STRATEGY OF THE TAX ADMINISTRATION for the period 2011 - 2015
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Introduction

The past two years have been very significant for the Tax Administration. In the period 2008 – 2010 considerable efforts have been made to implement a number of projects aimed at increasing administrative capacities of the Tax Administration and creating conditions for the performance of all tasks required in order to close pre-accession negotiations with the EU about Chapter 16 – Taxes from the NPIEU.

In the said period, the Tax Administration has become an administrative organization oriented towards providing quality services to the taxpayers. A whole range of electronic services has been developed under the name e-Porezna (e-Administration) and made available to the taxpayers, enabling them to comply with their tax obligations in a timely and cost-effective manner.

By developing taxpayers’ services the Tax Administration accomplishes all the tasks set in the requirements of the Government of the Republic of Croatia.

All results achieved in the framework of the Tax Administration Strategy for the period 2008 – 2013, as well as the challenges presented in creating an efficient and modern Tax Administration based on European best practice, pointed to the need to revise our Strategy for the forthcoming five-year period. In the course of considerations of quality changes to the Strategy, numerous discussions were organized at the level of the first immediate collaborators of the Director General of the Tax Administration, with other associates and with foreign consultants during various projects; opinions were exchanged and European guidelines studied.

Mr. Craing Neal (the World Bank) and Mr. John Brandolo (IMF) provided a special contribution to the development of this Strategy during the World Bank mission at the Tax Administration in December 2009.

We expect that the plans presented in the Strategy will be achieved through the commitment of all employees of the Tax Administration and on the basis of an appropriate quality organizational structure.
1. Key points of reference

The Strategy of the Tax Administration is the basis for operational planning for the period from 2011 until 2015. It represents a master document for the evaluation of our achievements at the end of the period. We will put forth all reasonable efforts to achieve the goals defined in the Strategy.

1.1. Mission

The best possible collection of public revenues through a simple tax procedure, appropriate implementation of tax legislation, cost effective tax compliance and good cooperation with the taxpayers.

By doing so, we will ensure the collection of budgetary revenues needed to satisfy all social needs planned for in the state budget.

1.2. Vision

The Tax Administration is the leading professional public sector organization that operates in line with European and global best practices, disposes of developed administrative capacities and provides taxpayers with high quality service standards.

1.3. Values

Thanks to efforts invested over the past 17 years, the Tax Administration has achieved a remarkable level of professionalism, and acting in accordance with this Strategy we will further improve our following values:

- **Application of Laws and Regulations:** The Tax Administration acts in accordance with the laws and regulations in force and expects the same legal behaviour from the taxpayers

- **Integrity and Consistency:** In their work the employees of the Tax Administration are neutral, disinterested and reliable. We have a strong organization supported by a quality IT system, which collects tax revenues to the state budget with due respect for professional ethics and cooperation with the taxpayers

- **Efficiency:** We are efficient in achieving the stated goal, which is the collection of planned budgetary revenues

- **Professionalism:** Employees and management have the necessary expertise, provide quality services to the taxpayers and encourage their voluntary tax compliance
Transparency: We carry out our tasks in a transparent and thus verifiable manner

Cooperation: We readily share our knowledge and experience with colleagues, taxpayers and other stakeholders. We apply tax and other laws and regulations within the scope of authority of the Tax Administration in line with transparency and equality principles

Equality: All employees have equal opportunities for training, mutual cooperation and personal development. Employees’ progress means progress for the entire Tax Administration

It is based on the above values that the Tax Administration wishes to join the best European tax administrations, in terms of quality services provided to the taxpayers, quality and efficiency in collecting public revenues within its scope of authority and successful combat against tax evasion.

The above can be achieved if educated Tax Administration employees are provided with appropriate working conditions.
2. Current Situation and Expected Improvements

2.1. Main task

The Croatian tax system is based on the principles of equality and fairness; therefore all citizens are obliged to take part in the settling of public expenses in accordance with their economic situation.

The Tax Administration’s main task is implementing tax and contributions laws and regulations. In addition to the above, the mandate of the Tax Administration includes other operations provided for in Article 3 of the Tax Administration Act (Official Gazette 67/01, 94/01, 177/04 and 128/10).

The most important tasks of the Tax Administration are:

- Receiving tax returns, recording tax liabilities in tax accounting registries, collection and refunds of taxes
- Determining the timeliness, legality and regularity of submitted tax returns
- Assessing tax base and tax liability
- Conducting tax audits
- Enforced collection of taxes

The mandate of the Tax Administration has been significantly extended by the Act on Personal Identification Number (hereinafter: PIN). Provisions of this Act stipulate that the determination and assignment of PIN, PIN record keeping and performance of all other tasks pertaining to the procedures of PIN determination and assignment are included in the scope of work of the Tax Administration.

2.2. Organization

The Tax Administration was founded in 1994 as an administrative organization within the Ministry of Finance and operates under the name MINISTRY OF FINANCE – TAX ADMINISTRATION. Director General of the Tax Administration represents the Tax Administration and is State Secretary in the Ministry of Finance. Director General steers the work of the Central Office and is assisted by 12 Assistants Director General, who are at the same time heads of departments within the Central Office. The organizational structure of the Central Office was changed in 2009. The number of departments increased from 9 to 12 in order to respond to real business needs, i.e. in order to introduce new functions and, due to their character, give higher importance to existing functions.
The Tax Administration’s Central Office is in Zagreb, and there are 20 regional offices and 122 local offices, organizationally subordinate to the regional offices.

