

Government of Montenegro

Ministry of Finance

Questionnaire

Information requested by the European Commission to the Government of Montenegro for the preparation of the Opinion on the application of Montenegro for membership of the European Union

– ADDITIONAL QUESTIONS –

16 Taxation

Minister:

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CHAPTERS OF THE ACQUIS – ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

16: Taxation

I. INDIRECT TAXATION

C. Excise duties

1. (Ref to Q. 8):

Energy taxation

i. Please provide information about the tax treatment of biofuels.

Existing Excise Tax Law (OG of RMN 65/01, 76/05 and OG of MN 76/08 and 50/09) does not provide for the taxation of bio-fuel. Products subject to excise tax are alcohol and alcoholic beverages, tobacco products and mineral oils, their derivatives and substitutes. Also, provisions of the Article 52 of mentioned Law prescribe the types of mineral oils, their derivatives and substitutes which are charged by excise tax, as follows:

- 1) leaded petrol (tariff numbers CN 2710 11 31 00, 2710 11 51 10, 2710 11 51 90 and 2710 11 59 00);
- 2) unleaded petrol (tariff numbers CN 2710 11 31 00, 2710 11 41 00, 2710 11 45 00 and 2710 11 49 00);
- 3) kerosene (tariff numbers CN 2710 19 21 00 and 2710 19 25 00) used for the following:
 - motor fuel
 - heating fuel;
- 4) gas oil (tariff numbers CN 2710 19 41 to 2710 19 49) used for the following:
 - as motor fuel;
 - as motor fuel for industrial and commercial purposes;
 - as heating fuel;
- 5) heating oil (tariff numbers CN 2710 19 61 00 to 2710 19 69 00);
- 6) fluid oil gas (tariff numbers CN 2711 12 11 00 to 2711 19 00 00) used for the following:
 - motor fuel;
 - motor fuel for industrial and commercial purposes;
 - heating fuel.

By the most recent amendments of the Excise Tax Law (OG of MN 76/08) applicable as of 1 January 2009, the adjustment of the level of excise duty and excise tax base for the mentioned energy sources was carried out, except for coal and electric power. Following the detailed analysis of the effects on the economy and households, the possibility to include other energy sources (electric power) in the excise tax system of Montenegro shall be considered, as well as the additional harmonization with the EU Council Directive 2003/96/EEC, in which process respective solutions shall provide the transitional period for their implementation.

ii. According to the information provided the energy products are not taxed when used in aviation and maritime transport, electricity production, production of other energy products and chemical reduction processes. Is there any other tax exemption or reduction or special tax treatment related to energy taxation?

There are no other exemptions from taxation of mineral oils, except the exemptions provided by the Articles 32 and 54 of the Excise Tax Law.

Tobacco taxation

i. Is Montenegro planning to increase these tax rates in the near future? If yes, which time frame is foreseen?

Montenegro plans to increase the tax rates on cigarettes at an annual level and is preparing the timetable to be incorporated within the National Programme of Integration of Montenegro in the EU (NPI), the revision of which is foreseen for the II (second) quarter of year 2010.

ii. Is the specific component of the tax rate for cigarettes within the bandwidth of 5%-55% (respectively 7,5%-76,5%)?

The participation of special component of the tax rate in the total tax burden on cigarettes amounts to 25%, which means that it ranges between 5%-55%.

Following the most recent increase of excise tax on cigarettes (of 1 October 2009) the participation of the excise tax in the retail price of cigarettes amounts to 52% for the most popular price category cigarettes, which, in the year 2009 were the cigarettes sold at the retail price of 0.60 €/package. Percentage of participation of the specific excise tax for the most popular price category cigarettes is 16.7%, while the participation of the *ad valorem* excise tax amounts to 35%.

According to the provisions contained in the currently applicable Excise Tax Law, the excise tax on cigarettes is paid as specific excise tax determined in the absolute amount for 1,000 pcs and as *ad valorem* excise tax determined as percentage of the retail price of cigarettes. Specific excise tax on cigarettes amounts to 5.00 € for 1.000 pieces, while the *ad valorem* excise tax amounts to 35% of their retail price.

iii. Will Montenegro adapt their tobacco product definitions to the new EU Directive?

All definitions of other tobacco products (except definitions for cigars and cigarillos) are harmonized with the relevant EU Directives.

