



# ASSESSMENT OF TAX ADMINISTRATION SYSTEM

REPORT

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# **ASSESSMENT OF TAX ADMINISTRATION SYSTEM**

REPORT

FINAL

USAID ECONOMIC PROSPERITY INITIATIVE (EPI)

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DELOITTE CONSULTING LLP

USAID/CAUCASUS

TUESDAY, MAY 31, 2011

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# DATA

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Other terms:

Phoenix companies – companies that rise out of the ‘ashes’ of liquidated business that essentially is the same business but under new ‘owners’.

Carousel Frauds – created by circles of companies - where some of the companies may be legitimate – and one intentionally disappears with large government debts or a fraudulent VAT repayment.

# ABSTRACT

Georgia has made significant effort in improving tax administration. Over the last several years, USAID provided considerable assistance to the MoF in designing and implementing reforms aiming to improve overall tax compliance. The initiatives included e-filing of tax returns, initial steps to implement risk-based audits, automation of tax lien filing, non-filers, non-payers business process, etc. The tax legal and regulatory framework was significantly streamlined and clarified, thus decreasing compliance burden for taxpayers and administration alike and increasing voluntary compliance. Return forms were significantly simplified for all taxes, reducing the number of pages, and eliminating redundant information requirements.

A new Revenue Code became effective from January 1, 2011. This code introduced, among other things, a different taxation regime for SMEs, the right for Revenue Service (RS) to issue binding advisory opinions and tax rulings, and combined the tax and customs provisions into one code. Despite all these new developments, the tax administration is still following, to a large extent, an enforcement compliance approach versus voluntary compliance. A key change that needs to occur is for the RS to stop relying on penalty assessments as a major source for raising revenue. Areas of particular concern include: a) enforced collection procedures and practices; b) non-filer/non-payer control procedures; c) tax declaration processing procedures; and d) tax lien filing procedures.

The challenge is to identify areas for improvement and develop recommendations to enhance the tax administration system and bring it into compliance with international best practices encompassing a voluntary compliance approach. This report addresses the abovementioned concerns.

# ABBREVIATIONS

BEE	Business Enabling Environment
EC	European Commission
CONe	Expat Consultant
CON	Consultant
EPI	Economic Prosperity Initiative
EU	European Union
IAU	Internal Audit Unit
IT	Information Technology
LTI	Large Taxpayer Inspectorate
MoF	Ministry of Finance
PERCET	Plan, Establish, Record, Confirm, Evaluate, Test (Methodology)
RBA	Risk Based Audit
RS	Revenue Service
USAID	US Agency for International Development
VAT	Value Added Tax

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# EXECUTIVE SUMMARY

Recent efforts to strengthen revenue administration has resulted in an improved working environment and administrative support, increased focus on taxpayer service to drive forward change. Many of the deficiencies of the current revenue administration have been set out in the World Bank report 'Diagnostic and Needs Assessment of the Revenue Administration' dated 29 January 2010. That report builds on a previous examination in 2009 of the EU Fiscal Blueprint carried out with support from EU experts. Both reports contain detailed analyses of the main issues and recommendations for reforms in organization, tax operations, HR, IT modernization and change management.

This report, **Assessment of Tax Administration System**, builds on previous reports. It contains a current state assessment to progress reform in light of a recent restructuring of the Revenue Service (RS), which was aimed at eliminating corruption and reducing burdens on taxpayers. While the reorganization appears to have been successful in reducing corruption, the centralization of nearly all audit functions in headquarters and the abolition of the Large Taxpayer Inspectorate (LTI) have increased stress on the management and staff of the RS, complicated a weak structure and organization and brought additional compliance burdens for taxpayers.

Management in the RS is aware of the need to move to a more functional and specialized structure and they expressed the need to move forward with reforms in measured steps. While much can be gained by looking at past reports and recommendations of international experts, senior management expressed a strong view of not wishing to look backwards. The lack of a cohesive structure and organization, clear roles and responsibilities causes political and management frustration and this is manifested in some inadequate policies, as well as constant and sometimes non-directional change.

EU assistance on risk-based audit selection procedures based on 'scoring' techniques has not yet been fully implemented. Notwithstanding a desire to implement risk-based audit, there is a dependence on what is termed 'transaction matching' to validate tax returns, which is basically a systematic approach, which is burdensome for both taxpayers and the RS. Estonia has recently abandoned 'transaction matching' at the request of the EC since it is inconsistent with self-assessment principles and the need to keep burdens on business uniform throughout the EC.

