

**TAX ADMINISTRATION STRATEGY
2008-2011
PROGRAM**

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Tax revenues provide the major contribution to the state budget in present as well as during the upcoming period. Currently, the government focuses both on the collection level and on implementation of modern, fair and consistent tax administration measures. The State Tax Service (STS) is a public institution which interacts on a daily basis with the citizens and the economic entities of Armenia, hence the conduct and the administrative measures implemented by the tax officials are viewed as part of the government policy.

Tax administration should create minimal problems for the business circles through establishing clear and comprehensive reporting and filing provisions, performing limited and efficient audits, fighting against dishonest tax officials, and ensuring adequate transparency of the STS activities. Such a policy of tax activities should pay off the Armenian businessmen for the relatively higher costs and other similar problems they face in the region. To solve these problems the STS should develop its comprehensive mission, strategy, objectives and the plan of respective measures for achieving them.

THE STS MISSION

The mission of the STS is to ensure sustainable tax revenue collection, emphasizing the principle of addressing taxpayers' needs

During the upcoming years, the tax administration strategy will be based on the 2008-2012 government program, laws regulating the fiscal sector and the best international and domestic practices of the recent years in this area. It is planned in the long-term period to achieve a tax administration system which will meet the modern requirements, through a gradual reduction of short-term faulty developments, specific for the previous periods and achievement of equitable and righteous implementation of tax laws. As a key element in ensuring activities of the economic sector, tax reforms will be based on the principles of minimizing the losses and achieving the maximal results. This paper outlines the main direction of the tax administration reforms. In order to fulfill its mission, the STS must implement specific programs, impose effective control and assessment of the expected results and ensure the public outreach. The STS has established 7 main goals aimed at fulfilling its mission, which are described below.

The government will be consistent in implementation of the tax administration and will establish a new Council headed by the Prime-Minister, responsible for developing a new revenue administration culture (RAC). The RAC will discuss the reforms in the tax system, directions of tax administration enhancement, as well as provide quarterly progress reports. Targeted, realistic and controlled reforms of the tax system will make it more reliable, simple and competitive, thus improving the business environment, fostering growth and ensuring higher tax collections.

GOAL 1. ENSURING COMPLETENESS, CONSISTENCY AND TIMELINESS OF LARGE TAXPAYERS ' TAXATION

Fulfillment of the tax liabilities by the taxpayers will significantly attribute to the establishment of a full-fledged customs system. Irrespective of the legal status or occupied position of an entrepreneur or an organization, the STS should concentrate on analyzing revenue and consolidated capital flows of large taxpayers, as well as increasing the efficiency of tax control measures implemented with the view to verifying their tax liabilities. A new mechanism will be established in order to identify and prevent government, parliament and other senior public officials from engaging in business activities, either directly or indirectly. When a high level of risk has been identified in large business activities, the law will stipulate conducting audit of the tax returns in line with the best practices. Public will be regularly notified on cases of tax fraud by the large taxpayers and the implemented measures for fighting against them.

As a result we will achieve a complete and consistent taxation of large taxpayers, excluding discrimination of the taxpayers and introducing the principles of equitable treatment.

The following performance criteria should be used for assessing the results.

High performance -	according to the assessment, over 75 percent of the performance criteria established with regards to the respective policies have been implemented;
Average performance -	according to the assessment, 50-74 percent of the performance criteria established with regards to the respective policies have been implemented;
Low performance -	according to the assessment, up to 49 percent of the performance criteria established with regards to the respective policies have been implemented.

The following policy actions should be implemented with the view to achieving this objective (further-policy actions):

- 1.1. Develop targeted approaches towards the tax bases of taxpayers accounting for a large share of state revenues.
- 1.2. Introduce legislative and administrative mechanisms preventing senior state officials' engagement in business.
- 1.3. Develop a new policy on the disclosure of the names of organizations not paying taxes.

Policy Measure 1.1. Develop targeted approaches towards the tax bases of taxpayers accounting for a large share of state revenues

Targeted approaches towards the tax bases of taxpayers accounting for a large share of state revenues will be implemented, envisaging full disclosure of the real tax bases, identification of the real amounts of taxable revenues, with their complete and timely transfer to the state budget.

At present, the taxpayers accounting for a large share of state revenues are grouped into large taxpayers' unit and three tax inspectorates responsible for a specific sector of economy. It is planned to establish a new consolidated tax inspectorate based on the existing ones, thus ensuring the centralization effect.

Below we present our estimate of the expected yield (further – yield) from implementation of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance Criteria
<p>1.1.1 Tax/GDP ratio growth by 2.3 percentage points compared with 2008</p> <p>1.1.2 More efficient work with taxpayers accounting for a large share of state revenues.</p>	<p>Tax/GDP ratio compared with 2008:</p> <p>2009 – 17.64%, a 0.7 percentage points growth; 2010 – 18.54%, a 0.9 percentage points growth; 2011 – 19.24%, a 0.7 percentage points growth</p> <p>New, consolidated LTU has been established By 2009 the share of large and small and medium business within total revenues will have been revised; compared with 2007, the share of large taxpayers grew by 10 p.p. By 2011, it will further grow by 20 p.p. as compared with 2009.</p> <p>The number of SME, which positively assess the current tax administration will grow by 20% in 2009, and by 30% in 2011.</p> <p>The share of collections from construction, building materials, import of food, and manufacturing sectors within total tax revenues has grown markedly.</p> <p><i>Source: Government decree, STS by-laws, SSS(State statistic service) bulletin.</i></p> <p><i>* Tax/GDP ratio was based on the respective indicators of the 2009-2011 MTEF.</i></p> <p><i>s</i></p>

Assumptions: other state agencies show interest and support to the STS in implementation of the plan of tax administration reforms.

Risks:

1. GDP growth rate will be below the planned level; the structure of GDP established under MTEF and PRSP has been disrupted. This could lead to a change of the weights of the sectors which benefit from tax privileges.

2. While the decrease in share of large taxpayers could have a positive effect for the economy, it would also lead to a decrease of the weight of taxes collected from the large taxpayers.

Policy Measure 1.2. Introduce legislative and administrative mechanisms preventing senior state officials' engagement in business.

There is a certain evidence that some government, parliament and other senior state officials are engaged in business along with their responsibilities. This is a violation of the law, in addition it causes negative impacts in terms of the economic competition.

It is planned to carry out policies which will change the situation and implement several measures. At the same time, it is planned to pursue policies aimed at reduction of arbitrariness, through simplification of laws and streamlining of audit procedures, as indicated under the respective objectives and policies of this document.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance Criteria
1.2.1 The principle of horizontal equity and creation of equal taxation field during tax collection, ensured by the tightening of legislation should lead to the narrowing of opportunities for abuse and favoritism by public officials.	Identify cases of engagement of senior state officials in entrepreneurship. <i>Source: Economic Competition Protection Committee, viewpoints of various economic journalists</i>

Assumptions: when the state officials have to make a choice they will select staying in business, particularly during 2010-2011.

Risks: state officials which are engaged in business may directly or indirectly impede the process.

Policy Measure 1.3 Develop a new policy on the disclosure of the names of organizations not paying taxes.

This measure relates to disclosure of the major tax frauds and measures implemented against them by the tax authorities, as well as enhancing transparency and accessibility of information about the implemented sanctions. To a certain extent this is a new page in the history of the tax administration.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance Criteria
1.3.1 Increased public control of the tax sector	Increase public confidence towards activities of the tax authorities aimed at identification of the tax evading companies. <i>Source: STS, public polls</i>

Assumptions: the new policy should lead to reduction of organizations not paying taxes and improve tax compliance.

Risks: In an inflexible legal environment it could lead to an increased number of claims for compensation of tax losses by the tax authorities.

GOAL 2. ESTABLISHMENT OF EFFECTIVE TAX BURDEN BY APPLYING ‘SOFT’ TAX ADMINISTRATION TOWARDS SMALL BUSINESSES

Taxation of small businesses views as a priority ensuring of fairness and equality principles. The law will establish relatively low, but fair tax burden, minimize reporting and filing requirements, and significantly restrict the number of tax audits. The tax administration steps will be linked with programs on fostering small and medium businesses, with the view to eliminate cross-checks by various agencies.

The following policy measures should be implemented:

- 2.1 Reduce the quantity and frequency of tax reports and other data required of small businesses;
- 2.2 Documentation should not be too cumbersome for small businesses, but recording should be significantly improved;
- 2.3 The Tax Service will implement a separate program of support to small business;
- 2.4 Frequency of auditing small businesses should be reduced.

As a result, we will achieve a tax system which will not make difficulties to SME development.

The following performance criteria should be used for assessing the results.

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|-----------------------|--|
| High performance - | according to the assessment, over 75 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Average performance - | according to the assessment, 50-74 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Low performance - | according to the assessment, up to 49 percent of the performance criteria established with regards to the respective policies have been implemented. |

Policy measure 2.1. Reduce the quantity and frequency of tax reports and other data required of small businesses

Current taxation mechanisms of small business taxation do not fully shore up their development. The required volume and periodicity of tax reports is excessive and creates obvious obstacles for all the small businesses. Within the framework of new policies, the reporting volumes and frequencies will be optimized.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance Criteria
2.1.1 Filing procedures have been simplified, the number and frequency of tax reports. have been reduced	Legislative amendments by end-2008. <i>Source: respective legal norms</i>

Assumptions The legislative amendments will be consistent with the revenue policy implemented in Armenia;

Risks At the initial stage these measures could likely result in a reduction of taxes paid by SMEs.

Policy Measure 2.2. Documentation should not be too cumbersome for small businesses, but recording should be significantly improved.

The low level of documentary support requirements is a serious obstacle for correct calculation of the costs incurred by small businesses and causes distortions within the price formation chain. This policy should be carried out in parallel with the revision of the accounting standards and establishment of separate standards for small businesses. The level of the respective tax recording should also decrease significantly.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
2.2.1 Problems related to circulation of documents for tax purposes have been significantly reduced	Introduction of legislative amendments by end 2008 <i>Data source: the respective normative acts</i>

Assumptions: Parallel with the Ministry of Economy and other state institutes, measures to support recording procedures, etc., should be implemented.

Risks: The new documentary support requirements will not be fully observed by the large taxpayers.

Policy Measure 2.3. The Tax Service will implement a separate program of support to small business.

This policy encourages the new entrepreneurs to enter the tax field. The economic efficiency of such an approach is justified from the point of view of fostering development of new small businesses and ensuring their full payment of taxes in future.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
2.3.1 High level of tax compliance among the newly formed small businesses has been established.	Approve the program of support to small businesses. The positive attitude of SMEs towards tax administration grows by 20% in 2009 and by 30% in 2011. <i>Data source: relevant normative acts, data disseminated by the STS, results of public polls.</i>

Assumptions: The economic policy implemented in the country supports the aforementioned goals as well. The program of support to small new businesses enhances activities of the new entrepreneurs ensuring their full payment of taxes in future.

Risks. Some of the existing approaches in the other areas, e.g., lack of concessional loans, impede the process of support to small new businesses.

Policy Measure 2.4. Frequency of audits of small businesses should be reduced.

