4th ATAF International Conference on Tax in Africa
19-22 November 2019, Kampala/Uganda

Session 7: Next steps for African countries?

It's always difficult to speak in the last session of a three day conference especially when so much of what you wanted to say has been said. But what I would like to do is to take 10 to 12 minutes to outline how I see technology being able to help resolve some of the basic problems that have plagued African economies over many decades, namely:

1. How to assist African SMEs to take advantage of global markets

2. How to move away from a cash based economy to a cashless economy

3. How to deal with the growing volume of illicit financial flows

4. Finally on how to reduce growing inequalities

I can only touch upon these topics but I do hope that my remarks may inspire ATAF as it draws up a medium-term program.

1. SME and new technologies

Since I will be referring to blockchain it's useful to spend a few moments of looking at the way in which blockchain has the potential to transform our economies. The internet is rapidly evolving from a medium for information exchange to a tool for value exchange. The internet of value, driven by blockchain and digital currencies, is enabling peer-to-peer commerce on a global scale. Finding, accessing, transacting, paying, and settling with counterparties worldwide is becoming frictionless. Although it started in the digital currency arena blockchain is quickly becoming acknowledged as one of the most important breakthroughs for advancing global trade. It provides a network platform that grants any user access to the global scale and payment capabilities traditionally only enjoyed by multinational enterprises.

Blockchain enthusiasts envision a brave new world in which technology empowers small and medium-sized enterprises to build businesses without relying on intermediaries. These businesses are digital natives existing only in the cloud and are rapidly growing in Africa. They hope to create tradable liquid markets in both established industries previously dominated by intermediaries and industries in which effective trading was not feasible in the past. Land ownership rights in African economies is an example of this phenomenon.

The new blockchain based business models rely on computer code uploaded to tens of thousands of servers around the globe that work together and enable anyone to exchange information and payments immediately, directly, securely and at low-cost. Rather than trust in intermediaries e.g. large banks, these firms and the customers trust the software which is transparent and available for inspection by all. The traditional functions of an intermediary are taken over by the shared distributed set of a computer code running autonomously on the cloud.

The rapid rise of digital commerce will fuel this trend. Amazon and Alibaba alone now account for over 200 billion in sales each year, a number that is growing by more than 40% annually. All businesses, including those in Africa, are being affected by digitalisation.

This environment offers African SMEs the opportunity to operate globally, contacting directly to consumer without barriers and at low cost. Distributed blockchain based organisations are ones in which computer code applies to tens of thousands of services across the globe,

enabling participants in the networks to exchange information, goods and services for payment without a central controlling entity.

In the traditional markets multinational enterprise play a significant role in ensuring compliance with a range of regulations however with the emerging blockchain business model it bypasses these intermediaries and organises peer-to-peer networks rather than around a central entity. It is unclear how compliance with regulation and tax will occur and who would be responsible for meeting these regular obligations, but again the technology may be able to offer a solution to achieve better compliance in this new environment.

2. Achieving better Compliance

It is not only SMEs that can benefit from these new technologies but also government. They offer government a new approach to achieving better tax compliance. Out of the $75 trillion in global economy, approximately $11 trillion is collected in taxes. Estimates suggest an existing tax gap of up to $4 trillion. The opportunity to leverage the power and the transparency of blockchain to recapture some of this tax gap by means of higher compliance and reduced administrative and compliance cost is significant. Trust and transparency are the hallmarks of blockchain solutions and maybe this is just what tax needs. Designing compliance into the fabric of this new blockchain technology would offer automation, transparency and the assurance of compliance with clear-cut rules. Blockchain based businesses provide a unique opportunity to rethink the nature of compliance, potentially moving from a regime of periodic payments and reporting in which audits are the main enforcement mechanism to a real-time flow payments and information in which the automated monitoring or control is build into the systems and hence becomes the primary enforcement mechanism.

When the rules are clear such as in the indirect tax area, blockchain helps tax compliance. Developing these blockchains, in which compliance is a core component, the code allows compliance to be built into the basic business processes. When the tax rules are unclear complex and subject to legal interpretation it's clearly more difficult to achieve this. Complying with these complex rules can be difficult for the taxpayer and for the tax administration and especially in cross-border business activities. Here we can look for artificial intelligence to achieve frictionless compliance. With more detailed information flowing through to tax administrations in real time, artificial intelligence technologies may be able to use this data to determine potential income tax obligations, including not only domestic obligations but also international obligations stemming from tax treaties.

