

### Endnotes

1. Official Journal C 9/18 from 12.1.2013.
2. Case C-293/04, ECJR 2006, 2263.
3. Case C-299/98, ECJR I-8683.
4. Cases C-218/83, ECJR 27, 23/04-25/04, ECJR I-1265, C-442/08, ECJR I-6457.

JEL Classification: F15, F22, K33

## ORGANIZING THE INTERNATIONAL RELATIONS OF THE NATIONAL TAX AND CUSTOMS ADMINISTRATION OF HUNGARY 2010-2012

**Kristóf Péter BAKAI**

Counsellor Head of Department, National Tax and Customs Administration, Hungarian Republic

### *Abstract*

*The paper considers the integration of the international relations of the National Tax and Customs Administration in the process of their merging into a single agency to ensure the effectiveness and efficiency of tax collection. The specific stages of the integration process are analyzed and the priority directions of development of the international relations of the National Tax and Customs Administration of Hungary are identified.*

*Key words: integration, strategic planning, coordination, international relations, taxes, revenues, the National Tax and Customs Administration.*

### **Introduction**

In more than half of the Member States of the European Union (15 countries altogether) there is one single administration responsible for collecting both taxes and customs duties. The integration of these two fields is predominantly justified by reasons of effectiveness and the most cost-efficient method of collecting state revenues. The process of merger was either accelerated or slowed down by changes in the location, by the abolishment of the external customs borders of the EU and consequently by the reduction of the traditional customs control tasks.

Among the very first measures of the Government of Hungary established after the parliamentary elections of 2010 was announcing the merger of the Tax and Financial

Control Administration (TFCA) and the Hungarian Customs and Finance Guard (HC&FG) resulting in the creation of the new National Tax and Customs Administration (NTCA), based on the Act CXXII of 2010. The practical measures required by the integration began to be taken immediately and workgroups were set up to design the integration of certain sub-systems. It must be highlighted that a full organizational integration only took place in the central administrations (the Central Office of TFCA and the Directorate General of the HC&FG); regions and the counties still have three separate organizational entities within the NTCA responsible for taxation, the customs and finance guard and criminal affairs. Nevertheless, many of the fields came to be entirely integrated, such as strategic planning, financial services, logistics and international relations.

The first two years of the NTCA's functioning brought about significant achievements both in tax and customs revenues and the fine-tuning of the new system. International relations – an organizational entity the integration of which took place in the first stage – was an especially successful field. The success was a result of several factors and many external conditions also played a part.

The formation of the international relations field of the NTCA commenced in the integration workgroup: a decision was adopted about the separation of the strategic, managerial contact maintenance from the coordination and servicing of international relations at professional administrative units mostly dealing with particular cases. The former system of tasks was organized under the supervision of the Vice-President for External Relations in the form of the Department of International Relations; whereas administrative assistance and cooperation in particular cases were rendered into divisions under relevant professional Departments. Thus, international contact maintenance was apparently organized in two levels.

It has been decided that the Departments of International Relations of the former TFCA and HC&FG be integrated and rendered under a single management independent of professional fields. The thus created new Department of International Relations was placed under the supervision of the Vice-President for External Relations thereby ensuring its capability to service all three professional fields of taxation, customs and criminal affairs. The two Heads of Department were authorized to negotiate the technical details of the merger. It was within this framework that the system of tasks of this organizational entity was exactly defined, the required resources and tools to perform them were arranged, and the number and major functions of the newly created divisions were assigned.

The human resources aspect of the integration shows that the merger involved a staff of 16,000 from the TFCA (72%) and the personnel of 6000 (27%) from the part of the HC&FG. At the same time, the international relations department of the TFCA had 17 employees (30%) whereas the Department of European and International Affairs of the HC&FG contributed a staff of 40 (70%) to the integration. These numbers are justified by the different quality of impregnation of the tax and customs organizations into the international scene. The fact that functions of customs are community tasks of the European Union makes it obvious that the participation in customs legislation and the uniform execution of customs directives requires a more significant volume of international actions and coordination than the less harmonized field of taxation. Therefore, the personnel involved in the integration of the international relations field were

adversely proportional to the numbers of the integrated staff of the two administrations.

