CZECH REPUBLIC
REPORT ON AN INTEGRATED REVENUE ADMINISTRATION

VOLUME I:
EVALUATION OF THE GOVERNMENT PLAN TO MERGE TAX AND CUSTOMS ADMINISTRATIONS

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ABBREVIATIONS

CCA    Czech Customs Administration
CIAT   Inter-American Center of Tax Administrations
CSSA   Czech Social Security Agency
CTA    Czech Tax Administration
DGF    Directorate General of Finance
EC     European Commission
ED     Executive Director
EU     European Union
FD     Finance Directorate
GDC    General Directorate of Customs
GFCD   General Finance and Customs Directorate
GoCR   Government of the Czech Republic
IMF    International Monetary Fund
IT     Information technology
LTO    Large Taxpayer Office
MOF    Ministry of Finance
MOH    Ministry of Health
MOLSA  Ministry of Labor and Social Affairs
OECD   Organization for Economic Cooperation and Development
PREM   Poverty Reduction and Economic Management
PSIR   Public Sector and Institutional Reform
SKAT   Danish Revenue Authority
TO     Tax Offices
UK     United Kingdom
WB     World Bank

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EXECUTIVE SUMMARY

• CONTEXT

1. In an increasingly globalized world, cooperation between the customs, tax and social security agencies is critical for efficiency, effectiveness, and ultimately the revenue collected. As a result, efforts to achieve greater integration of these agencies have received increased attention in recent years from governments, the public, and development agencies. Denmark, Latvia, and the Netherlands are among several countries that have successfully merged their tax and customs administration in order to achieve the goals of greater efficiency of revenue administration. Many countries have integrated collection systems that provide a revenue administration with greater specialization in all aspects of government revenues. The same motivations drive the Government of the Czech Republic in adopting a Resolution and a draft plan for integrating revenue functions in these agencies. The recent EU accession and absence of non-EU borders, has significantly diminished the role of customs in the Czech context, giving added impetus to rationalize the revenue systems.

2. The Czech authorities invited the World Bank to provide an independent evaluation of the Government’s draft plan for the merger of the Tax and Customs Administrations, and with an eye on the eventual integration of the collection of social contributions into a newly created revenue authority. In Volume I of this report, we present a preliminary examination of the Government’s draft plan for tax and customs merger. Volume II does a preliminary assessment of the issues relating to integrating collection of social contributions within the tax administration.

3. The assessment of the Government’s plan in this report is intended to assist the Government in taking a more informed decision on this issue based on lessons learned from international experience. Integration and fundamental reforms are complex processes and require adequate time, financial resources and careful management of the change process itself in order to be successful. In the report, we have pointed out the key challenges and risks and how these can be overcome. We have flagged the major issues that the Government must consider, and highlighted the challenges that the Government must be aware of when designing the establishment of a modern, unified revenue administration. We have recommended a medium term strategy that will take into consideration the key issues and concerns.

• STRATEGIC DIRECTION

4. Integrating agencies with different strengths and weaknesses is a massive task, yet many countries have accomplished it successfully and have benefited from it.

1 Countries that have integrated collection and related function of social contributions into a single revenue agency include Sweden, Norway, Finland, the Netherlands, Iceland, the United Kingdom, Ireland, Estonia, Latvia, Hungary, Slovenia, Croatia, Montenegro, Albania, Bulgaria, Romania, Russia, New Zealand, United States, Canada and Argentina.
There is no consensus on an international best practice in this area. Some countries have well-functioning integrated revenue systems, while others choose to administer revenue collection through separate agencies.

5. Institutional mergers involve not only integrating separate organizations into one entity but also assimilating distinct institutional cultures. There are differences in institutional history, competencies, staff remuneration, benefits and education levels. Moreover the same taxpayers and clients are accustomed to dealing with each of these agencies differently. There could be institutional resistance resulting in delay or even obstruction to integration. Assimilating these differences would require broad-based internal and external communication, and the development of a shared understanding and vision of the future. A perception of impartiality has to be maintained to balance the interests of the internal stakeholders so that the integration is not perceived as a take over of one organization by the other.

6. The predecessor agencies have to be fully confident that the successor revenue authority will be an improvement over the existing situation and would, in the least, maintain the quality of the existing processes and services. Moreover, if the implementation is not well planned and executed, integration could have negative consequences both for revenue performance and service delivery.

7. It is, therefore, important for the Government to formulate a clear vision of what the integrated revenue authority will be like, in terms of the legal status, the organizational design and the operational arrangements. The existing weaknesses in the different agencies need to be recognized and a well planned medium term strategy needs to be developed to address the key issues and the weaknesses. Integration alone, without comprehensive reform and modernization efforts, is unlikely to yield the desired improvement in efficiency and effectiveness.

Key Issues

8. Merging customs and tax administrations, on the one hand, and transferring collection function of social and health insurance institutions to the tax administration, on the other, present different sets of issues. Nonetheless a comprehensive and strategic view of the whole issue is recommended for the development of an efficient and effective revenue administration.

9. The report points out that full integration of the Czech Customs Administration (CCA) and the Czech Tax Administration (CTA) in their current state would risk failure since the CCA and CTA are at significantly different stages of development:

   (a) While the CTA has key competencies and resources in tax collection and audit, it has little or no focus on efficiency, client segmentation, self assessment, centralized processing, or risk management.
(b) There is very little emphasis on reduction in taxpayer compliance burden - the Czech tax system has one of the poorest ranking in this area.

(c) The General Directorate of Customs (GDC) is headquartered outside the Ministry of Finance (MOF), while the Directorate General of Finance (DGF) is part of the MOF with no independent headquarter function or center of management, which has inhibited its ability to plan strategically and to lead the modernization process.

(d) The CCA has had to modernize in order to comply with EU accession requirements and consequently has a good IT system and internationally agreed procedures in place. With no such pressure to modernize, the IT system in the CTA is relatively obsolete, fragmented and localized, although it has useful data linkages to other government agencies.

(e) The CCA has an impressive use of e-filing (more than 95 percent), compared to a very low level of e-filing (less than 5 percent) in the CTA.

(f) Both agencies have a large number of local offices far in excess of the requirements of a modern administration in comparable countries, resulting in dilution of key competencies in audit and investigation. For example, the CCA still does transaction-based audit instead of system-based audit.

(g) Both agencies perform non-core functions which detract from their main focus.

10. Integration of the two agencies without first ensuring that they are at approximately comparable levels of modernization would be extremely risky. For the Government’s merger plan to be successful, we recommend that modernization of the tax administration be a necessary pre-condition.

11. The current merger plan does not bring about any significant efficiency gains. The number and location of tax offices are planned to remain the same (around 200) in the proposed merged agency, albeit half of them will now be branch offices. In addition, there will still be 9 regional and 30-50 branch offices of customs guards. Overall staff reduction in the integrated agency is very small, from 22,926 to 19,850.

12. The current merger plan does not improve effectiveness nor simplify or rationalize revenue administration. Except for unifying collection and accounting of customs, tax and excise, there is little reduction in existing administrative workload or taxpayer compliance burden. Any merger strategy should deliberate on re-engineering

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2 The Doing Business Report 2008 shows that it takes a firm in the Czech Republic 930 hours to comply with the tax authorities, making the Czech Republic ranked 166 out of 176 countries.

3 The CCA has 8 regional directorates, 54 customs offices, 20 branch offices and 10 detached offices. The CTA has 8 regional directorates, and about 200 local tax offices (including special audit units).

4 The CCA conducts inspection of highway toll and truck weight. The CTA administers funding to local school and hospitals, conducts price audits and manages state lotteries.
business processes that would promote self assessment and use of an integrated risk management system.

13. With regards to the transfer of collection of social and health insurance contributions, Volume II of the report points to the intrinsic differences in the information needs of the CTA versus the social institutions – the Czech Social Security Agency (CSSA) and the health insurance institutions - for instance, individual level records, more frequent reporting, and life long history of payments. This is a fundamental premise that needs to be incorporated into the reform planning process.

14. Integrating revenue collection is not without significant risk. There is the possibility that important existing institutional knowledge in the social and health insurance institutions could be lost in the transition. The development of a new IT system to comprehend all revenue types will be very complicated. However, these risks are not insurmountable, and many countries have successfully improved the efficiency and effectiveness of revenue administration by integrating their functions.

15. The stringency of data requirement cannot be compromised. As similar reform experiences indicate, post-reform coordination between the agencies could be an issue. The risks of interim/partial/non-recoverable loss of information on the contributions could be significant. This risk needs to be mitigated by allowing the CSSA to operate a parallel system of collection transaction and processing until such point as it receives full details of collection information from the revenue agency, at which time full migration of collection function could occur.

16. The report highlights the fact that the CTA is institutionally weaker than the CSSA. The CSSA has successfully undertaken business system reform since 1995 and has been modernizing its business data platform.

17. The CSSA still faces key challenges with respect to information sharing with the health and tax systems, contribution arrears, obsolete model of risk management, low focus on tackling evasion in the shadow employment sector, and high compliance burden on contributors. These are core competencies of the CTA, and the transfer of the collection function to a modernized revenue authority, if planned and managed well, could bring gains in efficiency and effectiveness.

18. In the Czech health insurance system, the existence of multiple quasi-state-owned health insurance companies provides a level of choice for consumers and the potential for competition. A central register of insured persons has been established by the respective health insurance companies. However, there is duplication of network and functions (registration, collection, control, etc) due to the multiplicity of quasi-state-owned health insurance companies and their widespread office network.

19. The databases of the CSSA, health insurance, and tax administration often relate to the same clients, but the lack of coordination among the agencies means that such data can easily become fragmented and incorrect. Further, there are no incentives for the health insurers to maximize revenues since the level of service is not related to the
contribution payment\textsuperscript{5}. In addition, the lack of structured interface between revenue collection systems facilitates selective non-compliance by contributors.

**Medium Term Direction**

20. This report sets the ground for further systemic analysis and a workable implementation strategy. The reform initiative considered by the Government provides a great opportunity for efficiency improvements in the revenue administration – but also requires very careful planning.

21. A brief stakeholder analysis offered in the report suggests that in principle there is broad-based political and social support for integration. While disagreements exist, they mostly concern issues regarding the sequencing and pace of reform. Quite crucially, most groups recognize and/or emphasize modernization of tax administration as a first step towards integration of revenue functions.

22. Institutional reform, such as the creation of a unified revenue authority for collection of all taxes and social contributions, is a medium term, multi-stage process requiring at least a 4-5 year horizon. Objectives and strategy have to be linked. Prioritization and right sequencing are critical.

23. Reforming the tax administration should be at the core of the overall reform package. This reform should bring the tax administration to a reasonable standard, both in terms of a modern organizational structure and business processes that are aligned to self assessment and risk management principle, with the ultimate aim of reducing compliance costs for taxpayers and improving the efficiency of tax collection. This is a critical condition for integration of customs and collection of social contributions.

24. We recommend that an integrated view of the entire process of tax administration modernization, customs tax merger and unification of collection of social contributions be taken, since the ultimate aim is to establish an efficient and effective revenue system. At the outset, there should be agreement on the vision of the revenue authority and the level of institutional integration.

25. Successful integration will need broad support from the entire Government rather than just the MOF, Ministry of Labor and Social Affairs (MOLSA) and the Ministry of Health (MOH). It is important that in the legislative and procedural tasks, experts from all the three ministries, and other relevant ministries and government agencies are involved.

26. Early in the process, a Management Board consisting of the concerned ministers should be established – this is a good mechanism to achieve coordination and provide a permanent consultative process for any issues that may require Government attention.

\textsuperscript{5} Actually a perverse incentive induces taxpayers to pay the minimum contribution they can get away with because service levels are not tied to contribution levels. Fighting this disincentive can only be done with a reasonably harmonized tax base and information from other parties.
27. It is necessary to first establish an **appropriate governance structure** for the task of **developing an implementation plan** and managing, coordinating and overseeing the reform process.

28. **Regular communication with key stakeholders is crucial to ensure ownership** of the process. All staff groups in the affected agencies need to understand the need for cooperation towards a common goal. It is vital that leaders for managerial, technical and change management tasks are selected from tax, customs and social institutions and a perception of neutrality is maintained to balance the interests of the integrating units. The integration should not be perceived as a takeover of one organization by the other, but as a synthesis of a new, more modern agency.

29. The reform implementation process will require a **phased approach to institutional, organizational, business processes, and ICT changes**.

