



**WORLD BANK**

CZECH REPUBLIC

# ***Implementation of a Modern, Unified Revenue Collection Agency (JIM): Review of the Feasibility Study***

.....

## ***TEAM:***

*Jean-Paul Bodin*

*Eimar Coleman*

*Claus Johannessen*

*Munawer Khwaja (team leader)*

*Jana Kunicova*

Prague, Czech Republic

September 13-19, 2011

# Preview of the Story: A Roadmap

.....

1. **Introduction**
2. Current Approach for Implementation of JIM
3. Main issues in Feasibility Study and Risks
4. Recommendations



**WORLD BANK**  
CZECH REPUBLIC

# Introduction: Vision for JIM

- Vision: *establish a modern, integrated revenue agency on par with similar agencies in OECD / EU countries, responsible for raising revenue, that will create incentives for voluntary compliance*
- Key objectives for creating JIM:
  - **Improve efficiency** >> reduced public expenditure
  - **Improve effectiveness** >> better equipped to improve compliance and combat fraud
  - **Reduce compliance burden** >> simplification of procedures and removal of multiple filing requirements for citizen



**WORLD BANK**  
CZECH REPUBLIC

# Lessons from International Experience



WORLD BANK

CZECH REPUBLIC

- Integration of revenue administration is a strong driver for ***modernization of the tax administration***
- Proper modernization and integration of revenue administration yields ***high returns*** in terms of financial, social and economic benefits to the budget and to society – with IRR of ***300% to 600%***
- Integration without modernization of tax administration or delaying modernization after integration is a huge ***opportunity lost for the economy***
- Modernization and integration ***should not be quick and dirty*** – could lead to negative results.
- ***Proper sequencing and timing*** are key.

## Progress Made in CR towards the Vision and Objective (1)



- **Significant steps** have been taken since the concept of integrated revenue administration was first presented
  - ***Vision and strategy developed*** in collaboration with the World Bank
  - ***Vision and strategy adopted*** by the Government as a whole
  - Robust ***consultative mechanism*** developed
    - Project board
    - Steering committee
    - Thematic working groups
    - Consultations with private sector stake holders



**WORLD BANK**  
CZECH REPUBLIC

## Progress Made in CR towards the Vision and Objective (2)



- Implementation of JIM was *initially* proposed in *two phases*:
  - first phase focusing on the merger of the tax and customs core revenue functions
  - second phase focusing on integration of social security and health insurance collections - requires unification of revenue processes
- Decision to *conduct a feasibility study* for implementation of JIM



**WORLD BANK**  
CZECH REPUBLIC

# Recent Developments

- Agencies involved in the integration ***have accepted the idea of JIM and are cooperating*** to make it happen
- The agencies still have ***significant concerns*** about the capacity of tax administration to take over their collection functions, but are willing to work together
- ***The sequence*** of the two phases has been ***reversed*** (not an issue if tax administration is modernized)



**WORLD BANK**  
CZECH REPUBLIC



## How the Feasibility Study Fits In

- The ***initial purpose*** and scope of the feasibility study ***included all aspects of transformation***
- This scope has been ***narrowed to transferring collection functions to the tax authority***
- Despite this, the FS is an ***important step forward***
  - Provides a ***signal*** that the government is still committed to the implementation of JIM
  - Provides an opportunity for stakeholders to ***clarify*** their concerns and discuss implementation issues
- However, there are a ***number of potential risks*** with the current approach of narrowing the scope of the reform



WORLD BANK  
CZECH REPUBLIC





1. Introduction
- 2. Current Approach to Implementation of JIM**
  - ☐ **Legislative Agenda**
  - ☐ **Modernization of Tax Administration**
3. Main Issues in the Feasibility Study and Risks
4. Recommendations



# Legislative Agenda (1)

- Draft Law on Financial Administration:

The reform begun by Act No. 1990/2010 on territorial tax authorities, effective January 1, 2011) creates **headquarters function**

The new law:

- Creates a Financial Administration with uniform **structure centrally managed by GFR**, subordinated to MoF and serving as a **single accounting entity**
- **Director General** : appointed and dismissed by the Cabinet
- **Mandates 14 regional financial authorities and 199 local branches**; (possibly reduce 199 over time by decree of MoF)
- **Establishes LTO**: for large tax entities (turnover over CZK2 bill as well as banks, insurance companies, etc.)
- Provides that this restructured Financial Administration be ready to **take over collection of social and health insurance premiums** as of January 1, 2013



**WORLD BANK**  
CZECH REPUBLIC

# Legislative Agenda (2)

- Draft Law amending tax and social insurance legislation in connection with adoption of JIM:
  - Simplifies the communication between taxpayers/contributors and government agencies (Financial Administration, CSSZ, HICs) by **creating a single point of contact in JIM**
  - Provides for the **common procedural legislation** that will govern collection of tax and insurance premiums
  - Mandates that **all submissions be made on a common form and all payments made through a single payment into a common personal tax account**
  - **Harmonizes individual income tax with social security and health insurance premiums** (bases, terminology, procedural rules)
  - **Unifies tax rates and insurance premiums**
  - Introduces **mandatory electronic form for certain types** of returns
  - Expected to be in force from January 1, 2013.



