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EFFICIENT AND SUSTAINABLE TAX ADMINISTRATION OF KOSOVO (ESTAK)

YEAR 3 - QUARTERLY REPORT
APRIL 15 – JULY 14, 2012

Contract Number EEM-I-00-07-00005-00

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1. ESTAK QUARTERLY REPORT SUMMARY

ESTAK activities during the first quarter of Year 3 have continued to focus directly on specific tasks according to the work plan and to TAK priorities. The ESTAK program has transitioned from 3 short and long-term expatriate advisors, 3 local advisors and 3 translators to operating with 1 long-term expatriate advisor, 5 local advisors and 1 full-time translator.

The ESTAK program is focused on strengthening capacity of the Tax Administration of Kosovo (TAK) and on increasing taxpayer compliance. The ESTAK team has made good progress in both areas during the reporting quarter as reflected in the progress details below. The main achievements during the quarter are summarized below:

- Overseeing the development of TAK's taxpayer education "center of excellence" facility in Pristina and organizing the MoF/TAK/USAID inauguration ceremony for that facility
- Assisting TAK and KPST with the merging of monthly employer wage withholding tax and pension contribution forms and the development of a new Employers' Guide relating to use of that form
- Facilitating a significant expansion of e-filing relating to the new employer form and VAT declarations – the number of e-filers increased from 150 to over 7,600 over the past quarter
- Assisting TAK with publicizing the changes that arose from a package of tax law amendments enacted during the quarter. This included facilitating the development of an "unofficial" consolidation of the VAT law so that TAK staff and taxpayers need only refer to one rather than two documents
- Assisting with the introduction of the new "one stop shop" process for tax/business registration by developing the Administrative Instruction that legally allowed for that development
- Developing a plan to improve taxpayer education service available to TAK's Large Taxpayer Unit taxpayers
- Visiting each of TAK's sub-offices to draft future tax compliance strategy for North Mitrovica and other enclave areas of Kosovo
- Assisting TAK with the progressive implementation of the SIGTAS Stage 2 modules with a focus on development of a collection case management system by TAK
- Assisting TAK with the implementation of its top level organization restructure changes
- Commencing a review of TAK's Code of Conduct and how it is monitored
- Commencing training for another intake of 15 internal trainers to increase the total number of TAK trainers under the "Train the Trainers" program to 40

As required by the Task Order, the balance of this report provides details on:

- Project progress (activities, benchmarks and performance standards achieved)
- Problems encountered and proposed solutions
- Success stories and notable accomplishments
- List of upcoming events and activities to be carried out in the next quarter
- Updates to the Year 3 Work Plan

2. PROJECT PROGRESS

2.1 OBJECTIVE 1 – STRENGTHEN THE CAPACITY OF TAK TO ADMINISTER ITS RESPONSIBILITIES

(A) SKILLS DEVELOPMENT/TRAINING:

In its first two years the focus of ESTAK training efforts was on re-establishing a functioning Training Department, completing a comprehensive training needs assessment, re-establishing a “train the trainers” program, arranging a comprehensive induction program for new hires, and implementing the ISD training methodology in TAK. By the end of Year 2, the responsibility for running induction and other training had largely been handed over to the TAK Training Department to run. The main remaining training initiatives needing ESTAK support in Year 3 were management training and completion of a manual of operating procedures for the Training Department.

The only “training” tasks expected to be completed during the first quarter of the Year 3 work plan, were: (1) the piloting of the Managing Operations course, being the fifth course of ESTAK’s six-course management training program, and (2) supporting delivery of the three “train the trainers” courses for the next intake of TAK internal trainers.

The Managing Operations course was piloted on 30-31 May 2012 with the group of team leaders that have new hires within their team, the same group that has been the pilot for the four previous management training courses, as well as some selected HQ managers. The course was designed and delivered by ESTAK’s HR Advisor. Feedback from the participants indicated that the course was essential for their development in implementing their tasks as team leaders; however they requested that all levels of managers take the same training, so that the new skills do not remain isolated and consequently lost.

A new group of 15 candidates applied for the second round of the “train the trainer” program. 12 of them were accepted by TAK’s Training Commission and 3 were added from a waiting list from the first round. These trainers completed the curriculum development course on 13-17 April, and are due to attend the test writing and presentation & facilitation skills courses in August, prior to delivering courses to the new hires in the last phase of their induction program. These courses are delivered by the ESTAK Training Advisor jointly with TAK Training Department staff, who will take over this role in the future. The 15 participants and the ESTAK Training Advisor met individually to discuss their learning design worksheets and to help them meet TAK’s curriculum development standards. The ESTAK DCoP also met with them as a subject matter expert to guide them with course learning objectives.

In addition, there is one training area in the Year 3 work plan which requires on-going assistance, namely the related task of providing on-going support for the train the trainers program. As a result of the latest successful intake, TAK has expanded its pool of internal trainers to 40.

Although not due for completion until later in Year 3, ESTAK has also continued to support, in an oversight role, the comprehensive 12-month induction program for the 36 (now 35) new hires recruited last year. The final “off the job” training segment of 8 weeks was split into two parts - the first part of that final training was completed in mid-July 2012, with the remaining part scheduled to be completed in September 2012.

In addition to the “work plan” tasks, ESTAK has also contributed to TAK’s training activities during the quarter in the following areas:

- Assisted in identifying suitable internal management candidates to run and support the management training program developed by ESTAK

- Assisted with organizing and presenting customer service training for the Pristina 1, 2 and 3 taxpayer education/pensions staff selected for the new taxpayer education “center of excellence” in Pristina
- Arranged for a selection of TAK’s training materials to be put on public display during the official opening of the “center of excellence” facility on 29 May 2012
- Assisted the Training Department manager to gain access to OECD online course materials in Serbian
- Attended TAK Training Commission meetings and assisted with the induction of new Training Commission members

ESTAK advisors have also provided “on the job” training to select TAK staff on:

- Collection aspects of the Tax Administration and Procedures Law (for regional Enforced Collection Team Leaders)
- Various technical aspects of the tax laws (as part of assisting TAK HQ and Large Taxpayer Unit staff with technical tax inquiries). This included preparing a summary note on recent tax law changes (including the new VAT exemption for the media), preparing a technical guidance note for TAK technical staff on the tax consequences of changes in business ownership structure, and preparing comments on submissions by the Bankers’ Association

(B) IMPROVING MANAGEMENT EFFECTIVENESS:

In the Year 3 work plan, ESTAK included a number of discrete management effectiveness tasks.

Two tasks relating to TAK’s organization structure were planned to be completed during the first quarter:

- supporting the implementation of Phase I (changes at senior management levels and expansion from 2 to 3 regional offices in Pristina) of the restructure,
- assisting with the development of consequential organizational structure changes (Phase II).

In practice, Phase I was announced in February 2012 and came into effect from 1 March 2012 with the top level organizational chart (the TAK DG and his direct reports). This chart was published on the TAK website.

