

STANDARD TWINNING PROJECT FICHE

1. Basic Information

- 1.1 **Publication reference number:** EuropeAid/ 137-889/IH/ACT/BA
- 1.2 Programme: IPA 2014
- 1.3 Twinning Number: BA 14 IB FI 01 R
- 1.4 Title: Improving capacity of the Indirect Taxation Authority (ITA) of Bosnia and Herzegovina
- 1.5 Sector: Customs and Taxation/Finance
- 1.6 Beneficiary country: Bosnia and Herzegovina

2. Objectives

2.1 Overall Objectives:

To further align with *Union Acquis* and to effectively implement legislation, practices and Stabilisation and Association Agreement in the field of indirect taxation.

2.2 Project purpose:

To further strengthen the administrative and coordination capacity of Indirect Taxation Authority (ITA)

2.3 Contribution to National Development Plan/Cooperation agreement/Association Agreement/Action Plan

The **Country Strategy Paper (CSP)** underlines that governance and public administration reform are key priorities in the Enlargement Strategy. Bosnia and Herzegovina's public administration and in particular its economic governance have to improve to prepare the country for the adaptation of the challenges of EU integration and the economic coordination mechanisms in the EU and to ensure a more efficient, effective and accountable delivery of services to citizens.

The CSP identifies remaining gaps in Bosnia and Herzegovina in the development of timely, informed and effective fiscal policies, the implementation and follow-up of external audits and the implementation of indirect taxation reform.

Bosnia and Herzegovina's authorities need to improve the timeliness of adopting the relevant budgets, as well as the effectiveness and transparency of revenue collection and spending. The revenue management side should improve and systematic follow-ups to external audits, prepared by an independent audit institution, should be a rule. An efficient coordination system between the competent bodies should ensure the free movement of goods.

The Action will improve the capacity of the Indirect Taxation Authority of Bosnia and Herzegovina and thereby the implementation of indirect taxation reform will be continued.

The European Commission Report for Bosnia and Herzegovina 2015 states: Bosnia and Herzegovina is **moderately prepared** in the areas of customs and taxation. **Some progress** was made in these fields, particularly on adopting the new customs policy law, improving protection of intellectual property rights and the overall operational capacity of the Indirect

Tax Administration (ITA). In the coming year, Bosnia and Herzegovina should in particular:

- adopt implementing rules to enable the implementation of the new customs policy law;
- improve cooperation between ITA and the tax administrations of the Entities, including through joint audits;
- modify the Law on Excise Duties to align its definition of small breweries with that of the *acquis*.

The new **customs** policy law was adopted in July. The new law provides for additional simplified customs procedures such as the Authorised Economic Operator status, and for introducing a new computerised transit system and will require the adoption of implementing rules. In December the customs tariff was updated in line with the 2015 version of the EU Combined Nomenclature. The regional Convention on Pan-Euro-Med Preferential Rules of Origin entered into force in November. There was progress in terms of registration and follow-up procedures for customs cases against violations of intellectual property rights which increased from 73 in 2013 to over 200 in 2014.

Implementation of Asycuda World, the new customs declaration processing system that will support implementation of the new customs policy law, is continuing.

Bosnia and Herzegovina participates in the EU's Customs 2020 and Fiscalis 2020 programmes since October 2015.

In the area of **taxation**, legislation has to be adopted further aligning value added tax (VAT) with the *acquis*. IT applications for electronic submission of VAT returns and for VAT refunds to non-established taxable persons are not yet operational. The Law on the Amendments to the Law on Excise Duties in Bosnia and Herzegovina which introduces differentiated excise duties for beer became applicable in September. It is not in line with the *acquis* and discriminates against imported beer.

ITA is conducting a pilot E-audit project with a small number of big taxpayers with a view to improving tax compliance. In exchange for real time access to tax relevant information it provides them with specific contact points and increased taxpayer assistance.

The Entities need to continue aligning legislation with the *acquis* and step up their efforts to improve mutual cooperation and to strengthen their administrative capacity on direct taxation.