30. Institutionally, **harmonization of the legal framework** should be the first step toward implementing the reform. For instance, **harmonization of the taxable wage base** could be efficiently brought into accord well in advance of operational integration of collection functions. Issues regarding differences in working conditions, filing and processing procedures need to be settled. Likewise, a **clear demarcation of the roles and responsibilities** of each organization will have to be made so that there are no surprises or unclear expectations.

31. Organizationally, the objective of should be to **create a new management structure for the revenue authority with a solid headquarters function**, and build executive and managerial capacity, robust analytical capabilities and technical skills of staff is specialized in the tasks and requirements not just of tax collection, but also of customs functions and collection of social contributions.

32. In terms of the business processes, this should comprise of explicit strategic objectives. These key objectives will require the **development of a business model** that utilizes a one-stop-shop system of client registration, tax and contribution data filing, self assessment, audit and sanction, and accounts reconciliation. This will require engineering the revenue administration so that it can be grouped into front and back-office processes. We recommend that this integration should be undertaken in a phased manner:

   (i) Support functions such as HR, facilities, budget and accounts, statistics and IT support could be integrated much more easily.

   (ii) Gradually more technical functions could be integrated – these could include legal services, international cooperation, taxpayer services, collection, taxpayer accounts, arrears management, and audit procedures.

   (iii) Building on the integration of support and technical functions, subsequently, higher value added operational functions such as return processing, risk management, fraud investigation, and administration of large taxpayers could be integrated.
(iv) However, certain core customs functions within the unified revenue authority should continue to be performed by customs staff with expertise in that area.

33. Moreover, the non-core functions of the CTA and the CCA should be segregated from the revenue administration before any merger of revenue functions of customs, tax and social contributions are undertaken.

34. To mitigate the risk of loss of data, it would be well advised for the CSSA as part of the implementation planning to operate a parallel system of full cycle of payment transaction and document processing until such point as it starts receiving full detail of collection information from the new agency to its satisfaction, at which point full merger/transfer of the collection function would occur.

35. The requirements of the new ICT structure for the revenue authority has to be planned well in advance, preferably soon after the business model is developed, since software development and appropriate IT infrastructure usually take several years. This would include a central database system (including information, registration, data collection, payment reconciliation, management accounting and audit functionalities); centralized declaration and payment processing using front/back office models; and high-speed broadband network linking all office.

36. With a strong headquarters, the use of genuine self assessment, centralized processing and modern risk management, and a shift from localized geographical focus to a functional focus, the new revenue agency will gradually be able to significantly reduce the number of local offices, and achieve efficiency gains. We recommend that a placement service be incorporated into the reform implementation program, so that redundant local staff can be retrained and re-deployed locally in the private and public sectors.

37. There is strong political will to pursue an integration strategy, which has bipartisan support in Parliament. Meanwhile, the Czech Republic assumes the EU Presidency in 2009. This could divert political and institutional focus and resources for a considerable period next year. However, the EU Presidency will be only for six months. Mitigation of these risks and challenges should be worked into the integration strategy and action plan.
INTRODUCTION

The World Bank was invited by the Czech authorities to assess the merger of the Tax and Customs Administrations, and with an eye on the future integration of the collection of social contributions into a newly created revenue authority. This Volume I of the report is a result of the mission of the World Bank to the Czech Republic during February 18-25, 2008.

The visit was structured to assess the draft merger plan prepared by the Ministry of Finance of the Czech Republic and shared with the mission members in advance. The visit included meetings to understand the structure of the existing Tax and Customs Administrations: their organizational structure, business processes, HR management, and IT systems. The mission also explored political economy issues as well as the impact of the proposed merger on various stakeholders. A second World Bank mission during April 21-25, 2008 reviewed the current status of the health insurance institutions under the Ministry of Health, the social security institution under the Ministry of Labor and Social Affairs, and examined the key issues for the integration of the collection, enforcement and audit functions of social contributions. Mission findings are contained in Volume II of this report.

Upon completion of the assessment, the view of the World Bank is that the proposed merger should not be a stand-alone exercise. Rather, its design and implementation should be carefully crafted to complement a larger package of reforms and modernization of the revenue administration.

A. BACKGROUND

Integration of customs and taxes have received increased attention in recent years, as governments, the public and development agencies such as the World Bank, the IMF, OECD, and CIAT discovered that in an increasingly globalized world, lack of cooperation between the customs and tax agencies ultimately led to a decline in efficiency, effectiveness, and ultimately in the revenue collected.

Internationally, the roles of customs and tax authorities have changed over time. Customs has evolved from one focused purely on tariff collection and control over flow of goods and protection of domestic industry to one focused on facilitating trade, preventing harmful imports, and more recently, border security. Likewise, the outlook of tax administration has shifted from a punitive tax enforcement role to a service-oriented role that encourages self assessment and voluntary compliance backed by an effective risk-based audit system.

In EU member states, with open borders, and common EU policies on trade flows, the role of customs has changed, and even somewhat diminished. This is especially true for a country like the Czech Republic which is landlocked and borders other EU member states (Germany, Austria, Slovakia and Poland). As a result, customs has a much reduced role in the Czech Republic. Hence, in a general sense, merger of tax and customs into a single revenue agency does make sense for the Czech Republic.
Yet, there are core customs competencies that continue to be relevant, even in countries where the two agencies have been merged. It would also be important to ensure that before merging the two agencies, adequate investment is made to modernize and augment the capacity of the tax and customs administrations to be able to fulfill the large role of a unified revenue authority.

Another important consideration that needs to be highlighted is that the two agencies have separate hierarchical structures, independent statutes, and distinct organizational cultures. The tax administration is a civilian organization while customs is largely a uniformed force with different sets of enforcement powers and job benefits. Often national laws limit the chain of command of a uniformed force working under a civilian authority. Partly because of these differences, taxpayers are used to dealing with tax and customs agencies in entirely different ways. These differences are important considerations to be taken into account when designing an appropriate merger strategy. Principally, the merger should not be perceived as a takeover of one agency by the other, as often happens, but as a union of two agencies into a more efficient and effective organization that preserved the respective competencies of each.

In light of recent trends to merge these agencies, and the perceived benefits in improved performance, the Government of the Czech Republic adopted Resolution No. 1462, dated 20 December 2006, instructing the Ministry of Finance, Ministry of Labor and Social Affairs and the Ministry of Health, to produce a material for the Draft Consolidation Procedures. The Government was concerned that both the collection costs of tax administration and the compliance cost of taxpayers rank among the highest in Europe. The Government’s aim is to simplify and rationalize administration of taxes, customs and social payments to reduce internal and external efficiency, and to improve the effectiveness of these agencies in fighting against tax evasion in an integrated manner. It is also expected that the Program will increase the transparency of a modernized and integrated revenue agency.

**International Experience with Merger**

International experience bears witness to the fact that collaboration between customs and tax administration can take different forms and happen at varying levels of integration. In some countries, as in Denmark and the Netherlands, there is almost complete integration. In France and the United States, the tax and customs agencies operate separately. In many hybrid forms, the two agencies operate under one umbrella revenue agency or revenue ministry, but with varying degrees of organizational and operational assimilation.

Irrespective of the level of integration, in most modern revenue agencies, intense collaboration between the customs and tax agencies is common. Most functions are closely coordinated and centrally monitored. The IT systems between the tax and the customs agencies are linked so that data mining is facilitated without recourse to ad hoc and often lengthy processes of approval. Some countries coordinate risk management for customs and tax, through an economic intelligence bureau and joint audit which includes both customs and tax. The principles of system-based control, rather than transaction-
based control are regularly practised in most EU member states. Thus, enterprises are audited not on every isolated transaction, but on a comprehensive basis.

In France, where customs and tax operate as separate agencies, an inter-agency structure called Groupes d’Intervention Regionaux (GIR) was established in 2003, consisting of representatives of the police, gendarmerie, customs and tax. The GIR was established because of the realization that (i) a single agency often did not have the entire range of powers to investigate a case, (ii) fiscal penalties were swifter and more deterrent than the more formal judicial process, and (iii) major criminal offences were not fully pursued under fiscal law, thus leading to large tax evasion. The GIR pools all legal and intelligence resources and the agency which is the best placed is requested to carry out the investigation and pursue the case, while drawing on other resources as required. Each agency has online access to common (non-confidential) databases.

The desire to increase efficiency and effectiveness has been the main motivation behind mergers in recent years. Denmark, Canada, Latvia and the Netherlands represent typical patterns in motive and integration strategy, and choice of tools for merger. Before the merger, tax and customs in these countries had their separate hierarchical structures, independent statutes, and distinct organizational cultures so that taxpayers dealt with tax and customs agencies in entirely different ways. Tax rebates in one department could not be offset against taxes owed in the other.

In Denmark, the merger in 1990 fully integrated into one organization the central and regional offices and the operational units, each covering both tax and customs. Each regional office is organized into various enterprise groups and functions. Local offices, in particular border posts, are integrated into regional units. Some offices have a Customs Control Department. This change was combined with reducing managerial levels from 546 to 340. The main driver of structural change was increased efficiency obtained through better composite knowledge of each firm and better opportunities for staff to develop core competences.

In Canada, the process of merging Tax and Customs and Excise agencies began in 1992. By 1996 the Canada Customs and Revenue Agency put a new management structure in place; by 1999, the new organization integrated all front-line services and its back-office operations. The Customs function was also integrated into the regional structures, though subsequently the Customs Border Services became separate entities reporting to each regional Assistant Commissioner.

In the Netherlands, the Dutch Directorate-General for the Tax and Customs Administration (DGBEL) is integrated at headquarters, regionally, and locally. Between 1987 and 1992, the DGBEL went from a means-and process-oriented structure to a target-group and integrated structure. Within each office, separate teams assume responsibility for the fiscal treatment of specific client groups, irrespective of the taxes or customs activities. The integration involved not only the general organization but also the business processes, logistics management, and IT to optimize support to taxpayers. For instance, the Internal Audit Office of DGBEL audits both Tax and Customs cases.
Although mergers have led to increased efficiency and better coordination, the integration process itself has not always been easy or smooth. The process took between 6 and 10 years in Canada, Denmark and the Netherlands, and more recently Latvia. These mergers did encounter difficulties, especially in personnel issues.

In Latvia, the desire to join the European Union brought about strong focus and EU assistance to Customs, while the organizational design of Tax did not enjoy the same attention. This mistake was corrected recently, and the new overall modernization effort has included both tax and customs.

While no two countries are comparable in scope and resources, they nevertheless contain relevant elements for that are useful to study. The success of the initiative in these countries can be ascribed to a series of factors, the most important of which were:

- Strong and sustained leadership by the Government, and in particular, the Ministry of Finance;
- Involvement of staff at all levels ensured the ownership to the process;
- Their involvement in and responsibility for the design of the new agency structure and its internal re-engineering provided an opportunity for staff to put their own stamp on the new organization;
- Wide consultation with representative groups of clients to determine how best to develop new unified services; and
- A constant feedback on what did not work, or what might have worked better.

• THE STORY LINE

This report has two purposes. The first is to provide an independent evaluation on the Government’s merger plan, based on a review of the current status of the separate tax and customs agencies, while comparing them with modern revenue administrations around the world. The second purpose is to make recommendations for aligning Czech tax and customs system more closely with better practices in modern revenue systems in and outside the EU, and to thus recommend a roadmap for a merger process that would be more likely to succeed.

The report begins with holding the draft merger plan to its own stated objectives. The question we ask is whether the current design of the merger will achieve the government objectives of improved efficiency, simplified and rationalized revenue administration, preventing tax evasion and improving incentives to pay taxes. Upon a careful examination of the proposed organizational structure of the new combined revenue authority (the proposed General Finance and Customs Directorate), the report concludes that the current merger plan will stop short of achieving these goals if the modernization of the revenue agencies is not undertaken either simultaneously with, or ahead of, the merger. The main implication of the analysis in this section is that integration of the two agencies in their current state without their parallel modernization would be risky, since one of the preconditions for a successful merger is starting with modern revenue agencies.
Chapter 2 elaborates on what constitutes a modern revenue administration by examining the fundamental role and goals of revenue administrations in the globalized world. There are several basic features of revenue administrations that allow these administrations to be flexible in order to respond to rapid changes in business environment and methods. Those features include, among others, innovative approaches to risk management, taxpayer segmentation, non-paper environment, strategic planning, robust IT structure with digital inputs, and other features.

