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EFFICIENT AND SUSTAINABLE TAX ADMINISTRATION OF KOSOVO (ESTAK)

YEAR 2 - QUARTERLY REPORT
APRIL 15 – JULY 14, 2011

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

This publication was produced for review by the United States Agency for International Development.
It was prepared by Deloitte Consulting LLP.

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1. ESTAK QUARTERLY REPORT SUMMARY

ESTAK activities during the first quarter of Year 2 have continued to focus directly on specific tasks according to the workplan and to TAK priorities. The ESTAK program has been operating with 6 short and long-term expatriate advisors, 3 local advisors and 3 translators.

The Task Order for the ESTAK program envisages a dual focus 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 and the areas which have dominated ESTAK input during the quarter, have been the following:

- Obtaining agreement for most of the Pristina 2 regional office to be moved to new premises thereby freeing up space in the Germia building, to improve the working conditions for the remaining staff and for providing service to the taxpayers
- Finalizing a new compensation schedule for TAK staff which resulted in most of the staff receiving significant remuneration increases at the end of April 2011
- Assisting with the resolution of problems that arose in a previous quarter during the implementation stage 1 of the SIGTAS upgrade
- Assistance with the proposed introduction of e-filing and with other compliance cost saving initiatives designed to improve Kosovo's "Doing Business" ranking
- Assistance in planning for the establishment of a TAK Call Center
- Delivery of Train-the-Trainer (TOT) courses for 23 TAK internal trainers and initial assistance with the development of a range of technical tax courses
- Assistance to TAK in recruiting 35 audit inspectors and 3 tax investigation unit staff from a pool of over 900 applicants
- Development of a new staff performance management information system and supporting training for TAK team leaders on how staff performance should be measured in the future
- Completion of a Taxpayer Audit Manual and commencement of training on that manual and substantial completion of a Collections Procedures Handbook
- Advice to TAK management on increasing tax collections during the remainder of 2011

Some progress has been made on resolving the problems identified in previous quarterly reports. 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 2 Work Plan

2. PROJECT PROGRESS

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

(A) SKILLS DEVELOPMENT/TRAINING:

In Year 1 the focus of ESTAK training efforts was to re-establish a functioning Training Department and to complete a comprehensive training needs assessment (TNA) that concluded the first stage of the proposed introduction of ISD training methodology in TAK. These steps formed the base for design and delivery of a series of technical, soft skills and management training courses during Year 2.

In the first quarter it was envisaged that the following training courses would be progressed:

- ESTAK's Train-the-Trainer program would start with the pilot “Curriculum Development” course that would be conducted twice for selected TAK internal trainers. Selected trainers would also attend a follow-up pilot “Test Writing” course.

TAK staff were invited to participate as internal trainers under ESTAK's Train the Trainers program and 48 applications were received. Some of these applications were rejected where the applicants did not meet the TAK work experience requirement criteria and following a consideration of their personal performance in 2009 and 2010. The first two-day Curriculum Development course was piloted on 28/29 April and a repeat course was held on 4/5 May. In total, 23 participants (not including TAK's Training Manager and Training Officer who also attended) were trained in course design and development. Participants for the two courses rated the training highly (4.32 out of 5 for curriculum, 4.65 for logistics and 4.76 for ESTAK's two instructors). In consultation with TAK, it was decided to defer the third Curriculum Development course and instead to conduct the two-day pilot Test Writing course. However, due to unexpected unavailability of the ESTAK trainer, the pilot course initially scheduled for 30 June/1 July was postponed until Quarter 2.

- ESTAK's management training program would commence with a pilot “Managing for Results” course.

Training materials for the introductory “Managing for Results” course were developed and regional office Enforced Collection and Taxpayer Education team leaders were chosen to be participants for the pilot course scheduled for 6/7 July. This course was also postponed until Quarter 2 due to the unexpected unavailability of the ESTAK trainer. Training materials were also developed during the quarter for five other training courses to be delivered under the ESTAK management training program.

- ESTAK's technical training course would commence with two TAK developed courses – “Law on Tax Administration and Procedures” course would be piloted for Enforced Collections staff, and “Using SIGTAS” course would be piloted for Taxpayer Audit staff

The 23 internal TAK trainers were asked to design and develop 13 different technical training courses as part of their Train-the-Trainer program. The 13 courses include “Law on Tax Administration and Procedures” and “Using SIGTAS” courses that are currently being developed. Initial drafts of the training materials have been prepared with ESTAK assistance, and both courses are planned to be delivered in Quarter 2. The first draft of “Using SIGTAS” training course material is also being expanded to cover the recently designed but yet to be implemented Audit Module as part of the second stage of the SIGTAS upgrade.

In collaboration with the EUCTA audit advisor, ESTAK co-presented three training courses on the recently completed and updated Taxpayer Audit Manual to 72 regional office and HQ audit participants.

During the quarter, the following was also achieved:

- ESTAK advisors had a high-level discussion with the TAK Director-General regarding training and HR activities, including the progress made during Year 1 and plan for Year 2, discussion of Training & HR “end state” and suggested actions by the DG to serve as a role model for TAK personnel and support ESTAK efforts
- Project team facilitated TAK Training Commission’s meeting which resulted in approved learning design worksheets for 9 training courses being developed by TAK internal trainers, templates for instructor guides, participant guides, PowerPoint slides, and tests, and a matrix documenting training needs for English and Microsoft office training
- The team commenced work on a Standard Operations Procedures Manual covering the operations of TAK's Training Department, including mapping of TAK's re-established Training Policy with the procedures covered in the manual
- We worked with TAK's HR Manager to finalize the 2012 Personnel Training and Development Plan, to be used to collect data on training and development needs for FY2012
- ESTAK implemented training assistance agreements for TAK staff attending training out of Kosovo (this requires attendees to provide a copy of their course materials to the TAK training department for inclusion in the electronic course catalogue, complete a post-training evaluation form, prepare an action plan citing three things they plan to implement following the training and provide a prorated amount of their training fee to TAK if they leave before the agreed service period)
- Following TAK's acquisition of additional office premises in Pristina, the team visited the new training room and prepared an assessment of the furniture and equipment needs for the training facility as well as for not equipped training rooms in Mitrovica and Prizren offices
- ESTAK advisors continued developing combined HR/Training Access database (proposed to go live in Quarter 2) which would allow data on training to be tracked for each TAK staff member
- Training advisors assisted TAK Training Manager in reporting on training indicators for the first quarter of 2011
- ESTAK advisors attended online training on USAID's TraiNet system, that allows information on conducted training to be tracked by training type, number of participants and gender
- We facilitated extensive EUCTA-funded training courses on VAT, on auditing using indirect methods, and on taxation of construction delivered to TAK's newly established Tax Investigation Unit

ESTAK advisors have also provided “on the job” training to selected 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)
- Performance management and recruitment, details of which are outlined below

(B) IMPROVING MANAGEMENT EFFECTIVENESS:

In the Year 2 workplan, a number of discrete management effectiveness tasks were planned to be completed.