Traveller's allowances:**i. Please provide for an overview displaying maximum amounts of goods and monetary values for travellers entering Montenegro from abroad?**

Foreign Trade Law (OG of MN 28/04 and 37/07), provides that every person may import and export goods, i.e. items designated for personal, family, or own needs.

Decree on procedure of realization of right to exemption from payment of customs duty (OG of MN 22/03), provides that goods contained in the personal luggage of the traveller intended for traveller's personal needs during the trip and goods imported for non-commercial purposes are exempted from payment of customs duty. Also, the traveller may realize the right to exemption of customs duty for the following goods which are brought in, but are not intended for further re-sale:

- 1) Tobacco products:
 - 200 cigarettes, or
 - 100 cigarillos, or
 - 50 cigars, or
 - 250 g of smoking tobacco, or
 - proportionate quantity of various mentioned tobacco products;
- 2) alcohol or alcoholic beverages:
 - 2 liters of wine,
 - 1 liter of strong /distilled/ alcoholic beverage
- 3) perfumes:
 - 50 g,
 - eau de toilette 0, 25 liters

Travellers younger than 17 years of age may not use the right to exemption from payment of customs duty. Also, domestic travellers are exempted from payment of customs debt on objects which they are bringing along into the country from abroad, in the total amount of up to 150 €. It is considered that domestic travellers are both domestic and foreign citizens who have permanent residence in Montenegro. This exemption does not cover previously mentioned items.

The Decision on the amount of cash which may be carried in and out of Montenegro without declaring (OG of MN 58/05), adopted on the basis of the Law on Foreign Current and Capital Operations (OG of MN 45/05 and OG of MN 62/08), prescribes that the traveller entering Montenegro from foreign country, may bring into Montenegro the amount of up to 2,000 € without declaring it. The bringing in of monetary means above the mentioned amount is not limited, but it must be declared to customs authorities.

**ii. If maxima exist, will Montenegro adapt them to the ones applicable in the EU? See following websites:
http://ec.europa.eu/taxation_customs/common/travellers/enter_eu/index_en.htm and --
http://ec.europa.eu/taxation_customs/common/travellers/within_eu/index_en.htm).**

During the EU accession process, Montenegro shall adjust its regulations to ones applicable in EU.

Alcohol taxation

i. The exact wording of Article 40 - definition of 'other fermented beverages' is not immediately clear where it refers to 'and products that are not classified as other fermented beverages according to the provisions of this article'. Please clarify.

According to the provisions of the Article 40 of the Excise Tax Law, it shall be considered that other non-sparkling fermented beverages are products covered by the tariff code CN 22.04 and 22.05 which are not classified as wines (Article 39 of the Law), products covered by the tariff code CN 22.06 which are not classified as beers (Article 38 of the Law) and products which are not classified as other non-sparkling fermented beverages, as follows:

- with the content of alcohol above 1.2 vol. % and not exceeding 10 vol. %;
- with the content of alcohol above 10 vol. % and not exceeding 15 vol. %, under condition that alcohol contained in final product is entirely of fermented origin;

Products covered by tariff code CN 2206 00 31, 2204 10, 2204 21 10, 2204 29 10 and 2205, which are not classified as wines and sparkling wines are considered to be "other sparkling fermented beverages", as follows:

- in bottles with "mushroom stoppers" held in place by ties or fastenings with the pressure of carbon dioxide of three bar or more;
- with content of alcohol, over 1.2 vol. % and not exceeding 13 vol. %;
- with content of alcohol over 13 vol. % and not exceeding 15 vol. %, provided that the quantity of alcohol in the final product is of entirely fermented origin.

ii What is meant by the exemption of 2207 products for the 'production of fermented products' in Article 44 of the Excise law? How does this operate in practice

According to the Customs Tariff Law (OG of MN 75/05 and 17/07), ethyl alcohol from the tariff number 2207 is defined as non-denatured ethyl alcohol with strength of 80%vol. and stronger ethyl alcohol, as well as other alcohols, denatured, of any strength. In practice this means that, at the time of acquiring of such ethyl alcohol the excise tax is not being paid, since this substance is added during process of production of fermented beverages on which excise tax is charged and paid according to the provisions of the Excise Tax Law.

II. DIRECT TAXATION

2. (Ref to Q. 10,12):

i. What companies are covered by this legislation?