Given the small volume of tax violations committed by the small taxpayers, and the effectiveness of the steps taken by the STS for their identification, wide-scale audits do not seem feasible. They often lead to excessive inconveniences for small businesses. It is feasible to reduce the frequency of audits, in parallel increasing the efficiency of audits. It is planned to introduce a new strategy of audits, through a risk based selection of taxpayers, which will allow to reduce the frequency of audits.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
2.4.1 Audits of small and medium-sized businesses would be reduced considerably 2.4.2 Excessive contacts between the tax officials and small businesses would be reduced. A benevolent working environment would be formed.	Beginning from 2009, audits of small and medium-sized businesses will be reduced by at least 20 percentage points each year, palnning 50 percentage points reduction by 2011, as compared with 2008. <i>Data source: relevant normative acts, data disseminated by the STS, results of public polls.</i>

Assumptions: The STS fully introduces risk-based approaches in selecting audit cases.

Risks: Other state auditing agencies continue performing unjustified and frequent audits, since the government fails to unify the audit system.

GOAL 3. ADDRESS CORRUPTION IN THE STS

With the view to reducing corruption and ensuring fair and honest working environment:

- a) Revise staff salaries and other benefits in a possibly short time and develop an effective system of rewards.
- b) Introduce a staff testing system, which parallel with other types of evaluation and measures will make it possible to dispose of non-professional employees. The testing committee may be of an inter-agency character. The system will be supplemented with young and enthusiastic professionals, and their cooperation with the experienced staff will lead to better results.
- c) Introduce a functional program of staff promotion and selection, mandatory tuition, and professional training. The process of rotation of the tax servants will continue and will be improved.
- d) Approve uniform guidelines and manuals to ensure uniform use of tax administration procedures within the STS.
- e) Development of staff Code of Ethics for the STS would serve as a criterion for the appraisal of the staff, and strengthen the internal audit and internal intelligence, investigation, and inquiry capacities.
- f) Restructure significantly the tax appeals system to ensure accountability and effectiveness. Operate a new type of a hotline, which will allow classifying and using the received information, and providing regular reports to the RAC and civil society.

As a result, we will have a non-corruptive tax system.

The following performance criteria should be used for assessing the results.

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| High performance - | according to the assessment, over 75 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Average performance - | according to the assessment, 50-74 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Low performance - | according to the assessment, up to 49 percent of the performance criteria established with regards to the respective policies have been implemented. |

The following policies will be implemented to obtain this objective:.

- 3.1 Increase staff salaries and other benefits and develop an effective system of rewards
- 3.2 Introduce a functional staff promotion system with professional training being one of its components
- 3.3 Introduce objective staff appraisal mechanism
- 3.4 Introduce the effective internal audit function in the STS
- 3.5 Ensure uniform use of administrative tax procedures to taxpayers

3.6 Restructure significantly the tax appeals system to ensure accountability and effectiveness. Operate a new type of a hotline.

Policy Measure 3.1 Increase staff salaries and other benefits and develop an effective system of rewards.

The basic salary of the STS staff has not been changed during the last 5 years, while for the other groups of civil servants it has been raised by around 50 percent. The impact of CPI inflation on the living standards of the STS staff has not been considered either. Actually, no effective system of rewards is implemented in the system.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
3.1.1 Growth of salaries and increased social protection of the STS staff	Increasing the basic salary of STS staff at least by 70 percent in 2009 and 20 percentage points of the basic salary in 2010-2011. <i>Source: State budget</i>

Assumptions: The salaries of the STS staff are comparable with those of the private sector and encourage working in the STS.

Risks: State budget lacks the adequate financing resources, or a sharp inflation growth has been observed.

Policy Measure 3.2. Introduce a functional staff promotion system with professional training being one of its components.

The present staff promotional system is not fully based on professional skills of the staff. The mechanism of professional training does not operate efficiently, it is fragmented and is not based on special training programs.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
3.2.1 The STS staff consists of qualified professionals; a functional staff promotion system based on skills is in place.	Training of 300 STS employees annually <i>Source: STS</i>

Assumptions: The public service legislation is compatible with the human resource policy.

Risks: There is a lack of financing and training programs meeting the international standards for professional training.

Policy Measure 3.3. Introduce an objective staff appraisal mechanism

The existing staff appraisal system doesn't allow full appraisal of professional capabilities of the staff. The appraisal does not lead to subsequent steps, such as promotion, training, etc.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
3.3.1 An objective and efficient staff appraisal system is introduced in the STS.	Develop necessary legislative framework Cases of appealing against the results of testing are minimized. <i>Source: Official government bulletin, STS</i>

Assumptions: New laws in compliance with the existing public service legislation will be developed. The government will provide the necessary methodological assistance to the STS.

Risks: A large proportion of the STS staff will not pass the first testing; a functional training system will not be available and a shortage of human resources will occur.

Policy Measure 3.4. Introduce the effective internal audit function in the STS

Currently, internal audit is not performed as a fact. Control over compliance with the code of conduct has a formal character. Strengthening of this function will improve the discipline of the staff and increase the effectiveness of the STS work. These activities will be implemented within the framework of reforms aimed at identification of interests of public servants and excluding conflict of interests.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance criteria
3.4.1 All the STS staff comply with provisions of the code of conduct. 3.4.2 A procedure for regularly disclosing to public findings of the internal audit would be established.	Transparency of the STS activities is significantly improved due to enhanced public outreach. <i>Source: public polls, STS</i>

Assumptions: strong internal audit facilitated by:

- clear description of the positions available at the STS;
- an efficient system of staff protection.

Risks: Strengthening internal audit resulted in higher “nervousness” of the staff while performing the routine work. In other words, the investigating committee may show excessive sternness at the initial stage.

Policy Measure 3.5. Ensure uniform use of administrative tax procedures to taxpayers.

Taxpayers usually complain of the “horizontal unfairness” of the tax administration. The fact that the needed tax procedures are either absent or incomplete often create incentives for providing autonomous solutions by the tax inspectors. The solution of this problem lies in establishing uniform tax procedures and using the system of FAQ for the taxpayers.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
3.5.1 Uniform guidelines and manuals to ensure uniform use of tax administration procedures within the STS.	Significant growth of unified tax procedures. Publication of guidelines and manuals and increased training. Increase by 10 percent annually the level of satisfaction expressed by the taxpayers with regard to the activities of the STS staff. <i>Source: public polls, STS</i>

Assumptions: The skills and professional capacities of the STS staff allow uniform use of administrative tax procedures to taxpayers.

Risks: Specificities of operative investigative and operative-investigative functions. This creates objective as well as judicial and organizational problems.

Policy Measure 3.6. Restructure significantly the tax appeals system to ensure accountability and effectiveness. Operate a new type of a hotline.

The existing system of appeals does not fully satisfy expectations of the taxpayers. As a matter of fact it should become a prerequisite for the trust of the taxpayer in fairness of the STS staff.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
3.6.1 Efficient system of the tax appeals and transparency of operations. 3.6.2 A new type of an efficient hotline system.	Growth in the number of tax appeals. Growth of decisions taken by the appeals committee in favor of the taxpayers. Higher transparency and access to the solutions taken by the appeals committee. At least 20 percent annual growth of the trust of the taxpayers towards the new system of the tax appeals. <i>Source: public polls, STS Appeals Committee</i>

Assumptions: administrative courts will become significantly more professional in dealing with the tax issues and a working chain of relations “taxpayers-STS-courts” will be established.

Risks: The number of ungrounded tax appeals will grow. The decisions of the Appeals committee will become mandatory for everyone.

GOAL 4. FULLY INTRODUCE THE PRINCIPLE OF VOLUNTARY COMPLIANCE (SELF ASSESSMENT)

During filing of the tax reports, contacts between the tax servants and the taxpayers will minimize; within 1 year the tax reports will as a rule be filed only via mail or electronic mail. With the view to protecting interests of the taxpayers and tax officials, the legislation will regulate the issues on receiving information from the third parties, use of the information accumulated at the STS, and identification of the fraudulent taxpayers.

The STS will significantly improve the mechanisms for clarifying to the taxpayers the tax legislation, and the public outreach services. An automated taxpayer notification system will be introduced during this year.

The STS will ensure maximum transparency of its operations through publication of the programs, work results and activity reports.

This would help to develop a system of encouraging voluntary compliance both for the taxpayers and the tax officials.

The following performance criteria should be used for assessing the results.

High performance -	according to the assessment, over 75 percent of the performance criteria established with regards to the respective policies have been implemented;
Average performance -	according to the assessment, 50-74 percent of the performance criteria established with regards to the respective policies have been implemented;
Low performance -	according to the assessment, up to 49 percent of the performance criteria established with regards to the respective policies have been implemented.

As a specific performance criteria – improve the ranking position at Doing Business 2008.

The following policies will be implemented to obtain this objective:.

- 4.1 Transition to mail or electronic submission of reports to the tax authorities
- 4.2 Introduce an automated system of report processing, including automated delivery of reminders and notifications
- 4.3 Create taxpayer service centers
- 4.4 The Tax Service will significantly improve the mechanism of providing clarifications on tax laws to taxpayers

Policy Measure 4.1. Transition to mail or electronic submission of reports to the tax authorities.

Given the new challenges, the present system of submission of reports to the tax authorities has become obsolete.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
4.1.1 The tax reports will be mainly submitted via mail or electronic mail.	By end-2009, the share of the tax reports filed via mail or electronic mail should exceed that of the physically handed ones. By end-2011, 90 percent of the tax reports will be filed via mail or electronic mail. <i>Source: STS</i>

Assumptions:

1. The new policy will be integrated within the IT development concept in Armenia.
2. The STS IT Department will create the infrastructural network within the deadlines of the program.

Risks:

1. Lack of financing sources
2. Poor access to IT systems for the taxpayers.

Policy Measure 4.2 Introduce an automated system of report processing, including automated delivery of reminders and notifications

Presently the STS performs manual processing of the received reports on a step by step basis. The existing system does not allow performing quickly filing and verification the reports, making the whole process extremely laborious and time consuming.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
4.2.1 Transfer to report processing mainly through automated system. 4.2.2 The system automatically forms and delivers reminders and notifications	By 2009, more than 50 percent of the reports are processed by an automated system; by end 2009, all the reports are processed by an automated system By end 2009, up to 30 percent, in 2010, up to 50 percent and in 2011 all reminders and notifications are delivered by automated system. <i>Source: STS</i>

Assumptions: The STS IT Department will create the infrastructural network within the deadlines of the program.

Risks: Problems with delivery of reminders and notifications to the taxpayers, given their increased number. The STS outdated database leads to unaddressed delivery of reminders and notifications.

Policy Measure 4.3. Create taxpayer service centers

Currently services are provided by the taxpayer servicing divisions of the STS. The services are restricted and insufficient, hence the taxpayers do not benefit from them.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
4.3.1 Establish service centers and provide services through them 4.3.2 Establish a multilink call center which will provide information necessary to the taxpayers.	By 2011 increase by 15 percent annually the number of taxpayers receiving services from the tax centers. increase by 20 percent annually the number of taxpayers receiving information from call centers. Source: public polls, STS.

Assumptions: The government provided assistance to the STS in establishing tax service centers.

Risks: The high number of the taxpayer flows at the initial stage complicates operation of the tax services.

Policy Measure 4.4. The Tax Service will significantly improve the mechanism of providing clarifications on tax laws to taxpayers

At present clarifications provided on tax laws fail to meet the requirements of the taxpayers. The restricted mechanisms of providing clarifications on tax laws to taxpayers are established by law “On Legal Acts”¹.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance criteria
4.4.1 taxpayers are satisfied with timely and comprehensive clarifications on tax laws provided by the STS.	<p>Introduce the respective legislative amendment by end 2008.</p> <p>During 2009-2011 increase by 15 percent annually the number of provided tax clarifications.</p> <p>Publish and clarify major tax legislation issues.</p> <p>Source: public polls, STS, other sources of information.</p>

Assumptions: the STS clarifications on tax laws correspond to the judicial decisions.

