Rethinking Tax Services

THE CHANGING ROLE OF TAX SERVICE PROVIDERS IN SME TAX COMPLIANCE

OECD

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BETTER POLICIES FOR BETTER LIVES

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Preface

The Forum of Tax Administration (FTA) has over the years been a platform that brings together the best practices of participating tax administrations and stimulates innovative thinking. New developments such as the rise of big data and advanced analytics, cloud and mobile computing, and the role of social media and the Internet-of-Things affect the way tax administrations interact with taxpayers. Such changes may also hold new opportunities for SME tax compliance. SMEs are an important group, not only in terms of revenue, but also and even more important as drivers of economic growth, innovation and employment.

This report *Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance*, shows that tax service providers are important in any tax system. This report explores the changing landscape of tax service providers and how they interact with their SME clients and with the tax administration. Due to the developments mentioned we see the rise of new service concepts, new patterns in customer interaction, and new types of businesses offering tax services. The report provides insights on how these developments relate to tax administrations and, again, what new opportunities they may bring to provide better services to the taxpayer and also to better ensure compliance. It offers a conceptual framework and guidance on how to best deal with this changing landscape.

The study was commissioned by the Forum on Tax Administration and sponsored by the Netherlands. A Dutch project team, the FTA-secretariat and a task team of FTA member countries have been working closely together and with result. It all started with a survey in which tax administrations and tax service providers, both from 15 countries, took part and which gave a good overview of the current developments and expectations. Further exchange of ideas took place in a conference in October last year in The Hague. This conference was also attended by representatives of tax service providers and the SME world, academics and advisory firms. It resulted in a very fruitful exchange of ideas which added significantly to this report. The OECD-IOTA event in Budapest in February 2016 was also helpful in bringing all ideas together and added important insights. I want to thank all who participated in this project and contributed to the report. They will recognise their own ideas in this final version.

I trust that this report provides a strong basis for tax administrations to further develop their tax service provider strategies. And that it will help to build a better interaction between tax administrations, tax service providers and small and medium enterprises.

Hans Leijtens

Director General of the Netherlands Tax and Customs Administration

Foreword

Tax Administration of the future series

This report is one of three produced in 2016 by the FTA with a particular focus on how technological and business developments can be leveraged by tax administrations to help realise operational and programme efficiencies and improve their effectiveness.

While the three reports have consistent themes around the use of data, changing customer expectations and the role of emerging technologies, they take different perspectives.

- *Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance* looks at developments in the domain of tax service providers and explores how tax administrations can better co-operate with them to improve outcomes for SME taxpayers.
- *Advanced Analytics for Better Tax Administration: Putting Data to Work* provides practical guidance on how tax administrations are using analytics to support compliance and service delivery.
- *Technologies for Better Tax Administration: A Practical Guide for Revenue Bodies* explores how tax administrations can utilise emerging technologies to further enhance their electronic services. It also offers a framework for administrations to assess the maturity level of these services.

Caveat

Tax administrations operate in varied environments, and the way in which they each administer their taxation system differs in respect to their policy and legislative environment and their administrative practice and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance. Therefore this document and the observations it makes need to be interpreted with this in mind. Care should be taken when considering a country's practices to fully appreciate the complex factors that have shaped a particular approach. Similarly regard needs to be had to the distinct challenges and priorities each administration is managing.

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Acronyms and abbreviations

API	Application programme interface
ATO	Australian Taxation Office
CRA	Canada Revenue Agency
CRM	Customer relationship management
EC	European Commission
EDI	Electronic data interchange
ERP	Enterprise resource planning.
ENDOF	Economy, norms, deterrence, opportunities, fairness
FTA	Forum on Tax Administration
GST	Goods and services tax
HMRC	HM Revenue and Customs (the United Kingdom)
ICT	Information and communication technology
IoT	Internet of things
IRAS	Inland Revenue Authority of Singapore
IT	Information technology
M2M	Machine to machine
NZDFF	New Zealand Data Futures Forum
NTCA	Netherlands Tax and Customs Administration
OECD	Organisation for Economic Co-operation and Development
POS	Point-of-Sale
RCB	Recognised controlling body

RTPP	Registration of Tax Preparers Programme
SME	Small and medium-sized enterprise
SBR	Standard business reporting
TCC	Tax compliance costs
TSP	Tax service provider
TTP	Trusted third party
VAT	Value-added tax
XBRL	eXtensible Business Reporting Language
XML	eXtensible Markup Language

Executive summary

The landscape of tax services, traditionally provided by tax advisors, accountants and other tax practitioners, is changing. Technology has enabled new types of services, such as online accounting and filing. Further developments such as the uptake of mobile devices and machine-to-machine communication may lead to more integrated systems, in which taxation is part of the day-to-day operations of SMEs. This report provides an overview of the relevant technological and business developments and new service solutions that are based on them. It also explores how these developments influence SMEs, tax service providers and tax administrations – and the way that they co-operate.

