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INTRODUCTION

The strategic priorities of the Public Revenue Office (PRO) comprise the principal development components which implementation is planned for the period 2016 – 2018. The document provides general directions given as priority objectives and measures and activities which need to be undertaken for their implementation. By consistent application by the employees and with appropriate funding provided they will ensure not only implementation of the principle mission and vision of the institution, but will likewise present a foundation for building a modern tax authority with high reputation and integrity among taxpayers, among the national and international public and for building confidence in the professionalism, transparency and service orientation of the PRO.

The Strategic priorities of the PRO 2016 – 2018 are in compliance with the following documents:
• Strategic Priorities of the Government of the Republic of Macedonia 2014 – 2018;
• Program of the Government of the Republic of Macedonia 2014 – 2018;
• Fiscal Strategy of the Republic of Macedonia 2014 – 2016;
• National Program for Adoption of the Acquis Communautaire 2015 (NPAA);
• Progress Report for the Republic of Macedonia 2014 – 2015 (Brussels, 10.11.2015);
• Draft Conclusions from the 11th meeting of the Subcommittee for Trade, Industry, Customs and Taxes, Skopje (21.05.2015);
• Conclusions and Recommendations given in the Report on the Monitoring of Issues Related to Interconnection and Interoperability with EU IT Systems (March, 2015);
• Study on the PRO IT System (2014);
• Reports and Recommendations from the Draft Report on “Strategic Management” from the mission of the IMF Fiscal Affairs Department, October 2015;
• World Bank Report “Doing Business 2015”;
MISSION...

To provide high quality services for the taxpayers, streamlined tax procedures for timely and accurate compliance with the obligations and just and efficient collection of taxes and other public levies.

VISION...

The Public Revenue Office to become a leading professional organization, recognized by its best practices and quality standards.
QUALITY MANAGEMENT POLICY AND VALUES

In order to achieve our vision, we continue to strengthen administrative capacities and to raise quality standards in our work. We started introducing new climate in the operation of the tax administration, which entails quality, transparent operation and accountability for the results. The Public Revenue Office creates a unique policy for improving quality and services, ensuring streamlined tax procedures for timely and accurate compliance with the obligations and for just and efficient collection of taxes and other public levies in the Republic of Macedonia. In achieving its professional activities the Office commits to nurture an open and accountable approach towards its taxpayers, its employees, state institutions, international community and the social community in general. By meeting international standards for contemporary operation and of ISO 9001:2008, conditions will be created for improving the business processes management and human resources management which are expected to result in higher productivity and in better general operation of the institution.

The Public Revenue Office establishes an effective quality management system, by sustaining the following values:

- **Professionalism** which ensures lawful, objective, efficient, simple and equal treatment of all taxpayers and using of taxpayers data only for operations within the PRO competence.

- **Hospitality** which provides taxpayers with quick and easy access to information needed for timely and lawful compliance with tax obligations.

- **Care for human capital** through promoting and motivating leadership, objective valuation of skills and knowledge, but also of time and efforts invested by the employees.

- **Management and governance** based on internal and external needs of service users (ISO 9001:2008 quality system) and risks assessment in all operational areas of the institution.

- **Fighting corruption and incompliant taxpayers** by following the constitution which stipulates that everyone is obliged to pay taxes and other public levies and is obliged to participate in settling public expenditures in a way established by law.
From the taxpayers we expect the following:

- Sincerity and honesty in the mutual cooperation;
- Timely delivery of accurate and complete information needed for managing procedures;
- Paying taxes within the deadlines prescribed;
- Keeping books and records in the manner prescribed; and
- Regularly reporting changes in the personal data.
1.1. COMPETENCIES

The Public revenue Office has competencies only on the territory of the Republic of Macedonia. Pursuant to the Law on the Public Revenue Office, it implements administrative and other expert activities related to the scope of its work, as well as activities which arise from the special tax laws. The PRO implements tax policy, maintains the single tax register and tax records of taxpayers, receives tax declarations, assesses due amounts, collects and returns taxes, social contributions from the salary and other public levies, carries out inspections, assists taxpayers in complying with their tax obligations, monitors and analyzes the operation of the tax system, gives proposals for its improvement, cooperates with tax authorities from other countries and provides international legal aid in tax related cases.

In the recent years, the competencies of the PRO have been extended to include affairs related to managing and enforcing collection of fines and other receivables ordered in litigations, misdemeanor and administrative proceedings on behalf of the state. The PRO is also responsible for assessing and collecting other public levies stipulated in laws or fees from contracts which are revenues for the state, it supervises the application of the Law on Preventing Money Laundering and Other Income from Punishable Acts and Financing Terrorism, it supervises implementation of procedures stipulated in the Law on Mineral Raw Materials, as well as in the Law on Financial Discipline, related to timely payment of payables and supervision over business transactions between the economic operators from the private sector.

The PRO is a special institution with an important role in providing funds for the Budget of the Republic of Macedonia, which ensures implementation of state functions. In recent years revenues ensured by the PRO amount to 62-68% of the programmed Budget. With the extension of its competencies to collecting misdemeanor fines, pecuniary sanctions and the broadcasting fee, the contribution of the PRO becomes even higher.
1.2. LEGAL FRAMEWORK
The legal framework for the operation of the PRO, regulating the general tax issues and the tax administration procedure are presented in two laws – the Law on the Public Revenue Office and the Law on Tax Procedure. The Law on the Public Revenue Office was adopted in September 2005, and was changed and amended in March 2014. This Law regulates the scope, the manner of funding, the organization and the management of the PRO and it also regulates the obligations, authorizations, responsibilities and rights of employees when collecting, recording, processing and protecting data needed for the operation of the PRO.
The amendments to the Law adopted in 2014, brought forth the following changes: all positions were divided into classes, thus determining different level positions, titles of tax officers, as well as needed qualifications and competencies. The amendments introduced “internal vacancy” as a way of promoting employees and they further regulated the manner of evaluating employees, awarding awards and recognitions for their work, their disciplinary liability and career tracking.
The Law on Tax Procedure, adopted in January 2006 and the subsequent changes and amendments, in a unique way regulate the following: general tax issues, procedures for tax assessment, control and collection of public revenues. This Law further regulates the rights and obligations of taxpayers, the procedure for appeals, the misdemeanor procedure and it provides misdemeanor provisions.
The legal framework explained above, provides possibilities for strengthening administrative capacities for implementing the legislation and fighting tax evasion.