Infringements detected during or after the data entry of periodic tax returns are penalized at rates more applicable to fraud than error. This brings the penalty regime into disrepute. In addition, powers provided to the Financial Police in investigating tax offences are open to abuse. A fundamental review of powers and penalties is necessary.

The ongoing drive to improve taxpayer service will be greatly supported by the planned introduction of an independent revenue appeals tribunal. Although policy makers have some reservations about publishing the names of appellants, all businesses would benefit from the precedents and some transparency. Initially, the names of appellants could be withheld until an independent structure is fully established.

If progress on modernization is to be sustained, considerable effort is needed to bring the RS reform program back on track and procedures closer to international good practice.

## MAIN CHALLENGES

- The entire organizational structure will be improved by creating a clear separation between directing headquarters divisions and operations, bringing the RS much closer to a functional and specialized tax administration. Additionally making each directing headquarters unit prepare their methodological instructions will better support the responsibilities and activities of each operational unit.
- A lack of taxpayer segmentation or allocation to risk groups does not enable effective resource allocation and monitoring of audit results. Increased audit effectiveness will require, not only use the of risk ranking, but the application of audit staff to segments or groups. The lack of resource planning has resulted in far too many revenue unproductive audits to small and medium sized taxpayers that represent a low revenue risk and insufficient coverage of largest taxpayers that yield over 80 percent of the national revenue.
- The re-introduction of field audit and a Large Taxpayer Inspectorate (LTI) will require careful planning and management to avoid past staffing problems. In particularly it is vitally important that the largest taxpayers producing the bulk of the tax revenue be managed with taxpayer involvement in the planning process to create annual or two-yearly audit plans based on a sound methodology such as PERCET.
- Taxpayers setting up new business ventures need to be provided - without charge - clear rulings by the RS on liability to taxation in order to develop business plans. Failure to establish tax treatment of supplies could prove costly in terms of business viability and could result in significant penalties and interest.
- The RS and MoF are being greatly impacted by too many appeals cases, a significant number of which result from draconian penalties for taxpayer error where the penalty is in many cases reduced or remitted on appeal. Making penalties more proportionate and certain will encourage taxpayers to correct their errors and reduce the likelihood of appeal.
- The government has recognized the need to make the tax appeals process independent. A MoF working group is now studying the options. Any new process will need to consider the involvement of the RS. Only recently, the RS announced its intention to introduce a mediation process whereby taxpayer can challenge the preliminary audit findings. The mediation service will consist of 16 people including the head of the RS. Mediation is seen as a temporary measure to address the negative tendencies of auditors and a need to change their attitudes. The existing first and second level appeals remain in force. The Minister of Finance who chairs the second level appeals committee is accountable for tax policy and RS operations and therefore he cannot be truly independent.
- The greatest asset of a revenue service is their people and a comprehensive HR strategy is needed to support the fast moving change program, this should consist of clear roles, job descriptions, and a staff appraisal system that links the bonuses to performance. Senior RS management is aware that the current bonus system is highly subjective.
- The RS is currently considering outsourcing of audit activity to check periodic declarations of small taxpayers. While this may appear attractive the cons of doing so well outweighs the benefits. The cost for small and medium-sized businesses would in all likelihood be burdensome, if not prohibitive. The details have not yet been published.

## KEY RECOMMENDATIONS

- Develop a rolling three year Management Plan for the entire RS with objectives, key results and performance indicators that span all operations, service delivery and capacity building.
- Develop and publish an Annual Report based on the Management Plan setting out achievements against objectives, key results and performance indicators for each year.
- Improve the organizational structure of the headquarters by creating a clear separation between headquarters direction and operations, establish a Change Management Unit (CMU) to oversee and coordinate all modernization programs and an Internal Audit Unit (IAU).
- Strengthen and modernize the audit function by increased reliance on risk management, segmentation of taxpayers, more targeted resource allocation supported by work measurement and the re-introduction of field audit and the LTI.
- Establish an independent revenue appeals tribunal with improved case handling procedures and published rulings.
- Carry out a fundamental review of the penalties to make sanctions more proportionate and identify policy issues that impact business growth and create unnecessary burdens for business.
- Strengthen the taxpayer service function by developing capacity to provide binding rulings without charging taxpayers.
- Increase the capacity and professional auditors by developing a structured curriculum for classroom and on the job training.

