STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: ES01.01.03
Twinning Number: ES2001/IB/OT/03

1.2 Title: Assistance to the Estonian Tax Administration in the Development Activities Proceeding from the Fiscal Blueprints

1.3 Sector: Administrative capacity (Taxation)

1.4 Location:
- Estonia, Tallinn

   Direct Beneficiary: National Tax Board (NTB)

2. Objectives

2.1 Overall Objective:
Enforcement of the *acquis* by the Estonian tax administration

2.2 Project Purpose:
Estonian National Tax Board fulfills the requirements set by the EC
‘Fiscal Blueprints’ in the following areas:

 Revenue Collection and Enforcement
 Fiscal Control
 Training

2.3 Accession Partnership and NPAA priority
Short-term priorities:
4.1. Internal Market/Taxation:
‘Continue efforts to align VAT legislation and excise duties /…/ confirm acceptance of the principles of the Code of Conduct for business taxation and ensure that new tax measures are in conformity with these principles.’
Medium-term:
4.2. Internal Market/Taxation:
‘Complete alignment with the fiscal acquis; adopt VAT transitional provisions; review existing laws and ensure compatibility with the Code of Conduct for business taxation; complete the reform of fiscal administration.’

2.4. Contribution to the National Development Plan N/A
2.5. Cross Border Impact: N/A.
3. Description

3.1 Background and justification:

Organisation and structure
The Tax Administration is a state institution operating under the Ministry of Finance founded on February 6th, 1990. The primary obligation of the Tax Administration is the collection of state taxes as efficiently and economically as possible. The Tax Administration’s task is to control the revenue accruing from state taxes and the correctness of the payment of the tax amounts payable. In order to keep account of the taxpayers, the Tax Administration maintains the Register of Taxpayers and Tax Withholders.

The Tax Administration consists of a central administration, the National Tax Board (NTB) (for the organizational structure see Annex 5), and 17 local tax offices (LTO), with a total staff of approximately 1100 people.

The 17 local offices are headed by directors and subordinated to the Director General. Every local tax office provides services to the taxpayers in the territory of the respective town or county. Their tasks include checking the correctness of tax payments, assessing tax amounts and interest payable, and collection of tax arrears.

The main rights and obligations of the Tax Administration as a tax administrator are prescribed in the Taxation Act, which also prescribes the rights and obligations of another tax administrator, the Customs Administration, which is placed within the administrative field of the same Ministry.

In order to improve the level of voluntary tax compliance, the Tax Administration has in recent years made considerable investments in the development of electronic services to taxpayers, printed information materials for taxpayers and improvement of taxpayer service facilities in a number of local tax offices. Further investments in the above areas are planned for the near future.

The year 1999 was critical in the development of the information technology of Tax Administration. The IT system was transferred to the centralised information processing system based on ORACLE environment. The new system enables to systematise the information needed for audit work and opens up new opportunities for facilitating the payment of taxes and the communication between taxpayers and the Tax Board.

The implementation of the new Social Tax Act radically changed the principles of accounting and collection of the tax previously dealt with by two institutions. The Tax Board became the sole administrator of social tax.

For the first time, taxpayers had the possibility of electronic filing of the income tax and social tax returns. The preparations for launching an e-declaration project started in 1999. However, the development of the option for the electronic filing of the natural persons’ income tax returns marked only the beginning of the Internet-service project.

The Tax Board has, within its sphere of competence, thoroughly analysed the existing situation in the area of the pre-trial investigation of tax fraud. A conclusion has been
reached that more effective proceedings in the future will be possible only when dealt with by a separate institution having the right of surveillance and pre-trial investigation.

The system functioning up to that moment - audit-investigation-court – had been slow and inefficient in practice, but due to the government’s support to combating tax fraud and better co-operation with the police, the first major tax fraud cases that ended with a positive decision for the Tax Board, reached the court.

At the beginning of 1999, the issue regarding the granting of the powers of the preliminary investigation authority to the Tax Administration was raised. It met with the VAT and Excise Committee’s approval. At the end of 1999 a government committee headed by the Minister of Finance adopted a decision regarding the foundation of the respective institution: Fiscal Investigation Department (FID). The respective decision was reached and the NTB could start the preparatory work.

Enforcement of the Code of Criminal Procedure and Surveillance Act Amendment Act passed on 20 December 2001, entered into force on 1 April 2001, which granted the Tax Administration the powers of surveillance and preliminary investigation. The responsibility of the preliminary investigation of fiscal crime transferred from the Economic Crime Department of the Central Criminal Police under the National Police Board.

The NTB has made necessary preparations in order to implement the new powers as of the day the above rights are granted. The establishment of the FID and making it fully operational is seen as one of the top priorities of the NTB in the near future.

In the context of EU accession, the issues relating to the administrative capacity of the Tax Administration especially in the area of tax enforcement have been highlighted. As is evident from the above information, the NTB is making efforts to strengthen the whole area, starting from providing a better service to taxpayers, an important part of which is increasing the level of professionalism of the employees via training, but also by unifying the procedures along the different functions of the administration, like tax assessment, collection, audit and enforcement.

The Fiscal Blueprints exercise, which was prepared by the EC and the Intra-European Organization of Tax Administrations (IOTA) and carried out by all Candidate Countries’ Tax Administrations in the fall of 1999, provided the Estonian Tax Administration with a better understanding of the areas needing improvement and further development. The Business Change Management Plan (BCMP, see Annex 4), which was elaborated as a result of the Blueprints exercise, sets the timeframe and the scope to the development activities of the Tax Administration over the next 3 years.

