TOWARDS THE DIGITIZATION OF TAX ADMINISTRATION

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Introduction

The powerful influence of the digital era on the everyday life and activities of people has caused the phenomenon of "digital disruption". It means that the digital age inevitably changes the way how economy operates, causing the disruption or interruption of traditional business models. This, in turn, requires adaptations and changes that are not always simple and painless but happen inevitably, regardless of whether we are dealing with agriculture, production, trade, banking or the provision of services. Modern software solutions, online platforms and massive use of smart devices and the Internet enable quick and inexpensive implementation of business ideas. Instead of a small number of large companies capable of reaching the global market, we now have an increase in entrepreneurship that knows no boundaries and is much more capable of responding to changes and adapting to consumer demands (ICAEW, 2016).

Digital disruptions have significant implications on the organization and functioning of economy. One of the consequences is their impact on taxation. The current tax regulations are not adequate for virtual companies operating worldwide. Statistics show that today, 9 out of the top 20 companies on the world market capitalization are digital, and only ten years ago out of 20 companies, one was digital. It is the biggest challenge to use this trend in the best possible way, while ensuring that digital companies contribute fairly to their share in tax revenues (Juswanto & Simms, 2017; Lipniewicz, 2017).

Tax authorities essentially have the same set of the most important tax goals: to collect more taxes and to charge them more efficiently. In a digital context, this implies the necessary tax reform (European Commision, 2017; European Commision, 2018). The reform should go in two parallel directions: first, digitization of the national tax administration and tax procedures, and second, reform of tax policy and tax rates.

Digitization of tax administration and tax procedures should create the basis for further tax system reforms. Without building a strong organization of tax administration, information system and professionalization of employees, the tax reform will not be possible. The tax policy reform should ensure that digital business is taxed in a just and sustainable way that is adapted to economic growth (European Commision, 2017; Juswanto & Simms, 2017).

The increased tax evasion is a key consequence of the digitization of business (Lipniewicy, 2017; IOTA 2016; OECD, 2013; OECD, 2015; OECD (b), 2017). Tax evasion is defined as partial or total evasion of tax payments. We differ legal and illegal tax evasion. The actions of taxpayers who are not in conflict with the law and whose aim is to avoid or reduce tax burden, are called legal evasion. Escaping the obligation to pay fiscal burdens often involves the unlawful behavior of their holders. If a taxpayer, avoiding payment of taxes, contravenes legal regulations, then we are dealing with illegal tax evasion. This refers to a deliberate and desirable effort to reduce or completely avoid the execution of an existing tax liability.

This paper analyzes the achievements, challenges and possibilities of digital transformation of the national tax administration. The need for such transformation can be caused by internal and external factors. The most important internal factor is the constant need to adjust tax administration to general evolution. External factors relate to the difficulties of public finances, tax-exempting the economy, the pressure of global financial organizations or adapting to the standards of the European Union. Despite the suspicions of most taxpayers around the world that tax administrations are capable of modernizing and actively engaging in the digitization process, previous experience and estimates of future developments indicate that digitization is already inevitable and will significantly change the functioning of the tax system.

Achievements

The digital transformation of tax administration is one of the biggest challenges in the tax profession. The current digital transformation of tax administration is required by external factors. First of all, an increase in fiscal deficits should be met by new sources of income. In search of new and higher revenues, tax administrations around the world rely on novel, digital ways of collecting data and information. Digital platforms, on the other hand, enable more sophisticated analyses and, ultimately, better tax revenue collection.

Traditionally, tax procedures include several interconnected and conditioned actions: establishment, collection and control of tax revenues. Digitization of the national tax administration places emphasis on collecting data and determining tax liabilities, which will result in a more secure collection and control of tax revenues.

Based on the world-wide experience from the past few years, the digital profiles of national tax administrations can, at this time, according to EY research, be grouped in the following five levels:

1. E-file	2. E-accounting	3. E-match	4. E-audit	5. E-assess
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	Submit accounting or other source data to support filings (e.g., invoices and trial balances) in a defined electronic format to a defined timetable; frequent additions and changes at this level	Submit additional accounting and source data; government accesses additional data (bank statements) and begins to match data across tax types, and potentially across taxpayers and jurisdictions, in real time	Level-2 data analyzed by government entities and cross-checked to filings in real time to map the geographic economic ecosystem; taxpayers receiving electronic audit assessments with limited time to respond	Government entities using submitted data to assess tax without the need for tax forms; taxpayers allowed a limited time to audit government-calculated tax
Albania, Bosnia & Herzegovina, Croatia, Kenya, Macedonia, Montenegro, Netherlands, Nigeria, Qatar, Saudi Arabia, Serbia, Slovenia, Sweden, Switzerland, Ukraine	*Austria, Belgium, Finland, Germany, Greece, Italy, Lithuania, Luxembourg, Norway, South Africa, United Kingdom*	*Australia, Brazil, Czech Republic, Denmark, France, Hungary, Ireland, India, New Zealand, Poland, Portugal, Slovakia, Turkey*	*Russia*	*Spain*

Source: Company EY, 2017.

