

Belt and Road Initiative Tax Journal

Improving Tax Environment:
**BRITACOM
PERSPECTIVE**



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China's Practice in Improving Tax Environment:

An Exclusive Interview with Commissioner Wang Jun of STA, China

The United Nations Conference on Trade and Development (UNCTAD) has just released the World Investment Report 2021. According to the report, China remains the world's second largest recipient of foreign direct investment (FDI), with its FDI inflows increasing by 6% over the previous year to US \$149 billion in 2020, against the backdrop of a significant drop in global FDI inflows due to the COVID-19 epidemic. This reflects China's success in fighting the epidemic and its rapid recovery of economic growth, as well as the progress China made in improving its business environment. While the ease of paying tax is a key indicator to measure the business environment and Chinese tax administration has made a lot of efforts to improve the tax environment and has made remarkable achievements in recent years, correspondents from the *Belt and Road Initiative Tax Journal (BRITJ)* interviewed Mr. Wang Jun, Commissioner of the State Taxation Administration of China (STA).

Sustained Efforts to Improve Tax Environment: An Overview

BRITJ: Mr. Commissioner, thank you for being with us in this interview. Could you please first give us an overview of Chinese tax authorities' efforts to improve tax environment?



Wang Jun: “Investment environment is like air, and only fresh air attracts more foreign capital.” The important statement of Chinese President Xi Jinping has charted the course for China to accelerate the improvement of doing business environment. In recent years, Chinese tax authorities have taken the initiative to streamline administration, delegate powers, improve regulation and optimize services, so as to energize market entities, boost the momentum of endogenous development, and unleash the potential of domestic demands. These efforts have facilitated business processes for enterprises and natural persons and built the solid support for the development of quality tax environment.

Improving tax certainty by rule of law. “Rule of law is the most favorable business environment.” Since the central government made specific arrangements for the law-based implementation of taxation in 2015, legislation of 11 taxes has been completed by the end of 2020. With the enactment of stamp tax law in June 2021, China has made laws for 12 of 18 existing taxes. This took on a very positive significance for China to improve business environment, reduce the burden on market players, and enhance the transparency and certainty of the tax system. At the same time, the amendment to the *Tax Collection and Administration Law* has solicited public opinions twice, and the draft revision reflected the change from tax administration to tax governance, putting the protection of taxpayers’ rights and interests the forefront and center and deeply promoting accurate law enforcement, targeted service, precise supervision, and sincere co-governance.

Charting a roadmap by Action Plans. In September 2018, the STA issued the Action Plan for Further Improving Tax Environment in Tax Administrations Across the Country (2018–2022), which introduces 58 specific measures in 5 aspects, including cutting the number of tax payments, curtailing the time to comply, reducing tax burden, optimizing post-tax processes and regulating tax law enforcement, and delineates the five-year roadmap of tax environment. By the end of 2020, 48 of the 61 detailed tasks had been completed. In September 2020, the STA, in conjunction with other 13 governmental departments, jointly issued the Notice on Measures to Promote Tax Payment Facilitation Reform and Improve Tax Environment to introduce 16 reform measures in 5 aspects to advance tax payment reform by pooling efforts of multiple departments and more effectively addressing concerns of market players.

Implementing continuous measures in key areas. In recent years, Chinese tax authorities have made relentless efforts to consolidate the handling of taxes and fees and deepen “non-contact” services, gradually built a diversified model featuring “online tax and fee processing, supplemented with self-help services, and supported by on-site services”, and established a national unified e-Tax Office integrating online and offline services and connecting both user end and backstage to create a tax environment with easier, faster and more convenient services. We actively carried forward the project of “Smart Taxation” and continued to optimize the tax payment experience of taxpayers by

streamlining payment process, conducting online services, and intensifying inter-departmental cooperation, so as to provide more targeted, smart, and bespoke services.

Nothing is impossible to a willing heart. The persistent efforts of Chinese tax authorities to improve tax payment services have brought forth increased taxpayer satisfaction year by year. Since 2008, a third party has been commissioned to organize a nationwide taxpayer satisfaction survey every year, involving 36 provinces, autonomous regions, municipalities directly under the central government, and municipalities with independent planning status. Results of the survey revealed that national taxpayer satisfaction has been steadily improving, with the evaluation score of taxpayers rising year by year from 79.18 in 2010 to 86.1 in 2020. At the same time, it is also heartening that the gap of taxpayer satisfaction between regions is also narrowing annually. In 2013, more than 6.2 million newly registered market entities paid taxes of RMB160 billion (US \$24.8 billion) across the country. From 2013 till the end of 2020, thanks to macro policies such as tax cuts and fee reductions, reforms to streamline administration, and the improvement of business environment, 79.89 million market entities had been newly registered as taxpayers nationwide, with an annual increase of nearly 10 million. By 2020, tax revenue from these newly registered taxpayers reached RMB3.82 trillion (US \$591 billion), which has made positive contributions to the sustainable development of Chinese economy as well as to the increase of China's share in global economic growth.

The Doing Business reports by the World Bank Group imply that during the 13th Five-Year Plan period (2016—2020), China's ranking in the ease of paying taxes had ascended from the 131st to the 105th, with payment times dropping from 9 to 7 per year, and time to comply shortened from 261 to 138 hours per year. The recently released World Investment Report 2021 by UNCTAD also reveals that China remains a hot spot for foreign investment, and its business environment, especially from tax perspective, still wins the favor of investors all over the world.

Targeted “Spring Breeze Project” Throughout the Year to Meet the Needs of Taxpayers and Fee Contributors

BRITJ: Globally, the “Spring Breeze Project for More Convenient Taxpayer Service” is a flagship project taken by Chinese tax authorities to improve tax environment. Could you tell us more about it?



Wang Jun: Since 2014, Chinese tax authorities have launched a series of taxpayer service reform initiatives every year in vibrant spring, devoting themselves to optimizing taxation processes, innovating service approaches, downsizing and consolidating declaration documents, reducing time to comply, providing faster, more cost-effective and more standardized services to taxpayers and fee contributors, and continuously improving their satisfaction and sense of gain.

Every year, we introduce some featured services with the “Spring Breeze Project”.

Highlighting the facilitation of tax payments. The “Spring Breeze Project” underlines “Convenient Taxpayer Service”. We are striving to build a less burdensome

tax environment with faster and better services. For example, the declarations of property and behavior taxes were consolidated, so that taxpayers can declare multiple property and behavior taxes on a single tax return at the same time. Also, the list of “Single Visit” and that of “Whole-Process Online Services” were compiled to manage tax documents. Some provinces and municipalities have offered 100% of their services in accordance with the said two lists in 2019. From 2014 to 2020, via the “Spring Breeze Project”, we have improved the facilitation of taxpayer services to the letter by trimming the reporting documents of tax and fee payers by over 50%, cutting certificates and tax returns in paper by more than 25%, and granting above 95% of tax incentives without the need to go through the record-filing procedures.

Accentuating precise outreach services. We have instituted a combination of policies in forms of guidelines, interpretations, inquiries, and publicity for the timely and accurate implementation of various tax policies to the greatest extent. For instance, we established the statistical report and rapid response mechanism of 12366 taxpayer service hotline to offer prompt policy interpretation of tax-related hot spot issues and opportune response to public concerns, leveraged the 12366 taxpayer service hotline and information technologies such as “big data” and “artificial intelligence” to expand service channels, and provided targeted tax incentives adopted to enterprises, and personalized and intelligent guidance to taxpayers by means of list management and targeted consultation.

Emphasizing the protection of taxpayers’ rights and interests. We constantly establish and improve the taxpayer-oriented mechanism to protect taxpayers’ legitimate rights and interests. For example, we timely revised the management methods of complaints about taxpayer service, included fee contributors as the main subjects of complaints, and curtailed the processing time by 50%; we devised and ran a rating system of taxpayer services across the board to cover government services, evaluation objects, and service channels; we administered the mechanism of tax credit repair to guide non-compliant taxpayers to reshape their credit; and we expanded the coverage of “Tax and Bank Interaction” project, so that more and more enterprises could access credit loans with greater preferences and simpler processing methods.

There is no resting point to taxpayer services, let alone an ending point. In 2021, we organized the “Spring Breeze Project” themed “Optimizing Law Enforcement and Offering Practical Services” and imposed 100 measures in 30 items of 10 categories. We also conducted a nationwide centralized survey on the needs of taxpayers and fee contributors. More than 290,000 people responded to online questionnaires and over 5,000 people participated in seminars organized by tax departments at all levels. They have put forward more than 30,000 opinions and suggestions. More than 95% of the demands and requests have been deliberated and adopted, leading to the introduction of many targeted measures. For example, “Impunity for First Violation” list system is promoted in tax law enforcement, under which taxpayers can be exempted from the administrative punishment according to the law if they commit some violations for the first time with minor harmful consequences and have made corrections promptly. In 2021, we worked with the All-China Federation of Industry and Commerce to launch the “Spring Rain” special action to support the development of small and micro enterprises. Through detailed implementation of policies cutting taxes and fees, continuous optimization of services, meticulous and targeted policy interpretation and counseling, etc., we made sure that small and micro enterprises enjoyed preferential policies and innovative services in time.

Throughout this year, we will continue to refine, enrich, improve, and roll out new measures to facilitate taxpayer services.

Thorough Implementation of Tax and Fee Cuts to Relieve Burdens of Market Players

BRITJ: Over the years, the Chinese government has formulated a host of policies to cut taxes and fees. How do tax authorities ensure that these policies are enjoyed by market players?



Wang Jun: In recent years, the Chinese government has introduced a series of policies for tax and fee cuts, including institutional policies such as deepening VAT reform, granting inclusive tax relief to small and micro enterprises, and cutting social insurance premiums, as well as providing phased tax incentives in response to the outbreak of COVID-19. These policies have effectively reduced tax burdens on enterprises, stimulated market vitality and promoted economic and social development. In 2020 alone, the reduction of taxes and fees amounted to more than RMB2.6 trillion (US \$402.2 billion).

We have made vigorous efforts to ensure that our policies will benefit market entities at the fastest speed, with the greatest strength and with the highest efficiency.

Before implementing the said policies, we established and improved the working mechanism by mobilizing capable personnel to form a task force, made a list of tasks to be undertaken, and fulfilled each one in accordance with the set timeline. We coordinated with relevant governmental agencies to step up deliberation and discussion of tax and fee cuts and to design more scientific and inclusive policies. Once the policies are announced, the administrative approaches would be embedded into the newly adjusted IT system and reach the grass-roots tax authorities directly, so that the policies could be implemented as soon as possible.

While implementing the above policies, we undertook policy publicity and interpretation via website, WeChat, Weibo, and 12366 Taxpayer Service Platform, etc., which promoted the stable and positive expectations of the whole society. Face-to-face policy counseling is carried out through taxpayer academy, door-to-door outreach, and special lectures to help taxpayers and fee contributors understand the principles and applicable standards of policies. With the help of tax-related big data, we screened taxpayers and fee contributors eligible for tax incentives and carried out targeted and meticulous policy interpretation and consultation via e-Tax Office and other channels.

After implementing those policies, we improved the statistical accounting methods for the implementation of tax cuts, created a nationwide unified and clear statistical accounting and analysis system, and continuously improved the comprehensiveness, accuracy and timeliness of accounting. We saw to it that the statistical accounting data on tax cuts were generated on time to objectively reflect the effect of tax reduction, and had a clear picture of tasks before us and time needed to complete them. We also strengthened communication and coordination with the Ministry of Finance, the People's Bank of China, and other governmental departments to refund excessive taxes paid by taxpayers.

To put it in a nutshell, even though it may incur extra work and more trouble for us, we are trying our utmost to provide convenience to market entities and to gratify the expectations of taxpayers, so as to boost the stable development of the Chinese economy.

Targeted Measures to Fight the Pandemic and Help Tax Environment Buck the Trend

BRITJ: In response to COVID-19, what measures have the Chinese tax authorities taken to improve tax environment?



Wang Jun: Ever since the epidemic outbreak, we have followed through with the coordinated epidemic containment of the state and rolled out specific measures in view of our work to implement robust tax incentives, offer “non-contact” taxpayer services, analyze big data to support the resumption of work and production, and enhance all-round epidemic control within tax services, so as to respond to COVID-19 and to advance economic and social development.

Implementing robust tax incentives to ensure that taxpayers and fee contributors could all enjoy tax incentives. Since the outbreak of COVID-19, the Chinese government has issued an array of tax incentives to support the epidemic containment. To this end, we have developed specific administrative approaches, adjusted the IT system promptly, issued guidelines and answers to questions about tax incentives for epidemic prevention and control, conducted online interviews and policy interpretation, and held “Tax Lectures” to ensure the effective implementation of policies. Local tax services have also taken various ways to strengthen policy counseling based on local conditions to ensure that taxpayers and fee contributors were informed of the policies, knew how to apply for tax incentives and were granted the policy support.

Offering “non-contact” taxpayer services to help taxpayers and fee contributors access secure and fast tax payment. Since the outbreak of the epidemic, we have expanded the scope of online tax payment through e-Tax Office and self-service tax terminals, launched functions of Alipay, UnionPay and WeChat payment on the e-Tax Office for natural persons, expanded the coverage of “online application and mail delivery” for invoice collection and invoice issuance, optimized and expanded the “non-contact” taxpayer services in forms of “online service, self-service, mail delivery, and online counseling”. To date, the list of “non-contact” taxpayer services has covered 214 items, of which 203 can be handled online, basically realizing “online services 24/7”.

Analyzing tax-related big data to resume work and production and to support the stable economic performance. Tax authorities have access to massive data resources. In particular, VAT invoices could reflect the production and operation of enterprises as well as details of price, scale, direction, and flow of economic activities timely, comprehensively, truly, and dynamically. We used the VAT invoice data to analyze the macroeconomic situation and enterprises’ resumption of work and production, so as to accurately help upstream and downstream enterprises to achieve the connection between supply and demand, remove the blockage between the supply and demand, so as to support enterprises reopen operation, production and distribution.

Enhancing all-round epidemic control within tax services to intensify internal and joint epidemic prevention and control. The great task of epidemic containment entails the coordination of tax services at multiple levels with many hands for a long time. In particular, we have introduced clear regulations on safety protection, personnel induction, emergency handling, etc., for epidemic prevention and



control to ensure safety and health. At the same time, Chinese tax authorities at all levels have also established more than 4,200 emergency squads and volunteer teams comprised of CPC members for local epidemic prevention and control, with a large number of role models emerging.

Availing of the opportunity to provide targeted services, we took stock on the contingent, phased, and innovative practices adopted in supporting epidemic containment and economic and social development, especially excellent practices such as “non-contact” taxpayer services and tax-related big data analysis, adhered to them and turned them into fixed practices. We should not only fight the epidemic, but also make up for institutional and capacity deficiencies, so as to further improve the tax environment.

First IIT Annual Settlement to Benefit Hundreds of Millions of Individual Taxpayers

BRITJ: Another important event for China's tax authorities in 2020 is the first annual settlement of individual income tax (IIT), which has been described as “an unexpected success” by some experts. What innovative measures have the Chinese tax authorities taken to ensure the success of this reform?



Wang Jun: For a long time, China adopted a schedular individual income tax system in which taxes are mainly withheld by withholding agents. Such model, though conducive to strengthening the collection and administration of taxes, undermines the regulation of income distribution. For this reason, China amended the Individual Income Tax Law in 2018 to establish a comprehensive and schedular individual income tax system that deems income from wages and salaries, remuneration for personal services, remuneration for writing, and royalties as comprehensive income, raises the taxing “threshold”, grants special additional deductions to children's education, medical treatment for serious illnesses, and expenses for supporting the elderly, and implements an annual settlement system for comprehensive income.

The year 2020 saw the first annual settlement of the comprehensive income of individual income tax. Unlike other countries that also adopted comprehensive tax system, China encountered quite a few difficulties and challenges. For example, Chinese tax authorities had to deal with hundreds of millions of natural person taxpayers for the first time, and were presented with enormous pressure in terms of tax administration, services, and information technology. What's worse, the onslaught of COVID-19 also posed numerous challenges to the efficiency and quality of services. In view of that, we

coordinated institutional arrangements, technical support, and social co-governance to ensure the smooth implementation of the annual settlement of comprehensive income and pushed through the tax reform.

In terms of institutional arrangements, we introduced a system based on China's national condition. For example, the system insists on the administrative framework of routine withholding and prepayment and year-end self-declaration, takes into account the characteristics of natural person taxpayers and the allocation of resources for tax administration, exempts some low- and middle-income taxpayers or those yet to pay a small amount of supplementary tax from the obligation of self-reporting to ensure the effective promotion of annual settlement declaration.

Concerning technical support, we made full use of the powerful modern information technology. For instance, leveraging big data and cloud technology, we created tailored personal tax file for taxpayers; utilizing modern information technology to develop mobile apps for remote taxpayer services, and we advanced the “non-contact” services and made it easier for taxpayers to file their tax returns anytime, anywhere. We also established an efficient three-dimensional multi-tiered refunding system to noticeably improve the quality and efficiency of tax rebate. We resorted to information from multiple sources for automatic monitoring and forestalled any potential under-declaration and wrong declaration.

Regarding social co-governance, we vigorously promoted the co-contribution and co-governance for shared benefits, and switched from working in silos to inter-departmental co-governance. We strengthened information sharing and real-time comparison with other relevant governmental departments in the course of annual settlement so as to improve the efficacy of tax governance.

Golden Tax Project to Build the Highway of Improving Tax Environment

BRITJ: The Golden Tax Project is a major initiative taken by Chinese tax authorities to promote tax digitalization. What roles do you think the Golden Tax Project plays in improving tax environment?



Wang Jun: The Golden Tax Project is a major national e-government project in China and an important starting point to realize the digitalization of tax administration. The Golden Tax Project Phase I, Phase II and Phase III were launched in 1994, 2001 and 2016 respectively, and have undergone a long process of development, upgrading and improvement. At present, taxpayers and fee contributors could file consolidated returns of multiple taxes via Phase III of the Project and claim an array of tax incentives. The comprehensive promotion, optimization, and upgrading of the Golden Tax Project Phase III are great leap forward in China's digitalization of taxation and play an essential role in improving the tax environment.



Facilitating the building of a law-based tax environment. Being a watershed in China's taxation history, the Golden Tax Project Phase III consolidated basic platforms, application software and business standards in a single system and integrated with business specifications of tax administration and taxpayer service, technically exercising trail management of tax law enforcement, unifying the national taxation process, enhancing the standardization of tax law enforcement, and guaranteeing the openness, fairness and impartiality of tax law enforcement.

Lowering the costs for both tax administrations and taxpayers. The wide application of the Golden Tax Project Phase III further saved costs of tax administration and boosted efficiency of tax management, statistical accounting, and supervision of law enforcement. Also, the unified taxpayer service platform made it possible for taxpayers to process their tax matters without leaving the house, slashed their tax burdens, and heightened their sense of gain.

Safeguarding the legitimate rights and interests of taxpayers. Phase III of the Project pooled tax-related data nationwide, allowed STA to share information with other ministries and local governments, identified potential tax risks in real time by data comparison, and protected taxpayers' legitimate rights and interests from infringement while preventing tax losses by effectively closing tax loopholes.

Delivering reform dividends to taxpayers and fee contributors timely. The powerful technological guarantee of the Golden Tax Project Phase III strongly backed the smooth advancement of major reforms such as the replacement of business tax with VAT, tax and fee cuts, and the transfer of the administrative power of social security contributions. Thanks to the Project, taxpayers and fee contributors were entitled to a host of reform dividends.

Lately, we are making efforts to build the smart taxation system with high integrated functions, high security performance and high application efficiency. It will also play a pivotal role in effectively reducing burdens of tax payment, comprehensively improving the way of tax payment and enhancing smart taxpayer service.

Relentless Efforts to Deepen Reform of Tax Administration and Improve Tax Environment

BRITJ: In March 2021, the Chinese government officially issued the *Guidelines to Further Deepen the Reform of Tax Collection and Administration (Guidelines)*, which calls for the in-depth reform to delegate powers, improve regulation, and optimize services, and for the building of a market-oriented, law-based, and internationalized business environment, so as to better help the development of market entities. What breakthroughs will the Guidelines bring to improve the tax environment?



Wang Jun: The Guidelines, aimed at solving the knotty problems and deep-rooted conflicts, zeros in on six aspects, i.e. more efficient data empowerment, more accurate tax law enforcement, more targeted taxpayer services, more precise tax regulation, more sincere tax co-governance, and more powerful institutional guarantee. The introduction of a myriad of highly targeted and effective measures will significantly improve tax compliance and social satisfaction, greatly reduce costs of tax administrations and taxpayers, and give full play to the fundamental, pillar and guarantee roles of taxation in national governance, thus providing strong support for improving the business environment and promoting high-quality development.

To be specific, the Guidelines will achieve breakthroughs in the following four respects.

A breakthrough in synergistic tax collection and administration. In order to meet the requirements of China's Tax-Sharing Reform in 1994, Provincial and Sub-Provincial Tax Bureaus were divided into the State Tax Offices and the Local Tax Offices, each responsible for collecting different types of taxes. Since 2012, China has undergone two major changes in tax collection and administration. The first is the comprehensive strengthening of "cooperation" between state and local tax offices to facilitate the deep integration of services, moderate integration of law enforcement, and high aggregation of information; and the second is the "amalgamation" of state and local tax offices, gradually promoting the construction of an optimized, efficient and unified collection and administration system. This year, the Guidelines will boost the third change of tax collection and administration and advance the synergistic reform, in which law enforcement, service and supervision will be systematically optimized, and business processes, system specifications, information technology, data elements, posts and responsibilities will be integrated and upgraded.

A breakthrough in the deep integration of tax services, law enforcement and supervision. The Guidelines not only makes arrangements for vigorously promoting high-quality, efficient and intelligent tax and fee services, but also emphasizes the integration of law enforcement and supervision into services, and incorporated service concepts into all links of tax collection and administration. For example, we innovated administrative approaches of law enforcement, increased the accuracy of law enforcement to make it more powerful and more taxpayer-oriented; and we designed a sound tax payment credit evaluation system in tax supervision, so that compliant and

non-compliant taxpayers would be treated on a different basis.

A breakthrough in digitalized, smart, and intelligent tax governance. The Guidelines proposes to take electronic invoice reform as a starting point and tax-related big data as a driving force to build a highly integrated smart taxation system with high security performance and high application efficiency, and comprehensively promote the digital upgrade and intelligent transformation of tax collection and administration.

A breakthrough of tax reform and innovation from incremental to systemic integration. The Guidelines emphasizes the promotion of all-round changes in the concepts and means of tax law enforcement, services and supervision, and puts forward a series of pioneering reform initiatives.

Bright Prospects of the 14th Five-Year Plan to Chart a New Course of Tax Environment

BRITJ: The year 2021 marks the start of the 14th Five-Year Plan (2021-2025). What will China's tax environment look like by the end of the 14th Five-Year Plan period and even by 2035?



Wang Jun: As an old saying goes, “Rome was not built in one day”. The Outline of the 14th Five-Year Plan proposes to “continuously improve the market-oriented, law-based, and internationalized business environment”. The Guidelines sets a clear timeline and roadmap for further deepening the reform of tax collection and administration and improving the tax environment.

By 2022, significant progress will be made in achieving standardized tax law enforcement, convenient taxpayer services, and precise tax supervision.

By 2023, a new tax law enforcement system featuring “intervention only if risk occurs, investigation for violations, and whole-process smart control” will be basically built, and the empirical law enforcement will be changed into scientific and precise law enforcement; the new taxpayer service system of “all-facing offline service, round-the-clock online service, and wide-coverage customized service” will be basically set up to metamorphose from undifferentiated service to targeted, smart, and bespoke service; a new tax supervision system based on “the random selection of both inspectors and inspection targets and the prompt release of results” and supplemented with “credit + risk” supervision will be created to shift the supervision model from “tax monitoring by invoices” to “tax governance by data”.

By 2025, we will have achieved prominent results in deepening the reform of tax collection and administration system, basically built a powerful smart taxation system, formed a domestic first-class intelligent administrative system, and improved tax law enforcement, service and supervision capacity in all aspects.

I am confident that by the completion of the 14th Five-Year Plan and even 2035, a new chapter of a market-oriented, law-based, and internationalized tax environment will be opened up.

By then, China's tax environment will be tremendously more market-oriented. We will implement tax and fee cuts to further reduce the cost of entrepreneurship and innovation, enhance the development momentum of small and micro enterprises, promote employment, and facilitate the formation of positive and stable social expectations; we will further deepen the reform of the tax collection and management system to continuously improve the ability of taxation to serve the overall development of the country; we will systematically carry out process optimization, system innovation and management reform to break the "bottleneck" of tax and fee payment; and we will promote smart taxation to help bring down the costs of taxpayers and fee contributors.

By then, China's tax environment will be immensely more law-based. We will thoroughly apply the principle of taxation by law, and highlight the authority, norm and stability of tax laws; we will strengthen the legal system of taxation, significantly improve the quality of regulations and regulatory documents issued by tax authorities; and we will standardize tax law enforcement, and continue to improve the system to protect taxpayers' legitimate rights and interests.

By then, China's tax environment will be more international. We will deeply participate in global tax governance and the formulation and adjustment of international tax rules and systems, and maintain a fair and just international tax order; we will actively share China's tax reform experience with the world, earnestly carry out tax technical assistance, and help developing countries enhance the capacity of tax collection and administration; and we will adhere to the principle of extensive consultation and joint contribution for shared benefits, actively play the role of taxpayer services in the co-construction of the "Belt and Road", optimize bilateral tax treaty networks, expand the tax information exchange system, serve the development strategy to "bring in" international enterprises and help Chinese enterprises "go out".

BRI Tax Environment Improved by BRITACOM

BRITJ: As Chair of the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM) Council, how do you think the "Belt and Road" jurisdictions should strengthen tax cooperation to improve business environment and promote trade and investment liberalization and facilitation? What important roles should BRITACOM play in it?



Wang Jun: The "Belt and Road Initiative" (BRI) jurisdictions account for more than 60% of the world's population and 30% of the world's economic output, boasting different resource endowments and highly complementary economies and trade, and enjoying huge growth potential. Tax authorities in the BRI jurisdictions should stick to the principle of consultation and contribution for shared benefits to deepen international collaboration, reinforce bilateral and multilateral platforms so as to promote work exchanges, experience sharing and capacity assistance in tax administration. We should also actively participate in the coordination of international tax policies, encourage the establishment of common tax rules and guidelines, and expand the common interests of

economic and trade exchanges in the BRI jurisdictions with common tax compliance; we should provide an effective international tax dispute resolution mechanism to facilitate fair competition of economic and trade exchanges in the BRI jurisdictions with equal consultation on taxation; and we should create a cross-border coordination mechanism of taxpayer service consultation and administration to boost investor confidence of economic and trade exchanges in the BRI jurisdictions with tax certainty.

The BRITACOM is a standardized and institutionalized official multilateral tax cooperation platform jointly initiated, negotiated and established by tax authorities of the BRI jurisdictions. At present, there are 36 Council Member Tax Administrations and 30 Council Observers. Since the inception of BRITACOM, all parties have earnestly delivered outcomes and consensus of the First Belt and Road Initiative Tax Administration Cooperation Forum (BRITACOF) to expand international tax cooperation. The Belt and Road Initiative Tax Administration Capacity Enhancement Group (BRITACEG) has been established, and the Belt and Road Initiative Tax Academies have been founded to help developing countries enhance their tax administration capacity through tax training and technical assistance; the official website of BRITACOM has been launched, and the BRITJ has been published to build a diversified and regular platform for experience sharing and information exchange; and a series of high-quality activities were carried out, and several online virtual conferences were held against the backdrop of epidemic onslaught to help the BRI jurisdictions fight the epidemic and revive the economy. We have established a network of tax treaties covering key BRI jurisdictions to effectively resolve cross-border tax disputes.

Based on the work above, we will further deepen the construction of the BRITACOM, bring together efforts of all parties, and strive to build it into a pragmatic, effective and efficient cooperation platform. We will attract more jurisdictions to join the BRITACOM to improve the cooperation network and expand our circle of friends; we will share practices of tax collection and administration and promote the continuous improvement of tax governance efficiency of all parties; and we will improve the tax environment to boost the development of enterprises, create a model international cooperation platform to advance trade and investment liberalization and facilitation in BRI jurisdictions and to realize the 2030 Agenda for Sustainable Development by the United Nations, promote the economic development of economies along the Belt and Road to deliver more benefits to people of these economies and to promote the building of human community with a shared future.



Council Chair
Wang Jun

More Than Just Tax Administration — Inland Revenue Authority of Singapore

International Tax and Relations Division, IRAS



INLAND REVENUE
AUTHORITY
OF SINGAPORE

Inland Revenue Authority
of Singapore

Abstract: This article is about the efforts of Inland Revenue Authority of Singapore in embracing agility through innovation and digitalisation to provide excellent taxpayer-centred experiences.

Keywords: Agility; Continual innovation; Data analytics; Digitalisation; Service excellence; Smart Nation; Taxpayers

1. Introduction and Background

The ongoing digital revolution and advancements in digital technologies are transforming rapidly the way we live, work and play. With the growing volume, changing lifestyles and increasingly sophisticated needs of taxpayers, tax administrations strive to continuously innovate, to improve the taxpayer experience.

The Inland Revenue Authority of Singapore (IRAS) leverages technologies and digitalisation to redefine the experiences of taxpayers and to bring greater value to the community. In line with the Smart Nation initiative announced by Singapore's Prime Minister Lee Hsien Loong back in 2014 for Singapore to harness technology and enhance productivity to improve the lives of the citizens, IRAS has been innovating continuously to improve the taxpayer experience.

2. Culture of Agility as an Enabler

Embracing agility and putting it into practice has allowed IRAS to pivot and respond quickly to emerging challenges in a VUCA (volatile, uncertain, complex and ambiguous) world. With agility as both a strategy and a mindset, IRAS (i) anticipates and stays alert to changes in the environment, (ii) innovates and experiments to try new ideas, (iii) responds swiftly, acts urgently and adjusts continually, and (iv) reflects and keeps improving to stay ahead.

The pandemic has severely disrupted global economic and social activities across the globe. A slew of pandemic relief measures were announced by the Singaporean government in 2020 and 2021 to help businesses overcome the widespread and unprecedented impact of the crisis, with the priority on supporting jobs and

livelihoods. As part of a unified public service response to the pandemic, IRAS has contributed to wider government efforts by taking on a new function in granting disbursements to provide financial relief for businesses and enterprises affected by the pandemic.

The Jobs Support Scheme (JSS) is one of the key financial support initiatives offered by the Singaporean government. As of February 2021, the JSS payouts have benefitted over 2 million local workers employed in more than 150,000 firms. The JSS provides financial support to employers by co-funding employees' wages, thereby helping employers retain their local employees during this period of economic uncertainty. The level of support varies by sector, with the hardest-hit sectors such as aerospace, aviation and tourism receiving more assistance.

The JSS was implemented expeditiously. Pre COVID-19, IRAS had prior experience in implementing payouts and hence leveraged on the existing disbursement system by means of agile and progressive enhancement methodology to develop the JSS system within eight weeks. To enable timely and appropriate financial support for our businesses, IRAS avoided lengthy application procedures and instead leveraged on existing data from other government agencies to determine the eligibility and the entitlement of each business, while putting in place an anti-gaming mechanism to ensure that the JSS is not being abused. Through data analytics, IRAS also conducts regular post-processing checks to detect anomalies in the JSS disbursements. This has enabled IRAS to balance timely disbursements with effective protection of public monies. The amount of the support entitled is determined by IRAS automatically and the funds are credited into the bank accounts of the businesses directly.

Short, iterative cycles were also deployed in the implementation of the Rental Relief Framework (RRF). The RRF is a government cash grant to qualifying property owners to provide rental relief for tenants that are small and medium enterprises and non-profit organisations. IRAS recognises that each relief scheme is different, and proactively engages with poli-

cy owners on the design of each disbursement scheme whilst keeping the public informed through constant updates on the IRAS website.

In addition to the role as the tax administrator of Singapore, IRAS was designated by the Singaporean government to be the Centre of Excellence for enterprise grant disbursements, which encompasses the facilitation of the smooth rollout of business disbursement schemes. IRAS reacted quickly to its new functions and in 2021, housed expertise in a new branch for the end-to-end administration of government disbursements to enterprises. Through re-structuring and concentrating expertise on grant disbursements in a single branch, IRAS is able to implement new schemes speedily and help support businesses emerge stronger from the crisis.

For agility to create the most value, we rely on another constant: people — even when working remotely through the pandemic. New capabilities are required to deliver transformation outcomes. Through workforce transformation, a systematic process is put in place to enable an adaptable and future-ready workforce. IRAS officers gain foundational and functional competency through ongoing upskilling and taking ownership of their career development. We advocate career fitness and a life-long learning mindset as this allows IRAS officers to imbue an agile mentality and enhance competency to leverage on digital technologies and analytics to better fulfil IRAS' evolving mandate.

3. Continual Innovation

Inculcating a culture of innovation has allowed IRAS to meet its goal of refining the experiences of taxpayers, engendering ground-up creation of service ideas and out-of-the-box solutions to help businesses comply with their tax obligations. This includes simplifying filing procedures and educating businesses on their tax obligations.

Through developing new online tools such as the “New Company Start-Up Kit” and simplifying existing filing procedures through the launch of Form C-S (Lite), IRAS continues to explore new ways to minimize the time that taxpayers spend on understanding tax filing ob-

ligations and the filing of taxes. These initiatives are elaborated below:

3.1 New Company Start-Up Kit

For newly incorporated companies (NICs), IRAS has developed the “New Company Start-Up Kit”, an interactive e-learning guide which provides NICs with customized information to guide them through their first filing obligations with IRAS and the Accounting and Corporate Regulatory Authority of Singapore¹ (ACRA). Upon signing up for the kit, NICs will have access to the following information:

- i) A tailored filing timeline reflecting the important filing due dates with IRAS and ACRA;
- ii) Email reminders that will be sent by IRAS prior to the NICs’ corporate tax filing due dates to remind them of their filing obligations;
- iii) ACRA’s information on filing of Annual Return and holding of Annual General Meeting;
- iv) Goods and Services Tax (GST) information to aid NICs in their understanding of their businesses’ GST registration liability; and
- v) Links to Enterprise Singapore’s² websites for NICs to seek information on industry insights, updates on grants and services to enhance their business efficiency.

Since its launch in February 2018, more than 10,500 NICs have used the kit.

3.2 Form C-S (Lite)

All companies carrying on a trade or business in Singapore need to report their income to IRAS annually by e-filing their corporate income tax return. There are two types of income tax return, Form C-S and Form C. Form C-S is

a simplified income tax return with fewer fields to be completed as compared with the Form C. Qualifying companies with annual revenue of S\$5 million or below may use Form C-S, instead of Form C, to report their income.

Form C-S (Lite) was introduced from Year of Assessment³ 2020 to further enhance the e-filing experience of small companies. Form C-S (Lite) is a streamlined version of Form C-S for companies with straightforward tax matters, requiring only six essential fields to be completed. To qualify to file Form C-S (Lite), companies must have an annual revenue of S\$200,000 or below, and meet the existing Form C-S qualifying conditions.

3.3 Educational Programmes and Partnerships

IRAS conducts ongoing programmes to educate businesses on new standards, provides guidance to help businesses keep abreast of the latest tax developments and to comply with their tax obligations. For example, in the implementation of the Goods and Services Tax Reverse Charge (RC) and Overseas Vendor Registration (OVR) regime, which was effective from 1 January 2020, IRAS initiated a series of interactive educational and outreach programmes with potential registrants and RC/OVR businesses to raise awareness of the new regime and educated businesses on the new tax rules to foster greater voluntary compliance.

Internationally, in the implementation of the Common Reporting Standard (CRS), an internationally agreed standard for the automatic exchange of financial account information between jurisdictions for tax purposes, IRAS issued CRS Compliance Guidelines⁴ in July

1 Singapore’s regulator of business registration, financial reporting, public accounts and corporate service providers.
 2 Statutory board under the Ministry of Trade and Industry in Singapore which champions enterprise development and supports the growth of Singapore as a hub for global trading and startups.
 3 Year of Assessment refers to the year in which income tax is calculated and charged. The assessment is for the income earned in the preceding financial year. For example, for companies with a financial year end of 31 December, the Year of Assessment 2020 is for the basis period of 1 January 2019 to 31 December 2019.
 4 IRAS (2019). *IRAS e-Tax Guide*, https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/Quick_Links/International_Tax/IRAS%20CRS%20Compliance%20Guidelines%20e-Tax%20Guide.pdf.

