PHARE 2006 PROJECT FICHE

1 BASIC INFORMATION

1.1 CRIS Number: HR2006/018-113/4/2
1.2 Title: Strengthening and Enhancement of the Croatian Tax Administration IT Function to Achieve the EU Standards in the VAT Field
1.3 Sector: 33110
1.4 Location: Croatia
1.5 Duration: 36 months

2 OBJECTIVES

2.1 Overall Objective(s)

To meet the obligations of the acquis regarding the Chapter 16 – Taxation in order to successfully implement the transposed legislation.

2.2 Project purpose

The project purpose is to establish functional VIES (VAT Information Exchange System) and VES (VAT on e-services) systems. The purpose of functional VIES and VES systems is effective communication with other Member States systems.

2.3 European Partnership (EP) and NPIEU priority

European Partnership

European Partnership for Croatia, which have been specified in the Council Decision of 13 September 2004 on the principles, priorities and conditions, states that one of the medium-term priority is continuation of strengthening the Tax Administration, including the IT sector, and ensure its proper functioning in order to reach the EU standards and IT systems interconnectivity. According to the European Partnership the short term priority has been the beginning of developing necessary IT systems so as to allow the exchange of electronic data with the Community and its Member States, which will be done by implementation of previous two projects (CARDS 2004, PHARE 2005).

National Programme for the Integration of the Republic of Croatia into the European Union (NPIEU)


As a short-term priority in the field of taxation the NPIEU highlights the necessity to commence a review of the present tax legislation and administrative procedures in order to ensure the efficient application of tax legislation, commence strengthening the capacities of Tax Administration bodies,
particularly with regard to collection and control functions, as well as commence development of the necessary IT systems so as to enable electronic data exchange with the Community and its Member States.

The NPIEU highlights as mid-term priorities finalisation of the harmonisation of the tax legislation with the *acquis communautaire*, particularly with respect to the VAT and excise duties and with special focus on inclusion of free zones in the territorial application of VAT and on abolition of the existing zero rates of VAT and abolition sales tax. It is further necessary to apply the principles set out in the Code of Conduct concerning taxation of business activities, and to ensure that new tax measures are in compliance with these principles. It is also necessary to pursue reinforcement of Tax Administration, including the IT Division, and to ensure that it operates properly in order to meet EU standards, as well as to enable the interconnection of national information systems with Member States.

In order to fulfil its tasks in the medium term, particularly in the area of VAT, the Tax Administration must conduct continuous training of employees and will therefore require additional technical assistance from the European Union (IPA, TAIEX). It will be also necessary for tax officials to participate in the European Union Fiscalis 2003-2007 Programme (Decision 2235/2002/EC), as well as in other programmes, particularly in the area of IT systems and data exchange.

Directive 76/308/EC (mutual assistance on recovery) and Regulation 1798/2003 (administrative cooperation in the area of VAT) are the most important pieces of EU legislation in the area of data exchange and mutual co-operation among Member States. Since the Regulation is a legal instrument whose application is directly binding to Member States, it is not necessary to transpose it in the Croatian legislation. It shall be directly applicable as of the date of accession of Croatia to the European Union. However, it is still necessary to implement the procedures, set up the right organisational structure and possibly amend incompatible legislation.

The harmonisation of direct taxes with the *acquis communautaire* of the European Union and application of the principles set out in the Code of Conduct for business taxation shall commence in 2006, whereas the tax measures that are contrary to the Code shall be harmonised by the end of 2007. Through the course of 2007, Croatia will continue its activities aimed at finalisation of the process of harmonisation of the legislation with the *acquis communautaire* in the area of direct taxes. As a result, the provisions of Council Directives 90/434/EEC, 90/435/EEC and 2003/49/EC shall be incorporated into the Corporate Income Tax Act and Personal Income Tax Act as these have not yet been included therein, and shall be ready for application as of the date of accession of the Republic of Croatia to the European Union.

In 2006, work on the harmonisation of the VAT with the *acquis communautaire* is to be continued (Directive 77/388/EEC as amended) and finalised. The priority here is a possible abolition of zero taxation rates. In order to maximally reduce the social effect of the abolition, the possibility of introducing a reduced taxation rate (possibly, re-establishment of the general tax rate) will be considered, with the application date to be set as late as possible. Inclusion of free zones in the territorial application of VAT has also been envisaged.
With regard to building of an IT system for data exchange, for 2006 it has been foreseen a development of a functional model of the CCN/CSI and VIES systems, construction of a test platform for control of the operation of the CCN/CSI and VIES systems and commencement of training of employees in the application of the CCN/CSI and VIES systems.

In the area of further harmonisation of the legislation, during 2007 Croatia will impose special forms of VAT taxation in the area of deliveries of investment gold (Directive 98/80/EC), second-hand goods transactions, special schemes for Travel Agencies (Directive 94/5/EC) and prescribe the place of taxation of telecommunications services/electronically supplied services (Directive 2002/38/EC).

