



# TRANSFORMING

## Tax Administration and Involving Stakeholders



**IOTA**

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of Tax Administrations

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# FOREWORD

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IOTA is implementing its Communication and Publication strategies with the objectives of increasing the visibility of IOTA's products and to also increase our members' commitment to the Organisation's outputs by contributing to the sharing of information, knowledge and best practice.

It is therefore with all these objectives in mind that I am delighted to present the IOTA e-book on the theme of our first Annual International Conference, "Transforming Tax Administration – Involving Taxpayers in Developing Better Compliance and Business Processes", which took place on the 8<sup>th</sup> and 9<sup>th</sup> November 2016 in Budapest, Hungary.

This event was co-organised together with the Hungarian National Tax and Customs Administration - NTCA and attracted more than 80 participants, from IOTA Member Countries, the Australian Taxation Office, the United States Internal Revenue Service, representatives from other international organisations; the OECD, European Commission, Eurasian Economic Commission and delegates from academia, business associations, tax intermediaries and consultants.

During the Conference, participants had the chance to consider ways tax administrations are transforming to respond to the modern needs of the society and taxpayers with examples both from European and non-European countries. Also, society representatives took the opportunity to voice their needs and expectations in relation to the activities undertaken and services provided by tax authorities.

The e-book collects articles from several of the speakers at the conference, expressing their opinions, sharing their experiences of involving taxpayers in developing better compliance and business processes when transforming their tax administration to meet the needs of a modern and more tax informed society.

I wish you an enjoyable and fruitful reading!

Miguel Silva Pinto

Executive Secretary of IOTA



# REINVENTING THE WAY THE AUSTRALIAN TAXATION OFFICE DOES BUSINESS

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By Chris Jordan, Commissioner, Australian Taxation Office

## Introduction

Until recently, it was a matter of tradition that Australian Taxation Office (ATO) Commissioners worked their way up the ranks of the organisation before taking on the big role. On 1 January 2013, the ATO departed from this tradition, hiring me as the first 'outsider'. I began my career in the 1970s as a police officer before moving into accounting and finance. Prior to my appointment with the ATO, I worked at KPMG for 20 years, eventually overseeing their business in the Australian state of New South Wales.

There was a compelling case for appointing ATO's top role to somebody who had spent most of their career in the private sector. The ATO was, at the time, isolated and insular. It went about its work in a traditional way, gradually improving processes and procedures with good intent. Staff were proud of, and committed to, the ATO's role in serving the community, but the organisation wasn't up to speed with Australians' changing needs as taxpayers or how it needed to respond to transforming global business. Clients were dissatisfied with the quality of ATO's advice, how they handled disputes, reliability of their systems and how they engaged with external tax professionals.

The ATO also needed to improve its stance on the manoeuvrings of multinational organisations. At this point, multinational executives were convening with their advisers in Europe and other places around the world, devising strategies to circumvent tax laws in various countries. I know about these conferences because I've attended them at other stages of my career.

The ATO wasn't operating with a global world view - not enough, anyway. It was working as it had before, addressing the behaviour of these organisations with a limited, locally-oriented purview. To contend with organisations that can seamlessly strategise and transact across global boundaries, it needed to address some big questions: *How do we work in a way that is just as intelligent and responsive as the taxpayers and advisors we are up against? How do we become contemporary and agile, and remain so?*

## Transforming tax administration - Reinventing the ATO

For this reason, introducing an adaptive, forward-thinking approach to tax administration was vital. Our staff's experience at work is crucial to this transformation, and removing unnecessary guidelines and structures that dictate how they do their jobs has an immediate

cultural impact. It empowers them, shows them that they are trusted to perform and encourages a healthier attitude to risk management.

In my first few months with ATO I began to focus on the first step in this direction: de-cluttering. Administrative clutter made us less efficient and innovative; it also encouraged a culture of adversity to risk and adherence to process. To prepare us for a new approach in the following year, we removed processes and rules that were burdensome, unnecessary and added layers of activity that were duplicated or served little purpose. We:

- removed 1000 pages of corporate policy documents telling staff how they should work;
- removed 2400 pages of internal performance reporting that could not be used by either external or internal auditors;
- replaced 13 different quality assurance frameworks with one;
- streamlined 120 different types of compliance audits into five. This allowed us to shed 10,000 pages of instructions and procedure manuals;
- restructured our community consultation arrangements, reducing 68 ongoing committees to eight;
- halved our internal corporate committees, orienting them to be more strategic and outcome-focussed.

We have set a new mission to orient ourselves towards a better relationship with Australian taxpayers: *To contribute to the economic and social wellbeing of Australians by fostering willing participation in the tax and superannuation systems.* 'Fostering willing participation' is particularly significant - it conveys the turnaround in the way we think about engaging with Australian taxpayers.

Approximately 95% of our taxpayers pay us voluntarily – they don't need to be approached through active compliance activity. I wanted our new approach to be a 'design for the majority', where Australians' experience with the tax system suited the needs of those who did the right thing, rather than the relatively small number who didn't.

To support the majority, we need to make it as easy as possible to engage with Australia's taxation and superannuation systems. Here are some of the things we changed in our transformation's early stages:

- We stopped using unfriendly, bureaucratic language in our letters to people, opting for plain English instead and focussing more on advising people of their options and what they needed to do
- We introduced an online newsroom for small business owners. This gave them a centralised place to opt in for news on various topics and allowed us to reduce paper mailouts by more than eight million pieces of paper

- We also introduced an After Hours Call Back Service for small business, giving business owners an opportunity to talk to our customer service representatives at a time that was most convenient for them.

We began a year of consultation with the community to find out how we could gear the services we provide to best meet their needs. Four distinct concepts emerged from these discussions:

- Fix the basics. Improve the website and our systems, provide accurate advice over the phone and make things easy to understand.
- Tailor interactions to the needs of the client.
- Foster confidence and trust by offering certainty in our answers to clients' questions.
- Help clients navigate through complex information.

We conceptualised our external community in ten different market segments, for example—individuals, small businesses, charities and not for profits. We assigned a senior leader to oversee the client experience for each segment so we could focus on delivering tailored services for each market segment.

We also consulted with our staff to better understand the cultural traits needed to deliver on the client experience. We established that staff needed to be

- client focussed
- united and connected
- empowered and entrusted
- future-oriented
- passionate and committed

We've formalised our improvements to client and staff experience in a program, *Reinventing the ATO*. You can see the key concepts on the diagram.



We've made many improvements to our services and client experience over the course of the program. Some of these include:

- offering a welcome package for small businesses when they are first established, and making regular contact with them in their first year
- providing SMS reminders to remind habitual late lodgers and payers to lodge on time
- taking an early engagement and resolution approach to disagreements such as small business GST disputes and requests for private rulings
- starting a mental health initiative where we train staff to recognise indicators of mental illness amongst small business owners.

One of the largest milestones in our reinvention journey is *myTax*, our new online annual tax return system that allows clients to complete their returns in as little as 20 minutes. When it launched in 2014 it was designed for clients with simple tax affairs, but we've continued to develop it. It's now available for all individual taxpayers, and more than three million people used it this year. *MyTax* asks clients a series of questions to tailor their returns to their specific circumstances. This contrasts with our old electronic tax return software, where each client worked through 140 screens of information that were designed for tax circumstances of the entire population of individual Australian taxpayers.

We've also produced a mobile app, which has been downloaded more than a million times. We continue to update it and add new features. It can be used to record deductions and expenses, lodge and track the progress of your tax return and enrol a voiceprint for easy access to our telephone and online services.

While many of these new services and programs are oriented towards making it easy to willingly participate in our tax system, many Australians feel strongly about taking action against those who don't do the right thing.

Earlier this year the Australian Government introduced a new Multinational Anti-Avoidance Law (MAAL) to ensure that companies pay tax on earnings from activity they undertake in Australia. We've been working with 175 multinationals to guide them in their transition into compliant arrangements.

The Australian Government has also supported us to set up a new Tax Avoidance Taskforce, which enhances our compliance programs that target multinationals, large public and private groups and high-wealth individuals operating in Australia.

We are now taking on tax avoidance in a truly global capacity. Utilising my role as chair of the Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC), we are working with the data leaked in the Panama Papers, as well as using numerous other data sets we continue to receive. The exchange-of-information arrangements we employ to receive this information has helped us raise more than \$1 billion. Our communities and

governments will all continue to benefit from working together to leverage shared intelligence and capabilities.

## **Conclusion**

With high levels of voluntary compliance, relatively few disputes and complaints, strong community interest in good tax behaviour, good relationships with our stakeholders and unprecedented global collaboration, the ATO is in a good position. However, as an authority who takes money off people, we will always be disadvantaged in the relationships we build with members of our taxpaying community. What we can all work towards – to be known for service that is comparable to the best in the world for large organisations with a diverse client base. I want people to think that their dealings with us are about as good as you could ever expect from a tax authority.



# RETHINKING THE TAX COLLECTION PROCESS IN NORWAY

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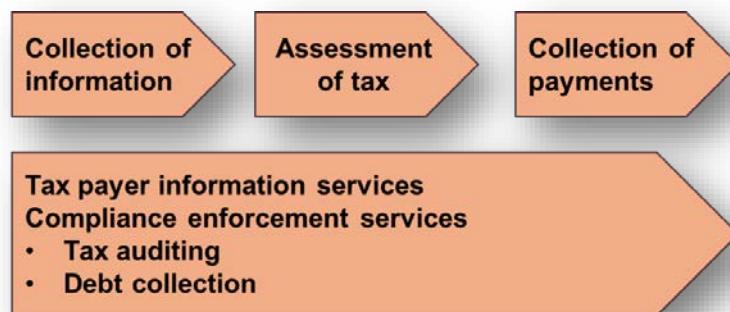
By Petter Håndlykken, Department for Innovation and Development, Norwegian Directorate of Taxes

## Introduction

The economic activities in the society form the basis for taxation. These activities have gone through rapid changes over the last decades where globalisation and new technology have been important drivers. The expectations of the citizens to the tax administration are increasing. At the same time the administration is offered new opportunities to meet the challenges and expectations.

Being faced with new major challenges is an opportunity to rethink the basic processes of our administration and the way we communicate with and engage citizens in the tax collection.

Tax administrations are usually large and powerful organisations that put substantial efforts into their internal processes. The main internal business processes of a tax administration may be illustrated by the following figure:

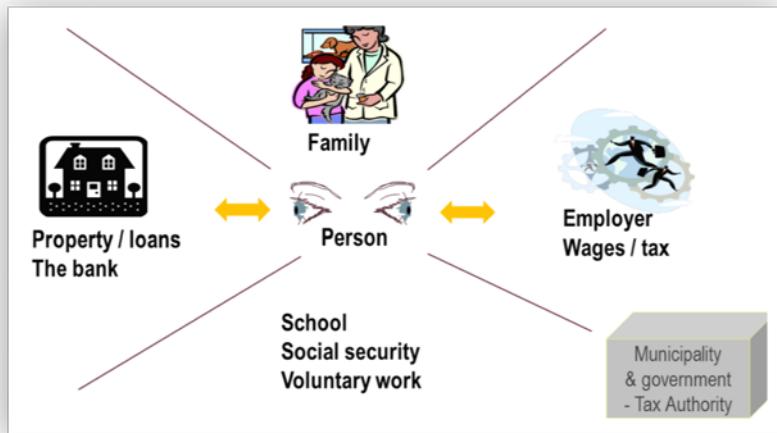


The figure can be said to represent the "home field" and "internal point-of-view" of the administration. We are collecting information, making tax assessments and collecting payments. Along with this we are running:

- Taxpayer information services and
- compliance enforcement services like inspections, audits and debt collection

Digitalization opens possibilities to improve our internal processes in many respects, and to remove many of their often self-inflicted complexities. These complexities are often with us mainly for historic reasons.

