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### **Kazakhstan: World Bank supports tax administration modernization to reduce compliance burden and improve voluntary compliance**

*New World Bank report 'Kazakhstan Tax Strategy Paper - Volume II: Tax Administration Reform and Modernization*

**ASTANA, Nov. 5, 2008** – Kazakhstan can significantly improve revenues and become more business-friendly through improvement of its tax administration that will create favorable conditions for taxpayers to work legally and pay their due taxes, according to a new World Bank report. Today the World Bank has released Volume II of the Kazakhstan Tax Strategy Paper. This volume is devoted to issues in tax administration.

Earlier in June this year, Volume I was released which was devoted to taxation of the non-extractive sectors of the economy. That volume contributed to the drafting of a new Tax Code in Kazakhstan. The new Tax Code represents a vital step towards making the country more competitive globally and supporting its goal of economic diversification. The draft Code was discussed actively between government, business, and civil society in a very transparent and inclusive manner.

The report points out that sound tax policy alone will not effectuate the desired improvements in the tax structure. As rates are lowered and the tax base is widened under the new Tax Code, the ability to improve revenues, or reduce compliance burden on taxpayers will depend increasingly on administrative improvements. The report notes that in the Doing Business Report, while Kazakhstan ranks very well in number of tax payments and total tax rates, it ranks very poorly in terms of the considerable time taxpayers need to comply with their tax obligations. The main aim of any improvements to tax administration should be to ease the compliance burden in order to increase voluntary compliance by taxpayers. Most recommendations in the report are keyed to this goal.

As noted by **Mr. Yerbol Orynbayev, Deputy Prime-Minister of the Republic of Kazakhstan**, “*This Report (Volume II) is extremely important and it should be presented to business community as their interests are involved*”. Thus in December this year it is planned to organize a round table to discuss Volume II of the Tax Report with private sector and civil society.

**Mr. Daulet Yergozhin, Chairman of the Tax Committee under the Ministry of Finance of the Republic of Kazakhstan**, also emphasized that “*modernization is required and the faster the*

*tax service starts improving considering the World Bank recommendations and the Volume II of the Tax Report, the sooner it will move forward to the benefits of developing the economy of the Republic of Kazakhstan”.*

While noting that considerable and commendable progress has been achieved toward simplification, modernization, and automation over a short period of its life, **Mr. Munawer Khwaja of the World Bank** identified a number of areas where there is strong room for improvement. A major problem has been the close and regular contact between taxpayers and tax officials, given the large amount of tax territorial units (one in every rayon and oblast) which increases the avenues for corruption. In a modern tax administration, visit to tax offices is the exception rather than the rule, with most correspondences done virtually, through call centers or email, and most declarations processed centrally rather than locally. This helps significantly reduce the number of tax offices and focus attention on noncompliant taxpayers while making voluntary compliance rewarding. The World Bank believes that Kazakhstan stands to benefit from enhanced voluntary compliance and improved business and investment environment. Some of the recommendations from the report include:

- Emphasis on human resources as the most valuable asset of the organization and hence the need for better training and motivation
- Attention on the organizational structure to move from geographic focus to a functional focus with subsequent optimization
- Adopting centralized processing of declarations and taxpayer accounts
- Introducing risk management as a key element of operations
- Improving enforcement and intelligence capacity
- Establishment of a modern call center
- Establishment of an independent tax appeals system
- Measures to fight corruption
- Reengineering of information systems

The World Bank hopes that the publication of the report will promote a deeper understanding in Kazakhstan about the motivations for these changes. A tax administration that is fair, transparent, honest, and professional will provide a major stimulus to voluntary compliance in the country.

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