As a part of the BCMP a Technical Needs Analysis was carried out to indicate the areas of activity, at which the Tax Administration is seeking international assistance. The current project is aiming at providing such assistance in limited areas of top priority and references to the BCMP Technical Needs Analysis (TNA) are made where appropriate.

3.2 Linked activities:
Finished PHARE projects:

<table>
<thead>
<tr>
<th>No</th>
<th>Title of project</th>
<th>Project description</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>ES 94-0343</td>
<td>Assistance at application of VAT'</td>
<td>Assistance at drafting VAT implementation acts and forms</td>
<td>1995</td>
</tr>
<tr>
<td>ES 94-0808</td>
<td>Training Management</td>
<td>Assistance at setting up a training organisation within the Tax Administration</td>
<td>1997</td>
</tr>
<tr>
<td>ES 96-0069</td>
<td>Information Campaigne</td>
<td>Promoting voluntary tax compliance by providing more information to taxpayers</td>
<td>1997</td>
</tr>
<tr>
<td>ES 96-0710</td>
<td>Assistance to Tax Administration Information Systems</td>
<td>Modernisation of IT systems of the Tax Administration</td>
<td>1999</td>
</tr>
<tr>
<td>ES 98-5351</td>
<td>Establishing a Social Tax System</td>
<td>An IT project to support administration of social tax</td>
<td>1999</td>
</tr>
<tr>
<td>ES 96-1135</td>
<td>Assistance to the Estonian Tax Sector</td>
<td>Technical assistance at several areas of tax administration</td>
<td>2000</td>
</tr>
</tbody>
</table>

Other on-going Projects

<table>
<thead>
<tr>
<th>No</th>
<th>Project title</th>
<th>Project description</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Danish-Estonian Sector Programme</td>
<td>Technical assistance and training for Estonian Customs and Tax administrations mainly in the area of indirect taxes</td>
<td>31.12.2000</td>
</tr>
<tr>
<td>96-20.01.03</td>
<td>Phare project: Income Tax Registration Database for the Tax Administration</td>
<td>System for electronic filing</td>
<td>Duration 6,5 month starting on 24.01.2000</td>
</tr>
</tbody>
</table>

The completed projects have all made a lasting contribution to the respective areas of administration:

The project No ES 94-0343 assisted the Tax Administration to implement the new law on VAT and provided the basic understanding of the EU requirements towards a VAT system;

The project No 94-0808 helped the Tax Administration to set up a fully equipped training facility, draft the first training strategy, provided staff with awareness of combating tax fraud and advised with developing and implementing a new control area (specialized VAT auditing) together with a manual;

The project No ES 96-0069 assisted the Tax Administration at organizing the first taxpayer awareness campaign, in the framework of which the modern approach to taxpayer services was broadly introduced;

The projects No ES 96-0710 and ES 98-5351 helped the Tax Administration to prepare the new Information Systems, which were successfully launched of 01.01.1999.

On 1 May 2000 a Phare Project no 96-1135 ‘Assistance to the Tax Sector in Estonia’ ended. The project provided assistance in various areas, primarily the control area,
helping to draft and implement annual assessment and audit plans, but also advising in the process of restructuring the Tallinn Tax Office.

The Danish-Estonian Sector Programme has made a substantial contribution to the awareness and knowledge of tax officials in the area of indirect taxation and EU requirements thereof.

Supported by a short-term Phare Project no 96-20.01.03, ‘Income Tax Registration Database for the Tax Administration’, the scope of taxpayer services was broadened by providing the natural persons with the opportunity of filing their income tax returns electronically. The pilot project for electronic filing of income tax returns was very successful.

Encouraged by the success of this first pilot project, a further electronic service has been provided to the taxpayers: the possibility to follow one’s social insurance tax payments via the Internet.

All the above projects, as well as those assisting in the development of e-services for taxpayers, have been financed by Phare and co-financed by the National Tax Board.

In September 2000, the Police Board of Estonia informed the NTB of a project proposal within the framework of PSO Pre-accession Programme 2000 for a bilateral project with the Netherlands. As the aim of this project is to help combat economic crime and corruption, the Police Board invited the Tax Administration to be involved in the mentioned project. In case of the approval of the Inception Report and starting of the project activity in May 2001, the Project will provide the Tax Administration with assistance in setting up the operational FID, drafting of its strategy and identifying the needs of this unit. The possible common activities in the framework of the Project are determined in the course of the compiling of the Inception Report. The initiator of the PSO Project, the Ministry of Internal Affairs, identifies the activities of the Project and the Tax Administration will have the possibility to participate in selected activities. It will be the task of the PAA in cooperation with the PSO Work Group to make sure that the current Project will start providing assistance to the Fiscal Investigation Department of the point the PSO Project has reached by the beginning of the current project in order to avoid overlapping.

As the Danish-Estonian Sector Programme ended in December 2000, the possibilities for initiating a new bilateral project with the Danish colleagues were studied. As a result a bilateral FEU project was prepared. The FEU project was confirmed in January 2001 and it includes assistance and support mainly to the following BCMP areas: Organization and management and EU accession (administration of VAT and establishing the CLO).

3.3 Results:

The results will be directed towards 3 major areas, each including different tasks and activities:

1. The Fiscal Investigation Department set up with
   - business strategy,
   - functioning organizational structure,
   - job descriptions,
• sufficient number of staff trained,
• 62 mandays of on-the job training organized abroad
• special IT needs identified and development of relevant systems tendered and purchased
• training organized for staff to use the new software
• modern equipment relevant to carrying out the functions of the Department identified, tendered and purchased
(see TNA 2.2.)

