assistance and exchange of information. Trained contact persons at local level. Result 4: Action plan prepared for Information campaign for taxpayers (companies) on changes to VAT regime and the procedure for declaring intra-community transactions. Information campaign materials elaborated.</p> <p>Component 4: Strengthening the capacity the National Investigation Agency aiming at higher level of effectiveness of fighting tax -fraud Result 1: Established system and developed criteria for tax fraud selection for criminal prosecution Result 2: Developed methods and instruments for detection and prevention of fraud Result 3: Specialised training on criminal investigation in cases of fiscal fraud – tax fraud, social and health insurance fraud; Result 4: Technical specifications and supply of equipment and software</p>	<ul style="list-style-type: none"> • CLO fully operational by September 2006; • Adequate capacity in place to meet the EU requirements in the field of administrative co-operation, mutual assistance and exchange of information <ul style="list-style-type: none"> • Developed system and criteria for the selection of cases for criminal investigation of tax frauds • Increased detection and prevention of tax fraud • Trained officials on specialised techniques for combating tax fraud, social and health insurance fraud • Trained personnel for criminal investigations of fiscal frauds 		<p>area of institutional change and reform processes</p> <ul style="list-style-type: none"> ○ Establishment of internal units for coordination and monitoring <ul style="list-style-type: none"> • Continued political support for establishment of the National Fiscal Investigation Agency” • Implemented IS of the NRA
<p>Phase I (2004) Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria Component 1: Development of computer applications and web-based technologies for the Intrastat system</p> <p>Result 1: Developed and approved technical and functional specifications for the Declarants Register; Result 2: Developed and approved technical and functional specifications for the software applications for the Providers of Statistical Information (PSIs); Result 3: Developed and approved technical and functional specifications for the web-based technologies for collection of Intrastat declarations and for automated verification/validation of raw data;</p> <p>Component 2: Supply of Intrastat hardware and software</p> <p>Result 1: Supply of hardware Result 2: Supply of software</p> <p>Component 3: Experimental implementation of the Intrastat system</p> <p>Result 1: Carried-out Second Pilot Intrastat Survey in Bulgaria and tested legislation, methodology and logistics; Result 2: Implemented and tested Declarants register, computer applications for PSIs and web-based technologies for collection of raw data for the Intrastat system; Result 3: Achieved adequate level of readiness of the PSIs for compliance with the Intrastat system and for the submission of data with the required quality; Result 4: Trained staff for the operation of the Intrastat system.</p>	<ul style="list-style-type: none"> • Developed instruments approved and applied. • Achieved level of preparedness for operation of the system. • Intrastat operational unit established and staffed with trained personnel. • Quality equipment supplied in time. • Achieved harmonization of Bulgarian legislation with European Acquis. • Easiness of work and comprehensiveness of the prepared manuals, methodologies etc. • Quick and quality up-dating of the elaborated, operating Declarants Register. • Readiness of the traders to apply the requirements of Intrastat system, which they meet • Preparedness of traders for compliance with obligations for Intrastat Reporting. <p>Guaranteed interoperability of Declarants Register with General Tax and VAT registers.</p>	<p>- Quarterly and Annual reports of the BTA - Sub-sectoral Monitoring reports - Quarterly reports - Regular progress reports - Surveys</p>	<p>Consistent policy of GTD/NRA management in the area of institutional change and reform processes</p> <p>Implemented IS of the NRA</p>
<p>Phase I (2004) Project 4: IT support</p> <p><i>Sub-project 1: On-line services (Technical assistance contract)</i> E-Government in service to the taxpayers: developing and enlarging on-line administrative services</p> <p>Result 1: Enhanced and improved existing on-line taxpayer services, provided by BTA/NRA. Implemented EU standards in this area. Result 2: Implemented new on-line taxpayer services; Result 3: Enhanced administrative capacity of the administration in the taxpayer services and on-line administrative services.</p>	<ul style="list-style-type: none"> • Developed and integrated full package of indicative on-line services; • Increased number of taxpayers using on-line services; • Decreased administrative expenses for taxpayer servicing. • Full integration of on-line services with the information systems of TA/NRA; • Gained knowledge and skills by IT experts for maintenance and development of on-line services; 	<p>- Quarterly and Annual reports of the BTA - Sub-sectoral Monitoring reports - Quarterly Twinning reports - Regular progress reports</p>	<p>Consistent policy of GTD/NRA management in the area of institutional change and reform processes</p> <p>Implemented IS of the NRA</p>

<p>Phase II (2005) Project 2 Institutional development of the revenue administration</p> <p><i>Sub-project 2: (Contract 2: Twinning contract)</i></p> <p>Component 1: Uniform practice for tax Acquis application (legislation in force and pending), including the provisions of the Treaty of Rome, concerning the taxation of the EU member states and decisions of the European Court of Justice, based on those provisions.</p> <p>Result 1: Prepared methodological instructions for implementation of Acquis Communautaire.</p> <p>Result 2: Formed training team of experts (acquis team), acquainted with Acquis Communautaire in the field of taxation (in force and forthcoming).</p> <p>Result 3: A trained team of trainers in practices for application of the provisions of the Treaty of Rome, concerning taxation in the member countries of EU and decisions of the European Court of Justice, based on them.</p> <p>Result 4: Prepared Manual with information and instructions for the implementation of the provisions of the Treaty of Rome and the decisions of the Court of Justice, with enclosed decisions of the Court (in Bulgarian and English language).</p> <p><u>Component 2: Unified registration and improved services for foreign persons</u></p> <p>Result 1: Draft proposals for legislative amendments, related to the registration of foreign persons in Bulgaria</p> <p>Result 2: Methodology for registration of foreign persons</p> <p>Result 3: Procedures for servicing foreign persons</p> <p><u>Component 3: Improvement of the administrative capacity of tax control function in connection to the accession of the country to EU.</u></p> <p>Result 1: Knowledge acquired by the auditors concerning the forthcoming changes in the tax legislation, especially in the tax treatment of various intracommunity transactions.</p> <p>Result 2: Acquired techniques for control of intracommunity transactions and skills for the use of the VIES system database for tax audits purposes.</p> <p>Result 3: Acquired knowledge of the capacity for use of the VIES system when performing risk analysis and selecting taxable persons for audit.</p> <p>Result 4: Staff trained for conducting computer audits (e-audits).</p> <p>Result 5: Acquired knowledge and skills for detection of and counter-action against tax frauds, committed by using intracommunity transactions for automated detection of persons, participating in such frauds.</p> <p>Result 6: Development of Technical Specifications for software application for automated tracking of fraudulent taxpayers, potential and actual, while performing intra-community and local supplies, based on</p>	<ul style="list-style-type: none"> • 75 experts from the Methodology and Appeals Dept. trained in the methodology developed for the implementation of the Acquis • No. of experts trained in Acquis application • 75 experts from the Methodology and Appeals Dept. acquainted with the Manual with information and instructions • Trained team of trainers on the practices for application of the provisions of the Treaty of Rome and decisions of the European court of Justice, based on them, concerning the taxation in MSs <ul style="list-style-type: none"> • Drafted proposals for legislative amendments submitted to the Ministry of Finance for approval. • ?No. of experts trained in the developed methodology for registration of foreign entities • Experts trained in the developed procedures for servicing foreign persons <ul style="list-style-type: none"> • % increase of detection and prevention of tax frauds; • Trained officials on control using the VIES system; • Trained officials on specialized techniques for combating tax fraud; • Trained staff for tax fraud prevention and investigation. • No. of experts trained in the methodology for transfer pricing. • No. of experts trained in transfer pricing. <ul style="list-style-type: none"> • No. of experts at central level, trained to implement the Communautaire Acquis in the field of the state fiscal aid • Approved manual • No. of experts trained to apply the developed model of procedures in practice <ul style="list-style-type: none"> • 30 experts (2 groups x 15) from the Internal Control Dept. trained in the implementation of the Community administrative and anti-corruption legislation • 15 experts from the Internal Control Dept. trained in the 	<ul style="list-style-type: none"> • Quarterly and Annual reports of the BTA • Sub-sectoral Monitoring reports • Quarterly Twinning reports • Regular progress reports • Assessment Report approved by the General Tax Director • Annual reports of IMF and World Bank 	<ul style="list-style-type: none"> ○ Full commitment and participation of the senior management of the beneficiary institution and development and implementation of policies and institutional change required to deliver the project results. ○ Consistent policy of GTD/NRA management in the area of institutional change and reform processes ○ Establishment of internal units for coordination and monitoring

