

Standard Summary Project Fiche

1. Basic Information

1.1 CRIS Number: BG2004/016-711.09.03

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:
- 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.

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
- 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, 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.”

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- Chapter 12: Statistics

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- 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

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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."

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.

3. Description

3.1 Background and justification:

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- Government Programme
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- 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 area 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 345 and the total amount of taxes paid on-line is 139 662 leva.

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.

National Fiscal Investigation Agency

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 will 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. The number of its employees will be up to two hundred. The funding planned for 2004 is 6 million leva. The National Fiscal Investigation Agency will be managed by the a Director appointed by the Minister of Finance in agreement with the Prime Minister for a term of 4 years.

Fiscal agents will be able to propose disclosure of banking and insurance secrecy and they could use special surveillance means and could assign other authorities inspections, audits and expertise.

The main task of the Agency during 2004 would be its structural establishment, staffing it with qualified agents and their specialized training in line with their functions and responsibilities. The actual operation of the Agency is expected to start in 2005.

Information centers

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 funded 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. Setting up an information centre and a 'Hotline' for obtaining feed-back from the public, which is not planned to be funded by the above-mentioned loan.

Intrastat

Intrastat system covers the exchange of statistical information on trading in goods between the Member 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 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.
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- 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.
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Composition of the Sector

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- 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*.
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- 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.
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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.

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The Bulgarian Tax/Revenue 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. BTRA is currently in a process of transformation from a tax into a revenue administration.

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.

In view of the planned transformation of the tax administration into a 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.

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 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.

3.2 Sectoral Rationale

The actions proposed in the government sector strategy would improve the tax system and increase revenue collection through enhancement of the collection procedures, completion of the alignment with the Acquis, reinforcement of the administrative capacity, in particular through pursuit of measures to increase the efficiency of the tax control and enforcement, and improvement of the client service.

Two major complementary instruments for financing the necessary actions are the EU funded projects programmed over the period 2004-2006, on the one hand, and the World Bank funded Revenue Administration Reform Project (RARP), on the other. The objectives laid down in the pre-accession and the government strategic documents will be achieved through pursuing parallel interventions in the areas where deficiencies are identified.

3.2.1 Identification of projects

In the process of preparing proposals on the current fiche, the findings of EU experts resulting from the meetings on analyses of the current situation under the Twinning project “Reform and Modernisation of the Bulgarian Tax Administration” were taken into account, together with the achievements under the project and the recommendations for follow-up activities, necessary to complete the initiated actions and fill in the remaining gaps. In addition, the proposals consider the interventions planned under the Revenue Administration Reform Project financed by the World Bank in order to avoid any possible overlap of results in addressing the remaining deficiencies.

Four main projects have been identified under this Fiche. The first one is in the field of tax policy and aims at further harmonisation of the tax legislation with the Acquis. It is proposed to take place in two stages (one subproject for each stage, accordingly) while in each stage distinct areas of the harmonisation of tax legislation are addressed. Strengthening the efficiency of the tax administration as a whole is the main focus of Projects 2 and 4. Project 2 aims at strengthening the administrative capacity of the main functions of the tax administration, as well as the development of new structures according to the EU accession requirements. Again, the project takes place in two stages (as two subprojects) with distinct components for intervention. Project 3 aims at the implementation of computer applications and web-based technologies for the operation of the Intrastat system in Bulgaria, which will be handled by the future revenue administration. The purpose of the fourth project is to improve the efficiency of the tax administration and its client services through improved IT support and is planned to take place in three phases.

Project 1: Tax Policy

Subproject 1: Full harmonisation of Bulgarian tax legislation with the requirements of the Acquis
Component 1: Value Added Tax;

Component 2: Direct Taxation;
Component 3: Administrative Cooperation and Mutual Assistance;

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

Component 1: The impact of the adoption of International Accounting Standards (IAS) on taxation;
Component 2: Taxation of Small and Medium Enterprises;
Component 3: Family Taxation;
Component 4: Taxation of Financial Sector;
Component 5: Investigation of ECJ practice
Component 6: Promotion of the tax policy and the role of EU tax legislation