The first task that was envisaged for completion during the first quarter was assessing the organization structure in the context of relevant recommendations from the February/March 2011 IMF tax mission. This followed an earlier ESTAK review of the TAK organizational structure which focused on TAK regional offices and identified little need for restructuring. Indeed ESTAK advisors had recommended that TAK capability problems should be dealt with through proper performance management of personnel and their personal accountability for delivery, rather than through constant changes to organizational structure and/or staff rotation.

The February/March 2011 mission recommended organizational structure changes in four areas:

- establishing an enduring taxpayer accounting unit to deal with more complex data integrity issues and errors, while transferring the responsibility for the processing unit from the compliance division to the operations division. The first part of this recommendation is consistent with prior recommendations by the ESTAK team. During this quarter, TAK reconstituted the Reconciliation Unit of its Processing Department as a Reconciliation and Account Maintenance Unit thereby implementing this recommendation. At the same time, TAK did not support the recommendation to transfer responsibility for processing from “compliance” to “operations” in the short term, given that the unit recently was transferred to “compliance” from the Information Technology department and was provided with substantial management oversight;
- merging HR and training functions – this was also previously recommended by the ESTAK project team. While TAK agreed with the recommended change in principle, it has not been yet implemented due to difference in views of the managers of these functions. After the Deputy Director Corporate Services who had responsibility for the Training Unit was redeployed to another position at the end of June 2011, ESTAK advisors took this opportunity to remind the Director-General of the need to ensure the replacement will be able to facilitate the merging of the Training and HR units
- expanding the analysis unit in the Operations Department while at the same time abandoning the prior proposal to shift responsibility of the Operation Department for collection and audit analysis to the Compliance Department – TAK has shifted the responsibility for collection analysis to the Compliance Department but left audit analysis responsibility covered by both the Operations and Compliance Departments. TAK advised the IMF that it is not feasible in the near future to staff both operational analysis advisors in Operations and operational policy and procedures advisors in Compliance for each of the functional areas in regional offices. The ESTAK team notes that the intention of the advisors given to the Deputy Director of Operations was not to provide operational analysis capacity but simply to provide the incumbent with administrative support and that operational analysis capacity was envisaged as being with the Compliance Department as it has been for Taxpayer Education and Pensions for many years. Indeed the Compliance Department has always partially exercised operational oversight over audit functions particularly in its role of administering VAT refunds and reimbursements. ESTAK thus envisages that for now operational oversight should remain with the Compliance Department. In the longer term, the IMF recommendation may have merit but it is not possible to implement at this time without a wholesale shift of functional experts at HQ level with a consequent loss in policy and procedures development capacity
- conducting a structured review of the design, functionality and staffing of the Large Taxpayer Unit including expanding the taxpayer services function, introducing industrial specialization into the audit units and developing capacity for audit quality review, risk and intelligence and specialist interpretation activities. It is worth noting that the industrial specialization aspect of this change was recommended by ESTAK advisors in mid-2010, but TAK deferred until 2011 due to the required amount of change in the LTU at that time. TAK advised IMF that they supported the introduction of industrial sector specialization in LTU audit units but it was not in a position to create a range of new specialist units in the LTU in the short term because to do so TAK would need to remove all such capacity from TAK HQ. The ESTAK team supported TAK’s approach

but also recommended that as TAK implements industrial specialization in its audit units that it re-designate some of its audit officers as case management officers (or all as combined audit/case management officers) in respect to those sectors, thereby providing an interim step towards a longer term implementation of the IMF recommendation.

As mentioned above, ESTAK advisors agreed with some but not all of the IMF mission's organizational structure change recommendations that were based on the assumption that large pool of technically skilled staff already exists in TAK. To the extent that such pool is currently small, ESTAK supports TAK's approach to delay full implementation of IMF recommendations. However, we emphasize that personality clash issues should be dealt with as part of performance management and/or conduct issues, rather than as organizational structure change issues.

A second task planned for the first quarter was the development of an oversight function between TAK HQ and regional offices based on recommendations made by the February/March 2011 IMF tax mission. This is discussed above as one of the IMF's recommended organizational structure change areas. As noted above, neither TAK nor the ESTAK team agreed with the IMF's recommendations in the short term given the original intention of operational support positions in the office of the Deputy Director of Operations. At the same time ESTAK notes the need to standardize the oversight function at HQ level. At present the Compliance Department exercises oversight of all regional office functions except for the audit function where such oversight is jointly covered by Operations and Compliance.

The remaining task for the first quarter was to provide initial support to TAK regarding proposals for a new IT system to replace SIGTAS. The need to replace SIGTAS was recognized by TAK, the Government of Kosovo, the IMF and other donors, but it is recognized that this is a major multi-year undertaking. The need for this change is becoming more acute as there are signs that the level of support provided by the SIGTAS vendor is beginning to deteriorate as some of the vendor's experienced staff are leaving their employment. ESTAK's IT Advisor has thus discussed with TAK IT management proposed steps for system replacement, and as a result has drafted an initial strategy for TAK and subsequently stakeholder consideration. The strategy takes into account the progress made on the previous canceled replacement system tender (e.g much of the technical specifications previously prepared will be able to be re-used) and on the findings of a recent DG TAXUD mission.

In terms of assistance provided to TAK senior managers on a more direct basis, ESTAK advisors have continued to work towards the progressive introduction of a properly operated performance management system (compared with the largely paper-based exercise that has taken place up to now), following 2010 discussions/implementation with TAK regional office managers. In particular, ESTAK's HR Advisor has prepared and distributed comprehensive written performance management material and has commenced conducting a series of one-day performance management workshops for TAK's team leaders (Mitrovica, Peje, Gjakova and Prizren team leaders were covered in June and Gjilan and Ferizaj team leaders were covered in July). At the same time, given that performance management needs to be organized as a top-down process throughout the whole organization, the ESTAK team discussed with the TAK Director-General the ways to support him with performance management of his direct reports, a task which he has largely ignored to date.

ESTAK recognizes that the system of performance management needs to be enhanced particularly to more clearly introduce accountability and delegated responsibility within TAK rather than the current tendency of many staff to refer all decisions for top management approval and to avoid dealing with performance problems and underlying capability deficiencies. This concept is also important given ESTAK's plans to introduce a performance-based component of staff remuneration. To this end during the quarter ESTAK continued to re-emphasize to TAK managers that performance appraisal ratings need to

be honest and reflect a “normal” distribution, a message that appears to be understood by most as trends indicate rating movements in that direction over the last two years.

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, particularly regarding communication on staffing redeployment decisions, the Director-General nonetheless regularly seeks advice from ESTAK advisors.

