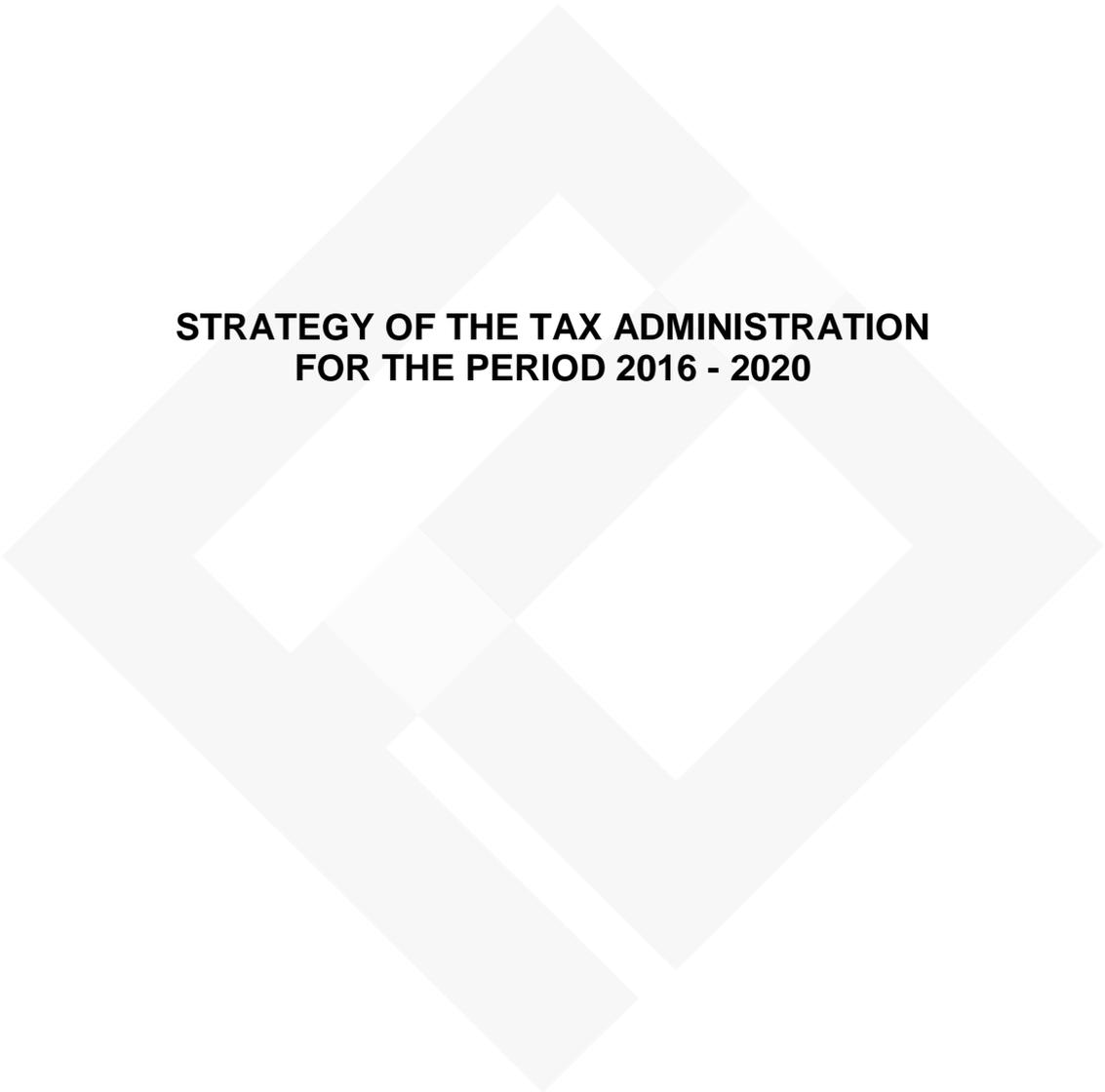




**REPUBLIC OF CROATIA**  
**MINISTRY OF FINANCE**  
**TAX ADMINISTRATION**

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A large, light gray diamond-shaped graphic composed of several concentric, slightly offset diamond outlines, creating a sense of depth and movement. It is centered on the page.

