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**PROJECT FICHE 3.2    Tax reform**

**1. Basic information**

**1.1        CRIS Number:** 2007/19297

**1.2        Title:**            Support to Tax Reform

**1.3        ELARG Statistical code:** Axe 03 - 16

**1.4        Location:**        Skopje and Stip with additional nationwide project activities.

**Implementing arrangements:**

**1.5        Contracting Authority (EC)**

European Commission, EC Delegation, on behalf of the beneficiary

**1.6        Implementing Agency**

European Commission, EC Delegation, on behalf of the beneficiary

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

The Beneficiary is the Public Revenue Office and the Ministry of Finance

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**1.8        Overall costs (VAT excluded)<sup>1</sup>:** EUR 2.132 million.

**1.9        EU contribution:** EUR 2 million.

**1.10      Final date for contracting**

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

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<sup>1</sup> The total costs of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated.

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**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 contracts.

**2.           Overall Objective and Project Purpose**

**2.1          Overall Objective**

The overall objective of the project is to improve the performance of the Public Revenue Office (PRO) and the Ministry of Finance (MoF) with regard to revenues collection, services to tax payers and fight against corruption through further harmonizing the legal framework with the EU *acquis* and reinforcing the institutional capacity to collect taxes.

**2.2          Project purpose**

The purpose of the project is to assist the MoF in the drafting of laws and implementing legislation in the area of taxation in order to align with the EU *acquis*. The successful completion of this project will support the efficient management of the PRO and its operational activities by targeting key sectors of the institution related to tax collection, fight against tax evasion and corruption. The project will also help strengthen the quality of the services towards the business sector, in particular small and medium businesses.

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

The objectives of the project follow the priorities of the European Partnership. The project aims to address the overall economic priority of improving the country's attractiveness for domestic and foreign direct investors, as well as the following priorities in the area of taxation:

- Increase the administrative capacity to implement tax legislation, and to fight against fiscal evasion.
- Commit to the principles of the Code of Conduct for Business Taxation and ensure that new tax measures are in conformity with these principles.
- Take structural measures to urgently reform the control policy and improve the control capacity.
- Develop an audit strategy.
- Fully align tax legislation with the *acquis*.

The NPAA includes several short-term and medium-term priorities in the area of taxation that will be addressed with this project:

- Harmonization of the legislation in the area of direct taxation with the *acquis*
- Increasing the administrative capacity for implementation of the tax legislation and fight tax evasion

- Continued reforms of the tax administration (Public Revenue Office)
- Improving the control function in the PRO

#### **2.4        Link with MIPD**

The MIPD points out that it is essential to help improve the administrative capacity, on both central and local levels, in the area of *fiscal policy* (e.g. tax collection, expenditure control, etc.) and it may be necessary to prepare for the IT interconnectivity to the EU tax systems. Further, with regards to the Public Administration Reform, the MIPD underlines that in order to improve the country's alignment with the political criteria, and taking into account commitments made under the SAA, EU assistance will continue to help to advance the *public administration reform* by supporting the implementation of a comprehensive Public Administration Reform Strategy, which will streamline administrative procedures and improve the capacity of the public administration.

#### **2.5        Link with National Development Plan (where applicable)**

The area of taxation is addressed in the National Development Plan (NDP) under the activities for improving the business environment, support to the SME sector, and investment climate reform. The NDP envisages substantial reforms in the tax and customs systems, including:

- Introduction of a flat rate tax with a single tax rate for income tax and profit tax in two stages;
- Zero tax rate for reinvested profit;
- Elimination of politically motivated inspections by the PRO;
- Unconditional fight against tax evasion;
- Harmonization of the bases for payment of the income tax and social contributions;
- Organizational changes and complete computerization of the Public revenue office database;
- Full introduction of fiscal cash registers in legal entities throughout the country;
- Introduction of a much simpler tax payment system for small companies and micro companies with low income and profit;
- A return of VAT in a maximum of 30 days;
- Customs revenue will be increased through rigorous, but simplified scanning with modern and sophisticated equipment and professional customs office management.

The activities planned in this project will complement the ongoing reforms in the area of taxation and customs in the period 2007/2008.

#### **2.6        Link with national/ sectoral investment plans (where applicable)**

The Public Investment Programme (PIP) has envisaged resources for capital expenditures in various state institutions, which will be used mainly for reconstruction, and completion of the existing facilities and for procurement of equipment.

