

STANDARD TWINNING PROJECT FICHE

Further harmonization of the tax legislation with EU acquis

BC	Beneficiary Country
BC PL	Beneficiary Country Project Leader
CFCD	Central Financing and Contracting Department within Ministry of Finance
CV	Curriculum Vitae
EC	European Commission
EU	European Union
EUD	Delegation of the European Union
IPA	Instrument for Pre- accession Assistance
MoF	Ministry of Finance
MS	Member State (of the European Union)
MS PL	Member State Project Leader
NPAA	National Programme for Adoption of Acquis
PAO	Programme Authorising Officer
PRO	Public Revenue Office
PSC	Project Steering Committee
SPO	Senior Programme Officer
STE	Short Term Expert
TAIB	Transition Assistance and Institution Building
TCPD	Tax and Customs Policy Department
VAT	Value added tax

1. Basic Information

- 1.1. Publication reference:** EuropeAid/ 137-523/ID/ACT/MK
- 1.2. Programme:** Instrument for Pre-accession Assistance (IPA) – National Programme for 2011 under IPA Transition Assistance and Institution Building Component (TAIB)
- 1.3. Twinning Number:** MK 11 IB FI 02 TWL
- 1.4. Title:** Further harmonization of the tax legislation with EU acquis
- 1.5. Sector:** Taxation
- 1.6. Beneficiary Country:** Beneficiary country¹

2. Objectives

2.1 Overall Objective(s):

The overall objective of the project is development of efficient tax system by further harmonization of the legal tax framework with the EU legislation and by strengthening the administrative and operational capacity of the country in the process of fulfilling the EU standards in this area.

2.2 Project purpose:

The purpose of this project is to achieve further development of legal framework in the area of taxation and to improve the administrative capacity of the Ministry of Finance and Public Revenue Office (PRO) for efficient implementation of tax legislation aligned with EU 'acquis'.

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

Link with Accession Partnership (AP)/European Partnership (EP)/Stabilisation and Association Agreement (SAA)/Annual Progress Report

SAA

According to article 68, the Parties recognise the importance of the approximation of the existing and future laws of the Beneficiary Country to those of the Community. The Beneficiary Country shall endeavour to ensure that its laws will be gradually made compatible with those of the Community.

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As per Financing Agreement signed between the Government of the Beneficiary Country and the European Commission concerning National Programme for Component 1 for 2011 under the Instrument for Pre-accession Assistance, signed on 20 November 2012

Pursuant to Article 89, the Parties will establish cooperation in the field of taxation including measures aiming at the further reform of the fiscal system, the modernisation of the tax services with a view to ensuring effectiveness of tax collection and the fight against fiscal fraud.

NPAA

In the forthcoming period, the Ministry of Finance in the field of direct and indirect taxes will continue to analyse all the relevant EU acts for the purpose of their transposition in the national legislation, aiming to achieve full harmonization in a medium term and to enable smooth implementation.

According to the NPAA, in the course of 2015, the analysis of the existing legislation on the value added tax and its harmonisation with Directive 32006L0112 and the remaining EU tax regulations on this matter will continue, and in the period 2016-2017, a constant and intensive process of analyzing and harmonization of legislation with the relevant EU legislation will be performed, with the aim to determine the necessity of adoption of a law to amend the Law on VAT or will result in the adoption of a new Law on VAT with relevant bylaws. The harmonization process will be particularly directed towards the implementation of VAT in the course of performing operations with goods and services inside the Community.

Regarding profit tax system, during 2015, continuous study of EU directives tax system will continue, and in the period 2016-2017 the harmonization of the Law on Profit tax with the EU directives will continue, especially with the provisions which refer to: the common taxation system in the cases of mergers, division, transfer of assets and shares exchange between the companies from different Member States (31990L0434 - 32009L0133), the common taxation system applicable in the cases of parent companies and subsidiaries in different Member States (31990L0435), duties chargeable on contributions of capital to capital companies (31969L0335-32008L0007) and on the common system of taxation applicable to interest and royalty payments made between associated companies from different member states (32003L0049).

During 2015, continuous study of EU directives concerning personal income tax system will continue, and in the period 2015-2016 the harmonisation of the Law on Personal Income Tax with the EU directives and recommendations will continue. The directives and recommendations in this field will be included in the legal regulation, as follows: Directive on the common system of taxation applicable to mergers, divisions, partial divisions, transfer of assets and exchanges of shares concerning companies of different Member States (31990L0434-32009L0133) in the part which refers to taxation of shareholders, i.e. which treats the area of income for natural persons, as well as to the Recommendation on the taxation of certain items of income received by non-residents in a Member State other than that in which they are resident (31994H0079) and the Recommendation concerning the taxation of small and medium-sized enterprises, whose provisions refer to natural persons – performers of individual activity who are taxable persons for the personal income tax (31994H0390), as well as all the remaining relevant EU acts.

Having in mind the key priorities in the National Programme for Adoption of the *Acquis Communautaire*, assistance from EU Member State will be of great benefit for achieving further harmonization in the field of direct and indirect taxes with all relevant EU acts.

2014 Progress Report

The 2014 Progress report concludes that in the area of taxation, legislation on both direct and indirect taxation needs to be aligned more closely with the *acquis*.