2. For the areas of tax assessment, tax audit* and enforcement :
• collection, control and enforcement strategies,
• systems of risk assessment related to tax collection and control,
• fraud indicators and
• audit standards revised, updated and implemented in the light of the Blueprint requirements and according to the Business Change Management Plan
• 160 people trained in the areas of control, audit and enforcement
• 193 man-days of targeted study visits organized

* this concerns tax audit (auditing of taxpayers), and should not be confused with internal audit

(see TNA 2.3; 8.4.; 9.1.; 8.2.; 2.1; 8.1; 9.4; 9.3; 2.4; 9.6; 8.3)

3. For the in-house training organization:
• training strategy updated,
• training organization revised,
• comprehensive training plan drafted and presented to the management for approval
(see TNA 6.1; 6.3)

4. Equipment and works in support of the above outputs identified, tendered, contracted and delivered.

3.4 Activities:

Institution Building

1. Twinning Covenant:

A) PAA (for 2 years)

Tasks of the PAA:

Co-ordination of the institution building activity related to the establishment of the Fiscal Investigation Department (FID) in the NTB;

PAA participates in the bilateral Dutch-Estonian Police Department PSO Project Work Group to enable reciprocal arrangements between the PSO Project and the current Twinning Project. This is to ensure that Project will start providing assistance to the Fiscal Investigation Department of the point the PSO Project has reached by the
beginning of the current project, the best possible cooperation between the two projects and to avoid overlapping.

Provision of quarterly reports on the evolution of the project. The structure of the reports has to be approved by the NTB. The reports should follow a specified structure, identifying completed and outstanding tasks, work to be performed in the next quarter, potential risks and their avoidance, in addition to financial issues.

Counseling the Head of FID in questions ranking from organization of work to specific issues related to tax fraud surveillance and investigation.

Definition of the development needs of the FID’s staff.

Identifying the needs of FID, Supervision Department, Tax Assessment Department, Tax Enforcement Department and Training department for short-term expert advice and training.

Assisting with the preparation of ToR’s for short-term experts

Contracting of short-term experts in the framework of the twinning covenant budget and organizing study visits for the officials of Estonian Tax Administration to the tax administrations of the European Union Member States;

Cooperation with the short-term experts;

Ensuring the quality of the short-term experts by seeking feedback on assistance, advice and training in order to evaluate the assistance provided.

The activities of the PAA will primarily be addressed towards supporting the establishment of the Fiscal Investigation Department, but also coordination of the rest of activities foreseen within the Project framework.

B) Twinning package:

B.1) PAA assistant (2 years):

Tasks:
Translation and interpretation to support the communication within the project.

B.2) EU short-term twinning experts (350 man-days of technical assistance).

Short-term experts (indicatively 4 experts 25 mdays each) to provide comprehensive assistance, advice and training to the FID in questions ranking from organization of work to specific issues related to the legal, international and technical aspects of tax fraud surveillance and investigation. (see TNA 2.2). The assistance and advice provided to the FID will, in cooperation with Estonian experts, take the form of an ‘Investigative Practice Handbook’, which will be prepared during the Project’s lifetime and delivered by the S-T experts to FID by the end of the Project at the latest.
Short-term experts (indicatively 4 experts 25 mdays each) to provide comprehensive assistance, advice and training to the Supervision Department in questions relating to definition of control strategy, criteria for risk assessment and risk profiles, development of audit standards, methods and tools; identifying key fraud indicators and trends. (see TNA 9.1, 9.4, 9.3, 9.6)

Short-term experts (indicatively 4 experts 25 mdays each) to provide comprehensive assistance, advice and training to the Tax Assessment and Enforcement Departments in questions relating to improvement of collection, enforcement and risk assessment systems, pre-printed tax forms for taxpayers. (see TNA 8.2, 8.1, 2.4, 8.3)

Short-term experts (indicatively 2 experts 25 mdays each) to help Estonian training staff carry out training needs analysis amongst the tax assessment, control/audit and enforcement officers and identify which training needs are best satisfied by Project’s S-T experts and which can be outsourced to local training institutions.

Also to provide assistance and advice to the Training Department in questions relating to updating the existing training strategy, drafting a comprehensive training plan and revising the capacity of the department. (see TNA 6.1, 6.3)

B2) Study visits

Study visits for 15 persons; whereby it is expected that at least in one of the target administrations to be visited the documentation related to daily work is in English language.

The study visits are foreseen to be of 2 types: short visits for groups of 3 persons to study a specific issue and long visits lasting approximately for 1 month at a time with the aim to learn the working practices in specialized areas of tax administration.

As a result of the study visits, the NTB staff will compile a report identifying future requirements, recommendations etc.

**Short study visits:**
1. For Supervision and Audit Departments staff to receive awareness of the Member States’ examples concerning risk assessment systems for control area.
   - TNA No 9.3; 3 persons/5 days; January 2002
2. For Tax Assessment and IT Departments staff to receive awareness and knowledge concerning pre-printed tax forms for taxpayers – TNA No 2.4; 3 persons/5 days; May 2002
3. For Tax Assessment and Enforcement Departments staff to receive awareness and knowledge concerning a centralized enforcement and collection system – TNA No 8.3; 3 persons/5 days; May 2003

**Long study visits:**
1. For the FID staff to study the tax investigation job -- TNA No 2.2; 2 persons/1 month; February 2002
2. For the Supervision and Enforcement Departments staff to study the tax collection and audit job – TNA No 8.1 and 9.4; 2 persons/1 month; June 2002
3. For the Tax Assessment Department’s staff to study the tax inspector’s job – TNA No 8.2; 2 persons/1 month; September 2002

2. Technical Assistance (TA)

**Local training contracts** with domestic training institutions to satisfy the training needs identified by the S-T training experts in cooperation with the Estonian training staff amongst the staff of FID, but also the tax assessment, control/audit and enforcement officers.

