



Strengthening the Compliance
Management by Assessing
External Context and Taxpayers'
Behavior

FINAL REPORT

REFORM/SC2021/045



ОТГОВОРНИ ДНЕС. СИГУРНИ ЗА УТРЕ.



НАЦИОНАЛНА АГЕНЦИЯ
ЗА ПРИХОДИТЕ

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Purpose of this report

This Final Report is prepared by Ernst & Young (“EY”) and provides a brief overview of all activities conducted and all deliverables submitted to the Directorate-General for Structural Reform Support of the European Commission (DG REFORM) and the Beneficiary, the National Revenue Agency of the Republic of Bulgaria.

The status of each Deliverable is presented below in detail and displays how is accomplished according to the Request for Service REFORM/SC2021/045 and the Inception report. Furthermore, the final reporting delivers information about project achievements, encountered challenges, and outcomes.

The current report is prepared under the project “Strengthening the Compliance Management by Assessing External Context and Taxpayers’ Behavior” implemented under Specific Contract REFORM/SC2021/045 to DG REFORM of the European Commission.

The project aims at the continued implementation of the reform of the order for payment procedure and aims at introducing a modern, functional, and centralized electronic case management system.

The purpose of the project was to support the Bulgarian authorities, particularly the Risk Management Directorate of the NRA, in the ongoing process:

- ▶ to implement methodological approaches influencing taxpayers’ behavior
- ▶ to monitor the voluntary compliance/ non-compliance behavior among taxpayers
- ▶ to implement methodologies and tools for understanding and forecasting the external environment and context within which the NRA operates
- ▶ to enhance good practices based on the experiences with cooperative compliance from specialized units of three other tax administrations, including at least two from EU Member States.
- ▶ to promote the NRA’s tax compliance model.

Project Framework

The project was executed in two interconnected segments:

- ▶ **Project management segment**, including project management, monitoring and reporting activities, as well as quality assurance measures that will contribute towards the successful achievement of project results. To deliver this support, EY will use a wide range of technical, operational, and scientific specialists having experience on the topic. They will collaborate closely to ensure that the proposed analytic methods and working tools fully correspond to the needs of the NRA.
- ▶ **Project Implementation segment**, including the requested project activities (tasks and deliverables).

Outcome	Outcome 1: Upgraded analytic methods and working tools, supporting modalities and internal processes, to address non-compliance issues to be implemented at NRA.			Outcome 2: Enhanced capacity within the NRA in the use of the upgraded analytic methods and working tools their daily working modalities and internal processes		
Deliverables	1. Inception report	2. Report identifying methodologies and tools to improve the non-risk management procedures/ assessments and gaps	3. Upgraded analytic methods and working tools to understand, forecast and influence	4. Capacity building and a report with an example applying the upgraded analytic methods and working tools for a particular year	5. Communication strategy/plan and presentation for introducing the upgraded analytic methods and working tools to internal and external stakeholders	6. Final report
Tasks	1.1 Kick-off meeting 1.2 Introductory meetings 1.3 Inception report	2.1 Identification and assessment of methods and tools 2.2 Assessment on leading practices in three tax administrations 2.3 Assessment on how to best implement the upgraded analytic methods and working tools in the NRA.	3.1 Recommendations and assistance for the upgrade of analytic methods and working tools 3.2 Data finding and creation of a dataset to support the analytic methods and working tools 3.3 Regular technical meetings with the project implementation team 3.4 Documentation of the analytic methods and working tools	4.1 Trainings/ workshops for the Risk Management Directorate 4.2 Recommendations on how the existing working modalities for the NRA can be adjusted 4.3 Recommendations on future improvements of the upgraded analytic methods and working tools	5.1 Technical meetings with and workshop for the project team of the NRA 5.2 Presentations for external and internal stakeholders (presented by the contractor).	6.1 Update the factsheet of the contract with the final implementation facts such as objectives, activities, deliverables etc. 6.2 Closing meeting to present the results 6.3 Final report
Time -line	5 month	6 months	10 months	15 months	15 months	16 months

