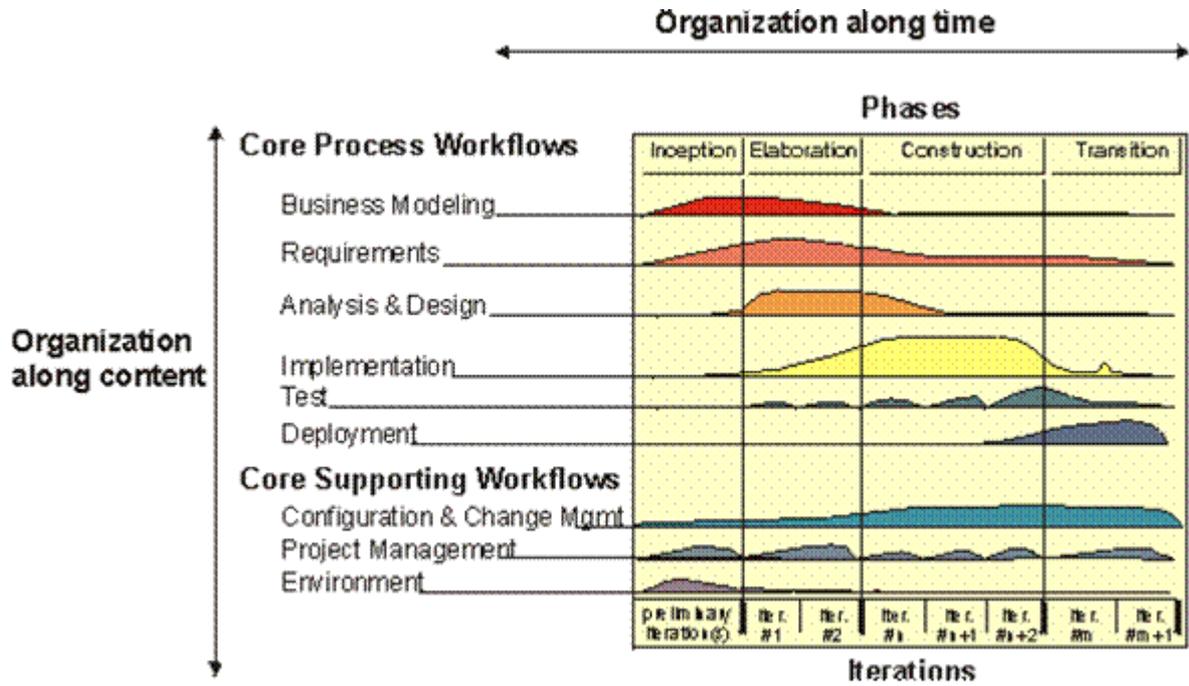




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Advance with Technology

## USE TECHNOLOGY FOR RESULTS

PROVIDE ONLINE TAX SERVICES, COMPUTERIZE APPEALS PROCEDURES & IMPROVE ENFORCED COLLECTIONS

**CONTRACT NO. AFP-1-00-04-0002-00 TO:03**

**27 July, 2007**

This publication was produced for review by the United States Agency for International Development and the Government of Georgia. It was prepared by USAID Business Climate Reform, managed by Chemonics International Inc. The author is Neli Baeva, Tax Administration and IT Advisor. The views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## EXECUTIVE SUMMARY

The approved SOW as per contract includes the following tasks:

1. Implement Tax Online Services System (TOSS)
  - a. Work with the Revenue Service to evaluate and rank bidders' proposals for TOSS development.
  - b. Provide input to drafting the contract.
  - c. Plan implementation of TOSS.
  
2. Design MoF Appeals Case Management System
  - a. Work with the Ministry of Finance to design business processes.
  - b. Draft requirements to the software.
  - c. Draft development and implementation plan.
  
3. Improve RS Collection Function
  - a. Work with the RS to develop and adopt methodology on provisional assessments.
  - b. Work with the RS to implement VAT return non-filers business process and relevant software to implement the business process it.