The Central Office, regional and local offices of the Tax Administration perform administrative and other specialised duties provided for by the provisions of Articles 6 and 7 of the Tax Administration Act as well as other duties from the scope of authority of the Tax Administration, in accordance with specific laws and regulations.

Appendix 1 to the Strategy contains the organizational scheme of the Tax Administration’s Central Office.

2.2.1. Information System and ePorezna

In their daily work Tax Administration employees use the applications of the Tax Administration Information System (ISPU). Employees also use the special Tax Administration Intranet System, and Internet on a selective basis.

All work places in the Tax Administration are equipped with a desktop computer. Tax inspectors are, to the lesser extent, equipped with notebooks.

IT communication infrastructure provides support to the daily business activities of employees in all Tax Administration organizational units. The main part of the equipment, the communication hub and the information business system of the Tax Administration are located in the Central Office in Zagreb. The business system is within the scope of the Information System Department and was developed by an outsourced partner.

The Tax Administration provides information and educates taxpayers via published publications and the Internet with the aim of promoting voluntary tax compliance. Numerous electronic services are available to taxpayers within ePorezna, which enables them to fulfil their tax liabilities over the Internet.

For the time being ePorezna offers the following electronic services:

- **PKK form** – provides insight into the PKK (taxpayers’ tax accounting) form
- **PDV form** – submission of the monthly or quarterly PDV (VAT) form
- **PDV-K form** – submission of the PDV-K form (final annual VAT statement)
- **PD form** – submission of the PD form (corporate income tax)
- **SR form** – submission of the SR form (monument annuity statement)
- **TZ form** – submission of the TZ form (Tourist Board membership fee statement)
- **ID form** – submission of the ID form (report on receipts from employment)
- **IDD form** – submission of the IDD form (report on other receipts)
In addition to access to the tax accountancy form and submission of forms, the following services are also available:

1. **Access to forms status** – access to and view of the status of previously submitted forms
2. **Request for electronic services** – electronic registration of new users

### 2.3. Factors Impacting the Realization of the Vision

Since its establishment as an administrative organization within the Ministry of Finance in 1994 until today, the Tax Administration acquired broad experience and numerous advantages, but many opportunities to be used and developed still lie ahead.

Various external and internal factors impact the business operations and vision of the Tax Administration.

**Among the recognised external factors are:**

- Legal framework, i.e. frequent amendments to the legislation
- Introduction of personal identification number
- Fast development of the Internet
- Increase in the number of taxpayers
- Ever greater presence of multinational companies in Croatia
- Increase in the number of taxpayers involved in tax fraud
- Economic crisis
- Cooperation with the European Commission and the World Bank

**Internal factors are:**

- Human Resources Management
- Organizational structure and business processes
- Salary and remuneration system
Legal Framework

The legal framework and the frequency of changes thereto have a strong impact on the Tax Administration’s work and the quality of its performance. Each amendment to a law in force and the introduction of new laws, whose implementation is the responsibility of the Tax Administration, require significant efforts of Tax Administration employees and increase the cost of tax compliance. As for the taxpayers, they react to the changes by increased resistance towards tax compliance. At the same time, each time a law is amended it is the duty of the Tax Administration to implement the amendment efficiently and with the lowest possible cost and to collect as much taxes as possible.

Introduction of PIN

The main obstacle to the state administration informatization was the lack of a single identifier for the registration of persons in official records. PIN as the unique common identifier for the registration of natural persons and legal entities in the official records was issued in 2009, and its full implementation started in 2011. It facilitates record keeping on natural persons and legal entities and property, which is a great advantage for the Tax Administration.

Development of the Internet

Strong development of the Internet enabled the provision of quality services to taxpayers. The Tax Administration will therefore further improve its electronic services to the taxpayers.

Increase in the Number of Taxpayers

Due to the continuous increase in the number of taxpayers and the development of particular business activities, especially in the financial sector, the Tax Administration is faced with the need for continuous improvement of business processes, permanent training of its employees and an increase in the number of employees, in order for them to perform all the tasks.

The increase in the number of taxpayers and the mentioned frequent changes to the legislation hinder the operations of the Tax Administration.

The Presence of Multinational Companies

Ever increasing number of companies in the Republic of Croatia that are subsidiaries of various multinational companies strongly impact the work organization in the Tax Administration in all segments of operations. Special attention should be paid to such taxpayers as these are mainly large or mid-sized companies that generate significant tax liabilities. Their ever increasing presence in Croatia very often calls for cooperation with foreign tax administrations and joint tax audits.
Tax fraud

The Tax Administration discovers ever greater number of taxpayers who evade taxes or who participate in designed tax frauds. Due to its frequency, fraudulent behaviour represents a great challenge for the Tax Administration and imposes a need for continuous training of tax inspectors and exchange of information with other tax administrations. Significant administrative capacities are used for enhanced tax audit.

Economic crisis

The economic crisis has also affected Croatia and has resulted in an increase in the number of taxpayers who do not fulfil or are late with the fulfilment of their tax liabilities. Such a situation hinders the operations of the Tax Administration, particularly those of the Enforced Collection Department whose employees face unsatisfied taxpayers on a daily basis and spend a lot of time answering enquiries about available deferred payment options.

