

Distr.: General
4 October 2022

Original: English

**Committee of Experts on International
Cooperation in Tax Matters
Twenty-fifth session**

18-21 October 2022

Item 3 (k) of the provisional agenda

Digitalization and other opportunities to improve tax administration.

Coordinator's Report

Summary

This report is for information and discussion and indicates the efforts underway to work on the mandate and proposed plan of work of the group on Digitalization and other opportunities to improve tax administration.

Background and Group Mandate

1. At the 23rd session of the Committee in October 2021, the secretariat provided a paper on Digitalization and other opportunities to improve tax administration ([E/C.18/2021/CRP.30](#)) That paper highlighted issues for consideration in assisting tax authorities to digitalize their operations and improve administration of taxes.

2. As noted in the [Report on the twenty-third session](#), after some discussion, the Committee established a small group on Digitalization and other opportunities to improve tax administration, with Mr. Wazona Ligomeka as Coordinator, and with the following mandate:

“The mandate of the group is to review the work done in other forums on the digitalization of tax administration, to identify existing gaps and consider the possible value added to this work by the Committee, to consider other means of improving tax administration and to suggest how to carry the work on digitalization and improvement of tax administration forward. The small group is to report back to the Committee at the twenty-fourth session on its findings and recommendations.

3. At the 23rd session of the committee in April 2022, the coordinator of the group presented the Coordinator’s report [E/C.18/2022/CRP.11](#). This report outlined the working group’s plan of work to meet the mandate approved at the twenty-third session and sought the Committee’s views on the coordinator’s report and approval of the proposed course of action, which was to

- i) continue with work geared at providing solutions in the gaps identified; and,
- ii) to that end, to encourage participation of more Committee Members in the work of the Group.

4. As noted in the [Report on the twenty-fourth session](#) the Committee approved the group’s workplan with several members joining the group, and a call for parties interested in the group’s work to contact the Secretariat.

Meetings of the Working Group

5. The group held two virtual meetings on 12 May 2022 and 29th August 2022 to discuss the strategy to fulfill the mandate as well as begin working on the identified areas of work in the mandate. This report reflects the outcome of those discussions.

Issues

6. The group agreed on a plan of work that included;
 - a. Developing a road map for the Digitalization of revenue authorities. The roadmap will include guidance on:
 - Identifying the priority areas for digitalization and appropriate taxes.
 - Identifying the relevant technology and appropriate systems based on best practices from developed and developing countries.
 - Simplifying tax systems and procedures to make them user-friendly for taxpayers.
 - Identifying the skills for Digitalization.
 - Future proofing the tax system
 - b. Providing guidance on the development of a data governance framework that considers the best use of available data and identifies gaps in the availability of quality data.

- c. Proposing means of monitoring technological developments to identify relevant enhancements to the tax system. The objective is to ensure that the tax system keeps up with business development.

7. On developing the road map, it was agreed that

- The roadmap would serve as general guidance to serve the needs of all jurisdictions as they may be at different levels of digitalization. It would also include countries' experiences as benchmarks for Digitalization.
- This was one of the areas where participants could volunteer as drafters for the guidance to be developed.

8. On providing guidance on the data governance framework, it was agreed that this was one of the areas where participants could volunteer as drafters for the guidance to be developed. On monitoring of technological developments, it was agreed that no drafting or guidance was required for this, but the group would keep track of developments that may require action on the guidance that would be developed.

9. The need for benchmarking with countries that had been successful in their digitalization process and could offer their experience as a learning point for other countries. It was observed that there was a large network of countries participating in the UN work and this would be drawn upon when determining the countries to benchmark against. To do this, countries would be invited to make presentations during the group's meeting on various aspects of their digitalization journey.

Proposed Workplan and the Sustainable Development Goals

10. As noted in the [Report of the Committee's 23rd Session](#), held in October 2021, the Committee agreed:

(a) To continue to discuss taxation and the Sustainable Development Goals regularly during sessions, as a permanent agenda item.