In ITA Business Strategy for period 2012-2016 one of the main objectives is to develop a client-oriented organisation in line with European and international standards which fulfils its mandate in an impartial, fair and efficient manner. In cooperation with other institutions and inspection services, the ITA has considerable role in protection of society and health of people as well as protecting environment and cultural heritage, preventing trafficking in illegal and prohibited goods and substances. One of the important roles is also to facilitate trade in balance with control measures. This includes simplifications for reliable economic operators and work on a secure supply chain environment.

The Action will further build the capacity of the Indirect Taxation Authority of Bosnia and Herzegovina regarding aligning legislation with the *Union Acquis*. Also the operational capacity of ITA will be improved through the activities proposed in this Action.

3. Description

3.1 Background and justification

On December 29th, 2003 the Parliament of Bosnia and Herzegovina adopted the Law on Indirect Taxation System¹ and thus ensured the legal basis for establishing the Indirect Taxation Authority (ITA), the biggest state level institution with over 2 400 employees all

¹ Official Gazette of BiH¹, No 44/03 & 52/04

together. The Indirect Taxation Authority is an autonomous administrative organisation responsible for its activities, through its Governing Board, to the Council of Ministers of Bosnia and Herzegovina. Its jurisdiction is in the field of indirect taxes (customs, value-added tax, road tolls, and excises).

The support to further alignment of customs and taxation legislation, procedures and standards with the *Union Acquis* is necessary in order to create better conditions for more effective legislation thus contributing to more efficient functioning of the ITA, particularly in the area of fighting customs and fiscal frauds, as well as other negative impacts of revenue collection.

It is necessary to continue with the activities resulting in the continuous alignment of Bosnia and Herzegovina's legislation in the field of indirect taxes with EU legislation and the most recent Directives in the field of value-added tax (VAT). In addition, the procedures and practices applied in the EU indirect tax and customs administrations should be presented to the ITA and applied taking into consideration the legislative frame and IT capabilities of Bosnia and Herzegovina.

As regards excise duty and road toll, the Law on Excise Duty has been adopted and applied since July 1, 2009. The Law is not in line with the EU Directive 2008/11/EC and the new BiH law on excise would be needed in order to comply with the *Union Acquis*.

It is necessary to continue with the activities on introducing operational implementation of the New Computerised Transit System (NCTS) in line with the Common Transit Convention (CTC), as well as on operational introduction of entry and exit summary declaration and centralised customs clearance, including appropriate information technology support. The Action should support the ITA's endeavours to introduce NCTS. The NCTS introduction is a long and continuous process demanding legislative reform and information system upgrading to be carried out. The introduction of NCTS is a time-consuming, staff- and resource-demanding process that will take four years. Significant financial resources for implementation of the NCTS are needed.

Furthermore, support is necessary for strengthening the post-clearance audit (PCA) system and risk analysis mechanisms.

Preventing tax avoidance, evasion and combating corruption need to be improved. Strengthening cooperation between the ITA in Bosnia and Herzegovina, institutions, agencies in Bosnia and Herzegovina, and international organisations is an important issue. A unit for strategic planning and analysis has been established within the Indirect Taxation Authority (ITA).

It is necessary to implement the Business Change Management Plan and Action Plans of different sectors in ITA and to coordinate the activities. The ITA information technology (IT) system should provide adequate support to all procedures introduced.

The project will assist Bosnia and Herzegovina authorities in the sector of Indirect Taxation in making progress in aligning legislation with *Union Acquis* and effectively implementing *Union Acquis* aligned legislation and practices.

The project is aimed at capacity building of the Indirect Taxation Authority. The activities will focus on practical implementation of the NCTS at national level and at Common Transit Convention level and providing management support for NCTS. The activities will also focus on legal harmonisation, assistance in implementing new legislation and

improvement on working methods in the Indirect Taxation Authority. Activities will also be implemented in order to improve cooperation with customs and tax administrations from other countries.

3.2 Linked activities:

The experience of the previous projects showed that better results are achieved with intensive activities in a few targeted sectors, rather than targeting many sectors with a limited number of activities.

