

**Standard Summary Project Fiche – IPA centralised programmes**  
**Project Fiche: 16**

**1. Basic information**

**1.1 CRIS Number: 2010/022-154**

**1.2 Title:** Upgrading IT capacity of the Tax Administration

**1.3 ELARG Statistical code:** 03.62 –Customs and Taxation

**1.4 Location:** Montenegro

**Implementing arrangements:**

**1.5 Contracting Authority:** Delegation of the European Union to Montenegro

**1.6 Implementing Agency:** N.A.

**1.7 Beneficiary** (including details of project manager):

Tax Administration of Montenegro

Address: Put Radomira Ivanovića br.2 Podgorica Montenegro

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Fax: ++382 20 448139

Project manager with appropriate qualifications and authority will be appointed by the Tax Administration of Montenegro

**Financing:**

1.8 Overall cost: 667.000 EUR

1.9 EU contribution: 500.000 EUR

National contribution 167.000 EUR

1.10 Final date for contracting: Two years from the date of the conclusion of the Financing Agreement

1.11 Final date for execution of contracts: Two years from the final date for contracting

1.12 Final date for disbursements: One year from the final date for execution of contract

## **2. Overall Objective and Project Purpose**

### **2.1 Overall Objective:**

More stable budgetary revenues in Montenegro through better fiscal planning and maximisation of tax collection.

### **2.2 Project purpose:**

Strengthening the IT capacity of the Tax Administration of Montenegro to increase tax collection thus contributing to maximising the government's fiscal revenues.

### **2.3 Link with AP/NPAA / EP/ SAA**

The Stabilisation and Association Agreement (March 2007, SAA) addresses the chapter on - Tax Administration in Article 100. Improving the fiscal system of Montenegro and restructuring the Tax Administration are identified as key reform priorities with a view to ensuring effectiveness of tax collection and the fight against fiscal fraud. It also calls for priority areas related to the Community Acquis in the field of taxation and in the fight against harmful tax competition based on the principles of the Code of Conduct for business taxation agreed by the Council on 1<sup>st</sup> of December 1997.

**The European Partnership Document** (January 2007) EP includes “Short Term Priorities-European Standards –Internal Market-Custom and Taxation which the Montenegrin authorities are required to address. This includes:

- Continue to modernize customs administration in order to ensure a high level of administrative capacity and to fight against corruption, cross-border crime and fiscal evasion.
- Amend and implement legislation in the area of rules of origin in order to introduce a legal basis for the application of the EC rules of origin for the purposes of the autonomous trade measures.
- Improve implementation of tax laws, focusing on revenue collection and control in order to reduce tax fraud.
- Apply the principles of the code of conduct for business taxation and ensure that new tax measures are in conformity with those principles.

### **2.4 Link with MIPD**

MIPD (2009-2011) envisaged assistance to Tax Administration in developing its operational capacity. It is expected that taxation legislation will be further aligned with EU acquis and Tax Administration capacity to collect direct taxes and VAT increased.

### **2.5 Link with National Development Plan**

Not applicable

### **2.6 Link with national/ sectoral investment plans**

Montenegro has strategic goal to become member of the European Union and consequently the main investment plans are under process of aligning with this goal. Tax Administration is a Body in charge of particularly important area which is collecting of budget revenues and its business strategy is adjusted to the strategic goal to achieve EU standards. With regard to that

the Tax Administration has integrated its system with the system for prevention of corruption and organized crime, money laundry under the Action Plan enacted by the Government of Montenegro. This project will enable Tax Administration to achieve synergy with other such investments for overall better functioning of its IT system.

The National Program for Integration of Montenegro records that Montenegro commenced the overall reform of the tax system and tax policy in 2001, making efforts to adjust local fiscal system to European standards as much as possible. It also stated that the current tax system of Montenegro is to a significant extent compatible with the regulations of the European Union, which is particularly true for indirect taxes.

### **3. Description of project**

#### **3.1 Background and justification:**

The main objective of Tax Administration is to achieve as high budget revenues as possible under existing conditions and using its wide authority. This is achieved through 3 strategic ways- education of tax payers, tax audit and tax collection. A sustainable system of revenue collection should meet numerous economic and financial conditions in the process of EU accession. Thus, range of new tax laws was adopted with the aim of introducing new efficient regulation of fiscal area. Furthermore, changes and amendments of existing laws were adopted in order to adjust them to EU fiscal legislation.