Taxpayer of the tax on profit is a resident or non-resident legal person that conducts business activity with an aim of gaining profit. Resident legal person is either established in Montenegro, or has the seat of actual management and control on the territory of Montenegro. Within the meaning of the Law on Tax on Profit of Legal Persons (OG MN 65/01, 80/04 and OG of MN 40/08 and 86/09), joint stock company, limited liability company and limited partnership are deemed to be legal persons.

Non-resident legal person which is not established in Montenegro and whose seat of actual management and control is not located in Montenegro, but conducts its business activities through permanent establishment is also a taxpayer within the meaning of mentioned Law, and in such case, permanent establishment has a status of legal person.

ii. What operations are covered? Are "transfers of assets", "exchanges of shares" and "transfer of the registered office of European Companies or European Cooperative Societies" as defined in the Merger Directive included?

Provisions of the Article 26 of the mentioned Law set out that the transfer of assets in case of status changes (merger by absorption, merger and division) shall not be treated as sale of assets, and thus the transfer of assets is not subject to payment of the tax on capital gains. Tax liability on the basis of capital gain is incepted when the legal person constituted by status change effects the sale of assets. The Law does not contain provisions which would regulate in more detail the status changes, i.e. merger by absorption, merger and division of legal persons, in the manner defined by the Merger Directive.

The Law on Tax on Profit of Legal Persons does not cover the transactions "**transfer of assets**", "**exchange of shares**" and "**transfer of registered office of European Companies or European Cooperative Societies**", as defined in the Merger Directive.

iii. Under what conditions is tax deferral of capital gains granted? Are there special conditions that apply only in cross-border situations?

The right to deference of payment of tax on capital gains is obtained in case if the owner of the legal person which effected the transfer of assets at the time of merger by absorption, merger or division, received the compensation in form of shares or stakes in the legal person onto which the transfer of assets was made, as well as compensation in cash, the value of which does not exceed 10% of the nominal value of received shares or stakes. Mentioned solutions relate to both domestic and cross-border companies, and hence there are no special terms for cross-border situations.

iv. Does the allotment of securities to a shareholder, on the occasion of one of these operations, give rise to any taxation of the shareholder? Does the transfer of the registered office of a company result in taxation of capital gains or income attributable to the shares held by the shareholders?

Shareholder who is allotted securities against transfer of assets in case of status changes (merger, merger by absorption and division) does not have tax liabilities on the basis of acquired securities. Considering that the transaction "transfer of registered office" is not covered by the Law on Tax on Profit of Legal Persons, the procedure of taxation for such transfer is not regulated either.

v. Please, provide us with any other information that you may find relevant concerning the implementation of the Merger Directive.

In the procedure of future amendments of the Law on Tax on Profits of Legal Persons the solutions contained in the Merger Directive shall be implemented.

3. (Ref to Q. 14):

i. What is the tax treatment applied to dividends distributed by foreign companies to companies that are resident in Montenegro?

Revenues from dividends paid by foreign companies to domestic (resident) companies are included in the tax base as operational income and are subject to taxation of the tax on profits, in the same way as other operational income.

For the purpose of avoidance of double taxation of dividends realized by Montenegrin citizens abroad, the provisions of the agreements on avoidance of double taxation are applied, which have prevailing force in regard of national legislation.

ii. What mechanism is applied by Montenegro to prevent/eliminate double taxation on dividends and whether this mechanism also applies to dividends distributed by foreign companies to companies that are resident in Montenegro?

For the purpose of avoidance of double taxation of dividends, dividend revenues are exempted from the tax base of the taxpayer (resident of Montenegro), if the payer of the dividends, in line with the provisions of Article 29 of the Law on Tax on Profit of Legal Persons, had computed, withheld and paid withholding tax on such dividends paid to such resident legal person.

For the purpose of prevention of double taxation of dividends distributed by foreign companies to companies residents of Montenegro, the provisions of the Agreement on Avoidance of Double Taxation are applied. Resident taxpayer who generates income from dividends outside of Montenegro and who pays tax on such income in another country is allowed a tax credit in the amount of tax payable in such other country. Tax credit may not exceed the amount which would be received by application of the tax rate prescribed by the mentioned Law, on the revenue generated in other country.