In October 2014 a Result Oriented Monitoring (ROM) report was prepared for the project “Further harmonisation to EU practices and *Union Acquis* on customs and taxation”. The project received in general a very positive assessment by the external monitors. At the time of the monitoring visit, the project was in its 21st month of implementation and it was considered to have a significant impact on the modernisation of the Indirect Taxation Authority (ITA), the legal framework, internal procedures, the practices of personnel, and the IT systems which support the ITA operational environment. But change is and will be the responsibility of ITA and it requires leadership and strong commitment towards internal reforms and modernisation.

In addition, a key lesson learned from the programming and implementation of the IPA 2007-2013 assistance, concluded in the Second Country Interim Programme evaluation of IPA assistance in Bosnia and Herzegovina is that systematically devoting efforts in securing not only the consent but also the ownership and commitment of all stakeholders is an imperative before the actions start in the complex governmental and administrative framework of Bosnia and Herzegovina. This and other relevant lessons learned from the evaluations were taken into account while the current Action was designed².

At the moment ITA is implementing project IPA 2010 „Modernization of customs information system” meaning strengthening the operational capacities of ITA by implementing ASYCUDA World (AW). AW is a modern integrated customs information system that will assist ITA to process in real time customs transactions, including specific accounting, risk management, multi agency risk-management, statistics and fighting against corruption, in line with the European requirements in the Customs sector. The AW is supporting implementation of the new Customs Policy Law and is EU compliant Customs Declaration Processing System. Partial roll out of AW (Banja Luka customs office) took place in November 2015 and it is expected that full roll out of the AW throughout the country will be implemented in the first quarter of 2016.

3.3 Results

Component 1 - NCTS

Result 1: NCTS introduction supported

Component 2 – Approximation

Result 2 The legislation, procedures and working methods further aligned with the *Union Acquis* and with best practices in field of customs and taxation

² http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/2013/23914_rep_bih.pdf

Component 3 – ITA capacity building

Result 3 Improved cooperation/exchange of information (internal/external)

3.4 Activities

The activities listed below represent the minimum activities to be implemented in the course of the Twinning project. Member State(s) may propose additional activities in line with the methodology elaborated in its proposal.

Activities to achieve Result 1:

- Contribution to the implementation of the Strategy of IT Sector with incorporated NCTS and Action Plan from the legislative, IT and procedural point of view
- Assistance in the implementation of legal provisions and in the practical implementation of NCTS at national level and Common Transit Convention CTC level
- Contributing to adjusting the National system for managing guarantees with EU system for managing guarantees
- Provide overall NCTS project management support to the Indirect Taxation Authority (ITA), including on- -the-job assistance, training through seminars, study visits and written guidance

Activities to achieve Result 2:

- Together with the beneficiary administration, drafting a Book of Rules on the implementation of new VAT Law, new Excise Law, Book of Rules on the implementation of the new Excise Law, Instruction for controls, instruction for managing refunds/repayments, ensuring high level of transparency
- Assistance in practical implementation of new customs legislation including preparation of operational instructions
- Assistance to newly-established units in the Indirect Taxation Authority (ITA)
- Improvement of working methods in the field of origin, customs tariff and value, prohibitions and restrictions, and operational methods in the field of Post-clearance Audit PCA, risk analysis, tax audits, internal revision, professional standards and other fields in the scope of work of the Indirect Taxation Authority (ITA)

Activities to achieve Result 3:

- Together with the beneficiary administration, drafting a necessary amendments to the Law on the Indirect Taxation Authority (ITA) related to verification and audit activities within the competences of the ITA vis-a-vis Preventing tax avoidance or evasion and combating corruption
- Assistance in strategic planning in the Indirect Taxation Authority (ITA)
- Contribution to improving cooperation with the customs and tax administrations from other countries

3.5 Means/ Input from the MS Partner Administration

3.5.1 Profile and tasks of the Project Leader

- Civil servant from an EU Member State Administration -National Customs/Tax Office;
- At least 5 years working experience in a leading management position,
- Previous experience in international technical assistance projects or twinning projects;
- Good organisational skills;
- Very good command of English (oral and written);
- Computer skills,
- Minimum university degree;

Tasks:

- Overall coordination of the project,
- Leading the project activities.
- In charge of preparing the Operative side letter (OSL)

3.5.2 Profile and tasks of the RTA

One Resident Twinning Adviser (RTA) over a period of 24 months as well as medium/short term experts will implement the objectives listed in this Standard Twinning Project Fiche.

