

IPA 2010 CROATIA PROJECT FICHE

HR-2010-03-16-02

1. Basic information

- 1.1 CRIS Number: IPA/2010/022-460
- 1.2 Title: **Enhancement of the CTA administrative and institutional capacity in the field of application of VAT EU common system**
- 1.3 ELARG Statistical code: 03.16 - Taxation
- 1.4 Location: Ministry of Finance - Tax Administration

Implementing arrangements:

1.5 Implementing Agency:

The Central Finance and Contracting Agency (CFCA) will be the Implementing Agency responsible for tendering, contracting and payment. Responsibility for technical aspects related to preparation, implementation and control remains on the Ministry of Finance - Tax Administration as the beneficiary institution.

Central Finance and Contracting Agency

Vukovarska 284

10000 Zagreb, Croatia

Mrs. Marija Tufekčić, Director

Phone: + 385 1 4591 245

Fax: +385 1 4591 075

E-mail: marija.tufekcic@safu.hr

1.6 Beneficiary (including details of SPO):

Ministry of Finance - Tax Administration

Senior Programme Officer

Ministry of Finance

Mrs. Vladimira Ivandić, Director

Katančičeva 5

10000 Zagreb, Croatia

Phone: + 385 1 4591 258

Fax: +385 1 4922 598

E-mail: vladimira.ivandic@mfin.hr

Financing:

- 1.7 Overall cost (VAT excluded)¹: EUR 800 000
- 1.8 EU contribution: EUR 760 000

¹ The total cost 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 (see Section 7.6)

- 1.9 Final date for contracting: 2 years following the date of conclusion of the Financing Agreement
- 1.10 Final date for execution of contracts: 2 years following the end date for contracting
- 1.11 Final date for disbursements: 3 years following the end date for contracting

2. Overall Objective and Project Purpose

2.1 Overall Objective

Further alignment of Croatian Tax Administration (CTA) with EU procedures and best practice in the field of VAT.

2.2 Project purpose

Strengthening the administrative and organisational capacities of CTA in order to provide successful implementation of VAT regulations concerning EU common market.

2.3 Link with AP/ NPAA / EP/ SAA

This project supports some of the following priorities which have been specified in the Council Decision of February 2008 on the principles, priorities and conditions contained in the Accession Partnership with Croatia in the area of Taxation:

“Accelerate alignment of tax legislation with the *acquis* with particular attention to including free zones in the territorial application of the VAT regime, abolishing the existing zero rates of VAT, eliminating the discriminatory taxation of cigarettes and further harmonising the system of excise duties”

Also, the project supports some of the conclusions stated in Croatia 2009 Progress Report:

“Croatia’s adopted a new VAT law which is significantly increasing the level of alignment with the *acquis*. Further efforts in this area are needed, in particular with regard to the scope of the reduced rates and of exemptions, the exclusion of free zones from the tax territory and adding provisions for special schemes for travel agencies and investment gold.”

2.4 Link with MIPD

The project is in line with priorities stated in Multi-annual Indicative Planning Document for 2009-2011 as follows:

“3rd area of intervention - Ability to assume the obligations of membership

...– To support the Croatian authorities by measures aimed at adopting or completing the transposition of the *acquis*;

- To adopt comprehensive strategies and / or action plans so as to ensure the viability of and respect for EU rules;
- To reinforce and coordinate the administrative structures for them to be able to fully implement the *acquis* upon accession in accordance with the priorities established in the proposed Accession Partnership, including the reinforcement of capacity for preparing the European Union cohesion policy.“

This project supports priorities stated in MIPD concerning ability to assume the obligations of membership with regard to the fact that through the project the administrative structure, organisational and human capacities in the field of VAT will be strengthened in order to enable CTA to fully implement the *acquis* upon accession.

2.5 Link with National Development Plan (where applicable)

National Development Plan presently does not exist. However, this project is in line with following conclusions stated in the document *Strategic Development Framework for 2006-2013* as follows:

“The complexity and sophistication of modern business transactions are very often not adequately recognized in our tax regulations which increase operating costs, but also create space for tax evasion. When we accede to the common market, the fiscal complexity of business transactions will additionally grow, and this is why it is necessary to immediately and systematically introduce education, training and modernization in the tax administration to increase its motivation and competence.“

The project supports the goals and priorities set up in the *Strategic Development Framework for 2006-2013*, particularly in the part concerning training and education of officials that deal with VAT. Bearing in mind the complexity of VAT regime that we will face when we join the European Union, it is of highest importance to prepare tax officials and tax payers for all duties and obligations concerning VAT in order to secure rightful application of tax regulations.

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

In December 2007 the **Tax Administration adopted the Strategy for the period 2008-2013**, which contains the analysis of the state of play: advantages, weaknesses, possibilities, threats and strategic objectives in the areas of strategic importance for the Tax Administration such as:

- Strategic development and risk management
- Human resources management, training and development
- Organization and processes
- Legal issues
- Information technology

For more economic, efficient and effective implementation of the abovementioned key strategic areas that form the basis for achievement of strategic goals laid down in this Strategy, the Tax Administration adopted a Business Change Management Plan, which contains a breakdown of each key strategic area into overall goals, main activities, responsible persons and/or bodies and a link to Fiscal Blueprints of the European Union. In the framework of the Strategy, the improvement of the information system and education of servants or employees together with the strengthening of further cooperation with the EU are highlighted, inter alia, as crucial strategic objectives.

