SUMMARY PROJECT FICHE

1. BASIC INFORMATION
1.1 Désirée Number:
1.2 Title: Measures to Further Develop the Operational Capacity of the Cyprus VAT Service
1.3 Sector: Indirect Taxation - VAT
1.4 Location: Ministry of Finance/Department of Customs and Excise - Central Offices of the VAT Service, Nicosia, Cyprus

2. OBJECTIVES
2.1 Overall Objective(s)
Strengthening of the administrative and operational capacity of the VAT Service in the areas of compliance, control, audit and investigation, in line with the Acquis and European Union good practice.

2.2 Project Purpose
Introduction of systems and procedures designed to improve taxpayers’ voluntary compliance, strengthening of the audit and investigation function, and strengthening of the VAT Service relationships with the trade community.

2.3 Accession Partnership and NPAA priorities
Accession Partnership
Short term priorities:
Taxation
Pursue VAT harmonisation, diminishing the zero-rate extension and abolishing the special VAT regime for off-shore companies.

Medium term priorities:
Taxation
Complete the alignment of VAT system to EU norms.

NPAA
Short term priorities
Taxation (Chapter 10)
Enhancement of the administrative capacity of the VAT Service through the implementation of the Business Change Management Plan (BCMP).

Medium term priorities
Taxation (Chapter 10)
- Strengthening of the administrative capacity of the VAT Service in the areas of revenue registration, assessment, collection and enforcement through the promotion of taxpayers’ voluntary compliance, the introduction of a user-friendly system for the electronic submission of tax returns and the direct payment of tax. Improvement of the effectiveness and capacity of the Enforcement and Internal Audit sections of the VAT Service, mainly through expert and technical assistance, study visits and training of staff.
- Strengthening of the administrative capacity in the area of VAT control through the development of an IT-based intelligence system for the risk-based selection, execution, monitoring and evaluation of audit visits. In addition, improvement of capacity through the establishment of specialised audit teams, the development of a management information system for establishing and updating risk/trade profiles, the training of control officers in computer aided audit techniques (CAATs) and the enhancement of the effectiveness of the VAT Fraud Investigation section through expert assistance and specialised training.
- Development of administrative capacity with respect to the Acquis in the field of administrative co-operation and mutual assistance mainly through the setting up of the necessary infrastructure (Central Liaison Office, computer hardware and software etc.) in order to secure interconnectivity with the EU information exchange systems (VIES, Fiscal SCENT).
2.4 Contribution to National Development Plan
N/A

2.5 Cross Border Impact
N/A

3. DESCRIPTION

3.1 Background and justification:
The following extracts from the screening results, the position paper and the progress report provide an indication of the administrative gaps which the Cyprus VAT Service is obliged to close prior to accession:

**Screening, Chapter 10 – Taxation**

“Cyprus will introduce harmonised legislation on the VAT Information Exchange System (VIES) and develop the existing infrastructure to apply this system. Cyprus already disposes of a computerised system for the collection and processing of VAT returns. A Central Liaison Office will be created and officials will be trained. Risk-analysis methods will be introduced.

Cyprus will introduce harmonised legislation six months before accession and will develop the necessary infrastructure for mutual assistance for the recovery of claims. A system for the recovery of claims already exists in Cyprus. No particular problems are envisaged in this area although Cyprus does not have any experience in mutual assistance with other countries on VAT matters.

Nevertheless, in order to be able to meet the new demands concerning administrative cooperation and mutual assistance under Directive 77/799 (mutual assistance), Regulation 218/92 (VIES) and Directive 767308 (recovery of claims), Cyprus will have to further reinforce its tax administrative structures and control procedures.”

**Position Paper, Chapter 10 – Taxation**

“Cyprus generally has the capacity to apply the acquis in the field of Administrative Cooperation and Mutual Assistance. The VAT Service, as explained above, is a well organised administrative unit and will be allocated all necessary resources in order to meet the enhanced, due to the abolition of fiscal frontiers, requirements for VAT control and for administrative cooperation and mutual assistance.

All necessary infrastructure will be operational before accession. Especially regarding VIES the necessary software and hardware will be acquired at the beginning of year 2002 in order to have the whole system operational for a trial period of six months before accession.

