

Summary of the Medium Term Action Plan 2019-2021

The medium-term Action Plan was drafted strongly based on the recommendations of the International Monetary Fund, namely the reports of IMF technical assistance experts in various fields within the Tax Administration of Kosovo. This report also includes activities based on the strategies and annual plans of the institution.

The aim of this plan is to improve the work processes, organization, governance and better management of human resources and other major challenges that the Tax Administration has ahead.

Within the plan we have presented objectives, within which the activities that should be undertaken to achieve the objectives have been set.

Regarding the objective 1. Increasing the accuracy and reliability of the taxpayer register, the following activities are foreseen:

- Develop better (and automatic) data exchange protocols between TAK, KBRA, KCA, municipalities and NGO registration office
- Develop and implement more efficient internal procedures at TAK for updating data and clearing and identifying inactive taxpayers, including after initial registration.
- Encourage taxpayers to update registration details by removing barriers and providing online opportunities.
- Recommend changes to the law to penalize taxpayers who fail to notify key changes to their registration records.

Regarding this first objective, the Tax Administration has automatic data exchange with KBRA, and the automatic data exchange between TAK and NGO is also functional.

TAK has drafted procedures for clearing tax accounts, which have been approved by the General Director and as such are being implemented.

The EDI Electronic System has been developed, through which the completion and updating of taxpayer information is required. Through this service, the taxpayer is obliged to update his information, in order for the Tax Administration to have accurate information to communicate with the taxpayer.

Regarding objective 2. Increasing the fulfillment of the declaration in time, the following activities are foreseen:

- Recommend changes to the law to apply a more effective penalty regime for delayed declaration and to help correct the number of expected declaration for each type of tax.
- Establish effective procedures and structures for mitigating non-declaration and delayed declaration for all types and periods of taxes.
- Provide information package on tax liabilities for all new registrants.

Regarding the second objective, the following activities have been carried out: In order for the taxpayers to be informed at every step about the procedures required by the tax legislation, novelties and other changes, have been prepared/provided - Notice for taxpayers through the media, TAK website, TAK Facebook page, through taxpayers' e-mail addresses, Press Release, Interviews for print and electronic media, and requests submitted by taxpayers have been continuously reviewed within the legal deadline.

So, in order to inform taxpayers about the fulfillment of tax liabilities accurately and on time, during 2020, TAK has published and sent notices to taxpayers through which they have been informed of all their obligations.

In 2019, the Department for Registration and Taxpayer Service has finalized the information package (leaflets) on tax liabilities for all new registrars, and as such this information package has been translated into Serbian and English language, has been printed and distributed to all Regional Directorates and DLT, as well as to stakeholders, including Chambers of Commerce, Business Associations, etc. Also, during 2020, two information materials have been prepared, such as: Taxpayer card and brochure "Tax compliance".

Regarding objective 3. Reduction of tax debt, the following activities are foreseen:

- Ensure that all overdue debts are regularly removed from taxpayers' accounts.
- Develop a plan with clear timelines for reducing the level of tax debt to less than 10 percent of the total collection.
- Ensure that all other uncollectible debts are systematically transferred to passive file.

Regarding this objective, due to the Covid-19 Pandemic and the reduced staff, this has influenced the planned processes not to be carried out according to the deadline. The process of canceling outdated debts is an ongoing process. During 2020, debts in the amount of 11, 101,812 euros were canceled, of which are:

a) 52 Private entities with a total value of € 3,106,963.00, canceled according to Article 43.3 of Law no. 03 / L-222 on LTAP

b) 41 Entities (Socially Owned Enterprises) in the amount of € 7,994,849.72 cancellations for uncollectible debts consisting of penalties and residual interest, because these enterprises have been liquidated and have met the TAK credit requirements.

Provision of the electronic form for submitting the request for agreement in the circumstances created due to the pandemic has given concrete results. During 2020, a total of 1726 debt management agreements were concluded with agreements of 82.5 mil. and installment payment before the 13.5 mil agreement.

Regarding objective 4. Ensuring that VAT refund is made within 30 days, the following activities are foreseen:

- Improve automatic risk assessment to facilitate the immediate approval and payment of low risk VAT claims.
- Limit verification activities only to reimbursement-related transactions, unless clear evidence is presented that requires broader analysis.