3. Description

3.1 Background and justification:

The Ministry of Finance is responsible for preparation of the legislation in the field of taxation, being obliged to harmonize the existing legal framework with the *acquis*. The Public Revenue Office (PRO) is responsible for implementation of the tax laws and other regulation related to taxes and also for determination and collection of the taxes.

Legislation which will provide efficient tax collection and simplified tax procedures for the tax payer, aligned with the EU *acquis* is a priority for the Ministry of Finance. In this line, amendments to the tax legislation were done in the past in order to create legal basis for allowing integrated collection of personal income tax and social contributions.

Tax and Customs Policy Department at Ministry of Finance is responsible for preparation of laws and by-laws in the field of personal income tax, profit tax, value added tax, excises, property taxes, utility and administrative fees, registration of cash payments and tax procedures, gathering and coordinating the activities in the field of customs policy, system and procedures. Also, the department is involved in analysis of tax and customs revenues collection.

Domestic legislation in the area of indirect taxation is to a large extent aligned with the *acquis*; however, further transposition and harmonisation is necessary, particularly in the area of direct taxation.

The VAT law is to a large scale harmonized with the Sixth Council Directive – 31977L0388 and Thirteenth Council Directive – 31986L0560. As regards the Personal Income Tax Law and Profit Tax Law, transposition of the EU directives is not performed so far and therefore assistance in this matter is required.

The existing legal framework is as follows:

Legal Framework for Profit Tax

The Profit Tax Law (Official Gazette No. 112/14) regulates the system of taxation of profit made by legal entities in the country. Legislative framework of the Profit Tax is under authority of the Ministry of Finance while its practical implementation is responsibility of the Public Revenue Office.

Current Profit Tax System

In July 2014, new Law on Profit Tax was adopted. The Law regulates the taxation of profits, profit tax rate, taxpayers to pay profit tax, tax base for calculation of profit tax, deadlines for payment of profit tax, as well as other issues of relevance to determining and paying the profit tax. It defines that profit tax will be taxed annually on the realized profit calculated in accordance with accounting regulations and standards as a difference between total revenue and total expenses of the taxpayer, increased for the unrecognized expenses for tax purposes.

Previously, profit tax was paid at the moment of its distributions in the form of dividends and other distributions from profit. These provisions were introduced from 1 January 2009, in the period of global economic recession, as anti-crisis measure. Exemption from paying tax on undistributed profits helped domestic enterprises for easier cope with the consequences of the global economic recession.

Legal Framework for Personal Income Tax

The Personal Income Tax Law (Official Gazette No. 80/93, 3/94, 70/94, 71/96, 28/97, 8/01, 50/01, 52/01, 2/02, 44/02, 96/04, 120/05, 52/06, 139/06, 160/07, 159/08, 20/09, 139/09, 171/10, 135/11, 166/12, 187/13 and 13/14), regulates the taxation of annual income of natural persons, realised as a sum of net revenues from all sources, as follows: personal incomes, incomes from independent activities, incomes from property and property rights, incomes from copyrights and industrial property rights, capital revenues, capital gains, gains from games of chance and other revenues. Besides the taxable incomes, the Law also regulates the incomes that are exempt from tax, the taxpayer, the tax base, the tax rates and other issues related to personal income tax. Legislative framework of the Personal Income Tax is under authority of the Ministry of Finance while its practical implementation is responsibility of the Public Revenue Office.

Legal Framework for VAT

The taxation of the consumption of goods and services in the Beneficiary Country is regulated with the Law on Value Added Tax (Official Gazette No. 44/99, 15/15).

This law, as a basic legal act, regulates the calculation and payment of the value added tax when selling goods and services, paid by the taxpayer in the country within the scope of his/hers business activity, as well as when importing goods.

The Law on Value Added Tax was applied since 1 April 2000, and it transposes to a large extent the requirements of the EU legislation on VAT, as follows:

1. Sixth Council Directive – 31977L0388 – on the harmonisation of the laws of the Member States relating to turnover taxes –Common system of value added tax: uniform basis of assessment, and
2. Thirteenth Council Directive – 31986L0560 - on the harmonisation of the laws of the Member States relating to turnover taxes –Arrangements for the refund of value added tax to taxable persons not established in Community territory.

During the period of application of VAT law, in order to provide for better function of the law and protect Budget Revenues, several amendments to the Law have been made.

Having in mind the fact that the basic Law on VAT has been prepared before 2000, whereas the Sixth Directive (and this Directive is recast with Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax and its amendments), the aim of which is to harmonise with the laws in the Member States in the field of VAT, is constantly undergoing changes, it is necessary to incorporate them into the national legislation. Also VAT Law should be harmonized with Council implementing Regulation (EU) no. 1042/2013 of 7 October 2013.

Although in the past years progress was made in the area of taxation, still legislation on both direct and indirect taxation needs to be aligned more closely with the *acquis*. Due to this, further harmonization of the tax legislation is needed.

Legislation in the area of direct taxes should be harmonized with: Merger Directive (Council Directive 2009/133/EC), Parent-Subsidiary Directive (Council Directive 2011/96/EC),

Interests and Royalties Directive (Council Directive 2003/49/EC), EU Savings Directive (Council Directive 2003/48/EC) and other EU legislation related to direct taxes, administrative cooperation and mutual assistance by the competent authorities of the Member States in the field of direct taxation.