Risks:

1. excessive appeals from taxpayers on unneeded clarifications.
2. the STS fails to timely establish “scientific” and expertise capacities.

¹ Official informative of RA, 2002 N15 (190), 21.05.02

GOAL 5. A NEW POLICY OF TAX AUDITS

The existing practice of mistrust towards the taxpayers and treating the taxpayers as potential tax evaders will change to selective audit of the taxpayers based on analysis and risk-based criteria. With this in view, structural, human resource and training activities will be performed; the piloting of the new system and dissemination of the results will take place. Procedures for auditing by separate sectors and types of taxpayers will be established. Starting from 2009, an on-going monitoring of risk sectors, major types of goods and separate taxpayers will be introduced. In 2010 we will have a large selection of the taxpayers with a good tax record and will introduce and implement a streamlined mechanism of simplified tax administration. During the next 6 months, the RAC will review:

- a) Tax audit strategy. Special sub-programs will be created for the construction, electricity, gas, mining, water, trade and other main sectors of economy.
- b) Measures aimed at reducing tax credits, huge tax losses and arrears.
- c) Working program on administrative cooperation and mutual assistance with competitive bodies.

The activities of the STS operative intelligence, investigation, and inquiry departments will be revised, and put on a program, target and lawful grounds.

As a result of the aforementioned measures, a system of risk-based selection of taxpayers for audits will be put in place. The system will ensure transparency of the tax control and improve the tax compliance.

The following performance criteria should be used for assessing the results.

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|-----------------------|--|
| High performance - | according to the assessment, over 75 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Average performance - | according to the assessment, 50-74 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Low performance - | according to the assessment, up to 49 percent of the performance criteria established with regards to the respective policies have been implemented. |

The following policies will be implemented within this program:

- 5.1 Implement a system of risk-based selection of taxpayers for audits
- 5.2 Restructure offsite audits on the basis of automated data processing software and a state-of-the-art database
- 5.3 Implement a system of automatic refunds of tax credits, including VAT credits; implement measures with the view to reducing tax arrears.
- 5.4 Improve the efficiency of intelligence, investigation, and inquiry functions of the tax agency, and define an optimal scheme of interaction with other functions within the Tax Service
- 5.5 Tighten sanctions for intentional violations of the tax legislation; and enacting regulations to differentiate between such violations and legitimate tax planning.

Policy Measure 5.1. Implement a system of risk-based selection of taxpayers for audits

The present system of selection of taxpayers for audit is mainly based on subjective factors (experience of the tax inspector, other information). This approach does not allow ensuring transparency and predictability of the tax control.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance criteria
5.1.1 A system of risk-based selection of taxpayers for audits is implemented.	In 2009, more than 60 percent of the tax audits are carried out through risk-based selection of taxpayers. In 2010, more than 80 percent, and in 2011, all the tax audits are carried out through risk-based selection of taxpayers. <i>Source: public polls, STS, other information sources</i>

Assumptions: The system of risk-based selection of taxpayers for audits operates parallel to the taxpayers accepting the rules of the self-assessment system.

Risks: Not all the fraudulent taxpayers will be included into the so-called “red-line” at the initial stage of implementing a system of risk-based selection of taxpayers for audits.

Policy Measure 5.2. Restructure offsite audits on the basis of automated data processing software and a state-of-the-art database

Procedures for developing and increasing the effectiveness of offsite audits are to be developed for periodically getting and using the information on registries (such as property rights, business rights, civil, custom, social registries) and "quasi fiscal" registries (electricity, gas, water, communication services)

Tax audits are presently carried out only at the taxpayers offices. The existing alternative system of selective cameral audits does not allow identifying all the tax liabilities of a taxpayer in a unified manner.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance criteria
5.2.1 Offsite audits turn from “service function” into a mandatory process of “data processing”	“New offsite audit procedures are stipulated by making respective changes in laws. <i>Source: the respective legal norms</i> ”

Assumptions: the practice of cameral audits will be gradually replaced by a system of risk-based selection of taxpayers for audits.

Risks: performing the offsite audits is hindered by a higher number of reports with technical errors from by the taxpayers.

Policy Measure 5.3. Implement a system of automatic refunds of tax credits, including VAT credits; implement measures with the view to reducing tax arrears.

During the recent years, parallel to the growth of tax collection, tax credits, and taxpayer claims for VAT refund and offsetting, as well as tax arrears have grown substantially. The present VAT refund system due to its complexity and time-consuming nature does not satisfy the taxpayers, in addition measures with the view to reducing tax arrears should be substantially improved.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance criteria
<p>5.3.1 Tax credits are refunded or offset through automatied system.</p> <p>5.3.2 A system of automatic refunds of tax credits, including VAT credits is implemented.</p>	<p>In 2009, 50 percent of tax credits are refunded or offset through the automatic system.</p> <p>In 2010, more than 80 percent, and in 2011 all the credits are refunded or offset through the automatic system.</p> <p>Eliminate annual tax arrears, reduce accumulated tax arrears by 20 percent each year.</p> <p><i>Source: the respective legal norms</i></p>

Assumptions: The system of automatic refunds of tax credits, including VAT credits is effectively supplemented by significant improvement of document circulation in the economy. Judicial and enforcement bodies assist in collection and confiscation of tax arrears.

Risks:

1. At the initial stage of implementing the system of automatic refunds of tax credits, including VAT credits, the total amount of VAT refund grows dramatically, creating problems with collection rates. The amount of unjustified refund claims rises.

2. The process of collection of tax arrears from large enterprises will lead to their bankruptcy.

Policy Measure 5.4. Improve the efficiency of intelligence, investigation, and inquiry functions of the tax agency, and define an optimal scheme of interaction with other functions within the Tax Service

Within the framework of judicial reforms implemented in Armenia, and due to entering into force of the law “On Operative Investigation”, the STS intelligence, investigation, and inquiry departments should efficiently interact with each other and with other departments within the Tax Service. In some cases there is also overlapping of the functions.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance criteria
5.4.1 Intelligence, investigation, and inquiry functions of the tax agency are efficiently implemented and are based on optimal scheme of interaction with other functions within the Tax Service.	<p>By 2008, intelligence, investigation, and inquiry functions of the tax agency and the reporting system are efficiently introduced.</p> <p>Ensure the enforcement mechanisms of the law on operative investigation. As a result the STS should be able to use all its lawful rights, based on the established comprehensive procedure.</p> <p><i>Source: STS</i></p>

Assumptions: an optimal scheme of interaction and exchange of information with other functions within the Tax Service is established.

Risks: Investigation activities of various law enforcement agencies are not unified.

Policy Measure 5.5. Tighten sanctions for intentional violations of the tax legislation; and enacting regulations to differentiate between such violations and legitimate tax planning.

The existing provisions of the Criminal Code for identifying tax fraud are very complex. Often there is confusion between such violations and legitimate tax planning. It is necessary to enact regulations to differentiate between such violations and legitimate tax planning.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance criteria
5.5.1 Sanctions for intentional violations of the tax legislation are tightened.	Introduce the respective legislative amendments by end 2009. <i>Source: the respective legal norms</i>

Assumptions:

1. Cooperation with other law enforcement bodies in identifying the cases of tax fraud.
2. Revision of the new draft laws with other public institutes and their adoption by the parliament in a fluent and uninterrupted way.

Risks: In practice it is difficult to differentiate between intentional violations of the tax legislation and legitimate tax planning.

GOAL 6. A NEW EFFICIENT MANAGEMENT SCHEME FOR THE TAX AGENCY

The following structural reforms should be implemented:

a) A new functional based structure will be implemented at the STS head office, which will help to streamline management processes and avoid overlaps.

b) LTU and sectoral inspectorates will be restructured, strengthening functional and sectoral control capacities.

c) The number of the tax inspectorates will be reduced; this will improve their structure and develop services provided to the taxpayers.

The new system will be peculiar for consolidation of procedures within the STS head office, efficient delegation of responsibilities to the field offices, and implementation of modern control mechanisms over their implementation.

The new structure envisages creation of up to 5 data processing centers in Yerevan and marzes. Their main task would be filing and processing of the tax reports provided by the taxpayers, working within the global computerized database network.

The structure envisages creation of the taxpayer servicing centers. Their main task would be providing clarification and notifications on tax laws and their enforcement. According to the new policy, prior to technical equipping of the centers, clarifications would be provided by the STS head office, while notifications will be provided by the tax inspectorates.

One of the pillars of the new system will be the establishment of a modern system of human resource management. It envisages implementation of the staff performance appraisal system.

This would allow obtaining a modernized tax management horizontal system. The system would comply with the best practices and ensure optimal management of the STS, as well as clear distribution of functions, and avoiding overlaps through the respective reporting systems.

The following performance criteria should be used for assessing the results.

High performance -	according to the assessment, over 75 percent of the performance criteria established with regards to the respective policies have been implemented;
Average performance -	according to the assessment, 50-74 percent of the performance criteria established with regards to the respective policies have been implemented;
Low performance -	according to the assessment, up to 49 percent of the performance criteria established with regards to the respective policies have been implemented.

The following policies will be implemented within this program:

- 6.1 Transition to a function-based management scheme. The transformation will be carried out through the following stages: headquarters, large taxpayer inspectorate, and regional inspectorates.
- 6.2 Sharply reduce the number of regional inspectorates, balancing it with regional service and data processing centers, as well as the more active use of IT.
- 6.3 Implement a modern system of human resource management.
- 6.4 Introduce employee and subdivision performance criteria, relating them with not only taxes paid, but also productivity and other functional indicators.

Policy Measure 6.1. Transition to a function-based management scheme. The transformation will be carried out through the following stages: headquarters, large taxpayer inspectorate, and regional inspectorates.

The existing organizational scheme does not allow solving efficiently the objectives of the STS. There are 4 tax specialized inspectorates in Yerevan (including the LTU), which service all the taxpayers throughout Armenia. Their functions should be unified for efficient and effective use of resources. The territorial distribution and functions of the tax inspectorates should be also revised. At the same time, the existing procedure of tax planning will be revised, as it is planned to separate strategic and operational planning.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the associated risks.

Yield	Performance Criteria
6.1.1 Functional overlapping within the STS is minimized/	By end-2008, functions of all territorial inspectorates are revised, <i>Source: the respective legal norms</i>

Assumptions: The new STS management scheme will have a long-term experience and won't be subject to frequent changes, while management scheme changes at present are very frequent.

Risks: Change of the existing management scheme assumes strong management change skills, and the availability of new professional managers.

Policy Measure 6.2. Sharply reduce the number of regional inspectorates, balancing it with regional service and data processing centers, as well as the more active use of IT.

In the past, when the number of regional inspectorates was increased, the STS didn't have the adequate skills for assessing the efficiency of that step and project its outcome. At present, there is a need to optimize the number of the regional inspectorates, with the view to saving the operational expenses; the modern informational technologies and other instruments allow to provide services and perform activities at distance and more quickly.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance Criteria
6.2.1 Increased efficiency of the regional tax inspectorates.	Starting from 2011, drop in the collection costs (expenditures in percent to tax collections). <i>Source: the respective legal norms</i>

Assumptions: The government and the STS will provide training to the staff quitting the STS and will take steps for new enrollment.

