Project PL.9904.03: Improved Tax Administration

Sub-programme 2: Strengthen institutional and administrative capacity

Location: Poland, Ministry of Finance, Tax Chambers, Tax Offices, Fiscal Control Offices.

Objectives:

The wider objective of this project is adjustment of the taxation system to the requirements in effect in the European Union and strengthening of the tax administration to ensure effective and efficient tax collection, with particular emphasis on VAT as one of the basic sources of the European Union general budget.

Strengthening of the tax administration and harmonisation of regulations on indirect taxes, i.e. VAT, excise tax, and on direct taxes are set out in the Accession Partnership as a short-term priority. The tasks related to the implementation of this project are defined also in Chapter 10 of the National Programme on Preparation for Poland’s Membership in the European Union (NPAA).

The immediate objectives of this project are:
Harmonisation of regulations regarding:
- indirect taxes (Item 10.3 NPAA)
- direct taxes (Item 10.4 NPAA).

Strengthening of the tax administration through (Item 10.1 NPAA):
- development of new planning methods and audit techniques for purposes of fiscal and tax audit;
- creation of a platform for electronic data processing assisting the modernisation program and ensuring operation of the information exchange systems between EU member countries;
- improvement of the training system, ensuring the development of staff resources able to enforce EU legislation;
- development of an active communication policy to inform taxpayers on changes in tax laws related to Poland’s accession to the European Union.

Project Description:

The institution building part of the project will be the subject of twinning.

The perspective of Poland’s accession to the European Union requires that tax regulations should be adjusted to the EU standards:
- in the area of indirect taxes, where the regulations have been modelled on the EU laws, in particular on the recommendations set forth in the Sixth Directive,
- in the area of direct taxes regulations should only be harmonised with EU law.

The eastern border of Poland will become the eastern border of the European Union. This fact is important as the Polish party will be responsible for, *inter alia*, the monitoring of excise goods movement, the establishment of tax-free warehouses, and the confirmation of EU outgoing exports.
The results of the project will consist of achieving the specific objectives in the following order of priority:

1. **Acquisition of expertise on the issue of VAT and excise collection after the abolition of the customs border with the EU countries, and in particular specification of:**
   a) the rules of collection in the European Union of VAT and excise tax on transactions concluded between taxpayers from EU countries and taxpayers from other EU countries;
   b) the body responsible for VAT and excise tax collection;
   c) the rules of exchange of information on the transportation of goods crossing state borders of EU member countries;
   d) the forms of documents applied in VAT and excise tax settlements in transactions between EU countries;
   e) the problems with reorganisation of customs bodies due to the abolition of customs borders, presented on the example of a few EU countries, with a detailed specification of the method of such reorganisation;
   f) development of solutions regarding customs clearance terminals deployed near customs borders which have been abolished between EU countries;
   g) development of the reorganisation methodology for the existing Polish tax and customs administration in view of the abolition of customs borders in order to avoid mistakes and problems encountered in other countries.

2. **Acquisition of expertise on the rules of operation of tax-free warehouses for excise goods.**

3. **Acquisition of expertise on income taxes, taxes on business activities and personal income tax.**

4. **Creation of relevant procedures and guidelines concerning fiscal control, by developing:**
   - the Fiscal Control Planning Methodology;
   - the methods and ways of identifying entities for fiscal control;
   - the new effective methods of fiscal control, with particular attention to methods and techniques of VAT control applied in the EU countries;
   - the methods of using information available in the existing EU software, including the exchange of VAT information;
   - the possibilities of using information obtained by other member countries.

5. **Development of a uniform training program for tax administration staff, ensuring effective training of employees and the application of EU provisions.**

6. **Completion of work on the creation of a Tax Administration Staff Training Centre.**

7. **Acquisition of expertise on the project of a wide area network ensuring the operation and exchange of information in IT systems required by the EU.**

8. **Integration of the Polish IT system with the EU systems through:**
   - compilation of a list of declarations which require changes and/or to be added, together with a specification of their information scope;
   - definition of the list of changes in the POLTAX system;
   - specification of the functions for data transmission from the tax office level to the Minister of Finance, and functions for data transmission to EU IT systems;
   - specification of the communication solutions meeting the requirements set forth in the EU systems.

9. **Implementation of a wide area network connecting the Ministry of Finance, Tax Chambers, Tax Offices and Fiscal Control Offices.**
10. Ensuring an operational and secure system allowing access to data accumulated in the EU databases and the electronic exchange of information and documents between the Ministry of Finance and the European Union.