### 3. Description of project

#### 3.1 Background and justification:

The improvement of administrative capacity in order to increase revenue collection and improve services towards taxpayers is a priority for MoF. The Public Revenue Office is the body which is responsible for the assessment, collection and control of all taxes and other types of public revenues (with the exception of VAT and excise duties on imports). Despite the achievements and the strong progress in recent years, the capacity of the tax administration requires considerable further strengthening, both in terms of human and technical resources and in terms of administrative structures and procedures. To address these issues, the PRO has developed a comprehensive reform strategy for the period 2007-2009, and has started to implement the strategy with support of several donor institutions.

The size of the grey economy and the level of tax evasion by economic operators show that structural measures need to be taken. The PRO aims to introduce a small and medium taxpayers environment in order to address the problem of the grey (cash) economy. In addition, measures to modernise the tax administration and adopt modern technologies should be pursued. The PRO is in the process of procuring an IT system, which will enable the organization to restructure itself, and to organize the work on the basis of the new IT system. This restructuring will require training of the PRO staff, and introduction of new operational procedures, and the present project will provide assistance in these areas. The fight against corruption within the Public Revenue Office should be strengthened in order to ensure non-discriminatory application of tax legislation. To tackle this problem, a new Code of Conduct is being developed, and the present project will assist in the implementation of this new code.

The reforms in the PRO in recent years were to a large extent focused on the largest taxpayers, for whom a Large Taxpayers Office was established in 2006. However, the government has identified the small and medium-sized enterprises (SME) sector as a key driver for economic growth, thus it aims to improve the public services offered to SMEs. In this regard, the PRO would like to develop small and medium taxpayer offices through out the country, which will be commenced by the launch of a pilot project.

The NPAA aims to achieve full transposition of the *acquis* by 2010. The domestic legislation in the area of taxation is to a large extent aligned with the *acquis*, however, further transposition is necessary, in particular in the area of direct taxation.

The conclusions of the 2006 progress report in the area of taxation are that progress has been achieved in the alignment of legislation in this area, but significant efforts will be needed to further align legislation, ensure effective implementation of the legislation, as well as to strengthen the administrative capacity in the area of tax collection.

This project will assist the MoF and the PRO to achieve further alignment with the *acquis*, improve services to taxpayers and to develop more efficient procedures in the tax administration. The activities envisaged in the project are in line with the Strategic Plan of the PRO and the recommendations of the tax scoping study prepared under the EU financed CAFAO MAK project. The successful project preparation and implementation is based on the close co-operation with the present project, financed by the Government of the Netherlands and implemented by the IMF, for technical assistance to the PRO. Thus, the activities undertaken are complementary to the work of the Dutch project and the other donors working in this area.

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)**

The PRO is currently undergoing a restructuring process towards developing a modern, efficient and customer-oriented organization. The reform processes are supported by technical assistance of several donor institutions, including the IMF, the Netherlands, the EU, UNDP etc. The project is built upon the past and present assistance in the area, and aims to ensure continuity of the activities undertaken by the CAFAO MAK project, and to assist in the implementation of the PRO's reform strategy.

The project will ensure the necessary continuation of the activities defined in the CAFAO MAK work programme for 2007. The further support envisaged in these priority areas will allow for implementation of the recommendations and strategies prepared under CAFAO MAK.

The successful implementation of the reforms, in particular in internal audit, professional standards and compliance, will have a great impact on reducing corruption in the PRO and improving revenue collection. The training component and the development of new communication methods will improve the administrative efficiency of the organization, and ultimately the quality of services provided to taxpayers.

The establishment of the first pilot office for small and medium taxpayers will create new services for SMEs, increase their awareness of tax obligations and improve tax compliance. The successful operations of the office in Stip will lead to the establishment of more offices for small and medium taxpayers through out the country.

The further improvement of the legislation, in particular in the area of direct taxation, will allow the country to achieve full compliance with the *acquis* in this chapter, strengthen the fiscal policy, and further encourage foreign and domestic investment.

As regards catalytic effects, a sound, transparent and efficient tax system not only provides for a more stable and predictable income situation for the government at large, it also stimulates compliance by the economic actors with the system, improve business level accounting practices and transparency, in general improving business practice.

Furthermore, in order to ensure additionality the project has been explicitly designed in conjunction with the ongoing activities and synergy is guaranteed. The Tax reform activities also contribute to improved performance of ongoing CARDS assistance projects and possible future IPA project, e.g. in the field of fiscal decentralisation.