These tasks have to be carried out over the course of several trips. This report covers the first trip, 15 July-27 July 2007.

The tasks included in the SOW are follow-up on previous activities and achievements.

## ACTIVITIES AND RESULTS DURING THE TRIP

#	Activities / Achievements	Reference to attachments	Effect
1	<p>TOSS</p> <p>a) Evaluation proposals for TOSS development</p> <p>b) Provide input to draft contract</p>	Attachment 1	<p>Making electronic submission of tax declarations available will:</p> <ul style="list-style-type: none"> <li>• Improve taxpayers services, saving time and ensuring confidence within taxpayers that what was declared is what was recorded in taxpayer's ledger as liability.</li> <li>• Decrease the load of tax declarations to be processed at tax offices.</li> <li>• Improve Georgia's ranking on the "Paying Taxes" indicator of the annual World Bank survey "Doing Business" Survey.</li> </ul>
2	<p>Appeals Case Management System</p> <p>a) Business processes</p>	Attachment 2	Will streamline the business processes and ensure fair, replicable, and controllable dispute resolution, and timely and accurate reporting of statistics and management information.
3	<p>Improve RS Collection Function</p> <p>a) Agreed on the business process that will be implemented for non-filers</p> <p>b) Agreed on algorithms for provisional assessment</p>	Attachment 3 & Attachment 4	Improve tax payers compliance and revenue collection.

## **OTHER ACTIVITIES:**

Design review on contracted services for developing non-payers Case Management System.  
Design review report is Attachment 5.

## **ATTACHMENTS:**

Attachment 1: - Report on Proposals Evaluation –  
REPORT ON PROPOSALS EVALUATION\_1.doc

Attachment 2: - Appeals Business Processes – memo on meeting at Mr. Petriashvili's office  
070723\_AppealsBPs\_NeliBaeva.doc

Attachment 3: - Modified Non-filers Business Process – memo  
070723\_ImplementationOfNon-FilersBP\_NeliBaeva.doc

Attachment 4: - Algorithm for provisional assessment – memo  
070726\_ProvisionalAssessment\_NeliBaeva.doc

Attachment 5: Review of Contractor's Design for Non-Payers Case Management System.

## ATTACHMENT 1: PROPOSALS EVALUATION REPORT

*Redacted in accordance with FAR 3.104-4 Disclosure, protection, and marking of contractor bid or proposal information and source selection information.*

## ATTACHMENT 2: APPEALS BUSINESS PROCESSES

### MEMO

**Date:** 24 July, 2007  
**To:** Olin McGill, USAID Business Climate Reform, COP  
**From:** Neli Baeva, Tax Administration & IT Advisor  
**CC:** Nato Beruashvili, USAID Business Climate Reform, Fiscal Team Leader  
Maia Tevzadze, USAID Business Climate Reform, Regulatory Team Leader  
**Re:** Appeals Business Procedures at the MoF and information items to be maintained by the Appeals Case Management Software.  
**Attendants:**  
**MoF:** Vaza Petriashvili – Deputy Minister; 4 experts from the minister’s staff; and the Senior software developer at the IS Division  
**SRS:** Mamuka Baratashvili - Head of the Legal Department,  
Mziuri Barbakadze – Head of the software development team,  
**BCR:** Neli Baeva – Tax Administration & IT Advisor,  
Irakli Gvenetadze – IT Implementation Specialist

Meeting took place at the MoF on 23 July 2007 at 1:00PM.

Establishing standard operating procedures for appeal cases addressed and handled by the Appeal Council at the MoF is an important step within streamlining the appeals process and establishing fair, effective and relevantly expedited processing of appeals.

The working group headed by Mr.Petriashvili, a Deputy Minister, drafted Order for the Appeal Procedures.

