

DIGITALIZATION OF TAX ADMINISTRATION FORUM
NATIONAL TAX SERVICE OF KOREA (NTS) / INTER-AMERICAN DEVELOPMENT
BANK (IDB)
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It is always a pleasure to return to Seoul. And I would like to thank the Korean NTS and IADB for inviting me and the Vienna University of Economics and Business to participate in this event.

This is, to my knowledge, the first time that Asian and Latin American Tax Administration will meet to discuss progress on digital tax administration. It is very appropriate to be hosted in Korea which is one of the most advanced digital society.

The Dream

When we as tax administrators are confronted with new technologies – AI, blockchain, robotics and others – we must be prepared to dream!

We must be prepared to shed our “old school mentality” and recognize that in today’s rapidly changing environment the past may not be a good guide to the future. We need to embrace new technologies as an opportunity to disrupt, or if you prefer, transform, our tax systems.

I see these technologies as a way to change the way that tax administrations interact with citizens and tax intermediaries; offering opportunities to bring taxes payments into real time; to achieve a greater integration of VAT and corporate income taxes and of social benefits and tax payments (negative income tax).

The new world will be characterized by:

- Tax administration having direct access to the accounts of companies
- Pre-populated tax returns for individuals

Traditional tax returns, tax invoices, audits carried out by humans will gradually be replaced by digital intervention. Tax administrations will become certifier of systems rather than verifiers of outcomes.

In this brave new world there will be fewer opportunities for tax fraud and evasion; a level playing field between large and small companies. The dead weight loss associated with tax – compliance cost for taxpayers and administrative costs for tax administration – will fall dramatically. The taxpayer service will be improve, it will be easier to comply which in turn will lead to a better voluntary compliance.

As with any transformation there will be losers and winners:

- Tax evaders will find it more difficult to avoid tax
- The size of the tax work force will decline, both in government and business as more routine tasks are taken over by robotics/AI/robots, but the remaining jobs will be more interesting
- Tax intermediaries will need to reassess their role

- Corrupt tax officials will lose their bribes

And the winners:

- Countries that move furthest along digital tax road will gain a competitive advantage by providing a more business friendly tax environment
- Compliant taxpayers will find they spend less time on tax and receive a better service
- SME may get a better treatment

Moving along the digital tax roadmap

It's useful to look at where countries are:

- Many countries are still using the traditional approach to tax compliance, especially on CIT.
 - The tax departments in companies will request data from the financial/accounts team
 - It then analysis the data
 - Prepares a tax return
 - Submits to Tax Authorities

And then waits for a response or audit, which under CIT could be 3-5 years

- Other countries have now moved toward e-filing, e-assessment
 - Tax departments of companies has direct access to the relevant data
 - Data send to Tax Authorities which will use it to assess tax due: e-assessment, e-audit
 - Audit cycle reduced to 90 or less days

This is big improvement but underlying structure is unchanged: just better way of doing what we already do

- A few countries are moving to truly transform their administrations
 - Tax Administration has direct access into accounts of company
 - Daily micro-data flows from the company to the tax administration: on sales, payroll, capital expenditure
 - E-audit is built into the system rather than outcomes

The advantages are:

- Greater consistency between VAT, payroll and CIT taxes
- CIT moves into real time
- Greater certainty for taxpayers

Is this a dream? NO

Countries as diverse as Russia, Estonia and Brazil are well on their way to achieve this transformation.

What were key factors that enabled these countries to progress:

Russia: Commissioner was a technologist and strong support from President Putin

Brazil: maybe they needed first rate IT platform just because the Brazilian system is so complex

Estonia: strong commitment by the government to create a digital society

The risks

There are a number of risks as we enter this brave world:

- New opportunities might be opened up for cyber crimes
- Will Tax Administration be able to keep pace with entirely new business models?
- With tools like blockchain and crypto currencies Tax Administration may be confronted with a lack of traceability and the shadow economy might grow
- There will be challenges in some of traditional tax concepts:
 - Source vs. residents countries (3D)
 - Services vs. goods
 - Imports and exports
- There may be a backlash against the Tax Administration having access to such a mass of data, especially if this shifts the balance of power in favor of Tax Administration

The constraints that Tax Administration will face

- Will governments be prepared to finance the upfront cost of digitalizing Tax Administrations, even though in medium and long-term this is a very good investment
- Can Commissioners – who are usually lawyers – understand the potential of emerging technologies: What is here today and what's coming in 3- years
- What criteria do Commissioners use to judge between competing technologies
- How to change the profile of existing tax officials:
 - Re-training
 - Selection of technologists rather than tax experts
- How to handle change management and addressing pro-actively the broader work force implications and developing a talent management strategy
- There will also be legal barriers to the digital transformation. Our laws were written in an analogue age and may not work well in a digital age. In fact may be our traditional laws will be replaced by computer coding with lawyers and coders sitting down together to draft the rules
- Question of privacy and confidentiality of information will need to be addressed up front. (The market value of the information on company's business process is high and therefore tax officials may be tempted to sell information to the highest bidder).
- It will also be difficult for a Tax Administration to advance if a government is not committed to a digitalized society which generally leads to establishing and providing the right ecosystem.

What do Tax Administrations have to do to move along the digital path?

1. Develop a strategy and capability

- Understand and address how AI, big data, blockchain can form an integral part of business strategy
- Actively manage data to verify that it is fit for purpose

2. Put in place an operating model

- Secure senior, executive-level support within the organization,
- Consider cross-department sharing of skills
- Experiment with small-scale pilots
- Consider longer term processes and resources required

3. Tackle cultural barriers via change management programs

- Create a talent management strategy
- Proactively address broader workforce implications

4. Managing results

- Consider political ramifications of what new technologies may tell you about revenue authority priorities

Change is never easy, especially in big government departments like a Tax Administration, but change is coming and meetings like this one can facilitate a sharing of experience.

I encourage IADB to continue work in this area.