

# Kluwer International Tax Blog

## Simplification of Tax Systems and Digitilisation of Tax Administrations

Alfredo Collosa (CIAT, IMF) · Wednesday, May 5th, 2021

Today we are witnessing a historic moment in the digitalisation of tax administrations (TAs) which evidently accelerated, unplanned and unforeseen, due to the measures of isolation and closure of many of the facilities resulting from the coronavirus pandemic.

This unprecedented economic, health and social crisis that we are going through is producing a huge loss of revenue, which is why many countries are planning tax reforms and processes to modernise their TAs.

In the processes of tax reform, all aspects related to digitalisation must be considered, which, as I understand, should always have the individual citizen as a priority, seeking simplification, reduction of bureaucracy and greater transparency in the face of corruption.

For this reason, in this comment, I first analyse some aspects of the digitalisation of TAs and then expose the importance of considering these aspects in all tax reform processes.

### 1. DIGITALISATION OF TAX ADMINISTRATIONS

Currently, TAs are urgently seeking to digitalise themselves and arrive at what is known as electronic Administration, which implies different coordinated elements: technology, rules and management models.

Among the main advantages related to the digitalisation of TAs, one can mention:

- greater transparency;
- lower costs and greater revenues;
- increased efficiency and effectiveness;
- fight against corruption;
- electronic cooperation with other TAs;
- interoperation (capacity for exchanging information and using it); and
- one-stop-shop.

One of the greatest advantages of betting on the digitalisation of the TAs is that it promotes transparency, which is crucial in the fight against corruption.

This digitalisation is producing vertiginous changes not only in the structures of the TAs but also in its main functions of collection, auditing, providing information and assistance, and cooperation/collaboration as a result of, for example, internal and international information exchanges.

Some of the advantages for the TAs of digitalising their structures as well as their functions are:

- working with digital files, with electronic signatures and electronic notifications, instead of paper files which one should tend toward their reduction;
- favouring the teleworking or home office;
- considering the new forms of taxpayer information and assistance (attention through the web of the TAS or mobile applications);
- using the vast amount of information available in the TAs not only internally, but also externally due to the increasing forms of cooperation/collaboration resulting from, among other things, information exchanges and all that related to the OECD's BEPS Action Plan;
- implementing such concepts as compliance risk management (CRM) whenever possible, such as offering pre-filled tax returns;
- promoting collaboration and integration between different public entities and the TAs of different countries through such processes as the one-stop-shop;
- using information systems to render control more efficient;
- improving the quality of information.

## 2. TAX REFORMS AND DIGITALISATION

Tax reform, by definition, consists of modifying the structure of one or more taxes or the tax system as a whole to improve its functioning.

Every time a tax reform is proposed, certain elements or steps must follow, which are advisable for its success and implementation.

First, the proposed tax reform must describe the proposed ideal tax system, i.e. what is intended to be done and where the reform should go. It is important to make an excellent diagnosis of the current system, including today's various issues related to technologies.

When analysing the tax system, the country's public expenditure should be analysed together with what is known as tax expenditures, which is the amount of income that the State ceases to receive, by granting a tax treatment that differs from that generally established in the tax legislation, to benefit certain activities, areas or taxpayers (e.g., exemptions, tax base deductions, reduced rates).

Secondly, to carry out tax reform, it is essential to compare the current system and the one planned to implement with the reform.

Next, we need to analyse the steps to arrive at the proposed ideal system.

Also, it is key in the whole reform process to know the causes of tax evasion, since only in this way will it be possible to build a strategy to combat it, which can be included in the reform proposals.

Carrying out a tax reform implies analysing multiple variables, which vary in each country and at

each moment in time. That is why everything related to digitalisation is relevant today.

Reducing compliance costs for taxpayers and the costs of tax administration by TAs is vital throughout the process.

Compliance costs include two components; on the one hand, the time spent to meet tax obligations and, on the other hand, the payment of fees to the tax advisors.

However, a key component of this tax system's acceptance is its simplification, and I am convinced that the tax reforms that are being pursued, whenever they are linked to digitalisation, should contribute greatly to this.

Within this simplification, we could say that there are two key aspects: on the one hand, the legislation and on the other the procedures that TAs develop through their different functions.

It seems that digitalisation procedures are often progressing faster than legislation, especially in this current pandemic situation.

It is vital to carefully analyse the tax legislation in force in each country, the following being some of the principles that a tax system should respect:

- justice and equity in the balance of taxes (horizontal and vertical equity);
- stability, which is predictable and provides legal certainty;
- neutrality, i.e. promoting the economy, not affecting the decisions of economic agents;
- sufficient to meet public functions and services;
- simplicity: understandable and easy to apply rules;
- certainty, that is, having clear and precise rules;
- cost-effectiveness due to the relationship between the collection and system administration costs.

Two fundamental principles are simplicity and cost-effectiveness, in which digitalisation would play an important role.

I have the feeling that many tax systems have not fully included the key regulatory elements further to advance the process of digitalisation of the state.

Any tax reform that is being planned should include all aspects related to new technologies that are essential to digitalise public administrations, while also legislating on how they impact the rights and guarantees of taxpayers.

The task of digitalising the TAs is not easy, and even less so when it has to be accelerated as in the circumstances of the coronavirus pandemic.

The current pandemic has highlighted the need to increase resilience and accelerate the pace of digitalisation.

This whole process should not be viewed in isolation by the TAs, but on the contrary, as an integral part of a concept of digital government and open government involving the various agencies of a country.