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

The project will entail three main components:

1. Further harmonization of the *acquis*
2. Strengthening the administrative capacity of the PRO through trainings of staff, improved and communication channels. Particular focus will be given to internal audit, tax fraud (intelligence and investigation), and professional standards.
3. Introducing a pilot office for small and medium taxpayers in the city of Stip and improving services towards small and medium taxpayers

**Component 1:** Further harmonization of the acquis

The specific results to be achieved under this component include:

- Further harmonized legislation in the area of taxation, in particular direct taxation
- A new law on personal income tax and supporting implementing legislation has been adopted, workshops organized and study tours in new Member States (NMS) have been carried out
- A new law on corporate income (profit) tax and supporting implementing legislation have been adopted, workshops organized and study tours in NMS has been carried out

The measurable indicators are:

- The new law on personal income tax and supporting implementing legislation has been adopted by 2010
- A new law on corporate income (profit) tax and supporting implementing legislation have been adopted by 2010
- Workshops organized and study tours in new Member States (NMS) have been carried out by 2009

**Component 2:** Strengthening the administrative capacity of the PRO through trainings of staff, improved and communication channels. Particular focus will be given to internal audit, tax fraud (intelligence and investigation), and professional standards.

The specific results to be achieved under this component include:

- Strengthened internal audit function
- Professional Standards Unit set up and capable to initiate, investigate and conclude investigations of alleged misconduct against PRO employees
- A Tax Intelligence Units should be established
- Improved effectiveness of the Tax Investigation Unit with the use of modern risk analysis techniques
- Effective communications to be developed in line with EU fiscal Blueprints. Improved internal and external communication procedures (shorter communication procedures within the organization, increased number of visits to PRO's website, increased number of press releases etc.)
- Increased efficiency and quality of services, improved managerial capacity (implemented code of conduct and strategies on enforcement and taxpayers services)

The measurable indicators are:

- A plan on how to improve internal and external communication procedures is prepared by 2009
- A fully operational Tax Intelligence Unit - performing tasks using new risk analysis techniques – is established (revised organigramme and staff appointed) by 2010
- Comprehensive management training plan developed and delivered by 2010.

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**Component 3:** Introducing a pilot office for small and medium taxpayers in the city of Stip and improving services towards small and medium taxpayers

The specific results to be achieved under this component include:

- Pilot office for small and medium taxpayers to be established and made operational
- improved services for small and medium taxpayers
- Increased awareness and compliance of small and medium taxpayers
- PRO staff participated in study tours to better understand the small and medium taxpayer environment

The measurable indicators are:

- Pilot office is operational by 2010

### **3.4 Activities:**

The following specific activities are foreseen in the project:

Component 1: Further harmonization of the acquis

- Review of the existing legislation in the area of direct taxation
- Drafting of new legislation aligned with the acquis in this area
- Carrying out study tours for MoF and PRO staff

Component 2: Strengthening the administrative capacity of the PRO through trainings of staff, improved and communication channels. Particular focus will be given to internal audit, tax fraud (intelligence and investigation), and professional standards.

- Comprehensive assessment of the identified priority areas (internal audit, professional standards, tax investigation and intelligence, communication strategy, and code of conduct), with the objective of developing capacity building programmes
- Development of a capacity building programmes (based on recommendations from previous technical assistance)
- Implementation of the capacity building programme including trainings in key areas such as: taxpayers' services, debt collection/enforcement strategy, management training.
- Establishing a system for monitoring of results in the subject matter areas

Component 3: Introducing a pilot office for small and medium taxpayers in the city of Stip and improving services towards small and medium taxpayers

- Refurbishing of building and establishing a functional office environment with special services to small and medium taxpayers
- Carrying out study tour for PRO staff to better understand the small and medium taxpayer environment

### **Project Management and Administration**

A team leader will be responsible for the overall management, representation (co-ordination with the other international bodies, in particular with the IMF resident advisor), and reporting. The co-ordination of activity development in the different components of the project is important. The team leader is responsible for appropriate management of resources. Next to a team leader, (short and long term) expertise will be engaged in the areas of harmonization with acquis, capacity development, legal development etc. Some of these experts will address the cross-cutting issues (see below). A pool of short-term expertise will be made available to assist the key experts and to carry out the activities in the remaining areas.

The establishment of the pilot office in the city of Stip will be done through a works contract for the refurbishment of the PRO building and a supply contract for the office equipment.