TAK Deputy Directors, HQ managers and the Large Taxpayer Unit Manager (and to a lesser extent the other regional office managers) have also received regular assistance from ESTAK advisors. In addition, ESTAK advisors assisted TAK management through their regular attendance at TAK HQ senior management meetings and TAK regional manager meetings, and through continued drafting for the Director-General of monthly information bulletins for all staff (a task that is proposed to be handed over to TAK once an appointment has been made to the new Executive Manager of the DG’s office position).

(C) DETERMINING RESOURCE NEEDS:

In the Year 2 workplan, the specific resource need tasks mainly relate to the 2012 Budget cycle, covering the provision of assistance in identifying TAK resource needs to feed into 2012 Budget submissions and supporting TAK with the progress on those submissions and their eventual implementation. Given the late passing of the 2011 Budget (March 2011) and the consequent late starting of the 2012 Budget process, ESTAK has only been able to provide minimal budgetary assistance during the quarter.

Nevertheless two important resourcing developments took place in TAK during the quarter, namely the implementation of significantly increased remuneration for most TAK staff and the allocation of additional office space to TAK in Pristina, which have been addressing two of the longest-running problems in TAK operations (low salaries and poor working conditions in Pristina).

Early in the quarter, ESTAK assisted the TAK Director-General with finalizing new payscale for TAK staff, based on a similar payscale that had been approved for the Kosovo Customs Service. It resulted in significant pay increases for most TAK staff effective the end of April 2011. This change enhanced the “minor” increases which the Government had implemented for all civil servants from March 2011 but which in TAK's case had been associated with the removal of meal allowances. While this was a positive development, ESTAK notes that there is still further work needed to refine the payscale, in particular to formally include a performance-based component in TAK staff pay.

With the allocation of additional office space for TAK in Pristina, ESTAK recommended to the Director-General that the new premises should be partially occupied by staff from TAK's Pristina 2 office thereby relieving the long-standing accommodation problems for both staff and taxpayers in the Germia building and allowing that building to be redeveloped into TAK's main taxpayer assistance site given its central city location. It is expected that these benefits will start arising in Quarter 2 as TAK units start to occupy the new space. Opportunities were not taken by TAK however to face up to internal inquiries regarding pay and instead a more ‘democratic’ solution was applied, postponing the issue of job-size, pay relativities and grading structure to late 2011 or early 2012.

Aside from these developments, the ESTAK team focused their efforts to support the implementation of the 2011 Budget decisions, in particular with the recruitment of many of the additional 48 FTE that TAK was allocated for 2011 (to 760 from 712 in 2010). We assisted TAK with the recruitment of:

- three new positions (Public Relations Advisor, International Tax Liaison Officer and Executive Manager of the DG's office) where ESTAK had previously assisted with the drafting of job

descriptions but during this quarter assisted as observers on appointment panels – appointments were made to the first two of these positions

- seven reinstated positions in TAK's proposed reopened sub-office in North Mitrovica. ESTAK visited North Mitrovica to ensure that its previously occupied premises were ready for re-occupation and to determine how it can best assist when the sub-office re-opens. TAK appointed 7 staff but none have yet started while agreement is sought with the landlord on TAK's reoccupation of the premises previously used and which still contain TAK office equipment, furniture and files
- 35 tax audit inspectors and 3 tax fraud investigation unit staff. With over 900 applicants for these positions and concerns about transparency the Director-General sought ESTAK assistance with the organization of candidate testing using the new civil service appointment procedures that came into effect from 1 January 2011. This resulted in over 600 candidates sitting a 3-hour written test in university lecture room facilities as a result of which 125 candidates were shortlisted for interviews over 6 days. ESTAK advisors played a key role throughout the entire process including preparing tests (based on the criteria specified for written tests in the appointment procedures), testing the difficulty of different types of question on existing experienced TAK staff, arranging printing/confidentiality of the tests, arranging logistics for use of university lecture room facilities to minimize opportunity for cheating, maintaining custody over completed tests, marking multiple choice questions, briefing the appointment panel on how to mark essay questions, providing advice to the interview panel on how to conduct interviews of shortlisted candidates, and providing feedback on the results of interview marking. This was a major exercise that was even more complicated due to the new civil service appointment procedures which are not suited for testing large numbers of candidates. It is hoped that TAK will adopt ESTAK's previously proposed recruitment procedures in future as soon as the necessary Administrative Instruction is signed by the Minister of Finance. The Director-General has been particularly complimentary of ESTAK's efforts which have reduced the external pressure he has had to appoint certain candidates. The selection panel – which includes two regional managers – have also embraced the process and can clearly see the value in adhering to the merit principle. They have recorded their high degree of satisfaction with the quality of the staff selected.

In recognition of limited vehicle numbers and the impact this is having on TAK's ability to visit taxpayers and travel to training and HQ meetings, ESTAK has recommended (1) greater pooling of vehicles at TAK sites (2) use of taxis at city locations and (3) the piloting of a travel policy which allows staff to use their own vehicles for business needs and get reimbursed for this.

During the quarter, ESTAK also drafted a communication policy, covering email, internet and phone use, for TAK management consideration, and reviewed and provided feedback on TAK's proposed implementation of an employee attendance recording system at its offices (a system that has just been implemented at TAK's HQ site). Both policies are aimed at improving the productivity of TAK staff.

(D) RETURNS PROCESSING AND TAXPAYER RE-REGISTRATION:

In the Year 2 workplan, the taxpayer registration task planned to be completed during the first quarter was to assist TAK counterparts in ensuring sustainable operation of an efficient and accurate system of taxpayer registration taking into account IMF tax mission registration recommendations. During the quarter, ESTAK advisors achieved the following:

- in accordance with previous USAID BEEP/ESTAK project driven decisions, issuing fiscal numbers to taxpayers on the day of their application was implemented in many cases, with taxpayer education/compliance visits being undertaken after fiscal number allocation
- TAK has continued to receive information from the Business Registration Agency regarding businesses that have applied for a business registration number and has used this to identify cases that have received a business registration number but who have not applied for a fiscal number – ESTAK has continued to urge regional offices to follow-up in these cases
- ESTAK has determined that the problems relating to individuals with multiple business enterprises have not as yet been fully resolved to enable smooth tax declaration processing using the one fiscal number of the owner in such cases (there are about 800 taxpayers covering about 1,700 businesses that are affected). ESTAK has accordingly recommended that TAK regional offices conduct short audits to resolve this issue and cleanse the TAK database in relation to these cases
- ESTAK has been working with TAK IT to implement the IMF mission recommendations regarding separating out the passive taxpayers. Many of these taxpayers were automatically allocated a fiscal number because of outstanding debts and they need to be separated from other non-filers so that only the latter are sent non-filing reminder letters. This activity will be undertaken in Quarter 2
- ESTAK reviewed the TAK database and identified that of its 60,000 taxpayers with fiscal numbers, over 11,000 are “passive” having had no tax declarations filed or payments made since 1 January 2008. To help TAK focus on true non-compliant taxpayers, these “passive” taxpayer cases will be recorded in a separate part of the database and taken off the list to be actively policed by TAK staff.

