

FORUM ON TAX ADMINISTRATION

TAX ADMINISTRATION 3.0

Action Plan Update - January 2022

Tax Administration 3.0 – Action Plan Update

January 2022



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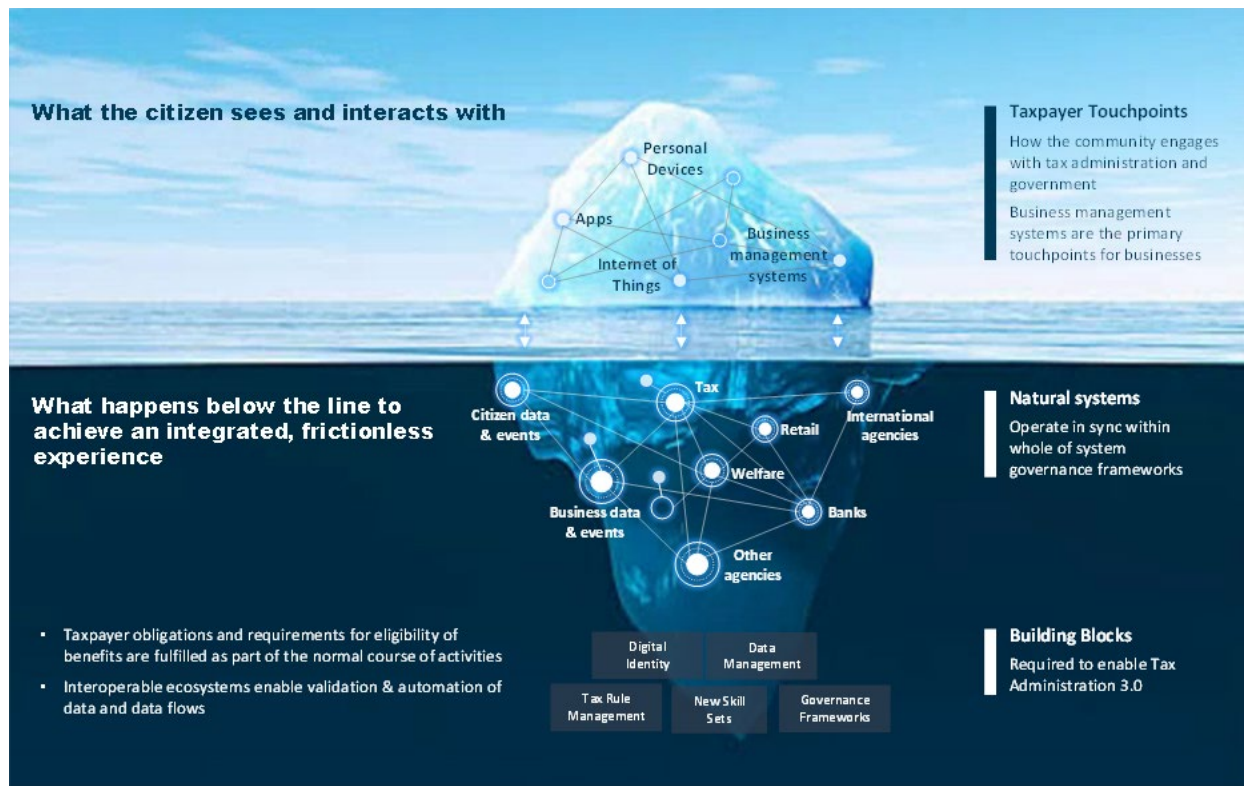
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Abbreviations & Acronyms

ADB	Asian Development Bank
ADG	Action and Drafting Group
AI	Artificial Intelligence
ATAF	African Tax Administration Forum
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate Income Tax
FTA	Forum on Tax Administration
IOTA	Intra-European Organisation of Tax Administrations
ISORA	International Survey on Revenue Administration
ITTI	Inventory of Tax Technology Initiatives
OECD	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
VAT	Value Added Tax
SAF-T	Standard Audit File – Tax

