STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1. Desiree Number: CZ01-04-01
   Twinning number CZ01/IB/OT/02

1.2. Title: Legislative and Institutional Framework for Tax/ Customs Administration

1.3. Sector: Internal Market/Finance

1.4. Location: Ministry of Finance, Czech Republic

2. Objectives

2.1 Overall Objectives

• Ability to assume obligations of EU membership including adherence to the aims of political, economic and monetary union.

2.2 Project Purpose

• To ensure the introduction of legislative and institutional changes complying with EC acquis and their implementation

2.3 Accession Partnership and NPAA Priority:

• Reinforcement of institutional and administrative capacity; continue public administration modernisation policy; reform of tax / customs administration to ensure readiness to apply the acquis (AP)
• Alignment of tax / customs legislation, in particular indirect taxation; data protection, consumer protection, further development of a market surveillance system, technical legislation on industrial products, reinforcement of food control administration, establishment of independent bodies for supervision of data protection and for consumer protection; completion of alignment of financial control capacity (AP)
• training in Community law and its application (AP)
• Institutional arrangements concerning the administration of indirect taxes, the gradual take-over of powers relating to the administration of excise taxes, and preparation for the establishment and administration of "authorised tax warehouses" and "intra-communitary VAT" (NPAA – Chapter 3.9.3.4., Section 3.8.2.4.)

3. Description

3.1 Background and Justification

The general objective of the Project is to strengthen the institutional and administrative capacity of the Tax and Customs Administrations of the Czech Republic, to create preconditions for the Czech tax / customs authorities to introduce the necessary changes to its structure and practices in order to ensure new tasks derived from EU legislation on excise tax and VAT administration and implementation of the corresponding EU IT systems. At the end of the project the Czech tax
customs authorities should be able to implement the new legislation resulting from the process of approximation of law in the area of indirect taxation and customs union.

The MoF concept is aimed to reinforce within the structure of the Ministry of Finance the existing indirect tax services by over-taking full responsibility in the administration of excise tax, to upgrade operational computerised declaration and information system to enable its links to the relevant EU systems.

The project will provide a direct follow up to the Phare twinning project on Tax Administration (CZ9903-01-02). Whereas the latter project will aim to the adoption of the *acquis communitaire* through the alignment and application of legislation and the appropriate organisational structures, the proposed project will build up on its results aiming especially on training staff regarding the new legislation and creation the necessary technical background for implementation of the legislation.

One of compulsory preconditions of EU accession is to implement the transitional arrangements for taxation of trade between Member States – Title 16a of the Sixth Directive (77/388/EEC). The correct application of these measures is also vital for the fulfilment of obligations laid down in Council Regulation 218/92/EEC. The Czech Republic has to be ready to operate the system concerning intra-community transactions since the first day of EU accession. In compliance with the recommendation of European Commission concerning the preparatory activities for this task a great attention must be devoted to the training of staff in this field.

To this date the customs administration fulfilled only tasks relating to importation of goods and the domestic production of cigarettes in the area of excise tax. This, however, will be the case only until the introduction of new legislation on excise tax which will be in line with *acquis communitaire* and a new Act which will transfer all competencies relating to the collection of excise to the customs administration. Technical assistance provided by experienced EU experts will be essential.

The customs administration is gradually preparing for fulfilment of other tasks emanating from the planned accession to the EU. Whereas it has been rather successful with such preparation the issue of linking up with the relevant EU IT systems is so complex that it requires a qualified assistance from the side of an EU customs administration. It is envisaged that the national implementation of TARIC will include also features required by the national indirect tax legislation.

The work on the preparation of the national TARIC began in the Czech Republic in 1996. At the moment the Czech Customs Administration operates an integrated tariff system that has been incorporated into the Customs Electronic Declaration System and has been made available to public by means of printed form and electronically.

### 3.2. Linked Activities

A twinning project to assist with the creation of the harmonised legislation on excise tax and VAT and create the organisational structures for its implementation began in November 2000 and it will finish in February 2002. The proposed project should be seen as a direct continuation of the above mentioned project.

Fractional assistance has been provided in the field of TARIC (2 study visits). 2 TAIEX seminars on indirect taxation EU IT systems have been attended by a representative of the customs administration last year. A monitoring mission of DG TAXUD in the Czech customs and tax authorities is planned for the second half of January 2001.
3.3. Results

- Completion of legislative process related to indirect taxation, including the transitional VAT regime reviewed with respect to the possible changes of the respective EU legislation and appropriate legal amendments drafted if necessary
- Appropriate organisational structure for collection of VAT and excise duties, including internal staff instructions introduced
- Relevant staff trained in issues of the implementation of the VAT and excise legislation (about 3000 employees to be trained, “training of trainers” system should be employed),
- Analyses on the newly created organisational structures for collection of VAT and excise duties and their improvement delivered
- Measures concerning the prerequisites for the required interface with the appropriate EU systems adopted, including the adoption of essential measures in respect to the accession of the Czech Customs Authorities to the TARIC system of the EC