The accuracy of the taxpayer registration database will improve further as TAK staff process the replies that are being received to the tax debt reminder letters it has recently sent out to all taxpayers with a tax debt over 100 euro, and when non-filers start receiving and responding to reminder letters proposed to be issued to them in Quarter 2. It is thus expected that the TAK database will become increasingly more reliable throughout 2011.

In relation to returns processing, during the first quarter ESTAK plans envisaged assisting TAK counterparts in developing and implementing a prioritized action plan to clear the backlog arising from the upgrade of the SIGTAS system taking into account IMF tax mission return processing recommendations. ESTAK has continued to assist in this area that resulted in substantial reduction of the backlog. A concerted effort on the remaining identified cases is expected to take place during Quarter 2. The new Reconciliation and Accounts Maintenance Unit within the Processing Department has been tasked with working on the remaining unprocessed declaration cases.

A further task that ESTAK continues to support are tax form/processing reduction efforts in support of improving Kosovo's Doing Business ratings. During the quarter TAK has agreed with ESTAK's suggested merging of employer monthly tax and pension forms. New forms are expected to be introduced starting October 2011. Such a change will reduce the number of tax/pension forms required to be completed by an employer each year from 29 to 13. A further proposal for a reduction in VAT declaration filing frequency from monthly to quarterly for smaller VAT registrants to tie in with a proposed reduction in the VAT registration threshold will be pursued with TAK once existing IT priorities have been addressed. If adopted, this proposal would reduce the number of VAT declarations required to be filed

from 12 to 4 for small businesses, reducing the total number of VAT declarations requiring to be completed and processed by 50%.

(E) SIGTAS IT SYSTEM:

In the Year 2 workplan, four ongoing tasks are expected to be progressed during each quarter. The status of each of the four areas and the progress made is described below:

- Ongoing support for TAK in its efforts to sustain SIGTAS until a replacement system is rolled out - Achieved. ESTAK assistance is continuing, with particular emphasis on the remaining issues from the Stage 1 upgrade (in the quarter, these have mainly concerned the processing of VAT refunds, offsets between revenue types in refund cases, and the processing of fines), to ensuring SharePoint reports have been updated following the SIGTAS conversion, and more lately with the proposed implementation of Stage 2 (the addition of modules tailored to taxpayer audit activity, enforced collection activity and taxpayer objections/appeals) which has been successfully tested and simply awaits user training (proposed to be delivered in August 2011). ESTAK has identified implementation of the “collections” module as being the highest priority given the revenue implications arising from improved management of taxpayer debt cases and given this module will form the base for workload processing by TAK's proposed Call Center in its early stages
- Support the ongoing evolution of e-filing and online taxpayer service support - Achieved. ESTAK have been actively supporting the proposed introduction of e-filing with the pilot planned to commence in respect of July VAT declarations by large taxpayers that are due to be filed in August. This schedule assumes that the SIGTAS supplier confirms by 20 July that the e-filing interface with SIGTAS is working correctly. E-filing is expected to be phased in over the next 6 to 9 months, starting with Large Taxpayer Unit taxpayers (and within the LTU beginning with VAT declarations) and then expanding to other regions. Taxpayers that use e-filing will also be able to access their TAK accounts to ensure that their e-filed return and payment have posted and to see their current status. Over time, this portal will be expanded to all taxpayers and will significantly increase their ability to access information regarding their tax accounts
- Support ongoing improvements in management information through SIGTAS - Achieved. Reporting processes identifying non-payers and non-filers were simplified (e.g. non-filers and stop-filers are now shown in the one report, and the debtors list has been improved, with both improvements having been presented to TAK regional managers by ESTAK). We also commenced work on preparing a regular key performance indicator report for TAK senior management.
- Ongoing improvements in the exchange of information among interested users - Achieved. In addition to the data TAK already receives regularly from Customs (including data on imports in North Mitrovica as monitored by EULEX), the Treasury and selected large organizations (e.g. transactions with Pristina International Airport), during the quarter TAK is now receiving data, as required by law, from taxpayers (including PTK and KEK) on all suppliers whom they have had annual purchases over 500 euro and is receiving data electronically transmitted from those businesses that have installed fiscal cash registers (of the 15,000 machines so far set up, about 2/3 are currently transmitting data). Recent data exchange emphasis has been on working toward future sharing of information between TAK and MoF Property Tax

As noted above under “improving management effectiveness”, ESTAK has also drafted a SIGTAS replacement plan for TAK consideration. This follows the earlier cancellation of a tender process for a

replacement system but recognizes that the need to replace the SIGTAS system is urgent and critical for the future efficiency of TAK operations. In the meantime, ESTAK will continue to provide support to TAK in relation to its ongoing dealings with the SIGTAS supplier.

2.2 OBJECTIVE 2 – INCREASE TAXPAYER COMPLIANCE

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

Following the revision of all of Kosovo's main tax laws during the last two years, and ESTAK's completion of associated Administrative Instructions and tax guides during Year 1, most of ESTAK's legislative work has now been completed. The only amendments currently envisaged to Kosovo's tax laws are a package of amendments to the VAT law which are being supported by the EU-CTA project team and which have been referred to the MoF for consideration before referral to the Assembly.

ESTAK legislative focus has thus for now shifted to the progressive completion of double tax treaties and to addressing TAK legal barriers.

Double tax treaties

ESTAK continued to assist a MoF/Ministry of Foreign Affairs working group that has been arranging requests to other countries to enter into double tax treaties with Kosovo. During the quarter the main areas of progress have been:

- the signing of a double tax treaty between Kosovo and the Former Yugoslav Republic of Macedonia, Kosovo's second (after an agreement with Albania in 2005) double tax treaty
- the conduct of double tax treaty discussions with representatives of the Czech Republic (where agreement on how to proceed has been reached without the need for further discussions)

In addition, Kosovo is awaiting finalization of arrangements for the formal signing of a previously negotiated double tax treaty with Turkey

During the quarter ESTAK also assisted TAK with the appointment of a new International Tax Liaison Officer whose role is as a liaison point of contact for TAK with international organizations, visiting missions and potentially double tax treaty partners

Legal barriers

ESTAK continued to assist TAK with monitoring and identifying legal barriers to TAK collection and enforcement. Focus during the quarter has been on the development of a range of Memorandums of Understanding (MoUs) between TAK and third parties in order to remove or minimize such legal barriers. In particular, with ESTAK drafting assistance, TAK has signed MoUs with:

- the Privatization Agency of Kosovo (PAK) – two agreements regarding the tax treatment of SOEs and their debts. Since January 2011 TAK has had the ability to seize and sell assets of SOEs with tax debts, but exercising these powers can interfere with PAK's efforts to privatize and liquidate various SOEs. The first MoU provides that TAK will not seize assets of SOEs which are scheduled for privatization (which occurs when the PAK board agrees to proceed with privatization). The second MoU relates to the transfer of 12 months of SOE VAT liability to the Newcos that are formed when SOEs are privatized
- the Kosovo Judicial Council (KJC), as a result of which TAK will provide KJC with employment information to assist in their efforts to collect Court-ordered judgments (this agreement was arranged in conjunction with USAID's SEAD project)

ESTAK advisors drafted an MoU (yet to be signed) with the central cadastral agency which would allow TAK to record liens against immovable property online without payment of a fee. The ESTAK team also worked with USAID's BEEP project on proposals to further develop credit registers in Kosovo as well as assisting in a World Bank initiative that is focusing on reviewing creditor rights in Kosovo.

