



**The Revenue Authority
of the Future – An
African Perspective**

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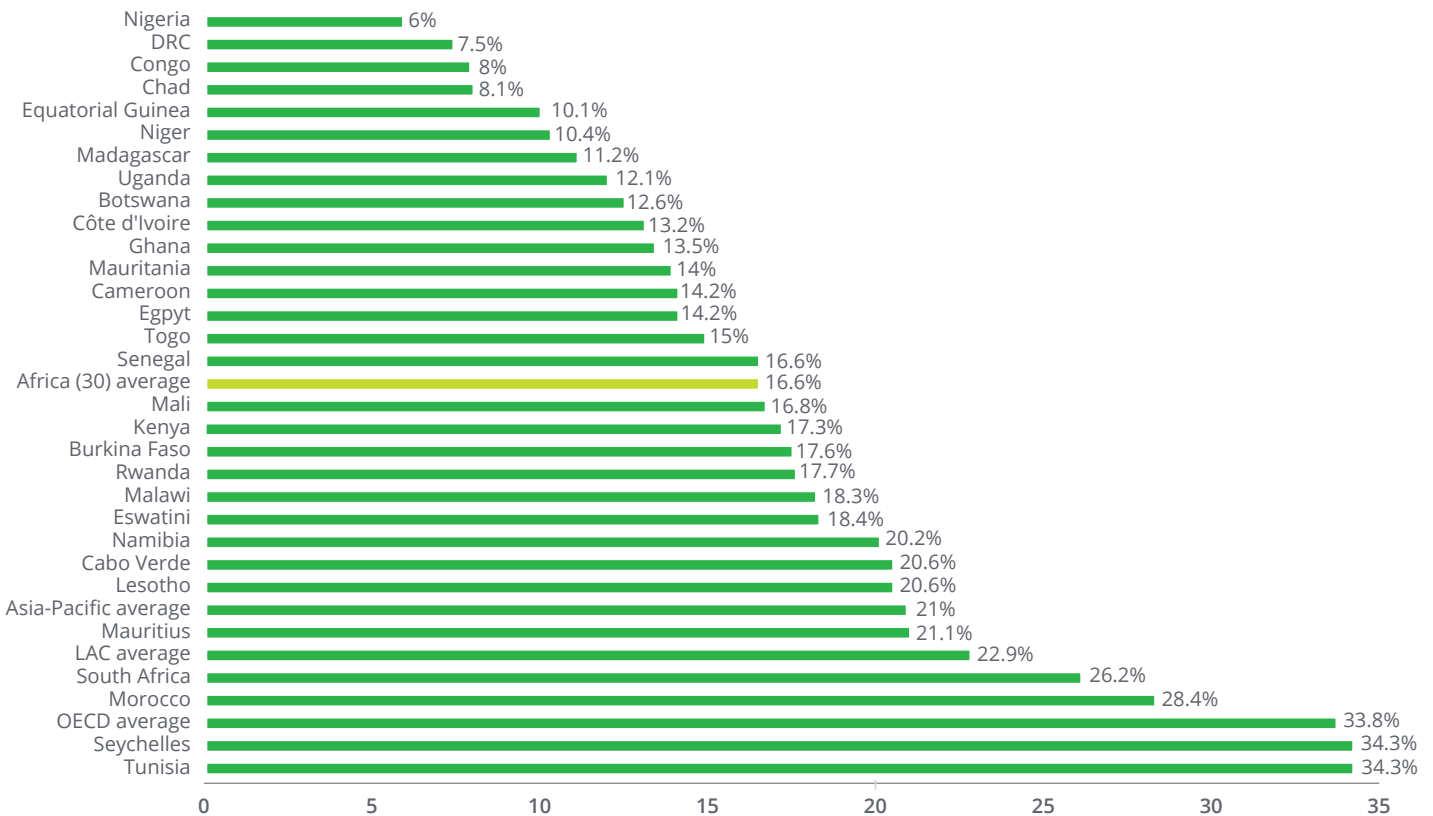
Revenue agencies are a catalyst for development

The saying ‘*Nothing is certain but death and taxes*’, often attributed to Benjamin Franklin, hints at the inevitability and importance of taxes in an economy. Some might see taxes as a necessary evil, but it is irrefutable, that taxes are vital for governments to deliver on their promises to their constituencies. As government purses were stretched during the COVID-19 pandemic, revenue collection became increasingly important to cushion some of the socio-economic impacts of the pandemic.

