'Simplification of tax administration procedures and reduction of administrative burdens'

Case study of a Hungarian ESF project under the study 'Progress Assessment of ESF Support to Public Administration' (PAPA)

Written by György Hajnal
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PROJECT BACKGROUND

SIMPLIFICATION OF TAX ADMINISTRATION PROCEDURES AND REDUCTION OF ADMINISTRATIVE BURDENS

Operational Programme	The project is supported under the measure KÖFOP-1.0.0-VEKOP-15 'Reduce administrative burdens' under priority 1 of the Operational Programme for Public Administration and Civil Service Development for 2014-2020 (CCI 2014HU05M3OP001).
Beneficiary organisation	National Tax and Customs Administration of Hungary *(Nemzeti Adó- és Vámhivatal)*
Target groups	Tax-paying citizens, entrepreneurs, businesses
Project duration	Planned January 2016–March 2021; currently extended to 31/12/2021
Budget	EUR 46 million (ESF contribution: EUR 33.3 million)
Project manager (email address)	Dr. Tünde Katalin Matyasovszki, Director General, National Tax and Customs Administration
Partners	Government Information Technology Agency *(Kormányzati Informatikai Fejlesztési Ügynökség)* NISZ National Infocommunications Service Company Ltd. *(NISZ Nemzeti Infokommunikációs Szolgáltató Zrt.)*
Project/organisation website	https://en.nav.gov.hu/ https://kifu.gov.hu/content/adóügyi-igazgatási-eljárások-egyszerűsítése-adminisztratív-terhek-csökkentése

This case study was produced as part of the project 'Progress Assessment of ESF Support to Public Administration', contracted by DG Employment, Social Affairs and Inclusion of the European Commission. The purpose of this project is to present specific cases of ESF-funded public administration reform and capacity-building initiatives, as well as to show the role of ESF financial support to public administration for the purposes of accountability. This report recounts the story of the project **'Simplification of tax administration procedures and reduction of administrative burdens'**.

An important note on the data limitations of the current case study

Access to interviewees and, in particular, documentary evidence relating to this project was somewhat limited. In particular, the study team has been unable to acquire the original or current planning documents for the project (including the feasibility study). Many of the specifications relating to project components, and their correspondence to the goals of the project, are vague. In a number of instances, these have also changed during the course of the project. The study team has attempted to address these ambiguities in the course of a one-hour group interview with officials who possessed some in-depth insight. In relation to certain areas of the project, however, this has still proved insufficient – especially since these officials were not part of the project's management team from the outset.

This case study, therefore, provides an account of the relevant policy developments, the design of the ESF-funded project, and observations relating to the key challenges that may have delayed project implementation, which has not yet begun at the time of writing this case study (August 2019). Since project implementation has been postponed, this case study focuses less on the main results, lessons learnt and ESF support, in comparison to other case studies developed during the 'Progress Assessment of ESF Support to Public Administration' project.

SIMPLIFICATION OF TAX ADMINISTRATION PROCEDURES AND REDUCTION OF ADMINISTRATIVE BURDENS

Introduction: the context of the project

'The Tax Agency has always been at the forefront of ICT developments, including e-government solutions, within the public administration,' explains Dr. Matyasovszki, current Director General for Strategic Project Coordination at Hungary's National Tax and Customs Administration (*Nemzeti Adó- és Vámhivatal,* NAV)[1]. 'Therefore, when PADOP's [Public Administration Development Operational Programme] e-government-related call was published, it was an obvious decision for the top management of the NAV to apply for ESF funds to implementation of its pre-existing plans to improve the capabilities of the tax administration.' – Dr. Matyasovszki refers to the decision of the previous leadership at the NAV to apply for ESF funding. Indeed, the NAV has been in the vanguard of government ICT since the early years of transition in 1989/1990. For example, the NAV was among the first bodies within the entire public administration to pilot electronic solutions for personal identification solutions and application forms[2].

As illustrated by the graphs below, the past one and a half decades have exhibited a marked increase in client-oriented digitalisation development projects. In the 2000s, such projects largely consisted of providing the ability to submit tax declarations electronically rather than on paper, and providing incentivising tax payers to do so (see Table 1).

Table 1. Electronic versus conventional tax declarations (2003-2009)

YEAR	2003	2004	2005	2006	2009
Number of electronic tax declarations	9,126	64,520	249,054	1,152,839	15,614,872
Total number of tax declarations	17,229,700	20,082,900	20,105,510	20,766,271	19,097,600
Proportion of electronic (%)	0.053	0.321	1.24	5.55	81.76

Source: Csekei-Tóth and Futó 2016 p.109.

More recently, however, the main emphasis of development activities at the NAV has been to enable the tax authority itself to prepare those declarations on behalf of taxpayers (see Figure 1).