These developments hold great promises. For SMEs, traditionally faced with relatively high compliance costs, it may bring better services, at lower cost. Tax administrations will find opportunities to embed taxation in business processes and thus increase compliance – and drive down their costs by adopting a more system-based instead of a traditional case-by-case approach.

With new technologies, new business models and new entrants come into the market of tax services. These new entrants may have core capabilities in software development, data-analytics or other non-tax related domains. They offer either adapted services – i.e. mostly digital or automated versions of existing services offered by established tax service providers – or completely new types of tax or tax-related services.

The report highlights the shifts in the tax services market:

- *A shift in roles performed by tax service providers.* A transition from bookkeepers who perform routine data entry and lodgement work, towards highly skilled advisors and increasing software support from software vendors;
- *A broadening of the roles of tax service providers.* Established tax service providers are expected to broaden their activities outside the traditional scope of tax services (e.g. they might start providing more generic business services as well or might even develop into software firms), and;

- *New types of tax service providers entering the market.* Firms such as software developers or providers of cash registers also start to offer tax services. These new tax service providers are offering either adapted – i.e. mostly digital or automated versions of existing services offered by established tax service providers – or in the longer run completely new types of tax services. Other new entrants may come from banking, telecom (mobile) or yet unknown trades.

Tax administrations can adopt different types of network strategies for co-operating with tax service providers. Such strategies should fit the broader compliance strategy of a tax administration.

The report identifies four basic network strategies. These strategies can be characterised as being more closed (specifically looking at the tax processes) or more open (looking at the broader business processes). They can also be more "government-driven" versus more "market-driven". As many tax administrations already operate in networks and alliances in practice, most administrations will have a combination of such strategies, depending on the specific circumstances.

In countries without an established tax service provider infrastructure, leveraging of new technologies (such as online services and mobile payment) may create new possibilities to provide a supporting infrastructure for SMEs. Especially in developing and emerging economies the high uptake of mobile phones and smartphones could create new possibilities to make tax compliance easier. The report suggests that further research in this area could be helpful.

Recommendations

The report encourages tax administrations to:

- *Consider the possible role that tax service providers can play* in their SME compliance strategies by building on the network strategies outlined in this report.
- Invest in a "*sensing capability"* to monitor technological and business developments in the domain of tax and other business services and to assess opportunities that such developments may bring to better integrate tax services in the broader ecosystem of SMEs.
- *Assess their role in stimulating the development of tax services* by becoming involved in joint initiatives with other government and business partners, in the setting of standards and in implementing systems to monitor and improve quality. *Considering the need for regulation* may be part of this assessment.

- *Adopt a structured approach* when embarking on co-operative initiatives with TSPs and other parties. This approach will put users' experience and their expectations in the centre, and it will have a shared vision and a clear roadmap, which allows for learning. Tax administrations should be aware of public expectations that their involvement in such initiatives may bring.
- *Continue to share best practices and experiences* with other FTA members, in co-operation with tax service providers, and to stimulate further co-operation on this topic.

Chapter 1

Introduction

New technologies provide opportunities for both tax administrations and tax service providers (TSPs) in promoting tax compliance of small and medium enterprises (SMEs). These new technological options may help in reducing complexity and improving customer experience. SMEs expect more "plug and play" arrangements (such as pre-filled tax forms and easy-to-use digital services). This report looks at the changing role of (new) TSPs and how tax administrations can develop and implement strategies to co-operate with TSPs. This chapter introduces the study on which this report is based and outlines how the report is structured.

Context and background

With the increasing role that technology plays in everyday life, SMEs' expectations of tax services provided also seem to be rising. For tax administrations, and for tax intermediaries, this requires a rethinking of their strategies.

Recent research conducted in the OECD report *Managing Service Demand* (OECD, 2013a) offers guidance on how to better fulfil customer expectations by providing better digital services. Strategies regarding co-operation with tax service providers are described in the OECD reports *Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises* (OECD, 2012) and *Together for Better Outcomes* (OECD, 2013b). These studies indicate that increased co-operation with tax service providers and industry organisations play an important role in promoting compliance. They also provide valuable insight into the constructive role of co-operation with tax service providers to promote compliance.

The study *Tax Compliance by Design* (OECD, 2014) describes how tax compliance can be improved by building on technological developments (e.g. mobile payment systems, electronic invoices, cash registers and online accounting systems) and collaboration with stakeholders. These technological developments help to create a system which delivers a seamless and secure flow of accurate tax information and tax payments. Tax compliance can be designed into day-to-day business processes but in different forms depending on the context and the solutions preferred by SMEs and revenue bodies. This approach broadens the range of organisations that can play a role in providing tax services to SMEs.

Traditional versus new types of (tax) service providers

In the OECD study *Together for Better Outcomes* (OECD, 2013b) several stakeholders were identified that play a role in SME tax compliance: intermediaries (like accountants, advisors and tax agents), industry bodies, tax administrations, other government bodies, civil society, SME business partners (banks, investors, etc.) and stakeholders in the compliance chain (providers of cash registers, POS systems). See Figure 1.1.

