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**BUSINESS CLIMATE
REFORM**

END OF MISSION REPORT

**TAX DEPARTMENT IT SYSTEMS
PREPARED FOR THE TAX DEPARTMENT (SRS AND MOF)**

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BACKGROUND

This task is part of Chemonics' contract agreement with the U.S. Agency for International Development ("USAID") for the Georgia Business Climate Reform project (Contract No. AFP-I-00-04-0002-00, Task Order 03), for the provision of technical assistance and related services to client and government organization.

Assignment took place from March 17th-April 19, 2008, in Tbilisi, Georgia

DELIVERABLES

1. Improvement of Tax IT system:

1. Recommendations on documenting Tax IT System database structure.
2. Terms of Reference for the IT services vendor to transfer IT systems to the web application and documenting databases.
3. Action plan and Terms of Reference for the IT services vendor to transfer Tax IT system database to the UTF8 standard. The action plan has to contain preparatory work for this process, description of the project model, define project structure with responsible persons, their roles and functions during this process.
4. Recommendations on improving security and functionality of e-filing application.

2. Appeals cases management system

Technical description of the MoF appeals case management system.

3. Issues related to sustainable development of particular E-governance initiatives

Finalized strategy for integration of state information systems.

Administrative Appeals Case Management System

Technical system specifications has been written for “Appeals Cases Management System” (ACMS) - Ministry of Finance (MoF) and State Revenue Service (SRS) IT system for maintaining a register of appeals and tracking appeal cases for proper MoF/SRS appeals case management. Computerization of appeal processes is important for consistent application of the taxation law and improvements in enforced collection.

A streamlined business process for administrative appeals of tax and customs decisions has been approved by the MOF. Implementation of this system will streamline the appeals process, and expedite dispute resolution, as well as help in establishing common practice through standardization and publication of decisions. The Project will procure the ACMS system based on these technical specifications and provide technical assistance in training and implementation.

FILE: [APPEALS-TECHNICAL SPECS.DOC](#)

E-Filing Security, Capacity Enhanced

Based on in-depth security review of current E-filing system, the list of recommendation has been produced. Purpose of “E-filing security review” document is to evaluate e-filing application and develop recommendations for improving functionality and security issues. The State Revenue Service (SRS) is currently implementing e-filing application and plans to make it a core for its e-services. In order to ensure effective and security operation of the system a security audit of web application has been performed. A set of recommendations are given to improve security and stability of the system. Recommendation will help establish stable infrastructure that will be used as backbone for future e-government services.

During security review of E-filing system SRS has accepted several of expert’s recommendation and made enhancements well before full review was completed.

FILE: [SECURITY REVIEW OF E-FILE.DOC](#)

Unicode & web base system conversion

A set of recommendations referring to conversion of existing Taxation system to Unicode type system including conversion to web-base technology has been accomplished.

Conversion of old Tax system to Unicode would require vast recourse and manpower with very limited benefits and no existent support for web base application. Taking this account, it is recommended that recourse should not be invested in getting old tax system to support Unicode. Instead, system should be converted to new web-base system using Oracle 11g which will automatically support Unicode. By converting to new Oracle 11g the forms, reports and the database MoF / SRS would achieve both requirements, support for Unicode and web base system.

FILE: [UNICODE_WEB APPLICATION.DOC](#)

Documentation of Tax IT system

A template of technical document has been created to ensure that Software Engineering standards and best practices are followed while documenting the system. This document will ensure that business process surrounding software modules will clearly indicate related activities and supporting data. Since no suitable documentation is available of the current tax system, proper documentation of the Tax System needs to started right a way.

FILE: [TEHNICAL DOC TEMPLATE.DOC](#)

Strategy for integration of state information systems

At the moment, there are no defined rules and infrastructure for exchange data between public registries and services in Georgia, resulting in duplication of data and

unstable service provision. GGN Commission elaborating concept and draft strategy on integration of state information systems and services. The document with list of recommendation has been created to assist in finalization of data exchange strategy.

FILE: [DATA EXCHANGE RECOMEDATIONS \(SADIK\).DOC](#)

WORK PERFORMED OUTSIDE THE SCOPE OF THE SOW

VAT – Customs link

Framework for data exchange between Tax administration and Asycuda World system has been established. With help off Asycuda World expert, the SQL statements have been created which will allow crossing checking VAT declarations against SAD declarations. This service will allow for VAT auditors to validate value of goods during import from the VAT declarations. In future, this feature can be used for automated risk assessment system.

Integrated network

SRS and MoF are in process of joining networks. Recommendations have been made on best practices on how to join these two networks in to one integrated network. Recommendations also included possible solutions to reuse current hardware but still create stable network infrastructure.

Review of Risk assessment system

Current risk assessment system was review and recommendations have been made to improve its effectiveness. Current system uses formulas for risk base points that are more economical indicators then true risk analysis. Improved risk base formulas need to be developed. New formulas need to incorporate procedures surround risk points and clear instructions to be taken by audit inspectors.

It is recommended that new risk assessment should use following type of risk point ratings system. There should be 4 scoring boards. Based risk formula and level of the risk that each analysis makes the risk points will be added to one of those scoring boards. This methodology allows simple separation and clear action plan for each risk. This would also highlight to audit inspector which areas should be looked closely. Companies that have most of points in Score list 3 should be audited. The rest of companies based on ability and priority of audit department.

Scoring boards:

- Score 0 : no risk
- Score 1: Low risk
- Score 2: Some risk
- Score 3: High risk

Example of risk formula:

Risk related to the mark up between supplies for any given tax period and purchases (and the relation with the Net Profit of the Financial Statement).

Profit margin	Score	Note to audit inspector
10% > x < %25	Score 0: +1	No risk
x < 10%	Score 1: +1	Low risk, smaller profit margin.
5% > x < %10	Score 2: +1	Low profit margin, review accounting books.
<1%	Score 3: +1	To low profit margin, review input and output transactions. Non profitable business.
>35%	Score 3: +1	Over excessive profit margin, review input and output transactions. Possible over valued declaration of goods.

ADDITIONAL SUBJECTS THAT SHOULD BE EXAMINED

While reviewing taxation laws and tax procedures following matters have come up as topics that need to be looked at. These issues could improve tax climate in Georgia.

- VAT <> Customs link (data exchange)
- VAT refund approval (30 days for Exporters, 60 days for non-Exporters)
- Box 12 from VAT declaration needs to be split up (0% from export)
- Audi selection criteria (Risk assessment formulas)
- Business registration (single form, include Bus. Activity code)
- MIS system (production report, turn-round reports, management reports)
- Audit, data capture of audit details once audit has been completed
- Review of Bank Payment IT system
- Introduction of GIRO payment system
- Introduction of pre-printed declarations (start with VAT)
- Non filer, stop filer, missing tax payer automated warning system
- Increase salary to SRS/MoF IT's. (Training with 1 year obligation contract)
- Tax Administration <> Customs business validation

Fast VAT refunds approval should be considered top priority for GoG since it improves business climate and stimulates export.