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[1] Note: Before the personal interviews, the NAV proactively provided a 15 pages summary on the project, including a historical overview and the current status.

[2] Csekei-Tóth, K. and Futó, I. (2015), 'E-kormányzat az APEH Informatikája szemszögéből 1998-2010 között' [E-government from the viewpoint of the IT department of the Tax and Financial Control Administration between 1998-2010]. In: Molnár-Sikola (eds.) *Fejezetek a magyar e-közigazgatás történetéből* [*Chapters from the History of E-government in Hungary*], Szeged: Primaware.
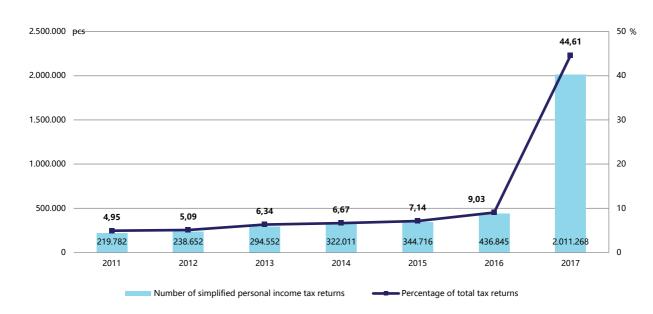
Figure 1. Personal income tax declaration prepared by NAV (2011-2017)

	Number of simplified personal income tax returns	Percentage of total tax returns
2011	219.782	4,95
2012	238.652	5,09
2013	294.552	6,34
2014	322.011	6,67
2015	344.716	7,14
2016	436.845	9,03
2017	2.011.268	44,61

Source: NUPS (2018), p.157.

The capacity-building project examined in this case study (entitled 'Simplification of tax administration procedures and reduction of administrative burdens'; hereinafter referred to as 'the project' or 'the current project') focuses on e-government solutions in tax administration. It therefore makes sense examine the factors that have prompted the strong focus on digital service delivery within the tax administration, in comparison to other fields of e-government and administrative service in Hungary. First, as the largest public administration organisation in Hungary, the operations of the NAV have a fundamental impact upon government revenues. This prominent position led to the establishment of significant organisational competence in ICT within the NAV as early as the 1990s. Second, tax administration is the area of public administration that involves the highest volume of direct contacts with clients; service uptake in this area is therefore by far the largest. Finally, in contrast to most other administrative/client service areas, tax administration has a significant share of corporate clients (as opposed to private citizens). Greater organisational capacity and ICT competence among corporate clients enabled the NAV to require the compulsory use of digital service delivery channels for corporate clients as early as 2006.

Together, these circumstances have made tax administration[3] the chief focus of efforts to reduce administrative burden – a key theme of administrative modernisation in Hungary since the early 2000s. This policy objective had already appeared as a key priority in 2011, as part of the government's public administration reform programme, the *Magyary Plan.* The 'Simplification Programme' (*Egyszerűsítési Program*) targeting citizens was launched in August 2011, by the parent Ministry of NAV. Shortly afterwards, in November 2011, the 'Simple State Programme' (*Egyszerű Állam Program*) was launched, aimed at business. These two programmes were complementary in nature; the combination of the two was expected to lead to a reduction in the administrative burdens imposed by regulatory instruments, and thereby increase client satisfaction and, ultimately, the competitiveness of Hungary's public administration. Among the

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[3] OECD (2017), *Cutting administrative burdens on citizens: implementation challenges and opportunities.* Available at: http://www.oecd.org/gov/regulatory-policy/50444905.pdf (Accessed: 14 August 2017).

programmes' priority areas were the simplification of administrative tasks relating to taxation and accounting rules, and the introduction of new e-government solutions.[4]

The updated public administration reform strategy document released in 2015 defines three main components of Hungary's so-called 'bureaucracy reduction programme': improving the quality and quantity of administrative services offered to citizens; reducing the administrative fees and charges payable by citizens; and reducing the processing times and administrative deadlines set for administrative procedures (as regulated by the new law on administrative procedures 150/2016, which entered into force on 1 January 2018). As a result of legislative changes to tax procedures (Law 150/2017 on taxation), the reform of service delivery by the NAV can be considered a flagship element of reforms in the areas of service delivery and digitalisation. An important aspect of these reforms at the NAV was the introduction of a novel paradigm for compliance. Instead of emphasise the detection and punishment of non-compliance on the part of clients, the NAV would focus its efforts on helping taxpayers to comply with tax liabilities. One particularly impressive element of these reforms was the introduction, from 2018, of personal income tax declarations prepared by the tax authority on behalf of every natural person. By connecting different databases to create a single online client portal, this measure has led to a perceptible decrease in the administrative burden placed upon citizens.