The most significant outcomes of the reform in taxation thus far are as follows: introduction of VAT (instead of previous retail sales tax); synthetic personal income taxation (taxation of income from all sources); significant reduction of tax rates, with the expansion of the tax base; equalization of the tax status of domestic and imported excise goods; equalization of the tax status of domestic and foreign legal entities; introduction of tools for elimination of double taxation of profit and dividends; introduction of the system of self-assessment taxation for payment of tax liabilities; introduction of tax identification number (PIB) and adoption of the modern Law on Tax Administration which defines rights and obligations of taxpayers and tax authorities.

The current rate of tax on profit amounts to 9% and is one of the lowest in the region. Standard VAT rate amounts to 17%, and the reduced amounts to 7% (applicable to a small number of goods and services) and these rates are also among the lowest in the region. The rate of personal income tax has been significantly reduced, and starting from 2010 it should amount to 9% (by then the following rates will be applicable: 15% for 2008 and 12% for 2009). The project will contribute to the realisation of ambitious goals as set up in the above mentioned plan.

It is stated in the Commission, 2008 Progress Report for Montenegro that: "In the case of direct taxation first legislative measures towards adjustment to EU legislation, in the form of amendments on Law on corporate profit taxation, were taken in June 2008. Constant improvements in the area of indirect taxation are registered. Changes and amendments of Law on VAT increased the level of harmonisation of legislative on used motor vehicles and VAT refund in passenger transport. Lower rates are adopted for computer equipment and services in marines, which are not in line with Acquis. Providing tax payers with information has been improved by tax bulletins and electronic media. Tax Administration collected 29% more tax and contributions revenues, compared to first 8 months of the previous year. This figure is

31.5% for taxes only. Significant improvement has been recorded in modernization of the Tax Administration, in the view of harmonization of legal regulations with Acquis. Still, further adjustment is to be carried out, especially in the area of excise rules and duty-free and reduced rates of VAT and direct taxation.”

Tax Administration began implementation of the Project UCG (Unified Collection Gateway) financed by World Bank which deals with “Integrated registration and collection”. The first phase of this project is finished. It encompassed establishment of the integrated Central Register (in one place at the special organisational unit of Tax Administration) of all tax and contribution payers and insurance tributaries, available to all state authorities and introduction of the unified document for needs of presentation and control of tax and contribution liabilities for one tax form- personal income tax (IOPD form- report on assessed taxes and contributions).

In order to further develop the integrated registration and collection of taxes, the proposed Project will provide IT solution that will be the next phase of development of the Tax Administration IT system. It should encompass also the upgrade of the above mentioned UCG project. It involves introduction of information support for other tax forms and procedures (electronic submission of returns for VAT and profit tax, together with the accompanying bookkeeping module), that are under jurisdiction of the Tax Administration and are not included in the first phase as developed with the World bank support. With this UCG (Unified Collection Gateway) Project would be upgraded as a complete solution in the Tax Administration information system for certain tax forms (VAT, profit tax, personal income tax).

The implementation of the Project involves the Development of Blue Print documentation. The purpose of preparation of Blue Print document is provision of a detailed description of functionalities of requested software solution. The document should encompass, explain and describe all operational processes in detail, in line with the following concept: main assumptions, main processes, detailed processes, graphical user interfaces, interfaces towards external systems, system testing. This part of the Project would be financed by the Tax Administration.

Software to be procured will enable IT system to process establishment of procedures related to the VAT and profit tax. This IT solution i.e. software should contain: registration /deregistration procedure, request for refunds (issuance decision, recording credits), creation of bookkeeping charges, input and processing of returns for VAT (monthly) and profit tax (annually), and harmonisation and customisation of new IT modules into existing IT system. Tax payers will be enabled to submit monthly returns (VAT) and annual (profit tax) electronically.

Electronic correspondence with tax payers will be enabled for all parts of procedures. Thus, it will be possible by using web portal for tax payers to:

- Submit tax returns
- Receive resolutions or decisions
- Access tax registers for certain data in line with defined privileges.

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact**

The Project will allow new functionality of the system and improve the existing way of input and processing of data, in line with the following principles:

- Modernisation and reconstruction of implementation plans prepared in Tax Administration and state Funds (e.g. Pension Fund) with indicators according to which the progress of specific phases will be measured
- Improvement of efficiency of Tax Administration through upgrade of records on VAT registration data and liabilities and revenues related to VAT and profit tax
- Improvement of payer and tributary services, especially electronic-services (hereinafter: e-services)
- Reduction of additional work for employers, by reducing requests and forms that are currently processed in paper currently
- Higher collection and audit rate of certain revenue forms, according to accurate and available information.