Chapter 3 holds the Czech Tax and Customs Administration to the modern standard described in the previous chapter and offers a preliminary assessment of the strengths and weaknesses both Tax and Customs Administrations. We found that not much attention has been paid by the Government in modernizing the Czech Tax Administration (CTA) which is found to have a poor risk management system, fragmented IT system, and extremely low e-filing. These problems are likely related to the most fundamental feature that the focus of the CTA is geographic rather than functional. There is a lack of taxpayer segmentation and unified application across regions. In contrast, Czech Customs Administration (CCA) has been more fortunate, since it had to comply with the EU accession standards and consequently has a solid IT system as well as impressive e-filing. However, the risk management is still transaction-based rather than system-based; there are many non-customs tasks that CCA performs; and there are too many customs offices, given that the Czech Republic is an EU country with no external borders.

Chapter 4 offers recommendations for improvement in both CTA and CCA in order for their merger to bring the results that correspond to GoCR objectives. The main recommendations for CTA are to introduce taxpayer segmentation and a new risk management philosophy; centralize routine processing functions that do not require face-to-face contact with clients; introduce a new service-based client attitude; and abolish requirement for paper documentation for e-filing. As for CCA, the report recommends aligning staffing, processes, and structure with the administration needs and with the new task setup; transfer non-customs functions to relevant agencies; and move from transaction-based to system-based control and thinking.

Finally, Chapter 5 suggests a recommended roadmap for the merger. It is necessary to first establish an appropriate governance structure for the task that would develop a strategic plan of the merger as well as of the broader revenue reforms, and determine appropriate sequencing of merging of the various revenue functions. Some functions common to all revenue agencies should be integrated, such as risk management, audit, collection, legal department, fraud investigation, IT support, HR, and internal administration. However, budgetary functions of the financial directorate should be segregated from the merger. The chapter concludes with two possible organizational models of a new integrated Revenue Agency, with an eye on the future integration of the collection of social contributions as well.
Evaluation of the Draft Merger Plan

Long term economic growth, higher revenues, and lower unemployment are among those broad macroeconomic goals of GoCR that are affected by how well the revenue administration is functioning. In order to achieve these goals, an efficient, simple, and customer-oriented revenue administration is imperative. Indeed, the objectives of the merger that GoCR states in its current draft merger plan (paragraphs 3.6-3.7) are precisely along those lines. The objectives include:

*Improved efficiency*, most notably by reducing the number of collection points, as well as reducing bureaucratic and administrative load.

*Simplified and rationalized revenue administration*, including provision of support for enterprises, improved taxpayer service, and making revenue administration and collection more transparent.

*Prevention of tax evasion and improved incentives to pay taxes*, which would involve emphasizing the new attitude toward compliance and changing the tax collection culture from punitive to voluntary compliance.

The current organization of CTA and CCA is depicted in Figure 2.1 below:

*Figure 2.1: Czech Republic – Revenue Administration Current Organization*
As the figure shows, both CTA and CCA are directly accountable to MoF; however, CCA (shown as General Directorate of Customs in Figure 2.1) is more autonomous and self-standing than CTA (denoted as Financial/Fiscal Directorates). Both administrations are highly decentralized with a two-tiered regional structure; this underscores geographic rather than thematic organizational structure.

The draft merger plan of the two administrations envisions a new organizational structure depicted in Figure 2.2 below. The integration of tax and customs administrations is proposed primarily as a framework for subsequent modernization6 at a later stage. The draft plan views integration as the first step towards meeting the stated objectives. It seems from the comments of the MOF and the CCA that the integration of tax and customs is considered as a precondition for further modernization.

The Government plan views the integration of tax and customs administration as a natural solution improving internal and external efficiency and improvement in functions. The main features of the plan are:

6 This includes centralization of IT, support functions and certain powers.
Detaching the tax administration from the MoF, in the interest of ensuring greater transparency and relative independence;

Unification of administration of all taxes within a single system of authorities;

Unification of collection and arrears recovery functions of taxes, while maintaining separate assessment of customs duties;

The overall reduction of the number of employees of the integrated system by 13.4% (from 22,926 to 19,850), with reduction in customs administration staff strength from 6,899 to 3,100 and increase in tax administration staff (including the new combined General Finance and Customs Directorate (GFCD) from 16,027 to 16,750;

Transferring excise taxes from customs to tax administration;

The replacement of the current eight accounting units for the eight regional Financial Directorates) and one accounting unit for the existing General Directorate of Customs with one single accounting unit covering the entire integrated tax and customs administration.

The creation of the Specialised Tax Office for specialized cases.

This new structure, however, does not differ significantly from the current organization. While it will create a single General Finance and Customs Directorate (GFCD), the underlying structure of the two administrations and their business processes will not change very much. Some of the local offices are renamed “branches,” but their numbers remain roughly the same. There is very little integration of common functions of the revenue administrations other than collection, recovery and accounting. There is no common approach to audit or risk management. The most significant change is that excise taxes will be transferred from the customs to tax administration.

As explained in greater details later in this report, in order for the Government to meet the stated objectives, merger of the two revenue agencies should be preceded by their modernization, and not vice versa. Hence the report recommends that the sequencing should be reversed, or alternatively, the modernization and the integration of common functions can be undertaken in parallel. Although considerable investment went in the CCA into re-engineering the business processes in customs, as part of the EU accession process, not enough reform effort or investments have been made so far for similar modernization of business processes in the tax administration.

The merger as proposed by the current draft merger plan, without simultaneously providing the CTA with the tools to modernize and improve efficiency and effectiveness, will fall short of addressing the stated objectives of the merger. This is so for the following reasons:

*Improved efficiency* cannot be achieved since there is little reduction in the number of collection points. Half of the “offices” will now simply be called “branches”, but many of the functions of a typical tax office will remain. In
addition, the plan to reduce tax administration staff is neither significant nor ambitious. Thus the new structure does not result in any significant savings for the Government. Finally, there will be very little reduction in the workload of the new agency, since it does not truly integrate, but rather combines CTA and CCA in their current state. In their comments, the CTA leadership mentioned that reduction in staff is problematic because of increased workload. This may be true, and leads to the need for looking at options for re-engineering business processes and digitalization to optimize workload. Reduction in workload and staff is impossible without the underlying modernization of revenue agencies.

*Simplified and rationalized revenue administration* will be difficult to achieve under the current merger plan mainly because there will remain a large number of local offices and the centralized processing will not be introduced. The CTA leadership has commented that centralized processing of filings will be problematic because paper documentation at the local offices allows taxpayers to visit tax offices and examine their records. They also fear that centralized processing will delay issue of refunds. International experience demonstrates quite the opposite, with centralized processing, in fact, helping speed up processing, and removing corruption by eliminating contact between taxpayers and tax officials. In this respect, it is important to note that the Czech Republic rank 166th out of 176 countries in terms of amount of time taxpayers have to spend in fulfilling their tax obligations. This means that, without improvement in tax administration, the merger will bring little improvement in support for enterprises and taxpayers’ service, consistency in revenue administration approach across local offices, or transparency of administration and collection.

*Prevention of tax evasion and improved incentives to pay taxes* are also not adequately addressed by the merger as currently proposed, although it does envisage the creation of “specialized audit units”. To be able to fight tax evasion effectively, it would be important to revamp the risk management under a harmonized compliance program. However, the merger plan does not deliver a harmonized compliance program. Under the new structure, risk-management system still remains fragmented at the level of local offices.

There are several preconditions for a successful merger of revenue administrations. These include:

- Clear vision of the objectives of merger
- Strong political support
- Reform-minded management

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Modern revenue agencies

While preconditions (a) to (c) seem to currently be present in the Czech Republic, precondition (d) has not yet been achieved. Upon completing the assessment, the World Bank’s view is that the integration of the two agencies in their current state without their parallel modernization cannot achieve the stated objectives and would be risky. Subsequent chapters of this report describe what modern revenue agencies entail, then assess Czech revenue administrations against such standard and recommend a path to modernization, and finally sketch a roadmap for the merger of the modernized agencies.
CHARACTERISTICS OF MODERN REVENUE ADMINISTRATIONS

INTRODUCTION

Laying down the key characteristics of a modern revenue administration will allow comparisons of the Czech tax and customs administrations with best practices internationally, and will help identify the gaps where attention needs to be focused. The overall goals of revenue administration in the Czech Republic and elsewhere are to collect revenue, increase taxpayer compliance, reduce the tax gap, and facilitate trade and commerce. Success depends in equal measure on being efficient in dealing with those who comply voluntarily with their tax and revenue responsibilities, and on being effective in dealing with those who do not. The key to maximizing compliance is to make compliance easy whilst making noncompliance unattractive - a situation that can be achieved by striking the right balance between client services and enforcement.

Constant changes in business environment and methods, globalization, and innovations in communication and information technology, etc., require revenue systems to be capable anticipating and adapting to change in time. Recent years, therefore, have seen major reforms in revenue administration all over the world. Central to these reforms has been the establishment of business like corporate governance practices, including the application of modern self-assessment and risk management methods, flexible organizational and staffing structures, and cutting-edge IT solutions.

The high-level strategy of modern revenue administrations is to: (i) gradually decrease the tax gap; (ii) create a level playing field for all taxpayers; and (iii) build trust and partnership between the tax administration and the taxpayer population. To achieve this, revenue administrations use a mix of compliance tools, including simple laws, awareness campaigns, taxpayer services, e-services, audit, enforcement, and deterrent actions. Sophisticated risk management systems are needed to ensure that these tools are utilized in a proportion and to an extent that best achieve the overall objective.

Many other factors, however, impact on the efficiency and effectiveness of tax systems and thus on compliance outcome. These include the political, socio-economic, compliance cultures and organizational context, as well as the tax policy and legislation, under which the system operates. Likewise, the organizational set up of the tax authority, management approach, institutional knowledge, resource allocations, the current status of IT-systems, taxpayer services and education, staff skills, as well as staff moral and corruption levels are important factors.

8 Tax gap is the difference between collected revenue and the potential revenue that could be collected if all taxpayers comply with their tax obligations.
9 This means that taxpayers do not have a business advantage compared to their peers by not paying tax.
10 Identification of compliance risks will direct the development of new tools for risk treatment.
KEY FEATURES OF MODERN REVENUE ADMINISTRATIONS

As Government Resolution 1462 illustrates, the Czech authorities are committed to modernizing revenue administration. It may, thus, be useful to highlight in more detail some of the key features of modern revenue systems that are relevant in the context of modernizing revenue administration in the Czech Republic. These main characteristics are discussed in the subsequent paragraphs.

**Legislation.** Simple laws and regulations are relatively easier to understand, implement, comply with, and present fewer chances of ambiguous interpretations. A feedback system, with constant dialogue both with the taxpayers, and the tax officials in the field, helps identify failures in the implementation of the legislation, and provides opportunity to take corrective measures. It seems from the comments of the CTA that the tax legislation in the Czech Republic has become increasingly complex. There are plans to simplify it at some stage in the future.

**Autonomy.** Modern revenue administrations have a fair degree of political autonomy in decision making in day-to-day management and operational activities.

**Impartiality.** The tax administration enhances taxpayer confidence in the administration through the display of fairness, impartiality, honesty and professionalism, and through the development of transparent systems and procedures.

**Public opinion.** Public opinion represents an important consideration for revenue authorities. The respect with which the revenue authority is held within the community impacts not only the community’s attitude towards voluntary compliance, but also the ability of the authority to successfully administer taxes.

**Voluntary compliance.** The promotion of voluntary compliance is a major strategic objective of modern tax administrations. In practice, voluntary compliance is achieved through a system of self-assessment whereby taxpayers, with reasonable access to advice from the tax administration, calculate their own tax liabilities; complete their tax returns; submit returns and payments to the tax administration (or even better to a bank); and some are then subject to audit based on a transparent risk-based system (discussed below). A taxpayer compliance strategy is designed and implemented uniformly throughout the country.

**Organizational structures.** Modern revenue administrations are organized to meet the most significant revenue risks and priorities. Special units requiring specific skills, and offering economies of scale are considered (e.g., returns processing centers, taxpayer call centers, tax intelligence, tax enforcement, audit units specialized by industry, etc.) The administration principally determines the structure, functional organization and allocation of resources throughout the organization by operational demand.

**Thematic rather than geographic focus.** Modern tax administrations are organized on thematic, rather than geographic basis. Organizational choices for tax administrations revolve around three basic models: tax type, functional, and client-segment (see Annex 1). While each model has advantages and disadvantages, most countries have adopted, as
the basic approach to domestic revenue collection, a functional organizational structure, including local offices responsible for operational matters. Within the overall function-based approach, a separate, full-service department, dedicated to large taxpayers has frequently been established. Because the organizational structure is a tool to properly align the tax administration’s work to taxpayers’ risks, organizational responses to such risks are continuously being pursued.