Cooperation with the European Commission and the World Bank

The Republic of Croatia is in the final stages of negotiations with the European Commission on full membership in the European Union. That fact is the starting point for the Tax Administration’s strategic planning of future business operations. Namely, harmonization of the tax system with EU requirements is an obligation that affects all areas of operation within the Tax Administration. Many activities in the Tax Administration are assisted by EU pre-accession funds, and the challenge lies in using the largest possible amount of funds offered and realizing a number of modernization-related projects. As for cooperation with the European Union, the Tax Administration has successfully implemented the first phase of tax system harmonization in the field of the value added tax through the CARDS 2004 project – “Strengthening the Taxation System in the VAT Field to Prepare the Development of the VIES IT Interconnectivity System”.

Phare 2005 “Assistance to the Croatian Tax Administration in the Development of Activities Proceeding from the EU Fiscal Blueprint” project was also realized as the second phase of IT interconnectivity development. Its aim was to create preconditions for the implementation and efficient management of the system for VAT information exchange (VIES System) through modifications in the existing national IT system. The most important deliverables of the project are: VIES system developed and implemented, interface for connecting VIES with the national VAT system implemented, VIES documentation prepared, Tax Administration employees trained for VIES system maintenance and management. As for the administrative part, manuals on specific working procedures of the Croatian Central Liaison Office (CLO) were prepared and the VAT Act draft was updated.

The value of the projects was EUR 3,000,000.00. They started in December 2007 and ended in June 2009.
“Strengthening and Enhancement of the Croatian Tax Administration IT Function to Achieve the EU Standards in the VAT Field” is a project from the Phare 2006 Programme that provides further improvements of the VIES system through the development of new functionalities and the configuration of the VoES system (VAT on electronic services). The realization of this project means further improvements in institutional and administrative capacities of the Tax Administration in order to enable efficient management of the VIES and VoES IT systems and advanced VIES functions development and implementation, and VoES development in order to enable the exchange of relevant information with EU member states’ IT systems. The value of business and operations-related parts of the project is EUR 3,000,000.00 and they started in February and June 2009 respectively and ended in November 2010. Within the framework of Croatia’s preparations for EU accession, interoperability programme implementation calls for the development and implementation of a national system for interconnection with EU IT systems in order to ensure information exchange with EU Member States immediately after Croatia’s accession to the European Union. A large number of activities pertaining to the modernization and facilitating harmonization of the Tax Administration with modern European tax administrations’ mode of operation will be financed by the World Bank loan.

Human Resources Management

The Tax Administration is an administrative organization with a large number of employees and organizational units. In such an organization, the quality of Human Resources Management is crucial for quality performance. The importance of the Human Resources Management was recognized at the conclusion of the World Bank Loan Agreement and is thus one of its important components.

Organizational Structure and Business Processes

Organizational structure and business processes are key internal performance factors. The “Business Process Analysis and Reengineering of Core Operational and Headquarters Functions” project, which started at the end of 2009 and finished at the end of 2010, will be extremely important for the identification of inadequacies in the actual business processes and their re-design with the aim of increasing the efficiency of business operations and the quality of services to the taxpayers.

Remuneration System

Working conditions, salary and performance remuneration are crucial for employee satisfaction. Satisfied employees perform their duties in a timely and quality manner, which is reflected on taxpayers’ satisfaction and tax compliance.
2.4. Expected Improvements

Within the framework of the current Tax Administration Strategy for the period 2008 – 2013, a number of improvements have been achieved. These accomplishments are now the starting point for achieving strategic goals that we plan for the forthcoming period. Certain changes are necessary for the Tax Administration to develop in accordance with European best practice and to be able to perform its main task with higher quality. Progress is achievable through the dedicated work of satisfied employees, which will contribute to taxpayers’ satisfaction and maximum efficiency of business operations.

Productivity and service quality of the Tax Administration depend on the satisfaction of employees who represent the most important potential of the Tax Administration. Mutual communication and efficient application of existing resources are crucial for a successful performance of any organization. Mutual respect, responsibility and a safe and healthy environment are prerequisites for the employees to perform the delegated tasks in a quality manner and to be actively engaged in achieving the common goals.

Implementation of the Strategy and the set plans and process efficiency are ensured by good organization of process management and the development and full exploitation of human resource potential in all organizational units.

Partnership with taxpayers is an important component for perfecting the operations of the Tax Administration and the realization of its strategic goals. Therefore, innovations and continuous quality of service provision are of utmost relevance.
3. Strategic Goals

Strategic goals, i.e. the planned business changes that are to be carried out by the Tax Administration, have been set based on the Strategic Modernization Framework adopted by the Government of the Republic of Croatia within the procedure of approving the Revenue Administration Modernization Project realized in co-operation with the World Bank. The Tax Administration’s 2011 – 2015 Strategy provides for the following strategic goals or areas of change:

3.1. Facilitate Tax Compliance by Improving Services to Taxpayers

1. Strengthening services to taxpayers
2. Strengthening communication with taxpayers by electronic means
3. Simplifying tax procedures

3.1.1. Strengthening Services to Taxpayers

We will further develop the services to taxpayers, as this is the key for the improvement of voluntary tax compliance. The tax procedure must continuously be explained in order to reduce the resistance of taxpayers towards the Tax Administration and tax compliance. In doing so, the fastest and the easiest way of submitting and obtaining information is via the Tax Administration’s website. We will re-design our website and enable simple and fast access to it. The Contact Centre project has proven to be very successful and in the upcoming period we will further improve it and enable the taxpayers to contact advisors for a particular kind of tax and obtain answers to complex questions. A larger number of employees will be in charge of answering enquiries of the taxpayers regarding various areas.