The proposed project will hence support transformation of the Tax administration into an efficient institution which will significantly increase the tax collection rate and thus increase the government revenues. It will also have a direct impact on meeting the required standards for EU accession in taxation, and will also help in meeting wider international standards. These are critical steps in creating a modern effective Tax Administration.

Improving the efficiency of Tax Administration will reduce the non-observed economy and will be an important benefit to the wider economy, and thus have a catalytic effect on growth and prosperity.

A competent Tax Administration is crucial in sustaining the economy by helping to create the stable environment necessary to attract foreign and domestic investors, reducing business barriers (introducing e-correspondence with tax payers, reducing time for preparing, filing and submitting tax returns). This proposed project will help to give the Tax Administration the capacity and skills to fulfil that role.

### **3.3 Results and measurable indicators:**

It is expected that implementation of new IT solution will improve business processes in Tax Administration. This new solution will enable tax payers to submit requests for registration in electronic form. They will be also capable of electronically submitting monthly VAT returns and annual returns for profit tax.

The expected result of the Project is that the new IT solution is installed and operational.

The precondition for the result to be achieved is that the Blue Print document is delivered. The purpose of this document is to provide the detailed functional description of the required IT solution (software to be procured). The technical specifications of required software should contain specification of all operational processes that will cover a software solution. The document should encompass, explain and describe all operational processes in detail, in line with the following concept: main assumptions, main processes, detailed operational processes, graphical user interfaces, interfaces towards external systems and system testing.

IT solution will enable establishment of processes related to the VAT and profit tax namely: registration /deregistration procedure, request for refunds (issuance decision, recording credits), creation of bookkeeping charges, input and processing of returns for VAT (monthly) as well as profit tax (yearly).

Upgrade of current IT system represents a harmonisation and customisation of new IT modules into existing IT system. It enables the connection of new accounting module with: a) existing tax accounting (bookkeeping module: debits, payments, refunds, transfers, wrong amounts paid); b) module on refunds and the module on funds transfer to State Treasury (receipt declaration); c) module for verification of data on declarations submitters from the existing tax payers register.

The Contractor will provide training for Tax Administration staff and tax payers for the implementation of the IT solution.

The indicators related to this result are:

Technical specifications prepared and approved by the IT department of the Tax Administration.

Blue Print document completed and approved by the Tax Administration management.

Acceptance test of the new IT solution passed. Following functionalities verified: Implemented registration /deregistration procedure, processing request for refunds, creation of bookkeeping charges, input and processing of e-returns for VAT and profit tax.

Processing of tax returns, both provided in paper and electronic format operational.

Integration with existing accounting module completed.

New IT modules harmonised and customised into existing IT system as verified with Acceptance test.

New reporting generation system on debits, payments, refunds, transfers, inaccurate amounts paid and declaration of receipts fully functional.

42 employees of the Tax Administration completed pertinent training.

Number of electronic submissions by tax payers increased the by min 15%.

### **3.4 Activities:**

#### **Activities related to the Result are:**

1 Preparation of the Technical Specifications including modelling of business processes, data flows etc.

2 Development of the Blue Print document including encompassing, explaining and describing all operational processes in detail, in line with the following concept: main

assumptions, main processes, detailed operational processes, graphical user interfaces, interfaces towards external systems and system testing.

3 Installation of the operational procedures and modules of the new IT solution in the IT department of the Tax Administration for the VAT encompassing following steps:

- submission of VAT declarations in paper,
- submission of VAT declarations in electronic format
- generation of confirmations upon submission
- reception and processing of VAT declarations
- generation of assignments
- bookkeeping processing
- processing of the VAT refund requests
- reporting.

4 Installation of the operational procedures and modules of the new IT solution in the IT department of the Tax Administration for the Profit Tax encompassing following steps:

- submission of corporate profit tax declarations in electronic format
- generation of confirmations upon submission
- reception and processing of corporate profit tax declarations
- generation of assignments
- bookkeeping processing
- processing of the corporate profit tax refund requests
- reporting.

5 Harmonisation and Customisation of new IT modules into existing IT system including:

- generation of protocol number of the submitted declaration in line with the existing nomenclature
- instalment of the control related to verification of data on declarations submitters from the existing tax payers register
- integration with the existing bookkeeping module: debits, payments, refunds, transfers, wrong amounts paid
- integration with the existing module on refunds and the module on funds transfer to State Treasury (receipt declaration)

6 On the job training for IT department employees.

7 Media campaigns for education of tax payers.

### **3.5 Conditionality and sequencing:**

The project has the following conditionality:

- The extent of reliance of this project to the results of the World Bank Project UCG (Unified Collection Gateway) must be determined and realization of this Project can start only upon UCG project is completed and passed the Final Acceptance.