**Integration.** All tax administration and social contributions collection matters are commonly integrated and administered by a single tax administration. In some countries, customs is included within the overall organizational framework for revenue administration, as a part of the revenue administration. This is a more recent trend and depends on the specific location and needs of the country.

**Risk management.** The operational priorities of tax administrations are driven through the process of risk assessment (see Figure 3.2). Strategies to identify risks are developed. In the framework of its national and international environment, the tax administration analyzes the business and legislative trends and anticipates the risk of tax avoidance. The selection of taxpayers to be audited and selected for other types of control is based on the assessment of risk and the development of risk-based selection techniques. Modern tax administrations apply systems for risk-scoring taxpayers across major tax types in the targeting of high-risk compliance workload. Risk scoring systems use the characteristics of taxpayers to identify and assess their risk of noncompliance. This allows appropriate prioritization of audit and taxpayer service workload and allocates resources against the highest risks.

![Figure 3.2: Risk Management Process in Revenue Administration](Source: OECD.)
Risk management techniques must, as a practical matter, group taxpayers by a few major types of risks, picking visible characteristics as a proxy for underlying compliance behavior. Size is typically a starting point for this process, although multiple criteria are commonly used. In most revenue administrations compliance strategies for the largest companies are further refined by industry sector to develop industry financial norms and staff expertise necessary to perform effective audits of complex multinational businesses. Specific targeting of groups within the small taxpayer population is also undertaken, particularly for categories of businesses that have been identified as posing compliance problems.

Not all risks require treatment through audit and enforcement. Several may be addressed through targeted taxpayer services in the form of information campaigns, service calls\textsuperscript{11} and visits, etc. – or initiatives to change tax legislation. Such actions are less costly than audits and may impact on compliance for all taxpayers within a taxpayer segment, while an audit may only have limited impact on overall compliance. Thus, a well balanced use of compliance instruments will increase substantially the revenue agency’s options for narrowing the tax gap.

**Taxpayer segmentation.** The concept of taxpayer segmentation—creating an organization that can deal with taxpayers according to their specific needs, rather than as a homogenous group - is a key requirement in modern tax administration. Different categories of taxpayers have different service needs and present different compliance risks. Recognizing this, many countries have organized tax administrations based on taxpayer segments with separate operational offices and units for large and medium-sized businesses, small businesses and self-employed persons, individual wage and investment earners, and charitable organizations. In many cases, these tax administration departments are responsible for providing the full set of administrative functions to their designated taxpayer segments.

Taxpayer segmentation is an application of a basic marketing concept (market segmentation) to identify the unique characteristics of different groups of clients and design a marketing strategy that takes into account these characteristics. The rationale for organizing around taxpayer segments enables the revenue administration to develop a compliance strategy that includes the proper balance of service and enforcement programs to take into account the particular needs and risks of each group. Organizing in this way also enables accountability for compliance improvement to be more clearly aligned with a single organizational unit (e.g., a central large taxpayer department or medium-sized taxpayer office at the regional level) and provides a sound basis for improving the allocation of resources.

After a fully integrated, function-based organization has been established, implementation of segmentation, beginning with a large taxpayer department and a few medium-size taxpayer offices, is often at the heart of the revenue administration reform

\textsuperscript{11} In the UK, HMRC staff makes ‘service calls’ to businesses that have not been contacted in a long time to check if the taxpayer understands their responsibilities. Such contacts have been shown to have a positive effect on compliance.
strategy in many countries. Such an approach requires, however, the choice of an objective criterion—typically the turnover—to define what is a large or a medium-size taxpayer. International experiences show that micro-businesses usually represent the majority of enterprises (often from 80 to 90 percent) regardless of their corporate structure, while the revenue generated by their activity represents only a small portion of domestic tax collections (less than 5–10 percent in many countries). Conversely, less than 1 percent of the enterprises frequently generate more than 60–70 percent of tax revenues (the large taxpayers). Between these extremes, medium-sized enterprises often represent 10–20 percent of taxpayers, and frequently generate 20-30 percent of tax revenues as shown in Figure 3.3.

![Figure 3.3. Distribution of taxpayers and revenue](image)

**Taxpayer services.** An effective program of taxpayer services is a critical compliance instrument in modern tax administration. The general complexity of tax laws coupled with the relatively large populations of taxpayers to be administered mean that, fundamentally, all revenue authorities must rely substantially on taxpayers’ voluntary compliance to achieve their revenue goals. Increased voluntary compliance not only brings additional revenue at lower costs for both tax administration and taxpayers, it also allows tax administrations to focus audit and enforcement activities at taxpayers who pose severe risks to revenue.

Client services are tailored to the particular needs of the various taxpayer segments and the risk to revenue. Segmentation of taxpayers (e.g. large, medium, and small) allows for an integrated view across a taxpayer’s interaction with the tax administration (e.g. registration, filing, payments, audits) and, thus, opens up possibilities for partnership management. It enables the revenue administration to better identify the needs of the various taxpayer segments. Consequently, services are tailored to meet these needs, resulting in higher compliance across all taxpayers in the segment. The need for taxpayer services is determined in many ways, for example through: (i) taxpayer surveys; (ii) consultative meetings with taxpayer representatives; (iii) quality checks of taxpayer returns and other documentation prepared by taxpayers; (iv) analyses of the most visited topics on the revenue administration’s web-site; (v) most frequent telephone and written inquiries; and (vi) feedback from audit activities concerning the most common mistakes or those that have been most costly in terms of revenue.
Service activities do not only address the expressed need of the taxpayer; they also include assistance in areas in which the taxpayer might not even have realized that there is a problem. Thus, taxpayer services can have two starting points - the taxpayer’s need for contact to the tax administration or the administration’s need to reach the taxpayer. One aspect of taxpayer service is personal services at tax offices, call centers for telephone information service, and information through web-pages, pamphlets, advertisements and media commercials, etc. A second equally important aspect is prompt processing of taxpayer applications (e.g. tax refund claims) or complaints.

A modern revenue agency develops a comprehensive service strategy. The strategy is a major component of the agency’s overall compliance plan. Innovative and professional taxpayer services that adopt some of the sales and campaign techniques used in commercial businesses can achieve immense impact on taxpayer compliance. Services and products are tailored to meet the transaction and life-cycle needs of the various taxpayer segments and are designed from their perspective. Partnerships with industry groups, business associations, bankers and financial advisors are also very useful in providing information to their membership and clientele on general tax compliance topics and specific issues related to their field. Box 3.1 provides an overview of international trends in taxpayer services.

**Box 3.1: International Trends in Taxpayer Services**

- Understanding that an appropriate balance of resources between enforcement and service is a critical tool in achieving higher overall tax compliance as a measure to reduce the tax gap.
- Treating taxpayers as clients with rights that are codified in the form of charters, etc., and publicized.
- Public Agencies work together to provide coordinated services to clients.
- Tailored approach of service delivery to match the needs of various taxpayer segments and the risk to revenue.
- Service staff is highly qualified in terms of being able to match the expectations of taxpayers and those of their professional tax accountants and advisors.
- Establishment of client call centers and a move towards larger and more centralized service centers to ensure delivery of consistent, high quality service that enables specialization (e.g., by taxpayer segment or tax type and procedure).
- Services are available independent of time and place in step with the growing possibilities for electronic services (e.g., interactive telephones, e-services and web-pages).
- Provision of dedicated inquiry services for tax professionals.
- Taxpayer services (excluding staff involved with returns filing and coding) consume about 10 percent of a tax agencies human resources.
- Goal to move customers to web and e-services with compulsory e-filing and payments requirements for certain taxpayer segments (e.g., large taxpayers) and annual targets for take up rate.
- Consulting widely with taxpayers and/or their representatives prior to the implementation of changes.
- Establishing and monitoring service delivery performance according to prescribed performance standards; measuring client satisfaction; and demonstrating accountability by publicizing the levels of performance achieved against service standards set.
**Streamlined collection systems and procedures.** Simple forms and straightforward self-assessment, filing, and payment arrangements facilitating administration and compliance are in place. The administration takes care not to impose procedures that unnecessarily impede the business operations of honest taxpayers. Aimed at reducing taxpayers compliance burden, modern tax administrations streamline procedures, guided in this by four principles: (i) do not request more information than will be processed and used for the tax administration’s purposes; (ii) provide simple and clear information on what, how, where, and by when actions should be completed, and clearly delineate record keeping requirements; (iii) standardize procedures nationwide in order to avoid different treatment across different offices; and (iv) operate with transparency and public accountability. All of these argue for the critical importance of simplifying legislation, regulations, and forms.

**Information technology.** All tax administration work functions and processes are facilitated through modern information technology - to include communication and data interchange with other national and international bodies as well as taxpayers, etc. Generally, IT systems should adopt designs that centralize and aggregate data to facilitate control by headquarters, and should be integrated in nature, as opposed to having a separate IT system for each tax type. The taxpayer database system should be centralized with full access to taxpayer information, and not be fragmented at local tax offices. If any IT activity is outsourced, the tax administration should retain full control over the decision-making relative to the content and operation of IT systems.
Main Challenges in Czech TAX AND CUSTOMS ADMINISTRATIONs

B. INTRODUCTION

In the Czech Republic, government revenues from taxes and social contributions account for about CZK 1363 billion or 36 percent of GDP. Social contributions account for about 16 percent of GDP or 44 percent of the total revenues. Of the taxes, VAT accounts for about 7 percent, excises about 3.7 percent, corporate income tax about 4.4 percent and personal income tax about 3.7 percent of GDP. Collections from other smaller taxes account for less than one percent of GDP in aggregate (see Annex 2 and 3).

The Ministry of Finance (MOF) is responsible for drafting of legislation and for tax and customs policy. The MOF is acting as an umbrella for international relations and controls the Directorate General of Finance and the General Directorate of Customs. Further it performs activities resulting from its position as the highest administrative instance in customs and tax matters. Of the social contributions, health insurance is governed under the Ministry of Health. Social policy is the responsibility of the Ministry of Labor and Social Affairs which supervises all social protection related collections, enforcement, claims, disbursements through several agencies, and maintains the database on social protection.

C. TAX ADMINISTRATION

This section describes the diagnostic findings on the strengths and the main weaknesses of the CTA. We recommend that the weaknesses be addressed very soon, not only for the purpose of deciding on the merger of the tax and customs agencies, but also in themselves, since addressing them is critical for the functioning of a modern tax administration that the Czech Republic aspires to have.

Since the CTA will be the focal point of the Government discussions on: (i) the merger with customs; (ii) integration of collection functions of social security agencies; and last but not the least (iii) its own modernization per se, this section presents an international comparison of the CTA with tax administration in other similarly placed countries (Box 4.1). This will help provide a better appreciation of the level of attention that needs to be given by the Government in investing early in its modernization, in order for the CTA to undertake the challenging tasks of integrating revenue functions.

Being the main revenue collection agency of the government, the CTA’s core competency is in collection and audit. It has a large group of staff trained in audit, investigation of tax fraud and evasion, and in enforced collection. This makes the tax administration the best suited agency for comprehensive revenue collection functions of all taxes. Each tax office provides comprehensive service to taxpayers and has adequate resources to serve the collection functions for all taxes.

The tax administration is performed in a three-tier system in the Czech Republic comprising the following authorities: The Directorate General of Finance under the MOF,
Financial Directorates (FD), and Tax offices (TO). Unlike the Customs, where the General Directorate of Customs is an autonomous entity with its own budget allocation, the Directorate General of Finance is within the MOF, and each of the eight the Financial Directorates is a separate accounting entity receiving its own budget.

The Financial Directorates and the Tax Offices together comprise the so called Territorial Finance Authorities (TFA). The TFAs are responsible for tax administration and the transfer of tax revenues to the regions and municipalities based on agreed allocation matrix. CTA has undertaken the process of switching to an intra-community system for VAT commencing May 2004. It also carries out several budgetary control functions not directly related to taxes, such as funding of schools, hospitals and sports complexes, conducting financial audits, and administering penalties for breach of budgetary discipline. A minor task is price audit, which is foreseen to disappear in a couple of years. Finally it supervises lottery and other gaming activities.

At a typical Finance Directorate, about 16 percent of the staff is allocated to these budget department functions. At the Tax Office level, only those TOs that are located in district headquarters perform budget functions, while those in smaller towns perform mainly revenue functions.