## THE WAY FORWARD

This report is not aimed at carrying out a full diagnostics, as these have not proved helpful in the past. The objective of this report is to target those areas most likely to assist the RS with rapid development and providing the greatest assistance in generating revenue. Good organization is a first, followed by clear roles and responsibilities, planned and targeted resources – all supporting the delivery of service by well qualified staff.

Annex 1 list all recommendation and Annex 2 sets out an action plan. The action plan targets the areas of greatest need and results, which will have both direct and indirect benefits for businesses and the RS. Legitimate businesses need room to grow and gain certainty of treatment in their tax affairs. Similarly, business wishing to invest in Georgia will find low rates of taxation but they will also be seeking clarity in how they can operate and reduce the risk of tax error.

# MODERNIZATION OF THE REVENUE SERVICE

The government of Georgia has made progress in its program tax administration reform. The main challenge will be developing plans and activities that will provide fiscal flexibility to support the good progress being made in the return to economic growth.

## OVERVIEW

Fiscal performance recovered in 2010 following the general economic downturn in prior years (see table 1). The recently published IMF Article IV Report states that economic growth is proceeding at a solid pace, with real GDP growth above 6 percent in 2010. This growth is projected to continue in 2011, giving a likely increase in revenue. Further opportunities for increasing revenue will come from improvement in tax administration, utilization of risk management and better allocation of resources. Increased focus on the largest taxpayers that produce around 80 percent of tax revenues will assure revenue growth.

Table 1. Revenue Performance – 2006 – 2010

(GEL - Millions Lari)

	2006	2007	2008	2009	2010
Total collections	3,149.4	4,391.7	4,752.7	4,388.9	4,867.5
Including:					
<i>Indirect taxes</i>	1,668.3	2,402.3	2,587.5	2,494.9	2,763.9
- VAT	1,332.7	1,973.7	2,069.0	2,051.7	2,203.1
- Excises	335.6	428.6	518.5	443.2	560.8
<i>Direct taxes</i>	727.0	1,081.6	1,888.6	1,636.3	1,778.0
- Corporate income tax	341.1	554.8	592.3	518.4	575.95
- Personal income tax	385.9	526.8	1,296.3	1,118.9	1,202.05
<i>Other taxes</i>	621.7	855.3	224.7	220.6	261.7

Source: Revenue Service & MoF

In recent years, significant effort has been made to strengthen the revenue administration with technical assistance from donors, including USAID, European Commission, the World

Bank and IMF. While some progress has been made in increasing tax compliance and reducing the tax gap, further reforms are needed to address some backward steps in audit that largely resulted from actions to root out corruption. While these actions appear to have had some success, the centralization of audit operations and abolition of the LTI are retrograde measures.

A new tax Code was introduced on January 1, 2011 aimed at introducing greater clarity in legislation. This recent legislation introduced a number of positive measures, namely extending e-services from May 1, 2011, the introduction of the office of a Tax Ombudsman, quarterly filing (as opposed to monthly filing) for small VAT payers and consolidation of tax and customs Codes. While much has been achieved, significant issues still need to be addressed to bring the Revenue Administration in line with best practice.

## **STRUCTURE OF THE REVENUE SERVICE/ PLANNING AND OUTTURN**

The RS is mainly organized by functions. Much has been achieved through the strengthening of the taxpayer service delivery and the promotion of e-filing. In their drive to root out corruption, the RS abandoned regular field audits, abolished the LTI, and currently carry out audit from headquarters. Undoubtedly, these actions have had some impact on reducing corrupt practices at a cost of placing enormous burden on RS structures, management and staff. Senior management recognizes the need to re-establish field audit and the LTI in carefully measured steps. Further improvement can be achieved by: (a) separating headquarters direction from operational activity (b) defining roles and responsibilities within any new structure (c) developing management plans for a three-year outlook and setting key objectives supported by performance measures and indicators for each year.

In separating headquarters from operations, consideration should be given to making each headquarters policy section such as audit, enforced collection and taxpayer service responsible for development of their own methodologies, a practice more commonly and successfully applied in modern tax administrations.

While risk management is important for audit, the development of performance measures and indicators is vital to ensuring that resources are applied to ensure successful generation of revenue. For example, in many countries 20 percent of taxpayers produce 80 percent of the revenue. Therefore developing yearly performance indicators for managers of operations will assure the collection of 80 percent of revenue.