**WORLD BANK**  
CZECH REPUBLIC

## ***Organization of Tax Administration: current situation and planned changes***



- ***January 2011:*** creation of the General Tax Directorate (GFR)
- ***January 2012:*** implementation of the Large Taxpayers Office (LTO)
- ***January 2013:*** creation of 14 regional tax offices with a network of 199 local branches
- ***January 2013/14:*** transfer of social contribution collections and creation of JIM



**WORLD BANK**  
CZECH REPUBLIC

# Business Processes and IT



- ***Design of the IT system does not eliminate*** differences in architecture, database structure, methods of data integration, and exchange between GFR, CSSZ, and VZP CR
- ***Analysis of the current IT systems*** reveals a number of weaknesses ***weak customer relationship support, weak use of data warehouse and weak centralized data access***)
- ***Tax administration is the weakest institution*** from IT perspective due to its fragmented systems
- ***IT system for JIM is being designed as a heterogeneous system*** built around a new centralized system supporting collection of income tax and social contributions; it ***will use existing systems for other taxes*** (VAT)
- ***Data in the new system will be based on individual records and it is expected that in 2012*** a new central register will simplify data management
- ***Analysis of business processes*** is limited to registration, collection, assessment, audit, and debt management for PIT and social contributions



**WORLD BANK**  
CZECH REPUBLIC

# Human Resource Strategy

- Draft Law on Financial Administration ***does not elaborate on*** human resources issues
- Since ***no decrease in the number of territorial units*** is envisioned in foreseeable future, no reduction in the workforce is foreseen in the legislation.
- Focus has been on ***number of employees to be transferred, in theory, from the social and health insurance agencies***
- There is ***no mention in the legislation of how the integration of staff*** from the other institutions into tax administration will take place.



**WORLD BANK**  
IN THE RUSSIAN FEDERATION



1. Introduction
2. Current Approach to Implementation of JIM
- 3. Main Issues in the Feasibility Study and Risks**
4. Recommendations





# Preliminary comments on the Feasibility Study: Positives



- Continuity: the study signals the government's commitment to continue the integration of the revenue collection agencies
- Dialogue: the study has provided an opportunity to enhance discussions among stakeholders
- Depth: the study was professionally executed and clarified a number of technical issues hitherto unspecified to the stakeholders.



**WORLD BANK**  
CZECH REPUBLIC

# Concerns about FS (1) : The Scope



- **TORs particularly narrow** and not in line with the strategic vision
- As a result, the Study has mainly focused on transfer of social security and health insurance contribution collections to the **existing** tax administration.
- Analyses of processes are **static**, focusing only on moving registration and collection functions to JIM. They do not take into account the modernization of processes. A **dynamic** analysis would need to compare the present situation with the end goal
- **Modernization** of the tax administration *not* considered in the study; this include the following key elements:
  - Changes in the *organizational structure of the tax administration*:
  - Major *changes to the IT system*:
- Because the study does not take into the account these key elements, its **conclusions do not provide the robust platform for implementation** of a modern revenue agency that is critically needed in the CR.



**WORLD BANK**  
CZECH REPUBLIC

## Concerns about FS (2) : Processes

- Conceptualization of **Registration**.
  - JIM should **only register those from whom it collects money** – taxpayers and contributors to the social security and health insurance.
  - ***JIM register should not be burdened by registrations of no relevance for its core revenue function*** (children and persons without taxable income – almost 50% of population-- who do not pay taxes and whose contributions are paid for by the state).
  - CSSZ and ZPs will need to keep registers pertaining to the payment of benefits.



WORLD BANK  
CZECH REPUBLIC

## Concerns about FS (3) : ICT

- Role of IT in modern revenue administration is **underestimated** (e.g., potential for virtual office and role of external providers not considered)
- Since **neither *Service delivery model* nor *Business process model* properly defined** in the FS, the ICT chapter does not appropriately describe how the ICT system will function
- **Document management, data warehousing, and data retention** need to be explored further, as JIM and CSSZ / ZPs have different data access & retention requirements
- **Data migration to JIM** from legacy systems in CSSZ and ZPs needs to be specified (data sources, choice of data, responsibility for data validation, technology for data consolidation, synchronization with Min. Interior registry)
- **Running parallel systems for a long transition period will increase costs and delays savings**



**WORLD BANK**  
CZECH REPUBLIC

## Concerns about FS (4) : Costs and Benefits of JIM Reform

- The estimate of cost savings and gains from the creation of JIM mirrors the ToR and therefore only provides a **static picture**
- Since there is no plan for tax administration modernization in the FS, economic model **does not take into account its potential impact** on administrative and taxpayer compliance costs and improved tax compliance.
- The potential impact from an actual modernization would take into account the following:
  - creation of the large taxpayer office
  - reduction in the number of local offices
  - impact of a new IT system
  - more aggressive approach in promoting electronic filing and payment,
  - downsizing of the staff of the existing agencies, including tax administration, etc.
- The economic model focuses only on administrative and operational costs, with **no attempt to estimate compliance costs**
- **Savings in compliance cost would have occurred if JIM was a modern administration.** This is a political selling point for JIM from the beginning and experience shows that compliance costs savings are particularly high in revenue integration and modernization reform.