Project 2: Institutional development of the revenue administration

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

Component 1: Enforced collection of public liabilities;
Component 2: Organisation and Management of managerial staff training
Component 3: Institutional development of the CLO;
Component 4: Strengthening the capacity of the National Fiscal Investigation Agency aiming at higher level of effectiveness of fighting tax-fraud;

Subproject 2: Development of a system of criteria and instruments for organisational efficiency assessment

Subproject 3: Institutional development of the revenue administration - stage 2

Component 1: Further enhanced internal and external communications mechanism.
Component 2: Increased capacity and optimised activities of TTD – Large Taxpayers in view of its integration within the National Revenue Agency

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

The purpose of this component of the project is to provide support for the development of the technical and functional specifications for the different computer applications and web-based technologies that will be installed in the tax/revenue administration or at the PSIs in connection with the preparation and submission of Intrastat declarations and collection and processing of data. This includes the commissioning of the software applications (“consulting engineer”).

Component 2: Supply of hardware and Intrastat software

Based on the technical specifications developed under Component 1, development (programming) of software, installation of applications and training. Delivery and installation of hardware.

Lot 1: Supply of hardware

Lot 2: Supply of software

Component 3: Experimental implementation of the Intrastat system

The purpose of this component is to provide support for carrying out of a Second Pilot Intrastat Survey, where the results from the foreseen Twinning Light Project will be tested (legislation,

methodology and logistics) and a 1-year experimental operation of the Intrastat system will be realized.

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

Subproject 2: Acquisition and implementation of an electronic archive management system and its integration into the Information System of NRA.

3.2.2 Sequencing

Phase 1/ 2004:

Project 1: Tax Policy

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

Component 1: Value Added Tax;

Component 2: Direct Taxation;

Component 3: Administrative Cooperation and Mutual Assistance;

Project 2: Institutional development of the revenue administration

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

Component 1: Enforced collection of public liabilities;

Component 2: Organization and Management of Managerial Staff Training

Component 3: Institutional development of the CLO;

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

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

All three components will be implemented under financial year 2004.

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

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

Phase 2/ 2005:

Project 1: Tax Policy

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

Component 1: The impact of the adoption of International Accounting Standards (IAS) on taxation;

Component 2: Taxation of Small and Medium Enterprises;

Component 3: Family Taxation;

Component 4: Taxation of Financial Sector;

Component 5: Investigation of ECJ practice

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

Project 2: Institutional development of the revenue administration

Subproject 2: Development of a system of criteria and instruments for organisational efficiency assessment

Subproject 3: Institutional development of the revenue administration - stage2

- Component 1: Further enhanced internal and external communications mechanism.
- Component 2: Increased capacity and optimised activities of TTD – Large Taxpayers in view of its integration within the National Revenue Agency.

Project 3: Strengthened IT support for the operation of the revenue administration and its client services

Subproject 1: Supply of equipment/hardware & software for developing and enlarging on-line administrative services

Phase 3/ 2006

Project 3: Strengthened IT support for the operation of the revenue administration and its client services

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

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

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 1: Implementation of International Accounting Standards (IAS) completed and sufficient knowledge on the real impact gained;

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.

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

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

Subproject 3: Institutional development of the revenue administration - stage 2

Component 1: Further enhanced internal and external communications mechanism

Result 1: Established information centres with a hot line within the territorial structures of the NRA;

Result 2: Technical specifications elaborated for information centre equipment.

Component 2: 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: Technical specifications elaborated

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

Result 3: Improved data entry and data processing capacity of BTA/NRA;

Result 4: Enlarged access for taxpayers to information;

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/EC

- 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/EC

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

- Definitions
- Place of taxation
- Fiscal obligations
- others

79/1072/EEC

- 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/EEC 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/EEC 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 1: The impact of the adoption of International Accounting Standards (IAS) on taxation;

- Workshop on the main principles of IAS
- Training on IAS defined by the relevant parties
- Identification of eventual problems arising from the implementation of IAS regarding taxation

Component 2: Taxation of Small and Medium Enterprises;

- Examination of the practices in the EU member-states regarding taxation of small and medium enterprises (SMEs)
- Examination of the experience in Home State Taxation of small and medium enterprises (SMEs)
- Make recommendation on applicable schemes regarding taxation of small and medium enterprises (SMEs)
- Draft amendments to the legal acts