## **RECOMMENDATIONS**

- Develop a rolling three year Management Plan for the entire RS with objectives, key results and performance indicators that span all operations, both service delivery and capacity building.
- Develop and publish an Annual Report based on the Management Plan setting out achievements against objectives, key results and performance indicators for each year.
- Improve the organizational structure of the headquarters by creating a clear separation between headquarters direction and operations, establish a Change Management Unit (CMU) to oversee and coordinate the modernization programs and an Internal Audit Unit (IAU).
- Strengthen and modernize the audit function by increased reliance on risk management,

segmentation of taxpayers, more targeted resource allocation supported by work measurement and the re-introduction of field audit and the LTI.

## TAX POLICY/ APPEALS

*Tax Policy* - The underlying cause of some appeals comes from a lack of clarity in legislation, regulation, decrees and the number of appeals due to draconian penalties (see section on enforced collection). Foreign investors and taxpayers setting up business in Georgia cannot assume that tax treatment follows standard practice adopted elsewhere in the World. For example, wastage, losses in manufacture, shrinkage of inventory can result in assessment of tax along with application of penalties and interest. Also, businesses selling goods on commission basis may find that they are treated as the supplier of the goods and liable to VAT on full selling price, as opposed to the commission earned. The MoF are currently working on providing more clarity on interpreting legislation in such areas and this will certainly help facility ease of doing business. Accounting professionals complain that RS officials are inflexible in determining the tax liability of supplies and do not make allowance for reasonable losses. There are numerous 'trip-wires' for businesses, so they need to exercise great care by getting professional advice or a written ruling from the RS. The latter can prove very costly particularly for small and medium sized businesses, as the RS charges for binding rulings based on a sliding scale and the amounts can be significant. Large businesses may be better able to absorb this cost but the practice of charging for rulings runs counter to accepted best practice.

*Taxpayer Appeals* - Taxpayer appeals are initially addressed to the Revenue Service (RS) who perform what is termed a first level appeal. Subsequent appeals - second level – are heard by a council chaired by the Minister of Finance whose staff set policy. While taxpayers may also appeal to the courts, all current lines of accountability for level 1 and level 2 appeals lead to the Minister of Finance who cannot be an independent authority. A case can be escalated to the city court with a possibility to challenge a decision before the appeals court and the supreme court. Some but not all of the 2<sup>nd</sup> level appeals are published so there is only partial transparency in rulings. This lack of full transparency deprives taxpayers, professions and trade bodies of valuable information on how the tax law is being interpreted.

The government intends to replace the existing tax appeals council with an independent tribunal and a model or structure has yet to be determined. Discussions with the Ministry of Finance (MOF) policy developers and the Tax Ombudsman indicate a desire to implement a more taxpayer friendly system. An independent structure would need to be accountable to parliament and include a mechanism to disseminate and make all rulings available to the public. To ensure accountability, any system would need to be underpinned with a taxpayer's right to appeal to the higher courts.

Providing the RS with the ability to review any decision or assessment prior to any tribunal hearing would – as at present - substantially reduce the number of cases where additional information can be reviewed, policy reconsidered. Taxpayers currently do not need to set out the grounds of appeal.

Tribunals should not have powers to reduce or remit penalty or interest where the underlying tax is maintained. Tax tribunals and the current second level appeals should only interpret the law. If penalties and interest are unreasonable, the law should be amended.

The MOF have already established a working group to reform the appeals system and they had already requested assistance with arranging a study tour to examine systems and appeals handling processes.

### Recommendations:

- Written ruling by the RS should be provided to taxpayers free of charge.
- Support the MOF request for assistance with a study tour to examine the U.S. appeals system and how it operates. The systems in the UK and the Netherlands would also be suitable models.
- Provide assistance to establish an independent tribunal with all the mechanisms to make rulings public.
- Assist with amendment of existing legislation to provide for a new independent appeals process.
- Fundamental review of the penalty regime is necessary. Making penalties fixed, certain and proportionate will remove unnecessary appeals and encourage voluntary compliance.

## AUDIT

An **Audit Needs Assessment of the Tax Department** was carried out in parallel with this report and provides greater detail. The audit function is one of the most complex and important functions in any tax administration and consequently the outcome feeds into this assessment.

The highlights of that report are set out below.