**STRATEGY OF THE TAX ADMINISTRATION**  
**FOR THE PERIOD 2016 - 2020**

**Zagreb, 2016**

## **1. Introduction**

In Tax Administration we are confident that the majority of taxpayers honestly fulfill their tax obligations respecting the constitutional provision which stipulates that everyone must participate in public expenses defrayment in accordance with their economic possibilities. The number of conscientious and honest taxpayers is continuously growing and Tax Administration aims to provide assistance to these taxpayers in order to facilitate the fulfillment of their legal obligations. However, it is known that some individuals believe that compliance and paying taxes is not their responsibility. Tax Administration will take effort to detect such taxpayers and take certain measures.

To this basic segmentation of taxpayers we can add a third group, which includes those who don't aspire to accept novelties and are insufficiently educated, who do not understand tax regulations and unintentionally make mistakes in compliance process. Tax Administration will help these taxpayers by education and adjustment of the services, in order to meet their needs so, they could be a part of the first group of honest and conscientious taxpayers who Tax Administration considers partners.

Large taxpayers deserve special status and services which we provide through the Large Taxpayers Office activity. Tax Administration will continue to develop services and special way of communication with large taxpayers. In order to promote voluntary compliance we will actively encourage taxpayers to acquire a special status which allows them to reduce the administrative burden in compliance process. Medium and small taxpayers can expect better information and education about the most important tax issues in order to facilitate the fulfillment of their tax obligations.

After a long period of economic crisis that strongly affected the conduct and results of Tax Administration in past five years, we expect that the planned economic growth in the forthcoming period will enable taxpayers to comply easier and that Tax Administration will be able to focus more to voluntary compliance encouragement and taking repressive actions in fraud detection and enforced collection of taxes.

Croatian accession to the European Union has set new challenges for Tax Administration. The tax regulations were amended and the biggest changes have arisen in the system of value added tax. Cooperation with the member state's tax administrations became much more intense especially in exchange of information and audit. We are now in a position to conduct multilateral controls with other member states aiming to prevent tax evasion and abuse of the value added tax system.

We expect a good cooperation with the taxpayers in the context of tax regulations and on the basis of principles set in the 'Charter on Cooperation of Tax Administration and Taxpayers'.

## **2. Key points of reference**

In the previous period, Tax Administration functioned in conditions of economic crisis that significantly affected the achievement of strategic goals. Crisis affected most entrepreneurs and citizens as well, so Tax Administration tries to help all the affected categories in the fulfillment of their tax liabilities. In times of crisis and costs rationalization, we have conducted projects in order to increase work efficiency and to facilitate taxpayers in accounting and tax collection.

The successful introduction of PIN as unique identifier of each person in the Croatian legal system preconditions data exchange between different public authorities, including between Tax Administration and other public authorities. PIN allowed the official records of public authorities on persons and property interrelate and exchange information on the basis of established and well defined agreements and protocols.

The PIN record contains updated data on natural and legal persons. All public authorities are enabled to download data contained in the PIN record and update their official records in accordance with their legal powers. Automatic data update on persons from the original records (change of name, surname, title, address, dissolution of legal persons, etc.) provided a rapid and timely data exchange, which ultimately enables cost-effective, timely and consistent implementation of both tax procedures and processes conducted before other public authorities.

The property data is the key indicator of the accurate accounting and fulfillment of tax liabilities, social rights realization and a sign pointing to corruption. However, through a system of data exchange via PIN, property data became known and easily accessible information. Owing to accurate data on taxpayer's property, monitoring of reported income, receipts and determined tax liabilities was enabled, which largely affects the fair and efficient collection of public revenues. Further improvement of the PIN record and IT connecting of Tax Administration and other public authorities is a prerequisite for implementation of tax procedures which strengthen long-term confidence in fair tax system. On the other hand, it will further reduce manual work in Tax Administration and in other institutions so they are going to be able to focus on the implementation of the strategic goals.