Component 3: Family Taxation;

- Examination of the practices in the EU member-states regarding family taxation
- Make recommendation on applicable schemes regarding family taxation
- Draft amendments to the legal acts

Component 4: Taxation of Financial Sector;

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

- Make recommendation on applicable schemes regarding taxation of companies of the financial sector
- Draft amendments to the legal acts

Component 5: Investigation of ECJ practice

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

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

- Training of relative target groups in general aspects of the EU tax legislation**
- Training of relative target groups in VAT and Direct taxation **
- Identification of further training needs in the area of taxation
- 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

- Analysis of the current situation
- Exchange of experience
- Transfer of experience and best solutions in the field of enforcement.
- 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;

- Analysis of the current situation;
- Exchange of expertise and best solutions in the area of combat against tax fraud with specific enforcement measures.
- 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.
- Training of trainers at central level in techniques for communication with debtors aiming at encouragement of voluntary compliance

- Training of trainers at territorial level in techniques for communication
- 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

- Concept paper on organisation and management of managerial staff
- Programme for managerial staff training
- Programme for evaluation of management capacity

Component 3: Institutional development of the CLO

Result 1: Prepared 2006 Action Plan

- Review and update of the Concept paper on the establishment of a CLO in BTA and Action Plan up to 2007;
- 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;

- Study the experience of a EU member state
- Study the experience and problems in new Members States (from the 1st wave in 2004)
- 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;
- 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.
- Study the experience of a member state;
- 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.);
- Development of training materials (instructions/procedures/manuals, cases, etc.);
- 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.

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

- 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

- Investigation of best practices and development of methods and instruments for prevention and detection of fraud
- 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
 - Training on criminal investigation in cases of fraud.

Result 4: Technical specifications for supply of equipment and software

- Preparation of technical specifications for supply of equipment and software

Contract 6 (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

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

Subproject 2: Development of a system of criteria and instruments for organisational efficiency assessment

Contract 4 (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

- Development of System of criteria and instruments for organisational efficiency assessment through:
 - review of the leading world 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;
 - development of system software application;
 - implementation and testing;
 - preparation of initial organisational efficiency assessment

Contract 5 (2005): Supply of software for organisational efficiency assessment, its customisation, implementation and testing

Subproject 3: Institutional development of the revenue administration - stage 2

Contract 2 (2005): Twinning

Component 1: Communications

Result 1: Established information centres with a hotline within the territorial structures of the NRA.

- Investigation of the organization and operation of information centres with a hotline and the implementation of information campaigns in a EU MS;

- Development of a Concept on the efficient structure, the model for organising the activities, the division of responsibilities, and the network with stakeholders, of the information centres;
- Transfer of expertise on the organisation of information campaigns;
- Transfer of expertise on the implementation of studies, researches and analysis through feedback;
- Training of the employees in the information centres (software products, client servicing, information provided)

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Result 2: Technical specifications prepared for technical equipment for the information centres.

- Preparation of technical specifications for information centres equipment;

Component 2: Increased capacity and optimised activities of TTD – Large Taxpayers in view of its integration within the National Revenue Agency

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

- Enhancing the organisational structure with national range within NRA to service and control a small number of taxpayers and contributors, who secure the revenues in the central budget;
- Implementing modern procedures and systems for Territorial Directorate “Large Taxpayers and Contributors”, consistent with the best international practices, that have a main role in tax administration reform strategy;
- Reviewing the functional organisation and implementation of integrated operative processes, consistent with the specific work conditions with large taxpayers and contributors;
- 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;
- Identifying criteria for risk selection and management;
- Designing methods for tax and social security liabilities and conflict resolution;
- Improving the infrastructure and equipment;

Result 2: Developed technical specifications

Contract 3 (2005): Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration

To Component 1: Communications

- Supply of technical equipment for the information centres.

