e-Government Project

SYSTEM DESCRIPTION

FOR

e-TAX Services

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e-Government Project

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Introduction

The e-Tax services will enable filing of all individual and company taxes through a Web portal using a digital certificate or other method of e-identification. Initially the services will be restricted to taxes to be paid by major companies. The system should however be flexible enough to be expanded into additional taxpayers.

The core objective of the e-Gov *Impact* Project is to create, design and implement an online tax service for all the taxes, which are currently collected by the PRO from a group of companies to be specified by PRO, corresponding to the 100 biggest companies in the Republic of Macedonia. In order to achieve this, *Impact* will have to work closely with the PRO and to establish close cooperation with the UNDP and the Italian Government, which will focus on the internal structure of the tax administration within the PRO. The *Impact* project will provide the interface between the PRO and the taxpayers.

This on-line system will substantially reduce the administrative cost both for PRO and the tax payers and speed up the processing of the large volume of data. The e-Tax services will help stimulating the economy in Macedonia as well as ensure the transparent and efficient collection of taxes. Significant attention shall be placed on Security and legal issues.

The system will be used in the Republic of Macedonia. All references in this document to legal text refer to the relevant legislation in the Republic of Macedonia.

1. Current situation

The Public Revenue Office (PRO) has one General Directorate in Skopje, 6 Regional offices in major cities in Macedonia and some specialized taxation departments in smaller towns. PRO has full responsibility for collection of taxes and currently collects the following with all forms relevant to the specific tax listed:

1.1. Value Added Tax

- Value Added Tax registration form (Form VAT-01);
- Request on deregistration of VAT (Form VAT-01B);
- Value Added Tax registration form of related persons (Form VAT-01/PL).
- Tax return on Value Added Tax (form VAT-04);

1.2. Personal Income Tax

- Monthly calculation of the employer (payer of salaries) (Form-PDD-MP);
- Annual report of the employer (Form-PDD-GI);
- Annual tax balance on Personal Income Tax (Form – PDD-DB);
- Income Statement (Form – B);
- Request on tax release approval upon the basis of introduction in use of approved system of equipment for registering of the cash payments (Form PDD-02);

- Request on personal income tax release / relief on agricultural income (Form PDD-OZD).

1.3. Profit Tax

- Tax balance (Form DB);
- Monthly tax balance (Form MDB);
- Consolidated tax balance (form KDB);
- Request on agreement for accepting expenditures within the tax balance (Form DD-01);
- Request for adjustment regarding income within the tax balance (Form DD-02);
- Request on tax reduction related to foreign investments (Form DD-03);
- Request on tax reduction to a taxpayer who undertakes activities for the first time (Form DD-04);
- Request on tax reduction to a taxpayer quoting on an official stock exchange (Form DD-05);
- Request on tax consolidation (Form DD-06);
- Request for tax deduction for the introduction of approved system for registration of cash payments (Form DD-07).

1.4. Excises

- Tax return on motor vehicles excise – form AKC-PA
- Tax return on mineral oils excise – form AKC-MM
- Tax return on alcohol and alcohol beverages excise – form AKC-AAP
- Tax return on planned number of banderols (control flags) for marking the tobacco products – form P-TD
- Tax return on planned number of banderols for marking the semi-products and ethyl alcohol – form P-MEA
- Request for banderols for marking tobacco products – form B-TD
- Request for banderols for marking semi-products and ethyl alcohol – form B-MEA
- Power of attorney (Authorization) of banderols for marking of tobacco products, semi-products and ethyl alcohol
- Report on stocks of excise goods – form AKZ;
- Request on excise permit (Form AK-01);
- Request on excise favourable rights (Form AK-02).

1.5. Fiscal equipment

- Declaration on fiscal equipment registry (Form FA-01);
- Declaration on change of fiscal equipment (address and electronic system) (form FA-02);
- Declaration on termination of the registration of fiscal equipment (form FA-03)

1.6. Tax returns submitted by physical persons – citizens

- Prepayment tax return for calculation of the personal income tax for revenues from property and property rights (form PDD-ADP/PI);
- Prepayment tax return for commencement of realization of revenues from independent activity (form PDD-ADP/SD);
- Prepayment tax return for other revenues realized (form PDD-ADP/DP);
- Request for allowance payment of the personal income tax (form PDD-P);
- Prepayment tax return for calculation of the Personal Income tax of Capital gains (form PDD-ADP/KP);
- Annual tax return (form PDD-GDP).