- For introduction of such complex system, it is necessary to provide respective legal support. For that purpose, apart from the adopted Law on integrated registration and reporting system of clearance and payment of taxes and contributions, Rulebooks and sub-legal acts more precisely defining the form of returns (VAT and profit tax) and way of their submission in electronic way are to be adopted prior to the implementation of IT solution.
- Beneficiary Administration is obliged to appoint counterpart personnel, work premises and equipment before launching the tender procedure.
- Organisation, selection and appointment of working groups members of managing and coordination boards and training seminars in line with work plan designated in the project

In case that these conditions are not met, temporary suspension of the project or its termination would be considered.

### **3.6 Linked activities**

Technical assistance has been provided to the Tax Administration by EU CAFAO Montenegro between 2005 and 2007. Main objectives of technical assistance were strengthening capacities of human resources in following areas:

- application of changed tax regulations in line with EU acquis
- collection and audit for the purpose of fight against corruption and tax frauds, as well as improvement of the rate of public revenues collection
- implementation of amended tax legislation aligned with the EU acquis.
- inspection and control
- Assistance for the modernisation of the Tax administration, IT system with the support provided by a local regional expert and an international expert.
- Sub-project was adopted for risk management in the area of VAT in 2007. Its application was expanded to risk management in the area of tax collection.

The Tax Administration is beneficiary of the IPA 2007 programme with two contracts valued at 900,000 €. The project providing technical assistance to the Tax Administration is scheduled to start by November 2009.

According to the credit contract with World Bank, Government of Montenegro provided necessary sources for the realisation of the project “Reform of pension system”, whose part is the generation of the software solution for the project “Integrated registration and collection of taxes and contributions”.

Overlapping of activities carried out in the project UCG that are financed by World Bank and those that would be financed by this Project sources is avoided. The UCG project enabled establishment of the Central register of payers and tributaries, portal for electronic operating and integrated reporting and payment of taxes and contributions for one tax form (personal income tax). This project will provide the possibility of extension of the existing UCG project by introduction of information support for reporting and payment of taxes and contributions for other tax forms (VAT and profit tax), as well as bookkeeping module for these two forms.

Tax Administration is taking proactive measures to improve revenue collection, harmonisation with EU laws and administrative capacities. Due to the complex movement to the new system, it is necessary to gradually and carefully shut down existing IT solutions from direct processional use, transferring all current and relevant data and records on to the new system for the continuation of unobstructed performance.

### **3.7 Lessons learned**

Implementation of projects in the Public administration in general and in Tax Administration also is faced with insufficient administrative capacity of the beneficiary. Therefore, it is necessary that beneficiary appoints sufficient number of skilled IT staff to work on this project.

Experience from other similar assistance projects leads to necessity of the early addressing of weaknesses in the IT system to be upgraded. Project must assure also that the pre-defined methodology standards should be strictly followed as well as business modelling and testing methodologies. This supposes that a comprehensive IT strategy is developed and maintained.

#### 4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE		IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION
ACTIVITIES	IB	INV	EUR (a)=(b)+(c)+(d)	EUR (b)	%	Total EUR (c)=(x)+(y)+(z)	%	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	%
Activities 1.1; 1.2;												
Contract 1 (service - NC)	x		50.000			50.000	100%	50.000				
Contract 2 (supply - NC)		x	117,000			117,000	100%	117,000				
Activities 2.1; 2.2												
Contract 3 (service - IPA)	x		500.000	500.000	100%							
TOTAL IB			550.000	500.000	90.9%	50.000	9.1%	50.000				
TOTAL INV			117.000			117.000	100%	117.000				
<b>TOTAL PROJECT</b>			<b>667.000</b>	<b>500.000</b>	<b>75%</b>	<b>167.000</b>	<b>25%</b>					

Amounts net of VAT

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

Contracts	Start of Tendering	Signature of contract	Project Completion
1. Contract 1 (NC Service)	Q3 2010	Q4 2010	Q 2010
2. Contract 2 (NC Supply)	Q4 2010	Q2 2011	Q2 2012
3. Contract 3 (IPA Service)	Q4 2010	Q2 2011	Q2 2012

## 6. Cross cutting issues

### 6.1 Equal Opportunity

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

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

### 6.2 Environment

This project does not present any threat for the environment.