Some of the needs can be satisfied via seminars, carried out by the Project’s S-T experts, whereby some others can be better satisfied by purchasing training already available on the Estonian or some other training market; among other subjects for instance training in Estonian and international Law and to obtain users’ skills concerning application of information systems to be developed within the Projects’ framework.

It is not possible to find trainers for all specific areas of knowledge and skills within the Tax Administrations’ own training system.

**Three service contracts for information system development** (3 x 0.08 MEUR):
- to support the audit and control function; TNA No 9.4; January 2003
- to support the enforcement function; TNA No 8.2; December 2002
- to support the FID; TNA No 2.2; April 2002

4. Institutional Framework

Pursuant to the Code of Criminal Procedure and Surveillance Act Amendment Act, passed on 20 December 2000, the Tax Administration will become responsible for the investigation and surveillance of tax evasion and fraud starting from 01.04.2001. For that purpose Fiscal Investigation Department will be established in the NTB with a total number of 58 employees, to be recruited over the first 3 years. PAA will advise the Head of the Fiscal Investigation Department in the NTB. As there is no FID yet, the person responsible for the preparation and establishment of the FID, currently having the position of Adviser to the Director General will be the PAA counterpart.

Contact data of the PAA counterpart:
Name: Mr. Mati Erik
Adviser to the Director General
Estonian National Tax Board
Address: Endla 8
15176 Tallinn
ESTONIA
Phone: (372) 693 4608
Fax: (372) 693 4611
E-mail: mati.erik@ma.ee
Internet homepage: http://www.ma.ee

PAA will coordinate his/her work with the rest of the NTB in order to guarantee the best understanding of the needs and support the development of the department based on the BCMP and TNA.
There are all in all six agencies in Estonia, which at this time have authority of surveillance and pre-trial investigations. The other agencies are: the Security Police Board, the General Staff of Estonian Defence Forces, National Police Board, Boarderguards Administration, the Department of Prisons of Ministry of Justice and Prison and the Customs Board). The Tax Board will be the seventh agency in the country to have the above-mentioned authorities.

The National Police Board has the main responsibility for the fight against economic and financial crimes.

The Police Board consists of the Central Criminal Police, the Personal Protection Service, a Forensic Science Service Centre and 17 Police Prefectures. As of March 2000 the Estonian police consists of 188 higher police officers, 2478 senior police officers and 930 junior police officers.

The Economic Crime department is a part of the Central Criminal Police that has the task of preventing, disclosing and investing financial crimes, property crimes and other economical crimes. Combating organised crime and money laundering are main tasks of the Central Criminal Police.

Within the National Police Board there is a Money Laundering Information Bureau, composed of 8 staff members.

The Customs Board, with 1200 officials, incl. 5 regional customs houses, is also under the jurisdiction of the Ministry of Finance and deals with investigation of customs crimes: smuggling of alcohol, cigarettes, fuel, drugs, etc.

Within the Customs Board there is an Enforcement Department, encompassing the following Divisions: Investigation Division, Traffic Control Division, Post-Control Division and an Intelligence Division.

At the moment there is no formal procedure in place for the fraud investigation and exchange of information between the Tax Board and other preliminary investigation agencies. Information is exchanged on a daily basis when necessary. The relevant procedures are expected to be worked out in the second half of 2001. There is an informal agreement with the Prosecutor's Office for discussing tax fraud cases with the prosecutors before and during the investigation of the cases. There are certain prosecutors who specialize in tax fraud cases. For example, in Tallinn there are two prosecutors representing tax fraud cases in court.

The Estonian project leader in the NTB will be:

Mrs. Jana Ojalo
Head of Development and Training Department
Estonian National Tax Board
Endla 8, Tallinn 15176
Phone: + 372 6 934 660
Fax: + 372 6 934 661
E-mail: jana@ma.ee

NTB will submit quarterly project reports for approval to the Programming Officer (PO), Mr. Andres Kuningas in the Ministry of Finance.
The NTB will establish a steering committee for the monitoring of the implementation of the project to meet quarterly. Representatives from the NTB, Ministry of Finance and EC Delegation of Estonia will belong to the steering committee. Director General of the National Tax Board, Mr. Aivar Sõerd will chair the steering committee.

The NTB prepares, with the assistance from short-term Project experts functional requirements for the service contracts for information system development. The functional requirements are prepared by the specialists from respective functional areas of work, on the basis of the BCMP and TNA. These specialists also monitor the information system development in order to ensure that the supplier meets the users requirements.

NTB will be the “Employer” for the investment contracts of the project; NTB will appoint “Engineer“ for the preparation of tendering and contracting of the investment component of the project.

Public institution, NTB, which is within the administrative field of the Ministry of Finance will become owner of the assets of the project.