Detailed elaboration of the Macedonian Tax system can be downloaded from the *Impact's* website

http://www.impact.org.mk/documents/Macedonian_Tax_System.pdf

The filing of tax returns using paper forms requires duplication of data entry, which is a lengthy process and often results in transcription errors. Therefore, *Impact* Project together with PRO will design e-Tax services system for all taxes, including e-Tax filing system, and will procure a necessary software package.

Since all taxpayers will not be able to use the e-Tax services directly, the IT based system must for some time co-exist with the present paper based system.

2. Stakeholders

2.1. Public Revenue Office (Application host)

The PRO will host and administer the software application for e-Tax services on their IT infrastructure. PRO will be responsible to select and register the taxpayers that would use the e-Tax filing application; and to take care of the security issues related to the application.

2.2. Tax Policy and Administration Department within the Ministry of Finance

This department will be responsible for the legal issues regarding the procedures and forms to be drafted

2.3. Taxpayers

The biggest 100 taxpayers registered within the PRO. The PRO will provide the list of the selected taxpayers. It is assumed that all of these companies have appropriate IT equipment and skilled human resources to take part in the e-Tax filing but public awareness campaigns will be conducted and the possible need for assistance evaluated.

3. e-Tax Services Software Modules

This chapter describes how the e-tax services system shall operate.

The design of the e-Tax services system is modular and it is composed of separate software modules. The following software modules are foreseen for the specific e-Tax filing system:

3.1 Module 1: Identification / User Management

3.1.1. User Registration

Users should register before they start using the system. The registration procedure must be simple and with very few steps.

Only registered user can access secure part of the application.

3.1.2. User Management

System Administrators should be able to access the user profile of the tax payer and to enable/disable access to the e-Tax system for that particular user.

3.1.3 User Profile

Tax payers should be able to access at any time their own user profile and to update their contact information and submit any information requested by PRO.

3.2 Module 2: Form Designer

Web-based form designer module should allow users from the tax departments to create and modify various forms used for data collection. The forms should be used for electronic filing of tax returns and for collection of other relevant data regarding the taxpayer.

The form designer should be able to create “active” forms meaning that logical and arithmetical controls can be included with the form. Logical and arithmetical controls are further specified in 4. Forms designing.

The form designer will design draft forms that should be approved by relevant person within PRO. It must consequently be possible to transfer drafts from one workplace to another within PRO.

The form designer should not create or modify the physical tables of the interim database. IT Department of the PRO will be responsible for that database.

The system should allow the designing of surveys that can help PRO collect information from taxpayers regarding usage of the system.

3.3 Module 3: Data filing

The system must be user friendly with regard to the taxpayer and should provide necessary information and guidance regarding the process of submitting data. All fields of the form should have defined controls (logical and arithmetic) in order to avoid any possible errors.

The tax payer should be able to file the form in the system even if it is alerted that some error (logical or mathematical) exists. That document should be marked differently.

Confirmation by e-mail should be sent to the tax payer when the form has been duly filed. Optional, the tax payer can be alerted for any change of the status of the filed document. This should be user configurable option.

3.4 Module 4: Documents upload

The tax payers should not only be able to file their tax data but also to be able to upload all necessary documents required by the PRO to be filed along with the tax returns. The uploaded documents will be stored into the interim/production database. All of the standard formats should be accepted by the system but limited by the size.

3.5 Module 5: Tax services / reports

This module should provide financial (tax balance) data for each tax separately and allow the taxpayers to view their tax status on line, which means to be able to view already entered data, without having a possibility to change any of them. The taxpayer should also have a possibility to print their tax statements.

This module should be flexible enough to accept further enhancement by adding other tax services when developed by the PRO.