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project Result 3: Enlarged access for taxpayers to information in line with the Strategy on establishment of e-government by integration of electronic archives in the set of administrative services provided on-line;	<ul style="list-style-type: none"> Optimised processes for document processing in BTA/NRA; 		
Phase III (2006) One Supply contract <i>Project 2 Institutional development of the revenue administration</i> <i>Sub-project 2: Institutional development of the revenue administration</i> Subproject 3: Development of a system of criteria and instruments for organisational efficiency assessment <i>Project 4: IT support</i> <i>Sub-project 2: Archive system</i>	<ul style="list-style-type: none"> Completely functional and integrated Information system for electronic archive management; Decreased administrative expenses for taxpayer servicing. Acceptance-delivering certificate on complex testing on the systems. Integrated electronic archives in the offered on-line administrative services; Optimised processes for document processing in BTA/NRA; Achieved own capacity for evaluation of organisational efficiency and effectiveness. Outputs produced by the system: organizational efficiency assessment of a territorial structure 	<ul style="list-style-type: none"> Quarterly and Annual reports of the BTA Sub-sectoral Monitoring reports Quarterly Twinning reports Regular progress reports 	Consistent policy of GTD/NRA management in the area of institutional change and reform processes Implemented IS of the NRA
Activities	Means	Sources of Verification	Assumptions:
Phase 1: (2004) <i>Project 1: Tax Policy</i> (Twinning) <i>Subproject 2: Full harmonisation of Bulgarian tax legislation with the requirements of the acquis</i> Component 1: Value Added Tax; Presentation of the main principles and mechanisms of the relevant Directives; Presentation of the main principles and mechanisms of Directive 91/680/??? on the intracommunity trade - abolition of fiscal frontiers Identification of the texts in the existing law that should be amended Drafting the legal act Component 2: Direct Taxation; Introduction to the principles of the Parent - Subsidiary Directive (90/435/EEC) Introduction to the principles of the Merger Directive (90/434/EEC) Introduction to the principles of the Interest and Royalties Directive (2003/49/EC) and the Savings Preparation of a manual for assessment of harmful tax measures under the Code of Conduct for Business Taxation Identification of the texts in the existing law that should be amended Drafting the relevant amendments to the legal acts Component 3: Administrative Cooperation and Mutual Assistance; Introduction to the principles of Directive 76/308/EEC on mutual assistance for the recovery of claims relating to certain levies, duties, taxes and other measures and Directive 2002/94/EC on the implementation of the provisions of Directive 76/308/EEC Identification of the texts in the existing law that should be amended Drafting the relevant amendments to the legal acts Reviewing and amending the Drafted Act implementing the Directive (77/799/EEC) and Regulation 1798/2003	Phase 1: (2004) <i>Project 1: Tax Policy</i> <i>Subproject 2: Full harmonisation of Bulgarian tax legislation with the requirements of the acquis</i> Contract 1 (2004) – Twinning Contract		