**The contracting arrangements** are as follows:

It is expected that:

- A) 1 Service contract will be concluded following an international restricted tender procedure. The duration of the contract will be for a period of 18 to 24 months, depending on the budget. One month after the signature of the contract, implementation is expected to start in November 2008. The contract value will be approx. EUR 1.4 mn.
- B) 1 Twinning Light Agreement will be developed with an appropriate EU MS institution. The duration of the twinning will be for a period of approx. 6 months. One month after the signature of the contract, implementation is expected to start in March 2009. The contract value will be approx. EUR 0.2 mn.
- C) 1 works contract in support of component 3
- D) 1 supply contract in support of component 3

The contract value of the works contract will be approx. EUR 0.2 mn, and the contract value of the supply contract will also be approx. EUR 0.2 mn, plus a co-financing from the beneficiary of approx. EUR 0.133 mn.

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

The project includes the following conditionalities:

- 1) Endorsement by all key stakeholders of the Terms of Reference, specifications for the individual contracts to be engaged;
- 2) Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
- 3) Allocation of working space and facilities by the beneficiary for technical assistance before the launch of the tender process;
- 4) Arrangement by the beneficiary of all legal procedures to allow construction (e.g. construction permits, urban plan amendments), refurbishment activities before the launch of the tender process;
- 5) Participation by the beneficiary in the tender process as per EU regulations;

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- 6) Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per workplan of the project;
- 7) Appointing the relevant staff by the beneficiaries to participate in training activities as per workplan;

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

### **3.6 Linked activities**

The former Yugoslav Republic of Macedonia has received EU assistance in the area of taxation through the following projects:

A study of the Public Revenue Office was prepared in 2006 to identify the needs as required in the EU Fiscal Blueprints. Reviews of the work of Internal Audit and Enforced Collection were undertaken. International staff began undertook activities through out 2007 covering the areas of risk assessment, voluntary compliance and communications.

The IMF has introduced a comprehensive Technical Assistance program over a three year period aimed at improving the tax administration and integrating social funds collections into the PRO. This project is being executed in cooperation with the Netherlands Ministry of Finance and the Netherlands Ministry of Foreign Affairs and covers reorganization of the PRO, introduction of a performance management system, establishing a Large Taxpayer Office, a Small and Medium Taxpayer environment, strengthening of enforcement programs including audit, debt and returns management, new computer systems and harmonization of the Personal Income Tax and Social Insurance Contributions.

The UNDP is assisting the PRO in the introduction of a new computer system which has been financed by the Italian government.

USAID has supported the PRO in strengthening the administrative capacity, introducing structural measures and creating an IT strategy. Furthermore, it has developed a e-filing system in the PRO for the Large Taxpayer Office environment and will assist in introducing this concept into the Small and Medium Taxpayer environment.

The PRO has established a Steering Committee, represented by members of the senior management team, responsible for co-ordination of the decision-making process. A donor co-ordination unit has also been established to ensure successful project implementation and alignment of the activities of the different projects.

### **3.7 Lessons learned**

CARDS implementation, as documented in progress reviews, monitoring and evaluations reports, highlighted a number of common difficulties in project implementation, including insufficient availability of national (counterpart) staff, insufficient budget, late approval of relevant legislation etc. These lessons learned have been translated into conditionalities (see par. 3.5)

Although impact realised through the previous assistance overall is satisfactory, a number of challenges remain:

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- *Enforcement*: In previous years, a large focus has been on establishing the legal frameworks in the country. The capacity to enforce the law, however, has received insufficient attention, leading to a situation where the legal reform is rather well advanced, but the practice – law enforcement and implementation - has not followed.
- An important lesson learned during the CARDS period is that appropriate mainstreaming of cross-cutting issues would significantly be stimulated through the allocation of a designated budget. In a similar vein as above, a maximum of 10% of the total budget will be reserved to targeted support to the mainstreaming of cross-cutting issues (see also further below).
- An appropriate *balance between different measures* is important for successful project implementation. The provision of technical assistance for capacity building remains a very high priority. However, TA will not be effective if the working environment of the counterparts is not up to standards. Therefore, part of the project will assist with the provision of appropriate material support