Legal Framework for Tax Procedure

Law on Tax Procedure (Official Gazette no. 13/06, 88/08, 159/08, 105/09, 133/09, 145/10, 171/10, 53/11, 39/12, 84/12, 187/13) regulate in particular the general tax law, the tax calculation procedure, the tax control procedure, the tax collection procedure, the rights and obligations of the taxpayer and other issues related to tax procedure.

This Law apply to taxes and other public revenues administered by the Public Revenue Office.

3.2 Linked activities:

The twinning project is connected with the following completed projects and activities. There are no overlaps with the linked activities (projects).

1. Title: Support to Tax reform

Project funded by: IPA 2007

Duration: 2010 – 2011

Value: EUR 1.271.500

Description: The overall objective of this project was to improve the performance of the Public Revenue Office and Ministry of Finance in the field of revenue collection, taxpayers' services, reinforcing the institutional capacity in tax collection and combating corruption by further harmonising of the legal framework with the EU standards, relevant regulations, measures, directives.

2. Title: Harmonization of the tax law with EU law

Project funded by: GIZ

Duration: 2007 – 2013

Value: MoF does not have data on project value

Description: The overall objective of this project was achievement of greater harmonization of national legislation taking into account the basic texts of EU tax laws and their amendments relating to value added tax.

3.3 Results:

Results to be achieved:

Mandatory result 1: Improved legal framework in the field of taxation in accordance with relevant EU Directives

This mandatory result shall be achieved through the following intermediary results:

1. Analysed level of harmonisation of the current national legislative framework for taxation with the EU *acquis*, particularly in the area of Personal Income Tax, Profit Tax and VAT especially regarding the place of supply of services;

Measurable indicators:

- Analysis prepared on the current national legislative framework for taxation and its alignment with the EU *acquis*;
- Prepared Report with written recommendation for improvement of the current national legislative framework for Personal Income Tax, based on conducted analyses;
- Prepared Report with written recommendation for improvement of the current national legislative framework for Profit Tax, based on conducted analyses;
- Prepared Report with written recommendation for improvement of the current national legislative framework for VAT especially regarding the place of supply of services based on conducted analyses.

2. National legislation for Personal Income Tax, Profit Tax and VAT aligned with relevant EU directives.

Measurable indicators:

- Drafted amendments of the Personal Income Tax legislation in line with relevant EU directives;
- Drafted amendments of the Profit Tax legislation in line with relevant EU directives;
- Drafted amendments of the VAT legislation especially regarding the place of supply of services, i.e with new VAT rules applicable as from 2015 for telecom, broadcasting and electronic services;
- Tables of concordance showing the link between the provisions of the EU and the national legislation prepared.

3. Improved legislation related to taxes, in particular the Tax Procedure Law, in accordance with relevant EU Directives, in areas related to administrative cooperation and mutual assistance carried out;

Measurable indicator:

- Prepared Report with written recommendation for improvement of the tax procedure legislation in the areas of administrative cooperation and mutual assistance, based on conducted assessment;
- Drafted amendments of the tax procedure legislation in areas related to administrative cooperation and mutual assistance, in line with relevant EU directives.

Mandatory result 2: Strengthened capacities of the Ministry of Finance - Tax and Customs Policy Department and the Public Revenue Office for efficient implementation of tax legislation

This mandatory result shall be achieved through the following intermediary results:

1. Enhanced capacities of the MoF - TCPD and PRO for implementation of the amended legislation;

Measurable indicator:

- Training needs assessment for the TCPD and PRO prepared;
 - Training Plan and Training Modules developed;
 - Number of workshops for implementation of the amended legislation organised for the MoF and the PRO;
 - Number of staff from the MoF and the PRO trained on implementation of the amended legislation.
2. Transferred experience from selected EU Member State's institutions dealing with preparation and implementation of indirect and direct tax legislation to the MoF and PRO staff on the process of harmonization of the legislation in the fields of direct and indirect taxation and on functioning and practice related to implementation of the harmonized legislation;

Measurable indicator:

- Number of employees from the MoF - TCPD and PRO acquainted with the process of harmonization of the legislation in the fields of direct and indirect taxation of a selected EU MS and on functioning and practice related to implementation of the harmonized legislation, through conducted study visit.

3.4 Activities

The Twinning light project shall be implemented as a joint project in which each partner takes on its responsibilities. The Twinning assistance will be provided in the form of know-how transfer. The selected MS shall transfer the requested hands-on public sector expertise to the Beneficiary Country, in the form of analysis and assessment of the existing legislation in the area of taxation in the BC, advice and recommendations for drafting amendments to the existing national legislation in line with the EU acquis and EU best practice, support in drafting the amendments, advice on implementation of the amended legislation, development and implementation of tailored made training programme, organization of workshops, study visit to a Member State for exchange of good practices and experience with the preparation and implementation of the EU tax legislation.