To Component 2: Increased capacity and optimised activities of TTD – Large Taxpayers

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

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

Contract 3 (2004): Technical Assistance

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;

- 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);

- 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;

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

- Organisation and conduct of Second Pilot Intrastat Survey in Bulgaria;
- Analysis of the results of the survey and final amendments of 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;

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

- Organisation and conduct of information campaigns for PSIs;
- Training campaigns for PSIs for usage of software and electronic submission of declarations;

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

- Preparation of training materials;
- Selection, recruitment and training of staff for operation of the Intrastat system;

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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
 - Analysis of existing on-line taxpayer services
 - Improvement and enhancement of existing on-line taxpayer services
 - Implementation of EU standards and best practices
- Result 2: Implemented new on-line taxpayer services.

- Development and integration of new on-line administrative services in line with the Bulgarian national e-government strategy and EU standards.
- 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.
- 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 7 (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
- Encourage and popularise the use of on-line administrative services by individuals and businesses.
- 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 1 (2006): Technical Assistance

- Result 1: Prepared gap analysis of the current practices in BTA/NRA for document flow and archive management and recommendations for development; prepared functional technical specifications of the system;
- Gap analysis of the current practices in BTA/NRA for document flow and archive management;
- Development of functional and technical requirements to the electronic archive management system;
-
- Result 2: Implemented electronic archive management information system and integrated with NRA's information system;
- Training of IT experts and end users in the area of maintenance, management and exploitation of the system;

Result 3: Improved data entry and data processing capacity of BTA/NRA;

- Development of system functionality - possibility to enter and process documents through OCR technology;

Result 4: 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;

- 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;

- Supply of IT equipment and system software;
- Supply of electronic archive management information system and its integration into IIS of NRA;

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, taxpayers 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 achieved results under the Twinning project BG/2000/IB/FI/06 “Reform and modernisation of Bulgarian Tax Administration” a specialised 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 specialised department will be related entirely with the establishment of the necessary preconditions for one active and efficient CLO within the structure of the NRA and establishment of the necessary work conditions, on the basis of the achieved results under Twinning project BG/2000/IB/FI/06. The department will establish and keep professional relations with other departments in GTD/NRA/MF, depending on the needs of additional competence or direct partnership during the development process.

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 prepared by the Pre-Accession Adviser.

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 Strategy;
 - 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 focussed;
 - A review of the effectiveness of any new pay arrangements;
 - A Senior Management Development Programme.
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- 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.

Feasibility Study - the final specifications for supply of equipment for e-government will be determined on the basis of the further detailed Feasibility Study to be performed before the implementation of this project activity, for which the tax administration/NRA will request additional technical assistance support through Project Preparation Facility (PPF).

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.

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, which has been submitted for approval in the year 2004 and will benefit from the Unallocated reserve from the Phare-2003 National Program: the project will 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.

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.

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.

At present 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;
- 111 Tax Offices;
- 173 Tax Bureaux and Extended Working Locations

The employees of the tax administration at present are 9500.

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.

5. Detailed budget

in MEURO					
	Phare Support				
	Investment Support	Institution Building	Total Phare (=I+IB)	National Co-financing*	TOTAL
Year 1/Phase 1 (2004)					
Contract 1 (Tax Policy) Twinning		1,300	1,300		1,300
Contract 2 (Tax/Revenue administration /TRA/ Twinning)		0,950	0,950		0,950
Contract 3 (Intrastat) Tech Ass		0,600	0,600		0,600
Contract 4 (Intrastat) Supply	0,300		0,300	0,100	0,400
Contract 5 (E-government) Tech Ass		0,850	0,850		0,850
Total Year 1	0,300	3,700	4,000	0,100	4,100
Year 2/Phase 2 (2005)					
Contract 1 (Tax Policy) Twinning		0,700	0,700		0,700
Contract 2 (TRA) Twinning		0,536	0,536		0,536
Contract 3 (TRA – Information Centres) Supply	0,470		0,470	0,157	0,627
Contract 4 (Organisational efficiency assessment) Tech Ass		0,164	0,164		0,164
Contract 5 (Organisational efficiency assessment) Supply	0,030		0,030	0,075	0,105
Contract 6 (TRA. - Fiscal investigation) Supply	0,452		0,452	0,151	0,603
Contract 7 (E-government) Supply	0,146		0,146	0,049	0,195
Total Year 2	1,098	1,400	2,498	0,432	2, 93
Year 3/Phase 3 (2006)					
Contract 1 (E-archive) Tech Ass		0,500	0,500		0,500