Tax Administration has a key role in protecting the interests of each citizen and society as a whole. Through the efficient collection of public revenue, Tax Administration ensures the functioning of all segments of the country and society (army, health, education, etc). By continuous fight against tax evasion and audit procedures improvement, Tax Administration provides equal market conditions to all entrepreneurs.

Through the process of self-assessment, Tax Administration relies on voluntary compliance where taxpayers pay what they owe on time and without coercion. However, the self-assessment will work only if the majority of taxpayers know their obligations and if they are able to fulfill it. We will improve the overall level of voluntary compliance if the taxation costs borne by taxpayers are low. Therefore, an essential element of the voluntary compliance is helping taxpayers to understand their tax obligations and to promote voluntary, timely and accurate reporting of tax obligations while reducing costs borne by the taxpayer.

Tax Administration continuously develops communication with taxpayers, as well as communication within the Tax Administration. A significant number of new services within the system ePorezna were introduced and goals set in 'Strategy of external and internal communications for the period 2012-2015' have largely been achieved. Tax Administration has a new visual identity and a modern website – it brings up to date information needed by taxpayers in their daily work and because of its quality it is quite visited (over 10 million visits in 2015). Within the 'Contact Centre', electronic communication with taxpayers (application 'Contact us') was developed and also a modern Intranet site that has significantly improved internal communication.

By improving electronic services to taxpayers, we will facilitate accounting and payment of taxes and encourage taxpayers to voluntary compliance - that is our strategic orientation.

We will continue to expand and enhance electronic business activity and communication with taxpayers as well as the internal horizontal and vertical communication on the basis of this Strategy.

By adopting this Strategy we want to create basis for operational planning for the period 2016 - 2020 and ultimately for the measurement and assessment of our achievements during and at the end of a given period.

### 3. Mission, Values and Ethics

#### 3.1. Mission

Effective and impartial collection of public revenues accompanied by good cooperation with taxpayers in order to protect society, financial interests of Republic of Croatia and European Union and to ensure equal conditions for all entrepreneurs and citizens in accordance with constitutional principles.

#### 3.2. Values and ethical principles

Tax Administration has been carrying out its mission successfully for 22 years and has achieved a remarkable level of expertise and professionalism. We emphasize the following values and ethical principles:

- **Application of regulations:** Tax Administration will act in accordance with applicable legislation and expects same legally bounded behaviour from the taxpayers.
- **Fair, just and equitable treatment:** Tax Administration employees are impartial, selfless, reliable and respect the principles of professional ethics in cooperation with the taxpayers. They perform their tasks free of any improper influence.
- **Efficiency:** We have a strong organization, supported with quality information system enabling us to be effective in achieving the set goal - collection of budget revenues.
- **Professionalism:** Employees and management have the necessary expertise, provide quality services to taxpayers and encourage voluntary compliance.
- **Willingness to cooperate:** Knowledge and experience is shared with colleagues, taxpayers and other stakeholders. Tax and other regulations within the competence of the Tax Administration are applied to all taxpayers under the principles of equality and transparency.

Tax Administration's employees act in accordance with ethical principles in the 'Code of Professional Ethics'- they are professional, friendly and attentive, relate with due care and respect to taxpayers and to superior and subordinate employees. In our organization we appreciate fair, balanced and collegial relationship with other employees in their daily work.

Objective, impartial and honourable behaviour in line with regulations are the foundation of gaining taxpayer's trust.

### 4. Vision

Tax Administration is a professional organization that provides quality services and performs efficient collection of budget revenues. We are a reliable partner to the citizens and entrepreneurs and important factor in ensuring security and social development. Our vision is carrying out our tasks professionally, efficiently and transparently in accordance with the regulations and set strategic goals. Applying the principles of good governance and quality human resources management we will be appreciated employer of professional and educated employees.

