Digital Revolutions in Taxation

Presentation by Fiscal Affairs Department, IMF

Seminar on MTRS and Related Issues

Manila   December 2017
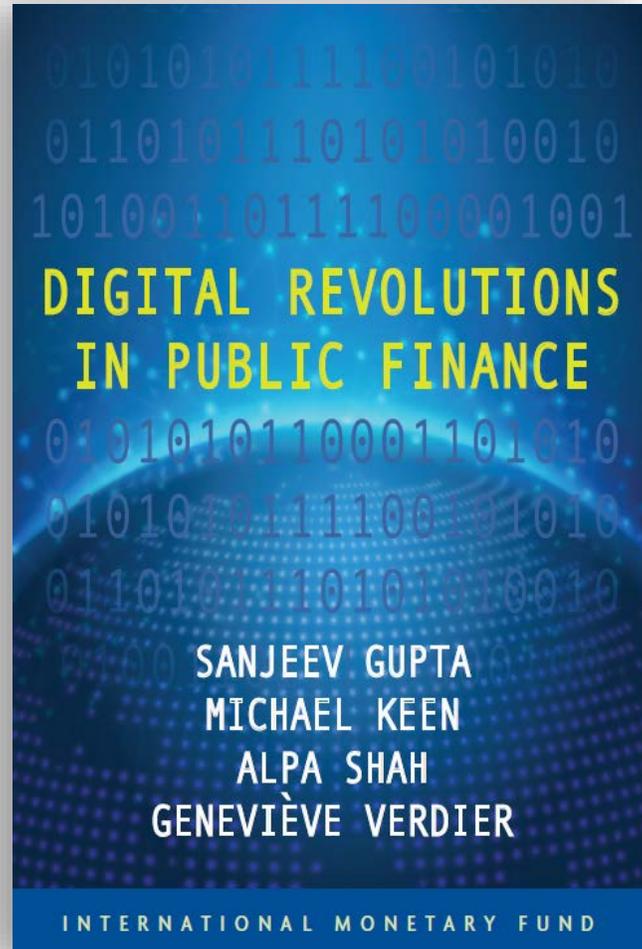
By transforming the way countries collect, process, and act on information, digital technology can reshape the way governments design and implement their tax, spending, and macro-fiscal policies.

Melinda Gates *and* **Christine Lagarde**

DIGITAL REVOLUTIONS IN PUBLIC FINANCE

SANJEEV GUPTA
MICHAEL KEEN
ALPA SHAH
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INTERNATIONAL MONETARY FUND

New FAD Book

Part I: Pushing the frontiers in tax policy and revenue administration.