2019 and organised industry engagement events to raise awareness on the CRS compliance approach that would ensure industry's effective compliance with the implementation of CRS in Singapore.

IRAS believes in working with the community to help taxpayers understand their tax obligations, and to facilitate business growth and wealth through sound and effective tax policies. In this regard, IRAS has formed partnerships with relevant stakeholders to improve the business environment for tax compliance. Under the Strategic Partnership Programme, IRAS partners with large businesses and the Singapore Chartered Tax Professionals⁵ to develop a tax governance policy framework for large businesses. The framework seeks to encourage good tax governance and practices for both Corporate Tax and GST. Under the Enhanced IRAS-Tax Agent Relationship Framework, IRAS partners and collaborates with tax agents, particularly in the area of training and improving the competence of tax agents in recognition of the close working relationship they have with their clients, and their valuable insights of the clientele's business needs and concerns.

4. Leveraging on Data and Technology to Deliver Digital Solutions to Create Better Experiences for Taxpayers

Early investment made by IRAS in the fields of technology, artificial intelligence (AI) and data analytics have laid a strong foundation for IRAS to offer digital services and solutions to taxpayers. IRAS has also enhanced (i) partnership with the digital ecosystem, and (ii) the way we communicate and serve our taxpayers.

4.1 Enhancing Partnership with the Digital Ecosystem

Through collaborations with various partners, IRAS has encouraged enterprises' digital

transformations to reap the benefits of going digital from a business and tax perspective. Efforts were focused on digitalising processes in relation to filing and payments/refunds.

4.1.1 Digital filing for small and medium-sized enterprises

For most small and medium-sized enterprises (SMEs), statutory filing obligations to IRAS and ACRA are last on their minds. To meet such obligations, SMEs commonly incur additional costs to engage third party service providers. Mindful of such challenges, IRAS and ACRA saw opportunities to streamline the preparation processes, and at the same time redefined the filing experience for these companies.

In line with the Smart Nation initiative to promote digitalisation among the SMEs, IRAS and ACRA collaborated with five accounting software vendors to co-create a seamless digital filing solution that allows SMEs to automate the preparation and filing of statutory returns and financial data directly from their accounting software to IRAS and ACRA. For tax purposes, the accounting software prepares the tax computation and tax return (Form C-S) which are submitted directly to IRAS via the Application Programming Interfaces (APIs). Safeguards are in place, through the Corppass⁶ API to maintain confidentiality of SMEs' financial information and to ensure that only the authorised end-user submits the documents and returns to the two agencies. SMEs can also tap the existing government support schemes for funding of the accounting software.

This initiative significantly reduces the time spent by SMEs in the preparation and filing process and simplifies the tax filing preparation to the extent that it can be done without the need for tax knowledge (through an automatic tax conversion tool that retrieves relevant accounting data and converts them into tax data). The solution also improves the accuracy of the statutory returns submitted. In addition,

⁵ An accreditation body for local tax professionals.

⁶ Corppass is a corporate digital identity for businesses and other entities (such as non-profit organisations and associations) to transact with Singaporean government agencies online.

the initiative allows SMEs to enjoy productivity gains through the direct transmission of data to IRAS, instead of keying them manually into the IRAS digital service. What previously took an SME approximately nine hours to prepare and file can now take as little as 35 minutes. This translates to time savings of more than 90%. The initiative has received strong endorsement from SMEs which have used the software.

4.1.2 Chat filing for taxi and private hire car drivers

In 2020, IRAS collaborated with GovTech, the government agency driving Singapore's Smart Nation initiative and public sector digital transformation, to develop a conversational style chatbot as proof-of-concept for approximately 6,000 taxi and private hire car drivers. Technical jargon was replaced with users' natural language to make the tax form more understandable, and the conversational approach mimicked the experience of having an IRAS officer guide them through their filing. Close to 1,000 users used this mode to file their taxes in 2020, and found the chatbot intuitive. In 2021, we enhanced the service based on users' feedback and would be scaling it up to more taxpayers as well as extending it to hawkers.

4.1.3 Digital payments

As part of Singapore's drive to adopt digital contact-free payments, IRAS has collaborated with DBS Bank to integrate APIs into IRAS' operating framework to digitalise payments. The initiative promotes the usage of digitalising tax payments and collections via GIRO and PayNow⁷ to encourage businesses to go cheque free. Apart from the convenience of using digital methods to make tax payments, taxpayers also benefitted from instant settlement and real-time status updates of their outstanding tax balance. IRAS has also leveraged on the initiative to disburse government payouts (such as the JSS payouts), which proved critical during the pan-

demic when businesses' employees had to work from home. Businesses which adopted the initiative receive the payouts earlier and in a timely manner, as compared with the conventional method of receiving the payouts by cheques.

4.2 Strengthening Communication and Service to Taxpayers

4.2.1 Digital communication and interaction

In line with the Singaporean public sectors' focus on digital transformation, IRAS has been exploring innovative ways to improve the digital experiences of our taxpayers, and at the same time, help them to fulfil their tax obligations in the most seamless manner.

To improve taxpayers' user experiences on our corporate website, IRAS sought to use the best technologically advanced methods to understand our taxpayers' needs and behaviour. For example, we were the first government agency in Singapore to apply NeuroVision, an automatic attention prediction AI tool, to aid in reorganising key content within webpages. Validated by A/B testing⁸, customer satisfaction improved significantly from 38% to 83%, as taxpayers found the reorganised webpages more intuitive and clearer.

To truly offer an end-to-end digital experience for our taxpayers, IRAS also looked at how we communicated with them. From May 2021, most IRAS notices will be digitised, with paper notices minimised. By default, a digital copy of the tax notice will be uploaded in myTax Portal⁹ and taxpayers will be notified once it is ready for viewing. Through this initiative, taxpayers will enjoy convenient online access to their notices, receive timely communications and be able to fulfil their tax obligations more readily.

As we had pivoted early in the digital transformation movement, we were able to quickly scale up and widen the provision of digital

⁷ PayNow is a secure funds transfer service that allows customers to receive money into their participating bank account via mobile number, NRIC/FIN, Company Unique Entity Number or Virtual Payment Address.

⁸ A/B testing (also known as split testing) is a user experience research methodology.

⁹ MyTax Portal is a secured and personalised portal to view and manage tax transactions with IRAS.

services during the pandemic, enabling us to maintain high levels of tax compliance and taxpayer satisfaction. For example, IRAS began piloting the use of video conferencing to serve our taxpayers digitally in February 2020. This was prior to when the nationwide safe management measures were implemented. Instead of dampening our digital transformation efforts, the pandemic accelerated it. Apart from redesigning the space at the IRAS Service Centre to accommodate safe distancing measures, we were able to successfully shift walk-ins to digital channels. From June 2020, we have served taxpayers by appointment only and via video conferencing by default. Those who walked in were either channeled to designated self-help kiosks to be assisted remotely via video conferencing or given the option to speak with our officers via video conferencing from the comfort of their homes on another day, where they will receive a short message service with a link to join the Video Conference on the requested

appointment date. Since then, we have served more than 21,000 taxpayers via this mode and have received highly positive feedback.

We also explored the use of acoustic pods to improve the video conferencing experience. As the existing Service Centre setup could allow taxpayers of neighbouring counters to overhear conversations, confidentiality is potentially compromised. To address that, the acoustic pods seek to provide taxpayers with a conducive environment to safely discuss their personal tax matters with officers over video conferencing, as it isolates sound internally and externally. This initiative was first trialled in October and November 2020 with 116 taxpayers. As feedback was mainly positive, we procured another 12 pods. Since 14 March 2021, we have served approximately 3,500 taxpayers in these pods.

4.2.2 Quicker refunds and registration to serve taxpayers better

IRAS' embedded analytics models within IRAS' business processes and core tax process-



ing system have enabled a better targeting of risky GST refund claims and speedier processing of GST registration applications. For GST registrations, IRAS is now able to automatically process lower-risk applications so that businesses can be GST-registered promptly to fulfil their GST obligations. High-risk applications are systematically flagged out by using data analytics for more in-depth review.

5. Providing Tax Certainty

To facilitate voluntary tax compliance, IRAS adopts a multi-pronged approach to provide tax certainty to our taxpayers. To provide clarity and administrability on the more complex tax matters, IRAS regularly publishes advance tax rulings, and new or updated e-Tax Guides on a variety of tax issues/matters. Other initiatives that seek to provide tax certainty include the Enhanced Taxpayer Relationship (ETR) Programme, participation in the Organisation for Economic Co-operation and Development (OECD) International Compliance Assurance Programme (ICAP) and Singapore's adoption of the use of arbitration as an additional mechanism for the resolution of Mutual Agreement Procedure (MAP) cases.

The e-Tax Guides aim to provide taxpayers with IRAS' guiding principles on specific tax topics, compliance requirements, examples of practical scenarios and other information to facilitate voluntary compliance and provide better clarity on IRAS' positions. Some examples of the recently published e-Tax Guide include transfer pricing guidelines for centralised activities in multinational enterprise groups and income tax treatment of digital tokens. To enhance taxpayers' understanding of IRAS' interpretation and application of tax laws in specific scenarios, IRAS has worked with key stakeholders in the tax ecosystem to implement a framework to publish advance rulings summaries. The publication framework has features that protect taxpayers' information and business arrangements while ensuring published rulings enhance taxpayers' understanding of tax laws.

The ETR Programme is a service initia-

tive aimed at building an open and collaborative taxpayer relationship through regular engagement with large companies. It is designed to address the needs of large companies, which are generally more complex, and help these companies manage their tax compliance. It offers large companies the benefits of finalising their tax assessments in a timely manner through a collaborative review process with IRAS, as well as tax certainty on significant current events through consultation with IRAS. During the engagement, IRAS gains a better understanding of the company's business operations which enables IRAS to better identify and address revenue risks early.

IRAS will also be participating in the ICAP from 2021, a voluntary risk and assurance programme to facilitate co-operative multilateral engagements between multinational enterprises (MNEs) and tax administrations developed by the OECD. The ICAP complements the ETR Programme, and augments other programmes to provide upfront tax certainty to MNEs.

The adoption of mandatory binding arbitration complements the existing MAP process provided under the tax treaties. Arbitration will provide finality for the taxpayers as a decision rendered by the arbitrators will be binding on the competent authorities (unless the taxpayer chooses to disagree with it, in which case the taxpayer may still pursue domestic remedies e.g. through litigation).

6. Conclusion

The vision and principles of an agile IRAS has allowed the organisation to anticipate and be responsive to change, as well as rapidly transform in a dynamic fast-evolving environment. Continual innovation has allowed IRAS to develop new ideas and initiatives to redefine taxpayer-centred experiences. Through leveraging and adopting new technologies, IRAS is able to work with the community to shape social norms that embrace the value of taxpaying and improve tax compliance. By providing tax certainty, IRAS aims to foster a competitive tax environment that facilitates economic growth.

Measures to Improve Business Environment from a Tax Administration Perspective: The Case of Inland Revenue Board of Malaysia

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Abstract: This paper reviews the literature on the sources of tax uncertainty in tax administration dimension and its effect on taxpayers. It examined two measures taken by the Inland Revenue Board of Malaysia (IRBM) which are the Advance Ruling (AR) and Advance Pricing Arrangement (APA) as dispute prevention and early issue resolution in addressing tax uncertainty. This study found that while the AR and APA have been made and issued, and succeeded in providing tax certainty to the taxpayers, their application is limited. This is reflected in the small number of AR issued and APA that have been made. There is a need to widen the scope by implementing other measures such as the Cooperative Compliance Programme which is already under consideration by IRBM to introduce.

Keywords: Tax certainty; Business environment; Inland Revenue Board of Malaysia; Advance ruling; Advance pricing arrangement

1. Introduction

Investment decision can be influenced by many factors and tax certainty has been recognised as one of the main factors. This is acknowledged in the OECD/IMF Progress Report on Tax Certainty (OECD/IMF, 2019).¹ Existing

study also provided support that tax uncertainty impact negatively on investment (Zangari, Caiumi, & Hemmelgarn, 2017).² In Owens (2018), tax certainty is considered as a key component of a good tax system which provides a tax environment that is conducive to growth and FDI.³

1 OECD/IMF (2019). *Progress Report on Tax Certainty*. Paris: OECD/IMF.

2 Zangari, E., Caiumi, A., & Hemmelgarn, T. (2017). *Tax Uncertainty: Economic Evidence and Policy Responses*. Luxembourg: European Union.

3 Owens, J. (2018). *The Role of Tax Certainty in Promoting Sustainable and Inclusive Growth*. Multi-disciplinary Academic Conference. PP.2. Geneva: Vienna University of Economics and Business.

In Malaysia, within the context of tax administration, the Inland Revenue Board of Malaysia (IRBM) is responsible in implementing measures that address issues on tax uncertainty for taxpayers. The objective of this paper is to review the literature on the sources of tax uncertainty in the tax administration dimension and its effect on taxpayers. It further examines the measures taken by IRBM to address the issue of tax uncertainty before a dispute arises. Advance Ruling (AR) and Advance Pricing Arrangement (APA) are two programmes or schemes that offer or promote tax certainty for taxpayers and tax authority (Waerzeggers & Hillier, 2016).⁴

These two programmes are available in IRBM. This paper reviews and considers their effectiveness and adequacy in providing tax certainty to taxpayers.

2. Tax Uncertainty

In the context and perspective of business,

tax certainty may be linked to the definition in Owens (2018) in which tax certainty is referred to as the capacity to make accurate assessment of the tax and compliance costs associated with an investment or a continuation of an investment in a country over the lifecycle of the investment or company. Based on a survey conducted by the Organisation for Economic Co-operation and Development (OECD) in 2016 (IMF/OECD, 2017),⁵ business has listed “considerable bureaucracy to comply with tax legislation, including documentation requirements”, “unpredictable or inconsistent treatment by the tax authority” and “inability to achieve early certainty pro-actively through rulings or other similar mechanisms (e.g. APA)” as three of the main sources of tax uncertainty under the dimension of tax administration as shown in Figure 1. These three sources also appeared in the top 10 sources of tax uncertainty under the overall dimensions surveyed, which also covered “specific international dimensions”, “dispute resolution” and

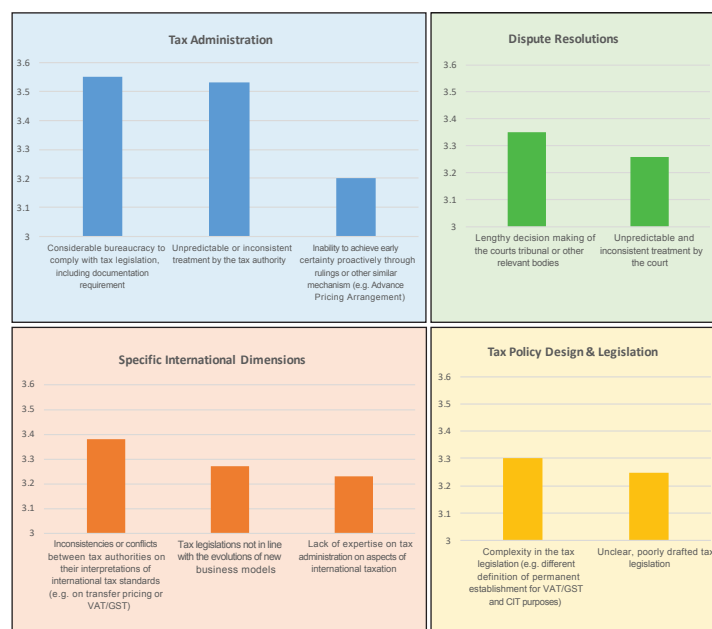


Figure 1. Businesses' Views on Sources of Tax Uncertainty

Source: IMF/OECD (2017). Report to the G20 Finance Ministers.

4 Waerzeggers, C., & Hillier, C. (2016). *Introducing an Advance Tax Ruling (ATR) Regime-Design Consideration for Achieving Certainty and Transparency*. Tax Law IMF Technical Note Vol 1 (2/2016).

5 IMF/OECD (2017). *Report to the G20 Finance Ministers*.

“tax policy design and legislation”.

In Zangari *et.al.* (2017),⁶ the lack of precision of tax legislations, conflicting tax provisions and interpretations over time and frequent changes of the tax rules were also identified as the main sources of tax uncertainty in the domestic level.

3. AR

3.1 Background

AR in the OECD Glossary of tax terms is defined as a letter ruling, which is a written statement, issued to a taxpayer by tax authorities, that interprets and applies the tax law to a specific set of facts (OECD, 2021).⁷ This AR, also known as private ruling, is different from a public ruling. AR is a private ruling, granted by the tax authorities to a single taxpayer, usually with respect to a single transaction or series of transactions, and normally the ruling can be relied upon only by the taxpayer to whom it is issued, not by other taxpayers, and is binding upon the tax authority provided all relevant facts have been disclosed (OECD Glossary). A public ruling on the other hand is not issued to a specific or single taxpayer. It is issued by a tax authority as a guide to the general public and also the officers of the tax authority issuing it on the interpretation of a particular tax law and the policy as well as the procedure applicable to it (IRBM, 2021).⁸

The AR Programme or scheme has been introduced for some years now by many tax

administrations and is a common scheme or feature in established tax systems. It is available in almost all OECD countries and many non-OECD countries are also increasingly making it available to their taxpayers (Waerzeggers & Hillier, 2016).⁹

For Malaysia, the AR Programme was made available by the IRBM since 1 January 2007 (IRBM, 2021).¹⁰ AR may be issued with regard to the interpretation and application of the income tax provisions under the Income Tax Act 1967 upon request by any person. The scope, procedures and fees for the application of ARs are outlined in the Income Tax (AR) Rules 2008 which was effective from 1 January 2007. For the purpose of the administration of tax rulings, the IRBM has issued guidelines on 10 June 2016.

Generally, countries treat their tax rulings as binding on the tax authority. As shown in Table 1, with the exception of only one out of the 57 jurisdictions that were studied which indicated that they do not provide tax rulings to taxpayers, none of the 56 jurisdictions indicated that the tax rulings are not binding on the tax authority when issued (OECD, 2019).¹¹ This is also the case for Malaysia. However, the ARs will not be binding if there is a material difference in the actual arrangement that has been carried out or there has been a misrepresentation, omission or inaccuracy of facts, which has been relied on in the issuance of the AR (IRBM, 2021).¹²

6 Zangari, E., Caiumi, A., & Hemmelgarn, T. (2017). *Tax Uncertainty: Economic Evidence and Policy Responses*. Luxembourg: European Union.

7 OECD (2017). *Glossary of Tax Terms*, <http://www.oecd.org/ctp/glossaryoftaxterms.htm>.

8 IRBM (2021). *Lembaga Hasil Dalam Negeri Malaysia*, http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=5&bt_posi=3&bt_unit=1&bt_sequ=1.

9 Waerzeggers, C., & Hillier, C. (2016). *Introducing an Advance Tax Ruling (ATR) Regime-Design Consideration for Achieving Certainty and Transparency*. Tax Law IMF Technical Note Vol 1 (2/2016).

10 IRBM (2021). *Lembaga Hasil Dalam Negeri Malaysia*, http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=5&bt_posi=3&bt_unit=1&bt_sequ=1.

11 OECD (2019). *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*. Paris: OECD.

12 IRBM (2021). *Lembaga Hasil Dalam Negeri Malaysia*, http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=5&bt_posi=3&bt_unit=1&bt_sequ=1.

Table 1: Selected features of the revenue rulings system

Jurisdiction	Rulings																	
	Rulings provided to taxpayers		Public rulings				Private rulings											
			Issued		Binding		Issued		Binding		Subject to fees		Issued within a set time frame		Legislation imposes deadlines for providing private rulings		Percentage of rulings made within deadline	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Argentina	■	■	■	■			■	■							□	□		
Australia	■	■	■	■	■	■	■	■	■	■			■	■	■	■	89.0	89.0
Austria	■	■	■	■	■	■	■	■	■	■	■	■			■	■	D	D
Belgium	■	■					■	■	■	■			■	■	□	□		
Brazil	□	□													□	□		
Bulgaria	■	■	■	■			■	■					■	■	■	■	D	D
Canada	■	■	■	■			■	■	■	■	■	■	■	■	□	□		
Chile	■	■	■	■	■	■	■	■							□	□		
Colombia	■	■	■	■	■	■	■	■	■	■			■	■	■	■	D	D
Costa Rica	■	■	■	■	■	■	■	■	■	■			■	■	□	□		
Croatia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	100.0	100.0
Cyprus	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	93.0	93.0
Czech Republic	■	■	■	■	■	■	■	■	■	■	■	■	■	■	□	□		
Denmark	■	■	■	■	■	■	■	■	■	■	■	■	■	■	□	□		
Estonia	■	■					■	■	■	■	■	■	■	■	■	■	100.0	100.0
Finland	■	■	■	■	■	■	■	■	■	■	■	■			□	□		
France	■	■	■	■	■	■	■	■	■	■					■	■	D	D
Georgia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	90.0	90.0
Germany	■	■	■	■	■	■	■	■	■	■	■	■			□	□		
Greece	■	■	■	■	■	■									□	□		
Hong Kong (China)	■	■	■	■			■	■	■	■	■	■	■	■	□	□		
Hungary	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	D	D
Iceland	■	■	■	■			■	■	■	■	■	■	■	■	■	■	81.8	82.6
India	■	■	■	■	■	■	■	■	■	■	■	■			□	□		
Indonesia	■	■	■	■	■	■	■	■	■	■			■	■	□	□		
Ireland	■	■	■	■			■	■							□	□		
Israel	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	72.0	66.0
Italy	■	■	■	■	■	■	■	■	■	■			■	■	■	■	100.0	100.0
Japan	■	■	■	■	■	■	■	■	■	■					□	□		
Kenya	■	■	■	■	■	■	■	■	■	■					■	■	D	D
Korea	■	■	■	■	■	■	■	■	■	■					□	□		
Latvia	■	■					■	■	■	■			■	■	■	■	100.0	100.0
Lithuania	■	■					■	■	■	■			■	■	■	■	100.0	100.0
Luxembourg	■	■	■	■	■	■	■	■	■	■	■	■			□	□		
Malaysia	■	■	■	■	■	■	■	■	■	■			■	■	□	□		

Malta	■	■					■	■	■	■	■	■	■	■	■	■	D	D
Mexico	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	0.0	85.0
Morocco	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Netherlands	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
New Zealand	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Norway	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	95.0	94.0
Peru	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	100.0	100.0
Poland	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	100.0	100.0
Portugal	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	73.8	88.3
Romania	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	D	D
Russia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	100.0	100.0
Singapore	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Slovak Republic	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Slovenia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	100.0	100.0
South Africa	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Spain	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	60.0	60.0
Sweden	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Switzerland	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Thailand	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Turkey	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
United Kingdom	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	D	D
United States	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		

■ Yes
□ No
D Data not available

Source: OECD (2019). *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*.

3.2 The AR Programme of IRBM

Since the AR Programme was introduced in 2007, IRBM has received 84 applications as shown in Table 2. Out of these, 31 rulings were issued and 53 applications were rejected. Under the Income Tax (AR) Rules 2008, there are several circumstances where an AR shall not be issued or declined. Among the reasons most of the applications have been rejected were, at the time of the application for the AR was made, the person applying the AR has already entered into or affected the arrangement sought in the

application. The other reason was that the arrangements would involve the agreement of competent authorities to avoid double taxation. The next common reason was that the applicants have not provided sufficient information as required by IRBM (IRBM Tax Policy Department, 2021).¹³ These reasons which are among the various reasons outlined for a rejection of an application are provided in Rules 3(a), 3(c)(ii) and 3(f) of the Income Tax (AR) Rules 2008 (Hasilpedia, 2021).¹⁴

13 IRBM Tax Policy Department (2021). *Reasons for Low APA Applications in IRBM*. Cyberjaya: IRBM Tax Policy Department.

14 Hasilpedia. (4 March 2021). *The Income Tax (Advance Ruling) Rules 2008*. Cyberjaya, Selangor, Malaysia.

Table 2: Advance Ruling Agreements issued by IRBM

Year	No. of Advance Ruling application	Issued	Rejected
2007–2020	84	31	53

Source: Tax Policy Department, IRBM.

4. APA

4.1 Background

The OECD Glossary of tax terms defines APA as an arrangement that determines, in advance of controlled transactions, an appropriate set of criteria (e.g. method, comparable and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the transfer pricing for those transactions over a fixed period of time. An APA may be unilateral involving one tax administration and a taxpayer or multilateral involving the agreement of two or more tax administrations (OECD, 2021). This can be distinguished from AR, where in APA, a determination of the legal consequences would only be made after a detailed review and verification of the factual assumptions are done. There is also the need for a continual monitor-

ing of whether the factual assumptions remain valid throughout the course of the APA period (OECD, 2017).

4.2 The APA Programme of IRBM

The APA programme was made available since 1 January 2009 by IRBM with the introduction of the Section 138(c) in the Income Tax Act 1967 and further supplemented by the APA Rules 2012 and APA Guidelines 2012. Table 3 shows the APA applications in IRBM from 2009 to 2020. A total of 52 applications have been received from 2009–2020. Out of these applications, 16 were accepted for processing while 24 were rejected and 12 withdrawn. IRBM has signed three unilateral agreements with the applicants within this period (Department of International Taxation IRBM, 2009–2020).¹⁵

Table 3: APA applications in IRBM

Year	No. of Applications	Accepted	Rejected	Withdrawn	Agreement signed
2009–2020	52	16	24	12	3

Source: Department of International Taxation, IRBM.

5. Discussion

The 84 applications of AR by taxpayers to IRBM over the last 13 years is a small number taking into consideration that there is around 59,000 large taxpayers in Malaysia (IRBM Tax Operation Department, 2021).¹⁶ Similarly, the 52 applications for APA since 2009 is a small number in comparison to the number of the

taxpayers in Multinational Tax Department, IRBM which is around 1,600 (IRBM Department of International Taxation, 2021).

Table 4 shows the appeal cases filed related to transfer pricing issues since 2016 to 9 March 2021 in IRBM (IRBM Legal Department, 2021).¹⁷ A total of 62 appeal cases have been filed, out of which 13 have been resolved out of court

¹⁵ Department of International Taxation IRBM (2009–2020). *APA Statistic*. Cyberjaya: DIT IRBM.

¹⁶ IRBM Tax Operation Department (2021). *Statistic on Large Taxpayers*. Cyberjaya: IRBM Tax Operation Department.

¹⁷ IRBM Legal Department (2021). *Appeal Cases Related to Transfer Pricing Issues*. Cyberjaya: Legal Department, IRBM.

through the Dispute Resolution Department of IRBM and 47 cases have been forwarded to the Special Commissioner of Income Tax for legal process. The number of appeals in comparison

to the number of APA signed indicates that the APA programme has not been effectively used to provide tax certainty. There could be various reasons for this which needs further study.

Table 4: Appeal related to TP issues in IRBM

	2016	2017	2018	2019	2020	2021 (as of 9 March)
Balance b/f	0	8	15	14	9	4
No. of appeal filed (Form Q)	15	18	14	9	6	0
Dispute resolved via out of court settlement	0	1	5	6	1	0
Forwarded to the Special Commissioners of Income Tax (SCIT)	7	10	10	8	10	2
Balance c/f	8	15	14	9	4	2

Source: IRBM Legal Department, 2021.

The IRBM suggested that the small number of AR applications may be an indication that other measures taken by IRBM to support taxpayers are already providing certain level of assurance of tax certainty. Furthermore, IRBM stresses that the provisions of the Malaysian tax laws are relatively clear and when complemented with the various publications such as the Public Rulings, Guidelines and Practice Notes, the clarity of the tax laws are enhanced. IRBM also conducts frequent engagements with the tax practitioners and other stakeholders. Seminars and conferences particularly to explain the new provisions of the tax laws after each Budget are regularly conducted. All these measures, activities and other taxpayer services create taxpayers confidence that the access to information and discussion with IRBM on taxation issues that may need clarification from IRBM is easily accessible (IRBM Tax Policy Department, 2021).¹⁸

6. Conclusion

The AR Programme and APA Programme are considered as quite recent programmes and are still developing in IRBM. The number of applications for AR and APA are relatively small and in terms of the number of AR issued and APA signed, they are even smaller. Therefore, although AR and APA offer tax certainty to taxpayers, their current relevance and effectiveness are limited for taxpayers in Malaysia. Further promotion of the programmes may increase the interest of taxpayers to apply for the programmes.

A recent initiative announced by the Chief Executive Officer of IRBM, Dr. Sabin Samitah during the 25th anniversary celebration of IRBM, to introduce a cooperative compliance programme with the emphasis on Tax Control Governance as part of the Cooperative Compliance Framework may provide more avenue for taxpayers and IRBM to increase tax certainty and enhance voluntary compliance (IRBM Media, 2021).¹⁹

¹⁸ IRBM Tax Policy Department (2021). *Reasons for Low APA Applications in IRBM*.

¹⁹ IRBM Media. (1 March 2021). *Speech of IRBM during 25 Anniversary Celebration of IRBM*. Cyberjaya, Selangor, Malaysia.

Improving the UK Tax Environment — Building Future Success on Solid Foundations

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Abstract: The World Bank Group’s Paying Taxes survey has consistently ranked the UK within the top quintile of global tax administrations. In 2015, the UK embarked on the biggest modernization of its tax administration in a generation. The programme has delivered major achievements, even while pushing the limits of HMRC’s technology and capacity. A central reform has been the digitalisation of tax administration, known as “Making Tax Digital”. The reform process has coincided with two major external events — the UK’s exit from the European Union and the response to COVID-19, requiring HMRC to deliver employment support schemes as well as manage an orderly UK exit from the European Union. The UK Government is now taking this reform process further and has set out a 10-year vision. It sees real-time information as being at the core of an effective and modern tax system. It wants people and businesses to be able to pay the right tax as they live their lives and go about their business.

Keywords: Tax environment; Tax administration; Making Tax Digital; Real-time information; UK

We are in a time of rapid change for tax administrations, with the emergence of new technologies and business models, and an explosion in the availability of digital data. This is also leading to greater possibilities for taxpayer service — according to the World Bank, “on average, every year it becomes easier for a medium-sized domestic business to comply with its tax obligations”.¹

Even with this success, many tax

administrations face challenges due to technological change, an aging workforce and budget constraints. They are often expected to do more with less, as customer expectations increase even as budgets and manpower reduce. Reforms to tax administration are likely to remain a consistent theme: with the aspirations of today transferring from being final destinations to mere steps on a journey with the final destination changing every time one looks up.

1 The World Bank. *Paying Taxes 2020*, <https://www.doingbusiness.org/en/doingbusiness>.

This paper comments on the UK's experiences in recent years, and on the likely direction for further reform. It draws on recent improvements in tax administration in the UK, both by the tax authority and the tax advice community.

1. Background

HM Revenue & Customs (HMRC) is the UK's tax, payments and customs authority. It collects the money that pays for the UK's public services and helps families and individuals with targeted financial support. It was established by Act of Parliament in 2005 as a new

department, bringing together the Inland Revenue and HM Customs and Excise, and taking on a clearer role in the delivery of government tax policy.

Both HMRC and its predecessors have sought to be high-performing and professional departments, and the UK has consistently been in the top quintile of global economies as ranked by the World Bank Group's Paying Taxes survey, currently ranking 27th (out of 190 global economies). It outperforms the average for OECD high income countries in three out of four indicators (Table 1).

Table 1: UK's Ease of Paying Taxes

Indicator	UK	OECD high income country average
Payments (number per year)	9	10.3
Time (hours per year)	114	158.8
Total tax and contribution rate (% of profits)	30.6	39.9
Post-filing index (out of 100)	71.0	86.7

The OECD has identified the following trends regarding the tax administration environment:²

(1) A significant shift towards e-administration, with increasing options and uptake of online filing of tax returns, as well as online payments and the full or partial pre-filing of tax returns;

(2) Engagement with taxpayers to support positive compliance attitudes, through:

- Initiatives to improve the education of taxpayers and communicate social norms;
- The use of taxpayer centric design in the expansion of taxpayer services; and
- The growing use of behavioral insights as a compliance tool.

(3) An increasingly proactive approach to compliance risk management, seeking to intervene at an early stage rather than after tax

returns have been filed, for example:

- Increasing use of large and integrated data sets;
- Increasing segmentation and personalized interactions with taxpayers; and
- Continuing emphasis on co-operative arrangements to manage compliance and enhance tax certainty.

(4) Compliance-by-design approaches to maximize compliance.

All of these trends are relevant to the changing UK tax environment and like other tax administrations, HMRC is reforming in response. It is taking advantage of the availability of new technology, new data sources and analytical tools. The UK is also seeing increasing international co-operation and exchange of information as a way to manage compliance, tackle non-compliance and protect the tax base.

2 OECD (2019). *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*, <https://doi.org/10.1787/74d162b6-en>.

2. Improving on Strong Foundations

Ahead of the latest set of reforms, HMRC was already in a strong position, with the vast majority (94.4% in 2019-20)³ of tax revenue being received without any intervention by HMRC. This was occurring despite a 40% reduction in workforce, following the merger of the two predecessor departments and the challenge of introducing of new technology. However, the traditional challenges of managing a paper-based tax administration were still causing concern, as HMRC was criticized for aspects of its customer service, notably answering the phone and responding to post.

In its 2013 Improvement Plan,⁴ HMRC identified six key areas for improvement:

- Increasing revenues by promoting voluntary compliance and addressing non-compliance;
- Customer experience;
- Sustainable cost reduction;
- HMRC's digital offering;
- Employee engagement; and
- Capability.

The 2014 report⁵ showed that HMRC was meeting or exceeding many of its targets for improvement, notably on revenue raised, cost reductions and aspects of its digital strategy. Nevertheless, HMRC included a note of caution:

“But this doesn't mean that we've reached where we need to be. Our 2013-14 figures show that our customer service levels still aren't high enough. And our employee engagement scores aren't yet hitting the Civil Service bench-

mark or even matching other comparative big organisations like the Department for Work and Pensions. We've also made progress in strengthening our skills and capabilities, but there's still more work to do.”

HMRC also had a complex Information Technology (IT) landscape, with nearly 600 different IT applications with some of these built at a time when data were entered into main-frame computers using punched cards. The 2005 merger of the Inland Revenue with HM Customs & Excise had resulted in duplicate systems.⁶

Against this backdrop, HMRC committed to “truly putting customers at the heart of everything we do” and to offering customers “first-class online services”.⁷

3. Government Investment in Reform

A key part of that service was providing visibility to the taxpayer of their tax status and reducing the effort needed to provide tax information. Therefore, in the March 2015 Budget, the Government committed to transforming the tax system by introducing simple, secure and personalized digital tax accounts, removing the need for annual tax returns. The intention was to give individuals and businesses a more convenient real-time view of their tax affairs, providing them with greater certainty about the tax they owe.

In late 2015, the Government confirmed that it would further invest in HMRC, leading to “the biggest modernization of UK tax administration in a generation”.⁸ The Government committed to:

3 HMRC. *2019 to 2020 Annual Report and Accounts*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020_Web_.pdf.

4 HMRC. *HMRC Departmental Improvement Plan 2013*, <https://www.gov.uk/government/publications/hm-revenue-and-customs-departmental-improvement-plan>.

5 HMRC. *HMRC Departmental Improvement Plan 2014*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/412636/HMRC-Departmental_Improvement_Plan_2014.pdf.

6 HMRC. *IT Strategy*, <https://www.blog.gov.uk/>.

7 HMRC. *HMRC Business Plan: 2014 to 2016*, <https://www.gov.uk/government/publications/hmrcs-business-plan-2014-to-2016/hmrc-business-plan-2014-to-2016>.

8 HMRC. *2019 to 2020 Annual Report and Accounts*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020_Web_.pdf.

- £1.3 billion funding to transform HMRC into one of the most digitally advanced tax administrations in the world, with access to digital tax accounts for all small businesses and individuals by 2016-17, delivering an additional £1 billion of tax revenue by 2020-21 and sustainable efficiencies.
- £800 million confirmed funding for additional work to tackle evasion and non-compliance in the tax system, delivering an additional £7.2 billion over the next five years.⁹

This funding represented an almost 10% increase in HMRC's departmental expenditure over four years. HMRC was also required to deliver £717 million of sustainable resource savings a year by 2019-20, representing a headline 21% reduction in baseline resource costs, delivered through digitalisation of tax collection and a smaller but more highly skilled workforce.

This gave HMRC the opportunity to move closer to its aspiration of becoming one of the most digitally advanced tax administrations in the world, being one that is more effective, efficient and easier for taxpayers to deal with. It also set an ambition of delivering sustainable efficiencies and almost £1 billion of additional tax revenues by reducing errors through record-keeping.