1.3. FUNDING
The PRO is funded from the Budget of the Republic of Macedonia. It further receives funds from contracts for controlling and collecting public levies, it is entitled to 25% of value of discovered and collected taxes, interests and other revenues provided for in the regulations.

1.4. ORGANIZATION AND STRUCTURE
1.4.1. Current structure
The Public Revenues Office is a state administration body, within the Ministry of Finance and it is a separate legal entity. At December 31, 2015 the PRO had 1349 employees.
Since January 1st, 2009, as it is stipulated in the amendments to the Law on the PRO, the activities within the scope of work of the PRO are carried out by the following organizational units: the General Directorate, the Large Taxpayers Office, the five Regional Offices (Skopje, Bitola, Ship, Tetovo and Kavadarc), eight Branch Offices (Ohrid, Prilep, Kumanovo, Strumica, Gostivar, Kichevo, Veles and Gevgelija), and 39 tax counters/service points located in 39 municipalities. The PRO also has 3 mobile tax counters/service points which serve the other 33 municipalities in which it is not financially feasible to have a permanent counter and this presents additional decentralization in provision of services for the taxpayers.

By changing and amending the Act for Organization and Systematization of Positions in February 2011, a Special Controls Inspectorate was established within the General Tax Inspectorate, and in 2012 the IT Forensic Laboratory (within the Special Control Inspectorate) was established in order to carry out forensic control and prevent sophisticated forms of tax evasion. The forensic specialists use information and technological methods as well as equipment for capturing, reviewing and analyzing data from the digital devices of the taxpayers. In 2013, a framework was created for specialization of the Tax Inspectorate and its inspectors for e-commerce, in order to monitor payments of organizers of games of chance via the Supervisory Information System within the General Tax Inspectorate.

At the same time, in this period of time, the function “enforced debt collection” was fully reorganized, by establishing a Center for Storage and Collection of Movable Items and a Center for Collection of Fines and Other Public Fees. In order to implement the processes for centralized acceptance and processing of all tax declarations, a Center for Declarations Processing was established within the Tax Assessment and Collection Sector in the General Directorate of the PRO, and in order to introduce these processes in regular and systematic education, a special unit was organized, so called “Tax Academy”.

1.4.2. Planned changes
The principal objective of the changes in the organization of the PRO which are to take place in 2016 is completely to separate the General Directorate as a policy developer and the management of the operational activities which should completely take place in the Regional Offices, the Branch Offices and in the Tax Counters/Service Points.
The complete structure of the General Directorate in Skopje is planned to be divided into four areas:

1. **Support** – consisting of the following sectors: Human Resources, Public Relations and Communication, the Tax Academy, Professional Standards, Legal Affairs, International Cooperation, Financial Affairs and the General Affairs;

2. **Operational policy and modernization programs** – will be covered by the following sectors: Taxpayers Services and Taxes, Tax Registration and Assessment, Compliance Management, Collection and Debt Management, General Tax Inspectorate and Strategic Planning;

3. **Information Technology**;

4. **Operations** – consisting of the six Regional Offices and the operational activities carried out on central level organized as:
   - **Broadcasting Fee Center** – it will work on PRO competences related to the collection of the broadcasting fee;
   - **Central Operation Center** – besides receiving and processing tax declarations, this Center will take over the responsibility for automated tax assessment, central bookkeeping operations, integrated collection of gross salary, exchange of data with the social funds, Employment Agency and other interested institutions;
   - **Contact Center** – with extended competencies and functionalities;
   - **Center for Seized Items**;
   - **Center for Collection of Fines and Other Public Fees**.

The most important and the most essential changes in the organization of the PRO will relate to the competencies of some sectors. The former Enforced Collection Sector will be renamed into Center for Collection and Debt Management and will take over all the activities related to reprimanding debtors, analysis and debt management and will also be in charge of all types of administrative and enforced debt collection. The Sector for Tax Assessment and Collection will be renamed into Tax Assessment Sector and will carry out activities related to keeping registers (register of taxpayers, VAT register, cash-registration etc.), tax records and tax assessment.
The service system will be reorganized in the Taxpayers Services Sector and in the Regional Offices in order to provide services through Tax Counters/Service Points in accordance with the principles of cost-efficiency. The tax counters which are not cost-efficient shall be terminated and their activities will be taken over by the mobile tax counters with the same competencies. Because of this it is necessary to increase the number of mobile tax counters (currently there are 3), so each of the five Regional Offices of the PRO will have one specially equipped vehicle – Mobile Tax Counter. The IT Sector shall be reorganized and the new departments should strengthen the PRO capacities to manage planned development projects, as well as to support, re-engineer and automate (computerize) the business processes. The Legal Affairs Sector and in the Internal Audit Unit will also be reorganized, with fewer changes though, and the latter will be transformed into a sector.

In order to increase the efficiency and the effectiveness in the operation and furthermore adjust the organization of the PRO (in order to promote the growing importance of individual taxation implemented by paying social contributions from the salary, as well as by paying personal income tax) it is planned to reorganize the operation of the PRO from a quality perspective, and to divide taxation responsibilities and tasks into two groups:

1. Tasks related to entities which carry out economic activities (business community); and
2. Tasks related to individuals taxed in accordance with their income (natural persons).
For the period 2016-2018, the Public Revenue Office plans to achieve four key development strategic objectives. These will also contain some measures and activities foreseen in the previous Strategic Plan which were not implemented due to lack of financial resources or because some of the measures already implemented require continuous development, upgrade or require longer implementation. The new measures aim at strengthening the capacity of the PRO and introducing new quality in the operation of the tax administration as well as at achieving our mission and vision. The strategic objectives are based on the analysis of the current situation in the PRO (see Annex 1).