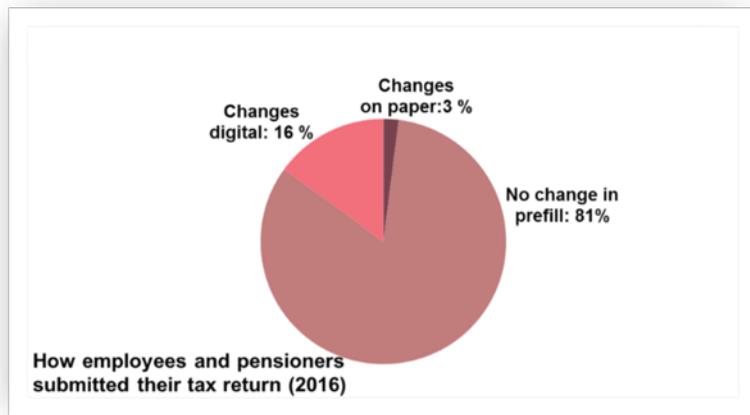
However, in order to involve tax-payers actively in improving the processes, our focus of attention must be shifted from our own processes to the processes of the tax-payer. Our starting point has to be the "point of view" of the tax-payer, rather than the "point-of-view" of the administration.



An employee may have a "point-of-view" on taxes and the tax administration as illustrated above. The tax administration is just a small thing in a much larger context filled with other content of far more importance to the tax-payer.

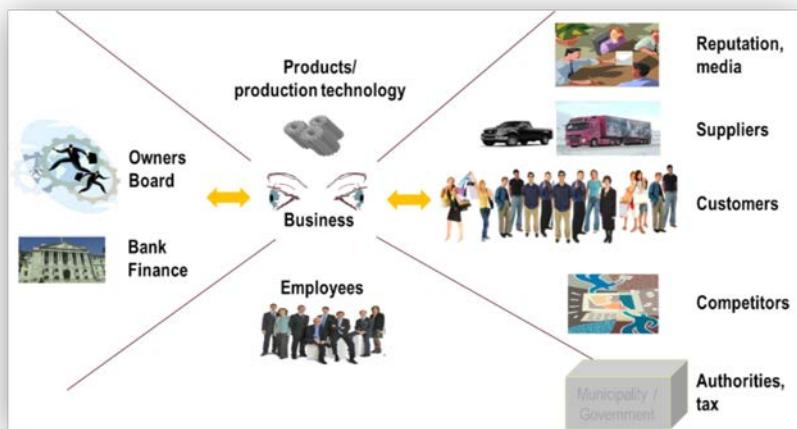
### Rethinking tax collection

The Norwegian Tax Administration (NTA) has over many years simplified the tax process for employees and pensioners by collecting digital information third parties and using this information to produce a prefilled tax return. An important basis is a widespread use of a unique digital identifier for persons throughout the society combined with an extensive use of information technology at relevant third parties. The person identifier was established in the mid 1960s, and has been mandatory to use by public administration, employers, banks etc for decades.



Currently all personal tax payers in Norway receive a prefilled tax return. Digital communication is now the main channel for communication with tax payers – paper is needed for less than 20% of the persons. In the tax return for 2015 81% of the tax payers accepted the prefilled tax return without making any changes – by active confirmation or by "non response". 16% of the tax payers made changes in their prefilled return digitally, whereas only 3% submitted changes on paper. The tax return process has thus become very simple for the vast majority of persons. Compliance is heavily founded on the quality and completeness of third party information.

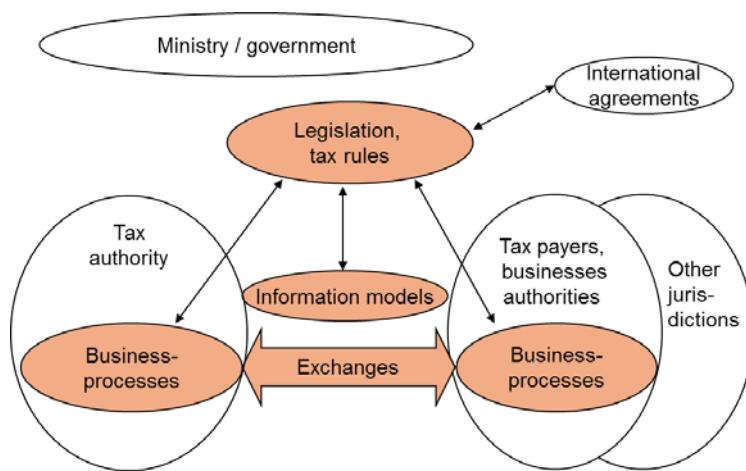
Businesses have a "point-of-view" and the context for taxation that is far more complicated than for employees. Their "home-field" could be illustrated as below:



Businesses must have their attention on customers, products, production and employees. They need a good reputation to have new customers and usually good suppliers to keep production going. Taxation is a small thing in this context, except for the significant amounts of tax to be paid. Business will generally have a serious problem if many of their competitors are not paying correct taxes.

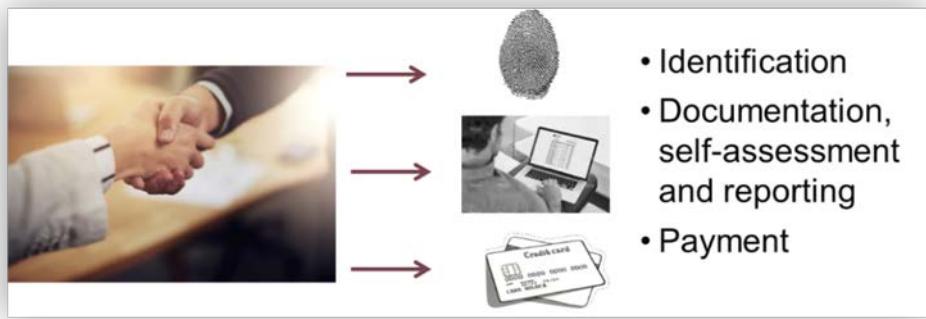
Simplifying the taxation processes and increasing tax compliance for businesses is a matter quite different from the case with employees and pensioners. Correct assessment of taxes relies heavily on the internal processes in the business itself.

The role of the tax administration is to maintain and to enforce compliance with the tax law and rules for taxation. The tax law places obligations on tax payers, businesses and authorities as well as on the tax administration. The requirements imply compliance costs and compliance risks in business processes for the businesses as well as the tax administration, and define which information should be exchanged. The relation could be illustrated by the following drawing:



The tax administration is responsible for implementing the requirements by the tax laws in its own processes, but is also responsible for facilitating and following up the implementation of the tax law in the processes of the businesses. The administration has an important role in influencing the ministry and the government on the administrative feasibility of the tax rules for the administration as well as for the businesses.

The most resource consuming administrative costs incurred by taxation falls on the businesses. These costs have been estimated to be considerably higher than the total budget of the tax administration. The level of compliance to the tax law is largely determined by the quality and correctness of the processes in the businesses.



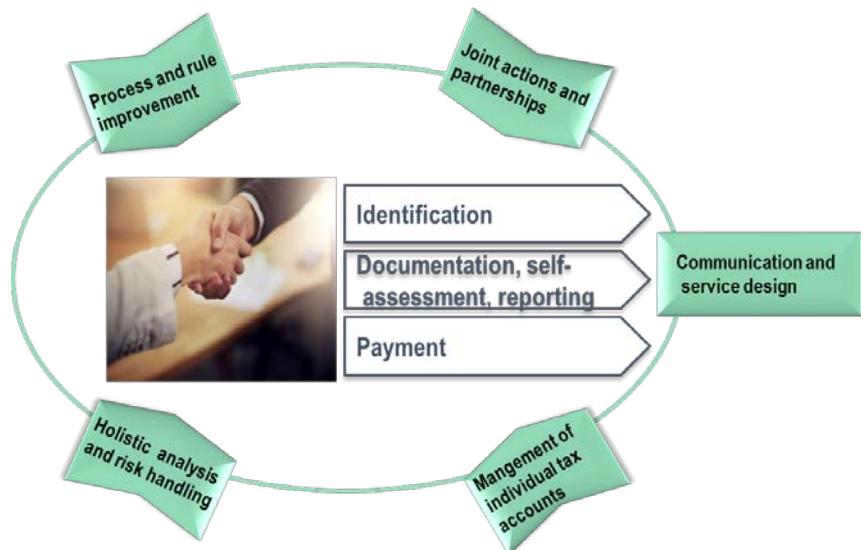
The processes in the businesses that are most relevant to correct taxation may be divided in three categories:

- Identification – the business should identify itself correctly to the tax administration and also has obligations to correctly identify its employees and other relevant third parties.
- Documentation, self assessment and reporting, including documentation of transactions and property through book keeping and accounting as well as reporting.
- Payment of taxes on time.

Digitalisation opens possibilities for the businesses to make these processes more reliable, transparent, automatic and efficient. Examples are automatic processing of outgoing and incoming invoices, digitalisation of banking etc. Tax rules may have to be adapted to new digital processes to facilitate automation. The tax administration must have an active role in these developments.

The mission of the tax administration is to collect the tax revenue according to the tax law and to preserve the legitimacy of the taxation system. This includes:

- to assure compliance to with tax rules in the society
- to simplify such compliance - to reduce the administrative burden of compliance
- to make efficient use of public resources



When the processes in the society are seen as the core of the taxation process, the role of the tax administration comes out as a kind of "support organisation" for this core. The business blueprint for the NTA is illustrating this as seen above.

Traditionally the administration has used most of its efforts on "management of individual tax accounts". This includes information to individual tax payers, collection of information from each tax pay, assessments of the tax and collection of payments. These processes are now becoming more automated; most of the manual work is left to the tax payer and to third parties.

The tax administration has always been engaged in analysis of risks and in how to handle of risks for non compliance. More "self service" by tax payer and more automated processes implies that the administration has to improve its abilities to uncover risks and to allocate resources to effectively handle risks. Risks may concern individual tax payers and their tax specific returns, but also have a wider perspective addressing networks of tax payers or address risks associated with specific processes and tax rules.

Risk concerning one kind of tax is often related to risk in other taxes,

Risks handling for various kinds of taxes are interrelated

Risk may be related to:

- a specific tax return
- an individual tax payer
- a network of persons and companies
- specific sectors or business models
- specific tax rules or tax processes



The purpose of risk handling is early detection of risks and early actions using the most efficient cure to face the risk. This requires combining new tools for analysis of risks, combined with competences traditionally found in the organisation. New digital tools and new competences in analysis are invaluable to make better use of the information that is already available in the administration. To improve the ability for systematic learning from risk handling may imply new and more standardised working methods. Benefits is improved the "hit rate" for inspections and audits and reduction of the number of superfluous ones.

Make better use of the information already available

Effective use new information

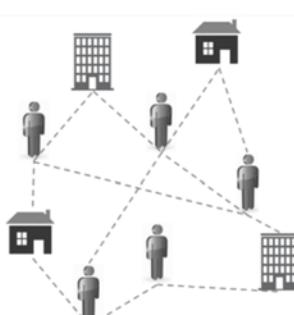
- Improve our knowledgebase for account management
- Document general weaknesses and needs for improvement in rules and processes
- Improve our knowledge of the effects of our actions



Improvement of processes and tax rules is an increasingly important method for handling of risks. Examples are:

- embedding use of third party information in the processes,
- increased use of information in public registers and higher levels of transparency,
- adaption of tax rules and reporting requirements to the available and reliable digital information at the source,
- Facilitating automation of processes for increased compliance and reduced costs.

- Modifying tax rules and reporting requirements may be an efficient way to improve compliance
- Finding alternative methods to obtain the underlying purpose and revenue
- Dialog with ministry and stakeholders on alternatives



The tax payers are expecting improvements in our communication and design of digital services. The government has a "digital first" strategy which implies that all services should be developed primarily based on digital communication. Exchanges on paper may sometimes be necessary, but should not be a primary design concern.