2. Digitalization and Taxation

3. Taxation and the Peer-to-Peer Economy

4. Implications of Digitalization for International Corporate Tax Reform

5. Testing and Implementing Digital Tax Administration

The book is available at http://elibrary.imf.org/drpf

Outline

A. Tax Policy

    ✓ New ways of thinking about tax design

    ✓ New ways of providing tax policy TA

B. Revenue Administration

    ✓ Enabling a transformational shift

    ✓ Success factors & risks – learned from our TA

    ✓ Analytical work / tools to enhance our TA

Tax Policy

Digitalization reshaping equity and efficiency considerations

Lower Transaction Costs

Revenue Authority

Taxpayer

Information
Information
Information
Information
Information

More/less information asymmetry

More Complete information

Changes in Marketplace

Changes in Inequality

Changes in Fiscal Policy
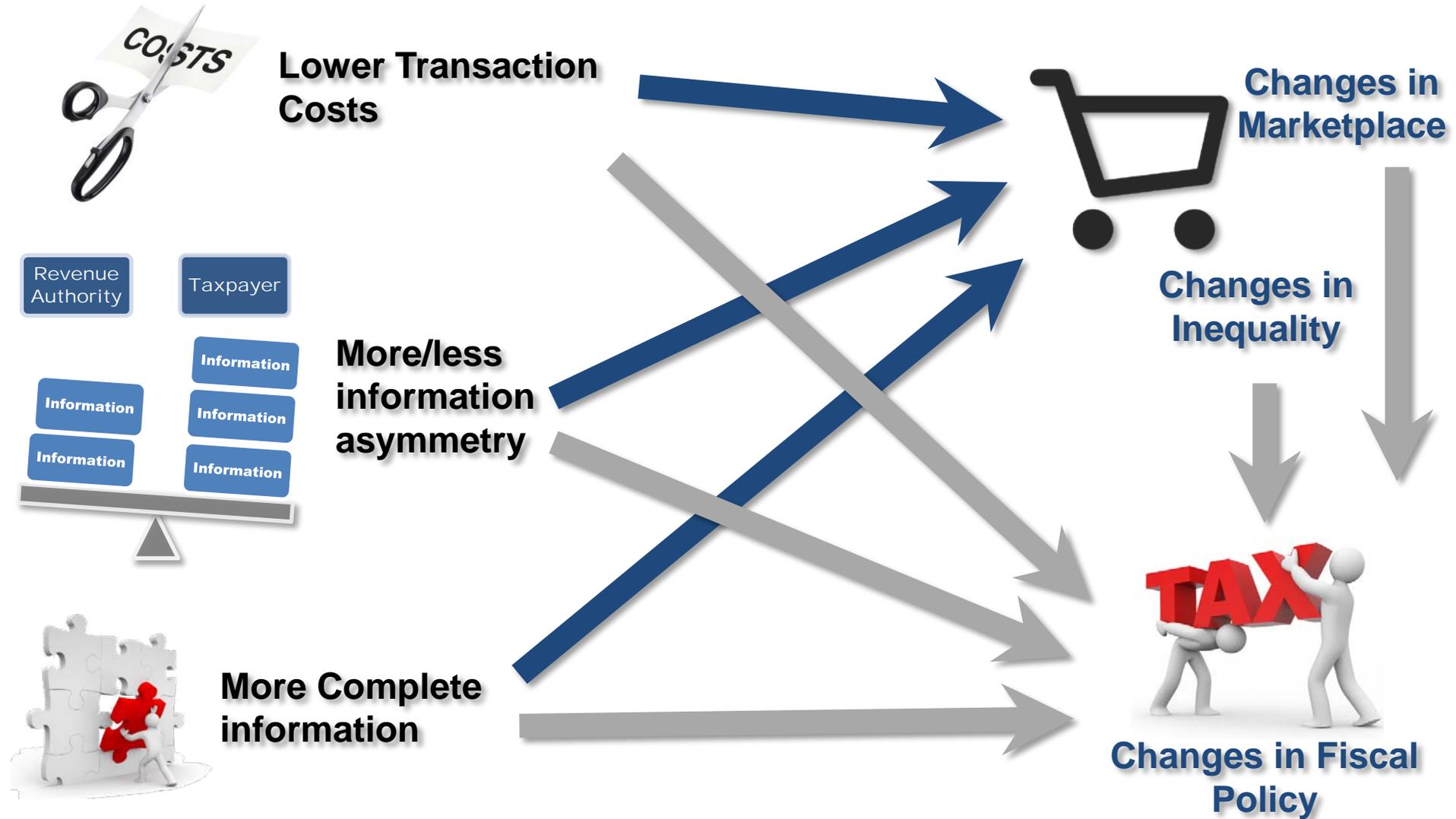
What does this mean for taxation?

DOING THINGS BETTER

... subject to constraints, e.g., privacy concerns, cybersecurity.

NEW or INTENSIFIED TAX POLICY CHALLENGES

INNOVATIONS IN TAX DESIGN

Doing Much The Same...
## ...But Much Better

- **Peer-to-Peer platforms.**
 - Withholding agent (hotel taxes by Airbnb)
  - Third-party information

- **Cross-border exchange of information**

New or Intensified Tax Policy Challenges
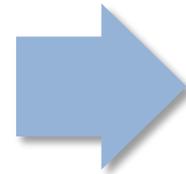
Defining 'Physical Presence?

Rethink Source vs. Destination

Recent EU communiques

AUTOMATION

TAX ?