In addition to the strengthening of the services provided via the Internet we will continue with the provision of information to the taxpayers in the form of brochures, which will be distributed free of charge in the premises of the Tax Administration and in other appropriate ways.

3.1.2. Strengthening Communication with Taxpayers by Electronic Means

One of the strategic determinants for Tax Administration development is the improvement of existing processes, using the advantages of modern information technology in order to facilitate, simplify and accelerate the fulfilment of taxpayers’ obligations.
Electronic services ePorezna are aimed at all taxpayers in the Republic of Croatia, providing secure exchange of electronic documents between the taxpayers and the Tax Administration. The advantages of electronic services are multiple:

- Time saving, for there is no need to visit the competent local office
- Communication with the Tax Administration 24 hours a day, 365 days a year
- Transparent business operations with state administration bodies
- Possibility to use an intermediary (e.g. accountancy firms) for e-business as well

The development and promotion of ePorezna services will accelerate service provision and disengage resources. Simple manual work of the employees related to the entry of data from various forms into the information system databases will be replaced by more demanding tasks generating better results.

In the forthcoming period we will expand our offer of Internet services with the following:

- ePPPO system (delivery of data on tax deductible insurance premiums, a service for employers and insurers)
- eID-1 system (capture of data from the ID-1 form via Internet)
- eIP system (capture of data from the IP form via Internet)

### 3.1.3. Simplifying Tax Procedures

The simpler the taxation procedure is, the greater the chances that it will serve its purpose. The basic goal of the tax procedure is tax compliance. Our opinion is that taxpayers will oppose less to the compliance provided that they can easily understand what is required of them and if certain forms they are obliged to complete are simple and well-explained.

In the forthcoming period the Tax Administration will focus on simplifying tax procedures, primarily those used by a large number of taxpayers. Submitting the annual personal income tax return is one of the procedures that will become much simpler thanks to the implementation of modern technologies, networking of state administration bodies and the use of PIN as the tax number. In the modernized tax procedure there will be no need to submit various enclosures to the tax return form, by which taxpayers prove that they are entitled to a tax relief, if the
Tax Administration is able to obtain such documents through the automatic exchange of information with other bodies. Considering that the annual personal income tax return is submitted by over 1.1 million taxpayers, the simplification will result in significant savings, both for taxpayers and the Tax Administration.

**Strategic goal 3.1.4.**

*Facilitate Tax Compliance by Improving Services to Taxpayers*

**Performance Indicators:**

- Taxpayers satisfied with services provided by the Tax Administration
- Tax compliance simplified with lower costs for taxpayers
- Increased efficiency of Tax Administration’s employees, because manual work has been significantly reduced due to the use of modern information technology and employees deal with more demanding tasks of analysis and control
- Significantly reduced non-compliance risks
- Increased number of tax returns submitted by legal entities through ePorezna; in comparison with 2009 (3%) the aim is to increase the share to 10% in 2011, 30% in 2012 and 80% in 2013

**3.2. Effective Non-Compliance Problem Solving**

1. **Strengthening Administrative Capacities for Large Taxpayers**
2. **Strengthening administrative capacities and procedures in the field of VAT**
3. **Improving tax procedures in local offices**
4. **Improving tax audit procedures**

The most significant state budget revenues have been generated from value added tax, whilst the highest amount of revenues in all kinds of taxes has been generated by the large taxpayers. Therefore the improvement and strengthening of administrative capacities and procedures pertaining to large taxpayers and value added tax is a crucial strategic goal.
3.2.1. Strengthening Administrative Capacities for Large Taxpayers

Administrative procedures pertaining to large taxpayers have been significantly improved. In the Large Taxpayers Local Office of the Zagreb Regional Office, each taxpayer is approached individually, with the engagement of the most knowledgeable officers, including the Head of the Local Office when necessary. It is our goal to improve the services for a relatively small population of large taxpayers that generates the highest collection of tax revenues. In the forthcoming period, we plan to introduce an organizational change which will enable a better quality tax procedure for large taxpayers. Namely, we plan to establish a special office for large taxpayers, directly subordinated to the Central Office. Employees and management of that office will be provided with special training courses in order to acquire the specific knowledge and skills on the application of modern techniques required for tax audit and desk audit, including risk analysis. Training is already in place within the framework of the European pre-accession Programmes PHARE and IPA. Physical consolidation of an organizational unit responsible for large tax is also one of our strategic goals and this is planned within the Revenue Administration Modernization Project, covered by the Loan Agreement with the World Bank.

3.2.2. Strengthening Administrative Capacities and Procedures in the Field of VAT

Since value added tax generates the most important revenues to the state budget of the Republic of Croatia, improvements in the field of tax procedures pertaining to value added tax are our next important strategic goal. Also, VAT is a key tax in terms of EU accession and therefore all changes pertaining to value added tax have been undertaken in cooperation with experts from the European Union.