The agenda of the meeting carried out was:

1. The draft Order
2. The information that needed to be captured and provide by the appeals case management system.

### Order’s Discussions:

Discussions commenced with a very aggressive disagreement regarding the draft order expressed by Mr. Mamuka Baratashvili. His arguments were not constructive, however I agree that in the way article 2 was drafted created a lot of unspecified and redundant work for the SRS without providing enough time for preparing and providing evidences.

**We proposed and the Deputy Mister's team agreed with changes to the draft order as follows:**

- Article 2 will be rewritten completely and restructured to define:
  - Who, where, and how a person can submit an appeal for review by the Appeal Council of the MoF.
  - The initial screening for completeness of appeal to be done at the moment of submission at the MoF or at a tax office (Tax Code: Article 149).
  - At submission the appellant will obtain a unique identification number (appeal case number) of its appeal in order to make requests for case status.
  - A standard form for an appeal has to be designed and adopted (a draft was proposed 8 months ago by the project and was mentioned as possible solution).
  - After submission of appeal a review for acceptance of appeal (Tax Code: Article 146) has to be completed by the SRS. The review will determine whether an appeal hearing is legally based and if so will forward the case to the Council, otherwise the reviewers will inform the appellant that its appeal was not accepted, state the reason for the denial.
- Some of the paragraphs currently included in Article 2 should be moved to Article 3 because they determine steps within processing an appeal at the Council after it was accepted.
- Article 3 will be structured to determine:
  - A process of assigning the case to a Council member for initial review. Preparatory work that will include requests to the SRS and/or appellant for additional materials/documents, research information within the SRS database, and organizing evidences and facts in a suitable way for presentation to the Council.
  - Procedure for scheduling Council session(s) and informing counterparts.
  - Procedure for carrying out a Council session.
- Article 4- Council Decision will generally remain as it is, but a standard decision template-form will be designed and adopted.

**Regarding the information and Appeals Case Management System:**

An agreement on a more detailed description of the items that have to be captured by the Appeal Case Management system has to be prepared for review. For each action taken against a case and/or at each case stage detailed information has to be captured into the system. This will ensure complete documenting/recording of the case and allow the case situation to be restored later.

**We agreed that:**

The Order will be updated, standard forms will be drafted, new information specification following the business processes will be prepared, and then a meeting will be scheduled.

During the meeting the Deputy Minister was informed that he and his staff can access and see the registration data of each taxpayer using the available Online Service and also upon obtaining suitable credentials he and his people could be able to use another Online Service through which they can access and see all the records of liabilities and payments pertaining to a specific taxpayer on a specific type of tax.

The fact that the Deputy Minister was not aware about these Tax Department Web Site functionalities is a sign that each new service has to be advertised not only for the public, but also for internal use using something like an internal bulletin.

## **ATTACHMENT 3: MODIFIED NON-FILERS BUSINESS PROCESS TO BE IMPLEMENTED FOR ALL MONTHLY TAX DECLARATIONS**

### **MEMO**

**Date:** 24 July, 2007

**To:** Olin McGill, USAID Business Climate Reform, COP

**From:** Neli Baeva, Tax Administration & IT Advisor

**CC:** Nato Beruashvili, USAID Business Climate Reform, Fiscal Team Leader  
Maia Tevzadze, USAID BCR, Regulatory Team Leader

**Re:** Implementation of Non-Filers Business process.

### **Attendants:**

**SRS:** Irakli Siradze – Deputy of Chief,  
Tamaz Modebanze – Head of the Collection Division;  
Andrey Gorbushkin – Head of IT Division, and  
Mziuri Barbakadze – Head of the software development team,

**BCR:** Nato Beruashvili – Fiscal Team Leader,  
Maia Tevzadze - Regulatory Team Leader,  
Neli Baeva- Tax Administration & IT Advisor, and  
Irakli Gvenetadze – IT Implementation Specialist

Meeting took place at the SRS building on 23 July 2007 at 3:00PM.

Neli Baeva presented the modified proposed Non-filers Business process. Modification is imposed due to the existence of a law provision allowing taxpayers not to submit a tax declaration if during the tax period they didn't have business activities, or the bottom line of self-assessed liability shows "zero".