Activities:

Mandatory result 1: Improved legal framework in the field of taxation based on alignment in accordance with relevant EU Directives

Activity 1. To analyse and assess the level of harmonization of the current legislative framework for Personal Income Tax with the EU acquis, identifying its gaps and to prepare Report with written recommendation for its improvement;

Activity 2. To analyse and assess the level of harmonization of the current legislative framework for Profit Tax with the EU acquis, identifying its gaps and to prepare Report with written recommendation for its improvement;

Activity 3. To analyse and assess the level of harmonization of the current legislative framework on VAT especially regarding the place of supply of the services i.e new VAT rules applicable as from 2015 for telecom, broadcasting and electronic services with the EU acquis, identifying its gaps and to prepare Report with written recommendation for its improvement;

Activity 4. To support the drafting of the amendments of the Personal Income Tax legislation aligned with the EU acquis;

Activity 5. To support drafting of the amendments of the Profit Tax legislation, aligned with the EU acquis;

Activity 6. To support drafting of the amendments of the VAT legislation especially regarding the place of supply of the services, aligned with the EU acquis, including the new VAT rules applicable as from 2015 for telecom, broadcasting and electronic services;

Activity 7. To assess other legislation related to taxes, in particular the Tax Procedure Law, in view of its alignment with relevant EU Directives, in areas related to administrative cooperation and mutual assistance and to prepare Report with written recommendation for its improvement;

Activity 8. To support drafting of the amendments of the Tax Procedure legislation in areas related to administrative cooperation and mutual assistance in line with relevant EU Directives.

Mandatory result 2: Strengthened capacities of the Ministry of Finance - Tax and Customs Policy Department and the Public Revenue Office for efficient implementation of tax legislation

Activity 1: To prepare training needs assessment for the implementation of legislation of MoF –Tax and Customs Policy Department and PRO;

Activity 2: To develop training plan and training modules for the implementation of amended legislation for MoF and PRO;

Activity 3: To organise workshops for representatives of MoF –Tax and Customs Policy Department and PRO for implementation of amended legislation in the area of direct taxation;

Activity 4: To organise workshop for representatives of MoF - Tax and Customs Policy Department and PRO for implementation of amended legislation for VAT;

Activity 5: To organise 5-day study visit for number of employees (indicatively 10 persons) from MoF - Tax and Customs Policy Department and PRO in relevant EU Member State institutions dealing with preparation and implementation of indirect and direct tax legislation. The purpose of the visit would be to transfer experience and good practices on the process of implementation of the relevant EU Directives in the MS's legislation in the area of direct and indirect taxation, as well as to get acquainted with the functioning and practice related to implementation of the legislation.

3.5 Means/ Input from the Member State Partner Administration:

The project will be implemented in a form of a Twinning Light contract envisaged to provide exchange of experience and know-how with a MS Institution with good practice in the stated project activities.

The Twinning Partner shall provide an adequate team of experts– one MS Project Leader, responsible for overall coordination of project activities and a pool of Short Term Experts (STEs) with suitable knowledge to carry out the activities described.

The interested MS Partner Institution shall include in its proposal the CV's of the designated Project Leader and the proposed Short-term Experts as well as their specific tasks to which they will be assigned to.

The MS Partner Administration should demonstrate experience in delivery of services in the relevant project fields mentioned above. This experience should be described in the proposal.

3.5.1 Profile and tasks of the Project Leader

The Project Leader from the Member State must be a high-ranking public servant of a Member State administration or equivalent staff, but preferable the Head of a body in charge of tax policy in the Member State, with relevant working experience of at least 5 years. The MS Project Leader will manage the implementation of the project together with the Project Leader from the Beneficiary Country. The Project Leader will ensure his/her ability to mobilise the necessary staff in support of the efficient implementation of the project. In addition, he/she should coordinate, on the Member State side, the Project Steering Committee (PSC).

The MS Project Leader will continue to work at his/her Member State administration but will devote some of his/her time to conceive, supervise and co-ordinate the overall thrust of the Twinning Project, and ensure the attainment of the projected outputs. The Project Leader is fully responsible for co-ordination of the work of the experts.

As a minimum, the project Leader should be able to dedicate to the project at least 3 days per month, with at least 3 on-site visits. He/she will be supported by his/her Member State administration for logistic, accounting and administrative affairs.

Profile of Expert 1 (Project Leader) - Requirements:

- Be a high-ranking public servant in a managing position of a Member State administration in charge of tax policy;
- University degree in the area of law, economics, finance or related field²;
- At least 5 years of professional experience in the areas of tax policy and transposition and/or implementation of EU directives in the field of taxation;
- Experience in implementation of similar EU funded projects in the tax area will be considered an asset;
- Fluent in English.

Tasks of the Project Leader

- Coordinate and monitor the overall implementation of the project with the BC Project Leader;
- Co-ordinate MS experts' work and availability;

2 For reference EPSO website-Annex, <http://europa.eu/epso/doc/diplomasfortheweb.pdf>

- Communicate with the beneficiary, CFCD and EUD;
- Ensuring the backstopping functions and financial management;
- Co-chairing, with the Beneficiary Country Project Leader, the regular Steering Committee meetings;
- Organizing study visit in Member State;
- Preparation of start-up and final report; and
- Guarantee the achievement of mandatory results from the MS administration side.

3.5.2 Profile and tasks of the RTA

N/A

3.5.3 Profile and tasks of the Short-Term Experts (STEs)

Other specialist staff will be made available by the Twinning Light Partner to support the implementation of activities. The proposed pool of short-term experts is expected to cover all relevant areas targeted under this project.

Profile of the short-term experts–Requirements

Short – term experts in the area of direct taxation:

- University degree in law, economics, finance or related field³;
- Be civil servants or equivalent staff seconded to work within department/unit/body dealing with tax policy issues;
- At least 3 years of working experience in the field of the preparation of direct tax legislation, in particular Personal Income Tax and Profit Tax;
- Experience in the transposition of relevant EU directives in the field of direct taxation;
- Experience in the transposition and/or implementation of relevant provisions of EU directives, pertaining to administrative cooperation and mutual assistance,
- Fluency in English;
- Computer literacy.