4. The Recent Areas of Reform

Using the additional funds provided, along with smart innovations, to improve efficiency and use modern technology, HMRC has introduced a range of improvements in tax administration to reflect changes to the current tax environment.

HMRC's transformation programme initially contained 15 major programs, including:

- Making Tax Digital;

- Customs transformation;
- Creating regional centers;
- Developing data and digital platforms;
- Improving corporate services; and
- Developing people capabilities.

In practice, this ambition "pushed the limits of its technology and capacity".¹⁰ Such capacity constraints required, in 2017 and 2018, structured prioritization exercises, to focus on the most vital transformation projects.

According to the Comptroller and Auditor General, HMRC placed "a higher premium on making efficiency savings and collecting additional tax revenue than on other beneficial aspects of projects".¹¹ Although these decisions delayed and reduced some of the expected benefits of transformation, the reprioritization has enabled HMRC's transformation to align more closely with the Government's current vision for the future of tax administration — reinforcing that tax reform is a journey rather than a destination.

4.1 Making Tax Digital for Individuals: Personal Tax Accounts

Since December 2015, HMRC has provided individuals with a "Personal Tax Account" and increased its functionality year-on-year. A Personal Tax Account gives individuals, businesses and their authorized agents the ability to view and make changes to their personal information online. It provides a convenient real-time view of their tax affairs, providing them with visibility of the tax that HMRC believes they owe and payments they are due to receive. Personal Tax Accounts are voluntary, but take-up has been encouraged strongly.

HMRC now provides a Personal Tax Account to more than 22 million individuals (out of 32 million individual taxpayers).¹²

⁹ HMRC. *HM Revenue and Customs' Settlement at the Spending Review 2015*, <https://www.gov.uk/government/news/hm-revenue-and-customs-settlement-at-the-spending-review-2015>.

¹⁰ HMRC. *2019 to 2020 Annual Report and Accounts*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020_Web_.pdf.

¹¹ HMRC. *Annual Report and Accounts 2017-18*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726849/HMRC_Annual_Report_and_Accounts_2017-18_web_.pdf.

¹² HMRC. *Number of Individual Income Taxpayers*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/895182/Table_2.1.pdf.

Table 2: Number of Personal Tax Accounts

Tax year	2016-17	2017-18	2018-19	2019-20
Number of personal tax accounts (million)	9.4	15.0	19.1	22.6
Percentage of personal taxpayers (%)	30.1	48.1	62.4	74.3

4.2 Making Tax Digital For Business: VAT

As a part of its reprioritization, in July 2017 the Government prioritized digitalising the tax system on VAT rather than all business taxes. Businesses with taxable turnover above the VAT registration threshold (currently £85,000) are now required to keep their records digitally and submit their VAT return digitally using Making Tax Digital compatible software.

Around 1.3 million businesses registered for Making Tax Digital for VAT during 2019 to 2020, including over 280,000 businesses with turnover below the £85,000 threshold, which joined voluntarily. As of September 2020, the total registered since launch is over 1.4 million businesses (out of 2.3 million live VAT registrations).¹³

The Making Tax Digital initiative is in-

tended to deliver benefits to both the tax administration and the taxpayer.¹⁴ For HMRC, these benefits include reducing or eliminating paper-based or manual processes through the use of software and an integrated approach to business administration and tax, allowing for greater accuracy in tax returns. For business, this reduces the time spent on administration, providing more time to maximize business opportunities, productivity and profitability.

4.3 Sustainable Resource Savings

HMRC has met its commitment to deliver sustainable resource savings, through both business-as-usual activities and its transformation portfolio, which includes the digitalisation of the tax collection system.¹⁵

Table 3: Resource Savings (£ millions)

Tax year	2016-17	2017-18	2018-19	2019-20
Annual sustainable resource savings target	203	380	566	717
Annual sustainable resource savings outturn	181	410	576	693
One-off savings	73	-	-	-
Total cumulative outturn	254	663	1,239	1,932

As an example of the use of technology, previously, the compliance caseworker role included spending a significant amount of time

manually uploading documents to HMRC's casework IT system. This has been replaced by robotics process automation (RPA), which uses

13 HMRC. *2019 to 2020 Annual Report and Accounts*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020_Web_.pdf.

14 HMRC. *Extension of Making Tax Digital for VAT*, <https://www.gov.uk/government/publications/extension-of-making-tax-digital-for-vat/extension-of-making-tax-digital-for-vat>.

15 HMRC. *HMRC Performance Update: Spending Review 2015*, <https://www.gov.uk/government/publications/hmrc-quarterly-performance-report-january-to-march-2020/hmrc-performance-update-spending-review-2015>.

a dedicated secure document store where the caseworkers place their files for each case. The RPA software then retrieves the documents from this location and completes the upload into the HMRC casework IT System. In 2019, it was reported that, since the automation started, it has completed over 265,000 document uploads, freeing up at least 590 days of caseworker time.¹⁶

5. Expanding the Reach of the Tax Administration

In delivering reform, HMRC has sought to consider its strategic approach to achieving its aims, rather than merely improve its current processes. This has included the following approaches.¹⁷

5.1 Compliance and the Platform Economy

The UK made online marketplaces jointly and severally liable for the VAT due from those business customers that should have been registered for VAT. The UK now also requires online marketplaces to display a valid VAT number for businesses on its platform if provided with one. In 2019, HMRC received around 43,500 applications to register for VAT by online non-EU based businesses and issued more than 3,200 notices to online marketplaces resulting in the removal of non-compliant sellers.

5.2 Collecting Non Payroll Tax Debts via Payroll Withholding

HMRC has extended its capacity to collect various tax debts through adjusting an individual's payroll withholding. This means that repayments are automatically deducted from earnings, using a sliding scale of limits for individuals with annual earnings above £30,000. Debtors also have the option to pay their debt in full to avoid the change of the pay as you earn (PAYE) code.

5.3 Use of Behavioral Insights to Encourage Taxpayer Compliance

HMRC has been very active in the area of behavioral insights since understanding the factors that help taxpayers to get tax filing right, and that promote appropriate issue resolution when they do not, is fundamental to designing effective policies. People are faced with more decisions and information than can consciously be processed. They display unconscious behaviors in response to their surroundings and the probable reactions of others. Behavioral insights using these responses can lead to improvements in tax administration.

For example, HMRC collected additional revenue at a very low cost by applying social norms to tax debt letters. By adding the statement “9 out of 10 people pay their tax on time” in the context of the country as a whole, the taxpayer's postcode, or the taxpayer's hometown, HMRC successfully increased payments by up to 15 percentage points, from 67.5% to 83% on the best performing letter.

It has also used this approach in taxpayer education and the communication of social norms. This can support voluntary compliance and influencing beliefs, attitudes and norms is generally considered an effective and efficient way to influence compliance behavior over the long term. HMRC has a programme for educating future taxpayers about the requirements to register for tax and the need to update personal details following a change in circumstances, for example moving home. This includes its “Tax Facts” programme of tax education for schools which has a range of teaching material for the 14 to 19 age range, including through animations available on social media.

HMRC has also used behavioral insights in its internal operations. It has redesigned its debt management call center guides using behavioral principles and applied change management approaches to implement these new procedures in

16 OECD. *Tax Administration 2019: Comparative Information on OECD and other Advanced and Emerging Economies*, https://www.oecd-ilibrary.org/taxation/tax-administration_23077727.

17 Ibid.

call centers. The guides made it easier for new staff, and call operators were 20% more likely to agree to “time to pay” arrangement with up-front payments.

5.4 Responding to the Changing Nature of Tax Evasion

As technology and global economies continue to develop, tax evasion can have an international dimension, sometimes involving third parties, described by HMRC as “enablers”. HMRC’s Fraud Investigation Service (FIS) has responded with a dedicated programme of activity focused on those who facilitate tax crime, using new corporate criminal offence legislation. This has made it a criminal offence for an organisation to fail to prevent someone acting on their behalf from criminally facilitating tax evasion.

The FIS was created in 2015 through a merger of HMRC’s Criminal Investigations and Specialist Investigations units. FIS brought together all of HMRC’s criminal and civil fraud investigators alongside specialist capabilities such as forensic accountants, cyber investigators and intelligence analysts — described as “a world first for tax enforcement”.¹⁸ The FIS started the HMRC enablers of criminality programme in 2017, and has doubled the numbers of enablers under investigation since 2017.

It collaborates with other members of the Joint Chiefs of Global Tax Enforcement (J5, being the UK, the United States, Canada, Australia and the Netherlands) and shared more data in the first year of the J5 than in the previous 10 years combined.

5.5 Use of Third-Party Data

HMRC’s main data analyzing tool, known

as “Connect”, is a system which cross-references more than 22 billion lines of data including taxpayers’ self-assessment returns, property and financial data. This data matching and risking tool allows HMRC to cross match 1 billion HMRC and third-party data items, identifying “hidden” relationships between people, organisations and data that could not previously be identified. “Connect” has the capacity to highlight patterns in HMRC’s rich reserves of taxpayer and third-party data, allowing HMRC to find anomalies between such things as bank interest, property income and other lifestyle indicators. “Connect” identifies more than 500,000 cases (onshore and offshore) for HMRC to enquire into every year.¹⁹ Since its introduction in 2010, it has assisted in the recovery of more than £3 billion in taxes.²⁰

6. Being Resilient in the Face of External Events

In the last three years, HMRC has been required to deal with two major external events — the UK’s exit from the European Union (EU) and the response to COVID-19. As HMRC itself notes “it’s been a tough year of urgent and unexpected challenges...”²¹

6.1 UK’s Exit from the European Union

The UK exited the EU on 31 January 2020 when the withdrawal from the EU became law, although a transitional period applied until 31 December 2020. HMRC was required to prepare for the UK’s exit from the EU, either with or without a deal, while maintaining many of its ongoing projects and day-to-day services. The work required including: working on Brexit preparations, building the customs, VAT and excise systems the UK will need and preparing

18 Simon York CBE. *HMRC’s Response to the Rise of the Enabler*, <https://www.taxjournal.com/articles/-hmrc-s-response-to-the-rise-of-the-enabler-44236>.

19 HMRC. *No Safe Havens 2019: Responding Appropriately*, <https://www.gov.uk/government/publications/no-safe-havens-2019/no-safe-havens-2019-responding-appropriately>.

20 Jay Sanghrajka. *HMRC’s Connect Computer and Investigations*, <https://www.taxation.co.uk/articles/hmrc-s-connect-computer-and-investigations>.

21 HMRC. *Charting HMRC’s Progress This Financial Year*, <https://www.gov.uk/government/news/charting-hmrcs-progress-this-financial-year>.

taxpayers for leaving the EU, with or without a deal. This has been a significant extra burden with £516.9 million spent on UK transition work, and 6,100 full-time equivalents (19%) working on UK transition in 2019–20.

6.2 Response to COVID-19

It implemented the Chancellor's emergency support measures in record time — including the Coronavirus Job Retention Scheme, Self-Employment Income Support Scheme and the Eat Out to Help Out Scheme. It has also made temporary changes in tax policy and the way it operates — delivering vital additional support through helplines.

COVID-19 increased HMRC's workload and made the organisation more complex. HMRC was required to reallocate many staff to work in COVID-19-related roles. At its peak, in May 2020, HMRC reallocated more than 9,000 (16%) of its staff. It has kept its usual services running and provided a safe working environment.

7. Future Direction for UK Tax Administration Environment

All this reform does not mean that changes are complete — but rather the considerable steps have been made on the journey. Indeed, in his March 2020 Budget, the Chancellor highlighted the Government's intention to create a tax system fit for the challenges and opportunities of the 21st century. The future direction for tax administration in the UK for the next 10 years was set out in July 2020. The Government sees real-time information as being at the core of an effective and modern tax system. It also sees timely payment of tax as important:

“The Government wants people and businesses to be able to pay the right tax as they live their lives and go about their business. It should

be easy for people to pay any tax due, and for the vast majority of people the calculation and payment of tax should be effortless. For the majority of businesses, tax should be straightforward and hard to get wrong.”²²

The Government also envisages that a well-designed tax administration system will allow third-party software suppliers to align their systems more closely with those of HMRC, so that taxpayers are proactively offered new and innovative services.

This vision is important, worthwhile and achievable in the next 10 years. The resulting commitments made by HMRC²³ are to:

- Extend Making Tax Digital — With the new VAT service now in place, from April 2022 smaller VAT-registered businesses will also be required to join. From April 2023, Making Tax Digital will be extended to Income Tax Self-Assessment for businesses and landlords with income over £10,000. In November 2020, HMRC commenced consultation on Making Tax Digital for Corporation Tax, which will not be introduced before April 2026 at the earliest.
- Use real-time information — At the core of an effective, modern system is real-time information, giving taxpayers a more up-to-date understanding of, and certainty over, their tax position, with capacity for real-time risk assessment removing opportunities for error.
- Explore options for timely payment of tax — Bring tax payment more in line with the increasingly real-time nature of tax reporting and other services.
- Build a secure, easily accessible single digital account — Customers will be given one complete financial picture, bringing together their different taxes and data sources, enabling HMRC to provide more

22 HMRC. *Building a Trusted, Modern Tax Administration System*, <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>.

23 HMRC. *2019 to 2020 Annual Report and Accounts*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020_Web_.pdf.



personalized services.

- Improve services for agents and representatives — HMRC will design in access from the outset, ensuring agents can see and do what their clients can.
- Modernize the Tax Administration Framework — HMRC will simplify and modernize the outdated legislative framework, so both it and taxpayers can benefit from advances in use of technology and data — for example, only needing to register once for all taxes.

Consultation has now commenced regarding improvements to the tax administration framework. Improvements will focus on the legislation, processes and guidance that underpin the administration of taxes and duties. The Government proposes that the revised tax administration framework will:

- Provide certainty and appropriate safeguards for taxpayers. It will aim to ensure that obligations are clear and easily understood, with decisions made in a consistent way that promotes trust and fairness. There should be appropriate safeguards and effective support for taxpayers.

- Be flexible enough to adapt to changing circumstances and enable targeted support for taxpayers. It should support a simpler experience for those who are working, structuring their businesses or managing their income in non-traditional ways. The framework should also have the flexibility to allow the tax system to respond to future technological, economic and social change, and deliver targeted policy responses to any future crisis.
- Support HMRC's aim to make it easier to get tax right and harder to get wrong. It should provide clarity over what taxpayers, intermediaries, third parties and HMRC need to do, and by when.
- Help build trust in a tax system that is seen as fair and even-handed.
- Be as simple and transparent as possible.
- Help reduce the cost for taxpayers, agents and representatives in interacting with the tax system, and make it easier for HMRC to collect the tax that is due.

In the next phase of tax reform, the UK has an opportunity to test whether the current rules and established ways of doing things still



make sense. There is an opportunity to develop a framework that will reflect the needs and experiences of people who use the tax system, and to build public trust in HMRC as an organisation central to the UK national resilience and crisis response.

8. Conclusions

The world has changed immeasurably over the last two decades, and the rapid growth of information and communication technologies and rising public expectations of world-class customer service mean that the UK both can, and must, have a fully digital tax system being able to support taxpayers across the full range of their needs.

Over recent years, many countries/regions have delivered improvements in tax administration, driven largely by advances in technology. As with many other areas of society, progress has not been universal or uniform, and this is reflected in the UK experience.

For all governments, the administration of tax is a priority. Paying tax is one of the most universal, frequent and potentially contentious interactions that citizens have with their gov-

ernment. It can affect, and be affected by, an individual's broader perception of government. If paying taxes is seen as easy, straightforward, fair and robust, then individuals and businesses may associate those traits with their government more broadly. If citizens can see how their taxes are used and if they recognise the corresponding value generated for society, they may be more likely to comply with their tax obligations.

The UK's experience over this period offers some lessons for good practice in terms of improving the tax administration environment. These include:

- The need for agility and resilience: External events such as the UK's EU exit and COVID-19 have shown that tax administrations need the ability to adapt their plans in times of extreme need.
- Strong governance and prioritization reviews: HMRC's transformation was publicly identified as a strategic priority, key performance indicators identified and regularly reviewed by external bodies. Prioritizing aspects of a major transformation is difficult, as its components will often be interdependent, and some systems changes will have fixed dates. A clear and structured approach works well. HMRC benefitted from timely reprioritization exercises in 2017 and 2018.
- Modernization cannot and should not happen overnight: HMRC's reforms and the UK Government's vision for future tax administration emphasize the importance of carefully sequenced reform in stages.
- Investment in good IT systems is vital: New technologies bring increased efficiency and effectiveness. The cumulative introduction of innovative technologies into the tax administrations' production systems, tax data capture at the transaction point and algorithm friendly tax code allow for unprecedented automation and efficiency. Dealing with legacy systems is often an issue for government bodies.
- Digitalisation should be thought through carefully with an end goal in mind: Digitalisation can bring huge benefits to taxpayers. Making Tax Digital has required a multi-

year investment. It has shown that good systems for making registration, returns, payments, handling data and communications can contribute to a tax administration's ability to engage with taxpayers. Supporting secure and unique identification of taxpayers in a joined-up way helps to reduce burdens and to move tax into the background.

- Effective use of data requires a systems-wide approach: Since 2015, the amount of data available to tax administrators has increased dramatically. HMRC's use of data matching and data analysis, combined with the expanded collection of third-party data from private sector institutions, shows the potential inheritance in data.
- Minimize unnecessary change: Stability of the tax system makes administrative improvement easier to deal with. Change is the biggest source of complexity in the tax system.
- Tax administrations of the future will re-

quire different skills: Upskilling and increasing the competencies of tax officials is a major part of any reform to the tax environment. Human intervention will take place less frequently.

- Cooperation and understanding from all those involved makes a difference: Reforms benefit from an open and comprehensive approach to stakeholder engagement, ensuring any future reform is designed in collaboration with those who will be affected. The tripartite relationship between tax administration, business and tax advisers will be key in achieving voluntary compliance.
- Reform needs to include review of the legal framework: Tax law governing administration needs to facilitate rather than hinder administrative improvements, whereas most tax administrations may still be following outdated laws. The UK's approach to reforming the tax administration framework could lead to lasting benefits.



Tax Reforms for Better Tax Administration: Georgian Experience

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Abstract: This article sets out to share the experience of the major tax reforms in Georgia, which is eventually recognized worldwide by reputable international organizations, including the International Monetary Fund, the World Bank and others. The article highlights, in particular, three factors that we believe were and remain key to Georgia's success. These factors are: 1. Efficient tax policy; 2. Simple administration process; and 3. Proactive communication with taxpayers.

Keywords: Single-window concept; e-filing; e-invoice; Automatic VAT refund system; TADAT assessment; Doing Business

1. Introduction

Following the collapse of the Soviet Union in 1991, Georgia struggled with two civil wars, poverty, economic and political instability, ever growing corruption, uncertain future, etc. In the conditions of country-wide stagnation, tax system was of least importance. Situation was even worse when around 300 amendments were made to the tax legislation during the period between 1997 and 2003. Most of them were difficult or impossible to follow, both taxpayers and tax officers were to some extent forced or encouraged to engage in corrupt behavior. The year 2003 was a pivotal moment in the history of the country when a new government came into power. Tax system with its potential to

encourage and support future economic development became one of the key pillars towards success. Real changes have started already in 2004 and never stopped since then.

Very ambitious initiatives and their efficient execution in a relatively short period of time won Georgia an international recognition of its achievements by international tax community. In 2018, for example, IMF, in its report *Balancing Act: Managing the Public Purse*, singled out Georgia as a striking example of successful tax reforms. According to the report, the success is mainly conditioned on efficient tax policy and taxpayer-friendly administration process. In addition to the factors mentioned by the IMF, proactive communication with taxpayers, through

various channels and forms of communication, can be seen as an important element to build a trustful and cooperative relations between tax administration and taxpayers. Experience has proven that trust-based and cooperative relationship is a good motivator for compliance behavior.

2. Efficient Tax Policy

The first reformation of the tax policy of Georgia began in 2004, when the number of taxes administered back then were reduced from 26 to only 6, and rates for some of those kept valid were decreased as well. Among the taxes that have been abolished as the result of policy reform are social taxes and taxes on export.

Fundamental changes to the tax policy would serve several purposes, including to build an attractive tax environment that would encourage local companies to expand and attract foreign investments into the country, to curb corruption by bringing clarity to the tax legislation, and to cut taxes, so as to increase tax revenues.

Above measures were accompanied by other measures aimed to strengthen the impact of the former on tax behavior. Government sent a “no corruption” message to both tax officers and taxpayers through providing organizational clean-up and arrests of public officers, including big figures, for being involved in corruption cases.

Table 1: Tax rates before and after tax policy reform

Tax	Before	After
Personal income tax	20% progressive	20% flat rate
Corporate income tax (profit tax)	20%	15%
Value-added tax	20%	18%
Excise tax	Imposed on various goods	Imposed on fuel, alcohol, tobacco and vehicle
Property tax	Different rates	Up to 1%
Customs tax (import tax)	0%, 12%, 20%, 32% and higher	0%, 5%, 12% (most of goods are zero-rated)

Source: Jandieri Gia (2019). Tax Reforms in Georgia 2004–2012.

Until 2003, government used to run budget deficit. Tax cut created chances for surplus budget for the first time over the years. Revenues collected were directed to provide better public services to the citizens. People have increased trust in government and are therefore more willing to comply with tax obligations. Trust and certainty drive better tax collections over the years to come.

The transformation process which was started in 2004 was being pursued in the following years up until today. Another notable fiscal reform, among others, that took place in 2017 was a fundamental change of corporate income tax (profit tax) regime, by introducing “Distributed

Profit Tax” system, under which profit tax is paid only if corporate profits are distributed to shareholders. The aim of the new reform is to encourage business expansion and reduce tax burden.

As part of the commitment made towards Georgia’s EU integration, an appropriate amendment was introduced to the tax code of Georgia in order to bring it closer to the value-added tax (VAT) directive of the European Union (EU). The goal is to improve investment environment, reduce the chances of disputes arising and simplify tax administration process by introducing the best EU practices in Georgia and promote cooperation between entrepreneurs working in Georgia and the EU.

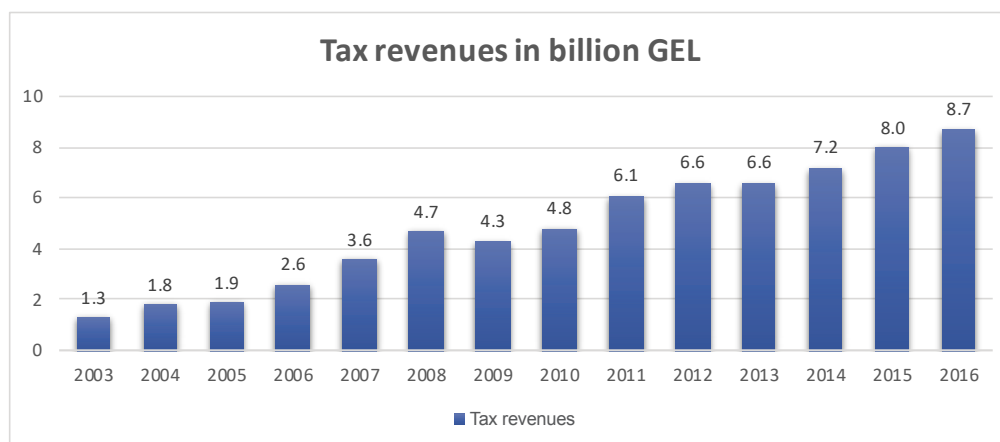


Figure1. Statistics on tax revenues for 2003–2016.

3. Simple Administration Process

Administration process by all means plays a key role in good tax system formation. No tax policy reform can provide desired tax collection target if no efficient and result-oriented administration process is in place. In order to ensure a long-lasting effect of tax policy reforms started back in 2004, Revenue Service under the leadership of the government of Georgia has launched unprecedented projects towards tax administration simplification and digitization.

In the first place, it was decided to establish a Single-window concept for dealing with tax and customs matters (Revenue Service is a tax and customs administration). For that reason, a memorandum of cooperation was concluded between several line ministries of Georgia, including Ministry of Agriculture, Ministry of Internal Affairs and Revenue Service of the Ministry of Finance of Georgia. The memorandum would give Revenue Service a mandate to perform those functions imposed by above agencies and thus create an environment in which tax issues are easily dealt with. For example, Revenue Service would provide passport control of trucks

(performed by Ministry of Internal Affairs) or provide sanitary and phytosanitary control of plants and animals imported into the country and issue licenses and permissions for the admission of goods on the territory of Georgia (performed by the Ministry of Agriculture). Introduction of Single-window concept has helped taxpayers to save time (the most valuable resource) by dealing with only one entity for the fulfillment of tax and customs obligations.

In the second place, Revenue Service has introduced electronic tax system by developing taxpayer's personal web-portal, electronic services for filing tax returns, issuance of e-VAT invoices and e-commodity waybills.¹ Soon after, e-filing, e-VAT invoice and e-commodity waybill services were followed by introduction of other electronic applications and digital services, eventually totaling around 200 applications and 500 digital services. To enforce swift transition to the e-taxation, Revenue Service has made certain services paid. For example, in order to file paper-based tax returns, taxpayers had to pay GEL50 service charges. Despite all expectations, demand for material tax returns has significantly decreased, and soon 99% of tax returns were

¹ Commodity waybill is a mandatory document to be attached to the goods transported from one point to another (from warehouse to the store or any other destination).



filed electronically.

Gradual switch to the e-taxation system made it possible to collect most of tax sensitive information electronically and create e-database. E-database itself created a good root for the development of risk-based approach. In-house developed IT solutions assured accurate selection of taxpayers for tax audit, specification and expansion of tax risk criteria made it possible to narrow tax audit to subject auditing instead of comprehensive auditing. Further development of risk-based analysis, which remains strategic target of the Revenue Service, led to the introduction of the Automatic VAT Refund system. This system was launched in February 2019, underwent some modifications, and now runs in its full strength. The system allows low-risk taxpayers access to automatic VAT refund, once VAT return is verified and approved by the risk-based verification system. This automatic VAT refund system gained even greater importance in the event of COVID-19 pandemic. It is expected to support business and therefore national economy by increasing cash flow. According to the 2020 statistics, 34,153

VAT refund claims have been approved and paid with the total value of GEL928,327,011.

Other measures facilitating fast and comfortable tax administration may include:

- Single treasury code — taxpayers can enjoy using one single account for payment of all kinds of tax liabilities instead of 125 accounts they had before 2016;
- Service centers — although all tax obligations can be fulfilled electronically, for those who “are not friends” with electronic devices, Revenue Service established service centers across the country, where taxpayers are assisted and advised on complying with their tax liabilities;
- RS Car — it is a “service center on the wheels” that was introduced in 2016 to ease tax administration process for those living in the remote places, where Revenue Service has no representation. RS cars are equipped with all technological devices required for the delivery of a wide variety of electronic services at spot; and
- Mobile applications — as e-filing and e-invoicing are the most frequently used services, Revenue Service has developed specialized mobile applications for taxpayers that can be downloaded to the mobile device and applied even when no internet or computer is available.

During the pandemic, Revenue Service has introduced remote tax dispute hearing via



electronic means. E-hearing is believed to ensure business continuity of tax administration processes, safety of involved parties during the pandemic, as well as to save taxpayers' time and financial resources. While implementing the project, it was vital to provide taxpayers with data protection and confidentiality, which is strictly followed. The system is using a video-conferencing platform that allows taxpayers to connect both via computers and phones. Taxpayers are duly notified and reminded of the time of the hearing through their e-pages as well as via SMS. In addition, they are provided with detailed instructions with regard to the use of the platform. Remote dispute resolution is gaining a rapid popularity among taxpayers from month to month. More and more of them express their positive attitude towards new approach. E-hearing of tax disputes has been institutionalized and envisaged under the Tax Code of Georgia and it will definitely be maintained after pandemic is over.

4. Proactive Communication with Taxpayers

Revenue Service for the interest of its taxpayer-friendly approach provides several communication channels in order to share changes to the tax legislation and other regulations with taxpayers.

For example, Revenue Service periodically conducts "Doors Open Days" in different regions/cities/towns, where detail discussions are held with taxpayers on issues of their concerns and interests. During the meeting, taxpayers are informed of changes and amendments made to the tax legislation, with additional explanations being provided regarding various provisions. The date and location for "Doors Open Days" meetings are announced in advance on Revenue Service webpage.

The other form of communication is Forum. This is an online alternative to "Doors Open Days". Similar to "Doors Open Days", taxpayers can raise questions and request clarifications. Frequently asked questions are processed and analyzed by the Revenue Service back office and sample responses are developed

and uploaded on Revenue Service webpage.

Webpage is another source of communication with taxpayers. Recently newly designed webpage equipped with additional functions was launched. Except for visual and content aspects, new webpage was enriched with new channel of communication called RS-chat. Feedback function added to the webpage provides opportunity to leave comments or suggestions on how webpage could be improved.

Georgian Federation of Professional Accountants and Auditors holds regular evaluation of the Revenue Service's performance and compliance with law in respect of tax auditing and in the interest of private sector.

The Revenue Service conducts regular taxpayer satisfaction surveys to learn the attitude of taxpayers towards services provided by the Revenue Service. One of such surveys triggered change to the service centers' working hours to make it more comfortable and convenient for taxpayers.

5. Conclusion

Georgian experience proves that even those countries with poor economic, political, historical and tax background can start from scratch and achieve the goal. But, no goal can be achieved if there is no political will of the government to initiate changes and readiness of the society to keep up with those changes. Over the past 17 years, Revenue Service many times challenged itself by making unpopular decisions, such as paid paper-based tax return forms, finding extraordinary solutions to the problems raised, even though most frequently those solutions would not get approval from the international organizations because of their incompliance with internationally acknowledged standards. But sometimes, country-specific solutions help to accelerate transformation process and achieve more at less cost.

Transparency and openness are another key feature of the Revenue Service as it takes an active participation in various international surveys and assessments, which help to identify weaknesses and strengths of the current tax system. Among others, IMF's TADAT assessment, con-

ducted in 2016 for the first time, identified “use of modern information technology applications, good taxpayer service record and willingness to embrace innovation” as main strength of the Revenue Service, but it also revealed the lack of “operational planning and performance monitoring”, “very restricted access to bank account data”, etc. Recommendations received from TADAT assessors made roots for many interesting and progressive projects in the years to come.

Efforts made through the years won Georgia, its Revenue Service in particular, recognition from other big name international organizations such as World Bank. “Ease of Doing Business” survey is clear demonstration of our success story providing that Georgia ranks 7th among 190 economies in the Doing Business 2020 ranking.

Speaking of doing business, it is worth mentioning that for doing business survey purposes Revenue Service holds voluntary collaboration with “Big Four” companies,² who have a mandate to speak for a large population of tax-

payers and voice their concerns and satisfactions. Collaboration is a good opportunity to discuss and exchange views and opinions on new reform projects initiated by the Revenue Service. This is another form of communication where revenue service gets feedback from business, while business in turn gets detail clarification on goals and objectives of the reforms.

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2 The “Big Four” companies refer to Deloitte LLP, Pricewaterhouse Coopers, Ernst & Young and the KPMG LLP.

The Use of Technology to Enhance Taxpayer Service and Improve Tax Compliance —Experience of Hong Kong, China

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Abstracts: The Inland Revenue Department (IRD) is the authority which administers the tax law in the Hong Kong Special Administrative Region of the People's Republic of China. This article shares the IRD's experience in applying digitalised tax administration to enhance taxpayer services and improve tax compliance. This can be achieved through developing user-friendly digital platforms for filing and communication, the use of prepopulated tax returns, fillable PDF public forms and online systems for paying taxes, and providing accessible and easy-to-understand tax information on the Internet.

Keywords: Inland Revenue Department; Taxpayer service; Electronic service; Tax compliance; Digitalised tax administration

1. Introduction

The rapid development and advancement of technologies have moved the world towards a digital era, where technologies have become part of people's daily life. Digitalisation and emerging technologies have opened the doors to new opportunities not just for businesses, but for tax authorities as well to transform their day-to-day operations. Well-designed and efficiently implemented electronic systems not only reduce the time and effort required by taxpayers to meet their tax obligations, but also offer significant benefits to tax au-

thorities. With the use of technologies, tax authorities may improve the variety and responsiveness of service channels and shift taxpayers from traditional in-person communications to self-help channels.

The Inland Revenue Department (IRD) is the authority which administers the tax law in the Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong SAR). The IRD is also responsible for the administration of certain duties and fees, e.g., the stamp duty and business registration fee. The IRD's mission and vision are expressed in its slogan "Tax by the

Law, Service from the Heart”. It aims at playing an important role as an excellent tax administration in promoting Hong Kong’s prosperity and stability and developing a customer-oriented culture for delivering services to taxpayers.

In the following paragraphs, IRD’s experience in applying digitalised tax administration to enhance taxpayer services and improve tax compliance will be shared. This can be achieved through developing user-friendly digital platforms for filing and communication, the use of prepopulated tax returns, fillable PDF public forms and online systems for paying taxes, and providing accessible and easy-to-understand tax information on the Internet.

2. eTAX

eTAX is a one-stop taxpayer portal consolidating all the e-services provided by the IRD under a single platform and an individual can have access to the services provided to him/her via his/her personal eTAX account under eTAX. It offers taxpayers an easy, secure, cost-saving and environment-friendly means to facilitate their compliance with the tax law. In addition to providing a gateway for taxpayers to file their tax returns, eTAX also provides a wide range of online tax services (e.g. e-stamping of property documents, business registration e-services, electronic notices, electronic payments and lodgement of applications), which enable taxpayers to keep track of their tax position, manage their tax affairs and communicate with the IRD.

Once taxpayers have registered their personal eTAX account with the IRD, they can view their tax returns submitted within the last three years online via the Tax Position service. All outstanding tax returns and tax payments will also be listed for their information. When the return filing due date or the tax payment due date is approaching, the system will also generate an e-alert message to the Message Box of the taxpayers’ eTAX account to remind the taxpayers to file or to pay. At the time of registration for an eTAX account, the taxpayers can also opt to provide a designated email account to the IRD. When the IRD has issued returns,

letters or messages to the taxpayers’ eTAX account, an alert message will be sent to the designated email account to remind the taxpayers to log into their eTAX accounts to read the new messages.

The above measures can reduce the possibility of taxpayers’ failure to meet their tax obligations due to accidental negligence or omission, thus increasing the level of voluntary compliance.

When taxpayers use e-filing services, data like personal particulars, spouse information, particulars of last year’s allowance/deduction claims and employment information submitted by their employers will be pre-filled on the tax return. This can make return filing more convenient for taxpayers, and at the same time, reduce the chance of making mistakes. The fields on the return are guarded by validations. If taxpayers have made a deduction claim exceeding the ceiling allowed by the tax law or omitted to fill in some required information or filled in some inconsistent information in the return, error messages will pop up and the taxpayers will have to make amendments before they can proceed to complete other parts of the return. Taxpayers can also access the tax guidelines for a particular item through the hyperlink embedded in the filing screen.

After taxpayers have completed their tax return in the eTAX account, they can choose to view their estimated Salaries Tax Computation instantly based on the information filled in the tax return. This e-services is available for the majority of Salaries Tax cases and taxpayers can get an idea of their tax liability at the time when they submit the returns through this service, and will have a few months before the due date to prepare for the tax payment, thus reducing the risk of default.

The e-services provided under eTAX are available to taxpayers 24 hours a day and 7 days a week. That means taxpayers can view their tax records, communicate with the IRD or use the services to meet their tax obligations anytime and anywhere.

In processing paper returns, if the IRD staff spot any irregularities or incomplete informa-

tion, they will manually issue query letters to taxpayers to clarify or obtain further information from taxpayers. In case taxpayers use the e-filing service, the manual effort for screening returns and issuing query letters can be saved and taxpayers can file their tax returns correctly in the first instance. Compared with paper returns, e-returns can impose better control over the information filled in by taxpayers and facilitate them to meet their tax obligations by filing correct tax returns.

3. Portals for Automatic Exchange of Financial Account Information (AEOI) and Country-by-Country Reporting (CbC Reporting)

Hong Kong is committed to effective implementation of AEOI and CbC Reporting. To facilitate reporting by Hong Kong reporting entities, the IRD has developed two secure electronic platforms (i.e. the AEOI Portal and CbC Reporting Portal) for reporting entities to submit notifications and file returns in relation to AEOI and CbC Reporting. The IRD has attached great importance to the confidentiality of information. The portals are safe, secure, and can ensure confidentiality of information exchanged during the process. They make it easier and quicker for entities to comply with their obligations.