Risks:

1. The new scheme will arouse complains of the dismissed STS employees.
2. Some psychological barriers associated with the necessity of executing the work with a limited number of staff. It may have adverse effects on the indicator of the performance of the State budget tax collection.

Policy Measure 6.3. Implement a modern system of human resource management.

There is a lack of coordinated approaches in present human resource management system. According to the results of the 2008 survey on the assessment of the tax administration capacities by the EU criteria, this area was ranked as one of the weakest.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance Criteria
6.3.1 A modern system of human resource management is introduced at the STS.	By July 1, 2009, define job descriptions of 60 percent of tax servants. By October 31, 2009, define job descriptions of all the tax servants. By January 1, 2009, create professional data bank for 80 percent of tax servants. By October 1, 2009, create professional data bank for all the tax servants, including the new employees. <i>Source: STS</i>

Assumptions: The modern system of human resource management fully corresponds to the policies pursued by the authorities in the area of public service regulation.

Risks: At the initial stage of implementation, conflicts occur between the tax servants with “old” style of work. There will be a problem in finding the “flag-bearers” of the new initiative. The most problematic group in this respect are the middle-level managers.

Policy Measure 6.4. Introduce employee and subdivision performance criteria, relating them with not only taxes paid, but also productivity and other functional indicators.

During the 17 years of the STS operation only once an attempt was made to introduce employee and subdivision performance criteria (in 2005-2006 the best employee and the best inspectorate were chosen), which did not continue later.

Introduction of employee and subdivision performance criteria is one of the pillars of new management system.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance Criteria
<p>6.4.1 Introduction of employee and subdivision performance criteria results in a higher efficiency of works. Tax servants become more motivated and try to achieve better results, realizing that their compensation and progress depends on the efficiency of performance.</p>	<p>By July 1, 2009, introduce employee and subdivision performance criteria for 60 percent of tax servants.</p> <p>By July 1, 2009, introduce employee and subdivision performance criteria for all the tax servants.</p> <p><i>Source: STS</i></p>

Assumptions: The new human resource management scheme is fully compatible with the changes in the public servant policy.

Risks: The new system assumes growth of reporting from the tax servants. Establishing new more strict performance criteria for certain types of tax servants is not possible.

GOAL 7. ENSURE EFFICIENT MANAGEMENT OF TAX ADMINISTRATION IT FLOWS

It assumes development of new tools, working solely with licensed software, and ensuring integrity and safety of the system. All this relates to the management of the global computerized database of the taxpayers, including:

- a) Comprehensive database of all the information on taxpayers established by law.
- b) Computer equipment and adequate software
- c) Unified electronic system of control over filing and processing of the inside and outside information on taxpayers.

The system should be ready for addressing new challenges, particularly in terms of with handling database of the new agencies.

This will lead to creation of a modern system of information flow management, supplemented with modern software. It will effectively automate the major functions of the STS, minimizing the risks from “human factor”. The prerequisite for the success of this approach is the development of a long-term IT development strategy.

The following performance criteria should be used for assessing the results.

- | | |
|-----------------------|--|
| High performance - | according to the assessment, over 75 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Average performance - | according to the assessment, 50-74 percent of the performance criteria established with regards to the respective policies have been implemented; |
| Low performance - | according to the assessment, up to 49 percent of the performance criteria established with regards to the respective policies have been implemented. |

The following policies will be implemented within this program:

7.1 Define a new IT strategy to ensure the accomplishment of the new mission statement and the 7 key goals of the STS.

7.2 Create a state-of-the-art comprehensive database on taxpayers, including information received from third parties. The system should safeguard the privacy of individual taxpayer data.

7.3 Maximize the use of state-of-the-art IT by taxpayers and STS internal units: training on the Internet, internal networks, portals, modern licensed software, and hardware.

Policy Measure 7.1. Define a new IT strategy to ensure the accomplishment of the new mission statement and the 7 key goals of the STS.

The existing level of IT at the STS is mainly based on automation of the traditional functions and solution of the routine problems. This is mainly conditioned by the lack of long-term strategies and subsequent lack of financial, human and technical resources.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance Criteria
7.1.1 A long-term and continuously updated IT strategy is developed at the STS.	Quality assessment based on the conclusions of the professional task force working in compliance with best practices. <i>Source: STS surveys</i>

Assumptions: The STS IT strategy is in full compliance with the established conceptual programs developed by the policy makers in this area.

Risks:

1. The established IT strategy does not fully reflect all the possible capacities needed for the implementation of the STS new mission and the 7 major goals.
2. The STS lacks the necessary financial and human resources for a full implementation of the STS strategy.

Policy Measure 7.2. Create a state-of-the-art comprehensive database on taxpayers, including information received from third parties. The system should safeguard the privacy of individual taxpayer data.

The STS database is considered as one of the most comprehensive ones in Armenia and plays a crucial role in tax administration. However, its contents have remained almost unchanged during the last years. There is an urgent need for its updating. During cooperation with other agencies there is a constant need of supporting implementation of their activities with the STS database information. Safeguarding the privacy and safety of individual taxpayer data remains an actual issue, hence their disclosure could be allowed only in cases defined by law.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions, and the of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance Criteria
7.2.1 A state-of-the-art comprehensive database on taxpayers in compliance with the STS strategy requirements has become operational.	<p>Higher level of satisfaction of the STS database inside users.</p> <p>Higher level of satisfaction of the STS database inside users.</p> <p>Provide reports to the MFE, Customs Committee, National Security Service, and international organizations.</p> <p><i>Source: STS surveys</i></p>

Assumptions: within the framework of “electronic society” concept, efficient cooperation with all the interested parties is ensured.

Risks: There are significant differences and incompatibility in the database of the various agencies which cooperate with the STS.

Policy Measure 7.3. Maximize the use of state-of-the-art IT by taxpayers and STS internal units: training on the Internet, internal networks, portals, modern licensed software, and hardware.

At present the STS does not fully benefit from its resources. This is partly because the existing IT systems need modernization, and partly, because the existing STS model does not fully encourage the use of modern IT tools.

Below we present our estimate of the expected yield from implementation of this policy, performance criteria, as well as the assumptions we made, and the risks of this policy, performance criteria, as well as the assumptions we made, and the associated risks.

Yield	Performance Criteria
7.3.1 State-of-the-art IT tools and methods are extensively used by the STS.	<p>Increase the volume of services provided to taxpayers through Internet, in accordance with international standards.</p> <p>Increase the number of users of the local network and its capacity.</p> <p>Growth of the share of licensed software within the STS activities.</p> <p>Increase the volume and the speed of disseminating tax laws and other information through portals and terminals.</p> <p>Increase the number of manuals and training provided to the tax servants on the aforementioned tools and methodologies.</p> <p><i>Source: STS</i></p>

Assumptions: The STS will have skilled and experienced staff and will obtain the adequate funding.

Risks: high flow of staff and inadequacy of training programs with the existing software and hardware in a quickly changing technological environment.

PART B. SCHEDULE OF ACTIVITIES (MEASURES)

UNDER GOAL 1

➤ **Goal:** Ensure the correct, complete, and timely taxation of large business.

➤ **Policy:**

1.1 *Develop targeted approaches towards the taxpayers accounting for a large share of state revenues.*

1.2 *Introduce legislative and administrative mechanisms preventing senior state officials' engagement in business.*

1.3 *Develop a new policy on the disclosure of the names of organizations not paying taxes.*

SCHEDULE OF ACTIVITIES (MEASURES)		
	<i>Measure</i>	<i>Implementation Period (start and end: day, month, year)²</i>
1.	<i>Define large taxpayer selection criteria and, based on such criteria, transfer taxpayer files to the Large Taxpayer Inspectorate</i>	01.06.08-31.07.08
2.	<i>Merge the currently existing 4 sectoral tax inspectorates in one consolidated tax inspectorate of large taxpayers</i>	01.07.08-31.12.08
3.	<i>Develop (regularly review) and apply audit guidelines, based on the specificities of different sectors, starting with the guidelines on the sectors covered by the special tax inspectorates. Initially, a list of desired guidelines and an elaboration timetable will be created.</i>	01.09.08 – 31.12.11*
4.	<i>Train employees of the Large Taxpayer Inspectorate, based on the sector specificities.</i>	01.10.08 – 31.12.11
5.	<i>Develop new mechanisms for working with taxpayers with large arrears.</i>	01.10.08-31.03.09
6.	<i>Based on studies, draft and submit to the Government legislative amendments prescribing targeted severe sanctions for senior state officials engaging in business activities.</i>	01.11.08-31.03.09
7.	<i>Develop a program of cooperation with state bodies in order to disclose cases of senior state officials' engagement in business activities.</i>	01.04.09-30.06.09
8.	<i>Introduce mechanisms of effective control over asset and income declarations with a view to disclosing cases of senior state officials' engagement in business activities, envisaging submission to the government of a draft law on arrangement and performance of audits of the declarant individuals.</i>	01.07.08-01.03.09
9.	<i>Submit to the Government draft legislation introducing procedures and a legal basis for publishing names of tax-delinquent organizations.</i>	01.07.08-28.02.09
10.	<i>Submit a legislative proposal to the Government, which will introduce a mandatory requirement to conduct audits of large taxpayers in accordance with the international standards, ensuring STS access to the results of such audit as well.</i>	01.07.08-30.11.08

* The measure implies the engagement of outside financial and/or human resources. "Outside financial resources" means both the State Budget of Armenia (the STS has already submitted preliminary suggestions for financing under the 2009-2011 MTEF) and funding from bilateral or multilateral donors.

² While setting the data for those actions, the changes in the data of the actions in Government 941-N decree on Tax administration strategy 2008-2011 program confirmation' was taken into account, the draft was approved by the Upper council of revenue administration new culture investment (created by the decision of Prime minister) and will be sent to interested bodies for discussion. (the note was made by State revenue committee).

SCHEDULE OF ACTIVITIES (MEASURES)

UNDER GOAL 2

➤ **Goal:** Establish effective tax burden by applying “soft” tax administration towards small business

➤ **Policies:**

2.1 Reduce the quantity and frequency of tax reports and other data required of small businesses

2.2 Documentation should not be too cumbersome for small businesses, but recording should be significantly improved

2.3 The Tax Service will implement a separate program of support to small business

2.4 Audits of small and medium-sized businesses should be reduced considerably, among other things, by means of possibly consolidating audits of different agencies

SCHEDULE OF ACTIVITIES (MEASURES)		
	Measure	Implementation Period (start and end: day, month, year)
11.	Take into consideration the specific nature of SMEs when reviewing suggestions on the assessment and optimization of reports, other data, and forms in order to define a “lighter” administrative burden for them (see paragraph 58 of the Schedule of Activities under goal 4 of this document)	01.08.08-31.10.08*
12.	Develop and implement specific action plans to support newly-created small businesses	01.08.08 –30.06.09
13.	Develop and implement a new classification system of SMEs in order to improve the enforcement of the tax legislation	01.07.08-31.07.08
14.	Organize inter-agency discussions on the implementation of the “one stop shop” idea in the sphere of enterprise creation and service	01.07.08-31.05.09
15.	Minimize the number and frequency of tax reports, simplify calculation of taxes on the basis of a stable, fixed, and homogenous tax base and tax types (legislative amendments suggested)	01.07.08-31.07.08
16.	Participation in discussions on optimizing the delivery of accounting services to SMEs by professional entities, including discussions on the development of a separate package of accounting standards	01.06.08-28.02.09
17.	Significantly reduce the scope of special types of tax recording and audits for small businesses (for instance, bookkeeping of books 314 and 315, cash bookkeeping, etc.). To this end, the following activities will be carried out: - Draft and submit legislative amendments; - Inter-agency discussions on the possible consolidation of audits; and - Take the SME status into consideration when defining the standards and weights of the computer software for the selection of taxpayers for risk-based audits	01.06.08-31.12.08
18.	Develop a simplified accounting and tax calculation manual (information leaflet) for small business representatives on the taxation terms as of yearend 2008	01.10.08-31.12.08*
19.	Develop a special program with the “SME Development National Center” Fund and implement activities (seminars, round tables, and the like) in the regions of Armenia	01.07.08-31.12.11

* The measure implies the engagement of outside financial and/or human resources. “Outside financial resources” means both the State Budget of Armenia (the STS has already submitted preliminary suggestions for financing under the 2009-2011 MTEF) and funding from bilateral or multilateral donors.