In this context, well-functioning revenue authorities, as the collectors of taxes, have become important cornerstones of modern and competitive economies. They enable governments to build and maintain vital economic infrastructure, to employ skilled staff who create enabling environments for businesses and individuals to flourish, and to redistribute resources to create more equitable societies. In short, revenue authorities are a crucial puzzle piece, holding together the social contract of a country.

While many African countries carried out a range of tax reforms in the 1980s that helped to improve revenue collection, fight corruption, and reduce compliance costs, in 2019, the tax-to-GDP ratio on the continent was low at 16.6%, about half the OECD average as shown in Figure 1. In addition, many African countries tend to rely heavily on value added tax (VAT) or other consumption taxes for the bulk of their revenues.¹ This reliance on taxing consumption rather than income is a result of the large share of informality, high un- or underemployment, and low income levels in many African economies.

Figure 1: Total tax revenue as % of GDP, 2019



Source: OECD/ATAF/AUC (2021)

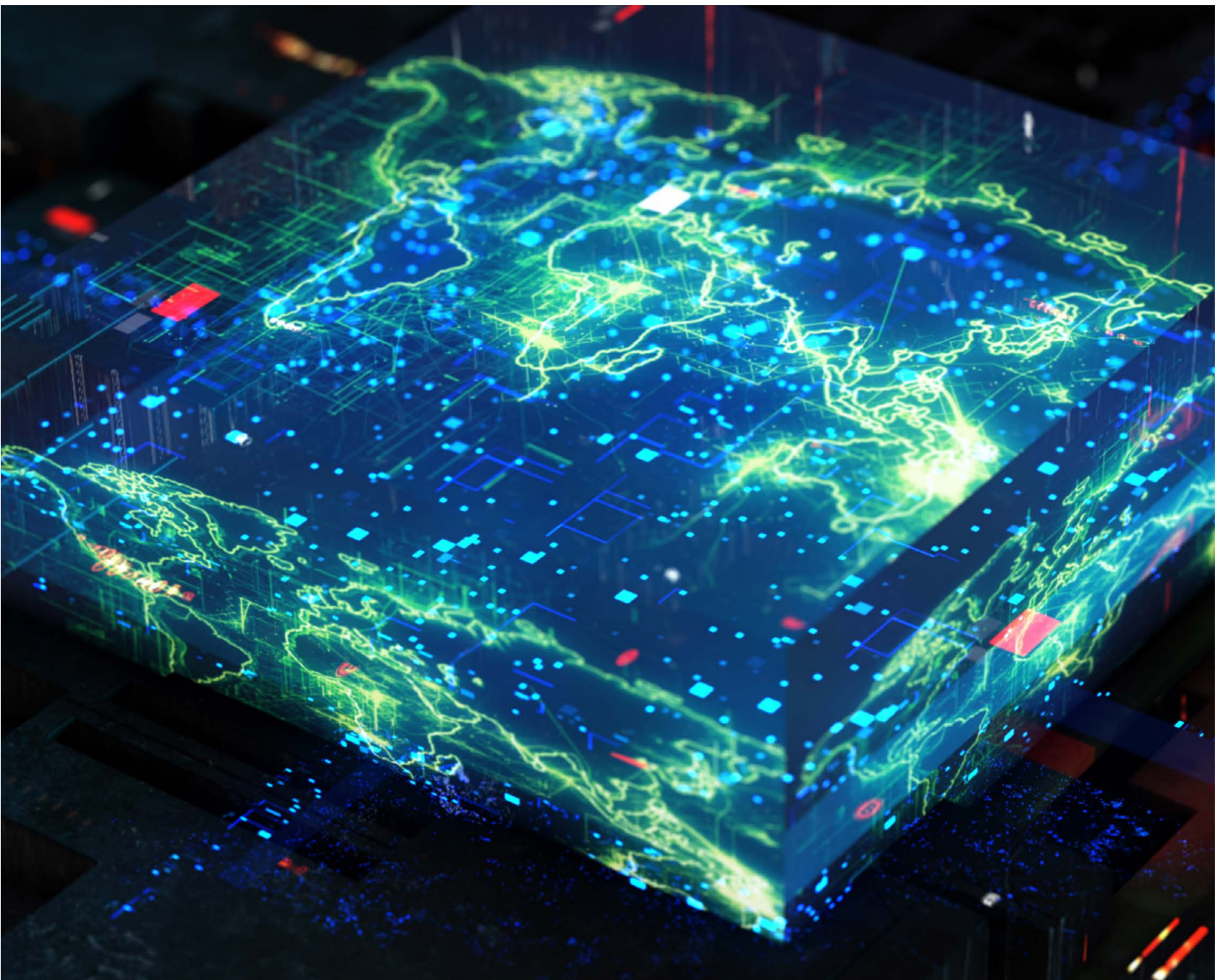
Note: 'LAC' refers to Latin America and the Caribbean; 'Africa average' is the average of 30 countries shown in Figure 1