Completion of each stage of work should be confirmed by a report summing up the findings. These reports are to contain conclusions on the implementation of a given stage and possibly, further recommendations.

The outputs of the project will be:

1. Full adjustment of VAT and excise regulations to the EU laws.
2. As regards direct taxes:
   - adjustment of the Polish law to the requirements stemming from the applicable EU directives concerning subsidiaries, mergers, rules of depreciation and treatment of losses, avoidance of double taxation and simplification of self-taxation rules;
   - implementation of the intentions with respect to the examination of the target model based on an assumption of a single tax rate, reduction of tax benefits, tax exemption for the lowest income.
3. A comprehensive preparation of the platform for implementation of the POLTAX system to the extent of its compatibility with the EU systems.
4. Adjustment of the fiscal control methods to the EU standards.
5. The provision of training for the Ministry of Finance staff on the changes in tax laws related to Poland’s accession to the European Union.

The inputs of the project will be:

The institution building part of the project will be the subject of twinning. The main task will be harmonisation of regulations regarding Polish tax law and strategic planning and administrative modernisation, in particular:

1.1. Long term twinning VAT expert.
   Timing: September 1999 - September 2000 (Euros 150,000).
1.2. To render an expert’s opinion on the VAT and excise tax collection after the abolition of the customs border with the EU countries, with particular emphasis on the movement of the EU border to Poland’s eastern border.
   Timing: September 1999 - December 1999 (Euros 50,000).
1.3. To develop detailed rules of operation of tax-free warehouses for excise goods.
   Timing: September 1999 - December 1999 (Euros 50,000).
1.4. To develop project of VAT and excise law together with executive acts.
   Timing: December 1999 - May 2000 (Euros 120,000).
1.5. Study visits and consultations with the EU experts on indirect taxes.
   Timing: September 1999 - December 2000 (Euros 100,000).
1.6. Translating indispensable tax rules.
   Timing: September 1999 - December 2000 (Euros 40,000).
1.7. To develop an expert’s opinion on the income tax on business activities and personal income tax.
   Timing: September 1999 - December 1999 (Euros 50,000).
1.8. The provision of workshops on evaluation the level of adjustment Polish tax law to the EU standards regarding direct taxes.
   Timing: January 2000 - November 2000 (Euros 100,000).
Institution building will also comprise the development of a training system for the tax administration:

2.1.1. Long term expert on the training issues.
   Timing: September 1999 - December 2000 (Euros 150,000).

2.1.2. Equipment of the Tax Administration Staff Training Centre.
   Timing: October 1999 - September 2000 (Euros 600,000).

2.1.3. The provision of the training on direct taxes.
   Timing: November 1999 - December 2000 (Euros 100,000).

2.1.4. The provision of the training on indirect taxes.
   Timing: November 1999 - December 2000 (Euros 140,000).

2.1.5. The provision of the training on legal aspects of integration.
   Timing: September 1999 - December 2000 (Euros 300,000).

2.1.6. The provision of the training on IT.

2.1.7. Printing the training materials.
   Timing: October 1999 - December 2000 (Euros 150,000).

2.1.8. The provision of study visits on the training issues.

2.1.9. Development of a model of fiscal control planning methodology.
   Timing: January - March 2000 (Euros 60,000).

2.2.1. Ensuring one long-term expert to supervise IT system implementation ensuring the
   POLTAX compatibility with the EU systems.
   Timing: December 1999 - December 2000 (Euros 150,000).

2.2.2. Verification of the wide area network model for IT purposes of the Ministry of
   Finance together with a definition of hardware requirements.
   Timing: September - December 1999 (Euros 80,000).

Two standard Phare tenders are planned:
- tender for the construction of the wide area network (Euros 1,400,000).
- tender for the commissioning of the Tax Administration Staff Training Centre (Euros 600,000).

Institutional framework:

The ministry responsible for the project will be the Ministry of Finance and the project will be implemented in cooperation with Tax Chambers, Tax Offices, Fiscal Control Offices.

