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HOW TAX AUTHORITIES SELF-ASSESS THEIR DIGITAL ROADMAP

Speakers

Julia María Martínez Tapia – Tax Technology Senior Associate at TPA Global
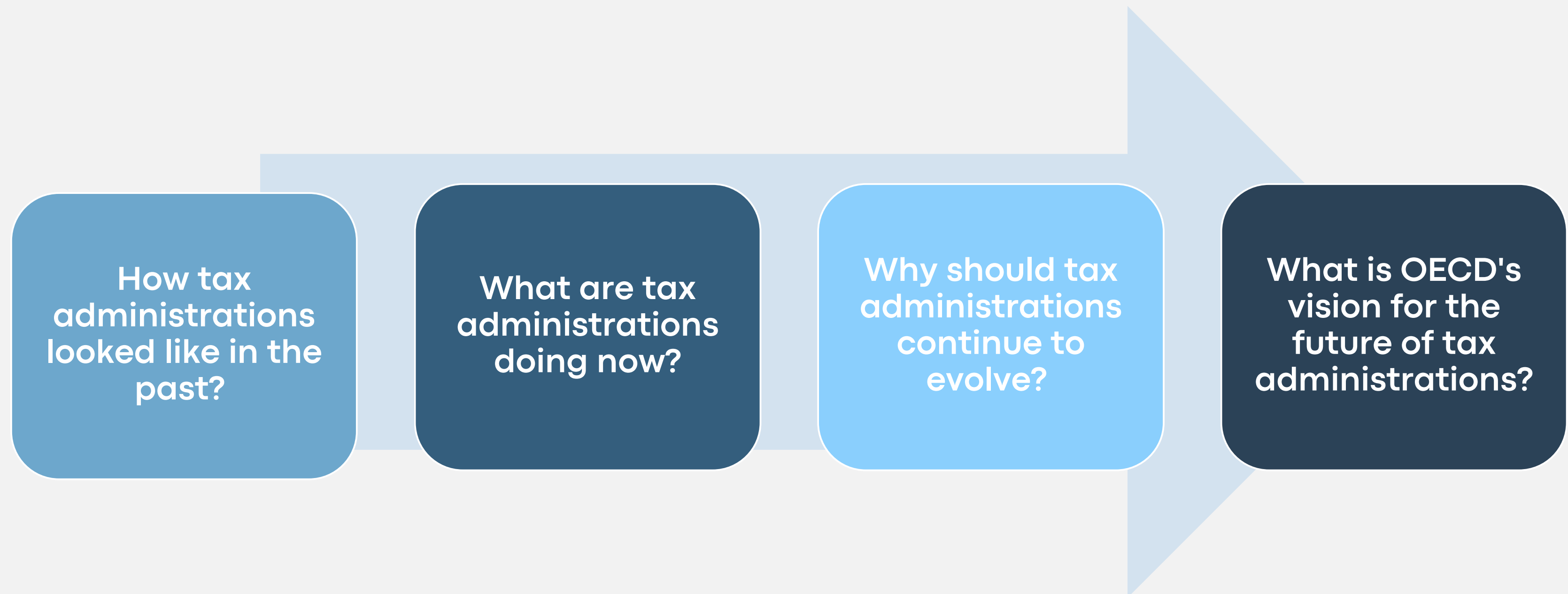Beyzanur Karaman – Legal and Tax Tech Associate at e-Bright

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EMBRACING TAX ADMINISTRATION 3.0

EMBRACING TAX ADMINISTRATION 3.0

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In 2020 the FORUM ON TAX ADMINISTRATION (FTA) of the OCDE published the paper "Tax Administration 3.0: The Digital Transformation of Tax Administration", which addressed the following issues:

How tax administrations looked like in the past?

What are tax administrations doing now?

Why should tax administrations continue to evolve?

What is OECD's vision for the future of tax administrations?

WHAT DID TAX ADMINISTRATIONS LOOK LIKE IN THE PAST? TAX ADMINISTRATION 1.0

- Largely paper-based

- Many manual and siloed processes

- Forms driven (electronic & paper)

