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

Virtual meetings of 4-7 and 11-12 April 2022

Item 3 (j) of the provisional agenda

**Digitalization and other opportunities to improve tax administration.**

**Coordinators' Report**

***Summary***

This paper is *for approval* purposes.

The small group seeks to appraise *the Committee* of its progress so far, *and its approval* of the proposed course of action.

### ***Background and Small Group Mandate***

1. At the 23<sup>rd</sup> 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 dispute avoidance and resolution, with Mr. Waziona 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.

### ***First Meeting of the Small Group***

3. A meeting of the small group was conducted virtually on 9 March 2022 to review the work done in other forums on digitalization. The meeting also had on its agenda the composition of the small group. This report reflects the outcome of those discussions.

### ***Issues***

4. The discussions centered on the work that’s been done by other organizations on the digitalization of tax administration and any gaps identified.

5. Many international organizations have prioritized supporting tax administrations (TAs) in digitalizing their operations, given the benefits that digitalizing tax administrations bring in the countries’ fiscal space.

6. Several tools have been developed by various organizations towards this end. The small group noted that some of these tools are not directly linked to digitalization but are a means of analysis for TAs to determine their strengths and weakness and whether the weakness can be resolved through digitalization.

7. These analytical tools and initiatives include:

- a.) Tax Administration Diagnostic Tool (TADAT)
- b.) International Survey on Revenue Administration (ISORA)
- c.) Medium Term Revenue Strategy (MTRS)
- d.) Development of Implementation and Monitoring Directives for Tax Reform (DIAMOND)
- e.) OECD Tax Administration Maturity Models
- f.) Tax Administrations Digital Maturity Index

8. The Tax Administration Diagnostic Assessment Tool (TADAT) is designed to provide an objective assessment of the health of key components of a country’s system of tax administration. This framework is focused on the nine key performance outcome areas (POAs) that cover most tax administration functions, processes and institutions. The assessment of these performance outcome areas is based on 32 high-level indicators that are each built on 1 to 5 dimensions that together add up to 55 measurement dimensions, making TADAT a comprehensive but administrable diagnostic tool. The TADAT assessments are particularly helpful in:

- Identifying the relative strengths and weaknesses in tax administration systems, processes, and

institutions.

- Facilitating a shared view on the condition of the system of tax administration among all stakeholders (e.g., country authorities, international organizations, and technical assistance providers)
- Setting the reform agenda, including reform objectives, priorities, initiatives, and implementation sequencing.
- Facilitating management and coordination of external support for reforms and achieving faster and more efficient implementation.
- Monitoring and evaluating reform progress by way of subsequent repeat assessments.<sup>1</sup>

9. ISORA is an initiative by the Inter-American Center of Tax Administrations (CIAT), the International Monetary Fund (IMF), the Intra- European Organization of Tax Administrations (IOTA) and the OECD. It is designed to gather tax administration data on a regular basis with the following objectives:

- Provide an improved focus on data management, performance management, and reporting by tax administrators.
- Provide a set of comparable and standardized tax administration data to improve advice and analysis in areas such as understanding historical performance, identifying trends and establishing baselines, flagging policy and administrative inefficiencies, and providing data to facilitate focused and in-depth research.
- Develop data and analysis that can improve cross-country comparisons.
- Improve the quality of revenue administration capacity development
- Provide necessary data to better calibrate revenue administration assessment tools, such as TADAT.
- Assist senior executives of revenue administrations in managing and evaluating their administrations' performance.<sup>2</sup>

10. The Medium-Term Revenue Strategy (MTRS) is a comprehensive approach for undertaking effective tax systems reform for boosting tax revenues and improving the tax system over the medium term through a country-led and whole-of-government approach. The MTRS was introduced in the 2016 Platform for Collaboration on Tax (PCT) report on Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries. It has four interdependent components:

- Revenue and other goals to finance expenditure needs,
- Tax system reforms to meet goals,
- Sustained political commitment to fully develop and implement tax system,
- Coordinated capacity building to support implementation of tax system reform.<sup>3</sup>

11. MTRS can be an important component of the Integrated National Financing Frameworks (INFFs), called for in the Addis Ababa Action Agenda on Financing for Development, that countries are designing and implementing. The INFFs bring together different financing policy areas (public and private financing and macro-systemic issues), to better align them with medium- and long-term national sustainable development priorities and the SDGs.<sup>4</sup>

12. The Tax DIAMOND is a toolset designed by the World Bank, with support of the Global Tax

<sup>1</sup> <https://www.tadat.org/overview#overview>

<sup>2</sup> <https://data.rafit.org/?sk=f02eda7c-dfd9-4c15-9ff9-8c5b400e16cb&slid=1445908451587>

<sup>3</sup> <https://www.tax-platform.org/medium-term-revenue-strategy>

<sup>4</sup> <https://inff.org/>

Program, that accompanies the implementation and monitoring of tax reforms as a key part of its strong technical assistance program for tax reform. The DIAMOND methodology helps countries and development partners to translate the findings of high-level diagnostic tools into reform programs, such as the MTRS, and gives opportunities to the relevant government departments to organize and coordinate reform programs.<sup>5</sup>

13. The OECD Forum on Tax Administration (FTA) first developed a maturity model in 2016 in order to help tax administrations assess digital maturity in the two areas of natural systems/portals and big data. The digital maturity model was introduced in the 2016 OECD report Technologies for Better Tax Administration. Building on this, work began in 2018 to develop a set of stand-alone maturity models covering both functional areas of tax administration, such as auditing and human resource management, as well as more specialized areas such as enterprise risk management, analytics and the measurement and minimization of compliance burdens.

