

# 7 Changes to the Institutional Framework for Fiscal Policy

## 7.1 Forthcoming Changes in the Tax System

In late 2008, the Czech government approved the Project to Establish a Single Collection Point for Public Budgets Revenues, or the so-called JIM project. Subsequently, the Czech government decided to prepare a conceptual proposal for harmonising taxes and insurance premiums.

The JIM project envisages the establishment of a single collection point for taxes, customs and public insurance premiums. The project should be implemented in several time phases, with the first step being to establish a separate tax administration as a system of bodies led by a general directorate subordinate to the Ministry of Finance that would gradually take over other collection functions. The target status should be reached as early as 2014.

The aim of the forthcoming conceptual proposal of harmonising taxes and insurance premiums in particular is to reduce administrative costs, both direct costs for the managers of these payments and indirect costs for the payers, as well as to simplify the existing system and make it more understandable for all the aforementioned entities. Harmonisation will unify the approach to defining the payer and the assessment base of personal income tax and social and health insurances, their operative period, payment date, penalty procedures and conducted controls. Also considered is to eliminate the varying interpretative approaches associated with the current fragmentation of this issue in the competence areas of finance, labour, social protection and health care and others that manage collection of social security payments. This project is closely linked with the JIM project mentioned above and will be carried out in parallel with it.

## 7.2 The State Treasury

The primary objective of the integrated information system of the state treasury that has been launched is to establish an efficient and transparent instrument for managing public finances that enables gradual reduction of the general government deficit and ensures long-term sustainable development of its finances. The activities of the state treasury consist in directed planning; record keeping; collecting state revenues and executing payments; investment, non-investment and financial accounting of its assets; momentarily accounting for any movements that occur when dealing with state assets and liabilities; implementing automated financial and management controls for dealing with state budget funds; and reporting on state finances.

Establishment of the state treasury should proceed as a combination of elements of centralised control and decentralised performance of rights and responsibilities. Such system will be established that will provide accurate information on the overall development of state finances at the central level while maintaining the performance and responsibility for operations with public funds at the appropriate level of the government. All of this will proceed in a fully automated way and in real time. Unified accounting, a budgetary information system providing information for budgetary management, and the financial management in real time that this system makes possible will contribute to reducing the costs of debt service and the

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administrative burden of accounting units. In addition to these direct savings, the forthcoming state treasury system will lead to a greater efficiency of public expenditures.

The Czech state treasury system can be characterised by the following set of key activities:

- financial and budgetary planning (programming of public expenditures),
- implementation of the budget,
- central system of state accounting information,
- management of liquidity and debt,
- financial and management control (ex-ante and ex-post),
- central processing of statistical reports and financial analyses,
- payment system and implementation of a single state account.

The project of creating an integrated information system for the state treasury is divided into four functional phases. In the first phase, the central system of state accounting information is put into operation and the economic information system is activated. Trial operation of these functions takes place at the Office of the Government—the organisational unit of the state. Operation of the first phase of the project will be initiated at the start of 2010. The focus of the second phase of the project will be on preparing and drawing up the budget, and it will be launched in April 2010. In early 2011, the third phase of the project, devoted to implementation of the budget, will begin. The fourth phase will follow one year later and consist in linking the state treasury system with the operation of the payment system.