After several months of Phase I being in place, the changes have resulted in positive performance improvements. In particular, relationships between TAK HQ and regional offices have improved (including more visibility of HQ staff in the regions), performance in the legal/appeals area has improved, and the new Senior Manager Executive Office position is becoming more embedded and proving its worth every day. At the same time, ESTAK advisors are concerned with slow progress in the development of the Strategic Planning, Finance and Risk area in HQ. This area is however expected to grow by transferring in some of the new hires in the near future.

The integration of the Human Resources and Training functions had been recommended in the past by both ESTAK and the IMF. While TAK agreed to this change, and appointed a Manager of HR and Training, in practice the appointee has effectively exclusively focused on HR issues, in the absence of a substantive HR manager. With the progress that ESTAK had made in re-establishment of the Training Department and recognizing the reluctance by TAK to seriously support such integration, ESTAK suggested that TAK consider reverting back to the old model of separate HR and Training functional management. ESTAK suggested that both managers should report directly to the Deputy Director-General (Support) and the Manager HR and Training should become Manager HR.

Recently, the DG has indicated his intention to boost the importance and profile of the Enforced Collection program by giving it its own Directorate in the same way that Taxpayer Education already has its own

Directorate. ESTAK supports this proposed change.

Changes at the Phase II level have also been largely implemented, but there remain a few areas where staffing decisions still need to be implemented:

- Increased staff for the Strategic Planning, Finance and Risk area – as noted above, it is expected that some new hires will transfer into that area in the near future;
- Additional staffing for the Call Center to enable expansion to handle in-calls – while two new staff were shifted into this area they in effect simply replaced two staff who moved out to different positions. Unfortunately internal advertisement of Call Center positions resulted in a lack of applicants. Nevertheless the TAK DG has committed to increasing Call Center staffing from September 2012 (as well as requesting 7 additional staff, all for the Call Center, in TAK's 2013 Budget submission);
- Increased staff for TAK's Intelligence Unit – that unit continues to operate within the Tax Investigation Unit, but only with a manager and no staff – the TAK DG has indicated his intention to internally advertise/transfer three additional staff into that area;
- Establishment of TAK's International Tax Unit – decisions on this were deliberately delayed while the future of a former TAK staff member who would have been a suitable manager for that unit was determined. It is now clear that the former staff member will not be returning to TAK but no further moves have been taken to establish this unit, which was envisaged in Phase II to be part of the Legal and Appeals area.

In supporting these organizational changes, there was a need to develop or revise existing job descriptions. TAK established a job description working party, including ESTAK representation, to oversee the process. While progress on this exercise was slow, it was subsequently superseded by an external initiative led by the Ministry of Public Administration (MPA) aimed at establishing a consistent grading structure across the entire public service. All Ministries were requested to provide details of their organization structure, job descriptions and gradings to them by 15 August 2012. ESTAK understands that all areas of TAK HQ have prepared the requested information for this exercise, except one area which is still working on this. A TAK working group is scheduled to review this information in the near future.

ESTAK has raised one issue for consideration by the working group; the extent to which the MPA proposed changes should apply to TAK positions, given the provisions in the Tax Administration & Procedures law which enable TAK to determine its own pay scale. ESTAK would expect that TAK's pay and grading for positions that are common across government organizations (such as most "corporate services" positions) would reflect those in the MPA initiative. However, separate consideration needs to be given to whether tax "specialist" roles should have their grading and thus pay levels falling within the civil service structure. In particular, consideration needs to be given to how TAK's most common role, tax inspector, should be treated. TAK has developed a three tier coefficient level for its tax inspectors based on their experience and it is unclear how this role would be treated in the MPA initiative. ESTAK has suggested that tax inspector positions (and likely other tax specialist roles) should be treated outside of the MPA initiative in the same way that "technical" Customs officers are not regarded as part of the core civil service.

ESTAK is also making progress on another Year 3 work plan "management effectiveness" task that is not scheduled for completion until October 2012, namely the proposed development of consolidated key performance indicator (KPI) reports for management. ESTAK advisors agreed on a reporting format with the TAK DG and this is proposed to be implemented during the next quarter.

ESTAK has also contributed to improving "management effectiveness" during the quarter by developing a proposal for seven of TAK's new hires to be redeployed into positions within TAK HQ during the second year of their tenure as part of their development program. This will as well help TAK HQ in areas where it's difficult to attract staff. The TAK DG has supported this proposal and intends to announce changes to

take effect from September 2012.

During the quarter, ESTAK held discussions with USAID's external reviewer about future HR support to TAK. Given both the reluctance by TAK and MoF management to adopt various human resource policies (a series of administrative instructions covering recruitment, promotions, disciplinary procedures, grievances, etc. remain unsigned) and the imminent departure of ESTAK's HR Advisor, it was agreed that ESTAK would limit its future HR assistance to a few key areas covered by the Task Order, similar to the earlier decision to curtail ESTAK's performance management support for TAK.

Throughout the quarter, ESTAK advisors directly supported the TAK Director-General in performing his duties and maintained a good working relationship with him. While not always taking ESTAK advice, the Director-General nonetheless regularly seeks advice from ESTAK.

ESTAK advisors also provided regular assistance to TAK Deputy Directors, HQ managers and the Large Taxpayer Unit Manager (and to a lesser extent the other regional office managers). In addition, ESTAK assisted TAK management through regular attendance at TAK HQ senior management meetings and TAK regional manager meetings.

(C) DETERMINING RESOURCE NEEDS:

In the Year 3 work plan, the specific resource need tasks relate to the 2013 Budget cycle, covering the provision of assistance in identifying TAK resource needs to feed into 2013 Budget submissions and supporting TAK with the progress on those submissions.

In particular, it was envisaged that during the first quarter ESTAK would assist TAK in developing its 2013 Budget. While ESTAK's input to this exercise commenced with a progressive review of expenditure items, TAK has continued to prepare budget bids on the same basis as previous years.

For 2013 TAK has requested two additional allocations of 3.635m (2m towards SIGTAS replacement, 0.46m for increased wage and salaries, 0.42m for increased goods and services, 0.35m for TAK HQ premises alterations (addition of a new floor on top of the existing building), 0.25m for computer hardware, 0.08m for increased utility costs, 0.05m for completion of Germia building alterations and 0.025m for purchase of vehicles) and 4.2m for MoF (being subsidies required for GoK to pay for 28,000 fiscal cash registers for small businesses with a subsidy of 150 euro per register) on top of the 7.77m euro allocated to TAK for 2012. Such requests also envisaged a minimal increase in TAK's staffing level from its current 760 to 767 (with the additional staff positions to be all in TAK's Call Center as it expands so it can provide responses to taxpayer in-calls). If these requests were all approved, this would see an effective doubling of the TAK budget in 2013. This level of additional resourcing is clearly unrealistic in the current financial environment and simply seems to be an opening negotiating position.