By 2020, Croatian Tax Administration will be among the most efficient organizations in Croatia and one of the most successful tax administrations in the European Union.

## **5. Main tasks and organization of Tax Administration**

### **5.1. Main task**

Croatian tax system is based on the principles of equality and justice, in which all citizens are required to participate in public expenses defrayment in accordance with their economic possibilities. Tax Administration performs its tasks while respecting these constitutional principles.

The scope of work of Tax Administration is determined by the Tax Administration Act. The scope of work consists of proposing changes in tax policy, preparation of draft laws and other regulations to improve tax system and develop more efficient collection of taxes and contributions.

Tax Administration provides expert opinions in individual cases on the application of regulations within the scope of its work, participates in work of the European Union institutions in order to implement common tax policies and performs administrative cooperation with the European union member states and third countries, participates in the preparation and conclusion of international agreements and cooperates with international organizations.

From a wide list of Tax Administration's tasks, in this Strategy we highlight only the most important ones:

- preparation of draft laws and other regulations in order to improve the tax system,
- managing the taxpayers register,
- receiving tax returns, recording tax liabilities in tax accounting, collection and tax refund,
- determining the timeliness, legality and accuracy of submitted tax returns,
- determining the tax base and tax liability,
- compliance risk analysis regarding tax laws and tax liabilities,
- conducting checks, desk audit and tax audit,
- collection and enforced collection of tax debts,
- determination and allocation of PIN and managing PIN record,
- establishing and developing services to taxpayers and public authorities,
- cooperation with tax authorities in European Union member states and third countries.

In performing everyday tasks, Tax Administration employees use applications in Information System of Tax Administration (ISTA). Taxpayers and employees can use a modern web site as well as Intranet sites where employees can find all the important information and instructions for work.

Every work place is equipped with a PC and tax inspectors, who perform audits of large and medium taxpayers, are equipped with laptops. IT communication infrastructure provides support for daily business operations in all organizational units and it is a major factor in effective treatment and reducing the taxation cost.

Electronic business activity is an important goal of Tax Administration since it contributes to a further reduction of indirect taxation costs. In order to increase the percentage of electronic

services usage, especially ePorezna system, Tax Administration will increasingly promote its benefits by publishing information on the web site and by targeted press releases. In addition to further improve the existing electronic services, we will develop new abilities - increasing the number of forms to be submitted electronically and establishing two-way communication in the mentioned system.

## **5.2. Organization**

Tax Administration was founded in 1994 as an administrative unit within the Ministry of Finance called MINISTRY OF FINANCE - TAX ADMINISTRATION. Tax Administration is managed by the Director General who is a state official and Assistant Minister of Finance. Director General manages work in Central Office with help from his Deputy and Assistants, who are also sector managers within Central Office. The organizational structure of Tax Administration was amended in early 2015.

Main features of the 2015 organization are:

1. Territorial reorganization
2. Specialization of audit in the regional offices
3. Specialization of enforced collection
4. Specialization of work in local offices
5. Functional work organization

Territorial organization - Tax Administration consists of Central Office in Zagreb, 7 regional offices (Large Taxpayers Office - national, 6 regional offices - territorial) and 57 local offices.

Specialization of audit in regional offices - inspectors are focused on targeted audits and specialize in certain types of audit:

- Value added tax
- Corporate Income Tax
- Income Tax
- Contributions
- Fiscalization (short audits of invoice issuance)
- Tax crimes investigations

Specialization of enforced collection - enforced collection performed in the local offices is transferred to regional offices and is performed by specialized enforced collection officers.

Specializations of work in local offices – employees are specialized in certain types of jobs:

- Value added tax
- Corporate Income Tax
- Income Tax
- Contributions
- Specialists for real estate, vehicles and other activities with citizens

Functional work organization - employees perform certain activities within a business process.