5. Detailed Budget (MEUR)

<table>
<thead>
<tr>
<th></th>
<th>Phare Support</th>
<th>Investment Building</th>
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<th>National Cofinancing*</th>
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</table>
The national cofinancing constitutes the following:
1) Cofinancing for the study trips: coverage of cost of return flight tickets for 15 persons.
2) Cofinancing for the local training: coverage of the local travel and accommodation costs of, per diems and salaries of staff attending the training.
3) Cofinancing for the information systems of the FID: amount allocated in the 2001 FID budget to purchasing of software licenses and broadening the LAN and WAN.
4) Cofinancing for the purchase of special equipment for FID: amount allocated in 2001 FID budget fund for purchasing special equipment for FID.

6. Implementation Arrangements
6.1 Implementing Agency (IA)

IA for the project is Central Financing and Contracting Unit (CFCU) of the Ministry of Finance:

Contact data of the CFCU: Mr Marko Rillo, Director of the CFCU Ministry of Finance Suur-Ameerika 1 15006 Tallinn phone: +372 6 113 013 fax: +372 6966 811 e-mail: markor@fin.ee

Contact data of the PAO: Mr Renaldo Mändmets Deputy Secretary General Ministry of Finance Suur-Ameerika 1 15006 Tallinn phone: +372 6 113 545 fax: +372 6966 810 e-mail: renaldo.mandmets@fin.ee

Central Financing and Contracting Unit of the Ministry of Finance will be responsible for the tendering, contracting and disbursements of the Phare component of the project.
The Commission will transfer funds to the NF in accordance with the Memorandum of Understanding signed between the Commission and Estonian Ministry of Finance. The National Fund will transfer funds to the CFCU in accordance with Financing Agreement signed between the NF and the CFCU.

Transfer of funds will be based on cash-flow projections and detailed budget breakdown of the project in accordance with the Phare 2001 Financing Memorandum. CFCU will make request for funds based on the advance payment progress report prepared by the PO.

CFCU will be responsible for the payments to the contractor.

Phare Programme Officer in the Ministry of Finance is Mr. Andres Kuningas, Head of the Department for International Relations.

Contact data of the PO:

- Mr. Andres Kuningas
- Head of the Department
- Ministry of Finance of the Estonian Republic
- Telephone: +372 6 113 640
- Fax: +372 6 966 811
- e-mail: andres.kuningas@fin.ee

PO will be responsible for the approval of the quarterly twinning project reports and for the submission of the reports to the CFCU.

PO will be also responsible for the submission of the quarterly advance payment progress reports to the CFCU.

6.2 Twinning

The twinning counterpart on the side of the National Tax Board will be the Head of the Fiscal Investigation Department, currently the Adviser to the Director General (see pg. 8)

Estonian twinning counterpart will cooperate with the PAA on daily basis. PAA will submit quarterly reports to the Estonian counterpart for the enforcement. The format of the reports is also approved by the NTB.

Estonian twinning counterpart will submit quarterly twinning reports to the PO for the approval. PO is responsible for the submission of the endorsed twinning reports to the CFCU.

6.3 Non-standard aspects

DIS and Twinning manual will be strictly followed.

6.4 Contracts

The following contracts are expected to be concluded:
1) Twinning contract (0.944 MEUR)

2) Technical Assistance (service contracts):
   2.1) An indicative number of 6 local training contracts (0.07 MEUR)
   2.2) 3 service contracts for information system development (3 x 0.08 MEUR)

3) Investment contracts:
   3.1) supply contract for procurement of special equipment for the FID (0.12 MEUR):
       TNA 2.2 The equipment concerned will include the following items:
       Radio stations, different kinds of special photo and video cameras; portative
       PC hard disc copiers, investigation expert’s dactyloscopy kits, different
       kinds of binoculars, dictaphones, equipment to check the security elements
       of banknotes and documents and other special equipment, need for which
       will be identified during the inception period of the Project;
   3.2) 1 supply contract for training equipment procurement to purchase up-
       to-date video presentation equipment (0.01 MEUR).

7 Implementation Schedule

7.1 Start of tendering/call for proposals
   September 2001
7.2 Start of project activity
   November 2001
7.3 Project Completion
   October 2003

8 Equal Opportunity

Equal opportunity for men and women to participate in the project will be granted
and measured by PAA and Estonian project leader.

9 Environment N/A

10 Rates of return
N/A

11 Investment criteria

11.1 Catalytic effect:
The current Project is aimed at supporting the accession driven development activities
foreseen in the Business Change Management Plan, which sets high requirements for the
timeframe and resources necessary to carry out all the foreseen actions. Without Phare
support it will be extremely difficult for the Tax Administration to meet it’s development
objectives by the set deadlines.

11.2 Cofinancing:

1 For details see pg. 8.
One of the most important areas the current Project is support to the establishment of the Fiscal Investigation Department within the NTB. The funds to be allocated from the State Budget for the purpose of running the Fiscal Investigation Department in 2001 exceed substantially the set requirement of 25% of the expected investment component in the budget of the current Project.

11.3 Additionality:
Phare grants shall not displace other financiers.

11.4 Project readiness and Size:
By undertaking the comprehensive Blueprint analysis and development activities proceeding therefrom, the NTB is prepared to start with the implementation of tasks as foreseen in the Business Change Management Plan of November 2001.

11.5 Sustainability:
Sustainability of the investment will be guaranteed by the NTB.

11.6 Compliance with state aids provisions
Investments respect the state aids provisions of the Europe Agreement. Procurement will be implemented according to the Phare DIS rules. Beneficiary of the project, NTB, is fully eligible for state aid.