As evident from the Table, the tax authorities of many countries see that digitization can make them stronger, faster and better. Digital tools enable tax administrations to be more organized and more efficient, both in combating abuse and in improving the quality of tax reporting and tax collection.

Tax administrations in Southeast European countries have already begun the process of digitization. The system of electronic applications has been tapped (Level 1). The Netherlands, Estonia and Sweden, are the leading e-administrations in Europe (Center for Policy and Governance, 2015; European Commision, 2016; Ministry of Public Administration of Slovenia, 2017).

On the other hand, many countries in the world, with better economic performance than Serbia, do not have a digital profile in Level 1 yet. At the same time, in wider business circles, there is doubt about the potential of the Serbian tax administration to digitize and modernize in general. In the report „Paying taxes“, countries are ranked according to the compliance criterion - time required to perform the tax procedures. According to this report, in front of Serbia are Macedonia, Montenegro, Bosnia and Herzegovina and Albania (PwC, 2018).

Challenges

There is no ready recipe for the digitization of tax administration. There are only experiences that are often not fully applicable in each country. It is important, however, to clarify two things: first, digital tax administration is inevitable (not a matter of choice); second, digitization is not a good implementation of a surge only in order for something to happen, because essential changes in the social frameworks and mechanisms do not pass without serious consequences. In short, there are no complete solutions to digitization, but there are a number of unavoidable strategically important steps on the way to the fundamental digitization of tax administration.

The first step refers to the need for awareness of what is to be achieved. For this, consciousness and clear political will, serious, thorough work and professional preparation is required. The first question is whether tax administration is ready to work on such important issues as: What are the goals of digitization? Or, how to proceed and what resources are allocated for this purpose? Furthermore, how to identify tax jurisdiction, how to control the flow of commercial services on the Internet, and how to identify entities that provide their services on the Internet?

Digitization of tax administration entails five elements: technologies, people, managing of tax risks, financial resources, and communication.

A single IT database would be networked with the Pension and Disability Insurance Fund, the Health Care Fund, the National Employment Service, the Customs, and the Ministry of Internal Affairs. This is a basic prerequisite for the digitization of tax administration, as well as online control and tax collection. The uncontrolled accumulation of debt of certain taxpayers will be avoided and the administrative costs, both for the tax administration and taxpayers, will be reduced (OECD (b), 2017; OECD, 2016).

Although technology seems to be a primary element, one should not ignore the fact that the human factor is very significant. Digitization of this segment of tax administration is possible in several ways: through educating tax officials, recruitment, determination of their regular or special status (tax technologist) and, ultimately, performance measurement and the compensation and reward system.

However, before opening the door wide to new competencies and resources, it is wise to evaluate the previous methods and experiences (self-assessment of digitalization capacity survey).

The next important issue is the use of public funds. In this regard, it is well known that in all countries budget voting is one of the basic sovereign functions of representative, institutions (parliaments, regional and local governments). Another important feature is the annual nature of almost all public budgets. The third issue arises from the rule that the budgetary funds of the Ministry of Finance are gradually allocated to tax administration. The fourth aspect is that the government’s mandate is limited to a maximum of 4-5 years, while the tax authority is obliged to plan its activity in the long run.

When we talk about the communication of the tax authority with the public and with taxpayers, we must admit that there is a long way ahead. The possible reason is that the tax authority has been kept closed in its jurisdiction. The positive communication of the state, the one who informs, explains, suggests and asks for an opinion, is of recent date, whereas the communication of the tax authority is still in its infancy. It is necessary to know that communication, i.e. announcement, explanation, explanation and referral, greatly helps both in the adoption and application of regulations and generally in the understanding of taxpayers. Good communication requires three things: accuracy, coherence and professionalism. The tax authority must not take the risk of providing inaccurate information within its jurisdiction. It must be coherent and not create differences among taxpayers. Finally, the tax administration's approach to the public cannot be exclusively pedagogical, *ex cathedra*, but it should also seek feedback from citizens, associations, companies and even from their own employees. Good communication also means that the tax authority conveys information, questions, regulations, and decisions clearly and comprehensively.