- In 2010, the audit function department completed 777 audits using approximately 300 auditors, a caseload of 2.59 cases per auditor per annum. Extremely low by international standards and unlikely to provide adequate audit coverage.
- The LTI was abandoned and the RS plan to re-instate the LTI in another format. Control of the largest taxpayers is vitally important since these largest taxpayer produce the bulk of the domestic revenue.
- The replacement for the LTI should control a lesser number of taxpayers based on audit plans covering a one or two-yearly cycle.
- Field audits were abandoned and replaced by desk audits conducted from headquarters. As with the LTI, field audits the RS intends to re-instate filed audit in measure steps.
- An increase in the number of issue-orientated audits will dramatically increase audit coverage.
- Improved allocation of taxpayers for audit using resourcing tools, performance measures and indicators will ensure more accurate targeting of staff resource to risk.
- Additional management reporting tools to measure the use of staff time will greatly assist senior management in assessing how resources are utilized.
- Initially, work measurement should be applied to all field and operational activity with particular emphasis on gather time spent on audit, under-reported tax and type of taxpayer error.
- Audit training on the job needs to be replaced by a formalized curriculum. This training needs to focus on not only legislation but also the basic skill sets required of an auditor.
- Audit training should be followed by specialized training in (a) audit techniques such as cash reconciliation, mark-up, use of gross profit ratios and life-style assessments and (b) training in advanced accounting and interpretation of accounts.

## TAXPAYER SERVICE

The establishment of a dedicated taxpayer function is a significant achievement. The RS intends to build on the existing provisions of information and increase the number of brochures and pamphlets. This will supplement information available on the MoF website.

Decree No. 96 issued March 30, 2010 provides for a scale of charges for all types of services provided the RS. For advanced rulings, there are two levels of service, over 10 days or within 10 days. Small business will pay a minimum of GEL 5,000 (Approx. US\$ 2,941) and larger companies GEL 10,000 (approximately (US\$ 5,882). For immediate rulings, the charges are GEL 15,000 and GEL 30,000 respectively.

The RS provides a tax agency service to taxpayers to help them with fulfilling their obligation for GEL 2,000 for 6 months. The agent is accountable for his actions.

Charging taxpayers for advanced rulings is highly unusual and not best practice. EC Regulations would prohibit such charges. These fees must be highly burdensome for businesses.

### RECOMMENDATIONS

- Strengthen the taxpayer service function by developing capacity to provide binding rulings without charging taxpayers.

## COLLECTION AND ENFORCED COLLECTION

The management of tax arrears is largely in line with international good practices. The monitoring of VAT registered taxpayers could be improved through automated assessment for non-filers with such assessments being automatically cancelled when the return is filed. This would avoid unnecessarily referring cases to the audit function.

*Penalties* – Businesses, trade bodies and the professions complain about harsh penalties and high interest. Delays in payment of tax attract a daily rate of 0.07 percent equating to a rate in excess of 25 percent per annum. Failure to file a periodic return by the due date incurs a penalty of 5 percent of the period liability for each month or part month in default with total sanctions being capped at 30 percent. Errors on a period declaration up to 50 percent of the periodic liability are fined at 50 percent and errors over 50 percent of a periodic liability are fined at 75%. While there are other penalties worthy of note, it would be safe to state that tax penalty rates in Georgia are excessive by world standards and could very easily deter foreign investors.

Issuing assessments or decisions that impose disproportionate penalties and interest only results in high number of unnecessary appeals. Remitting, reducing or negotiating penalties as happens at present only brings the penalty regime into disrepute. While the RS issues high penalties and interest, the resultant non-revenue receipts for 2009 are lower that might be expected (see Table 2 below). This is probably due to penalties and interest being remitted or reduced on appeal. A danger of high penalties and interest is that businesses might be forced unnecessarily into liquidation and then re-appear as a new business. All too often tax administrations face phoenixism – where companies appear and disappear with debts to the State and all other credits paid. Consequently, it is particularly import to vet VAT registrations in particular, as that is the best opportunity to identify potential phoenix companies and also carousel frauds.

Table 2. Penalty and Interest component of Revenue – 2006 – 2010

(GEL Millions)

	2006	2007	2008	2009	2010
Total collections	3,149.4	4,391.7	4,752.7	4,388.9	4867.5
Including:					
- Penalty & Interest	N/A	N/A	N/A	103.5	149.2

Source: Revenue Service

## RECOMMENDATIONS

- Carry out a fundamental review of the penalties to make sanctions more proportionate and identify policy issues that impact business growth and create unnecessary burdens for business.
- Consider the introduction of automated assessment for VAT non-filers to avoid referring cases to audit.