Mr. Siradze requested another change in the modified process. He proposed merging two letters to the taxpayer into one, which is more suitable to the reality in Georgia.

We agreed that this is the process that will be implemented for all monthly tax declarations (VAT, Excise and withholdings) simultaneously.

Mr. Siradze took the responsibility for his people to prepare detailed description on the agreed process and draft of the letter.

The letter will inform the taxpayer that it was identified as non-filer. It will require additional information clarifying whether the lack of a declaration is based on a legal right not to submit, request to submit a tax declaration, inform taxpayer about calculated provisional assessment that will become an assessment if taxpayer fails to submit a tax declaration or proves that he is entitled not to submit a tax declaration within the deadline determined in the letter.

Mr. Siradze scheduled a meeting for 26 July, 2007 - Thursday at 11:00 am for the next review of the agreed business process and documents.

Algorithms for calculating a provisional assessment based on available information from previous tax declarations, audits, and/or similar businesses were discussed also.

According to Mr. Siradze they would like to go ahead with something simpler than the proposed algorithm for VAT. Also algorithms for Excise and withholdings have to be developed. We discussed that for withholding it is relatively simple and just has to be something very close to previously reported / declared.

Neli Baeva emphasized that the purpose of the provisional assessment is to enforce taxpayer to submit self-assessed tax declaration, and not accurately assess taxpayer liability for specific tax period. Such accurate assessment is possible only through audit.

## **ATTACHMENT 4: AGREED ALGORITHM FOR PROVISIONAL ASSESSMENT**

### **MEMO**

**Date:** 26 July, 2007

**To:** Olin McGill, USAID Business Climate Reform, COP

**From:** Neli Baeva, Tax Administration & IT Advisor

**CC:** Nato Beruashvili, USAID Business Climate Reform, Fiscal Team Leader

Maia Tevzadze, USAID BCR, Regulatory Team Leader

**Re:** Algorithms for calculating provisional assessment.

### **Attendants:**

**SRS:** Irakli Siradze – Deputy of Chief,  
Tamaz Modebanze – Head of the Collection Division;  
Andrey Gorbushkin – Head of IT Division, and  
Mziuri Barbakadze – Head of the software development team,

**BCR:** Nato Beruashvili – Fiscal Team Leader,  
Neli Baeva- Tax Administration & IT Advisor, and  
Irakli Gvenetadze – IT Implementation Specialist

Meeting took place at the SRS building on 26 July 2007 at 11:00am.

Tamaz Modebadze presented a very high-level draft of the proposed algorithm for calculating provisional assessment on monthly tax declarations.

After discussion we agreed that the algorithm is as follows:

Provisional assessment for taxpayer “X” identified as non-filed on tax “Y” for tax period (month) “Z” will be calculated as follows:

Step 1: Select all declarations of taxpayer “X” on tax “Y” for up to 12 months backwards starting from month “Z-1”.

Step 2: Select only those of them on which a debt is declared (Zero or Credit declarations are excluded).

Step 3: Are there any declarations meeting the criteria from steps 1&2?

Step 3.1. Yes, there are. Select the maximum declared debt from these declarations and make it provisional assessment. Go to the end of the assessment process.

Step 3.2. No, there is not a single tax declaration after Step 1 & 2. Then the following should be executed:

Step 3.2.1. Identify other taxpayers with the same business activity, using “NACE” code, that have filed tax declaration for month “Z” on tax “Y” and are declared debt, not Zero or Credit.

Step 3.2.2. Are any tax declarations meeting the above criteria?

Step 3.2.2.1. Yes, there are. Then select the minimum declared tax debt and set it up as provisional assessment if it is not less than 500 GEL, otherwise set up 500 GEL as provisional assessment. With this the provisional assessment is completed.

Step 3.2.2.2. No, there is not a single tax declaration meeting the criteria described in Step 3.2.1. Then forward the case for audit and close the non-filer case.