- Periodic, historical, aggregated data

- Manual, slow & costly

- Retrospective risk treatment

- Disconnected ecosystems

WHAT ARE TAX ADMINISTRATIONS DOING NOW?
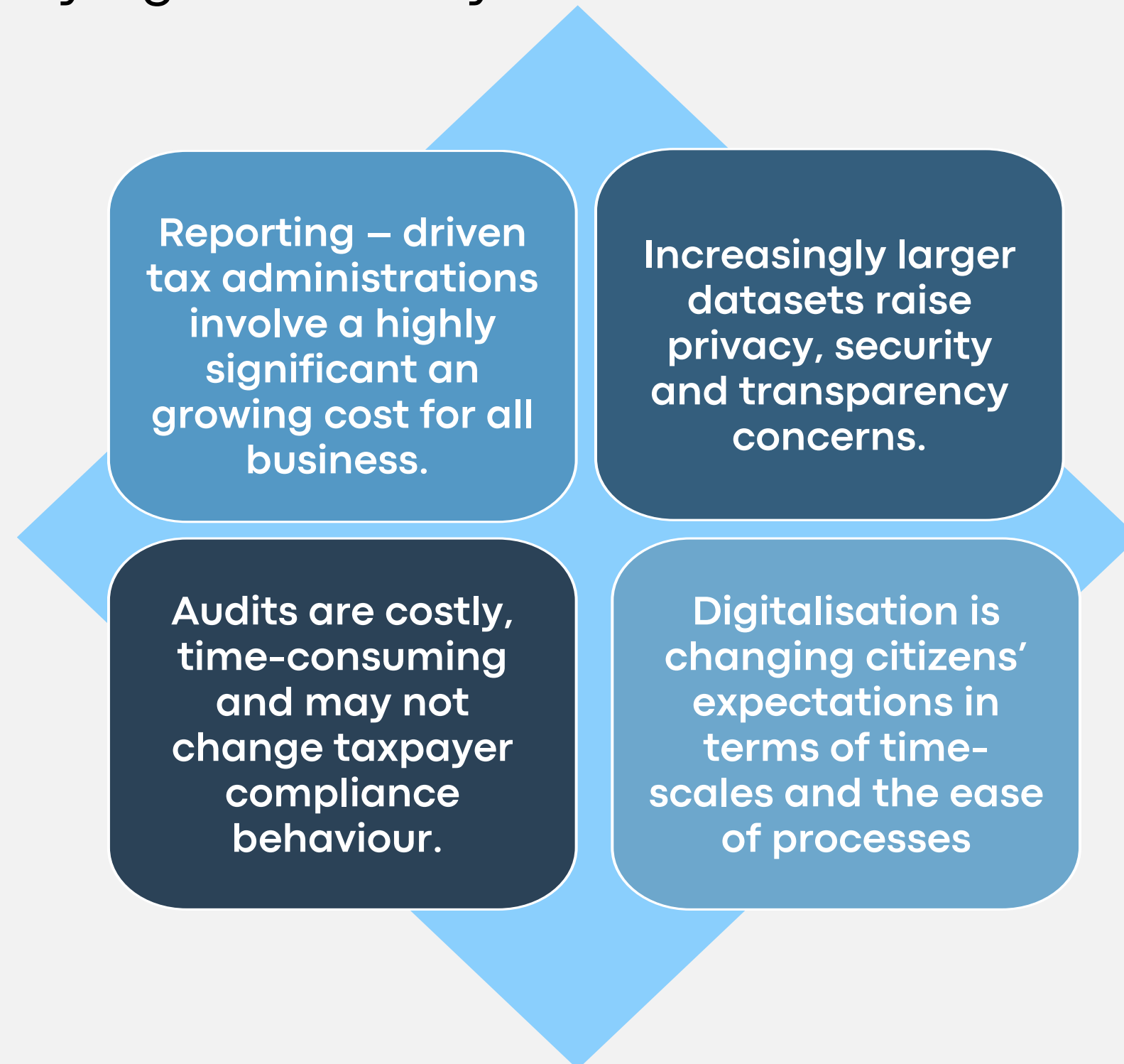# TAX ADMINISTRATION 2.0 OR E-ADMINISTRATION