Contract 2 (E-archive) Supply	1,837		1,837	0,613	2,450
Total Year 3	1,837	0,500	2,337	0,613	2,950

The Phare contribution for investment costs will be no more than 75% of eligible public expenditure, the balance having to be covered by the national co-financing. The national co-financing will be provided by the National Fund Directorate at the Ministry of Finance. All operational and running costs and the maintenance of the equipment will be provided by the final beneficiaries.

** 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.*

National co-financing will be joint co-financing to be tendered in a single tender together with Phare funds.

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. The Project will be managed in line with the Practical Guide to Phare, Ispa, Sapard contract procedures (PRAG).

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.

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, 3 and 4:

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

Membership of the existing Phare Implementation Unit in GTD will be extended with NRA employees. It will consist of five employees and will perform the operative functions of project implementation and report.

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.

Twinning Resident Adviser (resident for about 24 months), 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 various aspects of the acquis and the way it is implemented in the national legislation;
- 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;

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

- International Accounting Standards
- 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 (resident for about 24 months), 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.

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

The Project will be managed in line with the Practical Guide to Phare, Ispa, Sapard contract procedures (PRAG).

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

Project 2: Institutional development of the revenue administration

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

Contract 2 (2005): Twinning Contract

Contract 3 (2005): Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration

Contract 4 (2005) – Service Contract for Technical assistance for development of a system of criteria and instruments for organisational efficiency assessment

Contract 5 (2004) - Supply of software for organisational efficiency assessment, its customisation, implementation and testing

Contract 6 (2005)– Supply of equipment for a National Fiscal Investigation Agency

Contract 7 (2005) - Supply of equipment/hardware & software for developing and enlarging on-line administrative services

Phase 3: 2006

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): Technical Assistance

Contract 2 (2006): Supply of equipment/hardware & software

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 (Provisional)

	7.1 Start of Tendering/ call for proposals	7.2 Start of project activity	7.3 Project completion
Contract 1: (Tax Policy) Twinning	July 2005	Sept 2006	Nov 2008
Contract 2: (TRA) Twinning	July 2005	June 2006	May 2008
Contract 3: (TRA – Information centres) Supply	February 2007	October 2007	April 2008
Contract 4: (Organisational efficiency assessment) Technical Assistance	January 2006	October 2006	May 2008
Contract 5: (Organisational efficiency assessment) Supply	February 2007	October 2007	April 2008
Contract 6: (TRA National Fiscal Investigation Agency) Supply	February 2006	October 2006	April 2008
Contract 7: (E-government) Supply	February 2006	October 2006	April 2008

- Phase 3: 2006 (Provisional)

	7.1 Start of Tendering/ call for proposals	7.2 Start of project activity	7.3 Project completion
Contract 1: (E-archive) Technical Assistance	January 2007	October 2007	May 2009
Contract 2: (E-archive) Supply	February 2008	October 2008	April 2009

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 - N/A

10. Rates of return – N/A

11. Investment criteria – N/A

11.2. Co-financing

The National Co-financing will be up to 10% of the contract value for Institution Building (Twinning and Technical Assistance contracts) and 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)

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.
- GTD 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.

- A Law on the establishment of a National Fiscal Investigation Agency under the Ministry of Finance is expected to have been passed by mid 2004.