11.7 Contribution to National Development Plan N/A

12 Conditionality and sequencing

Enforcement of the Code of Criminal Procedure and Surveillance Act Amendment Act passed on 20 December 2001, entered into force on 1 April 2001, which granted the Tax Administration the powers of surveillance and preliminary investigation. The responsibility of the preliminary investigation of fiscal crime transferred from the Economic Crime Department of the Central Criminal Police under the National Police Board.

The overall sequencing in the Project will be as follows:

First, the PAA in cooperation with the beneficiary and EU ST experts determines the needs of the Tax Administration as regards expert advice and training, and works out the time schedule for the Project. The procurement of the training equipment is also carried out during the preparatory stage.

The preparatory stage of the project is followed by a period of parallel EU ST missions and locally procured training. The needs for IT systems development for the control and enforcement areas are determined during this stage. Preparation of the ‘Investigative Practice Handbook’ will also fall mainly into this stage of the project.
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
5. Organizational structure of the National Tax Board
ANNEX 1 to Project Fiche

LOGFRAME PLANNING MATRIX FOR the Project: Assistance to the Estonian Tax Administration in the Development Activities Proceeding from the Fiscal Blueprints

<table>
<thead>
<tr>
<th>Overall Objective</th>
<th>Objectively verifiable indicators*</th>
<th>Sources of verification</th>
</tr>
</thead>
</table>
| 1. Enforcement of the *acquis* by the Estonian Tax Administration | 1. *Acquis* transposed and enforced in the area of tax administration  
2. Improved enforcement capacity  
3. Improved taxpayer service | 1. Estonian Progress Reports for 2003 |

<table>
<thead>
<tr>
<th>Project Purpose</th>
<th>Objectively verifiable indicators*</th>
<th>Sources of verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| Estonian National Tax Board fulfils the requirements set by the EC ‘Fiscal Blueprints’ in the following areas:  
  • Revenue Collection and Enforcement  
  • Fiscal Control  
  • Training | 1. The in-house training improved based on an updated strategy  
2. The revenue collection and enforcement systems follow strategies pursuant to the Business strategy of the Tax Administration  
3. The process of preparation of fraud cases for court increased | 1. Comparison is made between Blueprints and the existing situation in the NTB, audited by EC Services before the end of the Programme funded activities  
2-3. Annual reports of the NTB | 1. Political commitment to support the development activities within the Tax Administration  
2. Developments in the court system to cope with the tax cases |
<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of verification (data)</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| The outputs will be directed towards 3 major areas, each including different tasks and activities:  
• The Fiscal Investigation Department set up and made operational | The Fiscal Investigation Department set up and made operational  
Result indicators:  
• the necessary documents for the new dpt. prepared  
• relevant training provided according to the needs identified by the project | The Fiscal Investigation Department set up and made operational  
Result indicators:  
• strategy, job descriptions, investigator’s manual  
• project progress reports  
• training evaluations  
• project invoices | 1. Commitment by the top management of the Tax Administration (TA) to participate in the development activities  
2. Availability of a sufficient number of qualified staff for the Fiscal Investigation Department  
3. Involvement in a bilateral PSO project requested by the Estonian Security Police Board and National Police Board  
4. Availability of qualified counter-part staff to support the Project activities and absorb assistance |
| • The areas of tax assessment, audit and enforcement meet the Blueprint requirements | The areas of tax assessment, audit and enforcement meet the Blueprint requirements  
Result indicators:  
• relevant strategies and standards prepared  
• fraud indicators developed and implemented via risk assessment system  
• training needs analysis conducted and relevant training provided  
• relevant study visits organised  
• relevant long-term on-the-job training provided | The areas of tax assessment, audit and enforcement meet the Blueprint requirements  
Result indicators:  
• project invoices  
Documents regarding:  
• collection, control and enforcement strategies, audit standards  
• risk assessment systems in the area of tax collection and control  
• training needs analysis report  
• training evaluations  
• study visit reports  
• long-term training evaluations/reports  
• project progress reports |
<p>| | | | |
| | | | |</p>
<table>
<thead>
<tr>
<th>• The in-house training organization revised and updated with the Blueprint requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Special equipment procured and installed in FID of Tax Board</td>
</tr>
<tr>
<td>• Special equipment procured and installed in Tax Board</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>The in-house training organization revised and updated with the Blueprint requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result indicators:</td>
</tr>
<tr>
<td>• training strategy updated</td>
</tr>
<tr>
<td>• training organization revised</td>
</tr>
<tr>
<td>• comprehensive training plan drafted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special equipment procured and installed in FID of Tax Board Result indicators:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Radio stations, different kinds of special photo and video cameras; portative PC hard disc copiers, investigation expert’s dactyloscopy kits, different kinds of binoculars, dictaphones, equipment to check the security elements of banknotes and documents in FID</td>
</tr>
<tr>
<td>• up-to-date video presentation equipment installed</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>The in-house training organization revised and updated with the Blueprint requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result indicators:</td>
</tr>
<tr>
<td>• project invoices</td>
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<tr>
<td>• training strategy</td>
</tr>
<tr>
<td>• training plan</td>
</tr>
<tr>
<td>• project progress reports</td>
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</table>

<table>
<thead>
<tr>
<th>Special equipment procured and installed in FID of Tax Board Result indicators:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Invoices</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special equipment procured and installed in FID of Tax Board Result indicators:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Invoices</td>
</tr>
<tr>
<td>Activities:</td>
</tr>
<tr>
<td>-------------</td>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Institution Building</strong></td>
</tr>
<tr>
<td><strong>1.1-1.2.5. Twinning</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>Technical assistance including:</strong></td>
</tr>
<tr>
<td>2.1. Organising Training</td>
</tr>
<tr>
<td>2.2. Development of Information system:</td>
</tr>
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</tr>
<tr>
<td><strong>Investment, including:</strong></td>
</tr>
<tr>
<td>3.1. Procurement of special equipment for the FID</td>
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</tbody>
</table>