Short – term experts in the area of indirect taxation - VAT:

- University degree in law, economics, finance or related field⁴;
- Be civil servants or equivalent staff seconded to work within department/unit/body dealing with tax policy issues;
- At least 3 years of working experience in the preparation and/or implementation of VAT tax legislation;
- Experience in the transposition of provisions of relevant EU directives on VAT regarding the place of supply of the services, especially of new VAT rules applicable as from 2015 for telecom, broadcasting and electronic services;
- Fluency in English;
- Computer literacy.

³ EPSO website-Annex, <http://europa.eu/epso/doc/diplomasfortheweb.pdf>

⁴ For reference EPSO website-Annex, <http://europa.eu/epso/doc/diplomasfortheweb.pdf>

Tasks of the short-term experts

- Prepare and implement specific tasks in accordance with project activities, based mainly on practical cases and experience;
- Transferring knowledge and skills to the TCPD and PRO staff - exchange of experiences and best practices examples, in the area of direct taxation and VAT;
- Conduct analysis/assessment of the level of harmonisation of national tax legislation with EU acquis;
- Provide recommendations for changes of the existing tax legislation in line with relevant EU directives, based on EU best practices;
- Provide practical expertise/hands-on advices to staff of TCPD and PRO for drafting changes to relevant tax legislation;
- Provide recommendations for better implementation of the newly drafted legislation harmonized with EU acquis;
- Prepare and implement training tasks based mainly on practical cases and experience.

4. Institutional Framework

4.1 Beneficiary Institutions

The main beneficiary is the Tax and Customs Policy Department within the Ministry of Finance. The Department is responsible for preparation of laws and bylaws in respect of personal income tax, profit tax, value added tax, excises, property taxes, utility and administrative fees, registration of cash payments and tax procedures, gathering and coordinating the activities in the field of customs policy, system and procedures, customs Tariff, customs value and origin, non-tariff measures, e-customs, analytics and projecting customs revenues. The Department is also involved in analysis of tax and customs revenues collection. In addition, the Department performs activities related to preparation of draft-agreements on avoidance of double taxation, as well as participation in the negotiation procedure with other countries for the purpose of concluding bilateral agreements on avoidance of double taxation and protection against fiscal evasion, as regards income taxes and capital taxes.

Within the Department there are 3 units each with separate duties and employees. The activities of the Department are managed by the Head of Department who has 3 assistants. The capacity of the Tax and Customs Policy Department currently is relatively good with a total of 24 employed civil servants (9 in Tax Policy Unit, 7 in Customs Policy Unit and 4 in Analysis Unit).

The Public Revenues Office (PRO) is a public administration body within the Ministry of Finance, with the status of a legal entity.

PRO carries out the administrative and the other professional activities related to: implementation of laws and other regulations on taxes; registration of taxpayers; determination of the taxes pursuant to the law; tax collection; monitoring and analyzing the tax incomes; monitoring and analyzing the application of tax regulations and the functioning of the tax system; cooperation with tax authorities of other states and studying the tax

systems; providing international legal aids for tax cases and other activities determined by law.

PRO performs its activities through: General Directorate, Large Taxpayers Office, five Regional Offices, eight Branch Offices and 72 Service Points.

4.2 Co-ordination mechanisms between institutions and departments

A Project Steering Committee (PSC) will be established at the beginning of the project, comprising representatives of the Beneficiary institution, the Delegation of the European Union, the Central Financing and Contracting Department, the Member State Project Leader and other representatives from the MS Twinning partner. The final and exact composition of the PSC will be agreed with the Contracting Authority at the start up of the project. Any observer to the PSC should be approved by the Contracting Authority.

The PSC will monitor, supervise and co-ordinate the overall progress and implementation of the project. The SC will provide guidance for the different components of the project, will define priorities, approve and monitor budgets and approve the results.

It should be noted that the participation of the Member State Project Leader in Steering Committees meetings has to be combined with expert mission in case the MS Project Leader is also a short-term expert in the twinning light project. If the MS Project Leader is not a short-term expert in the twinning light project then his/her visits to the Beneficiary country, (one visit every three months) as part of his/her overall task to ensure coordination and steering of the project should be organised at the same time as the two Steering Committee meetings of the project. As a minimum, the project Leader should be able to dedicate to the project at least 3 days per month, with at least 3 on-site visits.

The Steering Committee meetings are called and chaired by the Project leaders.

The following Steering Committee meetings shall be held during the project implementation:

- Kick-off Meeting at the project's start;
- Steering Committee meeting during the 3rd month of implementation, to discuss and approve the start-up report;
- Final Steering Committee meeting, to discuss and approve the Final Report within the last month of the project's legal duration.

MS and BC Twinning Light Partners will arrange regular and ad-hoc coordination and information exchange meetings with other stakeholders as necessary.

4.3. Reporting requirements as per Art 6.4 of the Twinning Manual

Proper project reporting is essential to ensure adequate follow-up of project implementation and evaluation of the results. These reports shall consist of a content section and financial section.

Reports will follow the templates of Annex C4/Annex C5 of the Twinning Manual.