SCHEDULE OF ACTIVITIES (MEASURES)

UNDER GOAL 3

➤ **Goal:** Address corruption in the STS

➤ **Policies**

3.1 Increase staff salaries and other benefits and develop an effective system of rewards

3.2 Introduce a functional staff promotion system with professional training being one of its components

3.3 Introduce an objective staff appraisal mechanism

3.4 Introduce the effective internal audit function in the STS

3.5 Ensure uniform use of administrative tax procedures to taxpayers

3.6 Restructure significantly the tax appeals system to ensure accountability and effectiveness. Operate a new type of a hotline.

SCHEDULE OF ACTIVITIES (MEASURES)		
	Measure	Implementation Period (start and end: day, month, year)
20.	Prepare and submit legislative proposals for purposes of increasing the basic salary of STS staff at least by 70 percent in 2009 and 20 percentage points of the basic salary each year in 2010-2011.	01.09.08-31.10.08* 01.09.09-31.10.09* 01.09.10-31.10.10*
21.	Prepare and submit relevant regulations for developing a fund for tax service development and a implement a fundamental review of the expenditure structure (in order to make it more result-oriented)	01.07.08-28.02.09
22.	Prepare and submit legal amendments for establishing a Training Center and prepare relevant curricula. It should also include a procedure setting out a requirement for continued professional development of STS staff.	01.07.08-31.12.08
23.	Introduce a functional system of promotion of STS staff linking it with the criteria for appraisal of professional capabilities of the latter.	01.10.08 –31.01.10
24.	Prepare and submit legal amendment for reviewing the procedure for competition and testing of staff (taking account of the specifics of intelligence as well)	01.07.08-31.07.08
25.	Develop a new regulation for an inter-agency competition and testing committee provided that the legislation specified in paragraph 24 is in place (taking account of the specifics of intelligence as well)	01.07.08-30.09.08
26.	Establish a dedicated internal audit unit in the STS and approve the functions. This unit should have in place proper accountability and transparency.	01.07.08-31.08.08
27.	Establish a procedure for regularly presenting to the public the findings of the internal audit (fraud by tax staff members or serious violation)	01.07.08-31.10.08
28.	Approve uniform guidelines and manuals to ensure uniform use of tax administration procedures within the STS and provide for a clear schedule for their publication	01.11.08 – 31.12.11*
29.	Train taxpayers and the STS staff on the uniform use of tax administration procedures.	01.01.09-31.12.11*
30.	Improve the procedures for appealing against the actions of STS and review the procedure for nominating the candidacies for the members of the Appeals Committee and the policies of the Committee.	01.06.08-30.06.08
31.	In order to help and immediately respond to the taxpayers's requests for the solution of specific problems, establish new procedures for operating a hot-line in the STS and provide for mechanisms of use of received information.	01.10.08-31.12.08*
32.	Widely promote filing of tax returns to STS by mail or electronically.	01.10.08-30.06.09
33.	Operate a 'one stop shop' for accepting tax returns and provision of documents. This would imply 'liquidation' of the Tax Return Filing commissions and significant reductions in the direct contact with taxpayers.	01.07.08-31.08.08
34.	Take stock of existing ambiguities and misunderstandings of the tax legislation.	01.10.08-31.01.09

	<p><i>Subsequently, establish a separate detailed data base of ambiguities and misunderstandings The outcome will be a separate classified database of the registered ambiguities and misunderstandings</i></p> <p><i>Taking stock would also include an external survey.</i></p> <p><i>The activity will be completed in two phases:</i></p> <p><i>a/ provisions on tax administration (to be used immediately for purposes of participation in the Parliamentary discussion on the General Part of the Tax Code)</i></p> <p><i>b/ provisions related to tax assessments (to be used for filling the gaps and submitting tax policy recommendations to the Ministry of Finance)</i></p>	
35.	<i>Develop a package of legal amendments to address gaps in the legislation as a result of taking the stock of ambiguities and misunderstandings in the tax legislation</i>	01.02.09-30.06.09*

** The measure implies the engagement of outside financial and/or human resources. “Outside financial resources” means both the State Budget of Armenia (the STS has already submitted preliminary suggestions for financing under the 2009-2011 MTEF) and funding from bilateral or multilateral donors.*

SCHEDULE OF ACTIVITIES (MEASURES)

UNDER GOAL 4

➤ **Goal:** Fully implement the principle of voluntary compliance (self-assessment)

➤ **Policies:**

4.1 Transition to mail or electronic submission of reports to the tax authorities

4.2 Introduce an automated system of report processing, including automated delivery of reminders and notifications

4.3 Create taxpayer service centers

4.4 The Tax Service will significantly improve the mechanism of providing clarifications on tax laws to taxpayers

SCHEDULE OF ACTIVITIES (MEASURES)		
	Measure	Implementation Period (start and end: day, month, year)
36.	Support the application of the guidelines on e-submission of reports to tax authorities	01.01.09-30.06.09*
37.	Define a comprehensive strategy of taxpayer service	01.01.09-28.02.09
38.	Carry out a training program in order to equip the taxpayer service centers (currently, the service units of the tax inspectorates) with appropriate staff	01.09.08-31.12.11*
39.	Launch 5 taxpayer service centers	01.07.09-31.12.09*
40.	Raise awareness of the functions performed by taxpayer service centers (currently, the service units of the tax inspectorates)	01.05.09-31.12.09
41.	Separate monthly monitoring of the activities of taxpayer service centers in the initial period	01.07.09-30.06.10
42.	Ensure a comprehensive system so that reports are, as a rule, submitted to the Tax Service only in electronic form or through regular mail	01.07.08-30.06.09*
43.	Submit to the Government draft legislative amendments on the provision of clarifications on tax laws to taxpayers	01.12.08-31.01.09
44.	Define a procedure of providing clarifications to taxpayers	01.02.09-30.04.09
45.	In the frameworks of the social partnership, create a council adjunct to the STS Head, which will include representatives of state structures, the employers' association, professional and business associations, international structures, and international projects	01.07.08-31.09.08
46.	Define a procedure requiring the STS to present draft legislation and procedures to the public for discussion. Such discussions should be carried out before circulating drafts to government agencies.	01.07.08-31.12.08
47.	Consider the creation of a separate "forum" (including members of the professional community) comprising representatives of international or highly-rated audit and accounting consultancy firms: once a month, the forum will present the most controversial issues to the STS.	01.02.09-30.04.09
48.	Develop a regulation to introduce a culture of regularly disseminating press releases and conducting press conferences.	01.11.08-31.12.08
49.	Publish the monthly tax statistics bulletin (also on the STS website). Public demand will be considered when choosing the indicators to be covered (given the experience of the USAID Armenia Tax Improvement Program).	01.10.08-31.12.11
50.	Broadcast a regular television and radio program called "Tax Hour." On this point, the STS will cooperate with organizations and associations in the professional community.	01.10.08-31.12.08*
51.	Produce CDs to improve the accessibility of the tax legislation, which will include illustrative examples for specific groups of taxpayers.	01.10.08-31.12.11

52.	<i>Develop regulations on visits to support and provide services to newly-created taxpayers. Such visits can be requested when obtaining a taxpayer identification number or during the first 6 months of activities.</i>	01.04.09-30.04.09
53.	<i>Post the tax report (return) forms on the STS website in a way that they can be edited and printed.</i>	01.10.08-31.03.09
54.	<i>Install computer terminals at STS regional units, from which the tax legislation and report forms can be obtained in electronic form, and later, reports can be submitted in electronic form.</i>	01.04.09-30.06.09*
55.	<i>Define a procedure that will regulate the provision to taxpayers of a schedule of taxpayer information available at the STS, including information received from third parties</i>	01.03.09-31.03.09
56.	<i>Design the architecture of a “knowledge bank” for establishing a consolidated functional data base of frequently asked questions. It will be the ToR for building the “knowledge bank.”</i>	01.10.08-30.04.09*
57.	<i>Create the “knowledge bank” of FAQ and the respective responses. It will be a database with tax FAQs, including a quick search engine. It will ensure the uniformity of responses. FAQs will be distributed through the STS website and updated once every 10 days.</i>	01.05.09-30.11.09*
58.	<i>Take inventory of the existing tax reports and returns, tax invoices, other source documents, and forms, and develop recommendations on optimizing them, including their quantity, frequency, information content, clarity of wording, and convenient design for technical processing. The inventory-taking will include an external survey.</i>	01.10.08-28.02.09*
59.	<i>In order to raise the awareness of tax officers (and taxpayers) and to prevent taxpayer errors, create and carry out monthly updates of a manual of frequently-occurring errors.</i>	01.05.09-30.11.09
60.	<i>Develop a conceptual framework on tax mediators (consulting firms, banks, and the like). Tax mediators are important in connection with the introduction of mass declaration practices and the taxation of agriculture.</i>	01.02.09-28.02.09
61.	<i>Publish a monthly digest on amendments to the tax legislation on the STS website prior to the 7th date of each month.</i>	01.08.08-31.12.11

* The measure implies the engagement of outside financial and/or human resources. “Outside financial resources” means both the State Budget of Armenia (the STS has already submitted preliminary suggestions for financing under the 2009-2011 MTEF) and funding from bilateral or multilateral donors.