## **6. Strategic goals**

The strategic goals set out in this Strategy are connected with the 'Strategic Plan of the Ministry of Finance for the period 2016 – 2018'. In the period 2016 – 2020, Tax Administration will be dedicated to the realization of the following strategic objectives:

1. Fair and efficient public revenue collection
2. Protection of society and financial interests of Republic of Croatia and European Union
3. Orientation on cooperation and partnership
4. Improvement of efficiency in usage of Tax Administration's available resources

## **6.1. Fair and efficient public revenue collection**

### **Description**

Public revenue collection is the most important goal to be achieved in a way that everybody is obliged to pay taxes with equal and transparent treatment. Efficient public revenue collection is possible if the tax system is simple, if the regulations are clear and if the taxpayers are introduced with the procedure. We will continue to work on improvements of tax legislation and tax procedures so taxpayers could fulfill their tax liability or exercise their rights more easily. With quality and easily accessible services we will take voluntary compliance to a higher level. Voluntary compliance must be recognized as a value and appreciated responsible behaviour. The more taxpayers voluntarily meet their tax liability, costs are getting lower because Tax Administration won't have to perform costly procedures of audit or enforced collection. To achieve this goal we will work continually to raise awareness in society (including children and students) that paying taxes benefits the whole society.

To achieve this goal it is necessary to modernize the information system so it can support employees and taxpayers in service delivery and tax procedures. We will continue to develop a set of electronic services – ePorezna, which is fully based on open Internet standards. Through this system, we will improve business processes using information technology and reduce compliance costs.

We will develop new methods of cooperation and communication with taxpayers through new communication techniques that will be developed specifically for certain groups of taxpayers (social networking). To achieve this goal continuous education is important, which we implement using a new system of distance learning (e-learning) and designing learning modules according to the employees needs.

### **Activities**

1. Continuous update of taxpayers register and all tax records that are important for efficient collection,
2. Development of high-quality instructions for taxpayers, simplification of forms and electronic submission,
3. Continuous modernization of the IT system to support all business processes,
4. Efficiency improvement in enforced collection,
5. Continuous efforts on voluntary compliance promotion and raising awareness on importance of tax compliance for the benefit of society,
6. Further development of web site and 'Call Centre' as the foundation of modern communication with taxpayers,
7. Creating new channels for targeted communication with taxpayers,
8. Continuous competence and knowledge development,
9. Revision of tax regulations and establishment of a rational tax system,
10. Modern management and improving Tax Administration's organization:
  - 10.1. Adjust Tax Administration's organization with the new tax system,
  - 10.2. Strengthen the role of Central Office (in terms of capacity, structure and optimization of internal organizational units),

- 10.3. Adapt territorial organization (regional and local offices) to the new tax system and rational use of Tax Administration's capacity (in staff and budget),
- 10.4. Adjust internal organizational units of regional and local offices to the new tax system.

## **6.2. Protection of society and financial interests of Republic of Croatia and European Union**

### **Description**

With concern for consistent application of tax regulations and taking measures to detect, prevent and combat tax fraud, Tax Administration will insist on the budget revenues collection and tax gap reduction. We will use modern methods and IT tools for timely detection of potential risks. Development and implementation of compliance risk management system will result in efficient and timely detection of risky taxpayers. Risks will be identified for each tax and taxpayers category and thus prevent the reduction of the tax base.

Compliance risk management system which will be introduced in the forthcoming period will act preventively, reduce the interest of taxpayers for any form of tax evasion and increase the taxpayer's confidence in the tax system, Tax Administration and its employees. Limited tax audits resources will be aimed towards the riskiest taxpayers aiming to increase the amount of newly determined tax liabilities by the inspector and increase the percentage of audits in which new tax liabilities were determined (targeted audits). Tax Administration will continuously improve the process of value added tax refund so taxpayers could be able to get the required funds within the prescribed deadlines.