#### 4. Indicative Budget (amounts in M€)

Activities	Activities	TOTAL COST (Million Euro)	SOURCES OF FUNDING											
			EU CONTRIBUTION				NATIONAL CONTRIBUTION			PUBLIC			PRIVATE	
			Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *	
Activity 1 Support for Tax Reform	Activity 1	1.6	1.6	100	1.6									
contract 1.1 TA for Public Revenue Office and harmonisation with taxation acquis	contract 1	1.4	1.4	100	1.4									
Contract 1.2 Twinning light for PRO and harmonisation with taxation acquis	Contract 2	0.2	0.2	100	0.2									
contract 1.3 Works for Pilot PRO SME Office in Stip	contract 3	0.266	0.2	75		0.2	0.66	25	0.66.					
Contract 1.4 Supply for Pilot PRO SME Office in Stip	Contract 4	0.266	0.2	75		0.2	0.66	25	0.66					
<b>TOTAL</b>	<b>TOTAL</b>	<b>2.133</b>	<b>2.0</b>		<b>1.6</b>	<b>0.4</b>	<b>0.133</b>		<b>0.133</b>					

\* expressed in % of the Total Cost \* expressed in % of the Total Cost

Amounts net of VAT

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

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1.1: TA for Public Revenue Office and harmonisation with taxation acquis	1-3-2008	1-11-2008	1-11-2010
Contract 1.2: Twinning light for PRO and harmonisation with taxation acquis	1-3-2008	1-3-2009	1-9-2009
Contract 1.3: Works for Pilot PRO SME Office in Stip	1-7-2008	1-11-2008	1-11-2010
Contract 1.4: Supply for Pilot PRO SME Office in Stip	1-7-2008	1-11-2008	1-11-2010

## **6. Cross cutting issues (where applicable)**

The cross-cutting issues will be addressed throughout the project. Up to 10% of the budget of the individual service contracts for capacity building – through short term expertise - may be allocated to assist the different beneficiaries to comply with European standards and best practices, implement relevant existing Government strategies and develop internal measures to ensure each cross-cutting issue is appropriately mainstreamed.

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

- 1) Ensuring that the internal policies, structure or operating procedures of the beneficiary agency will conform to and promote the relevant principles outlined per section below.
- 2) Ensuring that the products, outputs produced by the beneficiaries (e.g. laws, regulations, policies, and strategies) will conform to and promote the relevant principles outlined per section below.

Throughout the project cycle, in particular when developing project ToR, state actors specifically addressing (one of) the cross cutting issues shall be consulted.

- **Equal opportunities and non-discrimination;**

The training activities will include a specific component to train ministerial staff in the implementation of the Government Gender Strategy, while reference will be made to the EC Programme of Action for the mainstreaming of gender equality in community development cooperation (2001-06). An output of this training component will be to assist the beneficiary to implement an ‘internal gender assessment’ to identify areas where it could improve its internal performance vis-à-vis gender.

- **Support to minority and vulnerable groups;**

Where the main reference is the Ohrid Framework Agreement, in an EU context, reference is made to the “Race directive” of 2000 (200/43/EC of 29 June), which has an important impact on employment (incl. vocational training, working conditions, social protection etc.) and is also a crucial aspect of the acquis.

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming minority and vulnerable groups in programme and project development as well as monitoring the implementation.

The beneficiary will be assisted to implement an 'internal minority and vulnerable group assessment' to identify areas where it could improve its internal performance vis-à-vis minorities or other vulnerable groups.

- **Environmental protection;**

The European Community has a longstanding commitment to address environmental concerns in its assistance programmes (as part as a wider commitment to sustainable development). Key references include art. 6 of the Treaty and also the Cardiff process which foresees the systematic consideration of environmental aspects into EC development cooperation AND in other policies (hence very important for the acquis).

The support will include a specific component to assist the beneficiary to implement an 'internal environment assessment' to identify areas where it could improve its internal performance vis-à-vis environmental aspects. The works contract for the regional office in Stip will taken into consideration the environmental standards and best practices.

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming environment in programme and project development as well as monitoring the implementation.

- **Good governance, with particular attention to fight against corruption.**

The training activities will include a specific component to address a) the basic principles of a professional Human Resource Development strategy, b) sound budget planning and execution c) developing and implementing an communication strategy to allow for an appropriate level of transparency, and d) developing and implementing an internal risk assessment concerning corruption and design an appropriate strategy to fight corruption. Furthermore, most of the activities under component 2 are aimed towards improving governance methods in the PRO, and strengthening the fight against corruption and fraud.