Mr. Siradze promised that a detailed description will be made along with a description of the agreed Business Process and will be given to the IT Division as requirements for the software.

Neli Baeva reminded us that the software for non-filer case management will be part of a software package for the Collection Division and planning the implementation should envision not only training of the users, staff of the collection units at tax offices, but also equipment.

## **NON-PAYERS CASE MANAGEMENT SYSTEM - DESIGN REVIEW REPORT**

On 24 July, 2007 a design review of the software for non-payer cases was carried out at the SRS. The contracted developer Joni Patriashvili demonstrated the design solutions completed in the presence of SRS representatives: Andrey Gorbushkin – IT Manager, Mziuri Barbakadze – Head of software development team, and Tamuna Petia – Software developer and BCR representatives: Neli Baeva – Advisor and Irakli Gvenetadze – IT Implementation Expert. The review revealed that the skeleton of the software package is designed and implemented a few very good solutions:

- Ability to easily manage the integration of other modules and relevant menu items, which will bring great value in the process of moving all the existing applications to Oracle 10g and integrating them in one Tax IS.
- Access to Oracle database is optimized, which has an impact on the performance.
- Include not only non-payers cases as per contract, but non-filers also as one integrated product for the Collection Units.
- Include a comprehensive module for management users ( including access rights).
- Establishing an audit trail.

The following design elements are available:

- Main and sub-menus as menu management functionality is envisioned. The menu actually reveals all functionalities the software will maintain.
- GUI for some of the functionalities (some screen forms are still missing)
- Database design (tables, relationships, and triggers)
- Software components (stored procedures, functions, triggers)

The next review is scheduled for the beginning of September. At that review the developer should demonstrate on a test database how the software works for the following roles:

#### **Head of the Collection at the SRS HQ (Tamaz Modebadze)**

- See statistic on all non-payer cases since the beginning of the calendar (fiscal) year by tax offices or for a selected tax office with their arrears (unpaid debt) and progress on the collection process: cases worked on and their arrears, cases closed and collected arrears by methods of collection; cases in progress and their status and arrears to be collected.

#### **Head of Collection at a Tax Office, where there is a unit working on non-payers (usually at Inspectorate level)**

- See statistics for all non-payer cases from the beginning of the year by Inspectors.
- Identify new cases and assign cases to Inspectors.
- See all cases assigned to a specific inspector and their status.
- See cases that are at property seizing stage or other criteria.

#### **Inspector**

- See only newly assigned cases.
- See a specific case and work on it. Retrieve necessary information for analysis; apply a selected action (Tax Lien, Blocking TP's accounts, issuing an order of property seizure request to the court, preparing for auction, etc.).
- Retrieve cases for which a specific action has to be taken (order for property seizure or other) according to procedure's timeframes.
- See cases that were automatically closed due to payments that were done through the payment system.

- See status of the cases at stage, bank accounts blocked, to see what amount was paid (collected via blocked bank accounts) and make a decision for following actions.

**Also the developer will demonstrate how the non-filer software works for a tax office**

- See all newly identified cases.
- Request and execute calculation of provisional assessment.
- Generate and print letters.
- Capture data from returned letters and closed cases.
- Close cases due to tax declarations were submitted, impose fine for late filing and generate and send a tax notice.
- Make a provisional assessment, real assessment, close a case, calculate and impose fine for not filing, generate and print tax notice.
- Statistic by non-filers by months and type of tax from the beginning of the year, to show trends of non-filers.

**CONCLUSION**

The development is going on according to SDLC methodology, in scope, time and quality as per the signed contract.

Upon presenting examples of designed elements (menus, GUI, database, software modules) a protocol for completion of a phase can be signed as approved for deliverable 2 and relevant payment as per contract can be executed.

Confirmed by:

For SRS – Andrey Gorbushkin: ..... & Mziuri Barbakadze: .....

For BCR – Irakli Gvenetadze: .....& Neli Baeva: .....

Date: .....