- **Improving administrative capacities**
  - Reorganizing the PRO
  - Change management system

- **Always a step forward**
  - New integrated IT system and technical and technological modernization
  - Improving (redesigning) business processes
  - System for managing tax compliance risks

- **Organization of learning and knowledge**
  - Every employee in the appropriate position
  - Strengthening the capacities of the employees

- **The position in the international community**
  - Exchanging data within the EU and with other countries
  - Cooperation with international institutions, organizations and with other tax administrations
  - The process of EU integration
REFORM AND MODERNIZATION OF THE PRO

Within its defined strategic goals, and starting in 2016 the Office will face a continuous process of reforms and a continuous process of modernization. This aims at strengthening the institution, which will be done through reorganization, establishment of a management structure and a structure for strengthening employees’ capacities for change management; new IT system will be introduced, business processes will be modernized from a technical and technological perspective, and there will be complete automation / computerization of the internal processes and of the taxpayers’ services. This will also enable interconnection and interoperability with national institutions, and at a later stage with the EU institutions as well.

In order the PRO to implement such a fundamental reform it is necessary to prepare a comprehensive and clear agenda for modernization, which will be drawn around the following key strategic areas:
1. Introducing new organizational set-up;
2. Introducing a system for change management in the PRO;
3. Improving key business processes;
4. Introducing a system for managing compliance risks;
5. Installing a new integrated IT system and upgrading the information systems which will ensure safe exchange of data with other institutions;
6. Strengthening employees’ capacities and their appointment to appropriate positions;
7. Timely preparation for interconnection and interoperability with the EU systems (one of the requirements for EU membership);
8. Implementing Governmental programs and projects; and
9. Measuring the impact of the changes introduced.

In 2014 the PRO implemented the Project “Preparation of a Study for the PRO’s IT System” funded through the EU pre-accession funds. The Study analyzes the existing IT system in the PRO and gives recommendations for its improvement, that is it offers a concept for new integrated information tax system which will unite all business processes in the institution.

1) IPA 2009/TAIB I – PPF „Preparation of Study for the PRO’s IT system“
It proposes introduction of a tax accounting system and payment to a single tax account, provision of permanently accessible data in the real time for the taxpayers, which will increase transparency of the tax procedures and will establish new relations with the taxpayers, the legal entities and other public administration institutions and organizations from other countries. The new integrated IT system will enable the PRO to have “Electronic tax record for every taxpayer” which will create new relations, processes and procedures and will lead to comprehensive technical and technological development of the institution.

In order the planned changes in the PRO to be successful, above all it is necessary to have a well-thought-out program which will include a financial model, plans with realistic timeframe and implementation deadlines, timely decision making on all levels, expert support, but also planning of all transitional activities with which the tax administration will manage to carry out regular activities and to prepare for the introduction of the new IT system. Extremely important for this objectives are the human resources, that is to strengthen their capacities (top and middle management), to provide additional expert and technical personnel and appropriately to educate the employees who will carry the burden of change, which at the same time will extend their capacities for effective and efficient work. Besides the reorganization process which was already started, it will be necessary to organize a formal management structure and project teams in the PRO with representatives from other institutions (stakeholders), but also with appropriate legal support, which will raise the reform and the modernization process to a level higher than the institutional one.

Taking into consideration the comprehensiveness of the Project “New IT System for the PRO”, and its importance and relation to other governmental and state institutions, the PRO believes that longer time will be needed for its implementation. A development plan is being drafted for the period of preparation and implementation, that is for the transitional period, which will aim at improving services, especially the electronic services, achieving higher voluntary compliance, risk management. In this plan a special attention is given to internal communication and education of employees.
In the period 2015-2020, the PRO will receive technical assistance from the IMF – Fiscal Affairs Department funded by the EU as part of the program “Reform and Modernization of Tax Administrations in SEE” (FAD_EUR_2010_02). The Program will consist of projects aiming at promoting administrative capacities (environment) of the institution, improving basic working processes and improving taxpayers compliance.
IMPROVING ADMINISTRATIVE CAPACITIES
**Objective:** Providing an environment which supports the development of the PRO and increasing functional capacity for implementing programs with simultaneous reduction of the operation costs.

**Expected results:** Creating Tax Administration which has strong legal, organizational and managerial framework which ensures capacity for efficient implementation of legislation and for fighting tax evasion with simultaneous reduction of the operation costs.

**Success indicators:**
1. Established and functional reorganization with division and complete differentiation of the activities into the following groups:
   - Institutional policy development in the General Directorate in Skopje;
   - Operational execution of the institutional policies in the Regional Offices;
   - Establishing the necessary central operations.
2. Established management structure which manages the processes of change and the daily operation is in accordance with clearly set strategies and operational plans.

**Risks:** The implementation of the measures depends on specific activities which should be undertaken by the employees in the PRO, especially by the management in the General Directorate, but also by the Ministry of Information Society and Administration. They need to confirm the reorganization and to ensure funds for its implementation, due to which there is a risk of delayed implementation and lack of appropriate funding.
1) **Implementing PRO’s reorganization**

The total reorganization and the specialization of the employees in separate issues aims at enabling implementation of modernization processes, especially at the development of modern working processes, new quality of taxpayers services, increasing efficiency in carrying out work tasks, expanding the PRO’s data base, efficient compliance management and debt management and increasing the collection rate of public fees.

The PRO’s reorganization, for which in 2015 the New Rulebook on Organization was prepared, should practically be implemented in 2016. With its operationalization and with the adoption of the Rulebook on Systematization of Positions, employees should be redeployed and vacancies should be filled in, especially of managers and of employees who are to coordinate specific activities and to issue appropriate work instructions.

**Success indicators:**
1) Integrated taxpayers’ (citizens) records are available;
2) Increased collection of public revenues from gross salaries;
3) Tidy and updated records and increased collection of the broadcasting fee;
4) Program and Annual Plan for compliance Management are adopted.

**Necessary resources:**
Besides internal redeployment of staff, in order to implement the reorganization, funds will be needed for the new employments.