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**ANNEXES**

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

**ANNEX I: Logical framework matrix in standard format**

LOGFRAME PLANNING MATRIX FOR Support to Tax Reform Project Fiche	Programme name and number: Support to Tax Reform		
	Contracting period expires two years from the date of the conclusion of the Financing Agreement	Execution period expires two years from the final date for contracting	Disbursement period expires one year from the final date for execution of contracts.
		Total budget: EUR 2.133 million	IPA budget: EUR 2 million
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
The overall objective of the project is to improve the performance of the Public Revenue Office (PRO) and the Ministry of Finance (MoF) with regard to revenues collection, services to tax payers and fight against corruption through further harmonizing the legal framework with the EU <i>acquis</i> and reinforcing the institutional capacity to collect taxes.	Endorsement by the Commission that the PRO and the legislation in this area are in line with accession requirements and blueprints standards	Commission's Progress Reports	
<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
The purpose of the project is to assist the MoF in the drafting of laws and implementing legislation in the area of taxation in order to align with the EU <i>acquis</i> . The successful completion of this project will support the efficient management of the PRO and its operational activities by targeting key sectors of the institution related to tax collection, fight against tax evasion and corruption. The project will also help strengthen the quality of the services towards the business sector, in particular small and medium businesses.	Legislation harmonized with the <i>acquis</i> Increased tax collection Increased tax compliance Number of cases against tax evasion and corruption	Commission monitoring and evaluation tools Commission documents Government documents Official Gazette Contractor's reports	Commitment of the national authorities to the process
<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
Component 1: The specific results to be achieved under this component include: - Further harmonized legislation in the area of taxation, in particular direct taxation - A new law on personal income tax and supporting implementing legislation has been adopted, workshops organized and study tours in new Member States (NMS) have been carried out	The measurable indicators are: - The new law on personal income tax and supporting implementing legislation has been adopted by 2010 - A new law on corporate income (profit) tax and supporting implementing legislation have been adopted by 2010 - Workshops organized and study tours in new Member States (NMS) have been	- Contractor's reports - Taxpayers surveys - European Commission assessments - Project regular reports. - Final project report. - Changes in PRO business strategy and plans. - Training assessment questionnaires.	- Strong support from top managers of PRO. - Strong support from regional managers - Acceptance of recommendations by the PRO.

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<p>- A new law on corporate income (profit) tax and supporting implementing legislation have been adopted, workshops organized and study tours in NMS has been carried out</p> <p>Component 2: The specific results to be achieved under this component include:</p> <ul style="list-style-type: none"> <li>- Strengthened internal audit function</li> <li>- Professional Standards Unit set up and capable to initiate, investigate and conclude investigations of alleged misconduct against PRO employees</li> <li>- A Tax Intelligence Units should be established</li> <li>- Improved effectiveness of the Tax Investigation Unit with the use of modern risk analysis techniques</li> <li>- Effective communications to be developed in line with EU fiscal Blueprints. Improved internal and external communication procedures (shorter communication procedures within the organization, increased number of visits to PRO's website, increased number of press releases etc.)</li> <li>- Increased efficiency and quality of services, improved managerial capacity (implemented code of conduct and strategies on enforcement and taxpayers services)</li> </ul> <p>Component 3: The specific results to be achieved under this component include:</p> <ul style="list-style-type: none"> <li>- Pilot office for small and medium taxpayers to be established and made operational</li> <li>- improved services for small and medium taxpayers</li> <li>- Increased awareness and compliance of small and medium taxpayers</li> <li>- PRO staff participated in study tours to better understand the small and medium taxpayer environment</li> </ul>	<p>carried out by 2009</p> <p>The measurable indicators are:</p> <ul style="list-style-type: none"> <li>- A plan on how to improve internal and external communication procedures is prepared by 2009</li> <li>- A fully operational Tax Intelligence Unit - performing tasks using new risk analysis techniques – is established (revised organigramme and staff appointed) by 2010</li> <li>- Comprehensive management training plan developed and delivered by 2010.</li> </ul> <p>The measurable indicators are:</p> <ul style="list-style-type: none"> <li>- Pilot office is operational by 2010</li> </ul>		
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>
Component 1:	Contract	€2.133	Activities are supported by PRO staff.