3.2.3. Improving Tax Procedures in Local Offices

Timely collection of taxes and contributions is the main task of the Tax Administration. In order to achieve the highest possible collection, it is essential that tax procedures in local offices be improved with consistent first visits to newly established taxpayers. With the introduction of e-services for the taxpayers, the control function of tax administration clerks will be significantly improved, due to a reduction in numerous daily routine operations pertaining to the entry of data from the forms, and the surplus of time will be used to improve the control function.

The improvement of tax procedures in local offices will be implemented on the basis of the positive experience we gained after the establishment of a Sub-Section for VAT and Taxpayer Control and Analysis in large local offices in 2009. After a number of clerks in local offices and tax
audit inspectors in regional offices started working on new positions in sub-sections, this organizational change improved efficiency at work and generally strengthened administrative capacities without a real increase in the number of employees in the Tax Administration.

In the forthcoming period we will organize and categorise work posts in mid-size local offices in the same or similar manner and consequently improve the level of voluntary tax compliance.

Introduction of the PIN provided the networking of several key institutions, which facilitated the automatic updating of certain data (change of domicile/seat, change of personal name/title, registration of the date of death, date of bankruptcy). In the period from 2011 to 2015, further networking of public authorities will be carried out, in order to create a networked state administration in which processes are performed subsequently (one process prompts another), which will allow for the complete accuracy of data in the registers.

3.2.4. Improving Tax Audit Procedures

Fulfilment of tax liabilities and timely submission of accurate tax returns is the basis of our self-assessment system. Our plan to re-design business processes is focused on improving the tax compliance rate through the implementation of measures aimed at identifying risk areas and risk management principles. Our capacities in the area of tax audit will be used as rationally as possible to audit risky taxpayers.

Administration networking and information exchange via information technology are the precondition for the creation of a system with an alert signal functionality in case of a procurement of property in disproportion with declared revenues. Taxpayers for tax audit procedure will be selected based on the signals received, following which their actual revenues and accurate tax base will be determined. The mentioned procedures will ensure the implementation of the principle of fairness in the taxation procedure.

The Tax Administration will continue with those tax audit projects that have already started, which aim to:

- Harmonize procedures at the level of the Tax Administration
- Objectively select taxpayers for audit
- Increase tax audit efficiency by redirecting human resources to audits of those taxpayers that were classified as most risky following a risk analysis.
- Introduce and use computer tools for e-audit
- Quality monitoring of tax audit results via applications of the Tax Administration Information System
In addition to building a risk management system resulting in an objective selection of taxpayers for audit, tax audits will be further modernized with the application of adequate computer tools. This will make the auditing procedure faster and will result in significant savings, which means that much better financial results will be accomplished with the same number of tax inspectors.

The **audit of large taxpayers** is the most important aspect of the overall control function of the Tax Administration and is administratively strengthened by the new Regulation on the Internal Organization of the Ministry of Finance. Special organizational units for the audit of large taxpayers were introduced in large Regional Offices. Consequently, the Division for the Audit of Large Taxpayers was established within the Zagreb Regional Office and the sections for the audit of large taxpayers were set up in the Split, Rijeka and Osijek Regional Offices.

In order to achieve ever better results in the audit of large taxpayers we will continuously employ senior tax inspectors in the Zagreb Regional Office, as well as in other regional offices, where there are vacancies on such positions. In order to strengthen administrative capacities in the field of audit of large taxpayers, a number of legal provisions have been adopted. The amended General Tax Act, which has been in force as of 1 January 2009, introduced a provision on persons authorised to conduct tax audit. Consequently, in addition to tax inspectors, tax audit can be also carried out by tax auditors, who are responsible for the most complex audits. It is necessary to adopt the Civil Servant Salaries Act, by which the duties of tax auditors will be remunerated in accordance with the tasks they perform.

“Tax Audit Operations”, an application in the Tax Administration Information System, will be improved with the purpose of obtaining quality information useful to the management in business decision making and to the inspectors in increasing tax audit efficiency.

**Strategic goal 3.2.5.**

**Effective Non-Compliance Problem Solving**

**Performance Indicators:**

- Tax base increased
- Taxpayers pay taxes and mandatory contributions in a timely manner and in correct amounts; the target is to increase this share in comparison with the results achieved in 2008 (89%) to 92% in 2011, 93% in 2012 and 94% in 2013
- Tax accounting data are accurate and reliable
- Integrated databases developed, including quality analyses for business decision making
- Risk management system established
Timely and efficient measures against non-compliant taxpayers or those who are late with their payments are applied.