An event experienced by a tax payer will often trigger contacts with several public authorities. The tax payer is expecting that authorities cooperate to develop a unified "user travel" that encompasses the total need for communication on a specific event, without unnecessary repetition of the same information over and over. Examples of such events addressed by the NTA are "establishment of new company", "birth of a child", "death of a person".

For businesses our ambition is to embed the reporting and the "user travel" as much as possible in their accounting systems, systems that are developed by third parties. This strategy has been successful and the majority of the tax returns from businesses are delivered from an accounting system.

- "User travels", based on the context and need of the tax payer
- Tax payers and businesses expect to report the same facts to the authorities "once only"
- Reporting may be adapted to and often included in processes and systems where information is produced



## Conclusion

Cooperation with other public administrations and with those who provide services to tax payers has for many years been a major strategy for making taxation simpler and for increasing compliance. The "home field" of the tax payer is always the starting point not only for communication with the tax payer but also for communication with other administration. However important it may be that the tax administration keeps its own "home field" in good shape, our focus of attention in the future is shifting towards the tax payers own context.

# CUSTOMER ENGAGEMENT STRATEGY IN IRELAND: ENGAGING CUSTOMERS TO SUPPORT COMPLIANCE 2015 – 2017

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*By Declan Rigney, Head of Planning Division, and Kathleen Redmond, Planning Division, Revenue Ireland*

## Introduction

In early 2015, Revenue, the Irish Tax Authority, began the implementation of a Customer Engagement Strategy.

The need for this Strategy was driven by the ever changing environment in which we operate and the changing and evolving expectations of our customers.

The objectives of the Strategy include:

- making electronic channels the norm,
- encouraging customers to use the telephone service where they cannot transact their business online,
- minimising costs for our customers and for Revenue, and
- continuing to provide a high quality, efficient, value for money service.

This Strategy is a three-year rolling programme of customer service developments and initiatives that builds on other significant improvements in recent years. It involves:

- expanding and enhancing online services available to customers,
- further improving access to and take-up of online services,
- providing an efficient and effective telephone service in parallel with online channels, and
- providing tailored services that assist customers to get it right and reduce errors.

Currently, there are over 900,000 business customers and 2.3 million employees in the Irish tax system.

## Initiatives

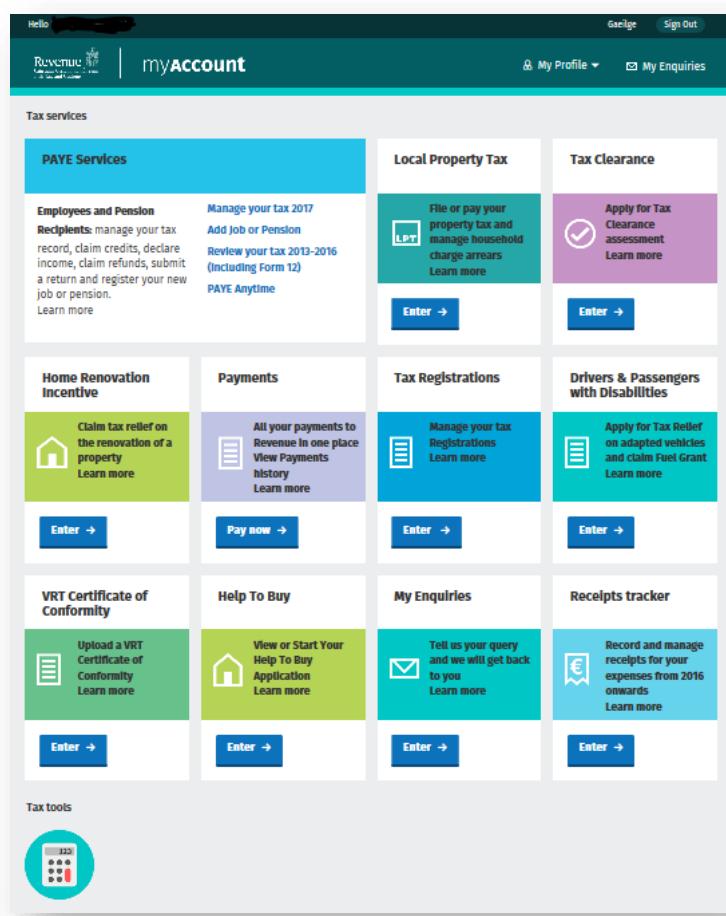
The main initiatives to date include:

- The launch of 'myAccount', which is a single point of access to all online services for mostly customers who are subject to payroll taxes (i.e. employees who pay their

taxes through the PAYE system) and includes the ability to receive a password immediately and also easy retrieval of forgotten passwords.

- New online services available in myAccount including 'MyEnquiries' (a secure, online enquiry facility), Payments (a secure online payments facility) and Tax Clearance.
- The enhancement of our online services for PAYE customers by the launch of the new 'Jobs and Pensions' service (a service to allow customers register their new job or private pension including customers starting their first job in Ireland) and the new 'Manage your tax 2017' service launched on 3<sup>rd</sup> January 2017. This new service is another step in the replacement of 'PAYE Anytime', our existing online service for PAYE customers.

*Figure: Screenshot of 'myAccount' dashboard*



- The introduction of a free mobile app called 'RevApp' to help customers manage their tax affairs on the go. It provides customers with quick and easy mobile access to our online services.
- 'RevApp' also includes a new Receipts Tracker service so customers can record and manage receipts for their expenses which are required to claim tax reliefs (such as

health expenses and tuition fees) or deductions in their tax liabilities (expenses to offset against taxable income). Customers can upload copies of their receipts and store their data on Revenue storage systems. Receipts have to be retained for a period of six years so this means that they do not have to keep paper copies of their receipts for that period. A desktop version of this service is also available in 'myAccount'.

- The use of User Experience (UX) expertise in the development of new/enhanced online services to ensure that our services are easy to use and intuitive for our diverse customer base.
- Establishment of Customer Panels in different locations to help inform our customer service offering and assist in the development of new online services.
- An intensive advertising campaign to promote 'myAccount' and targeted communications at particular customers to raise awareness of entitlements.
- Significant improvement on performance on our telephone services.
- Rollout of a new Business Tax telephone service enabling us to better manage and administer our customer service offering for business taxpayers.
- Introduction of an appointments service in a number of public offices.
- Diversion strategies undertaken by front line staff to move customers away from less efficient channels to online services.

## Key Results

Results to date indicate that the initiatives put in place are having the intended effect as more and more customers are moving to our online services and we have backed this up with an improved telephone service.

Surveys conducted in recent times with PAYE customers and Tax Practitioners continue to show high satisfaction levels with our customer service offering.

The following results are for the period January to September 2016 compared against the same period in 2015, where possible.

- 60% of health expenses (a tax relief claimed at the end of the year) claimed online compared to 48% in 2015.
- 41% of end of year statement for employees requested online (up 10% on 2015).
- 154% increase in the number of annual returns for employees submitted online.
- Improved performance on our PAYE telephone services. This service accounts for over 70% of all calls answered across our different telephone services.
  - 97% of all calls answered in 2016 compared to 88% in 2015. This is despite a 7% increase in the number of calls received.

- 60% of calls answered in 30 seconds and 92% within 3 minutes (23% and 53% respectively in 2015).
- Reduction in paper correspondence by 5%.
- Only 11% of customers who looked for an appointment in the relevant public offices received one. The remaining customers were assisted on other more efficient channels.

The following results are for 2016 and are compared against 2015 data, where available.

- 35% increase in customers registered for our 'myAccount' service compared with 2015.
- Over 440,000 contacts through 'MyEnquiries', our new online enquiry service.
- Over 260,000 applications for Tax Clearance received through our new online service with 94% automatically processed.
- Over 44,000 jobs/pensions notified through our new 'Jobs and Pensions' service which launched in September 2016. Of these 25,000 were new customers who registered their first ever job in Ireland. Prior to the launch of this service all this work was manually processed and resources have been freed up to focus on other work.

## Key Findings

For anyone undertaking a major programme that involves changing the behaviours of how customers interact with a tax administration, there are a number of critical learning points. Firstly, the overall objective of the change programme should be carefully and comprehensively considered. When that is arrived at, senior management support for the initiative is crucial. A clear communications and change management plan for all relevant staff should be developed – this will require repeating the message on a regular basis and using 'champions' for the strategy from within the areas responsible for implementing the change. Lastly, never assume that a tax administration knows absolutely what our customers' preferences are – it is really important to canvass their views, whether through customer surveys or customer panels, the design and development of the change programme will benefit greatly.

## Future Enhancements

Other significant initiatives are planned for 2017 and these include:

- A major re-design of the Revenue website, including an intensive programme to re-write the content on the website.
- Modernisation of our PAYE system to include real time reporting of information from employers.

- Continued enhancement of our online services to increase the range of functionality available and to improve the customer experience.
- A joint initiative with Ireland's Department of Social Protection to use its authentication mechanisms to validate Revenue's customers to use our online services.
- Rollout of an appointments service in all public offices.

## Conclusion

An organisation's customer service offering should adapt and evolve with customer needs and expectations and the environment it operates in. The Customer Engagement Strategy is helping us achieve this as the results to date have shown. This has been achieved through strong leadership, dedication and commitment of all those involved backed up by the support of Senior Management while ensuring that the customer is at the centre of all our initiatives.

## Further Enquiries

These may be made to Ms. Kathleen Redmond, Revenue Commissioners, Planning Division at [kredmond@revenue.ie](mailto:kredmond@revenue.ie).



# CHANGE IN THE APPROACH OF THE NTCA OF HUNGARY TO SUPPORT COMPLIANCE

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*By Dóra Júlia Makai, Deputy Head of Audit Department, National Tax and Customs Administration, Hungary*

## Introduction

In the past few years a new chapter has started in the history of taxation in Hungary. The restructuring of the National Tax and Customs Administration (NTCA) has commenced and is ongoing. The service provider profile of the tax administration, known for its strict authority for the past thirty five years, has already begun to show in the last years. Undeniably, work still needs to be done in this respect.

The restructured organization has to be able to effectively help the improvement of the Hungarian economy therefore the tax administration has to be a partner of the businesses in helping them to better cope with their taxation issues and to put less administrative burden on them so that complying tax liabilities needs less time.

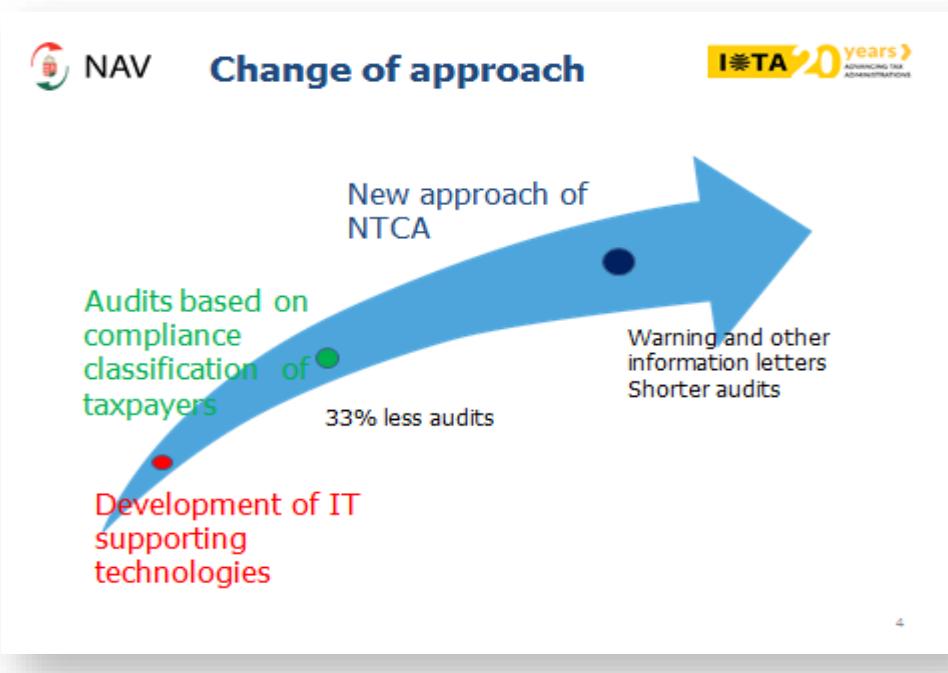
The aim is nothing less than the tax administration should be the most popular administrative authority. The colleagues have to achieve that taxpayers turn to the tax administration with confidence where they get real solutions to their taxation problems within a reasonable time. As the tax administration has the largest clientele of all the administrative bodies in Hungary it is even more important that its work has to be managed in an effective, professional way and flexible to the needs of the clients.

