



**CAUCASUS, CENTRAL ASIA,  
AND MONGOLIA**  
REGIONAL CAPACITY DEVELOPMENT CENTER

# **Tax Administration of the 21<sup>st</sup> Century**

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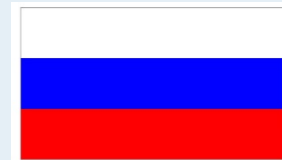
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# Tax Administration of the 21<sup>st</sup> Century

*The emergence of new technologies, increased digitalization and the unprecedented flow of information is creating fundamental and rapid change across global economies.*

*What do these changes mean for Revenue Administrations now?  
What are the challenges and opportunities on the horizon?*

- “Digital Transformation of Revenue Administrations”   
March 15 – 16, 2022
- “Modern Approaches to Tax Audit”  
April 5 – 6, 2022
- “Managing the Relationship with Large Taxpayers”  
April 20 – 21, 2022

# Digital Transformation of Revenue Administrations

How can WE in the wider *tax ecosystem* support objectives of lowering costs, enhancing compliance and reducing tax burden – thereby helping to promote growth and investment?

1. Transformation Waves through time
  - Tax Administration 1.0      2.0      3.0
  - Where are we now and why our ‘best practice’ is going *end-of-life*
2. Digital Transformation in Action
3. Introducing the Change
4. Technology Enablers and New Business Approaches

# Transformation Waves

**Tax Administration 1.0** - can be characterized as largely paper-based with many manual and siloed processes

**Tax Administration 2.0** - As taxpayers and the whole economy go increasingly digital, a host of new opportunities has arisen for the use of digital data and analytical tools by tax administrations, including through joining-up with other parts of government, the private sector and internationally. This is leading to improvements in the efficiency and effectiveness of tax administration processes for taxpayers and the administration, and might be termed 'Tax Administration 2.0', sometimes referred to as "e-administration".

**Tax Administration 3.0** - A vision for the digital transformation of tax administration, under which taxation becomes more of a seamless and frictionless process over time. As more interconnections become possible between the different systems that taxpayers use to run their businesses, undertake transactions and communicate – *their natural systems* – the more it becomes possible to move taxation processes into these systems, subject to appropriate assurance.

# Tax Administration 2.0

## Where are we now?

- Tax administration is generally carried out through a set of broadly sequential processes.
- Endorsed by diagnostics approaches and international publications
- Functional structures support delivery and operate in discrete silos

### TAXPAYER SERVICE AND EDUCATION

- Proactive and reactive service
- Taxpayer education
- Self-service
- Web based services



### SUPPORTED BY:

- Compliance risk management
- Data analytics
- Data management
- Technology

# Tax Administration 2.0

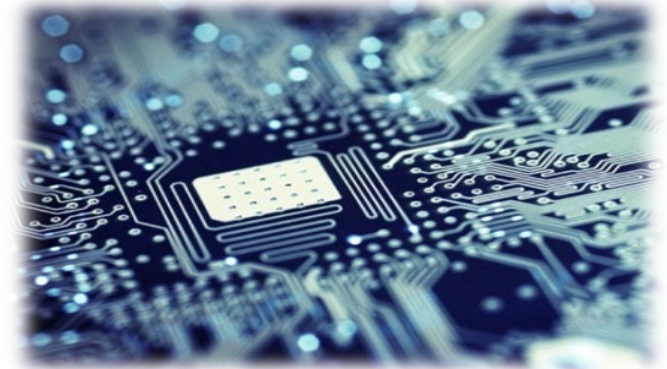
## Services transformation journey – how did we get here?