SCHEDULE OF ACTIVITIES (MEASURES)

UNDER GOAL 5

➤ **Goal:** A new policy of tax audits

➤ **Policies:**

5.1 *Implement a system of risk-based selection of taxpayers for audits*

5.2 *Restructure offsite audits on the basis of automated data processing software and a state-of-the-art database*

5.3 *Implement a system of automatic refunds of tax credits, including VAT credits*

5.4 *Improve the efficiency of intelligence, investigation, and inquiry functions of the tax agency, and define an optimal scheme of interaction with other functions within the Tax Service*

5.5 *Tighten sanctions for intentional violations of the tax legislation; and enacting regulations to differentiate between such violations and legitimate tax planning.*

SCHEDULE OF ACTIVITIES (MEASURES)		
	<i>Measure</i>	<i>Implementation Period (start and end: day, month, year)</i>
62.	<i>Review the practice and effectiveness of the enforcement of sanctions for violations of the tax legislation; as a result, present recommendations on tightening sanctions for multiple and grave violations of the tax law, including the case of having hidden employees. It will be a necessary element of the self-assessment (voluntary compliance) system.</i>	01.07.08-28.02.09
63.	<i>Draft and submit legislative amendments on administrative arrangements for preventing and precluding turnover without documents or with partial documentation, as well as “blank” transactions (transactions in which no goods are involved), the failure to issue or claim tax invoices, and “black” accounting, including:</i> <ul style="list-style-type: none"> <i>- Limitations on the cash turnover;</i> <i>- The feasibility of certain amendments to the rules on wholesale and retail trade, under which sales in excess of a certain quantity (regardless of whether the buyer is a natural person or not) will be considered wholesale trade, for which invoicing will be mandatory;</i> <i>- In order to facilitate the VAT calculation and monitoring process, consider the issuance and sale of special numbered carbonated forms for VAT; and</i> <i>- Taxation of joint activities by taxpayers</i> 	01.06.08-31.12.08
64.	<i>To prevent tax crimes, to improve the efficiency of intelligence, investigation, and inquiry functions of the tax agency, and to optimize the interaction with other functions of the Tax Service, approve internal regulations; the purpose is to increase the efficiency of joint programs by means of regulating technical and professional communications.</i>	01.09.08-31.03.09
65.	<i>Study and assess the effective exercise of powers delegated to tax authorities under the audit legislation; draft and submit to the Government legislative amendments to reform the mechanisms stipulated by Article 22 of the Law on Taxes, which will clearly differentiate between intentional tax evasion and permitted regular tax planning. It will also enable the Tax Service to carry out audits in accordance with the international standards. The legislative amendments should also stipulate the power of the Tax Service to use modern tax audit tools and techniques, which will help to oversee taxpayer accounting (the accounting system), including computer-based accounting. Moreover, the deadlines and basis for the suspension of tax audits should be established.</i>	01.11.08-30.09.09*
66.	<i>With a view to achieving the universal application of the risk-based system of taxpayer selection for audits, the pilot project that started in 2007 should be reviewed, adjusted, and implemented through appropriate procedures. This will be done by adjusting the National Audit Plan approved by the Tax Service. It should</i>	01.07.08-31.08.09*

	<p>contain the highest safeguards of system use security and confidentiality. A second mandatory review and adjustment, after one year of launching the system, is anticipated.</p> <p>The adjustment will also address the following:</p> <ul style="list-style-type: none"> - The possibility of accepting a taxpayer's not having committed any violations for a long period or having passed independent audits as criteria for risk-based audit selectivity, and their possible weights in the selectivity program; and - Randomly (through a computer, using a transparent pre-announced procedure) selecting some medium-sized businesses for audits. <p>Develop automated system of tax credit refunds, including VAT, implement its piloting, adjust tax system and establish the respective procedures. A second mandatory review and adjustment, after one year of launching the system, is anticipated.</p>	
67.	<p>Alongside the implementation of risk-based audit selectivity, draft legislative amendments and submit them to the Government, which will define the legal grounds of risk-based audit selectivity and details of the tax audit framework. The following is contemplated:</p> <ul style="list-style-type: none"> - Offsite audits will be transformed from a "service function" to a "mandatory data processing procedure," thus becoming a part of the overall audit chain as the first component of risk-based audit selectivity; - The so-called "yellow" and "red" lines will be introduced, based on the risk degree "awarded" to taxpayers; - The Tax Service will acquire additional monitoring powers vis-à-vis taxpayers that have crossed the "yellow" line (additional reviews, assessments, new requirements on tax bookkeeping, and the like); and - A "red" zone of taxpayers will be created, i.e. a team of analysts (independent of the auditors) that will make the final decision on placement in the list of taxpayers subject to audit. 	01.07.08-28.02.09
68.	<p>Submit a draft law approving the procedure of information submission by third parties, which implies periodically getting and using the information on registries (such as property rights, business rights, civil, custom, social registries) and "quasi fiscal" registries (electricity, gas, water, communication services).</p>	01.08.08-30.11.08
69.	<p>Develop a plan of actions for minimizing the accumulated tax arrears and excluding new ones.</p>	01.10.08-01.03.09
70.	<p>Develop a mechanism of public oversight of the utilization of cash registers, including a suggestion on citizens' personal motivation (such as the idea of a lottery).</p>	01.10.08-30.06.09
71.	<p>To apply the international best practice (in audits), develop a separate program of cooperation, training, and experience sharing between Armenia's tax servants and their foreign counterparts. The program should be launched first in the Large Taxpayer Inspectorate and later include the sectors of the economy that are relatively more prone to risks in terms of taxation.</p>	01.11.08-31.12.11*
72.	<p>Jointly with specialists working in the cash register service centers, clarify the provisions of the Government Decree to Approve Requirements on Cash Registers, and draft appropriate legislative amendments. The objective is to permit the use of modern equipment and to ensure tax oversight.</p>	01.07.08-28.02.09*
73.	<p>Prepare audit manuals and procedures by sectors, taxpayer categories, activity types, and the like. They should reflect the international best practice, including matters related to the taxation of international transactions (price transfers, property value premium, offshore transactions, and the like).</p>	01.12.08-31.12.11*
74.	<p>Review issues related to cooperation with tax authorities of other countries and develop internal guidelines on tax administration. The guidelines should enable joint audits.</p>	01.02.09-31.06.09
75.	<p>Implement audit assessment criteria and, based on such criteria, to assess audit results.</p>	01.01.09-30.06.09
76.	<p>Conduct inter-agency discussions and make a recommendation on the feasibility of applying stamps similar to excise stamps for commodities defined by the Government of Armenia (the experience of Belarus, Moldova, and Kazakhstan).</p>	01.01.09-31.03.09
77.	<p>Consider the introduction of the concept of centralized taxpayers (for affiliated enterprises that are within a business group) based on a review of the international experience.</p>	01.10.09-31.12.09*

** The measure implies the engagement of outside financial and/or human resources. “Outside financial resources” means both the State Budget of Armenia (the STS has already submitted preliminary suggestions for financing under the 2009-2011 MTEF) and funding from bilateral or multilateral donors.*

SCHEDULE OF ACTIVITIES (MEASURES)

UNDER GOAL 6

➤ **Goal:** A new efficient management scheme for the tax agency

➤ **Policies:**

6.1 *Transition to a function-based management scheme. The transformation will be carried out through the following stages: headquarters, large taxpayer inspectorate, and regional inspectorates.*

6.2 *Sharply reduce the number of regional inspectorates, balancing it with regional service and data processing centers, as well as the more active use of IT.*

6.3 *Implement a modern system of human resource management.*

6.4 *Introduce employee and subdivision performance criteria, relating them with not only taxes paid, but also productivity and other functional indicators.*

SCHEDULE OF ACTIVITIES (MEASURES)		
	<i>Measure</i>	<i>Implementation Period (start and end: day, month, year)</i>
78.	<i>Consider the necessity of amendments to the tax legislation arising out of the Tax Administration Reform document, the new mission statement and seven key goals of the tax service, and the respective policies, and submit an appropriate legislative package to the Government of Armenia.</i>	01.10.08-31.12.08*
79.	<i>Raise the awareness of the general public about the mission, key goals, and measures of tax administration. The goal is to achieve transparency and an atmosphere of trust.</i>	01.07.08-01.31.09
80.	<i>Develop model procedures for strategic planning of the capacity of the Tax Service. The model should be aligned with the MTEF and the Program of the Government, and support operational planning between different functions of the Tax Service.</i>	01.01.09-30.04.10*
81.	<i>Develop, disseminate, and educate on change management within the Tax Service.</i>	01.05.09-30.04.10*
82.	<i>Make a gradual transition to a system of performance assessment indicators in the Tax Service. It will be done for both units and individual employees.</i>	01.01.09-31.01.10*
83.	<i>Develop a comprehensive methodology for the analysis of tax revenues, tax arrears, and tax credits. It should support analysis by sectors, regions, tax types, enterprise size, commodities, and other regular indicators.</i>	01.07.08-30.04.09*
84.	<i>Strengthen the Tax Service analytical and research capacity by creating a separate project with appropriate components and ensuring the knowledge transfer to all the units that have analysis functions (regardless of the management level). Development of the projection capacity is implied, as well, through the creation of an appropriate tool.</i>	01.12.08-31.12.11*
85.	<i>Define a function-based structure and relevant functions in the STS headquarters.</i>	01.07.08-30.09.08
86.	<i>Define the function-based structure and relevant functions of tax inspectorates.</i>	01.07.08-31.12.08
87.	<i>Reduce the number of regional inspectorates of the STS.</i>	01.09.08-31.12.09
88.	<i>Create up to 5 regional data processing centers and define their functions. At yearend 2010, all of these functions should be performed through a single data processing center.</i>	01.07.09-31.12.10*
89.	<i>Carry out a training program in order to supply appropriate human resources to the regional data processing centers.</i>	01.05.09-31.12.11*
90.	<i>Define procedures for the transfer of processed information from the regional data processing centers to the respective units and the procedures of using such information.</i>	01.03.09-31.05.09*
91.	<i>Develop an ethics policy in order to institutionalize a new type of tax servant in line with the new vision and mission of the tax administration, in line with the implemented reforms on identification of the tax servants interests and preventing</i>	01.12.08-31.05.09

	<i>conflicts of interests. It should also address issues like recruitment, conflict of interest during employment, and use of commercial secrets.</i>	
92.	<i>Define job descriptions of tax servants.</i>	01.10.08-31.10.09*
93.	<i>Create a performance-based reporting system, stipulating the creation of a database for each tax servant.</i>	01.10.08-31.10.09*
94.	<i>Create tax administration oversight and supervision procedures and monitor the efficiency of administration instruments.</i>	01.10.08-31.10.09

* The measure implies the engagement of outside financial and/or human resources. “Outside financial resources” means both the State Budget of Armenia (the STS has already submitted preliminary suggestions for financing under the 2009-2011 MTEF) and funding from bilateral or multilateral donors.

SCHEDULE OF ACTIVITIES (MEASURES) UNDER GOAL 7

➤ **Goal:** Ensure Efficient Management of Tax Administration IT Flows

➤ **Policies:**

- 7.1 Define a new IT strategy to ensure the accomplishment of the new mission statement and the 7 key goals of the STS.
- 7.2 Create a state-of-the-art comprehensive database on taxpayers, including information received from third parties. The system should safeguard the privacy of individual taxpayer data.
- 7.3 Maximize the use of state-of-the-art IT by taxpayers and STS internal units: training on the Internet, internal networks, portals, modern licensed software, and hardware.