### 6.3 Minorities

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

## **ANNEXES**

Annex 1- Log frame in Standard Format

Annex 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme

Annex 3- Description of Institutional Framework

Annex 4- Reference to laws, regulations and strategic documents:

Annex 5- Details per EU funded contract (\*) where applicable:

## ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche:	Programme name and number: IPA 2010	
Upgrading IT capacity of the Tax Administration	Contracting period expires: 2 years from the date of conclusion of the Financing Agreement	Disbursement period expires: One year after the final date for execution of the contract
	Total budget: 667,000€	IPA budget: 500,000€

Overall objective	Objectively verifiable indicators	Sources of Verification	
Support to the Government of Montenegro to facilitate fiscal planning and maximise tax collection for more stable budgetary revenues in Montenegro.	Progress toward SAA obligations in the fiscal reform area	EC Annual Progress Report	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Strengthening the capacity of the Tax Administration of Montenegro to increase tax collection thus contributing to maximising the government's fiscal revenues.	<ul style="list-style-type: none"> <li>- Increase of tax collection by at least 2% and reduced risk in tax collection.</li> <li>- tax bookkeeping records integrated</li> <li>- VAT and profit tax returns processed faster from 1day current average to 15min – electronic submission and automatic processing.</li> <li>-electronic submission of the above mentioned returns functions in practice, e.g. there is increase in number of electronic submissions by min 15%</li> </ul>	<ul style="list-style-type: none"> <li>-Tax Administration reports on submitted and non-submitted tax returns</li> <li>-Tax Administration reports on accomplished liabilities</li> <li>- Tax Administration reports on tax collection.</li> <li>-DG TAXUD reports on tax issues in Montenegro</li> </ul>	<ul style="list-style-type: none"> <li>• Government of Montenegro is committed to continue alignment of legislation with the Acquis in the field of taxation</li> <li>• Other related Government services strengthen their capacity and co-operate with the tax Administration</li> <li>• Public is informed of the eventual changes in the tax collection system in timely and accurate manner</li> </ul>
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
The new IT solution installed and operational.	<p>Technical specifications prepared and approved by the IT department of the Tax Administration. Blue Print document completed and approved by the Tax Administration management. Acceptance test of the new IT solution passed. Following functionalities verified: Implemented registration /deregistration procedure, processing request for refunds, creation of bookkeeping charges, input and processing of e-returns for</p>	<p>1. Blue Print document</p> <p>2a. Generation of different reports regarding e-tax processing.</p> <p>2b.Provisional Acceptance Certificate</p>	<ul style="list-style-type: none"> <li>• All stakeholders are well informed and fully aware of the benefits of the new IT solution and participate in the activities conducive to it</li> </ul>

	<p>VAT and profit tax.  Processing of tax returns, both provided in paper and electronic format operational.  Integration with existing accounting module completed  New IT modules harmonised and customised into existing IT system as verified with Acceptance test. New reporting generation system on debits, payments, refunds, transfers, inaccurate amounts paid and declaration of receipts functional. 42 employees of IT department of the Tax Administration completed pertinent training  Number of electronic submissions by tax payers increased the by min 15%.</p>	<p>3.a Beneficiary progress report  3 .b Final report of Contractor for Service Contract   4.Improved MTA staff quality and performance</p>	
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>
<p>1 Preparation of the Technical Specifications including modelling of business processes, data flows etc.  1 Development of the Blue Print document including encompassing, explaining and describing all operational processes in detail, in line with the following concept: main assumptions, main processes, detailed operational processes, graphical user interfaces, interfaces towards external systems and system testing.</p> <p>3 Installation of the operational procedures and modules of the new IT solution in the IT department of the Tax Administration for the VAT encompassing following steps:  - submission of VAT declarations in paper,  - submission of VAT declarations in electronic format  - generation of confirmations upon submission  - reception and processing of VAT declarations  - generation of assignments  - bookkeeping processing  - processing of the VAT refund requests  - reporting.  4 Installation of the operational procedures and modules of the new IT solution in the IT department of the Tax Administration for the Profit Tax</p>	<p>1. One Service Contract (beneficiary contribution)  2.One Supply contract (beneficiary contribution)  3. One Service contract (EU contribution)</p>	<p>1. and 2. National contribution: 167,000€  3. IPA budget: 500,000 €   Total: 667,000 €</p>	<ul style="list-style-type: none"> <li>• Tax Administration ready to improve the implementing staff competence for functioning and maintenance of the new IT equipment and system</li> <li>• Ensured funding for the equipment and software maintenance</li> </ul>