Several notable challenges have appeared at policy level that are relevant to the project analysed here. The first of these involves the constant need for modernisation. As one senior manager at the NAV explains, 'As a result of the ICT development steps implemented over the past year, the NAV now possesses an increasingly sophisticated ICT support infrastructure. However, due to the ever-changing needs of clients and changes in the ICT technical environment, the functionality of this complex system can only be ensured through constant modernisation and upgrading.'
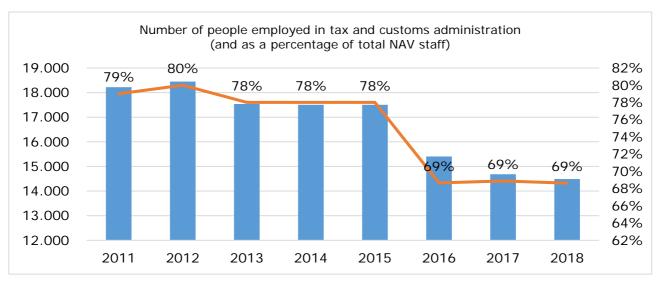
Moreover, despite significant improvements in digital service delivery, tax administration continues to impose a significant administrative burden on clients – particularly those in the corporate sector. This burden contributes to continued pressure from these stakeholders to make further improvements. As the president of the National Association of Entrepreneurs and Employers (VOSZ) puts it, 'One of the key issues for VOSZ is the reduction of corporate bureaucracy [in relation to tax administration]. Based on a 2018 survey of our members, we put forward two packages outlining proposed improvements to tax policy. One these packages includes 38 proposals to reduce administrative burden.'

Finally, earlier developments in e-administration have produced a diverse set of components, many of which are based on different hardware and software platforms. This diversity has resulted in less than ideal levels of usability, and in some cases, incoherence. One example is that of the two parallel telephone hotline services operated by NAV for information and service delivery purposes. Thus, an increasingly effective, efficient and client-centred mode of operation is hindered by a fragmented ICT environment. This the ability of the system to deliver both reductions in administrative burden, and the automated and efficient management of internal data (for example, in the field of freight transport document handling).

In addition to the above challenges, staff cut-backs (in particular the one implemented on 1 February 2016) have significantly reduced the number of personnel at the NAV (see Figure 2).

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[4] The tasks related to the SSP – targeting businesses – were set out by Government Resolution 1133/2011. (V. 2.). On the short and medium term the government program aimed at reducing administrative burdens on businesses. The second phase of the SSP was launched by the adoption of Government Resolution 1405/2011. (XI. 25.) This measure stipulated that 114 measures should be implemented by the end of 2013.

Consequently, the workload of remaining staff has risen constantly over recent years. The volume and diversity of tasks are also on the rise.

Figure 2. The size and composition of NAV staff (2011-2018)

Number of people employed in tax and customs administration (and as a percentage of total NAV staff)

Source: NAV yearbooks 2011-2018

As discussed earlier, developing the level of service delivery has been a central element of NAV operations throughout recent years. Key steps in this area – funded to a significant extent from domestic sources – include a system, established in 2015, to register the movement of goods in real time (EKÁER, the Electronic Public Road Trade Control System); the so-called 'e-SZJA' system, created in 2017, which automatically prepares personal income tax declarations on behalf of private citizens; and the Online Invoice Platform (*Online Számla Rendszer*), launched in 2018, which registers in real time all invoices issues above a modest threshold. The last of these was originally planned as a component of the current project. All of the above represent significant and highly ambitious improvements, both in terms of their technical context and societal/policy impact.

Other important measures, largely belonging to the category of bureaucracy reduction, include a series of measures to shorten processing times for administrative case handling, as well as the reduction or elimination of various administrative fees payable by clients.

In considering the background to the present project, another important change to the organisational landscape of tax administration must be considered: in 2011, the historically separate entities of tax and customs administrations, along with a number of other, smaller units, were merged to form a new entity named the NAV. From this point on, all administrative and policing functions relating to the collection of taxes and customs charges are now handled by a single entity. The organisation's strategy– the latest version of which is called 'NAV 2.0' – aims to improve the tax collection and law enforcement capacities of the organisation through immense ICT deployment in the front office, the back office and in the domain of data analytics and management.[5] The development of these domains is expected to reduce the amount of time clients need to devote to their administrative obligations. Simplified procedures aim to increases

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[5] Garami, G. and Kalocsai, K. (2018), 'Megújul az adóhivatal' ['Renewal of the Tax Authority'], In: *Adóvilág*, 2018/2. Available at:
https://www.nav.gov.hu/data/cms473701/Garami_Gergely_Kalocsai_Kornel___NAV_2.0___Megujul_az_adohivatal.pdf (Accessed: 25 August 2019).

the ease doing of business, while real-time, data-driven risk management activities will increase the effectiveness of the organisation's activities. By creating an efficient and effective tax administration, the strategy aims to increase voluntary compliance, resulting in the 'whitening' of the economy, and contributing to the shrinking of the tax wedge.