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

<i>Annex 1 to SPF</i>			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 1: 30.11.2006	Disbursement period expires: Phase 1: 30.11.2007
			Total Budget (MEURO) Phase 1: 4, 075	Phare contribution (MEURO) Phase 1: 4,000
Overall objective	Objectively 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 revenue administration in the process of accession to the European Union.	<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 • Public trust • Revenue collection 		<ul style="list-style-type: none"> • EC regular reports • WB reports • Surveys with representatives of the business and the public at large 	
Project purpose:	Objectively verifiable Indicators		Sources of Verification	Assumptions:
<p><i>Project 1: Tax Policy</i></p> <ul style="list-style-type: none"> • Implementation of the <i>acquis</i> 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 <p>Project 2: 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.</p> <p>Project 3: 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.</p>	<ul style="list-style-type: none"> • Adoption of relevant draft laws and draft amendments to existing Legal Acts by 01.01.2007 to cover all commitments to date of accession ○ Cost of one unit of revenue; ○ Voluntary compliance/ target revenue; ○ Collected revenue/ target revenue; ○ Detected value of fraud; ○ Adequate training capacity established; ○ Uniform practice in place on the application of the revenue legislation ○ CLO fully operational; ○ Preparedness for using the Intrastat system; ○ Client satisfaction with the service received; ○ Readiness of the Bulgarian Intrastat System for operation in real time from the date of accession. 		<ul style="list-style-type: none"> • Project Reports • State Gazette ○ Administrative capacity reviews ○ Sectoral Monitoring reports ○ Regular reports and information ○ Surveys with representatives of the business and the public at large ○ Project reports ○ Review of the capacity of the staff 	<ul style="list-style-type: none"> ○ The Government will maintain a consistent policy in the area of tax reform <ul style="list-style-type: none"> • Government adopts the draft legal acts • Government adopts the draft legal acts • Optimal staff of the Task Team • Office for the Task Team

<p>Project 4: 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 I.T.; ○ Improved quality service and relations with the business; ○ Expanded on-line administrative services; ○ Reduced cost of one unit of revenue; ○ Increased detection and prevention of fraud. 		
Results:	Objectively verifiable Indicators	Sources of Verification	Assumptions:
<p>Project 1 Tax Policy <i>Subproject 1: Full harmonisation of Bulgarian tax legislation with the requirements of the acquis acquis</i> 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; <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> Result 1: Implementation of International Accounting Standards (IAS) completed and sufficient knowledge on the real impact gained; 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>Project 2: <i>Enforced collection of public liabilities:</i> Developed criteria for classification of risk debtors; Developed system of enforcement measures against persons with accumulated tax liabilities from financial frauds; Developed manual on communication techniques for negotiating voluntary compliance. Developed plan for implementation of these communication techniques at all TA levels.</p> <p>Human Resource Management: Organisation and management of managerial staff training</p> <p><i>Institutional Development of the CLO</i> Prepared 2006 Action Plan. Discussion on the international standards, news and trends in the field of the mutual assistance and exchange of information. Prepared materials for training of tax administration employees on mutual assistance and exchange of information. Trained contact persons at local level. 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><i>Strengthening the capacity the National Investigation Agency aiming at higher level of effectiveness of fighting tax-fraud</i></p> <ul style="list-style-type: none"> • Established system and developed criteria for tax fraud selection for criminal prosecution • Developed methods and instruments for detection and prevention of fraud • Specialised training on criminal investigation in cases of fiscal fraud – tax fraud, social and health insurance fraud; 	<ul style="list-style-type: none"> • Six Reports on the Principles of the relevant <i>acquis</i> <ul style="list-style-type: none"> • Draft legal acts or amendments to current law in the area of VAT, Direct taxation and Administrative Cooperation and Mutual Assistance • Three Reports on the applicable schemes regarding taxation of SMEs and household taxation and taxation of companies of the financial sector • Increased public awareness of the of the EU tax legislation and the EU best practices by the date of project completion • % increase of the collection of net outstanding debts/ net outstanding debt • % increase of the number of seizures; • % of voluntary compliance increased • % decrease of gross tax debt/ total tax revue collected • Prepared concept paper on organisation and management of managerial staff training • 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 • Developed system and criteria for the selection of cases for criminal investigation of tax frauds • Increased detection and prevention of tax fraud • % increase in voluntary compliance • Trained officials on specialised techniques for combating tax fraud, social and health insurance fraud 	<p>Project reports</p> <p>Project reports</p> <p>Statistical data</p> <ul style="list-style-type: none"> • Quarterly and Annual reports of the BTA • Sub-sectoral Monitoring reports • Quarterly Twinning reports • Regular progress reports 	<p>Sufficient and well qualified and trained staff of Tax Policy Directorate retained</p> <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 refrom processes ○ Establishment of internal units for coordination and monitoring