**Timeframe for implementation:** 2016 - 2018
2) **Introducing change management system**

*Establishing good managerial and governance processes to support the implementation of strategic institutional objectives which will contribute for efficient and economic operation.*

- For successful implementation of the modernization processes, meaning technical and technological advancement of the PRO, besides the successful implementation of the reorganization it is necessary to govern and manage change, to have assessment and performance measurement, as well timely redirecting or changing the plans in accordance with the changed conditions for implementation, if necessary. In order to do this, a high level managerial and supervisory councils will be set up that will work in three strategic areas – compliance management (set up in 2014), operational management and modernization process management. These bodies will act proactively and will take care about the adoption and the implementation of reform initiatives, the operational plans and the strategies for improving compliance and performance assessment. The scope and the type of competencies shall be regulated by appropriate regulations.

- An important aspects concerning the institutional development of the PRO was that in 2015 the risk management process was established in the institution (the Risk Strategy was adopted). At this point all functions were invited to identify risks in their operation and to explain how they manage risks. In 2016 identified risks will be monitored in order to eliminate them and to enable the institution to work with secure processes. In this regard the Internal Audit Unit has an obligation to set up the system of public internal financial control through monitoring the compliance with prescribed procedures, control, organization and audit of business processes. The role of this Unit will be also important in planning and implementing the new IT system in all phases.

- In this period, the activities for adjusting the business processes in accordance with the requirements of operational quality management and organization of the public administration work (ISO 9001:2008) and for certification of the institution will be implemented. The redesign of the business processes, as part of the complete modernization, will require to renew and amend procedures that have already been adopted.
Introduction of standards and balancing of business processes in all organizational parts of the PRO will mean process optimization in regard to their contributions and costs. In the future period activities will be carried out for automation of processes and for measuring performance.

**Success indicators**: Number of meetings of managerial and supervisory bodies held for implementing activities in the three strategic areas—compliance management, operational management and organizational management with decisions and conclusions adopted.

**Necessary resources**: 300,000 MKD (2016) for procurement of services of an accredited certification body needed for certification.

**Timeframe for implementation**: 2015 - 2017
ALWAYS A STEP FORWARD
- MODERNIZATION OF THE PUBLIC REVENUE OFFICE
**Objective**: Ensuring sustainable development through technological modernization of business processes.

**Expected results**: Implementing PRO modernization programs by introducing a new integrated IT system.

**Success indicators**: Achieving the planned level of public revenues under the competence of the PRO.

**Risks**: The measure “upgrade of the information systems (technical and technological modernization of the business processes)” is with high risk due to its complexity, interdependency with other institutions, the long period of implementation and its success depends on the model of funding.
1. **Upgrade of the IT systems (technical and technological modernization of the business processes)**

   With the upgrade of the IT systems and the introduction of the electronic tax record for every taxpayer improvements in quality and type of services available for taxpayers are expected, and also improvements in voluntary compliance. Repressive activities should focus only on tax evaders, and by having timely and comprehensive data grey economy could be reduced and the taxation base could be expanded, which will ensure funds for funding state functions related to satisfying general and common needs.

   The PRO Plans to implement a new integrated IT system which will support all business processes, will be adjustable to the legal changes and appropriate for the needs of the institution when Macedonia enters EU. Further on it will be connected to all registers and data holders in the country and appropriately integrated in the EU systems for exchanging data with member-states. The system should enable completely electronic communication and data exchange with the institutions in the Republic of Macedonia (retrieving data from registers, providing data from the PRO records to other institutions, implementing the one-stop-shop system and the e-tax system, electronic archive – distribution and tracking of documents and connecting Ministry of Finance and all bodies within it). In the international frame of work it will enable communication and exchange with the EU member-states through its bodies and organizations and it will be used for other objectives as defined by the OECD standards which will be obligatory for the PRO once Macedonia enters the EU.

   In order to ensure the current operation of the PRO, integrated and updated data on all taxpayers should be available if possible at real time (every taxpayer will have an electronic record) in order to ensure exchange of data, application of risk management systems, work on cases, keeping statistics and development of reports. In order to do this it is necessary to have fully integrated record keeping system based on electronic entry of data “from” and “about” the taxpayers. Double book keeping is also necessary in accordance with the regulations and accounting standards and one account for paying all tax obligations.

   Besides technical, the system will require a technological modernization, streamlining of processes and eliminating repetitions or replications of data, and it will generate new effectiveness and efficiency in the work. “The Study on the PRO’s IT System” that is TO-BE Model and description, prepared by group of experts
and funded through EU IPA funds, contains recommendations for which implementation it is necessary to have an inter-sector approach for the whole project and to adjust the legal framework. Due to this, in order to implement this measure it is necessary to have a broad scope of **preparatory activities** which relate to the following:

- Establishment of the structure for the Program “Upgrade of the Information Systems (Technical and Technological Modernization of the Business Processes)” on governmental level;
- Establishment of the project unit in the PRO, appointing managers and project teams;
- Provision of expert support for the preparatory activities;
- Preparation of an Implementation Plan for the whole modernization process;
- Deciding how the new system should be constructed (in-house, ready-made, developed);
- Development of a financial plan for procuring the IT system;
- Development of an implementation plan and a financial plan.

After the main decisions related to the modernization and structural changes will be made, it will be necessary to harmonize the legislation (for eg. A decision will have to be made concerning the proposal to introduce a new unique registration number for all taxpayers, one account for paying all taxes etc.) and after this new work procedures will have to be developed.

In the **second phase** of the procurement of the new IT system, the design of the system itself and its architecture will have to be decided, and after that the hardware and the software will be delivered. Once delivered, some basic functionalities of the system will have to be tested, before the whole system is implemented and integrated.

**The third phase** will consist of installing the system and implementing the rest of the functionalities which were not implemented in the second phase, complete migration of data from the old system, testing the complete system, training employees to use the new system and to maintain it.