Project IPA 2010 is related with two crucial strategic objectives as stated (Human resources management, training and development; Organization and processes). Training and education of officials in the field of VAT procedures connected with common market strengthen the administrative capacities of CTA and its ability to fully implement the *acquis* in the field of taxation.

3. Description of project

3.1 Background and justification

VAT system in Republic of Croatia is based on the Sixth EU Directive although it has not been entirely harmonized. Since 2008, a new Council Directive 2006/112/EC is in force in the European Union and it represents a systematization of European VAT regulations (the Sixth Directive with all amendments and decisions of the European Council).

The basic act regulating VAT in the Republic of Croatia is the Value Added Tax Act. The implementation of the current VAT Act began in 1998 with a uniform rate of 22%. A zero rate was introduced for particular products such as bread, milk, books and some medicines, and it was further extended to some other products and services in 2000. A VAT rate of 10% on accommodation services is introduced on 1 January 2006. A uniform rate is 23% from 1 August 2009.

The Act on the Amendments to the VAT Act (Official Gazette 87/09) entered into force as of 1 January 2010. This Act is significantly increasing the level of alignment with the *acquis*. In the Amendments to the VAT Act, some provisions of the current Act have been abolished, some have been changed and some new ones have been introduced.

During the period when Republic of Croatia became a candidate country to the end of 2009 the CTA carried out three projects in the field of VAT financed from EU preaccession funds, but as the process of harmonization of Croatian legislation in the field of VAT with the EU *acquis* is still in progress it is necessary to prepare more projects in order to accelerate alignment of tax legislation.

In this regard CTA has to strengthen its administrative and organizational capacities in the field of VAT in order to provide successful implementation of VAT regulations concerning EU Common Market. Also, CTA should prepare

manuals in accordance with EU VAT common system as well as to implement EU regulations in the daily practice.

Proposed project under the programme IPA 2010 covers a wide scope of activities, from the preparation of proposal for possible organizational changes and future needs as well as preparation of educational material for taxpayers concerning VAT on common market (leaflets, brochures, tax administration web page) and training of officials so that they can train other officials and transfer knowledge to the taxpayers. Activities under the project should cover the production of all the necessary documentation and manual for tax officials.

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

It is anticipated that the project will achieve its purpose considering that the implementation of the project will be conducted by tax experts from one of the Member States that posses experience in implementation of the *acquis*, especially in the field of application of VAT EU common system.

Wide scope of activities is foreseen that should achieve the results which will provide Croatian tax officials and taxpayers better preparation for the new VAT regime and regulations connected with the EU accession.

By writing the working processes and procedures a structure for obeying the rules imposed by the VAT regulation concerning common market will be set. This will have an impact on all officials handling the VAT as their tasks will be transparent and further explained. By providing the training and education to the CTA officials their efficiency will be increased.

Within this project VAT experts from 20 regional offices will receive education on VAT regime concerning EU common market. These experts will be trainers who will transfer their knowledge to other officials dealing with VAT procedures. Therefore, by educating 20 officials, other officials in local and regional tax offices will receive knowledge in the field of VAT concerning EU common market.

The final results under this project will increase efficiency and effectiveness of VAT function in whole and will provide to tax officials and tax payers more organised and more efficient way of implementation of VAT procedures and obligations. This would also lead to more fair and accurate taxation.

Regarding the sustainability of the project, this project will ensure the support of future EU programmes to the CTA, meaning the follow up of previous CARDS, Phare and IPA projects.

Cross border impact - not applicable

3.3 Results and measurable indicators

Results:

1. Improved working processes and procedures according to the new VAT legislation (VAT refund, Reverse Charge, Recapitulative Statement, VIES database)
2. Trained and educated officials in the field of VAT procedures in relation to the EU common market
3. Prepared manual for tax officials concerning new VAT regime
4. Prepared proposal for organisational changes
5. Educational material for taxpayers concerning VAT on EU common market prepared (brochures, leaflets, CTA web page)

Measurable indicators:

For Result 1:

Reduced processing time of different requests from taxpayers and tax authorities concerning VAT for at least 10% in relation to processing time prior of the start of project implementation

For Result 2:

About 20 tax officials from different regional offices trained, capable to train others

For Result 3:

Manual for tax officials in appliance and available on intranet site of CTA until the end of project implementation

For Result 4:

Proposal for possible organisational changes submitted to senior management for approval

For Result 5:

Educational material for taxpayers available in paper form at local and regional offices and also on CTA internet site until the end of project implementation

3.4 Activities

1. Improving working processes and procedures according to the new VAT legislation (VAT refund, Reverse Charge, Recapitulative Statement, VIES database)