3.6 Module 6: Import/Export Data

The system should be able to Import data in XML format generated from the accounting system of the tax payer.

The system should be able to export data previously filed for the reference of the tax payer.

Tax payer should also be able to temporary save the data to be filed into the interim database. This feature would help the tax payer to continue with the filing at some other time at his convenience. The Public Revenue Office shall not have access to these temporary files until they are intentionally filed by the taxpayer.

3.7 Module 7: Administration

This module is intended for the system administrators and should include functionalities needed for the maintenance of the system.

This module should also allow database administrators to create/modify database tables and to transfer data from and to the production database server.

4. Forms designing

The developer should use the form designer to create all of the forms currently used by the PRO. Every form should have unique reference number that should reflect the version of the form and the date when created or modified.

The system should maintain history of the forms created for future reference.

Logical and arithmetic controls prepared by the tax departments of the PRO will be handed to the developer of the software application after having been selected by *Impact* to develop the software.

5. Interim database organization

The data collected through the e-Tax services system should first be stored into an interim database. For security reasons, creation of the tables related to the forms will be the responsibility of the IT Department of the PRO. The software interface for data exchange between the interim and the production database is also responsibility of the of the PRO's IT Department.

6. Security requirements

The e-Tax services system works with highly sensitive data that must be secured. The system must consequently have proper security measures covering the external parts of the integral e-Tax system (the Front Office of the PRO). Another system will address security issues within the back office. The solution should be based on open and well-established standards in security and privacy, providing for flawless integration with the overall e-Tax system.

The system would support a variety of authentication mechanisms such as username/password or electronic signatures.

6.1.Possible Authentication mechanisms

These three types of authentications are mandatory for the system:

- Digital Certificates
- Smart Cards
- Username / Password

The bidder is encouraged to propose other authentication mechanisms as well and to elaborate their implementation. Different authentication mechanisms could be acceptable for different groups of taxpayers such as the biggest taxpayers and the medium and small ones.

6.2. Data transfer protection

- **Authorize transmission:** Authentication mechanism the software application is using should control access privileges for specified online transactions.
- **Verify integrity:** Authentication mechanism must ensure that the message or document the certificate "signs" has not been changed or corrupted in transit online.
- **Ensure privacy:** Digital certificates used must protect information from interception during Internet transmission.

6.3. Security and audit trail

The system should log all events, transactions and access and should provide a module for automated processing of system logs, offering the capability of generating reports on user/system events both for the purpose of security and providing statistics. Such reports should be able to highlight illegal activities, like change of data and accessing confidential information. Only specifically authorized persons should be able to have access to for them relevant parts of the information. PRO should assist in specifying different groups of access.

6.4. Security of uploaded documents

- Documents virus check
- Document corruption check
- Digital signature verification

7. Performance and Scalability

The solution should be scalable to support growing numbers of users while adhering to performance requirements.

The e-Tax services system must be able to interact with existing applications within the Public Revenue Office and exchange data in XML format.

8. Backup and Recovery

The e-Tax services system is 24/7 system where the business continuity is crucial and the vendor of the software is obligated to cooperate with the Public Revenue Office on defining and testing the back-up and recovery procedures for the developed system. The backup should be done on external media and in accordance to the standards defined by the PRO.

9. Language

The language that should be displayed on the e-Tax services should be provided in Macedonian. For the Macedonian language the Cyrillic alphabet must be used in Macedonian code-page standard.

For the interfaces used by the tax payers Macedonian language should be used, as described above.

10. ICT Infrastructure

Operating system of the web server is AIX UNIX
Web portal should be Web Sphere
Interim database should be Informix
Web Sphere Development Tool using Java.

11. Reporting

Advanced reporting system for tax departments, taxpayers and auditors:

Tax departments should be able to generate reports crucial for their every day work. Concise list of such reports will be supplied by the PRO to the designated software developer.

Taxpayers should be able to get information about their tax balance, about the amount of money that has been paid or shall be paid for each tax they are obliged to pay.

Auditing authorities should to be in a position to study the information stored in the system logs.