	1980/1990	1990/2000	2000/2010	2010/2020
	<i>Centralization</i>	<i>Technology driven</i>	<i>e-Service development</i>	<i>Digital and connected</i>
<b>Registration</b>	<ul style="list-style-type: none"> <li>• Paper based and in person</li> </ul>	<ul style="list-style-type: none"> <li>• PDF forms on-line</li> </ul>	<ul style="list-style-type: none"> <li>• Electronic options</li> </ul>	<ul style="list-style-type: none"> <li>• Digital, third-party data</li> </ul>
<b>Taxpayer Service</b>	<ul style="list-style-type: none"> <li>• Paper based</li> <li>• Centres of excellence</li> <li>• Web-site generic information</li> </ul>	<ul style="list-style-type: none"> <li>• Email</li> <li>• Call centres</li> <li>• Web-services, some tailored information</li> </ul>	<ul style="list-style-type: none"> <li>• Contact centres</li> <li>• Expanded range of tailored information</li> </ul>	<ul style="list-style-type: none"> <li>• T/P Portal</li> <li>• Expansion of self-service</li> <li>• Intelligent forms</li> </ul>
<b>Taxpayer Education</b>	<ul style="list-style-type: none"> <li>• Paper based/booklets</li> </ul>	<ul style="list-style-type: none"> <li>• Seminars</li> <li>• PDF on-line</li> </ul>	<ul style="list-style-type: none"> <li>• Seminars</li> </ul>	<ul style="list-style-type: none"> <li>• Digital options</li> </ul>
<b>Taxpayer Support</b>	<ul style="list-style-type: none"> <li>• Outreach</li> </ul>	Outreach & seminars		<ul style="list-style-type: none"> <li>• Outreach</li> <li>• Live chat</li> </ul>
<b>Returns</b>	<ul style="list-style-type: none"> <li>• Paper returns</li> </ul>	<ul style="list-style-type: none"> <li>• E-filing</li> </ul>	<ul style="list-style-type: none"> <li>• E-filing and pre-filing</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-filing &amp; no return options</li> </ul>
<b>Payments</b>	<ul style="list-style-type: none"> <li>• In-person</li> </ul>	E-payment		
<b>Engagement</b>	<ul style="list-style-type: none"> <li>• Little or none with taxpayers</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement over issues</li> </ul>	<ul style="list-style-type: none"> <li>• Use of service design</li> </ul>	<ul style="list-style-type: none"> <li>• Customer centric solutions</li> </ul>

# Tax Administration 2.0

## Services transformation journey – how did we get here?

- Paper-based and partly manual processes have been/are being digitalized
- On-line services now transactional, with more intelligent forms
- Design of services increasingly targeting taxpayers that are *on-the-go*
- Greater sharing of data within the administration and within government
- Enhanced analytical tools support increased use of third-party data
- More *joined-up* services, particularly registration and support
- Pre-population/pre-filling and data matching
- Electronic filing and payment
- Customer-centered design and solution
- *Value-chain* approach to design and process re-engineering.
- On-line support, including virtual assistants and click-to-chat