The RTA has the responsibility to guide the work of the team. The medium/short term experts will work in close cooperation with the RTA and the beneficiary administration staff in order to meet the specific objectives as set out in Standard Twining Project Fiche.

The RTA is expected to fill the following:

Profile of the RTA:

Qualifications:

- Minimum university degree

General experience:

- Minimum 5 years of working experience in indirect taxation sector,
- He/she should be or have been a civil/public servant,
- Proven staff management experience, leadership skills, communication and coordination skills,
- Proven experience in managing a team of experts
- Experience in international twinning/technical assistance projects in the field of indirect taxation;
- Good training, speaking in public and writing communication skills,
- Excellent computer literacy (Word, Excel, Power Point),
- Good command of spoken and written English.

Additional assets:

- Knowledge of relevant EU legislative and institutional, requirements related to the various components of this project,
- Sound background in drafting and/or implementing strategies, policies or regulations in the area of indirect taxation,
- Working experience in a new Member State or in Western Balkans or Turkey.
- Knowledge regarding the situation and the administrative structures in BiH

Tasks:

- Overall supervision of the project implementation and coordination of all activities, as well as management of the project administration;
- Advise on indirect taxation standards and practices in EU Member States;
- Coordination of the activities of the team members in line with the agreed work programmes to enable timely completion of project outputs;
- Preparation of the Terms of Reference for the Short/Medium Term Experts;
- Where appropriate participation in project's workshops;
- Preparation of project progress reports;
- Permanent contact with the Project Leader counterpart;
- Liaison with EU Delegation Programme Manager;
- Liaison with other relevant projects.
- Project newsletters published quarterly
- Set up a Project website operational under the beneficiary's administration website

The RTA is expected to ensure, together with the beneficiary administration, the achievement of the mandatory results. In order to successfully meet mandatory results, the RTA may propose complementary project activities to those identified in the section 3.4.

3.5.3 Profile and tasks of the medium/short-term experts

Terms of Reference (ToR) for medium/short-term expert(s) will be elaborated by the RTA. The ToR for the medium/short term experts is to be agreed with EU Delegation Programme Manager and with the BC Project Leader in cooperation with the beneficiary institutions.

The short or medium-term customs and tax experts are expected to have:

- For customs experts: Professional legal/customs background related to the tasks for which they will be deployed such as: NCTS, valuation, origin, post-clearance audit, laboratory, tariff, transit, intellectual property rights, simplified procedures, etc.
- For tax experts: Professional legal/tax background related to the tasks for which they will be deployed such as: VAT, excise, tax audit, special schemes, tax returns, etc.
- At least 5 years of experience in a specialised national administration;
- Very good command of English (oral and written);
- Solid training skills and experience in organizing training courses;
- Good computer skills (Word, Excel);
- Minimum university degree.

The short or medium-term IT experts are expected to have:

- At least 3years of IT experience

Additional assets:

- Solid training skills and experience in organising IT training courses.

4. Institutional Framework

The Indirect Taxation Authority (ITA) of Bosnia and Herzegovina is an autonomous administrative organisation responsible for its activities, through its Governing Board, to the Council of Ministers.