Improvement of the NRA capacity & compliance risk management process



PROJECT AIMS

- ▶ To increase the quality of compliance risk management process through capacity building and development of analytical tools and methods for the tax administration to better understand tax To develop an updated 'as-is' description and a redesign of the business models for the selected six life events;
- ▶ Implement methodologies and tools for understanding and forecasting the external environment and context within which the NRA operates

EXPECTED OUTCOMES

- ▶ **Specific outcome 1:** Upgraded analytic methods and working tools, supporting modalities and internal processes, to address non-compliance issues to be implemented at NRA.
- ▶ **Specific outcome 2:** Enhanced capacity within the NRA in the use of the upgraded analytic methods and working tools in their daily working modalities and internal processes.



UPGRADE ANALYTICAL TOOLS AND MODELS TO:

- ▶ Improve the quality and efficiency of the overall CRM process.
- ▶ Develop methodologies for better understanding of external factors driving non-compliance.
- ▶ Plan and undertake more effective measures contributing towards increase of voluntary compliance.
- ▶ Build-up new skills and increase the capacity of the NRA to better understand and influence compliance behaviour.

Milestones

Project Inception



November 2021 –
January 2022

Prepare a report on identified
methods and tools based on
academic research and best
practices



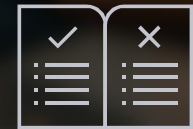
January 2022 –
December 2022

Develop new models & tools
and analytical methods for the
NRA



December 2022 –
June 2023

Communicate the results with
internal and external
stakeholders



December 2022 –
June 2023



Deliverables

Deliverable 1 – Inception Report

Deliverable 2 – Report identifying methodologies and tools to improve the non-risk management procedures/assessments and gaps

Deliverable 3 – Upgraded analytic methods and working tools to understand, forecast and influence

Deliverable 4 – Capacity building and a report with an example applying the upgraded analytic methods and working tools for a particular year

Deliverable 5 – Communication strategy/plan and presentation for introducing the upgraded analytic methods and working tools to internal and external stakeholders

Deliverable 6 – Final Report

Deliverable 1 - Project Inception Report

Task 1.1	Kick-off meeting
Task 1.2	Introductory meetings
Task 1.3	Inception report

This phase aimed to establish common understanding of the project objectives and agree on project methodology, including project scope and risks, progress monitoring, timeframe, etc.

Deliverable 1 - Project Inception Report

Events information

Kick-off Meeting

Overview

Date: 04 October 2021
Start: 10:00 am
End: 12:05 pm
Location: EY Offices
Language: English

Agenda

- Purpose of the meeting
- Introduction to the project
- Project expectations
- Project objectives & scope
- Stakeholders
- Follow-up and next steps

Project beneficiary & other stakeholders

- ▶ Compliance Risk Management Directorate, National Revenue Agency - **Beneficiary**
- ▶ The Ministry of Finance of the Republic of Bulgaria
- ▶ National Statistical Institute
- ▶ Customs Agency
- ▶ Representatives of academia
- ▶ NGOs

Meetings conducted during the initial phase of the Project:

- ▶ Kick-off Meeting - 04.10.2021
- ▶ Meeting with the Beneficiary - 11.10.2021

Deliverable 2 - Report identifying methodologies and tools to improve the non-risk management procedures/assessments and gaps

- Task 2.1. Identification and assessment of methods and tools (based on relevant academic studies and theoretical methods)
- Task 2.2. Assessment of the best practices in EU Member States and assessment on which and how could benefit in the context of the NRA
- Task 1.3 Assessment on gaps at NRA and how to best implement the upgraded analytic methods and working tools in the NRA

This phase aimed to identify key external factors driving taxpayers compliance behaviour based on academic literature review and best practices study as well as identify potential gaps in the current NRA structure and processes for the future implementation of upgraded analytical methods & tools