4. Fillable PDF Public Forms

To facilitate taxpayers who do not have an eTAX account to meet their tax obligations, the IRD has introduced fillable PDF forms with automatic generation of QR codes. Pre-defined validation rules are incorporated in the forms to guide taxpayers in completing the forms, and any invalid input will be instantly rejected. QR code containing all the input information will be generated automatically after the form is completed. Upon receipt of the forms, the IRD staff will capture the information contained in the QR codes with barcode scanners. The information will then automatically be updated to the database. This new digital instrument facilitates those taxpayers who do not have an eTAX

account to file a completed form as required by the IRD and reduce the chance of human error made in completing the forms.

5. e-Stamping

e-Stamping service, which involves printing a stamp certificate online for attachment to the instrument, is an alternative to conventional stamping. Such stamp certificates have the same legal status as conventional stamps imprinted on instruments.

With e-stamping, there is no need to present original instruments or documents to the IRD. All the user has to do is to input data and submit stamping application. After payment of stamp duty, a stamp certificate can be printed out and be affixed to the document as evidence of stamping.

Advantages of using e-Stamping service include:

- Stamping possible anytime, anywhere;
- Payment can be made online via Visa, MasterCard, JCB, Union Pay, etc;
- Instant issue of stamp certificate after receipt of stamp duty online;
- Free online service for checking authenticity of a stamp certificate; and
- One Stop Service – submission of tenancy e-forms for reporting tenancy information to the Rating and Valuation Department online after e-Stamping of tenancy agreement.

6. e-Payments

The IRD allows taxpayers to settle their tax liabilities by various electronic means, e.g. payment by phone, bank ATM, or via Internet banking services and Faster Payment System. This not only saves taxpayers' time in queuing up to pay taxes, but also enables taxpayers to fulfill their tax obligations by online payment even if they are physically outside Hong Kong.

7. e-Communication Channels

7.1 IRD Website (www.ird.gov.hk)

The IRD website is a very effective channel for disseminating tax information and pro-

viding electronic services to the public. With continuous enrichment and updates, the website enables taxpayers to obtain the most current information about Hong Kong taxation in a fast and convenient manner. This will in turn enhance taxpayers' compliance and reduce the work of the IRD.

To facilitate all sectors of the community to locate the relevant tax information, there are thematic content pages for individuals, businesses, property owners, employers, tax representatives, etc. The IRD website has adopted responsive web design, which enables users to have quick and convenient access to tax information. It also has a mobile version to facilitate quick and convenient access to tax information anywhere. With the advancement of information technology, a lot of services and information are provided online.

The information uploaded to the IRD website includes taxpayers' rights and obligations, IRD software, IRD public forms, tax law, Departmental Interpretation and Practice Notes (DIPNs), guidelines, advance rulings, penalty policy, e-Seminars, answers to frequently asked questions and press release.

The IRD sets out its interpretation of the applicable tax laws and practices adopted in relation to important tax issues in its DIPNs. They help taxpayers better understand the IRD's stance, thereby ensuring consistency in the application of the tax law, providing transparency in tax administration and reducing taxpayers' compliance costs.

Other than DIPNs, there are also pamphlets and guidelines which contain tax information in simpler terms. They are downloadable from the website. In addition, e-Seminars are provided for employers, property owners and individual taxpayers. Information on how to complete tax returns, fulfil tax obligations and overcome difficulties in compliance has been uploaded to the website. After reading the information, taxpayers can raise enquiries electronically at the "Q&A Corner".

The IRD has also uploaded its penalty policy on its website to enhance transparency of the penal actions. To encourage full voluntary

disclosure on non-compliance, the IRD's penalty policy imposes escalated levels of sanctions on belated notifications to or delays/obstructions in the investigation work carried out by the IRD. Press announcements of successfully prosecuted court cases have also been posted on IRD website to alert the public of the serious consequences of understatement.

Hong Kong has in place an advance ruling system so as to provide taxpayers with a degree of certainty about the application of the tax law in Hong Kong. A person may apply to the IRD for a ruling on how the tax law applies to him or the arrangement specified in the application. In addition to providing certainty to taxpayers, advance ruling also promotes consistency in the application of the tax law, minimises tax disputes which can be a lengthy and costly process, fosters trust relationship between taxpayers and the tax administration, and provides a transparent framework that encourages compliance with the tax law.

To promote transparency and consistency in the application of the tax law, some rulings considered to be of general interest have been published on the IRD website in redacted form. In order to protect taxpayer confidentiality, the IRD will edit the selected rulings prior to publication. Therefore, all information that might identify the taxpayer will be removed from the edited version.

7.2 e-Enquiry

The IRD's Enquiry Service Centre handles telephone and counter enquiries. The Centre is equipped with a computer network linked to the Department's Knowledge Database to enable our staff to provide, as early as possible, an immediate "one-stop" service.

The Centre operates an Interactive Telephone Enquiry System with over 100 telephone lines. Callers can have access on a 24-hour basis to a wide range of tax information by listening to recorded messages. Besides, callers can obtain facsimile copies of information sheets and forms through the system. A "Leave-and-Call-Back" facility, for recording information requests, and a "Fax-in Enquiry" service are also available.

The IRD has also provided designated email accounts for communication on specific tax matters to speed up the processing of email enquiries.

7.3 GovHK

GovHK is the one-stop portal created by the Government of Hong Kong SAR, making information and services of the public sector easier to find and use. The IRD has uploaded to the “Taxes & Duties” cluster under the GovHK portal tax information and articles specially written for taxpayers such as their rights and obligations under the tax law, the kinds of income that are chargeable/non-chargeable to tax and the kinds of allowances/deductions they may claim. The GovHK provides another electronic channel for the public to obtain tax information.

8. Tax Challenges Arising from Digitalisation

While modern technologies can bring

benefits to tax authorities, they pose a number of complex questions for tax policy at the same time. The most prominent tax policy issue is how to tax the digital economy. To address tax challenges arising from the digitalisation of the economy and Base Erosion and Profit Shifting issues, the Organisation for Economic Co-operation and Development (OECD) is developing new rules for the allocation of taxing rights for profits of digitalised businesses and the prevention of shifting of profits by multinational enterprises to no or low tax jurisdictions. Currently, the goal is to deliver a long-term, consensus-based solution by mid-2021. These proposals will have far-reaching implications for Hong Kong’s existing tax regime and tax treaties, as well as for multinational enterprises. The IRD will continue to work with the relevant bureaux to monitor the developments, make assessments and devise corresponding measures.



Taxes and Investment Climate: How about a BRITACOM-Report Metric for Its Jurisdictions?

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Abstract: BRITACOM has set up the mission to accelerate the Sustainable Development including the economic growth of the BRI jurisdictions — a mission fully supported by ICC. A key element for growth and investment is creating transparency for business. In that regard, tax factors represent only one but an important element which can influence international trade and cross-border investments. Therefore the question arises if there should be a performance metric analyzing the tax and investment climate. This article discusses on behalf of ICC the relevant factors how transparency can be created and if there is a fit within BRITACOM's vision.

Keywords: Business environment; Investment; Tax compliance; Sustainable Development

1. Introduction

International trade and business investments are driven and influenced by many factors, especially when determining in which country to invest. Prominent investment factors are — amongst others — the size of the respective domestic market, notably regarding distribution activities, the availability of skilled work force, the flexibility of labour law and labour conditions when decisions for production activities (factories etc.) are being prepared, and the level of protection of intangible property rights for research and development activities. Good infrastructure, public transport, legal stability and many other topics are taken into account

to a higher or lesser extent, depending on the intended investment and its specific requirements. Apart from these different matters, various tax aspects are also considered. Whilst it is unlikely that tax alone determines the allocation decision for a business investment, it will play an important part in many allocation decisions. It would be an error to believe that only the nominal tax rate will be considered by business in that regard — there are many more parameters such as the overall tax burden, tax compliance obligations and other factors that are difficult to measure precisely. For business, it is therefore key to achieve transparency and insights into tax-related parameters and their respec-

tive rating to be able to base its investment decisions on solid ground. For countries, it should be key to promote their domestic business environment and attract respective investments. What the relevant factors are, how transparency can be created and if there is a fit within BRI-TACOM's vision we questions that will be discussed on behalf of the International Chamber of Commerce (ICC) in this contribution.

2. Tax Factors Influencing Investment Decisions

2.1 The Statutory Tax Rate and Overall Tax Burden

The “Headline” tax factor to be considered when making an investment is certainly the statutory tax rate. It is easy to understand, easy to identify and the oftentimes quoted “race-to-the bottom” that has been taking place in so many countries/regions around the globe with respect to their corporate tax rates, can mainly be explained by the desire for these countries/regions to attract respective onshore investments. Tax practitioners know that the corporate tax rate itself is rather meaningless as it is only one of the two elements to calculate the tax burden for a company. Firstly, the corporate tax rate needs to be multiplied with the taxable income. Only this operation will produce the tax burden. And in many cases the taxable income (or tax base) is much wider because certain expenses might not be considered deductible or smaller because certain items of income are exempt from tax. Secondly, it is not only the corporate tax which will be due on business income, there are potentially many other taxes that have to be taken into account. For example, Germany levies a trade tax for which the municipalities are allowed to set the tax rate which can be higher than the 15% corporate tax. And there are many other taxes such as real estate tax, social security contribution, energy tax and consumption tax.

A good way to create transparency on the “real tax burden” would be to use the so-called “Effective Tax Rate” (ETR). The ETR concept is used by many accounting standards such as the International Financial Reporting Standards

(IFRS). By calculating the ETR, two effects can be achieved. Firstly, the ETR is calculated by dividing the tax expense (tax rate \times taxable income) with the pretax income determined under IFRS. This pretax income under IFRS will always be the same, regardless of which country it is generated as the income determination under IFRS does not vary from country to country. In that way, differences in both — the tax rate and the domestic taxable income — will become apparent and measurable. Secondly, by applying the ETR concept, timing differences will be off the table because from an ETR perspective it does not matter whether an asset can be amortized over 3, 5 or 10 years. Those matters do influence the cash taxes but are reflected as so-called deferred tax liabilities or assets in IFRS and therefore have no impact on the ETR. This is another advantage of the ETR concept, as these mere timing differences will revert over time and therefore should not have a decisive influence on investment decisions which are straightened out.

To reflect the burden of other taxes, a concept such as the so-called Total Tax Rate (TTR) might be an approach to be considered. With the TTR, all taxes due are being added and then divided by the pretax income (e.g. calculated under IFRS). There is no standard available for defining the TTR, which makes it difficult to use for comparing various countries. But comparability can be assured within one and the same study by consistently applying the same metric and definitions.

2.2 Complexity of Tax Compliance

In many business cases the tax burden will be relevant but other matters are almost as important — top of the list is certainly the complexity of complying with the applicable tax law. Complexity itself will incite many other issues, predominantly the administrative burden for the taxpayer but also soft matters such as the risk of not complying resulting in penalties and perhaps even criminal actions against the respective taxpayer. Complexity is mainly a matter of the procedures and processes for tax compliance; but also the material tax law itself

can drive complexity. It embraces the number and frequency of tax filings, the possibility for online filings or real-time reporting obligations. It is very hard to measure the complexity of the material tax law in that regard, i.e. how easy or difficult the respective local tax code is to understand and to be applied to inbound investments and business activities.

As the complexity of tax compliance depends heavily on the scale and details of the respective taxpayer and its business and business activities, it is almost impossible to formulate in an abstract and general way how complex a domestic tax system is. It might be rather simple for certain businesses to comply with the tax system whilst others could have a hard time and a materially higher administrative burden for fulfilling their tax compliance obligations. This needs to always be kept in mind when the complexity of tax compliance is rated or ranked with the goal to create a basis for comparing different jurisdictions and their tax systems.

2.3 Tax Certainty

Tax certainty can not be overestimated in its importance amongst the various tax factors influencing investment decisions. The lowest tax burden has no value for a business if the business case for an offshore investment might go south because certain tax assumptions that formed the basis for the tax part of the business case prove to be interpreted differently by the tax administration. Tax certainty is closely linked to the complexity of the tax system because in a very simple tax system the rules should be clear and easy to apply, misinterpretations or varying interpretations should be limited. But every business and every tax administration know quite well that there are limitations to reducing complexity within the area of material tax law. For this reason, in the field of tax certainty, matters like the availability of upfront tax rulings, the publication of such tax rulings, the availability of administrative interpretations or guidelines, and the time needed for effective administrative procedures, dispute resolutions and litigations do play important roles as they form the framework for achieving certainty in a necessarily

complex environment. Soft factors such as the general relationship between the tax administration and taxpayers or just the “taxpayer friendliness” of a tax administration can be important aspects, too.

As with the complexity of tax compliance, it is difficult to precisely measure “tax certainty”. To some extent, it is the perception of the business community which forms the basis for what can be understood as the tax certainty available to taxpayers in a respective jurisdiction. Again, in rankings this needs to be carefully considered and taken into account in order to avoid the illusion of a scientifically created result when the data that is being used for determining a rating or ranking is mostly subjective and not tied to hard facts and numbers.

2.4 Other Matters

Even though there are many other matters, such as the availability of specific tax incentives, tax breaks or comparable advantages, all these issues are almost always very individual and tailored to certain business activities so that they do not really reflect the overall quality of a tax system from the perspective of an inbound investor. Additionally, more elements in a study distract the attention from the three main issues highlighted above under 2.1, 2.2 and 2.3.

3. How to Measure These Tax Factors and Make Them Transparent

To measure various tax factors influencing investment decisions, different approaches can be applied. Some studies use a “model taxpayer” and try to determine how much taxes the operations of this model taxpayer would trigger in the various jurisdictions and how much time would be needed to comply with the applicable domestic tax law. A study which is mainly based on this approach is “Paying Taxes”, created by PwC and the World Bank. The advantages of this approach are apparent: using one consistent model taxpayer will create 100% comparability for all matters which are purely a result of mathematical operations. It is therefore great for comparing the ETR or the TTR and to some

extent even softer matters such as the time necessary to fulfill the tax compliance obligations. It will ultimately fail to deliver with the same precision for areas which are more subjective in nature and not a mere mathematical outcome. Tax certainty will be very difficult to be measured by using a model taxpayer only because in a highly practical topic a theoretical paper-based approach is doomed to fail.

A different approach would be to simply ask taxpayers to rank certain matters for a specific tax system based on their own experiences. This approach is naturally highly subjective and therefore not the first choice for areas such as the ETR or TTR — but even in that regard the (subjective) perception of business (i.e. taxpayers) is of great interest to investors and to countries willing to improve their attractiveness for inbound investments. At the end, it is the perception of the business community that is decisive for their investment behavior. This perception is normally based on experience and especially on hard facts, so where the perception and the facts differ from each other there needs to be a specific matter or misunderstanding to work on.

A combination of both approaches seems to generate the most comprehensive approach, especially because contrasting the results from the model taxpayer study with the feedback from the business community might reveal areas to analyze further and improve either the perception or the framework or something else.

4. BRITACOM Jurisdictions Performance in Various Studies

From a perspective of the BRITACOM and its jurisdictions, it is worth taking a look at the results from different studies available. From these studies, certain areas could be deducted where improvements or changes might

yield the biggest impact for ensuring and attracting inbound investments thus helping to foster growth. Additionally, when comparing the rankings and results for the BRITACOM jurisdictions over a couple of years, especially since the inauguration of the BRITACOM in 2019, the positive impact of the Wuzhen Action Plan (2019–2021) released during the First Belt and Road Initiative Tax Administration Cooperation Forum should become visible in some regards.

If we start with the Global Competitiveness Report 2017–2018 of World Economic Forum¹ and have a look at China (27 of 137), the tax rates were perceived as the 6th problematic factor for doing business in China, the tax regulations as the 8th problematic factor (for comparison: the tax rates are the most problematic, tax regulations the second problematic factor in Germany, which in total ranked 5 of 137).² The TTR ranked very low at 132 of 137 while the “effect of taxation on incentives to invest” ranked at 27 of 137. This contrast seems odd because apparently the high TTR does not have an impact on investments. It is not possible to explore in depth in this article why this might be the case but it is certainly an interesting starting point for administrations and legislators who seek to improve the overall regulatory environment and competitiveness for domestic business activities. For another jurisdiction of the BRITACOM, Kazakhstan, tax regulations are perceived as the 5th problematic factor and tax rates as the 8th problematic factor for doing business in Kazakhstan (Kazakhstan in total ranked 57 of 137). For Kazakhstan the TTR ranked midfield at 69 of 137 while the “effect of taxation on incentives to invest” ranked 34 of 137. Again, questions remain why the tax regulations are perceived as rather problematic for doing business in Kazakhstan whilst the country

1 World Economic Forum. *The Global Competitiveness Report 2017–2018*, <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>.

2 From the list of factors, respondents to the World Economic Forum’s Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.



scores in the top 25% regarding the effect of taxation on incentives to invest.

Looking at the World Bank/PwC study “Paying Taxes”, the score for China in 2019 was 70.1, for Kazakhstan 78.2 and for Germany in comparison 82.2 (on a scale up to 100, the higher the better). This score is mainly influenced by the “Total Tax Contribution Rate” (TTCR) and the “Time to Comply” needed for fulfilling all tax compliance obligations. Whilst for example China scores extremely well for the “Time to Comply” with only 138 hours compared to Germany at 218 hours and Kazakhstan at 186 hours, it is apparently the TTCR which materially influences the differences between the scores of the three countries: China is rated with a TTCR of 59.2% approximately 10 percentage points higher than Germany at 48.8% — when digging deeper you can see that the TTCR of China is driven up materially by the “Labour related Tax and Contributions” and the “Profit TTCR” of China is substantially lower than that of Germany. But Kazakhstan is rated with

a TTCR of only 28.4%, so one would expect a much better score for the country. The explanation for this is that within the World Bank/PwC study there are two other elements which are measured and influence the scoring of a country — the number of tax payments and the so-called “Post-Filing Index”. For the latter, Kazakhstan scores at 48.9, China at 50, and Germany at 97.7. The Post-Filing Index consists of four potential incidents after having filed a return and mainly the time needed for respective compliance.

Contrasting these two studies is already an interesting exercise because a couple of problems with rankings like these become apparent. The World Bank/PwC study focuses purely on taxes — so with regard to especially the rather high labour related tax burden shown for China from this study alone inbound investments into China would not present themselves as very promising. From reality it is evident that the opposite is true and that China has been attracting substantial inbound investments over



the last decades significantly growing its domestic market and infrastructure. And from the World Economic Forum study, we could see that the TTR is high but the effect of taxation on incentives to invest is positively high, too. For the latter the very competitive profit taxation is apparently decisive, the comparably higher taxes and contributions regarding labour might not have much of an effect because the total cost of labour is rather low and there is a high availability of skilled work force. Other questions remain: if the World Bank/PwC study is based on one and the same model taxpayer tested for all countries/regions, this model taxpayer might not be the standard business you find in specific countries/regions; but most of the time the domestic market and business environment have had a material influence on the design of the domestic tax system. So overall studies like the World Bank/PwC report “Paying Taxes” or the Global Competitiveness Report of the World Economic Forum are valuable starting points but do not really and comprehensively capture

what is important from a business and investment perspective. And no report ever could. That is why it is especially problematic, when a ranking system is composed of some but not all elements that are important for businesses. It creates an impression of objectivity but is only objective for the very model case in the very model environment and therefore rather illusional.

5. Would a BRITACOM-Report Make Sense?

The prevalent studies therefore do not seem to be really helpful for analyzing the tax environment in a country from a business perspective. At the same time, there is a need and desire to improve the investment climate to foster growth and prosperity and create transparency for business about this in order to attract the respective investments. So, the question really is, should BRITACOM come up with its own report for “The Tax Environment for Doing Business in the BRITACOM Jurisdictions”

and what should such a report look like?

The answer to this question needs to take into account why the BRITACOM has been set up and what purpose it is serving. The BRITACOM is a non-profit official mechanism for tax administration cooperation amongst the jurisdictions that subscribe to the Belt and Road Initiative (BRI). The vision of the BRITACOM is to facilitate trade and investment, foster economic growth of the BRI jurisdictions and contribute to the fulfillment of inclusive and sustainable development as set out in the United Nations' 2030 Agenda for Sustainable Development. The BRITACOM aims to contribute to building a growth-friendly tax environment through cooperation and sharing of best practices in following the rule of law, raising tax certainty, expediting tax dispute resolution, improving taxpayer service, and enhancing tax capacity building. If the aim of the BRITACOM is the creation of a growth-friendly tax environment, it seems to make sense to measure the progress on that journey. So, having a specific report would be one approach to take stock of the impact and the progress of the BRITACOM jurisdictions towards their joint goal. At the same time, the various key aspects that could be measured are already enlisted: following the rule of law, raising tax certainty, expediting tax dispute resolution, improving taxpayer service and enhancing tax capacity building. In that regard, a BRITACOM-Report would also help to advertise the BRITACOM agenda and improve the perception of the respective investment climate in the BRITACOM jurisdictions. The effect of a joint report would be more transparency and an obvious showcase of the commitment of the BRITACOM jurisdictions to enhancing the topics on the BRITACOM agenda, and all of these topics are issues that are decisive for businesses when considering investments.

A very important topic would be how to structure such a BRITACOM-Report and the respective data input. In that regard, a couple of thoughts should be considered. The Total Tax Contribution has never been on the agenda of the BRITACOM because the level of taxes a country imposes on its taxpayers is strongly re-

lated to many different factors which vary from country to country. It should not form part of a BRITACOM-Report. A BRITACOM-Report should in addition not create the illusion of mathematical-like certainty by creating a ranking among the BRITACOM jurisdictions. These ratings are not helpful as discussed and shown above. This is especially true in areas which are highly subjective and which depend on many different input parameters. The key aspects on the agenda of the BRITACOM such as following the rule of law are difficult to be measured in a scientific way. To refrain from a ranking or rating does not mean that problematic areas and positive highlights should not be mentioned — quite the opposite. It does rather mean to create the necessary transparency for educated business decisions by describing the tax environment with all its respective advantages and disadvantages including the efforts undertaken by tax administrations to improve the overall situation and investment climate. In that way, businesses would be getting insights to form their own opinion rather than having to be confronted with a ranking that a separate organization created and that first needs to be understood and decomposed in order to see how well it does apply to the investment case at hand.

Even though a mathematical rating seems impossible, it is absolutely possible to enlist activities that BRITACOM jurisdictions start towards improving the key aspects of the BRITACOM agenda. That way a BRITACOM-Report would reflect the journey of the BRITACOM jurisdictions towards their joint goal. This might be complimented with business input on areas for further improvements as well as feedback regarding improvements started in the respective jurisdictions. Real taxpayer stories are much better credentials than any ranking or rating ever could be. That way a report could help to steer activities and efforts better and more efficiently and ultimately establish the proof for the effectiveness of the BRITACOM — facilitating trade and investment, fostering economic growth and contributing to the fulfillment of inclusive and sustainable development.

The Tax Administration Diagnostic Assessment Tool: Overview and Insights To-date

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Abstract: Premised on international good practices, the Tax Administration Diagnostic Assessment Tool (TADAT) provides a standardized and objective framework for conducting an evidence-based and outcome-focused assessment of the key strengths and weaknesses of a country's tax administration system. TADAT is a global tool that applies to any country's system of tax administration. The results of a TADAT assessment provide country authorities, supported by their capacity development partners, with a baseline to strengthen or develop, and monitor tax administration reform strategies and work plans.

Keywords: Tax Administration Diagnostic Assessment Tool; System of tax administration; Performance outcome area; Medium-Term Revenue Strategy; Tax system reform

Conceived in 2011, the aim of the Tax Administration Diagnostic Assessment Tool (TADAT) is to provide a standardized framework for assessing the health of a country's tax administration system, its key components, and its level of maturity in the context of international good practice. A standardized and objective methodology focuses on evaluating the system of tax administration's outcomes that are premised on a set of criteria. These criteria are set out in two Field Guides, one for national or federal level systems of tax administrations, and a supplement that focuses on subnational or state/local government-level tax administrations. TADAT is a global tool that can be used to assess the tax administra-

tion system of any country, irrespective of geographical location, income classification or legal environment. The results of a TADAT assessment provide capacity development (CD) partners — those supporting revenue mobilization efforts in a country — with a baseline of the tax administration system's health status from which reform support can be planned and implemented. As of mid-March 2021, 105 assessments have been completed globally.

1. Background

The design work of the TADAT started in 2011 with a feasibility study that confirmed the need for a tool that can assist countries with assessing the health of

their systems of tax administration. The TADAT methodology was encapsulated in a Field Guide that outlines an integrated framework that provides an objective and consistent assessment of how a country's system of tax administration is performing across key functions. Development of the TADAT standards, including any revisions thereof, follows a global consultative approach that involves, for example, tax administrations themselves, tax administration experts, capacity development providers, academia and civil society. As such, good practice standards from across tax administrations and subject matter experts are taken into account.

A TADAT assessment provides country authorities with a better understanding of the health of the system of tax administration at a point in time, the extent of reform required, the relative priorities for attention, the basis on which to develop plans for future reform initiatives, and a means of gauging progress over time. In a nutshell, the TADAT framework (which is publicly available — a key element of transparency) helps stakeholders in:

- Identifying the relative strengths and weaknesses in tax administration;
- Facilitating a shared view on the condition of the system of tax administration among all stakeholders (for example, country authorities, international organizations, and capacity development providers);
- Setting the reform agenda, including reform objectives, priorities, initiatives, and implementation sequencing;
- Facilitating management and coordination of internal and external support for reforms, and achieving faster and more efficient implementation; and
- Monitoring and evaluating reform progress by way of subsequent repeat assessments.

The TADAT initiative is also a part of the international community's global agenda designed to help countries strengthen their tax

systems and domestic revenue mobilization (DRM) efforts. As outlined in the Addis Tax Initiative communiqué of 2015 (with 55 signatory countries/regions and institutions), there was a commitment to "...step up domestic resource mobilization in order to increase the means of implementation for attaining the Sustainable Development Goals and inclusive development".¹ The TADAT was mentioned explicitly as a good development, and countries were encouraged "...to undertake a diagnostic assessment of their tax systems to help them and their development partners identify key areas where capacity building and reform measures will be most effective".²

2. Overview of the TADAT Methodology

TADAT assesses the performance of a country's system of tax administration with reference to nine performance outcome areas (POAs). The POAs, shown in Figure 1, are outlined below:



Figure 1. TADAT performance outcome areas

POA1 — *Integrity of the registered taxpayer base*: Registration of taxpayers and maintenance of a complete and accurate taxpayer database are fundamental to effective tax administration.

¹ Source: https://www.addistaxinitiative.net/documents/Addis-Tax-Initiative_Declaration_EN.pdf.

² Ibid.

POA2 — *Effective risk management*: Performance improves when risks to revenue and tax administration operations are identified and systematically managed.

POA3 — *Supporting voluntary compliance*: Usually, most taxpayers will meet their tax obligations if they are given the necessary information and support to enable them to comply voluntarily.

POA4 — *On-time filing of tax declarations*: Timely filing is essential because the filing of a tax declaration is a principal means by which a taxpayer's tax liability is established and becomes due and payable.

POA5 — *On-time payment of taxes*: Non-payment and late payment of taxes can have a detrimental effect on government budgets and cash management. Collection of tax arrears is costly and time consuming.

POA6 — *Accurate reporting in declarations*: Tax systems rely heavily on complete and accurate reporting of information in tax declarations. Audit and other verification activities, and proactive initiatives of taxpayer assistance promote accurate reporting and mitigate tax fraud.

POA7 — *Effective tax dispute resolution*: Independent, accessible, and efficient review mechanisms safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing in a timely manner.

POA8 — *Efficient revenue management*: Tax revenue collections must be fully accounted for, monitored against budget expectations, and analyzed to inform government revenue forecasting. Legitimate tax refunds to individuals and businesses must be paid promptly.

POA9 — *Accountability and transparency*: As public institutions, tax administrations are answerable for the way they use public resources and exercise authority. Community confidence and trust are enhanced when there is open accountability for administrative actions within a framework of responsibility to the minister, legislature, and general community.

Assessment ratings use a four-point "ABCD" scale according to specific scoring criteria prescribed throughout the TADAT Field Guide. A sliding scale from "A" to "D" is used, with "A"

denoting performance that meets or exceeds international good practices, and "D" denoting inadequate performance or where there is insufficient information or evidence available for assessors to determine and score the level of performance. The availability of evidence is a critical principle of the TADAT methodology.

3. Prerequisites for TADAT Assessments

TADAT assessments will usually be initiated by either a country's Ministry of Finance or tax administration, or by international/regional agencies, for example, African Development Bank, African Tax Administration Forum, Asian Development Bank, European Commission, International Monetary Fund (IMF), Inter-American Development Bank (IDB) and World Bank (WB), or bilateral donors.

TADAT assessments are conducted by assessment team comprising a team of trained assessors, one of whom is the designated assessment team leader. TADAT assessors undergo training conducted by the TADAT Secretariat. They must meet certain conditions including having the requisite tax administration or fiscal management experience, and proven experience in providing capacity development support to countries. Currently, there is a pool of about 500 certified TADAT assessors and another set of 2,500 persons who have been trained in the TADAT methodology — most of these are working in tax administrations around the world. The latter can also upgrade to assessor level provided they, as part of a team, conduct at least two assessments. Notwithstanding, those persons trained in the TADAT methodology are an invaluable resource to their tax administrations. They understand good practices and are then able to support reform interventions that are based on international good practices within their own organizations.

4. TADAT Assessments to Mid-March 2021

As of mid-March 2021, 105 TADAT assessments have been conducted globally (in 81 countries/regions), covering a range of differ-

ent socio-economic and legal environments. Of these, 89 assessments have been conducted at the national and 16 at the subnational levels. Eight of the assessments were repeat assessments — Georgia, Kenya, Kosovo, North Macedonia, Rwanda, South Africa, Uganda and Zambia.

From an income classification perspective, 11 of the assessments (10 percent) were in high income countries/regions;³ 32 (30 percent) in upper middle income countries/regions;⁴ 40 (38 percent) in lower middle income countries/regions;⁵ and 22 (21 percent) in low income countries/regions.⁶ The total 40 percent (43 countries/regions) uptake of the TADAT by high and upper middle income countries/regions attests to the global nature of the TADAT framework.

Also, as part of its quest for a robust and comprehensive assessment of its operations, in 2017, the Canada Revenue Agency (CRA) used the TADAT framework to provide input into informing and guiding future planning and decision making. Even though a standard TADAT Performance Assessment Report (PAR) was not prepared, the CRA published a summary report of findings in May 2018.⁷ Use by the CRA of the TADAT framework illustrated the global nature of the TADAT — irrespective of the maturity level of the system of tax administration.

Geographically, the bulk of assessments have, thus far, been conducted in sub-Saharan Africa

(47), 23 in Latin America and the Caribbean, 18 in Europe, 11 in the Middle East and Central Asia region, and six in the Asia Pacific region. In the latter case, the TADAT footprint is set to be enhanced through collaboration with the Asian Development Bank and recent assessment requests that include nine from the region that include five subnational entities.

It is observed that the demand for TADAT assessments by subnational levels of government is increasing especially as countries move to strengthen DRM efforts that include the subnational governance level. In their discussion on strengthening DRM in low and middle income countries, Junquera-Valera et al. (2017)⁸ emphasize the need to strengthen, amongst others, tax collection at the subnational level. The use of the TADAT framework at this level is therefore apt. A number of international capacity development partners are increasingly targeting their support to subnational levels of government. Examples include: the IDB with focused tax administration assistance to a number of Brazilian states, and TADAT assessments have been a prerequisite for project formulation in six states thus far; in Nigeria, the WB in collaboration with the Foreign, Commonwealth & Development Office — FCDO (formerly the Department for International Development — DFID); and the United Nations Capital Development Fund (UNCDF) in Kenya.⁹

3 For example, Antigua and Barbuda, Barbados, Greece, Mauritius, Norway, Panama, Romania, Slovakia, Trinidad and Tobago, and Spain.

4 Including Brazil, Colombia, Jamaica, Malaysia, North Macedonia, Paraguay, Peru, Romania, Serbia and South Africa.

5 For example, Bolivia, Egypt, Guatemala, Jordan, Kenya, Kyrgyzstan, Moldova, Nigeria, Papua New Guinea, Philippines and Zambia.

6 Including Burundi, Ethiopia, Madagascar, Malawi, Mali, Rwanda, Tajikistan, Tanzania, Togo, Uganda and Zimbabwe.

7 Government of Canada (2018). *Tax Administration Diagnostic Assessment Tool (TADAT) Summary Report*, <https://www.canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/tax-administration-diagnostic-assessment-tool-tadat-summary-report.html>.

8 Junquera-Varela Raul Felix, Marijn Verhoeven, Gangadhar P. Shukla, Bernard Haven, Rajul Awasthi & Blanca Moreno-Dodson (2017). *Strengthening Domestic Resource Mobilization: Moving from Theory to Practice in Low- and Middle-Income Countries*. Washington, DC: World Bank Group.

9 The IDB is supporting, amongst others, the TADAT-assessed Brazilian states of Alagoas, Federal District Brasília, Goiás, Maranhão, Rio de Janeiro and São Paulo. The WB/FCDO supported Nigerian states in which TADAT assessments have been conducted are Jigawa, Kaduna and Kano; and the UNCDF is supporting 17 counties in Kenya under the United Nations Joint Program on Devolution in Kenya through the Kenya United Nations Development Assistance Framework.

There is also evidence of countries and sub-national jurisdictions using the TADAT framework without undergoing a formal TADAT assessment. Examples of countries and sub-national jurisdictions falling under this category include: Afghanistan; Buenos Aires (Argentina); Cyprus; the Nigerian states of Ekiti, Ondo and Osun; and Puerto Rico. Additionally, in 2016, four Nordic countries (Denmark, Finland, Norway and Sweden) used elements of the TADAT framework to conduct a peer-to-peer benchmarking exercise. This enabled each of the tax administrations to learn about their organizations at a much deeper level than before. These “internal benchmarking” activities illustrate further the robustness of the TADAT framework.

A number of countries/regions and sub-national tax administrations have authorized the publication of their TADAT Performance Assessment Reports — a necessary requirement for disclosure of the PARs. The 23 published reports are available at <https://www.tadat.org/performanceAssessmentReports>. The most recent publications include those of Georgia (an upper middle income country) and Spain (a high income country).

A development worth noting is that the TADAT Secretariat is guiding a private sector company, BearingPoint Caribbean, in developing a TADAT metrics dashboard that will be embedded in its automated integrated tax administration software application. The objective for any tax administration that is using the BearingPoint software is to extract easily data required for a TADAT assessment, and for regular day-to-day performance management using the TADAT framework as a baseline.¹⁰

5. A Broad Analysis of TADAT Assessment Results

An analysis (including the use of machine learning techniques) of the TADAT assessment results suggests some common areas of strengths and weaknesses in country systems of tax administration. The analysis takes cognizance of

variations between countries. Nevertheless, the observations are a good baseline for countries to refine or strengthen further areas of weakness identified by the TADAT assessments.

Figure 2 shows a synthesis of ratings by TADAT assessors from 98 assessments.

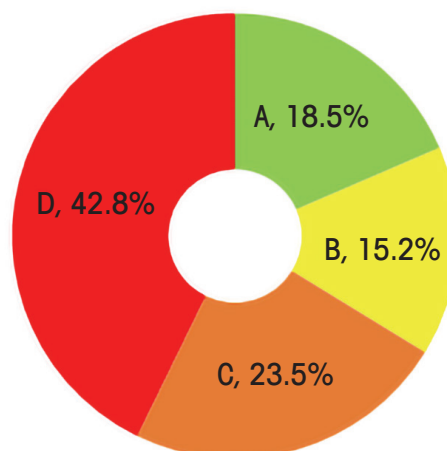


Figure 2. Cumulative TADAT assessments to end-October 2020

TADAT assessors rated countries and sub-national jurisdictions on the extent to which good tax administration practices were present as follows: (i) the frequency with which TADAT dimensions met or exceeded international good practices — an “A” rating (18.5 percent); (ii) frequency of a “B” rating which denotes sound practices — 15.2 percent; (iii) those with a “C” rating in which the basics of tax administration were in place — 23.5 percent; and (iv) instances in which TADAT-based good international practices were absent — 42.8 percent. This high-level perspective suggests that with a combined “C” and “D” ratings of 66.3 percent, there is still a lot of work to be done in order to get most tax administrations to a level where operational practices are sound. One of the implications is that to achieve high levels of DRM, diagnostics that provide a baseline assessment of tax administration capacities are critical. With the baselines in place, it is then possible to pri-

¹⁰ For further information on BearingPoint, please see <https://www.bearingpointcaribbean.com/en/>.

oritize reform interventions and monitor implementation progress.