Innovations in Tax Design

Integration of income tax and social benefits

Lifetime income tax; Tax based on ability/genetic traits
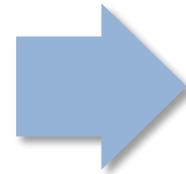
Book covers other areas in public finance
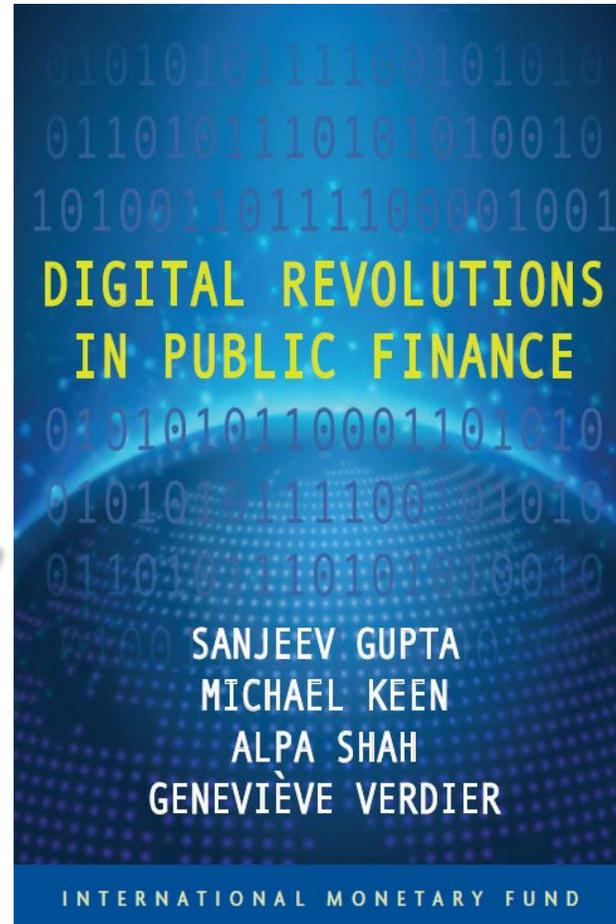
Tax Policy Assessment Framework

Revenue Administration

Digitalization – Enabling Enhanced Revenue Administration

Transforming traditional way of

administering the tax system

interacting with taxpayers

FROM

VARIOUS SHIFTS

Manual information reception	→	On-line – e-filing, e-trade
Taxpayer-based compliance management	→	Risk/behavioral-based (big data)
On demand information request	→	Interoperability – e-invoice/real-time