Of course expert support is needed in this phase as well support concerning the process of production, unification, harmonization and connection of the separate systems and business processes, harmonization with EU standards and creation of a platform for connecting this system with the system for exchanging data.
In the fourth phase the system will be completely productive, it will be maintained and supported. In the transition period it will be necessary to ensure not only unhindered implementation of the current business processes, but also continuous implementation of the development processes that have already been started. Due to this it will be necessary:

- To replace the old (peripheral) equipment and the PCs, as well as to rent printers and other IT equipment;
- To procure and replace the old inspection equipment (300 lap top computers);
- To procure network equipment and to change some of the obsolete network equipment and installation in all organizational units;
- To strengthen the capacity of the data storage units in the PRO’s IT system—procurement / upgrade of the data storage system for the DANIS system, the integrated payment system, the GPRS system and the NIS system for games of chance;
- To upgrade the existing domain structure, mail server, to install new mail servers for communication with the taxpayers and setting up data domain for archiving mails;
- To install DISASTER RECOVERY – Back up information system on a separate location;
- To improve the flow capacity of the network – services for sending SMS messages from the PRO to the taxpayers - SMS Gateway and software;
- To create spatial and technical conditions to accommodate the new equipment in the system hall of the PRO;
- To procure anti-virus protection software for the user computers;
- To develop a software for the education of employees concerning tax issues over INTRANET (e-learning platform);
- To upgrade the NIS system for games of chance – for monitoring machines and the profit per player – to introduce a web service for receiving data, to introduce new functionalities in the system, to procure new installation licenses for new agents organizing games of chance;
- To install an internet symmetric access in the General Directorate and on a secondary location in the Regional Directorate in Skopje;
- To have data connection of organizational units via VPN (MPLS), data VPN connection of tax counters/service points through the public internet infrastructure, data connection of mobile tax counters;
- Connecting the Large Taxpayers Office and the PRO Contact Center;
- To maintain the DANIS, e-Taxes, e-Auctions, NIS systems;
- To set-up a Center for Broadcasting Fee – establishing the system for the broadcasting fee with new services and systems for analysis and reports;
- To enable electronic submission of tax documents, documents for broadcasting fee, fines etc.;
- To train the employees from the IT Sector and to procure the development tools for software development.

**Success indicators:** 1) Completely electronic tax record for every taxpayer; 2) Links are established and the communication and exchange of data is enabled in national and in international frame of work.

**Required resources:** The PRO has still not ensured funds for the upgrade of the IT systems. The assessment of the resources needed for the upgrade of the IT system in the PRO is 640,000,000 MKD divided into 4 annual installments in accordance with the phases of procurement (2016 = 160,000,000 MKD; 2017 = 160,000,000 MKD; 2018 = 160,000,000 MKD; 2019 = 160,000,000 MKD) and 187,000,000 MKD for procurement of the DISASTER RECOVERY- PRO’s IT system on a secondary location. For the hardware, software, licenses and other costs in the transition period, in total 347,159,000 MKD (2016 = 99,340,000 MKD; 2017 = 209,597,000 MKD; 2018 = 38,322,000 MKD) will be necessary. In order to implement this measure it is assessed that 10,174,159,000 MKD are needed.

**Timeframe for implementation:** 2016 - 2019

2) **Improving (redesigning) key business processes**

To increase awareness and knowledge of taxpayers concerning tax related issues, and to improve the payment rate of tax obligations, and with this to increase the number of timely and accurate tax declarations and payment of taxes. The principal objective of the redesign of the business processes is to prepare an electronic tax file for every taxpayer – citizen, to improve the services that PRO provides for this category of taxpayers; to reduce the time and the operation costs through better exchange of data between the PRO and the Pension and Disability Insurance Fund, the Health Insurance Fund, the Employment Service Agency, the Agency for Real Estate Cadaster, State Statistics Office, Register of Citizens in the Ministry of Interior and other institutions; to increase the possibility for analysis, risk management and efficiency in PRO’s operation.
The redesigned procedures for managing debt collection are expected to increase PRO’s efficiency in determining collectible debts and their collection.

The principal objective of the PRO is to increase the voluntary tax compliance which will be achieved through the following:

- **Developing procedures for service provision to the taxpayers and communication.**

  The process of redesigning the key business processes has started in 2015 with the initiation of the Project IPA 2010/TAIB 1 PF “Improving PRO’s Services for the Taxpayers”, the project which will establish a PRO’s Contact/Call Center and new work environment by refurbishing and adapting the ground floor in the Regional Directorate in Skopje (IPA TAIB 2010 Works Contract), and procurement of equipment for the Contact Center and for the Mobile Tax Counters (IPA 2012 Supply Contract), by redefining procedures and extending the functionalities which exist in the current Call Center and the tax counters. By using the experience of the Tax Administration of Spain (IPA 2010 Twinning Contract) it is planned to upgrade the “Knowledge Base” which is used by the Contact Center and it is to be made available to taxpayers through the web site of the PRO in order to insure better awareness of taxpayers concerning application of regulations and procedures. In order to have control, secure communication of taxpayers with the employees in the Contact Center, but also in order to ensure data for various analyses needed for the operation of the Contact Center, a monitoring system will be installed and used. With the purpose of facilitating the access of taxpayers to the services offered by the Contact center, an ordering and scheduling system will be installed which will be used via phone or internet. In order to facilitate the electronic communication with the most numerous taxpayers – the citizens, the tax services that require the electronic signature – PIN Code will be extended. In accordance with the economic activities of taxpayers in each municipality (agriculture, crafts, mining, tourism, textile production etc.), Tax Counters will adopt individualized plans and programs for educating the taxpayers and they will have to report regularly on their implementation. For smallest municipalities in the Republic of Macedonia, but also for the others in accordance with their needs, the Mobile Tax Counters will provide the full set of services. It is planned each Regional Directorate to have one mobile counter which will provide the necessary services to local taxpayers.
The new PRO web page, besides new communication tools and content, will ensure access for persons with disabilities (WACG and AAA standards).

• **Optimization of internal processes (process integration, eliminating processes without contribution, reducing excessive processing and eliminating double engagement)**

In 2016 it is planned to start the implementation of IPA 2012 PPF Project “Strengthening Administrative Capacity and Specialization of the PROs Operation for Taxing Taxpayers/ Natural Persons (Citizens)” in the value of 200,000 EUR. The specialization will enhance the PRO capacities for administering the citizens through expanding and integrating the PRO’s data base (all data on every taxpayer will be integrated covering the personal tax, social contributions from the salary, broadcasting fee and fines and sanctions ordered by various bodies in the Republic of Macedonia...). With the project an electronic tax record will also be introduced for all natural persons (citizens) with appropriate tracking system, data analysis and reporting, control and risk assessment, and it will support taxpayers to have better voluntary compliance. On the PRO's web site a client software will be published for calculating all types of personal income tax (with the exception for gross salaries since this one already exists). It is necessary to procure equipment/services for introducing electronic declaration and processing of data related to citizens’ income and electronic issuing of a pre-completed Annual Tax Declaration from the PRO. This IT equipment is also a precondition for implementing one of the measures proposed in the recommendations in Doing Business Report for 2015 (indicator “Collection of Taxes” related to submission of tax declarations, payment of taxes and tax return), as well as for strengthening administrative capacities and specialization of PRO’s work on citizens’ taxation.