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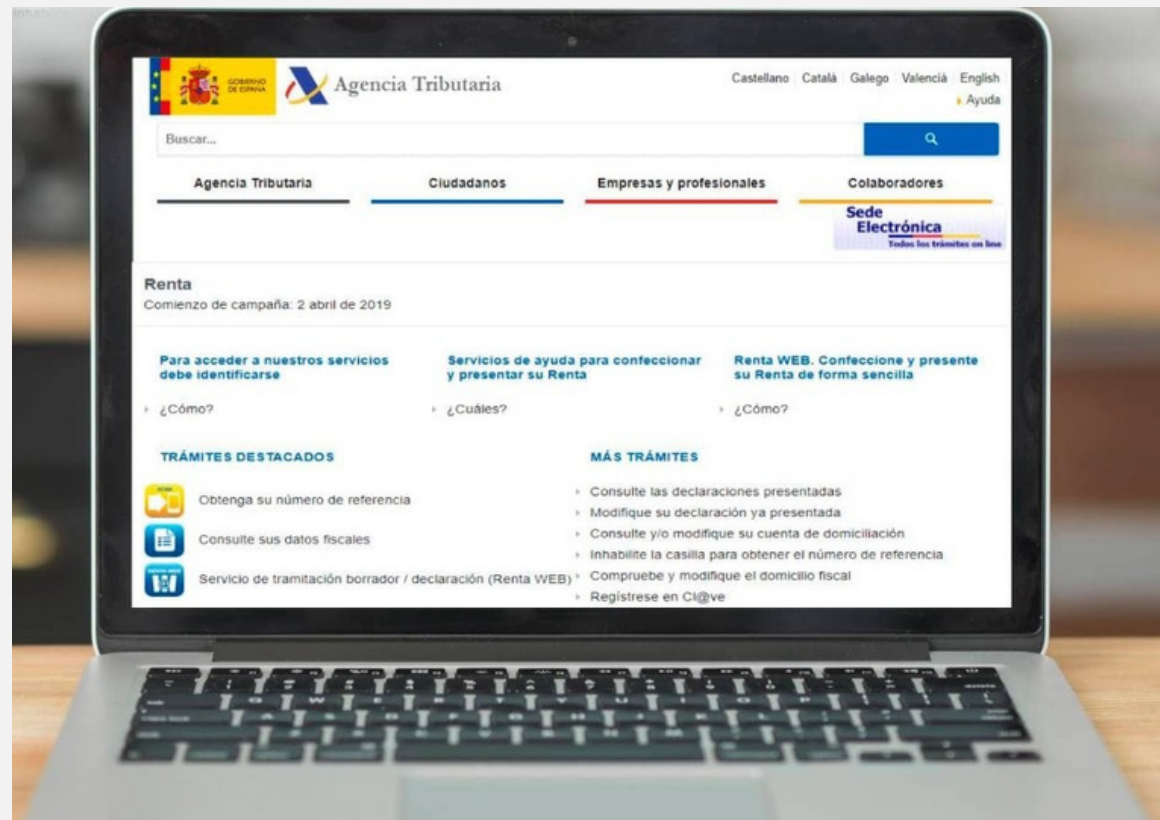
- Digital support of data collection and processing activities

- Largely based on voluntary compliance.

- Need to tackle the tax gap because of non-compliance or errors, through:

  1. Improvement of services to taxpayers to support voluntary compliance.

  2. Use of analytical tools on large datasets of data collected from taxpayers and third parties.

SHOULD TAX ADMINISTRATIONS CONTINUE TO EVOLVE?

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e-administrations are reaching the end of their ability to impact the tax gap and reduce burdens in any significant way.

Reporting – driven tax administrations involve a highly significant an growing cost for all business.

Increasingly larger datasets raise privacy, security and transparency concerns.

Audits are costly, time-consuming and may not change taxpayer compliance behaviour.

Digitalisation is changing citizens' expectations in terms of time-scales and the ease of processes

THE OECD DIGITAL TRANSFORMATION MATURITY MODEL

WHAT IS OECD'S VISION FOR THE FUTURE? THE TAX ADMINISTRATION 3.0

- Result of a digital transformation process focused on bringing taxation closer to taxable events (paradigm shift).

- **Vision**: Putting the tax administration processes into the natural systems used by taxpayers as part of their daily lives and systems.

- **Goal**: Increase tax compliance levels while reducing the burden for taxpayers.
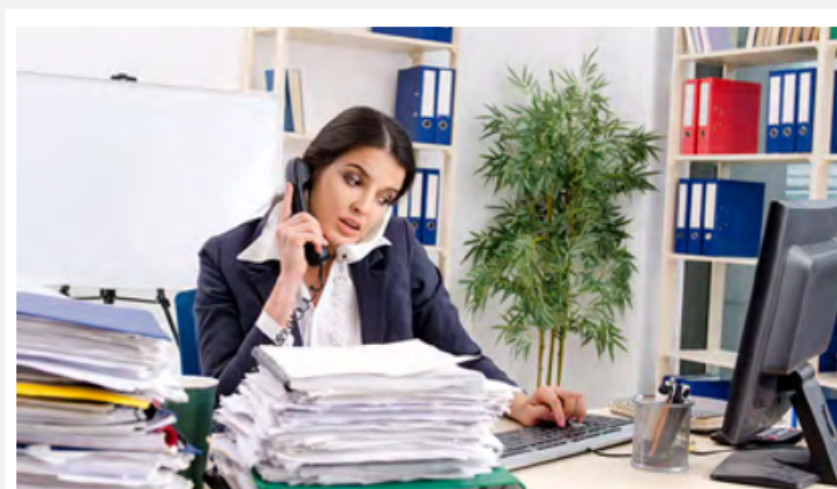

- Forms driven (electronic & paper)
- Periodic, historical, aggregated data
- Manual, slow & costly
- Retrospective risk treatment
- Disconnected ecosystems

- Data driven
- Event based, detailed & real-time data
- Enables validation & automation
- Enables assured data
- Interoperable ecosystems
- Enables international co-operation

WHAT IS OECD'S VISION FOR THE FUTURE? HOW THE FUTURE LOOKS LIKE.