- 1.1 VAT refund
 - 1.1.1 Development and elaboration of procedures and working processes needed for proper functioning of VAT return process
 - 1.1.2 Development and elaboration of procedures and working processes needed for dealing with requests of domestic entrepreneurs for VAT return from other EU member state
 - 1.1.3 Development and elaboration of procedures and working processes needed for VAT return to foreign entrepreneurs from third countries
- 1.2 Reverse Charge
 - 1.2.1 Organising workshops in connection with the application of Directive 2008/8/EZ and place of taxation of services
 - 1.2.2 Conducting workshops with the purpose of developing manual with case studies on taxation of goods delivery and especially taxation of services delivery together with taxation of transport services connected with delivery of goods
- 1.3 Recapitulative Statement
 - 1.3.1 Development and elaboration of procedures connected with Recapitulative Statement and connectivity of these data with regular VAT statements
- 1.4 VIES database
 - 1.4.1 Analysis of existing VIES database
 - 1.4.2 Proposal for improving the functionality of VIES database
 - 1.4.3 Development and elaboration of procedures connected with VIES
- 2 Training of officials in the field of EU VAT common system according to new legislative provisions; training of officials concerning VAT refund, Recapitulative Statement, Reverse Charge system, VIES database so that officials can train other officials and transfer knowledge to taxpayers
 - 2.1 Presentation of best practice of EU member states in the field of VAT taxation, working procedures of local offices and audit of VAT returns that is carried out in local offices
 - 2.2 Organizing and conducting workshops and training courses connected with VAT legislation for individual activities of entrepreneurs respectively for different areas of taxation (e.g. lump sum taxation of farmers, travel agencies, investment gold, tax warehouses and free zones, financial and insurance services, services of public sector)
 - 2.3 Organizing and conducting workshops and training courses connected with Decisions and Verdicts of European Court in relation to VAT, together with explanations and examples of the importance of these Verdicts and Decisions in application of VAT legislation

- 2.4 Conducting workshops with the purpose of training the future trainers and designing the materials for future education of employees concerning VAT on common market
 - 2.5 Organising study visit to EU member state concerning working procedures and business solutions connected with VAT on common market
- 3 Preparation of manual for tax officials concerning new VAT regime
- 3.1 Development of manual for tax officials with relevant case studies that will include different areas of taxation like lump sum taxation of farmers, travel agencies, investment gold, tax warehouses and free zones, financial and insurance services, services of public sector and with special emphasis on taxation of goods and services, VAT refund and proportional deduction of input tax
- 4 Analysis of current organisation
- 5 Preparation of proposal for possible organisational changes and future needs
- 6 Preparation of educational material for taxpayers concerning VAT on EU common market (brochures, leaflets, CTA web page)
- 6.1 Development of strategy for taxpayers education on VAT system connected with EU common market
 - 6.2 Production of brochures, leaflets and presentations for taxpayers
- 3.5 Conditionality and sequencing

Conditionality

Before the start of the project implementation, analysis of VAT legal framework in the area of EU VAT common system will be carried out and tasks and responsibilities of all involved parties will be defined.

Officials with high enough ranking will participate in the project.

RTA will ensure the distribution of knowledge in the beneficiary institution. PIU and project leader from Croatian side will implement the proposals and recommendations of the project leader under conditions that Croatian side and twinning partner have agreed upon.

Sequencing

The purpose of the project Phare 2005 “Assistance to the Croatian Tax Administration in development of activities proceeding from the Fiscal

Blueprints” was to create preconditions for the introduction and effective management of the VIES system, interfacing the existing National VAT Information System. This was achieved through implementation of 2 interrelated sub-project’s: 1. VIES Effective Management and Business Support - Twinning; 2. VIES Mandatory Developments – Software Development Service Contract.

Phare 2006 “Strengthening and Enhancement of the Croatian Tax Administration IT function to Achieve the EU Standards in the VAT field“ is the follow up project of Phare 2005. The project started in February 2009 and it will end in August 2010. The project purpose is to establish functional VIES and VES (VAT on e-services) systems in order to achieve effective communication with IT systems in other EU Member States. This will be achieved through 2 subprojects: 1. Project Management – Twinning that will primarily cover IT project management support for software developments for enhanced VIES system and development of VES system and 2. VIES Enhancements + VES Development – Service contract that will cover the functioning VIES Enhancement and VES development IT systems for data processing and exchanging of relevant information.

Project proposal from IPA 2010 which has a purpose to strengthen the administrative and organisational capacities of CTA in order to provide successful implementation of VAT regulations concerning EU common market is envisaged to follow up on some of the results achieved in Phare 2005 Twinning: established CLO office, made guidelines for CLO working procedures and made review and preparation for finalization of new VAT law.

With regard to Phare 2006 Twinning subproject, the IPA 2010 project will follow on the expected result: development of concept of communication and public relation for the purpose of raising public awareness in the area of VAT obligations in EU.

Project IPA 2009 “Enhancement of the administrative capacity of CTA in the field of audit” should start in the 1st quarter of 2011. The purpose of the project is to strengthen the administrative capacity of CTA in the field of audit. The main goal of the project is expected to be achieved through three components:

- I. Strengthening the CTA audit system as a whole;
- II. Establishing the E-audit function;
- III. Enhancement of the administrative capacity in the field of audit of VAT

While this project in Component III has a purpose to strengthen the capacity of CTA in the field of audit of VAT, project proposal under IPA 2010 is envisaged to strengthen the capacity of CTA in the field of VAT in relation to the EU common market, focusing on other aspects of VAT.