Provisions of the Article 34a and 34b of the Law set out the tax treatment of dividends in case of related companies (relation parent-daughter). The computed tax liability of the parent company – resident taxpayer of Montenegro - may be reduced by the amount equal to tax which its non-resident subsidiary has paid in the other country on dividends included in revenues of parent

company. Revenues from dividends from the non-resident subsidiary are included in the income of resident parent company in the amount *increased by* paid withholding tax on dividends paid. Tax credit may be used for reduction of the computed tax of the parent company, up to the amount of tax *that would be calculated on the profit or on the dividend*, according to the provisions of this Law.

Unused portion of tax credit may be carried forward against parent company's tax in future accounting periods, but not longer than for the period of five years.

The right to tax credit belongs to the parent company which held 10% or more of shares, or stake in the non-resident subsidiary, *over the period not shorter than one year that has preceded the tax report submission*.

iii. What is the tax treatment applied to foreign dividends earned by resident individuals?

Income earned by resident physical person in Montenegro and outside of Montenegro is subject to taxation.

Income from dividends which residents (physical persons) receive from abroad are subject to payment of tax on income of physical persons and person receiving such income is under a duty to, upon expiry of the fiscal year, submit to a relevant tax authority (depending on his permanent residence) an annual tax return for the purpose of accounting for and payment of the tax on income of physical persons.

In case of taxation of the income from dividends from abroad, for the purpose of avoidance of double taxation, the method of tax credit is applied. Resident taxpayer who realizes income from dividends outside of Montenegro and who pays tax on such income in another country is allowed tax credit in the amount of tax paid in such other country. The tax credit may not exceed the amount which would be obtained by applying the tax rate prescribed by the Law on income realized in the other country.

iv. What is the tax treatment applied to foreign interest earned by resident individuals?

The income from interest, realized by the resident physical persons from abroad, is subject to payment of tax on income of physical persons and the taxpayer is obligated to submit the annual tax return to the relevant tax authority, upon expiry of the year, for the purpose of accounting for and payment of the tax on income of physical persons.

Resident taxpayer who realizes income from interest rate from outside of Montenegro and who pays tax on such income in another country, the tax credit is allowed in the amount of tax paid in such other country, whereby the amount of tax credit may not exceed the amount that would be obtained by application of the tax rate prescribed by the law, on income realized in the other country.

**4. (Ref to Q. 19): The reply to question 19 might reveal that there is a misunderstanding of the concept by the Montenegro Tax Authorities. So the question remains to be answered and in order to facilitate the administration we add some relevant documents, notably the Communication together with its Press release and the Ecofin conclusions. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0201:FIN:EN:PDF>
<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/650&format=HTML&aged=0&language=EN&guiLanguage=en>**

Montenegro is committed to measures which ensure strengthening of transparency, exchange of information and honest tax competition.

In relation to transparency and exchange of information, tax authority concluded agreements with tax administrations in the region, and tax legislation of Montenegro allows the exchange of all information between tax administration of Montenegro and that of other countries. Thus, tax authority of Montenegro is authorized to, upon request of the tax authority of any European country, supply data from the taxpayers registry, information on taxpayer's turnover as well as the data on paid tax liabilities. In such manner the preconditions are created that no hindrances remain regarding the transparency of taxation and exchange of information, both in the case of countries of the region and EU countries. Tax Administration of Montenegro cooperates in transparent manner with the administrations of other countries, especially in cases of taxation of profit of transnational companies. Cooperation is also taking place in the field of assessment of tax liability and combating tax the fraud, and hence no limitations were introduced in respect of direct exchange of information between the Tax Administrations.

We consider that the basic indicators of fair tax competition are tax rates, wherefore the rates applied by Montenegro are in accordance with the policy set out by the EU Directives, and in consequence of which, irrespective of the type of tax, the rates are not significantly varying from tax rates in other countries.

Montenegro has established the identical /equal system of taxation of both resident and non-resident persons. There are no tax incentives for activities which are not affecting the economy of Montenegro. Profits of the companies are determined in line with internationally accepted rules, by application of international accounting standards, as well as by adjustment of revenues and expences in accordance with such standards. Tax laws of Montenegro provide for the procedure for avoidance of double taxation.

Tax system as a whole as well as work of tax administration of Montenegro is highly transparent and hence both domestic and foreign persons are aware of the conditions of taxation.