Deliverable 2 - Report identifying methodologies and tools to improve the non-risk management procedures/assessments and gaps

Purpose

To identify methodological tools in the field of better understanding the factors that drive taxpayers' compliance behaviour

Key activities

- ▶ Literature review to identify key external factors and methodological tools
- ▶ Best practices review and exchange of experience with leading administrations
- ▶ Perform analysis of the current state of the CRM process and identify gaps

Key highlights

During the phase, the Project team has:

- ▶ Performed detailed academic literature review, identified and grouped the external factors that influence taxpayer's compliance behaviour.
- ▶ Performed detailed literature review and identified key analytical methods and tools to better understand the external context.
- ▶ Conducted preliminary review and analysis of best practices across EU and non-EU countries.
- ▶ Selected 3 countries to be studied in details and organise experience sharing sessions – Belgium, Australia, the UK,.
- ▶ Organized more than 20 working meetings to discuss the focus of the analysis.
- ▶ Proposed methodological guidance and an approach for the further upgrade of the analytical methods and tools.
- ▶ Performed GAP analysis of the current CRM process.

Deliverable 3 - Upgraded analytic methods and working tools to understand, forecast and influence

- Task 3.1. Recommendations and assistance for the upgrade of analytical methods and working tools to understand and forecast economic, external impacts and to understand and influence taxpayers' behavior
- Task 3.2. Data finding and creation of a dataset to support the analytic methods and working tools
- Task 3.3 Regular technical meetings with the project implementation team
- Task 3.4 Documentation of the analytical methods and working tools

This phase aimed to develop upgraded analytical methods and working tools for the NRA to understand and forecast economic and other external impacts and understand taxpayers' compliance behaviour

Deliverable 3 - Upgraded analytic methods and working tools to understand, forecast and influence”

Purpose

to support the NRA to undertake measures related to the development and upgrade of the internal analytical methods and working tools for better understanding of taxpayers' behavior and external factors that influence the voluntary compliance. The tools will help the tax authority to forecast future tax compliance challenges and the risks and factors that could influence the taxpayers.

Key activities

- ▶ Development of upgraded analytical methods including 3 econometric models for the NRA to measure tax compliance and understand its main determinants
- ▶ Develop datasets and collect data for the upgraded analytical methods and working tools
- ▶ Prepare the necessary technical documentation and guidance for the effective application of the upgraded analytical tools

Key highlights

During the phase, the Project team has developed 3 econometric models for the NRA:

- ▶ **Shadow Economy Model** – an econometric model for estimation of the shadow economy and its main determinants, allowing for an estimation of the tax gap (decomposed in VAT, direct taxes) directly resulting from the shadow economy. In addition, the project will develop a spreadsheet tool that will enable NRA to forecast changes in the size of the shadow economy based on changes in its main determinants as well as run simulations and evaluate different scenarios.
- ▶ **VAT Tax Gap Model** – an econometric model for estimation of the VAT gap on national level and its decomposition into sectors of the economy, size of enterprise group, etc. as well as identification of its main determinants. In addition, the project will develop a spreadsheet tool that will enable NRA to forecast changes in the VAT gap based on changes in its main determinants as well as run simulations and evaluate different scenarios.
- ▶ **PIT Tax Gap Model** – an econometric model for estimation of the tax gap resulting from personal income tax (PIT) and social security contributions, as well as their main determinants and characteristics of the taxpayers' segments most likely to underreport certain portion or certain sources of their income. In addition, the project will develop a spreadsheet tool that will enable NRA to forecast changes in the PIT gap based on changes in the structure of the labour market as well as run simulations and evaluate different scenarios.

The team has also:

- ▶ Developed the necessary datasets & collected the data required for the effective application of the models
- ▶ Organized more than 10 working meetings to discuss the model development.