The inability to collect sufficient revenues or to diversify their tax bases, may inhibit revenue authorities to play an enabling role of providing social security for economies across the continent. The small and often undiversified tax base, however, makes it even more imperative for revenue authorities to reflect on their role in the economy and on how they must reform themselves to become catalysts for development.

In fact, revenue agencies are increasingly expected to create public value beyond core revenue administration tasks

with some already reflecting going beyond core administration tasks in their mission statements, ranging from economic and social well-being (e.g., Australia), to nation building and inclusive growth (e.g., Singapore).²

Deploying digital transformation and an innovative mindset will be key to unlocking a more efficient revenue collection system and to creating the revenue authorities that Africa needs for realising a prosperous future.



Digital transformation is crucial for enhancing revenue authorities

The COVID-19 pandemic has accelerated digital transformation across sectors and organisations. It furthermore has also compelled public sector organisations, including government agencies, to rethink the way they do business and deliver public services.

However, one key fallacy has been that *doing* digital things or deploying digital services (particularly digital front ends) equates to *being* a digital organisation. Many organisations have tended to swirl in an endless loop of doing digital things, rather than making changes to their business, customer, and operating models, as well as their mindset.

Organisations that are being digital and not simply doing digital things are characterised by embracing the right leadership mindset, are incorporating a culture of experimentation, as well as high levels of digital fluency, both at the leadership and organisational levels. They are organisations that are re-engineering business models, reallocating budgets, people, and resources, and identifying new ways of work to evolve to and serve new needs. These organisations too are implementing data and exponential technologies to bring digital ambitions to life.

Being digital will assist organisations such as revenue authorities to do things better, cheaper, and faster, to help build resilience in their business operations.³ It will thus improve efficiency and effectiveness of tax collection, fight corruption and enhance transparency.⁴

Deloitte's '*Building the digital revenue agency of the future*' report highlights **seven keys** to help revenue authorities succeed in the age of digital transformation.⁵ Applied well, these seven keys – which include three external shifts, three internal shifts and a strategic mindset shift – can enhance the experience of taxpayers, increase security and trust, which in turn contributes to a higher degree of tax compliance and ultimately can boost revenue collection.

Deloitte's seven keys to success



1 Get digital to the core

Disruption affects everyone, even revenue agencies. To remain successful in fulfilling their responsibilities to government and citizens, revenue agencies must adapt. They need to become digital to the core. They need to start this by making changes internally, amending their business models, operations, and the workplace, including transforming the core functions of tax administration, developing logically automated tax submission review workflows and digital case management systems. A partnership with policymakers on legislative changes can help speed up the progress on core digitisation.

2 Unlock the power of data

With the right mindset and adapting to new tools, this can assist revenue agencies to fully harness the power of data. New tools that can help unlock the power of data can facilitate more accurate tax collection and audits and can also simplify things for businesses to provide needed information. Having access to data and using it efficiently will drive significant value for revenue authorities.