Digitalisation is now a necessity to ensure that tax authorities can continue to develop voluntary compliance when providing services to the taxpayer through different means.

Its goal is to create a user-centric system that can meet the needs of all kinds of taxpayers, tax officials and tax agents, and ultimately increase compliance within their economy.

The main advantages of the TAs are greater transparency, lower costs and higher revenues, increased efficiency and effectiveness, improved controls, fight against corruption, electronic cooperation with other TAs, interoperability (ability to exchange and use information) and one-stop windows.

Intelligent administrations must be designed with two fundamental strategies and ingredients: technological renewal linked to artificial intelligence and organisational renewal with knowledge management and collective intelligence.

This technology is only an instrument because, for its optimisation, it is essential that the public administration renews and transforms concepts and paradigms.

All this innovation in management involves rethinking, adapting, and transforming policies, services, and institutional architectures to the new needs of citizens, seeking maximum effectiveness and efficiency of the public sector.

The [United Nations 2020 Survey on E-government](#) showed that while the pandemic has revitalised the role of e-government, both in the conventional delivery of digital services and in new innovative efforts to manage the crisis, it has also presented challenges and multiple forms of digital gaps, especially among the poorest, and the most vulnerable groups.

When thinking about tax reform, we must bear in mind all these concepts.

When new technologies are adequately incorporated by TAs, in most cases, they imply a real re-engineering of the way procedures were conceived, simplifying them and making them more efficient, without forgetting that the main asset is the human resources that must be trained, motivated, honest and well paid.

Concerning the simplification and digitalisation of TAs' procedures for the implementation of the tax reform proposal, one way is to follow the [CIAT Tax Code Procedure Model](#), which in its Section 5, Articles 96 and following has aspects linked to the Electronic Tax Administration, promoting as a general principle the use of technical and electronic media, computer and telematic resources necessary for the development of its activity and the exercise of its powers. Besides, it establishes the equivalence of the electronic document as a medium of information, distinguishes between automated and non-automated electronic actions and the creation of an electronic mailbox, among other highlights.

However, as this model dates back to 2015, we should also consider other technological advances that have occurred in the TAs, such as electronic desk audits, the inclusion of video calls as a way of relating within the procedures, as recently did the Spanish Tax Administration, which can use videoconference as a channel to connect to taxpayers, provide advice, facilitate compliance with their tax obligations or carry out all kinds of actions (Royal Decree-Law 22/2020, of 16 June. Its articles 99 and 151 regulate the procedure).

Concerning the information and assistance function, legislation should be made in relation to virtual conversational assistants or chatbots, digital presentations to be made by taxpayers and mobile apps that are increasingly used in this function, as well as the various aspects related to pre-

filled tax returns issued by the TAs more and more frequently.

Today it is imperative to legislate all aspects related to Electronic Document Management, the use of new technologies that the AATT use in risk analysis and, in some cases, to resolve disputes, where it will be essential to safeguard the rights and guarantees of taxpayers.

No less important is also to consider the various regulations relating to telework that are carried out today in many TAs, including the rights and obligations of workers and the different relations with taxpayers.

In short, the digital transformation of the TAs must be approached holistically, redefining the processes, orienting the services to the citizen and, of course, establishing a strategy that combines the citizen-centred approach with a more efficient, interconnected, collaborative and adapted to the social reality.

### 3. FINAL IDEAS

I feel that many tax systems have not fully included the key regulatory elements further to advance the digitalisation process of the public state.

Any tax reform that is being planned should include all aspects related to new technologies that are essential to digitalise public administrations, while also legislating on how they impact the rights and guarantees of taxpayers.

In the processes of tax reform, all aspects related to digitalisation must be considered, which, as I understand, should always have the citizen in mind, seeking simplification, reduction of bureaucracy and greater transparency in the face of corruption.

Reducing compliance costs for taxpayers and TAs alike is vital throughout the whole digitalisation process.

It is also critical to work for the simplicity of the tax structure since it is clear that complex tax systems favour evasion and avoidance, because they create uncertainty regarding the scope of tax rules, raise the costs of control, increase the burden of compliance and multiply the schemes or mechanisms of evasion and avoidance.

Complete digital transformation will take some time, mainly due to the need to share the costs of the change in the model for the TAs and taxpayers and because it will require a solid joint work of governments with citizens, involving different actors both from the public and private sectors, so the road will not be easy.

In conclusion, any tax reform that a country aims to undertake should, today more than ever, consider all these aspects linked to the simplification of tax legislation and procedures within the TAs, also incorporating aspects related to the digitalisation, as well as many other aspects that should arise from studies carried out by experts in the field, from both the public and private sectors.

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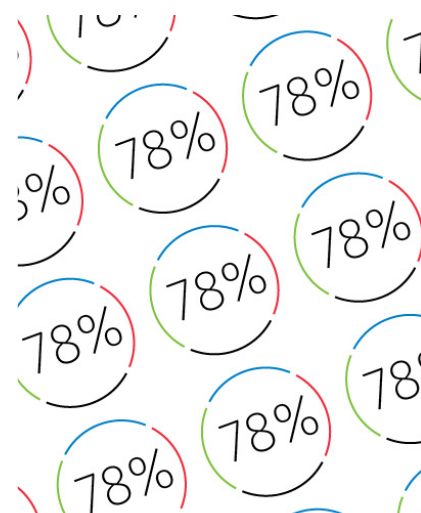
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