ESTAK's analysis of the 2013 Budget bid indicates little substance to the request (other than general statements that TAK needs this level of resourcing to meet the commitments in its Strategic Plan), little reference to the benefits GoK would get (i.e. increased tax revenue collections) from an increased allocation of resources to TAK, and an absence of any cost/benefit analysis (for example the bid included a statement that "increased fiscal cash registers will surely give rise to increased revenues"). As a result, ESTAK intends to hold discussions with relevant TAK management in relation to its 2013 Budget bid, prior to the MoF Budget hearings due to be held in late August 2012, to prepare TAK better for this exercise (even if, as has happened in the past, final decisions on TAK resourcing are generally personally agreed between the TAK DG and the Minister of Finance).

In addition to the 2013 Budget, TAK also made a submission for increased resourcing of 1.2m euro (a 16% increase) for 2012 in the context of a mid-year Budget review. ESTAK questioned TAK on this request in order to ensure its case could be justified. TAK's request was subsequently declined by MoF, except for a small increase of 82,500 euro in its funding for utility expenses. This now places TAK in a difficult resourcing position for the balance of 2012. As at 30 June 2012 TAK had spent 2.177m (47.5%) of

personnel costs (but note this only covered 5 months of such costs meaning that personnel costs were technically 53.5% spent), 0.736m (50.1%) of goods and services costs, 0.105 (38.7%) of utility costs (after adjusting for the recent increase, but which was 59% spent otherwise) and 0.185m (15%) of capital costs.

Reallocation of funding to personnel and goods & services from its capital allocation would address funding shortages in 2012 but technically requires Assembly approval (as the amounts exceed the limits allowed to be approved by the Minister of Finance under Kosovo's budget laws). Failing such approval, cutbacks will be needed and it is unclear at this stage as to the extent to which future tax revenue collection expectations (and ESTAK plans) could be compromised.

During the quarter, TAK distributed the 20 additional vehicles that had been donated to it by EULEX. This provided the opportunity to dispose of 7 vehicles that had been in use since 2001. The increased vehicle fleet will however require additional goods and services costs to run and maintain at a time when TAK is already short of funding.

In light of these developments, ESTAK has during the quarter commenced preparing a Resource Management Guide for use by TAK management, which will bring together relevant MoF and TAK budget process information to enable TAK to improve its resource bidding, analysis and reporting processes in future years.

(D) RETURNS PROCESSING AND TAXPAYER RE-REGISTRATION:

In the Year 3 work plan, the return processing task planned to be completed during the first quarter was the merging of employer tax and pension forms. The new merged monthly wage withholding tax/pension contributions declaration was introduced with effect from payments made in April 2012 with the new forms due to be filed by 15 May 2012.

An important part of the introduction of the new merged form was providing employers with an option to electronically file the new form. Prior to this, over 2,000 employers were already e-filing their employee details to KPST on a monthly basis. Introduction of the new form represented an opportunity to get such employers to e-file their wage tax information together with their pension contribution information and also to increase the number of e-filing employers. This change also supported ESTAK's expansion of e-filing objective.

The introduction of the new form was supported by the introduction of a new Employers' Tax Guide, drafted by ESTAK advisors, as well as by regional seminars and publicity conducted by TAK staff. The process required employers to initially register for e-filing. (Previously used tokens that had been used for this purpose with the e-filing pilot in the Large Taxpayer Unit were no longer needed, but employers still needed to sign a contract covering their e-filing use).

Employers were also given the opportunity to e-file their VAT declarations, the first expansion of e-filing since the pilot of VAT declaration filing by Large Taxpayer Unit taxpayers that commenced in October 2011.

Taxpayers have welcomed the e-filing provision. Over 12,500 taxpayers had registered for e-filing by mid-July 2012 and most of them are now e-filing:

<u>Month</u>	<u>Taxpayers who have e-filed</u>	<u>VAT forms e-filed</u>	<u>Employer forms e-filed</u>
January 2012	131	133	0
February 2012	149	163	0
March 2012	145	147	0

April 2012	173	149	28
May 2012	5,579	1,741	5,930
June 2012	7,641	3,072	8,074

While many taxpayers are now able to file their tax declarations electronically, until recently tax payments still had to be physically made at commercial banks. TAK had requested the banks to make electronic payments of tax possible to further enhance the attractiveness of e-filing. Most commercial banks have responded to this request. By mid-July, two commercial banks were offering e-payments of tax to their customers and several others are expected to do so soon.

The merging of employer forms and e-filing/e-payment arrangements are all expected to result in improvements in Kosovo's Doing Business ratings for "paying taxes". The one remaining initiative that ESTAK has proposed that would further help such ratings is the proposed reduction in filing frequency of VAT declarations by smaller businesses. This initiative has been included in the TAK IT Operational Plan and is due to be implemented in late 2012 (consistent with ESTAK Year 3 work plan target date of 15 January 2013). In the meantime, TAK referred details of the ESTAK proposal to the SIGTAS supplier to get an early indication of the time and cost needed to modify SIGTAS to reflect the proposed change.

In relation to tax registration, the first quarter has seen the bedding down of new combined tax/business registration processes at "one-stop shops" run by the Business Registration Agency of Kosovo (BRAK) at municipality level. In accordance with a MoU between TAK and BRAK, registration processes are now electronic and allow new businesses to obtain fiscal numbers and business registration numbers (and if necessary VAT certificates and import/export certificates) within 24 hours of application.

ESTAK's involvement with this change was mainly confined to drafting the Administrative Instruction (to amend previous VAT and Tax Administration & Procedures law administrative instructions) to allow for the new one-stop shop process, and to remove any discretionary ability for TAK to contact pre-registration visits to taxpayer premises. (Taxpayers can still request post-registration "education" visits from TAK). This Administrative Instruction was signed by the Minister of Finance on 21 May 2012. These changes are expected to significantly improve Kosovo's Doing Business "starting a business" ratings. During the quarter, ESTAK prepared a further progress report for BEEP on the Doing Business improvements made by TAK to support this.

The only remaining "registration" improvement that ESTAK has identified is a proposal to dispense with the requirement for import/export certificates (following a similar move in Kosovo Customs), but this cannot be progressed until the next opportunity to amend Kosovo's VAT law arises.