Introduction



This note provides a short update on each of the seven Actions were undertaken in 2021 following the publication of the 2020 Forum on Tax Administration (FTA) discussion paper - Tax Administration 3.0.¹ The envisaged digital transformation of tax administration described in Tax Administration 3.0, as distinct from the further digitalisation of current taxation processes, involves a shift towards the embedding of more taxation processes into the natural systems that taxpayers use in their daily lives and businesses. This transformation has the potential to make taxation a more seamless process from the taxpayer perspective, building in compliance in more areas and significantly reducing burdens. The intention of the Actions described in this note is to support FTA members and other tax administrations in their consideration of the journey towards that vision of future tax administration, both as regards possible domestic reforms as well as possible new international solutions.

These Actions can be broadly divided into three overlapping categories, namely: maturity assessments; international solutions; and knowledge sharing. The work of each of the Action Groups was supported by individual Action and Drafting Groups (ADGs) and was guided by a Steering Group consisting of officials from Australia, Canada, Denmark, Finland, Kenya, Norway (co-Chair), Russia (co-Chair), Singapore, Spain and the United Kingdom.

¹ OECD (2020), Tax Administration 3.0: The Digital Transformation of Tax Administration, OECD, Paris. <http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.htm>

Maturity Assessments

Action 1: Digital Transformation Maturity Model

Action 2: Inventory of Tax Technology Initiatives

International Solutions

Action 3: Digital identification

Action 4: Global e-invoicing solutions

Action 5: Including taxation processes in sharing and gig economy applications

Capacity Building and Information Sharing

Action 6: Support for the digitalisation of developing country tax administrations

Action 7: Knowledge sharing group

The individual updates in this note set out the background to each of these Actions, the progress made to date and the proposed next steps for 2022.

Next Steps

In addition to further progress on the individual Actions, the draft FTA work programme for 2022 also envisages the creation of a wider strategic framework covering both digitalisation and digital transformation. This recognises that tax administrations are at different stages of their digitalisation journey, operate in different legal and societal contexts and have different priorities. While some administrations may wish to focus more on the building blocks of future seamless tax administration, others may still see considerable value in the further digitalisation of existing processes and service offerings in order to reduce tax gaps and enhance resilience.

The proposed strategic framework, drawing from the outcomes of Action 1 and Action 2, will therefore analyse and, where possible quantify, both shorter-term digitalisation opportunities as well as the longer-term impacts of the introduction of the building blocks of digital transformation as described in Tax Administration 3.0. The intention is that this strategic framework will help to inform both domestic decision-making as well as future collaborative projects, which may also involve other private and public sector partners.

Action 1: Digital Transformation Maturity Model

Background

Tax Administration 3.0 represents a major shift in the organisation, operation and culture of tax administration. It was considered useful, therefore, to create a new FTA maturity model to assist tax administrations, as well as other stakeholders, in visualising the pathway towards more seamless tax administration and in understanding their current level of maturity and how it compares to other tax administrations. The model can also help administrations in considering the possible steps they may wish to take over time, acknowledging that different administrations have different priorities and constraints. In addition to the outcomes of maturity model self-assessments, the experience of previous FTA maturity models is that the discussions involved in reaching a view are often of high value in and of themselves, often bringing together officials from across the administration, including at senior levels.