Poland’s accession to the European Union implies the need to adjust a number of regulations of the broadly understood tax law to the standards and requirements imposed by the internal regulations applicable in the EU member countries. As a result of project implementation, the Tax Administration Staff Training Centre will be commissioned and equipped.
### Budget (EUR):

<table>
<thead>
<tr>
<th>Project</th>
<th>Investment</th>
<th>Institution Building</th>
<th>Total PHARE</th>
<th>Co-financing</th>
<th>Total</th>
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**Harmonisation of tax law**

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<tbody>
<tr>
<td>1.1</td>
<td>Indirect taxes</td>
<td>510,000</td>
<td>510,000</td>
<td>240,000</td>
<td>750,000</td>
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<tr>
<td>1.2</td>
<td>Direct taxes</td>
<td>150,000</td>
<td>150,000</td>
<td>100,000</td>
<td>250,000</td>
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**Strengthening of the tax administration**

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<tr>
<td>2.1</td>
<td>Development of training system for the tax administration</td>
<td>600,000</td>
<td>1,110,000</td>
<td>1,710,000</td>
<td>1,890,000</td>
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<tr>
<td>2.2</td>
<td>Compatibility of POLTAX system with the EU systems</td>
<td>1,400,000</td>
<td>230,000</td>
<td>1,630,000</td>
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<td><strong>Total</strong></td>
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<td>4,000,000</td>
<td>7,230,000</td>
<td>11,230,000</td>
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### Implementation Arrangements:

The CFCU is responsible for handling tendering, contracting and payments of contracts on behalf of the Ministry of Finance which itself shall be responsible for preparing projects and managing their technical implementation.

### Implementation Schedule:

Start of tendering: September 1999  
Start of project activity: January 2000  
Project completion: December 2001  

**Equal opportunity:** The Ministry of Finance as principal beneficiary implementing the project will be responsible for granting equal chances of participation in this project independently of gender.

### Conditionality and sequencing:

Implementation of the tasks related to the application of laws on indirect taxes, i.e. VAT and excise tax, depends on the establishment and commissioning of the wide area network.

- Implementation of the tasks related to direct taxes by the end of 1999. According to government assumptions, the new legal regulations on income tax should enter into force as of 1 January 2000.
- A two phase approach will be followed by the project, whereby the computer equipment (1.4 m EUR) will be provided in the second phase once the taxation administration has a clear view on its modernisation and administrative requirements. This will be developed in phase 1 with the help of twinning once the currently ongoing feasibility study has been completed.
<table>
<thead>
<tr>
<th>Programme title: IMPROVED TAX ADMINISTRATION</th>
<th>Programme no.:</th>
<th>Date of drafting:</th>
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<tr>
<td>LOG-FRAME PLANNING MATRIX</td>
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<td>March 1999</td>
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<tr>
<td>Planning period: 09/99-12/01</td>
<td>Phare: 4 million EUR</td>
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### Wider objectives
- Preparation of the Polish tax system and tax administration to conform to the EU standards and requirements
- Increased institutional ability of the tax administration to fulfil the EU requirements pertaining to the tax sector.

### Immediate objectives
- Creation of a legal framework for the Polish tax system conformant to the EU requirements.
- Modernisation of the tax administration.
- Development of operating ability to apply the Community “acquis”
- Increased institutional ability of the tax administration.
- Conformance to the EU law
- Improved level of services provided to taxpayers.

### Results of projects
- Adjustment of regulations pertaining to VAT and excise tax.
- Adjustment of key areas within the scope of income tax and corporate income tax and the law on business activity.
- Preparation of the plan of the tax administration.
- Increased effectiveness and efficiency of the tax administration.
- Adaptation of POLTAX system to co-operate with the EU systems.
- Creation of a wide area network.
- Creation of a training programme for the Ministry of Finance employees within the scope of the EU legislation.
- Adoption of the EU directives on taxes.
- Effective exchange of information and experiences.
- Increasing the budgetary receipts.
- Reduction of the ‘grey area’
- Strong and compatible IT system.
- Improved training conditions.
- Higher level of professional training amongst employees.
- A possibility of a direct data exchange between tax administration units.

### Sources of information
- Commission Regular Report on implementation of the Accession Partnership and NPAA
- Opinion of the EU and Strategic Planning Group
- Official publications.
- Ministerial statistics.

### Assumptions and risks
- Polish government to speed up modernisation of the tax sector.
- Determination of legal frameworks by the Parliament.
- Allocation of appropriate funds for project implementation

### Inputs:
- twinning, equipment
Annex 2: Cost Breakdown (million EUR)

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IMPLEMENTATION SCHEDULE OF THE PROGRAMME

<p>| Date of Drafting | March 99 |</p>
<table>
<thead>
<tr>
<th>Projects</th>
<th>Implementation Schedule (Quarters)</th>
<th>Budget Allocation</th>
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<tbody>
<tr>
<td>Sub-Projects</td>
<td>PLANNED</td>
<td>Cost Estimate</td>
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<tr>
<td>Improved Tax administration</td>
<td>D D/C C/I I I C/I I I I I</td>
<td>4.000.000</td>
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<td>(Phare financed components)</td>
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<td>Total Programme</td>
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Legend:

D = design of sub-projects.

