

Technology advancement likely to heavily impact how taxpayers interact with tax authorities in the future

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The momentous advancement of technology and seamless flow of information in today's economy is quickly reshaping traditional and conventional models of tax administration. With real time financial and commercial information, advanced data analytics and complex algorithms, tax authorities around the world are gearing up for the next phase of digital tax administration which may revolutionize taxpayers' participatory role in tax administration.

With technology disrupting the nature of conventional tax administration, how will taxpayers interact with tax authorities in the future?

Currently technology trends such as blockchain technology, artificial intelligence, edge computing, machine learning, virtual realities and augmented realities, the Internet of Things (IoT), cloud computing, 5G internet, among others, have changed how the world operates and tax administration has been one of the affected sectors.

Having been exposed to rapid technological changes in the digitalized economy, tax authorities have taken note of the power and impact of new technologies, new data sources, and increased international cooperation in enforcing compliance, targeting tax evasion, reducing administrative and cost burdens and understanding taxpayer's behavior all of which will highly likely increase tax collections.

Pascal Saint-Amans, Director of The Organisation for Economic Co-operation and Development (OECD) Center for Tax Policy and Administration, noted the same in the OECD Tax Administration 2019 report, when he commented that "Tax administrations, much like tax policy makers, are exposed to rapid change through the digitalisation of the economy and the emergence of new business models and ways of working. The data and examples contained in Tax Administration 2019 show how the availability of new technologies, new data sources, and increasing international cooperation are providing new opportunities for tax administrations to better manage compliance, protect their tax base and reduce administrative burdens."

In the future, tax administration as we know it may hardly be recognizable. For example, the emergence of complex analytical software and accessibility to taxpayers' financial and commercial data through innovations such

as e-invoicing and utilization of interlinked data processing centers may give rise to new forms of self-assessments, where automated tax systems issue e-assessments through verification of information and computation of taxes.

Under such regimes, taxpayers may no longer have direct roles in tax compliance, limiting their roles to either accept or object to e-assessments upon receipt and review of the same. These regimes will require a robust tax-dispute resolution system to address the numerous disputes that would stem from conflicting interpretation or application of tax laws or calculation of taxes. It's also predictable that such systems will face challenges such as cyber security threats, data protection and privacy issues, technical glitches, technical skills gaps, among others.

In the next technological phase of tax administration, tax authorities will have sufficient data-driven technology to significantly improve tax administration through digital systems which will require limited human participation by both tax administrators and taxpayers.

The automation of tax administration is already moving speedily in various jurisdictions. For example, Japan, through the National Tax Agency (NTA), announced a ten-year plan to digitally transform its tax administration, under its 'Future Vision of Tax Administration' project which will use artificial technology and data centers to conduct tax investigations. India, on the other hand, has introduced an e-assessment scheme where income tax assessments are conducted electronically through a taxpayer's registration account. Mexico's "Servicio de Administración Tributaria" (SAT) system, leverage on complex algorithms and different data sources to profile taxpayers, predict potential tax risks and send out 'early warning signals' to non-compliant taxpayers. Effectively, such systems have dramatically promoted voluntary tax compliance and sealed tax leakages.

Closer home

Kenya has not been left behind. The Kenya Revenue Authority's (KRA) automation levels have grown over the years making the tax authority reliant on information and communication technology (ICT) to administer and collect various taxes.

The KRA has rolled out systems such as the Integrated Tax Management System (iTax), Integrated Customs Management System (iCMS) and the Regional Electronic Cargo Tracking System (RECTS) which have simplified tax operations and promoted tax compliance. Other systems used by KRA include the Tax Invoice Management System (TIMS), M-Service application, Excisable Goods Management Systems (EGMS), among others.

Arguably, the KRA's revenue performance which has witnessed gradual improvement could partly be attributed to the roll out of the above systems. Other benefits witnessed from KRA's systems include convenience in filing of returns and payment of taxes, enhanced transparency between KRA and taxpayers, improved compliance, better accessibility to real time tax information, enhanced client experience, to mention but a few.

Above said, implementation of these systems has presented some challenges to the relevant stakeholders. The challenges include but not limited to deliberate delay in updating the systems to reflect changes made to tax legislation, incompatibility with other systems, incorrect data transition from other systems like the Legacy system, occasional system downtimes, inordinate delays in resolving tax issues in the systems and limited support on certain system challenges.

Despite these challenges, automation has been central to KRA's transformation agenda, which has significantly

impacted how the KRA makes decisions and executes its duties. Through harnessing technology investment gains, the tax authority has banked on data driven, risk based and intelligence-led tax administrative strategies to enhance taxpayers' experiences when interacting with them. This trend is expected to persist going into the future.

Conclusion

As the future takes shape and tax administration evolves, taxpayers' participatory role in tax administration will inevitably evolve too, bring both new opportunities and challenges for all stakeholders. As such, taxpayers should keep themselves aware of the rapid technological changes in tax administrations since this will certainly change how they interact with the taxman.

With e-assessments and other forms of tax administration systems taking center stage, replacing traditional processes, taxpayers should consider aligning their businesses with the latest tax technology changes to ensure their operations stay abreast with the Kenya's digitizing tax systems. The KRA, on the other hand, should not only continue investing more in tax technology, borrowing leaves from other digitally mature tax systems but also constantly engage taxpayers to increase understanding of the systems and address taxpayer concerns. This will undoubtedly improve its functions and service delivery.

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