By the end of the medium term, the computerisation of the inspection operations is to be finalised with a view to full compliance with the practice of the European Union. Training of inspectors involved in the supervision over the application of provisions of the Value Added Tax Act, which has been harmonised with EU Directives, is also to be completed by the end of this period.

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

Not applicable

2.5 Cross Border Impact

Not applicable

3 DESCRIPTION

3.1 Background and justification

The Croatian taxation system is based on three categories of taxes: direct taxes (a profit tax, an income tax and surtax), indirect taxes (a value added tax (VAT), excise duties and a real estate transactions tax) and other taxes (local taxes, customs duties and social security contributions). In 2004 they contributed to the Government revenues as follows: Taxes 57.27 % (thereof VAT revenues 59.93 %, excises 21.32 %, taxes of income and profits and capital gains 12.56 %), social contributions 33.83 %.\(^1\)

The current VAT system in Croatia is based on EU VAT legislation although further alignment is needed. The current Value Added Tax Act came into force in 1995 with the planned application from January 1997 onwards. However, in 1996 the Act was amended to delay the implementation until 1998. Therefore, 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 will be introduced on 1 January 2006.

The Croatian Tax Administration (CTA) is an administrative organisation within the Ministry of Finance. The new organisation of Tax Administration is set up in accordance to the Regulation on Internal Organisation of the Ministry of Finance. It came into force in April 2005. It consists of the Head Office located in Zagreb, 20 Regional Tax Offices and 122 Local Offices, which represent the constituent part of Regional offices.

The Tax Administration has approximately 4000 employees in total. 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 consists of 9 Divisions, which each have various Departments, and 2 independent Departments. The Head Office is headed by a Director General. Each Division is headed by an Assistant Director General and each Department is headed by the Head of Department. The Division of Taxation System is engaged with VAT issues, especially its Department for VAT. There is no VAT Departments in Regional offices, but regional tax officials deal with VAT tax returns and auditing of VAT taxpayers. In regional offices there are 20 VAT advisors who coordinate enforcement of VAT legislation, inform and help officers within regional and local offices. In the regional office in Zagreb (being the largest of the Regional offices) there is a special Department for Audit of VAT. Contained by Audit Departments of other regional offices some auditors are specialised in VAT audit.

Due to complexity of the Tax Administration infrastructure (Head Office, Region, Branches), the high volume of transactions and the work involved in maintaining and further developing the IT application ISPU, which was developed by APIS (here and after the Agency for IT support), the CTA has outsourced most of its IT work.

Currently this is a major business risk because the technology of the application is on old CICS/PL1/IMS with DB2/ISAM backend on IBM z90 Servers and still using 3270 dumb terminal emulation. The central Database Servers are not owned by the Croatian Government and there seems to be a general lack of IT resources in particular to address Project Management, Analysis/Design and software development activities. Short term, the new VIES system will need to interface with the APIS system.

Following Croatia’s EU membership application in March 2003 and positive opinion of the European Commission in April 2004, Croatia became a candidate country to the EU on 18 June, 2004. Following the candidate status on 3 October, 2005 the accession negotiations between the EU and Croatia were opened. In the Opinion of the European Commission on the application of Croatia for
membership of the European Union, under Chapter 16 (Taxation) it was stated that in overall, Croatia would have to make considerable and sustained efforts to align its tax legislation with the *acquis* and to effectively implement and enforce it in the medium term. Particular attention should be devoted to IT interconnectivity, if Croatia wants to be in a position to meet its obligations by accession.

Following a preliminary mission by DG TAXUD in October 2004 followed up by a subsequent mission in February 2005 a “Suggested Approach – National Interoperability Implementation Strategy (IIS) Document” for the Croatian Tax Administration was presented.

**CCN/CSI**

The implementation of the CCN/CSI gateway has been included as a key task in the suggested approach for the Interoperability Implementation Strategy and Plan of the Croatian Tax Administration (CTA). Informal discussions are being held with officials from the Croatian Customs Directorate (CCD) about the administration, management, and location etc. of the CCN/CSI gateway. If the equipment is located in the Customs Directorate (CCD) then a high speed network link shall be required between the network of CTA and that of CCD.

### 3.1.1 Identification of the project

VIES system (VAT information exchange system) is a high priority that must be partly operational from day one of EU accession. The proposed projects are based on DG TAXUD’s Interoperability Implementation Strategy document – Suggested Approach for Croatia from February 2005, which has carefully planned and phased projects in the IT Interoperability field under CARDS 2004, PHARE 2005 and PHARE 2006.