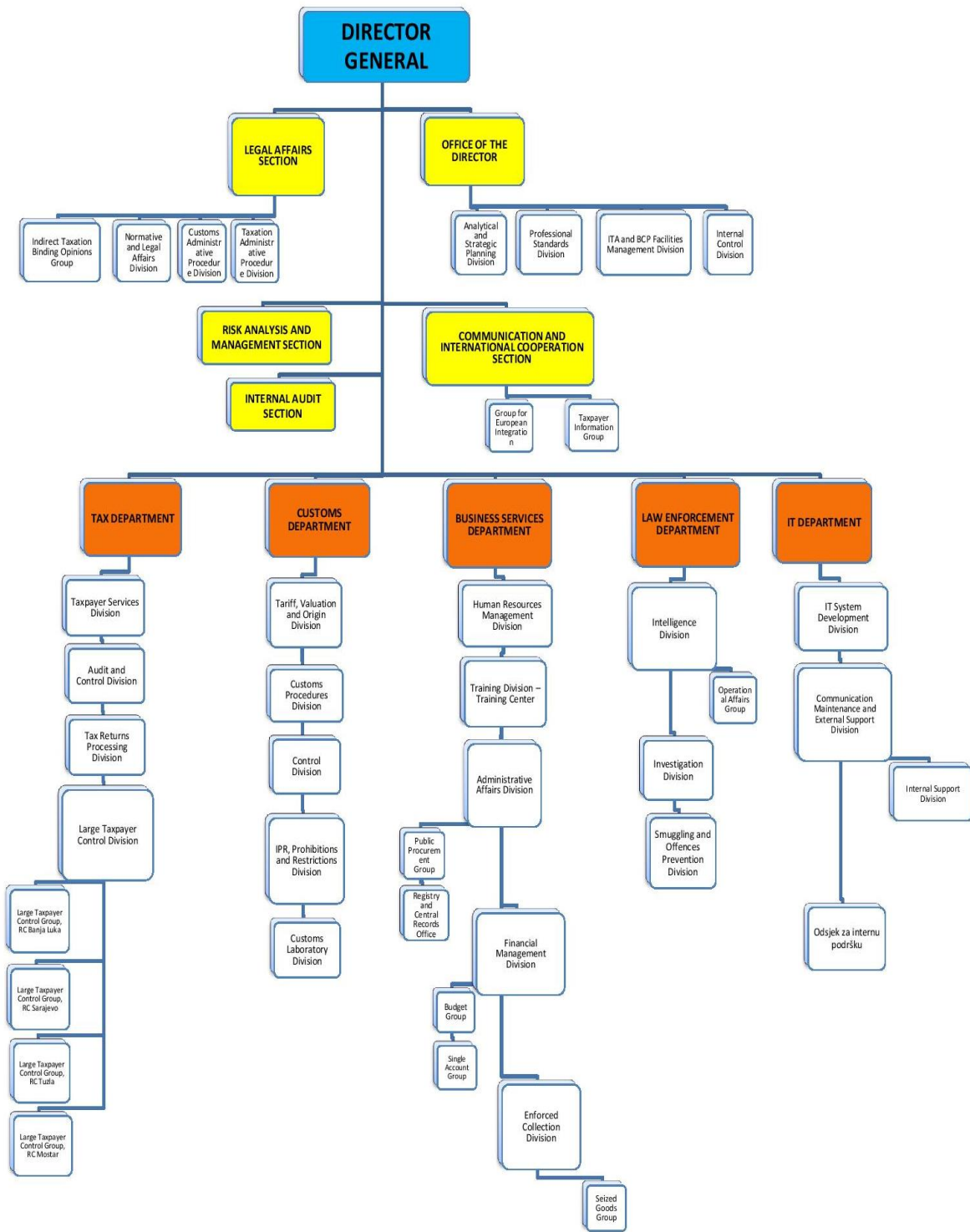
ITA is responsible for enforcement of legal provisions and policy on indirect taxation, as well as for the collection and allocation of indirect taxes revenue (of all indirect taxes in Bosnia and Herzegovina: value added tax, customs duties, excise duties and road taxes) The ITA keeps the Single account, and all indirect tax based revenues are paid to this account, with the allocation and disbursement of indirect tax based revenues defined in the law on allocation and disbursement of the aforementioned revenues. The ITA has branch offices and sub-offices in the entire BiH territory.