## Change in the approach – the two-faced-administration

The new administrative language, the simplification of processes, the reduction of red tape and administrative deadlines and the new legal measures such as the newly introduced taxpayer compliance classification system are all pillars of the service provider profile of tax administration that supports the compliant clients. Nevertheless, where there are risks of intentional non-compliance the tax administration gives definite and quick responses using all of its auditing and other measures to monitor and stop fraudsters and protect the state budget and the compliant market players and whiten the economy.

The compliance behavior depends on the subjective viewpoints of the taxpayer and on independent, external circumstances as well. At the same time, it determines the necessary tools to achieve the purpose, which are proportional to compliance (the less compliant the client is, the more vigorous tools are needed to be applied). The approach is also known from the OECD compliance model.

At the end of the day, every step taken by the tax administration should lead to the support of voluntary compliance. The supportive approach therefore should be applied not only by the those colleagues of the client services but by auditors as well, meaning that in the cases of minor and unintentional mistakes auditors should not use sanctions but promote self-correction of the taxpayer. Moreover, in some cases, instead of audits the tax administration sends letters calling for attention on certain mismatches found in the systems of the NTCA giving the clients the opportunity to make self-correction if needed. There were positive reactions from the clients, they used the opportunity mentioned and also paid their obligations. The auditors are paying more attention to finishing the audits in the earliest time possible (and of course in line with the strict deadlines set by legislation) not to bother taxpayers unnecessarily. Thanks to the new approach mentioned 33% fewer audits were made in 2016 while the efficiency of those audits conducted have increased.



## Reducing bureaucracy

Reducing red tape both for clients and tax administration as well is not an easy issue. The approach applied was that firstly the possibilities to simplify the system have to be discovered. This has to be done with care based on empathy (understanding needs and expectations of all related parties), using distillation (finding the clear subject and adjusting it to the needs) and leading to clarity (making things easy to understand and useful). Thanks to social media (e.g. webpage or FB profile of NTCA) needs and complaints of clients can easily be collected.

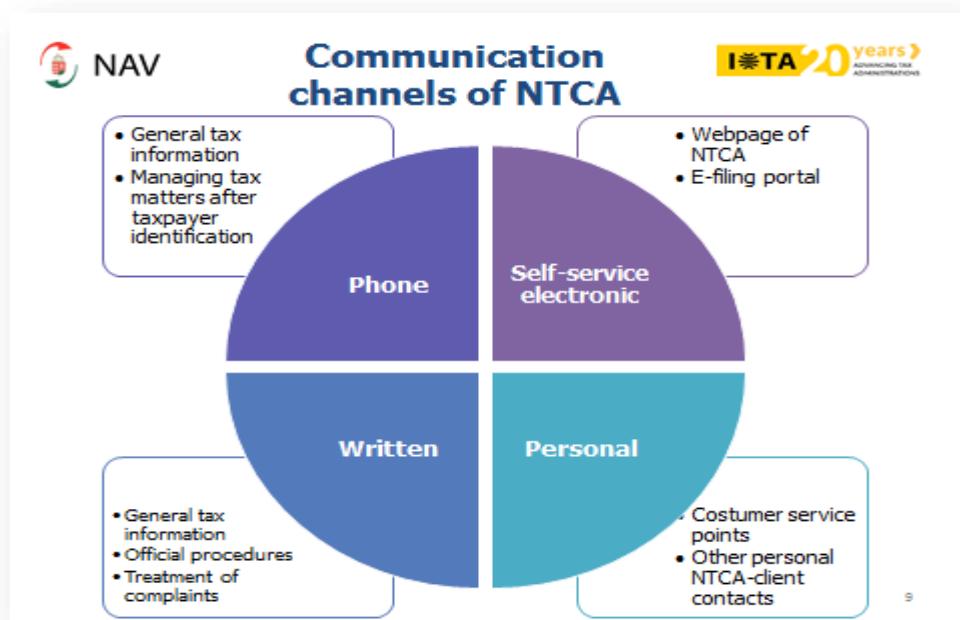
Secondly, the possibilities of recent IT developments have to be used to support the needs of all the parties concerned. It means that all information stored electronically should be

used both to simplify tax obligations for clients and to have real time data for risk analysis which can result in audits of not only the past but the monitoring and influencing of present activities. The effective risk analysis and targeted audits means less needless contacts and fewer audits of compliant taxpayers.

### Services of the NTCA and the ways of development

As regards both the services provided in the present and the future improvements and developments the main goal is to strengthen the service provider profile of the administration with the total electronization of all processes at the center. This means that not only the processes of the client side (online client service) but of the administration side (digital NTCA) should be as automatized and/or electronically supported as possible.

Besides written and personal and on-phone possibilities the main communication channel is the website of the NTCA with more than 40 million visits per year which is complemented by the Facebook page and the mobile application of the tax administration. General information and also taxpayer specific information is also provided - the latter only after strict identification processes. The aim of the administration is that clients should more extensively use non-personal and digital ways of communication as they are more cost-effective methods.



For the fulfilment of tax obligation the main tool is the e-filing portal (accessible via the client gate portal) where the tax returns and other forms can be submitted the registration of these documents can also be monitored through the system and several inquiries can be made (the client can check its tax account balance, the assignments of representatives, ongoing tax installment cases, certificates issued to them, the validity of the assignment letter of an

auditor, employers' registration obligation, etc.) and also the payment of taxes can be arranged. A personal tax calendar is also available to the registered users of the portal which send reminder 1, 3 or 5 days before a filing or paying obligation due. The tax administration is constantly working on further improvement of ideas that can make a client's life easier concerning taxation.

A non-exclusive list of some innovations of the tax administration: Personal tax calendar, Prognosis of penalty for late reporting, Query of return by their status of processing, Notification letter on the frequency of VAT return, Mobile application, On-line calculators, Tax account statement in IT processable format, etc.

The simplification of tax returns and other filing obligations is also an important issue for the tax administration. The tax returns can be corrected on the same type of forms they had been originally submitted, the electronic filing application contains an active help module which gives helpful information to each line of the tax return. The tax administration also cares for the environment so it is possible for taxpayers to print a reduced tax return with only those lines that had been filled.

As a new issue, from 2017 the tax administration will prefill the personal income tax return for a wide range of individuals (1.5 million persons) regarding the tax year of 2016 which is a huge step both for the administration and for clients as well.

### **Taxpayer compliance classification system**

This measure was introduced in 2016 with the aim to provide administrative and procedural advantages for the compliant groups and broadening the possibilities for the national tax and customs authority against riskier taxpayers. In line with the two-faced tax administration mentioned above, a new system was created which gives advantages or disadvantages depending on the level of compliance of the taxpayer.

Taxpayers registered in the company register which are included in it at the time of the classification and taxpayer registered for VAT purposes fall into the scope of the measure. The classification can be reliable, regular/normal and unreliable/risky.

As for regular classification, those clients which do not meet the criteria of reliable quality, but not classified as risky/unreliable either belong to the category of standard rules, therefore no benefits are granted, but no surplus obligations or legal disadvantages are stipulated for them either.



As regards the *reliable* qualification, the fundamental basis of reliability is that the taxpayer has been an active and compliant economic actor for a longer period of time<sup>1</sup>. The advantages<sup>2</sup> granted to these clients are mainly the simplification of some administration process and making compliance easier.



- The *unreliable/risky* qualification means that the taxpayer has *not* been an active and compliant economic actor<sup>3</sup>. The disadvantages<sup>4</sup> of being unreliable means more vigorous measures from the administration and more time is granted to the NTCA to check all circumstances of risky transactions. The NTCA will use all means available and make every measure necessary to direct these clients back to the less risky or reliable categories and will have to pay intense attention to the activities of those companies.

The qualification process is done quarterly on the basis of information received from company courts and own authority decisions and with reference to information available on the last day of the year quarter. Notification is sent to the clients on the qualification or change in qualification and they may submit a complaint to the competent tax and customs authority (deadline of 6 months with loss of rights). For the third quarter of 2016 more than 500000 taxpayers were qualified of which 5% were risky, more than 60% were regular/normal and almost 35% were reliable.

The first experiences have showed that only few cases have been selected primarily on the basis of qualifications yet (audited taxpayers are mainly from the „normal” group). Differences may arise between the taxpayer’s qualification and the facts revealed in the course of audits (e.g. income concealment in the case of taxpayers having standard qualifications) therefore fine tuning of the legislation can be foreseen.

<sup>1</sup> the taxpayer is operating or is registered for VAT purposes for at least 3 years without any interruption, has no significant amount of net tax assessment or default penalty imposed for the current tax year and the five previous tax years, the NTCA did not initiate an enforcement procedure against the taxpayer in the current tax year and the five previous tax years, the taxpayer has not been under bankruptcy, liquidation or involuntary deregistration procedure during the current tax year and the five previous tax years, the taxpayer has max. HUF 500,000 outstanding tax debts, etc.

<sup>2</sup> the duration of tax audits may not exceed 180 days, if the taxpayer retains their reliable status within the entire period (with certain exceptions), NTCA first calls to perform defaulted tax obligations instead of applying default penalties, default penalties are applied in reduced amounts (50 %), tax penalties are applied in reduced amounts (50 %), automatic option of payment installments, more prompt deadlines for value-added tax refunds (as of 1 January 2017) – 30 days instead of 45

<sup>3</sup> taxpayer is listed on the public list of taxpayers with substantial tax assessments, or with substantial tax debts or employed unregistered employees or undergoing involuntary deregistration or has serious tax assessment or default penalty imposed by the tax administration

<sup>4</sup> the extension of deadlines for refund, extension of audit deadlines (with 60 days), the application of larger amounts of late fees and a fixed starting date of assessments, more serious legal consequences related to tax and default penalties

## Conclusion

The restructured National Tax and Customs Administration of Hungary has changed its approach towards a service provider administration with the definite goal to support voluntary compliance and help the clients with their tax affairs. Not only the client service staff but auditors have to adapt to this new approach. In the meantime using modern IT tools enables efficient risk analysis and better targeting which help the fight against fraud therefore the protection of compliant market players. The reduction of red tape through well planned simplification and electronization is an important issue for the administration from which both the clients and the staff can benefit. The tax administration provides a wide range of services to the clients via several channels and the future aim is that clients should more extensively use non-personal and digital ways of communication. All of the services are under constant development both technically and methodologically – our new issue is a good example, from 2017 the tax administration will prefill the personal income tax return for a wide range of individuals. One of the most important measures in connection with the new approach was the 'taxpayer compliance classification system' which was introduced in 2016 with the aim to provide administrative and procedural advantages for the compliant groups and broaden the possibilities for the national tax and customs authority against non-compliant taxpayers. So, lots of steps have been taken but there is still a lot to do to reach the aim that the tax administration becomes the most popular administrative body.

# ADAPTING EUROPEAN REVENUE AGENCIES: FIVE AXES OF CHANGE FOR THE CHALLENGES OF TOMORROW

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*By David Regan, Global Managing Director, Revenue Industry, Accenture*

## Introduction

How will Europe's revenue agencies meet the challenges they face? They are charged with providing public services more efficiently, closing the tax gap, improving compliance and meeting their customer base's expectations of sophisticated digital services. And all of this demands complex organisational change – which must be managed. Yet, at the same time, resources are scarce: according to OECD research,<sup>1</sup> six in 10 revenue agencies have already seen their headcounts shrink.