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<ul style="list-style-type: none"> <li>- Review of the existing legislation in the area of direct taxation</li> <li>- Drafting of new legislation aligned with the acquis in this area</li> <li>- Carrying out study tours for MoF and PRO staff</li> </ul> <p>Component 2:</p> <ul style="list-style-type: none"> <li>- Comprehensive assessment of the identified priority areas (internal audit, professional standards, tax investigation and intelligence, communication strategy, and code of conduct), with the objective of developing capacity building programmes</li> <li>- Development of a capacity building programmes (based on recommendations from previous technical assistance)</li> <li>- Implementation of the capacity building programme including trainings in key areas such as: taxpayers' services, debt collection/enforcement strategy, management training.</li> <li>- Establishing a system for monitoring of results in the subject matter areas</li> </ul> <p>Component 3:</p> <ul style="list-style-type: none"> <li>- Refurbishing of building and establishing a functional office environment with special services to small and medium taxpayers</li> <li>- Carrying out study tour for PRO staff to better understand the small and medium taxpayer environment</li> <li>- Refurbishing of building and establishing a functional office environment with special services to small and medium taxpayers</li> <li>- Carrying out study tour for PRO staff to better understand the small and medium taxpayer environment</li> </ul>	<p>Contractor's staff and experts Commission staff</p> <p>Interviews, seminars, work shops and training venues.</p>		<p>Public and business are receptive to proposed changes</p>
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**Pre conditions**

- 1) Endorsement by all key stakeholders of the Terms of Reference, specifications for the individual contracts to be engaged;
- 2) Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
- 3) Timely allocation of working space and facilities by the beneficiary for technical assistants before the completion of the tender process;

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- 4) Arrangement by the beneficiary of all legal procedures to allow construction (e.g. construction permits), refurbishment activities before the launch of the tender process;
- 5) Participation by the beneficiary in the tender process as per EU regulations;
- 6) Organisation and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per workplan of the project;
- 7) Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan;
- 8) Provision of the necessary authorisations for co-operating and sharing of information with the deployed advisory resources.

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**ANNEX II: Indicative planning of the amounts (in EUR million) Contracted and disbursed by quarter for the project (only IPA funding)**

<b>Contracted</b>	<b>Q 1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q5</b>	<b>Q6</b>	<b>Q7</b>	<b>Q8</b>	<b>Q9</b>	<b>Q10</b>	<b>Q11</b>
Contract 1.1: TA for Public Revenue Office and harmonisation with taxation acquis				1.4							
Contract 1.2: Twinning light for PRO and harmonisation with taxation acquis					0.2						
Contract 1.3: Works for Pilot PRO SME Office in Stip				0.2							
Contract 1.4: Supply for Pilot PRO SME Office in Stip				0.2							
<b>Cumulated</b>				<b>1.8</b>	<b>2.0</b>						
<b>Disbursed</b>											
Contract 1.1: TA for Public Revenue Office and harmonisation with taxation acquis				0.3	0.1	0.2	0.2	0.1	0.2	0.2	<b>0.1</b>
Contract 1.2: Twinning light for PRO and harmonisation with taxation acquis					0.1			0.1			
Contract 1.3: Works for Pilot PRO SME Office in Stip				0.1				0.1			
Contract 1.4: Supply for Pilot PRO SME Office in Stip				0.1				0.1			
<b>Cumulated</b>				<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>1.1</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>

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

**3.a) Reference list of relevant laws and regulations**

Key laws and regulations on taxation:

- Constitution of the former Yugoslav Republic of Macedonia;
- Law on Public revenue office
- Law on tax procedures
- Law on personal income tax
- Law on corporate income tax (profit tax)

**3.b) Reference to AP /NPAA / EP / SAA**

The objectives of the project follow the priorities of the European Partnership of 2005. The project aims to address the overall economic priority of improving the country's attractiveness for domestic and foreign direct investors, as well as the following priorities in the area of taxation:

- Increase the administrative capacity to implement tax legislation, and to fight against fiscal evasion.
- Commit to the principles of the Code of Conduct for Business Taxation and ensure that new tax measures are in conformity with these principles.
- Take structural measures to urgently reform control policy and improve control capacity.
- Develop an audit strategy.
- Fully align tax legislation with the *acquis*.

The NPAA includes several short-term and medium-term priorities in the area of taxation that will be addressed with this project:

- Harmonization of the legislation in the area of direct taxation with the *acquis*
- Increasing the administrative capacity for implementation of the tax legislation and fight tax evasion
- Continued reforms of the tax administration (Public Revenue Office)
- Improving the control function in the PRO

**3.c) Reference to MIPD**

It is essential to help improve the administrative capacity, on both central and local levels, in the area of *fiscal policy* (e.g. tax collection, expenditure control, etc.) and it may be necessary to prepare for the IT interconnectivity to the EU tax systems.