+ efficiency + effectiveness + transparency & lower compliance costs

Catalytic effect to business processes/cycle modernization
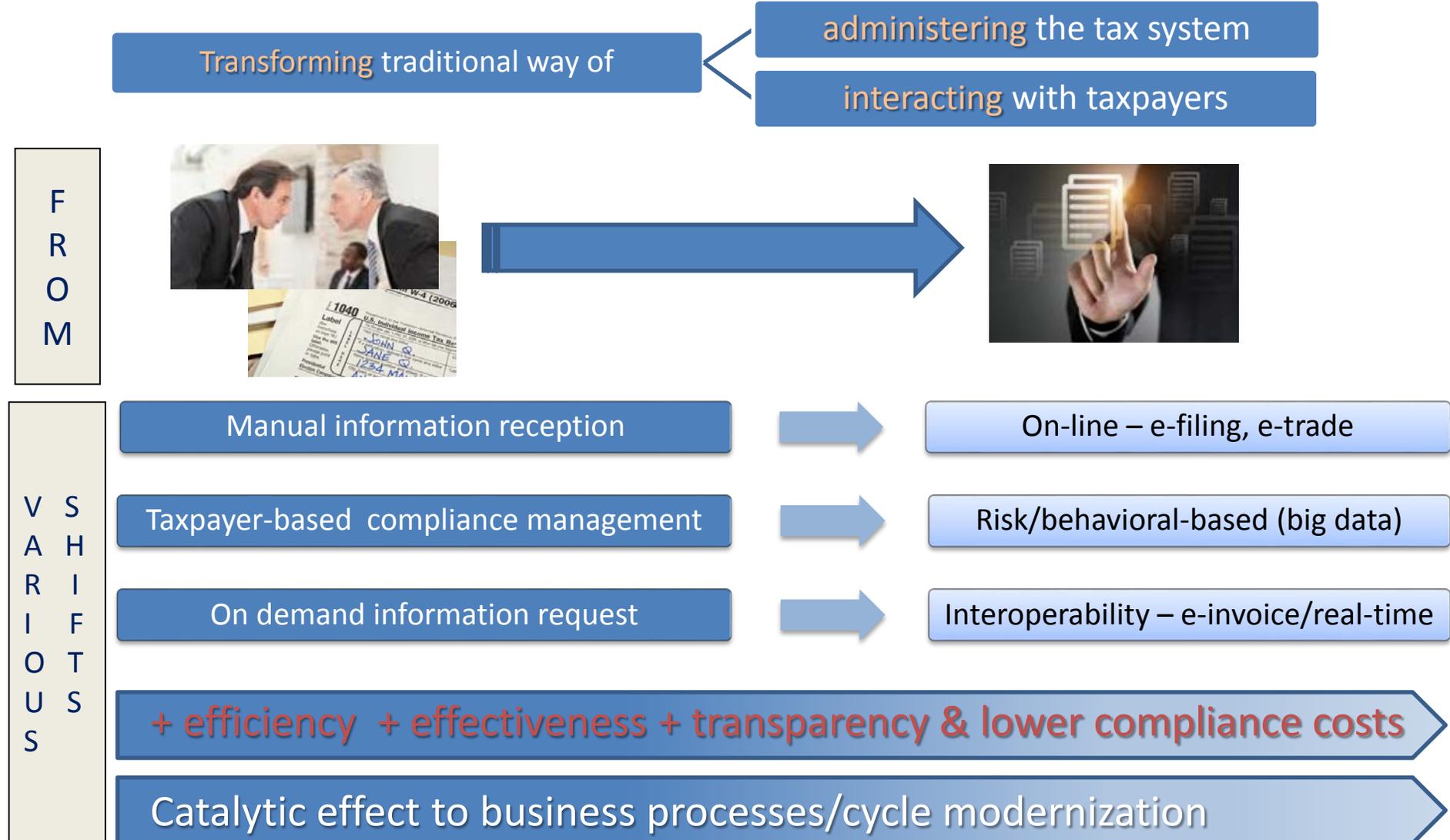
1st: Not losing the administration's KEY focus – Taxpayer Compliance in the Center

Digitalization should enable:

- ✓ RAs deliver more efficient and effective taxpayer's compliance processes for:

- ✓ And for achieving high taxpayer compliance

Educating
access to info

Resolving disputes
fair/transparent

HIGH
Taxpayer Compliance

Facilitating
make it easy

Enforcing
timely deterrence

Controlling
timely monitor

Advising on enhancing these processes – one of our main areas of TA

2nd: Phased approach

Stage 3—Interoperability:
two-way connectivity

- e-invoice, e-customs clearance
- e-accounting (optional tax return)
- e-single window (citizen)
- blockchain in the future (customs)