## HUMAN RESOURCES/ STAFF DEVELOPMENT

Senior management in the RS recognize that their staff are the single greatest asset, yet support in terms of structured training curricula and staff appraisal are non-existent. The EU has provided some assistance in training of trainers and the RS has recently been successful in being selected for future twinning project with an EU member State. The priority areas identified for the near term are: (a) the development of a training curriculum for auditors (c) training for senior management. Naturally, this should be developed in the context of a training strategy for the short, medium and long term.

Current procedures for deciding bonuses and promotions are recognized by management as being largely subjective. A standardized performance appraisal system does not exist. Management also recognizes the need to improve the pay of RS staff when economic conditions permit. In the near term, there is a clear need for systemized appraisal based on evaluation against competencies as well as ability to perform in the job.

- Develop a training strategy for the entire RS.
- Develop a curriculum for training of auditors, including specialized training in control of the largest taxpayers and in the use of credibility checking techniques.
- Implement a performance appraisal system that link to performance pay and bonuses.

# ANNEX 1: SUMMARY OF RECOMMENDATIONS

## STRUCTURE OF THE REVENUE SERVICE/ PLANNING AND OUTTURN

- Develop a rolling three year Management Plan for the entire RS with objectives, key results and performance indicators that span all operations, both service delivery and capacity building.
- Develop and publish an Annual Report based on the Management Plan setting out achievements against objectives, key results and performance indicators for each year.
- Improve the organizational structure of the headquarters by creating a clear separation between headquarters direction and operations, establish a Change Management Unit (CMU) to oversee and coordinate the modernization programs and an Internal Audit Unit (IAU).
- Strengthen and modernize the audit function by increased reliance on risk management, segmentation of taxpayers, more targeted resource allocation supported by work measurement and the re-introduction of field audit and the LTI.

## TAX POLICY/ APPEALS

- Written ruling by the RS should be provided to taxpayers free of charge.
- Support the MOF request for assistance with a study tour to examine the US appeals system and how it operates. The systems in the UK and the Netherlands would also be suitable models.
- Provide assistance to establish an independent tribunal with all the mechanisms to make rulings public.
- Assist with amendment of existing legislation to provide for a new independent appeals process.
- Fundamental review of the penalty regime is necessary. Making penalties fixed, certain and proportionate will remove unnecessary appeals and encourage voluntary compliance.

## TAXPAYER SERVICE

- Strengthen the taxpayer service function by developing capacity to provide binding rulings without charging taxpayers.

## COLLECTION AND ENFORCEMENT

- Carry out a fundamental review of the penalties to make sanctions more proportionate and identify policy issues that impact business growth and create unnecessary burdens for business.
- Consider the introduction of automated assessment for VAT non-filers to avoid referring cases to audit.

## HUMAN RESOURCES/ STAFF DEVELOPMENT

- Develop a training strategy for the entire RS.
- Develop a curriculum for training of auditors, including specialized training in control of the largest taxpayers and in the use of credibility checking techniques.
- Implement a performance appraisal system that link to performance pay and bonuses.

## ANNEX 2: ACTION PLAN

STRUCTURE OF THE REVENUE SERVICE/ PLANNING OUTTURN			
Recommendations	Action Plan	Expert	LOE
Develop a rolling three year Management Plan for the entire RS with objectives	<i>Arrange training for the RS senior management that will result in the production of:</i> - 3 Year Management Plan - Annual Management Plan - Annual Report - Key RS objectives - Performance Indicators - Senior Management skills	CONE	25
Develop and publish and Annual Report based on the Management Plan setting out achievements against objectives			
Improve the organizational structure of the headquarters by creating a clear separation between headquarters direction and operations	<i>Assist the RS with reorganization of the headquarters along more functional lines with increased specialization:</i> - Senior manager workshop - Organizational design - Migration Plan	CONE	23
Strengthen and modernize the audit function by increased reliance on risk management	<i>See Audit</i>		
Tax Policy/ Appeals			
Written ruling by the RS should be provided to taxpayers free of charge.	<i>Assist the MoF and RS with establishment of an independent, more effective and transparent appeals process through:</i> - Study tour	CONE	28
Support the MOF request for assistance with a study tour to examine the US appeals system and how it operates. The systems in the UK and the Netherlands would also be suitable models.			