(E) SIGTAS IT SYSTEM:

In the Year 3 work plan, three on-going IT tasks are expected to be progressed during each quarter:

- On-going support for TAK in its efforts to sustain SIGTAS until a replacement system is rolled out was **achieved**. ESTAK assistance is continuing, with particular emphasis on the implementation of Stage 2 (the addition of modules tailored to taxpayer audit activity, enforced collection activity and taxpayer objections/appeals). The taxpayer audit module, the objections/appeals module, and the installment arrangements part of the enforced collections module have been implemented, with only the collection case management part of the enforced collections module yet to be implemented (which is awaiting completion of current modification work by TAK IT staff under ESTAK supervision)
- Support the on-going evolution of e-filing and online taxpayer service support was **achieved**. ESTAK have actively supported the expansion of e-filing. The increased number of e-filers as a result of these efforts is detailed in the previous "return processing and taxpayer re-registration" section of this report. Further expansion of e-filing will be provided as commercial banks

progressively introduce e-payment capability. ESTAK are also encouraging the expansion of the portal available to e-filing taxpayers so that they have access to not only their tax account balance but also have access to recent tax transaction details

- On-going increases in the exchange of information among interested users were **achieved**. During the quarter discussions were held with the Privatization Agency of Kosovo (PAK). During these discussions TAK provided PAK with details of its largest SOE tax debtors in order to ascertain any steps PAK were taking or intending to take in those cases, so TAK could also consider its action in those cases. At the same time, PAK was asked for any data they could provide to TAK to help with its activities. Discussions were also initiated with the management of TAK's Tax Investigation and Intelligence Units on proposed steps to review the suitability of existing third party and other data already provided to TAK as well as identifying additional sources that might be useful to TAK

ESTAK also made progress on three other Year 3 work plan IT tasks that not scheduled for completion until later quarters. Of these, progress details of two (implementation of Stage 2 of SIGTAS and reviewing the effective use of 3rd party information) are detailed above. The third, developing a simplified management information system for TAK using key performance indicator information, has been advanced – a reporting format has been agreed with the TAK DG and the development of these reports has been included in the IT Operational Plan for implementation during the balance of 2012.

The ESTAK IT Advisor's input was limited to two weeks during the quarter, and much of this time was spent on briefing TAK IT staff and business owners on the steps necessary to modify the part of the SIGTAS enforced collections module that deals with collection case management. ESTAK considers this area to be the most important in terms of its potential revenue impact of all of the SIGTAS Stage 2 modules. The IT Advisor also conducted an online presentation and demo on iServer (a tool for maintaining a repository of enterprise architecture) for TAK IT staff. The presentation provided TAK's developers and business analysts an example on how to approach enterprise infrastructure development and was appreciated by those staff. They are now looking to purchase iServer or a similar tool.

During the visit of the USAID external reviewer in May 2012, discussions were held with TAK IT management on the IT changes ESTAK envisaged being made before its cessation. These amendments were included in a TAK IT Operational Plan for the balance of 2012 and it was agreed progress on this plan would be monitored by the Senior Manager of the Executive Office, on behalf of the DG. ESTAK has participated in subsequent progress review meetings called by the Senior Manager.

2.2 OBJECTIVE 2 – INCREASE TAXPAYER COMPLIANCE

(A) IMPLEMENTATION OF TAX LEGISLATION (RULES AND REGULATIONS):

Tax legislation

During the quarter, Kosovo enacted amendments to all of Kosovo's tax laws as well as enacting new laws covering pensions and games of chance, both of which require operational roles from TAK. ESTAK played no role in drafting any of these changes (MoF drafted the amendments to the income tax and tax administration and procedures laws, and the EU-CTA project drafted the amendments to the VAT law). ESTAK advisors however reviewed all of the amendments and made comments on them. The package of laws came into effect on 16 June 2012 and ESTAK assisted TAK in preparing a summary of the main changes which TAK used in its subsequent taxpayer seminars on the changes and in its publicity. ESTAK also briefed USAID and representatives of the GFSI and BEEP projects on the changes.

While the number of amendments to the income tax laws, and to the tax administration & procedures law was small, this is not the case with the amendments to the VAT law where many of the existing VAT law provisions were amended. Accordingly, ESTAK recommended that TAK prepare an unofficial (i.e. not

officially enacted by the Assembly) consolidation of the VAT law so that taxpayers and TAK staff could easily see the current VAT law in one document rather than have to read two sizeable documents together. TAK completed this task and ESTAK reviewed and subject to minor amendments, confirmed the accuracy of the consolidation.

There is one major task remaining to be completed in this area which is the preparation of an Administrative Instruction covering the VAT law amendments. A TAK working group, which includes ESTAK participation, was established to work on this task and it is expected this work will progress during the next quarter.

ESTAK has also continued to assist USAID and TAK with the implementation of revised tax (and customs) exemption procedures for USG/USAID contractors and subcontractors resulting from the revised USG/GoK bilateral agreement that was signed on 29 March 2012. It is expected that new procedures will be implemented during the next quarter.

Double tax treaties

ESTAK has continued to assist a MoF/Ministry of Foreign Affairs working group that has been progressively arranging for about 20 countries to enter into double tax treaties with Kosovo. While some progress has been made, no new agreements were negotiated or signed during the quarter. The position thus remains as follows:

- There are two current double tax treaties in force (with Albania (2005) and Macedonia (2011)), as well as some past agreements entered into by Yugoslavia which continue to have effect in Kosovo
- Negotiations have previously been completed and treaties simply require signing in respect of Turkey, the Czech Republic, Hungary and Albania (a revised agreement)
- Negotiations are close to finalization in relation to a proposed agreement with the United Kingdom

Legal barriers

ESTAK has continued to assist TAK with monitoring and identifying legal barriers to TAK collection and enforcement. Focus during the quarter has been on re-establishing working relationships between TAK and the Privatization Agency of Kosovo (PAK) in relation to the tax debts of Socially Owned Enterprises (SOEs). As a result of meetings between management representatives from both organizations:

- Improved communication processes have been established between the two organizations in relation to SOE liquidations. While only three liquidations have been completed to date (only one of which involved payment to TAK of a portion of a tax debt), it is expected that close to 100 liquidations will be finalized during the next 12 months and it was important to implement improvements based on lessons learned from the previous liquidation that involved tax proceeds
- PAK have agreed in principle (subject to confirmation by their Board) that if TAK suspend seizure actions against SOEs, that they will use some of its funds to pay off the tax debts of the remaining SOEs that have not yet commenced privatization action and/or will not be privatized. TAK expects to receive around 3m euro in tax debt collections from this source before the end of 2012

(B) ROBUST AND FAIR AUDIT FUNCTION:

The only "audit" task expected to be completed during the first quarter of the Year 3 work plan, was the development of a plan to address 3rd party information and intelligence issues within TAK. Initial discussions on this work were held with TAK's Tax Investigation Unit and Intelligence Unit managers, but it was deliberately decided to defer this work until TAK recruits an additional three staff in the Intelligence Unit (currently only the Manager of that unit has been appointed, but future internal appointments are planned) so that ESTAK can carry out such work in conjunction with TAK. In its place, ESTAK has advanced its work on the development of a plan to improve taxpayer compliance in the enclaves and is well advanced on the completion of this task, as per the progress details below.

In addition, there is one audit area in the Year 3 work plan which requires on-going assistance, namely the building of VAT administration capacity to reduce the turnover threshold for VAT taxpayer registration. It is now clear that the VAT taxpayer registration threshold will not be reduced during the ESTAK timeframe following a GoK commitment to the IMF to not make such a change. Nevertheless, ESTAK believes that a future reduction in that threshold is desirable and has focused its efforts on a proposal to reduce the filing frequency for VAT declarations from monthly to quarterly for smaller businesses. Such a change is seen as a pre-requisite to VAT registration threshold reduction, while at the same time contributing to a further improvement in Kosovo's "Doing Business" ratings and potentially halving the number of VAT declarations required to be filed and processed each year. This change has been included as an action item in the TAK IT implementation plan for 2012, where it is scheduled for completion in December 2012.