Within the context of tax reform, Montenegro has harmonized its tax legislation with the European one to a high degree, and shall in the upcoming period comply with all recommendations of the European Commission regarding full harmonization of Montenegrin and European legislation.

5. (Ref to Q. 20): Could it be that the last sentence of the reply to question 20 should be updated (Article 26 on exchange of information currently used/negotiated in relation to Double Tax Avoidance Bilateral Treaties)?

According to the Agreements and Treaties on Avoidance of Double Taxation (currently applicable are agreements with countries listed in the answer to question No 15), the exchange of information is carried out in such a way that the competent authorities of countries—contracting parties exchange the information needed for implementation of provisions of the agreements or of the internal legislation of the countries—contracting parties related to taxes covered by such agreements, if the taxation prescribed by such internal legislation is not contrary to the agreement, and especially in case of tax fraud or evasion.

The agreements specify that information received from the country-contracting party shall be treated as confidential in the same manner as the information received in accordance with internal legislation of respective country and that it may be communicated only to those persons or authorities (including courts and administrative bodies) which are competent for tax assessment or collection, enforced collection or judicial enforcement or deciding on appeals, with respect to taxes covered by such treaties. Such persons or authorities shall use the information only for specified purposes. They may disclose information within the public procedure conducted before the court or in the judicial decisions. Competent authorities of the countries-contracting parties shall in no case be bound to undertake administrative measures contrary to the legislation or administrative practice of that or other country - contracting party, to provide information which may not be obtained on the ground of law or in the regular administrative procedure of that or other country - contracting party, to provide information which would disclose trade, business, industrial, commercial or professional secret or business procedure or information the disclosure of which would be contrary to public order.

IV. Operational capacity and computerisation

B. General Tax Administration

6. (Ref to Q. 26):

i. In relation to question 26 regarding the Project of Integrated registration and Collection: are all data stored centrally to be used in different decentralised offices and is the architecture diversified for different tax systems? Please explain link to the following components:

Essential component of efficient tax system is well integrated information system and its compatibility with other systems.

Information system of Tax Administration functions in line with the principle of unified database, which enables centralized access to all information and data at all levels and to all functions of Tax Administration. In order to provide for use of centralized system on the entire territory of the country, the information network was developed (digital links), which connects twenty one municipalities of Montenegro where Tax Administration has its territorial units.

Basic object of information system of Tax Administration is a taxpayer and basic identifier of tax payer in the system is the Tax Identification Number (TIN), which is formed of the Unique Identification Number of the Citizen (UINC) for physical persons, and statistics identification number for legal persons.

Basic components of information system of Tax Administration and interconnectivity of components are as follows:

- Registration of taxpayers

Registration of all taxpayers - legal and physical persons, insurees of the pension&disability and health insurance, members of the family who are beneficiaries of the health insurance through insurance contributor - is carried out in the Tax Administration through the unified Form JPR, by entry in the Central Registry of Taxpayers and Insurees. Central Registry of Taxpayers and Insurees contains all registration data necessary for obtaining the information on the taxpayer, type of taxpayer's activity, place where the activity is being conducted, business bank and giro-accounts through which the taxpayer makes payments, information on the owner, responsible person and similar. Besides Central Registry of Taxpayers and Insurees, Tax Administration maintains sub registries of VAT taxpayers and excise taxpayers. The requirement for VAT and excise tax registration is to be recorded in the Central Registry. Central Registry is integrated with sub registries for VAT and excise tax.

Central Registry data are accessible to users of Central Registry (Pension and Disability Insurance Fund, Health Fund and Employment Office) via installed communication channels, which take them over via installed integration services and further use in accordance with their competencies.

- Receipt and processing of tax returns for all types of taxes (profit, VAT, excise duties, personal income, real estate turnover, etc)

Receipt and processing of tax returns for all tax types (on profit, VAT, excise, personal income, real estate etc.) – all tax returns prescribed by the legislation are informatically supported at all stages, starting with the tax return receipt, tax return registration, entry and processing of the data obtained from the tax return, issuance of the confirmation on receipt of the tax return – until recording of the computed tax liability stated in the tax return on the individual analytical account of the tax payer. All data from the tax return are entered in the system, and are subject issuance of reports providing data on persons submitting/ persons failing to submit tax returns, amounts of tax liabilities, variation of tax liabilities, data on accuracy/non-accuracy of tax returns, tax period in relation to which the tax return was submitted and similar. Tax returns for all types of tax have the identical content in the part related to registration data, and the receipt, recording and processing of tax returns in the information system of Tax Administration is carried out under the same procedure. The system provides chronological records of all tax returns (both basic and corrected ones), submitted by a taxpayer, by types of tax. The requirement for submission of tax return to the Tax Administration is that the taxpayer was registered with the Central Registry of Taxpayers and Insurees.