Provide assistance to establish an independent tribunal with all the mechanisms to make rulings public.	- Preparation of policy vision - Legislative amendment		
Assist with amendment of existing legislation to provide for a new independent appeals process.	- Revised procedures - Training		
Fundamental review of the penalty regime is necessary. Making penalties fixed, certain and proportionate will remove unnecessary appeals and encourage voluntary compliance	<i>Assist the MoF and the RS with development of a more proportionate penalty regime:</i> - Review of penalties - Prepare policy paper - Prepare legislative amendment - Conduct training on tax disputes	CONE	60
<b>Collection and Enforcement</b>			
Carry out a fundamental review of the penalties to make sanctions more proportionate and identify policy issues that impact business growth and create unnecessary burdens for business.	<i>Assist the MOF in making penalties more proportionate:</i> - Review of penalty regime - Prepare policy paper - Prepare legislative amendment	CONE	35
Consider the introduction of automated assessment for VAT non-filers to avoid referring cases to audit.	<i>Assist the RS if will to proceed with:</i> - Development of IT solutions	CONE	10
<b>Human Resources/ Staff Development</b>			
Develop a training strategy for the entire RS.	<i>Assist the RS in building human capacity by:</i> - Preparation of a strategy	CONE	25
Develop a curriculum for training of auditors, including specialized training in control of the largest taxpayers and in the use of credibility checking techniques.	- Creating an implementation plan - Supporting the development of trainer/ instructor skills - Development of a training		5 30

(See Audit needs Assessment)	curriculum for auditors - Development of a training module for the control of large taxpayers		80 15
Implement a performance appraisal system that link to performance pay and bonuses.	<i>Assist the RS with the introduction of a performance appraisal that links pay to overall performance and competencies:</i> - Design an annual appraisal process - Prepare procedures and form - Train managers in appraisal and counseling - workshops for employees	CON	40

## ANNEX 3: LIST OF DOCUMENTS REVIEWED

Year of Document	Title of document, Author
2010	Order N 248 of the Minister of Finance, On approving the Regulations of the Revenue Service, a Legal Entity of Public Law
	USAID Business Climate Reform Final Report
2009	Fiscal Blueprint 2009 for Georgia Tax Administration, European Union
2010	Georgia - Diagnostics and Needs Assessment of the Revenue Administration World Bank
2011	Audit Department Regulations
2011	Field Audit Program guidelines
2010	Tax Code
2009	Georgia Business Climate Reform
2011	Georgia Pocket Tax Guide
2011	2011 IMF Article IV - Consultation with Georgia ) - Overview

## ANNEX 4: LIST OF PERSONS INTERVIEWED

Name	Organization	Role
Rezo Ormotsadze	USAID	Alternate - EPI Project COTR
Steve Wade	EPI Project	Chief of Party
Chris Thompson	EPI Project	BEE Component Leader
Natalia Beruashvili	EPI Project	BEE Component Deputy Leader
Jaba Ebanoidze	Revenue Service	Head
Lili Begiashvili	Revenue Service	Deputy Head
Paata Kiladze	Revenue Service	Head of Audit
Giorgi Areshidze	Revenue Service	1 <sup>st</sup> Deputy Head of Audit
Valeri Tukhareli	Revenue Service	Head of Audit Operations
Teimuraz Tsertsvadze	Revenue Service	Head of Legal Division
Roman Chkenkeli	Revenue Service	Head of Administrative Division
Irakli Gvaramadze	Revenue Service	Head of the Main Audit Department
Zviad Chunashvili	Revenue Service	Head of Division of Enforced Collection

Givi Chanukvadze	Revenue Service	Head of international Relations & Project Development Division
Gia Todua	Revenue	Head of Tax Appeals Department
David Tomadze	Ministry of Finance	Head of Office of Tax Appeals
Giorgi Pertaia	Ombudsman	Senior Advisor to Prime Minister
Nicole Jordania	AmCham	Acting Executive Director
Ted Jonas	AmCham	Tax and Investment Committee
George Asatiani	Business Association of Georgia	Executive Director of BAG
Andrew Coxshall	KPMG	Managing Partner
Kakha Rukhadze	KPMG	Tax Division Manager
Zurab Lalazashvili	BDO LLC	Managing Partner/ Accountants and Auditors Federation
Giorgi Kverkheldze	BDO LLC	Tax Manager
Katevan Abuseridze	BDO LLC	Tax Manager
Zviad Lobjanidze	BDO LLC	Senior Tax Specialist

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