- Taxation processes embedded in certified business solutions, updated with relevant tax rules and data from Government platforms.
- Tax compliance by design or "tax just happening". Example: PAYE systems (pay-as-you-earn) for salaried employees.
- Many digital platforms as "agents" of tax administration carrying out tax processes within their systems.
- Tax administration processes are increasingly real-time or close.
- Human staff and skills are combined with advanced analytics and decision-supporting tools such as AI.
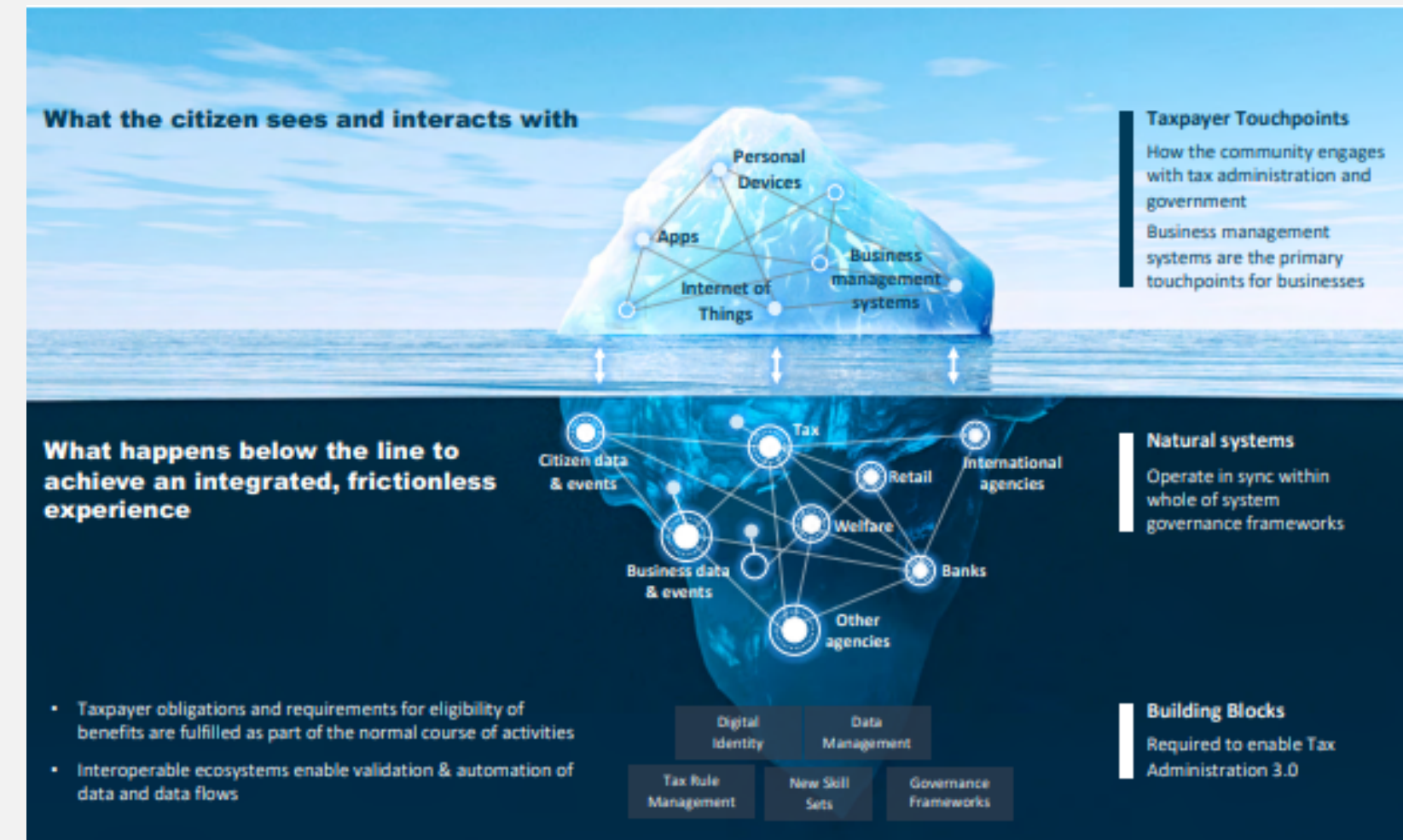
THE BUILDING BLOCKS OF TAX ADMINISTRATION