Further developing of adequate VAT Information Exchange System is based on the results from the planned CARDS 2004 and PHARE 2005 projects. Those projects will be completed by follow up project under PHARE 2006 to take care of enhancements and alignment of the VIES application, associated environment and VES development.

Furthermore, European Commission, DG Enlargement gave Croatia comments on the PHARE 2006 priorities. According to these comments, the following contracts included in the PHARE 2006 programme are priorities:

- **Contract 1:** Twinning Covenant: Twinning for Project Management
- **Contract 2:** Service Contract: VIES Enhancements + VES Development

VIES system is a high priority project that must partly be operational from day one of EU accession (the VAT Registration Data System) and therefore it is essential for two contracts mentioned above from PHARE 2006 to be included under PHARE 2006 as priority.

The Twinning Contract will cover primarily IT project management support for the software developments for enhanced VIES system, including support to the management of all business and functional aspects of systems implementation.
The Service Contract will cover the functioning VIES Enhancement and VES Development IT Systems for data processing and exchanging of relevant information. Also it covers the production of all the necessary documentation during implementation.

Direct beneficiaries of PHARE 2006 will be Ministry of Finance, Croatian Tax Administration, and indirect beneficiaries will be upon accession competent authorities of mutual assistance and administrative cooperation of the Member States.

3.2 Sectoral rationale

Not applicable

3.3 Results

The PHARE 2006 will produce two results to address the mandated accession requirements of acquis Chapter 16 - Taxation, the core of which will be comprised of the following:

3.3.1 Contract 1 – Twinning for Project Management

1. Increased institutional capacity of Croatian Tax Administration to manage VIES and VES.

3.3.2 Contract 2 – Service Contract: VIES Enhancements + VES Development

1. Functional VIES Enhancements and VES Development IT Systems for data processing and exchange of relevant information.

It is necessary that providers of Service Contract PHARE 2006 bear in mind the compatibility of software with developed software under CARDS 2004 and PHARE 2005.

3.4 Activities

3.4.1 Contract 1 – Twinning for Project Management

The main activities foreseen to be carried out under this Twinning Contract include:

1. Preparing operational manuals and guidelines

2. Based on the needs of the VIES Enhancement development and operational needs of the developed application, provide training and coaching to IT employees on operational manuals and guidelines

3. Drafting risk assessment and irregularity procedures for enhanced VIES and VES

The Twinning team will be composed of a Resident Twinning Advisor (RTA) and a team of sufficient number of short term experts.
**Profile of the RTA**

- University or higher degree of education;
- Minimum of **10 years** of proven Project Management experience;
- Experience in Planning and Management of projects in a public sector, including VIES projects within a Member State, New Member State or Accession Country;
- Minimum **5 years** of experience of VAT/Tax Administration and strategic planning;
- Good knowledge of the *acquis communautaire* in the area of VAT and VAT administrative cooperation;
- Experience of VAT/VIES related Risk Analysis gained on similar projects;
- Previous lecturing or training experience in a similar role;
- Experience of using Project Management and control tools;
- Excellent communication and presentation skills;
- Excellent English language skills;
- Computer literate.

**Profile of the short-term expertise**

- University or higher degree of education;
- Minimum **5 years** of experience in the VAT Administration of an EU member state or New Member State;
- Good knowledge of the *acquis communautaire* in the VAT field;
- Experience and appropriate knowledge in respective (business and/or IT) fields;
- Experience in writing strategic documents and carrying out training on methodology of strategy development.
- Strong communication skills.
- Excellent command of English.

- In overall, the short-term expert team should have sufficient expertise and experience among its various members to do as follows:
  
  o Management and quality assurance of IT projects;
  o Design, development and implementation of large-scale IT systems and the associated training and development programmes
  o Managing and developing multi-disciplinary project teams
  o Working within multi-disciplinary project teams
  o Working with third party software developers
  o Project management methodologies
  o Design, development and delivery of Site Acceptance Test plans and test scenarios

**Indicative duration**

<table>
<thead>
<tr>
<th>Expert category</th>
<th>Working months</th>
</tr>
</thead>
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<tr>
<td>RTA</td>
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</tr>
<tr>
<td>Team of short term experts</td>
<td>37</td>
</tr>
</tbody>
</table>
3.4.2 Contract 2 – Service Contract: VIES Enhancements + VES Development

1. Designing, building, testing and running in of VIES Enhancement system

2. Designing, building, testing and running in of VES Development system

3. Follow up VIES; finalise procedures for VAT registration and Turnover (including B2B services) sub-systems regarding testing and trial operations, development procedures for transfer and exchange of information.