• **Better debt management and collection in all phases**

In the reorganized Debt Collection and Management Sector it is necessary to develop procedures for managing and collecting debts in all phases (all types of procedures related to establishing, structure of debts against collectability and age, analysis, reprimanding and implementing procedures for contractual or enforced collection), of all types of tax and non-tax related obligations, from all types of taxpayers.
**Success indicators:** 1) Improvement of voluntary compliance, 98% of expected tax declarations should be submitted in timely manner; 2) Voluntary payment of taxes, 85% - 90% collected tax with a simultaneous increase from the previous period; 3) After 2018 the PRO to develop pre-completed tax declarations for the income of citizens which are to be delivered to taxpayers (assessment of citizens taxes based on its own data base); as of 2017 the PRO to have an accurate structure of collectable and uncollectable debts, and an overview against their maturity.

**Required resources:** For the IPA Project “Improving PRO Services for Taxpayers” funds have been provided from the EU as well as appropriate co-financing from the Budget of the Republic of Macedonia in the amount of 1,500,000 EUR. For the Project IPA 2012 PPF “Improving Administrative Capacities and Specialization of the PRO’s Operation for Taxing Taxpayers / Natural Persons (Citizens)” 200,000 EUR have been ensured through the IPA funds. It is necessary the PRO to provide 90,000,000 MKD for procurement of the IT equipment/services on which the software developed within this Project will be installed. Reassignment of employees and new employments are within the needs defined on page 33 and 34 (see “Every Employee at the Appropriate Position”).

**Implementation Timeframe:** 2015 - 2018

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**3) Compliance Risk Management System**

The introduction of the Strategy for Managing Risky Categories of Taxpayers is expected to increase the self-assessment and reduction of risks related to tax revenues, to increase the number of registered taxpayers, to strengthen the activities against tax evasion and against avoiding controls of non-risky taxpayers.
• **Compliance management**
  Primary objective of the PRO is to improve timely, voluntary declaring and paying of public revenues, and to reduce grey economy, but at the same time to improve enforcement methods when necessary. The PRO introduces a systemic approach in managing different categories of taxpayers, and the risks that they present in the tax system. In order to do this, a model will be established according to which risk will be assessed, the most important risks will be determined and taxpayers who have this type of risk, and a Program for Managing Compliance and an Annual Plan for Compliance Risk Management will be adopted. After defining the risks for each category of taxpayers and the environment which is relevant for them or for the period, the PRO will determine activities for harmonization, entities responsible for those activities, deadlines for implementation and expected results. The Compliance Management Department will be responsible for this activity.

• **Inspection supervision**
  Taking into consideration that this is one of the methods for reducing grey economy, the development of methods for discovering unregistered taxpayers or unregistered transactions will continue. The Special Control Inspectorate will undertake activities for staffing and appropriate education of employees, especially for controlling e-commerce and procuring licenses for the IT Forensic Laboratory. With the assistance of foreign experts it is planned to introduce software for an integral control module (for the VAT, profit tax, personal income tax and for social contributions).

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**Success indicators:** In 2016, the Compliance Management Department has prepared a comprehensive overview of risk against economic activities and a Risk Register.

**Required resources:** In order to procure the software for the integrated control module 1,830,000 MKD are required, as well as licenses for the IT Forensic Laboratory, which amount to 400,000 MKD.

**Implementation timeframe:** 2016 - 2017
ORGANIZATION OF KNOWLEDGE AND LEARNING
Objective: Development of staff who will be capable of implementing the technical and technological modernization in the PRO.

Success indicators: 1) Fully operational Tax Academy; 2) Recruitment procedure completed in 2016 by announcing an internal vacancy notice; 3) Having all managerial positions on all organizational levels filled in by the end of 2016-2017.

Expected results: Optimum number of employees reassigned in proportion to the competences of the institution and its organizational units who work on assignments for which they have the best knowledge and competences accompanied by relevant education and training on modern work procedures. These will be provided by the PRO Tax Academy which is fully equipped and program-adjusted for training for individual job positions.

Risks: The Tax Academy, as an institution in charge of the systematic education, will operate fully and in compliance with the plan as soon as spatial conditions with the necessary equipment and permanent staff are provided. Funds for this purpose are still not provided, therefore, the entire measure is at high level of risk. In terms of filling in the managerial job positions, there is risk of lack of suitable staff available for the respective job positions, i.e. staff who is unevenly distributed across the country.
1) **Every employee on the right job position**

*Increasing the number of employees and having employees properly engaged; increasing satisfaction among employees with the provided workplace merit based incentives and rewards; decreasing the number of cases of non-adherence to the Code of Ethics.*

The Public Revenue Office develops a Human Resources Strategy in compliance with the organizational changes. By implementing the employment programs targeting young highly qualified candidates and by using the system for reassigning employees from technical and non-essential functions (data receipt and processing, etc.) to essential functions, an input will be made on raising the quality and efficiency of operation of the PRO. In the following period, particular attention will be paid to objective evaluation of the performance of individuals; the application and development of the employee appraisal system according to PRO’s Performance Appraisal Methodology will continue; performance-based incentives and rewards system will be set up; performance measures and standards will be monitored and improved.

In the coming period, we will promote the “internal vacancy notice” system for reassignment of current employees to job positions or vacancies on the same or higher level titled “the right employee on the right job position”. An e-personal file system will be introduced including data on the trainings and courses attended and the knowledge possessed by each employee as a pre-condition for promotion in the career system and for calculation of salary. In order to overcome the risk posed by the age structure of the workforce and to ensure continuity in the quality of operations, i.e. in order to ensure security in the continuity of operation and management, a Plan on Succession of Retiring Employees Holding Responsibilities and Authorizations will be developed.