In 2005 the Indirect Taxation Authority entered the final stage of preparations for the introduction of value added tax and commenced with the registration of VAT taxpayers. According to the data provided by entities' tax administrations 20,000 VAT taxpayers were anticipated, however the Indirect Taxation Authority has currently registered and is maintaining a VAT taxpayer population of over 50,000. The Indirect Taxation Authority has set the following goals towards future EU integration:

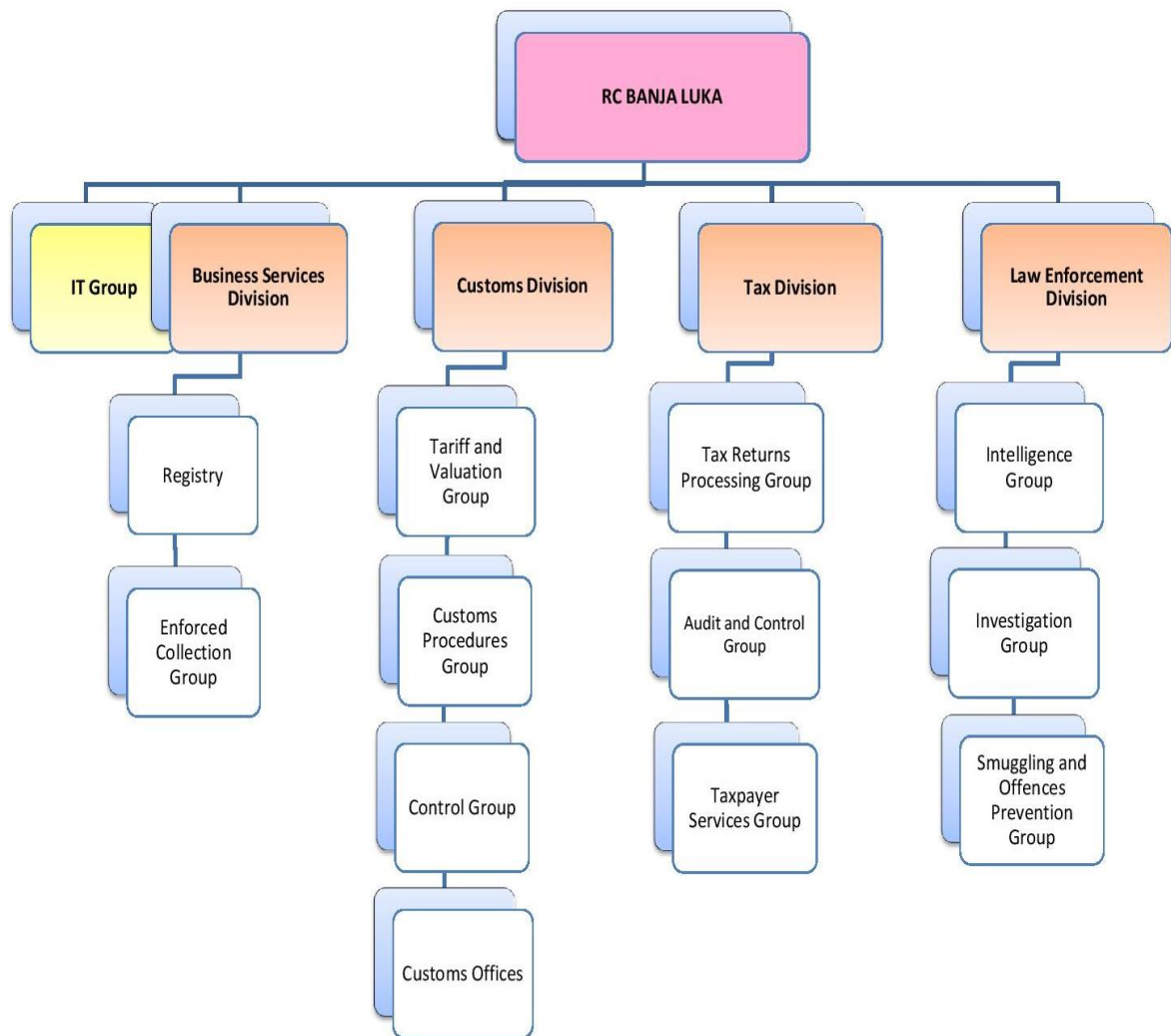
- To accelerate the flow of goods and people while simultaneously intensifying the targeted controls,
- To enhance the level of security of the citizens, to develop cooperation with other national and international institutions aimed at harmonizing the procedures and aligning the legislation with the EU standards,
- Better exchange of information between other institutions and the successful fight against trafficking and all other types of customs or tax frauds.