Key strengths observed through TADAT assessments (“A” or “B” ratings) include: (i) taxpayers are able to obtain information from the tax administrations easily and generally free of cost; (ii) electronic filing and payment of tax declarations by taxpayers are becoming a standard way of operating; (iii) withholding of taxes at source is very common; (iv) graduated taxpayer dispute resolution frameworks are generally well designed; (v) tax administrations contribute strongly to governments’ tax revenue forecasting and estimating; and (vi) staff integrity management systems are generally sound.

Key areas of weakness observed (“C” or “D” ratings) include: (i) the quality of data available for use in many tax administrations is poor; (ii) taxpayer databases are generally inaccurate — this creates a problem of effective taxpayer compliance management and targeted assistance; (iii) business continuity in many tax administrations had not been prioritized, and the COVID-19 pandemic not only exposed but magnified the state of unpreparedness; (iv) human capital management (as opposed to human resource management)¹¹ is generally underdeveloped in many tax administrations; (v) tax debt levels are generally high, and in some instances not well known; (vi) legal provisions to write off tax debt are generally in place but are not used as expected — this leads to bloated debt levels in the tax administration books; (vii) although the dispute resolution frameworks are well designed, they falter during implementation — it takes too long to address disputed cas-

es even if the processes are in place;¹² and (viii) for those countries with Value-added Tax (VAT) regimes, the refund systems are generally inadequate and underfunded.

6. TADAT in Tax Administration Reform Formulation and Implementation

TADAT assessment results identify areas in need of reform. Many assessed countries and jurisdictions have used the assessment results to develop reform strategies and work plans. In her remarks at a TADAT workshop, Carla Grasso (the Deputy Managing Director, IMF) stated that:

“...TADAT is not just a matter of one-assessment. The assessment is a start. TADAT provides a common basis for all stakeholders to collaborate on reform and bring about real and lasting improvements in tax administration.”¹³

An example (of many) in which TADAT assessment results have been used to guide tax administration reform efforts is that of Tunisia. The United States Agency for International Development, under its Fiscal Reform for a Strong Tunisia program, promptly followed up a March 2018 TADAT assessment with support to the Tunisia Ministry of Finance in reviewing and making recommendations on the VAT refund system issues identified during the assessment itself.¹⁴

Additionally, TADAT assessment results are an important input into DRM approaches that aim at boosting country revenues. The Medium-term Revenue Strategy (MTRS) is one such comprehensive approach whose objective is to

11 Human resource management is a subset of human capital management. The latter is much broader and includes a set of practices. Human capital management — A set of practices related to people resource management. These practices are focused on the organizational need to provide specific competencies and are implemented in three categories: workforce acquisition, workforce management and workforce optimization. TADAT Secretariat (2019). *TADAT Field Guide*, p. 132, <https://www.tadat.org/fieldGuide>.

12 Since 2017, TADAT assessment results on dispute resolution (POA7) have been used to update the G20 Finance Ministers and Central Bank Governors on Tax Certainty. IMF/OECD (2019). *2019 Progress Report on Tax Certainty*, <https://www.oecd.org/tax/tax-policy/imf-oecd-2019-progress-report-on-tax-certainty.pdf>.

13 Carla Grasso (2018). *Tax Administration Diagnostic Assessment Tool TADAT — Reflections Event*, <https://www.imf.org/en/News/Articles/2018/07/06/sp06292018-remarks-by-carla-grasso-tadat>.

14 USAID (2019). *Fiscal Reform for a Strong Tunisia*, https://pdf.usaid.gov/pdf_docs/PA00TPFV.pdf.

formulate a high-level road map of tax system reform in a country — over a period of four to six years.¹⁵ When implemented well, the MTRS avoids erratic and inconsistent efforts at change that may lead to either little or no positive change, or a reversal of reform gains already made. Under the MTRS tax system reform road map, tax policy, revenue administration and the related legal framework are covered. TADAT assessments provide input in the revenue administration component of the MTRS. As of mid-March 2021, 15 of 23 countries that are receiving MTRS formulation or implementation capacity development support have already undertaken TADAT assessments and the results are being used in the support being provided; three other countries have TADAT assessments planned in the near future.¹⁶

A TADAT Impact survey report of May 2019¹⁷ suggested that implementation of reforms based on TADAT assessment results led to improvements across all the nine POAs. Stand-out areas of improvement included: the taxpayer register (POA1), risk management (POA2), voluntary compliance (POA3), on-time tax declarations filing (POA4), payment of taxes (POA5) and dispute resolution (POA7).

7. Other TADAT-related Analytical Work

Results from TADAT assessments continue to provide insights into areas in need of further research or investigation — and some scholarly publications have been generated. For example, staff from the TADAT Secretariat and IMF's Fis-

cal Affairs Department used TADAT assessment results to provide evidence that small and young firms perform better in countries with lower tax compliance costs. Data from 21 emerging markets and developing countries over 2013–2015 was used. A novel Tax Administration Quality Index (TAQI) was developed drawing on this research.¹⁸ Additionally, the World Bank used TADAT results as input into a paper, entitled “Casting a Wider Tax Net: Experimental Evidence from Costa Rica”, which was published in the *American Economic Journal (Economic Policy)*.¹⁹ Various papers that were the basis of input into the revised TADAT April 2019 Field Guide were developed including topical areas such as: efficient revenue management — suspense accounts, human capital management, institutional risk management, TADAT in sub-national tax administrations, and TADAT and policy dialogue.

Upcoming analytical work includes papers on the impact of COVID-19 on deferment of taxpayer compliance obligations,²⁰ and the tax policy and administration implications of TADAT assessment results are being developed in collaboration with entities such as the Commonwealth Association of Tax Administrators and the African Tax Administration Forum respectively. Additionally, members of the TADAT Technical Advisory group (TAG)²¹ are involved in reviewing these and other analytical papers being developed by the TADAT Secretariat.

One stream of analytical work that is showing promise is that on machine learning. This analytical work aims at finding associations be-

15 Further information on the MTRS concept is available at <https://www.tax-platform.org/publications/mtrs>.

16 Source: International Monetary Fund.

17 John Crotty, Christos Kotsogiannis & Rick Leigh (2019). *2019 TADAT Impact Survey Results — Key Messages, Lessons for Capacity Development, and Possible Next Steps*, https://www.tadat.org/assets/files/TADATInsights_1.pdf.

18 E. Dabla-Norris, F. Misch, D. Cleary & M. Khwaja (2019). *The Quality of Tax Administration and Firm Performance: Evidence from Developing Countries*, <https://link.springer.com/article/10.1007/s10797-019-09551-y>.

19 Brockmeyer Anne, Spencer Smith, Marco Hernandez & Stewart Kettle (2019). *Casting a Wider Tax Net: Experimental Evidence from Costa Rica*, *American Economic Journal: Economic Policy* 3, pp.55–87.

20 Registration, filing of declarations, payment of taxes and accuracy of reporting obligations.

21 The TAG is a group of tax administration experts, regional tax administration organization and agencies, and members from academia who advise the TADAT Secretariat on technical aspects of the development, design, implementation and maintenance of the TADAT framework.



tween the various TADAT dimensions which are, essentially, activities that should be undertaken by tax administrations. The analysis, an intellectually challenging exercise, is confirming the need to move away from siloed operational approaches and a mind-set change in both developed and developing tax administrations. Further, a working paper, focusing on registration of taxpayers (POA1) and related issues gleaned from TADAT assessments, is expected to be released at the end of June 2021.

8. TADAT Outreach

Apart from its website (www.tadat.org), the TADAT Secretariat has, since September 2019, been using podcasts and videocasts (on its YouTube channel) to reach out and engage strongly with tax administrations, tax experts and other stakeholders. Various podcast/videocast episodes, including some that focus on the impact of COVID-19, have been produced. As of mid-March 2021, a total of 125 podcast tracks featuring various tax administration chief

executives and tax experts had been posted. These podcasts/videocasts are available in several languages — Arabic, Chinese, English, French, Portuguese, Russian and Spanish.²² The uptake has been strong since the channels went live, with total listenership/views of about 16,000 as of mid-March 2021. The most recent podcast/videocast releases (March 2021) feature experiences of a TADAT assessment in Colombia and a special edition on gender and revenue administration.

9. Lessons Learned

Now in its seventh year of implementation, the TADAT framework has proven to be robust. Many lessons have been learned including the following:

- The outcomes and evidence-based approach of the TADAT is viable — some countries (including those not assessed) are using the TADAT framework for internal benchmarking purposes.
- A meaningful assessment requires the ac-

²² Podcasts are available at <https://tadatpodcast.podbean.com/> and <https://soundcloud.com/user-447764551>; and videocasts at <https://www.youtube.com/watch?v=BZ-4OqHCXQA&t=42s>. Also to note that the YouTube channel includes TADAT training and other material showcasing the history of TADAT, and reflections of the TADAT journey since its inception.

tive involvement of country or subnational entity tax administration and related agency/ies' staff in all phases of the assessment process.

- Pre-assessment training of government officials (tax administration, Ministry of Finance, Auditor General) has proven to be very helpful and has empowered those trained to become reform champions in their own operational domains.
- Rigor of assessments is imperative — where shortcuts have been attempted, the low quality of assessments has manifested itself during the quality-assurance process conducted by the TADAT Secretariat.
- TADAT assessments have most value if translated quickly into better designed/sequenced/coordinated/implemented and monitored tax administration reforms.
- Extending assessments to the subnational level has not only added value, but helped identify linkages and opportunities between processes at the subnational level and those of the national/federal tax administration level. For example:

Taxpayer registration systems and processes between national and subnational tax administrations are becoming more integrated (e.g. Brazil, Nigeria, Tanzania and Uganda).

Opportunities for integrated (and automated) compliance risk management systems across national and subnational tax administrations are underexploited — taxpayers easily exploit the lack of coordination across the tax jurisdictions, especially where they see an advantage or operational gaps/loopholes.

- Country case studies of successful reform programs that have followed the completion of TADAT assessments are invaluable. Publication of successful reform studies, including around POA improvements, could provide guidance to country authorities on the conditions that need to be in place for reform success.
- The analytical work conducted thus far suggests that further research is warranted with

respect to, for example, the extent to which tax administrations network with each other and promote peer-to-peer learning.

- TADAT assessment results suggest that embedding good tax administration practices in many tax administrations remains a work-in-progress. To this point, analysis of the data indicates that the different tax administration functions are associated — although the degree of association may vary. The implication is that developing and implementing reform strategies and work plans that account for inter-functional dependencies has greater potential of success than silo-based approaches. Key questions to ponder include: (i) if associations between the functional areas exist (and the evidence increasingly suggests that they do), to what extent do the persons and systems collaborate with each other in order to achieve not only their own but also the tax administration's desired outcomes; and (ii) what mechanisms can be developed or strengthened to minimize silo-based operations, unhealthy inter-functional competition and the consequential sub-optimal use of resources?

10. Conclusion

In just a few years, TADAT framework has proved itself as a leading instrument for assessing the health of country systems of tax administration. It has proven to be robust and has enabled stakeholders in the assessed countries/jurisdictions to have a common view of the strengths and weaknesses. Reform plans and related investment decisions become easier to develop and implement when performance is assessed using an objective and globally accepted diagnostic tool.

Going forward, an analysis of TADAT assessment results and experiences of those countries and jurisdictions assessed will, as has been the case, provide invaluable input to keep the TADAT framework up-to-date and relevant in the foreseeable future. In a nutshell, and in relation to DRM, TADAT assessments have only just scratched the surface.

The Significance of a Country's Tax Environment in Economic Growth and Development

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Abstract: This article intends to provide an overview of the significance of a country's tax environment in economic growth and development. It examines the effects of taxation on the most important factors of economy such as investment, labour supply and environment. The last factor, the environment, has received more attention in recent years as many agree that economic growth must be sustainable. The authors also point out that there is an interaction between taxes and the entire tax system, rather than a single tax in isolation, which should be looked at when assessing the influence of taxation on economic growth. Moreover, an introduction is given to IBFD's TAX-Ray Assessment that measures operational ability of tax administrations with a view to improving the effectiveness and efficiency in their efforts of the implementation, administration and enforcement of tax laws.

Keywords: Tax environment; Economic growth and development; Investment; Employment; TAX-Ray project

1. Introduction

This article will focus on the significance of a country's tax environment in economic growth and development, which is an important topic in the context of the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM) because it is one of the first things that a tax policy-maker of every country should consider. Before we go into the details of this subject, it should be mentioned that tax environment has impacts on a country's economic performance, (re)distribution of income, thus equity issue, individual behaviours and political changes. In principle, "tax

environment" comprises every aspect of taxation that can exercise influence on investment and economic growth, including tax administration and tax services for taxpayers. This article begins with the examination of effects of taxation on investment, employment and environment, the three most important determinants of economic growth. After that, the economic impact of each type of tax and special topics of tax environment such as tax administration and tax services will be examined. Specifically, the article will share some information on IBFD's TAX-Ray programme which is relevant to the process of tax reform.

2. Effects of Taxation on a Country's Economy

Generally speaking, taxation has impacts on investment, labour supply, consumption, savings, income and resource (re)distribution, ecological environment, inflation, even national health and so on. Among these, investment, employment, consumption and ecological environment are most important for contemporary economic growth.

2.1 Investment

Investment is a driving force for economic growth of a country and is strongly influenced by a country's tax policy. It is not surprising that most countries design a tax policy, aiming to stimulate both domestic investment and foreign direct investment.

Tax policy that targets the increase of domestic investment comprises (corporate or personal) income tax rate reduction, investment credit, accelerated depreciation, extended loss carry-back or carry-forward, special tax regime for research and development (R&D) activities, etc. In recent years, tax policy regarding R&D has gained much attention in domestic investment. The majority of governments around the world realize that substantial economic growth cannot be realized without the investment in R&D and high-tech venture capital. Innovation and high productivity through new and high technology are the strategy and key to realizing economic growth in the long term. Examples therefore are patent box (lowering tax rate) and super-deduction for R&D expenses (narrowing tax base) for corporate income tax.

As to foreign direct investment, business decision is primarily made on the basis of market size, availability of skilled and low-cost labour, political stability, infrastructure and other resources. However, once the decision of investment is made, the "tax environment" will become a determinant in investment decision. A multinational company will normally choose the country with lower effective corporate income tax rate, lower withholding taxes and tax incentives, etc. provided that other political and macroeconomic factors mentioned above are

similar. Most countries have designed different tax regimes to attract foreign direct investment. However, in the attempt of attracting foreign direct (or indirect) investment, harmful tax competition is an issue for attention. Action 5 of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project has addressed this issue and pillar two of the OECD proposal will introduce a global minimum tax so that the difference in the incidence of the corporate income tax will, to a certain extent, be neutralized.

2.2 Employment

A high level of employment is conducive to economic growth as a dedicated and skilled workforce is needed to produce more output in economy. Taxation, especially personal income tax and social security contributions, has direct influence on employment. It is generally assumed that high taxation on labour will lead to high labour costs, therefore, reducing both labour demand and supply. In a country of high taxation on labour, employers are reluctant to hire people and working population are reluctant to work. Also in the context of attracting foreign direct investment, a country may want to keep labour costs low to maintain its competitiveness, and mitigating the taxation on low-income workers is often a tax policy of developing countries to prevent "pricing-out" of employment of this group of workers.

In a globalized world and against the backdrop of rapid technological development, employment of high-skilled labour is high on the agenda of the government. As high-skilled labour force plays an important role in a country's innovation, and thus economic development is relatively mobile and responsive to tax rate, many countries design a special tax scheme to attract and retain talented workers. For example, the Netherlands has adopted the so-called "30%-ruling" for high-skilled foreign workers for many years. This (reimbursement) ruling allows employers to grant a tax-free allowance equivalent to 30% of the gross salary.

Personal income tax and social security contributions generally account for an important part of tax revenues and are indispensable

tools for politicians to distribute income in the society and achieve political goals. As a result, it is important for a country to strike a good balance between appropriate taxation on labour in the context of economic growth and other political and social factors to be taken into account.

2.3 Ecological Environment

In the 21st century, climate change is a global challenge and all countries around the world are called upon to reduce environmental damage brought about by economic growth. In other words, economic growth must be sustainable. Economic growth is no longer a matter of quantity, measured by GDP, but more importantly a matter of quality. The shift of attention of economic growth is also reflected in taxation as environmentally-related taxation has proven to be effective in the transformation of economy to an environment-friendly one.

Environmentally-related tax measures can be divided into higher taxation on consumption of energy or resources, tax incentives on saving energy and tax related to emission of CO₂ for industries, etc. The concrete examples are excise duties on fossil fuels and tax incentives for green/clean energy, electric cars, upgrading equipment with no pollution and in the area of carbon capture, use and sequestration (CCUS). Although these measures only induce the transmission of the economy, not the economic growth (increase of taxation on energy use and transport fuels can even damage the economic growth in a short term), ignoring the environmental taxes to steer economy in the right direction can be detrimental to economic growth in a long run. In addition, “the use of environmentally related taxes can drive growth-oriented reform by shifting the tax burden away from more distortive taxes, e.g. on corporate or personal income, and contribute to fiscal consolidation”.¹

Looking at the global development of environmentally-related taxes, we have seen an increase in these taxes, but slowly. The introduc-

tion of an environmentally-related tax may not have immediate effects as booking results from such investment takes time. It is expected that environmentally-related tax will acquire a more important place in the economic development.

3. The Impact of Each Type of Main Taxes on the Economy

No matter how the tax system of a country is structured, there are a number of taxes that most countries/regions generally impose, such as personal income tax, corporate income tax, taxes on consumption (VAT and excise on luxury goods) and taxes on property. Almost all kinds of these taxes will have influence on a country's economy and taxpayers' behaviours. However, the degree of the influence may vary. It is generally assumed that income taxes have larger effects on enterprises and households decisions than other taxes and taxes that have a smaller negative impact on economic decisions of individuals and enterprises are less negative for economic growth. The impacts of these main taxes are set out below.

3.1 Personal Income Tax

As discussed above, personal income tax (sometimes including social security contributions) may have significant impact on work participation, distribution of income and attracting human resources. Depending on the political, macroeconomic and social goals of a country, the focus of this tax should be on marginal tax rates, tax base and the implementation and enforcement issues. Workforce participation is very responsive to changes of marginal tax rates and high taxation on passive income of individuals may impact savings and investment.

In addition, a country can offer cheap labour to attract foreign direct investment. The low-cost labour generally also implies low taxation on low-income workers. On the other hand, if a country wants to attract high educated and skilled talents for its innovation and high-technology development, it may cut the

1 OECD (2015). *Towards Green Growth?: Tracking Progress*, <https://doi.org/10.1787/9789264234437-en>.

tax for qualified foreign workers. Personal income tax may also be used to make macroeconomic adjustments such as housing market and savings of individuals.

The OECD report shows that the reduction of personal income tax is the trend in the last years.² This trend is expected to continue. It is important to note that a reform of personal income tax should always take into account social security system and corporate income tax. The appropriate interplay between them is essential to achieve the effects a country wants to achieve.

3.2 Corporate Income Tax

Corporation is a legal concept. Even though corporate income tax is imposed at the corporate level, the tax burden will eventually fall on shareholders or owners behind the corporation. A lot of countries have the classical tax system which means the net profits of a corporation are taxed at the corporate level and the profits distributed to shareholders, in the form of dividends or other profit distribution will be taxed again in the hand of the individuals. This economic double taxation is considered to discourage corporate investment and to be distortive for economy by some economists. However, the existence of corporate income tax derives from the fact that corporation must be taxed as a business entity with its own legal rights and obligations, while absence of corporate income tax or lowering corporate income tax below the level of individual income tax will lead to incorporation of firms to shelter income of individuals.

In relationship to economic growth, the general view is that high taxation on corporations will reduce the corporate profitability and therefore reduce the appetite of investors to invest which has negative consequence for capital stock. Based on these arguments, many countries have some measures to mitigate the double taxation effect in their tax systems such as imputation of tax credit and a low tax rate on dividends, etc.

Corporate income tax is very sensitive to tax avoidance and evasion and the most used anti-tax avoidance measures such as controlled foreign corporation rule (CFC), thin capitalization rule and transfer pricing target corporations. Introduction and implementation of these rules to close the loopholes and improve transparency are a factor for sound economic growth. These rules prevent distortion and ensure a fair competition for all enterprises.

The recent development of corporate income tax is biased to cutting tax rates and at the same time broadening tax base. The reduction of corporate income tax rate can be compensated by reducing depreciation allowances, limiting reductions of expenses or enhancing enforcement of the law by closing the loopholes of tax avoidance and tax evasion, etc. The general trend is to move tax away from income taxes to taxes on consumption.

The big challenge is currently taxation on the digital economy. In terms of economic volume, the digitalized economy is becoming more important for global economic growth. The new features of this kind of businesses are remote control and no presence in the market jurisdiction. Deriving business income from a country does not necessarily create a lot of jobs or foreign direct investment, with exception of sharing economy such as Uber and Airbnb. Tax proposal of Pillar One of the OECD intends to solve this problem. Although it is said that proposal with regard to taxation on digital economy is mainly about the allocation of taxing rights, if the consensus is reached and the tax is levied on various forms of digital businesses, there will be considerable increase of tax burden on tech-giants. According to the latest update on the Economic Analysis and Impact Assessment, "the combined effect of the two-pillar solution under discussion is expected to be up to 4% of global corporate income tax revenue or USD 100 billion annually".³ Whether or not the tax is discounted in the price of digital services

2 OECD (2020). *Tax Policy Reforms 2020: OECD and Selected Partner Economies*, <https://doi.org/10.1787/7af51916-en>.

3 OECD (2020). *Webcast: Update on Economic Analysis and Impact Assessment*, <http://www.oecd.org/tax/beps/webcast-economic-analysis-impact-assessment-february-2020.htm>.

or borne by companies engaged in the digital economy, the increase of tax incidence will have significant economic consequences.

3.3 Taxes on Consumption

Consumption taxes are generally imposed on goods, services and imports on a gross basis (there are few exceptions). In comparison to income taxes, consumption taxes are less distortive. With some caution, the OECD recommends the governments to shift the burden of taxation from income to consumption and/or residential property. Furthermore, these taxes are also less progressive and likely to tax low- and middle-income earners more heavily than the rich.

The most important consumption tax is VAT and for many countries, VAT constitutes a large source of tax revenues. The economic effects of imposition of VAT are that high VAT rates may increase the prices of goods and services and trigger inflation, and as a result, consumption will decrease. However, (domestic) consumption will stimulate demand and is essential for economic growth. There is a trend that VAT is more often used as revenue generator and governments, to a certain extent, make a slight shift from income taxes to taxes on consumption, especially to VAT.

The problem is that a well-functioned VAT system requires a good recording/accounting system set up by taxpayers. If a country fails to implement a functional VAT system, it would cause a serious distortion in the economy. In addition, VAT fraud and issues related to cross-border online sales are the issues many countries have to deal with. The current trend of VAT is that the standard VAT rate has stabilized.

Other taxes on consumption are excise taxes on special (luxury) goods such as tobacco, alcohol and sugar-sweetened beverage, even meat consumption in the future. The economic effects of these taxes will mainly be the reduction of the healthcare costs of society and welfare of the whole population against the decline of the industries producing such products.

3.4 Taxes on Property

Immovable property tax is the most import-

ant property tax. This tax is effective in the sense that the properties are not mobile and form a solid tax base, and the tax is recurrent annually. The recurrent taxes on immovable property are considered the least distortive tax instrument in terms of reducing long-run GDP per capita, followed by consumption taxes. Increasingly governments are paying more attention to tax on property. It depends on a non-tax government department to support tax administration. For example, to identify the owners, mostly the taxpayers of tax on residential property, it needs the land registration to provide the information. However, taxing properties, especially residential properties, is not popular. The priority for political and social stability may form obstacles to unpopular tax reform.

Taxation on high savings may stimulate the domestic consumption; however, small number of savings should be spared and the high taxation on savings should target the wealth populations of a country.

3.5 Taxation Being Looked at in the Entire Tax System

A tax can never be looked at in isolation. The tax system of a country should be seen as a whole rather than just its elements on a tax-by-tax basis being looked at. All taxes interact with each other and exert the influence on economic growth. The (marginal) tax rate of personal income tax of a country must be, for instance, determined by taking into account of the tax rate of corporate income tax; otherwise, taxpayers may avoid the marginal rate by incorporation of a company if the corporate income tax leaves room for tax planning. Apart from economy, equity and equality issue, political compromise and environment also play a role in the formation of tax policy. Also, in a globalized world of today, the tax environment of a country can not be examined in isolation of tax systems in other countries. Enterprises with cross-border activities have to compete in global markets, and national tax systems need to be coordinated with those of other countries. The OECD/G20 BEPS Project has given clear evidence that many tax issues need a global solution. It goes

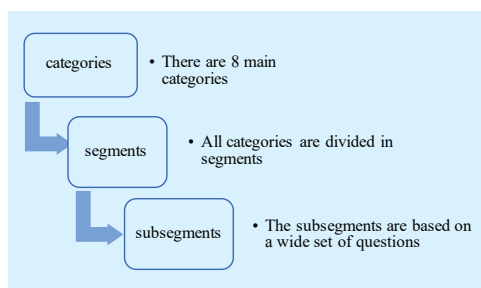
without saying that good-quality analyses of the impacts of a country's tax system or tax reform are always desirable and necessary. It is not only the impact on economy, the impacts on revenue, equity, equality, political composition and tax administration are equally important to consider.

4. Tax-Ray Project

In this context, IBFD's Tax-Ray project is relevant. IBFD has developed Tax-Ray that measures the institutional, strategic and operational ability of tax authorities to effectively and efficiently implement, administer and enforce tax laws. The methodology developed by IBFD is evidence-based and it recognises the importance of the environmental circumstances and is universally applicable.

The Tax-Ray Assessment consists of several modules that can be used for assessment of capacity building, scoping of the tax reform process, gap analysis for the policy and legal processes, SWOT analysis in the operational processes or priority setting in the managerial function. Other applications are also possible, but these are some practical examples.

The Tax-Ray Assessment is based on the following system.



In order to highlight one of the eight sub-segments in the economy, we take employment as an example. The whole methodology comprises around 1,450 questions.

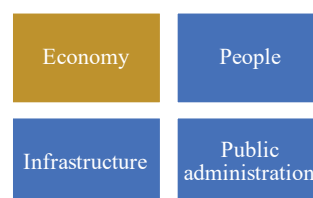
The first main area is the environment wherein the Tax Administration operates. A number of external factors in a country may significantly influence the ability of the Tax Administration to effectively implement and enforce the tax legislation and to promote compliance with the tax obligations among the taxpayer community. Some factors are even



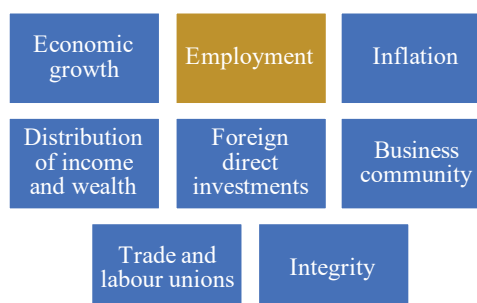
considered as preconditions for effective tax administration.

Environmental factors to be considered include size, nature, characteristics of and development in economy and population, levels of literacy, health(care) and education, knowledge of foreign languages, infrastructure (e.g. telecom, transportation, supply of water and energy and computerization), institutional factors such as characteristics of the governmental system (federal/state/local), the principles and practices of good governance, the existence of a civil service system, accounting rules, cross-government co-operation, existence and roles of independent tax courts, ombudsman, the National Audit Office and the role of the academic world in taxation.

The environment category is divided by four major segments.



Each segment has consequently a subdivision, i.e. subsegments and again we are illustrating the segment for the economy.



The subsegment of employment is a group of further in-depth questions. The table below gives an overview of the questions and the possible answers. There is also a scoring methodology to monitor trends and developments, but for the purpose of this article we have erased this in the table beneath.

In the category of environment, we have 26

tables as shown below, which consist of 212 main questions.

To give an example of how one segment in the environment can have an impact on the tax system and therefore on the required tax policy, imagine two neighbour countries: one with an elderly population (currently the case in some matured European and Asian economies) and

Unemployment	<2%	2% ~ 4%	4% ~ 6%	6% ~ 10%	10% ~ 15%	>15%
Trend of productivity	Declining >-2%	Vulnerable -2% ~ +0.5%		Stable + 0.5% ~ 2%	Growing +2% ~ 4%	Fast growing >+4%
Average retirement age	<75		75 ~ 80		>80	
Average working hours per week	>45 hrs		40 ~ 45 hrs		<40 hrs	
Typology of unemployment	Relatively more women unemployed			No		Yes
	Relatively more elderly unemployed			No		Yes
	Relatively more youngsters unemployed			No		Yes
	Relatively high duration unemployed			No		Yes
	Relatively high sectoral unemployed			No		Yes
	Relatively high regional unemployed			No		Yes
	Influence of globalisation			No		Yes
	Declining number of permanent contracts			No		Yes
Facilities for employment	Regulations for working conditions			Yes		No
	Enforcement of such regulations			Yes		No
	Existence of sound pension system			Yes		No
	Facilities for training during employment			Yes		No
	Tax incentives for study and training			Yes		No
	High commuting time to reach work			No		Yes
Typology of employment	Part-time working possible			Yes		No
	Female participation			Yes		No
	Equal career possibilities male/female			Yes		No
	Young/elderly participation balanced			Yes		No
	Easiness to change jobs			Yes		No
	Facilities for self-employment			Yes		No

the other one with a very young population (significantly more appearing in the less developed economies). The country with the elderly population will have taxpayers with pensions paid out by institutional funds where a wages withholding tax can be easily applied; there will be probably more savings (interests and dividends) that can be also taxed by withholding taxes and more assets for which a capital gains tax can be justified. We can also imagine that the factor of elderly care will play a more important role in society and therefore be supported by deductions in the income tax. In services the elderly population have maybe a preference for correspondence or face-to-face communication. It could be that the elderly population, due to their experience with the public administration and the related benefits they receive, is more willing to voluntarily comply.

It is not so difficult to imagine the opposite trend in the younger society. They are less experienced with the public administration, which will bring more risks in compliance. Or more taxpayer education is required but preferably by social media, podcasts or YouTube videos. The labour market is illustrated by more mobility, short-term contracts, self-employed entrepreneurship and a need for constant educational efforts, directly subsidized or by generous deductions in the tax system. Savings or buying a house is more the exception than the rule. Benefits for the children are required to help young parents organise a stable life. The connection between the mentioned different economies is maybe the facility to transfer capital from the elderly to the younger generation by tax free gifts. And finally, a society with savings can't stand inflation but a younger generation with study loans and mortgages is longing for inflation. Following is just one simple illustration how the demography can have its impact on the tax system. Imagine when we make it more complicated by the gender factor or labour immigration. And let we not forget the cultural factor in demographic aspects. Is there a need that young people will start their own household as soon as possible or is there more the trend that family members stay longer together

in a collective household or extended family environment? Such a difference has an impact on the housing market, income distribution, required pension system, transfer of real estate and inheritance regulations along with their subsequently links to the tax system.

In summary, through TAX-Ray, we can help analyse the impacts of tax measures of a country.

5. Tax Administration and Tax Service

Tax administration, tax service and tax compliance constitute part of the tax environment and have influence on investment climate and economic growth. How a tax administration functions and how much tax services are provided have repercussions on tax certainty, transparency, trust of taxpayers and tax compliance. There are a couple of things that a tax administration can do to contribute to a good tax environment.

First, the tax administration should act according to the principle of the rule by law which was extensively discussed at the First Belt and Road Initiative Tax Administration Cooperation Forum in Wuzhen in 2019. The rule by law is the fundamental rule in implementation of tax laws and regulations and prevention of corruption.

Second, providing greater certainty and predictability in the application of tax laws may lead to higher investment, which, in turn, could enhance growth performance. In this regard, a judicial mechanism in the area of taxation can be helpful. If there is no specialised court for tax matters in a country, the risk exists that judges without any tax background will have their say in case law. Even when the judges are qualified in civil, penal or public laws, tax cases are complex and require the knowledge in taxation. The consequences could be that certainty is undermined and tax officials or taxpayers are dissatisfied. This situation has particular impact on foreign direct investment. The surveys under multinational enterprises indicate that they attach great importance to a stable and predictable tax environment.

At last, tax services contribute to reducing the compliance costs of taxpayers, increasing tax compliance and consequently improving investment climate. In this regard, the tax col-

lection system is crucial, in particular the way in which taxpayers file tax returns and pay taxes and the time taxpayers spend to fulfil their tax obligations. In the past 15 years, electronic filing and payment really took off. According to *Doing Business 2020* of the World Bank, the number of the economies that have introduced e-filing and e-payment has been increased to 106.⁴ The Netherlands has used prepopulated tax returns for individuals and e-filings for corporations for many years, and China has apps for filing tax and recently established e-invoice system for VAT and collection of other taxes.

The information system is another point of tax services. Tax information must be communicated in a transparent and timely fashion. Any change in taxation (tax reform) should be announced far in advance and give taxpayers sufficient time to adjust. For example, if a country moves from a single VAT rate to a dual rate system, a standard rate for general goods, services and imports, and a reduced rate for necessities, taxpayers need to adjust their accounting system to keep the record of transactions that are subject to the standard rate and those to the reduced rate. A good information system and services help implement any tax change/reform more smoothly.

6. Final Remarks

The relationship between taxation and economy is complicated. A solid economic analysis and impact assessment of a tax system could help avoid mistakes and achieve the final objectives. In general, it can be concluded that less taxation is conducive to economic growth. Paradox is that reducing tax burden may stimulate economic growth, but inflict damages on the health of public finance, and a sound public finance is in its turn indispensable for long-term economic growth. After all, governments must be able to invest in education, infrastructure and other public goods to maintain the economic growth. In addition, considerations

other than economic growth and development also play a role in determination of a country's tax policy. There are always trade-offs and balancing issues. Apart from that, a lot of tax issues have increasingly become "international" and go beyond the border of a country. The tax challenge of digital economy is a good example. The tax policy of a country of the European Union is, to a certain extent, even determined by Brussels.

Today, governments around the world are facing the decrease of tax revenues and running huge budget deficits due to the crisis caused by the pandemic. By the time that the pandemic is contained, economic recovery would be the priority and tax system should be adjusted accordingly. Reducing debt level can be done either by reducing expenditures or increasing taxes, but it can also be achieved by economic growth. What is the best response to this challenge is contingent on the fiscal, political, economic and social circumstances of the country.

BRITACOM is a welcome platform to discuss complex tax issues in the framework of the Belt and Road Initiative. It is certainly good that countries exchange experience and learn the countries' best practices. Needless to say, IBFD, as leading international tax data centre, is prepared to give our support where it is required.

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⁴ The World Bank (2020). *Doing Business 2020*, <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>.

Enhancing Tax Administration Capacity

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Abstract: The COVID-19 pandemic has shown us the societal importance of tax administration service delivery capacities and agility. Tax administration capacity is a key factor for nurturing both societal resilience and domestic resource mobilisation. Tax administrations around the globe are implementing new digital technologies to enhance taxpayer service quality, reduce operational and compliance burdens and increase revenues. In addition to the ongoing incremental improvement of the core tax administration functions, there are also increasing signs of transformation towards a more fundamental change in the nature of tax administration. This concerns a more system-wide compliance management approach in which tax administrations try to closely engage with the natural systems that taxpayers use to manage their business, engage in transactions and communicate in order to reduce errors, minimise burdens and increasingly build tax compliance. This paper explores the way in which tax administrations are enhancing the capacity of core functions and are preparing for a more holistic compliance management approach, including using an increasing amount of digital data sources facilitated by the introduction of new digital innovations.

Keywords: Tax administration capacity; Digitalisation of tax administration; Tax administration functions; Compliance management; Compliance by design; Digital transformation; Tax administration 3.0; Natural systems

1. Introduction

Disruptive technologies are reshaping the economy by creating new products, services and business models. The Internet, portal solutions, social media, mobile platforms, cloud computing and big data technologies are also creating new opportunities for citizens and businesses. They are also challenging the way tax administrations go about their work

as well as providing new opportunities to administer taxes, support taxpayers and encourage their participation.