Design and execution of the ESF-funded project

Design of the ESF-funded project

The current project actively builds on the previous measures, which were financed from ESF and managed under the framework of the E-Government Operational Programme (*Elektronikus Közszolgáltatás Operatív Program*, EKOP) aiming at the digitalisation of services provided by the NAV and its predecessors. The projects implemented under the EKOP programme are as follows:

- Central electronic payment solution (*Központi elektronikus fizetési megoldás*, e-Fiz); July 2008–August 2013. This project was key not only to tax administration but to all administrative services delivered electronically. It enabled clients to make payment electronically to administrative organs.
- Consolidation of back-office infrastructure (*Háttér-konszolidáció*), August 2012–October 2014. This project improved the ICT infrastructure underlying the NAV's internal support systems (HRM and financial management). Part of this project was the introduction of electronic document handling.
- Improvement of client services (*Ügyfélkapcsolatok fejlesztése*), September 2012–October 2014. This project reorganised and extended the portfolio of all three channels of client services. A new feature enabling legal representatives' automatic authorisation was made available in the online system.
- Integration of tax administration subsystems (*Adóigazgatási szakrendszerek integrációja*), February 2013–October 2014. This project improved the data system used to track tax inspections, enabling inspections to be based on risk assessment and providing improved administrative support for enforcement proceedings.

Since the inception of the current project, the management of the beneficiary organisation, the NAV, has changed several times. The latest of these changes occurred after the formation of a new Cabinet in 2018. On the technical level of project planning and implementation, there has, however, been relative stability – particularly in relation to the long-standing internal unit called the Institute of Informatics (*Informatikai Intézet*), as well as the NAV's in-house ICT company, *Pillér Kft*. All current and past ICT development projects have been designed, and in part implemented, by these actors.

The PADOP Managing Authority published its Call for Tenders on reducing administrative burdens in September 2015. Its primary target was public organisations who were eager to digitalise their client service operations and to develop their underlying ICT systems, with the aim of simplifying administrative procedures and shortening processing times. A Senior Official of the PADOP Managing Authority explains the impetus behind the NAV's funding application: 'It was an explicit expectation of the political leadership that all public administration organisations should analyse the options to make their internal procedures "paper-free" in a cost efficient manner according to the guidelines provided by the Ministry of Interior, and by applying for PADOP funding.'

Nevertheless, our interviewees were unable to recall precisely who initiated the current project. Instead, the Senior Official of the PADOP Managing Authority emphasised that 'NAV is a central actor in the field of digitalised administrative services and has a very significant economic role and weight [fitting well into PADOP's system of priorities, which centres on competitiveness]. Including it into PADOP was therefore a straightforward step.' Therefore, during the planning and strategy making phase the ESF was an important component in achieving the digitalized administrative services in the tax procedures.

The technical content of the project was defined by the competent managers in consultation with relevant organisational units – in particular, the NAV Institute of Informatics – based on a concept study prepared during Q2 of 2015, and in accordance with the general e-government policy guidelines published in September 2015.

The design and planning of the project, including the development of the feasibility study, was coordinated by the NAV Informatics Development Department (*Informatikai Fejlesztési Főosztály*). From 1 January 2016, following an organisational reshuffling within the NAV, this role was taken over by the NAV Central Administration Project Department (*Központi Irányítás Projekt Főosztály*), accompanied from June 2016 by the NAV Strategic Project Department (*Stratégiai Projekt Főosztály*). The NAV Institute of Informatics continues to play a central role in project planning and design. In addition, the NAV contracted external experts and consultants to contribute, who performed interviews with senior managers and organised workshops. These inputs were built into the project plan. It is interesting to note, however, that one of the interviewees, János Tardos, the vice-president of VOSZ, the National Association of Entrepreneurs – one of the most important umbrella organisations within the business sector – observed that his organisation was involved neither in this nor the subsequent phases of the project. In fact, said Mr. Tardos, he had never heard about the project.

Given that the Call for Tenders (released in September 2015) had already specified the development policy objectives in significant detail, little room remained to further specify the goals and objectives of the project. The reduction of administrative burden was the primary criterion for eligibility. As the Senior Official of Managing Authority put it, 'what counts is decreasing waiting and processing times for citizens'. This objective is a key element in achieving the overall strategic goal of the NAV, set out in its strategy document, namely to operate in a rational and coherent manner within a transparent structure, supported by an increasingly stable and secure ICT environment and, eventually, to operate in a more economical and efficient manner.