The capacity of the VAT Service in the crucial field of VAT control will be further strengthened by:

• the recruitment, well before the end of 1999, of 56 VAT control officers, thus increasing the VAT personnel by 65% and the VAT control officers by more than 150%
• the providing of extensive training to all its control officers and
• the purchase of a computerised system for control visits.”

**Regular Report on Progress towards Accession**

“In the area of VAT control, there will be considerable new recruitments by the end of 1999 which will increase VAT personnel by 65% and VAT control officers by 150%. Furthermore, a computerised system for control visits will be purchased and extensive training of control officers will continue.”

The new Cyprus VAT Law 95(I)/2000, which was recently approved by the House of Representatives and is planned to come into effect in the first half of 2001 to coincide with the adaptation of the VAT computerised system, addresses some of these shortfalls. The new legislation will include a number of comprehensive changes which are required to achieve EU harmonisation, including the abolition of the special regime for offshore companies and the introduction of a refund scheme for EU and third country traders. However, the VAT Service recognises that there are a number of other priority areas where new systems, procedures and working practices need to be developed in order to improve its capacity to apply the Acquis.

The VAT Service recently carried out exhaustive processes of ‘gap analysis’ and ‘needs analysis’, based upon the European Commission’s ‘Fiscal Blueprints’, in order to determine and specify these priority requirements. This exercise identified the need for external assistance in all the areas covered by this project. The principal aim of the project is therefore to provide technical assistance which supplements the VAT Service’s own efforts to reach EU levels of legal, administrative and operational capacity, and accelerates the process.
3.2 Linked activities:
This project is directly linked to, and is designed to follow-up, the Phare 2000 project ‘Measures to Develop the Capacity of the Cyprus VAT Service to Apply the Acquis Communautaire’. That project provides technical assistance with, inter alia, the development of a user requirement, specification and list of technical options for an IT system which enables the electronic submission of tax returns and direct payment of tax. The IT system will support improvements in VAT registration, assessment, and collection, and promote taxpayers’ voluntary compliance. This project provides assistance with the essential next step of purchasing, installing and testing the software chosen as a result of the business analysis conducted as part of the Phare 2000 project; developing compliance and control policies, systems and practices to complement the implementation of the new system; training managers and staff in the revised practices; and educating the trade community.

3.3 Results:
- Policy and procedures for promoting taxpayers’ voluntary compliance in place and operational;
- System which enables the electronic submission of VAT returns and the direct payment of tax fully operational;
- Policy and procedures ensuring impartiality of treatment, and confidentiality of taxpayer information operational;
- Specialised audit teams established and operational;
- Risk-assessment policy, systems, procedures and working practices in place;
- Fraud investigation policy, systems and procedures in place and working;
- Relevant managers and staff trained in new systems and procedures;
- External and public relations policies developed and operational;
- Policy on inter-governmental contacts established and working;
- Staff trained in external and public relations techniques;
- Staff instructions produced;
- Guidance for the trade produced.

3.4 Activities:
As result of the exhaustive and rigorous processes of ‘gap analysis’ and ‘needs analysis’ carried out by the VAT Service for each VAT function, based upon the European Commission’s ‘Fiscal Blueprints’, a number of priority areas were identified where new systems, procedures and working practices need to be developed in order to improve the capacity of the VAT Service to apply the EU Acquis.

This project aims to address in a comprehensive way the VAT Service’s strategic objective of increasing revenue yield through the improvement of voluntary compliance by taxpayers, through development and implementation of specially designed policies, systems and procedures, complemented by strengthening of the taxpayers control, audit and fraud investigation, and supported by a reinforced ability of the VAT Service to explain its new policies, systems and procedures to the external stakeholders whose commitment to the proposed changes will be an essential pre-condition for success. The activities of this project are a logical grouping of associated and inter-linked needs for external assistance in all of these areas.