**Indicative duration**

<table>
<thead>
<tr>
<th>Expert category</th>
<th>Working months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team leader</td>
<td>17 (full time)</td>
</tr>
<tr>
<td>Team of short term experts</td>
<td>80</td>
</tr>
</tbody>
</table>

3.5 Linked Activities

**CARDS 2004 project “Strengthening the Taxation System in the VAT Field to Prepare the Development of the VIES IT Interconnectivity System” (1.300.000 EUR)**

This Twinning project with the Austrian Twinning partner, which is planned to start by the end of 2005 and last for 24 months, will assist the Croatian Tax Administration to bring the existing VAT system (legislation and business processes) further in line with the *acquis* and to develop capacity to set up Community conform VAT Information Exchange System (VIES) interconnectivity structures. This Twinning project is a preparatory project (Phase I) for projects foreseen under PHARE 2005 and PHARE 2006 programmes. It comprises the following three components: 1) Administrative capacity building in the VAT field, 2) Establishment of the CLO and 3) VIES development.

The foreseen results under Component 1 are: (a) All relevant legislation, including secondary legislation on VAT administrative cooperation and mutual assistance developed in line with EU requirements; (b) Enhanced organisation, management and administrative procedures as well as control procedures for VAT within the Tax Administration, in line with the strategic objectives of the Fiscal Blueprints; (c) A comprehensive training programme (with train-the-trainer component) implemented, thereby improving skills and knowledge of the tax officials for conducting new administrative arrangements, in compliance with national legislation and EU directives and regulations.

The foreseen results under Component 2 are: (a) Basic business structures for mutual assistance with other EU Member States in place (i.e. Central Liaison Office and its functionality); (b) Relevant business change management plan in place.

The foreseen results under Component 3 are: (a) VIES Pre-Study Phase activities, including project management support, training and study visits to
Member States, carried out; (b) VIES documentation prepared, including User Requirements, Project Initiation Document, Implementation Plan, Project Quality Plan (PQP), Pre-Study Report etc; (c) Functional specification drafted for the development of the VAT Information Exchange System (VIES); (d) Terms of Reference for the VIES mandatory developments Service Contract reviewed and updated/enhanced; (e) Terms of Reference for the VIES enhancement developments Service Contract prepared (PHARE 2006 programme).

**CARDS 2004 project “Assessment and Strategy Development Based on Fiscal Blueprints” (199,000 EUR)**

In addition to the above-mentioned Twinning project, it has been foreseen that there would be a separate project to assist the Tax Administration with a comprehensive benchmarking exercise and strategy development based on the DG TAXUD guidelines. The project is expected to start at the beginning of the second quarter of 2006. The activities will include a gaps and needs analysis based on the revised Fiscal Blueprints and preparation of a development strategy and implementation roadmap for Tax Administration services, including an IT strategy.

**PHARE 2005 project “Strengthening and Modernising the Croatian Tax Administration in the VAT Field According to the EU Standards” (3,000,000 EUR)**

This project is planning to start with the tendering procedure in 2006, and completion is envisaged by the end of 2008. The purpose of this project is to create preconditions for the introduction and effective management of the VIES (VAT Information Exchange System), interfacing the existing National VAT Information System. The following projects are included in the PHARE 2005 programme:

Project 1: VIES Effective Management and Business Support – Twinning
Project 2: VIES Mandatory Developments – Software Development Service Contract

The Twinning project will cover primarily IT project management support for the software developments for VIES system, including support to the management of all business and functional aspects of systems implementation.

The Service Contract will cover the software design, development and implementation as well as the user training and the production of all the necessary documentation including user requirements, software installation, and system administration and user manuals.

The foreseen results under Project 1 are: (a) Croatian Tax Administration supported in VIES project management, including assistance and monitoring of activities conducted by the Consultant of the Project 2, resulting in final User Acceptance of the VIES Application Software, (b) Tax Administration supported in planning and development of necessary operational capacity and achievement of positive control over IT developments and projects, including
support with VIES-related liaison with the European Commission, Member State Customs/Tax Administration s and the Consultant for Project 2, (c) Advice provided on all necessary legal, administrative and procedural arrangements and required changes as far as it relates to project objectives, (d) Tax Administration staff trained on operation, management and maintenance of VIES system

The foreseen results under Project 2 are: (a) All Project Documentation including: Project Initiation Document, Implementation Plan, Project Quality Plan (PQP), System Specification, User Manual, Training Material, and Operations/System Management Manual have been developed and accepted, (b) Application Software to handle the VIES Register and Turnover Data has passed user acceptance and is ready for operation including interfaces to National Tax System and CCN/CSI Gateway, (c) CTA Administrative and IT staff trained and able to operate and support the system, (d) Help Desk Infrastructure and outline Service Level Agreements Defined.

The proposed projects are based on DG TAXUD’s Interoperability Implementation Strategy document – Suggested Approach for Croatia from February 2005, which has carefully planned and phased projects in the IT Interoperability field under CARDS 2004, PHARE 2005 and PHARE 2006. CTA will ensure that no overlap/duplication of Twinning activities under all CARDS/PHARE projects will occur.