At an operational level and as a result of visits to TAK regional offices, ESTAK has identified that a potential barrier to establishing instalment agreements with taxpayers to pay back tax debts (without payment of interest and penalties) has been the requirement for taxpayers to make an up-front payment of at least 20% of the tax debt. As a result ESTAK prepared a proposed amendment to the relevant Administrative Instruction to remove the 20% requirement and thus remove this detrimental impact on TAK's debt collection efforts, but TAK management have agreed only to a reduction from 20% to 15% for instalment agreements "without interest".

(B) ROBUST AND FAIR AUDIT FUNCTION:

As is usual in most tax administrations, the audit function incorporates the most TAK staff. Donor assistance for this function in TAK is jointly co-ordinated through the EUCTA project's Audit Advisor and ESTAK's DCoP. During the quarter, the two projects worked together in completing a comprehensive updating of TAK's Taxpayer Audit Manual and in their combined delivery of staff training on that manual to TAK audit staff. By the end of the quarter, three groups comprising a total of 72 TAK staff had received such training with one final course involving international advisors due to be delivered in the next quarter.

In the Year 2 workplan, one audit area requiring ongoing assistance is the support and development of TAK's risk-based audit selection system. During the quarter, ESTAK continued to support the model encouraging TAK to use the information provided by it (rather than relying on their own subjective methods) 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. However, while changes were made to income tax forms (including introduction of a new partnership form), TAK IT have not yet implemented the previously recommended and TAK agreed simplifications to the risk audit formulae or to load into the model additional data received from third parties. TAK IT have rightly given higher priority to fixing the processing problems arising from the first phase of the SIGTAS upgrade but now need to give attention to the risk model. Initial ESTAK attempts to escalate the issue through the acting HQ Audit Manager, the "business owner" of the system, have not yet been successful but it is expected this will be addressed during August once the current IT programmer emphasis on 2012 compliance strategy information gathering and current audit advisor focus on the audit manual training have been completed.

Another audit area requiring ongoing assistance is the support and development of TAK's audit quality measurement program. During the quarter, ESTAK continued to assist this program by successfully urging TAK management to second two audit team leaders to help the HQ audit quality measurement team and then assisting with the briefings of the team on their roles. Since the program was re-implemented in April 2011, over 50 audit cases have been quality reviewed. Initial results of this activity have shown audit quality compliance ranging from 75% to 81% across TAK's regional offices.

A further audit area requiring ongoing assistance is the building of VAT administration capacity so that the turnover threshold for VAT taxpayer registration may be reduced. The EUCTA project was mainly responsible for this activity, and ESTAK assisted TAK with analysis work regarding the large reported VAT credit problem (with taxpayers not claiming refunds). Initial findings show that the reported level of VAT credits has been overstated due to refund cases also being counted as credits (due to the non-operation of the SIGTAS refunds module) and some cases where tax credits have been duplicated (multiple businesses run by the same individual owner). Such analysis will be an input into the 2012 Compliance Strategy to be developed with IMF assistance during Quarter 2. ESTAK has also assisted

USAID with TAK recommended changes (consistent with US/Kosovo bilateral agreements) to the processes for VAT reimbursements in respect of VAT paid by USAID contractors.

A final audit area requiring ongoing assistance during the first quarter was providing TAK with assistance with its operations in the enclaves. ESTAK advisors focused their enclave assistance on urging the reopening of TAK's sub-office in North Mitrovica which is simply pending an agreement with the landlord for TAK to reoccupy its previous premises. We provided briefings to EULEX on TAK's plans and in turn this has been conveyed to the ICO. However, until TAK re-opens its sub-office in North Mitrovica, TAK's revenue collection activities in the North are severely limited. It is envisaged that once that sub-office is reopened, initial emphasis will be given to ensuring that North Mitrovica taxpayers are registered and are made aware of their tax obligations. It is envisaged that discussions would take place with the appointed TAK staff with a view to determine how best to proceed.

ESTAK has also obtained from TAK IT information on the level of tax compliance in the enclaves also for input into the 2012 Compliance Strategy to be developed with IMF assistance during Quarter 2. Such information was presented to a workshop with representatives of TAK HQ and TAK's staff working in its Gracanica and Shterpce sub-offices at which the opportunity was also taken to review the level of support given to those sub-offices.

Late in the quarter, the Director-General asked ESTAK to assist the TAK Gambling Unit with resolving issues relating to gambling organizations claiming they have shut down many of their gaming machines following the recent change of the gambling revenue regime from licensing-based to excise-based.

ESTAK also, at the Director-General's request, reviewed the processes followed in two cases where taxpayers had been audited. Such reviews required visiting TAK regional offices to discuss the cases with the TAK staff involved, reviewing the paperwork and making a report to the Director-General.

(C) ROBUST AND FAIR COLLECTIONS FUNCTION:

During the quarter, the ESTAK Collections Advisor has, in conjunction with TAK's Collections Manager, continued to participate in Pristina-based informational seminars for Enforced Collection regional team leaders on their responsibilities taking into account the powers they have under the Law on Tax Administration and Procedures. In addition, the ESTAK advisor (also in conjunction with TAK HQ staff) continued to visit TAK regional offices to meet with deputy regional managers who have been given the responsibility for enforced collections together with their collections team leaders to review the status and progress on the largest debt collection cases. During the quarter, visits were made to the Large Taxpayer Unit, Ferizaj, Gjilan, Gjakova, Pristina 1, and Pristina 2 regional offices which together with previous visits have meant that all offices have been visited over a six month period.

These visits have addressed future actions in specific "live" debt cases, identified cases where debts have arisen simply due to processing errors, and examined common areas of uncollectable debt (e.g. many SOE debt cases and cases where taxpayers have long been out of business which continue to be recorded as debt cases). The visits have also been well appreciated by regional offices and have provided an opportunity to identify systemic collection issues that can be escalated for action at TAK HQ level.

Systemic issues that ESTAK has helped TAK address at HQ level have included:

- a proposal to relax the 20% up-front debt payment requirement for taxpayers wishing to enter into interest-free instalment agreements to repay their debts
- incorrect levying on the personal bank accounts of managers of POEs and other legal entities
- various problems with how the upgraded SIGTAS system has been handling VAT credits and offsets between revenue types in refund cases

ESTAK has also given further attention to the debt issues involved with SOE cases following the expiry of the moratorium on enforced collection against SOEs from 1 January 2011 and, as a result, assisted TAK with the development of two MoUs which were signed with the Privatization Agency of Kosovo (PAK) in June 2011.