Our goal is that the majority of audits among large and medium taxpayers are performed using electronic tools. Further training of inspectors in IT tools already in use and forming teams for electronic audit in the regional offices will shorten time required for audit and thus increase efficiency. Speeding up the process of penalizing taxpayers who do not meet their tax liabilities will act preventively to other taxpayers, potential violators of regulations and thus also increase the overall collection of tax revenues.

By improving work organization we will increase efficiency in performing tasks and achieve objectivity and equal approach to every taxpayer. It is also one of the ways to increase the satisfaction of taxpayers and voluntary compliance.

### **Activities**

1. Application of modern tools for detection of high-risk taxpayers and the continuous development of database and system for taxpayer's information analysis,
2. Continuous improvement of audit processes using IT tools for e-audit and e-commerce,
3. Objective selection of taxpayers for audit (using compliance risk management system to focus on risky taxpayers),
4. Speeding up the process of penalizing taxpayers who do not act in accordance with the law,
5. Improvement of data and other information exchange with European Union Member States and third countries.

### **6.3. Orientation on cooperation and partnership**

#### **Description**

As a modern organization, we will encourage development of trust between taxpayers and Tax Administration based on partnership and 'Charter of cooperation'. With our employees acting in accordance with the Charter and the continuous increase in services quality, we will raise the level of taxpayer's satisfaction. With adoption of the 'Service Catalogue' Tax Administration will determine what services at what time will be performed for taxpayers and that will positively affect the level of their satisfaction.

Furthermore, Tax Administration will be focused on results. By monitoring success of our organizational units at all levels we will detect performance problems and take measures for improvement in timely manner. Using open communication with taxpayers in order to inform and educate them about their rights and obligations, we will achieve strengthening of partnership and build a standpoint that payment of taxes is a social value, and the avoidance of it is unacceptable. We expect to increase the level of taxpayer's confidence in Tax Administration and tax system.

Tax Administration will provide its employees continuous quality educational programs and thus strengthen good internal communication, cooperation and respect at all levels. Distance learning remains one of the most important strategic guidelines to improve the human resources management. Education in communication skills in order to obtain even better communication with taxpayers will be of most importance.

#### **Activities**

1. Continuous strengthening of organizational culture,
2. Developing quality service in line with taxpayer's needs,
3. 'Service Catalogue' development and continuous key performance indicators monitoring,
4. Business process management regarding internal and external changes,
5. Continuous education of taxpayers in line with their needs in order to increase performance,
6. Performance monitoring of all Tax Administration's units,
7. Monitoring of taxpayers satisfaction.

### **6.4. Improvement of efficiency in usage of Tax Administration's available resources**

#### **Description**

At a time when rationalization of budget expenditures is needed and savings at all levels of public spending takes place, Tax Administration sets efficient performance as a strategic goal. The overall administrative capacity of Tax Administration will be used to achieve the best possible results. Overall capacity primarily consists of employees and their expertise and professionalism, financial resources that need to be effectively used for funding the necessary improvements, information system that covers all core business processes and modern IT equipment. We will continue to work on establishing data recovery centre to ensure business continuity.

We will analyze regulations that determine the course of action of Tax Administration and propose changes to simplify it. To effectively solve all the tasks, modern information and communication equipment is required so we will regularly provide the necessary funds for renovation of the obsolete equipment. To modernize equipment and improve business processes, we will use the European Union funds when possible.

In order to improve our reputation we will continuously conduct targeted campaigns in order that Tax Administration becomes an employer of choice.

By establishing and using compliance risk management system we will create a transparent system for the selection of taxpayers for audit or other measures. These way employees will be focused on high-risk taxpayers and take effective measures to improve tax collection and prevent evasion in shorter time.

### **Activities**

Conducted SWOT analysis has directed Tax Administration on areas that need to be improved:

1. Strengthening competence through continuous training,
2. Strengthening organizational culture and ethical principles by improved internal communication,
3. Improve the system of optimal planning and rational use of financial resources,
4. Establishment of fully functional compliance risk management system,
5. Implementation of modern IT solutions that enable simplification and automation of business processes, leaving employees more time for analysis and control, and reducing compliance costs,
6. Implementation of complete document management system to terminate the use of paper documents,
7. Further development of Intranet sites as basis for a formal and structured exchange of information and knowledge between employees,
8. Further improving the exchange of information between public authorities in order to reduce administrative costs and improve service to taxpayers,
9. Backup location and Business Continuity Plan (Disaster Recovery Centre).