SCHEDULE OF ACTIVITIES (MEASURES)		
	Measure	Implementation Period (start and end: day, month, year)
95.	Develop a long-term strategy program for IT development in the STS.	01.09.08-31.11.08
96.	Develop guidelines, various procedures, and leaflets with a view to maximizing the use of state-of-the-art IT and tools to improve STS efficiency and management.	01.01.09-31.12.11
97.	Restructure the STS database with a view to providing access for external users, as well, in the frameworks of an overall e-management concept. The database should contain various economic classifiers to meet the users' analysis needs by specifying only the information collected in accordance with the law.	01.12.08-31.12.11*
98.	Consider legislative amendments to prescribe e-submission of reports to tax authorities.	01.10.08-31.12.08
99.	Draft the ToR for the development of software for the e-submission of reports to tax authorities (separately for each type of tax).	01.09.08-30.10.08*
100.	Implement a pilot project for the e-submission of reports to tax authorities, which will be based on a memorandum to be concluded with the IT Association.	01.10.08-31.03.09
101.	Develop guidelines on the e-submission of reports to tax authorities, parallel to the piloting.	01.10.08-30.10.08
102.	Implement the automated software for giving reminders and notifications to taxpayers that fail to submit reports (or other information and returns required under the tax legislation). The first set of reminders and notifications will be sent to taxpayers no later than before the end of March 2009.	01.12.08-31.03.09
103.	Consider legislative amendments to define the volume and frequency of reminders and notifications to be sent to delinquent taxpayers.	01.11.08-31.01.09
104.	Develop software supporting the automated delivery of reminders and notifications to delinquent taxpayers and implement the upgraded automated system of report processing.	01.12.08-28.02.09*
105.	Pilot the automated report processing system and the automated software for the delivery of reminders and notifications to delinquent taxpayers, based specifically on a memorandum to be concluded with the IT Association.	01.02.09-31.03.09
106.	Complete operation of the automated report processing system and the automated software for the delivery of reminders and notifications to delinquent taxpayers. The first set of reminders and notifications will be sent to taxpayers during March 2009.	01.04.09-31.12.09*
107.	With a view to precluding redundancy and paper-based reporting (information), take inventory of and optimize the information collected from tax inspectorates.	01.08.08-31.10.08
108.	Develop the software for collecting third party information on taxpayers and create a database, which will be more accessible for users.	01.02.09-30.04.09*
109.	Assess the users' needs for the creation of a contemporary database of comprehensive taxpayer data and update the database.	01.10.08-30.04.09

* The measure implies the engagement of outside financial and/or human resources. "Outside financial resources" means both the State Budget of Armenia (the STS has already submitted preliminary suggestions for financing under the 2009-2011 MTEF) and funding from bilateral or multilateral donors.

The purpose of this paper is to outline the tax reforms.

The goals have been established and the policies for their implementation have been worked out. The paper provides a list of measures aimed at solution of these two major strategies. There are 7 major goals, 29 policies, and 109 measures to be implemented by 2001, with the view to implementing these goals.

Given the importance of the program, the 7 goals have been widely discussed with the public, business and professional circles, tax servants, etc. They were also placed on the STS website in Armenian and English, shared with the international community and journalists. Various comments were received which were integrated into the document and supplemented it by improving its targeting and timeliness, establishing performance criteria, assessing the risks, etc.

The STS tax administration program was based on the 2008-2012 Government Program. In view of the fact that such comprehensive programs are always interconnected with other programs and hence may be affected by various factors, steps were taken for its further review and simplification. The following issues were reviewed in a great detail and taken into account:

- All other relevant Armenian programs, such as PRSP, MTEF, etc.
- Main provisions of all the former STS programs, including the 2007-09 three-year STS development program approved by the government in 2007, and the program on introduction of taxpayers' self-assessment system, developed in coordination with the World Bank experts and adopted in 2005.
- All the proposals and comments provided by the IMF and the WB on tax administration reforms.
- All the works performed within the framework of the US AID sponsored project on Enhancement of the RA Tax program, during the last three years.
- Guarantees provided in January 2008 through the document on assessment of the RA tax capacities by the system of indicators approved by the EC.

For the first time in history of the Armenian tax administration, the mission of the STS has been defined, and in compliance with it, the major goals and measures have been established.

The document provides:

- Definitions of the expected results.
- Criteria and indicators through which it would be decided whether the STS has managed to reach its objectives and whether the implemented policies were in line with the STS mission and the 7 goals.
- Description of the risks and assumptions, which will allow having a clear vision of the situation in the next 3-3.54.
- List of measures to achieve the 7 goals.

The list of measures is provided for practical purposes, in a descending order, indicating the arrears where the STS is in need of human resources and foreign financing contributions.

It is planned that after the approval of this document, the whole legislative field will be revised, to ensure substantial grounds for implementation of the wide scale of reforms.

It is assumed that a system of monitoring the course of reforms would be introduced, including the system of risk management. Due to this fact, the document may be subject to on-going revisions.

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
1	Define large taxpayer selection criteria and, based on such criteria, transfer taxpayer files to the Large Taxpayer Inspectorate	01.06.08	31.07.08	■															
16	Participate in discussions on optimizing the delivery of accounting services to SMEs by professional entities, including discussions on the development of a separate package of accounting standards	01.06.08	28.02.09	■	■	■	■												
17	Significantly reduce the scope of special types of tax recording and audits for small businesses	01.06.08	31.12.08	■	■	■	■												
30	Improve the procedures for appealing against the actions of STS	01.06.08	30.06.08	■															
63	Draft and submit legislative amendments on administrative arrangements for preventing and precluding turnover without documents or with partial documentation, as well as "blank" transactions, the failure to issue or claim tax invoice, etc.	01.06.08	31.12.08	■	■	■	■												
2	Merge the currently existing 4 sectoral tax inspectorates in one consolidated tax inspectorate of large taxpayers	01.07.08	31.12.08	■	■	■	■												
8	Introduce mechanisms of effective control over asset and income declarations with a view to disclosing cases of senior state officials' engagement in business activities.	01.07.08	31.03.09	■	■	■	■												
9	Submit to the Government draft legislation introducing procedures and a legal basis for publishing names of tax-delinquent organizations	01.07.08	28.02.09	■	■	■	■												

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
10	Submit a legislative proposal to the Government, which will introduce a mandatory requirement to conduct audits of large taxpayers in accordance with the international standards	01.07.08	30.11.08																
13	Develop and implement a new classification system of SMEs	01.07.08	31.07.08																
14	Organize inter-agency discussions on the implementation of the "one stop shop" idea in the sphere of enterprise creation and service	01.07.08	31.05.09																
15	Minimize the number and frequency of tax reports, simplify calculation of taxes on the basis of a stable, fixed, and homogenous tax base	01.07.08	31.07.08																
19	Develop a special program with the "SME Development National Center" Fund and implement activities in the regions of Armenia	01.07.08	31.12.11																
21	Prepare and submit relevant regulations for developing a fund for tax service development and implement a fundamental review of the expenditure structure	01.07.08	28.02.09																
22	Prepare and submit legal amendments for establishing a Training Center of the Tax Service	01.07.08	31.12.08																
24	Prepare and submit legal amendment for reviewing the procedure for competition and testing of staff	01.07.08	31.07.08																
25	Develop a new regulation for an inter-agency competition and testing committee	01.07.08	30.09.08																

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
26	Establish a dedicated internal audit unit in the STS and approve the functions	01.07.08	31.08.08		■														
27	Establish a procedure for regularly presenting to the public the findings of the internal audit	01.07.08	31.10.08		■	■													
33	Operate "one stop shop" for accepting tax returns and provision of documents.	01.07.08	31.08.08		■														
42	Ensure a comprehensive system so that reports are, as a rule, submitted to the Tax Service only in electronic form or through regular mail	01.07.08	30.06.09		■	■	■	■											
45	In the frameworks of the social partnership, create a council adjunct to the STS Head	01.07.08	30.09.08		■														
46	Define a procedure requiring the STS to present draft legislation and procedures to the public for discussion.	01.07.08	31.12.08		■	■	■												
62	Review the practice and effectiveness of the enforcement of sanctions for violations of the tax legislation; as a result, present recommendations on tightening sanctions for violations	01.07.08	28.02.09		■	■	■												
66	Implementation of the risk-based system of taxpayer selection for audits and a system of automatic refund of tax credits, including VAT credits	01.07.08	31.08.09		■	■	■	■											

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
67	Alongside the implementation of risk-based audit selectivity, draft legislative amendments and submit them to the Government, which will define the legal grounds of risk-based audit selectivity and details of the tax audit framework	01.07.08	28.02.09																
72	Jointly with specialists working in the cash register service centers, clarify the provisions of the Government Decree to Approve Requirements on Cash Registers, and draft appropriate legislative amendments.	01.07.08	28.02.09																
78	Consider the necessity of amendments to the tax legislation arising out of the Tax Administration Reform document, the new mission statement and seven key goals of the tax service, and the respective policies, and submit an appropriate legislative package	01.07.08	31.10.08																
79	Raise the awareness of the general public about the mission, key goals, and measures of tax administration	01.07.08	31.01.09																
83	Develop a comprehensive methodology for the analysis of tax revenues, tax arrears, and tax credits.	01.07.08	30.04.09																
85	Define a function-based structure and relevant functions in the STS headquarters.	01.07.08	30.09.08																
86	Define the function-based structure and relevant functions of tax inspectorates.	01.07.08	31.12.08																
11	Take into consideration the specific nature of SMEs in order to define a "lighter" administrative burden for them	01.08.08	31.10.08																

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
12	Develop and implement specific action plans to support newly-created small businesses	01.08.08	30.06.09																
61	Publish a monthly digest on amendments to the tax legislation on the STS website	01.08.08	31.12.11																
68	Submit a draft law approving the procedure of information submission by third parties	01.08.08	30.11.08																
107	With a view to precluding redundancy and paper-based reporting (information), take inventory of and optimize the information collected from tax inspectorates.	01.08.08	31.10.08																
3	Develop (regularly review) and apply audit guidelines, based on the specificities of different sectors	01.09.08	31.12.11																
20	Prepare and submit legislative proposals for purposes of increasing the basic salary of STS staff at least by 70 percent in 2009 and 20 percentage points of the basic salary in 2010-2011.	01.09.08	31.10.10																
38	Carry out a training program in order to equip the taxpayer service centers (currently, the service units of the tax inspectorates) with appropriate staff	01.09.08	31.12.11																
64	To prevent tax crimes, to improve the efficiency of intelligence, investigation, and inquiry functions of the tax agency approve internal regulations	01.09.08	31.03.09																
87	Reduce the number of regional inspectorates of the STS.	01.09.08	31.12.09																

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008			2009					2010					2011									
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11	
95	Develop a long-term strategy program for IT development in the STS	01.09.08	30.11.08																							
99	Draft the ToR for the development of software for the e-submission of reports to tax authorities	01.09.08	30.10.08																							
4	Train employees of the Large Taxpayer Inspectorate, based on the sector specificities	01.10.08	31.12.11																							
5	Develop new mechanisms for working with taxpayers with large arrears	01.10.08	31.03.09																							
18	Develop a simplified accounting and tax calculation manual for small business representatives on the taxation terms as of year end 2008	01.10.08	31.12.08																							
23	Introduce a functional system of promotion of STS staff	01.10.08	31.01.10																							
31	Establish new procedures for operating a hot-line in the STS and provide for mechanisms of use of received information	01.10.08	31.12.08																							
32	Widely promote filing of tax returns to STS by mail or electronically	01.10.08	30.06.09																							
34	Take stock of existing ambiguities in and misunderstanding of the tax legislation	01.10.08	31.01.09																							
49	Publish the monthly tax statistics bulletin (also on the STS website)	01.10.08	31.12.11																							
50	Broadcast a regular television and radio program called "Tax Hour"	01.10.08	31.12.08																							

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011									
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11						
51	Produce CDs to improve the accessibility of the tax legislation	01.10.08	31.12.11																						
53	Post the blank tax report (return) forms on the STS website .	01.10.08	31.03.09																						
56	Design the architecture of a "knowledge bank"	01.10.08	30.04.09																						
58	Take "inventory" of the existing tax reports and returns, tax invoices, other source documents, and forms, and develop recommendations on optimizing them	01.10.08	28.02.09																						
69	Develop a plan of actions for minimizing the accumulated tax arrears and excluding new ones	01.10.08	28.02.09																						
70	Develop a mechanism of public oversight of the utilization of cash registers, including a suggestion on citizens' personal motivation	01.10.08	30.06.09																						
77	Consider the introduction of the concept of centralized taxpayers based on a review of the international experience	01.10.08	31.12.08																						
92	Define job descriptions of tax servants.	01.10.08	31.10.09																						
93	Create a performance-based reporting system, stipulating the creation of a database for each tax servant	01.10.08	31.10.09																						
94	Create tax administration oversight and supervision procedures and monitor the efficiency of administration instruments	01.10.08	31.10.09																						