<p>encompassing following steps:</p> <ul style="list-style-type: none"> <li>- submission of corporate profit tax declarations in electronic format</li> <li>- generation of confirmations upon submission</li> <li>- reception and processing of corporate profit tax declarations</li> <li>- generation of assignments</li> <li>- bookkeeping processing</li> <li>- processing of the corporate profit tax refund requests</li> <li>- reporting.</li> </ul> <p>5 Harmonisation and Customisation of new IT modules into existing IT system including:</p> <ul style="list-style-type: none"> <li>- generation of protocol number of the submitted declaration in line with the existing nomenclature</li> <li>- instalment of the control related to verification of data on declarations submitters from the existing tax payers register</li> <li>- integration with the existing bookkeeping module: debits, payments, refunds, transfers, wrong amounts paid</li> <li>- integration with the existing module on refunds and the module on funds transfer to State Treasury (receipt declaration)</li> </ul> <p>6 On the job training for IT department employees.</p> <p>7 Media campaigns for education of tax payers.</p>			
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The extent of reliance of this project to the results of the World Bank Project UCG (Unified Collection Gateway) must be determined and realization of this Project can start only upon UCG project is completed and passed the Final Acceptance.

For introduction of such complex system, it is necessary to provide respective legal support. For that purpose, apart from the adopted Law on integrated registration and reporting system of clearance and payment of taxes and contributions, Rulebooks and

sub-legal acts more precisely defining the form of returns (VAT and profit tax) and way of their submission in electronic way are to be adopted prior to the implementation of IT solution. Beneficiary Administration is obliged to appoint counterpart personnel, work premises and equipment before launching the tender procedure. Organisation, selection and appointment of working groups members of managing and coordination boards and training seminars in line with work plan designated in the project

**Annex 2- Indicative amounts of IPA funds contracted and disbursed per quarter over the full duration of Programme**

<b>Contracted</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>	<b>Q4 2011</b>	<b>Q1 2012</b>
Contract 3				<b>500,000</b>			
<b>Cumulated</b>				<b>500,000</b>			
<b>Disbursed</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>	<b>Q4 2011</b>	<b>Q1 2012</b>
Contract 3				200,000		250,000	50,000
<b>Cumulated</b>				<b>200,000</b>		<b>450,000</b>	<b>500,000</b>

### **Annex 3 - Description of the Institutional framework**

Tax Administration is an authority under jurisdiction of the Ministry of finance. It is government institution competent for assessment, supervision and collection of taxes. Tax administration in its work implements tax and other laws, which regulate obligations of tax payers. Tax Administration also has obligation to suggest changes and supplements of tax laws, with the aim of their adjustment to EU standards.

There are four new Departments and eight Branch Offices formed in Tax Administration by the new Act on systematisation, as following:

- Department for tax payer services and registration
- Department for tax returns input and processing, revenue bookkeeping and information system
- Department for supervision of implementation of tax regulations, audit and administrative procedure
- Department for collection
- Unit for monitoring of audit and collection effects and human resources development
- Unit for internal control
- Unit for economical- financial affairs
- Unit for human resources, legal, technical and general affairs
- Branch Offices (8)

Tax administration has 613 officials and employees.

## **Annex 4- Reference to laws, regulations and strategic documents:**

### **International Law**

**Stabilisation and association Agreement** (March 2007, SAA) addressed the Tax Administration in Article 100.

#### *Article 100*

##### *Taxation*

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

Co-operation will take due account of priority areas related to the Community acquis in field of taxation and in the fight against harmful tax competition. Elimination of harmful tax competition should be carried out on the basis of the principles of the Code of Conduct for business taxation agreed by Council on 1 December 1997.

Cooperation will also be geared to enhancing transparency and fighting corruption, and to include exchange of information with the Member States of the European Union in an effort to facilitate the enforcement of measures preventing tax fraud, evasion and avoidance. Montenegro shall also complete the network of bilateral agreements with Member States, along the lines of the latest update of the OECD Model Tax Convention on Income and Capital as well as on the basis of the OECD Model Agreement on Exchange of Information on Tax Matters, to the extent that the requesting Member State subscribes to these.

The **European Partnership Document** (27.1.2007 EN Official Journal of the European Union L 20/21) under Short term priorities –European standards –Internal Market-Customs and taxation elaborates that in order to address these priorities Montenegro should.” Further align tax legislation with the acquis. Improve implementation of tax laws, focusing on revenue collection and control in order to reduce tax fraud. In addition, the document argues to “apply the principles of the code of conduct for business taxation and ensure new tax measures are in conformity with those principles”.