- Collection enforcement

Ever since the year 2005, in the process of reform of inter-bank payment system, the Tax Administration was vested with the competencies and rights of the revenue institution in charge of handling and transfer of revenues collected in the relations between commercial bank – State Treasury – taxpayer. Thus, information system of Tax Administration is connected with payment operations system of Central Bank and the exchange of data on payments is carried out electronically via SWIFT messages. Payments made to the accounts of public revenues which are within the competence of Tax Administration are recorded in the Tax Administration system several minutes after the payment is effected in the commercial bank. Practically, simultaneously with effecting of the payment of public revenues the Tax Administration is in possession of information on which tax payer (TIN) has made the payment of which tax, in what amount, and with which bank. The Tax Administration transfers the funds paid in once a day to the State Treasury (electronically) and submits the Statement of the recipient, containing data on the payer, amount of tax and similar (electronically). The refund of tax credit in the Tax Administration is also entirely automated process. Upon rendering of the decision on refund of the tax credit, the Tax Administration electronically performs the transfer of the funds of tax credit from the tax account to the account of the taxpayer.

- Inspection audit

All data, reports and information related to taxpayer and stored in the Tax Administration system are available to inspection audit, including: registration data, debits, payments, computation of interest rate, tax debt, and tax returns submitted, information related to the individual account of the taxpayer, comparative overviews of debits/tax credit/payments according to the requested criteria. Requested criteria may be the following: related to time, amount of debit/payment/debt, type of tax, territorial unit of Tax Administration, tax payer. Collection of data is of particular importance for audit procedure and to that and the software was developed which ensures:

- electronic issuance of the orders to carry out inspection audit;
- electronic processing of all evidence acquired in the procedure of inspection audit;
- electronic processing of information on measures taken during inspection audit;

- following of the performance of tax inspectors;
- transmitting the data relevant for taxation to other services within the Tax Administration (collection, registration etc.)

The risk analysis system i.e. introduction of the system of electronic assessment of the accuracy of tax return shall be implemented in the second stage of software development for which the support is provided by IPA 2007. The third stage shall be the introduction of electronic taxpayers audit system, or creation of the conditions to carry out maximum possible number of audits on the basis of the data in possession of the tax authority.

- Accounting and bookkeeping of public revenues

Accounting and bookkeeping of public revenues – tax bookkeeping - is regulated by the Rulebook adopted by the Ministry of Finance. The Rulebook regulates the way of maintaining of the bookkeeping records on taxes, contributions and other public revenues, method of closing of bookkeeping records, method of issuing of tax final annual account, time limits for making book entries of transactions as well as the method of keeping of the books and records and documentation. Tax accounting is regulated in accordance with the mentioned Rulebook. All business processes in tax bookkeeping are entirely automated and informatically regulated, starting from keeping of records until preparation of the final account. Processes of tax accounting are: making debit entries on the basis of submitted documents; making entries for payments made to Tax Administration accounts through payment operations system, making book entries on the basis of documents on refunding of moneys, making book entries in the general bookkeeping ledger, computation of interest on debits, matching debits with payments, creating payment orders for payment operation system, validation and correction of book entries made on the basis of SWIFT transactions, distribution of funds by chart of accounts and municipalities, reporting to Treasury, reporting to Funds, archiving of bookkeeping data, producing of final account and establishment of initial balance. All said processes are informatically supported in module for tax accounting; data are recorded on the individual analytical account of the taxpayer automatically at the moment of their inception.

- Undertaking, verification and archiving data from payment system institutions

The clarification is provided under item Collection enforcement.