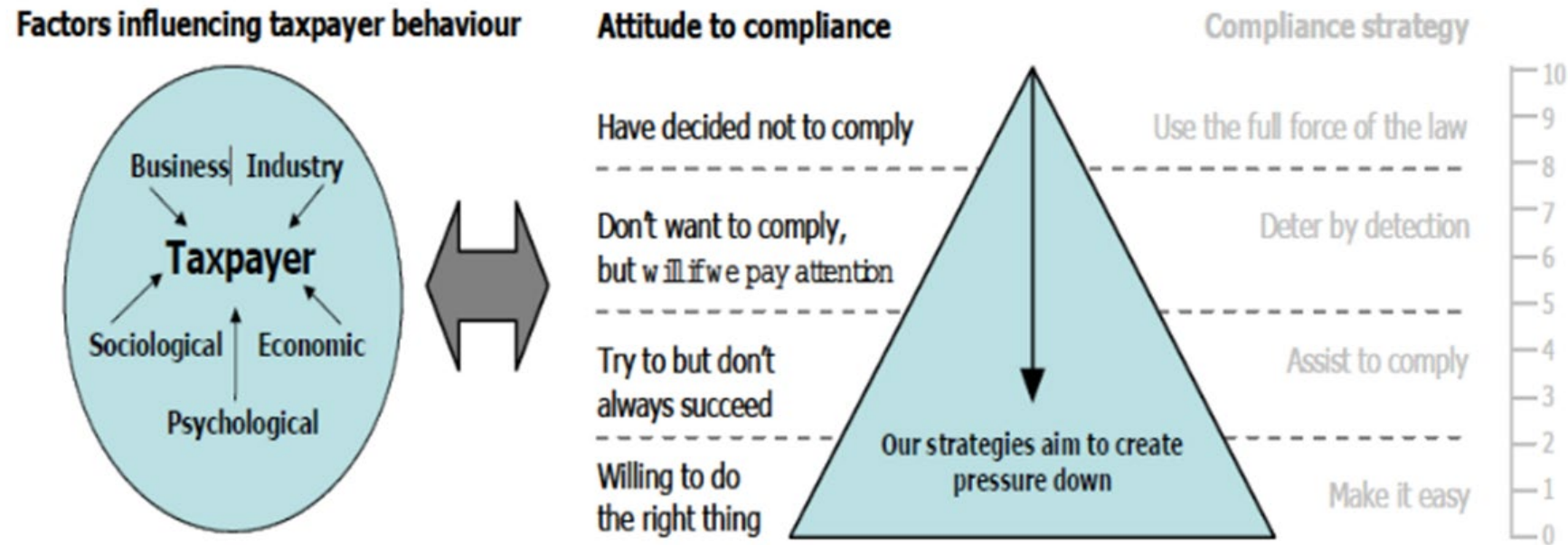




# Tax Administration 2.0

## Services transformation journey – how did we get here?

- Data and analytics have supported better compliance outcomes
- Risk-based interventions reflect taxpayer BISEP and attitude to compliance



# Tax Administration 2.0

## Data and services – tax is more and more about data management

- Increased digitalization and use of new analytical tools have significantly increased the efficiency and effectiveness of tax administration:
  - Expanded range of data from third-party sources
  - Increased the regularity of third-party data gathering
  - Common formats, & use of TINs
  - Verified reporting and firewalls
  - Integration of data – pre-filling and matching
  - Use of API's to embed tax rules into accounting software and other services taxpayers use
  - Adoption of more reliable reporting systems (e.g., digitalization of VAT invoices and online cash registers)
- Administrations have also improved detection of possible non-compliance through better risk assessment modelling, using big data and advanced analytical techniques, and new interventions and partnerships



# Tax Administration 2.0 LIMITATIONS

## While it is working there are a growing number of limitations

- Heavy reliance on taxpayer to comply – *voluntary compliance* based on taxpayers making choices
- More active management of taxpayers required by administration (and possible)
- Increasing cost and effort for taxpayers to meet obligations – especially as tax systems expand the range of services and types of taxes
- Tax is generally not collected in real time – instead, it is calculated, reported and paid *downstream* – at the end of the tax period. This:
  - Presents payment (and filing) risks
  - Often denies tax certainty
  - Require compliance or follow-up activities
- Tax administration is part of *government services* – increasingly revenue collection is not seen as stand-alone, but rather part of a wider government system. As a result, processes need to be common, data needs to be shared and services joined-up to ensure better outcomes for citizens and taxpayers



# Tax Administration 2.0

## The speed of change is increasing

- Most administrations have plans to enhance their service delivery
- Expanding cooperative compliance approaches, providing greater tax certainty and making compliance easier are at the center of these plans
- Communication, interaction and transaction processes that are not yet digitalized or support digital interaction are being replaced
- Websites are now *actions hubs* rather than *information banks*, offering taxpayer portals for *self-service & action*, and improved access to information
- Call centers are moving to contact centers, supporting outbound and proactive actions as well as *live chat* functionalities
- Tax returns are being pre-filled, with any taxpayer actions able to be transacted through on-line taxpayer accounts and portals
- Data analytics is increasingly identifying anomalies, detecting fraud and guiding actions and interventions.
- Voluntary compliance is being changed to more actively *managed compliance*