Although other "audit" activities in the Year 3 work plan were not scheduled for completion during the first quarter, progress has been made in each case as follows:

- Implementation of SIGTAS stage 2 Audit Module – TAK implemented this module during the first quarter, and this task is now complete, ahead of the proposed October 2012 completion date. While previous ESTAK analysis indicated that this module did not contain all of the functionality that TAK desires, TAK management made the decision to implement the module "as is", so that "users" could become familiar with it and subsequently advise TAK IT of what further modifications they required through their HQ "business owners"
- Developing a plan to improve taxpayer compliance in the enclaves – This Task Order task was deliberately left until Year 3 in order that it could tie in with a reopening of TAK's sub-office in North Mitrovica. This process has been on-going for over a year, but from March 2012 has had 5 Serbian staff providing assistance to North Mitrovica taxpayers from TAK's premises in Mitrovica (south). During the quarter ESTAK visited the North Mitrovica, Gracanica and Shterpce sub-offices and discussed with the Serbian staff there and their management ways to improve taxpayer compliance in their areas. As a result of such visits, ESTAK is now ready to draft a compliance strategy plan for enclave taxpayers for TAK consideration. It is clear that this plan will involve two distinct approaches, namely:
 - (a) Tax compliance in North Mitrovica will for now be based on voluntary compliance – this is a necessity given the current lack of an effective Police or Court structure in the North which means that many of the non-compliance activities that TAK takes in the rest of Kosovo (e.g. seizing assets, closing businesses, stopping imports/exports, preventing departure from Kosovo) cannot be taken in the North
 - (b) Tax compliance in the balance of Kosovo will be the same for both enclave and other taxpayers – this follows earlier ESTAK research which indicated that levels of non-compliance by enclave taxpayers were no different than other taxpayers. The focus here will be on ensuring that TAK staff in the sub-offices can provide the same levels of assistance and compliance activity to their taxpayers as for staff in TAK's regional offices. Recent TAK developments such as the updating of sub-office staff computers and the provision of SharePoint access which provides them with SIGTAS information on their taxpayers have largely addressed a long-standing deficiency, but there are still areas such as improving the Serbian language information on TAK's website that need further action
- Implementation of simplified audit risk criteria - During the quarter, ESTAK continued to support TAK's audit risk selection model encouraging TAK to use the information provided by the model in their decisions on the tax audit cases being selected by HQ and working towards greater percentages of HQ selected cases for audit in future years. During the quarter TAK's Senior Manager (Operations) used the model to select 20 cases for each regional office to audit where there was a marked discrepancy between declared turnover and tax paid, which supplemented the other cases allocated by TAK's Audit advisors in HQ. However, TAK IT has not yet

implemented the previously recommended and TAK agreed simplifications to the income tax risk audit formulae or to load into the model additional data received from third parties. TAK IT previously gave higher priority to fixing the processing problems from the first phase of the SIGTAS upgrade. With these now resolved, ESTAK has encouraged further work on this front and these activities have been included in the TAK IT work plan for the foreseeable future. While an estimated completion date of late July 2012 was originally envisaged, this will be delayed to allow TAK's "business owners" to re-confirm the functional specifications for this work. In an interesting development, the IMF, who recognize TAK's risk audit selection model as world-class, organized a seminar in Jamaica in July 2012, where they invited TAK to attend and demonstrate their system to Caribbean countries.

- Updating and re-launching of TAK's Code of Conduct and policy regarding corruption allegations – due for completion October 2012. ESTAK's Code of Conduct has not been reviewed or updated for several years, and consequently the training on it delivered to staff by TAK's Office of Professional Standards Unit had become less effective. ESTAK was asked to review the Code of Conduct, and has suggested several changes, including a change from a "rules only" document (which generally focuses on what staff cannot do) to a document that incorporates both "principles and rules" (thereby providing more guidance on how staff should conduct themselves). More importantly, ESTAK's review has also focused on how the Code of Conduct has been implemented and is being monitored. ESTAK has concerns in this area, following TAK's departure from all staff completing annual personal declarations and on its subjective responses to dealing with breaches of the Code of Conduct. Following ESTAK input, TAK management agreed to set up a working party to review the Code of Conduct, and ESTAK will support the first meeting in late July 2012.

In addition to these tasks, ESTAK also contributed to TAK's audit activities in the following areas:

- Supported TAK's audit quality measurement program - ESTAK assisted this program by checking and confirming that the quality standards were reviewed correctly, and by supporting expansion of audit quality review methods to compliance visits rather than just tax audits;
- Assisted TAK with completion of the data matching exercise between TAK and Customs that started during a March IMF mission;
- Reviewed a brochure that TAK had developed for non-registered taxpayers as part of TAK's Risk Response Plan work;
- Assisted with the introduction of "taxpayer education" roles within each of TAK's Large Taxpayer Unit industry sector specialized audit teams;
- Prepared audit procedure documentation for TAK relating to the construction industry.

From June 2012, TAK implemented a new electronic time reporting system for its audit (and other operational) staff, a change which has been welcomed by regional office staff as (it eliminates manual work). This change also means TAK management now gets more timely management information on its audit staff activity that can be used for monitoring audit staff effectiveness and efficiency. This information will also feed into the proposed MIS and the key performance indicator work that ESTAK is progressing.

(C) ROBUST AND FAIR COLLECTIONS FUNCTION:

Although no "enforced collection" activities were scheduled for completion during the first quarter of the Year 3 work plan, progress was made on activities as follows:

- Implementation of SIGTAS stage 2 Collections Module – There are two parts to this module. TAK implemented the "instalment arrangement" part during the first quarter, but the more important "case management" part has not been implemented. Previous ESTAK/TAK analysis showed that

this aspect of the module had not been properly designed and developed and as a result the decision had been made for TAK IT to modify this part of the module under ESTAK IT Advisor supervision. Relevant IT staff was provided with a “walk through” of the business processes and requirements of the proposed Collection Case Management System and the options for integrating it within SIGTAS. After an internal delay TAK IT commenced this work late in the quarter. It is expected that this work will be completed during the next quarter;

- Implementation of automatic notices to debtors and non/stop-filers AND assisting the Call Center in expanding to deal with in-calls arising from the receipt of such automatic notices. These linked tasks are expected to be implemented in September/October 2012. During the quarter, and in preparation for these changes, further accommodation alterations in the Germia building were commenced, this being the proposed site for the “expanded” Call Center. In addition, the Automated Call Distribution (ACD) equipment was installed and TAK staff are being trained on its capabilities;
- Establishing a career ladder for Collection officers linked to the complexity/difficulty of cases – Before his departure, ESTAK’s HR Advisor prepared documentation indicating the factors that would need to be considered in developing this career ladder, but noted that a prerequisite for this work was to finalize the reporting chain in relation to the most senior enforced collection positions in TAK, an issue that TAK senior management are currently addressing. In particular, the TAK DG has indicated that the enforced collection program is the area of TAK that needs immediate attention and in this regard he is proposing that (1) the enforced collection program have a separate Director reporting to the DG (in the same way that the Taxpayer Education program is currently set up), and (2) that additional office accommodation obtained in the Germia building become the base/center of excellence for the enforced collection teams of Pristina 1, 2 and 3 (in the same way that the taxpayer education center of excellence has been created)