3.3. Strengthening Fairness and Suppressing Corruption via the PIN System

1. PIN as the tax number in all records
2. Establishing databases on taxpayers’ assets

3.3.1. PIN as the Tax Number in all Records

In the course of the state administration reform, including the modernization of the Tax Administration, emphasis was placed on the requirement for the informatization of the state administration in its entirety, which would result in a networked state administration in which information required for the timely implementation of administrative, taxation and criminal procedures would be exchanged through configured information channels. The main obstacle to state administration informatization was the lack of a single identifier for the registration of natural persons and legal entities in official records. Personal identification number (PIN) was the solution to the recognised problem. The Tax Administration was the conceptual promoter of the PIN Project and it prepared and submitted the required legislation for the Parliamentary procedure. Consequently, the Personal Identification Number Act (OG 60/08) and the Ordinance on the Personal Identification Number (OG 1/09) were adopted. These regulations were adopted as umbrella legislation and it was necessary to harmonize a number of regulations from the scope of authority of other state administration bodies and to carry out in a timely manner the technical-, organizational- and human resources-related preparations in all relevant state administration bodies. In that respect the Government of the Republic of Croatia adopted a Conclusion governing the obligation of the users of the number to propose amendments to the legislation pertaining to their scope of authority and regulating the form of official records keeping, registration in official records and issuance of certificates from official records, so that these could be aligned with the provisions of the Personal Identification Number Act.

Normative preparations were made during 2008, while 2009 was marked by the issuance of the PIN to all eligible persons, and the entry of PINs into all official records on persons and property.

Thus the pre-requisites for unique registration of all persons via the PIN were created and in 2010 we have continued setting up the data networking system. It will facilitate procedures between citizens and public authorities since the data necessary to exercise rights will be exchan-
3.3.2. Establishing Databases on Taxpayers’ Property

It was through the procedures of determining and assigning the PIN number, and PIN record keeping in the Tax Administration that the database of personal identification numbers was created. The database is updated in real time with data on natural persons and legal entities by means of the IT exchange of data from various official records. The integrated data in the PIN registry are protected according to the rules of the IT profession (database access is protected, and messages are protected by the highest IT standards).

The role of the Tax Administration has changed thanks to the integration of data, updated from the original records in one place in the Tax Administration, and the IT interconnection between the public authorities and the Tax Administration. The Tax Administration is becoming the foundation of the development of a networked state administration and a single point of access to the other records containing information on property. Information on property is the key indicator of reliable declaration and fulfillment of tax liabilities, of entitlement to social benefits and a sign of possible corruptive actions, which becomes known and accessible information available via IT data exchange and the PIN system located in the Tax Administration.

Further IT connection forming between the Tax Administration and the public authorities creates the pre-requisites for a networked state administration. The capture of data from the PIN registry and the application of established and strictly defined protocols will enable prompt data updating in other official records of public authorities. In the long run, the above will contribute to significant savings in the implementation of taxation, administrative, criminal and other procedures carried out by public authorities within their scope of authority.

Automated updates of data on persons will bring about significant breakthroughs in the implementation of tax procedures. By recording changes as they emerge (change of family name, domicile, information on the occurrence of death...), subsequent initialization of tax procedures will be enabled, without the need for manual work of Tax Administration employees. Furthermore, creation of timely data on taxpayers’ property will enable an examination of the reality of the declared income and receipts and tax liabilities determined based thereon, which will strengthen the confidence in the fair tax system in the long run.
Strategic goal 3.3.3.

*Strengthening Fairness and Suppressing Corruption via the PIN System*

**Performance Indicators:**

- Interconnected databases on taxpayers’ property
- Improved procedures in local offices due to process automation, strengthened control function of the clerks
- Accelerated implementation of administrative procedures in the Tax Administration and other networked state administration bodies

3.4. Tax Administration Modernization through Human Resources, Organization, Procedures and Technology

1. Recruitment and retention of knowledgeable employees
2. Improving the Tax Administration organizational structure
3. Improving the entire IT System
4. Consolidation and modernization of the Zagreb Regional Office
5. Establishing an efficient internal control system

3.4.1. Recruitment and Retention of Knowledgeable Employees

We will promote the necessary changes to the legislation pertaining to civil servants in order to be able to recruit new knowledgeable employees. A new classification of positions and evaluation of jobs in the Tax Administration will make posts in the Tax Administration more attractive and will consequently stop the trend of fluctuation of young and trained employees.

The Tax Administration will design and apply an employee training and development system, the purpose of which is to ensure that our employees and management advance professionally striving to the highest standards. The Tax Administration will provide its employees with continuous high quality development and training programmes, thus enhancing good internal communication, an atmosphere of cooperation, openness for contacts and appreciation at all levels of the Tax Administration.

**Employee training** can be emphasised as one of the most important tasks of the Tax Administration in the forthcoming period. We are currently lacking a training centre and we plan to build it as technical sup-
port to training. The Tax Administration will develop a permanent education and training syllabus, which should be conducted by internal and external experts, according to which all employees would periodically attend adequate seminars and workshops covering their area of work.

In the context of support to the process of learning and development, special attention shall be paid to the distance-learning system. Considering the necessary implementation of the concept of lifelong learning, e-learning represents one of the important strategic points of reference for the improvement of the human resources management process, primarily because of limited availability of lecturers and learning facilities.

In pursuit of this goal, we will use the prepared Human Resources Management Strategy.

3.4.2. Improving the Tax Administration organizational structure

The Tax Administration continuously carries out projects which are financed from EU pre-accession funds, providing for the harmonization of the Tax Administration with acquis communautaire and the adoption of modern procedures. In 2007 the Tax Administration signed a Loan Agreement with the World Bank with the purpose of modernization, including the modernization of its organizational structure. Several projects are underway within the framework of the loan, and as regards the organizational structure, the most important project is “Business Process Analysis and Reengineering of Core Operational and Headquarters Functions”. The deliverables of that project will be the basis for the consideration of a new organizational structure. The organizational structure on all levels (the Central Office, regional and local offices) will be adapted to the most significant business processes. An organizational structure that will provide for an efficient administrative procedure pertaining to VAT (registration, control, refund, collection) is one of our most important goals.