# Tax Administration 2.0

## Despite this, approaches are going *end-of-life*

- ***Design and implementation*** of many service offerings – particularly self-service offerings have not materially improved taxpayer compliance levels
- ***Tax processes and support*** – co-designed with third parties and taxpayers, while offering better outcomes for active and self-reliant citizens, are failing to make impact on those for whom tax is not a priority or is seen as a burden
- ***Communication and service offerings*** have increased substantially but a large numbers of taxpayers still must connect with authorities. Mistakes, delays and failure to *comply* – in full or on-time, result in increased work and cost
- ***Tax returns*** compiled by taxpayers feed information on past taxable events. While the ability to submit returns electronically has made things easier for taxpayers, the change has been minor and mainly of benefit to the authority
- ***Audit*** is a costly way of correcting errors and supporting compliance – while necessary, the backward-looking nature of audit is increasingly seen as a costly and time-consuming process that generally does NOT lead to long-term changes in compliance behavior



# Tax Administration 2.0

## Tax is changing

- ***Taxing changing work patterns*** - the rapid growth of sharing and gig economy with new business opportunities, increased opportunities for the outsourcing of economic activity, and new sources of income is a major challenge for tax authorities. The emergence of these online platforms has led people to move out of salaried employment, where income is subject to withholding and into full or partial self-employment, affecting visibility of the activities and opportunities for non-compliance.
- ***Interconnected*** - as the global economy becomes increasingly interconnected and digitalized, some businesses can generate profits without a local physical presence. This trend is expected to increase as the digitalization accelerates.
- ***Accessing and using information*** - the move to digital recording of payments, record keeping, and identity presents many opportunities for tax authorities to increase transparency and to prompt compliance. The flip-side however, may produce transparency holes, through, for example the use of virtual currencies, crypto-currencies and opaque digital assets.
- ***Digitalization makes it possible to take actions in real-time*** within a country or across geographical boundaries. This creates new risks from the time gaps between the point of tax liabilities arising and the related reporting and payment obligations.