Deliverable 4 - Training/workshops for the Risk Management Directorate on the use of the upgraded analytic methods and working tools and potential ways to expand

Task 4.1. Training/workshops for the Risk Management Directorate on the use of the upgraded analytic methods and working tools and potential ways to expand

Task 4.2. Recommendations on how the existing working modalities for the NRA can be adjusted, so that the upgraded analytic methods and working tools support the work of the NRA

Task 4.3 Recommendations on future improvements of the upgraded analytic methods and working tools that the NRA can carry out after the closure of the project

This phase aimed to build-up the necessary capacity within the CRM Directorate of the NRA for the purpose of ensuring effective implementation and application of the upgraded analytical tools and working methods

Deliverable 4 - Training/workshops for the Risk Management Directorate on the use of the upgraded analytic methods and working tools and potential ways to expand

Purpose

to provide training workshops for the Risk Management Directorate and to test the upgraded analytic methods and working tools, as well as to train the Risk Management Directorate in practically applying them.

Key activities

- ▶ Develop training materials and a test scenario for the econometric models
- ▶ Organise and deliver training workshop for the NRA CRM Directorate staff
- ▶ Prepare training report & recommendations on the implementation of the new econometric models

Key highlights

During the phase, the Project team has:

- ▶ Prepared training materials to organise training workshops for the NRA project team and the CRM Directorate staff
- ▶ Organized 2.5 days training workshop for the representatives of the core NRA project team on the methodology for development of the econometric models & their practical application
- ▶ Organized 1.5 day training workshop for the CRM Directorate staff on the practical application of the 3 econometric models
- ▶ Prepared a detailed trainings report
- ▶ Drafted specific recommendations for the integration of the econometric models in the overall CRM model

Deliverable 5 - Communication strategy/plan and presentation for introducing the upgraded analytic methods and working tools to internal and external stakeholders

Task 5.1. Technical meetings with, and workshop for, the project team of the NRA

Task 5.2. Presentations for external and internal stakeholders

This phase aimed to ensure that the project results as well as the results of the application of the upgraded analytical tools and methods are properly communicated to external and internal stakeholders

Deliverable 5 - Communication strategy/plan and presentation for introducing the upgraded analytic methods and working tools to internal and external stakeholders

Purpose

is to ensure a sustainable implementation of the upgraded analytic methods and working tools (Deliverable 3) and to introduce and present the methods and tools to internal and external stakeholders in Bulgaria.

Key activities

- ▶ Conduct technical meetings with the project team to discuss the communication activities
- ▶ Develop Communication Strategy
- ▶ Prepare materials & organise meetings with internal and external stakeholders

Key highlights

During the phase, the Project team has:

- ▶ Organized 2 technical meetings with the project team and the communications team of the NRA
- ▶ Drafted a Communication strategy outlining the approach for dissemination of the project results and regular communication with stakeholders beyond the project implementation.
- ▶ Organized 1 communication meeting with internal stakeholders – representatives of other NRA units to present the results and discuss their potential use in other areas of NRA activities.
- ▶ Organized 2 communication meetings with external stakeholders – Ministry of Finance, the National Statistical Institute, Customs Agency, NGOs, academia, representatives of business and industry organisations to present the project results.
- ▶ Drafted detailed report of the communication activities implemented.

Deliverable 6 - Final report

Task 6.1. Update the factsheet of the contract

Task 6.2. Closing meeting

Task 6.3. Closing meeting

This phase aimed to administratively close the contract and ensure project results implementation after the project close.

Deliverable 6 – Final Report

Purpose

is to ensure a proper administrative close of the project.

Key activities

- ▶ Prepare an updated factsheet
- ▶ Prepare presentation and organise closing meeting
- ▶ Prepare a Final Report

Key highlights

During the phase, the Project team has:

- ▶ Prepared a presentation and organized a closing meeting on the 9 June 2023 with representatives of the NRA high level management and representatives of other NRA directorates.
- ▶ Presented the project results and recommendations for their future use and exploitation.
- ▶ Drafted the Final Report of the project outlining the key highlights of the implementation.

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