Tax Administration 3.0 requires the development of a **new infrastructure** underpinning future tax administration:
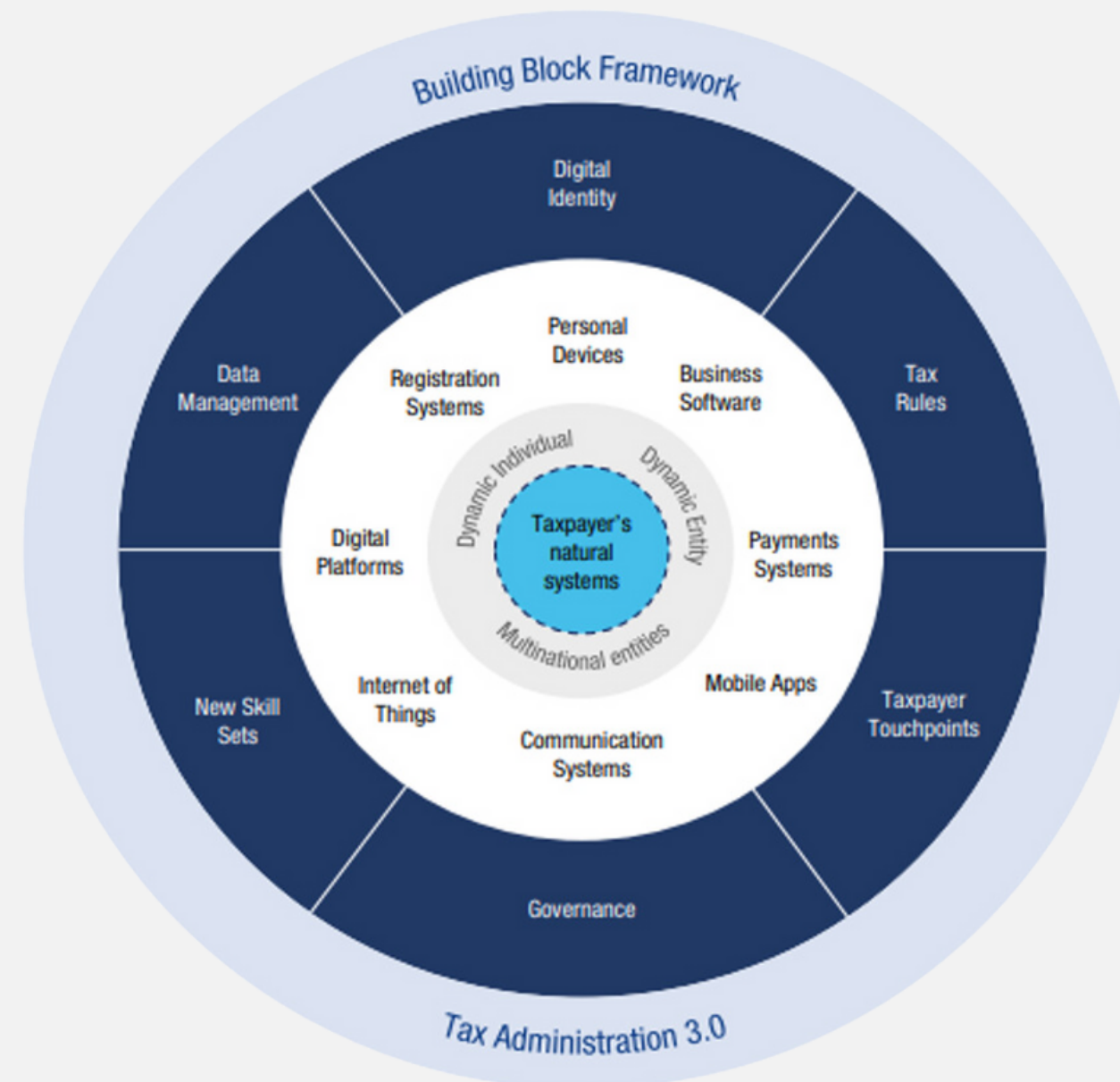
The core building block framework

Source: OECD (2020)