# Tax Administration 2.0

## Society expectations are changing

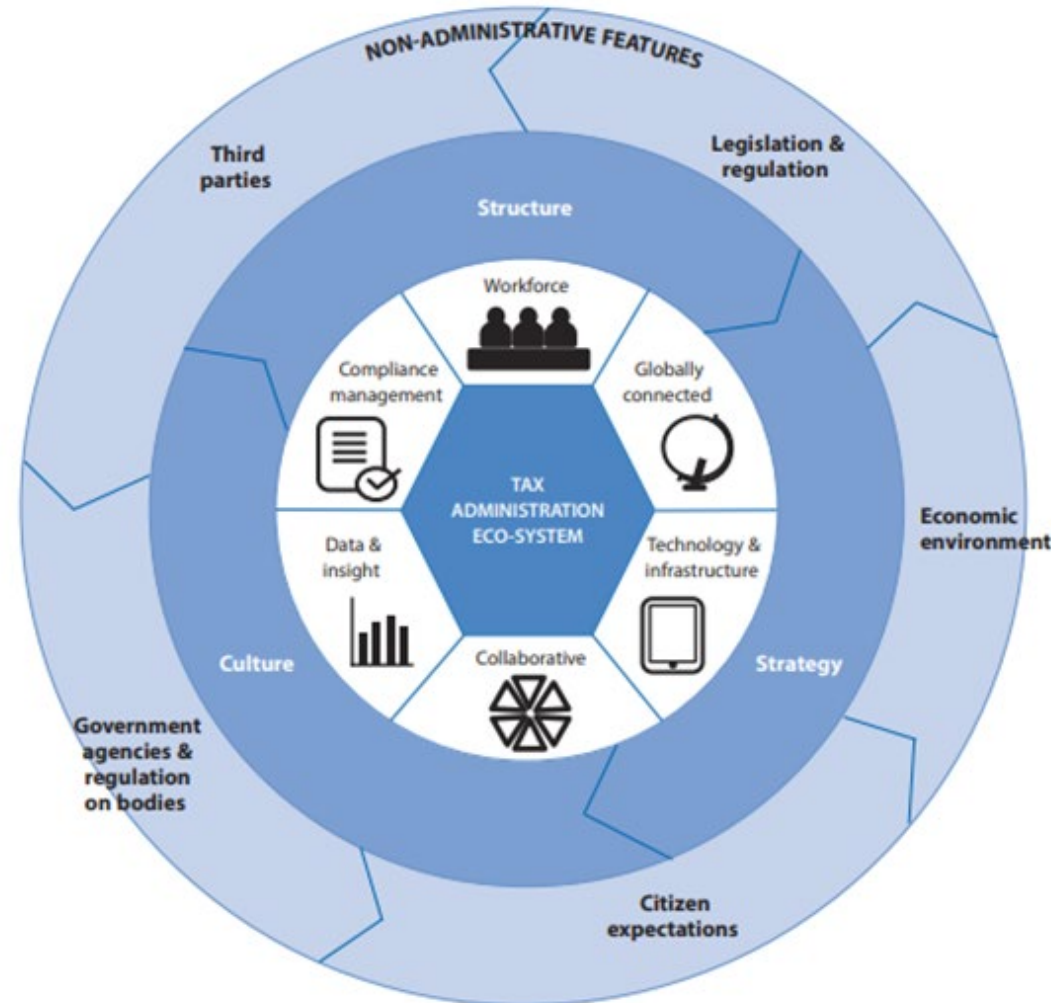
- Digitalization of many aspects of daily life, including through the use of mobile devices, is changing citizens' expectations of time-scales, the ease of processes for the purchase and payment of goods and services, record keeping and so on.
- Mobile driven access is not simply about convenience but has changed the way we work and operate.
- Government agencies are working hard to catching-up with the private sector, but in many they still act as siloed entities rather than a single government body treating citizens and entities as a single customer across government functions.
- These silos are an additional burden placed on citizens and businesses when they need to interact with many parts of government, each with their own rigid legacy IT systems, different legislative requirements and public sector budget constraints, different current priorities and the inertia that comes with being monopoly providers.
- Tax administrations have a major role to play in joining-up government services
- Attitudes to privacy and access to information are changing, but remain a major challenge to manage.



# Tax Administration 2.0

So where does this leave us? Establish the new role of tax administration in the wider

*“Tax Ecosystem”*





# Tax Ecosystem is

- ***Globally connected*** - an increasingly digital, mobile and global taxpayer base requires administrations respond to issues that were once only the domain of its largest businesses.
- ***Technologically enabled*** - administrations are developing new applications, while third party providers are embedding tax requirements into the natural systems
- ***Collaborative*** - more active engagement with industry, taxpayers & government agencies is providing greater insight to improve services and enhance compliance
- ***Data and insight led*** - lower storage costs & advanced analytics technologies are allowing administrations to source more third-party data in support of new approaches and products and enable/facilitate better management of tax risks.
- ***Better informed compliance management*** - new technologies are allowing a move from analyzing transactions that have occurred post-filing to developing approaches that support tax assessment closer to the time a transactions occurs.
- ***Driven by enabled workforce*** – new environment and positioning/role of the tax authority requires review of workforce competencies needed for success.

# Tax Administration 2.0 - Conclusion

- Waterfall and stepped development programs based on what we have successfully done in the past will not ensure our success in the future.
- How tax administration fits within an ever-expanding taxpayer world needs to be re-thought and new ways of operating developed to ensure tax fits within the wider ecosystem within which taxpayers operate.
- Administrations must do all this while lowering costs, enhancing compliance and reducing the tax burden – thereby helping to promote growth and investment.

**The good news is that a blueprint has been developed and many administrations can already point to success stories in building new capabilities and responding to this challenge.**