- Internal control/ safety

Each user of the system has a user name and password for accessing the system; various groups of users are defined with clearly defined privileges of access. Connecting to the system is followed by the system administrator. For security reasons passwords are periodically changed. Copying of the database (backup) is made on a daily basis. Each server and working station has an UPS. Special procedures are implemented to avoid data infection (antivirus protection is set up on all servers and computers). Considering that the system of Tax Administration has services for data exchange with other users, for the purpose of protection of Tax Administration system, in the very architecture of Tax Administration network the so called demilitarized zone is realized (DMZ), which is physically implemented inside the firewall surrounding, and the basic purpose of which is the interconnection of the servers from which the Tax Administration offers services to “outside world”. Demilitarized zone provides additional security service to applicative environment which is created as a consequence of satisfying specific business and technical requirements. Tax

Administration is building up all its future communicational relations with partners in accordance with the adopted policy of attainment of applicative environment which is based on implementation of access by the business partner exclusively to application resources which are located in the already implemented demilitarized zone.

- Reports to management, strategic planning and execution

Management reports, strategic planning and execution – management reports in Tax Administration are defined by areas of Tax Administration function, as follows: reports on registration, collection, control and they are all informatically supported. To clarify the previously said, we shall list some of the reports used by the management: reports on collection realized by types of tax within predetermined deadlines during the working day, daily reports on collection realized by types of tax in territorial units, daily analysis of individual analytical account requested for specific taxpayers, debt balance by types of tax, debits by taxpayers and similar.

- Undertaking, verification and archiving data of third parties.

Undertaking, verification and storing of information of third parties – The data from registries of other institutions which are of relevance and which are comparable with those kept in the Tax Administration registry are undertaken electronically, the analysis of the data is carried out and matching with those held in the system of Tax Administration. Upon completing matching of the data, depending on their structure, they are submitted to relevant sectors for further work. Tax Administration initiated implementation of web service for data exchange with third parties on which more detailed explanation is provided in answer to the question No 27

ii. Please provide more functional detail on the components listed under the reply to question 26 (e.g. Registration of taxpayers), and explain to which extent the current systems cover the required business functionality for the different tax types (e.g. PIT, VAT...).

System encompasses:

- regarding registration: the procedure for all types of registration required by the Laws to be carried out with the Tax Administration (registration of tax payers, insurance contributors, registration for VAT and excise registration)
- system encompasses required functionalities defined by the Laws and business policy of Tax Administration for all tax forms (types of tax) which fall under the competence of Tax Administration.

The system implemented in Montenegro is the one of self-assessment of tax, that is, taxpayers submit to the Tax Administration the tax liabilities computed by themselves by filing a tax return. Tax returns on which the tax liabilities are declared by tax payers are included in the information system of Tax Administration from the receipt, tax return processing, control of data stated in the tax return until recording of the declared tax liability in the tax bookkeeping.

Mentioned applies to all types of tax, as follows: VAT, excise tax, tax on profit, tax on income of physical persons, tax on sale of real estate, compensations, contributions for mandatory social insurances.

Tax liabilities are recorded in the Tax Administration system at the level of tax payer, by types of tax, by tax periods, by territorial units of Tax Administration, and all in requested time period.

7. (Ref to Q. 27):**i. Concerning interconnectivity for taxation systems (question 27): apparently 3 state funds are mentioned that will access tax data through the Integrated Registration and Collection project. Is further internal interconnectivity planned for other taxation domains?**

The connection with Tax Administration was enabled to interested institutions as well as the access to data which do not represent confidential tax information (tax secret) by putting into operation of the Central Registry of taxpayers and insurees, within the project of Integrated Collection and Registration on 1 March 2010.

In line with above mentioned, the realization of the service which shall enable online exchange of data between Customs Administration and Tax Administration, as well as between Central Registry of Population and Tax Administration is in course. It is planned to complete the development of the portal of Tax Administration by the end of year 2010, which would enable viewing of their personal data in the system of Tax Administration to tax payers and insurees.

Plan of further computerization of Tax Administration includes following activities:

- Introduction of integrated tax return for accounting of tax and contributions on the basis of income of physical persons, by which six tax returns shall be replaced by one tax return.
- Introduction of one payment account for revenues received from physical persons by which thirty payment accounts shall be replaced by one account
- Monthly reporting on accounted taxes and contributions for each tax payer individually
- Introducing of electronic submission of tax returns.

Above listed activities are planned to be put into production as of 1 January 2011.

ii. Please provide information on your customs administration IT strategy and on its plans for further computerisation of the above-mentioned areas" and question 27.