#### **Link with national/ sector investment plans**

The basic national objective is EU Stabilisation and Association of Montenegro. Currently the basic document specifying our orientation direction is the Stabilisation and Association Agreement. Tax Administration is a Body in charge of particularly important area such as collecting budget revenues and the strategy is adjusted to that direction and the basic objectives set is achieving EU standards. With regard to that TA highlighted this request in order to integrate its system with individual system (anticorruption, money laundry) within Action plan of Montenegro.

### **-MIPD 2009-2011**

2.3.1.3.3 Priority axis 3 - Ability to assume the obligations of membership

#### **-Objectives and choices:**

(10) assisting the Customs and Taxation administrations in developing their operational capacity along the lines of the customs and fiscal blueprints and further aligning of the customs legislation with the modernised customs code;

#### **-Expected results and indicators**

Customs and taxation legislation is aligned to the *acquis*: this would include an upgraded operational capacity of the Customs and Tax Administration based on introduced customs and fiscal blueprints; an increased Tax Administration capacity to collect direct taxes and VAT;

Customs Security Programme established; and increased fight against corruption, cross border crime and fiscal evasion.

#### 2.3.1.2. Priority axis 2 - Economic Criteria

##### -Objectives and choices

(4) supporting the Ministry of Finance including the tax administration for further enhancement of public finance management and approximation of *acquis* in tax related legislation;

#### **EC 2008 Progress Report for Montenegro:**

In the case of direct taxation first legislative measures towards adjustment to EU legislation, in the form of amendments on Law on corporate profit taxation, were taken in June 2008. Constant improvements in the area of indirect taxation are registered. Changes and amendments of Law on VAT increased the level of harmonisation of legislative on used motor vehicles and VAT refund in passenger transport. Lower rates are adopted for computer equipment and services in marines, which are not in line with Acquis. Providing tax payers with information has been improved by tax bulletins and electronic media. Tax Administration collected 29% more tax and contributions revenues, compared to first 8 months of the previous year. This figure is 31,5% for taxes only. Significant improvement has been recorded in modernization of the Tax Administration, in the view of harmonization of legal regulations with Acquis. Still, further adjustment is to be carried out, especially in the area of excise rules and duty-free and reduced rates of VAT and direct taxation.

#### **National Programme for Integration (NPI)**

Montenegro commenced the overall reform of the tax system and tax policy in 2001, making efforts to adjust local fiscal system to European standards as much as possible. The current tax system of Montenegro is to a significant extent compatible with the regulations of the European Union, which is particularly true for indirect taxes<sup>1</sup>. The most significant outcomes of the reform are as follows: introduction of VAT (instead of previous retail sales tax); synthetic personal income taxation (taxation of income from all sources); significant reduction of tax rates, with the expansion of the tax base; equalization of the tax status of domestic and imported excise goods; equalization of the tax status of domestic and foreign legal entities; introduction of tools for elimination of double taxation of profit and dividends; introduction of the system of self-assessment taxation for payment of tax liabilities; introduction of tax identification number (PIB) and adoption of the modern Law on Tax Administration which defines rights and obligations of taxpayers and tax authorities.

The current tax policy is an incentive-giving tax framework for entrepreneurship development, and is also adjusted to the needs of the state budget and budgets of local self-government units. The pillar of tax revenues should gradually be shifted from direct to indirect taxation. The basic commitment in tax policy design is the application of low tax rates with an as large tax base as possible and a small number of tax exemptions.

The current rate of tax on profit amounts to 9% and is one of the lowest in the region. Standard VAT rate amounts to 17%, and the reduced amounts to 7% (applicable to a small number of goods and services) and these rates are also among the lowest in the region. The rate of personal income tax has been significantly reduced, and starting from 2010 it should amount to 9% (by then the following rates will be applicable: 15% for 2008 and 12% for 2009).

The basic directions of tax policy of Montenegro will be focused on further reform of the processes initiated in this area as well as on improved approximation of tax regulations with

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<sup>1</sup> See details in the section (3.16.3) related to indirect taxation

Acquis. Priority activities related to harmonization will be focused on indirect taxes, while the reform of direct taxes is envisaged as a midterm priority.