3.6 Linked activities

CARDS 2004 Twinning “Strengthening the Taxation System in the VAT field to prepare the development of the VIES IT interconnectivity system”

The project started in January 2006 and ended in October 2007. The purpose of the project was to bring the existing VAT system (legislation and business processes) further in line with the acquis and to develop capacity to set up VAT Information Exchange System (VIES). The project is summarized in the three components:

- a. Component 1: Administrative capacity building in the VAT field
- b. Component 2: Establishment of the Central Liaison Office (CLO)
- c. Component 3: Foundation for VIES development

Main results of the project were: Draft of VAT strategy, draft of the new Croatian VAT law, Training Manual in regard with VAT and VIES, draft law amendments of General Tax Act, provisional defining of the CLO organizational structures and functions, provisional working procedures for CLO, Project Quality Plan and User requirement for VIES development.

Phare 2005 “Assistance to the Croatian Tax Administration in development of activities proceeding from the Fiscal Blueprints”

The project started in December 2007 and ended in May 2009.

The purpose of this project was to create preconditions for the introduction and effective management of the VIES system, interfacing the existing National VAT Information System. This was achieved through implementation of 2 interrelated sub-project's:

1. VIES Effective Management and Business Support – Twinning
The Project covered IT project management support for the software developments for VIES system, including support to the management of all business and functional aspects of system implementation.
2. VIES Mandatory Developments – Software Development Service Contract
The Project covered the software design, development and implementation of VIES system as well as the training of users and the production of all necessary documentation including user requirements, software installation, system administration and user manuals.

Phare 2006 “Strengthening and Enhancement of the Croatian Tax Administration IT function to Achieve the EU Standards in the VAT field“

The project started in February 2009 and it will end in August 2010. The project purpose is to establish functional VIES and VES (VAT on e-services) systems in order to achieve effective communication with IT systems in other EU Member States. This will be achieved through:

1. Project Management – Twinning
The project primarily covers IT project management support for software developments for enhanced VIES system and development of VES system.
2. VIES Enhancements + VES Development – Service contract

The project covers the functioning of VIES Enhancement and VES development IT systems for data processing and exchanging of relevant information.

The abovementioned three projects had the objective of establishing functional VIES and VES systems together with the administrative capacity building in the VAT field (harmonisation of tax acts with the *acquis*) and establishment of Central Liaison Office. Project IPA 2010 is a follow up and its objective is to train and educate officials in CTA and to inform taxpayers about new VAT regulations and procedures concerning EU common market.

IPA 2009 “Enhancement of the administrative capacity of CTA in the field of audit”

The project should start in the 1st quarter of 2011. The purpose of the project is to strengthen the administrative capacity of CTA in the field of audit. The main goal of the project is expected to be achieved through three components and associated results:

I. Strengthening the CTA audit system as a whole

1. Prepared Strategy for audit of taxpayers
2. Prepared Manual on procedures for planning and doing reports for audit - compatible with EU best practice
3. Prepared Guideline for methods and techniques in audit – on the job
4. Auditors trained in following strategically framework and applying modern methods and techniques in audit - on the job

II. Establishing the E-audit function

1. Prepared Manual on e-audit
2. Auditors trained in usage of e-audit tools
3. Study visit carried out in order to get acquainted with e-audit function in practice

III. Enhancement of the administrative capacity in the field of audit of VAT

1. Prepared Manual for audit of VAT and combating tax fraud based on EU practice
2. Trained auditors in the field of audit of VAT and fight against fraud
3. Study visit carried out in order to get acquainted with VAT audit function and combating tax fraud in practice

It is foreseen that IPA 2010 project will complement the abovementioned project in other aspects of VAT that are not connected to VAT fraud.

FISCALIS

The European Parliament and the Council adopted the Fiscalis 2013 programme. The objective of the Fiscalis programme is to help all Member States to work more closely together against tax fraud, through improved electronic system for information exchange between national administrations, cooperation in investigations, training seminars for tax officials and experts and the exchanges of officials between national administrations. Croatia signed Memoranda of Understanding with the European Commission on 28 August, 2006 which enables Croatian Tax officers to participate in the Fiscalis programme.

The Revenue Administration Modernization Project (RAMP) funded by the World Bank loan

This project started in January 2008 and it will end in June 2013. It consists of the following components:

A. Organizational Consolidation and Functional Realignment of the Zagreb Regional Office. (Physically consolidate the tax offices in the Zagreb Region into a single modern facility. Reorganize the consolidated office along functional lines. Rationalize and strengthen large taxpayer administration.)

B. Knowledge and Professional Upgrading of Tax Officials and Stakeholders. (Strengthen the CTA's human resource management capacity. Upgrade the CTA's training and knowledge-sharing programs. Establish a Training Centre and distance learning facilities.)