Progress

A first draft of the Digital Transformation Maturity Model was included in the Tax Administration 3.0 discussion paper, based on the core building blocks of future tax administration set out in that publication. The elements of the maturity model were further developed in early 2021 by an Advisory and Drafting Group (ADG) consisting of tax administration officials from Canada, Denmark, Finland, Norway, Russia and Singapore (Chair), supported by the Secretariat

After piloting among the ADG members and further refinement, the final draft Digital Transformation Maturity Model was sent out to FTA members in July 2021 with a request to undertake self-assessments and to report the results, as well as some information on how the model was used, to the Secretariat. The maturity model was also sent to members of the African Tax Administration Forum (ATAF), the Asian Development Bank (ADB), the Inter-American Center of Tax Administrations (CIAT) and the Intra-European Organisation of Tax Administrations (IOTA). 30 tax administrations conducted a self-assessment. The anonymised results of these self-assessments, together with the final version of the maturity model, were published at the FTA Plenary in December 2021. The results and feedback seem to show that the model is well calibrated and has resulted in useful conversations within participating tax administrations.

Next Steps

The intention is to continue to promote the use of the Digital Transformation Maturity Model in 2022, including with developing countries. Options being considered are the development of e-learning and the possible use of Expert Facilitators to assist with self-assessments (something that is also in development for the Tax Crime Maturity Model produced by the OECD Task Force on Tax Crime and Other Crimes). The Model will be updated over time, as necessary, and consideration will be given as to whether further supporting material or guidance would be helpful.

Action 2: Inventory of Tax Technology Initiatives

Background

In line with the wider digitalisation of the economy, many administrations have embarked on a digital transformation journey, introducing new digital initiatives and innovations to support tax compliance and reduce burdens. While there is internationally comparative data on tax administration, collected through surveys such as the International Survey on Revenue Administration (ISORA), such data often considers the various functions and processes of an entire tax administration, and may not examine in detail the digitalisation and digital transformation initiatives undertaken by tax administrations.

In order to try and fill an information gap on the extent and progress of digitalisation of tax administrations globally, a new Inventory of Tax Technology Initiatives (ITTI) has been jointly developed by the OECD Centre for Tax Policy and Administration, the Asian Development Bank, the African Tax Administration Forum, the Inter-American Center of Tax Administrations and the Intra-European Organisation of Tax Administrations. Its primary purpose is to assist tax administrations in their considerations of possible domestic reforms as well as to help identify where future collaboration between tax administrations might be of most value.

Progress

In early 2021, work was undertaken by an ADG consisting of tax administration officials from Australia, Russia (Chair) and the UK, supported by the Secretariat, to produce a first annual survey on digitalisation initiatives. This structure of this survey followed the building blocks of Tax Administration 3.0. The survey was sent to FTA members as well as to the Secretariats of the ADB, ATAF, CIAT and IOTA for forwarding to their members. To date it has been completed by 40 jurisdictions.

The information collected through the survey can be accessed on a prototype ITTI website which will be available to tax administrations following the Plenary and publicly released in the first quarter of 2022. The information is available to view both by tax types (PIT, VAT and CIT) and under the building blocks of Tax Administration 3.0.

The information within ITTI covers both (i) leading technology tools and digitalisation solutions implemented by tax administrations, and (ii) approaches that will help to advance the overall digital transformation of tax administrations. In addition to providing a snapshot of which administrations have adopted particular technology tools or approaches, ITTI also contains links to case studies provided by participating tax administrations to provide a more in-depth look at particular implementation solutions as well as links to supporting materials and studies.

Next Steps

Following the 2021 Plenary, tax administrations which have not yet completed the annual survey will be invited to do so prior to the public launch of the website. The aim is to update the information through a survey circulated on an annual basis, pre-populated as far as possible, so as to always have the most recent information and to build a picture of trends over time. The ITTI partners will also look to continue to expand the number of case studies and links to supporting information.

Action 3: Digital identification

Background

Digital identity is one of the core building blocks of future seamless tax administration. The attributes and credentials used to create secure digital identities can reflect multiple different personal and official processes, as well as different roles (e.g. as an individual taxpayer, a business representative or the business itself). In order to facilitate the greater joining-up of public and private systems with the systems used by tax administrations and taxpayers, digital identity management (which may also include national identities) is a prerequisite for enabling the trusted remote connections required for seamless taxation. These connections may be through human interactions, for example to access secure self-service portals, or through authorised automated machine-to-machine applications.