ESTAK has also continued to liaise with the USAID-funded SEAD project in relation to how tax administration laws and practices impact on caseloads in the Courts (which resulted in TAK signing a MoU with the Kosovo Judicial Council as noted above under “legal barriers”). Assistance was also given to World Bank officials conducting a study on creditor rights.

During this quarter, ESTAK/TAK work on updating a Collections Procedural Handbook has been completed and referred to TAK management for approval. This manual will provide a solid base for future staff training. The ESTAK advisor has also been assisting TAK internal trainers in their design and development of technical training courses for collections staff with the first such courses expected to be delivered in August.

A key ESTAK initiative during the quarter, which for now has a collection function focus, was the commencement of activities to establish a Call Center within TAK, with ESTAK engaging a short-term advisor specifically for that purpose. This followed an ESTAK-facilitated TAK top management study tour to the IRS Call Centers in Seattle in March 2011. Progress on this to date has been:

- completion of a phased implementation plan for Call Center development with the first phase to involve only making outcalls to delinquent taxpayers (since this can be established quickest while telephone routing equipment is acquired to deal with future incalls) with the latter stages involving accepting taxpayer incalls with balanced outcall activity based on the volume of incoming calls
- briefing and ongoing support for the TAK appointed Call Center project manager and commencement, after development of appropriate job descriptions, of recruiting of Call Center staff. Two officers have been internally reassigned and four other internal vacancies have been announced – it is expected that all will commence during the next quarter and that a Call Center manager will need to be appointed as part of this process)
- commencing discussions on Call Center training needs, although this cannot be finalized until it is known who the actual staff will be and their existing skill levels. It is known that training will be needed on topics such as communications techniques, conversation control and workload documentation
- identification of the Call Center site – in the initial stages it will be located in the TAK HQ building (due to the need for close operational support at the start) but space in that building will not become available until late July/early August when some HQ units are moved into the recently acquired former Red Cross premises adjacent to TAK's Large Taxpayer Unit
- identification of the furniture and equipment needed for the Call Center in its initial start-up phase and commencement of work on identifying the longer term equipment requirements
- deciding on the types of delinquent debt and delinquent declaration-filing taxpayers that will be managed by the Call Center in its early stages
- commencing work on the procedures to be followed in the Call Center (including how long cases will be worked on by the Call Center, the number of call attempts to be made to each taxpayer, and the casework recording processes) – in relation to the latter this will require working with the recently acquired collections module, as part of Stage 2 of the SIGTAS upgrade

- development of an initial set of 62 questions that it is anticipated could arise during an outcall with a view to designing appropriate answers for call center staff
- initial design of management reports that can be used to record and monitor call center activity
- visiting the Macedonian Tax Administration call center site in Skopje which is about the same size (20 to 25 staff) call center as that envisaged for Kosovo

Given the progress made to date, it is envisaged that the Call Center will be able to commence outcall operations in August/September 2011 but the final stage of Call Center development (with incalls) will not take place until early 2012.

During the quarter, TAK IT staff completed testing of the new Collections Module developed as part of Phase 2 of the SIGTAS upgrade. This module will be implemented after the prerequisite user training which is proposed to take place in August. ESTAK has also identified that further changes are needed to the Collections Module reports and processes to make them more workable and this is scheduled to be completed by TAK in September.

ESTAK advisors continued to regularly recommend to TAK management the need for regional offices to focus on non-filers and stop-filers and on segmenting their tax debts between statute-barred debts (which need to be written off) and other uncollectable debts, larger collectable debts (which they should focus their action on) and smaller collectable debts. During the quarter TAK arranged for reminder letters to be posted to over 17,000 tax debtors with debts of over 100 euro.

A similar reminder letter mail-out is being proposed for taxpayers who have unfiled tax declarations, progress on which has been held up, to ensure that such letters are not issued to “passive” taxpayers that have been out of business for more than 3 years. In the meantime, TAK have combined non-filer and stop-filer lists into a single listing for TAK managers and staff and ESTAK gave a presentation on this development to TAK regional managers. In the medium term, we proposed that these reminder letter processes become regular automatic processes and that the Call Center and regional offices be set up to manage workloads generated by the processes.

(D) PUBLIC EDUCATION ON TAX COMPLIANCE:

It has been envisaged that 2011 would be the year when ESTAK would focus on taxpayer education. This allowed for the prior completion of laws and associated administrative instructions and the development of a communications strategy for TAK in 2010. In broad terms the communications strategy envisaged the development of taxpayer education materials (where the focus would be on updating and improving materials for taxpayers that wanted to voluntarily comply) in the first half of 2011 and then increased publicity efforts (where the focus would shift to those who had not complied) in the second half of 2011.

In line with this strategy and following the development of income tax guides in the first quarter of 2011 (to tie in with the annual income tax return filing “season”), focus during the first quarter of Year 2 switched to the simplification of tax forms so that new versions would be ready for the progressive introduction of e-filing and other online taxpayer service support (progress on which is detailed above under the progress report on the SIGTAS IT system).

In particular, during the quarter ESTAK actively promoted the merging of monthly employer wage tax “WM” forms and monthly employer pension contribution “CM” forms with employee name and breakdown information included so as to also abolish the need for the quarterly employer pension information “CQ” form. Such a change will have the following advantages:

- reducing the number of forms needing to be completed by employers, processed by TAK and followed up by TAK when forms have not been filed, as well as reduction of the amount of data on these forms and entered into TAK's computer system (e.g. avoiding the need to enter taxpayer identification data multiple times) – this has operational savings for both employers and TAK;
- improving the accuracy of return completion for tax and pension purposes – by working from the same income base figure for tax and pension purposes (rather than having to establish and rely on data matching processes), as happened when tax and pension forms were combined for self-employed persons several years ago
- improving Kosovo's ratings in the World Bank “Doing Business” assessments which take into account both the number of forms needed to be completed and the time for their completion. The previous Doing Business rating incorrectly assumed that these forms were already merged, so this change will validate the rating and help avoid further confusions;
- addressing KPST's most significant problem, getting employee information so they can allocate pension contributions from employers to individual employee pension accounts, going forward. TAK currently collects such information quarterly as an attachment to the quarterly “CQ” form, but as this is not a “payment” form, TAK pays little effort on following up on those who do not complete that form

ESTAK advisors held numerous meetings on the new form with the various TAK HQ departments affected by this change (including the Processing, IT and Taxpayer Education units) and with KPST management before TAK management recently made the decision to proceed. The new form is currently planned to be introduced for employers' use in respect of October 2011.

Another significant assistance provided by the ESTAK project team was helping TAK's Taxpayer Education unit prepare “educational” materials related to the proposed commencement of e-filing in the next quarter. (ESTAK's assistance with the IT aspects of e-filing was detailed earlier in this report).