One of these opportunities is a move from more reactive activities and services, which have characterised tax administration in the past. Under this model, the tax administration functions tended to operate in a silo fashion often using large numbers of legacy IT systems without full

interoperability. Increasingly, tax administrations are moving to be more data and service driven, with increasing use of proactive tools for engaging with taxpayers, greater use of third party data and increasing use of advanced analytics to better target interventions. These are important incremental changes, enhancing compliance and reducing burdens. Over time, a more fundamental paradigm shift seems likely to occur with tax administration becoming fully digital, plugged into the natural systems of taxpayers and increasingly moving the payment of tax “upstream” and closer to the point that a tax liability is created. In many cases, this may make tax a more seamless process over time, with non-compliance designed out in some areas and compliance burdens significantly reduced for some taxpayers.¹

As a result of changes in economic activity, technology and the availability of data, these changes are already well underway in many tax administrations driven by:

- a large increase in the number of third party developers and consequently in the range of available applications, for example the development of mobile apps or business software with embedded tax rules, calculators and payment channels;
- unprecedented increases in the availability, capability and portability of digital devices. In particular, there is now a large scale penetration of powerful mobile devices in many countries. These are capable of undertaking sophisticated calculations and processes, of recording and transmitting data digitally and interlinking with other devices and systems, including payment systems. In addition, there is increasing use of trust building technology, such as systems supporting e-invoicing and electronic cash registers. These can lead to a higher level of assurance and build-in compliance, reducing errors and opportunities for underreporting;
- enhanced systems for authentication and identification, ranging from multi-step verification (for example, password, date of birth and one-off codes) to biometric information, including voice identification and facial recognition. The emergence of blockchain technology also carries the potential to provide for more secure verification of transactions, payments and identity, including in cross-border contexts;
- increased use of robotic applications for administrative tasks (for example retrieving and assembling information), business and machine rules (for example in assigning work or making rules-based decisions) and the emergence of artificial intelligence (AI) capable of making supervised judgements and learning by experience;
- greater sophistication and use of behavioural insights and advanced analytic techniques to uncover previously invisible patterns, surface new insights, make predictions and make recommendations; and
- an accompanying massive increase in the availability of structured digital data to tax administrations both internally generated and externally from third parties (for example, financial institutions, other businesses or other government agencies). Tools are increasingly becoming available to make it easier to use unstructured data (for example, email content and social media) for enhancing taxpayer services and compliance, including through the use of AI.

These and other disruptive technologies and tools are increasingly being examined and used by tax administrations both for improvements in the delivery of a number of existing services or processes but also for rethinking tax administration in a holistic manner.

This paper aims to explore both development perspectives. The next section provides a broad overview of developments seen from the perspective of tax administrations’ traditional

¹ A current example of this is the personal income tax pay-as-you-earn withholding system for salaried employees where employees with non-complex tax affairs often have nothing to do to meet their tax liabilities.

functional approach (“value chains”). The following sections explore the subject from a more system-wide compliance management approach in which tax administrations try to engage more closely with taxpayers’ natural systems.

2. Key Tax Administration Functions

The traditional tax administration value chain consists of a number of functions: registration, assessment, verification, collection and dispute resolution processes. These are typically organised in a unidirectional value chain.

The introduction of new tools and technologies affects the way these processes are related to each other and the role of data. This represents an evolution of traditional tax administration, enabling better taxpayer service, more assurance of tax and better targeted compliance activities.

2.1 Registration, Matching and Authentication

A comprehensive system of registration and taxpayer identification is critical for the effective operation of the tax system. It is the basis for supporting self-assessment, value-added and withholding regimes, as well as third party reporting and matching. While a majority of advanced tax administrations are responsible for the system of registration within their jurisdictions, the trend seems to be that registration processes are increasingly being initiated outside the tax administration through other government services.

What new technology offers here is the ability to share and match data coming from different sources more effectively and efficiently. This can allow for quicker updating of information, enabling greater accuracy and reliability as well as enhanced assessment of where taxable activity may be undertaken by those unregistered for tax.² The form of register can either

be centralised within the tax administration, drawing on information from other sources, or a series of connected registers. In either case, the quality of the register over time will be impacted by constraints on the legal ability to share data and how that data can be used which is, of course, subject to what is allowed by law in different countries.

Where multiple data sources can be used, then subject to appropriate safeguards, this can bring benefits to citizens in other aspects of their interaction with government, for example, making the process of claiming state benefits or services a simpler operation.

Many administrations are exploring whole of government approaches to engaging with citizens such as “collect once, use many times”, which may mean that administrations have access to a much wider breadth of data from other government agencies, but also that administrations must engage with their government partners on a much more involved level than before. In a number of jurisdictions, this integrated approach is facilitated by a unique identifier as a means to effectively manage the identification process and facilitate the delivery of government programmes and services.

A whole of government approach can reduce both compliance and administration burdens for citizens across all government interactions. There is also value in this approach for governments. They may be able to merge or integrate systems to reduce costs, and be able to plan government services more effectively and holistically. There are also opportunities to reduce fraud where systems are joined-up as there is less chance of identity fraud, of payments not being made where debts are owed and of inconsistent approaches taken by different agencies. A “whole case” view of a taxpayer also provides tax administrations with an enhanced ability to offer a customised service to taxpayers and to ensure that taxpayers are provided with

2 See for example, OECD (2017). *Shining Light on the Shadow Economy: Opportunities and Threats*, <https://www.oecd.org/tax/crime/shining-light-on-the-shadow-economy-opportunities-and-threats.htm>.



information relevant to their specific situation.

Technology is also allowing improvements to be made in the authentication of taxpayers, i.e. ensuring that the taxpayers are who they say they are when they interact with the administration. This is important for facilitating self-service (a key driver of voluntary compliance, burden reductions and efficiencies) while minimising the chances of fraud, for example, through claiming refunds through identity theft.

The strength of a technology as a method of authentication relies heavily on the ability of the technology to provide accurate results. As with many new technologies, administrations may face higher than normal levels of errors, or failed authentications in early applications. This can drive customers away from self-service channels, despite significant investment in the new technology. Where difficulties are encountered, there needs to be easy ways of troubleshooting the problems, such as chatbots, or on-line helpdesks.

Voice biometrics is one example of a new technology currently being introduced in a

number of tax administrations. Voice biometrics allows the identity of an individual to be ascertained by reference to their unique vocal characteristics. Over 100 different characteristics can be measured to determine a match including vocal cord length and size, mouth shape, vocal folds, nasal passage and mouth movement.

Another new technology which is starting to be explored by tax administrations is blockchain. This is a public ledger which stores all prior transactions in a highly tamper-proof form without the need for a centralised record. Currently, the technology is mainly used to record transactions of different crypto currencies; however there is the possibility of the underlying technology being useful to tax administrations, especially in relation to record keeping of evolving data, such as taxpayer registers or chains of data occurring with VAT or in the customs and excise sphere.

Countries are also looking to other emerging technologies to improve their authentication processes, although there is limited take-up currently. Including:

- Fast Identity Online (FIDO) is a new standard that allows multiple hardware tokens (USB devices, mobile phones, etc.) to be used to support identity;
- User Managed Access (UMA) is an extension to the Open Authorisation (OAuth) standard already widely used in digital services. This process simplifies delegation of access rights and could be beneficial for delegation of access rights to agents; and
- Cloud Computing allows data to be stored, managed and processed through a network of remote servers hosted on the Internet rather than on a personal computer/local server. This could change the way the data needed for authentication is stored.

2.2 Assessment

The tax assessment function includes all activities related to processing tax returns, including issuing assessments, refunds, notices and statements. It also includes the processing and banking of payments. These “processing” activities continue to be an area of significant change and focus as administrations look to take cost out of high volume processes and to reduce errors and opportunities for fraud.

Technology is enabling new types of services some of which are allowing tax obligations such as filing to be met automatically or as a “by-product” of using another system or service. These new approaches offer tax administrations a range of new opportunities to leverage “smart devices” and data sources. It provides the opportunity to significantly change business processes and what taxpayers are required to do to meet their tax obligations.

The OECD report, *Technologies for Better Tax Administration*, explored how technology could help administrations better address tax compliance and service delivery, primarily through the use of big data, smart portal solutions and natural systems. The report stressed that alongside investment in technology, administrations need-

ed to improve their understanding of customers and the wider ecosystem in which they operate. The report encouraged administrations to be more responsive in delivering contemporary services and to identify opportunities to embed tax requirements into third party systems or to use data and analytics to “move compliance upstream”.³

Greater use of third party data can also already improve post-assessment actions, enhance risk assessment and, with advanced analytics, inform wider tax strategies. Even the simple capability to access third party data, as a number of studies have shown, can also have a strong positive impact on compliance. The use of proactive messaging, calling, and other interventions in anticipation of potential non-compliance has paved the way for administrations to look more closely at how advanced analytics can improve service delivery for taxpayers. Such uses are set to become of greater importance to tax administrations in the coming years as compliance and verification move upstream, and more of these processes occur in real time or close to real time.

A growing number of tax administrations report they are now developing options for pushing information, services and business rules out into the ecosystem. This can involve integrating tax information, guidance and other functionality in the bookkeeping software. Such integration can enable any issues to be identified prior to or during the filing process potentially reducing the need for post-filing audits.⁴

An early and highly successful example of a “compliance by design” process in a number of countries has been the use of withholding payments on the income of salaried employees. These withholding payments are usually calculated by the employer’s payroll software based on information provided by the tax administration. The payments are then remitted periodically to the tax administration with minimal risk of fraud by individual employees.

3 OECD (2016). *Technologies for Better Tax Administration: A Practical Guide for Revenue Bodies*, <https://doi.org/10.1787/9789264256439-en>.

4 Ibid.

These payroll systems can now handle greater sophistication in calculating taxes due and can be increasingly updated in real time. A number of countries have built on this system to remove the need for employees to file returns or declarations, essentially pre-filling the taxpayer account or return with payroll information. Increasingly, this is being complemented with other withholding income (and tax) information, including interest and dividend income, and other data sourced from third parties allowing for a pre-filled tax return covering most major income taxes.

The development of the pre-filled tax return has seen its shift from an approach which was considered only appropriate where the individual tax regime allowed relatively few deductions and credits, and where these could be verified with third party data sources. Advances in rules-based technologies and analytics and the adoption of “problem-solving approaches” now mean that the approach has more widespread use and adoption. Many administrations report strategies to extend the range of data sources used to improve coverage of the personal income tax regime and the quality of pre-filled returns. Some tax administrations report exploring how the approach could be used in the SME and VAT segments.

2.3 Verification

Verification functions are concerned with assessing the accuracy and completeness of taxpayers’ reported information. The general trend across tax administrations is that one-to-one traditional audits have become more risk-based with increasing use of advanced analytics and rules-based systems to identify potential anomalies and high-risk activities or transactions. Additionally, tax administrations are looking for improving effectiveness of verifications through automated interventions.

There are two main methods that are being used to improve verification based on increased

use of data and data analytics (although they are not mutually exclusive). First, in some administrations or in some tax areas (for example, pay-as-you-earn systems), verification is primarily focused on the systems that ensure that reported tax liability is accurate. In its most discrete form this may focus on the systems that a particular taxpayer has in place, for example, the use of approved software, adequate risk management and appropriate internal governance mechanisms. In more complex cases, this may involve looking at the reliability of all of the actors and data sources that are relied upon in reporting tax liability.

The second method is analysis of centralised data. This has been enabled by the spread of digital payments, e-invoicing and connected devices (such as online cash registers and point-of-sale solutions) in generating data that can be used by tax administrations as well as the improved use of internally generated data.

In a growing number of countries, technological solutions have helped launch e-invoicing systems. These enable tax administrations to access invoices directly to help alleviate the risks from taxpayers using false invoices for VAT and income tax. It is important to note that the technological innovations to enhance the reliability of tax reporting can also help businesses, for example, by helping to combat sales suppression and false invoicing by employees.⁵ As well as increasing tax certainty, such solutions can also lead to a reduction in compliance costs and reduce the need for audits as well as supporting fair competition.

2.4 Collection

The collections function involves taking action against those who do not file a return on time, and/or fail to make a payment when it is due. Given that the evidence shows that the longer a tax debt is owed, the lower the probability of payment, the work by the OECD Forum on Tax Administration (FTA) has focused on the importance of taking action at the

5 See for example, OECD (2017), *Technology Tools to Tackle Tax Evasion and Tax Fraud*, <https://www.oecd.org/ctp/crime/technology-tools-to-tackle-tax-evasion-and-tax-fraud.htm>.

earliest possible stage.⁶ Four strategic principles identified were:

- Engagement with taxpayers before the due date;
- Maximising collection after the due date but before the use of enforcement powers;
- The effective and timely use of enforcement powers; and
- Realistic debt recovery: recognising debt, which is not economical to recover as well as write-off policy.

These principles will be most effective if they can be applied across the tax organisation, including IT processes, workforce planning, public communication, and ideally more widely across government.

As regards the first principle — engagement before the due date, the segmenting of taxpayers by characteristics (for example, the type of taxpayer, level and characteristics of debt), which is increasingly possible given enhanced analytical capabilities, is likely to enhance the effectiveness of engagement. Based on segmentation, which at the extreme will be a segment of one (i.e. the individual taxpayer) communication can increasingly be both personalised and automated, taking into account taxpayer feedback and behavioural insights. This can also include greater use of proactive engagement with individual taxpayers at more risk of falling into debt.

The second principle concerns early and continuous engagement with the taxpayer once a tax debt has arisen. It is important to identify and use the most effective channels to send reminders before turning to enforcement measures. These may be multichannel, including in individual cases, for example, through postal communication, secured e-mail, text messages or telephone calls. As well as reminding taxpayers of their obligations, such communication

should also invite the taxpayer to contact the administration to find a solution for temporary problems and, ideally, act to reinforce social norms. Taking into account taxpayer segments and risk categories and directly addressing the taxpayer is likely to lead to better results, including faster clarity about appropriate options such as when to move quickly to enforcement actions, including precautionary measures.

Communication can also be enhanced through greater use of data analytics and behavioural insights. Data analytics can predict which channel is likely to yield the best result for a particular set of circumstances, including whether in the light of the characteristics of the taxpayer (for example, a previous history of non-payment), it is better to move straight to enforcement. The use of behavioural insights based nudge techniques can also, by shaping the most effective message, contribute to increased collection, as has been shown in the case of pilots run by a number of administrations.

The third and fourth principles concern the availability and the effective use of enforcement tools and write-off when collection is not expected or cost-effective. These stages can also be supported with the increased use of data analytics as well as the wider sharing of data. Increasingly, one might expect decision-making to be supported with the use of AI.

The OECD 2019 Debt Management Maturity Model⁷ provided a tool for tax administrations to self-assess their level of maturity against those principles.

2.5 Dispute Prevention and Resolution

Disputes are also an area where technology tools can play an important role, in particular, by proactive interventions at the earliest stages, building on the cooperative compliance framework.

6 See for example, OECD (2019). *Successful Tax Debt Management: Measuring Maturity and Supporting Change*, <http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/successful-tax-debt-management-measuring-maturity-and-supporting-change.pdf>.

7 OECD (2019). *Successful Tax Debt Management: Measuring Maturity and Supporting Change*, <http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/successful-tax-debt-management-measuring-maturity-and-supporting-change.pdf>.

These cooperative compliance programmes involve a more transparent relationship and more proactive approaches to resolving material tax risks.⁸ The *Tax Administration 2019* report notes that approximately 60% of more than 50 countries participating in that publication already have been or are in the process of implementing a cooperative compliance programme for large businesses.⁹

Most often these programmes are based on formal agreements with specific companies, although in some countries these programmes are more informal. In a limited number of cases, the operation of a cooperative compliance programme is based on legal provisions. Among the requirements for entering such arrangements, tax administrations most frequently cite the commitment of the taxpayer to effective management of their tax affairs, followed by the presence of a formal tax control framework and the absence of pending issues or arrears.

2.6 Digital Resilience

The digitalisation of tax administrations can also enhance resilience to shocks. During the COVID-19 crisis, many tax administrations had to close offices and move to almost full or partial remote working. For many, this has also coincided with the peak filing season and an increase for some in the administration of benefits affected by COVID-19. This had impacts on normal operations, as some administrations have not been able to carry out business as usual in all areas, including difficulties in dealing with paper communications and forms, physical audits, taxpayer contacts and some aspects of systems

maintenance. In addition, many administrations have been asked to undertake new roles providing assistance, including financial assistance, to taxpayers on behalf of the wider government.

The OECD publication *Tax Administration: Digital Resilience in the COVID-19 Environment* is intended to provide a status/pulse check on the impact of digitalisation of tax administration in dealing with the COVID-19 crisis, with a particular focus on taxpayer service, compliance risk management, remote working, IT systems and providing support for wider government.¹⁰

3. The Changing Tax Compliance Environment

The innovation of tax administration relates to a more system-wide compliance management approach in which tax administrations try to closely engage with taxpayers' natural systems.

This section explores what is already been done to minimise the need for post-filing compliance interventions and to build compliance in a greater range of circumstances. A useful source of information is the recent OECD *Tax Administration 2019* publication, which provides wide range of comparative information on the performance of advanced and emerging tax administrations.¹¹ The report explores the changing tax compliance environment from the perspectives of supporting positive compliance attitudes, innovation of compliance risk management and compliance by design. These themes were also explored in the 2017 OECD report *The Changing Tax Compliance Environment and the Role of Audit*. This section highlights

8 The concept of cooperative compliance has been the subject of several FTA reports, among others, OECD (2016). *Co-operative Tax Compliance: Building Better Tax Control Frameworks*, <https://dx.doi.org/10.1787/9789264253384-en>.

9 OECD (2019). *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*, <https://doi.org/10.1787/74d162b6-en>.

10 OECD (2021). *Tax Administration: Digital Resilience in the COVID-19 Environment*, <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-digital-resilience-in-the-covid-19-environment.htm>.

11 OECD (2019). *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*, <https://doi.org/10.1787/74d162b6-en>.



some of the major trends.¹²

3.1 Increasing the Options for Self-service and Joined-up Approaches

Most administrations nowadays offer a growing range of self-service and interactive tools, including the ability to register, file and pay on-line. These services are often provided directly via tax administration website, in other cases third party support via embedded software or other arrangements that allow taxpayers a greater array of in-system support or other self-service options.

Virtual or digital assistants help respond to taxpayers' enquiries and support self-service. These advances in AI are also being used by some tax administrations, and use of AI may increase rapidly in service supporting taxpayers and tax officials, although perhaps more gradually in decision-making given public concerns raised in some countries.

While many tax administrations have developed their own apps internally, a number have also made the relevant application pro-

gramming interfaces (APIs) available to third party developers. APIs allow connectivity between systems, people and things without providing direct access. This limits the risk of compromise to the system as opposed to if someone is allowed direct access to the system and the underpinning data stores. A use case might be to allow employers to submit payroll information directly into the appropriate systems of the tax agency with a single click on their payroll software.

The OECD report *Unlocking the Digital Economy — A Guide to Implementing Application Programming Interfaces in Government* provided an overview of the practices, techniques and standards used to deliver contemporary and effective digital services for taxpayers.¹³

Another way to enhance service quality levels and compliance levels is to join up with other government agencies to enhance the overall service experience across government, including through a “collect once, use many times” approach. Tax administrations (together with social security agencies) have a special po-

12 OECD (2017). *The Changing Tax Compliance Environment and the Role of Audit*, <https://www.oecd.org/ctp/the-changing-tax-compliance-environment-and-the-role-of-audit-9789264282186-en.htm>.

13 OECD (2019). *Unlocking the Digital Economy — A Guide to Implementing Application Programming Interfaces in Government*, <http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/unlocking-the-digital-economy-guide-to-implementing-application-programming-interfaces-in-government.pdf>.

sition within the whole of government in this regard since they will often hold up-to-date verified information on identity, will be involved in both receiving and making payments and will receive and send information to third parties (such as financial institutions and employers).

3.2 Innovating Compliance Risk Management

The previous section provides a range of incremental changes occurring across verification and assessment functions, which, taken together, are changing the nature of the tax compliance environment, allowing for more facilitated and managed compliance.

This section looks at some innovative approaches that are now allowed as a result of the hugely increased availability of data; sharpened targeting of risks and an increased automation of compliance checks. These can all be seen as stages in the pathway to greater compliance-by-design, explored in the next section, whereby facilitation and management of compliance morph into processes that become increasingly embedded into taxpayers' natural systems and make the collection of tax more seamless and less burdensome.

More and more data is stored digitally. In addition, the transfer, storage and integration of data have become easier through the application of new techniques and processes. As a result, there has been a huge increase in the amount of data available to tax administrations for compliance purposes.

There are, though, some emerging risks to the availability of these large data sets (often known as "big data"). For example, it is increasingly possible for data relevant to the tax administration in one jurisdiction to be held within the jurisdiction of another country. In these circumstances, it can be difficult to obtain the

data on an automatic basis from the data holder located in the other jurisdiction. This could make it more difficult to assess risks in specific circumstances, or prefill tax returns.

The sharing and gig economy illustrates these issues, facilitated through online platforms, which can operate across borders. This cross-border data transfer and storage may become an increasing risk as the online economy grows, particularly if it is accompanied by a shift from salaried employment (and the reporting of incomes by employers) to self-employment. The OECD report *The Sharing and Gig Economy: Effective Taxation of Platform Sellers* presented a number of strategies currently being adopted by tax administrations as well as their constraints and recommended the development of standardised reporting requirements to facilitate automatic exchange of information between tax administrations.¹⁴ Model rules for such reporting have now been published by the OECD, *Model Rules for Reporting by Platform Operators with Respect to Sellers in the Sharing and Gig Economy*.¹⁵

The vast amounts of data fuel tax administration risk assessment processes. Over recent years, there has been a significant increase in the application of advanced analytics to risk management. The OECD report *Advanced Analytics for Tax Administration: Putting Data to Work* provided practical guidance on how tax administrations can use analytics to support compliance and service delivery.¹⁶

The sophisticated use of analytics on expanding data sets is leading to a more focused risk management and a more targeted selection of a range of intervention actions, including through automated processes. These "automated machine actions" use rules-based approaches to treat defined risks, for example, automatically denying a claim, issuing a letter or matching a transaction.

These "robotic" activities, many of which

14 OECD (2019). *The Sharing and Gig Economy: Effective Taxation of Platform Sellers*, <https://doi.org/10.1787/574b61f8-en>.

15 OECD (2020). *Model Rules for Reporting by Platform Operators with Respect to Sellers in the Sharing and Gig Economy*, <https://www.oecd.org/tax/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm>.

16 OECD (2016). *Advanced Analytics for Tax Administration: Putting Data to Work*, <https://dx.doi.org/10.1787/9789264256453-en>.

are occurring in near real time, are replacing some audit actions or steps previously performed by people. They allow administrations to monitor and review relevant data sets, and in many instances to undertake basic verification or matching action more effectively and efficiently than traditional “desk based verification review”.

Where these automated machine actions replace activities previously undertaken manually, there is a substantial reduction in cost per audit. These new technologies are also changing the way many tax administrations think about adjustment rates and yield. For those using automated interventions informed by advanced analytics, adjustment ratios across the population might fall, as coverage rates reach close to 100% of particular returns, transactions or risks.

3.3 Compliance by Design

The OECD publication *Tax Compliance by Design* encouraged tax administrations to adopt a system approach to improving SME tax compliance, either through centralised data management by the tax administration or through reliance on a secured flow of relevant information from the taxpayer’s own systems.¹⁷ In either case, the core message is that the data is reliable and, as far as possible, complete.

Compliance by design first originated as a mechanism for providing efficient and effective taxation for very large populations of taxpayers working as employees, minimising burdens on individuals and the tax administration and reducing the scope for error. Instead of self-reporting, a system was introduced of employer withholding and income reporting, supported by specifications and guidance provided by the tax administration. Over time, this system has become more sophisticated and increasingly dynamic with calculations, reporting and adjustments embedded into private sector payroll

systems and with direct connections between the employer and the tax administration.

Because of the increased availability of data, the use of compliance by design approaches is being extended to more complicated situations, in which personal income taxpayers have multiple sources of income and revenue. This also allows the pre-filling of tax returns for personal income taxpayers in an increasing number of countries.

There remains an element of voluntary compliance for income not picked up by the tax administration systems, which can be expected to shrink over time as more data sources become available. In addition, there remains scope for failures in compliance by design approaches by misapplication of rules or errors by employers as well as mistakes by employees where the system relies on them providing information needed by the system. Compliance by design still, therefore, relies on a checking of the systems and, where appropriate, of additional information provided by the taxpayer, although this is likely to become increasingly automated with greater cross-checking of data.

Compliance by design approaches are inherently more difficult for business taxpayers given the existence of multiple sources of income and the complexities of calculating taxable profits. The *Tax Administration 2019* report describes a pilot project to introduce an automatic tax return for freelancers (self-employed persons without employees) by working closely with software developers.¹⁸ The objective is that the business accounts of freelancers automatically align with tax reporting requirements. This is facilitated via seamless chain between the registration of business transactions of the self-employed and the submitting of tax return details to the tax administration, effectively designing in compliance.

The implementation by tax administrations

17 OECD (2014). *Tax Compliance by Design: Achieving Improved SME Tax Compliance by Adopting a System Perspective*, <https://dx.doi.org/10.1787/9789264223219-en>.

18 OECD (2019). *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*, <https://doi.org/10.1787/74d162b6-en>.

of e-invoicing systems and online electronic cash registers are two examples of innovative approaches incorporating elements of compliance by design combined with the use of data analytics to minimise risks. These systems, which are combined with upfront measures to minimise misuse and fraud, produce vast amounts of data, which allows tax administrations to undertake detailed and close to real-time risk analysis. In both the case of e-invoicing systems and electronic cash registers, this can be reinforced by counterparties to transactions, whether businesses or consumers, also being part of the compliance chain. The combination of these elements can get close to a compliance by design outcome. More details on the use and impact of electronic and online cash registers can be found in the OECD publication *Implementing Online Cash Registers: Benefits, Consideration and Guidance*.¹⁹

The recent OECD publication *Supporting SMEs to Get Tax Right Series: Strategic Planning* was intended to assist tax administrations in the development and implementation of strategic approaches to support SMEs with tax compliance as well as to identify opportunities for bur-

den reduction. It also provided some country examples as to the development and implementation of such strategies.²⁰

4. Digital Transformation of Tax Administration

The OECD FTA has set out a vision for the digital transformation of tax administration, under which taxation becomes more of a seamless and frictionless process over time.²¹ The intention of this discussion paper is to stimulate debate and conversation, both on the vision and its component building blocks.

The idea behind *Tax Administration 3.0* is that 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. This digital transformation has the potential to build-in compliance in an increasing number of areas, to move taxation closer to taxable events and to significantly reduce the burdens that can arise from using different processes for taxation to those used in taxpayers’ daily lives



19 OECD (2019). *Implementing Online Cash Registers: Benefits, Considerations and Guidance*, <http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/implementing-online-cash-registers-benefits-considerations-and-guidance.pdf>.

20 OECD (2020). *Supporting SMEs to Get Tax Right Series: Strategic Planning*, <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/supporting-smes-to-get-tax-right-strategic-planning.htm>.

21 OECD (2020). *Tax Administration 3.0: The Digital Transformation of Tax Administration*, <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.htm>.

and businesses. As these opportunities increase, it may be possible to make significant inroads into the structural limitations of current tax administration which can lead to persistent tax gaps, large amounts of uncollected tax debt and continuing, and in some areas growing compliance burdens.

This is a journey which will take many years and require many pieces to fit together to realize the full benefits. This includes co-development of many of the building blocks of digital transformation with other parts of government, with private sector actors and internationally. There are, though, considerable benefits that can be realized along the way. The individual building blocks of *Tax Administration 3.0* described below can make a significant difference in their own right, including in improving the resilience and agility of tax administrations in responding to crises.

The six core building blocks of future tax administration identified in *Tax Administration 3.0* are:

- Digital Identity: supporting secure and unique identification of taxpayers and citizens in a joined-up way, helping to reduce burdens and helping to move processing into the background, and connecting taxpayers' natural systems;
- Taxpayer touchpoints: facilitating the engagement of taxpayers with tax administration processes as and when necessary (for example through access to real-time support), increasingly looking for opportunities to put such touchpoints into taxpayers' natural systems, including in more automated ways;
- Data management and standards: creating the framework for how the administration manages data most effectively to maximise compliance and minimise burdens. In particular, this concerns the choices around where data is processed for different tax functions (within the administration, within the taxpayers' natural systems or both), and the requirements for quality, availability and reporting of tax relevant data as well as metadata on the operation of taxpayers' systems;
- Tax rule management and application: creat-

ing and distributing tax laws in administrable and verifiable formats to allow stakeholders to integrate tax rules within their own preferred systems, including as they evolve, while providing robust and increasingly remote reassurance to the administration;

- New skill sets: planning for the new skills that will be required for the development and operation of digitally transformed tax administration, with human intervention taking place less frequently and with increasing support from AI processes; and
- Governance frameworks: guiding the development, implementation and connectivity of the other building blocks both within the tax administration and in cooperation with other actors, both domestically and internationally.

While fundamental digital transformation will take some time, not least because of the need to spread the costs of change for administrations and taxpayers, in this vision tax administration is increasingly:

Embedded within taxpayer natural systems:

Paying taxes will become a more seamless experience over time and integrate into daily life and business activities as much as possible. Natural citizen and business behaviours and systems will increasingly be the starting point of taxation processes. Tax administrations and private sector organisations will increasingly collaborate in creating innovative and joined-up services, adding value to the taxpayer, reducing administrative burdens and assuring secure, transparent and highly reliable outcomes. Adapting taxation processes to fit in with taxpayers' natural systems will facilitate compliance by design and "tax just happening". Free-riding and being non-compliant will increasingly require deliberate and burdensome additional activities.

Part of a resilient "system of systems":

In addition to tax administration tasks currently carried out by businesses, such as VAT and pay-as-you-earn systems, many digital platforms will also become "agents" of tax administration carrying out tax administration processes within their systems. Tax authorities will no longer be the single point of data processing and tax assessment.

Instead, tax administration is conducted within a resilient network of seamlessly interacting trusted actors without one single point of failure. Some digital platforms are collecting tax and transferring payments instead of data, while others identify taxpayers and liabilities and share results and tax relevant information rather than all transaction data. Public and private actors join up in collaborative governance models. Governmental bodies ultimately oversee and assure the quality, robustness and reliability of operations and outputs.

Real-time tax certainty provider: In order to stay synchronized with daily life and business transactions and events, tax administration processes will be increasingly real-time or close to real-time. Not all tax liabilities can be settled in such a short cyclic manner, so additional balancing mechanisms may be needed, such as real-time taxpayer accounts (possibly with crediting and debiting of tax payments and refunds). In most cases, swift and accurate provision of tax certainty is provided. AI tools and algorithms will support the characterisation and assessment of liabilities and will increasingly support decision-making.

Transparent and trustworthy: Taxpayers will have the opportunity to check and question taxes assessed, paid and due in real time. It will be clear which rules have been applied to which data, reflecting facts and circumstances. This will allow taxpayers to challenge both automated and human decision-making. Citizens and businesses can check the origin and accuracy of the data used and can grant or deny access to personal data sources not needed for tax purposes. Although the tax legislation might still be complicated, the underlying tax administration process and results will be increasingly accessible and transparent to taxpayers.

An integrated part of whole of government: Taxation is increasingly joined up with other government services and functions, employing common engagement models with citizens and businesses. One digital identity will support a seamless connection between processes and data sources. Payments, benefits and refunds are matched and balanced from a citizen and business perspective.

A human touch and high tech adaptive organisation: Although change is the only constant factor, a taxpayer-centric perspective will be the focal point around which tax administration processes are structured and governed. The key success factor is the intertwining of human staff and skills with advanced analytics and decision-supporting tools such as AI. This combination will support taxpayer compliance in the reducing number of areas where compliance choices still remain. It will also detect anomalies, leakages and flaws in the tax system. The agility of people, processes and systems assures that the tax administration can stay aligned with societal and economical change as well as respond to changes in circumstances, including crises.

Such a transformation requires many things to come together which, although incremental in nature, should ideally be designed with the end goal in mind. Otherwise, the incremental changes could become deadends or result in what, over time, may become expensive and inefficient legacy systems. This will require a comprehensive long-term strategy, including the involvement of other parts of government and the private sector, and long-term funding.

5. Conclusion

This fundamental re-examination of the tax system as a whole goes far beyond simply facilitating existing operations with new technologies or adding digital services to existing products and business processes. It is the start of a paradigm shift, allowing tax administrations to fundamentally reconsider where and, importantly, how various tax responsibilities are managed. Adapting to this new environment requires them, among other things, to consider:

- how they can respond more quickly to taxpayer expectations of contemporary e-service, digital delivery and seamless processes;
- the identification of new delivery options, including the use of collaborative platforms, and simplified integration needs; and
- the development of new capabilities and the establishment of a data-driven and intelligence-led culture focusing on building in compliance and reducing burdens.

Some Thoughts on Tax Certainty

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Abstract: The G20/OECD BEPS Project has resulted in many changes to both domestic law and tax treaties, including the adoption of anti-hybrid rules, earnings-stripping rules to restrict the deduction of interest expenses, enhanced transfer pricing rules and a multilateral treaty modifying hundreds of tax treaty changes. These extensive changes led to calls from both taxpayers and governments for enhancements to tax certainty. The BRITACOM has embraced these calls for enhanced tax certainty and made it one of its priority action items. This article puts current discussions about tax certainty into a broader context of the international tax system. It describes the nature and importance of tax certainty as a fundamental tax policy goal as well as the frequent conflicts between certainty and fairness in designing tax legislation and reviews the recent work of the IMF, the OECD and the BRITACOM on tax certainty. The article then explores the major sources of uncertainty, including deficiencies in tax legislation and tax administration, and discusses some methods for improving tax certainty for developing countries, including drafting better tax legislation, streamlining tax administration and adopting more efficient dispute-resolution mechanisms.

Key words: Tax certainty; Policy goal

1. Introduction

Benjamin Franklin, the American polymath, once said that “In this world nothing can be said to be certain, except death and taxes.” Franklin used the term “certain” in the juxtaposition of death and taxes to mean that both were inevitable.¹ However, given the recent preoccupation of the international tax community with base erosion, aggressive tax planning,

double non-taxation and the taxation of digital activities, taxes appear to be far from certain, at least for large multinational enterprises. In recent calls for the enhancement of tax certainty, certainty means not the inevitability of paying tax, but only that the quantum of tax payable by taxpayers in particular circumstances can be determined with reasonable accuracy and finality.

¹ The Oxford English Dictionary defines “certain” to mean something “that can be relied on to happen or be true”.

It is not surprising that the demand for improved tax certainty by international business and tax community surfaced as the G20/OECD Base Erosion and Profit Shifting (BEPS) Project moved into its implementation phase. The BEPS Project produced several major changes to the domestic laws and tax treaties of participating countries, including anti-hybrid rules, restrictions on interest deductions, enhanced transfer pricing rules and multiple changes to tax treaties, all of which caused considerable uncertainty for taxpayers and tax administrations. New rules inevitably cause uncertainty because they raise novel issues of interpretation and application, which increases the likelihood of disputes between taxpayers and tax authorities and between tax authorities of different countries/regions.

This article attempts to put current discussions about tax certainty into a broader context of the international tax system as a whole. The following section discusses tax certainty as one of the four major tax policy goals and emphasizes that tax certainty is not the only, or the most important, tax policy goal; it often conflicts with other tax policy goals, especially fairness. The article then briefly describes recent work on tax certainty, including the reports of the International Monetary Fund (IMF) and the OECD, and the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM). The next section explores the sources of uncertainty with respect to taxation, including tax legislation, tax administration and taxpayer behavior, and makes some brief general suggestions for enhancing tax certainty for developing countries. The article ends with a brief conclusion that cautions developing countries to avoid chasing trendy tax certainty projects and advises them to focus instead on building tax capacity with respect to tax policy and administration.

2. Tax Certainty as a Tax Policy Goal

2.1 Adam Smith's Viewpoint on Tax Certainty

In his classic book, *The Wealth of Nations*, Adam Smith suggested that taxation should adhere to four fundamental principles or maxims — fairness, efficiency, convenience and certainty — which, with some modifications, are still widely accepted as appropriate today. With respect to certainty, Smith wrote, “The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, and the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty.”²

In my opinion, Adam Smith was wrong in stating that certainty is so important with respect to tax that achieving it justifies sacrificing a substantial measure of tax fairness. Certainty is an important tax policy goal but so are fairness, economic efficiency (neutrality) and raising revenue. It is unnecessary and dangerous to establish a hierarchy of tax policy goals; they are all important and in any particular context, the weight given to each goal will vary in accordance with the overall objective. It is simply not true to say that “it is fundamental for a tax system to guarantee certainty to taxpayers.”³ Guaranteeing certainty is not a sensible goal for a tax system to even attempt to achieve, at least based on my understanding of what tax certainty means, as discussed below.