The answer lies in greater uptake of emerging technologies such as advanced analytics, machine learning, natural language generation and intelligent process automation. Public sector organisations increasingly understand this: a recent Accenture study<sup>2</sup> found that 51 percent of such agencies piloting these technologies had already noted positive gains, while 80 percent believed the technologies would improve their employees' job satisfaction levels.

However, while good work is already going on, there is plenty of scope for further improvement. For example, one recent OECD report<sup>3</sup> found that while most leading revenue agencies are now using advanced analytics applications in some areas of work – notably audit case selection – only a handful have begun exploring the possibilities in fields such as taxpayer service.

How will Europe's revenue agencies overcome barriers – legacy systems, skills shortages and, in some cases, a lack of understanding among senior leaders of the potential – and reap the benefits of emerging technologies? Accenture believes revenue agencies must now pursue five distinct axes of change.

## 1. Embrace customer engagement

For leading revenue agencies, commercial organisations that understand the desire of consumers to engage with them across multiple channels, with seamless processes embedded into every type of interaction, are the inspiration for future taxpayer engagement models. Their customer engagement connects the organisation with its customers in a variety of interlinked ways and gives their service agents full power to respond appropriately to digital requests.

<sup>1</sup> OECD. [Tax Administration 2015: Comparative Information on OECD and Other Advanced and Emerging Economies](#). OECD Publishing. Paris.

<sup>2</sup> Accenture. [Public Service Emerging Technologies Research](#). 2016.

<sup>3</sup> OECD. [Advanced Analytics for Better Tax Administration: Putting Data to Work](#). OECD Publishing. 2016.

Achieving this sort of flexibility isn't straightforward for revenue agencies, given the complexity of the environment in which they operate. But agencies are moving towards a more cooperative model in the business world. For example, businesses have traditionally filed their tax returns at the end of the tax year and then responded to any queries that followed from the agency – often long after the transaction in question was completed. Today, the shift is towards reporting transactions as they happen, so that interactions with revenue agencies take place simultaneously.

The shift to immediate interaction is in keeping with the broader experience of business. For example, the EU payment services directive marks the advent of open banking, where banks are mandated to enable other organisations – including revenue agencies – to interact with their customers' accounts directly through tools such as APIs that enable external access to data. This shift to real-time payment offers revenue authorities the potential to enhance immediacy, transparency and certainty around the taxation aspects of a transaction. Tax reforms such as the [OECD/G20 BEPS Project](#) are part of a broader move towards transparency.

The impact on revenue agencies as they form part of this connected world of customer engagement will be profound. Until now, at most agencies, different functions have operated in silos, interacting with taxpayers separately and in isolation. Now, they must come together: in connecting with the future digital business ecosystem, customer service and compliance will need to operate as one.

At the same time, as more information than ever flows into agencies on a continuous basis, rather than in concentrated returns at the end of the tax year, agencies will need to harness the power of this data. Artificial intelligence tools have enormous potential here.

## 2. Optimise the use of information

Revenue agencies using technologies such as analytics, machine learning and artificial intelligence can generate crucial insight from the data flowing into their organisations. Those which simply implement technologies alongside their existing processes, however, are likely to be underwhelmed by the impact. Even agencies that move to data-driven processes (processes that change according to the information received) will not realise the full potential of these new tools.

Instead, these agencies must empower their workforces to address the insights generated by the data, and to change the way they work accordingly. Greater automation will be part of that process, but this is not to suggest that the workforce should somehow seek to out-robot the robots; rather, people must be given the freedom to tweak the tools in order to optimise the results. For agencies that want to take advantage of the insight generated by their data, this will be a crucial shift of mindset.

Figure 1: Empowering the workforce is key



### 3. Move to connected compliance

Connected compliance represents the key to building a more engaged and cooperative relationship between the agency and its customers. Without it, compliance represents a roadblock.

Revenue agencies have traditionally depended on periodic reporting for compliance, with customers filing returns on set dates. The natural next step in the move towards cooperative working is transactional reporting, with customers returning their data as and when it is generated; however, this increases the burden on the agency, with the need for reconciliation work spiking higher as more data comes in over time. Connected compliance addresses this issue by allowing agencies to reach out for data as and when they want to check it.

This will require real-time connections between the machines of the agency and those of its customers. Taxpayers will no longer "tell" agencies about their affairs; they will make their information available to be checked when the agency feels the need to do so. The agency knows that when it looks for the data, it will be there and it will be accurate.

Connected compliance will be powered by emerging technologies such as blockchain and distributed ledger tools. The ability to check usable truths on blockchain is set to play a vital role in machine-to-machine communication in compliance.

### 4. Change continuously

Revenue agencies will need to think about change differently. In the past, change management projects have involved long-term scoping and implementation workflows. Now, agencies need much greater agility in order to cope with continuous change.

An agile model of change means that the agency fixes cost, quality and time and then sets out to see what can be achieved within that period – usually a much shorter timeframe than in the past. At the end of the period, it assesses what has been achieved and moves on again.

What seems like a subtle shift actually has profound effects. The agency finds itself able to make incremental changes on a continual basis. It moves from operating in organisational silos to thinking in terms of value chains; from projects designed around traditional lifecycles of design, implementation, testing and so on, to a series of short implementations that follow on from one another; and from workflows that may run for many years to change programmes that take place over two or three months.

This way of working also smooths out the process of resource planning. Where the agency's different functions previously had to cope with peaks and troughs in the need for resources, as projects ebbed and flowed, capacity is now allocated continuously.

There are already good examples of revenue agencies that have embraced continuous change. In Australia, for example, a project to deliver personalised digital services enabled the tax office team to make changes throughout the delivery phase in order to incorporate user feedback without increasing cost or risk.<sup>4</sup>

*Figure 2: The shift to continuous change*



<sup>4</sup> <https://www.accenture.com/us-en/success-australian-taxation-office>

## 5. Empower the workforce

The final piece of the jigsaw is a newly empowered workforce, with staff who are prepared to be open, innovative and experimental – and are allowed to be so. This is a cultural shift with which some people may struggle, as structures become more fluid and tools such as automation and intelligent technologies feel like potential threats.

Nevertheless, many revenue agency workers will relish these new ways of working, as their roles evolve from less fulfilling mechanical work to incorporate more challenging tasks. They will develop new skills based on insights rather than outputs and will experience a profound cultural shift towards greater responsiveness and collaboration.

Such changes won't happen overnight, and agencies will need to support their workers as their roles change. But employees prepared to embrace this new way of working will flourish as their employers evolve to meet the challenges of tomorrow.

## Conclusion

### *Innovation + integration = transformation*

There will be no “big bang” moment as Europe’s revenue agencies prepare for the challenges of tomorrow. But evolutionary change, undertaken in small steps, can deliver impressive results. In the U.K., for example, HM Revenue & Customs<sup>5</sup> launched its multi-channel digital tax platform after an extended period of steady digitalisation – within six months, it had introduced 28 new digital services, brought 4.4 million new business and personal customers on to its systems, and saved £8 million in operating costs.

In order to capture such benefits and meet head-on the challenges they face, revenue agencies need to rethink the way they operate and organise themselves. This is not a case of pursuing one thing over another: people, processes and powerful new technology will all drive transformation forward.

<sup>5</sup> HMRC digital blog. [So how do the 'numbers' stack up so far?](#) 10 March 2016.



# BUSINESS PERSPECTIVES ON MANAGING VAT IN A CHANGING WORLD

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*By Mark Hammond-Giles, Technical & Policy Manager, General Electric, Global VAT/GST*

## Introduction

You cannot step twice into the same river – Heraclitus of Ephesus (535-475 BC).

The notion that nothing is more constant than change is, it appears, not a modern concept. However, the speed and scope of change driven (turbo charged even) by the technological and big data revolution is something that would have been unfathomable to our ancestors. Across all sectors of society in all parts of the world we feel the relentless flow of change almost in real time and this state of flux leads to challenges in the field of VAT for business and tax administrations alike.

## Global changes that have an impact on the VAT world

High level, we can observe the following changes which have potentially significant consequences for VAT:

- An increasingly globalised economy with greater volumes of cross-border trade
- Constantly evolving technological innovation
- The rise of the social internet connecting people all over the globe
- The rise of the industrial internet or internet of things – physical devices with network connectivity that can receive and transmit data. It is estimated that 20 billion such devices will be connected to the internet by 2020.

The result is that the world has become a global village – smaller, highly interconnected, with physical and virtual worlds merging.



Driven by these economic and digital developments, business models are changing and business sectors are merging. Digital companies are taking physical assets (which they may not even own) and making them more efficient; industrial companies can harness data collection and processing capabilities to branch out into the digital space to provide more efficient machines and more services to their customers. These new business models and processes are leading to different types of transactions including more and new types of service provision, more complex transactions involving the supply of goods together with services, a growing overlap between goods and services including the transformation of goods into services with customers interested not only in purchasing a physical asset but alternatively purchasing the outcome delivered by a physical asset, and supplies that were once delivered physically now being delivered remotely.

All these factors have a potentially significant impact for a transactional tax like VAT, particularly since in the world of VAT goods and services are treated differently for the purposes of determining, for example, the person liable to pay the tax, the VAT liability of the transaction, the place of taxation and the timing of the chargeable event. Add to this the complications of the growing interaction between national VAT systems in a global market place and it is clear that both business and tax administrations face challenges in either complying with or enforcing VAT law in this new environment.

### How to manage VAT in this new and ever changing environment

A changing world requires a fresh look at how best to manage VAT, but first to refresh: what is VAT?

VAT is a consumption tax administered by the tax authority, collected by business and borne by the final consumer.

So, given the shared responsibilities between business and tax administration our starting point should be to acknowledge that a successful (ie, efficient) VAT system relies on an effective partnership between business and tax administration. Indeed, the need for close partnership is underlined by the similarity of requirements assumed by each party in order to fulfil their respective roles in the VAT system.

Taxpayer requirements	Tax administration requirements
<ul style="list-style-type: none"><li>• Clear and uniform rules, easy to comply</li><li>• Adequate systems and processes</li><li>• Sufficient &amp; targeted resources</li><li>• Access to information &amp; rulings</li><li>• Risk management processes</li><li>• Understand tax administration</li><li>• Fighting fraud</li></ul>	<ul style="list-style-type: none"><li>• Clear and uniform rules, easy to apply</li><li>• Adequate systems and processes</li><li>• Sufficient &amp; targeted resources</li><li>• Access to business data &amp; information</li><li>• Risk assessment processes</li><li>• Understand taxpayers</li><li>• Fighting fraud</li></ul>

Set out below are a number of suggestions, from a business perspective, as to how effective partnership could help satisfy these requirements and help shape a more productive international VAT legal and administrative framework.

### **Legislation – future system design policies**

VAT rules should be clear and simple to understand so that all parties can anticipate with reasonable certainty the tax consequences in advance of a transaction, including knowing when, where and how the tax is to be accounted for. In today's complex environment, the involvement of business in VAT system design discussions from thought to implementation is more important than ever to ensure the development of a practical legal framework which allows business to collect the tax easily and effectively and allows tax authorities to administer the tax easily and effectively – ie, looking for win-win scenarios that facilitate trade, enable compliance, safeguard VAT revenues and offer efficiency gains for all stakeholders.

However, a global market requires a global approach, thus system design policies also need to consider the bigger picture and not only national interests. The increasing interaction between different VAT systems around the world causes problems due to incompatibility issues which create the potential for double taxation and unintended non-taxation. This is exacerbated by the fact that in the past the focus of legislators has been on designing VAT systems for domestic purposes at a time when a greater proportion of trade was conducted at a domestic level. Therefore, there is a clear need to ensure a co-ordinated and consistent international approach that creates a level playing field for both local and foreign businesses with an emphasis on simplicity, flexibility and proportionality, and which focuses on the practical aspects of collecting increasing amounts of VAT via businesses established outside the jurisdiction of consumption. Here, the OECD's International VAT/GST Guidelines, built on dialogue among OECD members and partners, academia and the business community, offer the ideal starting point for considering best practice design features and principles for developing modern and globally compatible VAT systems.