THE BUILDING BLOCKS OF TAX ADMINISTRATION
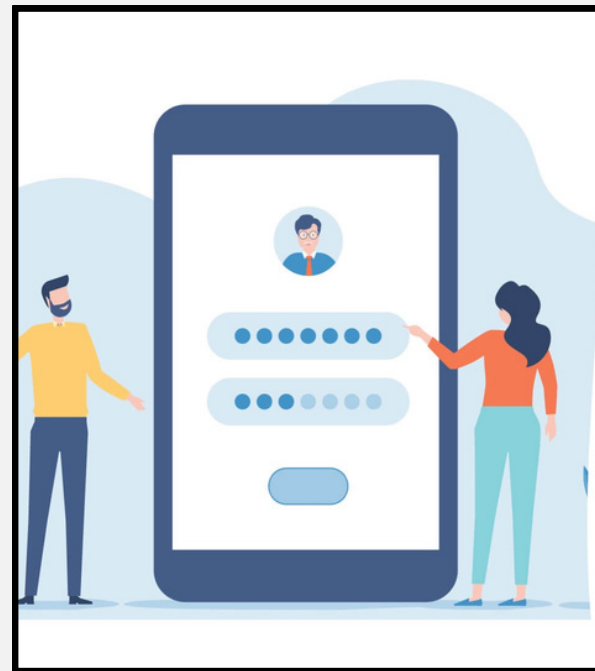
Digital identity
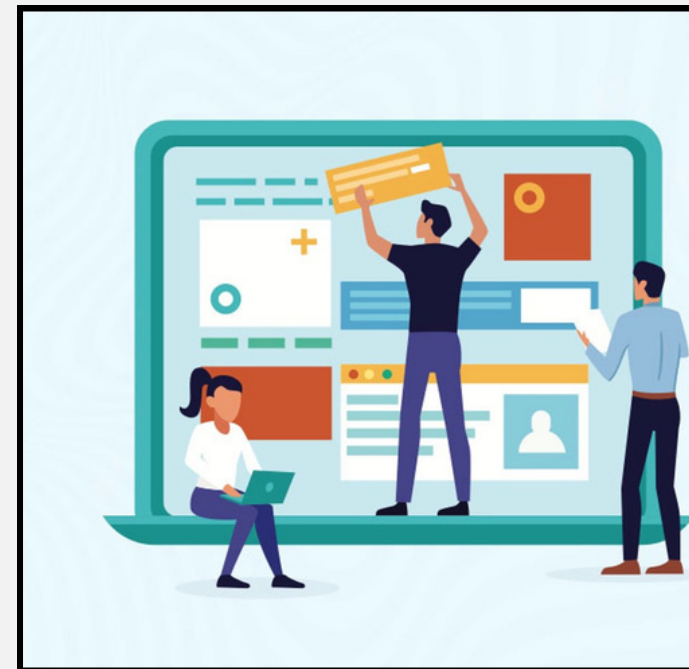
Taxpayer touchpoints
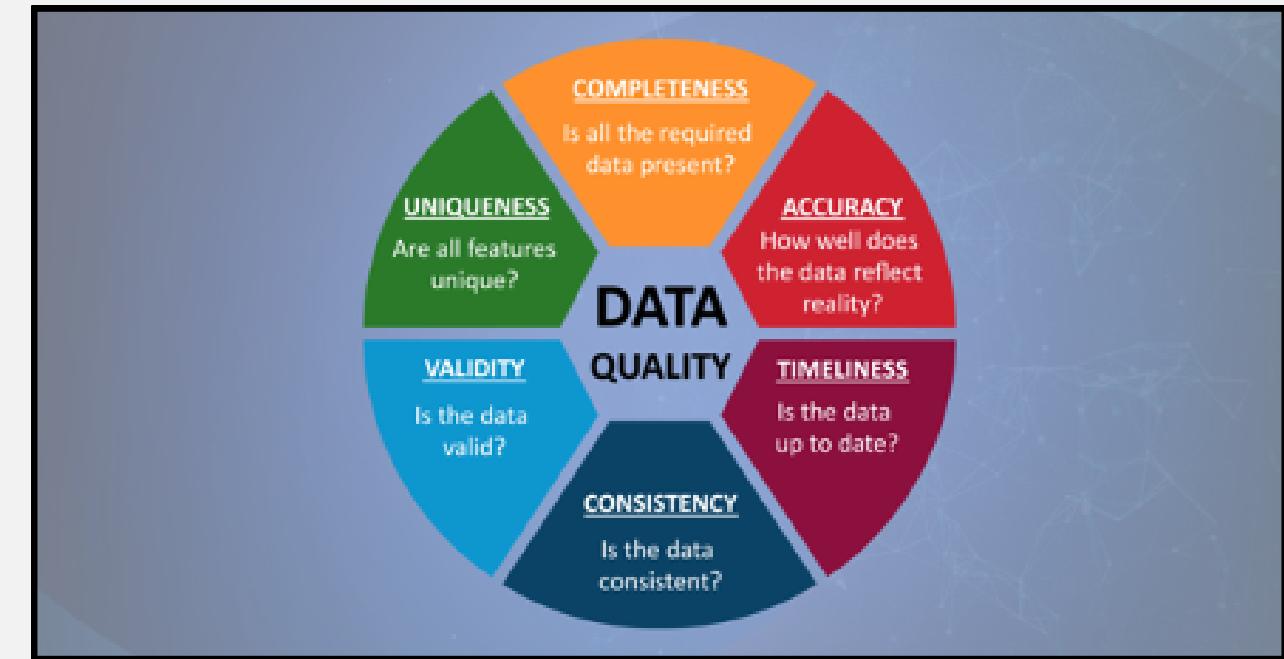
Data management and standards