<ul style="list-style-type: none"> • Technical specifications and supply of equipment and software <p><i>Further enhanced internal and external communications mechanism</i></p> <ul style="list-style-type: none"> ○ Established information centres with a hot-line within the territorial structures of the NRA; ○ Technical specifications elaborated for information centre equipment. <p>Developed system of criteria and instruments for organisational efficiency assessment</p> <ul style="list-style-type: none"> ○ Implemented system of criteria and instruments for organisational efficiency assessment, in connection with TA's restructuring and NRA future activities <p><i>Increased capacity and optimised activities of TTD – Large Taxpayers</i></p> <ul style="list-style-type: none"> ○ Increased capacity and optimised activities of "Large Taxpayers" Territorial Tax Directorate <p>Project 3</p> <p><i>Development and implementation of computer tools for the Intrastat system</i></p> <ul style="list-style-type: none"> • Developed and approved technical and functional specifications for the Declarants Register; • Developed and approved technical and functional specifications for the software applications for the Providers of Statistical Information (PSIs); • 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; • Carried-out Second Pilot Intrastat Survey in Bulgaria and tested legislation, methodology and logistics; • Implemented and tested Declarants register, computer applications for PSIs and web-based technologies for collection of raw data for the Intrastat system; • Achieved adequate level of readiness of the PSIs for compliance with the Intrastat system and for the submission of data with the required quality; • Trained staff for the operation of the Intrastat system. <p>Project 4:</p> <p><i>E-Government in service to the taxpayers: developing and enlarging on-line administrative services</i></p> <ul style="list-style-type: none"> ○ Enhanced and improved existing on-line taxpayer services, provided by BTA/NRA. Implemented EU standards in this area. ○ Implemented new on-line taxpayer services; ○ Enhanced administrative capacity of the administration in the taxpayer services and on-line administrative services.. <p><i>Acquisition and implementation of an electronic archive management system and its integration with the information system of BTA/NRA;</i></p> <ul style="list-style-type: none"> ○ Prepared gap analysis of the current practices in BTA/NRA for document flow and archive management and recommendations for development; prepared functional technical specifications of the system; ○ Implemented electronic archive management information system and integrated with NRA's information system; ○ Improved data entry and data processing capacity of BTA/NRA; ○ 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"> • Supplied and installed specialized equipment • Trained personnel for operation with the specialized equipment • Trained personnel for criminal investigations of fiscal frauds <ul style="list-style-type: none"> • Number of information materials • Changed public attitude to revenue administrations from 68 % mistrust to more than 50 % trust <ul style="list-style-type: none"> • Achieved own capacity for evaluation of organisational efficiency and effectiveness. • Optimised business processes and procedures in Large Taxpayer Territorial Tax Directorate. <ul style="list-style-type: none"> • Approval and application of the developed instruments. • Level of the training achieved. • Level of development and strengthening of the administrative capacity. • Quality equipment supplied in time. • Level of compliance of proposals for legislative changes with EU legislation. • Easiness of work and comprehensiveness of the prepared prototypes of different manuals, methodologies etc. • Quick and quality up-dating of the elaborated, operating Declarants Register. • Level of detailness of the developed technical requirements for computer applications. • Readiness for issuance of the reviewed materials. • Level of acquired knowledge of the trained specialists. • Level of readiness of the traders in application of the requirements of Intrastat system, which they meet <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 taxpayers' servicing. • Full integration of on-line services into the information systems of TA/NRA; • Gained knowledge and skills by IT experts for maintenance and development of on-line services; • Completely functional and integrated Information system for electronic archive management; • Decreased administrative expenses for taxpayers' servicing. • Acceptance-delivering certificate on complex testing on the systems. • Complete integration of the systems into the information systems of BTA/NRA; • Gained knowledge and skills by IT experts for 		<ul style="list-style-type: none"> • Continued political support for the establishment of the National Fiscal Investigation Agency"
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maintenance and development of on-line services;

- Integrated electronic archives in the offered on-line administrative services;
- Optimised processes for document processing in BTA/NRA;

- Implemented IIS of the NRA
- Implemented IIS of the NRA
- Implemented IIS of the NRA