The organizational change that was first introduced in the Zagreb Regional Office (establishment of the Sub-section for VAT and Taxpayer Control and Analysis) gave very good results. The new organizational structure, which will be considered within the consultancy project focused on analysing business processes and re-engineering basic operational and Central Office functions, will along with capacity building significantly contribute to better state budget revenue collection and concurrently simplify the tax procedure, making it much more acceptable and easier for the taxpayers.

3.4.3. Improving the Entire IT System

In order to increase the Tax Administration administrative capacities, we will further develop and perfect the IT system, which will be oriented towards the quality of services for taxpayers.

The Tax Administration will continue with the realization of the projects of interconnectivity and interoperability of the Tax Administration’s IT System with the EU. A Business Continuity Plan will be prepared in
order to ensure the accessibility of the entire IT system of the Tax administration. In addition to that, the configuration of an infrastructure required for operations from a backup location will be carried out within the Business Continuity Plan.

Further development of the IT system has the following characteristics:

- IT system development is to be harmonized with the business strategy by means of the IT System Development Strategy
- To increase the maturity of the IT system by applying an integral IT system management framework (Cobit v.4.1 framework)

### 3.4.4. Consolidation and Modernization of the Zagreb Regional Office

The organizational structure of the Zagreb Regional Office will be improved on the basis of business processes analysis and the set Tax Administration employees working norms, in line with the available options for physical consolidation. This primarily refers to further improvements of administrative procedures pertaining to large taxpayers in a new consolidated office for LTO located in Zagreb. Our efforts will be directed towards the consolidation of local offices from the Zagreb Regional Office, which will, together with improvements in the organizational structure, significantly contribute to a better collection of tax revenues. This is our basic goal, due to the fact that the Zagreb Regional Office generates over 50% of the total collected public revenues by the Tax Administration.

In order to achieve this goal, in the forthcoming period we will continue working on the Tax Administration modernization project in cooperation with the World Bank experts and will undertake all necessary actions required to accelerate the premises refurbishment process, with the aim of achieving these strategic goals with the funds from the World Bank loan.

### 3.4.5. Establishing an Efficient Internal Control System

Strengthening the financial management and control system is a prerequisite for the successful implementation of all the strategies with which we want to accomplish our ultimate goal – A MODERN AND EFFICIENT TAX ADMINISTRATION. In that respect we will do the following:

- Elaborate and adopt an annual internal control plan
- Train employees in the field of internal control
- Introduce and implement a risk management system at the level of the entire Tax Administration and its individual organizational units
- Evaluate the cost-effectiveness of the procedures
- Implement anti-corruption measures
With its activities the Tax Administration contributes to the state budget revenues and with its transparent business operations it contributes to the prevention and reduction of corruption risks.

The Anticorruption Strategy is part of the National Anticorruption Programme and therefore many activities provided for in the Programme are carried out, such as awareness raising on the harmfulness of corruption, employees training, and increasing transparency through the use of the Internet. In the forthcoming period, the Tax Administration will be particularly attentive when implementing anticorruption measures.

By the Decision of the Government of the Republic of Croatia of 25th June 2008, the Sector for Budgetary Control was established within the State Treasury, in the State Budget Execution Directorate, as an organizational unit in charge of anticorruption measures to be undertaken in line with the Anticorruption Strategy Action Plan. The Tax Administration is responsible for the implementation of the measures from the Action Plan in the Ministry of Finance, within the scope of its authority.

In order to strengthen responsibility and transparency of work performed within the Tax Administration and to increase efficiency in identifying and processing criminal actions, the “Strengthening of Tax Administration in the Fight against Corruption” project was approved by the European Commission from the IPA 2008 Programme.

**Strategic goal 3.4.6.**

*Tax Administration Modernization through Human Resources, Organization, Procedures and Technology*

**Performance Indicators:**

- Employees demonstrate a high degree of satisfaction with their positions
- Employees show satisfaction with professional training
- IT system fully supports the employees in achieving maximum efficiency
- Taxpayers are satisfied with the changes to the work organization in the Zagreb Regional Office
- Reduced number of complaints about the work of the employees
3.5. Enhancing further co-operation with the European Union

1. Enhancing further cooperation with the European Union and international organizations

2. Revenue Administration Modernization Project with the World Bank

3.5.1. Enhancing further co-operation with the European Union

The Twinning light project “Strengthening and Enhancement of the Croatian Tax Administration in the field of audit” was carried out in cooperation with the European Commission. It was aimed at familiarising Tax Administration employees with modern tools, techniques and computer systems used in the audit of large taxpayers. Special attention was paid to the audit of banks and insurance companies, transfer pricing and thin capitalisation, as well as the meaning and characteristics of electronic tools for tax audit.

The project value was EUR 170,514. The project started in January 2008 and ended in November 2008.