The TFAs were established with effect as of 1 January 1991. There are in total 8 FDs, which together manage 199 TOs. Under some of the TOs there are branch offices so the total number of local units amount to 222. A total of 76 TOs are located in former offices of the regional authorities—12 in Prague, 4 in Brno, 3 in Ostrava and the remainder in the other major regional centers.

Currently the Czech Tax Administration (CTA) employs 16,027 staff. After the proposed merger, the CTA, including the new GFCD headquarters, is expected to have 16,750 staff. Part of this will result from the take over of excise functions from the Customs Administration. The monthly average salary of CTA staff is approximately 25 percent less than that of uniformed Customs officers.

CTA uses a widespread IT-structure, with servers in each tax office. It uses a good web-based interface with other government agencies such as the commercial courts where firms are registered, and the statistical bureau. It appears that there is some internal capacity to establish, upgrade and maintain any development towards real-time data flows, including third-party data, which are key to modern centralized revenue management systems.

Tax declarations are mainly keyed in locally while only one percent is received digitally. A face-vet check is performed of each tax declaration in order to insure that all data is present for processing. The administration wishes to replace the existing systems over the coming years with more a more cohesive system. (See Figure 1.1 in Chapter 1 for the diagram depicting the current organizational structure.)

In local tax offices, taxpayer information seems to be reasonably well organized at the taxpayer level. Unfortunately, information stored at the local office level makes it
difficult to carry out cross-country investigation involving multiple taxpayers attached to
different offices. The IT environment of the CTA seems to be based on antiquated legacy
systems that are character-based rather than a graphical user interface. The systems are
not stable enough for general deployment. Systems seem to be neither integrated nor
able to efficiently exchange data with each other. The notion of automatic assessment of
taxpayer risk was not apparent even at the local level.

<table>
<thead>
<tr>
<th>Box 4.1: International Comparison of the Czech Tax Administration</th>
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<tbody>
<tr>
<td>The Business Environment and Enterprise Performance Surveys undertaken jointly by the World Bank and the EBRD, and the Doing Business Report published by the World Bank jointly with several other agencies, provide useful comparative understanding of tax administrations across countries. The following are glimpses of the Czech Tax Administration, according to these studies:</td>
</tr>
<tr>
<td><strong>Time for businesses to comply with tax administration (hours per year)</strong></td>
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<tr>
<td>• In the Czech Republic an average firm requires <strong>930 hours</strong> (hrs) to comply with requirements of tax administration, including frequent visits, documentation, filings, etc.</td>
</tr>
<tr>
<td>• The Czech Republic ranks a very low <strong>166th out of 176</strong> countries in terms of time to comply. Only 10 countries are worse of (including Armenia, Nigeria, Belarus, Cameroon, Vietnam).</td>
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<tr>
<td>• All similarly-placed countries have significantly reduced taxpayer compliance time – Slovakia (344 hrs), Hungary (304 hrs), Slovenia (272 hrs), Russia (256 hrs), Turkey (254), Romania (198 hrs), Poland (175 hrs), Denmark (135), Germany (105 hrs), Canada (119 hrs)</td>
</tr>
<tr>
<td><strong>Problems doing business</strong></td>
</tr>
<tr>
<td>• <strong>80 percent</strong> of Czech firms reported tax administration as a problem in doing business compared to 50 percent firms in the average for EU8 countries.</td>
</tr>
<tr>
<td>• Corruption is relatively low by international standard – only 8 percent of firms report unofficial payments for tax collection. It is still higher than the average for EU8 (5 percent).</td>
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**Too many local tax offices performing routine functions**

Maintaining a large number of TOs with comprehensive functions in a situation where recruitment of specialized/high competences is difficult runs the risk of spreading these competences thinly over the country. The risk is that there will be too few in every TO to create an environment conducive to high quality work. This situation should be seen in the light of an ever increasing globalization requiring ever more specialization also by the tax administration to be able to cope with complicated customers.

Large number of TOs means duplication of tasks. The TOs process records, attendance, business travel, while the complete personnel, wage and training agendas are covered by the personnel departments at the FDs. The present situation indicates a large number of low specialization staff doing routine functions. Functions such as HR and IT support are duplicated to some extent. Routine tax return processing is handled by local TOs.

**Geographic focus (rather than thematic)**

Organization of the tax administration reflects geographic focuses rather than thematic. At present 199 TOs perform comprehensive functions covering the whole tax area plus a number of financial tasks. This implies a number of risks:
Lack of focus on competent and efficient service and control
Inefficient use of scarce competences
Lack of unified application of tax laws, business processes etc.
Lack of segmentation of tax payers/clients

Inadequate taxpayer service function

Focus on taxpayer service functions appears to be relatively new. Not all taxpayers are alike. Taxpayers should be met according to their needs for service or control. Absence of taxpayer segmentation according to size, industries, revenue importance and general attitude to compliance makes it difficult to focus the effort to improve compliance and thereby minimize the tax gap.

Historically the focus of tax administrations has been on control. Many administrations find that changing the mind set of tax officials is the most difficult aspect of changing any given administration when the aim is to create a more service-based approach to taxpayers. A centrally developed policy to create such change seems to be lacking.

No centralized return processing

The lack of central return processing indicates a large number of low specialization staff doing routine functions. There is scope for savings in considering a central return processing because of economies of scale. Introduction of central processing can be considered in connection with a reduction in TOs.

Poor risk management

The lack of centralized risk management systems makes it difficult for the tax administration to ensure the use of resources where they are most needed. There is no or very little data to help deploy resources with the right competencies and in the right quantity. This may easily lead to risks of inefficient use of staff. This, combined with the lack of a compliance plan setting out objectives and providing for efficient tools for the administration, makes it difficult for the tax administration to know where they are in relation to compliance and in which direction to move with their efforts.

Risk assessment is done at the TO-level according to information on the local taxpayers. Interviews indicate that in principle all declarations are processed locally (entered into the database and logical checks undertaken). Notes can be made in writing in the system to express the degree of risk in the tax official’s view. Although nationwide indicators are used as a basis for guiding the work of tax auditors, the available systems do not allow the use of information matching relating to other taxpayers in other TOs. There is inadequate appreciation of a centralized risk management system, and risk analysis. As a result it is not possible to analyze risks or categorize specific taxpayers on the basis of nationwide population of taxpayers, but only the relative risk within the local TO, based of course on national guidelines. The absence of a centralized risk management system leads to an inefficient resource use. Judging from a nationwide risk mapping, some local offices may have too many and other too few expert auditors. The MOF is working on a
technical modification of the present ADIS system, so that information is available in the ADIS central database and can be accessed by all tax offices.

**Lack of segmentation**

Lack of segmentation makes risk management difficult. Segmentation is a powerful tool when planning service and control. Segmentation can be done according to a number of criteria depending on the objective. From a service angle many countries differentiate according to the size and industry of taxpayers but it is also relevant to look at the compliance attitude of taxpayers in order to respond adequately i.e. with the right balance of service or/and control. To help focus on minimizing the tax gap segmentation according to revenue importance is very relevant.

**Fragmented IT system**

Due to its fragmented nature the IT-system does not support focus on production thereby hampering management’s possibilities to set targets for production (see above). Likewise it does not support the use of central risk management due to lack of full access to the information at the central level. The result is poor risk information at all levels.

The IT system does not support analysis of risk patterns across the nation and across industries inhibiting information sharing and heightening the risk of repeated crime across TOs.

**Excessive paper environment and underutilized e-filing**

According to information provided by CTA, e-filing remains at only about 1% of tax declarations. It appears from discussions that this is mainly due to legislative requirements for the filing of supporting documents. Pilot projects promoting e-filing are under way.

The level of e-filing will not improve unless it is made more attractive for taxpayers to use this solution both legally and functionally. More focus on making e-filing attractive should be accompanied by greater use of third party reporting allowing for pre-filled information on the tax returns. More use of third party information would greatly reduce the need for desk audits which seems to be widely used.

**Lack of unified application**

The sheer number of TOs in itself makes it difficult to ensure that there is unified application of tax laws, business processes, etc. The present situation as regards IT systems, etc. does not support these endeavors since it does not support information sharing across TOs and FDs. FD issues regulations and legal interpretations but have to rely on sample testing of TOs decisions to monitor uniformity. The situation is exacerbated by lack of uniformity in judgments by competent courts. Lack of uniformity is detrimental to voluntary compliance because taxpayers see different decisions on the same question across TOs.
Increasing transparency in society as a result of the internet makes lack of uniform application of law very visible and discourages shopping between TOs for the most favorable treatment.

**Lack of specialization – key competencies spread too thin**

Interviews indicate that the burden of having a comprehensive service at each TO creates problems i.e. in relation to the ability to effectuate controls of larger enterprises with complicated relations. There is a specialized audit unit in each regional capital which carries out tax audits in the region covered by the entire FD. There are a total of 149 officials in the specialized audit units.

Key competencies are obviously spread too thinly to be used efficiently. The creation of larger units with groups of specialists is not used widely. Special services to assist smaller TOs in difficult cases do exist. Larger specialized groups find it easier to develop and maintain their skills making them better situated to meet challenges from international enterprises, financial institutions etc.

**Lack of focus on competent service and control**

Efficient use of scarce resources implies the use of the cheapest tool to reach a certain goal. In regard to compliance this means that control should be focused where there is real danger of non compliance and loss of revenue. Control is expensive while the use of information and service visits can reach many more taxpayers with the same resource cost.

**Weak performance targets and measurements**

Discussion in FD, Prague and TO, Neratovice on issues concerning performance targets and measurements indicate lack of focus on the setting of goals to support policy objectives set by the Ministry of Finance. FDs do conduct appraisals of TOs and their employees, based on performance in audits and recovery of taxes. However, the CTA headquarters has less focus on monitoring the number of audits of different types and amounts of tax arrears recovery. The reason given was that such targets detract employees from focusing on revenue targets.

However, not setting up production targets and relying only on meeting expectations for revenue is dangerous. Not regularly monitoring centrally set goals makes it difficult for regional and local management to steer and develop the organization in a uniform way. The risk is that local practices not in line with the overall objectives can develop.

As an example, there is no centralized knowledge of the state of non filing of tax returns/declarations. The ADIS system includes information on failure to file tax returns on the basis of clearly defined criteria. However, this problem is left to local initiative with relatively low focus on central policy to support reducing non-filing.
D. CUSTOMS ADMINISTRATION

This section contains the diagnostic findings on the strengths and weaknesses of the CCA. We recommend that the weaknesses be addressed as early as is expedient for the Government when undertaking the merger exercise.

With greater globalization, the role of customs has changed from one focused purely on revenue collection, control over flow of goods and protection of domestic industry to one focused on implementing a broad range of government policies associated with facilitating trade, protecting the community from harmful imports, and more recently, border security. This is not to suggest that the role of Customs in collecting and accounting for revenues has diminished. In fact, in countries that have introduced VAT, Customs has a significant revenue role in collecting VAT on imports, and in issuing exit certificates on exports. The evolving role of Customs has required a new set of approaches and competencies. An appropriate balance between exercising controls over import, export and transit operations and at the same time facilitating legitimate trade has become the key challenge facing Customs administrators.

The CCA operates a three-tier system of authorities: The General Directorate of Customs (GDC), the Customs Directorates (CD), and the Customs offices (CO). It has core competencies in customs-related operations. The GDC is a national administration authority subordinated to the MoF, while the Customs Administration is further composed of eight CSs and 54 subordinated COs.

Unlike the CTA which is a part of the MOF, the CCA is a separate budget unit within the MOF. The CCA has its own legal, analytical and personnel departments. It has been able to relatively modernize its operations in conjunction with EU accession requirements. It carries out traditional customs tasks in relation to import, export and transit of goods, protection of intellectual property rights, as well as supervision of motorway tolls. Further, CCA is responsible for the collection of excise duties, collection of VAT on imports and other charges imposed by other state agencies.

The role of CCA is changing. Customs revenues are forwarded to the EU and the excise duty task is planned to be transferred to the Tax Administration. Focus will transfer to security and safety of international trade, protection of intellectual property rights and support for the revenue authorities.

CCA is has an approved staff strength of 6,690. Of this, 5,190 are uniformed while 1,590 are civilian. The uniformed staff has special authority in the Czech Republic and is interchangeable between the Czech police, the fire department and the prison service. They receive a salary which is approximately 25 percent higher than other government staff. CCA staff strength will decline to about 3,100 under the merger plan.

