

Getting Tax Digitalisation Right

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BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

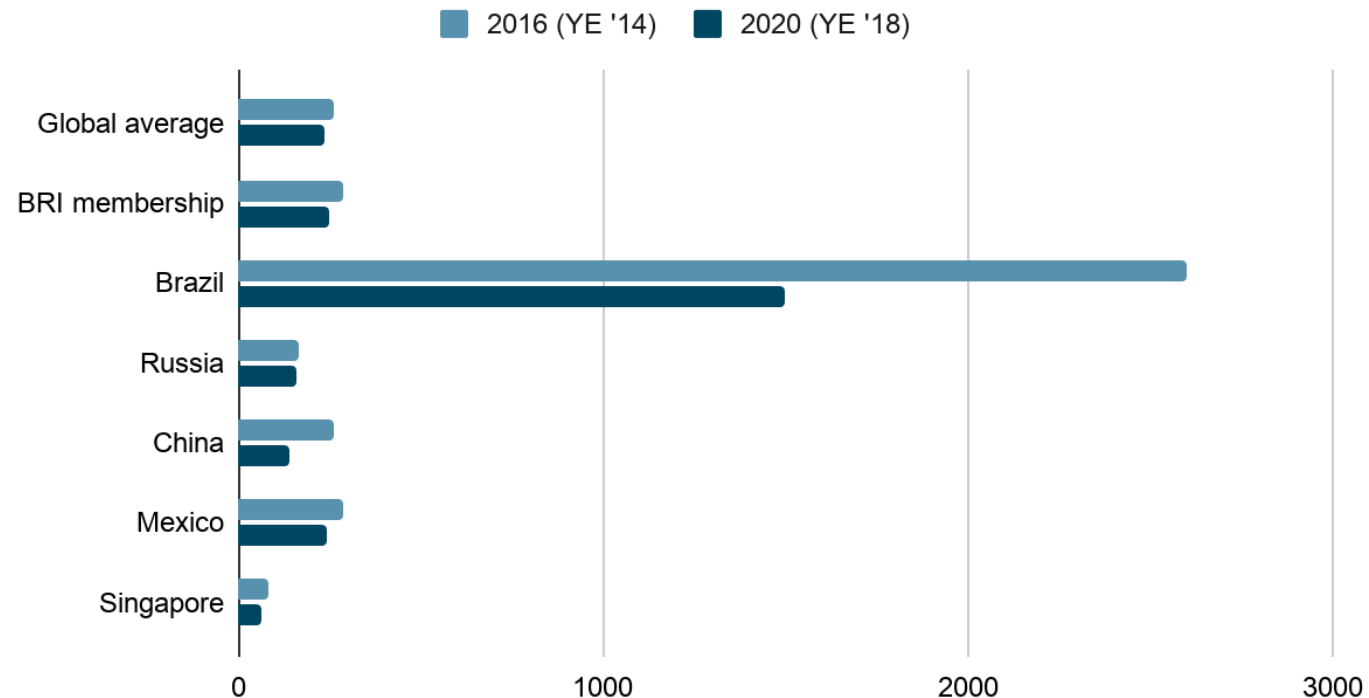
Contents

- 1 Paying taxes survey data
- 2 Lessons learned
- 3 Key principles to follow
- 4 Conclusions



How long would a small manufacturing company take to comply with all taxes?

Hours to comply



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Source: Paying taxes survey.

What lessons can we learn from them?

China

In 2014 China integrated taxpayer services functions through a **mobile tax application** and launched official accounts on the two main Chinese social media platforms (WeChat and Weibo).

In 2015, the **Internet+Taxation Initiative** unlocked the potential of big data for taxpayer services, such as data sharing among government bodies, online training, and e-invoices.

The State Taxation Administration launched the **Golden Tax III system in 2017**, which facilitated e-filing of different stamp duty taxes.

Additionally, China implemented a series of measures in the past two years, which simplified corporate income tax, labor taxes, value added tax declarations, and e-delivery of invoices.

Source:

Paying Taxes Good Practices Doing Business World Bank

Brazil

The Brazilian tax system is among the most complex in the world. One particular area of tax evasion was in VAT, where a variety of issues existed.

In response, Brazil enacted an extensive system of mandatory e-invoicing. All sales and purchases are **in real time** submitted to the authority, allowing for robust analysis of the Brazilian economy and the detection of sales tax fraud.

Brazil also requires all companies to **submit transactional accounting information** in a prescribed electronic format to the authority, again providing the Brazilian government extensive insight into companies' activities. Another innovation used in some Brazilian states is a **small VAT rebate issued to individual customers** when the purchase makes its way into the state's tax system. Thereby, individuals are incentivised to declare unreported transactions.

Source: ICAEW report "Digitalisation of tax: international perspectives".



What lessons can we learn from them?

Russia

The Russian Federal Tax Service trials all new projects, experimenting with using the proposed system in one region of the country before rolling it out. **This has meant fewer difficulties with implementation.** The largest companies were happy to volunteer to be testers for new systems, especially where it meant they could get the jump on adapting their own systems to the new regime ahead of it becoming mandatory.

Singapore

Before September 2018, employees and tax agents responsible for filing on behalf of companies and other organisations used their personal SingPass government ID to access the company's records. This caused some concerns about ease of use and security, and consequently from September 2016 a new CorpPass system was introduced, which from September 2018 became **the sole method of accessing services** from the Inland Revenue Authority of Singapore.

Estonia

The average Estonian tax return **takes five minutes to complete**, due to the pre-filled information provided by the government. The single shared platform, X-Road, unites all government services and **links all aspects of citizens' digital identity together** from a single secure identity logon.



Source: ICAEW report "Digitalisation of tax: international perspectives".

Conclusion and key principles to follow

Key principles to follow¹

Pre-population of returns can provide substantial benefits but requires extensive collaboration with third parties and will change the nature of the agent/authority/taxpayer relationship.

Relationships with third-party information suppliers and software vendors are crucial to building a system that is efficient and provides good value to the taxpayer.

Simplicity drives success: the older and more complex a tax system is, the harder it will be to create an understandable and reliable digital equivalent.

Digital exclusion must not be ignored or underestimated; those that cannot or will not use digital methods must be properly considered and catered for.

Proper legal support for digitalisation must be established – for example, by including the legal status of digital records in court, the necessary powers to require digital filing and a legislative basis for digital identity.

There are key factors which make different tax systems variously harder or easier to digitalise: pre-existing universal filing, high levels of tax morale, or a pressing need to crack down on the grey economy can all work in favour of digitalisation.

¹ Source: Institute of Chartered Accountants in England and Wales (ICAEW) report “Digitalisation of tax: international perspectives”.

Conclusion

- **Implementation requires strategic planning**
- **Tax audits in the post-pandemic world**
- **Lessons learned**
- **Ending on a high note**