The strategic goal of the Republic of Croatia, and therefore of the Tax Administration as well, is the successful finalisation of negotiations and full membership of the European Union as soon as possible. Fundamental to accomplishing this strategic goal is to continue cooperating with the European Union, including cooperation with EU institutions, bilateral cooperation with the Member States and European Union assistance programmes.

To that effect, the Tax Administration will continue cooperating with the European Commission in the form of technical consultations on the harmonization of the Croatian tax legislation with the Community acquis. Cooperation will continue during the regular monitoring missions of the European Commission – Directorate General for Taxation and Customs Union (DGTAXUD) and reporting on the progress of the Republic of Croatia in the EU accession process.

The Tax Administration shall also continue actively participating in Fiscalis 2013 programme of the European Communities, and in all forms of activities: seminars, workshops and exchange of employees with Member States (working visits).

In the periods to come and with regard to the strengthening of its administrative capacities, the Tax Administration will continue using financial aid from pre-accession funds. Further activities of the Tax Administration in the field of international cooperation will be realized with international organizations: IOTA, OECD, IMF, the World Bank and bilaterally especially with EU Member States.
3.5.2. Revenue Administration Modernization Project with the World Bank

The development goal of this project is to further increase efficiency, improve services to taxpayers and consolidate the tax system by strengthening of capacities and improvements in the Croatian Tax Administration system.

This will be achieved by providing support to the development of the strategic plan for the tax system modernization and assistance in its implementation during the following three years. This investment will make it easier for the Tax Administration to harmonize its business and policy with EU accession requirements.

According to the Loan Agreement No. 7471-HR it was planned that the Tax Administration modernization project would be financed by the World Bank loan in the amount of EUR 50 million, but the project was restructured in September 2010 and consequently the contracted financing from the loan is EUR 25 million. The amount still enables the Tax Administration to achieve the majority of strategic goals, but it does not provide for a complete physical consolidation of the Zagreb Regional Office and the Central Office. Nevertheless, the Tax Administration will further try to set the physical consolidation as the main strategic goal at the occasion of the next update of the Strategy.
4. Monitoring and Evaluation of the Achieved Results

By acting in line with the Strategy, the Tax Administration will achieve measurable strategic results, which will be monitored and evaluated according to the adopted methodology of the Key Performance Indicators (KPI). Monitoring and evaluation are the duty of the top management of the Tax Administration, headed by the Director General, who will conduct a formal evaluation of the strategic goals once a year. This will ensure the connection between strategic and budgetary planning, in accordance with the new Budget Act (OG 87/08).

It is necessary to underline the following strategic results of the activities undertaken in order to modernize the Tax Administration:

1. **Quality care of employees** in accordance with the adopted Human Resources Management Strategy, which was developed within the framework of the Revenue Administration Modernization Project. Employees’ satisfaction is one of the Project’s key performance indicators. As of 2011, surveys of Tax Administration employees show a higher degree of their satisfaction with work at the Tax Administration compared to the surveys conducted in 2010.

2. **Improved business processes** by means of the adoption of proposed redesign of basic operational functions of the Tax Administration, which will be developed by consultants in cooperation with Tax Administration employees in the framework of the Modernization project.

3. Improved organizational structure of the Tax Administration and **established a special organizational unit for large taxpayers**. This will directly reduce the tax gap and increase taxpayer satisfaction.

4. **Established a special organizational unit for risk management** within the Tax Administration. In the course of the project realized in cooperation with experts from the Tax and Customs Administration of the Kingdom of the Netherlands, employees of the Tax Administration learned that risk management is a business process that improves efficiency in the fight against tax evasion.

5. **Improved IT support to business processes**. The development of electronic business, which will lead to the automation of the majority of procedures currently performed by our employees, will increase taxpayer and employee satisfaction, thereby increasing the quality of the results pertaining to the two key performance indicators.

6. **Established a quality and updated register of taxpayers based on PIN as the tax number**. The PIN system will enable the creation of a database on taxpayers’ property, which will positively impact the fairness in taxation and the entitlement to various benefits financed from the state budget. With the introduction of the
PIN, the Tax Administration becomes the trigger for the development of a networked state administration.

7. As of 2011, taxpayer surveys show a higher degree of their satisfaction with the Tax Administration’s services compared with the surveys conducted in 2010.


Appendix 1: Organizational structure of the Tax Administration’s Central Office

<table>
<thead>
<tr>
<th>Tax Administration Central Office</th>
<th>Director General</th>
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</thead>
<tbody>
<tr>
<td>1. Tax System Department</td>
<td>1.1. VAT Division</td>
</tr>
<tr>
<td>2. International Cooperation and European Integration Department</td>
<td>2.1. European Integration Division</td>
</tr>
<tr>
<td>3. Applications of ISTA, Tax Records, Statistics and Tax Registers Department</td>
<td>3.1. Applications of ISTA Division</td>
</tr>
<tr>
<td>4. Information System (IT) Department</td>
<td>4.1. Design, Creat., and Solution Implement., Division</td>
</tr>
<tr>
<td>5. Audit Department</td>
<td>5.1. Large Taxpayers Audit Division</td>
</tr>
<tr>
<td>7. Games of Chance, Amusing and Prize Games Department</td>
<td>7.1. Games of Chance Division</td>
</tr>
<tr>
<td>11. Financial Management and Control Department</td>
<td>11.1. Preliminary Control Division</td>
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