## **7. Key Performance Indicators**

Acting in accordance with this Strategy, Tax Administration will achieve measurable strategic results that will be monitored and evaluated accordingly to the accepted methodology of key performance indicators. Monitoring and evaluation of results is the responsibility of top management, headed by the Director General. The Tax Administration will conduct a formal evaluation of key performance indicators on annual basis.

In order to expected values be more realistic, they are planned for the next three years and after three years, or earlier if necessary, the table of indicators needs to be updated.

### Key performance indicators

Indicator	Indicator values (numeric or descriptive) per year				
	2014	2015	2016	2017	2018
	Achieved		Planned		
1. Planned state budget revenues from taxes and contributions realized (%)	100,58	101,34	100	100	100
2. Increase of collected state budget revenues from taxes and contributions in relation to the previous year (%)	5,1	5,73	3	2	2
3. Percentage of small and medium taxpayers who have not filed a tax return or submitted late (%)	3,61	2,84	2,8	2,7	2,5
4. Total cost of Tax Administration as a percentage of collected state budget revenues and other public levies (%)	0,77	0,77	0,80	0,80	0,80
5. Number of services in ePorezna	25	31	35	38	40
6. Percentage of the answered telephone inquiries in 'Call centre'	58	53	60	65	70
7. Number of website visits (000)	8.717	3.683 <sup>1</sup>	11.000	12.500	14.000
8. Level of taxpayer's satisfaction with quality and integrity of Tax Administration's services (survey: score 0-5)	3,19	N/A	3,4	3,5	3,6
9. Newly determined liabilities of small and medium taxpayers in the audit process - per inspector (000)	1.982	1.854	1.900	1.950	2.000
10. Number of e-learning modules (programs) available for employees	7	10	13 (3 new)	17 (4 new)	23 (6 new)
11. Number of hours of education per employee (including distance learning)	21,97	14,64	16,8	17,6	19,2
12. Level of employee's satisfaction with work environment in Tax Administration (survey: score 0-5)	3,14	N/A	3,4	3,5	3,6

Note:

<sup>(1)</sup> Due to changes in the monitoring system, number of web site visits for a period 15 September 2015 - 31 December 2015 is entered.

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## **Appendix: SWOT analysis**

### **Strengths**

- High quality e-services which enable taxpayers to fulfill their tax liabilities on time and with acceptable cost
- All IT services are easily available, free to use, well documented and secure for authorized users and with well supported by the Help Desk
- High quality and up to date information can be found on the web site and obtained via 'Call Centre'
- Integration with other public authorities and efficient G2G data exchange by using PIN system

### **Weaknesses**

- Insufficient level of productivity/outcome based control over the IT systems serviced by external partners
- Insufficient monitoring of key performance indicators
- Deficiency of IT professionals
- No Disaster Recovery Centre

### **Opportunities**

- Continuous employees education (including e-learning) in order to strengthen competence
- Strengthening organizational culture and ethical principles
- Implementation of modern IT solutions that enable simplification and automation of business processes, leaving employees more time for analysis and control
- Using IT technology to simplify tax procedures and reduce costs for taxpayers
- Further development of intranet sites as basis for a formal and structured exchange of information and knowledge between employees
- Further improving exchange of information between public authorities in order to reduce administrative costs and improve service to taxpayers
- Compliance risk management improvement

### **Threats**

- Inability to adequately reward competent employees and inability to employ IT professionals because of the large differences in salary between real sector and public administration
- High dependency on external partners in IT support for core business processes
- Insufficient funds for implementation of planned modernization
- Insufficient number of employees