CCA IT is fully up to EU-standards and nearly all declarations are inserted electronically by traders. Each customs office has the necessary equipment to control and administer the inserted data and perform risk analysis. Customs has comprehensive plans to develop its
installations and software to levels requested by EU. (Current structure is presented graphically in Chapter 1 in Figure 1.1).

CCA has complied with EU accession standards

In relation to the accession to EU the Customs administration has complied with the EU standards which mean that all customs procedures and legislation are compatible with all EU countries. As part of the EU accession, the Czech Republic received visits from the EU-Commission as a part of the pre-accession monitoring. The administration has complied with the EU accession standards as regards to customs legislation - the EU Customs Codex and implementing provisions – and the Commission promotes best practises among member states in many areas – among these standards for use of risk management.

IT systems centralized with risk assessment module

IT systems are centralized with all information accessible to all staff with access granted. It includes a risk assessment module which operates on risk-criteria which can be set centrally or locally. Moreover, the Customs IT system transmits import and export data and other cross-border information to various other government departments and agencies including the Tax Administration, Ministry of Agriculture, Directorate General of Trade, and Czech Statistical Office (see Annex 4).

Risk assessment transaction based (as opposed to system-based)

Risk assessment is still transaction based but the administration is aware that EU-work on the future of Customs implies a switch to a more general system based control and risk management.

Too many offices

Because the Czech Republic is an EU member state, and all its borders are internal EU borders, 54 customs offices seem excessive. Fewer offices placed in accordance with industry needs should be considered. Considerations along these lines are underway according to information received at the customs office in Prague.

Close to full e-filing but paper still required

Traders lodge close to 99 percent of all customs declarations electronically. Papers still need to accompany the electronic declaration. EU does not require accompanying documentation and on question the Prague office stated that they did not need the documentation. Rather it is a national legislative requirement as on the tax side.

Specialization

The CCA uses centralization and specialization of certain tasks. The administration of for instance international property protection is centralized at the Customs Directorate in Hradec Králové, the certification of Authorized Economic Operators (AEO) at the
Customs Directorate in České Budějovice, and the publishing of mandatory information on the tariff classification of goods is centralized at the Customs Directorate in Prague. Possibilities for specialization could be explored further in connection with reform.

**Non-customs tasks**

CCA performs a number of non-customs tasks. These include among others weight control of lorries and control of payment of highway tolls. The duties seem not to have synergies with traditional customs duties. These duties could possibly be performed more efficiently by the road police. When restructuring Customs this should be taken into consideration.

**Multiple customs laboratories**

Stakeholders gave the impression that the work carried out by customs laboratories was sometimes flawed and would not hold up in court. According to the information received, CCA has several laboratories across the country. It takes very strong competencies to run a laboratory and the quality of work will benefit from a concentration of the laboratories into one unit. Some countries use external private laboratories and when reorganizing Customs one of these options could be taken into consideration. CCA plans to gradually centralize the customs laboratories, and is working on the process for the certification of the collection of samples and the accreditation of additional analytical methods and laboratory procedures that will facilitate the demonstrability of their results.

**Stakeholder critique of excise competencies**

While Customs core competencies are considered to be quite strong, stakeholders perceive weak competencies in excise duties and some legal matters. Stakeholder interviews point to weaknesses in the handling of excises which CCA took over from the CTA. According to sources in the CTA, CCA uses more resources on excise than the CTA did before the transfer of the duties. It has not been possible to verify these criticisms nor to determine the background for this view held by certain stakeholders. Excise was transferred to CCA, in relation with the EU accession, since the excise legislation is based on EU regulations, and because several EU member states have excise administration within customs.
Recommendations on modernizing revenue administrations

In the previous chapter we presented the strengths and weaknesses of both CCA and CTA, in order to highlight the need for the Government to invest early in the modernization of the revenue administrations as a necessary condition for the challenging task of integration. This chapter offers recommendations for improvement in both Tax and Customs Administration in order for their merger to bring the results that correspond to the GoCR objectives. The main recommendations elaborated below are as follows: (i) introduce new risk management and segmentation philosophy; (ii) introduce large taxpayers’ office; (iii) introduce service-based client attitude; (iv) align staffing, processes and structure from geographic to thematic focus; (v) centralize and integrate IT solutions; (vi) create incentives for e-filing; (vii) move from transaction- to system-based control; and (viii) focus on core business.

E. Introduce Nationwide Risk Management Philosophy

Modern Tax and Customs Administrations needs to build on a nationwide knowledge and assessment of risks. Risks should be understood in the broad sense, i.e., as risk to the organization, risk to introduction of new or existing legislation, risk to the political and economic environment, and risk to the stakeholders. Definition of stakeholders and their role and interests is an important issue, including taxpayers, traders, other governmental entities, international partners, and the general public.

Risk management should not to be seen as a static process but as an interactive process, in which information is continuously updated, analyzed, acted upon and reviewed. The risk management concept contains the following elements: context; risk analysis; treatment; and monitoring and evaluation. The context contains several political and economic issues such as information exchange between ministries, other authorities and international partners.

This means that risk management is not only based on risk analysis. However, the risk analysis element is a key element, and must be based on electronic and centralized data. A centralized risk management unit having access to all information available supported by centralized IT systems is recommended. Essential are the risks posed to revenue by non compliant taxpayers. Taxpayer segmentation is a starting point for reviewing risks.

F. Introduce Taxpayer Segmentation and Large Taxpayers Office

The segmentation can be done according to a number of criteria depending on the objective. Taxpayers can be divided in groups, beginning with the largest revenue contributors, medium and small. These groups can be further divided according to industry and compliance attitude. The segmentation can be used not only according to audit activities, but also according to service needs of different groups of taxpayers. For instance, many large corporations with trans-national transactions and complex financing and accounting structures would want to discuss their tax matters not with ordinary tax officials, but with specialist tax officials in Large Taxpayer Office (LTO) who are highly skilled professionals and understand their concerns and issues.
Enterprises have different needs and it is important to meet them individually according to their needs. Special and complex rules and international relations are just a few examples which call for high competences. Typically the largest 100 - 200 enterprises will contribute a very large proportion of the total revenue. It is important that these enterprises get a professional service from the revenue agencies. In the international competition to attract foreign investment and attractive enterprises a professional handling by the revenue authorities can be an important parameter for the enterprises’ choice of domicile.

G. **Introduce Service-Based Client Attitude**

Historically, the customer attitude in revenue agencies has been control-focused. However, focus is changing because of demands for cost effectiveness and a need to reduce administrative burdens and compliance costs.

It is very important to distinguish between the customers depending on their compliance. Partners who are willing to do things correctly must be rewarded, and informed correctly and punctually. Hereafter the partners will have the will as well as the ability to comply with rules and regulations. Information and service visits have an advantage over control activities because more taxpayers can be reached with the same resource costs.

To get the best benefit of information activities electronic communication must be used as much as possible and be accessible to the public. A communication strategy should be implemented and made known and visible for all stakeholders – internal as well as external. A centralized IT system, including a call center in which questions from and answers to taxpayers are registered would be a good tool to share knowledge and to ensure uniform answers. Furthermore a centralized system could be used as a tool to ensure that taxpayers do not go shopping between the offices looking for the most suitable answer.

H. **Align Staffing, Processes, and Structures from Geographic to Thematic Focus**

When introducing a new structure, it is very important to ensure that staffing match the organizational needs and in particular that the right competences are present or developed where needed. There is no need to have so many tax offices and branch offices. Many functions that do not require face-to-face contact with taxpayers - such as return filing and processing, IT platform, call centers, and risk management - should be centralized. This will help reduce the number of tax offices to more efficient levels, depending on service and revenue needs.

Similarly, high competence functions, such as field audits, post-control audits and fraud investigation should be placed at the central and regional level, rather than in local tax offices. To ensure right competences in the future and in a new structure the need for competences must be further analysed and gaps must be identified. Subjects such as globalization, digitalized processes, compliance strategy, new task set up, etc. must be core elements in this analysis.
Professional/technical environments are necessary to achieve and to keep the right competences at the right places. From a professional point of view high competence functions should be placed on central and/or regional level, such as the large taxpayer office and fraud investigation office.

Business processes are another important issue. Focus must be on the possibility to benchmark and upgrade the existing business processes - to ensure a uniform way of solving the daily tasks, and to ensure effectiveness. Managers as well as staff members must be involved in this benchmarking process where tasks and processes are compared to identify possible improvements and differences in quality. The benchmarking process should lead to a common way of thinking and to descriptions of standardized processes which should be used nationwide.

To ensure the right competence and the uniform processes mentioned above the number of offices must be considered in the new structure. There is scope for centralizing high competence functions. These functions could be placed at the central or regional level, e.g., large taxpayer office and fraud investigation office.

Functions like HR and IT support could be centralized as well. A central return processing centre could be established to save resources and to get more uniform data treatment. Call centres could be established to give information to and guide small and medium taxpayers. Information about complex rules or other high competence related issues should be answered by the large taxpayer office.

I. CENTRALIZE AND INTEGRATE IT SOLUTIONS

A modern administration needs to constantly consider how to meet technological developments. Globalization combined with the rapid pace of business transactions and upgrading of business methods as a result of IT development make demands for digital processes and interactive communication to be based on internet solutions. This means that the administration needs to improve the development of digital services in following areas:

- Self-services and e-filing solutions;
- Digital access to tax and customs information;
- Digital access to own data (citizens and enterprises);
- Building a call centre structure;
- Developing centralized and integrated return processing and data management systems.

In future all self-services and e-filing solutions should be based on digital solutions, independent of time and place. Digital access to tax and customs information should be developed as an individual and targeted access, based on a subscription arrangement, and with secure access to taxpayers. Digital access to own data has been introduced recently; this should be based on real needs from citizens and enterprises and comprehensive solutions across the revenue administration.
The call center structure will give more advantages to citizens and enterprises. There will thus be only one entry to the administration. The call center will make the necessary contact with specialist in the administration and the queries will be answered in a nationally consistent and unified manner. A comprehensive and uniform knowledge database will need to be created by a working group consisting of officials from all relevant departments. This should then be digitalized and made available online to the call center operators. Some of the staff whose duplicative routine functions may become redundant with the introduction of centralized processing, can be retrained and hired for the call centers.

Efficient implementation of digital services makes service and quality possible and at the same time release resources in the administration because tasks can be carried out more simply and effectively. Growth in digital solutions will be a win-win situation – the citizens and enterprises will get valuable and targeted services and easy accessible information and the administration will be able to create a channel strategy-based on compliance costs.

Functions as HR and IT support could be centralized as well. A central return processing centre could be established to save resources and to get more uniform data treatment. The attention on information from so-called third parties should be increased, e.g. banks, insurance companies, other authorities, etc. This will reduce compliance cost for ordinary taxpayers and for the administration.

J. CREATE INCENTIVES FOR E-FILING

International experience shows that e-filing has helped reduce compliance cost for taxpayers. It also saves administrative costs of entering information from the paper returns, and reduces the chances of typing errors by data entry operators. Unfortunately, in the CTA, only 1 percent of all tax returns are delivered electronically. Making e-filing attractive should be given high priority. According to information given by CCA, the figure of declarations delivered electronically is approximately 96 percent. Nevertheless it seems an unnecessary administrative burden to traders (importers, exporters and agents) that all declarations delivered electronically must be accompanied by delivery of paper documentation.

Inadequate awareness may also be an important reason for this dismal number of e-filing. But the main reason of the very low number of electronic tax returns is undoubtedly the legislative requirement to supplement any electronic declaration with written confirmation, electronic signature and supporting documents. This administrative burden should be removed by changing the legislation, both in tax as well in customs. Requiring electronic signature for e-filing is similar to asking for notarized signature for paper declaration. The procedure for e-filing should be made more user-friendly and appropriate software should be made available to taxpayers freely. Especially, electronic filing should be encouraged for VAT where returns have to be filed monthly.

Furthermore, a web-based intelligent system for validation of tax returns should be developed which could support the business rules and processes. This system should
ensure a valid data capture from the very beginning. It appears that the CTA has undertaken to develop such a system (the EPO application).

Analogous with this, change of legislation and marketing efforts for the new IT system targeted should be considered, with mass awareness multi-media campaigns and supporting taxpayer education programs.

K. MOVE FROM TRANSACTION- TO SYSTEM-BASED CONTROL IN CUSTOMS

Modern enterprises focus on internal audits as a more effective approach to managing their own business. A similar business culture needs to be introduced in the revenue administration. Future control and audits should take this development into account and, therefore, be based more on the internal audit systems and descriptions of internal processes in the enterprises, rather than on each import or export consignment. The principles of system-based control, rather than transaction-based control are regularly practised in most EU member states. The Czech Republic should consider moving towards this principle. This will help minimize administrative burdens and, at the same time, will facilitate international trade.