3.4 Activities:

- Consultations, studies and analysis, seminars, workshops, study trips, training on-the-job abroad
- TA provided by the EU experts from the state administration and, where recommended, also from professional institutions
- Training of staff, including training of trainers, in the implementation of VAT and excise legislation (quantification will correspond to the need to train approximately 3000 employees, concrete data will be specified during the process of the Covenant preparation).
- Technical specification for software compatible with EU systems (prepared by the institution recommended by the EU)

The assistance should be provided to certain Czech officials, namely those responsible for the management of excise tax, VAT and TARIC and those that will be involved in the implementation of the excise legislation in the future. Consultations would also be required for the employees involved in drafting new legislation, especially in the area of reviewing the new legislation created under the current twinning system.

It should be taken into account that the employees of the customs and tax administration have currently no experience with the application of excise legislation compliant with EU standards in area of movement of goods subject to excise tax without payment of the tax and the subsequent different of payment until the moment of consumption. Closely related to this is the issue of mutual cooperation and exchange of information between the Member States.

Although at the time of launching this project especially the officials responsible for management will have already received some initial training in this field through the twinning project mentioned under 3.2., it will be necessary to provide them with the possibility of examining in more detail the management, organisational methods and administration procedures, which have been set up in the EU Member States. As suggested under 3.2. the project should ensure a fluent continuation of the activities conducted under the said twinning project. Therefore it should be oriented more in the practical application of the new legislation, structures and procedures.

The actions should be conducted mainly by exchange of experiences by means of consultation in the Czech Republic and study visits to competent authorities in an EU Member State. The assistance during the execution of the project should also entail seminars in the training centres of the Czech Customs and Tax Authorities.
**Twinning Covenant** will compose of:
- 1 Pre-Accession Advisor (PAA) located at the Ministry of Finance (18 months)
- A number of short term experts (to be defined, total around 25 person/months)
- Short-term experts will be well acquainted with EC acquis in area of VAT and excise legislation and its implementation, including the transitional VAT regime and corresponding by-rules related to tax/customs administration, as well as having experience with the transitional period after the accession to EU; scope of work in terms of working days will be specified with the twinning partner.

4. **Institutional Framework**

The Project outlined above will be managed jointly by the customs and tax authorities, which are a part of the Czech Ministry of Finance, namely Tax legislative departments, Central Financial and Tax Directorate UFDR) and General Directorate of Customs (GRD). The Top Management of these administrations will provide ultimate support and will assign necessary workforce within their Legislative and Organisational bodies.

The Ministry of Finance (Indirect Taxation Department) deals with the tax policy making from the perspective of Excise Duties. It competent in issues of compliance with Europe Agreement establishing an association between the Czech Republic and the European Communities and harmonisation of the Czech Excise Duties legislation with the *acquis communautaire*. The department is mainly responsible for making and submitting of proposals concerning the indirect taxation legislation. At present, the main task of this department is to achieve compliance of the said legislation with the EU legislation.

The customs administration consists (beyond the GDC) of 8 Regional Customs Directorates, 16 Inspectorates of Customs and Financial Guard and 91 Customs Offices. There are also 7 Customs technical laboratories (ISO 9000 certified). The number of employees (both uniformed and civilian) is approximately 9300.

Possible constraints: The implementation of the indirect tax system in the Czech Republic will depend on the laws that are currently under preparation and will be discussed in the Parliament. These laws will not only change the system of indirect tax administration but they will probably also join the tax and customs authorities in a single administration.

The results of the Project(s) itself should not lead to any major changes to the institutional framework, but may change the procedures and organisation of customs operation.

5. **Detailed Budget in M €**

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (= I + IB)</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1</td>
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<tr>
<td>Twining Covenant</td>
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<tr>
<td>TOTAL</td>
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6. Implementation Arrangements

6.1 Implementing Agency

CFCU is the Implementing Agency responsible for tendering, contracting and accounting. Responsibility for technical aspects related to preparation, implementation and control will rest with the PIU of the Ministry of Finance being in charge of the Phare projects designed for the MoF and financial non-banking sector.

The Contact Person for the project is Ms Jana Stará, Senior Programme Officer (SPO), Ministry of Finance, Letenská 15, Praha 1, tel. + 420 2 5704 2612, fax: + 420 2 5753 3803; e-mail: jana.stara@mfcr.cz.