WORLD BANK

CZECH REPUBLIC

[illegible]

- 

**WORLD BANK**  
IN THE RUSSIAN FEDERATION



● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ●

- 

**WORLD BANK**  
IN THE RUSSIAN FEDERATION



# Implementation of JIM -- Issues and Risks to be Addressed: Key Elements of Modernization (1)

- **Full use of** integrated IT systems making access to information easy for both the tax authority and the taxpayers / contributors.
- **Full self assessment with** extensive use of risk management, including use of third party information – no need to check each tax return.
- **Developing strategies and programs to promote voluntary compliance**, including:
  - Effective taxpayer service and education
  - Assessment and audit based on risk management.
- Exploring **possibilities for specialisation** for efficiency and better service (tax fraud investigation office, call centres, etc).
- **Focusing the revenue collection agency on its primary role for all taxes** (including excises) and transferring non–revenue functions to other agencies



**WORLD BANK**  
IN THE RUSSIAN FEDERATION



1. Introduction
2. Current Approach to Implementation of JIM
3. Main Issues in the Feasibility Study and Risks
- 4. Recommendations**



# Recommendations: Strategic Vision and Commitment



- Urgent need to reiterate commitment to **the strategic vision for creation of a modern, unified revenue agency** in the Czech Republic, including the **role of JIM**
- Integration of social security and health insurance contribution collections without modernization of tax administration risks failure
- Once the vision for JIM is reiterated, **ensure there is a strong political commitment and consensus to support implementation**, which requires the provision of appropriate budget resources to support the modernization of the existing tax administration.



**WORLD BANK**  
IN THE RUSSIAN FEDERATION

# Recommendations: Modernization of Revenue Collection



- A comprehensive **strategy for the modernization** of the tax administration should be developed to ensure that the future JIM will deliver the expected results.
- The **legislative basis for the new organization will not be enough** to guarantee success.
- The **strategy to be based on full review of business processes** on a wider scale than the FS, and introduce concepts such as **self assessment, risk based audits, taxpayer segmentation**



**WORLD BANK**  
IN THE RUSSIAN FEDERATION

# Recommendations: Organizational Structure (1)

---

- Create an **Advisory Board** chaired by a representative of the Minister of Finance and comprised of Ministers MOLSA and MOH and heads of the concerned agencies
- **Strengthen the LTO structure—in** line with best practices
- **Develop a plan for a phased (short, medium, long term) approach for closure of a large number of small local branches as a natural sequence to modernization**



**WORLD BANK**  
IN THE RUSSIAN FEDERATION

## Recommendations: Organizational Structure (2)

- In the longer term, prepare for the creation, within JIM, of a **modern Tax Fraud Investigation Office** comprised of high-skilled tax auditors and a few specialists in penal procedures
- Pay significant attention to the **simplification of the current excise tax system** and improvement of its effectiveness and efficiency **before the planned transfer** of responsibility to JIM



**WORLD BANK**  
IN THE RUSSIAN FEDERATION

## Recommendations: IT

- Conduct an **in-depth review of the IT requirements for a modern revenue administration** as a basis for **an IT strategy** based on centralized access to all data.
- The system will need to provide **supporting services to the taxpayers / contributors** and to support the **key functions of the JIM**. It must also provide a solid basis for **planning operations and policies, and developing compliance strategies and risk assessment**.
- **Investments in IT need to increase.** At present, FS estimates IT costs to be around 5% in JIM. Doubling these costs to 10% would bring the Czech Republic to the lower end of modern revenue administrations.



**WORLD BANK**  
IN THE RUSSIAN FEDERATION



# Recommendations: Developing a HR strategy dealing with all aspects of the creation of JIM

## Transfer from CSSZ , VZP and SZP to JIM,

- **Policies** to deal with the transfer of a large number of staff to JIM will be a major challenge.
- **Plans** are needed to deal with differences in salaries, salary structure and employment conditions.
- Processes to ensure that the **right competencies** are transferred and incentives to make them stay in JIM must be considered.

## Transfer of staff *inside* the existing tax organization to the new 14+1 structure

- including **incentives to get the best qualified people** to apply for posts in **specialised functions** such as the LTO (special unit).
- **Training policies** in respect of new IT systems



**WORLD BANK**  
IN THE RUSSIAN FEDERATION

# Recommendations: Process for Transfer

.....

- **Master plan** for transfer needs to be presented well in advance of transfer (building on other recommendations).
- Labor and Employer Unions and other stakeholders to be **consulted**.
- **Communication strategy** for the general public to be aware of changes -- who to go to with questions, etc.



**WORLD BANK**  
IN THE RUSSIAN FEDERATION



**WORLD BANK**

CZECH REPUBLIC

**Thank you for your  
attention!**

.....

... we are happy to answer any  
questions you may have