According to the management rules and procedures of the EU Structural Funds, the Hungarian Government adopts 'annual development frameworks' (*Éves Fejlesztési Keret,* ÉFK*)* for every Operational Programme*. Government Resolution 1004/2016 stipulated the basic attributes for all PADOP projects, including six objectives for the NAV Project. These components, together with their relationship to the intervention logic set out in the introductory chapter of this report, are as follows.

(1) Improvement of communication channels to clients: 'Electronic one-stop shop for communicating with clients (including an electronic document repository)'. This includes the upgrading of the eBEV electronic tax declaration portal; the creation of a personalised tax calendar for clients and an e-document repository; the improvement of the NAV's web page (nav.gov.hu); and the improvement of contact centres that offer clients access to information and transaction services within Hungary and abroad. All of these features contribute to a reduction in the administrative workload imposed on clients by tax administration.

(2) Developing the Electronic Road Transport Document System (*Elektronikus Közúti Szállítási és Menetlevél Okmány,* EKSZMO). This component supports the operation of road transport businesses by lessening paperwork required. The EKSZMO system builds on the integration of the e-tax account, e-transport documents, e-invoice and EKÁER (see below) systems. It provides real-time electronic transport documentation.[6] EKSZMO is intended to be a real-time online registration and report system, enabling measurements of road freight transport to be uploaded and subsequently tracked by the authority. Certain transport vehicles are obliged to record data on the driver, starting point and destination, cargo etc.

(3) Creating a system to track taxpayers over the course of their lives, thereby lessening the burden of coordination among the different segments of tax administration. This system connects various events during a taxpayer's life, thereby enabling tax authorities to quickly and easily access data relevant to individual administrative cases and thereby improving the speed and regularity of administrative decision making. The system improves the quality of operations too, since clients are delivered coherent services rather than disjointed and possibly incoherent ones.

(4) Developing the infrastructure necessary for an individual tax accounts system allowing taxpayers to perform tax-related administrative tasks, including payments, more easily.

(5) Developing a data warehouse and data publication portal to enable smoother communication with clients and improved service delivery. This component integrates the NAV's various data subsystems. It enables, among other things, the creation of specialised 'data markets', such as the market in data relating to criminality, and another relating to money laundering. These data markets aim to improve the effectiveness of the NAV's investigative work.

(6) Connecting various NAV subsystems such as the online invoice system, the EKSZMO document system, and EKÁER (the Electronic Public Road Trade Control System; a real-time tracking system for road transport, involving national CCTV monitoring of roads and transport vehicles). The purpose of the online, real-time invoice system is to strengthen tax compliance and help eliminate the black economy. In addition, it provides a freely accessible online invoicing platform for businesses. The 'big data' created by this system enables the use of data mining methods and inspection and control activities based on risk assessment.

The current project serves the following objectives of PADOP:

Specific objective 2.A.1.1.1: 'Procedural bottlenecks restricting business activities and citizens' opportunities to arrange matters are eliminated: the administrative costs and/or time spent by clients is reduced'.

Specific objective 2.A.1.1.2: 'High-level and advanced administrative e-administration solutions are introduced (for citizens, public administration and businesses)'.

As the implementation of the Project has not started yet at the time of writing there is no dedicated team or unit responsible for the project. The Director General for Strategic Project Coordination (*Stratigiai Projekt Koordinációért Felelős Szakfőigazgató*) is in charge of coordinating project planning and tasks related to liaising with the Managing Authority and with project partners. Strategy and Project Department (*Stratégia és Projekt Főosztály*) has been in

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[6] Szabó, K. (2017), *Az EKÁER rendszer működési tapasztalatai, továbbfejlesztési irányai és az EKSZMO.* [The experiences of the operation Electronic Public Road Trade Control System, the opportunities for further development and the EKSZMO]. Presentation uploaded November 2017. Available at: https://www.slideshare.net/CsillaPataki/szab-kroly-az-eker-rendszer-mkdsi-tapasztalatai-tovbbfejlesztsi-irnyai-s-az-ekszmo.

charge of operational tasks related to the Project so far, relying on other units (such as the responsible for preparing public procurements) as necessary. We should note nevertheless that our view of the Project organisation is somewhat incomplete as we were not able to acquire all information we requested.

Implementation of the ESF project: main developments

Although the project was planned as part of the PADOP 2014-2020 operational programme, at the time of writing (August 2019), implementation has not commenced. Consequently, the current case study focuses on the project's policy context and on its planning and design. In relation to its implementation, the case study focus only on the challenges, obstacles and other factors shaping the project's design and contributing to delays in its implementation. As the project has not yet entered the implementation phase, no results have yet been achieved, and there are no outputs or outcomes.