2.2 Tax Uncertainty and Tax Risk

With respect to transactions and invest-

2 Adam Smith (1776). *The Wealth of Nations*.

3 Diheng Xu (2018). *Improved Dispute Resolution between China and the ASEAN Countries under the Belt and Road Initiative*.

⁷² Bulletin for International Taxation 12, pp.6.

ments, “uncertainty” means a potential, unpredictable and uncontrollable outcome, and “risk” means an action taken despite the existence of uncertainty. Most transactions and investments involve some elements of uncertainty and risk.

From an investor’s perspective, tax is a cost of an investment like other business costs, all of which reduce the investor’s return from an investment. Thus, the tax risk of an investment is the possibility that the actual amount of tax payable with respect to an investment is more than the amount of tax that the investor expected would be payable.⁴ The extent of the tax risk of a particular investment depends on several factors, including tax legislation, aggressiveness of the tax planning with respect to the investment, effectiveness of the enforcement of the tax legislation, and the procedures, administrative and judicial, for resolving tax disputes.

This discussion highlights that the risks of an investment, including the tax risks, vary with the nature and details of each investment. For example, the tax risks of a passive investment in debt or equity are often less important than those related to investments in active businesses; and the tax risks of a cross-border investment are often greater than those of similar domestic investments. Although tax risks are usually small relative to other risks of an investment considered in the aggregate, it is easy to exaggerate the importance of tax risks in the context of a discussion of tax uncertainty.⁵ Therefore, it is important to consider the tax risks associated with particular investments in the broader context of investment risks as a whole.

Risk has some obvious consequences on investment decisions. In general, as the risks of a particular type of investment increase, some investors will demand higher returns and other investors will shift to less risky investments. The consequences of tax risks are similar. As the tax risks of certain investments (types of investments and their location) increase, some taxpayers will

decline to make those investments and choose alternative investments with more certain, even though higher, taxes. However, other taxpayers may engage in more aggressive transactions in an attempt to reduce tax and increase their after-tax returns.

To a certain extent, some investment risks are within an investor’s control. For example, investors may purchase insurance to reduce or offset certain business risks or adopt hedging strategies to limit foreign exchange risks. Similarly, some tax risks are within a taxpayer’s control. Although it is sometimes overlooked or ignored, taxpayers are exclusively responsible for their decisions to engage in aggressive tax planning. Therefore, countries should not be concerned about or seek to reduce or eliminate the uncertainty of anti-avoidance rules to combat aggressive tax planning. Other types of tax uncertainty — for example, new tax legislation or perverse or incompetent tax administration — are outside a taxpayer’s control and are properly the focus of efforts to reduce or eliminate such uncertainty.

2.3 Tax Uncertainty and Its Significance

Certainty is sometimes confused with other related concepts, such as consistency, predictability, stability and simplicity. In an important Canadian case, the Supreme Court of Canada stated that tax legislation should be interpreted with an emphasis on the literal or textual meaning of the legislation because taxpayers are entitled to “certainty, predictability and fairness” in order to arrange their affairs effectively.⁶ In the same case, the Supreme Court referred to “consistency, predictability and fairness”, apparently assuming that certainty and consistency are synonymous. However, although certainty and predictability are the same, certainty and consistency are clearly different. Multiple rules can be consistent but vague or ambiguous, and thus uncertain, while rules that are certain may

4 For this purpose, the amount of tax payable also includes the timing of the payment of the tax.

5 For example, in a recent article, the author claims that “in international trade and investment, tax certainty is the most important factor for both tax authorities and taxpayers.” See note 3.

6 *Canada Trustco Ltd. v. The Queen*, 2005 SCC 54.

nevertheless be inconsistent.

Stability is an important attribute of a tax system. It is closely related to certainty and might even be considered to be an aspect of tax certainty. Stability refers to the frequency and extent of legislative and administrative changes to a tax system. Frequent and extensive changes to a tax system, even where the amendments are themselves reasonably certain, undermine taxpayers' ability to rely on the projected tax consequences of an investment in future years, since many investments last longer than one year. In assessing the tax risks of an investment, investors must consider the risk that the current tax consequences might change unfavorably at some point over the life of the investment. Nevertheless, most countries' tax systems are subject to extensive, although perhaps not fundamental, tax changes every year. Countries often attempt to alleviate the impact of unfavorable tax changes on existing investments by "grandfathering" rules to allow those investments to continue to benefit from the previous rules or by phasing in the new rules gradually. Therefore, although changes to a country's domestic tax laws are necessary and inevitable to respond to deficiencies in the current law, new transactions, new ways of doing business, tax reforms in other countries, etc., countries should strive to limit these changes to those that are essential.

Certainty is also sometimes confused with or equated to simplicity, but they are clearly different concepts. While it is true that complex legislative rules are often considered to be uncertain, and this complexity can sometimes cause uncertainty and adversely affect the comprehensibility of legislation, this is not necessarily the case. For example, detailed technical rules may often be more certain than general simple rules,⁷ which are often silent about many

issues of interpretation that arise from generally worded provisions. Therefore, adding detailed rules can often clarify the uncertainty inherent in a simple rule. The most that can be said is that any particular tax legislation should be as simple and certain as possible without compromising other, possibly more important, tax policy goals.

Tax certainty means that taxpayers are entitled to know — or more accurately, should be able to determine with reasonable efforts — the applicable tax rules and to apply those rules to their own situations in order to determine the amount of tax payable for a particular tax period. In a self-assessment system, taxpayers' awareness of the tax law is crucial. It follows that tax certainty also means that tax authorities should not have broad discretion to determine a taxpayer's tax liability arbitrarily.

3. Previous and Current Work on Tax Certainty

3.1 The Role of Tax Certainty in the BEPS Project and the Work on Digital Economy

It is not surprising that tax certainty was not an important factor in the G20/OECD BEPS Project, since the focus of that project was aggressive tax planning by large multinational enterprises, base erosion and double non-taxation. In general, the BEPS Project resulted in significant changes to domestic law and tax treaties of many countries/regions and a consequential increase in tax uncertainty, which then led to calls for enhanced tax certainty from taxpayers and the IMF/OECD Reports on tax certainty, discussed below. However, the more recent work of the Inclusive Framework on digital economy has at least acknowledged the need for coordinated multilateral solution to minimize uncertainty.⁸ More specifically, the consensus solution

⁷ This explains why the tax legislation of most developed countries is large and complex.

⁸ OECD/G20 (2019). *Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy*. "Cognisant that predictability and stability are fundamental building blocks of global economic growth, the Inclusive Framework is therefore concerned that a proliferation of uncoordinated and unilateral actions would not only undermine the relevance and sustainability of the international framework for the taxation of cross-border business activities, but also more broadly adversely impact global investment and growth."

(Pillar One, involving new nexus and profit allocation rules, and Pillar Two, implementing a global minimum tax on foreign income and taxation of low-taxed deductible payments to foreign related parties) “should reflect the right balance between precision and administrability for jurisdictions at different levels of development ...”⁹

3.2 IMF/OECD Reports on Tax Certainty

In March 2017, at the invitation of the G20 Finance Ministers, the IMF and the OECD prepared a report on tax certainty.¹⁰ Based on an OECD survey, the report indicates that a large percentage of businesses (over 60 percent) and an even larger percentage of tax administrations (over 80 percent) considered tax certainty to be an extremely important factor in investment decisions. The report identifies the major sources of tax uncertainty as:

- tax administration (bureaucracy, documentation requirements, etc.);
- conflicts between the positions of the tax authorities of countries;
- lack of effective and efficient dispute-resolution mechanisms;
- unclear and complex tax legislation that is changed frequently;
- new business models, especially digitalisation; and
- aggressive tax planning.

Having identified the causes of tax uncertainty, the report recommends some “practical tools” to improve tax certainty:

- better and simpler tax legislation developed with extensive consultation with stakeholders, and no retroactivity;
- improved tax administration through rulings, technical guidance and consultation with taxpayers;



⁹ Ibid., paragraph 13.

¹⁰ IMF/OECD (2017). *Report on Tax Certainty for the G20 Finance Ministers*. The Report contains 40 pages of appendices reporting the results of two surveys of 700 businesses in 62 countries and 25 developed country tax administrations. The results of the surveys should be viewed with caution because the respondents were not drawn proportionately from representative countries. For example, 20 percent of respondents were from Bulgaria, while only 2.1 percent were from Australia, Canada, France and South Africa in the aggregate.

- fair, independent, accessible, timely and effective dispute-resolution mechanisms;
- prevention of tax disputes through cooperative compliance programs, advance pricing agreements (APAs), joint and simultaneous audits, improved mutual agreement procedures (MAP) and mandatory arbitration;
- simplified procedures for claiming reduced withholding tax and treaty benefits; and
- increased cooperation with respect to the development and implementation of international tax standards.

These actions for enhanced tax certainty are easily identified and obvious. However, it is a formidable challenge to move forward on all of them simultaneously and comprehensively, especially for developing countries.

In July 2018, the IMF/OECD issued an update of the 2017 Report,¹¹ which reports on the progress made by the G20 and OECD member countries on improvements in the MAP¹² and the adoption of mandatory arbitration, as well as the OECD Forum on Tax Administration's work on risk assessment and audit procedures. The OECD Project on reducing uncertainty with respect to tax treaties has been put on hold because of the more urgent work on the digital economy.¹³ The 2018 Report also provides an update with respect to ongoing work on:

- transparency and exchange of information, including country-by-country reporting, automatic exchange of information, and the common reporting standard;¹⁴
- extending the OECD's international VAT/GST Guidelines to more countries and enhancing international cooperation with respect to the administration of VAT/GST

on cross-border transactions;

- a pilot project of the OECD Forum on Tax Administration, the International Compliance Assurance Programme (ICAP), to explore the use of country-by-country reports along with other information to perform coordinated risk assessments; and
- the peer-review process for preferential tax regimes.

Despite the fact that the 2017 Report focused almost exclusively on developed countries, it seems apparent that the sources of tax uncertainty are equally applicable to developing countries. However, the capacity of most developing countries to administer complex tax legislation and tax treaties and resolve tax disputes is much weaker than that of developed countries, as discussed below. The 2017 Report suggested that a dialogue between developed and developing countries on tax certainty would be appropriate. The 2018 Report draws several conclusions with respect to developing countries based on the 2016 business survey:

- tax certainty is more important for countries/regions in Africa, Latin America, and the Caribbean;
- access to reduced withholding taxes is more important for developing countries;
- the complexity and frequency of new tax legislation are less important sources of uncertainty for developing countries; and
- uncertainty about international tax issues is more important for developing countries.

The 2018 Report discusses several recent developments to improve tax certainty in developing countries, including toolkits prepared by the Platform for Collaboration on Tax, IMF

11 IMF/OECD (2018). *Update on Tax Certainty: IMF/OECD Report for the G20 Finance Ministers and Central Bank Governors*.

12 Information had been compiled on more than 90 countries and the peer review process was projected to have been applied to over 50 countries by the end of 2019.

13 OECD/G20 (2019). *Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy*.

14 By July 2019, over 175 preferential regimes had been reviewed; over 17,000 tax rulings had been exchanged; and the first phase of the peer review process of the domestic law aspects of country-by-country reporting for 95 countries was completed and the second phase on exchange of information commenced in April 2019.

technical assistance, a tax administration diagnostic tool, and the Tax Inspectors Without Borders program. It also suggests many possibilities for improving tax certainty in developing countries, most of which are obvious and equally applicable to developed countries.

In June 2019, the IMF/OECD issued another progress report on tax certainty (2019 Progress Report).¹⁵ For the most part, the 2019 Progress Report simply updates the actions taken by the IMF and the OECD to improve tax certainty. The Progress Report also suggests that there has been a shift in emphasis from the resolution of tax disputes to the prevention of such disputes between tax administrations. In addition, the Report emphasizes “the demand and need for improvements to the integrity, efficiency and accountability of tax administrations, particularly in developing countries”.¹⁶ The ongoing work on this aspect of tax certainty includes the IMF’s Tax Administration Diagnostic Assessment Tool (TADAT), continuing capacity-building projects, including new projects on combating corruption, and a new OECD project on the link between “tax morale” (the confidence that taxpayers have in a tax system — not to be confused with tax morality) and tax certainty. Two interesting projects referred to in the 2019 Report are the development by the IMF and World Bank of a Tax Policy Assessment Framework (TPAF) (similar to the TADAT) for analyzing existing tax policies in accordance with good practices,¹⁷ and a survey of tax authorities to be conducted by the OECD throughout 2020 to determine

to what extent businesses are adhering to *the Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries*¹⁸ issued by the Business and Industry Advisory Committee (BIAC) and the Responsible Tax Principles¹⁹ of the B Team (a global group of business leaders).

3.3 BRITACOM: Tax Certainty and the BRI

The Wuzhen Statement 2019 emphasizes that the growth of cross-border trade and investment depends on tax certainty for investors and links tax certainty with improved transparency and building mutual trust between taxpayers and tax administrations.²⁰ It also identifies cooperative compliance programs, improved guidance for taxpayers concerning the interpretation and application of tax law, and the use of tax rulings and enhanced cooperation among BRITACOM jurisdictions as important ways to improve tax certainty.²¹

The First Belt and Road Initiative Tax Administration Cooperation Forum (BRITACOF) also produced a *Wuzhen Action Plan* (2019–2021), which contains a discussion of the need for tax certainty in Belt and Road Initiative (BRI) jurisdictions based on the experience of companies in BRI countries²² and on the 2017 and 2018 IMF/OECD Reports discussed above. *The Action Plan* defines tax certainty to mean that taxpayers “have the capacity to make an accurate assessment of the tax and compliance costs associated with an investment over its lifecycle”. It identifies the major sources of

15 IMF/OECD (2019). *Report for the G20 Finance Ministers and Central Bank Governors: 2019 Progress Report on Tax Certainty*.

16 Ibid., at 6.

17 Ibid., at 30. An online version of the VAT module is available at <https://www.imf.org/external/np/fad/tpaf/pages/vat.htm>.

18 <https://www.biac.org/wp-content/2017/06/Statement-of-Tax-Best-Practices-for-Engaging-with-Tax-Authorities-in-Developing-Countries-2016-format-update1.pdf>.

19 Bob Collymore (2018). *Responsible Tax*, <https://www.bteam.org/plan-b/responsible-tax/>.

20 BRITACOF (2019). *Wuzhen Statement 2019*, <http://www.chinatax.gov.cn/download/pdf/wuzhenstatement.pdf>.

21 Ibid. paragraph 20.

22 BRITACOF (2019). *Wuzhen Action Plan (2019-2021)*, <http://www.chinatax.gov.cn/download/pdf/wuzhenactionplan.pdf>.

tax uncertainty as uncertain tax policy design and tax administration practices, an inconsistent approach to the application of international tax standards and tax treaties, and issues concerning the prevention and resolution of tax disputes. *The Action Plan* also raises several possibilities for improving tax certainty with respect to each of these sources of uncertainty.

The IMF/OECD reports and the BRI-TACOM documents demonstrate clearly how broad the implications of tax certainty are and how many projects involving tax certainty are currently underway. They also highlight the importance of tax certainty and elevate the status of tax certainty as a high priority for governments and international organizations. However, as discussed further below, it is important to recognize that tax certainty is not something that should be studied or pursued in isolation from other equally important tax policy goals — certainty is simply a goal or factor to be taken into account and accorded appropriate weight in developing, drafting, and administering tax legislation and resolving tax disputes. The processes for developing and administering tax legislation are not mechanical; they require judgement based on a balanced and thorough analysis of all the considerations relevant to each tax decision. In addition, the amount of work currently underway with respect to tax certainty (even allowing for the fact that some of the projects described in the IMF/OECD reports are not focused primarily on tax certainty) is staggering, and many developing countries are unlikely to have the necessary resources to regularly monitor all the work, let alone participate actively in it.

Since early 2020, when this article was written, work by BRITACOM and other international organizations on tax certainty appears to have ground to a halt as countries have struggled to respond to the COVID-19 pandemic.

4. The Sources of Tax Uncertainty

4.1 Introduction

The sources or causes of uncertainty with

respect to the tax system are many and varied. The major sources of tax uncertainty are:

- the complex nature of modern business transactions and the pace of change with respect to such transactions;
- taxpayer behavior;
- tax policy objectives underlying tax legislation;
- tax legislation;
- tax administration; and
- dispute resolution.

These sources of uncertainty are generally the same with respect to the domestic and international aspects of countries' tax systems. However, the existence of tax treaties, the role of international organizations, and the inevitability of disputes between tax administrations as well as between taxpayers and tax administrations exacerbate uncertainty in the international context.

The first two sources of tax uncertainty are largely beyond the control of the tax authorities of a country. The complexity of modern business transactions and the pace of change in the way business is conducted — digital activities, artificial intelligence, etc. — are substantially responsible for tax uncertainty, as the current work of the Inclusive Framework on the taxation of digital activities clearly demonstrates. The proposed Pillar One and Pillar Two changes to the international tax rules in response to the growth of digital economy could fundamentally change those rules and introduce a period of unprecedented uncertainty for many large corporate taxpayers and tax administrations, at least until the international tax community becomes accustomed to the new rules. The tax authorities of all countries/regions must try as best they can to adapt to these changes. This type of tax uncertainty is inevitable.

Taxpayer behavior can also be an important contributor to tax uncertainty. Taxpayers that attempt to avoid their tax obligations through aggressive tax planning cannot reasonably be entitled to expect the results of their planning to be certain. From the perspective of tax authorities, such aggressive tax planning imposes a significant administrative burden on the tax authorities

to identify aggressive tax planning schemes and apply the tax law to prevent such schemes from being successful. Otherwise, tax revenues will be reduced inappropriately and the integrity of the tax system may be undermined.

It is important for tax authorities to understand and remind taxpayers that the uncertainty associated with aggressive tax planning can be eliminated completely by taxpayers themselves, simply by ceasing to engage in such schemes. For their part, the tax authorities should ensure that they have the appropriate laws and administrative resources in place to discourage aggressive tax planning. The appropriate laws include specific anti-avoidance rules, a general anti-avoidance rule, mandatory disclosure rules with respect to aggressive tax transactions, and penalties. Anti-avoidance rules may be broadly worded so that their application to particular transactions may involve considerable uncertainty; such uncertainty may act as a deterrent to taxpayers contemplating aggressive tax planning schemes. In my opinion, such uncertainty is acceptable as long as it does not discourage taxpayers from engaging in legitimate commercial transactions. Taxpayers cannot reasonably complain about the uncertainty associated with anti-avoidance rules (although they do so) unless the rules are overly broad.

The other sources of tax uncertainty listed above and discussed below are closely related and can be viewed as a process in which uncertainty at the earliest part of the process “snowballs” in subsequent parts. For example, confused or incoherent tax policy usually leads to unclear, inconsistent tax legislation, which in turn leads to arbitrary, inconsistent application of the legislation, which in turn often leads to amendments to the tax legislation to deal with the resulting problems. The amending legislation may simply add more uncertainty, thus creating a vicious circle. To avoid this vicious circle, it is important for developing countries to devote necessary expertise, perhaps with outside technical assistance from international organizations, to establish a solid and coherent tax policy foundation for the legislation and application of that legislation by the tax administration.

4.2 Tax Policy and Legislation

The process for formulation of tax policy in developing countries often does not receive sufficient attention. However, as noted above, it establishes the foundation for the entire tax system and to the extent that the tax policy process is deficient, the rest of the tax system will suffer.

The process for formulating tax policy can be divided into three phases. The first phase involves the generation of ideas and options for tax reform, which often flows from the identification of deficiencies in the existing tax system, and research, analysis, and evaluation of those options. This phase requires people with tax policy skills, technical expertise in law and accounting, and political acumen as to which tax reform actions are feasible. The second phase involves drafting necessary legislation, and the third phase involves the enactment of the legislation, which will vary with each country's system of government and legislative process. These three phases should be integrated so that those drafting of the legislation are intimately familiar with the tax policy decisions made in the course of developing the proposed legislation, and those familiar with the underlying tax policy of proposed legislation can explain to the politicians responsible for the legislation and the legislators who will enact it, the need for the legislation and how it will apply.

It is important for officials of the branch of government responsible for administering the final legislation to be involved in the first two phases of the tax policy process. These officials will be able to identify the problems with the existing legislation and can usefully contribute to the development of possible solutions to those problems. Moreover, they will be responsible for interpreting and applying the new legislation, so it is crucial for them to do so in accordance with its underlying policy.

Although, as noted above, developing countries should devote the necessary resources to the formulation of tax policy and the drafting of tax legislation, it must be recognized that a certain amount of uncertainty in tax legislation is inevitable. Even the most advanced developed countries that devote enormous resources and

technical expertise to the tax policy process and drafting of tax legislation have not been successful in completely eliminating uncertainty in their tax legislation, as shown by the steadily increasing volume of disputes between taxpayers and tax administrations. Language is generally imprecise and capable of multiple interpretations because words do not have single true meanings — words are simply arbitrary associations between sounds and meaning. The meaning of words is generally indeterminate and humans are capable of giving different interpretations to statutory language, especially where, as is the case with tax advisers, they are highly motivated and well paid to do so. Unlike ordinary communication, which is based on goodwill between the writer and readers or the speaker and hearers, tax legislation, which represents communication between the government and taxpayers (and their advisers), is clearly not based on a presumption of goodwill between taxpayers and the government. Many years ago, an English judge addressed the impossible task facing legislative drafters as follows, “It is not enough to attain to a degree of precision which a person reading in good faith can understand, but you must attain, if you possibly can, to a degree of precision which a person reading in bad faith cannot misunderstand. It is all the better if he cannot pretend to misunderstand it.”²³

Therefore, it is not sufficient for developing countries to attempt to minimize tax uncertainty exclusively by improving the quality of tax policy process and drafting of tax legislation. Disputes between taxpayers and the tax administration are inevitable, and therefore developing countries must also attempt to improve tax certainty by improving the administration of legislation and the process for resolving disputes.

4.3 Tax Administration

A comprehensive discussion of the role of the tax administration as a source of tax uncer-

tainty and the possible actions of the tax administration to alleviate that uncertainty is beyond the scope of this article. As noted above, uncertainty is inevitable with respect to the meaning of tax legislation and its application to particular fact situations. Tax administration can either exacerbate this uncertainty or alleviate it. The ways in which poor tax administration can contribute to tax uncertainty are virtually limitless: corruption, incompetence, lack of resources, inadequate training of staff, lack of technical expertise, non-competitive pay scales, lack of leadership or support from senior management, etc.

In general, the administration of a country's tax legislation involves three major functions: the interpretation of tax laws and the provision of guidance in various forms to taxpayers, the verification of tax payable by taxpayers, including the audit of tax returns, and the resolution of disputes with taxpayers.²⁴

In order for tax officials to apply the provisions of the tax legislation, they must first interpret those provisions. The administrative interpretations adopted by tax authorities should ideally be made available to taxpayers so that they can choose to comply with the tax administration's position and avoid conflict with it. There are many types of guidance that the tax administration can provide to taxpayers in order to improve certainty and taxpayer compliance with the tax law, including:

- general information about taxpayers' obligations to pay tax;
- responses to inquiries from taxpayers;
- technical interpretations of the tax law adopted by the tax administration, whether general or in response to specific questions from taxpayers or their advisers; and
- tax rulings, binding or non-binding, as to the tax consequences of proposed transactions, including APAs with respect to a particular taxpayer's transfer pricing methodology.

²³ In re: Castioli [1891] Queen's Bench 149 (Judge Stephen).

²⁴ The tax authorities may also have additional functions, such as the administration of tax expenditures and incentives, which are essentially spending programs delivered through the tax system. Most of the discussion of tax certainty is equally applicable to these tax expenditure programs.

Providing these types of guidance for taxpayers, especially with respect to international transactions, requires a significant commitment of resources and technical expertise. In most cases, the guidance provided must be accurate and timely. The benefits of improved compliance and certainty for taxpayers are well worth the additional costs of such guidance for tax administrations.

The audit and verification activities of the tax authorities are important for the integrity of any tax system even where they rely on withholding at source as the method for collecting tax.²⁵ Such activities add a considerable element of uncertainty to the tax system, since taxpayers may reasonably expect that any audit will result in an increase in the amount of tax payable, occupy the taxpayer's employees and outside advisers in unproductive work, and result in additional costs. Nevertheless, such audit and verification activities are critical to the integrity of tax systems, especially those based on self-assessment. In the absence of such activities, taxpayers may be tempted to play the so-called "audit lottery" and take aggressive filing positions in the hope that they will not be selected for audit or that tax audit officials will not discover their aggressive positions. Therefore, although audit and verification activities inevitably cause uncertainty for taxpayers, that uncertainty is an acceptable price to pay in order to safeguard the integrity of the tax system as a whole (fairness to taxpayers in general who are not engaged in tax avoidance transactions). Of course, tax administrations should attempt to minimize the uncertainty associated with audit and verification activities by targeting such activities on taxpayers where the risk of underpayment of tax is greatest (for example, through the use of risk-assessment tools) and by a careful balancing of audit coverage and expected tax revenues.

Tax administrations also have an important role to play in the resolution of disputes with taxpayers. Although taxpayers should always have the right to appeal their tax assessments to an independent authority, such as the courts, tax administrations should provide a dispute-resolution process within the tax administration in an attempt to resolve disputes more quickly and efficiently and in a less costly manner. Moreover, tax administrations might usefully consider mechanisms that focus on the prevention of disputes with taxpayers in the first place.²⁶ Internal dispute-resolution procedures are discussed further in connection with the resolution of tax disputes generally.

4.4 Dispute Resolution

To this point, I have argued that a certain amount of uncertainty is inevitable with respect to tax policy and legislation. While good tax administration can alleviate some of that uncertainty, it cannot eliminate the uncertainty completely, and poor tax administration can exacerbate it. Thus, even with the best of intentions of both taxpayers and tax authorities, disputes between them are inevitable. These disputes lead to further uncertainty for taxpayers and tax authorities, not only with respect to the ultimate result of the dispute, but also the additional costs incurred in resolving the dispute, especially where recourse to litigation in the courts is necessary. Therefore, it is in the interests of both taxpayers and tax authorities to minimize tax disputes, as discussed above, and to adopt procedures to resolve disputes efficiently, independently, with finality, and on a timely and principled basis.²⁷ However, it must be emphasized that the objective of certainty does not necessarily mean that disputes must be resolved in favor of taxpayers.

There are many types of dispute-resolution

²⁵ Withholding agents, such as employers and residents paying amounts to non-residents, must be audited to ensure that they are withholding properly.

²⁶ See note 15, pp.6.

²⁷ Any dispute-resolution process should adhere to basic principles of due process. For example, the taxpayer should be entitled to participate (the mutual agreement procedure is currently an exception); the deciding authority should be independent of both the taxpayer and the tax administration; and the process should be transparent.

mechanisms that are used to resolve disputes between taxpayers and tax authorities, including:

- internal appeals within the tax administration;
- binding rulings, including APAs;
- mediation;
- arbitration;
- litigation in the national courts; and
- the MAP provided in tax treaties to resolve disputes between tax administrations.

A discussion of these methods for resolving disputes between taxpayers and tax authorities is beyond the scope of this article. An internal appeals mechanism and a process of binding tax rulings are important ways for tax administrations to enhance certainty for businesses and resolve disputes on an efficient basis while retaining control by the tax administration.²⁸ Although an internal appeals mechanism and a rulings process may be costly to establish, they have proved to be very effective in several countries.

The increased attention paid to transfer pricing over the past 25 years and the changes to domestic law and tax treaties pursuant to the BEPS Project have seriously increased the possibility of tax disputes. The international tax community has responded by focusing efforts on improving the MAP, expanding the use of arbitration, and studying alternative dispute resolution mechanisms. As noted in the 2019 IMF/OECD Progress Report, the focus has recently shifted, somewhat, from dispute resolution to dispute prevention through various methods, including cooperative compliance initiatives.²⁹



5. Conclusion

This article has attempted to put the recent focus of the international tax community on tax certainty into a broader context. It has attempted to show that it is inappropriate to treat

²⁸ An internal appeals mechanism can also be useful as a method of quality control over the audit and assessment functions. One obvious difficulty with an internal appeals mechanism is its lack of independence. It relies on the establishment of a measure of trust between taxpayers and the appeals branch that the appeals branch will not simply rubber-stamp assessments issued by the audit branch.

²⁹ OECD (2016). *Co-operative Tax Compliance: Building a Better Tax Control Framework*. Johanna Waal & Juha Lingren. *Finland's Cross-Border Dialogue Initiative: A Practical Step towards International Tax Certainty*. 72 Bulletin for International Taxation 9, 2019, pp. 482–488. For a description of Finland's promising efforts to avoid disputes with large corporate taxpayers through a structured dialogue among the taxpayer and the tax authorities of two or more countries, the dialogue takes place within the legal framework of the exchange-of-information article of an applicable tax treaty. The authors suggest that the cross-border dialogue could be “a fast, easy and objective method for avoiding tax disputes and double taxation”. The application of such a cross-border dialogue between developed and developing countries or between developing countries at significantly different levels of development raises difficult issues similar to those involving the use of arbitration by developing countries.



tax certainty as a problem to be studied and for which solutions are to be developed and implemented. Tax certainty is not a problem to be solved: it is a tax policy goal that should be infused into every aspect of the tax systems of all countries along with the other tax policy goals.

The article has also attempted to show that all the obvious strategies to enhance tax certainty require the tax authorities to have sophisticated tax expertise, especially with respect to international tax. This tax expertise is lacking or inadequate in many developing countries. Without necessary tax expertise, tax authorities often have a tendency to try to avoid difficult decisions for which they are accountable; as a result, tax officials may simply refuse to take decisions that favor taxpayers, may defer taking a decision, or may delegate issues to a more senior official in the tax administration. There-

fore, for developing countries that lack necessary human resources with required tax expertise to deal effectively with complex legislation, tax treaties and transactions, any improvement in tax certainty requires their enhanced capacity with respect to tax policy formulation, drafting, and tax administration as a matter of high priority. Although, ideally, developing countries should focus on capacity building with respect to tax policy and administration generally, the need for foreign investment requires them to assure large foreign investors of reasonable certainty with respect to the tax consequences of their investments.

Finally, calls for improved tax certainty by taxpayers must be viewed with some skepticism, since experience has shown that taxpayers are quite willing to embrace complexity where it operates to their benefit.

Improving Taxation of Income from International Transportation

—Study on Jurisdictions Covered by the Belt and Road Initiative

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Abstract: The goals pursued by the Belt and Road Initiative (BRI) and the role played by international transportation on the development of cross-border trade suggest a focused review of issues dealing with taxation of transportation income derived from the operation of ships, railways and trucks in international traffic. This article covers an analysis of some of the treaties concluded by certain BRI jurisdictions and the possible ways of improvement of the tax regime applicable to taxation of international transportation either through international administrative cooperation or treaty legislation.

Keywords: Taxation of international transportation; Road and railway transportation; Article 8 of OECD/UN Model Conventions; International tax system

1. Introduction

The goals pursued by the Belt and Road Initiative (BRI) and the role played by international transportation on the development of cross-border trade suggest a focused review of issues dealing with taxation of transportation income derived from the operation of ships, railways and trucks in international traffic. Improving the tax regime applicable to international transport may support the BRI relating to the investment in railway and road infrastructures.¹

A review of the current bilateral treaties concluded by the Belt and Road jurisdictions indicates several discrepancies (see Annex1 at the end of the article for a selection of the treaties concluded by the non-EU Belt and Road jurisdictions).

The review further indicates that income neither from road nor from railway transportation is generally covered. The provisions under Article 8 of the OECD and UN Model Conventions relating to shipping and air transport present issues of interpretation, although the clarity con-

¹ Chao Wang et al.(2020). *Railway and Road Infrastructure in the Belt and Road Initiative Countries: Estimating the Impact of Transport Infrastructure on Economic Growth*, 134 Transportation Research Part A: Policy and Practice, pp.288–307.

tributed since 1963 by Commentaries to respective Model Conventions.

This paper highlights the most relevant interpretation issues that may cause double taxation and recommends cooperation between tax administrations (which might result in the setting up of a permanent dispute resolution board) and legislative bodies of the relevant countries which might conclude a multilateral treaty to be applied in addition to a bilateral convention.

2. Issues Arising under Article 8 of the OECD and UN Model Conventions

The issue of taxation and transport in an international context has always been dealt with as an exception to the general distributive rule on business profits in view of the very particular nature of these activities and of the difficulty of apportioning the profits, particularly in the case of companies operating in a number of states. To this purpose, Article 8(1) of the OECD Model states that profits from the operation of ships and aircraft in international traffic are taxable solely in the state in which the enterprise is situated. The expression “international traffic” and the term “enterprise” are defined in Article 3 of the OECD Model. The peculiarity of the OECD Model provision is that the exclusive right to tax is granted to the state in which the enterprise is situated. Until 2017, paragraph 1 provided that the exclusive taxing right was allocated to the contracting state in which the place of effective management of the enterprise was situated. A review of the treaty practices of OECD and non-OECD countries revealed, however, that the majority of these countries preferred to assign the taxing right to the state of the enterprise (i.e. the residence state of the person carrying on the enterprise), and the Article was changed accordingly.

The current version of Article 8 of the UN Model departs from Article 8 of the OECD Model (2017) in providing for an alternative Article 8 (alternative B), under which Article 8(1) restricts a source state exemption for profits derived from the operation of aircraft only and under which Article 8(2) grants the source state

the right to tax profits from shipping operations when they are “more than casual”. In that event the tax levied by the source state is to be reduced by a percentage to be established by bilateral negotiations. It has to be noted that the reluctance to exempt shipping profits from source taxation as expressed in Article 8 (alternative B) of the UN Model is based on the circumstance that most developing countries have no resident shipping companies, but do have ports that are used by foreign shipping companies. Also, several domestic regimes provide for reciprocal exemption with regard to shipping profits so that the effect of the treaty provisions based on Article 8 of the OECD/UN Models may be limited.

The strongly supported policy of the limited taxation of foreign shipping income combined with the growth of shipping havens that levy no tax on profits of shipping enterprises has effectively made shipping a sort of “tax-free” industry. Developed countries have introduced tonnage tax and other beneficial regimes, in effect, accepting the no tax result to re-establish their shipping industries in the fight against the flags of convenience.

This being said, Article 8 of the OECD Model and UN Model and the current treaty practice are unable to provide a satisfactory reaction to the Belt and Road Initiative challenges. In fact, on sea and air transportation, treaty provisions are different as they reflect either the OECD or the UN Model Conventions which, as mentioned, differ. Furthermore, a few countries only address taxation of transportation by railway and road. Then, treaty provisions cover bilateral transportation issues and so are unable to eliminate double taxation arising from multilateral situations where transportation income is derived from several countries, which is the rule rather than the exception. Also, treaties do not address income from intermodal transportation where income is derived from the combined use of different means of transport. Finally, the definition of income covered by these treaty rules is different in several treaties, which also creates distortions that may lead to double taxation (a supreme example is that related to income from connected activities such as income from lea-

sing of containers). Domestic laws are also very different and reflect different tax policies toward transportation business as only some countries provide a privileged tax regime to foster and support the industry (although such support is generally limited to shipping and not to road or railway transport). Privileged tax regimes may also create issues in the international context since the application of tax treaties including the provisions on taxation of transportation income are limited to companies and other entities which are liable to tax under the domestic tax law of either one or both contracting states so that companies benefitting domestically may not be eligible for treaty relief. Last but not least, the application of treaty relief may be subject to burdensome formalities in the respective jurisdictions where common forms and documentation for all countries covered by the same voyage would ensure a greater efficiency and reduction of compliance costs. Review of legislation and treaties is an ambitious target. However, establishing a board on cooperation among the Belt and Road jurisdictions could be the adequate route to achieve the goal.

The following paragraphs will discuss the main issues applicable to Article 8, which will be addressed to conclude that a consensus would be desirable and a multilateral ad hoc treaty among the Belt and Road jurisdictions would be the preferred way to deal with the issue.

2.1 The Existing Treaties Do not Address Consistently Road and Railway Transport

Article 8 of the OECD Model does not apply to transport by road or railway on the erroneous assumption that, in contrast to international shipping and air transport, transport by road or railway is always carried out in the territory of a state. However, paragraph 15 of the Commentary on Article 8 of the OECD Model

allows the application of the same distributive rule to inland waterways transport that takes place entirely in the territory of a state.

In addition, the determination of income is not easier for road or railway transport compared with shipping or aircraft, especially when railway and road transport includes voyages that transit in a third state, i.e. involving states other than the two contracting states as would be the case of the Belt and Road jurisdictions. Therefore, there are no conceptual reasons to exclude railway and road transport from the scope of Article 8 of the OECD Model to the extent that this provision includes inland waterways transport.