In order to ensure high and standard quality in the work of tax inspectors, the “Professional Exam for an Efficient Inspector” program will be developed and implemented. Criteria will be introduced for assessing inspectors’ performance and knowledge by testing the theoretical knowledge and making qualitative assessment of their performance.
Success indicators: 1) Number of new recruits to offset employee attrition (retirement, death, etc.) increased by 35 new employees each year; 2) Number of changes in the status of employees (promotions) according to performance measures; 3) Satisfaction among employees with the provided workplace incentives (survey).

Required resources: For implementation of the activities related to improvement of the employee structure, it is necessary to recruit 35 employees annually (2016=20,000,000 MKD; 2017=40,000,000 MKD; 2018=60,000,000 MKD) and cover software costs in the amount of 1,845,000 MKD in 2016.

Timeframe for implementation: 2016 - 2018

2) Strengthening employees’ capacities

Increasing the number of trained tax officers, thus increasing the work efficiency; purposeful education of taxpayers and other customers; and intensive exchange of international experience.

Employees’ capacity will be strengthened by providing education for concrete job positions (education on the applicable legal regulation and work procedures) which requires complete organization and functioning of the Tax Academy. The education programs of the Tax Academy support the reorganization of the institution and the new business processes of the key functions, as well as the training needs on operation and management in order to improve the abilities of employees on all levels, leading to improved work performance and delivery of services, improved voluntary compliance by taxpayers, and improved enforced collection rate, where necessary. Apart from intensive education of PRO employees, the Tax Academy will extend the training programs to other stakeholders – tax advisors, institutions and taxpayers training. It is planned the „Knowledge Base“, which is managed by the Contact Center, to be made available to taxpayers on the web-site and to all employees via the Intranet of PRO.
In the coming period, a budget item will be allocated for expert staff and for refurbishing and equipping the premises of the Tax Academy (TA). A database will be set up in the TA for recording and monitoring the results of the provided education per employee.

**Success indicators:** To have a 10% increase on annual level in comparison to the previous year in: 1) The number of education programs for particular job positions organized and implemented by the Tax Academy (for the use of new IT programs, for tax operations, for legislation, for specific work procedures...); 2) The number of officers educated at the Tax Academy.

**Required resources:** An appropriate budget for implementing the activities related to the organization of the Tax Academy in the course of 2016 was not provided.

**Timeframe for implementation:** 2016 - 2018
POSITION IN THE INTERNATIONAL COMMUNITY
**Objective:** The establishment of the Tax Administration in international frameworks and the exchange of data and experience on international level that will speed up the process of modernization of the PRO and achievement of European practices.

**Success indicators:** Establishing interconnection and data exchange through EU systems; establishing automated data exchange to avoid double taxation / non-taxation.

**Expected results:** Increased data exchange with tax administrations of other countries and increased number of tax administrations and international organizations with which cooperation is established and programs and projects are implemented, especially European Union organizations.

Before joining the European Union, it is expected that the Republic of Macedonia will have established an electronic connection with member-states for exchanging tax-related data in compliance with standards and procedures under which such exchange is taking place and for which the PRO shall provide technical and professional conditions.

**Risks:** Having regard to the continuous membership of the PRO in international organizations and the cooperation with tax administrations from across Europe, and especially from the neighboring countries, no specific risks have been identified. The basic risk to any data exchange with EU member states is the non-integrated and partially automated IT system of the PRO. Strengthening the IT capacities of the PRO is one of the key remarks in the DG TAXUD Monitoring missions in the PRO and in the Reports of the European Commission on the progress of the Republic of Macedonia, including the most recent report for 2015. In the chapter “Taxation”, it is underlined that “IT system modernization should be a priority and part of the comprehensive modernization strategy”. In order to carry out these activities, an integrated IT system is required as described in the part referring to “IT Systems Upgrade” (technical and technological modernization of business processes).“
1) **Exchanging data within the EU and with other countries**

Introducing EU and OECD methods of data exchange that will enable the PRO to increase the volume of exchanged data required in the fight against tax fraud and tax evasion.

It is necessary that the Public Revenue Office joins the following international data exchange systems:

- TIN on the web;
- VAT-R;
- VIES-VAT Taxpayer registration data;
- Recapitulative reports on intra-communitarian supply;
- Integration of TIS System with the eTax system, through which representatives of taxpayers reports on amounts of interest paid to non-residents (Tax on Saving EU Interest Directive);
- Information system eVAT (VAT on eCommerce or VAT on electronically supplied services);
- Mutual administrative assistance - enforcement of the procedures for collection of Foreign Tax liabilities;
- OECD Model (Exchange of information on direct taxes – OECD Model).

In order to have a constant exchange of data with EU member states, it is necessary to establish interconnection and an interoperability system with EU member-states. For this purpose, it is necessary to set up a Liaison and Data Exchange Office, procure the prescribed hardware and software, engage employees and educate them according to EU standards.

The availability of this system is a requirement for administrative accession to the EU, and for the implementation of such systems, it is necessary to make accurate and high quality preparations.

The development of these systems begins several years before joining the European Union and they should be available for testing and certification (accreditation) 6 months prior to entry into the EU.

**Success indicators**: 1) Establishing interconnection and data exchange according to the EU methods; 2) Number of automated data exchanges according to the EU standards.

**Required resources**: Assessment of the required resources for setting up a Liaison and Data Exchange Office has not been conducted still.

**Timeframe for implementation**: Several years prior to entry into the European Union.
2) **Cooperation with international institutions, organizations and tax administrations**

*Increasing the opportunities for sharing international experience and knowledge and reducing tax frauds with international background.*

The communication and cooperation with international institutions and organizations (IOTA, OECD, IMF, CEF) is aimed at continuing and extending the participation in their annual programs. The cooperation with tax administrations of EU member-states and other countries is aimed at exchanging experience and knowledge and it will be conducted through bilateral cooperation and exchange of information between Balkan tax administrations as an early prevention against the new trends in tax evasion, etc.