Regarding these activities, at the beginning of 2020, TAK has issued a Regulation on Reimbursement/Refund Procedures and has also issued the Reimbursement criteria document, where based on these criteria the system automatically categorizes businesses according to category A, B and C. Based on the Regulation and IMF recommendations, the Reimbursement Division has started to function from 12.02.2020, which deals with the treatment of all Reimbursement requests and for all types of taxes.

During these periods, of the VAT refund cases approved, 85% were carried out with activity (category A and B) and 15% with control (category C) which is in accordance with the Regulation and IMF recommendations. According to the categories we have the following percentage: Category A-33%, category B-52% and category C-15%. The number of reimbursement cases approved/rejected during 2020 is 647 cases of which 460 are approved and 187 cases are rejected.

Regarding the objective 5. Strengthening the control procedures, the following activities are foreseen:

- Develop and implement a plan to modernize control practices and allocate resources more effectively.

Regarding this objective, activities have been carried out, based on the revised control plan during 2020, 1,014 or 98.2% of them have been realized. Of the total number of controls completed during the period January-December 2020, 36% of them were proposed by the Risk Analysis. Whereas, during this period, the RMD has proposed a total of 377 cases for control, where 279 or 74% of them were treated during 2020. During 2020, 7,758 compliance visits and 22,167 activities were carried out. During 2020, detailed reports of inspections and visits were prepared on a monthly basis. The situation created in Kosovo by the COVID-19 pandemic has also affected public institutions in exercising their regular activities. This situation has primarily affected the reduction of the number of activities that TAK has undertaken in the field either as a result of reduced staff and activities or as a result of closure of businesses.

Regarding the objective 6. Increasing the sources of information for comparison, the following activities are foreseen:

- Expand international cooperation mechanisms to help identify evasion by Kosovar residents with accounts and assets abroad.
- Recommendation of an amendment to the law to allow automatic reporting of banking information of Kosovo residents.
- Ensure that all information available to third parties is accessible electronically.

The Minister of Finance in a forum in Paris raised the issue of Kosovo's membership in the **FGTShI** in a bilateral meeting with the responsible persons in the OECD, and that their response was that as long as this process is by voting, it is difficult for Kosovo to be included in this mechanism. Also in the meeting of 10 July 2019, organized by the MFA for the working group for the Recognition of Kosovo, representatives of institutions agreed that memberships in foreign organizations or foreign programs should go through the approval of the Government and then through the MFA, as it relates to the recognition of Kosovo.

With the revision of the Legislative Program for 2021, changes will be proposed which will be incorporated in the new draft Law on Tax Administration and Procedures.

Regarding objective 7. Improving compliance management, the following activities are foreseen:

- Improve risk assessment processes to enable TAK to identify the key risk groups that make up the bulk of the tax gap.
- Ensure that all operational activities are guided by compliance risk mitigation strategies.
- Compliance efforts are regularly monitored to assess the impact on taxpayer behavior.

Regarding the 7th objective, the following activities have been developed: Based on the Draft Plan prepared, the Risk Division in the annual risk management plan for 2021, has identified several groups of taxpayers who based on the analysis made have a high scale risk compared to other groups of taxpayers.

The specific plan for the Construction sector has been finalized and is being implemented, while the plan for the Accommodation and Food Service sector has been finalized and approved. Work is also underway to finalize two other plans, informal employment and a plan for goods without origin and stock shortages. But considering the COVID 19 pandemic, there are some unplanned delays on our part.

During 2020, 96 controls were carried out in the construction sector which resulted in additional tax in the amount of 8.3 million euros, reduced credit of 875,694 euros and reduction of loss of 2.7 million euro 264 visits were also carried out, which resulted in 12.7 million euros additional turnover and 32,825 euros mandatory fines.

As for the accommodation plan, this project has not started to be implemented due to the pandemic situation, despite this, during the reporting period in this sector we had 33 controls performed with 1.3 mil. Euro additional tax, while 1,609 visits were carried out with an additional turnover of about 1 million euros and 197,500 mandatory fines.