Operational line of responsibility extends throughout the headquarters and all the way to the branch office and sub-office and encompasses taxes, customs, law enforcement, business services and information technology. The organisational structure of the Indirect Taxation Authority (Head Quarters and Regional Centres) is presented down below as follows:

ITA HQ STRUCTURE ORGANOGRAM



ITA RC STRUCTURE ORGANOGRAM



**THE SAME ORGANOGRAM IS FOR EACH REGIONAL CENTER-
BANJA LUKA, MOSTAR, SARAJEVO, TUZLA**

5. Budget

The budget for this twinning contract is **EUR 1,000,000** and will be financed out of the 2014 EU funded IPA programme for Bosnia and Herzegovina. No co-financing is foreseen.

6. Implementation Arrangements

6.1 Implementing Agency responsible for tendering, contracting and accounting:

Delegation of the European Commission to BiH

Contact: Dijana Sikima, Programme Manager, Operations Section I

Delegation of the European Union to Bosnia and Herzegovina

Skenderija 3a, 71000 Sarajevo, BiH

email: dijana.sikima@eeas.europa.eu

6.2 Main counterpart in the BC, *Indirect Taxation Authority of Bosnia and Herzegovina (ITA)* RTA counterpart and the BC Project leader:

Ms. Jasna Pavić, Senior Advisor

Bana Lazarevića bb, 78000 Banja Luka

E-mail: jasna.pavic@uino.gov.ba

The project progress will be supervised by a Steering Committee (SC) which will be chaired by ITA BiH. Members may be invited from other BiH institutions which are involved in the operation of the ITA BiH and a representative of the EU Delegation will be a permanent member. It is expected that the SC will meet every 3 months during project implementation, upon submission of draft quarterly progress reports.

6.3 Contracts

Maximum available budget for twinning contract is: **EUR 1,000,000**³

Required contributions of Beneficiary institution (including equipment, offices):

- I. Office space: Sufficient office space shall be allocated by the Indirect Taxation Authority (ITA) to the MS Twinning Partner for the RTA, the Project Assistant(s) and for the short-term experts on mission. Meeting space will be provided when necessary.
- II. Logistical support: The project office at the ITA BiH will be furnished with the necessary number of telephones and PC's with e-mail and internet access. Free use of photocopying and fax machines will be provided by the beneficiary.

³ Taxes, including VAT are not eligible (indirect taxes such as value added taxes, customs and import duties, other fiscal charges and duties). The European Commission and Bosnia and Herzegovina are at the final stage of agreeing the text of the Framework Agreement. Once it is signed, ratified and comes into force the following taxes: value added taxes, customs and import duties and levies and/or charges having equivalent effect will be fully exonerated. The instructions related to the required formalities for VAT exemption will be then issued.

7. Implementation Schedule (indicative)

7.1	Launching of the call for proposals:	Q1 2016
7.2	Start of project activities:	Q3 2016
7.3	Project completion:	Q3 2018
7.4	Duration of the implementation period:	24 + 3 months

8. Sustainability

The sustainability of results will be dependent on the commitment of the Beneficiary institution. The prospects for sustainability are good, as the introduction of legal acts aligned with EU legislation and trained staff is likely to have sustainable effects. As this is capacity building project, the key issue is maintaining in the Indirect Taxation Authority (ITA) of Bosnia and Herzegovina the staff gaining know-how through the activities implemented. The MS will also propose its own approach to ensure sustainability of the project achievements.

