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TECHNICAL ASSISTANCE REPORT—
TAX ADMINISTRATION—MODERNIZATION CHALLENGES AND STRATEGIC PRIORITIES

This Technical Assistance Report on the Republic of Poland was prepared by a staff team of the Fiscal Affairs Department of the International Monetary Fund. It is based on the information available at the time it was completed in April 2015.

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REPUBLIC OF POLAND

Tax Administration
Modernization Challenges and
Strategic Priorities

April 23, 2015

Juan Toro, Allan Jensen, Mick Thackray, Maureen Kidd, and Barrie Russell

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ABBREVIATIONS AND ACRONYMS

CASE	Center for Social and Economic Research
CEO	Chief executive officer
CEZRF	Professional Education Centre of the Ministry of Finance
CIT	Corporate income tax
CRM	Compliance Risk Management
EC	European Commission
FAD	Fiscal Affairs Department (of the IMF)
HQ	Headquarters
HR	Human Resources
IT	Information Technology
LTO	Large Taxpayer Office
MOE	Ministry of Economy
MOF	Ministry of Finance
MOJ	Ministry of Justice
NAP	National Action Plan
NIP	Unique identifier
OECD	Organisation for Economic Co-operation and Development
PESEL	Unique personal identification number
PIT	Personal income tax
PLN	Polish Zloty
PwC	PricewaterhouseCoopers
RA-GAP	Revenue Administration Gap Analysis Program (from FAD)
RMU	Risk management unit
SSC	Social Security Contributions
TAS	Tax Administration Service
TAXUD	Taxation and Customs Union, European Commission
VAT	Value-added tax

PREFACE

In response to a request from Mr. Jacek Kapica, Undersecretary of State at the Ministry of Finance (MOF), a Fiscal Affairs Department (FAD) technical assistance mission visited Warsaw during the period November 12–25, 2014 to advise the Ministry of Finance on selected areas of the tax administration's modernization strategy. The mission was led by Mr. Juan Toro (Assistant Director, FAD) and comprised Messrs. Allan Jensen, Michael Thackray (both FAD), Barrie Russell, and Ms. Maureen Kidd (both FAD external experts).

The main purpose of the mission was to undertake a broad diagnostic of the tax administration and provide recommendations to improve its efficiency and effectiveness. The mission focused specially on determining whether the tax administration has in place (1) appropriate governance and organizational structures; (2) an effective compliance management approach; (3) strong business processes and effective methods to establish operational targets and measure the delivery of these targets; and (4) an adequate approach to develop, manage, and implement the tax administration's modernization strategy.

Meetings were held with Messrs. Jacek Kapica, Janusz Janowski (Director of the Tax Administration Department at the MOF), and deputy directors and senior officials from the Tax Administration Department, and key department directors at the MOF. The mission visited the Tax Office of the Mokotow District, the First Mazowiecki Large Taxpayer Office, and the Fiscal Control Office, all in Warsaw. The mission also held meetings with representatives from the private sector, accounting firms and private sector associations.

This report, which has been reviewed by IMF headquarters and incorporates comments from the authorities, represents the final version of the aide-mémoire that was submitted to the authorities in November 2014. It consists of an Executive Summary and the following five sections: (I) Tax Collection and Compliance Trends; (II) Current Modernization Initiatives; (III) Institutional Reform for Tax Administration; (IV) Managing Core Tax Operations; and (V) Managing Compliance Risks.

The mission expresses its gratitude for the outstanding support and cooperation received from the Ministry of Finance staff during its stay in Warsaw.

EXECUTIVE SUMMARY

This report provides advice on the modernization of the tax administration in Poland. The report addresses selected issues concerning (1) the tax administration institutional reform; (2) the administration and delivery of core tax administration operations, including for the largest taxpayers; and (3) the approach to managing compliance risks to the tax system. To set the context, the report first discusses collection performance of the main taxes in recent years and the approach to tax administration modernization.