Opportunities

Digitization of tax administration is a difficult task that requires radical changes in the way it is organized. Digital technology is a powerful tool of management, but tax administration's encounter with this mode of work has often proved to be complex, sometimes unsuccessful. The problem is that tax administration, like any other sector, often wants to create its own electronic management and information system, and a lot of money, effort and technology is spent.

The current Serbian government highlights digitization as one of the absolute priorities of its program. Under the circumstances presented, this should not be understood as another "politically correct but empty initiative" of politicians who are fighting for popularity. In particular, any "cost and benefit" analysis would probably show that the digitization of tax administration, as much as it costs, is worth it. Therefore, sooner or later, with a lower or higher intensity, tectonic changes can be expected in terms of the practical functioning of the tax system in Serbia.

Potential mistakes can happen if the design of information systems is entrusted exclusively to IT experts, without including the personnel of the tax authority or taxpayers (or including them only marginally). Experience has shown that it is not possible to achieve good IT solutions in tax administration without the decisive involvement of its top managers, as well as those for whom IT communications are aimed. Today, it is generally accepted that tax administration should not lag behind in the use of new technologies, but that it should find suitable solutions which would facilitate and secure relationships between taxpayers and the tax authority. Thus, many technical and legal issues will need to be solved, such as checks and protection of electronic signatures, unique taxpayers' e-mail address, fees, etc.

Digitization does not imply that tax officials need to understand, learn and become operational in terms of the essence of software solutions. Digitization involves triple-clicking. Hence, the term "tax technologist" can be found in empirical literature. The drons of tax administration perform a list of goods by scanning bar codes. The data received is sent to "bots", also with the tax administration badge, which compares them with the status of commodity and other accounts of the elected, or perhaps all, taxpayers. After the analysis, the tax administration’s software performs calculations of shortcomings, surpluses, etc., determines the tax base and accounts for VAT. A taxpayer receives a pop-up notification from the tax authority, e.g., a notification of accrued taxes. They have the following options: a) to click on an "objection", which gives a deadline of 8 days to submit their justified reasons through the application, or b) to click "pay", whereby a payment order is automatically created. By clicking on "approve", the funds are sent from the taxpayer's account to the tax administration account, where the tax liability is automatically recorded in the tax liability and collection of the tax liability (Company EY, 2017).

Digitization of the tax administration service (submission of tax returns by electronic means and remote control) will enable to change the structure of employees in tax administration. There will no longer be a need for so many staffing officers dealing with paperwork. These employees will be re-qualified and redirected to the provision of services and control of taxpayers, cross-checking assets and combating in the shadow economy.

The flexibility of tax administration with digital disturbances should include two main areas of action (Lipniewicz, 2017). The first is to harmonize the model of electronic (digital) business and the model of tax control applied by tax administration, which are adapted to traditional business activities. The second area of operation involves amending the rules on the exchange of information between tax authorities at the international level. This means the need for intensive cooperation between the tax authorities of different countries in order to effectively prevent the avoidance of tax payments. The rapid exchange of tax information is a necessary means for defining the tax base in the case of cross-border income. This is an effective measure to preserve the sovereignty of state tax bases and to ensure the proper implementation of subjective tax law under international agreements.

In addition to the activities that the tax administration should take over, it is also necessary to adjust the tax law to technological challenges (Karxhner & Somare, 2017; Olbert & Spengel, 2017; OECD, 2017). This applies in particular to the provisions of international tax law that relate to the delimitation of tax jurisdiction between states. Today's regulations are based on the paradigm of territoriality, according to which the state has the right to tax certain income by source of income or according to the taxpayer's residence. The territoriality paradigm loses influence when it comes to transactions carried out on the Internet.

Conclusion

Digital economy is changing traditional business models and facilitates operations at the international level using the Internet. Tax authorities should ensure that all taxpayers pay real taxes. This goal can be effectively achieved only if the risk of tax avoidance is reduced. Digital economy forces tax authorities to replace traditional models of tax management with new models that analyze and use large amounts of information available on the Internet and electronic tools for effective co-operation between tax authorities around the world.

Tax authorities in many countries find that digitization can make them stronger, faster and better. Digital tools enable tax administrations to be more organized and efficient, both in combating abuse and improving the quality of tax reporting and tax collection.

Although technology seems to be a primary element, one should not ignore the fact that the human factor is very significant in the digitized administration. It is necessary to change the present formally repressive attitude towards taxpayers in the treatment of all three key elements of effective tax administration: providing assistance to taxpayers in fulfilling their obligations (the taxpayer is a client, not the enemy), timely control over fulfillment of obligations, and efficient collection of obligations.

In the process of digitalization, tax administrations everywhere are faced with the same challenges in ensuring the efficient functioning and collection of tax revenues and the adoption of international standards.

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