The twinning partner shall submit following reports, following the templates of the latest Common Twinning Manual:

- **Start-up Report** covering the first two months of the contract and submitted during the first week of the third month, which should:
 - Clearly define the aims and purpose of the aid provided by the project;
 - Give detailed description of the content of particular parts of the project;
 - Work out in detail the activities conducted and the results achieved;
 - Work out in detail all modifications agreed with the beneficiary institution;
 - Review difficulties met during the implementation of the project and measures that were undertaken for their removal;
 - Provide all findings obtained in the meanwhile and preliminary conclusions; and
 - Contain a general plan of activities for the implementation of the remaining duration of the project.
- **Draft Final Report** shall be submitted within one month upon the completion of the project activities and in any case within the legal duration of the project, and should contain the following:
 - Complete review of all activities conducted by MS experts during the implementation of the project;
 - Achieved progress concerning each activity;
 - Summary of all project results, with particular emphasis on mandatory results;
 - Estimation of the project impact compared with the project aims and measures of the achieved progress;
 - Identification of all important problems met during the implementation of the contract and solutions that have been applied;
 - Lessons drawn from the project; and
 - Recommendations for further steps in future projects.
- **Final Report** shall be submitted within three months upon the completion of the project activities and in any case within the legal duration of the project.

In addition to these formal reporting stages, the twinning partners are obliged to inform in writing the Contracting Authority and the PSC, as well as the final beneficiary, of the action of any critical aspects or conditions of project implementation, or any amendments/modifications necessary within the budget.

All reports must be produced in English. These reports (except for the Monthly Progress Briefs) shall be signed by both Member State and Beneficiary Country Project Leaders, and be submitted to the Contracting Authority. Each report must be presented in electronic format and 4 hard copies one week prior to the Project Steering Committee meetings to the relevant participants (the Project Beneficiary, the Contracting Authority, the members of the Steering Committee and the EU Delegation). All reports should be written in English and translated into *македонски* language. The final versions should incorporate any comments and discussions during the Steering Committee meetings. Failure to submit satisfactory reports in time may lead to the decision to suspend EU financing for the project.

Start-up Report and Final Report are subject of approval by the Contracting Authority.

s. **Budget**

The financial ceiling for this 'Twinning Light' project has been set at **EUR 250,000** and its maximum duration (time spent for Twinning activities) is limited to 6 months. This duration is supplemented by the standard 3 months execution period foreseen for inception and

reporting (see Article 2 of the general Conditions for Grants, Annex A2 to the Twinning contract).

The financial rules applicable to 'Twinning Light' are the same as those for standard Twinning, except that:

- a) Equipment and private sector services (other than translation and interpretation where necessary) are not eligible for funding;
- b) Preparatory costs are not eligible for funding;
- c) Project assistants are not eligible for funding.

The project will be implemented through a Twinning Light Contract estimated at a maximum of EUR 250.000,00 (out of which 95% IPA funds and 5% National co-financing).

Further harmonization of the tax legislation with EU acquis	IPA Community Contribution	National Co-financing	TOTAL
Twinning Contract	95% 237.500,00 EUR	5% 12.500,00 EUR	250.000,00 EUR

The co-financing requirement foreseen under IPA will be considered fulfilled according to the provision of the relevant Financing Agreement.

In addition to the IPA and National co-financing as part of the Twinning Contract amount, as a rule, all twinning contracts must provide additional co-financing on the side of the Beneficiary Institution, for the purpose of covering costs not covered under the project budget as per Twinning manual, point 5.13, as follows:

- Direct and indirect cost of the Beneficiary administration working for the project;
- Travel by the beneficiary officials from their capitals to a MS or between MS;
- Organisation of seminars/workshops/trainings (incl. venue, printing seminar materials and other logistical support).

The following expenses are to be covered with the project funds:

- Visibility cost;
- Audit certificate cost;
- Per diems and incidental costs for the study visits.

The project will be located in the premises of the Ministry of Finance.

The Beneficiary institutions will provide the necessary conditions for the STEs to perform their work while on mission to the BC and logistical support for various training activities, including selection of trainees (in consultation with the Member State experts), as well as providing the Member State experts with the documents necessary for project implementation.

The twinning partner (project beneficiary) shall provide all available assistance to solve unforeseen problems that the Member State twinning partner(s) might face.

The Twinning Manual and all the provisions therein will apply to the contract.

6. Implementation Arrangements

6.1 Implementing Agency responsible for tendering, contracting and accounting

The Central Financing and Contracting Department (CFCD) will act as a Contracting Authority for the project, which will be responsible for all aspects for the project's tendering, contracting and payments.

The contact person on behalf of the CFCD is:

Mrs. Radica Kocева (PAO)
Head of Central Financing and Contracting Department
Ministry of Finance

6.2 Main counterpart in the BC

Senior Programme Officer:

Mr. Andrija Aleksoski, Assistant Head of Department and Senior Programme Officer
Ministry of Finance - International Financial Relations and Public Debt Management
Department

BC Project Leader:

Mr. Riste Todorovski
Head of Tax and Customs Policy Department
Ministry of Finance
Skopje

BC Contact person:

Mrs. Marina Dimoska (for issues related to direct taxes)
Advisor in Tax and Customs Policy Department
Ministry of Finance
Skopje

Mr. Ruse Kocovski (for issues related to VAT)

Advisor in Tax and Customs Policy Department
Ministry of Finance
Skopje

6.3 Contracts

One Twinning Light Contract, in an amount of EUR 250 000.

