

Taxation and Digitalization in the Context of COVID-19

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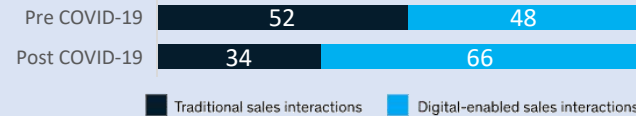
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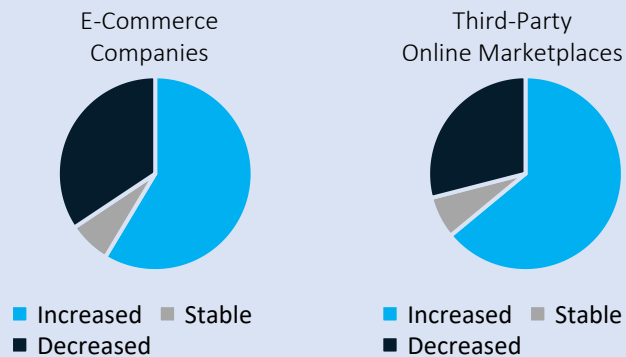
COVID is shifting consumption and revenue streams towards digital platforms

Online sales is increasing but not across all economic operators.

Digital interactions with business customers will become twice as important.¹

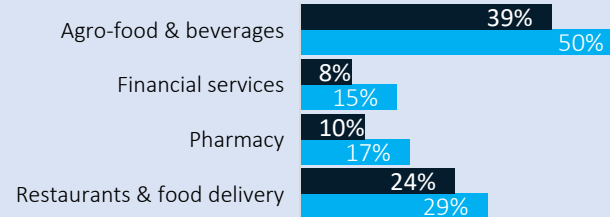


More companies in Asia Pacific/Africa will see their online business grow, but some will experience a decline.²

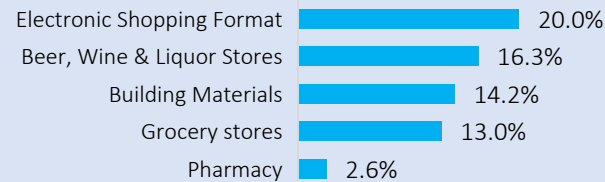


Compliance risks are driven by a shift in consumption patterns in terms of what is being purchased, who is purchasing it, and how they pay.

Top 5 sales categories on third-party marketplaces before/after COVID.²



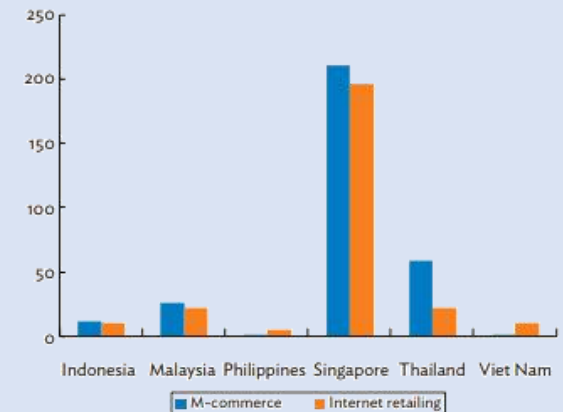
COVID's impact on sales will differ across store types³...



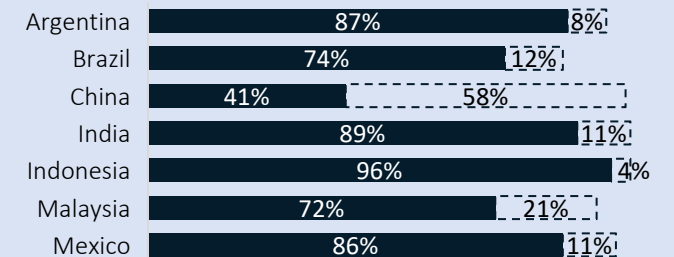
and demographics (US example).⁴

Increase	Income >US\$100k	Age <40
Decrease	Income <US\$50k	Age >56

However, Internet and mobile commerce spending varies greatly across countries (USD per capita).⁵



Cash use will further decrease (2010-2020, est.)⁶



Sources: 1. McKinsey B2B Decision Maker Impulse Survey April 2020 (survey companies in the US, Germany, France, Italy, the UK, Spain, China, India, Japan, South Korea, and Brazil). 2. UNCTAD, COVID-19 and E-Commerce - Impact on Businesses and Policy Responses, November 2020. 3. IBM U.S. Retail Index. 4. The great consumer shift: Ten charts that show how US shopping behavior is changing, McKinsey, August 2020. 5. Embracing the E-Commerce Revolution in Asia and the Pacific, ADB and UN ESCAP, 2018. 6. The 2020 McKinsey Global Payment Report.