L. FOCUS ON CORE BUSINESS

The Finance Directorate and the Tax Offices in the Czech Republic perform a number of non-tax tasks including price audit, levying penalties for violation of budgetary discipline, administering lotteries and control of subsidies payments, including EU farm subsidies. There is very little synergy between these tasks and tax functions, implying that there is no cost advantage for having tax offices perform these financial duties. Likewise the Customs administration performs a number of non-customs tasks, such as checking weights of trucks and motorway tolls. These non-tax and non-customs functions should be transferred to the relevant agencies. Transferring non-revenue functions to a separate Budget Directorate in the MOF but outside the CTA will be important, given the plan to integrate collection functions of social contributions.

Focus should be concentrated on processes related to core business processes in the revenue administration. Core business in a revenue administration is related to such tasks as information gathering and matching, audit, taxpayer services, collection, recovery, and enforcement.

12 The concept and principles of the shift from transaction-based to system-based control are very well described in the paper, “The Future Role of Customs,” sponsored by the Directorate General of Tax and Customs Union, European Commission, Brussels, 2007.
roadmap for merger and modernization

M. CONTEXT

The Government Programme Declaration 2006 has raised concerns about the very high costs of tax administration (ranking among the highest in Europe) and very high compliance costs incurred by taxpayers in meeting their tax obligations. The Government lays down a clear vision and purpose: to simplify and rationalize administration of taxes and social payments, with the aim of increasing transparency, reducing administrative load, reducing the number of collection points, facilitating business growth, preventing tax evasion, and improving voluntary compliance, and thus raise tax revenues. The merger of the tax and customs authorities and integration of social contributions collections have been stipulated with this vision.

While the Government’s vision and objectives are clear and well perceived, the merger plan formulated recently does not achieve the main objectives of improving effectiveness and efficiency. As already discussed in Chapter 2, this review shows that, under the current merger plan, there is very little reduction in the workload or number of locations. It does not truly integrate common functions, but rather combines CTA and CCA in their existing state.

The review also showed that the CTA and CCA are in different stages of development. Thanks to the EU accession requirements, and the assistance provided for this, the CCA has complied with EU accession standards, with centralized IT and risk-assessment modules. On the other hand the CTA has been less fortunate in the attention paid by the Government for its modernization. It still has the old geographical focus (more than 200 locations), fragmented IT and risk management system. It will need a significant amount of public investment in modernization effort to bring it to a level where the CTA and CCA will be comparable organizations. The integration of the two agencies in their current state without their parallel modernization would be risky. The recommendations on modernization have been laid out in Chapter 5. In this Chapter, a roadmap for the merger and modernization is presented.

The priority for most governments that undertake merger is effectiveness, followed by efficiency considerations. This means that effective collection of revenue will be the top priority of any government. The efficiency of the agency will be second.

N. STRATEGY FOR MERGER

The clear vision of the objectives of merger needs to be supported by strong and sustained political leadership and support, and be followed by defining the right level and overall strategy for integration. A successful merger process must take a wide array of relevant political, administrative, legislative, budgetary and staff issues into consideration in order to ensure a successful merger.

The Government must decide on the tools and strategies that best fit the motive behind the reorganization. Professional assistance may be needed to develop these tools and
strategies. The strategy often includes operational integration of administrations to foster revenue collection cooperation, improve compliance, and serve clients. The risk management unit of both customs and tax should be integrated so that the risk profiles in their respective RMS are more complete and useful. Essential are the risks posed to revenue by non-compliant taxpayers and traders. Taxpayer segmentation is a starting point for reviewing risks. High competence functions, for both tax and customs, such as field audits, post-control audits and fraud investigation should be coordinated at the headquarters and regional level. To ensure right skills in the future revenue authority, the need for competencies must be further analysed and gaps must be identified. Subjects such as digitalized processes, compliance strategy, new task set up, etc. must be core elements in this analysis.

The new structure should take into account the complexity of tax and customs issues which vary for different categories of taxpayers. Both operational and functional integration can occur at central, regional, and local levels, depending on distribution of tasks. For instance, the Dutch merger focused on administration-taxpayer interaction at the functional level in regions and local offices. In Denmark, the priority was to increase the efficiency of tax and custom administrations, and centered on full integration of tax and customs at all levels to reduce administrative costs.

Planning of the merger process is crucial for a successful result. This includes the involvement of all key stakeholders in the design and implementation. A long-term strategy plan needs to be implemented through a medium-term business plan, defining the priorities and the needs of the tax administration (see Figure 6.1 below). Specific measurable, realistic and achievable objectives are assigned for the different levels of the revenue administration in the framework of annual operational planning. A set of significant performance indicators in all areas of activity is developed, which takes into account quantitative and qualitative aspects of the merging agencies administration, and is regularly reviewed and improved.

Classification by target groups should be used as the organizing framework. The complex treatment of fiscal matters will then have to be taken into account in the target group structure.

Involvement of staff at all levels is critical to ensure the ownership of the process. Their involvement in and responsibility for the design of the new organizational structure and its internal re-engineering will give opportunity for staff to put their own stamp on the new organization. Management and specialist teams will need to work out the highly complex details of implementation. This will serves to both calm fears and provide a sense of ownership of the integrated organization.

The merger process should also involve wide consultation with representative groups of clients to determine how best to develop new unified services.
O. **SEQUENCING OF REVENUE INTEGRATION AND MODERNIZATION**

Institutional reform like a merger is a multi-stage process. Determining the appropriate sequencing of merging functions of tax and customs agencies and social contribution is crucial. If the first priority is increasing effectiveness, this should be secured first, before efforts and resources are put into increasing the efficiency of the organization. In essence, motives and strategies must be linked; and the implementation process be carefully sequenced and necessary adjustments made.

The duration of the merger process has varied from country to country depending on the nature of the existing systems. Canada integrated its tax and customs and excise agencies over a period of 10 years, although effective integration occurred within seven years. Denmark and the Netherlands completed their mergers in much shorter time frames.

As pointed out earlier, in our view, modernization of the revenue administrations is a necessary condition for the challenging task of integration. It is recommended that the merger of tax and customs should be undertaken either following, or in parallel with, the modernization of the tax administration as discussed earlier. The integration of social contributions can also be taken up in a phased manner, as has been described in Volume II of this report. The following recommended sequence will help structure the modernization and merger in logical steps:
• Establish an appropriate governance structure, a Modernization and Strategic Planning Unit to manage, coordinate, and oversee the modernization and eventual merger process
• Appoint a highly motivated and professional chief for the modernization and merger process. This person will become the focal point of the process for politicians, other government departments, staff, and the general public and international agencies.
• Develop a strategic plan with mission objectives for the new revenue agency.
• Conduct functional review, IT review and business process review.
• Develop a detailed implementation plan, laying down the structure for the new organization, the business process design, the IT system, the staffing plan, and the financial requirements and sources of funding.
• Develop new common revenue administration legislations.

P. UNDERSTANDING RISKS AND THEIR MITIGATION

Tax and customs administrations are shaped by different historic developments, and often represent different organizational cultures, with employees having differences in education, remuneration, incentives, and institutional history. The cultures of the agencies often differ where a distinct culture existed in the largely uniformed service of the Customs. In merged tax and custom agencies most employees continue to deal with either tax or custom matters. These issues are relevant for the Czech Republic also.

Internal communication and data exchange are crucial to integration. Both staff groups need to respect each other and understand the need for cooperation. It is vital that leaders are selected for both managerial skills, and a perception of neutrality is maintained to balance the interests of the merging organizations. The merger should not be perceived as a takeover of one organization by the other, but as a synthesis of a new, more modern agency.

For instance, in the Danish merger, there was a broad-based process where all staff was invited to participate in drafting the new agency vision. This vision was accepted by staff across the two former administrations. All staff had background in one of the former organizations. However, in retrospect, the impact of the merger was not fully realized until later, when new staff was recruited.13

Legislation should prescribe regimes for assessment, collection, penalties, and appeals with the ultimate objective of seamless administration by a staff trained in all aspects of the new authority’s role.

While the duration of merger varies, there is an obvious advantage of a short implementation period in that the goal of the merger is reached earlier. It is likely that the organization will be less efficient during the early transition phase, and the faster the

merger process is, the better it is from this perspective. A successful merger requires the attention and support of a number of different stakeholders. Delays might distract and cause loss of focus due to other developments and circumstances. In such cases it is important to adjust the process according to evolving changes in the environment.

Q. **INTEGRATION OF COMMON REVENUE FUNCTIONS**

Most countries that have improved effectiveness and efficiency have integrated many common functions. Customs core-operations are usually not truly integrated with those of the tax administration. This is because of the inherent real-time nature of customs physical control and preventive functions over its transaction environment (border crossings, international airports, secure warehouses, and so on). Furthermore, certain non-fiscal role for customs, such as security-related tasks will need to be kept apart. However, many common functions should be integrated to improve effectiveness and efficiency. These include: (i) risk management; (ii) fraud investigations; (iii) audit, including post-control audit; (iv) collection including enforced collection; (v) Legal department; (vi) IT support; (vii) human resource; and (viii) internal administration.

R. **LOCATION OF REVENUE FUNCTION**

Joint localization of customs and tax functions should be encouraged to the extent possible. Core customs functions (import, export transit, safety, and security) should, however, be dealt with in a separate customs channel, and will, by its very nature require independent location. Road police tasks could be transferred to another relevant agency.

The budgetary functions of the financial directorate, including price audit, financial audit, audit of subsidies and management of lotteries should be segregated from the new organization and should be placed under a new Budget Directorate, directly under the MOF, as shown in the chart below.

The separation of budgetary functions will, to some extent, soften staff redeployment. About half the employees in many regional Finance Directorates work on budget functions. These can, and should, be retained in their existing location to foster efficient delivery of service to budgetary organizations. That will leave only the revenue staff for effective redeployment.
S. ALTERNATIVE MODELS FOR THE MERGED REVENUE AGENCY

Based on the review and the recommendations discussed above, below are two model structures for the merged revenue agency. Under both scenarios, the integrated agency performs functions of customs and tax, as well as collection, audit and enforcement functions for social contribution. Social policy, as also identification of beneficiaries, claim entitlement, disbursement, and payments will continue to be administered by agencies working under the MOH and MOLSA.

The integrated agency will be headed by a Director General (DG) with direct supervision over the critical modernization and merger activities carried out by the Departments of Reform Management, and Strategy, Planning and Media. Because of the importance of an integrated and centralized risk management system, this activity is also directly under the DG. Internal Audit Department (internal supervision of revenue officials’ work), and Appeals Department are also typically under DG’s direct control.
The DG will be assisted by five Deputy Director Generals (DDGs) who will supervise integrated functions. The DDG for Support Functions will supervise all shared support functions such as HR management, facilities, budget and accounts, IT and statistics under both models. Please note that for IT and statistics, the shared services include information on social contribution collection, audit and enforcement databases.

The DDG for Procedures and Process Design will be responsible for designing procedures and process for audit, taxpayer service, arrears management, and legal and international issues, interpreting revenue provisions, and developing technical manuals and instructions for tax, customs, and social contributions.

Because of the revenue importance and special needs of large taxpayers (LTs), there will be a DDG for Large Taxpayer Management responsible for managing LTOs, and designing procedures for LT registration, audit, post clearance audit, taxpayer service and arrear management for tax, customs, and social contributions.

The DG and three DDGs mentioned above will be identical under both scenarios. However, under Model I, there will be two separate DDGs, one for Field Operations and the other for Centralized Operations.

The DDG for Centralized Operations will be responsible for centralized functions like return processing, call centers, and fraud investigation. These functions, though centralized, need not be operated from Prague. For regional balance, the possibility of locating centralized return processing and call centers in some other regional city may be considered.

Under Model I, the operations are split between field operations and centralized operations. The DDG for Field Operations will supervise field operations for both core customs control functions (import, export, transit, anti-smuggling, security and passenger control), as well as for combined revenue functions of tax, customs and social contributions (registration, audit, customs-related post control audit and collection).

Under Model II below, however, operations are divided on functional lines, between uniformed control and investigation function and civilian revenue functions. DDG Operations I will supervise core customs control operations and fraud investigation. This DDG will be a uniformed officer. DDG Operations II will supervise civilian revenue operation (registration, audit, customs-related post control audit and collection), as well as back office functions of centralized return processing and call centers.