14. The intention of the models is:

- To allow tax administrations to self-assess through internal discussions as to where they see themselves as regards maturity in various activities and functions.
- To provide officials working in an area, including senior leadership of the tax administration, with a good oversight of the level of maturity based on input from other stakeholders across the organization.
- To help facilitate discussions on future strategy as well as identifying areas for further short-term improvement, including where that needs to be supported by the actions of other parts of the tax administration.
- To allow tax administrations to see where they sit compared to their peers.<sup>6</sup>

15. Tax Administrations Digital Maturity Index carries out an analysis based on the premise that TAs are organizations that consume data to produce digital services based on information, that allow citizens to comply with their tax obligations easily and equitably. The Inter-American Development Bank (IDB), together with other international organizations such as the OECD, IOTA and CIAT, have developed a very intense dialogue that made it possible to identify and document best practices in the use of ICTs for tax collection. Because of this dialogue, best practices are considered to be based on the following principles:

- The data enters the system only once (data-only-once);
- Data is managed and processed centrally for various products and services (single source of truth)
- The dataflows travel and are stored in digital media (paperless);
- Information is received and processed in real time.
- The index builds a scale with four levels of maturity: initial, intermediate, advanced, and best practices, which allows the characterizing of the progress of a given TA in a series of dimensions that group the most critical aspects related to data and information services for tax collection.<sup>7</sup>

16. Organizations such as CIAT offer technical assistance to countries in various areas and as far as digitalization is concerned. The specification of information systems and the design and construction of information systems has been an integral part of the CIAT technical assistance systems. Specific modules that serve a particular function as well comprehensive and integrated systems that serve most of the areas of action of the tax administration have been built and developed.

17. It is clear that tools to assist digitalization have been developed and are available for developing

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<sup>5</sup> <https://www.worldbank.org/en/programs/the-global-tax-program/knowledge-center#3>

<sup>6</sup> <https://www.oecd.org/tax/forum-on-tax-administration/about/maturity-model-series.htm>

<sup>7</sup> <https://news.bloombergtax.com/daily-tax-report/tools-to-help-tax-administrations-in-their-digitalization-journey>

countries. However, while these tools are useful in assessing the needs and requirements of TAs, they do not necessarily help the TAs in developing a strategy for digitalization. This gap could be plugged assisting developing countries in developing and implementing roadmaps to digitalization.

18. Digitalization in many tax administrations can be grouped in five levels from the initial contact with the taxpayer to the last point of contact as follows:

- E-file. This entails the use of standardized electronic form for filing tax returns required or optional; other income data (e.g., payroll and financial) filed electronically and matched annually.
- E-accounting; this entails submitting accounting or other source data to support filings (e.g., invoices and trial balances) in a defined electronic format to a defined timetable.
- E-match; this entails submission of additional accounting and source data. The TAs accesses additional data (bank statements) and begins to match data across tax types, and potentially across taxpayers and jurisdictions, in real time.
- E-audit; Here data is analyzed by government entities and cross-checked to filings in real time to map the geographic economic ecosystem and taxpayers receive electronic audit assessments with limited time to respond.
- E-assess; TAs use submitted data to assess tax without the need for tax forms and taxpayers are allowed a limited time to audit and if necessary, dispute government- calculated tax.

19. These processes are ordinarily geared towards assessment of VAT and Corporate taxes and there is minimal guidance on the steps that countries should follow when digitizing any of the highlighted areas. As digital services taxes (DST) take hold in many of these countries, it is vital to develop comprehensive systems that make administration of these DSTs easier and effective.

20. The Committee can therefore provide guidance on:

- How tax administration can digitize the administration of other taxes such as withholding taxes, which are prevalent in developing countries; and
- The steps that countries should follow when digitizing any of the identified areas.

### ***Proposed Workplan and the Sustainable Development Goals***

21. As noted in the [Report of the Committee's 23<sup>rd</sup> 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.

22. In addressing paragraph (c) of that conclusion, the small group recognizes that digitalization of TAs contributes to domestic revenue mobilization as it assists countries grow their revenues and hence puts them on course to meet their SDGs

***Composition of the Subcommittee***

23. Currently, the group includes only the Coordinator and one Committee member. For better and more effective operation, the small group would require more members to join and actively engage in the work, including drafting. The small group will also engage with Government observers as well as international organizations active in the area of digitalization of tax administration.

***Matters for Decision and Next Steps.***

24. The small group seeks the Committee's decision on whether to take forward this work considering the very limited participation in this work.

25. The small group seeks *the Committee's views on the issues raised in this note and its approval* of the proposed course of action, which is 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.