The specific objectives of the project were defined in the autumn of 2015. Subsequently, the detailed design of project elements began. As with other ESF funded projects during the 2014-2020 period, this project, its specific objectives, main components and budget are set out in the 2016 Government Resolution referred to earlier (for a detailed list of these, please refer to the previous section).

The project's grant request was signed in 2016. Around the same time, the NAV began to create the organisational basis for the project's management. A unit was created, dedicated to the management of EU-funded projects. Before this time, no such dedicated unit existed.

However, during 2016 the design and implementation of the project were significantly impacted by a number of important changes:

- In early 2016, the beneficiary organisation NAV underwent a significant organisational reshuffle and change of leadership. Due to the significant organisational changes (structural reshuffling, changes in leadership, and a 5% staff cut) the management and implementation capacity of NAV can assumed to have decreased.
- The NAV's portfolio was broadened to include tasks not foreseen during the project's design phase. Conforming to these new task expectations required significant resources and attention.
- A new law on public procurement entered into force, effecting significant changes in the way public organisations procured goods and services. Albeit many changes were intended to simplify procurement procedures, in this particular context they implied significant additional red tape. In particular, NAV now has to get the approval of the Ministry of Interior prior to launching public ICT related procurements under this Project. The changes affected tender calls already in the pipeline as well as new ones.
- In April 2017, the project's Managing Authority paid out the first instalment of the grant to finance preparatory work, including the drafting of the grant agreement.

The interviewees provided little information regarding events having taken place within the project organisation between May 2017 and July 2019. Nevertheless, we have managed to reconstruct the significant decisions changing the Project's major components. The government's changing policy priorities, together with changes in the legal and regulatory framework, as well as changes to NAV's task portfolio, triggered a need to reduce risks threatening the feasibility of the project as it was originally conceived. Consequently, important components of the project changed: some elements were removed from the scope of the project an under the framework

of ESF and implemented using domestic financial resources, while other elements were added (Table 2).

Table 2. Project components

PROJECT COMPONENT	CHANGES AND THEIR CAUSES / JUSTIFICATION
1. Improving the NAV's communication channels to clients	None
2. Creating the Electronic Road Transport Document System (*EKSZMO*)	This element was removed from the project because it pre-supposed regulatory changes that had not occurred. As a senior interviewee at the NAV explained: 'Although the draft regulatory package had existed at the outset, in order to control risks (of delayed or failed project implementation) we decided instead to remove this component from the project'. It was replaced by the new component VEKTOR (see below).
3. Creating a system to track taxpayers over the course of their lives. Administrative services portal to reduce administrative burden on corporate clients and SMEs in relation to tax declaration. Development of online tax and excise duty registration and declaration.	Improvement of SMEs services such as online registration of data and notification about changes in data, modernization of Data Supply System slit out became a separated project component out of the Component 3.
4. Improving tax account systems: 'base infrastructure necessary for individual tax' and E-invoice system (online, real-time registration of invoices issued).	The online invoice component was removed from the project and implemented instead using national funds. The main reason for this was that the new law on tax administration adopted in November 2017[7] already stipulated the possibility of providing tax account information electronically. The NAV had to comply with this legal obligation, by the time the law entered into force, project implementation had not even started.
5. Creating a data market and data publication portal.	None
6. Online Invoice system integration with EKÁER (the Electronic Public Road Trade Control System).[8]	None

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[7] 2017/CL. Law on Tax Administration.
8 Szabó, K. (2017).

PROJECT COMPONENT	CHANGES AND THEIR CAUSES / JUSTIFICATION
New component: VEKTOR (*Végrehajtási Eljárások Korszerűsítése),* the modernisation of court enforcement procedures). To ensure court enforcement under the law, the NAV, as bailiff acting on behalf of the state, must upgrade its procedures by creating automated procedures to handle bulk data.	New legislation that has entered into force (Law 2016/CL) significantly broadens the NAV's enforcement tasks (it actually stipulates that NAV has a general competency for enforcement across public administration). The request to add this component to the project is, at the time of writing, under consideration by the Prime Minister's Office (*Miniszterelnökség*).

Source: compiled by the Author

The first key challenge to be mentioned is the organisational restructuring of the NAV that took place in 2016[9], and subsequent fluctuation among senior project managers. Our interviewees from the NAV denied that these changes posed a challenge to project implementation[10]. Given the absence of many, if any, plausible alternatives to explain the delay, however, we may assume that wide-ranging structural and personnel changes did in fact hinder or delay the launch of the project. The new structural framework put in place changed the legal status of the NAV, which became an agency supervised directly by the minister in charge (rather than by parliament)[11]. Moreover, the middle (regional) layer of the organisation was abolished. Lastly, a lay-off was implemented of 5% of the organisation's overall staff. Tax and customs administration operating at county level became wholly integrated into the NAV's task structure.