*) The current Project is aimed at building on the assistance expected to be received prior to the current project via a bilateral PSO Pre-Accession Programme 2000 with the Netherlands, requested by the Estonian Security Police Board and National Police Board, in which the Tax Administration will be one of the beneficiaries. It will be the task of the PAA in cooperation with the PSO Project Steering Committee to make sure that the current Project will start providing assistance to the Fiscal Investigation Department of the point the PSO Project has reached by the beginning of the current project in order to avoid overlapping.
TIME IMPLEMENTATION CHART
Project N°: ES
Project Title: Assistance to the Estonian Tax Administration in the Development Activities Proceeding from the Fiscal Blueprints

<table>
<thead>
<tr>
<th>Sub-programme</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tr>
<td>1. Twinning</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Covenant preparation</td>
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<td>T</td>
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<td>1.1 PAA</td>
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<td>1.2 Twinning package</td>
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<tr>
<td>1.2.1 PAA assistant</td>
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<td>I</td>
<td>I</td>
</tr>
<tr>
<td>1.2.2 EU MS project leader</td>
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</tr>
<tr>
<td>1.2.3 EU ST twinning experts</td>
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<td>I</td>
<td>I</td>
</tr>
<tr>
<td>1.2.4 Translation/ interpretation</td>
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<td>T</td>
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<tr>
<td>1.2.5 Study trips and local seminars</td>
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<td></td>
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<tr>
<td>Study trips</td>
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<td>I</td>
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<td>Contingency</td>
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<td>2. Technical assistance</td>
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<td>2.1 Local training contracts</td>
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<tr>
<td>2.2.1 to support the audit and control function</td>
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<td>C</td>
<td>I</td>
</tr>
<tr>
<td>2.2.2 to support the enforcement function</td>
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<td>C</td>
<td>I</td>
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<tr>
<td>2.2.3 to support the FID</td>
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<td>C</td>
<td>I</td>
</tr>
<tr>
<td>2.3 Supply contract for procurement of FID spec. equipm.</td>
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<td>C</td>
<td>I</td>
</tr>
<tr>
<td>2.4 Supply contract for procurement of training equipment</td>
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### CUMULATIVE CONTRACTING SCHEDULE
(by quarters)

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<thead>
<tr>
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<td>0.010</td>
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<td><strong>TOTAL</strong></td>
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## CUMULATIVE DISBURSEMENT SCHEDULE (by quarters)

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<td>Special equipment for FID</td>
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<tr>
<td>Procurement of training equipment</td>
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</table>
ANNEX 4

LIST OF GOVERNMENT STRATEGIC PLANS AND STUDIES

Project N°: ES
Project title:

BUSINESS CHANGE MANAGEMENT PLAN
of the Estonian National Tax Board

The Tax Board has performed at the initiative of the European Commission and the Intra-European Organization of Tax Administrations (IOTA) an analysis of its capacity against the EU standards, similar to the analysis previously performed with regard to the capacity of customs administrations, including Estonian Customs Board. The standards for the tax administrations were worked out in 1998 by the EC and they are called Fiscal Blueprints. Based on the existing gaps defined during the so-called Gap Analysis performed in the period September – November 1999, the need objectives of the Tax Board were derived. The need objectives were summarized in a document titled Business Change Management Plan (BCMP). In addition to the need objectives, the BCMP contains also the start and end dates of the activity to be carried out, its result, the total number of man-days as well as the budget. According to the BCMP the Tax Administration will require some kind of foreign assistance in all the 11 areas (rights and obligations of taxpayers, ethics, organization and management, human resource management, training, communication, tax collection and enforcement, fiscal control, administrative cooperation, information technology) of the Fiscal Blueprints. The foreign assistance needed has been specified in the 11 Technical Need Analyses (TNA) respectively. The final versions of both the BCMP and the TNAs were submitted to IOTA on June 30th, 2000.

The present project is directly supporting the implementation of the BCMP in the National Tax Board. While the project proceeds from the BCMP, it is not intended to cover all the areas of the BCMP.