(b) To request the secretariat to provide regular updates on taxation and the Sustainable Development Goals, at each session:

(i) To preserve the focus of the Committee's work in the area.

(ii) To identify any gaps in guidance.

(iii) To establish priorities for technical work to be carried out by the secretariat;

and

(c) To have subcommittees reflect on the link between their work and the Goals.

11. In addressing paragraph (c) of that conclusion, the small group recognizes that digitalization of TAs drastically improves domestic resource mobilization by enhancing (i) the efficiency in the provision of tax services, (ii) the trust, certainty and transparency in the tax collection processes, (iii) accuracy in the revenue data base, (iv) the ability to focus on a risk-based approach and identify defaulters much quicker and (v) it greatly reduces costs associated with TAs' functions. Hence, puts them on course to meet their SDGs.

Progress Report

12. As agreed, Jacob Aliet the participant from Kenya made a presentation to the group on Kenya's digitalization journey and the highlights of the presentation are as below.

- 1990s – 2000: The processes were largely manual with partial automation
- 2000 – 2010: Automation was done in silos. Modernization and minimizing of manual processes begun. Payment moved from cash office to banks, with non-real time integration with banks. Stand-alone systems (e.g. Income Tax, VAT, Customs). Manual return filing and Customs entries on physical files. Manual verification of cargo.
- 2010 – 2020: Online systems, electronic payments, dashboards, Electronic Cargo Tracking, Cargo Scanners E-governance, online filing, full automation and integration of automated systems, Data Warehouses, Virtualization, Electronic Tax Registers.
- 2020 – Future: Electronic Invoicing, Big data, Business Analytics, Digital Services Taxation, Digital Scanners, Upstream compliance, end of annual filing.
- Challenges that were faced included lack of funding, resistance to change, inadequate legislation, integration of different technologies and systems, technological infrastructure, managing suppliers and management of contracts, high cost of IT – annual maintenance contracts and rapid rate of technological obsolescence (5-7 years), disparate automation levels between the tax administration and related/dependent government agencies and information security challenges.

13. The group agreed on the development of a guide to digitalization whose outline is as below.

GUIDE TO DIGITALIZATION OF REVENUE AUTHORITIES

PREFACE

PART 1 – DIGITAL TAX ADMINISTRATION ROADMAP

Chapter 1 – Introduction and overview

- 1.1 Purpose of the Guidance
- 1.2 Importance of digitalization
- 1.3 Challenges faced by countries in digitalization
- 1.4 Contents of the guide

Chapter 2 – Developing a roadmap to digitalization

- 2.1 Introduction.
- 2.2 Conditions for a successful digital transformation.
 - 2.2.1 Factors to consider
 - Leadership, human factor, data quality, legal context, etc.
- 2.3 Key steps
 - 2.3.1 Vision Setting
 - 2.3.2 Mapping and Benchmarking
 - 2.3.3 Prioritization
 - 2.3.4 Building an enabling environment that supports digital development
 - 2.3.5 Cooperation and building trust
 - 2.3.6 Monitoring and evaluation
 - 2.3.7 Future proofing
- 2.4 Constraints faced in implementing digital tools
 - 2.4.1 Institutional, Legal, Technological, etc.

PART 2 – DATA GOVERNANCE FRAMEWORK

Chapter 3 – Data collection

3.1 Sources of Data

3.2 Legacy Data

3.3 Data Quality

- Collecting the relevant data, mining and cleaning of data, how to handle unstructured data, how to avoid duplication and different data standards, etc.