3 Reimagine the workforce

Systems are changing, resources are changing; even the workforce is changing. Revenue agencies need to reimagine the workforce by giving employees digital tools to do the work. They need to relook talent management models, including recruitment, hiring, and skills development. Overall, people represent the greatest assets in a business. For revenue authorities to be successful, they need to upskill and retool their workforce in response to digital labour and machine capabilities.

4 Elevate the tax experience

Revenue agencies need to provide exceptional customer service that builds trust with the public by elevating the tax experience, so it is considered as transparent, secure, and easy. A better tax experience means higher compliance and higher revenue capture.

5 Tax new stuff fast

To keep pace with the taxpayer expectations and economic disruptions, agencies need to be prepared to tax new stuff in ways that adapt to new business models as they emerge. For example, countries such as Kenya and Nigeria have imposed taxation legislation to taxing the digital economy. In doing so, they have incorporated their tax in income tax and VAT instruments. This will enable them to tax global digital sales and services online.⁶

6 Embrace the end-to-end tax community

Revenue authorities do not operate in silos. Instead, they sit at the intersection of citizens, government agencies, private corporations, and members of civil society. This means that forging partnerships with private and public entities to drive efficiencies, capture data and tackle complex problems that are directed to the revenue services is key.

7 Balance competing priorities

To succeed on a long-term basis, revenue authorities will require to thrive on uncertainty and accept divergent priorities. For revenue authorities to succeed, they must view digital transformation as an opportunity instead of a challenge.

Source: Deloitte analysis

Many revenue authorities around the world have been working on their digital transformation journey and have introduced initiatives such as fiscalisation, real-time reporting, e-filing and electronic invoicing.⁷

Some African revenue agencies have already invested significantly in the deployment of digital technologies, such as the 'e-filing' of tax returns and the e-transfer of payments. These countries include Botswana, Ghana, Kenya, Namibia, Nigeria, South Africa, Uganda and Zimbabwe.⁸ Technologies such as e-filing can reduce the cost and paperwork burden and improve tax compliance by taxpayers. For example, the South African Revenue Service (SARS) has implemented auto-populating of tax returns with third-party data. SARS has managed to also improve the e-filing portal, the SARS app functionality and the chat bot on the mobile SARS app.⁹

Rwanda has invested in digital tax services. The Rwanda Revenue Authority has simplified processes, providing greater convenience for taxpayers while also using third-party systems to gather relevant data. Rwanda's Electronic Billing Machine (EBM) enables revenue authorities to monitor formal business transactions and thus offer the potential to improve VAT compliance.¹⁰ It has managed to reduce fraudulent VAT claims by up to 35% since the implementation in 2013.¹¹

Tax digitisation has also assisted in reducing the cost of collection in countries such as Ghana, Tanzania, and Uganda. In Tanzania, digitalising customs clearance, and duties resulted in the average import clearance time falling from nine days to less than one day. Ghana and Uganda have reduced the cost of collection between 2015 and 2017 by 33% and 3% respectively.¹²



Future of work as part of effective digital transformation

The digital future is constantly forcing organisations and employees to adapt. They must build tangible structures that can assist them in growth and autonomy at work.¹³

Digital transformation presents an opportunity to redesign what lies at the heart of the future of work. It presents the opportunity to redesign the type of work, the workforce, and the workplace.

For many businesses, technology is becoming infused in the workforce, replacing manual jobs, and ultimately becoming a worker. Manual tasks and processes are automated to be performed at a lower cost, accelerating the pace of production, and often at a higher quality.¹⁴ At the same time, automation allows workers to focus more attention on their human strengths, including creativity, problem-solving and building meaningful relationships with co-workers and clients.

A key accelerator for new ways of working has been the shift to remote work or hybrid models of work. This has contributed to a mindset shift within organisations in terms of where work can be done, who can do the work and potentially the nature of the work itself. Offering flexible work arrangements has become the latest drawcard for employers competing over the most-in-demand talent across industries, including the public sector. It, however, requires some fundamental shifts in how people are managed, outcomes defined, performance measured, culture built and how people are kept engaged.

Though, working remotely has also exhumed questions around whether businesses are equipped with the right infrastructure, technologies such as broadband internet, cloud computing and digital workforce collaboration tools, as well as cyber security.¹⁵ These will be some of the main challenges for revenue authorities going forward as they embrace digitisation.