The work under this Action, led by an ADG consisting of tax administration officials from Australia, Canada, Finland, Indonesia, Spain, Norway (Chair) and the United States, supported by the Secretariat, is focussing on two activities:

- Knowledge sharing on the business cases, strategies and legal frameworks adopted by different tax administrations (which may be at the tax administration or government level). The intention is to help inform tax administrations in developing their own approaches to the establishment and use of digital identities.
- Understanding where international digital identity solutions might be desirable to support the identification of taxpayers in cross-border situations, for example in supporting service delivery to non-resident taxpayers and identifying taxpayers and liabilities related to global platform-based business models. This work is not considering the creation of an international digital identity for tax, but rather looking at the issues involved in allowing the information contained within domestic digital identities to be used efficiently and securely in an international context.

Progress

In the early part of 2021, the ADG has focussed on building a common understanding of the elements of digital identity solutions adopted or being implemented in different jurisdictions. This work has informed the design of a survey on digital identity, the results of which will be reflected in Action 2, the Inventory of Tax Technology Initiatives. The ADG also provided expert input into the development of the Digital Transformation Maturity Model section on digital identity. Recent work has focussed on the design and completion of jurisdiction case studies both to inform the knowledge sharing goal of the project but also to help identify the role and use of domestic digital identities in a cross-border context.

Next Steps

Based on the survey completed for Action 2 and the jurisdiction case studies, the intention is to produce a report by the FTA 2022 Plenary which will:

- Depict the current digital identification landscape from a tax administration point of view: legal frameworks, tax administration specific options and roles, services, etc.
- Deliver guidance to tax administrations with respect to the implementation of digital identity. This will include lessons learned from current implementations, adoption strategies and use cases.
- Describe the areas where the incorporation of particular attributes in domestic digital identities can help in a cross-border context, such as servicing non-citizens and foreign workers, facilitating the establishment of businesses across jurisdictions and in identifying beneficial owners. This will also look at the elements of possible global solutions from the tax administration perspective and options for further work.

Action 4: Global E-invoicing solutions

Background

Electronic invoicing is an important business application and part of a wider suite of electronic commerce functions such as e-procurement and e-payment. E-invoicing can be highly effective in lowering business transaction costs, enhancing security levels and in supporting and improving compliance.

A growing number of tax administrations play an active role with respect to the exchange of e-invoices, including in some cases mandating requirements for the format and content of the invoice and for online reporting. The availability of digital invoice data gives tax administrations the opportunity to enhance audit capabilities and fraud detection and to innovate service delivery, for example pre-filling VAT returns. Depending on the context, e-invoicing can play a significant role in closing VAT and CIT tax gaps.

The work under this Action, led by an ADG consisting of tax administration officials from Canada, China, Chile, Hungary, CIAT, Norway, Russia and Spain (Chair), as well as representatives from the Secretariat and CIAT, is focussing on two activities:

- Knowledge sharing on the business cases, strategies and legal frameworks adopted by different tax administrations (which may be at the tax administration or government level). The intention is to help inform tax administrations in developing their own approaches to the establishment and use of e-invoicing solutions.
- Understanding where international solutions might be needed to support the use of e-invoices in cross-border situations, including where a business operates in multiple jurisdictions, in order to reduce administrative burdens and enhance compliance.

Progress

The project in the early part of 2021 focused on building a common understanding of the elements of e-invoice solutions adopted or being implemented in different jurisdictions. This work informed the design of a survey on e-invoicing, the results of which will be reflected in the results of Action 2, the Inventory of Tax Technology Initiatives. Recent work has focused on the design and completion of jurisdiction case studies both to inform the knowledge sharing goal of the project but also to help identify the role and use of e-invoicing in a cross-border context, including areas which may currently hinder seamless solutions.