**FISCALIS programme**

The European Parliament and the Council adopted the Fiscalis 2003-2007 Programme to improve the operation of taxation systems in the internal market. The objective of the Fiscalis Programme to help Member States work more closely together against tax fraud, through improved electronic systems for information exchange between national administrations, co-operation in investigations, training seminars for tax officials and experts and the exchanges of officials between national administrations. Croatia submitted in 2005 a formal request for the participation in the Fiscalis Programme and is currently waiting for signing the Memorandum of Understanding.

### 3.6 Lessons Learned

It is clear from experience gained so far in implementation of VIES and effective setup of the CLO environment in other Member States or Accession Countries that:

a) Coordination of Project or Key tasks are channelled through a single responsible party within CTA;
b) IT and Administrative capacity should be assigned on a full time basis to assist with the setup and effective operation of the new EU activities;
c) Operational risk is minimised by taking ownership and/or control of the core IT systems or interfaces that have an impact on the VIES environment;
d) CTA has to play an active role in taking ownership for deliverables that have impact on their organisation.
4 INSTITUTIONAL FRAMEWORK

Within the Tax Administration – Head Office as regards the VAT issues the Division of Taxation System, Department for VAT is engaged. Currently the Department has 6 employees. Two employees are located in regional office Split. The Head of Department coordinates and participates in preparation of regulations concerning VAT and other indirect taxes. Senior advisers (3) draft VAT laws and by-laws, draft directives, guidance and instructions and reviews in the VAT field. An administrative officer prepares answers and positions/opinions of Tax Administration on VAT and other indirect taxes, participates in drafting laws and by-laws, directives, guidance and instructions.

Two IT Department of the Head Office are Project Design, Development and Implementation Department and System Maintenance and Customer Service Department; have a total of 11 employees (Head, 2 Network and PC support and 8 Help desk support covering the whole of Croatia) and it is located in the Zagreb Head Office.

All support calls at the local offices are routed through the regional offices though direct contact with APIS on data and application issues is sometimes dealt with directly. Due to a lack of IT human resource capacity (lack of employees and lack of IT experts), a majority of operational support issues associated with effective operation of PC’s and workstations is outsourced to the private sector.

The VIES business/IT team, which was identified at the beginning of 2005 consists of 9 persons: 1 Project Owner, 1 VAT Project manager, 4 VAT experts (including the future head of CLO), 1 IT Project manager and 2 IT experts. The VIES team is located in the Tax Administration – Head Office. They are coming from different Divisions/Departments (Tax System Division, VAT Department; Information System Division, Project Design, Development and Implementation Department, System Maintenance and Customer Service Department; Division for Tax Procedures and Tax Registers, Tax Procedures Department; Tax Audit Division, VAT Audit Department; Division for International Cooperation and European Integrations, European Integrations Department). Their responsibilities should be aligned fully with the needs of the VIES developments and they should be fully engaged in VIES system implementation.

An organisational unit responsible for European integration processes and international cooperation is established in October, 2005. It consists of 6 people (Head, 2 Senior Advisor, 1 Advisor, 1 Expert Associate, and 1 Trainee). Assignments of this unit are numerous: organisation and coordination of EU technical assistance programme, reviewing the Croatian tax legislation and coordinating the alignment with the acquis, preparing the relevant reports and documents regarding the EU accession, organisation and coordination of FISCALIS programme, as well as bilateral cooperation with other countries and international organisations.

The desired project structure for VIES defined below as recommended by DG TAXUD in February 2005 is still under development:
Several IT experts (developers) from the Tax Administration are expected to work directly under the Contractor’s responsibility for the duration of the Project:

a) The Project Owner can also assume the role of the VAT Project Manager.

b) The VAT Project Manager (and/or the Project Owner) will liaise with the Standing Committee on Administrative Co-operation (for VAT) - SCAC Committee.

c) The VIES IT Project Manager will liaise with the SCIT Sub-Committee and FITS.

d) The IT Project can be divided in two sub-projects:
   VAT Registration Data System (operational from day one of EU accession);
   VAT Turnover Data System (operational 6 months after accession). Itself divided into:
   - Production Application (independent of the VIES interface specification);
   - Access Application;
   - Dissemination Application;
   - Processing Application (independent of the VIES interface specification).

CTA together with the Twinning Partner will choose methodology that will be utilised.

Departments responsible for the tendering, contracting and administrative management of the project will be Central Finance and Contracting Unit (CFCU), Core Project Implementation Unit within the Ministry of Finance and Department for European integration within the Tax Administration.
Steering Committee will be established and it will be composed of the representatives of Tax Administration, Ministry of Finance, Ministry of Foreign Affairs and European Integration and Delegation of the European Commission to the Republic of Croatia.