In order further to improve the country's alignment with the political criteria, and taking into account commitments made under the SAA, EU assistance will continue to help to advance the *public administration reform* by supporting the implementation of a comprehensive Public Administration Reform Strategy, which will streamline administrative procedures and improve the capacity of the public administration.

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### **3.d) Reference to National Development Plan**

The area of taxation is addressed in the National Development Plan (NDP) under the activities for improving the business environment, support to the SME sector, and investment climate reform. The NDP envisages substantial reforms in the tax and customs systems, including:

- Introduction of a flat rate tax with a single tax rate for income tax and profit tax in two stages;
- Zero tax rate for reinvested profit;
- Elimination of politically motivated inspections by the PRO;
- Unconditional fight against tax evasion;
- Harmonization of the bases for payment of the income tax and social contributions;
- Organizational changes and complete computerization of the Public revenue office database;
- Full introduction of fiscal cash registers in legal entities throughout the country;
- Introduction of a much simpler tax payment system for small companies and micro companies with low income and profit;
- A return of VAT in a maximum of 30 days;
- Customs revenue will be increased through rigorous, but simplified scanning with modern and sophisticated equipment and professional customs office management.

The activities planned in this project will complement the ongoing reforms in the area of taxation and customs in the period 2007/2008.

### **3.e) Reference to national / sectoral investment plans**

The Public Investment Programme (PIP) has envisaged resources for capital expenditures in various state institutions, which will be used mainly for reconstruction, and completion of the existing facilities and for procurement of equipment.

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**ANNEX IV: Details per EU funded contract (\*) where applicable:**

It is expected that:

- E) 1 Service contract will be concluded following an international restricted tender procedure. The duration of the contract will be for a period of 18 to 24 months, depending on the budget. The successful tenderer will start implementation one month after contract signatory, the expected date for implementation is: 1-11-2008. The contract value will be approx. 1.4 Million Euro.
- F) 1 Twinning Light Agreement will be developed with an appropriate EU MS institution. The duration of the twinning will be for a period of approx. 6 months. The successful EU MS institution will start implementation one month after contract signatory, the expected date of implementation is March 2009. The contract value will be approx. 0.2 Million Euro
- G) 1 works contract
- H) 1 supply contract

The contract value of the works contract will be approx. 0.2 Million Euro, and the contract value of the supply contract will be approx. 0.2 Million Euro, excluding a co-financing from the beneficiary of (25%) 0.125 Million Euro.

A team leader will be responsible for the overall management, representation (co-ordination with the other international bodies, in particular with the IMF resident advisor), and reporting. The co-ordination of activity development in the different components of the project is important. The team leader is responsible for appropriate management of resources. Next to a team leader, (short and long term) expertise will be engaged in the areas of harmonization with acquis, capacity development, legal development etc. Some of these experts will address the cross-cutting issues (see below). A pool of short-term expertise will be made available to assist the key experts and to carry out the activities in the remaining areas.

The establishment of the pilot office in Stip will be done through a works contract for the refurbishment of the PRO building and a supply contract for the office equipment.

The following specific activities are foreseen in the project:

Component 1: Further harmonization of the acquis

- Review of the existing legislation in the area of direct taxation
- Drafting of new legislation aligned with the acquis in this area
- Carrying out study tours for MoF and PRO staff

Component 2: Strengthening the administrative capacity of the PRO through trainings of staff, improved and communication channels. Particular focus will be given to internal audit, tax fraud (intelligence and investigation), and professional standards.

- Comprehensive assessment of the identified priority areas (internal audit, professional standards, tax investigation and intelligence, communication strategy, and code of conduct), with the objective of developing capacity building programmes
- Development of a capacity building programmes (based on recommendations from previous technical assistance)

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- Implementation of the capacity building programme including trainings in key areas such as: taxpayers' services, debt collection/enforcement strategy, management training.
- Establishing a system for monitoring of results in the subject matter areas

One works contract will be engaged to upgrade the Stip Pilot Office for SME taxpayers as well as one supply contract to provide the necessary equipment for the pilot office. The contract value of the works and supply contracts will be approx. 0.4 Million Euro, excluding a co-financing from the beneficiary of (25%) 0.125 Million Euro.