7. Implementation Schedule (indicative)

7.1 Launching of the call for proposals (Date) – September 2015

7.2 Start of project activities (Date) – December 2015

7.3 Project completion (Date) – July 2016

7.4 Duration of the execution period

The twinning light contract duration is 6 months for implementation of the action. This duration is increased by the standard 3 months for starting up and closure of activities.

8. Sustainability

The main contribution of this project will be improvement of the existing tax legislation by its harmonisation with the EU acquis. During the project, the twinning partners should develop documents, training material and guidelines that will be easily accessible for later use by the beneficiary administration. The MS Twinning partners shall transfer the experience and know-how necessary to achieve the mandatory results to the Beneficiary administration. Staff benefiting from trainings/study visits shall transfer knowledge through to their colleagues. The implementation of the drafted amendments of tax laws, harmonised with the EU directives, which will increase the efficiency of the tax system will add to the sustainability of the project results.

8.1 Civil society

Civil society issues will be taken into consideration where relevant and appropriate in the project.

8.2 Equal Opportunity

Equal opportunity principles and practices in ensuring equal gender participation in the Project will be guaranteed. The competent institutions involved in the project execution will observe equal opportunity of women and men in the human resources development and capacity building activities. The beneficiary will ensure equal access of men and women to the project activities and results and all other forms of discrimination will be eliminated.

Twinning partners will be expected to comply with EU Equal Opportunity policies.

8.3 Environmental considerations

Any ecological friendly initiative which can be taken will have to be implemented.

8.4 Minority and vulnerable groups

The twinning partners in formulation the proposal and implementation the contract shall ensure respect of Ohrid Framework Agreement, and "Race directive" 2000 (200/43/EC of 29 June), which has an important impact on employment (incl. vocational training, working conditions, social protection etc.) and is also a crucial aspect of the acquis.

Equal representation of minorities and vulnerable groups will be the guaranteed project principle. The institutions involved in the project execution will observe equal opportunity for all citizens regardless of their ethnic, religious background or other type of social risk they face, in the sphere of human resources development.

8.5 Good governance, with particular attention to fight against corruption

The Government is strongly determined to fulfil all criteria needed for EU accession and membership, and all the necessary actions are being taken to reach the aim. Through

transparent policies and involvement of different stakeholders in the process of policy design the accountability and responsiveness vis-a-vis the citizens will be being strengthened.

9.6 Communication and publicity

All requirements to ensure the visibility of EU financing will be fulfilled in accordance with Regulation (EC). N. 718/2007⁵.

10 Conditionality and sequencing

10.1 Conditionality

Full and smooth implementation requires commitment of the management of the Beneficiary institutions.

To achieve this objective, a special attention has to be given to the following issues:

- The beneficiaries (MoF and PRO) will appoint and make available the relevant beneficiaries' staff that will be involved during the twinning light implementation;
- Full coordination and transparency in the work of all key players involved.

10.2 Sequencing

- N/A

ANNEXES:

ANNEX 1: Logical framework matrix in standard format

⁵ See. Article 62 and 63. of R. (EC). N. 718/2007

ANNEX 1

LOGFRAME PLANNING MATRIX

Programme name and number	
Further harmonization of the tax legislation with EU acquis	
Total budget: € 250.000	IPA budget: € 250.000

Overall objective	Objectively verifiable indicators	Sources of Verification
The overall objective of the project is development of efficient tax system by further harmonization of the legal tax framework with the EU legislation and by strengthening the administrative and operational capacity of the country in the process of fulfilling the EU standards in this area.	Further progress achieved with aligning the national tax legislation with the EU acquis.	EC Progress Report and other reports

Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
The purpose of this project is to achieve further development of legal framework in the area of taxation and to improve the administrative capacity of the Ministry of Finance and Public Revenue Office (PRO) for efficient implementation of tax legislation aligned with EU 'acquis'.	Drafted amendments to the national tax legislation aligned with the EU acquis.	Project final report; Tables of concordance showing the link between the provisions of the EU and the national legislation.	- Continued commitment from national authorities to the EU Accession process; - Availability and motivation of appropriate EU MS and BC staff for cooperation and involvement;
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
Mandatory result 1: Improved legal framework in the field of taxation in accordance with relevant EU Directives 1. Analysed level of harmonisation of the current national legislative framework for taxation with the EU acquis, particularly in the area of Personal Income Tax, Profit Tax and VAT especially regarding the place of supply of services; 2. National legislation for Personal Income Tax, Profit Tax and	1.1 Analysis prepared on the current national legislative framework for taxation and its alignment with the EU acquis; 1.2 Prepared Report with written recommendation for improvement of the current national legislative framework	Documents produced and delivered to the beneficiary; Monthly Progress Reports from SPO to PAO; Tables of concordance showing the link between the	- Continued commitment from national authorities to the EU Accession process; - Availability and motivation of appropriate EU MS and BC staff for cooperation and participation in project activities; - Continuing commitment of BC staff and management in the process; - Respective authorities and institutions have