ESTAK advisors also continued to actively support TAK's public relations activities during the quarter, and completed the following tasks:

- developed templates for TAK media releases, announcements, news and media monitoring
- developed an 8-stage checklist for organizing media conferences
- introduced media monitoring processes and tracking procedures in line with a previous Media Monitoring guide prepared by our team
- assisted the Director-General in determining a potential new logo for TAK (but unfortunately the DG has to date not been happy with any of the logos proposed by university graphics students, by a public relations firm, or by ESTAK)
- provided ongoing direct assistance for the Director-General with media events including TAK quarterly results reporting, MoU signing sessions and the annual Taxpayers of the Year awards
- prepared a draft media release covering enforcement actions taken by TAK in the period from January to March 2011 – this was referred to the DG who wanted to release the information via TV rather than newspaper but then the DG's preferred TV station indicated it was not geared for delivery of such messages – as a result such information has not yet been publicized and ESTAK has now commenced work on updating it to reflect enforcement actions up to the end of June so that it can be publicized as part of TAK's quarterly media update in July 2011

- provided interim oversight to the management of the TAK website and assisted with the development of a job description for a new TAK webmaster position that has recently been advertised
- provided oversight and support to the recruitment process for TAK's appointment of a public relations advisor, the appointee having started in June and that person since receiving “on the job” training and advice from ESTAK's public relations advisor

ESTAK's assistance to TAK in establishing a Call Center will also boost taxpayer education in the medium term, but as noted above focus in the first stage of development of the Call Center to assist with TAK's follow up efforts in relation to delinquent taxpayers.

During the quarter, ESTAK also assisted with the analysis of the initial results from completed taxpayer satisfaction surveys issued by TAK. The first 100 taxpayer satisfaction surveys completed by taxpayers were analyzed. On a scale of 1 to 5 (where 5 is the highest) taxpayers ranked services from taxpayer education at 3.93, enforced collection at 3.95 and taxpayer audit at 3.75. The taxpayer education rating was influenced by very low rankings in respect of Pristina 1 and 2 (given the poor facilities available for taxpayer education in that building) which if removed, increase the taxpayer education rating to 4.39. Of those taxpayers who chose to make written comments, 18 ranked TAK service as very good, 13 complained about inaccurate data in the system requiring them to make many photocopies, 11 complained about TAK responses being slow or staff being impolite, and 4 commented on having to wait a long time for a response to their written questions.

2.3 OBJECTIVE 3 – DONOR COORDINATION

The only donor co-ordination task not yet completed has been the establishment of a donor co-ordination forum. Various attempts to establish such a forum have to date been unsuccessful. In the meantime, the ESTAK project continued to work constructively with the EUCTA project in jointly providing assistance across most areas of TAK operations.

ESTAK thus continues to coordinate its work efforts with other donors at an operational level. Little progress has been achieved in establishing coordination at a donor level but it was proposed to hold a tax compliance strategy working party (with invitations to selected donors) during the second half of July 2011 when the IMF compliance strategy expert commences to provide assistance to TAK.

ESTAK also met with successive IMF missions to provide updates on tax collection efforts in Kosovo and their estimates on future revenue collection projections. ESTAK is also assisting TAK with the preparation of progress reports of work being done in relation to the “tax” commitments that the GoK has given to the IMF.

ESTAK advisors provided assistance to TAK management in their discussions regarding potential future donor assistance from the European Union, in relation to the “Blueprints” exercise that was undertaken during December 2010 and the recommendations that were presented to TAK for comment in June 2011.

Late in the quarter, ESTAK also met and provided assistance to the DFID-funded project team that has commenced a short-term project on measuring the “tax gap” in Kosovo, the results of which will also feed into the 2012 tax compliance strategy development work that will be a focus during the next quarter.

3. PROBLEMS ENCOUNTERED AND PROPOSED SOLUTIONS

Previous quarterly reports have outlined various problem areas and progress being made on resolving them. We are pleased to report that substantive progress has been made during the quarter on two of the longest standing problems (that were reported in all previous ESTAK reports and that had been problematic before ESTAK started), namely low TAK salary levels and TAK office accommodation shortages in Pristina.

In the current climate, the ESTAK team believes there are now two main areas that need to be addressed:

(1) Improving the productivity of TAK management and staff:

The problem – low TAK revenue collection performance - addressing salary level and working condition complaints means that these factors can no longer be used as major excuses for low TAK revenue collection performance. Consequently, attention will shift to address the more difficult issue of increasing TAK staff's productivity after such long standing barriers were removed. This will require a cultural change for both management and staff and highlights the immediate importance of investing in managerial capability and/or senior TAK management support to basic but consistently applied performance management principles. This will be a challenge for both TAK and ESTAK team compared with prior practice where performance management has largely been seen as a paper exercise and managers have rarely discussed performance with their staff. Complicating the task ahead is that many staff are de-motivated (despite salary and working condition improvements) as they see that poor performance is not being addressed and high and poor performers are being compensated for their work at the same levels.

The solution - In this climate, ESTAK's current Year 2 workplan emphasis on performance management and management training is vital, but it also needs the observed commitment of TAK senior management to support such initiatives rather than taking the easier path of dealing with performance issues by simply changing the organizational structure or rotating staff. In recent discussions, the DG has given his verbal commitment to proceed in this direction but this has yet to be discussed with the senior management team as a group.

(2) Improving TAK data processing and the accuracy of the TAK database:

The problem - Since the implementation of the SIGTAS upgrade in October 2010, TAK has had to deal with a continuous series of processing problems which have damaged its reputation with taxpayers. Fortunately, following concerted efforts by TAK and ESTAK, and with the support of the SIGTAS supplier, most of the processing problems have now been addressed with only a small number of identified problems from that upgrade that need a resolution. However there continue to be concerns about the accuracy of the TAK database. Some issues became more apparent as TAK took initiatives involving large mailouts to taxpayers and more issues are anticipated when TAK opens up access to its database to taxpayers as part of the introduction of e-filing. While taxpayer audit activity has largely been suspended in 2011 (except for large and medium taxpayers) to allow a focus on "cleansing the database", many audit staff have instead continued other compliance checks (fiscal register checking, goods without origin checking, inventory checking, looking for unregistered businesses) where the main revenue impact has been the charging of fines.

The solution - ESTAK advisors continue to encourage TAK staff to focus taxpayer visits on database checking first and compliance second rather than the other way round. Our advisors recommended that

TAK focus its efforts during the balance of 2011 on taking action against known non-compliers (tax debtors, and non/stop-filers) rather than spending more time on trying to find new non-compliers.

In addition to the two issues detailed above, ESTAK notes one other emerging issue that also needs to be addressed.