Next Steps

Based on the survey completed for Action 2 and the jurisdiction case studies, the intention is to produce a report by the FTA 2022 Plenary that will:

- Depict the current e-invoicing landscape, including legal frameworks, tax administration specific options and roles, services, etc.
- Deliver guidance to tax administrations with respect to the implementation of e-invoicing solutions. This will include lessons learned from current implementations, adoption strategies and use cases, including consideration of the administrative burdens for businesses, helping tax administrations to understand the impacts of particular solutions.
- The identification of areas where tax administrations might work together on cross-border issues (also with other global stakeholders such as standardisation bodies). This might include issues relating to the alignment of interoperability frameworks, including legal and reporting requirements (including the interactions with the Standard Audit File – Tax) and information exchange architectures and infrastructures.

Action 5: Including taxation processes in sharing and gig economy applications

Background

Tax Administration 3.0 envisages the embedding of tax processes into the natural systems used by taxpayers. This Action is looking specifically at the options for including tax processes into the native applications used by platforms in the sharing and gig economy. This is against the background of a rapid growth in the use of sharing and gig economy platforms by taxpayers to sell services and goods and concerns about both compliance and administrative burdens.

Tax administrations are considering different approaches to ensuring taxpayer compliance, and are exploring models such as those based upon withholding style approaches close to pay-as-you-earn type arrangements or models that see the tax administration receive data to help pre-populate or verify tax returns. However, regardless of the model, the ultimate goal is to establish systems that allow the process of paying tax on income earned through platforms to be as seamless as possible for the platform, taxpayer and tax administration. Achieving this is a significant challenge as tax administrations and platforms would need to connect securely into each other's systems and, ideally, to do this in a way that is consistent across tax administrations so that burdens on business are minimised.

As well as seeking collaborative solutions to reduce burdens and support compliance in this rapidly growing sector of the economy, this Action is also intended to provide insights into how such processes might be built into native applications more generally.

Progress

This year the work on this Action, which is led by an ADG consisting of tax administration officials from Australia, Canada, Denmark, Ireland, Finland, Israel and the UK (chair), supported by the Secretariat, has focused on:

- Sharing experiences to date of working with platforms
- Defining the scope of the work, and identifying the key questions to be answered
- Engaging informally with business to seek their perspective
- Running workshops to explore possible outcomes/solutions

Next Steps

The intention is to produce a report by the FTA 2022 Plenary which will:

- Outline the options for including taxation processes into native applications, for example around taxpayer identity, reporting or withholding processes. This would also involve describing the requirements for different options, the technical architecture that would be involved and the issues arising where platforms and taxpayers are based in different jurisdictions.
- Describe the key policy choices tax administrations face under different options, covering topics such as data protection, trust and transparency, relative burdens and exchange gateways.
- Identification of options for how tax administrations could work together with platforms to try and find establishing common solutions that could be adopted to minimise implementation costs and help to ensure international compatibility. This may also involve piloting possible solutions.

Action 6: Support for the digitalisation of developing country tax administrations

Background

Many of the elements of Tax Administration 3.0 are at the aspirational side of the digital maturity spectrum. For some administrations, particularly in developing countries, the digitalisation journey may be at an earlier stage. Nevertheless, further digitalisation can bring significant benefits as well as prepare the ground for future digital transformation. Action 6 seeks to offer guidance and assistance for those administrations on the key elements of successful digitalisation, drawing from the experiences of a wide range of administrations globally. The Action is set within the Tax Administration 3.0 set of projects to emphasise the value of considering digitalisation in the context of potential future digital transformation. This is particularly relevant given potential opportunities for leap-frogging as a result of new technology tools and, in some cases, a lower likelihood of obstacles arising from hard to change legacy systems.

Progress

The report “Supporting the digitalisation of developing country tax administrations” was published at the FTA 2021 Plenary. This report has been developed in collaboration with ATAF and under the guidance of the Action 6 ADG, consisting of tax administration officials from Chile, Colombia, Georgia, Italy, Kenya (co-Chair), Malaysia, Sweden and the UK (co-Chair), supported by the Secretariat.