Stage 2—Transactional:
two-way interactions

- e-registration, e-filing
- e-payment, e-customs agents
- e-pre-filling,

Stage 1—Informational:
facilitate self-assessment

- www – laws, regulations, etc.
- www – status of refund claims

Part of RA Reform

Embedded in MTRS
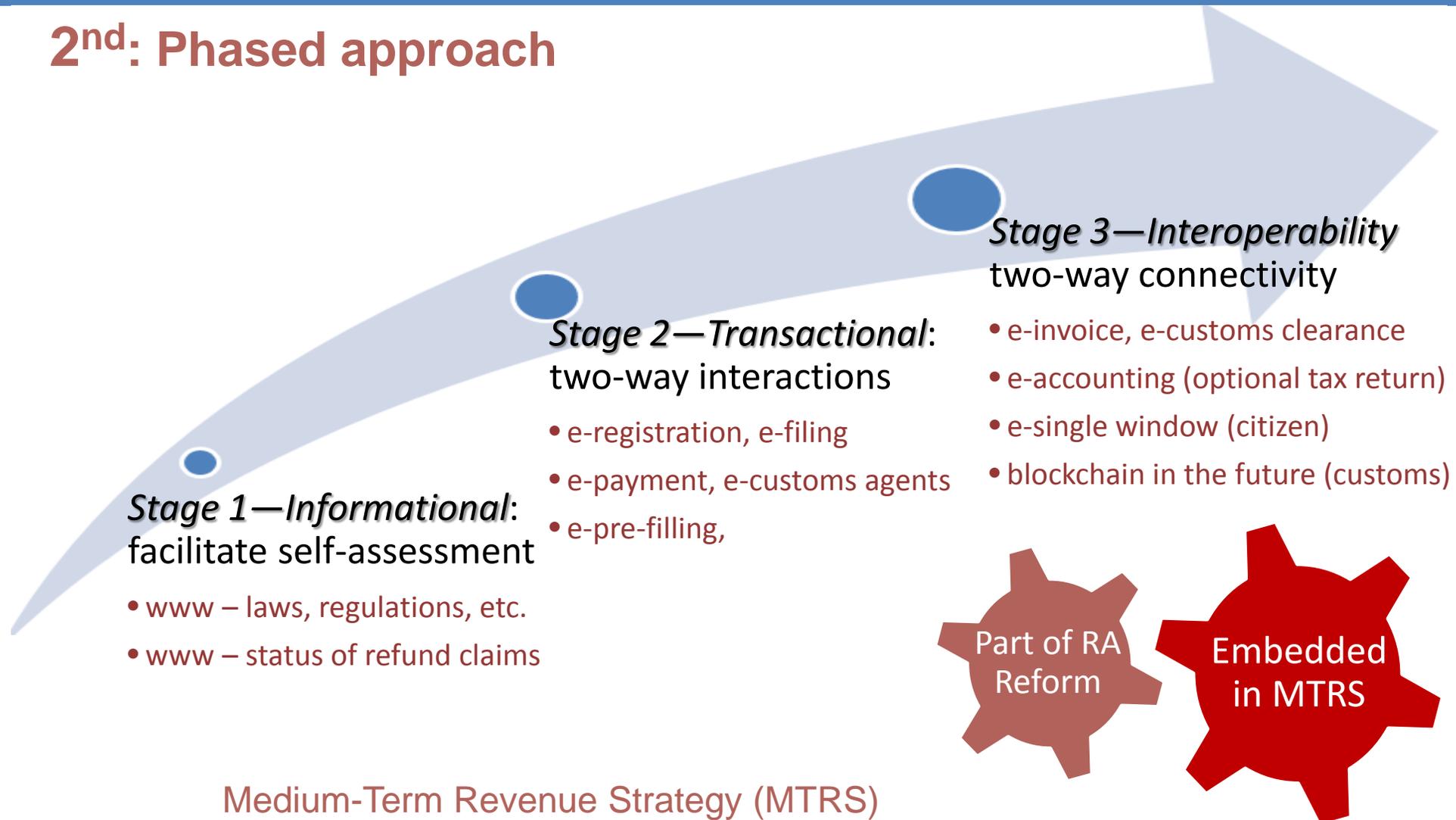
Medium-Term Revenue Strategy (MTRS)
Approach to tax system reform developed by the PCT for G20.

Digitalization – Enabling...
Risks

Institutional maturity still weak

Capabilities and Readiness

Focus on compliance

No proper or too fast leapfrogging

Skipping stages does not always work

Sequencing is sometimes not appropriate

Not capable of keeping the pace

Going digital - significant commitment (cyber-sec)

Cost of failure is high to citizen/business

SYSTEM FAILURE

FAD-led analytical work to guide TA

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FAD-led tools to enhance our TA

And TA is leveraging digital platform to enhancing diagnostics...

And to support our advice on the formulation of MTRSs

THANK YOU