C. Technological Upgrading for Services, Management Information System and TIN Implementation. (Modernize business processes, including e-Tax functions. Acquire contemporary, integrated tax administration application software. Implement appropriate security, business-continuity and disaster-recovery capabilities. Implement an integrated Management Information System.)

Project objectives are to achieve further improvement in efficiency, taxpayer services and tax compliance through capacity building and systems improvement in Croatian Tax Administration.

These objectives will be achieved through the results of following project components:

A. Organizational Consolidation and Functional Realignment of the Zagreb Regional Office

- Zagreb offices functionally realigned and modernized
- Strengthened LTO operation

B. Knowledge and Professional Upgrading of Tax Officials and Stakeholders

- Human Resources policies further developed
- Human Resources Management further developed
- Training & Education capacity enhanced

C. Technological Upgrading for Services, Management Information System and TIN Implementation

- Strengthened ICT department
- E-services developed
- Strengthened support for revenue risk management

- Strengthened Management Information System
- Reduced technological and operational risks
- Strengthened inter-agency co-operation in information exchange

There is no overlapping of activities between RAMP and IPA 2010 project.

Through both projects similar goals will be achieved in the meaning of strengthening the administrative capacity and enhancement of efficiency of Tax Administration.

The IPA 2010 project will include CTA officials dealing with VAT matters from Central Office and from regional offices as well.

3.7 Lessons learned

The crucial importance for the success of the project has a selection of experts as well as from counterpart side as from Croatian Tax Administration. The quality of counterpart experts (human and professional) has a large contribution to the success of the twinning.

Great importance also has appropriate selection of Croatian staff for participation in a project in order to follow the foreseen activities and to achieve all expected goals.

Interactivity between experts from both sides is very important as well as training based on real examples from the twinning partner practice and best EU practice.

Based on the previous experience in implementation of projects Phare 2005: "Assistance to the Croatian Tax Administration in the Development Activities Proceeding from the Fiscal Blueprints" and Phare 2006: "Strengthening and Enhancement of Croatian Tax Administration IT Function to achieve the EU Standards in the VAT Field" special attention must be paid in order to avoid any possible IT problem concerning availability of necessary IT systems. Furthermore, as it was stated in CPIE 2009 Final Evaluation Report, attention must be paid to accurate and appropriate planning of timing in order to avoid possible hindering of project implementation.

4. Indicative Budget (amounts in €)

			SOURCES OF FUNDING										
			TOTAL EXP.RE	TOTAL PUBLIC EXP.RE	IPA CONTRIBUTION		NATIONAL PUBLIC CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR	EUR	EUR	% (2)	Total	% (2)	Central EUR	Regional/ Local EUR	IFIs	EUR	% (3)
			(a)=(b)+(e)	(b)=(c)+(d)	(c)	(d)=(x)+(y)+(z)	EUR	(x)	(y)	(z)	(e)		
Contract 1 - Twinning	X		800 000	800 000	760 000	95	40 000	5	40 000	-	-	-	
TOTAL IB			800 000	800 000	760 000	95	40 000	5	40 000	-	-	-	
TOTAL INV													
TOTAL PROJECT			800 000	800 000	760 000	95	40 000	5	40 000	-	-	-	

NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Public** Expenditure (column (b))

(3) Expressed in % of the **Total** Expenditure (column (a))

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

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1 - Twinning	2Q/2011	4Q/2011	4Q/2013

All projects should in principle be ready for tendering in the 1ST Quarter following the signature of the FA.

6. Cross cutting issues (where applicable)

6.1 Equal Opportunity

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

6.2 Environment

This project does not involve any activities with an environmental impact.

6.3 Minorities

Not applicable.

ANNEXES

- 1- Log frame in Standard Format
- 2- Amounts contracted and disbursed per quarter over the full duration of programme
- 3- Description of Institutional Framework
- 4 - Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

Reference to AP / NPAA / EP / SAA

Reference to MIPD

Reference to National Development Plan

Reference to national / sector investment plans

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

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

For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts

For *grants schemes*: account of components of the schemes

For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (**)

For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (**); account of services to be carried out for the *service part* of the contract

(*) non standard aspects (in case of derogation to PRAG) also to be specified

(**) section on investment criteria (applicable to all infrastructure contracts and constructing works):

- Rate of return
- Co financing
- Compliance with state aids provisions
- Ownership of assets (current and after project completion)

ANNEX 1 : Logical framework matrix in standard format

Enhancement of the CTA administrative and institutional capacity in the field of application of VAT EU common system		Programme name and number IPA 2010	IPA/2010/022-460
Ministry of Finance - Croatian Tax Administration		Contracting period expires : Two years following the date of conclusion of the Financing Agreement	Disbursement period expires : Three years following the end date for contracting
		Total budget : EUR 800 000	IPA budget: EUR 760 000
Overall objective	Objectively verifiable indicators	Sources of Verification	
Further alignment of Croatian Tax Administration (CTA) with EU procedures and best practice in the field of VAT.	Capability of CTA staff to fulfil EU requirements	Commission reports	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Strengthening the administrative and organisational capacities of CTA in order to provide successful implementation of VAT regulations concerning EU common market.	EU VAT regulations concerning EU common market successfully implemented	Commission reports Tax payers opinion Final project report	Support of management No turnover of staff that would impede the transfer of knowledge in CTA
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
1. Improved working processes and procedures according to the new VAT legislation (VAT refund, Reverse	Reduced processing time of different requests from taxpayers and tax authorities concerning VAT for at least 10% in relation to processing time prior of the start of project	Statistical data of the Ministry of Finance CTA statistical data available in APIS	Support of management No turnover of staff that would impede the transfer of knowledge in