Tax rule management and application
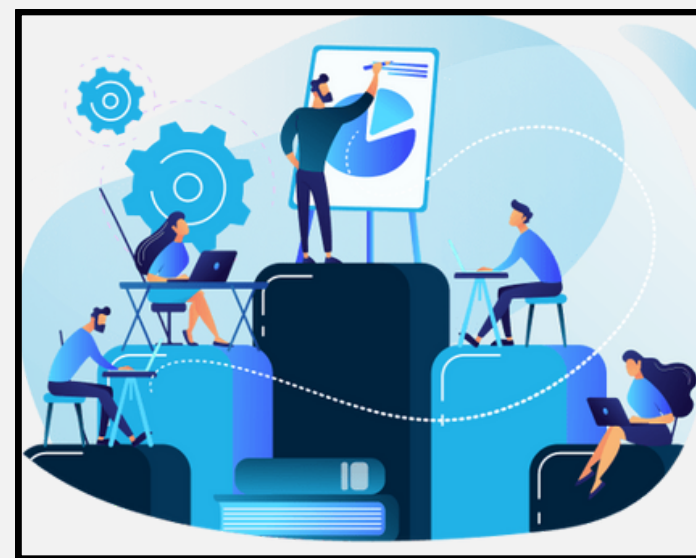
New skill sets

Governance frameworks

THE OECD DIGITAL TRANSFORMATION MATURITY MODEL

- Digital Transformation Maturity Model", OECD, September 2022.
- Self-assessment framework for tax administrations.

FORUM ON TAX ADMINISTRATION

OECD Tax Administration Maturity Model Series

Digital Transformation Maturity Model

OECD
BETTER POLICIES FOR BETTER LIVES
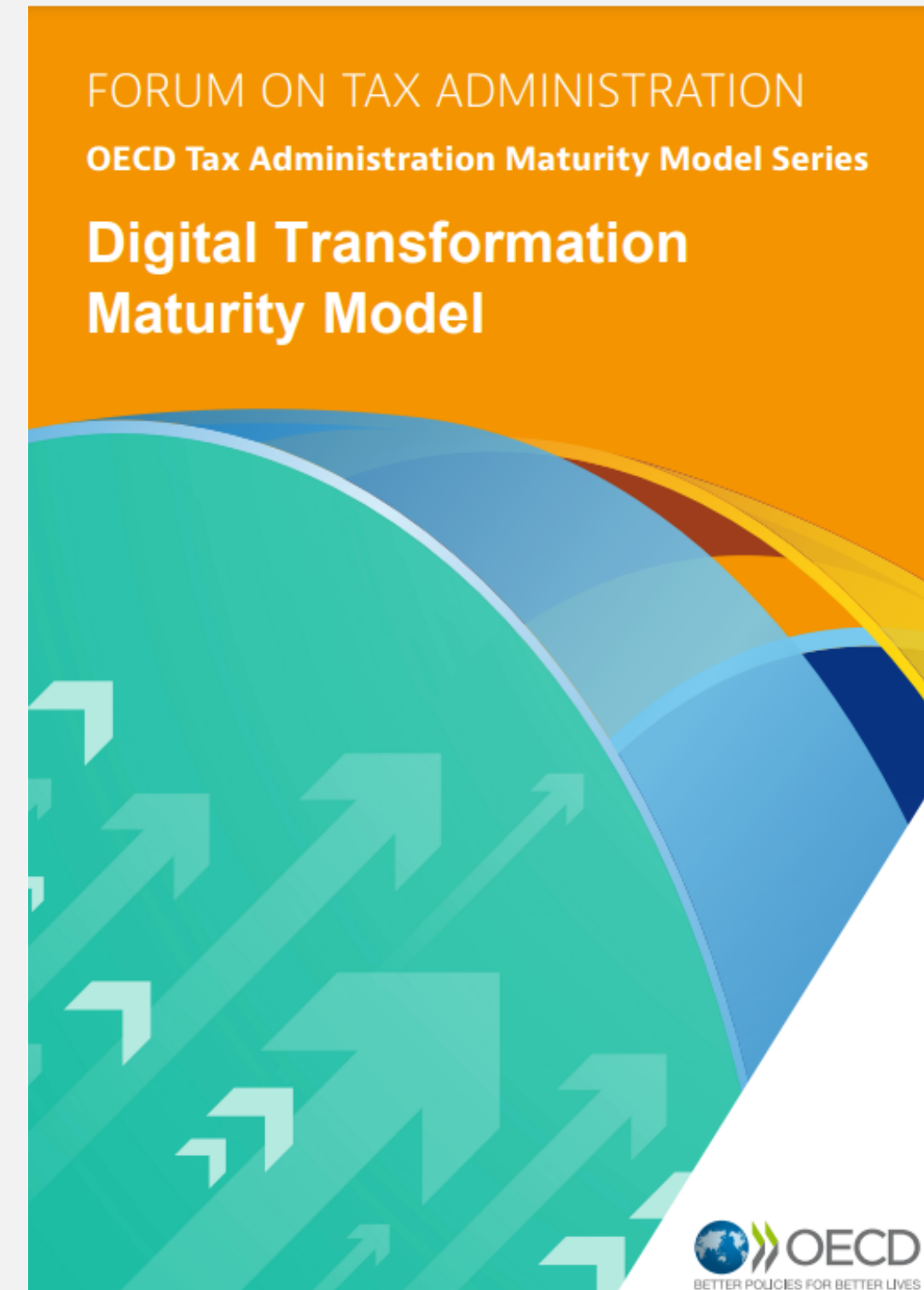
LEVELS OF MATURITY

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- **Emerging**: Tax administrations that have already developed to a certain extent, but which have significant further progress they could make.