5 DETAILED BUDGET

<table>
<thead>
<tr>
<th>Phare/Pre-Accession Instrument support</th>
<th>Co-financing</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>€</td>
<td>National Public Funds (*)</td>
<td>Other sources (**)</td>
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<tr>
<td>Year 2006 Institution Building support</td>
<td>1.000.000</td>
<td>1.000.000</td>
</tr>
<tr>
<td>Contract 1 – Twinning for Project Management</td>
<td>2.000.000</td>
<td>2.000.000</td>
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<tr>
<td>Contract 2 – Service Contract:VIES Enhancements + VES Development</td>
<td>3.000.000</td>
<td>3.000.000</td>
</tr>
<tr>
<td>Total project 2006</td>
<td>3.000.000</td>
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</tr>
</tbody>
</table>

6 IMPLEMENTATION ARRANGEMENTS

6.1 Implementing Agency

The Central Financing and Contracting Unit (CFCU) at the Ministry of Finance is responsible for the tendering, contracting and disbursement of all the project’s components in line with DIS principles and the PRAG.

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Central Finance and Contracting Unit
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6.2 Twinning

Twinning Contact Point in the Tax Directorate
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Tax Directorate of the Ministry of Finance
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Fax: +385 1 4809 242
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Twinning National Contact Point
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Administrative Office
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6.3 Non-standard aspects
The Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions (the PRAG) will be strictly followed.

6.4 Contracts

<table>
<thead>
<tr>
<th>Contract</th>
<th>Year</th>
<th>Value (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1 – Twinning for Project Management</td>
<td>Initiated: 2007</td>
<td>Completed: 2008</td>
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</table>
7 IMPLEMENTATION SCHEDULE

7.1 Start of tendering/call for proposals:

- Twinning tender launch starting: March 2007 / 1st Q 2007
- Service tender launch starting: April 2007 / 2nd Q 2007

7.2 Start of project activity:

- Service Contract: January 2008 / 1st Q 2008

7.3 Project completion:

- Twinning Contract: August 2008 / 3rd Q 2008
- Service Contract: June 2009 / 2nd Q 2009

8 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.

Specifically in relation to the issue of equality between men and women, Croatia’s population (2001 census) constitutes 51.87% women and 48.13% men, with those in active employment (based on Labour Force Survey statistics, conducted in accordance with ILO methodology, for the second half of 2002) divided 45.31% women and 54.69% men.

All contractors shall be requested to provide monitoring data recording the participation of men and women in terms of expert inputs (in days) and of trainees benefiting under the project (in days) as an integral component of all project progress reports.

Equal participation of man and woman during the implementation of the project will be assured.

9 ENVIRONMENT

Not applicable
10 RATES OF RETURN
Not applicable

11 INVESTMENT CRITERIA

11.1 Catalytic effect

This project which is associated with the VAT Information Exchange System (VIES) will contribute greatly to the effectiveness of the new VAT arrangements between Member States. It provides a mechanism whereby checks can be made in each Member State on the validity of claims to zero-rating and it helps to detect unreported movements of zero-rated goods between Member States. It also provides an essential part for exporters in each Member State to provide to their tax authorities, periodic statements giving specific details of their trade (i.e. Intra-Community supplies of goods and certain transfers of goods) with other member States. Each Member State needs to maintain a database in which it stores and processes the information on these statements to enable control checks to be carried out.

This project is therefore an accession essential module and without funding from the European Union this would not be possible.

11.2 Co-financing
Not applicable

11.3 Additionality
Not applicable

11.4 Project readiness and size

The proposed project are based on the DG TAXUD’s Interoperability Implementation Strategy Document, which has carefully planned and phased projects in the IT interoperability field under CARDS and PHARE 2005 and 2006 programmes. The projects are ready to be implemented as soon as the indicated pre-conditions have been met.

11.5 Sustainability

The setting up of the centralised full-time VIES team with sufficient number of business and IT experts is the main guarantee of sustainability. Also independence and expansion and self-support of the VIES technical IT
infrastructure is crucial to the future support needs and successful operation of CTA as apposed to depending on outsourced personnel. Overall, this Phare project should enhance the already developed VIES infrastructure from the previous two project (CARDS, PHARE 2005) and act as a platform for future taxation needs to support the adoption of the EU standards and the best practices in the field of VAT and VIES and VES developments.

11.6 Compliance with state aids provisions

Not applicable

12 CONDITIONALITY AND SEQUENCING

Conditionality

The following conditionalities have to be met before the start of the contracting/implementation:

1. The Tax Administration Business Change Management Plan and Information Technology Strategy are in place prior to the start of contracting;
2. National Interoperability Implementation Strategy (NIIS) is in place prior to the start of contracting;
3. A full-time engaged VIES team is in place prior to the start of contracting with sufficient number of employees. This should include as a minimum 4 business experts and 4 IT experts (the current IT management team must be complemented by an additional two Analyst/Designer level staff to assist with review and acceptance of technical decisions and deliverables within the VIES development);
4. Results of CARDS 2004 project have been achieved and relevant outputs from PHARE 2005 project have been produced in order to start the implementation of the PHARE 2006.