<p>Phase 1: (2004) Project 2: Institutional development of the revenue administration</p> <p><i>Subproject 1: Institutional development of the revenue administration – stage 1 (Twinning contract)</i></p> <p>Component 1: Enforced collection of public liabilities</p> <p>R1: Developed criteria for classification of risk debtors A1.1. Analysis of the current situation A1.2. Exchange of experience A1.3. Transfer of experience and best solutions in the field of enforcement. A1.4. Elaboration of measures related to the classification of debtors.</p> <p>R2: Developed system of enforcement measures against persons with accumulated tax liabilities from financial frauds A2.1. Analysis of the current situation A2.2. Exchange of expertise and best solutions in the area of combat against tax fraud with specific enforcement measures. A2.3. Development of a system of enforcement measures for cases of financial fraud.</p> <p>R3: Developed manual on communication techniques for negotiating voluntary compliance. Developed plan for introduction of these communication techniques at all TA levels A3.1. Training of trainers at central level in techniques for communication with debtors aiming at encouragement of voluntary compliance A3.2. Training of trainers at territorial level in techniques for communication A3.3. Development of communication manual with techniques for negotiating voluntary compliance. Developed plan for implementation of these communication techniques at all TA levels</p> <p>Component 2: Organisation and Management of managerial staff training</p> <p>R1: Organization and management of managerial staff A1.1. Concept paper on organisation and management of managerial staff A1.2. Programme for managerial staff training A1.3. Programme for evaluation of management capacity</p> <p>Component 3: Institutional development of the CLO</p> <p>R1: Prepared 2006 Action Plan A1.1. Review and update of the Concept paper on the establishment of a CLO in BTA and Action Plan up to 2007; A1.2. Development of short-term 2006 detailed plan;</p> <p>R2: Discussion on the international standards, news and trends in the field of the mutual assistance and exchange of information; A2.1. Study the experience of a EU member state A2.2. Study the experience and problems in new Members States (from the 1st wave in 2004) A2.3. Assessing the role of CLO in the exchange of information on the direct taxes in the European countries and their experience in this field. Possibilities for exchange of information with EU Member states before accession in EU and exchange of information with non EU Member states through CLO; A2.4. Assessing the role of CLO in satisfying claims/appeals concerning VAT, which have arisen in other Member States;</p> <p>R3: Prepared materials for training of tax administration employees on mutual assistance and exchange of information. Trained contact persons at local level.</p>	<p>Phase 1: (2004) Project 2: Institutional development of the revenue administration</p> <p><i>Subproject 1: Institutional development of the revenue administration – stage 1</i></p> <p>Contract 2 (2004) – Twinning Contract</p>		
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<p>A3.1. Study the experience of a member state; A3.2. Development of a training program for tax/revenue administration employees training (EU VAT legislation, EU VAT fraud specificity, aspects of cooperation between the tax administrations of EU member states, etc.); A3.3. Development of training materials (instructions/procedures/manuals, cases, etc.); A3.4. Training of contact persons.</p> <p>R4: Action plan prepared for Information campaign for taxpayers (companies) on changes to VAT regime and the procedure for declaring intra-community transactions. Information campaign materials elaborated. A4.1. Participation in the development of an approach to inform the society and the taxpayers about new obligations, responsibilities and opportunities; A4.2. Preparation and approval of a plan for organisation of information campaign for taxpayers on changes to VAT regime; A4.3. Development of materials for the information campaign.</p> <p>Component 4: Strengthening the capacity of a National Fiscal Investigation Agency within the Ministry of Finance / General Tax Directorate respectively, aiming at higher level of effectiveness of fighting tax-fraud</p> <p>R1: Established system and developed criteria for tax fraud selection for criminal prosecution, as well as methods and instruments for prevention and detection of tax fraud; A1.1. Development of criteria for reporting tax administration cases, which should be transferred for further investigation to the National Fiscal Investigation Agency; A1.2. Evaluation of the developed criteria.</p> <p>R2: Developed methods and instruments for prevention and detection of fraud A2.1. Investigation of best practices and development of methods and instruments for prevention and detection of fraud A2.2. Pilot implementation of developed criteria and methods</p> <p>R3: Specialized training on criminal investigation in cases of fiscal fraud – tax fraud, social and health insurance fraud A3.1. Training on criminal investigation in cases of fraud.</p> <p>R4: Technical specifications for supply of equipment and software A4.1. Preparation of needs assessment and technical specifications for supply of equipment and software</p>			
<p>Phase 1: (2004) Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria (2004): Technical Assistance</p> <p>Component 1: Development of software applications and web-based technologies for the Intrastat system</p> <p>R1: Developed and approved technical and functional specifications for the Declarants Register; A1.1. Development of technical and functional specifications for the Declarants Register;</p> <p>R2: Developed and approved technical and functional specifications for the software applications for the Providers of Statistical Information (PSIs); A2.1. Development of technical and functional specifications for the software applications for the Providers of Statistical Information (PSIs);</p> <p>R3: Developed and approved technical and functional specifications for the web-based technologies for collection of Intrastat declarations and for automated verification/validation of raw data; A3.1. Development of technical and functional specifications for the web-based technologies for collection</p>	<p>Project 3: Development and implementation of the Intrastat system in Bulgaria</p> <p>Contract 3 (2004) – Technical Assistance; Contract 4 (2004) – Supply contract</p>		

<p>of Intrastat declarations and for automated verification/validation of raw data; A3.2. Development of technical and functional specifications for a system for automated verification/validation of raw data.</p> <p>Component 3: Experimental implementation of the Intrastat system</p> <p>R1: Carried-out Second Pilot Intrastat Survey in Bulgaria and tested legislation, methodology and logistics; A1.1. Organisation and conduct of Second Pilot Intrastat Survey in Bulgaria; A1.2. Analysis of the results of the survey and final amendments of legislation, methodology and logistics;</p> <p>R2: Implemented and tested Declarants register, software applications for PSIs and web-based technologies for collection of raw data for the Intrastat system; A2.1. Experimental implementation of Declarants register, software applications for PSIs and web-based technologies for collection of raw data for the Intrastat system; A2.2. Analysis of the results and corrections of the software;</p> <p>R3: Achieved adequate level of readiness of the PSIs for compliance with the Intrastat system and for the submission of data with the required quality; A3.1. Organisation and conduct of information campaigns for PSIs; A3.2. Training campaigns for PSIs for usage of software and electronic submission of declarations;</p> <p>R4: Trained staff for the operation of the Intrastat system. A4.1. Preparation of training materials; A4.2. Selection, recruitment and training of staff for operation of the Intrastat system;</p> <p><i>(2004) Supply of hardware and Intrastat software: Supply of computer hardware, software, telecommunication and digital office equipment for the computer applications and web-based technologies for the Intrastat system.</i></p>			
<p>Phase 1: (2004) Project 4: Strengthened IT support for the operation of the revenue administration and its client services</p> <p><i>Subproject 1: E-Government in service to the taxpayers: developing and enlarging on-line administrative services - (2004): Technical Assistance</i></p> <p>R1: Enhanced and improved existing on-line taxpayer services, provided by BTA/NRA. Implemented EU standards in this area A1.1. Analysis of existing on-line taxpayer services A1.2. Improvement and enhancement of existing on-line taxpayer services A1.3. Implementation of EU standards and best practices</p> <p>R2: Implemented new on-line taxpayer services. A2.1. Development and integration of new on-line administrative services in line with the Bulgarian national e-government strategy and EU standards. A2.2. Supply of new hardware and communication equipment for development of the current IT infrastructure used for the provision of on-line services.</p> <p>R3: Enhanced administrative capacity of the administration in the taxpayer services and on-line administrative services. A3.1. Technical assistance and training for IT experts in GTD/NRA in the area of development, integration and maintenance of web-based systems providing on-line administrative services</p>	<p>Phase 1: (2004) Project 4: Strengthened IT support for the operation of the revenue administration and its client services</p> <p><i>Subproject 1: E-Government in service to the tax payers: developing and enlarging on-line administrative services</i></p> <p>Contract 5 (2004) – Technical Assistance</p>		