The second major challenge we hypothesise is the change to the NAV's task portfolio. As Dr.Tünde Matyasovszki of the NAV put it, the delay in project implementation can to some extent be attributed to the fact that in 2016 NAV was 'given tasks we had not even thought about beforehand', because the scope of the NAV was constantly expanding due to the technological and IT environmental changes. Another important change to the NAV's role came with the new law on tax administration[12], which stipulated the obligation of NAV to provide e-tax accounts – one of the original components of the project. The tight deadline for the implementation of this regulation required the NAV to implement this measure using national rather than ESF funds.

A third challenge could come from changes to the leadership of the project's management team. Our hypothesis in this regard is inspired by the personal background of the project's managers. One of the interviewees has been in a managerial position since 2016. The other interviewee served as head of this Department between January and July 2016, returning to the position in February 2019. Our third interviewee (Dr. Matyasovszki Tünde) began working as part of the project's management team in February 2019. She already supported the task management of the project area from July 2018, when she took over the Project-related tasks from the previous manager by her, so - as our interviewee stated in our follow-up communication - the preliminary knowledge and background materials were available to her. Still, such a change in key personnel within a small team of the project's top managers may reasonably be assumed to have posed difficulty for the continuity of the project's operations. Indeed, as consequence of this turnover in management, 'organisational memory' appears limited.

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[9] NAV (2016), *Parliamentary Report.* Available at: https://www.parlament.hu/irom40/10377/adatok/fejezetek/16.pdf (Accessed: 25 August 2019), p.3.

[10] In fact, the interviewees categorically rejected the use of such terms as 'difficulty' or 'obstacle' in relation to the project. As one of them said, 'it is not a difficulty if you have new, emerging risks; adapting to such changes is part of our daily operations'.

[11] Government Resolution 1902/2015. (XII. 8.).

[12] Law CL/2017.

The fourth challenge we hypothesise results from changes in Hungary's general legislative frameworks (rather than those relating specifically to tax policy). Interviewees from the NAV made several references to such changes. For example, the new law on public procurement adopted in 2015[13] made significant changes to procurement procedures. In the specific case of this project, procurement became more cumbersome. As one NAV interviewee put it, 'New administrative steps were added to the procedure, particularly in relation to ICT'. Changes to procurement procedures meant, for example, that calls to tender for ICT goods and services became subject to an additional approval step by the Ministry of Interior. Moreover, the new framework required bidders to provide comparable bids, in the absence of which calls to tender had to be redesigned in several cases. 'All technical approvals have to be acquired first, prior to launching a call for tenders', added one interviewee.

A fifth challenge that led to delays according to our interviewees from the NAV, was the rapidly changing nature of the technical environment. Technical solutions, norms and specifications could – and did – change within a matter of months. 'We had to re-write technical specifications every six months, because the market had totally changed in the meantime', said one interviewee from the NAV. 'In parallel, the ICT systems of the NAV itself underwent continuous changes, too'.

According to NAV interviewees, the unit in charge of the project at the NAV constantly monitored and assessed the risks associated with the project's implementation. This unit was created in 2015 as a single structural body in charge of the project's management, replacing an earlier, fragmented system. 'The new arrangement greatly helped us to utilise past project management experience and solve problems', explained one of NAV interviewees. The NAV provides monthly data reporting to the Ministry of the Interior on the status of the project and cooperate with the Managing Authority as well. Furthermore, from time to time, they reported emerging risks to their parent ministry, and if necessary proposed changes to the project. The Ministry usually accepted these proposals. From an ex-post perspective, it appears that these assessments probably had substance. For example, the NAV proposed that the EKSZMO component should be omitted from the project because important regulatory changes would be necessary to ensure its legal feasibility. Those changes are, indeed, still awaiting implementation.

In the process of preparing this case study, we have been unable to identify any specific activities or solutions aimed at handling the problems hypothesised above. Significant decisions appear to be made by the parent ministry. The interviewees were, however, unclear as to how exactly the parent ministry was handling the situation (what actors and decision processes played a role, etc.).

The NAV's 2017 strategy stipulated that the organisation 'places great emphasis on strengthening social participation and raising tax awareness through clear and comprehensible communication towards societal actors'[14]. In order to gain an insight into whether and how societal partners participated in the project's design, we contacted two potential interviewees at two such societal partners – both highly relevant to matters of tax policy. These organisations were:

- The National Association of Entrepreneurs and Employers (*Vállalkozók és Munkáltatók Országos Szövetsége, VOSZ)*[15].
- The Chamber of Hungarian Auditors (*Magyar Könyvvizsgáló Kamara)*[16].