Increasingly AI agents use deep learning, artificial neural networks became capable of performing tasks which were unimaginable less than a decade ago. Today we may be able to use these systems to deal with complex anti-tax avoidance rules and to assess the risk and the outcome of various cross-border scenarios. To succeed in these efforts machines will need access to large databases since these are required to identify tax avoidance. As in any other tax law dispute, parties may provide more specific data sets on a case-by-case basis. With access to these databases, AI can teach itself using a carefully predetermined set of searching conditions to identify tax avoidance fact patterns.

Ultimately, AI can learn to perform compliance related tasks, such as recognising when an arrangement is totally lacking in economic substance.

The goal of marrying the high-quality detailed company specific data collected via blockchain from companies (by C by C reporting, master and local files and EOI) and from existing audit files, will enable us to train AI engines to develop in ways which assist tax lawyers, multinational enterprises, governments, judges and others dealing with cases that may involve anti-tax avoidance rules.

Indeed AI seems to be the perfect partner to support high-value jobs within tax administrations and business that require human judgement. Using an AI tax assistant may reduce much of the regulatory and compliance friction.

These digital technologies that are disrupting business and ending traditional tax compliance, may also present opportunities to enhance efficiency and improve tax collections within African tax and customs authorities.

African tax administrations under the leadership of ATAF, needs to seek scenarios that integrate existing technology with the vision of the future in which digital compliance is designed as a natural part of business operations for both small and large business - domestic and cross-border - with blockchain and AI being at the core of this transformation. I believe this opportunity can be best realised by integrating design compliance solutions into blockchain platforms to create compliance proof blockchains. The ability of these entities to be fully compliant globally will be a key part of their inherent value proposition.

The data captured on the blockchain also enables African tax administrations to overcome some of their capacity constraints and to limit opportunities for corruption.

3. Moving away from a cash economy and IFF

Many forms of IFF thrive when cash transactions are the main means of exchange.

If African governments can gradually move towards a cashless society this will help move citizens out of the informal to the formal economy reducing opportunities for money laundering, bribery, corruption and tax evasion.

This can be achieved as can be seen from the example of countries as diverse as China and Kenya.

Tax administrations need to be at the forefront of this trend and especially when dealing with the shared economy. We should see UBER, Airbnb and the African equivalents as an opportunity to move sectors where cash has been king to electronic payment methods since if tax administrations can get access to these accounts they can tax the income and sales of those undertaking these activities. ATAF should facilitate a coordinated approach for the main platforms operating in Africa.

Pravin Gordhan once said: when we act together we are stronger!

At the same time technology can help facilitating cooperation between the different government deeply engaged in countering all forms of IFF: Customs, Tax, Social Security, FIU, Justice and MOF. A joint WB, UNODC and Vienna shows how this can be done in practice but one issues remains: in most African countries the technical platforms used by these departments are incompatible making the information difficult. So when these departments are upgrading their technology they need to do so in a coordinate fashion.

Technology and especially blockchain, may also offer us the opportunity to create open and more comprehensive registries of the owners of business, including the physical owners of such opaque offshore vehicles as trusts, foundations, LLM and holding companies. The FATF rules are not bad but enforcement is weak. Blockchain can perhaps help us move towards registry that are updated regularly and where the data are verified, first at the national level but also we need to explore how we could use technology to link up these national registries. Again a task that ATAF is well placed to take on.

And I think here government and business have a common interest. If I am a large MNE subcontracting services on a large railway project in Kenya I want to know who ultimately owns the service company. Is it members of the President family, his dog or who?

4. Growing inequalities

Few would deny that African countries, just like the vast majority of developed economies have been growing unequal. This is not just a moral or social issue, it is also an economic issue. Work by the IMF and OECD shows that as income and wealth inequalities grow this breaks up social cohesion in society which in turn makes it more difficult to build up political support for growth enhancing structural polices. The net outcome is lower long-term growth.

Governments have the power to reverse this trend if they wish. Education, social benefits, minimum wages can all help. But taxes also can play a role. Countries need to examine the argument usual put against inheritance tax, NWT and taxes on capital gains in the light of the enormous progress made on tax transparency and new technology which can handle trillion bits of information.

Also we need to look at taxes on luxury products and to continue to improve offshore tax compliance by HNWI. Again ATAF has a potential role to play in any re-evaluation of the role of taxes in reducing inequalities.

To sum up, technologies - those which we know today and those which we haven't event anticipated - offer exciting opportunities for African tax administrations and policy makers to provide a business friendly environment which stimulates growth, increases revenue, reduces the deadweight loss associated with tax and at the same time reduces inequalities and opens up new tax policy options for African governments. I am sure that with the leadership of ATAF African countries can rise to these challenges.