The main body of the publication is structured around three parts:

- Part I considers the motivation for tax administration digitalisation, and aims to inspire the thinking of Commissioners and management teams who are building the case for digitalisation.
- Part II examines the common stages of successful digitalisation journeys, to guide managers and teams involved in planning digitalisation projects. The report also contains four annexes that provide more detail on the topics discussed in Part II.
- Part III identifies frequently targeted digitalisation areas and key learning from successful projects, supported by case studies from tax administrations across the world. Managers, project managers and teams involved in planning and executing digitalisation projects may find this part helpful.

Next Steps

The intention is to take forward work to support the digitalisation of developing country tax administrations through four related initiatives:

- Identification of areas where further material or guidance could be developed to provide more background and case studies regarding the core elements for successful implementation of digitalisation strategies and projects.
- Implementation of new support mechanisms, complementing existing capacity building initiatives, such as the piloting of a new Tax Inspectors Without Borders – Digitalisation of Tax Administrations programme to bring together senior leaders and experts to discuss high-level strategic and change management issues on a confidential basis.
- Support for developing countries to participate in the Inventory of Tax Technology Initiatives (Action 2) to help build a better global picture of the current state of development and help to identify where further capacity building work might be of most value.
- Support for developing countries wishing to undertake self-assessments using the Digital Transformation Maturity Model, including through the possible development of e-learning and assistance through the use of expert facilitators.

Action 7: Knowledge sharing

Background

There is a considerable amount of information produced by different actors relevant to digital transformation, ranging from high-level strategic frameworks and change management programmes to more technical, legal and operational issues. In order to aid knowledge sharing and to help avoid the reinvention of wheels, the FTA Digital Transformation Community of Interest was established some years ago to provide a forum for the structured exchange of information. This can be on new initiatives (either in particular areas or at an administration wide level), the use of new technologies or business processes (such as the move to cloud storage, the use of blockchain etc.) and more horizontal issues, such as data protection and privacy concerns.

The Digital Transformation Community of Interest has now been brought under the Tax Administration 3.0 set of actions, as Action 7 on Knowledge Sharing. The rationale for this was twofold:

- to help the group stay aligned on the issues relevant to Tax Administration 3.0, in particular the exploration of digital transformation strategies and initiatives related to the identified building blocks of future seamless taxation; and
- to identify possible future collaborative initiatives, for example, knowledge sharing reports or operational pilots, which are likely to be of high value for participating tax administrations.

Progress

Knowledge Sharing meetings have been organised on a quarterly basis, led by an ADG consisting of tax administration officials from Brazil, Canada (Chair), Finland, France, Kenya, Russia, Singapore and Sweden, supported by the Secretariats. Subjects covered at these meetings have included:

- current and possible future Standard Audit File – Tax developments (SAF-T)
- first exploration of digital innovations, like e.g. blockchain
- domestic strategies for the digital transformation of tax administration.

Next Steps

The Knowledge Sharing group will continue to meet on a quarterly basis. Over time, it is expected that the meetings will be increasingly used to inform potential future projects, exploring issues relevant to Tax Administration 3.0 that are not yet specific Actions, such as the use of AI, blockchain, and data protection and privacy. Any topics that garner a large amount of interest may become a “nursery” sub-topic where interested members can meet separately to discuss the subject in more depth, including potentially producing short issues notes. These nursery topics could become future actions under Tax Administration 3.0.

FORUM ON TAX ADMINISTRATION

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This short report provides an update on progress on the various Actions undertaken by the FTA in 2021 following the publication of the Tax Administration 3.0 report in December 2020. Taken together, these Actions are intended to assist tax administrations in their consideration of the next steps towards digital transformation, including through maturity assessments, exploration of potential international solutions, capacity building and knowledge sharing.

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