<p>Phase 2: (2005) Project 1: Tax Policy (Twinning Contract)</p> <p>Subproject 2: Implementation of EU best practices in the field of taxation and Promotion of the tax policy and the role of EU tax legislation</p> <p>Component 2: Taxation of Small and Medium Enterprises; A1.1 Examination of the practices in the EU member-states regarding taxation of small and medium enterprises (SMEs) A1.2 Examination of the experience in Home State Taxation of small and medium enterprises (SMEs) A1.3 Make recommendation on applicable schemes regarding taxation of small and medium enterprises (SMEs) A1.4 Draft amendments to the legal acts</p> <p>Component 3: Family Taxation; A2.1 Examination of the practices in the EU member-states regarding family taxation A2.2 Make recommendation on applicable schemes regarding family taxation A2.3 Draft amendments to the legal acts</p> <p>Component 4: Taxation of Financial Sector; A3.1 Examination of the practices in the EU member-states regarding taxation of companies of the financial sector A3.2 Make recommendation on applicable schemes regarding taxation of companies of the financial sector A3.3 Draft amendments to the legal acts</p> <p>Component 5: Investigation of ECJ practice A4.1 Presentation of the main decisions of the European court of Justice (ECJ) in the field of direct and indirect taxation A4.2 Preparation of Report on the main decisions of ECJ regarding direct and indirect taxation and possible implication for Bulgarian tax legislation</p> <p>Component 6: Promotion of the tax policy and the role of EU tax legislation A5.1 Training of relative target groups in general aspects of the EU tax legislation** A5.2 Training of relative target groups in VAT and Direct taxation ** A5.3 Identification of further training needs in the area of taxation A5.4 Publishing of a brochure for Bulgarian tax policy and the role of EU tax legislation</p>	<p>Phase 2: (2005) Project 1: Tax Policy</p> <p>Subproject 2: Implementation of EU best practices in the field of taxation and Promotion of the tax policy and the role of EU tax legislation</p> <p>Contract 1 (2005) – Twinning Contract</p> <p>A1.1 Report on the major findings in the examination of the practices in the EU member-states regarding taxation of SMEs A1.2. Report on the major findings and development of the initiative on Home State Taxation of SMEs A1.3 Analysis recommending applicable schemes regarding taxation of SMEs that may be implemented A1.4 Prepared draft amendments to the legal acts that implement the applicable recommended schemes for SMEs A2.1 Report on the major findings in the examination of the practices in the EU member-states regarding family taxation A2.3 Analysis recommending applicable schemes regarding family taxation that may be implemented A2.4 Prepared draft amendments to the legal acts that implement the applicable recommended schemes for family taxation A3.1 Report on the major findings in the examination of the practices in the EU member-states regarding taxation of companies of the financial sector A3.3 Analysis recommending applicable schemes regarding taxation of companies of the financial sector that may be implemented A3.4 Prepared draft amendments to the legal acts that implement the applicable recommended schemes for taxation of companies of the financial sector</p> <p>A4.2 Report on the main decisions of ECJ regarding direct and indirect taxation and possible implication for Bulgarian tax legislation</p> <p>A5.4 Existence of a brochure for Bulgarian tax policy and the role of EU tax legislation</p>	<ul style="list-style-type: none"> - Regular progress reports - Quarterly and Annual reports of the BTA - Sub-sectoral Monitoring reports - Quarterly Twinning reports 	<ul style="list-style-type: none"> • Senior GTD/NRA management support • Regular review, analysis and reporting on progress • Adequate resources available (financial, technical, human)
<p>Phase 2: (2005) Project 2: Institutional development of the revenue administration</p> <p>Subproject 2: Institutional development of the revenue administration - stage 2- (2005) Twinning Contract</p> <p>Component 1: Uniform practice for tax Acquis application (legislation in force and pending), including the provisions of the Treaty of Rome, concerning the taxation of the EU member states and decisions of the European Court of Justice, based on those provisions.</p>	<p>Phase 2: (2005) Project 2: Institutional development of the revenue administration</p> <p>Subproject 2: Institutional development of the revenue administration – stage 2 Twinning Contract (Resident Twinning Advisor and Short-term Experts) Contract 2 (2005): Twinning Contract</p>	<ul style="list-style-type: none"> - Regular progress reports - Quarterly and Annual reports of the BTA - Sub-sectoral Monitoring reports 	