The identification of unregistered workers and their treatment together with MLSW, respectively the labor inspectorate, is foreseen to be developed within a comprehensive compliance project. The draft compliance project for the treatment of informal employment was drafted together with the action plan, but this project as well as other compliance projects could not be implemented as a result of the COVID-19 pandemic, despite the lack of coordinated action with MLSW in the treatment of this issue, TAK from its field activities during the reporting period has registered 2,265 employees, in addition to this the implementation of measure 14 within the emergency fiscal package has affected the registration or formalization of up to 15,000 employees.

Regarding the objective 8. Harmonization of resources with workload and risk, the following activities are foreseen:

- Develop and implement a plan to better align organizational structure and resource allocation with workload and risk.
- Pilot (test) consolidation of certain functions in a single office, for example debt collection.
- Ensure that staff are accommodated in modern office facilities.

The Debt Collection Department has been consolidated and is functioning according to the new reorganization process according to the principle of performing certain processes in the Divisions, where the processes are closed and the principle of IT modernization in following up cases through the CCMS system, being defined in the defined timeframes, where the cases are automatically forwarded in their flow forward. DCD operates with four divisions. This reorganization project is supervised according to the requirements provided by the project. A project supervisory commission has been formed which monitors these processes. Proc.MD Department has held the appropriate Trainings twice, Also the working group has completed the specific instruction for DCD in handling debts over 100 thousand euro. In the process is the Annex document for the Tax Debt Reduction Plan 2019-2021, which must be approved by the management and start working on it.

Despite the official requests addressed by TAK and the promises from the Ministry of Finance to start the construction of a new facility for TAK, we still do not have anything concrete in this regard.

Regarding objective 9. Improving the public perception of the integrity of TAK, the following activities are foreseen:

- Redesign HR structures, processes and policies to minimize areas of discretion and opportunities for abuse and corruption.
- Better publication of TAK efforts to address integrity issues to improve public confidence in the tax administration.

The following activities were carried out in relation to this objective: 4 roundtables were held with the private sector, media, NGOs and researchers, workshops and sessions, virtual work. Comments from external parties are included. The TAK Integrity Improvement Plan 2020-2022 and the Indicator Document have been approved.

Regarding the issue of integrity, the following key activities have been developed during 2020: Investigation of cases related to integrity; Approval and publication of the TAK Integrity Improvement Plan 2021-2023; Training of TAK staff on ethics; Informing the public on measures taken on corruption issues; Cooperation with anti-corruption institutions (Police, Prosecutor, Anti-Corruption Agency) and cooperation and presentation of activities to the public according to the MoU between TAK, BIRN and Democracy Plus; Management of free call line 0800-80-800; Notifications on evasion issues, trainings, seminars, etc. Steps to be taken for the implementation of activities: To publish Open Data; Increase capacities for transparency and communication with taxpayers; To refresh and update the published information for taxpayers and TAK; Implement fiscal education for citizens/taxpayers; Improve the perception regarding the selection of the taxpayer for control;

Regarding objective 10. Improving the capacity for modernization, the following activities are foreseen:

- Establish a permanent, formal governance and project management structure for managing reforms and expenditures.
- Ensure that there is sufficient change management capacity to successfully complete the modernization project.

On 09.12.2019 the TAK General Organizational Structure was reviewed, which consists of 3 main pillars: Operations (distribution), Programs and Procedures (drafting) as well as for Support of Programs and Procedures (support). Part of this Organizational Structure is the functioning of a permanent formal structure of governance and project management called "Department for Project Development and Coordination", the department which is part of the pillar for Programs and Procedures and which reports to the Deputy General Director for Programs and Procedures.

On 12.02.2020, a senior tax official was recruited in the Project Development Division in order to increase the existing capacities, reaching to 3 the total number of officials in this department. The aim is to further increase the capacity of this department in order to manage changes in TAK.

Regarding the objective 11. Implementation of the institutional risk and mitigation strategy, the following activities are foreseen:

- Establish an institution-wide risk register and a disaster recovery plan separate from taxpayer compliance risk management.

No concrete action is taken by TAK so far, as the action is centralized and work is being done to register and create institutional risks at the central level for all institutions of Kosovo.