Potential risks and challenges to digital transformation of revenue authorities

Digital transformation has the potential to significantly enhance efficiencies in revenue authorities; however, the transformation journey is not without its own challenges and risks.

Cyber security and confidential data.

Due to the nature of their business, revenue authorities handle large amounts of sensitive and confidential information. This collection, storing and processing of sensitive information increases fraud and phishing attempts. Deploying digital systems that collect, store and process tax data on the one hand will enhance efficiencies; however, on the other hand, it will require advanced cyber security capabilities within revenue authorities. These capabilities need to ensure that data are not accessed, processed, or shared without permission. Further, data need to be protected against loss and theft. Within this context, it is important that effective measures are in place to deal with all potential risks stemming from data leaks or losses.

Inadequate skills. The deployment of digital tools, processes, technologies, and ways of working requires a different set of skills compared to yesterday's skillset within revenue authorities. Accessing the right digital skills has been a challenge for organisations at an early stage of their digital transformation journey.¹⁶ Given the fierce competition for these digital skills, revenue authorities need to strengthen their talent and human capital functions and need to explore outsourcing and collaboration options to gain access to the right talent and skillsets.

Lack of funding. Donors and funders have an important role to play in reducing the financial burden that most African countries face. Most organisations' financial and budgetary processes do not adequately support their digital transformation. Roughly half of all organisations that claim to have a coherent strategy to take advantage of digital technologies and ways of working, do not think that they get the support they need from the financial and budgetary processes.¹⁷ This may be a cause for concern, as adequate financial support and budgetary processes are crucial for the successful implementation of digital strategies.

Modernising too soon. Digital transformation requires proper planning. Rushing the digitalisation journey is likely to impact the quality and extend of transformation and potentially may trap organisations in a 'doing digital things' trap. Not everyone will be keen to move away from the old way of doing things. For instance, individuals may simply be unprepared to adopt new digital tools. This applies to cost of compliance as adopting digitisation will require organisations to invest in new technologies, and this will pose a financial challenge especially to those in less developed countries. In such cases they still need to train their teams regarding new regulations and tools. Expanding their technology teams will require additional funding that most African countries may struggle to mobilise. Overall, before implementing digitisation, organisations must evaluate their business models to properly assess their readiness.¹⁸

Regulatory change. The progress of digitisation is carried out at different speeds by different countries. Each country has its own laws and regulations that could potentially impact digitisation. The older the tax system, the more challenging digitisation becomes. Some of the challenges that can hamper tax digitisation are linked to regulations as some of them require in-person registration with the tax authority or rely on paper-based copies instead of electronic records.¹⁹ However, some revenue authorities have championed broader government-wide digitisation initiatives that enable their own internal transformation.²⁰

A look ahead

Digital transformation is not only about technology, but also about the right mindset and strategy within organisations. To be able to win in the digital era, companies must be able to put their management processes, company's culture, and strategies at the forefront.²¹

In this context, digital transformation can help address some of the challenges faced by revenue authorities. Digitisation helps increase revenue collection for the government through taxing new stuff that are delivered through virtual global platforms. It has made it easier for people to comply using convenient online filing platforms accessible through mobile devices and personal computers.

To harness the full potential of *being* digital, revenue authorities must collaborate with ecosystem partners to leverage disruption to their advantage. Tax agencies, ecosystem players and revenue leaders all must extend their focus beyond their physical walls, forging partnerships with private and public entities to drive

efficiencies, capture data, anticipate issues, tackle complex problems, and to deliver a great taxpayer experience.²²

However, the road leading to being digital is not an easy path: commitment and resilience is needed to drive the future of work and digitisation. From an African perspective, fast-tracking towards being digital will require a reconfiguration of business models, organisational structures and processes that can better assist in keeping up with the fast-paced economy. The continuous advancement in technologies should not be seen as hurdles; but should be seen as opportunities to continuously provide new tools for workers, enhance efficiencies and drive customer experience and ultimately improve the way revenue authorities work in the future.

Digital transformation holds an important key to unlock the potential of revenue authorities of the future – revenue authorities that help to enable and build strong and resilient economies.



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