## **Laws of the Republic of Montenegro**

### **Laws (2008-2009)**

1. **Law on changes and amendments of Law on excise** (“Official Gazette of Montenegro” No.76/08) envisages adjustment of excise on tobacco to EU Directives 92/79 ECC and 92/80 ECC. This Law prescribes gradual adjustment until the minimal excise on tobacco would amount 57% of the market value.
2. **Provisions of Law on personal income tax** which reduce the personal income tax rate from 15% to 12%.
3. **Law on contributions for social security** which regulates the system of social security financing in unique way, encompassing pension insurance, health insurance and unemployment insurance. The above mentioned Law envisages the reduction of rates for pension insurance contributions and health insurance contributions, that is to be implemented until 2010. The total rate of pension insurance contributions has been reduced for 0,5%, while the rate for the health insurance contribution has been lower for 1,5%.
4. **Law on changes and amendments of Law on corporate profit tax** (“Official Gazette of Montenegro” No.40/08) introduced separate taxation of gains from operating and capital gains. Profit tax rate amounts 9% and such way of taxation is applied in profit tax returns for 2008 and following years.

In the period 2008-2009, in line with accomplished changes of legal provisions, few sub-legal Acts were adopted, as following:

### **Rulebooks (2008-2009)**

- Rulebook** on changes of the Rule book on flat-rate taxation of independent activities revenues (“Official Gazette of Montenegro” No.80/08),
- **Rulebook** on amendment of the rulebook on form, content and way of filling and submitting the unique form of report on assessed natural person income tax and social security contributions (“Official Gazette of Montenegro” No. 80/08).
- Rulebook** on changes of Rulebook on form and content of the unique return for registration of tax payers
- Rulebook** on form and content of tax return for assessment of corporate profit tax (“Official Gazette of Montenegro” No.8/09),
- Rulebook** on more efficient way of using of tax facilities on investment in fixed assets used for renewable energy generation and energy efficiency (“Official Gazette of Montenegro” No.09/09),

**-Rulebook** on form and content of Report on assessment and payment of withholding tax for profit gained by non-resident legal entity (“Official Gazette of Montenegro” No.09/09),

**-Rulebook** on amendment of rulebook on assessment of goods and services that are taxed by the reduced VAT rate (“Official Gazette of Montenegro” No.11/09),

**-Rulebook** on amendment of the rulebook on form and content of the unique return for registration of tax payers, contribution tributaries and policy holders in Central Registry (“Official Gazette of Montenegro”, No. 15/09),

**-Rulebook** on changes and amendments of rulebook on form and content of annual return for assessment and payment of personal income tax (“Official Gazette of Montenegro” No.21/09)

**-Decree** on tax facilities for employment specific categories of unemployed persons (“Official Gazette of Montenegro” No.18/09),

**- Rulebook** on changes and amendments of the Rule book on implementation of Law on excise (“Official Gazette of Montenegro”, No.18/09),

**-Decree** on changes and amendments of the Decree on marking of tobacco and alcohol beverages with excise stamps.

(“Official Gazette of Montenegro” No.22/09).

## **Annex 5- Details per EU funded contract**

### **Contract 1 (Service, funded by the Beneficiary)**

The purpose of preparation of Blue Print document is provision of a detailed description of functionalities of requested software solution. The document should encompass, explain and describe all operational processes in detail, in line with the following concept: main assumptions, main processes, detailed processes, graphical user interfaces, interfaces towards external systems, system testing. Blue Print covers detailed description of functionalities of requested IT solution.

### **Contract 2 (Supply, funded by the Beneficiary)**

Beside the Blue Print, new IT Solution also requires an upgrade of the current IT system. Contract 2 covers procurement of necessary additional hardware (Storage system), additional licences for existing software, as well as set up, installation and configuration of such hardware and software.

The cost of above mentioned Blue Print document and additional hardware and software should amount 25% of the total cost.

### **Contract 3 (Service, funded by the IPA)**

Software to be developed will enable IT system to process establishment of procedures related to the VAT and profit tax. This IT solution i.e. software should contain: registration /deregistration procedure, request for refunds (issuance decision, recording credits), creation of bookkeeping charges, input and processing of returns for VAT (monthly) and profit tax (annually), and harmonisation and customisation of new IT modules into existing IT system. Tax payers will be enabled to submit monthly returns (VAT) and annual (profit tax) electronically.

Electronic correspondence with tax payers will be enabled for all parts of procedures. Thus, it will be possible by using web portal for tax payers to: Submit tax returns, Receive resolutions or decisions, Access tax registers for certain data in line with defined privileges.

Procurement of the Software will result in improved IT system, which will on a long term basis result in more efficient collection of taxes and more effective use of staff resources.

## ANNEX V: Organisational Chart of the Tax Administration