The project will therefore provide the following:
- Short-term technical assistance with the formulation of an overall policy, and supporting systems and procedures, for ensuring improved voluntary compliance by taxpayers;
- Procurement, installation, testing and implementation of a user-friendly IT-based system, which enables taxpayers to submit VAT returns and pay tax directly, by electronic means;
- Technical assistance, supported where necessary by comparative studies, with the formulation of an overall policy, and supporting systems and procedures, for ensuring impartiality of taxpayer treatment, and confidentiality of taxpayer information;
- Training of relevant managers and staff in the new systems and procedures;
- Short-term technical assistance, supported where necessary by comparative studies, with establishing and developing specialised control/audit teams responsible for e.g. cash traders, large businesses, and traders with computerised accounting systems;
- Expert assistance, supported where necessary by comparative studies, with the development of a risk-management policy and resulting procedures;
- Training in the application of control/audit techniques based on risk-assessment;
- Training in computer-aided audit techniques;
- Training in modern fraud investigation techniques;
- Short-term technical assistance with the development of relevant staff instructions and guidance for the trade;
- Short-term technical assistance with the development of an external relations strategy and mechanisms, which assist the VAT Service to strengthen its relationships with taxpayers, tax advisers, trade associations, the media, other government departments etc.;
- Training in a range of external and public relations techniques.

4. **Institutional Framework**

Value Added Tax was introduced in Cyprus on the 1st July 1992. The tax is administered by the VAT Service, which is an independent structure within the Department of Customs and Excise, where the Director of Customs and Excise is also the VAT Commissioner. The administrative system of control of VAT is based on central administration with local control.

The VAT Central Office is divided into four sections, as follows:
- Liability, Control Policy and Training Section;
- Processing of Tax Returns / Electronic Data Processing (EDP) Section;
- Investigation and Compliance (Enforcement) Section;
- Internal audit, Administration and Insolvent Businesses Section.

There are currently four Regional Offices, one in each major town of Cyprus. They are responsible for providing information to traders, registering taxable persons and carrying out control visits. They are all linked to the central computer mainframe.

The Customs and Excise Department is subordinated to the Ministry of Finance.

5. **Detailed Budget**

<table>
<thead>
<tr>
<th>Component</th>
<th>Investment(1)</th>
<th>Institution Building(2)</th>
<th>Total EU financing (=I+IB)</th>
<th>National co-financing(3)</th>
<th>IFI</th>
<th>TOTAL</th>
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</thead>
<tbody>
<tr>
<td>Further Measures to Develop the Operational Capacity of the Cyprus VAT Service</td>
<td>0.10</td>
<td>0.90</td>
<td>1.00</td>
<td>1.00</td>
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<td>2.00</td>
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<tr>
<td>TOTAL</td>
<td>0.10</td>
<td>0.90</td>
<td>1.00</td>
<td>1.00</td>
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<td>2.00</td>
</tr>
</tbody>
</table>

(1) - In relation to infrastructure, equipment, software, related developments, installation, testing and documentation
(2) - In relation to changes in management, procedures, legislation, enforcement, training and general activities and services as result of investments
(3) – In relation to computer hardware.

6. **Implementation Arrangements**

6.1 Implementing Agency

The Implementing Agency will be the Customs and Excise Department, VAT Service. The person responsible for the Implementing Agency will be the Director of the Department of Customs and Excise and VAT Commissioner: Mrs G Emilianidou, Director of Customs & Excise and VAT Commissioner, Customs Headquarters, 29 Katsonis Street, Ayioi Omoloyitae, 1440 Nicosia, Cyprus; Tel (+357-2) 865201 / Fax (+357-2) 305151.

The Department of Customs and Excise will establish a special organisational structure for the technical management and monitoring of the project which comprises a Project Steering Committee (PSC) and a Departmental Project Implementation Team (DPIT). The PSC will comprise representatives of the Ministry of Finance, the Customs and Excise Department and the VAT Service, and will monitor, supervise and coordinate the overall progress and implementation of the project. The PSC will provide guidance for the different components of the project, define priorities, approve and monitor budgets, and approve the results of activities. The DPIT will be a team within the VAT Service that will be responsible for the project implementation and will carry out the day-to-day management of the project. Its role will be to administer and resolve all issues concerning the management of the project, including identification, specification and
planning of tasks, preparation of Terms of Reference, participation in tendering, monitoring and evaluation of activities, and reporting. The DPIT will report to the PSC.