<p>Result 1: Prepared methodological instructions for implementation of Acquis Communautaire.</p> <p>A1.1. Review and analysis of the main principles of Acquis in the field of taxation</p> <p>A1.2. Analytical review of the Acquis Communautaire (in force and forthcoming), compared to the national legislation and transfer of experience for the elaboration of methodological instructions for the establishment of unified practice on its implementation.</p> <p>A1.3. Development of methodological instructions for the implementation of Acquis Communautaire in the field of taxation (in force and pending)</p> <p>Result 2: Formed training team of experts (acquis team), acquainted with Acquis Communautaire in the field of taxation (in force and forthcoming).</p> <p>A2.1. Transfer of knowledge and experience in Acquis Communautaire (directly applicable and transposed into the national tax legislation), in force and forthcoming.</p> <p>A2.2 Training of trainers in the Acquis application practice.</p> <p>Result 3: A trained team of trainers in practices for application of the provisions of the Treaty of Rome, concerning taxation in the member countries of EU and decisions of the European Court of Justice, based on them.</p> <p>A3.1: Analytical review of the provisions of the Treaty of Rome related to taxation.</p> <p>A3.2 Training of trainers in practices for application of the decisions of the European Court of Justice based on the provisions of the Treaty of Rome.</p> <p>Result 4: Prepared Manual with information and instructions for the implementation of the provisions of the Treaty of Rome and the decisions of the Court of Justice, with enclosed decisions of the Court (in Bulgarian and English language).</p> <p>A4.1. Detailed analysis of the best practices for implementation of the Treaty of Rome provisions and the decisions of the Court of Justice.</p> <p>A4.2 Development of a Manual with information and instructions for implementation of the provisions of the Treaty of Rome and the decisions of the Court of Justice in Bulgaria in compliance with the best European practices.</p> <p><u>Component 2: Unified registration and improved services for foreign persons</u></p> <p>Result 1: Draft proposals for legislative amendments, related to the registration of foreign persons in Bulgaria</p> <p>A1.1. Review and analysis of the legislation in force in compliance with the Acquis.</p> <p>A1.2. Drafting of proposals for legislative amendments.</p> <p>Result 2: Methodology for registration of foreign persons</p> <p>A2.1. Review and analysis of the European practice for registration of foreign persons.</p> <p>A2.2. Development of methodology for registration of foreign persons.</p> <p>Result 3: Procedures for servicing foreign persons</p> <p>A3.1. Acquaintance with the best practice for registration and servicing of foreign persons.</p> <p>A3.2. Elaboration of procedures for servicing of foreign persons.</p> <p>A3.3. Training of trainers – employees from the Registration and Taxpayers Services department for servicing of foreign persons.</p> <p><u>Component 3: Improvement of the administrative capacity of tax control function in connection to the accession of the country to EU.</u></p> <p>Result 1: Knowledge acquired by the auditors concerning the forthcoming changes in the tax legislation, especially in the tax treatment of various intracommunity transactions.</p>		<p>- Quarterly Twinning reports</p>	
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<p>A1.1 Transfer of knowledge on general provisions in the tax legislation of the EU Member-states; A1.2 Training on taxation of intra-community transactions.</p> <p>Result 2: Acquired techniques for control of intracommunity transactions and skills for the use of the VIES system database for tax audits purposes. A2.1 Familiarization of the auditors with the best practices for control on intra-community transactions (techniques for tracing of production and cash flows) A2.2. Training of auditors of the capabilities to use the VIES system database in tax audits.</p> <p>Result 3: Acquired knowledge of the capacity for use of the VIES system when performing risk analysis and selecting taxable persons for audit. A3.1. Familiarization with EU practice for risk assessment and selection for audits through the VIES database.</p> <p>Result 4: Staff trained for conducting computer audits (e-audits). A4.1 Familiarization with EU practice for performing of e-audits; A4.2 Analysis of acquis covering this area and preparation of proposals for legislative framework for e-audits implementation; A4.3 Presentation of computer applications, used in EU, for eaudits performance and provision of expertise and assistance for selection of the most suitable applications for introduction in Bulgaria. A4.4 Provision of assistance in the development of Technical specification for supply of software application for e-audits. A4.5. Technical assistance in development of procedures for e-audits. A4.6 Training of auditors for e-audits performance.</p> <p>Result 5: Acquired knowledge and skills for detection of and counter-action against tax frauds, committed by using intracommunity transactions for automated detection of persons, participating in such frauds. A5.1. Familiarization of auditors with best practices for counter-action and detection of tax frauds, committed through intra-community transactions. A5.2. Transfer of expertise for automated detection of persons, participating in intra-community transaction frauds.</p> <p>Result 6: Development of Technical Specifications for software application for automated tracking of fraudulent taxpayers, potential and actual, while performing intra-community and local supplies, based on pre-defined profile. A6.1 Preparation of Needs Assessment and Technical specifications for purchase or development of software application for automated detection of taxpayers, evading payment of taxes, income, profit, property etc., as well as potential fraudulent taxpayers.</p> <p><u>Component 4: Transfer pricing</u></p> <p>Result 1: Methodology for transfer pricing A1.1 Acquaintance with the OECD Transfer Pricing Guidelines and the best practices on the implementation of transfer prices in the EU member-states A1.2 Development of transfer pricing methodology for the purposes of the Bulgarian revenue / tax administration.</p> <p>Result 2: Transfer pricing expert teams A2.1. Establishment of an expert team of trainers and training in transfer pricing methodology and its application. A2.2. Training of experts in transfer pricing methodology and its application, jointly performed by project consultants and trained Bulgarian experts (as per p.2.1)</p>			
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<p><u>Component 5: Improvement of the Collection department capacity in implementation of Acquis in accordance to the EU practice</u></p> <p>Result 1: Establishment of a team of experts, trained in the implementation of Acquis Communautaire in the field of fiscal state aids. A1.1. Acquaintance with the practice of the European Court of Justice in the field of fiscal state aids. A1.2. Developed rules and regulations for the implementation of Acquis in accordance with the best European practices in that field A1.3. Establishment of an expert team and training of trainers in implementation of Acquis in the field of fiscal state aids.</p> <p>Result 2: Developed manual, comprising comparative analysis of the experience in the field of joint and several liability of third parties for unpaid taxes in the member countries of the EU as a tool against VAT fraud. A2.1. Study and analysis of the European practice in the field of joint and individual liability of third parties as a tool for fighting against tax fraud with VAT; A2.2. Development of rules and instructions for implementation of Acquis in that field jointly with EU and Bulgarian tax experts. A2.3. Training of trainers in the field of joint and several liability within the European Union.</p> <p>Result 3: Developed model of procedures for recovery of claims and securing measures (Directive 76/308). A3.1. Acquaintance with the European practice in that field A3.2. Development of working procedures model for tax recovery of claims and securing measures. A3.3. Training of trainers (Experts from the Collection and the Methodology and Appeals Departments of the revenue/tax administration) on the implementation of Directive 76/308.</p> <p><u>Component 6: Enhanced administrative capacity of “Internal Control” Department in connection with the control of the internal systems of the organization</u></p> <p>Result 1: Acquired knowledge and skills by the inspectors for implementing the Community administrative and anti-corruption legislation, equipped for its application in organizational management. A1.1 Training of trainers in anti-corruption techniques (business processes, in-building of internal control mechanisms, preparation of analysis in support of timely administrative anti-corruption decisions of senior management; A1.2 Training of trainers in EU best practices on preventive (ex-ante) and subsequent (ex-post) internal control of the systems;</p> <p>Result 2: Developed and implemented procedures for internal audits and internal administrative investigations A2.1. Transfer of experience in EU Member-states practice and the procedures and instruments for internal audit and internal administrative investigation; A2.2. Development of procedures for internal audits and internal investigations aiming at future certification of business processes within the Internal Control Department.</p> <p><u>Component 7 Increased capacity and optimised activities of Territorial Directorate “Large Taxpayers and Contributors” in view of its integration within the National Revenue Agency</u></p> <p>Result 1: Increased capacity and optimised activities of “Large Taxpayers” Territorial Tax Directorate</p>			
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<p>?1.1. Reviewing the functional organisation and implementation of integrated operative processes, consistent with the specific work conditions with large taxpayers and contributors;</p> <p>?1.2. Improving the procedures and systems for Territorial Directorate “Large Taxpayers and Contributors”, consistent with the best practices;</p> <p>?1.3. Employees training and exchange of experience to ensure provision of various services to large taxpayers and contributors, related to the use of international accounting standards, audit of companies, using computer accounting programs, use of computer programmes in large taxpayer audits;</p> <p>?1.4. Development of specific criteria for risk selection and management for Territorial Directorate “Large Taxpayers and Contributors”;</p> <p>Result 2: Developed technical specifications</p> <p>A2.1. Developed needs assessment and technical specifications in accordance to Phare rules and coordinated with CFCU.</p>			
<p>Phase 2: (2005) Project 2: Institutional development of the revenue administration</p> <p><i>Subproject 3: Development of a system of criteria and instruments for organisational efficiency assessment</i></p> <p><i>(2005) Technical assistance for development of a system of criteria and instruments for organisational efficiency assessment</i></p> <p>R1: Implemented system of criteria and instruments for organisational efficiency assessment, in connection with TA’s restructuring and NRA future activities</p> <p>A1.1. Development of System of criteria and instruments for organisational efficiency assessment through:</p> <ul style="list-style-type: none"> - review of the leading EU practices in the area; - selection of a system and defining its scope; - identifying criteria and quality and quantity assessment indicators; - identifying methods and sources for collection of necessary information for criteria and indicators; - preparation of resource assessment, necessary for system development and functioning; - preparation of pilot organisational efficiency assessment of units on central level and in some TTDs <p>Project 4: Strengthened IT support for the operation of the revenue administration and its client services</p> <p>Subproject 2: Acquisition and implementation of an electronic archive management system and its integration with the information system of BTA/NRA</p> <p><i>(2005): Technical Assistance</i></p> <p>Result 1: Prepared gap analysis and needs assessment of the current practices in BTA/NRA for document flow and archive management and recommendations for development; prepared functional technical specifications of the system;</p> <p>A1.1. Gap analysis and needs assessment of the current practices in BTA/NRA for document flow and archive management;</p> <p>A1.2. Development of functional and technical requirements to the electronic archive management system, including development of technical specifications for proposed equipment</p> <p>Result 2: Minimized risks in the implementation of the electronic archive management information system and its integration with NRA’s information system and performance and quality measurement of the project</p> <p>A.2.1 Risk analyses</p> <p>A2.2 Proposals for actions for minimizing the risks for the implementation of the project</p> <p>A2.3 Support to the development and implementation of a set of indicators of achievement, which will be used for periodical performance measurement</p>	<p>Phase 2: (2005) Project 2: Institutional development of the revenue administration</p> <p><i>Subproject 3: Development of a system of criteria and instruments for organisational efficiency assessment</i></p> <p>Contract 3 (2005): Technical assistance</p> <p><i>Project 4: Strengthened IT support for the operation of the revenue administration and its client services</i></p> <p><i>Subproject 2: Acquisition and implementation of an electronic archive management system and its integration with the information system of BTA/NRA</i></p> <p>Contract 3 (2005): Technical assistance</p>	<ul style="list-style-type: none"> - Regular progress reports - Quarterly and Annual reports of the BTA - Sub-sectoral Monitoring reports 	