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[13] Law CXLIII/2015.

[14] NAV (2016), p.3.

[15] Website: http://www.vosz.hu/.

[16] Website: https://mkvk.hu/en/homepage.

Neither of the interviewees in these organisations had ever heard about the project. Moreover, neither of them had been involved recently in tax administration development projects or plans, either by the Ministry of Finance or the NAV. Neither interviewee reported any knowledge about surveys among their members aimed at assessing their needs in relation to reducing administrative burden. In fact, the representative of the Chamber refused to participate in an in-depth interview since, as he put it, he had no knowledge whatsoever of the project and its immediate context.

For the sake of completeness, we should add that, according to the interviewee from VOSZ, such societal consultations on tax policy and administrative burden reduction did take place in 2010; however the package developed as a result of these consultations remained largely confined to paper. The interviewee painted a largely unfavourable picture of societal consultation practices in relation to fiscal and tax policy issues. According to him, the government does not include any of the existing four or five important forums or stakeholders in these issues. Instead, the government uses these forums (if at all) to communicate its decisions ex-post. This indicates that the minimal role played by societal consultations in the project's design is not an exception or irregularity, but fits into an overwhelming and generalised pattern.

We should nevertheless note that the evidence in this regard is somewhat incomplete and contradictory. In their follow-up communication our NAV interviewees listed several specific events where different elements of the Project were presented to industry stakeholders (mostly accounting associations), and insisted that such societal inputs play an instrumental role in how the Project develops. Importantly however, the two large industry actors (VOSZ and Hungarian Chamber of Auditors) do not appear in this account.

Conclusion: results, lessons learnt and the role of ESF financial support

Main results

In summing up the results of the project in relation to the components set out in its original plan, we can make the provocative – if somewhat over-simplified – claim that the only components that have so far been implemented are those that have been removed from the ESF-funded project and shifted to the framework of domestic funding. Thus, we can state that significant improvements have been implemented over recent years in terms of simplifying the NAV's internal processes and procedures, and enhancing its efficiency and effectiveness. In particular, the EKÁER system has resulted in a clear 'whitening' of the economy and decrease in tax avoidance and cheating (particularly with regard to VAT).[17] The NAV Portal and the e-BEV online tax declaration system have been welcomed by corporate taxpayers as successfully reducing administrative burdens. Various elements of the project connect with these results; nevertheless, these components still await implementation. It is therefore impossible at the present time to reflect upon the project's outputs and results in any meaningful way.

Lessons learnt

In terms of identifying specific lessons learnt, we are in a similarly difficult position. The interviewees did not endorse the idea that any problems and difficulties had appeared during the lifetime of the project that required them to take a change in approach, or which required

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[17] Szabó, K. (2017).

the elaboration of some sort of solution. Our claims in this regard are therefore somewhat hypothetical and based on inference rather than direct evidence.

- Organisational and legal reshuffles, together with an unpredictable legal environment, present significant risks to the pursuit of pre-determined project plans.
- The case is similar in relation to personnel changes, particularly among the managerial positions of units responsible for the planning and implementation of project.
- Involving more than one key actor (ministry) in the oversight structure of the project may significantly increase administrative delays (e.g. approving procurement procedures or project changes).
- Creating a single unit responsible for the overall management and oversight of the project may, on the other hand, improve coordination and the flow of information, thereby decreasing the risk of administrative delays or the lack of proper coordination.
- The role and effect of societal consultation within the project's planning seems to be modest at best (although see our earlier remark on inconclusive evidence in this regard). This limits the relevance and effectiveness of the project results. Strengthening consultative mechanisms in a transparent and effective manner could help to avoid such problems.

Role of ESF support

The Senior Official of the Managing Authority, expressed the opinion in his interview that ESF support plays a more limited role in relation to NAV reforms than would be the case for many other organisations. This is because the beneficiary organisation NAV has, by default, relatively abundant budgetary resources for the continuous upgrading of its ICT infrastructure, and thereby its internal administrative and external/communication functions. In other words, the NAV's capacity building activities depend on ESF support to a decidedly lesser extent than would be the case for many other organisations.

It appears that ESF funding is used to support capacity building plans that were already in the NAV's decision-making pipeline (and which were, to some extent, initiated irrespective of, and independently from, the ESF programming process). This situation is a two-way street: as was shown above, where an urgent need occurs, or a particular policy acquires increased salience, project components may be moved from the ESF framework to the realm of domestically funded capacity building. In sum, the majority of capacity building is funded from domestic sources, rather than by the ESF.

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