Activities	Means	Sources of Verification	Assumptions:
<ul style="list-style-type: none"> - Exchange of experience through workshops and seminars - Study visits for familiarization with best practices - Specialized training - Supply of equipment, installation and testing. 	<p>Phase 1: 2004 Project 1: Tax Policy</p> <ul style="list-style-type: none"> • Contract 1 (2004) – Twinning Contract <p>Project 2: Institutional development of the revenue administration <i>Subproject 1: Institutional development of the revenue administration – stage 1</i> Contract 2 (2004) – Twinning Contract</p> <p>Project 3: Development and implementation of the Intrastat system in Bulgaria 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.</p> <p>Project 4: Strengthened IT support for the operation of the revenue administration and its client services <i>Subproject 1: E-Government in service to the tax payers: developing and enlarging on-line administrative services</i> Contract 5 (2004) – Technical Assistance</p> <p>Phase 2: 2005 Project 1: Tax Policy</p> <ul style="list-style-type: none"> • Contract 1 (2005) – Twinning Contract <p>Project 2: Institutional development of the revenue administration <i>Subproject 2: Institutional development of the revenue administration – stage 2</i> Contract 2 (2005): Twinning Contract Contract 3 (2005): Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration Contract 4 (2005) – Service Contract for Technical assistance for development of a system of criteria and instruments for organisational efficiency assessment Contract 5 (2004) - Supply of software for organisational efficiency assessment, its customisation, implementation and testing Contract 6 (2005)– Supply of equipment for a National Fiscal Investigation Agency Contract 7 (2005) - Supply of equipment/hardware & software for developing and enlarging on-line administrative services</p>	<p>Regular progress reports</p>	<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 3: 2006</p> <p><i>Project 3: 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 into the Information System of NRA</i></p> <p>Contract 1 (2006): Technical Assistance</p> <p>Contract 2 (2006): Supply of equipment/hardware & software</p>		
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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	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																																																								
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 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): Phare 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

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

Component 4: Strengthening the capacity 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 4 : Technical specifications for supply of equipment and software

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

• Contract 6 (2005)

No	Item	Quantity	Indicative Unit Price (Euro)	Indicative Total Price(Euro)
1	Equipment for a cryptographic laboratory	1	30000	30000
2	Internet and e-mail interception special equipment and software	1	70000	70000
3	Mobile phones interception special equipment and software	1	45000	45000
4	Stationary phones interception special equipment and software	1	45000	45000
5	Video Spectral Comparator with a PC, a short-wave UV unit, scanner and printer	1	70000	70000
6	Stereo microscope together with a digital photo camera and a cold light source	1	20000	20000
7	Search toolkit	1	500	500
8	Night vision binocular	6	3000	18000
9	Digital Dictaphones	6	400	2400
10	Set of search mirrors with a telescopic arm and torch	6	500	3000
11	Digital cameras with telephoto lens and memory chips	6	2000	12000
12	Colour video cameras with long distance lens	6	2000	12000
13	GPS tools	6	1500	9000
14	Mobile colour printer	6	300	1800
15	Notebook	60	1700	102000
16	Special Internet Stations	60	1200	72000
17	Special communication tools	60	1500	90000
Total				602700

Project 2: Institutional development of the revenue administration

Subproject 2: Development of a system of criteria and instruments for organisational efficiency assessment

Contract 5 (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	30000	30000

Project 2: Institutional development of the revenue administration*Subproject 3: Institutional development of the revenue administration - stage 2(2005)**Contract 3 (2005) Supply of equipment/hardware & software for enhancing the administrative capacity of the revenue administration**Information centers**Indicative list of equipment and indicative prices*

No o	Item	Indicative Price (Euro)	Unit
1	Information centre <ul style="list-style-type: none"> 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 	330 000	

*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	Workstation	40	1200	48000
2	Server	2	21000	42000
3	Portable computer	30	2500	75000
4	Copier	15	1000	15000
5	Network printer	15	2000	30000
6	Combined machine – copier, scanner, printer with an electronic archiving system	1	40000	40000
Total				250000

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 7 (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

Annex 5

**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**

Annex 6

**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.