International railway transport is also the result of underlying governmental agreements that deal with the creation of the proper infrastructure in the relevant states so it is not unusual that such agreements establish the criteria for allocation of income among the states participating in an international railway construction project.

Additional arguments for excluding road transport may be more difficult, given the issues surrounding the auditing of the activities of road transport or the circumstance that road transport does not normally require infrastructure to be at the disposal of the entrepreneur in a way that could amount to a fixed place of business through which the road transport business is carried on. This, of course, prevents source state taxation under Article 7 of the OECD Model. Some tax treaties do, however, add profits from inland road or railway transport to the provision regarding international shipping and aircraft transport.

As far as the Belt and Road jurisdictions are concerned, road and railway transport are not dealt with consistently. In particular:

- Turkey reserved its right to also apply Article 8 of the OECD Model to road transport and Turkey treaty practice consistently covers this kind of transport;²

2 For instance, Turkey–Greece Tax Treaty (3 Dec. 2003); Turkey–Italy Tax Treaty (27 July 1990). On 12 March 2012, Italy and Turkey also signed a Social Security Agreement whose Article 8 applies to personnel of international transport undertakings and states that: “A person who is a member of the travelling or flying personnel of an undertaking which, for hire or on its own account, operates international transport services for passengers or goods by road, rail, air or sea and has its registered office in the territory of the other Contracting Party shall be subject to the legislation of that Contracting Party.” Also, Turkey–Iran Tax Treaty (17 June 2002) and Turkey–Ukraine Tax Treaty (27 Nov. 1996).

- Uzbekistan concluded treaties with Kazakhstan and Kyrgyzstan, in which reference is made to road and railway transport;³
- Kyrgyzstan concluded treaties covering road and railway transport;⁴ and
- Ukraine concluded a tax treaty with Poland covering road transport vehicles.⁵

2.2 Treaty Provisions Covering Bilateral Transportation Are Unable to Eliminate Double Taxation Arising from Multilateral Situations Where Transportation Income Is Derived from Several Countries

Article 8 might not be able to resolve the issues arising from multiple source country taxation. For example, if one looks at the positions of non-OECD countries to Article 8 and the Commentary of the OECD Model Tax Convention it arises that Indonesia reserves the right

to allow the state of source to tax profits from the operation of ships in international traffic provided that the shipping activities arising from such operation in that state are more than casual and subject to certain limits (the provision reflects the UN Model Convention).

The expression “more than casual” has been interpreted by Indian courts⁶ to the effect that the term “casual” includes solely fortuitous and solitary visits dictated by non-commercial expediencies so that calls at ports “if and when required” could not be regarded as casual and the profits should be taxed in the source state.

Also, India,⁷ Indonesia⁸ and Malaysia⁹ treaty practice provides that profits derived from the operation of ships in international traffic may be taxed in the contracting state in which such operation is carried on, but the tax so charged shall not exceed 50% of the tax otherwise imposed by



3 Kazakhstan-Uzbekistan Tax Treaty (12 June 1996); Uzbekistan-Kyrgyzstan Tax Treaty (24 Dec. 1996).

4 Kyrgyzstan-Iran Tax Treaty (29 Apr. 2002).

5 Poland-Ukraine Tax Treaty (12 Jan. 1993).

6 ITAT (2004). *James Mackintosh & Co. (P) Ltd. v. ACIT*, [2005] 92 TTJ 388 (Mumb.).

7 India-Kenya Tax Treaty (11 July 2016); India-Sri Lanka Tax Treaty (22 Jan. 2013).

8 Malaysia-Indonesia Tax Treaty (12 Sept. 1991); Indonesia-Sri Lanka Tax Treaty (3 Feb. 1993).

9 Malaysia-Sri Lanka Tax Treaty (16 Sept. 1997).



the internal law of that state.

Vietnam reserves the right to provide that the taxing right with respect to income derived from international transportation shall be shared 50/50.

2.3 The Different Definition of Income Covered by Treaties Creates Distortions Which May Lead to Double Taxation

As correctly pointed out by the International Transport Forum,¹⁰ pure liner shipping only exists in theory, as practice is much more hybrid. Most major liner companies have integrated other activities, i.e. terminal operations, freight forwarding and intermodal transport. In other words, vertical integration is increasing. The need for consensus on the notion of profit covered therefore becomes even more essential in such a context.

Profits from the operation of ships or aircraft in international traffic include, in the first instance, profits directly obtained from the transport of passengers or cargo by ship or aircraft in international traffic. Whether the ships or aircraft are owned, leased or otherwise at the disposal of the enterprise is irrelevant.

“Operation of ships or aircraft” is not defined in the OECD Model or the UN Model. A number of tax treaties concluded by India include in Article 8 a provision defining the term as “the transportation by sea or air respectively of passengers, mail, livestock or goods carried on by the owners or lessees or charterers of ships or aircraft”.

The Commentary on Article 8 of the OECD Model also clarifies that the profits derived from the leasing of ships or aircraft on a bareboat basis are excluded, unless they are ancillary to the operation of ships and aircraft in international traffic. Income derived from the bareboat leasing of ships or aircraft in respect of the operation in international traffic falls under Article 7 or under Article 12 of the UN Model

¹⁰ Olaf Merk(2020).*Freight Forwarders Forum: The “New Normal” in Liner Shipping: Are Policies Fit for Purpose?*,<http://www.itf-oecd.org>.

as royalties in the form of “payments for the right to use industrial equipment”.

As far as the Belt and Road jurisdictions are concerned, Vietnam disagrees with the interpretation of paragraph 5 of the Commentary on the inclusion of profits obtained by leasing a ship or aircraft on charter fully equipped, crewed and supplied in the profits covered by Article 8.¹¹

Concerning the leasing of containers, Vietnam also disagrees with the interpretation presented in paragraph 10 of the OECD Model Commentary¹² in relation to the incidental leasing of containers, and Ukraine’s position on Article 8 indicates that “*profits ... from the leasing of containers, will be treated in the same way as income covered by paragraph 1 when such profits are incidental to international transportation*”.

It should also be noted that India,¹³ Kazakhstan, Kyrgyzstan, Turkey¹⁴ and Uzbekistan¹⁵ provide for an inclusion into the scope of Article 8 of profits deriving from the use, maintenance or rental of containers used for the transport of goods or merchandise in international traffic. In some cases, the inclusion is conditioned on the circumstance where the use, maintenance or rental of containers is incidental to its international operation of ships or aircrafts. Generally,

the inclusion does not apply if the containers are used solely within the other contracting state.

Other issues might derive from the fact that there is no consistency in the inclusion of “investments directly connected with the operation of ships or aircraft in international traffic” among profits derived from the operation of such ships or aircraft if they are integral to the carrying on of such business.¹⁶

In China, for example, which does not generally make reference in its tax treaties to profits derived from charter, rental or leasing of ships, in 2018, the State Taxation Administration of China (STA) issued the Announcement No.11 [2018]¹⁷ stating that profits derived from the transport of passengers or cargo by leasing an aircraft (in the form of a wet lease) or ship (in the form of a voyage or time charter) will be considered profits derived from the operation of ships or aircraft in international traffic. On the contrary, profits derived from the rental on a bareboat basis (i.e. bareboat charter for ships and dry lease for aircraft), as well as profits derived from the use, maintenance or rental of containers (including trailers and related equipment used for transport of the containers) used for the transport of goods or merchandise are within the scope of Article 8

11 According to paragraph 5 of the Commentary to the OECD Model Tax Convention, “Profits obtained by leasing a ship or aircraft on charter fully equipped, crewed and supplied must be treated like the profits from the carriage of passengers or cargo. Otherwise, a great deal of business of shipping or air transport would not come within the scope of the provision. However, Article 7, and not Article 8, applies to profits from leasing a ship or aircraft on a bareboat charter basis except when it is an ancillary activity of an enterprise engaged in the international operation of ships or aircraft.”

12 According to paragraph 10 of the Commentary to the OECD Model Tax Convention, “An enterprise that has assets or personnel in a foreign country for purposes of operating its ships or aircraft in international traffic may derive income from providing goods or services in that country to other transport enterprises. This would include (for example) the provision of goods and services by engineers, ground and equipment-maintenance staff, cargo handlers, catering staff and customer services personnel. Where the enterprise provides such goods to, or performs services for, other enterprises and such activities are directly connected or ancillary to the enterprise’s operation of ships or aircraft in international traffic, the profits from the provision of such goods or services to other enterprises will fall under the paragraph.”

13 India-Kenya Tax Treaty (11 July 2016); India-Sri Lanka Tax Treaty (22 Jan. 2013).

14 Turkey-Ukraine Tax Treaty (27 Nov. 1996).

15 Kazakhstan-Uzbekistan Tax Treaty (12 June 1996); Kyrgyzstan-Uzbekistan Tax Treaty (24 Dec. 1996).

16 India-Sri Lanka Tax Treaty (22 Jan. 2013) includes investment directly connected with the operation of ships or aircraft in international traffic among the profit covered.

17 The bulletin updates guidance Guoshuifa No.75 [2010] on the interpretation of China’s tax treaties.

if such activities are incidental¹⁸ to the operation of international traffic.¹⁹

3. Issues Arising from Tonnage Tax Regimes

With regard to enterprises engaged in the operation of ships in international traffic, one of the consequences of the generally accepted principle of exclusive taxation in the residence state is the high exposure of the maritime transport sector to the forces of international tax competition. In order to prevent ship owners from moving their fleets to low-tax states, high-tax states have therefore adopted measures to make their domestic shipping industry more competitive with foreign-based companies. The most widespread of these measures are tonnage tax regimes.

Most tonnage tax regimes provide for an alternative and optional set of rules in calculating the taxable basis of the shipping enterprise, which is then subject to ordinary corporate income tax.

However, some regimes provide for the payment of a separate tax, often applied in lieu of ordinary corporate income tax.

The first issue regarding the tonnage tax regimes is whether the taxes levied under such regimes are consistent with the taxes provided for under Article 2 of tax treaties based on the OECD Model. Secondly, tonnage tax regimes may also create issues in the international context as the application of tax treaties, including the provisions on taxation of transportation in-

come, is limited to companies and other entities which are "liable to tax" under the domestic tax law of either one or both contracting states.

4. Proposals for Improvement

4.1 Administrative Cooperation

The improvement of the tax regime applicable to taxation of international transportation may be achieved either through international administrative cooperation or treaty legislation.

Administrative cooperation might take the form of a board set up at BRITACOM level whereby issues raised by taxation of international transportation are reviewed and recommendations are adopted to ensure consistent interpretation of the relevant treaty rules. The board might progressively become the platform for implementation of a dispute resolution procedure.

4.2 Treaty Law

A review of the treaty policy of the countries covered indicates that income from international transport is covered by bilateral conventions to avoid double taxation following Article 8 of the OECD or UN Model Convention which are (mostly) limited to transport by sea and air. Considering that most BRI jurisdictions are developing countries, the UN Model Convention could probably be an instrument to solve or cover most of the issues. The UN Model Convention may be refined or improved as applicable to different circumstances, considering the needs of BRI jurisdictions.

18 Three factors will be considered when determining whether an activity is incidental or not: 1) International transportation is the main business of the company; 2) The activity, which makes a minor contribution to the main business, still is so closely related to the main business that it should not be regarded as a separate business or source of income of the enterprise; and 3) Revenue from incidental activities does not exceed 10% of the international transportation revenue of the enterprise in a fiscal year.

19 It has to be noted that in the past the local tax administration in China took a different view. For example, it has held a certain company, which had entered into a "time charter", i.e. a full lease, agreement with a Chinese company could not be exempted under Article 8 of the relevant tax treaty endorsing the view of the STA. In this regard, the court relied, inter alia, on an administrative circular issued by the STA in 1992 dismissing the interpretative value of the Commentaries on the OECD Model in relation to China's tax treaties. The Chinese tax authorities took the view that the "incidental" condition is satisfied if gross rental income is not greater than 10% of the total gross income derived by the shipping enterprise.

A treaty alternative might take the form of a treaty on taxation of income derived from international transportation which might be concluded by the countries that are covered by the BRI. The scope of the treaty may vary. It may include income from railway and road transport or extend to maritime and air transport, in which case the tax regime would primarily clarify the interpretation of existing double tax-

ation agreements and fill the gaps relating to income that is not covered by them or provide a solution to intermodal business. Also, the treaty could provide a framework for the levy of other taxes and charges that affect transportation (especially by road and railway) which impact on the cost of transport and create disincentives to the growth of business activities generated along the BRI.

Annex: Treaty Comparison

States	Date of conclusion	Exemption/50%	Road and railway transport	Leasing of containers
China-Kazakhstan	12 Sept. 2001	Exemption	road vehicles	not specified
China-Pakistan	15 Nov. 1989	Exemption	not covered	not specified
China-Vietnam	17 May 1995	exemption	not covered	not specified
Indonesia-Sri Lanka	3 Feb. 1993	50% rule for shipping; exemption for aircraft	not covered	not specified
Kazakhstan-Uzbekistan	12 June 1996	exemption	railway and road vehicles	covered
Kyrgyzstan-Iran	29 Apr. 2002	exemption	railway and road vehicles	not specified
Kyrgyzstan-Uzbekistan	24 Dec. 1996	exemption	railway and road vehicles	covered
Malaysia-Indonesia	12 Sept. 1991	50% rule for shipping; exemption for aircraft	not covered	not specified
Malaysia-Sri Lanka	16 Sept. 1997	50% rule for shipping; exemption for aircraft	not covered	not specified
Malaysia-Vietnam	7 Sept. 1995	exemption	not covered	not specified
Turkey-Iran	17 June 2002	exemption	road vehicles	not specified
Turkey-Ukraine	27 Nov. 1996	exemption	road vehicles	covered to the extent they are incidental

Digital Transformation of Indirect Tax Administration

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Abstract: In recent years, more and more governments, particularly in the developing countries with less-developed tax systems, begin to focus on the administration of indirect tax, including value-added taxes, goods and services taxes, tariffs and excise taxes. Building an integrated and effective indirect tax management system has become an urgent task. This article explores how technology can help revenue authorities address issues of indirect tax administration and provides a digital transformation framework for tax administration in their strategic and operational planning.

Key words: Indirect tax administration; Digital transformation; Technology

1. Introduction

It is well recognized that digital technology is affecting tax administration at a rate we cannot imagine. Digitalization and growing connectivity have contributed to the exponential growth of new solutions and business models, posing new challenges to tax administration, such as inability to adapt to multiple tax applications, inefficient manual processes, inadequate data exchange, a lack of quality tax information and credit risk. However, digitalization is not only a challenge, but also an unprecedented opportunity. Innovative solutions make revenue authorities more efficient. For example, digitalization provides a new way for government to interact with taxpayers by using data and offering new services.

Additionally, digitalization improves performance by offering governments more flexibility to conduct enforcement activities.

Over the last two decades, the management of indirect taxes has been becoming increasingly important, with value-added tax (VAT), goods and services tax (GST), customs duty and excise duty accounting for more than half of many governments' revenue. Many countries have built or planned to build data centers to collect taxpayers' transaction information on a real-time or near real-time basis, determine indirect tax filing of taxpayers based on these transaction records and process tax returns. This article will explore how technologies realize the digital transformation of indirect tax administration.

2. Digitalization of Indirect Tax Administration

2.1 Technologies as an Enabler

Technology is playing an increasingly important role in economy and society. No modern tax administration can perform its tasks efficiently without modern information technology (IT). Among the areas that may be computerized are:

- Collection of taxpayers' information and tax;
- Internal management and control over resources;
- Legal structure and procedures; and
- Systems to lower taxpayers' compliance costs.

2.1.1 IT governance

With the popularization of IT, IT governance has been widely adopted by revenue authorities around the world.

- Compliance management. It refers to a set of technologies that assist revenue authorities to manage taxpayer registration, and receive and process tax returns more efficiently and accurately and/or in a more automated way. The key to compliance management is to design and develop related functions based on taxpayers' compliance willingness. Compliance management must ensure the convenience of taxpayers who are willing to pay taxes, and more importantly ensure that effective audit and law enforcement measures are taken against taxpayers who do not comply with the law.
- Process automation. Process management solutions are those that manage a particular process or end-to-end process by providing the right information to the right person at the right time. More specifically, these solutions manage workflows within tax functions or organizations. The utilization of these solutions always starts with re-engineering business processes, focusing on facilitating and optimizing the process and managing these processes so that the organizations operate more efficiently. For example, the workflow solution helps track

the preparation and approval process of tax returns, and also store tax declaration materials centrally for easy access by tax officials. Some revenue authorities have started to use robotic process automation (RPA) technology to perform necessary data operation instead of manual tax processing operation, to improve overall efficiency.

- Infrastructure. It covers both hardware and software solutions, such as cloud computing, data center/disaster recovery, big data platform and operating system. Scalability and evolvability of infrastructure are top concerns for revenue authorities. More and more revenue authorities start to build their dedicated networks and data centers to meet the increasing requirements of infrastructure and tax data management. A tax dedicated cloud is an important part of e-Government, which provides tax data and services to support the national economy.

2.1.2 Data governance

A data governance framework serves revenue authorities to collect and manage massive tax data.

- Risk profiling. It is a technology that adopts sophisticated data analytics to ensure accurate tax-related data and identification of potential tax risk. Accuracy is the first challenge in managing a massive amount of tax-related data. Data is not isolated but often associated, which gives tax administrators greater insights into the accuracy of the tax-related data, helping them identify potential tax risks upfront and errors or inconsistencies in the tax returns. Examples may include software solutions that allow tax administrators to analyze the margins on transactions for transfer pricing purposes, identify permanent establishment risks or help calculate tax liabilities of expatriates employed by organizations around the world. Taking housing decoration as an example, insight related solutions may be viewed as the interior design of a house. The interior features make the house more visually appealing and more functional.

- **Data-driven decision making.** Data is the lifeblood of digital transformation as it enables the provision of valuable insights for fact-based decision-making. This needs the coordination and management of tax data in the requisite level of privacy and security, and confidence building in the quality of data for improved business decision-making. Big data technology with improved access to source data (e.g. transaction data) that can be accessed in real time or near real time, and the ability to combine data and analytics, hold tremendous promise for transforming decision-making in revenue authorities. They also offer revenue bodies the opportunity to extract better business value out of the existing data and prefill tax returns, thereby improving tax compliance, reducing taxpayer burden and increasing taxpayer trust.
- **Data exchange.** It is widely used by revenue authorities to achieve efficient collaboration between internal and external systems. Extensible markup language (XML) and application programming interface (API) technologies have facilitated this exchange. For example, taxpayers use API to extract transaction information from their enterprise resource planning (ERP) systems to prepare indirect tax returns.

2.2 Managing Indirect Tax

Take VAT as an example, figure 1 shows the whole process of a revenue authority handling

indirect taxes. Enterprises need to register as a taxpayer to obtain the permission to carry out business activities. Real-time and near real-time technologies ensure that the revenue authority can receive and properly store related data when transaction takes place. The data will be used in subsequent operations, such as tax return preparation, payment and accounting management. Also, business intelligence and data analytics are widely applied in tax administration, such as auditing and compliance.

2.2.1 Registration as a starting point

For indirect taxes, registration process also includes a special step, the registration of the invoicing system, in order to activate invoicing function. This process is used in many countries, but with different techniques. For example, some countries use fiscal devices, such as the fiscal disk (used to connect to the invoice software installed on the personal computer) and cash register, while some adopt paperless e-invoices. In this scenario, taxpayers only obtain a user name and password during registration and the invoicing process is completed on a virtual cash register.

2.2.2 Taxpayer profiling

Once a taxpayer is registered, an account will be opened in the system of revenue authority. With massive data collected from different channels, revenue authorities are moving to a data-driven management mode. A scoring model that classifies all registered companies into four categories has been widely used in many tax administrations (see Figure 2).

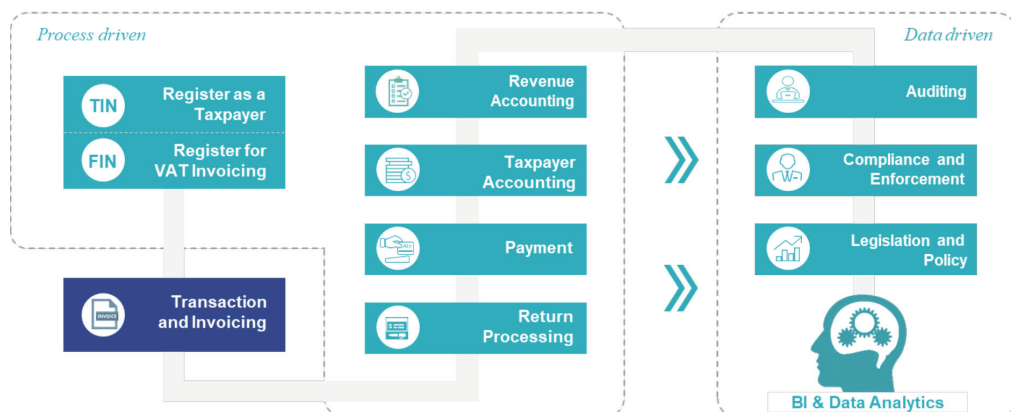


Figure 1. Indirect tax administration process



Figure 2. Taxpayer categorization by compliance risks



Figure 3. Concept of transaction information collection

- Low risk — the majority of taxpayers who are willing to do the right thing and there is no need for extra follow-up;
- Risk of errors — the taxpayers who have problems doing the right thing will surely do the right thing with necessary guidance and information;
- Risk of fraud — the taxpayers who probably try to avoid paying tax must be subject to frequent audits; and
- Risk of crime — the taxpayers who have the characteristics of being part of a criminal network should, therefore, have special follow-up with enforcement.

The categorization is usually based on taxpayers' past behavior and the behavior of similar companies in the register. However, the categorization changes whenever new information is

captured and new risk is detected.

2.2.3 Collecting transaction information

Transaction information collection is a common means to meet the basic data needs of revenue authorities. The prerequisite for such collection is the establishment of a unified invoice format with mandatory fields and better-informed data collection rules. The common invoice format often includes basic information about the buyer and seller, as well as category, price, quantity, and the amount of tax to be paid (see Figure 3).

The purpose of collecting transaction information is to find the value of data. A typical scenario is to find business relationship from taxpayers' transaction information, through which the taxpayer with high risk will be audited (see Figure 4).

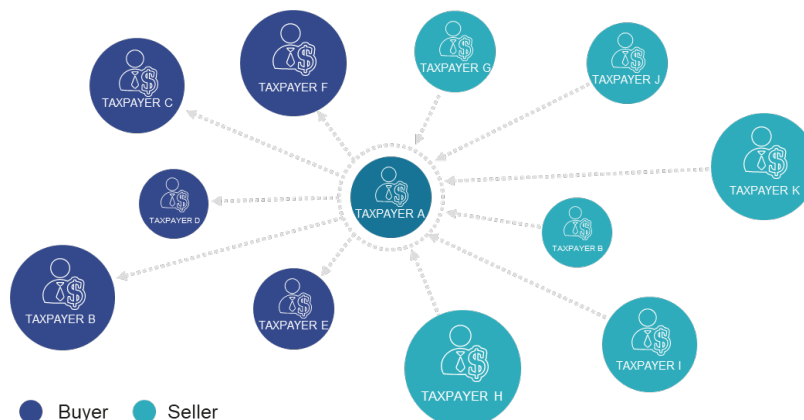


Figure 4. Business connection analysis

It seems easy to collect transaction information in Business to Business (B2B) and Business to Government (B2G) scenario, but not in Business to Consumer (B2C) scenario. It is necessary to encourage consumers to ask for receipts. In order to engage citizens in the fight against tax evasion, a receipt lottery system is recommended. Each electronic cash register receipt is assigned with a special registration number, according to which receipts shall be drawn in the lottery. The lottery results will be periodically published on the website or pushed to mobile phones through short messaging service.

2.2.4 Invoicing electronically

As a key supporting document, digitalizing transaction information and using them to prepare tax return are nothing new. A common method is to upload the data generated from the fiscal device in XML or Standard Audit File for Tax (SAF-T, OECD countries) format through the Internet during tax reporting. Research also shows that many countries have escalated this need and required their taxpayers to upload transaction information to the database within a limited time, while the data will be used for comparisons of future tax returns. In practice, the data transmission sequence may be different. For example, in Colombia, only after taxpayers have sent data to the buyers, will it be sent to the revenue authority; the time limit for them varies from a couple of minutes up to a couple of days. However, in Ecuador, the seller simultaneously sends the documents to the buyers and the tax administration.

A cloud computing based e-invoicing solution has become popular recently. It uses a so-called virtual cash register — encrypted cloud storage, to issue, transfer and store electronically signed transaction information. The use of encryption technologies ensures that the data is secure and cannot be tampered in its whole life cycle.

The e-invoice brings us significant advantages. Basically, through matching the accumulated data from invoices with the values declared in the tax return at the end of the period, more sophisticated services can be introduced, such as:

- Taxpayers can make self-assessment by ac-

cessing to the summary information, so that they can know what is needed before preparing a tax return; and

- According to the transaction information, revenue authority can prepare tax returns in advance for taxpayers. Taxpayers now have the option to accept the tax return and pay tax or to report any discrepancy with evidence.

2.2.5 Transforming taxpayer services

Although more and more revenue authorities have realized the need to establish a taxpayer-centric service system, it is undeniable that revenue authorities have been balancing taxpayer service and compliance management to become a service-oriented organization while facilitating tax compliance management.

Taxpayers today are more demanding on personalized, real-time and reliable tax services that can be easy to use and accessible online and offline at any time. In order to meet these needs, revenue authorities tend to build a well-designed integrated system with the following features:

- Secure and well-connected infrastructure with scalability;
- Capacity to automate and personalize services with new technologies;
- Capacity to capture quality tax data and draw insights from it; and
- Collaborative platforms for internal and external interactions.

A good service is also built on knowing your customers well. The collection of transaction information enables revenue authorities to prepare a pre-filled tax return in advance, which will significantly shorten the processing time and reduce the risk of potential errors. Increasing data also makes it possible to improve assessment efficiency through new technologies, such as RPA tools and artificial intelligence.

In designing the business model of service framework for indirect tax administration, there has also been successful experience showing that revenue authorities can choose a more flexible model by outsourcing the delivery of invoicing services to some qualified companies (more accurately, authorizing a company or companies

to deliver services to taxpayers) and focusing on the use and value of the data itself.

2.2.6 Tracking movement of goods

Another value of the collected transaction data is that it provides a clue of goods movement, from manufacturers and importers all the way to final consumers. Monitoring of financial revenue flows from retail sales of goods and services combined with information about the actual movement of goods and performed VAT transactions creates better opportunities for compliance management. These data flows produce big data that creates exciting opportunities for further analysis (see Figure 5).

Transaction data is not enough for the ad-

ministration of excise. In some countries, revenue authorities use tagging systems based on radio frequency identification (RFID) or barcode technologies to monitor the movement of specific goods items (drugs, cigarettes, alcohol, etc.). It is illegal to sell the untagged items of these goods. All manufacturers, importers, middlemen, distributors and retailers are required to report the movement of goods to the system on a real-time basis. By doing this, revenue authority can hinder the circulation of smuggled and counterfeit products. The monitoring of goods movement makes it possible to address the issues of shadow economy, with better market transparency and more reported taxable income.

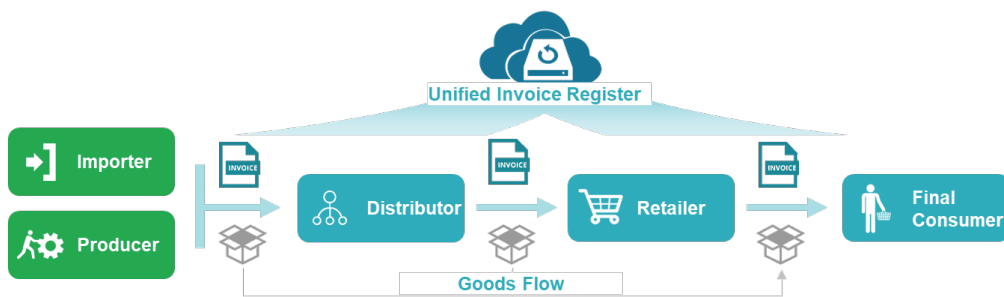


Figure 5. Tracking the movement of goods

2.3 An Infrastructure Perspective

The digital transformation of tax administration has become a megatrend characterized by automation and better use of data. To accommodate all of this we also need to transform the infrastructure. An organization can't harness the benefits of digital transformation without establishing the building blocks.

- Migration into cloud. One of the most obvious transformations is the widespread adoption of cloud computing, which is now replacing traditional data centers because it provides on-demand access to resources for applications. Revenue authorities intend to restructure their businesses and redesign applications on an open and elastic cloud, which can be easily expanded without significant investment, and reducing agility and capability.

- Wide connectivity. Network transformation is also essential. Revenue authorities need to build a large network connecting all taxpayers and stakeholders to collect tax data that they care about or deliver high-quality taxpayer services. New technologies, such as the Internet of Things and edge computing, have also made such extensive connections more meaningful. Physical elements of a network such as routers and switches will be replaced by software-defined networking, which enables the rapid rollout of new services without changing equipment.
- Mobility-enabled. Mobility will become even more important in the era of digital transformation. The advances in cloud and networking technologies will enable tax authorities to access and process tax data wherever they are. It is predictable that

revenue authorities will consider both PC applications and mobile applications when designing new applications, or even consider mobile applications only. Meanwhile, a mobile device management solution will help increase visibility, control and the security of devices that have access to assets of revenue authority.

- **Comprehensive security.** Data security is a primary concern for revenue authorities in digital transformation. The increased number of devices in a network increases the possibility of being attacked, while more data collected mean that there is a higher potential for damage.
- **Agility.** Infrastructure agility is a key piece of digital transformation journey. The change in infrastructure capability makes it necessary for IT operations to rethink their strategy and to become more application-centric. The infrastructure needs to become more agile to accommodate the needs of the applications running on it. More specifically, it needs to be capable of running the newly created applications, but also the existing (sometimes legacy) applications.

2.4 How to Get There?

To achieve the digital transformation of indirect tax administration, revenue authorities must clearly understand the path they are going to follow and take the following factors into consideration.

2.4.1 Strategy, goals and priorities

Digital transformation is not easy for most revenue authorities as they have to struggle with aligning their resources with priorities. Our recommendation is to set up goals with strategic thrusts. Clear strategic thrusts can plan and implement the transformation for revenue authorities, thus improving countries' economic structure and business climate.

2.4.2 To do more with less, maximizing return on investment

Digital transformation is a long-term process. It not only needs clear goals and activities with priorities, but also requires revenue au-

thorities to maximize returns with limited resources — achieve more with less. To this end, data is the key. Revenue authorities need to invest in technologies to improve its capability of capturing data, for instance, the taxpayer registration information. In developing countries, there's a growing need to motivate citizens who are conducting informal businesses to register as taxpayers. As tax administrations continue to accumulate increasing volumes of data, they can convert this data into practical insight that helps them increase tax revenue, reduce taxpayers' compliance costs and improve country's business climate.

2.4.3 Leverage technology, empower people

Digital transformation also involves human transformation as well. To some extent, new technology can greatly motivate people by improving work efficiency. Revenue authorities should make full use of technology to empower their staff. Furthermore, digital transformation also requires the involvement of the entire organization. While senior staff may know their roles in the transformation process, many frontline staff would find it difficult to see where they can fit in. Empowering these people to see how their involvement can help advance the transformation not only engages them in the process, but also enables them to see how transformation impacts the organization.

2.4.4 Embrace and foster innovation

Innovation is essential for technological development, and digital transformation unleashes all kinds of innovation. We have seen much interesting innovation in the administration of indirect taxes. For example, the two-dimensional barcode encryption technology has been used in many countries as the credential of taxpayers' identity to obtain an e-invoice. The State Taxation Administration of China is piloting a project by using the blockchain technology to ensure the traceability and non-tampering of e-invoices. Such innovation is driving digital transformation of tax administration, and it is time for revenue authorities to consider how to become an innovative organization.

3. Conclusion

With the rise of the digital economy, digital transformation of indirect tax administration will be paid more and more attention, not only because of its high management efficiency, but also the insights provided by tax data obtained during its management process. Revenue authorities are more focused on the coordinated development of taxpayer services and compliance management as they seek a sustainable digital tax administration framework. To achieve digital transformation, they need to focus not only on technologies, but also on people and strategic implementation plans.

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2020

October - December 2020

Two Virtual Courses Held by BRITA·Nursultan

In October 2020, the Belt and Road Initiative Tax Academy (BRITA) in Nursultan held a virtual course on Transfer Pricing 2.0 with the participation of over 30 representatives from tax administrations and international organizations. A virtual course with the theme of Implementation and Discussion of BEPS Steps was held in December 2020 participated by 60 officials from various jurisdictions.

November 2020 - January 2021

A Video Course Held by BRITA·Macao

BRITA·Macao held a video course on Prevention and Resolution of Cross-Border Tax Disputes during November 2020 and January 2021 among Portuguese speaking jurisdictions attended by 71 tax officials from 7 jurisdictions. This course introduces the existing mechanisms to prevent and resolve international tax disputes, and how they should be implemented in domestic legislation and their application.

2021

January - July 2021

A Video Course Held by BRITA·Yangzhou

BRITA·Yangzhou uploaded a video course on Expediting Tax Dispute Resolution, which is accessible to tax officials of BRITACOM Member Tax Administrations and Observers from 11 January to 11 July 2021. Up to now, over 300 tax officials from 22 jurisdictions have joined the course.

15-17 March 2021

A Virtual Course on Current International Issues in Tax Law Design

BRITACOM co-hosted a virtual course with the IMF and the State Taxation Administration of China on Current International Issues in Tax Law Design on 15-17 March 2021. The course covers several topics such as COVID-19 and Tax Law Design, Corporate Taxation in the Global Economy and Taxation of Foreign Direct Investment, which was very well received by 30 participants from 13 jurisdictions.

8 April 2021 & 15 April 2021

Virtual Seminar and Follow-up Meeting on Tax-related Data Governance and Application

BRITACOM seminar themed as Tax-related Data Governance and Application, the third and the last of the seminar series focusing on tax administration digitalization, was held virtually on 8 April 2021. BRITACOM parties exchanged experiences and views on data governance and application and highlighted the importance of data in supporting the administration of tax authorities. With the valuable sharing of keynote speakers and active engagement of all participants, the seminar has contributed substantive content to this important topic.

The follow-up meeting of the seminar on Tax-related Data Governance and Application was held on 15 April 2021. Representatives from BRITACOM Council Member Tax Administrations and Observers attended the meeting. The close of this seminar marks the end of the virtual seminar series featuring tax administration digitalization.



21 April 2021

A Virtual Meeting between BRITACOM and State Revenue Committee of Kazakhstan

A virtual meeting between BRITACOM and State Revenue Committee of Kazakhstan (SRC), host of the Second Belt and Road Initiative Tax Administration Cooperation Forum (BRITACOF), was held on 21 April to discuss the logistics of the forum. Considering the global pandemic situation, the two sides have decided to hold the Second BRITACOF in this September online, details of which will be circulated in due time.

24 June 2021

Virtual Seminar on Tax Treaty

The Virtual Seminar on Tax Treaty was held on 24 June 2021. Representatives from BRITACOM Council Member Tax Administrations, Observers, members of the Advisory Board, and business attended the seminar. Four presenters shared their jurisdiction practices and researches on tax treaty, triggering discussions and reflections among participants. The BRITACOM will organize more seminars to facilitate communication among BRITACOM parties, forge consensus, and enhance cooperation to build a growth-friendly tax environment.



Contributions Invited

Dear readers and writers,

We highly appreciate your contribution to the *Belt and Road Initiative Tax Journal* (BRITJ), and look forward to your continuous support in the future.

As an official journal sponsored by China Taxation Magazine House in collaboration with the BRITACOM Secretariat, BRITJ is committed to serving as a platform for communication and cooperation among tax administrators, academia, tax practitioners and other stakeholders around the world, and providing strong theoretical support and international reference for tax reform and administration among the Belt and Road jurisdictions.

Given your expertise and reputation in the tax arena, we sincerely invite you to contribute papers to the journal on such themes as tax issues concerning the Belt and Road Initiative, the latest development and reform of tax system and tax administration as well as hot topics in the field of international taxation. Papers written in English with less than 5,000 words and sent in a WORD format would be highly appreciated.

Papers can be sent to britj@britacom.org. For more information, please visit our website: www.britacom.org.

Kind regards,

Li Wanfu 

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