(3) Fiscal registers, over 500 euro purchase reporting and the audit risk model:

The problem - As noted above and in previous ESTAK reports, the Government of Kosovo continues to ask TAK to pursue the implementation of fiscal registers and the consequent production of fiscal receipts. For TAK this is a labor-intensive exercise with little direct revenue for the Government (mainly fines) but at a significant opportunity cost to other more direct tax compliance activities.

Despite the frequently complained about virtual monopoly of fiscal register supply and the consequent high prices (a factor which is outside of TAK's direct control), to date over 15,000 such fiscal registers have been acquired and about 2/3 of these are currently transmitting data to TAK HQ. However, little effort has been taken to date to utilize the data received for direct tax revenue benefit purposes.

A new initiative which came into effect earlier this year has also been the reporting by taxpayers of details of suppliers from which they have had purchases of over 500 euro in the past year. Many large taxpayers have complied with this requirement and provided such data to TAK.

Ideally, the data received from fiscal registers and from the over 500 euro reporting initiative should be being fed into TAK's audit risk model to improve audit case selection. ESTAK-identified simplifications to the audit risk formulae that were recommended by ESTAK and approved by TAK in late 2010 are also waiting to be implemented while TAK IT programmers have been working on other priorities.

The solution - ESTAK will continue to pursue this issue and escalate it to higher levels, but recognizes that IT programmers will be tied up with compliance strategy information gathering in the immediate future.

4. SUCCESS STORIES AND ACHIEVEMENTS

The main success stories of the quarter have been:

- Obtaining agreement for most of the Pristina 2 regional office to be moved to new premises thereby freeing up space in the Germia building to improve the working conditions for the remaining staff and for providing service to the taxpayers. TAK was allocated additional office accommodation space in Pristina in the former Red Cross building adjacent to TAK's Large Taxpayer Unit building. The new space provides TAK with accommodation for a range of 80 to 100 staff as well as a badly needed staff training/conference room. The new space is currently being cleaned and painted and will not be ready for occupation for a few weeks. Nevertheless, following ESTAK's involvement, TAK has agreed that the main occupiers of the new space will be the Pristina 2 regional office (excluding its taxpayer education/pensions staff) and the Tax Fraud Investigation Unit. The shift of most of Pristina 2 during the next quarter will ease the severe office space limitations of TAK's Pristina 1 regional office and of the space and service able to be provided to the bulk of Pristina's taxpayers in the Germia building and allow TAK to start to move to its longer term plan of having the Germia building as its main taxpayer contact center in Kosovo due to its central city location.
- Assistance to TAK in recruiting 35 audit inspectors and 3 tax investigation unit staff from a pool of over 900 applicants. With concerns about transparency the Director-General sought ESTAK assistance with the organization of candidate testing using the new civil service appointment procedures that came into effect from 1 January 2011. This resulted in over 600 candidates sitting a 3-hour written test in university lecture room facilities as a result of which 125 candidates were shortlisted for interviews over 6 days. ESTAK advisors played a key role throughout the entire process including preparing tests (based on the criteria specified for written tests in the appointment procedures), testing the difficulty of different types of question on existing experienced TAK staff, arranging printing/confidentiality of the tests, arranging logistics for use of university lecture room facilities to minimize opportunity for cheating, maintaining custody over completed tests, marking multiple choice questions, briefing the appointment panel on how to mark essay questions, providing advice to the interview panel on how to conduct interviews of shortlisted candidates, and providing feedback on the results of interview marking. The Director-General has been particularly complimentary of ESTAK's efforts which have reduced the external pressure he had to appoint certain candidates. The selection panel – which includes two regional managers – have also embraced the process and can clearly see the value in adhering to the merit principle. They have recorded their high degree of satisfaction with the quality of the staff selected.
- Completion of a Taxpayer Audit Manual and commencement of training on that manual. During the quarter, a comprehensive updating of TAK's Taxpayer Audit Manual was completed with combined ESTAK and EUCTA project assistance and both projects also assisted with the delivery of staff training on that manual to TAK audit staff. By the end of the quarter, three groups comprising a total of 72 TAK staff had received such training with one final course involving international advisors due to be delivered in the next quarter. This manual provides valuable resource material for TAK staff involved in the audit function, which comprises over 70% of TAK's operational staff, and will better enable them to complete improved tax audit results

5. UPCOMING EVENTS AND ACTIVITIES FOR THE NEXT QUARTER

Following on from the work completed to date, the second quarter is expected to see the following developments:

- design of TAK's 2012 Compliance Strategy with IMF assistance – this is required to be completed by 30 September in line with commitments the Government of Kosovo/TAK have made to the IMF. Following on from the background compliance information prepared by ESTAK to date, a donor coordination workshop is also proposed to take place in late July 2011 to provide the opportunity for stakeholder input at an early stage of the compliance strategy development.
- commencement of user training on the SIGTAS phase 2 modules (Audit, Collections and Objections/Appeals) which is needed before those modules can be implemented
- commencement of the e-filing (and taxpayer portal to TAK database) pilot with the filing of July 2011 VAT declarations by “large” taxpayers (which are due to be filed by 20 August)
- commencement of the first phase (outcalls only to delinquent debtors and non-filers) of the development of TAK's Call Center
- shift of most of Pristina 2 regional office from the Germia building to TAK's new premises with the result that consequential accommodation changes can commence to improve staff and taxpayer working conditions in Pristina
- potential re-opening of TAK's sub-office in North Mitrovica (assuming the current accommodation issue is resolved)
- completion of TAK's Collection Procedures Handbook which would then become a base for future training
- commencement of ESTAK's management training program and of TAK internal trainers' tax technical courses
- continued implementation of performance management practices as workshops for TAK managers and staff continue
- assistance with TAK's input into the 2012 Budget process
- cessation of the EUCTA project (September 2011) with consequential arrangements to continue much of their work by other donors (TAIEX and GIZ/Bavarian Government) for a further 6 months

6. CHANGES TO THE YEAR 2 WORK PLAN

In broad terms the bulk of the proposed Year 2 Work Plan can continue unchanged. Changes have been needed to the timing of training initiatives and to some taxpayer registration and processing tasks but the vast majority of these activities are still expected to be completed, or at least substantially completed, during the next quarter.

ESTAK work has also continued with the following additions:

- the extensive assistance that has been provided to TAK to as much as possible ensure a transparent recruitment process for 38 tax inspector and tax investigation unit positions where there were over 900 applicants
- the addition of a local advisor to assist the Director-General of TAK, and more recently a newly appointed TAK public relations officer, with TAK public relations activities, including co-managing the TAK website for a temporary period until an appointment is made to the advertised TAK webmaster position
- assisting TAK management with the production of monthly bulletins to brief all staff on current and upcoming issues – it is envisaged this task will be handed over to TAK once an appointment to the new Executive Manager of the DG's office has been made
- the continued development of tax simplification proposals to assist Kosovo to elevate its “Doing Business” rankings
- initial work on proposals to merge TAK and the Kosovo Customs Service under a single revenue authority