Czech law does not allow uniformed officials to work under, or be supervised by, a civilian official. The entire change of command has to be uniformed. To avoid this from affecting the integration of the revenue agencies, it may be advisable to amend the necessary law to permit uniformed customs officials to work under a civilian DG. If this amendment is not likely, it may be necessary to appoint a uniformed official as the Director General. Accordingly, under Model I, the DDG Field Operations and DDG Centralized Operations will then have to be a uniformed official too. Under Model II, the so-called DDG Operations I will have to be uniformed.
These two models are illustrations based on the fundamental principles for modernization and integration of tax, customs and social contributions. While the underlying principles are essential, the model for the organization and functions can be modified to address the specific conditions of the agencies, and the evolving environment, as the merge process progresses.

In either case, we recommend that this integration should be undertaken in a phased manner:

support functions such as HR, facilities, budget and accounts, statistics and IT support could be integrated much more easily.
Gradually more technical functions could be integrated – legal services, international cooperation, taxpayer services, collection, taxpayer accounts, arrears management, and audit procedures.

Subsequently, higher value added operational functions such as return processing, risk management, fraud investigation, and administration of large taxpayers could be integrated.

However, certain core customs functions within the unified revenue authority should continue to be performed by customs staff with expertise in that area.
Annex 1. Typical Tax Administration Organizational Structures

There are essentially three types of organizational structures for revenue administrations.

**Type of tax.** One of the oldest structures is the tax-based model under which separate departments are set up to administer specific types of taxes. Each revenue department performs virtually all of the functions required to administer the taxes for which it is responsible. The main advantage of this approach is that it establishes clear accountability and control for each tax. The main disadvantages are: (1) high administrative costs; (2) high compliance costs for taxpayers (through having to deal with a variety of departments); and (3) vulnerability to collusion between taxpayers and tax officials (with fewer checks and balances as each department operates autonomously).

**Function.** Under this model, separate departments are established for each of the major administrative functions (e.g., processing returns and payments, auditing, and collecting arrears). The major advantages of this approach are: (1) improved taxpayers’ compliance (through for example the ability to conduct joint audits for all taxes); (2) increased staff productivity; and (3) reduced scope for collusion between taxpayers and officials. The main disadvantage is that unique taxpayer service needs and compliance issues may not be adequately addressed.

**Taxpayer segment.** In this approach, the staff provides a full range of administrative services to designated group of taxpayers. The groups are usually based on the taxpayers’ scale of operations and the corresponding risk to the revenue and service needs. The advantages of this approach include: (1) strengthened accountability for organizational outcomes; (2) allocation of resources based on risk to the revenue; and, (3) better matching of enforcement, service, and educational programs to types of taxpayers. Typically, these organizations have divisions responsible for large corporations, medium-size enterprises, and small businesses.
Annex 2: Tax and Social Contributions in Czech Republic
(% of GDP)
<table>
<thead>
<tr>
<th>Main taxes, tax/GDP ratio and tax shares, GFS IMF</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General government revenue</strong></td>
<td><strong>bill. CZK</strong></td>
<td>911.4</td>
<td>974.4</td>
<td>1049.4</td>
<td>1187.7</td>
<td>1234.8</td>
<td>1314.7</td>
<td>1405.4</td>
<td>1508.6</td>
</tr>
<tr>
<td>prev. year 100</td>
<td>109.3</td>
<td>106.9</td>
<td>107.7</td>
<td>113.2</td>
<td>104</td>
<td>106.5</td>
<td>108.9</td>
<td>107.3</td>
<td>103.8</td>
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<tr>
<td>% GDP</td>
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<td>39.5</td>
<td>40.7</td>
<td>42.2</td>
<td>41.3</td>
<td>40.7</td>
<td>39.8</td>
<td>39.5</td>
<td>38.1</td>
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<tr>
<td><strong>Taxes and social contributions</strong></td>
<td><strong>bill. CZK</strong></td>
<td>806.3</td>
<td>858.7</td>
<td>922.6</td>
<td>1048.6</td>
<td>1098.6</td>
<td>1152</td>
<td>1267.8</td>
<td>1383.2</td>
</tr>
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<td>107.4</td>
<td>113.7</td>
<td>104.8</td>
<td>105.8</td>
<td>109.1</td>
<td>107.5</td>
<td>103.4</td>
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<td>34.8</td>
<td>35.8</td>
<td>37.3</td>
<td>36.8</td>
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<td>35.7</td>
<td>34.3</td>
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<tr>
<td>% total tax revenue</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Individual income tax</strong></td>
<td><strong>bill. CZK</strong></td>
<td>335</td>
<td>367.4</td>
<td>388.9</td>
<td>452.8</td>
<td>482.1</td>
<td>524.8</td>
<td>572</td>
<td>609.2</td>
</tr>
<tr>
<td>prev. year 100</td>
<td>107.4</td>
<td>109.7</td>
<td>105.8</td>
<td>106.5</td>
<td>108.9</td>
<td>109</td>
<td>106.5</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>% GDP</td>
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<td>14.9</td>
<td>15.1</td>
<td>16.1</td>
<td>16.1</td>
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<td>15.9</td>
<td>15.4</td>
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</tr>
<tr>
<td>% total tax revenue</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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<td><strong>Corporate income tax</strong></td>
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<td>111.4</td>
<td>111.9</td>
<td>101.3</td>
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<td>% GDP</td>
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<td>4.3</td>
<td>4.6</td>
<td>4.7</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.4</td>
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<tr>
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<td>12.2</td>
<td>12.4</td>
<td>12.4</td>
<td>12.3</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Social contributions</strong></td>
<td><strong>bill. CZK</strong></td>
<td>335</td>
<td>367.4</td>
<td>388.9</td>
<td>452.8</td>
<td>482.1</td>
<td>524.8</td>
<td>572</td>
<td>609.2</td>
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<tr>
<td>prev. year 100</td>
<td>107.4</td>
<td>109.7</td>
<td>105.8</td>
<td>106.5</td>
<td>108.9</td>
<td>109</td>
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<td>15.1</td>
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<td>16.1</td>
<td>16.2</td>
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<tr>
<td>% total tax revenue</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Value added tax</strong></td>
<td><strong>bill. CZK</strong></td>
<td>149.3</td>
<td>155.1</td>
<td>164.3</td>
<td>202.1</td>
<td>207.9</td>
<td>209.8</td>
<td>227.6</td>
<td>271.5</td>
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<tr>
<td>prev. year 100</td>
<td>100.6</td>
<td>103.9</td>
<td>105.9</td>
<td>123</td>
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<td>109.9</td>
<td>118.2</td>
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<td>% GDP</td>
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<td>6.3</td>
<td>6.4</td>
<td>7.2</td>
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<td>19.3</td>
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<td>18.0</td>
<td>18.1</td>
<td>19.9</td>
<td>20.4</td>
</tr>
<tr>
<td><strong>Excises</strong></td>
<td><strong>bill. CZK</strong></td>
<td>76.8</td>
<td>79.5</td>
<td>87.5</td>
<td>99.2</td>
<td>110.5</td>
<td>119.9</td>
<td>129.4</td>
<td>142.6</td>
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<tr>
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<td>107.6</td>
<td>103.6</td>
<td>110</td>
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<td>117.4</td>
<td>118.5</td>
<td>117.9</td>
<td>110.2</td>
<td>101.1</td>
</tr>
<tr>
<td>% GDP</td>
<td>3.3</td>
<td>3.2</td>
<td>3.4</td>
<td>3.5</td>
<td>3.7</td>
<td>3.7</td>
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<td>3.5</td>
</tr>
<tr>
<td>% total tax revenue</td>
<td>9.6</td>
<td>9.3</td>
<td>9.5</td>
<td>9.5</td>
<td>10.1</td>
<td>10.3</td>
<td>10.2</td>
<td>10.5</td>
<td>10.2</td>
</tr>
<tr>
<td><strong>Other taxes</strong></td>
<td><strong>bill. CZK</strong></td>
<td>36.9</td>
<td>36.8</td>
<td>27.7</td>
<td>25.5</td>
<td>27.4</td>
<td>29.4</td>
<td>30</td>
<td>30.9</td>
</tr>
<tr>
<td>prev. year 100</td>
<td>89.4</td>
<td>97.4</td>
<td>107.3</td>
<td>71.8</td>
<td>91.9</td>
<td>107.5</td>
<td>107.4</td>
<td>101.8</td>
<td>103.1</td>
</tr>
<tr>
<td>% GDP</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>1</td>
<td>0.9</td>
<td>0.8</td>
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<td>0.8</td>
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<tr>
<td>% total tax revenue</td>
<td>4.6</td>
<td>4.2</td>
<td>4.2</td>
<td>2.6</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>

1) **General government revenue** are consolidated. Consolidation involves the elimination of all mutual interest, current and capital transfer flows within one subsector and between individual general government subsectors.

2) **Compulsory and voluntary payments of employers: (on behalf of employees), employees, self-employed and non-employed persons to social security funds and insurance enterprises.**

Since 2004 social payments for state insured are no longer consolidated within government sector and this item is therefore adjusted for this value.

3) **This item consists of taxes from lottery, import duty, taxes from financial and capital transactions, capital taxes and other taxes on production.**

Source: MoF, Macroeconomic forecast /2007
### Quality and Quantity of Transmitted Data from the Customs Administration in 2007

<table>
<thead>
<tr>
<th>No.</th>
<th>Description of provided data</th>
<th>Recipient</th>
<th>Frequency of transmission</th>
<th>Volume per year</th>
<th>Quality of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Selected data from customs declarations (SAD) relating to import and export of agricultural and food commodities</td>
<td>State Agricultural Intervention Fund</td>
<td>daily</td>
<td>140 MB</td>
<td>99%</td>
</tr>
<tr>
<td>2.</td>
<td>Selected data from customs declarations (SAD) relating to import and export of agricultural commodities</td>
<td>Ministry of Agriculture</td>
<td>daily</td>
<td>120 MB</td>
<td>97%</td>
</tr>
<tr>
<td>3.</td>
<td>Selected data from customs declarations (SAD) relating to import, export and from connected control registers in respect to agricultural commodities</td>
<td>Ministry of Agriculture</td>
<td>weekly</td>
<td>830 MB</td>
<td>95%</td>
</tr>
<tr>
<td>4.</td>
<td>Selected data from customs declarations (SAD) relating to import of a food commodities</td>
<td>State Agricultural &amp; Food Inspection</td>
<td>weekly</td>
<td>50 MB</td>
<td>98%</td>
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<tr>
<td>5.</td>
<td>Selected data from customs declarations (SAD) for the purposes of verification of documents in relation to the fulfillment of tax obligations of taxpayers</td>
<td>Tax Administration</td>
<td>weekly</td>
<td>870 MB</td>
<td>99%</td>
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<td>6.</td>
<td>Selected data from export and import customs declarations (SAD) for the purposes of statistics on foreign trade</td>
<td>Czech Statistical Office</td>
<td>twice per month</td>
<td>5 100 MB</td>
<td>98%</td>
</tr>
<tr>
<td>7.</td>
<td>National central database SEED (authorization of persons) - two-way synchronization od data with the EU central database SEED</td>
<td>DG TAXUD</td>
<td>daily</td>
<td>900 MB both ways</td>
<td>99%</td>
</tr>
<tr>
<td>8.</td>
<td>Selected data from customs declarations (SAD) relating to quotas and supervision of goods</td>
<td>DG TAXUD</td>
<td>daily</td>
<td>250 MB</td>
<td>99%</td>
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<tr>
<td>9.</td>
<td>Selected data from customs declarations (SAD) relating to certain types of duty (antidumping)</td>
<td>DG Trade</td>
<td>monthly</td>
<td>20 MB</td>
<td>98%</td>
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<tr>
<td>10.</td>
<td>Data registering trade with goods within the EU - Intrastat</td>
<td>Czech Statistical Office</td>
<td>twice per month</td>
<td>1 500 MB compressed</td>
<td>95%</td>
</tr>
<tr>
<td>11.</td>
<td><strong>Data exchanged within the Customs Administration (CO - GDC)</strong></td>
<td>Customs Administration</td>
<td>daily</td>
<td>1,1 TB</td>
<td>96%</td>
</tr>
</tbody>
</table>
REFERENCES


Tax Administration and E-government: The Case of the Czech Republic, Jiri Pribil, Jan Pavel, Leos Vitek, Grant Agency of the Czech Republic.