9. Crosscutting issues

Equal Opportunities and non discrimination

The project is a technical intervention aiming at strengthening administrative capacities with a view to EU accession. Equal opportunity principles and practices in ensuring equitable gender participation and non-discrimination within the project will be guaranteed.

Environment and climate change

The project is a technical intervention aimed at strengthening administrative capacities with a view to EU accession; it will not lead to any negative environmental effects.

Minorities and vulnerable groups

Participation in the project activities will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation.

Civil Society/Stakeholders involvement

Relevant partners were included in preparation of project proposal and fully support implementation of all listed activities, including consultation meetings with civil society and the donor community.

10. Conditionality and sequencing

N/A

ANNEXES TO PROJECT FICHE

Logical framework matrix in standard format

ANNEX I. LOGICAL FRAMEWORK MATRIX IN STANDARD FORMAT

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To further align with EU <i>Acquis</i> and to effectively implement legislation, practices and Interim Agreement in the field of indirect taxation.	Progress made on alignment with the <i>Union Acquis</i> and EU standards and best practices in Indirect Taxation	DG NEAR Progress Report (qualitative assessment)	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To further strengthen the administrative and coordination capacity of ITA.	Increase in revenue collected by the Indirect Taxation Authority (ITA)	ITA Annual Report	Long-term commitment of the ITA to modernisation of the customs and tax system Sustainable human and financial resources assigned to those reforms
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Result 1: NCTS introduction supported	National instructions/procedures completed for NCTS	ITA Annual Report Quarterly reports Project Final Report	ITA has staff for the project implementation
Result 2: The legislation, procedures and working methods further aligned with <i>Union Acquis</i> and with best practices in the field of customs and taxation	Legal acts drafted on customs, VAT, excise legislation	ITA Annual Report Quarterly reports Project Final Report	Necessary laws and by laws implemented –e.g. electronic signature More efficient cooperation between the Tax and Law enforcement Sector
Result 3: Improved cooperation/exchange of information (internal/external)	Transit information in Real Time	ITA Annual Report Quarterly reports Project Final Report	Preparations (legal and technical) finalised for NCTS introduction
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS
1.1 Contribution to the implementation of the Strategy of IT Sector with incorporated NCTS and Action Plan from the legislative, IT and procedural point of view 1.2 Assistance in the implementation of legal provisions and in the practical implementation of NCTS at national level and Common Transit Convention CTC level 1.3 Contributing to adjusting the National system for managing guarantees with EU system for managing guarantees 1.4 Provide overall NCTS project management support to Indirect Taxation Authority (ITA), including on-the-job assistance, training through seminars, study visits and written guidance			Full commitment of the beneficiary administration and other stakeholders in the country Involvement of all interested stakeholders in the country

<p>2.1 Together with the beneficiary administration, drafting a Book of Rules on the implementation of new VAT Law, new Excise Law, Book of Rules on the implementation of the new Excise Law, Instruction for controls, instruction for managing refunds/repayments, ensuring high level of transparency</p> <p>2.2 Assistance in practical implementation of new customs legislation including preparation of operational instructions</p> <p>2.3 Assistance to newly-established units in the Indirect Taxation Authority (ITA)</p> <p>2.4 Improvement of working methods in the field of origin, customs tariff and value, prohibitions and restrictions, and operational methods in the field of Post-clearance Audit PCA, risk analysis, tax audits, internal revision, professional standards and other fields in the scope of work of the ITA</p>			
<p>3.1 Together with the beneficiary administration, drafting necessary amendments to the Law on ITA related to verification and audit activities within the competences of the ITA vis-a-vis Preventing tax avoidance or evasion and combating corruption</p> <p>3.2 Assistance in strategic planning in the Indirect Taxation Authority (ITA)</p> <p>3.3 Contribution to improving cooperation with the customs and tax administrations from other countries</p>			

(*) OVIs to be developed at the work plan preparation stage