The beneficiary of the project is “The Head Office of the CTA, Zagreb” whom shall ensure that the above conditions are met.

Sequencing

PHARE 2006 should present the finalisation of Suggested Approach - Interoperability Implementation Strategy. Namely, it means that under this project the enhancement of VIES and VES application will be done. In order to achieve the statement mentioned above, all activities and results from previous two projects (CARDS, PHARE 2005) have to be met, regarding the implementation schedules and implementation quality.
**Annexes to the Project Fiche:**
Annex 1 – Logframe
Annex 2 – Detailed Implementation Chart
Annex 3 – Contracting and Disbursement Schedule
Annex 4 - List of Feasibility Studies, Financial Appraisals, EIAs etc.
Annex 5 – Reference List of Relevant Laws and Regulations
Annex 6 - Reference List of Relevant Strategic Plans and Studies
Annex 7 – Organigramme of Tax Directorate
# Strengthening and Enhancement of the Croatian Tax Administration IT Function to Achieve the EU Standards in the VAT Field

<table>
<thead>
<tr>
<th>Programme name and number</th>
<th>HR2006/018-113/4/2</th>
</tr>
</thead>
</table>

|----------------------------------------|----------------------------------------|----------------------------------------|

<table>
<thead>
<tr>
<th>Total budget: 3.000.000 €</th>
<th>PHARE budget: 3.000.000 €</th>
</tr>
</thead>
</table>

## Overall objective

To meet the obligations of acquis regarding the Chapter 16 – Taxation and to successfully implement the transposed legislation

<table>
<thead>
<tr>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiations on Chapter 16 closed successfully</td>
<td>EC Regular reports</td>
</tr>
</tbody>
</table>

## Project purpose

VIES and VES systems functional (able to effectively communicate with other Member States systems)

<table>
<thead>
<tr>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount and quality of data which we can communicate with other Member States</td>
<td>Final Project Report, EC Reports</td>
</tr>
</tbody>
</table>

## Results

Result 1 - Increased institutional capacity of CTA to manage VIES and VES

<table>
<thead>
<tr>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of staff trained</td>
<td>Annual Reports produced by the CTA and the Ministry of Finance</td>
</tr>
<tr>
<td>Number of operational manuals and guidelines</td>
<td></td>
</tr>
<tr>
<td>Number of registrations and turn over data exchanged during the testing period</td>
<td></td>
</tr>
<tr>
<td>Number of registrations and turn over data</td>
<td></td>
</tr>
</tbody>
</table>

Result 2 - Functioning VIES Enhancements and VES Development IT Systems for data processing and exchange of relevant information

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>- Croatian tax legislation harmonised effectively with the acquis</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Low staff turnover</td>
<td></td>
</tr>
<tr>
<td>- No sudden change in Member States IT systems</td>
<td></td>
</tr>
<tr>
<td>Activities</td>
<td>Means</td>
</tr>
<tr>
<td>------------</td>
<td>-------</td>
</tr>
</tbody>
</table>
| **Activity 1:** | | - Sufficient absorption capacity of CTA administrative staff  
- Network link to CCN/CSI gateway operational |
| - Preparing operational manuals and guidelines | 1.000.000 € for: | |
| - Training and coaching employees on operational manuals and guidelines | - Twinning Covenant | |
| - Drafting risk assessment and irregularity procedures for enhanced VIES and VES | | |
| **Activity 2:** | 2.000.000 € for: | |
| - Designing, building, testing and running in of VIES Enhancement system | - Service Contract ; Development of software application | |
| - Designing, building, testing and running in of VES Development system | | |
| - Follow up VIES; finalise procedures for VAT registration regarding testing and trial operations, development procedures for transfer and exchange of information | | |

**Preconditions**  
1. Results of CARDS 2004 project are achieved.  
2. Relevant outputs from PHARE 2005 project have been produced.
## Annex 2 – Detailed Implementation Chart

### Project Title: Strengthening and Enhancement of the Croatian Tax Administration IT function to Achieve the EU Standards in the VAT field

<table>
<thead>
<tr>
<th>Contract 1 – Twinning for Project Management</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Preparing operational manuals and guidelines</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I/R</td>
</tr>
<tr>
<td>I.2. Training and coaching employees on operational manuals and guidelines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I.3. Drafting risk assessment and irregularity procedures for enhances VIES and VES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1. Designing, building, testing and running in of VIES enhancement system</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>2.2. Designing, building, testing and running in of VES Development system</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
</tr>
<tr>
<td>2.3. Follow up VIES: finalising procedures for VAT registration testing and trial operations development procedures for transfer and exchange of information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