**Success indicators:** Number of cooperation opportunities and projects used from the programs provided by international institutions and organizations, and exchange of experience with foreign tax administrations.

**Required resources:** For IOTA membership fee: 405,900 MKD per year (2016=405,900 MKD; 2017=405,900 MKD; 2018=405,900 MKD) and for other expenses (travel expenses, etc.) 369,000 MKD per year (2016=369,000 MKD; 2017=369,000 MKD; 2018=369,000 MKD).

**Timeframe for implementation:** 2016 - 2018

3) **EU integration process**

*Approximation of the PRO to the work standards applied in the tax administrations of EU member-states and contribution towards the overall activities of the country in the processes of faster EU integration.*

As part of the EU integration process, the PRO shall carry out preparation and monthly reporting to the SEI and the EU Delegation in Macedonia on: the level of implementation of the NPAA Program and preparation for subcommittees within the Committee for Association and Stabilization; implementation of the IPA Program (programming, tendering and monitoring); the FISCALIS Program; and communication and coordination of activities within DG TAXUD.
Success indicators: 1) Number of projects supported by the pre-accession assistance funds; 2) Number of FISCALIS events attended; 3) TAIEX technical assistance used.

Required resources: For FISCALIS membership fee: 2016=1,060,875 MKD; 2017=1,328,400 MKD; 2018=1,629,750 MKD.

Framework for implementation: 2016 - 2018
In order to achieve the planned development and implementation of the new programs in compliance with the Strategy for the period 2016-2018, it is envisaged that the Public Revenue Office should recruit 35 new employees every year in the next three years, not including the employment for the purpose of offsetting the natural attrition (retirement, etc.). The new employees shall be assigned to job positions according to the needs.

For fulfillment of the PRO vision for the period 2016-2018, without the IPA projects and the funds required for “IT Systems Upgrade” (technical and technological modernization of the business processes) and PRO Information System on Secondary Location (Disaster Recovery Center), it is estimated that required funds amount to 569,032,725 MKD, as follows: 213,275,775 MKD in 2016, 253,200,300 MKD in 2017 and 102,556,650 MKD in 2018.

The aforementioned amounts for the planning period 2016-2018 shall be allocated between the individual organizational units of the PRO according to the plan and needs to be used for the following purposes: for software and hardware – 374,339,000 MKD, for expansion of the system hall - 61,500,000 MKD, for recruitment of new employees - 120,000,000 MKD and for education costs and membership fees in international organizations that PRO is a member of, licenses and other costs – 13,193,725 MKD.
## STRENGTHS
### (ADVANTAGES OF THE PRO)
- The Management of the PRO has objective findings of the current situation in the PRO and there is consensus on the need of comprehensive modernization.
- Experience in implementing modernization processes.
- Active monitoring of the development processes in tax administrations in EU countries.
- In previous years, the PRO raised the level of tax discipline and voluntary declaration of taxes.
- Increased transparency and openness in the operation.
- The processes of educating the employees and providing information and education services to taxpayers have been improved.
- High collection rate of tax and non-tax public revenues, and even when they fall short of the target, they show a trend of growth in comparison to previous years.
- Development of e-Services (partially electronic receipt and delivery of acts and payment; integrated system for automated monitoring of payments of the organizers of games of chance; system for electronic issuing of invoices to taxpayers (donor projects); GPRS system for connection with the fiscal systems; e-Auctions for sale of movable and immovable properties; system for exchange of data with certain state institutions; Intranet).

## WEAKNESSES
### (SHORTCOMINGS OF THE PRO)
- Burden of collecting non-tax revenues which results in lack of capacity and lack of focus on collection of taxes and contributions.
- The PRO is given new competences which it must exercise within a short timeframe and without compensation for the required human and financial resources.
- The tax records are not linked and they are not complete.
- The existing set-up of the IT system requires implementation of operational activities also by the General Directorate, which reduces its capacity for strategic activities.
- The IT system is outdated, not completely connected and it does not support all business processes and reporting needs – some of the work is handled manually.
- The IT system has limited capacity and there are difficulties in adjustment when the laws are amended.
- Disproportionate distribution of staff across the organizational units of the PRO and unsuitable age structure.
- All managerial positions are not filled in; therefore, there is lack of management and leadership.

## OPPORTUNITIES
- To strike a balance between the implementation of everyday activities (activities necessary for maintaining the process of revenue collection) and the application of the important reform initiatives which aim at further modernizing the PRO.
- To redesign and integrate business processes in a way that it will enable more cost-effective and more efficient performance.
- Setting up a formal structure for change management that could be distanced from everyday operational activities.
- Reorganization of the PRO (structure, functioning, IT systems and business processes).
- Filling in all managerial positions in the General Directorate/Large Taxpayers Office/Regional Offices in order to establish regular management of operational activities.
- The PRO should make a cost-benefit analysis for all new initiatives or for certain reforms that it will implement at its own initiative or upon request of the Government.
- The PRO should maintain the stability in the collection rate of tax-related revenues and thus ensuring the Budget of the Republic of Macedonia.
- The modernization of the PRO will also reflect on meeting the data needs of other state authorities (ministries, State Statistical Office, funds, agencies, etc.).

## THREATS (RISKS)
- If the processes of modernization accompanied by significant investment in the functionality and integration of the IT system are not implemented, the PRO will face difficulties in exercising its core function – collection of public duties and in fulfilling the requirements of the government reform and of the other institutions.
- If an upgrade/procurement of a new IT system does not take place urgently, it will lead to obsolescence of the findings and recommendations provided in the document “Study on the PRO’s IT System”. Thereafter, it will not be possible to finance again such a process through the EU funds.
- Internal resistance to the processes of reorganization and introduction of new techniques and technologies of work.
- Reduction/stagnation of PRO’s Budget.
- Financial dependence and failure to implement the financial plans.
- Bad design of the changes related to PRO reform and modernization – discontinuity in time, disconnection with the financing.
- Lack of experienced and committed people who would be free from other work obligations in order to implement the planned changes.
- Inappropriate education for work on a particular job position.
- The continuation of situations which arise from the weaknesses in making records, accompanied at the same time by attrition of experienced staff, may lead to failure to meet or big delay in meeting the legal obligations of the PRO.