6.2 Twinning
N/A

6.3 Non-standard aspects
The project will be managed according to the Decentralised Implementation System (DIS) rules.

6.4 Contracts
This is an integrated, sequential, multi-annual project which requires continuity and consistency of assistance from start-up to completion. The strong inter-relationships between project components and activities also require a unified and consistent approach.

In the light of these characteristics the preferred means of implementation is to engage through tender a single contractor capable of engaging short-term expertise quickly, flexibly and to meet the precise specification of each project activity, as defined in advance by the DPIT. In addition, this project is designed to build upon foundations established by the Phare 2000 project ‘Measures to Develop the Capacity of the Cyprus VAT Service to Apply the Acquis Communautaire’, and to interface with its activities. A similar approach to the delivery of both projects is therefore highly desirable.

Accordingly, a single, commercial contract arrangement will maximise the effectiveness of the proposed project, produce economies of scale, ensure a greater level of consistency and co-ordination between various project activities, promote effective interfaces with the Phare 2000 project and reduce the administrative burden.

7. IMPLEMENTATION SCHEDULE:


7.2 Start of project activity: February 2002.

7.3 Project completion: July 2003.

8. EQUAL OPPORTUNITY:

Article 28 of the Constitution safeguards the right of all persons to equality before the law, the administration and justice and of equal protection thereof and treatment thereby. Any direct or indirect discrimination against any person on the grounds, inter alia, of his sex, is prohibited.

Furthermore, the prevailing legislation with respect to equality of treatment for men and women is partly in conformity with the Acquis Communautaire. The following laws currently in force cover equality issues: the Equal Pay between Men and Women for Work of Equal Value Law (158/89), the Protection of Maternity Law (100(I)/97), the Termination of Employment Law (24/67) as amended, and the Commissioner for Administration Law (3/91) as amended. Cyprus has ratified by Law 39/62 the European Convention for the Protection of Human Rights and Fundamental Freedoms. Various international conventions, which guarantee equal rights between men and women, have also been ratified.

Harmonised legislation is under preparation and full compliance with the Acquis Communautaire will be achieved gradually by 1.1.2003.

The VAT Service (Customs and Excise Department) which is the implementing agency for this project is an equal opportunity employer. Its human resources in terms of qualified personnel comprise of 63 men and 73 women. The total number of the personnel employed by the VAT Service is 200 consisting of 74 (37%) men and 126 (63%) women.
9. **ENVIRONMENT**
   N/A

10. **RATES OF RETURN**
    N/A

11. **INVESTMENT CRITERIA**
    N/A

12. **CONDITIONALITY AND SEQUENCING**
    N/A

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**ANNEXES**

1. Logical framework matrix in standard format.
2. Detailed implementation chart in standard format.
3. Contracting and disbursement schedule by quarter for full duration of programme.
# LOGFRAME PLANNING MATRIX FOR

<table>
<thead>
<tr>
<th>PROJECT:</th>
<th>Contracting period expires: September 2003</th>
<th>Disbursement period expires: September 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FURTHER MEASURES TO DEVELOP THE OPERATIONAL CAPACITY OF THE CYPRUS VAT SERVICE</strong></td>
<td>Total budget : 2.0 MEURO</td>
<td>EU contribution: 1.0 MEURO</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>To strengthen the administrative and operational capacity of the VAT Service in the areas of compliance, control, audit and investigation, in line with the Acquis and European Union good practice.</td>
<td>• EU-compatible procedures in place at the time of accession;</td>
<td>European Commission’s Opinion on the Status of Preparation of Cyprus for Accession. Screening reports.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicator</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of systems and procedures designed to improve taxpayers’ voluntary compliance, strengthening of the audit and investigation function, and strengthening of the VAT Service’s relationships with the trade community.</td>
<td>• Increased voluntary compliance. • Increased detection of errors and fraud. • Improved relationships between VAT Service and trade community.</td>
<td>Regular reports of the Ministry of Finance and the Commission’s services. Statistical data. Trade publications.</td>
<td>VAT Service mandated to plan for and commit to all project actions. All project personnel selected on the basis of knowledge, skills, experience and willingness to participate. Full commitment of management and staff.</td>
</tr>
</tbody>
</table>
### ANNEX 1