C = tendering and contracting.

I = contract implementation and payment.
<table>
<thead>
<tr>
<th>Sub-Projects</th>
<th>Expected cumulative Contractual Commitments</th>
<th>Budget Allocation Cost Estimate</th>
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<tbody>
<tr>
<td></td>
<td>PLANNED</td>
<td>Million EUR</td>
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<tr>
<td>Improved Tax administration</td>
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<tr>
<td>Total Phare support</td>
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<td>2.6</td>
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<tr>
<td>Programme Title</td>
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<tr>
<td>Projects</td>
<td>Expected cumulative disbursement (Payment) Schedule</td>
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<td>Sub-Projects</td>
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<tr>
<td>Improved Tax Administration</td>
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Annex 5: Relation to previous Phare activities and other projects

1. Phare’94; contract ref. PL 9404-26 within the scope of VAT tax – two expert appraisements were prepared;
   - VAT tax in the agricultural sector,
   - VAT tax in the public utility institutions at the local (territorial self-government) and national level in Poland.
4. In 1994, the Ministry of Finance initiated work on tax administration Human Resources Development Project (PHARE project ref. 9108-82).

The project submitted herewith is the basic element of a dozen of undertakings taken up by the Ministry of Finance in co-operation with international organisations within the scope of the tax system reform and improvement of the tax administration’s organisation. As part of the subject discussed in this paper, the following tasks deserve to be mentioned, namely:

World Bank
1. Preliminary version prepared by the World Bank experts, pertaining to the condition and directions of the Polish tax administration reform, has been submitted. This report was prepared in consequence of a consultation and a seminar organised in Warsaw in June of 1998.
2. The mission of the World Bank experts is in progress, and its task is to prepare legal and organisational solution proposals within the scope of real property tax (cadastre). These tasks are to be financed by the so-called Japanese grant.
3. Arrangements relating to implementation and financing of training relating to use of Oracle environment for the Ministry of Finance employees are at their final stage. Training will be financed by the so-called Japanese grant.

International Monetary Fund
The IMF and World Bank mission prepared a joint report pertaining to review of the general strategy and the programme of work on tax administration reform titled “Strategic priorities of the tax administration”.

ANNEX 6: NOT APPLICABLE
ANNEX 7

LIST OF LEGAL ACTS CONNECTED WITH THE PROJECT

Indirect taxes
1. Act of 8 January 1993 on the tax on goods and services and excise duty (Official Journal of Laws No 11, item 50, with later amendments).

2. Regulation of the Minister of Finance of 15 December 1997 on implementation of certain provisions of the Act on tax on goods and services and excise duty, (Official Journal of Laws, No 156, item 1024, with later amendments)

3. Regulation of the Minister of Finance of 27 December 1995 on the list of goods for the purposes of collection of tax on goods and services and excise duty for imports, (Official Journal of Laws No 154, item 798, with later amendments)

4. Regulation of the Minister of Finance of 16 December 1998 on excise duty, (Official Journal of Laws, No 157, item 1035)

Direct taxes
1. Act of 15 February 1992 on income tax on legal persons, (Official Journal of Laws No 106, item 482, with later amendments)

2. Act of 26 July 1991 on income tax on natural persons, (Official Journal of Laws No 90, item 416, with later amendments)

TIME SCHEDULE FOR THE LEGISLATIVE CHANGES RELATED TO THE PROJECT

Indirect Taxes
1. Bill on amending the act on VAT and excise tax that will introduce necessary changes and should be introduced in 1999.
   Timeframe: January 1999

2. Initial bill on VAT – in compliance with requirements set forth in the Polish Constitution and EU directives:
   Timeframe: January – March 1999

3. Initial bill on excise tax – in compliance with requirements set forth in the Polish
Constitution and EU directives:
Timeframe: January – March 1999

4. Draft of a directive issued by the Ministry of Finance on amending a directive on executing some of the provisions of the act on VAT and excise tax.
   Timeframe: February – March 1999

   Timeframe: April – June 2000

   Timeframe: April – June 2000

Direct Taxes

1. Developing a draft of the target tax system
   Deadline: March 31, 1999

2. Filing the draft for acceptance with the Council of Ministers (Cabinet)
   Timeframe: June 1999

3. Passing a resolution on amendments by parliament
   Timeframe: November 1999
REFERENCE TO THE STRATEGIC PLANS
TAX SYSTEM – MAIN ASSUMPTIONS TO CHANGES.