VAT aligned with relevant EU directives; 3. Improved legislation related to taxes, in particular the Tax Procedure Law, in accordance with relevant EU Directives, in areas related to administrative cooperation and mutual assistance carried out;	for Personal Income Tax, based on conducted analyses; 1.3 Prepared Report with written recommendation for improvement of the current national legislative framework for Profit Tax, based on conducted analyses; 1.4 Prepared Report with written recommendation for improvement of the current national legislative framework for VAT especially regarding the place of supply of services tax, based on conducted analyses. 2.1 Drafted amendments of the Personal Income Tax legislation in line with relevant EU directives; 2.2 Drafted amendments of the Profit Tax legislation in line with relevant EU directives; 2.3 Drafted amendments of the VAT legislation especially regarding the place of supply of the services, i.e with new VAT rules applicable as from 2015 for telecom, broadcasting and electronic services; 2.4 Tables of concordance showing the link between the provisions of the EU and the national legislation prepared. 3. Prepared Report with written recommendation for improvement of the Tax Procedure legislation in the areas of administrative cooperation and mutual assistance, based on conducted assessment; 4. Drafted amendments of the Tax Procedure legislation in areas related to administrative cooperation and mutual assistance, in line with relevant EU	provisions of the EU and the national legislation; Training materials and attendance lists.	sufficient capacities and are willing to cooperate on the issues linked with implementation;
Mandatory result 2: Strengthened capacities of the Ministry of Finance - Tax and Customs Policy Department and the Public Revenue Office for efficient implementation of tax			

legislation 1. Enhanced capacities of the Ministry of Finance - Tax and Customs Policy Department and PRO for implementation of the amended legislation; 2. Transferred experience from selected EU Member State's institutions dealing with preparation and implementation of indirect and direct tax legislation to the Ministry of Finance and PRO staff on the process of harmonization of the legislation in the fields of direct and indirect taxation and on functioning and practice related to implementation of the harmonized legislation.	directives. 1.1 Training needs assessment for the TCPD and PRO prepared; 1.2 Training Plan and Training Modules developed; 1.3 Number of workshops for implementation of the amended legislation organised for the MoF and the PRO; 1.4 Number of staff from the MoF and the PRO trained on implementation of the amended legislation. 2 Number of employees from the MoF - Tax and Customs Policy Department and PRO acquainted with the process of harmonization of the legislation in the fields of direct and indirect taxation of a selected EU MS and on functioning and practice related to implementation of the harmonized legislation, trough conducted study visit.		
Activities	Means	Specification of costs	Assumptions
Activity 1. To analyse and assess the level of harmonization of the current legislative framework for Personal Income Tax with the EU acquis, identifying its gaps and to prepare Report with written recommendation for its improvement; Activity 2. To analyse and assess the level of harmonization of the current legislative framework for Profit Tax with the EU acquis, identifying its gaps and to prepare Report with written recommendation for its improvement; Activity 3. To analyse and assess the level of harmonization of the current legislative framework on VAT especially regarding the place of	Twinning contract MS twinning partner input: - 1 MS Project Leader, - Pool of short-term experts. BC partner input: - 1 BC Project Leader;	EUR 250.000	- Appropriate EU MS expertise is available; - Beneficiary institutions can make (qualified) staff available to participate actively and contribute in project activities.

supply of the services, i.e new VAT rules applicable as from 2015 for telecom, broadcasting and electronic services with the EU acquis, identifying its gaps and to prepare Report with written recommendation for its improvement; Activity 4. To support the drafting of the amendments of the Personal Income Tax legislation aligned with the EU acquis; Activity 5. To support drafting of the amendments of the Profit Tax legislation, aligned with the EU acquis; Activity 6. To support drafting of the amendments of the VAT legislation especially for place of supply of the services, aligned with the EU acquis, including the new VAT rules applicable as from 2015 for telecom, broadcasting and electronic services; Activity 7. To assess other legislation related to taxes, in particular the Tax Procedure Law in view of its alignment with relevant EU Directives, in areas related to administrative cooperation and mutual assistance and to prepare Report with written recommendation for its improvement; Activity 8. To support drafting of the amendments of the Tax Procedure legislation in areas related to administrative cooperation and mutual assistance in line with relevant EU Directives.		- BC contact person; - TCPD and PRO staff - Facilities and equipment for organizing training events; - Costs for travel by the beneficiary officials from their capitals to a MS or between MS; - Direct and indirect cost of the Beneficiary administration working for the project.
Activity 1: To prepare training needs assessment for the implementation of legislation of MoF –Tax and Customs Policy Department and PRO; Activity 2: To develop training plan and training modules for the implementation of amended legislation for MoF and PRO; Activity 3: To organise workshops for representatives of MoF –Tax and Customs Policy Department and PRO for implementation of amended legislation in the area of direct taxation; Activity 4: To organise workshop for representatives of MoF – Tax and Customs Policy Department and PRO for implementation of amended legislation for VAT; Activity 5: To organise 5-day study visit for number of employees (indicatively 10 persons) from MoF - Tax and Customs Policy Department and PRO in relevant EU Member State institutions dealing with preparation and implementation of indirect and direct tax legislation. The purpose of the visit would be to transfer experience and good practices on the process of implementation of the relevant EU Directives in the MS's legislation in the area of direct and indirect taxation, as well as to get acquainted with the functioning and practice		

related to implementation of the legislation.			
Preconditions: - The beneficiaries (Ministry of Finance and PRO) will appoint and make available the relevant beneficiaries' staff that will be involved during the twinning light implementation; - Full coordination and transparency in the work of all key players involved.			