Collection performance deteriorated significantly during the crisis and has not recovered. Combined collection of personal income tax (PIT), corporate income tax (CIT), and value-added tax (VAT) in Poland yielded around 16 points of GDP in 2008 and fell to 14 points in 2009. Collections remained stable some years, but then declined to 13.1 in 2013; the projection for 2014 is 13.5 points of GDP. This weak performance contrasts with other countries in Europe that have recovered to pre-crisis collection levels in GDP terms. Tax compliance has also deteriorated. According to a recent study published by the European Commission (EC), evasion of VAT, the main tax in Poland, increased from 18 percent of potential VAT collections in 2010 to 25 percent in 2012.

To improve tax administration efficiency and effectiveness the MOF has spearheaded several initiatives. Institutional reforms have included: strengthening direct reporting of local tax offices to tax chambers (at the provincial level); consolidating administrative support into tax chambers; increasing the focus on taxpayer service; developing competencies in specialized centers; enhancing management and accountability frameworks; and revamping information technology (IT) systems. On taxpayer compliance management, changes have aimed at strengthening risk-based approaches; improving planning and monitoring; standardizing core operations; and enhancing IT support tools.

Most initiatives go in the right direction but are not part of a cohesive and overarching modernization strategy for tax administration and do not address structural weaknesses. Despite the current initiatives, the tax administration organization in Poland will remain fragmented at both the central and operational levels. The draft tax administration act currently under development maintains split responsibilities for tax administration across several departments in the MOF. Therefore, it will not deliver a single headquarters (HQ) to act as the tax administration business owner across the country. Fragmentation will also be maintained at the operational level as the sixteen tax chambers will retain a separate organizational status. Deeper institutional reform is needed.

Formulating and systematically implementing a cohesive modernization strategy is critical to achieve the needed efficiency and effectiveness gains. The strategy must set the vision of the tax administration in 5–10 years from now and prioritize reform initiatives that have the potential for achieving breakthrough improvements in performance. In formulating

the modernization strategy, a fresh picture of the current state and end-state of the tax administration must be developed and opportunities and constraints clearly identified.

The establishment of a single, unified, national tax administration should be the key component of the modernization strategy. Effective control of the tax system in Poland will remain problematic if the modernization strategy does not address the most significant structural weakness: the lack of a unified national tax administration. The fragmented organization structure and lack of a single head of the tax administration result in blurred accountabilities and complex lines of command and make effective governance of the tax administration overly complex. This severely limits the chances of achieving improvements in efficiency and effectiveness in tax administration. Establishing a national tax administration is therefore essential.

Pending the establishment of a unified tax administration, priority actions need to be undertaken to improve tax administration's efficiency and effectiveness.

Appointing an empowered leader of the modernization program supported by a high level reform committee. The scale of the tax reform program in Poland demands political commitment and sustained support. A strong and empowered reform program leader will be needed to manage across departmental boundaries in the MOF and drive the changes necessary to implement the modernization strategy. Reform management arrangements need to be substantially strengthened, including by appointing a dedicated reform program team.

Strengthening both the tax administration at the central level and core business functions. Successful tax administrations allocate at least five percent of total staff resources to the HQ function. Staffing of the HQ in Poland falls well short of this benchmark and needs to be addressed promptly. Core business functions should also be strengthened without delay.

Addressing declining tax revenues, especially for VAT and CIT. Immediate steps should be taken to launch coordinated compliance projects for the high risk industries identified in the National Action Plan; develop an overarching strategy for addressing the informal economy; and consolidate VAT risk analysis using national databases of individual taxpayer data and a much broader range of external data. For CIT, coordinated audits should be undertaken of a range of genuinely large taxpayers selected centrally and based on risk.

Improving compliance risk management. Full responsibility for all tax related audits and investigations should be consolidated into a single MOF department reporting to the Undersecretary responsible for revenue administration—tax and customs. Field audit resources should be regrouped into provincial level teams and geographic jurisdictional restrictions removed. Early action should be taken to establish a genuine Large Taxpayer Office (LTO) responsible for managing compliance of the largest 1,000 taxpayers—they account for around 50 percent of tax revenues. All taxpayer service functions should be