In addition to these “work plan” tasks, ESTAK contributed to TAK’s enforced collection activities in the following areas:

- Recommended to TAK management to introduce a quality review function as part of HQ enforced collection work, similar in concept to the Audit Quality Measurement unit. TAK senior management agreed with this but are yet to appoint the additional staff to carry out this function. In the meantime, ESTAK has been assisting with preparing documentation for this new role;
- Recommended to TAK management that tax auditors conducting compliance visits to taxpayers also remind such taxpayers of any tax debts or delinquent tax declarations;
- Conducted presentations at monthly enforced collection team leader meetings (e.g. on the importance of registering liens at the Pledge Registry to register TAK’s debt interest, and on the availability of new IT reports that had been developed for their use in SharePoint);
- Visited TAK regional offices with TAK HQ staff to review their progress on dealing with their debt cases and in particular any they need assistance with. Recently this has included visits to regional offices to brief staff on penalties and penalty relief provisions;
- Assisted TAK with the development of procedures to be followed in cases of sales of seized property. In relation to a debt case involving the sale of land, ESTAK recommended that in addition to normal newspaper publications that TAK also create a section on its website for public advertisements of sales of seized property;
- As noted above, assisted TAK in dealing with the first proceeds from a SOE liquidation; 2,600 euro had been paid into the government’s tax bank account in December 2011 but TAK was not advised of this until May 2012 and therefore the taxpayer’s debt was not adjusted and cancellation of remaining tax debt had not been processed. ESTAK assisted the HQ staff who liaise with PAK on progress reports for TAK management on privatization and liquidation progress;

- Assisted in a meeting with Customs where the procedures for embargo of imports/exports were confirmed, with such action being able to be arranged online;
- Assisted with an update of the Instalment Agreement form;
- Assisted as an observer on the appointment panel for TAK's Pristina 1, 2 and 3 enforced collection manager.

It should be noted that during the quarter, the HQ Enforced Collection counterparts were shifted out of the TAK HQ building to a nearby building. Arrangements were made for ESTAK's Collections Advisor to also be co-located in that new location, a situation which had not been previously possible due to the cramped accommodation for that unit in TAK HQ. In addition, near the end of the quarter TAK obtained additional office space in the basement of the Germia building and this space has been earmarked to be used as the base for the Pristina 1, 2 and 3 enforced collection teams.

A key ESTAK initiative, which for now continues to have largely a collection function focus, has been the operation of TAK's Call Center. Progress on this has been:

- The Call Center has continued to focus on following up with taxpayers with debts of between 500 and 3,000 euro, but after they exhausted work on these cases, focus has shifted to taxpayers with tax debts between 300 and 500 euro. During its first 8 months of operation (from November 2011 to June 2012 inclusive), Call Center staff collected tax revenues totalling 1.264m euro;
- Call Center staff followed up with these debt case taxpayers on any delinquent tax declarations;
- Out-calls were made to taxpayers non-compliant with fiscal cash register obligations, and in relation to e-filing encouragement.

(D) PUBLIC EDUCATION ON TAX COMPLIANCE:

The only education task expected to be completed during the first quarter of the Year 3 work plan, was the development of an employers' tax guide taking into account the merging of employer tax and pension forms. This guide was drafted by ESTAK based on input from both TAK and KPST officers. It is now available for employers in hard copy and via TAK's website. Importantly, the employers' guide contains information not only on how to complete the new merged wage withholding tax/pension contribution forms, but also on how that form can be filed electronically. This was deliberate as TAK wanted to build on the base of 2,000 employers who were already separately e-filing their pension contribution information to KPST, so as to increase the level of their own e-filing numbers. The new employer merged tax/pension form was first used for April 2012 employer tax/pension payments with the forms due to be filed in May 2012. As a result of TAK seminars and publicity, the number of monthly tax/pension forms e-filed in June 2012 (in relation to May payments) significantly increased to 8,074 and was expected to increase further in future months.

There are three education activities in the Year 3 work plan that require on-going assistance:

- Assistance with publicizing taxpayer service initiatives such as the inauguration of new facilities in Pristina, the progressive expansion of e-filing, and the expansion of the Call Center to include in-call capacity. Activities in the first quarter focused on the first two of these with the third due to occur later in Year 3. ESTAK played a significant "behind the scenes" role in working with TAK management, MPA architects and contracted builders and suppliers to ensure that building alterations and subsequent fit-out progressed in a co-ordinated way in accordance with designs which took into account TAK's recently developed logo and image (e.g. new uniforms for taxpayer education staff). ESTAK also played a key role in the planning and preparations for the formal opening of the new taxpayer facilities in Pristina on 29 May 2012. Taxpayers have provided extremely positive feedback on the new "center of excellence" facilities which now cover the combined Pristina 1, 2 and 3 taxpayer education/pension teams. This is a major improvement

from the previous “standing room only” facilities. During the quarter the number of taxpayers e-filing their tax declarations has dramatically increased;

- Assistance to TAK with the progressive redevelopment of its taxpayer education function – ESTAK continued to assist TAK with the implementation of its Taxpayer Education Operational Plan. During the quarter, such assistance focused mainly on the expansion of taxpayer education activities in TAK’s Large Taxpayer Unit, with the development of an LTU Taxpayer Education work plan. The plan included the creation of new “advisory” roles within each of the LTU’s industry sector specialized taxpayer audit teams. The plan was approved and appointments have made to the LTU advisory roles. The TAK DG decided to extend this concept such that each of TAK’s regional offices will also have a specialized “advisor” who has little or no staff management responsibility;
- On-going assistance to TAK in publicizing enforcement actions. ESTAK followed up with TAK’s Tax Investigation and Enforced Collection Units on the number and types of enforcement actions carried out during the past 6 to 12 months and drafted a media article for TAK to publish in the near future

The ESTAK team made progress on the only other “education” activity in the Year 3 work plan, namely the conduct of briefings on tax issues for judges and prosecutors. ESTAK has been contacting various stakeholders to ascertain what plans if any have been made for the Courts to take over the role of hearing those tax dispute appeals currently heard by the Independent Review Board, from the end of 2012, as ESTAK intends to target TAK’s briefings for those members of the justice sector that are most likely to be involved in hearing tax cases. A meeting with appropriate Ministry of Justice representatives has been temporarily held up by the absence of the Director of MoF’s Legal Department, but it is expected that a formal MoF/TAK and MoJ meeting will be held in the near future.