6.2 Twinning – Twinning Covenant will be prepared

6.3 Non-standard aspects - The "Practical Guide to Phare, Ispa & Sapard contract procedures" shall be followed.

6.4 Contracts

    Contract (1) - Twinning Covenant – 0.7 M €

7. Implementation Schedule

7.2. Start of tendering/call for proposals 4 Q / 2001


7.4. Project Completion 3 Q / 2003

8. Equal Opportunity

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. Environment

   N/A

10. Rates of return

   N/A

11. Investment criteria

   N/A

12. Conditionality and Sequencing

The main milestone relating to the opening of this project is adoption of new excise legislation. The further specification will be defined in detail at a later stage.
Annexes to project Fiche

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

**Programme name and number:** CZ01-04-01  
**Contracting period expires:** 31/10/2003  
**Disbursement period expires:** 31/10/2004  
**Total Budget:** 0,8 M€  
**Phare contribution:** 0,7 M€

### Overall objective

- Ability to assume the obligations arising from EU membership

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledgement of the European Commission</td>
<td>EC Regular Report</td>
</tr>
</tbody>
</table>

### Project purpose

- Full compliance with the acquis in tax and customs and full capacity to implement it

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| Relevant legislation including by-law in force.  
Relevant methodology worked out and applied;  
Ability of Tax/Customs authorities to implement new legislation resulting from the process of approximation of law in the area of indirect taxation and customs union | Official Journal  
Ministry of Finance (Tax/ Customs Directorate)  
Independent research institutions | |

### Results

Based on the results of the current twinning project (see Preconditions) the following will be achieved:

- The relevant national legislation on indirect taxes, including the transitional VAT regime reviewed with respect to the possible changes of the respective EU legislation and appropriate legal amendments drafted if necessary
- Appropriate organisational structure for collection of VAT and excise duties, including internal staff instructions introduced
- Relevant staff trained in issues of the implementation of the VAT and excise

<table>
<thead>
<tr>
<th>Objectively verifiable indicators</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| Proposals for legal amendments presented  
Institutional and technical framework presented and approved  
Relevant organisational structures analysed and revised, if necessary;  
Close co-operation with relevant national and EU institutions involved in process established;  
Upgraded operational computerised declaration & information system linked to EU systems functioning | Ministry of Finance (Tax/ Customs Directorate)  
MoF / Regional financial offices  
Relevant EU institutions | Relevant legislation adopted by the Parliament and implemented.  
Relevant legislative and institutional measures approved by the Government and presented to the Parliament for adoption.  
Other proposals (not requiring to be passed through legislative process) accepted and implemented within the state administration  
Sufficient resources allocated  
Close co-operation among the responsible institutions ensured |
legislation,
• Analyses delivered on the newly created organisational structures for collection of VAT and excise duties and their improvement, if necessary.
• Measures concerning the prerequisites for the required interface with the appropriate EU systems adopted, including the adoption of essential measures in respect to the accession of the Czech Customs Authorities to the TARIC system of the EC

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>• Consultations, seminars, workshops, study trips, training on-the-job abroad</td>
<td>• Twinning Covenant</td>
<td>• Involvement of Eurocustoms consortium in this twinning project for delivering a relevant part of the training activities.</td>
</tr>
<tr>
<td>• TA provided by the EU experts from the state administration and, where recommended, also from professional institutions</td>
<td>• PAA (to be located at the Ministry of Finance) for 18 months</td>
<td>• Beneficiaries will be the relevant tax / customs directorates and departments both at national and regional level, and subsequently the Financial and Customs Offices at the local level.</td>
</tr>
<tr>
<td>• Training of staff, including training of trainers, in the implementation of VAT and excise legislation (quantification will correspond to the need to train approximately 3000 employees, concrete data will be specified during the process of the Covenant preparation).</td>
<td>• Short-term experts, well acquainted with EC acquis in area of VAT and excise legislation and its implementation, including the transitional VAT regime and corresponding by-rules related to tax/customs administration, as well as having experience with the transitional period after the accession to EU.</td>
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<tr>
<td>• Technical specification for software compatible with EU systems</td>
<td>• As approximately 3,000 employees should be trained in respect to the new tax legislation, the “train the trainer” system should be employed (financed from the Czech budget)</td>
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<tr>
<td>• Involvement of Eurocustoms consortium in this twinning project for delivering a relevant part of the training activities.</td>
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Preconditions

- Project will follow-up results of the previous Phare twinning project on Tax Administration (CZ9903-01-02). Whereas the previous project concentrates more on creating new legislation and the appropriate organisational structures, the proposed project will build up on its results, aiming to ensure complete alignment of the tax legislation and full compliance, as well as training in order to ensure effective enforcement. This previous project is expected to be finalised by March 2002 at the latest (subject to the extension of the programme).

Detailed Implementation Chart for the Project

Annex 2

Legislative and Institutional Framework for Tax/ Customs Administration

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<td>9</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
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<tr>
<td>Start of implementation</td>
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<tr>
<td>Implementation:</td>
<td></td>
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Cumulative Contracting and Disbursement Schedule for the Project (in MEUR)

Annex 3

Cumulative Quarterly Contracting Schedule (MEUR)

<table>
<thead>
<tr>
<th>Project</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
<th>4Q/02</th>
<th>1Q/03</th>
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<th>3Q/03</th>
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Cumulative Quarterly Disbursement Schedule (MEUR)

<table>
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<tr>
<th>Project</th>
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