<p>A2.4 Proposal for time frame of the project</p> <p>Result 3: Enlarged access for taxpayers to information in line with the Strategy on establishment of e-government by integration of electronic archives in the set of administrative services provided on-line;</p> <p>A4.1. Integration of electronic archives into administrative services provided on-line</p>			
<p>(2005): <i>Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration</i></p> <ul style="list-style-type: none"> ➤ Supply of technical equipment for call centre ➤ Supply of equipment for Fiscal Investigation ➤ Supply of new hardware and communication equipment for development of the current IT infrastructure used for the provision of on-line services 	<p>Contract 4 (2005): Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration:</p>	<ul style="list-style-type: none"> ○ Transfer of ownership documentation ○ Test certificates after installation of equipment 	
<p>Phase 3: (2006)</p> <p>Project 4: Strengthened IT support for the operation of the revenue administration and its client services</p> <p>2006): <i>Supply</i></p> <p>Supply of IT equipment and system software for the electronic archive management information system and its integration into the NRA's information system;</p> <p>Supply of software for organisational efficiency assessment, its customisation, implementation and testing</p> <p>Supply of software & equipment for enhancing the administrative capacity of TTD – Large Taxpayers</p> <p>Supply of software for e-audits</p>	<p>Phase 3: (2006)</p> <p>Contract 1 (2006): Supply of equipment/hardware & software</p>	<ul style="list-style-type: none"> ○ Transfer of ownership documentation - Test certificates after installation of equipment 	<ul style="list-style-type: none"> • Senior GTD/NRA management support • Regular review, analysis and reporting on progress • Adequate resources available (financial, technical, human)

Annex 2

Detailed Implementation Chart

Alignment with the Acquis on Taxation and Strengthening of the Administrative Capacity of the Revenue Administration

Projects for Year 1 (2004)

Year		2004						2005						2006						2007																	
Month		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Project 1 Tax policy	Contract 1 Twinning																																				
Project 2 Institutional development of the revenue administration /	Contract 2 Twinning																																				
Project 3: Development and implementation of computer tools for experimental implementation of Intrastat system in Bulgaria	Contract 3: Technical Assistance																																				
Project 3: Development and implementation of computer tools for experimental implementation of the Intrastat system in Bulgaria	Contract 4: Supply																																				
Project 4 Strengthened IT support for the operation of the RA and its client services / Subproject 1 E-Government in service to the clients	Contract 5: Technical Assistance																																				

Legend	
Tendering and contracting	
Implementation and disbursement	
Contingency	

Annex 2 (Phase II, Phare-2005)

Detailed Implementation Chart

Alignment with the Acquis on Taxation and Strengthening of the Administrative Capacity of the Revenue Administration

Projects for Year 2 (2005)

Year		2005												2006												2007												2008											
Month		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Project 1 Tax policy (sub-project 2)	Contract 1 Twinning																																																
Project 2 Institutional development of the revenue administration (sub-project 2)	Contract 2 Twinning																																																
Project 2 Institutional development of the revenue administration (sub-project 3)	Contract 3 Technical assistance																																																
Project 4: Strengthened IT support for the operation of the revenue administration and its client services	Contact 3 Technical assistance																																																
Project 2 Institutional development of the revenue administration (Subproject 2 & 3) Project 4: Strengthened IT support for the operation of the RA and its client	Contract 4 Supply ➤ (TRA Fiscal Investigation) ➤ (Call-centre) ➤ (E-government, on-line services)																																																

Legend	
Tendering and contracting	
Implementation and disbursement	
Contingency	

Annex 3

Contracting and Disbursement Schedule by quarter for the first year of the programme (cumulative figures)
Alignment with the Acquis on Taxation and Strengthening of the Administrative Capacity of the Revenue Administration

Projects for Year 1 (2004): funding in MEURO

Phase 1

Year		2004		2005				2006				2007				Total
Quarter		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Contracting																
Project 1 Tax policy	Contract 1 Twinning			1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300					1.300
Project 2 Institutional development of the revenue administration	Contract 2 Twinning			0.950	0.950	0.950	0.950	0.950	0.950	0.950	0.950					0.950
Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria	Contract 3 Twinning			0.600	0.600	0.600	0.600	0.600	0.600	0.600	0.600					0.600
Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria	Contract 4 Supply							0.300	0.300	0.300	0.375					0.375
Project 4 Strengthened IT support for the operation of the RA and its clients	Contract 5 Technical Assistance			0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850					0.850
Disbursement																
Project 1	Contract 1 Twinning				0.216	0.432	0.648	0.864	1.080	1.300	1.300					1.300
Project 2 Institutional development of the revenue administration /	Contract 2 Twinning				0.150	0.250	0.350	0.450	0.550	0.650	0.750	0.850	0.950	0.950	0.950	0.950
Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria	Contract 3 Technical Assistance						0.300	0.400	0.500	0.600	0.700	0.800	0.900	0.600	0.600	0.600
Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria	Contract 4 Supply					0.030	0.060	0.090	0.120	0.150	0.180	0.210	0.240	0.270	0.375	0.375
Project 4: Strengthened IT support for the operation of the RA and its client	Contract 5 Technical Assistance						0.105	0.210	0.315	0.420	0.525	0.630	0.735	0.850	0.850	0.850

Annex 3(Phase II, Phare-2005)

Contracting and Disbursement Schedule by quarter for the second year of the programme (cumulative figures)
Alignment with the Acquis on Taxation and Strengthening of the Administrative Capacity of the Revenue Administration

Projects for Year 2 (2005): funding in MEURO

Phase 2

Year		2005		2006				2007				2008				Total
Quarter		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Contracting																
Project 1 Tax policy	Contract 1 Twinning							0.700	0.700	0.700	0.700	0.700	0.700			0.700
Project 2 Institutional development of the revenue administration (Sub-project 2)	Contract 2 Twinning				1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236				1,236
Project 2 Institutional development of the revenue administration (Sub-project 3) Project 4: Strengthened IT support for the operation of the revenue administration and its client services	Contract 3 Technical assistance (Organisational efficiency assessment) (E-archive)						0.864	0.864	0.864	0.864	0.864	0.864				0.864
Project 2 Institutional development of the revenue administration (Subproject 2) Project 4: Strengthened IT support for the operation of the RA and its client	Contract 4 Supply ➤ (TRA Fiscal Investigation) ➤ (Call-centre) (E-government, on-line services)						0.833	0.833								0.833
Disbursement																
Project 1 Tax policy	Contract 1 Twinning							0.500	0.500	0.630	0.630	0.700	0.370	0.370		0.700
Project 2 Institutional development of the revenue administration (Sub-project 2)	Contract 2 Twinning				0.494	0.494	0.700	0.700	0.907	0.907	1.112	1.112	1,236			1,236
Project 2 Institutional development of the revenue administration (Sub-project 3) Project 4: Strengthened IT support for the operation of the revenue administration and its client services	Contract 3 Technical assistance						0.518	0.605	0.605	0.692	0.778	0.778	0.864			0.864
Project 2 Institutional development of the revenue administration Project 4: Strengthened IT support for the operation of the RA and its client	Contract 4 Supply ➤ (TRA Fiscal Investigation) ➤ (Call-centre) (E-government, on-line services)						0.500	0.750							0.833	0.833