In addition to these tasks, ESTAK has also contributed to TAK’s education activities in the following areas:

- Drafted a brochure for non-registered taxpayers to support TAK’s Risk Response Plan work relating to such taxpayers;
- Drafted a brochure for personal income tax natural persons covering their tax obligations where they have a second source of income;
- Reviewed the information available on the TAK website, comparing available content in Albanian and Serbian (as part of compliance strategy for the enclaves work);
- Attended a TAK taxpayer education study tour to the Albanian tax office to learn about their rules, procedures, experiences and plans in taxpayer service areas;
- Commenced work on drafting a Customer Relationship Management Software proposal for TAK.

ESTAK’s taxpayer education work during the past 18 months has led to a change in the culture of TAK which now recognizes the rights of taxpayers as stakeholders. The official opening of the new taxpayer facilities in Pristina together with the expansion of e-filing have been widely applauded by the business community and reflect this change in culture.

ESTAK continued assistance to TAK’s Call Center will also boost taxpayer education in the medium term. In preparation for this change, further accommodation alterations in the Germia building are currently under way, this being the proposed site for the “expanded” Call Center. In addition, the Automated Call Distribution (ACD) equipment has been installed and TAK staff is being trained on its capabilities.

During the quarter, ESTAK assisted with the analysis of the latest results from completed taxpayer satisfaction surveys by TAK. 60 taxpayer satisfaction surveys were completed by taxpayers during the quarter. Half of these related to service provided by Large Taxpayer Unit enforced collection staff had an average score of 4.65 on a scale of 1 to 5 (where 5 is the highest), an improvement on previous ratings. While the sample size is very small, service by taxpayer audit staff was also rated much higher than previously. Conversely, ratings for taxpayer education service, half of which related to Pristina, fell from

previous levels; but these will be expected to rise in the next quarter following the opening of the improved premises.

2.3 OBJECTIVE 3 – DONOR COORDINATION

In the Year 3 work plan, the only donor co-ordination task required to be performed was the on-going active participation of ESTAK in a donor co-ordination forum. ESTAK liaison with donors is co-ordinated through:

- TAK-run workshops - held at key times when the need for TAK donor/stakeholder is needed. The first workshop was held in July 2011 at the time that TAK was commencing its work on developing an IMF-recommended Compliance Strategy. A second TAK-run workshop took place in January 2012 and allowed TAK to report back on the results of the Compliance Strategy work as well as to discuss TAK's plans to establish an intelligence capacity. Both workshops were timed to coincide with visits by the IMF risk management expert assisting TAK with its Compliance Strategy and Risk Response Plan work. A third workshop is proposed to be held in September 2012, to coincide with the next visit of an IMF advisor who will be reviewing progress on Risk Response Plan implementation. ESTAK will present results of its current work on a compliance strategy for the enclaves at that workshop;
- MoF-organized "Customs and Taxation" donor co-ordination sector sub-working group meetings – ESTAK participated in the April 2012 meeting and presented a matrix of current and proposed donor activities within TAK

Between these workshops and group meetings, ESTAK continues its successful cooperation at an operating level with other donor projects assisting TAK:

- ESTAK coordinated activities with EU/TAIEX and EULEX experts (in relation to support for TAK's Tax Investigation Unit). The 6 month TAIEX VAT expert who arrived in March 2012, left a month later and was not replaced. Therefore ESTAK took on the role of assisting TAK with VAT matters, which had previously mainly rested with the EU (via the EU-CTA project and then the TAIEX arrangement);
- ESTAK worked with GIZ-funded experts (in relation to VAT and auditing using indirect methods training assistance with the Bavarian Government);
- ESTAK coordinated efforts with the IMF with regular contact with visiting missions. In preparation for each mission visit, ESTAK visits TAK's Large Taxpayer Unit and the MoF Tax Policy unit to obtain the latest information on likely future revenue projections.

ESTAK also continued to liaise with other USAID projects. This quarter, assistance was provided to the BEEP project with Doing Business progress information and with tax information for their "International Trade Guide" and to the KEDS project providing them with TAK business information to support their survey of the impact of electricity supply disruptions on businesses in Kosovo.

In May 2012 ESTAK participated in the first stakeholder meeting with the business community. Representatives of the Kosovo Chamber of Commerce, AmCham, Business Alliance, SKAAK, Customs and MoF also participated in this meeting. Going forward, such meetings are intended to be held on a regular basis.

3. PROBLEMS ENCOUNTERED AND PROPOSED SOLUTIONS

ESTAK has previously noted in its quarterly reports various problems encountered and has reported progress, if any, on their resolution. Problems that may impact ESTAK's ability to achieve its goals and objectives remain in the following three areas:

1. Not adequately managing the performance of TAK staff
2. Funding limitations and management
3. Information received by TAK not efficiently used to detect non-compliers

Details of each of these problems and steps taken to resolve them to date follow.

(a) Not adequately managing the performance of TAK staff:

ESTAK continues to believe that one of the most significant issues impeding reform progress and improved revenue collection performance is the reluctance by TAK managers to effectively and robustly manage the performance of their direct reports.

The problem - Sustained support for performance and human resource management by ESTAK in Years 1 and 2, has not been matched with sufficient tangible support from the TAK leadership team. Comprehensive competency standards were introduced for all key job roles and training has been provided to most managers including all team leaders in the regions. While there was some appetite for the practice to take root in the regional offices, similar traction has not occurred organization-wide due to the absence of TAK HQ leadership commitment, either to sanctioning poor performers or to meaningfully utilizing identified top talent in the organization. This problem is also compounded by the continued reluctance by TAK/MoF to sign Administrative Instructions on "best practice" human resource policies covering (1) recruitment and selection, (2) promotions, (3) discipline, (4) grievance, and (5) performance improvement procedure which includes provision for the termination of serially under-performing employees.

Proposed solution - As a consequence and after discussions with USAID, ESTAK has discontinued its support in the performance management area from February 2012 and in the wider human resource management area from June 2012, with the exception of completing a small number of discrete tasks that are included in the Task Order.

(b) Funding limitations and management:

The problem - As at 30 June 2012 TAK had spent 53.5% of its personnel costs, 50.1% of goods and services costs, 38.7% of utility costs (but was 59% before an increase in the mid-year review) and 15% of capital costs. Reallocation of funding to personnel and goods & services from its capital allocation would address funding shortages in 2012 but technically requires Assembly approval. Failing such approval, cutbacks will be needed and it is unclear at this stage as to the extent to which future tax revenue collection expectations (and ESTAK plans) could be compromised.

Proposed solution – ESTAK has raised the financial position with TAK top management and is expecting this issue to be raised at TAK's next monthly senior management meeting. As well as using that forum to inform the wider senior management group (rather than confining this to the three TAK managers that generally deal with financial issues), ESTAK will be advocating that monitoring of the financial position become an on-going reporting item at future senior management meetings by the Deputy Director-General (Support). A related problem is that past attempts by ESTAK to get TAK to review vehicle usage expenditure, better use telephone and other communications, and to identify discretionary expenditure (such as trips outside Kosovo) have generally been rejected with TAK management seemingly considering that everything will turn out OK based on reliance on personal discussions between the TAK DG and the Minister of Finance. While this could still be the outcome,

ESTAK is nevertheless pursuing the preparation of a “best practice” Resource Management Guide for TAK management in order that future budgetary processes are more rigorous, more consultative, and better prepared, a necessity for the future when personal relationships between the TAK DG and Minister of Finance can no longer be relied upon.