Charge, Recapitulative Statement, VIES database)	implementation	Project progress reports	CTA
2. Trained and educated officials in the field of VAT procedures in relation to the EU common market	About 20 tax officials from different regional offices trained, capable to train others	Final project report	
3. Prepared manual for tax officials concerning new VAT regime	Manual for tax officials in appliance and available on intranet site of CTA until the end of project implementation		
4. Prepared proposal for organisational changes	Proposal for possible organisational changes submitted to senior management for approval		
5. Educational material for taxpayers concerning VAT on EU common market prepared (brochures, leaflets, CTA web page)	Educational material for taxpayers available in paper form at local and regional offices and also on CTA internet site until the end of project implementation		
Activities	Means	Costs	Assumptions
1. Improving working processes and procedures according to the new VAT legislation (VAT refund, Reverse Charge, Recapitulative Statement, VIES database) 1.1 VAT refund 1.1.1 Development and elaboration of	Twinning	EUR 800 000	Legal framework prepared and implemented Support of management Availability of staff that will participate in project activities from the beginning to project completion

<p>procedures and working processes needed for proper functioning of VAT return process</p>			
<p>1.1.2 Development and elaboration of procedures and working processes needed for dealing with requests of domestic entrepreneurs for VAT return from other EU member state</p>			
<p>1.1.3 Development and elaboration of procedures and working processes needed for VAT return to foreign entrepreneurs from third countries</p>			
<p>1.2 Reverse Charge</p>			
<p>1.2.1 Organising workshops in connection with the application of Directive 2008/8/EZ and place of taxation of services</p>			
<p>1.2.2 Conducting workshops with the purpose of developing manual with case studies on taxation of goods delivery and especially taxation of services delivery together with taxation of transport</p>			

<p>services connected with delivery of goods</p>			
<p>1.3 Recapitulative Statement</p>			
<p>1.3.1 Development and elaboration of procedures connected with Recapitulative Statement and connectivity of these data with regular VAT statements</p>			
<p>1.4 VIES database</p>			
<p>1.4.1 Analysis of existing VIES database</p>			
<p>1.4.2 Proposal for improving the functionality of VIES database</p>			
<p>1.4.3 Development and elaboration of procedures connected with VIES</p>			
<p>2. Training of officials in the field of EU VAT common system according to new legislative provisions (training of officials concerning VAT refund, Recapitulative Statement, Reverse Charge system, VIES database so that officials can train other officials and transfer knowledge to taxpayers)</p>			
<p>2.1. Presentation of best practice of EU</p>			

<p>member states in the field of VAT taxation, working procedures of local offices and audit of VAT returns that is carried out in local offices</p> <p>2.2. Organizing and conducting workshops and training courses connected with VAT legislation for individual activities of entrepreneurs respectively for different area of taxation (e.g. lump sum taxation of farmers, travel agencies, investment gold, tax warehouses and free zones, financial and insurance services, services of public sector)</p> <p>2.3 Organizing and conducting workshops and training courses connected with Decisions and Verdicts of European Court in relation to VAT, together with explanations and</p>			
--	--	--	--

<p>examples of the importance of these Verdict and Decisions in application of VAT legislation</p> <p>2.4 Conducting workshops with the purpose of training the future trainers and designing the materials for future education of employees concerning VAT on Common Market</p> <p>2.5 Organising study visit to EU member state concerning working procedures and business solutions connected with VAT on common market</p> <p>3. Preparation of manual for tax officials concerning new VAT regime</p> <p>3.1 Development of manual for tax officials with relevant case studies that includes different areas of taxation, like lump sum taxation of farmers, travel agencies, investment gold, tax warehouses and free zones, financial and insurance services, services of public</p>			
---	--	--	--

<p>sector and with special emphasis on taxation of goods and services, VAT refund and proportional deduction of input tax</p> <p>4. Analysis of current organisation</p> <p>5. Preparation of proposal for possible organisational changes and future needs</p> <p>6. Preparation of educational material for taxpayers concerning VAT on EU common market (brochures, leaflets, CTA web page)</p> <p>6.1 Development of strategy for taxpayers education regarding VAT system connected with EU Common Market</p> <p>6.2. Production of brochures, leaflets and presentations for taxpayers</p>			
			<p>Preconditions</p>

ANNEX II: Contracted and disbursed by quarter for the project, amounts in EUR

Contracted	1st QR 2011	2nd QR 2011	3rd QR 2011	4th QR 2011	1st QR 2012	2nd QR 2012	3rd QR 2012	4th QR 2012	1st QR 2013	2nd QR 2013	3rd QR 2013	4th QR 2013
Contract 1				800 000								
Cumulated				800 000								
Disbursed	1st QR 2011	2nd QR 2011	3rd QR 2011	4th QR 2011	1st QR 2012	2nd QR 2012	3rd QR 2012	4th QR 2012	1st QR 2013	2nd QR 2013	3rd QR 2013	4th QR 2013
Contract 1						200 000		200 000		200 000		200 000
Cumulated						200 000		400 000		600 000		800 000

ANNEX III : Description of Institutional Framework

The Croatian Tax Administration (CTA) is an administrative organisation within the Ministry of Finance and it is organized in three levels: the Head Office located in Zagreb, 20 Regional Tax Offices and 122 Local Offices, which represent the constituent part of Regional offices.