When preparing the draft tax system reform, the following key assumptions determining its final form were adopted. The final version of the tax system should:

? support achievement of strategic social and economic objectives: growth of the economy at the average rate of 6% p.a. for the next 10 years, and faster creation of new workplaces,

? increase public trust in the law, remove sources of manipulation and tax abuses,

? confirm to the European Union requirements,

? provide the Polish economy with an opportunity to defy new or incremental events such as tax competition, that is, movement of people, companies and capital to more tax advantageous countries.

The essential part of the reform pertains to direct and indirect taxes.

1. Direct taxes.

It is expected that from the year 2000, a single act will contain principles of taxation pertaining to income tax covering all entities, regardless of their organisational and legal form as well as types of income sources.

Assumptions to the tax system reform presented in the White Book of Taxes were accepted for implementation by the Polish government starting in 1999.

The anticipated target is to have natural and legal persons taxed on the basis of one tax rate equal 22%, and to be valid from 2002. At the same time, majority of tax allowances making the tax system more complicated will be eliminated. By using the tax-free amount, the lowest income will be excluded from taxation.

The target, uniform rate of personal income tax equal 22% would be valid as soon as in the year 2000.

2. Indirect taxes.

In the next few years, the main problem will be adjustment of solutions within the scope of the Polish system of indirect taxes to the European Union directives prescribing e.g. minimum rates and a schedule of goods and services which may be subject to lower VAT rates as well as the minimum rates of excise tax (on mineral oils, alcohol, cigarettes and tobacco products).

ORGANISATION OF THE TAX ADMINISTRATION

At present, the Polish tax administration is faced by the necessity to resolve a number of problems resulting from major changes to the tax policy, de-centralisation of the State and public administration structures, and preparation for accession to the European Union. Other elements of this particular area of interest include: growth in the number of taxpayers, changes to taxpayer traits related to development of the sector of services difficult to levy a tax on, computer and telecommunication technologies becoming more and more popular, and
which may be used by taxpayers to cover up business transactions. In order for the tax administration to cope with these problems in an organised and effective manner, it is necessary to urgently formulate a strategy identifying the most important objectives of the tax administrations, and determine tasks which have to be undertaken for the purpose of achieving the aforementioned objectives.

**Policies related to making work of the tax administration more efficient**

Changes to the tax law will be the main impulse for moving in the direction of quality changes in the organisation of the tax administration.

Beside obvious benefits for taxpayers, the planned gradual simplification of the system will also have a positive impact on organisation of the tax administration and effectiveness of its operations.

The prospective organisational solutions include:

- **holding onto the independent tax administration status by the tax administration subordinate to the Ministry of Finance.** This model provides a warranty of uniform implementation of the State’s financial policy, especially the uniform policy on usage of the national budget receipts. Role of the head office of the tax administration in the Ministry of Finance should be built up.

- **Establishment of the national tax administration with a structure based on its basic functions, that is, analysis of tax statements, inspection, execution and servicing of taxpayers.**

- **Separation of the task of tax policy formulation from the tax administration which will let the tax administration to concentrate on its basic tasks.**

- **Preparation and implementation of a proper strategy for IT techniques supporting the tax administration reform.**

- **Drawing up and implementation of work effectiveness standards to be used as an indicator of advancement in implementation of the tax administration reform strategy.**

- **Unification of organisational structures of the tax administration offices providing for standardisation of work organisation regulations, determining model organisational solution standards.**

One of the most important projects will include commencement of work designed to determined requirements related to obtaining an effective and efficient IT service. The conception pertaining to implementation of IT service will be accepted, and which will ensure that users perform their duties in the field of computer technology, at the same time improving co-operation between end users and IT personnel. For that purpose, expenditure related to IT aimed at making the current user systems, computer and telecommunications infrastructure will be increased so as to satisfy the current and future operating needs of the tax administration.

Implementation of these tasks will require:

- **Implementation of the IT systems implementation conception which will ensure that users are responsible for using the system, at the same time, improving relations between users and IT personnel.**

- **Increasing IT related expenditure.**

- **Imposing a duty on end users from the tax administration to prepare and introduce user**
systems,

? Setting up of a committee responsible for the annual strategic plan of IT, and determination of priorities of IT department.

? Setting up project teams involving end users and computer scientists for the purpose of implementing a central registration system, data storage, electronic recording of receipts and the uniform system of accounting.

? Introduction of the wide area network (WAN) connecting all organisational units of the tax administration.