Annex 4

**Indicative technical specifications and functional descriptions
for supply contracts to project fiche
“Alignment with the Acquis on Taxation and Strengthening of the
Administrative Capacity of the Revenue Administration”**

Year 1 (2004)

Project 3: Development of computer tools and experimental implementation of the Intrastat system in Bulgaria

Contract 4 (2004)

Indicative list of equipment and indicative prices:

No	Item	Quantity	Indicative Unit Price (Euro)	Indicative Total Price (Euro)
1	Workstation	20	1200	24000
2	Server for maintenance of the PSI register	1	25000	25000
3	Server for the web centre for collecting Intrastat declarations	1	25000	25000
4	Call Centre	1	150000	150000
5	Specialised communication equipment and management system		30000	30000
6	Specialised software		30000	30000
Total				284000

Indicative list of equipment

Year 2 (2005)

Project 2: Institutional development of the revenue administration

Subproject 2: Institutional development of the revenue administration - stage 1

Supply of equipment for Fiscal Investigation, aiming at higher level of effectiveness of fighting tax-fraud

Result 4: Technical specifications for supply of equipment and software

- Supply of specialised equipment and software for fiscal investigation and training;
- Supply of hardware/ software for the employees working on fiscal investigations

Contract 4 (2005)

No	Item (indicative list)	Quantity	Indicative Unit Price (Euro)	Indicative Total Price (Euro)
1	Equipment for a cryptographic laboratory	1	30 000	30 000
2	Video Spectral Comparator with a PC, a short-wave UV unit, scanner and printer - mobile version	1	70 000	70 000
3	Adapted observation - van	1	60 000	60 000
4	Digital cameras with telephoto lens and memory chips	6	2 000	12 000
5	Mobile colour printer	6	300	1 800
6	Notebook	60	2 000	120 000
TOTAL			293 800	

Project 2: Institutional development of the revenue administration*Subproject 2: Development of a system of criteria and instruments for organisational efficiency assessment**Contract 4 (2005): Supply of software for organisational efficiency assessment, its customisation, implementation and testing*

No	Item	Quantity	Indicative Unit Price (Euro)	Indicative Total Price (Euro)
1	Software for organisational efficiency assessment, its customisation, implementation and testing	1	75000	75000

Project 2: Institutional development of the revenue administration*Subproject 2: Institutional development of the revenue administration - stage 2(2005)**Contract 4 (2005) Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration**Information center**Indicative list of equipment and indicative prices*

No	Item	Indicative Unit Price (Euro)
1	Call-centre Database server <ul style="list-style-type: none"> ➤ Mail server ➤ Server for application operation ➤ Workstations ➤ Specialised software ➤ Specialised software for IT telephony ➤ Regional communication server ➤ Network equipment ➤ Database software ➤ Application maintenance software ➤ Specialised application software ➤ E-mail software 	339 000

*Software and equipment for Large Taxpayer Territorial Tax Directorate**Indicative list of equipment***Indicative list of equipment and indicative prices:**

No	Item	Quantity	Indicative Unit Price (Euro)	Indicative Total Price (Euro)
1.	Portable computer (device to be confirmed)	115	2000	230000
2.	Copier	15	1000	15000
3.	Combined machine – copier, scanner, printer with an electronic archiving system	1	40000	40000
Total				285000

Project 4: Strengthened IT support for the operation of the revenue administration and its client services*Subproject 1: E-Government in service to the taxpayers: developing and enlarging on-line administrative services**Contract 4 (2005): Supply of equipment/hardware & software for developing and enlarging on-line administrative services*

No	Item	Quantity	Indicative Unit Price (Euro)	Indicative Total Price(Euro)
1	Internet application servers	2	10 000	20 000
2	DB server	2	25 000	50 000
3	External RAID array for on-line databases	1	25 000	25 000
4	Security software	1	5 000	5 000
5	Network security equipment	1	10 000	10 000
6	DBMS & licences	1	25 000	25 000

7	WEB server & development software	1	10 000	10 000
8	Electronic signatures at preferential prices and popularising the services		50000	50000
Total				195 000

Uniform practice for tax Acquis application and effective using of the information arrays from the VIES system

Tax control

Contract 2: Supply

1. Supply of software product for execution of **computer audits**.

Functional description of the necessary software	Financing under PHARE	Co-financing from the ST	Total
<p><u>Software for execution of computer audits for review and analysis of electronic accounting data</u></p> <p>The aim is to support the auditors with the necessary instruments for execution of tax audits in further computerizing environment.</p> <p>By the specialized software the process of accounting data analyzing and control will become automated.</p> <p>The software product for computer audits should contain the following functional capabilities:</p> <ul style="list-style-type: none"> - Import and, when needed, converting of data from different accounting systems in format allowing the auditors to make computer analysis - Data analysis: - data review from different accounting record books and registers – ledger, turnover register, payroll ledgers, purchase and sales journals, etc. and to the corresponding accounting records; - data processing by pre-defined criteria; - execution of different tests for detection of discrepancies and divergences – indication of misbalanced operations, wrong totals, missing or doubling documents, etc. - searching by different criteria and grouping of transactions; - distribution of transactions at intervals for tracing of tendencies and percent correlations; - possibility for printing of specific results within the course of analysis and export to other software products used in the audit process. <p>The software product should be compatible with the corresponding information environment.</p> <p>Activities: Development of the system; installation; testing; summing up of results; training of users and system administrators.</p>	900 000 EUR	300 000 EUR	1 200 000 EUR

Total (e-audits)	1 200 000
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Tax control

Contract 2: Supply

Supply or design of a software product, enabling the automated tracing of and **counter-action to tax frauds**, committed by using the intra-community supplies and provided technical facilities for automated detection of persons participating in such frauds