P - Preparation of Twinning Fiche / Terms of Reference for the Service Contract
T – Tendering
C - Contracting
I – Implementation
R - Reporting
### ANNEX 3 – CONTRACTING AND DISBURSEMENT SCHEDULE

#### Cumulative contracting schedule by quarters in EUR (provisional)

<table>
<thead>
<tr>
<th>Project Title: Strengthening and Enhancement of the Croatian Tax Administration IT Function to Achieve the EU Standards in the VAT Field</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VI</td>
<td>I</td>
<td>II</td>
<td>III</td>
</tr>
<tr>
<td>PHARE 2006: Contract 1 Twinning Covenant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PHARE 2006: Contract 2 Service Contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL (EUR):</td>
<td></td>
<td></td>
<td></td>
<td>3 000 000</td>
</tr>
</tbody>
</table>

#### Cumulative disbursement schedule by quarters in EUR (provisional)

<table>
<thead>
<tr>
<th>Project Title: Strengthening and Enhancement of the Croatian Tax Administration IT Function to Achieve the EU Standards in the VAT Field</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VI</td>
<td>I</td>
<td>II</td>
<td>III</td>
</tr>
<tr>
<td>PHARE 2006: Contract 1 Twinning Covenant</td>
<td>400 000</td>
<td>600 000</td>
<td>800 000</td>
<td>1 000 000</td>
</tr>
<tr>
<td>PHARE 2006: Contract 2 Service Contract</td>
<td>800 000</td>
<td></td>
<td>1 200 000</td>
<td></td>
</tr>
<tr>
<td>TOTAL (EUR):</td>
<td>1 200 000</td>
<td>1 400 000</td>
<td>1 600 000</td>
<td>2 200 000</td>
</tr>
</tbody>
</table>
ANNEX 4 - LIST OF FEASIBILITY STUDIES, FINANCIAL APPRAISALS, EIAs etc

ANNEX 5 – 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)
2. Regulation on Internal Organisation of the Ministry of Finance (Official Gazette No 43/05, 114/05, 14/06)
ANNEX 6 - REFERENCE LIST OF RELEVANT STRATEGIC PLANS AND STUDIES

Not applicable
ANNEX 7 – ORGANIGRAMME OF TAX DIRECTORATE

MINISTRY OF FINANCE

TAX ADMINISTRATION
DIRECTOR GENERAL

CENTRAL OFFICE

REGIONAL OFFICES

1. TAX SYSTEM DIVISION
2. DIVISION FOR INTERNATIONAL COOPERATION AND EUROPEAN INTEGRATION
3. DIVISION FOR TAX PROCEDURES AND TAX REGISTERS
4. INFORMATION SYSTEM (IT) DIVISION
5. AUDIT DIVISION
6. ENFORCED COLLECTION DIVISION
7. GAMING DIVISION
8. PERSONNEL, DEVELOPMENT AND HUMAN RESOURCES MANAGEMENT DIVISION
9. GENERAL, LEGAL AND ACCOUNTING AFFAIRS DIVISION

10. INDEPENDENT CRIMINAL TAX INVESTIGATION DEPARTMENT
11. INDEPENDENT FINANCIAL MANAGEMENT AND CONTROL DEPARTMENT

1. ZAGREB
2. KRAPINA
3. SISAK
4. KARLOVAC
5. VARAŽDIN
6. KOPRIVNICA
7. BJELOVAR
8. RIJEKA
9. GOSPIČ
10. VIROVITICA
11. POŽEGA
12. SLAVONSKI BROD
13. ZADAR
14. OSIJEK
15. ŠIBENIK
16. VUKOVAR
17. SPLIT
18. PAZIN
19. DUBROVNIK
20. ČAKOVEC

LOCAL OFFICES
Total: 122 local offices in towns and municipalities
REGIONAL OFFICE
(SPLIT, RIJEKA, OSIJEK, PAZIN)
HEAD OF REGIONAL OFFICE

1. TAX ASSESSMENT AND CONTRIBUTIONS DEPARTMENT
2. AUDIT DEPARTMENT
3. CRIMINAL TAX INVESTIGATION DEPARTMENT (Split, Rijeka, Osijek)
4. ENFORCED COLLECTION DEPARTMENT
5. OFFENCE PROCEDURE DEPARTMENT
6. GENERAL AFFAIRS DEPARTMENT

BRANCH OFFICE
- SPLIT (12 Branch offices)
- RIJEKA (9 Branch offices)
- OSIJEK (6 Branch offices)
- PAZIN (7 Branch offices)

TAX ASSESSMENT SECTION I-V