The quality of involvement in international affairs, the number, deepness, the contents and the types of achievements of international relations at the two predecessor organizations were entirely different. The TFCA was actively involved in the work of the Intra-European Organisation of Tax Administrations (IOTA) and had established active bilateral relations not only with neighboring countries but with some of the more distant ones as well (e.g. France). The main ingredients of contact maintenance and cooperation were getting to know and exchanging experience, bilateral collaboration and managerial meetings. The system of international relations at the HC&FG was characterized by a deep involvement in both the World Customs Organization and the European Union, the representation of national interests in the decision making mechanism of the EU, the conclusion and execution of bilateral agreements, and rather close relations with neighboring countries. The Twinning Projects – which constitute a segment of the project application scene – paint a characteristic picture of the differences between the two former organizations: whereas TFCA had been the recipient of a Twinning Project, the HC&FG had successfully finished a donor project by the time of the merger. It must be underlined that two entirely different organizational cultures had emerged in the field of maintaining international relations at the two predecessor administrations.

When tasks were arranged and assigned, we adopted the decision not to classify tasks of international relations in accordance with the NTCA professional fields (such as taxation, customs and criminal affairs), but along the lines of different relations (countries and international organizations). A system of groups of countries was established which was deemed to be ideal for the NTCA, and task groups were assigned for contact maintenance with those categories of countries. Efforts were made to create mixed task groups; that is, groups having members from both tax and customs administrative background. When the different categories of countries were established we aspired to achieve an arrangement that reflected both the historical traditions of the major international contact relations of the predecessor administrations and the specific language skills of the assigned employees. The following task groups were established:

- Northern Europe (SE, FI, EE, LT, LV, CH, NO) and Asia;
- Western Europe, countries of the Benelux (UK, IE, BE, NL, LU, DK, FR) and America;
- Eastern partners, the Western Balkans (RU, UA, SR, HR, BH, AL, FY, MD, MK) and Africa;
- Visegrad States and German speaking countries (CZ, SK, PL, AT, DE);
- Southern Europe (GR, CY, MT, IT, RO, PT, ES, BG).

A specific emphasis was placed on relations with supranational and intergovernmental organizations. Managing relations with the European Union on a system based approach emerged as an outstanding priority, and the traditionally significant Hungarian role in the IOTA and the WCO was also institutionalized.

The Division of EU Cooperation was established to maintain relations with, and facilitate the promotion of national interests within the EU, as well as to execute EU coordination on the level of the NTCA. This Division incorporates our task group dedicated to maintain relations with EU institutions, the main function of which is the

intra-organizational coordination of our position in various Working Groups of the Council of the European Union – the Customs Union Working Group (CUWG) and the Customs Co-operation Working Party (CCWP); and consequently, the harmonization of the national professional interests. This is also the task group that maintains contact with the Directorates General of the Commission of the European Union and their organizations (TAXUD, DG HOME, DG REGIO, OLAF, EUROPOL etc). Our objective is to ensure the promotion of coherent Hungarian positions which support and sustain each other in the Council and Commission structures of the European Union. This Division and the EU institutions task group within it maintain a very close contact with the departments responsible for cooperation in the supervising Ministry of National Economy.

The CUSTOMS 2013 and the FISCALIS 2013 programmes were established by the European Union to create a platform of customs and tax professional programmes and exchanges of experience. The NTCA is responsible for the Hungarian coordination of these programmes. The national coordinators of these two programmes as well as the working visit coordinators responsible for international missions of experience exchange were integrated in one task group within the Division of EU Cooperation. The main objective behind that was to immediately utilize coordination skills in these two very similar programmes and make resources interchangeably applicable. Of course, colleagues having tax administrative background were assigned with FISCALIS coordination, and colleagues coming from the customs administration were entrusted with the coordination of the CUSTOMS programme. The management of the Activity Reporting Tool (ART) to record activities was also integrated.