Functional description of the necessary software	Financing under PHARE	Co-financing from SB	Total
<p>Software for automated tracing of and counter-action to tax frauds, committed by using the intra-community supplies (by using the databases of the VIES system concerning the intra-community supplies)</p> <p>The software product should contain:</p> <ul style="list-style-type: none"> - module for selection of taxpayers, who had committed or who are potential perpetrators of typical tax fraud during the realization of intra-community and local supplies; - module for automated selection of taxpayers, who had concealed taxes, revenue, income, property <p>The software should enable, based on a pre-defined profile, selection of taxpayers who had committed or who are potential perpetrators of tax frauds, during intra-community and local supplies.</p> <p>The software should be able to use the information collected by the revenue administration and from the databases of the VIES system, as well as the following databases:</p> <ul style="list-style-type: none"> - Database of: NSSI, - NEC, - BTC, - Customs Agency, - NSSI - Ministry of Justice, - Frontier Police - National Agency for Fiscal Investigation (by the project start, it shall be built as an institution and operational); - others. <p>The purpose of the system for automated tracing of tax frauds is to support the administration in its efforts for detection and counter-action to tax frauds.</p> <p>The software for automated detection of and counter-action to tax frauds should cover the following activities:</p> <ul style="list-style-type: none"> – Producing the available information on the taxpayer; - Performing specific (analytical) and general (synthetic) 	300 000 EUR	100 000 EUR	400 000 EUR

<p>verifications and analysis of the information;</p> <ul style="list-style-type: none"> - Preparation, support and updating of list with fraudulent taxpayers and persons related to them. – Producing of the necessary documents during the analysis and investigation and preparation of performance dossier - Compatibility with/connection to the databases on the legislation or the relevant information system. <p>Activities: Supply or development of the system; installation; testing; summing up of results; training of users and system administrators.</p>			
Total (anti-fraud)			400 000
Total (e-audits & anti-fraud)			1600 000

**REFERENCE LIST
OF RELEVANT LAWS AND REGULATIONS**

- 1. NATIONAL REVENUE AGENCY ACT**
- 2. ACT ON ASSISTANCE TO MEMBER STATES OF EC IN THE LEVY OF TAXES – DRAFT**
- 3. VAT ACT**
- 4. REGULATION FOR THE IMPLEMENTATION OF THE VAT ACT**
- 5. CORPORATE INCOME TAX ACT**
- 6. PERSONAL INCOME TAX ACT**
- 7. LOCAL TAXES AND FEES ACT**

**REFERENCE LIST
SPECIFIC ACQUIS**

Recovery of claims:

- Council Directive 76/308/EEC on mutual assistance for the recovery of claims
- COMMISSION DIRECTIVE 2002/94/EC of 9 December 2002 laying down detailed rules for implementing certain provisions of Council Directive 76/308/EEC on mutual assistance for the recovery of claims relating to certain levies, duties, taxes and other measures

E-audits:

- VAT Invoicing directive (2001/115/EC)
- E-signatures directive (1999/93/EC)
- Commission recommendation on EDI (1994/820/EC)
- Regulation on VAT administrative Cooperation (2003/1798/EC)

Transfer Pricing

- “OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration”.
- 90/436/EEC Convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises (20/08/1990).

**REFERENCE LIST
OF RELEVANT STRATEGIC PLANS**

- 1. TAX POLICY 2003 – 2005**
- 2. STRATEGIC PLAN OF THE BULGARIAN TAX ADMINISTRATION FOR 2002-2006**
- 3. INFORMATION TECHNOLOGIES POLICY OF THE MINISTRY OF FINANCE**
- 4. GOVERNMENT PROGRAMME “PEOPLE ARE THE WEALTH OF BULGARIA”**
- 5. NATIONAL STRATEGY FOR E-GOVERNMENT**
- 6. E-EUROPE ACTION PLAN**
- 7. STRATEGY FOR EFFECTIVE COMMUNICATION IN THE COURSE OF REFORM IN THE ADMINISTRATION OF PUBLIC REVENUE**

Supplementary information on Project Purpose “Implementation of EU best practices in the field of direct and indirect taxation”

1. Taxation of Companies of the Financial Sector

The taxation of companies of the financial sector has been a largely discussed issue in the recent years. There are currently some provisions, mainly in the corporate taxation legislation, that do not fall within the objectives of Bulgarian tax policy, mainly regarding the equal treatment of taxable persons. The specifics of financial services are not included in the current tax legislation and this causes certain problems. For the sectors specially regulated in the Corporate Income Tax Act (insurance sector) the provisions have been largely criticized by the business since they deviate from the principle of taxation of financial result constituting a tax on the gross sales.

One of the measures in this field is laid down in the strategic documents of the Ministry of Finance and this is “Creation and definition of specific provisions regarding the tax treatment and taxation of financial institutions having in mind the specific nature of their activities”. When designing the new legislation, it will be necessary not to present potentially harmful tax measures identifiable as such under the Code of Conduct for Business Taxation, since one of the categories of such potentially harmful measures contains namely financial services.

It will be very useful to study the experience of the experts from the EU to see the most applicable model for the adoption of the rules governing the taxation of companies of the financial sector.

2. Taxation of Small and Medium Enterprises (SMEs)

The SMEs play an important role in the development of Bulgarian market economy. The large amount of employed persons in the private sector is in such companies. Most of the private initiatives are implemented through SMEs. The importance of these companies for Bulgarian economy is recognized in the National Strategy for Encouraging the Development of SMEs 2002-2006. The Strategy’s objective is facilitation of competitive SMEs sector to speed up the economic growth while maintaining the macroeconomic stability. This objective is reflected in the development of the financial environment (priority 2 of the Strategy) and taxation is mentioned as sub-priority in this respect.

The current situation for taxation of SMEs is the following:

The enterprises - local corporate bodies with annual turnover for the preceding year up to 50 thousand levs shall be taxed by a final annual (patent) tax for income resulting from sources in Bulgaria, under Chapter Fourteen of the Personal Income Tax Act. The patent tax is designed for companies with certain activities. Basically, it is a tax whose amount is based on certain objective characteristics of the business (e.g. restaurant’s category, character and location of the activity). The activities comprise mainly services. Generally, this flat tax can be a burden for some traders and serious relief for others, since a newly founded small undertaking that is in a competitive environment is forced to pay income tax while reporting serious losses. On the other hand, the comparatively low level of the patent tax rate is a serious advantage to growing SMEs. Furthermore, since the patent tax rates are based on the characteristics of the business, but not on the taxable profit, the rates shall be constantly adjusted to fit the eventual projected income of a

sample SME. Those obstructions have made clear that a new scheme may be more applicable while being more easy to administer and comply with.

Studying the experience of the Member States will be quite useful when designing the features of the new provisions for taxation of SMEs. The expertise in implementing the best EU practices in this area will be of great importance.

3. Family Taxation

The question about Family Taxation has been largely discussed during the previous couple of years. The idea in essence is that the tax base for the taxation of personal income shall take into consideration the income of the household as a whole and if the income of the person is redistributed to the other members of the household.

In this respect and following one of its main priorities, namely reduction of direct taxation burden, Bulgarian government has envisaged introducing certain features of the Family Taxation. The introduction of the principles of Family Taxation is mentioned in the strategic document “Tax policy 2003-2005”. The main objective there is to relieve the household budgets for families with one or more children.

There are some Member States that have introduced the principles of Family Taxation in their tax systems and it would be very useful for Bulgarian tax policy makers to study the experience of the experts from the relevant Member States concerning the impact on the tax revenues, tax compliance etc.