Customs Administration had since 2001 developed, as of 2006 enhanced and in 2006 adopted Business Strategy with an aim of defining the mission and goals of customs administration and in order to, based on it, develop its three years long Action Plan.

Next Business Strategy Plan, IT strategy plan is developed, although not entirely formalized.

This IT strategy plan translates business plan into IT objectives and functionalities which should be covered by customs administration IT system.

The plan states in detail the mission of the information system and processes, as well as exposes adopted strategy related to development of customs declarations processing system based on Slovenian model; it is developed by the same company which is currently supporting Slovenian CDPS which was one of the strategically adopted decisions.

IT plan defines hardware architecture and interconnectivity of customs offices in the administration, supported functions and architecture and technology to be used by the Customs Administration in upcoming years.

Customs Administration is in the process of realization of the project TARIC_NAC, which, on the basis of approval by the EC was donated by Slovenian Customs Administration. Although this is version 2 of applications, it shall be used for the purpose of acquainting the business environment with all functionality of TARIC, and it is planned that the most recent version at the respective moment is provided immediately prior to membership.

The European Commission was addressed for assistance and support in preparation of the Technical specification and software development for simplified procedures.

Within EU TACTA project one topic was IT (Customs) – Electronic Exchange of Information within the EU (CCN/CSI and NCTS)

NCTS project is a part of twinning programme realized by the Customs Administration with the selected consortium.

SEED programme of exchange of information with the countries of Western Balkans is also in the stage of pilot testing.

Realization of EU project RACWeb, risk analysis for procedures of active finalization of goods is in its final stage. All countries of Western Balkans participate in this project.

We are attempting to use the strategic and successful cooperation with Slovenian Customs Administration as well as with the technology partner, who until present was the outsourcing partner of both customs administrations, as the advantage for making the strategic decisions related to directing the further IT development. In this we expect further support from DG TAXUDA, B5, that is from EC.

iii. Please provide a copy of the Taxation IT strategic plan.

The development strategy of the information system is defined by the Business Policy and Strategy of the Tax Administration contained in the following basic points:

1. *Full realization of the Project of Integrated Registration and Collection*
2. *Extension of the Project of Integrated Registration and Collection through conversion of all tax forms (VAT, corporate profit tax, fees, excise tax) within the system of the Integrated Registration and Collection. (The implementation of the Project of Electronic Submission of the Tax Return for VAT and Corporate Profit Tax was proposed within the Project IPA 2010).*
3. *Extension of the Project of Integrated Registration and Collection through conversion of the VAT and excise tax registration into the system of Integrated Registration and Collection*
4. *Implementation of the system of Risk Analysis for Collection and Audit and improvement of the Web site of Tax Administration (the mentioned was proposed and approved within the Project IPA 2007).*
5. *Introduction of the system of electronic audits of taxpayers.*

The Blueprint Document was adopted for realization of the Project of Integrated Registration and Collection which contains precisely elaborated processes to be implemented, specification of the necessary hardware and communication equipment as well as the software structure.

Please find below IT plan of Tax Administration for the year 2010.

IT Plan of the Tax Administration for year 2010

In the Division for development of information system, during the year the activities shall be directed towards maintaining of the network, hardware and software, elaboration of the existing application, development of new applications, and they are defined in the following manner:

- Introduction of dynamic routing
- Maintaining of existing information system
 - computer network and communication equipment
 - hardware
 - software
- Procurement, installation and maintenance of the new computer equipment
- Creating user services for taxpayers
- Maintenance, optimization and altering of the existing applications

- Maintenance, optimization and alterations of existing reports
- Development, testing and maintenance of new application and reports
- Creation of user policies
- Employment and training of staff for maintenance of information system

Work on the “Project Integrated Registration and Collection”

- Maintaining of the connection between the existing information system of the Tax Administration and the Integrated Registration and Collection system
- Work on maintaining of the Central Registry
- Activities related to installation and configuring of the server and telecommunication equipment for the needs of the new system
- Activities related to updating of project documentation intended for the requirements of new information system
- Exchange of data between Tax Administration and system users
- Cooperation with the consulting house “SIPU Intercontinental AB” on the project of technical support to Tax Administration entitled “Strengthening of efficiency and functionality of the Tax Administration according to the EU standards” the implementation of which is planned for October 2010