The Head Office is responsible for execution of tax policy, determination of standards and organisation of the implementation of regulations. The Regional offices have to organise immediate implementation of the determination, monitoring and collection of taxes. They are also responsible for direct implementation of regulation regarding external audit, offence procedure and enforced collection of taxes. Local offices are responsible for immediate implementation of determination, monitoring and collection of taxes.

The Head office is organised in 12 departments (Tax System Department; Department for International cooperation and European Integration; Applications of ISTA (Information System of Tax Administration), Tax records, Statistics and Tax register Department; Information system (IT) Department; Audit Department; Enforced collection Department; Games of chance, amusing and prize games Department; Personnel, Development and Human resources management Department; General, Legal and Accounting affairs Department; Criminal Tax investigation Department; Financial management and control Department; Personal identification number Department.

The Tax System Department performs administrative and other expert affairs related to proposing of changes in tax policy, tax regulations and other regulations for improvement of tax system and more efficient tax collection; systematic monitoring of implementation of tax regulations and ensuring the uniform procedures for implementation of laws and regulations; proposing of making guidelines in the application of tax regulations; providing technical assistance to Regional offices and Local offices; providing opinions on the application of tax regulations in individual tax matters; preparation and conduction of negotiations for concluding a contract for the avoidance of double taxation with other countries; performance of actions envisaged by the Law on signing and executing international agreements; exchange of information for implementation of international treaties on avoidance of double taxation with the competent authorities of other counties; providing expert opinions and explanations for correct and uniform application of procedures in the contract; treatment in connection with the actualization of the application for alimention abroad; proposing of changes in regulations on contributions and other regulations for improvement of system and more efficient collection of contributions; proposing of making guidelines in the application of regulations on contributions.

In the Tax System Department there are five divisions: VAT Division, Corporate, Profit and Personal Income Division; GTC, local and Real Estate Tax Division, Double Taxation Division and Contribution Division.

VAT Division does administrative and other expert tasks related to proposing changes in tax policy, tax regulations and other regulations in order to improve the tax system and make tax collection more efficient, systematic monitoring of implementation of tax regulations and procedures to ensure uniform implementation of laws and regulations, suggesting and adoption of guidelines in the application of tax regulations, providing technical assistance to Regional Offices and Local Office for treatment of a single tax administration, providing opinions on the application of tax regulations in individual tax matters.

ANNEX IV: Reference to laws, regulations and strategic documents

Reference list of relevant laws and regulations:

1. Value Added Tax Act (Official Gazette No. 47/95, 106/96, 164/98, 105/99, 54/00, 73/00, 48/04, 82/04, 90/05, 76/07, 94/09 General Tax Law-Official Gazette No. 127/00, 86/01-correction)
2. Ordinance on the Value Added Tax (Official Gazette No. 60/96, 113/97, 7/99, 112/99, 119/99-correction, 44/00, 63/00, 80/00, 109/00, 54/01, 58/03, 198/03, 55/04, 77/04-correction, 153/05, 79/07, 34/08, 97/09)
3. General Tax Act (Official Gazette No. 147/08)
4. General Administrative Procedure Act (Official Gazette No. 47/09)
5. Tax Administration Act (Official Gazette No. 67/01, 94/01, 177/04)
6. Administrative cooperation in the area of VAT (Regulation 1798/2003, Regulation 1925/2004)
7. Council Regulation 143/2008
8. Council Regulation 37/2009
9. Council Directive 2006/112/EC
10. Council Directive 2008/8/EC
11. Council Directive 2008/9/EC

Reference to AP / NPAA / EP / SAA

This project supports some of the following priorities which have been specified in the Council Decision of February 2008 on the principles, priorities and conditions contained in the Accession Partnership with Croatia in the area of Taxation:

“Accelerate alignment of tax legislation with the *acquis* with particular attention to including free zones in the territorial application of the VAT regime, abolishing the existing zero rates of VAT, eliminating the discriminatory taxation of cigarettes and further harmonising the system of excise duties”

Also, the project supports some of the conclusions stated in Croatia 2009 Progress Report:

“Croatia’s adopted a new VAT law which is significantly increasing the level of alignment with the *acquis*. Further efforts in this area are needed, in particular with regard to the scope of the reduced rates and of exemptions, the exclusion of free zones from the tax territory and adding provisions for special schemes for travel agencies and investment gold.”