(c) Information received by TAK not efficiently used to detect non-compliers:

The problem – During Years 1 and 2, ESTAK has assisted TAK in obtaining external information from a range of sources. In addition to the previously arranged on-going data exchanges with Kosovo Customs and the Treasury, TAK now also has access to property tax and vehicle registration data. TAK receives significant additional data from taxpayers following the legal requirements to report on annual purchase transactions over 500 euros, and to install fiscal cash registers which report electronic sales data to TAK. While the Customs and Treasury data is used in TAK’s risk-based audit selection model, none of the additional data now received is currently used for that purpose or for any other action to identify non-compliers.

Proposed solution – ESTAK recommended that TAK establish an Intelligence Unit to amongst other things, review the sources of data tax receives and to ensure that such data is useful for identifying non-compliers. In effect, such a review would also serve as a post-implementation review of the over 500 euro purchase transaction and fiscal cash register initiatives to determine whether the benefits TAK gets from such data exceeds the compliance costs that taxpayers incur in providing such data to TAK. TAK has established an Intelligence Unit and while a manager for that unit has been appointed, additional recruiting is awaited to fill the other positions in that unit so that the proposed review work can commence. ESTAK has delayed its work in this area until more Intelligence Unit staff are appointed and this is expected to take place during the next quarter.

4. SUCCESS STORIES AND ACHIEVEMENTS

The main success stories of the quarter have been:

- **The opening of TAK's taxpayer education "center of excellence" facility in Pristina** - ESTAK played a significant "behind the scenes" role in working with TAK management, MPA architects and contracted builders and suppliers to ensure that building alterations and subsequent fit-out progressed in a coordinated way in accordance with designs which took into account TAK's recently developed logo and image (e.g. new uniforms for taxpayer education staff). ESTAK also played a key role in the planning and preparations for the formal opening of the new taxpayer facilities in Pristina on 29 May 2012 in front of media and TAK stakeholders including the Minister of Finance and USAID. Taxpayers and TAK staff have provided extremely positive feedback on the new "center of excellence" facilities which are staffed by the combined Pristina 1, 2 and 3 taxpayer education/pension teams. The new premises provide services similar to that available from a commercial bank and represent a major improvement from the previous "standing room only" facilities. The TAK DG has indicated his intention to use the new facilities as a backdrop for his next media conference
- **The merging of monthly employer wage withholding tax and pension contribution forms** - ESTAK played a major facilitation role in working with both TAK and KPST management so that the merging of these tax and pension forms could take place. This included the preparation of a new Employer's Guide for employers covering use of the merged form and other obligations. The new employer merged tax/pension form was first used for April 2012 employer tax/pension payments with the forms due to be filed in May 2012. The new form not only replaces monthly wage tax and pension contribution forms but also a quarterly reporting form for KPST. The merging thus simplifies the tax/pension process for employers and together with its e-filing ability (that may become mandatory in coming months), is expected to result in an improvement in Kosovo's World Bank Doing Business "paying taxes" ratings. At the same time, use of the new form significantly assists KPST in dealing with its biggest problem of allocating pension contributions from employers to specific employees
- **Significantly expanding the use of e-filing by taxpayers** - The newly developed Employers' Guide contained information on filing the new form electronically. This was deliberate as TAK wanted to build on the base of 2,000 employers who were already separately e-filing their pension contribution information to KPST, so as to boost its own levels of e-filing. Non-LTU taxpayers were also given the opportunity to e-file their VAT declarations, the first expansion of e-filing since the pilot of VAT declaration filing by Large Taxpayer Unit taxpayers which commenced in October 2011. TAK conducted regional seminars, contacted taxpayers from its Call Center and used publicity (which was supplemented by publicity from some of the commercial banks which had separately developed tax e-payment facilities for their customers) to publicize e-filing. The ability to e-file has been welcomed by taxpayers, with over 12,500 having registered for e-filing by mid-July 2012, and most of them now e-filing. The number of taxpayers who used e-filing in June 2012 exceeded 7,600 being a significant increase from the 150 who used e-filing in March 2012.

5. UPCOMING EVENTS AND ACTIVITIES FOR THE NEXT QUARTER

Following on from the work completed to date, the ESTAK team expects to work on the following tasks in the second quarter:

- Complete a tax compliance strategy for the enclaves and present the results, along with a TAK report on progress on its Risk Response Plan, at a donor workshop in September 2012;
- Commence work with TAK's Intelligence unit on reviewing 3rd party and other information received by TAK;
- Complete a draft Administrative Instruction on the recent package of amendments to Kosovo's VAT law;
- Complete development of a case collection management system and its subsequent implementation, thereby completing the installation of the SIGTAS Stage 2 modules;
- Further expand e-filing, potentially including a new requirement for all employers to have to mandatorily e-file their monthly wage withholding tax/pension contribution forms;
- Commence in-call capacity in TAK's Call Center, initially restricted to enquiries on the automatic issue of reminder letters for late filers and late payers, a process that is also due to be implemented during the next quarter;
- Deliver two more courses, "Test Writing" and "Presentation and Facilitation Skills", to the second intake of internal trainers under TAK's "train the trainer" program;
- Pilot the "Managing Information" course, the last of the six courses designed and developed by ESTAK as part of its management training program;
- Complete assistance to the new hire induction program due to finish in September 2012;
- Complete assistance with job description development taking into account TAK organization structure changes during 2012;
- Complete a Resource Management Guide outlining best practices for TAK management;
- Complete a review of TAK's Code of Conduct and how it is monitored;
- Implement regular key performance indicator (KPI) reporting for TAK management meetings.

6. CHANGES TO THE YEAR 3 WORK PLAN

In broad terms the bulk of the proposed Year 3 Work Plan can continue unchanged. Changes have been made to the timing of the “audit” initiative related to intelligence and TAK’s use of 3rd party information, but the vast majority of work plan activities are still expected to be completed, or at least substantially completed, by their target dates.

From this quarter, ESTAK has also had to play a larger role in assisting TAK with VAT issues than previously given the cessation of EU-CTA and TAIEX assistance to TAK in that area.

ESTAK work has continued during the quarter with the following additions that are not covered in the Task Order:

- Continued reporting to the BEEP project on “Doing Business” tax simplification progress, as well as providing tax input for their International Trade Guide;
- Assistance to the KEDS project with their conduct of a business survey on the impacts of electricity supply disruption on business activity;
- Continued assistance to USG/USAID, TAK and Customs on the implementation of procedures covering tax and customs exemptions in the “umbrella” USG/USAID bilateral agreement between the governments of USA and the Republic of Kosovo that was signed on 29 March 2012.