The COVID crisis warrants a series of shorter-term adjustments

Adapting the Compliance Risk Management strategy...

- **Educate.** Provide guidance to e-tailers on their tax obligations. Bring into compliance e-tailers instead of pursuing enforcement action.
- **Obligate.** Consider requiring that online platforms disclose their sales, withhold VAT, or assume liability for vendors VAT payment and registration.
- **Cooperate.** Support companies in building VAT rules into e-commerce platforms.
- **Analyze.** Cooperate with other agencies to collect data from shipping companies, intermediary apps, banks, and e-wallets. Use analytics to identify non-compliance hotspots.
- **Enforce.** Conduct targeted and/or thematic audits of high-risk firms.

and facilitating taxpayer compliance while stimulating demand.¹

Tax exemptions or lowered taxes to stimulate demand

Cameroon	Fees on transfers between MTN Mobile Money accounts
Colombia	VAT on cell phone plans (voice/Internet) Taxes on mobile services
El Salvador	Duties on online shopping on purchases less than \$200
Netherlands	VAT (lower) on online fitness classes
Spain	VAT (lower) on digital publications

Tax facilitation measures (e-taxpayer services)

Egypt	Exempt tax returns online filing subscription fee
Malawi	Broadened the use of electronic payment to pay tax using the means that are closer to them
Maldives	Updated the e-payment system to pay additional fees
Poland	Introduced the possibility of issuing an e-receipt by on-line cash registers
Thailand	Accelerated VAT refunds for online procedures (15 days)
Turkey	Enabled more types of tax to be paid by credit card

In the longer term, consider reforms with the potential to transform the taxation system

1 Use tax data to improve government policy making

- Monitor the impact of COVID on the economy and forecast recovery
- Identify growth drivers in the economy
- Target assistance to SMEs and vulnerable individuals
- Verify beneficiaries' eligibility under cash transfer schemes

2 Digitally transform the tax administration

- **Digitization.** Use AI-enabled scanning systems to capture data 20-times quicker with fewer errors
- **E-filing/payment.** Move taxpayers to e-platforms to reduce errors and leakage
- **Third-party data.** Get data from the company registry, employers, banks, etc. for matching purposes
- **Build analytics capacity.** Recruit data scientists, upgrade tax specialists' skills, build an analytics unit, and make data quality a top priority

3 Weigh options for taxing the digital economy

- Follow closely the international negotiations in 2021
- Establish a level playing field btw:
 - Online and brick-and-mortars
 - Goods and services
 - Residents and non-residents
- Consider the political economy of reform and the need for real consultations in drafting new legislation and for support to taxpayers during implementation

How the World Bank can support tax reform

- **Financing**
 - Major digital transformation efforts, including investments in hardware and systems
- **Technical Assistance: Tax Policy**
 - Build models to estimate the revenue impact of extending taxes to the digital economy, e.g., a Digital Data Tax¹
 - Convene local stakeholders to build support for digital reform
- **Technical Assistance: Tax Administration**
 - Conduct a digital maturity assessment
 - Strengthen the data architecture and governance
 - Assess the legal framework for data interoperability
 - Establish a data analytics units
 - Conduct skills gap assessment against new digital skills
- **Training**
 - Executive training program on tax and digital transformation and event series – working with regional institutions to bring this to the Asia-Pacific region

¹ Tax Theory Applied to Taxing the Digital Economy. *Analysis of the Tax Disruptive Aspects of Digital Business Models and Proposal for a Digital Data Tax and a Global Internet Tax Agency*. World Bank (Forthcoming).