Sufficient lead-time is also an important factor for the successful implementation of any new law so that business and tax administrations can make adequate preparations. This process should be supported by a robust knowledge management process – ie, making publicly available VAT legislation and clear guidance in order that taxpayers have sufficient certainty in fulfilling their compliance obligations. Similarly, effective communication of the law and accompanying guidance is critical and in a global economy with taxpayers of increasingly different profiles located in all parts of the world, different channels should be adopted to reach this diverse audience – the way we disseminate information must complement the modern environment.

## Administration - practical application of the law

How the law is administered is often as important as the law itself – theoretical law and its practical administration are in effect different sides of the same coin. Again, an ongoing dialogue and open partnership between business and tax administration can be of benefit to both parties.

Interaction between taxpayers and tax administrations should be tailored to the circumstances. For example, smaller businesses are likely to need and want less frequent and quicker interaction with tax administrations. On the other hand, larger businesses would prefer more contact in line with a co-operative compliance approach which relies on forming a closer relationship based on trust and transparency to understand each other better, to manage risk and allocate resources more effectively, and to avoid surprises and resolve issues more quickly.

Allied to a more sophisticated approach in understanding and managing different taxpayers is the effective use of audit resources. The increased ability to use data analytics should help in driving a more risk based compliance strategy. This does not necessarily mean ingesting and processing more and more data, rather audit strategy should be based on a risk management approach that seeks to understand the business and its internal control framework and uses the right data at the right time to test the processes in place. An over-reliance on an overabundance of data can merely create greater complication – creating complexity is easy, creating simplicity is hard but leads to better results in the long term by focusing on what is most critical. Importantly, the use of data should enhance relationships between taxpayer and tax administration rather than replace them.

One area of recent development in the field of tax auditing that is particularly burdensome for business is the use of the Standard Audit File for Tax (SAF-T), or similar obligations that require businesses to produce a standard data set in a structured file for tax audit purposes. Implementing SAF-T is costly since it often requires the development of bespoke IT architecture to collect a wide variety of information from different sources within a business ERP system. Furthermore, although the SAF-T concept originated at the OECD level in 2005, to date no international standard has been adopted. Consequently, the diverse nature of national requirements prohibits efficiency gains for businesses operating internationally - significant one-off and ongoing costs are incurred each time a country implements or modifies its own version of the rules. It is clear that the use of technology can greatly enhance our ability to manage VAT systems more efficiently but a more global and standardised approach would benefit business faced with an overwhelming array of compliance obligations, and may also be valuable to tax administrations in terms of ongoing co-operation and the exchange of information.

Finally, in this fast paced and ever changing environment with all its accompanying uncertainty, we should recognise that business will make mistakes. Tax administrations should encourage, by the application of fair and proportionate penalty systems, the submission of voluntary disclosures by businesses that want to correct errors they have

identified in their VAT accounting. Doing the right thing should not come at a price and adopting a zero-penalty approach for businesses making voluntary disclosures would be a very positive step in the right direction.

## Conclusion

We live in exciting and challenging times. In order to meet the challenges, tax administrations and tax collectors need to build strong local and global partnerships based on trust, transparency, collaboration, co-operation, consultation and communication. In addition to the challenges, massive changes also offer massive opportunities – let's work together to make the most of them!



# TAX ADMINISTRATION AND THE ROLE OF THIRD PARTIES

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*By Kors Kool, Senior Adviser, International Co-operation and Tax Administration Division, OECD*

## Introduction

A tax administration could for a long time be characterised as an administrative agency, being responsible for applying the tax law, based on the facts as reported by taxpayers via their tax return, and assessing the amount of tax due.

The use of information technology has allowed tax administrations to deal with increasing numbers of tax returns. It also enabled a development towards self-assessment, allowing tax administrations to shift more towards monitoring the correctness of the tax return, using compliance risk management approaches. The penetration of PCs, mobile devices, and the internet, has led to new and better service offerings by tax administrations, making paying your taxes easier and less prone to errors.

In future taxation will be increasingly embedded in everyday processes. Already for business, transactions can be automatically captured through automated cash registers, online accounting systems and payment systems. When tax rules are integrated into these systems, tax returns can be to a large extent automatically generated.

This changes the playing field for tax administrations, as increasingly also third parties, other than the taxpayer and the tax administration, have a role to play. This article briefly explores how tax administrations have developed over the years, in relation with the evolving role of third parties. It also discusses the role that the tax administration can play in the development of this changing tax environment.

## 1. Changing business models

### Shifting the focus from the tax process to the taxpayer

In the 1990s and at the beginning of this millennium many Forum on Tax Administration (FTA)<sup>1</sup> members shifted from functional organisation, with separate offices for the different types of taxes, and functions such as audit and collection, to a more taxpayer based structure. The use of IT systems that could process huge numbers of tax returns, and also a shift towards self-assessment in many countries, allowed tax administrations to move away from traditional case handling towards more risk management approaches, with a focus on monitoring taxpayers' compliance behaviour<sup>2</sup>.

<sup>1</sup> OECD's Forum on Tax Administration (FTA) was created in 2002. It brings together from 47 OECD and non-OECD countries, including members of the G20.

<sup>2</sup> This approach is described in the FTA Guidance Note 'Compliance Risk Management: Managing and Improving Tax Compliance', OECD (2004).

At this stage, third parties that played a role in the process of taxation were mainly tax intermediaries, such as tax advisors, accountants and tax agents. Their main focus was to help taxpayers to fulfil their obligations, including the correct filing of the tax return.

*This change had a high impact on administrations, and specifically on their staff. Traditionally the job of a tax official came with a high level of autonomy. In The Netherlands for instance responsibility for making tax assessments was by law assigned not to the tax administration, but to the tax inspector, and for collection of tax to the tax collector.*

*Self-assessment, compliance risk management approaches and central (IT) processes that dealt with the majority of the tax returns changed the role of the individual tax officials. With a reduction of attention given to individual cases, tax officials were now given specific tasks, based on risk assessments and internal division of labour. For The Netherlands this meant that 'the inspector' became more a legal fiction, referring to the administration as a whole. This change did not just affect the techno-system of the organisation (structure, processes, roles, systems etc.), but represented also a cultural change.*

### **The tax administration as a service organisation**

The increasing role of IT was also reflected in the rapid development of electronic services in the early 2000s. The penetration of personal computers in households and the growth in the internet connections enabled new services to be developed. A prevalent example is the widespread introduction of e-filing. The OECD 'Tax Administration 2015'<sup>3</sup> report shows that almost all of the 56 countries included in this comparative study offer e-filing options for personal income tax, corporate income tax and/or VAT.

Focus shifted to improving the customer experience for the taxpayer and making it easier to pay tax. Use of e-filing also helped prevent common mistakes in the tax return, with more targeted assistance provided upfront via a multi-channel approach: websites, communication campaigns, call centres and face-to-face contact. The increased availability of data and analytical tools helped administrations to also develop more targeted approaches to addressing deliberate non-compliance and tax fraud.

The third parties involved at this stage were still very much the same as mentioned earlier, although the increased opportunities that IT offered, improved the speed and quality of tax filing and allowed these providers to offer broader business advice, for instance based on further analysis of business data.

<sup>3</sup> OECD (2015), *Tax Administration 2015: Comparative Information on OECD and Other Advanced and Emerging Economies*, OECD Publishing, Paris.  
[http://dx.doi.org/10.1787/tax\\_admin-2015-en](http://dx.doi.org/10.1787/tax_admin-2015-en)

## A next stage

The New York Times columnist and author Thomas Friedman describes in his book 'Thank you for being late'<sup>4</sup> how the developments that we see in three domains, i.e. technology, the market and the climate, come together and are reshaping the world dramatically. He refers to these developments as 'accelerations', given the exponential rate at which they take place. He argues that the pace at which change takes place calls for other types of management and leadership, and even entrepreneurship.

No doubt these developments will affect tax administrations, as much as other businesses, and will lead to major transformations in the current delivery models. A core element in the change that we can already see happening is the increasing number of actors involved in taxpayer compliance. This is illustrated for SME taxpayers in the following figure.



Figure – Stakeholders in SME Compliance<sup>5</sup>

In this broader ecosystem technology and the availability of data allow taxation to be increasingly embedded in day-to-day operations, with third parties providing service solutions for taxpayers that are cheap, easy to use and provide greater certainty. For tax administrations this means shifting their focus to more 'upstream' strategies, to facilitate compliance and improve taxpayer services. It also allows tax administrations to better detect

<sup>4</sup> Thomas L. Friedman (2016), *Thank you for being late. An optimist's guide to thriving in the age of accelerations*, Farrar, Straus & Giroux, New York

<sup>5</sup> OECD (2016a), *Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance*, OECD Publishing, Paris.

<http://dx.doi.org/10.1787/9789264256200-en>

and address non-compliance, including through more real-time and pro-active use of risk profiles.

*The tax return can serve as an example for this. Traditionally the filing of a tax return was very much the starting point of the process for the tax administration: risk assessment, audit, and finally the tax assessment and payment process.*

*Working more 'upstream' means shifting the perspective, and looking at the tax return more as the outcome of a process. That process could include co-operative arrangements with companies, or tax intermediaries. It could also encompass the use of prefilled tax returns, or creating a secure chain<sup>6</sup> for business taxpayers. In such a secure chain the quality of the data that determine the amount of tax that needs to be paid, is ensured by the checks in the system that processed these data. The taxpayer only needs to pay the correct amount. At some point there may not even be a need any more for a tax return to be filed. Such solutions build on third party service offerings, such as online accounting, financial services, e-payment or e-invoicing, and may include data from secure devices as cash registers, track and trace systems, trip computers etc.*

## Different role

Understanding the tax administration's role more in the perspective of the broader ecosystem, implies that administrations may take on a more steward type of role:

- Liaising with legislative authorities to ensure that tax rules fit the administrative environment and can be effectively implemented;
- Involvement in standard setting, to ensure secure business and financial processes, and provide a level playing field for service providers. Standards could relate to the quality of systems and devices that are part of the ecosystem, or could relate to reporting and information exchange;
- Engagement with taxpayers, other stakeholders and the broader society, to build involvement and feed trust;
- Monitoring the working of the broader tax system, and addressing weaknesses and gaps;
- Providing or promoting the use of services that make it easier to comply and increase tax certainty for both the taxpayers and tax administrations;
- Strengthening social norms by effectively addressing non-compliance and ensuring revenues;

<sup>6</sup> 'Secure chain' refers to an approach in which business transactions are automatically captured by accounting systems, also using e-invoicing and e-payment services. For further information see, *Tax Compliance by Design: Achieving Improved SME Tax Compliance by Adopting a System Perspective*, OECD Publishing.  
<http://dx.doi.org/10.1787/9789264223219-en>

- Providing more integrated and more efficient services to taxpayers who work cross-border, and co-operating with tax administrations in other jurisdictions to effectively address international tax evasion and avoidance.

These developments, putting the taxpayer at the centre of the activities and taking a much more holistic approach, call for a re-orientation on how a tax administration can effectively play its role in a more real-time, global and networked society. It is about transformation, rather than improvement, and about completely reshaping the taxpayers' experience of the tax processes. 'Re-inventing the ATO'<sup>7</sup>, as the Australian Tax Office has named its transformation process.

Such a transformational journey sets a big challenge for tax administrations. It is disruptive in how it may affect current operations, services, IT systems etc.<sup>8</sup>, but also the culture of the organisation. Against the backdrop of a growing workload and a legacy of more and more complex, and sometimes outdated, IT systems, tax administrations have to balance current performance and the need to develop new capabilities. As tax systems are not owned by tax administrations, but by the broader society, this transition is likely to need a whole-of-government approach, and involve all stakeholders<sup>9</sup>.