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011				
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11	
98	Consider legislative amendments to prescribe e-submission of reports to tax authorities.	01.10.08	31.12.08																	
100	Implement a pilot project for the e-submission of reports to tax authorities	01.10.08	31.03.09																	
101	Develop guidelines on the e-submission of reports to tax authorities, parallel to the piloting.	01.10.08	30.10.08																	
109	Assess the users' needs for the creation of a contemporary database of comprehensive taxpayer data and update the database	01.10.08	30.04.09																	
6	Based on studies, draft and submit to the Government legislative amendments prescribing targeted severe sanctions for senior state officials engaging in business activities.	03.11.08	31.03.09																	
28	Approve uniform guidelines and manuals to ensure uniform use of tax administration procedures within the STS	03.11.08	30.12.11																	
48	Develop a regulation to introduce a culture of regularly disseminating press releases and conducting press conferences	03.11.08	31.12.08																	
65	Study and assess the effective exercise of powers delegated to tax authorities under the audit legislation	03.11.08	30.09.09																	

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008			2009				2010				2011					
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11	
71	To apply the international best practice (in audits), develop a separate program of cooperation, training, and experience sharing between Armenia's tax servants and their foreign counterparts	03.11.08	30.12.11																	
103	Consider legislative amendments to define the volume and frequency of reminders and notifications to be sent to delinquent taxpayers	03.11.08	31.01.09																	
43	Submit to the Government draft legislative amendments on the provision of clarifications on tax laws to taxpayers	01.12.08	31.01.09																	
73	Prepare audit manuals and procedures by sectors, taxpayer categories, activity types, and the like.	01.12.08	31.12.11																	
84	Strengthen the Tax Service analytical and research capacity by creating a separate project with appropriate components	01.12.08	31.12.11																	
91	Develop an ethics policy in order to institutionalize a new type of tax servant in line with the new vision and mission of the tax administration	01.12.08	31.05.09																	
97	Restructure the STS database with a view to providing access for external users as well	01.12.08	31.12.11																	
102	Implement the automated software for giving reminders and notifications to taxpayers that fail to submit reports (or other information and returns required under the tax legislation)	01.12.08	31.03.09																	

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
104	Develop software supporting the automated delivery of reminders and notifications to delinquent taxpayers and implement the upgraded automated system of report processing.	01.12.08	28.02.09																
29	Train taxpayers and the STS staff on the uniform use of tax administration procedures	01.01.09	31.12.11																
36	Support the application of the guidelines on e-submission of reports to tax authorities	01.01.09	30.06.09																
37	Define a comprehensive strategy of taxpayer service	01.01.09	28.02.09																
75	Implement audit assessment criteria and, based on such criteria, to assess audit results.	01.01.09	30.06.09																
80	Develop model procedures for strategic planning of the capacity of the Tax Service.	01.01.09	30.04.10																
82	Make a gradual transition to a system of performance assessment indicators in the Tax Service	01.01.09	31.01.10																
96	Develop guidelines, various procedures, and leaflets with a view to maximizing the use of state-of-the-art IT and tools to improve STS efficiency and management.	01.01.09	31.12.11																
35	Develop a package of legal amendments to address gaps in the legislation as a result of taking the stock of ambiguities and misunderstandings in the tax legislation	02.02.09	30.06.09																

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
44	Define the procedure for providing clarifications to taxpayers	02.02.09	30.04.09																
47	Consider the creation of a separate "forum" (including members of the professional community) comprising representatives of international or highly-rated audit and accounting consultancy firms	02.02.09	30.04.09																
60	Develop a conceptual framework on tax mediators	02.02.09	28.02.09																
74	Review issues related to cooperation with tax authorities of other countries and develop internal guidelines on tax administration	02.02.09	30.06.09																
105	Pilot the automated report processing system and the automated software for the delivery of reminders and notifications to delinquent taxpayers	02.02.09	31.03.09																
108	Develop the software for collecting third party information on taxpayers and create a database	02.02.09	30.04.09																
55	Define a procedure that will regulate the provision to taxpayers of a schedule of taxpayer information available at the STS, including information received from third parties	02.03.09	31.03.09																
90	Define procedures for the transfer of processed information from the regional data processing centers to the respective units and the procedures of using such information.	02.03.09	31.05.09																
7	Develop a program of cooperation with state bodies in order to disclose cases of senior state officials' engagement in business activities.	01.04.09	30.06.09																

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
52	Develop regulations on visits to support and provide services to newly-created taxpayers	01.04.09	30.04.09																
54	Install computer terminals at STS regional units	01.04.09	30.06.09																
106	Complete operation of the automated report processing system and the automated software for the delivery of reminders and notifications to delinquent taxpayers	01.04.09	31.12.09																
40	Raise awareness of the functions performed by taxpayer service centers (currently, the service units of the tax inspectorates)	01.05.09	31.12.09																
57	Create the "knowledge bank" of FAQ and the respective responses	01.05.09	30.11.09																
59	In order to raise the awareness of tax officers (and taxpayers) and to prevent taxpayer errors, create and carry out monthly updates of a manual of frequently-occurring errors	01.05.09	30.11.09																
81	Develop, disseminate, and educate on change management within the Tax Service.	01.05.09	30.04.10																
89	Carry out a training program in order to supply appropriate human resources to the regional data processing centers	01.05.09	31.12.11																
39	Launch 5 taxpayer service centers	01.07.09	31.12.09																
41	Separate monthly monitoring of the activities of taxpayer service centers in the initial period	01.07.09	30.06.10																

Appendix 2
Actions arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011				
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11	
88	Create up to 5 regional data processing centers and define their functions	01.07.09	31.12.10																	
76	Conduct inter-agency discussions and make a recommendation on the feasibility of applying stamps similar to excise stamps for commodities defined by the Government of Armenia	01.10.09	31.12.09																	

Appendix 3
Actions implying outside resources arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
42	Ensure a comprehensive system so that reports are, as a rule, submitted to the Tax Service only in electronic form or through regular mail	01.07.08	30.06.09	[Bar from 07/08 to 06/09]															
66	Implemintation of the risk-based system of taxpayer selection for audits and a system of automatic refund of tax credits, including VAT credits	01.07.08	31.08.09	[Bar from 07/08 to 08/09]															
72	Jointly with specialists working in the cash register service centers, clarify the provisions of the Government Decree to Approve Requirements on Cash Registers, and draft appropriate legislative amendments.	01.07.08	28.02.09	[Bar from 07/08 to 02/09]															
78	Consider the necessity of amendments to the tax legislation arising out of the Tax Administration Reform document, the new mission statement and seven key goals of the tax service, and the respective policies, and submit an appropriate legislative package	01.07.08	31.10.08	[Bar from 07/08 to 10/08]															
83	Develop a comprehensive methodology for the analysis of tax revenues, tax arrears, and tax credits.	01.07.08	30.04.09	[Bar from 07/08 to 04/09]															
11	Take into consideration the specific nature of SMEs in order to define a "lighter" administrative burden for them	01.08.08	31.10.08	[Bar from 08/08 to 10/08]															
3	Develop (regularly review) and apply audit guidelines, based on the specificities of different sectors	01.09.08	31.12.11	[Bar from 09/08 to 12/11]															

Appendix 3

Actions implying outside resources arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
20	Prepare and submit legislative proposals for purposes of increasing the basic salary of STS staff at least by 70 percent in 2009 and 20 percentage points of the basic salary in 2010-2011.	01.09.08	31.10.10																
38	Carry out a training program in order to equip the taxpayer service centers (currently, the service units of the tax inspectorates) with appropriate staff	01.09.08	31.12.11																
99	Draft the ToR for the development of software for the e-submission of reports to tax authorities	01.09.08	30.10.08																
18	Develop a simplified accounting and tax calculation manual for small business representatives on the taxation terms as of year end 2008	01.10.08	31.12.08																
31	Establish new procedures for operating a hot-line in the STS and provide for mechanisms of use of received information	01.10.08	31.12.08																
50	Broadcast a regular television and radio program called "Tax Hour"	01.10.08	31.12.08																
56	Design the architecture of a "knowledge bank"	01.10.08	30.04.09																
58	Take "inventory" of the existing tax reports and returns, tax invoices, other source documents, and forms, and develop recommendations on optimizing them	01.10.08	28.02.09																
77	Consider the introduction of the concept of centralized taxpayers based on a review of the international experience	01.10.08	31.12.08																

Appendix 3
Actions implying outside resources arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
92	Define job descriptions of tax servants.	01.10.08	31.10.09																
93	Create a performance-based reporting system, stipulating the creation of a database for each tax servant	01.10.08	31.10.09																
28	Approve uniform guidelines and manuals to ensure uniform use of tax administration procedures within the STS	03.11.08	30.12.11																
65	Study and assess the effective exercise of powers delegated to tax authorities under the audit legislation	03.11.08	30.09.09																
71	To apply the international best practice (in audits), develop a separate program of cooperation, training, and experience sharing between Armenia's tax servants and their foreign counterparts	03.11.08	30.12.11																
73	Prepare audit manuals and procedures by sectors, taxpayer categories, activity types, and the like.	01.12.08	31.12.11																
84	Strengthen the Tax Service analytical and research capacity by creating a separate project with appropriate components	01.12.08	31.12.11																
97	Restructure the STS database with a view to providing access for external users as well	01.12.08	31.12.11																
104	Develop software supporting the automated delivery of reminders and notifications to delinquent taxpayers and implement the upgraded automated system of report processing.	01.12.08	28.02.09																

Appendix 3
Actions implying outside resources arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011				
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11	
29	Train taxpayers and the STS staff on the uniform use of tax administration procedures	01.01.09	31.12.11																	
36	Support the application of the guidelines on e-submission of reports to tax authorities	01.01.09	30.06.09																	
80	Develop model procedures for strategic planning of the capacity of the Tax Service.	01.01.09	30.04.10																	
82	Make a gradual transition to a system of performance assessment indicators in the Tax Service	01.01.09	31.01.10																	
35	Develop a package of legal amendments to address gaps in the legislation as a result of taking the stock of ambiguities and misunderstandings in the tax legislation	02.02.09	30.06.09																	
108	Develop the software for collecting third party information on taxpayers and create a database	02.02.09	30.04.09																	
90	Define procedures for the transfer of processed information from the regional data processing centers to the respective units and the procedures of using such information.	02.03.09	31.05.09																	
54	Install computer terminals at STS regional units	01.04.09	30.06.09																	
106	Complete operation of the automated report processing system and the automated software for the delivery of reminders and notifications to delinquent taxpayers	01.04.09	31.12.09																	
57	Create the "knowledge bank" of FAQ and the respective responses	01.05.09	30.11.09																	

Appendix 3
Actions implying outside resources arranged by start date

N	Action / measure	Start	Finish	2008				2009				2010				2011			
				05	07	09	11	01	03	05	07	09	11	01	03	05	07	09	11
81	Develop, disseminate, and educate on change management within the Tax Service.	01.05.09	30.04.10																
89	Carry out a training program in order to supply appropriate human resources to the regional data processing centers	01.05.09	31.12.11																
39	Launch 5 taxpayer service centers	01.07.09	31.12.09																
88	Create up to 5 regional data processing centers and define their functions	01.07.09	31.12.10																