Cooperation with intergovernmental organizations and initiatives is a priority task for the NTCA, such being the IOTA (Intra-European Organisation of Tax Administrations), the WCO (World Customs Organization), and the OECD (Organisation for Economic Co-operation and Development). These are so significant intergovernmental organizations that cooperation with them is an inevitable part of international activities. At the same time, Hungary plays an active role in numerous regional cooperation fora, carrying on with those and reinforcing them was an important objective when the NTCA was created. Such important regional organizations and initiatives for cooperation are the Visegrad Group (V4 consisting of HU, SK, PL, CZ), the Quadrilaterale (consisting of HU, IT, HR, SI), the SECI, subsequently named SELEC (Southeast European Law Enforcement Center). Relations with non-EU intergovernmental organizations seemed so far-reaching – and nevertheless, maintained in the framework of identical international law – that the creation of an independent multilateral task group seemed to be justified when the merger took place.

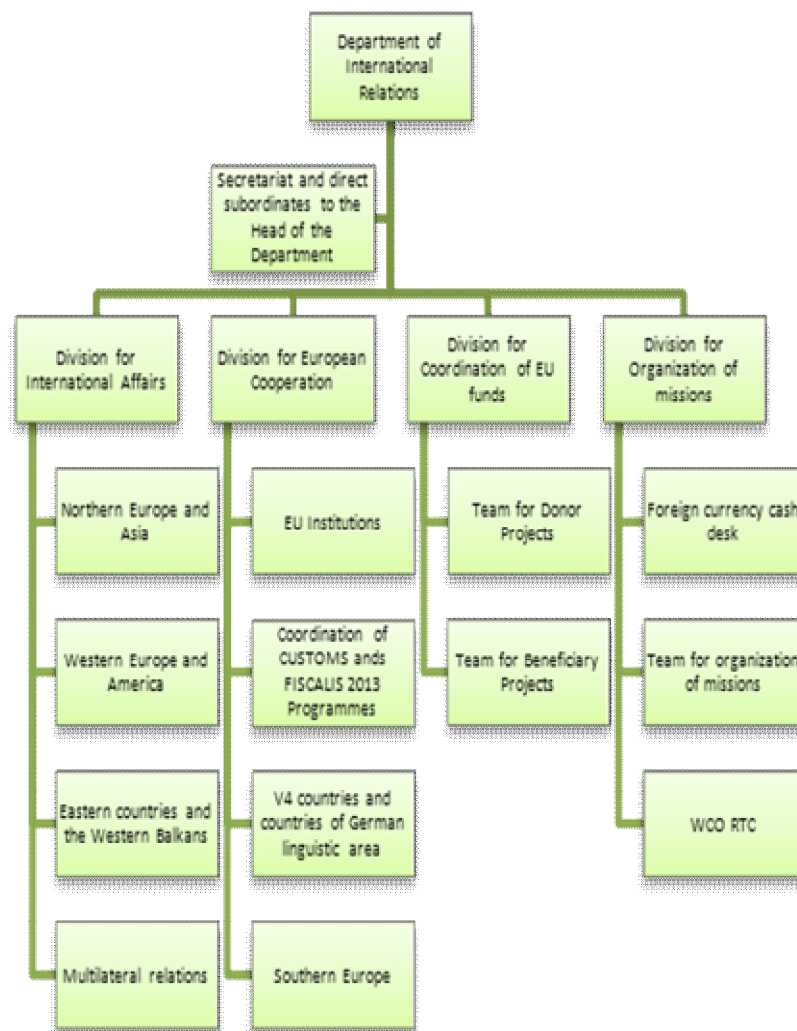
The international field of the HC&FG coordinated the activities of international – mainly EU-related – application projects. Such provisions of resources were not particularly significant in the former TFCA. In the process of integration a definite objective of the NTCA was to extend applications to the tax administrative area and adopt an active policy in involving external resources in the creation or enhancement of the tax infrastructure. Based upon the experience accumulated in the VPOP, this activity has managed to achieve some significant success both in recipient and donor projects.