## 2. The evolving role of third parties

In the previous chapter we already touched upon the changing role that third parties play in the process of taxation. As paying taxes becomes more a part of the taxpayers' day-to-day transactions and broader business processes, many more parties are likely to be involved, with different roles:

- Providers of data about taxable transactions, income etc. This could be any organisation: employers, financial institutions, or basically any company e.g. with regard to VAT reporting. On an international level the Automatic Exchange of Information (AEOI) for tax purposes, based on the Common Reporting Standard (CRS) and a Common Transmission System (CTS) illustrates how tax administrations can leverage on such an approach in addressing international tax evasion;
- Tax service providers, which offer assistance to taxpayers in complying with their tax obligations. Traditionally that would be tax intermediaries, but today that also includes providers of online services, such as accounting, payment, e-invoicing and other services. The OECD report 'Rethinking Tax Services'<sup>10</sup> uses the term tax service providers, to indicate that this involves a broader group of organisations than those that we traditionally refer to as 'tax intermediaries';

<sup>7</sup> Australian Tax Office, *Reinventing the ATO – Program Blueprint / Version 7*, ATO (March 2015), [Program blueprint | Australian Taxation Office](http://www.ato.gov.au/Program-blueprint/)

<sup>8</sup> See also OECD (2016b), *Technologies for Better Tax Administration: A Practical Guide for Revenue Bodies*, OECD Publishing, Paris.

<http://dx.doi.org/10.1787/9789264256439-en>

<sup>9</sup> An interesting example of this is the Business Transformation Programme of Inland Revenue in New-Zealand. For more information see <http://www.ird.govt.nz/transformation/>

<sup>10</sup> See OECD (2016b)

- Organisations that embed taxation in their broader service offering: e.g. financial institutions that co-operate with the tax administration when providing mortgages, or a chamber of commerce assisting in assessing tax implications of different types of entrepreneurship;
- Enablers, i.e. organisations that help shape the playing field for such new services: organisations that set standards, have a role in certification or licensing schemes, or monitor compliance with standards and requirements;
- Professional bodies, or industry organisations, which set standards for the service providers themselves.

To stimulate third parties to develop new services, tax administrations can make their knowledge available by sharing 'business rules' (e.g. for calculation) and data, as 'building blocks' for third parties to integrate in their broader service offerings to citizens or businesses. Integrated solutions, instead of 'stand-alone' tax services, may in the end better serve the taxpayer and make compliance easier.

This is even more relevant in a globalising economy, in which cross-border transactions and movement of people are more widespread; and applying the tax rules correctly can be complicated for taxpayers, as they have to deal with different and potentially multiple jurisdictions. That calls for further co-operation between tax administrations, for instance via exchange of information. Third parties also have an important role to play, as they may be best capable of providing integrated solutions that take complexity away from the taxpayer.

The availability of common standards, including professional guidance, codes of conduct and similar, can also be important in creating an infrastructure for such services and to ensure the quality of the system, both domestically as on the international level.

*An example of an approach that very much builds on professional standards, which are already in place for certain professions, is establishing a co-operative compliance programme with tax intermediaries. This is a strategy that is adopted by a few countries, among which is The Netherlands. By aligning compliance procedures with these organisations, and by providing feed-back on errors and common mistakes, service providers and tax administrations can improve the overall process. As a result tax administrations may be able to reduce the compliance activities for those taxpayers, involved in such a programme.*

## Rethinking Tax Services

To help influence the role that third parties have in the taxpayer's ecosystem, tax administrations can follow different approaches. The OECD 'Rethinking Tax Services' report<sup>11</sup>

<sup>11</sup> Ibid

mentions two key questions that a tax administration may want to consider, when developing a strategy with regard to tax services providers:

- Does the tax administration choose to let private sector parties drive developments, for instance to allow for optimal innovation and development of new services for SMEs? Or could such developments better be initiated by government?
- Does the administration take a more holistic 'systems' approach, targeted at creating integrated services for SMEs? Or is taxation the primary focus, in line with the core responsibility of the tax administration?

The answers to these questions will vary, depending on the different context within countries, and even for specific segments and industries.

*The report highlights four different 'network strategies' that a tax administration can adopt, depending on how it answers those two questions. The two strategies at the opposite ends of the spectrum are referred to as:*

- *The 'adaptive network' approach – in which the tax administration focuses on promoting private initiatives to drive developments, that have a focus on providing integrated solutions for businesses (of which taxation is part). The role of the tax administration would be to promote and stimulate, rather than to set standards and requirements.*
- *The 'controlled network' approach – such a strategy would focus on specific tax services, such as online reporting for tax purposes, or e-payment options for tax. The tax administration will ensure the quality of these services by taking an initiating and standard setting role.*

## Conclusion

Tax administrations have seen major changes in their business models over the last two decades. Accelerating technological change with rapid increases in electronic data, connectivity and on-line services is likely to lead to a further transformation in tax administration and the adoption of a more system-based approach in which different stakeholders have a role to play.

Such an approach calls for an explicit strategy by tax administrations, as there may be different approaches to consider.

Involving stakeholders in such a more system-based approach is not an add-on to the system, but a key feature for any tax policy and compliance strategy. It will help improve services, make tax processes more seamless and allow them to be more real-time, leading to more certainty, lower compliance costs and better compliance outcomes.



# A CHANGING TECHNOLOGICAL LANDSCAPE AND THE IMPACT ON TAX REVENUE COLLECTION AND PROCESSES

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## Introduction

Technological developments have increasingly impacted the way individuals and businesses conduct their affairs with possible spill-on effects on tax revenue collection and processes which may require tax administrations to adapt, renew and or evolve to deliver seamless, easy and transparent processes to meet emerging demands. As a consequence, tax administrations are increasingly seeking ways to exploit technological developments to enhance tax compliance, which extends beyond filing tax returns to a wider range of processes many of which take place outside the view and control of tax administration. This short article explores the trends in tax compliance as influenced by technology and how one tax administration, the Kenya Revenue Authority, is adapting to the emergence of mobile payment platforms and future potential.

## Trends in Tax Compliance and the Influence of Technology

Tax administrations traditionally viewed themselves as enforcers of tax law with their role confined to reviewing the tax returns, verifying their correctness and targeting non-compliance by subjecting taxpayers to audits which, ideally, targeted high risk tax returns. Success under this approach was measured by audit yield. However, it involved time consuming procedures which required extensive information gathering and discussion of positions with the taxpayer and lengthy objections and appeals procedure. It therefore required a careful selection of cases.

To improve case selection, more emphasis was, over time, placed on risk assessment. As discussed in great detail in the OECD report "*Compliance Risk Management: Managing and Improving Tax Compliance*"<sup>1</sup> this increased interest in understanding taxpayer compliance behaviour in order to manage compliance risks. This report concluded that improved compliance rather than audit yield is the desired outcome of any compliance process and emphasized the importance of understanding the underlying causes of non-compliance.

However, traditional economic models lack explanatory power because they rely on a flawed assumption that people act in their economic self-interest and are in a position to make well informed decisions about that. In reality people make decisions on the basis of incomplete information and for a whole range of reasons. That explains why, in general, levels of tax compliance are much higher than can be explained by the real likelihood that understatements will actually be detected and punished. Over time it became apparent that a strategy based solely on deterrence can have major drawbacks and does not automatically lead to improved results in tax compliance. Hence, the OECD Report "*Understanding and*

<sup>1</sup> (2004), *Compliance Risk Management: Managing and Improving Tax Compliance*, OECD Publishing, Paris.

*Influencing Taxpayer Compliance Behaviour*<sup>2</sup> concluded that compliance is not restricted to finding as many errors as possible but more about influencing taxpayer's environment to make it easier to comply and difficult not to comply. This saw the emergence of behavioural economics as frame of reference for thinking about regulation and tax regulation in particular.

As a result, compliance strategies started focusing on influencing taxpayer's environment and processes that lead to the tax return. As detailed in the OECD information note "*Right from the Start: Influencing the Compliance Environment for SMEs*"<sup>3</sup> this shift was informed by the developments in technology especially their adoption and/or application to SMEs and has a four dimensional approach: (a) real time action to prevent or address problems as they occur; (b) focusing on end-to-end business processes rather than on revenue body processes and trying to make taxpayers processes fit into them; (c) making it easier to comply and difficult not to comply; and (d) actively involving and engaging taxpayers, their representatives and other participants. It emphasizes the need to create an environment which supports compliant behaviour and reduces opportunities for non-compliant behaviour at an early stage in business process preferably before tax return is filed. It is participatory and recognizes that tax intermediaries and other service providers can provide additional certainty and/or more cost effective solutions by for example, providing information that can substantiate or verify information from the taxpayer and/or infrastructure for transferring, transforming and storing information in a secure way to make it useful for tax compliance purposes.

Whilst *Right from the Start* acknowledged the influence of technology on the tax compliance environment, the OECD report "*Tax Compliance by Design*"<sup>4</sup> acknowledged that the digital landscape has significantly evolved and SMEs are adapting to these technological changes and increasingly manage their information and payments digitally. These changes have consequentially created a complete digital chain of information that can improve processes as well as tax compliance. For example, business transactions can be captured digitally and co-ordinated with electronic payments and electronic bookkeeping and further on with electronic reporting and payments to the tax administration. The overall aim of *Tax Compliance by Design* is to make tax compliance a natural part of the day-to-day transactions by leveraging on technological developments. This can be done by collecting data relevant to tax compliance and processing it into information useful for tax compliance within the taxpayer's business and/or intermediaries that support it primarily by relying on the taxpayer's internal processes or supporting these processes by trusted intermediaries (the "secured chain approach"). Alternatively, data could be collected by third parties and the information supplied directly to the tax administration which then transforms it into information about tax liabilities and payments (the "centralized data approach"). It therefore recognized that technological developments can be leveraged to influence the taxpayer's environment as a compliance tool.

<sup>2</sup> (2010), *Understanding and Influencing Taxpayer Compliance Behaviour*, OECD Publishing, Paris.

<sup>3</sup> (2012), *Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises*, OECD Publishing, Paris.

<sup>4</sup> (2014), *Tax Compliance by Design: Achieving Improved SME Tax Compliance by Adopting a System Perspective*, OECD Publishing, Paris.

The increasing influence of technology on the tax compliance environment continues to be seen in the works of OECD *Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance*<sup>5</sup> and "Technologies for Better Tax Administration: A Practical Guide for Revenue Bodies"<sup>6</sup> both released in 2016. The former, recognises that tax service providers are important in any system, but technological developments have led to the rise of new service concepts, new patterns in customer interaction, and new types of businesses offering tax services with core capabilities in software development, data analytics and other non-tax related domains which present opportunities to provide better services to taxpayers and also ensure better compliance. It focuses on how technological and business developments can be leveraged by tax administrations to help realise operational and programme efficiencies and improve their effectiveness and how tax administrations can co-operate efficiently with tax service providers to improve outcomes for SME Taxpayers.