Reference to MIPD

The project is in line with priorities stated in Multi-annual Indicative Planning Document for 2009-2011 as follows:

“3rd area of intervention - Ability to assume the obligations of membership”

...– To support the Croatian authorities by measures aimed at adopting or completing the transposition of the *acquis*;

- To adopt comprehensive strategies and / or action plans so as to ensure the viability of and respect for EU rules;
- To reinforce and coordinate the administrative structures for them to be able to fully implement the *acquis* upon accession in accordance with the priorities established in the proposed Accession Partnership, including the reinforcement of capacity for preparing the European Union cohesion policy.“

Reference to National Development Plan

National Development Plan presently does not exist. However, this project is in line with following conclusions stated in the document *Strategic Development Framework for 2006-2013* as follows:

“The complexity and sophistication of modern business transactions are very often not adequately recognised in our tax regulations which increase operating costs, but also create space for tax evasion. When we accede to the common market, the fiscal complexity of business transactions will additionally grow, and this is why it is necessary to immediately and systematically introduce education, training and modernisation in the tax administration to increase its motivation and competence.“

The project supports the goals and priorities set up in the *Strategic Development Framework for 2006-2013* particularly in the part concerning training and education of officials that deal with VAT. Bearing in mind the complexity of VAT regime that we will face when we join the European Union, it is of highest importance to prepare tax officials and tax payers for all duties and obligations concerning VAT in order to secure rightful application of tax regulations.

Reference to national / sector investment plans

In December 2007 the **Tax Administration adopted the Strategy for the period 2008-2013**, which contains the analysis of the state of play: advantages, weaknesses, possibilities, threats and strategic objectives in the areas of strategic importance for the Tax Administration such as:

- Strategic development and risk management
- Human resources management, training and development
- Organization and processes
- Legal issues
- Information technology

For more economic, efficient and effective implementation of the abovementioned key strategic areas that form the basis for achievement of strategic goals laid down in this Strategy, the Tax Administration adopted a Business Change Management Plan, which contains a breakdown of each key strategic area into overall goals, main activities, responsible persons and/or bodies and a link to Fiscal Blueprints of the European Union. In the framework of the Strategy, the improvement of the information system and education of servants or employees together with the strengthening of further cooperation with the EU are highlighted, inter alia, as crucial strategic objectives.

Project IPA 2010 is related with two crucial strategic objectives as stated (Human resources management, training and development; Organization and processes). Training and education of officials in the field of VAT procedures connected with common market strengthen the administrative capacities of CTA and its ability to fully implement the *acquis* in the field of taxation.

ANNEX V : Details per EU funded contract

For *twinning covenants*: account of tasks expected from the project leader, resident twinning advisor and short term experts

The experts required should be civil servants/public officials of the relevant MS administration or permanent staff of its authorised mandated bodies (all experts must be administrative practitioners). One expert among the other experts will act as Project Leader. The project implementation requires participation of minimum four experts (MS can offer more experts if it is justified) with the following profiles:

Common requirements for all experts:

- Fluency in both written and spoken English
- Computer literacy

Profile and tasks of the Project Leader

The MS Project Leader will comply as nearly as possible with the following profiles:

- University degree
- Minimum 10 years experience in the taxation field in one of the EU Member States
- Preferably a high-ranking official in position to operate at appropriate political level
- Good managerial skills and ability to work in an international environment
- Previous experience in twinning project management would be considered as an asset
- Excellent English language skills
- Good computer skills
- Good communication skills

The MS Project Leader will be responsible for:

- Reviewing and approving the Project Quarterly and Final Reports (co-signed by the BC project leader).
- Reviewing and approving key project outputs such as the situation analysis, and any revisions to the Work Plan, according to the European Commission rules.
- Monitoring and evaluating the CTA needs and priorities, the quality of the Resident Twinning Adviser's contribution, and that of short term experts and of the Croatian partner institution, project risks, progress against the project budget, benchmarks, and outputs, and taking any necessary remedial action.
- Coaching and mentoring the Resident Twinning Adviser as necessary.

Profile and tasks of the Resident Twinning Adviser (RTA)

The Resident Twinning Adviser (RTA) will comply as nearly as possible with the following profiles:

- University degree or equivalent experience
- Minimum 10 years experience in a taxation field in EU Member State (in case of a New Member State, having been involved for at least 4 years in aligning taxation core business to the *acquis communautaire*) / knowledge of application of VAT EU common system will be considered as an asset
- Experience and appropriate knowledge in writing strategic documents and carrying out training on methodology of strategy development
- Excellent English language skills
- Good computer skills
- Good communication skills

Profile and tasks of the Short-Term Experts (STE)

The twinning team will be composed as well of at least 3 short-term experts complying as nearly as possible with the following profiles:

- Minimum 5 years experience in taxation service of EU Member State (in case of a new Member State, having been involved for at least 3 years on implementing core business in the taxation field in line with the *acquis communautaire*)
- Good knowledge of EU taxation legislation
- Excellent English language skills
- Good computer skills
- Good communication skills
- Experience and appropriate knowledge in the field of taxation / knowledge of application of VAT EU common system will be considered as an asset