Before the merger different mechanisms were in function for the organization of

### SECTION 3 – BEST PRACTICES

foreign missions and domestic programmes. The TFCA used to apply for, and receive foreign currencies directly from the Hungarian Treasury for every single mission (professional business trip); whereas the HC&FG operated a separate currency cash-desk and currency was weekly or monthly applied for in line of the given needs. When the new organization was established, it became clear that the organization of a large number of foreign missions (almost 800 business missions and 1000 passengers annually) are to be expected even after eliminating unnecessary duplications from the system. Therefore, the decision was adopted that a separate Division be established in international relations which deals with the tasks of organizing foreign missions and the management of the NTCA souvenir items for domestic events. Another decision ensured that the World Customs Organization's Regional Training Centre in Budapest is rendered under the Department of International Relations and mostly serve the international engagements of the administration.

These systems of tasks defined and classified along the lines of the above were assigned to (sub-Departmental) Divisions in the following way:



Although it did not seem to be an essentially significant problem at the time of the merger, the operation in the first six months of functioning justified that certain tasks be removed from the Divisions and organized within the direct supervision of the Head of Department. Such were the cases of human resource management, the tasks of managing technical equipment and stocks furthermore the organization and performance of domestic programmes.

When the NTCA was created certain tasks of tax, criminal and customs cooperation were integrated under the professionally competent Departments; in the taxation field the Central Liaison Office (CLO) operates under the Audit Department, in criminal affairs the International Division functions under the Department of Criminal Coordination, and the Excise Liaison Office (ELO) is rendered under the Department of Risk Analysis and Management in the customs field. The professional international management and coordination of these Divisions is carried out by the Department of International Relations.

The execution of the merger and the date when the new Department was established coincided with the first day of the Hungarian Presidency of the European Union. Both the Hungarian EU Presidency and the operation in the first half year made us face significant challenges. The Regulation of international missions was one of the first Regulations adopted in the NTCA, since the series of missions started within days of establishing the new administration. The Department was accommodated in three different buildings on 1 January 2011 when it was established – in such a way that members of all four divisions were located in all three facilities, which made management, issuing directions and the successful execution of tasks almost impossible. Besides the significant workload, the task of accommodating organizational units together had to be started and eventually the Department needed to be placed under a single roof. This was achieved in two steps, in February and in April.

After the half year term of the EU presidency we still managed to fine-tune activities of international relations; therefore, today an effective and successful international institution is serving the units in the NTCA structure. The established system of contact maintenance makes it possible to handle different professional objectives (tax, customs, criminal affairs) broken down along the lines of categories of countries and uniformly cooperating task groups, which enables different contact maintenance objectives to benefit from (and build upon) the strengths of each other. Accordingly, one of the most highlighted tasks of this Department is horizontal coordination both internally and externally.

The uniform methodology of planning activities of international relations has also been devised upon the basis of which we plan to intensify relations with foreign partner organizations by providing for categories of cooperating countries, drawing up the aims of cooperation of the particular professional fields and scheduling draft plans.

### **Summary and concluding remarks**

Summarizing the above, the international relations of the NTCA were organized upon the basis of the international field of the former HC&FG by adopting the processes, methods and best practices employed in the international relations of the TFCA. At the



same time, the newly established NTCA managed to take the opportunity to revive the quality of international contact maintenance building upon also the best practices of the predecessor administrations. The effective application of the experience already present in the organization and their effective assignment was a catalyst to create more dynamic cooperation in various fields, enhancing them both in terms of quality and quantity. As a result, Hungary is now one of the driving engines of taxation, customs administrative and criminal affairs related cooperation in the region.

The colleagues having “tax” and “customs” backgrounds quickly got to know each other and learnt each other’s tasks, having a uniform view of the functioning of partner administration to be able to effectively support the international aspirations of the NTCA. The infrastructure thus created provides a reliable basis for functioning and supports it without redundant administrative burdens. It must be pointed out however that in several fields we still employ only colleagues from a customs background owing to the fact that these areas had no established tradition in the organization of the former TFCA. Such areas are the Coordination of EU Subsidies and the maintenance of relations with EU institutions. These activities are such that the experience in coordination and applications acquired in the HC&FG is perfectly applicable within the context of the newly established NTCA.