

Digitalization of Tax

Legal and institutional requirements

JVI Course on Future of Taxation – Panel Discussion

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The Importance of Digitalization



“Collecting the right revenue efficiently will be necessary to fund the challenges of today and of the future, from climate change to inequality.”

(ICAEW Report on Digitalisation of Tax, 2022 Edition, Introduction)

⇒ The **digitalization of tax may help** in this regard in particular by:

- Facilitating compliance and increasing convenience
- Gaining additional and more accurate information
- Enabling tax authorities to better detect tax evasion and avoidance

Better compliance & convenience: legal/institutional requirements

- Address **digital exclusion**
 - Caused by lack of digital skills, unreliable internet infrastructure, etc.
 - Actions may include: tax education, fiscal aids, public investments
 - Consider: permanent barriers to full digitalization (e.g., disabilities)
- Make digital tax filing and tax payments **as easy as possible**
 - Use existing data for purposes of pre-filled forms
 - Embed into 'natural systems' (such as accounting programs)
 - As an additional incentive: introduce convenient payment methods (e.g., integration of e-payment options into the relevant platforms)

Better compliance & convenience: legal/institutional requirements (II)



- Ensure the **trustworthiness of the system**
 - Take actions to safeguard confidentiality of the data (alternative: data storage by taxpayers)
 - Consider the (increasing) possibility of cyber attacks
 - Possibly additional requirements due to data protection laws and fundamental rights (e.g., who has access to which data for what purposes?)
- In an EU (international) context: consider **streamlining of standards**
 - Uniform requirements reduce compliance costs for businesses operating across borders
 - Might further allow for removal of existing obligations (e.g., recapitulative statements)
 - Facilitate trade and ensure competitiveness of the countries and regions involved

Additional & more accurate information, efficiently targeting tax evasion & abuse: legal/institutional requirements

- Create a legal/institutional framework to make use of **data (already) available**
 - Prerequisite: high-quality, workable and reliable data (e.g., identification of taxpayers at all stages)
 - Consider: eventual restrictions due to data protection laws and fundamental rights
 - Another important factor: designing taxes with regard to digitalization (e.g., focus on simplicity)
- Provide the **necessary resources**
 - Sufficient staff still required for random checks/enquiries/final decisions, etc.
 - Higher degrees of digitalization demand for more sophisticated government IT systems
 - Enable a smooth transition (e.g., pilot programs or stage rollouts)

Concluding remarks

- Some **typical issues** regarding the digitalization of tax can be identified
- Nevertheless: there is **no single pathway to digitalization of tax** (e.g., due to cultural differences and divergent legal environments)

“No two countries’ journeys are exactly alike, but there’s something to be learned from all of them.”

(ICAEW Report on Digitalisation of Tax, 2022 Edition, Key Lessons)

- When **making decisions** for/against (further) digitalization, there will **always** be **trade-offs** (e.g., higher degree of digitalization vs. higher cyber risks)

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