3.4 Legal Obstacles in obtaining data

- Data quality
- Legal obstacles in obtaining data (other obstacles)

Chapter 4 – Use of data

4.1 Data Storage & processing

4.2 Data Safeguards

4.3 Data Policy

PART 3 – LEGAL FRAMEWORK

Chapter 5 – Review existing laws

5.1 Eliminating laws no longer needed (e.g., rules that require physically certifying documents).

5.2 Updating the laws that are still needed (e.g., data protection rules, rules on good administration)

5.3 Introducing new laws (e.g., validity of digital signatures)

5.4 Confidentiality

PART 4 – INNOVATIVE TECHNOLOGIES

Chapter 6 - Innovative technologies

Chapter 7 - Using new technologies for administrative processes e.g. exchange of information

PART 5 –MODEL FRAMEWORKS

Chapter 8 - Model Digital Framework

Chapter 9 – Model Legislation

PART 6 – CASE STUDIES

ANNEXES

- Cross-referencing to other available guidance
- List of participants in the Subgroup on Digitalization of Revenue Authorities

14. The group further developed preambular text for part 1 and 2 as outlined below.

“PART 1

In recent years, an increasingly connected digital society has been reshaping the economy by creating new products, services and business models. The whole global economy is rapidly becoming a digitalized new economy, so original commercial channels have been developing while unfamiliar ways to produce, consume, work and earn are being taken in place. Disruptive technologies are changing the way taxpayers and tax authorities interact and altering the way taxes are paid and information is stored and used. From this perspective, no tax administration is released and all need to address this challenge in a cooperative manner. Also developing countries are prompted to deal with this, despite difficulties such as lack of resources could obstruct or slow down the process.

Tax administrations are facing more and more challenges to keep up with technological development and globalization in the performance of their tax functions. Emerging technology such as big data, data analytics, artificial intelligence and machine learning have penetrated and disrupted the way tax administrations traditionally function at an unprecedented scale and speed. By adopting appropriate technologies and designing whole new procedures and structures, together with instituting ways to monitor and measure their operations and performances through best practices, tax authorities will increase their efficiency and organization of work progress. Such huge transformation necessarily should lead to new ways to engage taxpayers bringing out a major improve in voluntary compliance, enhancing trust and contributing to a better revenue collection.

To ensure a successful digital transformation, administrations should take a strategic rather than opportunistic approach to digitalization; thus, before beginning the process of digitalization, tax administrations should develop a digital tax administration roadmap (i.e., a step-by-step plan of principles to be followed) having in mind the long-term goals of the administration and the government in general.

When designing a digital roadmap, several factors should be considered such as the legal framework of the country in which the administration is inserted, the technological availability of resources, the cost of adopting new technologies, the adequacy of each technological tool to deliver the desirable result, and the objectives of each tax administration. And while use of Information and Communication Technology (ICT) present many opportunities to TAs, challenges remain and are mostly related to the collection and use/management of data, the respect of due process and taxpayers’ rights, budget constraints and lack of digital skills among the tax authority’s personnel.

The aim of Part 1 of the UN Guide to Digitalization of Revenue Authorities is to highlight, based on best practices and experiences from tax administrations, the environment and conditions for a successful digital transformation and the principles to follow when building a digital tax administration roadmap, as well as the constraints faced by authorities when implementing digital tools.

PART 2

Data and Information has become an asset for modern tax administration. This was not the case in time past where data was seen more as a by-product of operations. Data provides valuable insights for all facets of revenue administration. The quality of decision making in Revenue Administration (RA) is impacted greatly by the quality of data and information available to decision makers.

The digitalization of tax administration in many countries through the use of technology is accelerating the value of data on an ever-increasing scale. Evenly, technology is contributing to the increasing risk of unauthorized data access and disclosures. The increasing value-addition of data and its associated risk makes an appealing case for a holistic data governance framework in revenue administration.

Data management and governance, an essential for sustainable revenue administration, enables growth in revenue and facilitates seamless operation. A sound data governance framework is important for the digital transformation of revenue administration. The prime objective of data governance in a digitalized revenue administration is to create value to tax administration by ensuring that data attributes (ownership, availability, quality and relevant) and risk mitigation controls are in place.

This part of the guide is dedicated to discussion on the guiding principles, standards, policies, structures and procedures of data collection, processing, storage, classification, use, security, archival and destruction.

Matters for Decision and Next Steps.

15. The group seeks the Committee's views and input on the various issues in this note.