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2 This annex is optional. Government strategic plans and studies are e.g. Institution Development Plan, Business plans, Sector studies etc.
10. TAXATION
10.1. Legislation
Indirect taxation
Value Added Tax
The Value Added Tax Amendments Act was passed at the end of 1999 and is effective since 1 January 2000. The Act abolished most of the VAT exemptions and lower rates. A few exemptions have remained, but according to the Act in force these will be abolished as well as of 1 January 2001 with no further legislative process. Also the principles of VAT refund to non-residents were harmonised.
The draft of the new Value Added Tax Act is currently circulated in ministries for approval. The new Act introduces lower threshold for VAT liability, special schemes, determining the place of supply. It will be presented to the Government and also to the Parliament still this year. In the NPAA Estonia has taken the obligation to implement the new Act by 2002. By this, also the obligation taken in the Estonian Position Paper on Taxation to harmonise the VAT system by accession at the latest will be fulfilled, and the schedule presented to the Accession Conference followed.
Alcohol Excise Duty
The Alcohol Excise Duty Act, introducing the system of tax warehouses and restructuring the rates of excise according to the acquis was adopted on 14 June 2000. The timing of the process is in concordance with the dates given in Estonian Position Paper, and the Act will enter into force on 1 January 2001.
Fuel Excise Duty
The Draft Mineral Oils Excise Duty Amendments Act was approved by the Government in April 2000 and passed in the Parliament on 19 June 2000. According to the Act, the list of taxable objects is supplemented, with the aim to reduce the possibilities for tax avoidance.
Mineral Oils Excise Duty
The new Draft Mineral Oils Excise Duty Act is being prepared in Ministry of Finance, setting up the system of tax warehouses compatible to the EU respective system. Estonia does not foresee any problems in aligning the system of excise collecting by 2002, as provided for in the Position Paper.
Tobacco Excise Duty
The proposals for introducing the tax rate combined of two components – fixed and ad valorem component, have been elaborated by the Ministry of Finance, and will be presented to the Government in the second half of 2000. The amendments to the Tobacco Excise Duty Act introducing the new kind of tax rate are scheduled to enter into force in the second half of 2001. The introduction of the tax warehouses according to the dates specified in the Position Paper is foreseen. Estonia’s progress report – June 2000.

Direct Taxation
The new Income Tax Act, effective since 1 January 2000, introduced new principles of income taxation. According to the preliminary evaluations, the Act is in concordance with the respective acquis. The objective of the Income Tax Act is to exempt legal persons registered in Estonia and non-residents that have registered a branch or other permanent establishment in Estonia from paying income tax on re-invested profit. These persons pay income tax only in the case of making profit distributions, also on transactions that can be treated as concealed profit distributions (fringe benefits, gifts and charitable contributions, payments not related to entrepreneurship). After exemption of the profit of legal persons from income tax Estonia cannot be compared with tax havens, since the accounting and reporting obligations, public registers and exchange of information between tax administrators are retained. For
reasons described above, Estonia is not abolishing income tax, but deferring the moment of charging tax on income. Estonia makes no difference for taxation purposes whether the income of a resident has been earned in Estonia or abroad. It is not possible to register in Estonia commercial undertakings that have no tax or reporting liabilities. Violation of such obligations is subject to sanctions both under administrative and criminal law. Given the fact that under the new law all forms of payments and concealed transfers of profit to natural persons are taxable, abuse of the tax allowance granted by Estonia is not possible in foreign countries.

**Administrative Co-operation**

The Taxation Act Amendments Act, providing the tax authorities with the full powers to exchange the information and co-operate with the tax authorities of the Member States, has been adopted and will be applicable from 01.06.2000. The provisions granting the greater power to the tax authorities will according to these amendments be enforced on the Estonian accession date to the EU.

10.2. Administrative capacity

In order to combat tax fraud more effectively, the Tax Administration has applied for the investigation and surveillance rights, which will help to speed up the process of tax enforcement process. The Government has given its acceptance to this request and the timing of actual establishing of the Fiscal Police Department yet in the current year depends on completion of the final discussions in the Parliament. Tax Administration has been making preparations for establishing the Fiscal Police Unit.

**Estonia’s progress report – June 2000**

On 1 May 2000 a Phare Project no 96-1135 ‘Assistance to the Tax Sector in Estonia’ ended. The project provided assistance in various areas, primarily the control area, helping to draft and implement annual assessment and audit plans, but also advising the process of restructuring the Tallinn Tax Office.

Supported by a short-term Phare Project no 96-20.01.03, ‘Income Tax Registration Database for the Tax Administration’, the scope of taxpayer services was broadened by providing the natural persons with the opportunity of filing their income tax returns electronically. The pilot project for electronic filing of income tax returns was very successful. Encouraged by the success of this first pilot project, a further electronic service has been provided to the taxpayers: the possibility to follow one’s social insurance tax payments via internet. Promoting the use of electronic services to taxpayers is one of the most important highlights in the development of the Tax Administration Information Systems. In a situation of scarce human resources, computerisation of further procedures and functions allows for a substantial increase in the quality of taxpayer services and decrease of administrative costs.

In September 1999, Estonia undertook carrying out an EC–IOTA (Intra-European Organisation of Tax Administrations) ‘Fiscal Blueprints’ exercise. The objective of this exercise was to carry out a ‘Gap Analysis’, comparing the Estonian Tax Administration to the standards set by the EC and proceeding from there making a Business Change Management Plan and a respective Technical Needs Analysis (TNA). The Gap Analysis was carried out by 15 November, 1999; a draft BCMP and TNA were completed by 31 March and the final versions of these documents will be presented to IOTA and the EC by 30 June 2000. These documents will serve as the basis for development of the Estonian Tax Administration in the next 3 years.

In order to improve the administration of taxes, within the period 1 September 1999 through June 2000 the following instruction documents have been developed and implemented in the whole Tax Administration:
• Instruction for checking VAT declarations
• Instruction for checking Personal Income Tax declarations
• Instruction for supervision of tax payments, enforcement of arrears and accounting for the results of enforcement
• An order of using the IT-systems of the Tax Administration

On 1 September 1999 the Estonian Tax Administration became a full member of the Intra European Organisation of Tax Administrations. One of the main objectives of this Organisation is to assist the Candidate Countries in their EU-accession process in the area of taxation.

10.3. Progress in other areas
In May 2000 the Budget Strategy of Government was approved by the Government, setting up the goals and defining the principles of the state budget for the next 4 years. It includes also the main principles of future changes in tax system, securing the elaboration and adoption of the necessary tax laws to harmonise the tax system with the acquis.