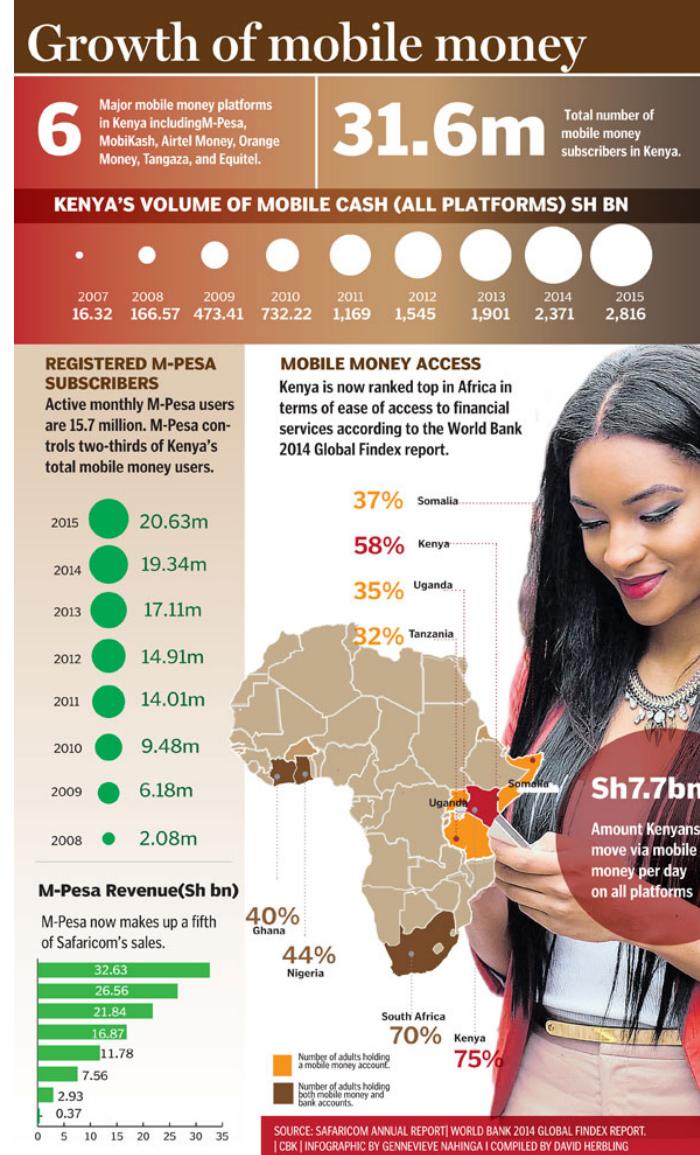
In summary, tax administrations can leverage the technological developments to: (a) provide better services and reduce tax compliance costs e.g. by simplifying payment procedures, pre-filling tax returns, facilitating electronic filing and record keeping among others; (b) increase compliance by collaborating with taxpayers and intermediaries to build in compliance into business systems and processes at the earliest opportunity; (c) lower tax administration costs by adopting a more system-based instead of a traditional case-by-case approach; (d) access better audit trails, evidence gathering and identification of fraud; (e) promote integrity of tax administrations e.g. by reducing physical contact with taxpayers; and (f) identify unreported business income using digital and electronic records created as significant sources of intelligence.

### **The influence of mobile payment platforms on tax collection and processes: the Kenyan Case**

Kenya is considered the home of mobile money payments platform following the successful launch of Safaricom's *m-pesa* (the M is for Mobile, and Pesa means money in Swahili) in March 2007. It started as a person-to-person transfer but has evolved from a money transfer service to robust payment platform and driver for financial inclusion and financial sector deepening. It can now be used for savings and loans, payment of salaries, settlement of utility bills and school fees and enabling vital health and agricultural solutions. Although it is synonymous with *m-pesa*, other platforms include Airtel money, Orange Money, Equitel, MobiKash, and Tangaza.

<sup>5</sup> (2016), *Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance*, OECD Publishing, Paris.

<sup>6</sup> (2016), *Technologies for Better Tax Administration: A Practical Guide for Revenue Bodies*, OECD Publishing, Paris.



Source: **David Herbling**, March 7, 2016<sup>7</sup>

According to the World Bank 2014 Global Findex Report,<sup>8</sup> Kenya tops Africa in on access to financial services due to the high uptake of mobile money. The 2016 FinAccess Household Survey<sup>9</sup> also credits mobile money services for the threefold growth in Kenya's banked population to 75.3% in 2016 from 26.1% in 2009. It however notes that there is headroom for further growth especially in retail payment for goods and services.

<sup>7</sup> Available at <<http://www.businessdailyafrica.com/Corporate-News/Nine-years-of-M-Pesa-revolution-/539550/3107136/-/14875ks/-/index.html>> last accessed December 9, 2016. For the latest statistics see Communications Authority of Kenya, Quarterly Sector Statistics Report, Fourth Quarter for the Financial Year 2015-2016 (April-June 2016) available at <<http://www.ca.go.ke/images/downloads/STATISTICS/SECTOR%20STATISTICS%20REPORT%20Q4%202015-2016.pdf>> last accessed December 9, 2016.

<sup>8</sup> World Bank, (2014), The Global Findex Database 2014. Available at <<http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf>> last accessed December 9, 2016

<sup>9</sup> Central Bank of Kenya, Kenya National Bureau of Statistics & FSD Kenya. (2016). The 2016 FinAccess Household Survey on financial inclusion. Nairobi, Kenya: FSD Kenya. Available at <<http://fsdkenya.org/publication/finaccess2016/>>

Mobile payment platforms have enabled individuals and businesses, especially SMEs, to effortlessly collect and manage cashless payments; enhanced record keeping because every transaction record is easily accessible; and provided greater linkages with financial institutions as they are integrated with over thirty-seven financial institutions.

### **KRA's Response to possibilities created by Mobile Money payments Platform: the KRA M-Service**

According to the 6<sup>th</sup> Corporate Plan of the Kenya Revenue Authority,<sup>10</sup> Kenya has an estimated 2.7 million SMEs who are not registered for tax purposes. It also projects the informal sector as growing at a faster rate than the formal sector at 82% vs 18%. Additionally, it notes that SMEs are migrating from paperwork to digital spurred by technological advancement.

These technological developments especially the rise of mobile money payment platforms has challenged KRA to adapt, renew and evolve to deliver seamless, easy and transparent processes. Among the key thrusts of the 6<sup>th</sup> Corporate Plan include: leveraging technology to enhance service delivery and promote compliance; shifting the customer service paradigm by improving service accessibility through service centres and technology platforms; and shifting focus from enforcement towards building taxpayer trust through facilitation. One of its key strategic objectives is to enable business by leveraging technology to achieve full electronic service leading to enhanced operation efficiency and higher customer satisfaction.

This led to the development of the KRA m-service<sup>11</sup> which is a mobile phone-based services platform with two service components: (a) SMS and USSD informational services; and (b) mobile payment of all taxes. It is aimed abandoning bureaucratic and burdensome processes to improve service delivery to customers by providing convenient, real time on-the-go services.



Source: Kenya Revenue Authority

<sup>10</sup> Kenya Revenue Authority, 6<sup>th</sup> Corporate Plan available at <<http://www.kra.go.ke/index.php/6th-corporate-plan>> last accessed December 9. 2016.

<sup>11</sup> For details see <<http://www.kra.go.ke/index.php/kra-portal/m-service>> last accessed December 9. 2016.

## SMS and USSD informational services

These grants customers access to specific information held in KRA by making simple queries on SMS or the menu driven USSD thus decongesting KRA banking halls by enabling taxpayers to get the information through their mobile phones rather than by physically visiting KRA offices. The SMS query requires basic information and requires that a SMS is sent in the recommended format for the particular service to a designated SMS Number. On the other hand, the USSD Service is menu driven and is accessed by dialing the USSD code \*572# to access the full menu. A relevant identifier is then typed for the type of service required.

The services available on the SMS and USSD platforms include verifying Personal Identification Numbers (PIN) for both individuals and companies, confirming the status of tax compliance certificates and confirming tax station under the domestic taxes tab. It can also be used to check the status of clearing agents, manifests status, amendments to manifests status, bill of lading and airway bill status, import declaration form status, entry status validation, amount payable under direct assessment, temporary car exportation status, simba entry amount payable and so for customs.

## Mobile payment of all taxes

The KRA m-service is also aimed at simplifying tax payment processes as well as providing taxpayers with a more convenient alternative for payment of various taxes. To use the service, a unique KRA payment reference number (E-Slip Number) is obtained online from KRA business systems to facilitate mobile payment. Currently this is obtained from iTax for domestic taxes and from the Simba System for customs services. The service has been largely successful in making select KRA services accessible to customers 24/7 without setting foot on KRA premises hence in decongesting KRA banking halls.

## The next frontier: access to mobile money payments platforms data

Despite the success of the KRA M-service, the real potential of the mobile payments platform is the data underlying the transactions could be used for various purposes *viz.*

### *(a) Expanding the tax base*

The 6<sup>th</sup> Corporate Plan of KRA recognised the need for a revamped recruitment strategy to ensure more taxpayers come into the tax net because the traditional methods of improving tax compliance based on examination and sanctions have been counterproductive and ineffective. KRA is therefore specifically targeting SMEs who transact through mobile platforms (to register for electricity or water connections or pay for services whose payments are automated) or use agency banking. Access to mobile payments data can provide information that can be used to detect economic activities in informal sector and can lead to the identification of taxable person who not registered for tax purposes for purposes of expanding the tax base.

*(b) Risk profiling*

Mobile money payment platforms are used by individuals and businesses in Kenya to perform transactions. As a result, a lot of information on individuals and business is held by third parties, namely the mobile phone payment platform providers, customers and suppliers. Information derived from this data can be matched with filing patterns to identify individuals and businesses which are not filing returns and/or who are not meeting their correct tax obligations. Non-compliant persons can be flagged for further compliance monitoring or audits.

*(c) Creating an audit trail*

Audits can be used to detect non-compliance and can be an effective deterrence tool. However, the results of an audit depend on information gathered from taxpayers and third parties, the information processing capacity and the strategy pursued. It is difficult to monitor cash based transactional information. However, the use of banking channels for payment makes transactions easier to observe and monitor as they create an audit trail of payments and receipts down the value chain. As it is important for a tax administration to bring together information from different sources to verify information provided by taxpayers themselves, the data from mobile money payments platforms could be useful in creating records and an audit trail by tracking receipts and payments of an individual or business's, their suppliers and customers down the economic activity chain

*(d) Pre-filling tax returns*

During the 2016 Budget Statement, the Cabinet Secretary for the National Treasury stated that: "*...in order to make it easier for taxpayers to submit their tax returns in the iTax system, I propose to amend the Tax Procedures Act to grant Kenya Revenue Authority powers to collect information in advance from identified persons for purposes of pre-populating the information in the iTax system.*" cleaned data from mobile payment platforms could be used to pre-fill tax returns which could then be verified by taxpayers during return filing. This will optimise the use of the iTax system.

*(e) In-built compliance tools*

The challenges of taxing SMEs are well documented. These include lack of third party reporting which makes it easier to conceal income and difficult to directly verify income with third parties and potential for overstating expenses to reduce tax liabilities. This is complicated by poor quality or complete lack of books and records. Recent studies show tax administrations deploy considerable resources to ensure SMEs report all income and target them as the least compliant component of the taxpayer population. The upside is that SMEs are rapidly digitising and have also adopted the mobile money payment platforms. This presents an opportunity for KRA to incorporate Tax Compliance by design into its compliance framework.

*(f) Minimising corruption and bribery*

ICT based interaction reduces interaction with revenue bodies. Integrating KRA systems with the taxpayers can promote transparency and can be a powerful tool in tackling corruption by reducing opportunities for bribery

## Potential challenges to accessing data mobile money payments platform

However, promising, there are potential challenges which need to be overcome. First and foremost, access to the data needs to be anchored in law. Without a legislative basis, taxpayers and third parties may not be compelled to provide it. Secondly, KRA needs the cooperation of stakeholders including the taxpayers, telcos, software developers, hardware providers as well as tax intermediaries. Thirdly, there is the issue of privacy and confidentiality created by the Constitution of Kenya and the banking and micro-finance laws. There is a need for assurance that the information will not be abused by government officials by establishing safeguards that ensures it is only used for intended purposes. Fourthly, KRA needs to put in place the right infrastructure in the form of hardware, software and analysis capabilities. Lastly, there is the question of how access to this data interacts with taxpayers rights.

## Conclusion

Technological advancements can potentially alter economic environment in which governments seek to collect taxes. The upsurge of mobile money payments can provide avenues for fully integrating systems and processes, simplifying tax payments and collection processes, expanding the tax base, influencing taxpayer's environment right from the start and providing credible audit trail to enhance compliance.





**IOTA**

Intra-European Organisation  
of Tax Administrations