- **Progressing**: Tax administrations undertaking reforms in digitalisation as part of progressing towards the average level of advanced tax administrations.

- **Established**: Where many advanced tax administrations, such as FTA members, might be expected to cluster.

- **Leading**: Cutting edge of what is generally possible at the present time through actions by the tax administration itself, with some collaboration with stakeholders.

- **Aspirational**: Tax Administration 3.0. No tax administrations are expected to be consistently at this level currently.

MATURITY MODEL SELF-ASSESSMENT

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- Maturity Model framework was tested by OECD in a pilot project.

- Self-assessments by 55 tax administrations from FTA and non-FTA countries.

- The majority assess the maturity of their Digital Transformation functions at "Established" maturity levels.

Results of the self-assessment for the thirteen indicative attributes of the model

OECD Maturity Model

Total Results

Level	Percentage
Emerging	3%
Progressing	26%
Established	52%
Leading	17%
Aspirational	2%

Source: OECD Secretariat analysis based on participants' self-assessments

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ANALYZING THE RESULTS

- The **most advanced** areas are data management, digital identity and taxpayer touchpoints.

- **In the middle** of the ranking, we can find attributes related to tax rule development and strategy settings.

- Government mechanisms and, remarkably, **human resources** (the human factor) appear at the **bottom of the ranking.**

Ranking of Attributes	Score
Data security and privacy	3.31
Creation of digital identity	3.09
Types of touchpoints	3.07
Accessible services	3.05
Uses of digital identity	3.04
Availability and standards	2.93
Strategy setting	2.91
Tax rule development	2.85
Skills development	2.82
Assurance of rule application	2.76
Governance mechanisms	2.71
HR strategy and function	2.62
Workforce planning	2.58

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THE PEOPLE FACTOR:
EMPOWERING PEOPLE IN THE DIGITAL TRANSFORMATION JOURNEY

THE PEOPLE FACTOR: OECD'S APPROACH

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- **Identify future skills** for the transition, considering both in-house and outsourced specialists.

- Building **guidelines for tax administration staff in decision-making in automated systems.**

- Foster a **culture of change**, emphasizing retraining for the benefits of Tax Administration 3.0

OUR APPROACH

- People are a **key factor** in digital transformation
- The model and self-assessment results have **underscored** the importance of certified personnel in driving progress.
- Our approach:

  1. Relying on certified professionals is vital.
  2. Focusing on long-term strategies (5 to 10 years ahead) and initiate the change management process immediately.

THE BELT SYSTEM

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YELLOW BELT
- Intro Level
- University Degree/ Applied Science
- Tax/ Technology/ Finance background

- Awareness
- Taxonomy
- Basics of: Tax, Technology and Finance

ORANGE BELT
- Junior Level
- Project Team Member
- Assessment of process improvement

- Tax Vision 2025
- 4th Generation Tax Technology
- T3 Plan (Tax Technology Transformation) Basic Concepts
- Positioning Tax Authorities

LIGHT GREEN BELT
- Manager Level
- Supports black belt projects

- Governance
- Data Models
- T3 Plan (Tax Technology Transformation) Organizational Adoption
- Taxpayers' Rights

DARK GREEN BELT
- Senior Manager Level
- Leads Green Belt Projects
- Analyzes and supports Black Belt projects

| 1-on-1 course | • Smart Tax Codes
• Smart Tax Automation
• Smart Tax Innovation
• Smart Projects | Group course | • Uses Cases (60+)
• Train-the-trainer |

BLACK BELT
- Director Level
- Leads problem-solving projects
- Trains and leads project teams
- Minimum of 5 successful projects

| TAXOLOGIST | TAX TECH ENGINEER | TAX DATA ANALYST | TAX TECH BUSINESS/ FINANCE | TAX DATA MODELER | FORENSIC ACCOUNTING |

KEY TAKEAWAYS

KEY TAKEAWAYS

- The vision of Tax Administration 3.0 requires a **transformation effort.**
- The idea behind the vision is to put the tax administration processes **into the natural systems** used by taxpayers rather than relying on large amounts of data to be reported to the tax administration.
- There is some **urgency** to this journey both because of the scale of possible benefits and challenges.
- Most tax administrations assess the maturity of their Digital Transformation functions at "**established**" maturity levels.
- It seems that the most advanced areas are data management, digital identity and taxpayer touchpoints. However, the human factor, which is key, appears at the bottom of the ranking.
- To leverage the human factor, fostering a culture of innovation and relying on certified professionals is vital.

Q&A