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Policy and procedures for promoting taxpayers' voluntary compliance in place and operational; • System which enables the electronic submission of VAT returns and the direct payment of tax fully operational; • Policy and procedures ensuring impartiality of treatment, and confidentiality of taxpayer information operational; • Specialised audit teams established and operational; • Risk-assessment policy, systems, procedures and working practices in place; • Fraud investigation policy, systems and procedures in place and working; • Relevant managers and staff trained in new systems and procedures; • External and public relations policies developed and operational; • Policy on inter-governmental contacts established and working; • Staff trained in external and public relations techniques; • Staff instructions produced; • Guidance for the trade produced</td>
<td>• Policies developed and disseminated to trade and VAT Service staff; • Specific procedures developed and documented, and the relevant managers and staff trained; • Increased voluntary compliance; • VAT returns submitted, and direct tax payments made electronically; • Impartial treatment of taxpayers; • Improved confidentiality of taxpayer information; • Control programme based upon risk-based audit visits; • Increased fraud detection; • Improved public relations; • Inter-governmental contacts effective; • Guidelines, booklets, leaflets etc. in regular use by the trade.</td>
<td>Published implementing regulations and staff instructions. Published guidelines for trade community. Regular reports of the VAT Service. Training materials. Post-training evaluation data.</td>
<td>Full commitment of management and staff. Timely availability of adequate resources.</td>
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<tr>
<td>Activities</td>
<td>Means</td>
<td>Assumptions</td>
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<td>• Formulation of an overall policy, and supporting systems and procedures, for ensuring improved voluntary compliance by taxpayers.</td>
<td>Service procurement contract, awarded as result of open tender procedure, providing classical technical assistance (to include – inter alia and as applicable – training, consultancy and study visits) and the purchase, adaptation and integration of IT software.</td>
<td>Support from Ministry of Finance. Full commitment of management and staff. Timely approved and available. Timely availability of adequate resources. Effective monitoring of progress. Ability to select and recruit appropriate experts. All parties held accountable for their actions.</td>
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<tr>
<td>• Procurement, installation, testing and implementation of a user-friendly IT-based system which enables taxpayers to submit VAT returns, and pay tax directly, by electronic means.</td>
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<tr>
<td>• Formulation of an overall policy, and supporting systems and procedures, for ensuring impartiality of taxpayer treatment, and confidentiality of taxpayer information.</td>
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<td>• Establishing and developing specialised control / audit teams.</td>
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<td>• Development of a risk management policy and resulting procedures.</td>
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<td>• Training in risk assessment and computer-aided audit techniques.</td>
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<td>• Training in modern fraud investigation techniques.</td>
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<td>• Development of an external relations strategy, and supporting mechanisms.</td>
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<td>• Training in a range of external and public relations techniques.</td>
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<td>• Development of relevant staff instructions and guidance for the trade</td>
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<tr>
<th>Preconditions</th>
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<tr>
<td>Continued political commitment to EU accession.</td>
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<td>National legislation in line with EU legislation and best practice enacted.</td>
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<td>Adequate resource availability.</td>
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</table>
### Detailed Time Implementation Chart for the Project

**Title:** Further Measures to Develop the Operational Capacity of the Cyprus VAT Service

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td>Further Measures to Develop the Operational Capacity of the Cyprus VAT Service</td>
<td>D C C C</td>
<td>I I I I I I I I I I I I I I I I R X</td>
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- **D** = Design
- **C** = Contracting
- **R** = Review
- **I** = Implementation
- **X** = Closure
CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE

Title: **FURTHER MEASURES TO DEVELOP THE OPERATIONAL CAPACITY OF THE CYPRUS VAT SERVICE**

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<td><strong>CONTRACTED</strong></td>
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<tr>
<td><strong>DISBURSEMENT</strong></td>
<td></td>
<td>0.55</td>
<td>0.65</td>
<td>0.75</td>
<td>0.85</td>
<td>0.95</td>
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