However, the role of "traditional" tax intermediaries is changing and new entrants, such as software providers, are becoming important. Reflecting on the changing landscape, this study uses the term "tax service providers" (TSPs) to indicate both the "traditional tax intermediaries" as well as these new service providers. Such new type of service providers could include suppliers of cash registers and point-of-sale systems, software vendors and providers of online services offering invoicing, payment and accounting solutions. In addition, business partners such as banks, telecom operators and other firms that have an indirect impact on tax services need to be taken into account as well. They may be involved in developing more integrated solutions that build on existing financial services and mobile solutions.

As a result of these developments, new opportunities and challenges arise for SMEs, tax service providers and tax administrations. What these developments are and how they will affect SMEs will be discussed in this report. This also includes new approaches of tax administrations in dealing with established and new tax service providers.

Figure 1.1. **Stakeholders in SME compliance**

Source: OECD, 2013b.

Purpose of the study

The purpose of the study is to understand the dynamics within the changing tax service landscape for SME compliance. SMEs represent more than 95% of all firms (OECD, 2015: 13) and make a major contribution to a country's employment, economic growth and innovation, along with the diversity and competition they can bring to the market. In addition, SMEs generate a significant share of all taxable business income in most economies.

This study looks at new technological and business developments in order to assess their impact on the SME compliance process. New technological developments might reduce compliance costs for SMEs and have a positive impact on the effectiveness and efficiency of tax administrations' tax compliance strategies. More specifically, this report examines the changing role of existing TSPs compared to new types of service providers and how tax administrations can respond to this shift.

Methodology

This study sponsored by the Netherlands Tax and Customs Administration, is part of the OECD-FTA programme on Small and Medium Enterprises. A project team from the Netherlands facilitated this project in close co-operation with the FTA secretariat. A Working Group and a broader Task Group were established to participate and give guidance to this project.[1]

Two surveys were developed to gather views and experiences on the role of TSPs for SME tax compliance: one was directed at tax administrations and the other at TSPs. These questionnaires focused on the impact of current technological and business trends on tax services for SMEs and on the strategies and approaches adopted by tax administrations for co-operating with TSPs.

The members of the Task Group were asked to complete the survey and were also asked to invite some tax service providers in their country to participate. This resulted in 14 completed surveys from tax administrations and 36 completed surveys from TSPs. In addition, the project team received the results of market research from several tax administrations, showing SMEs' needs and expectations. By applying this approach, the project team was able to get a better understanding of the impact of new technological and business developments on tax services for SMEs.

In addition to the survey and further desk research, the Netherlands Tax and Customs Administration hosted an international conference to gain further insights (The Hague, 21-22 October 2015). The purpose of the conference was to further explore the topic with participants from tax administrations and from the business community. The survey results and the outcomes of this conference have been very helpful in preparing this report as were the outcomes from a joint IOTA-OECD event on this topic, held in Budapest on 2-5 February 2016, in which 13 countries, mostly from Eastern-Europe, participated.

An outline of the survey outcomes is included in this report (see Annex A).

Structure of the report

Chapter 2 describes different perspectives on tax compliance and provides a more theoretical framework for this report. Next, Chapter 3 describes how technological developments (e.g. cloud computing, big data, internet of things, and mobile) and business developments (like service innovation) affect tax compliance services. Chapter 4 explores how such developments change the role of TSPs, including the emergence of new players in the tax services arena. Chapter 5 presents various strategies for tax administrations on how to relate to and co-operate with TSPs in this changing landscape. Some guidance for building a TSP strategy is presented in Chapter 6. This report ends with some conclusions and recommendations in Chapter 7.

Note

1. The countries involved were Australia, Canada*, China, Finland*, Germany, Luxembourg, New Zealand*, Singapore, South Africa*, Spain, Sweden*, Switzerland, United Kingdom* and Korea (* were also a member of the Working Group). Apart from these countries also Belgium, Estonia, France, Greece, Hungary, Italy, Mexico, Norway, Russia, Turkey and the United States participated in the conference, and some of these countries also provided comments for this report.

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Chapter 2

Perspectives on SMEs and tax compliance

In recent years, many tax administrations have focused on improving the effectiveness of their tax compliance strategies. In general, a shift from traditional tax return based approaches towards more systemic approaches can be observed. This chapter describes the different perspectives on tax compliance, providing the necessary background information for the rest of this report.

Improving tax compliance

The OECD report *Right from the Start* (OECD, 2012) discusses how to improve SME tax compliance. The report emphasises the need to create an environment which supports compliant behaviour and reduces the opportunities for non-compliant behaviour by focusing on four dimensions of the compliance environment: acting in real-time and up-front, so that problems are prevented or addressed when they occur; focusing on end-to-end processes from a taxpayers viewpoint; making it easy to comply (and difficult not to); and actively involving and engaging taxpayers, their representatives and other stakeholders. The report emphasises that compliance strategies will be more effective when taxpayers and their representatives are involved in the design.

Box 2.1. **Drivers and factors of tax compliance**

The OECD report *Understanding and Influencing Taxpayers' Compliance Behaviour* (OECD, 2010) discusses the main drivers and motivational factors behind taxpayers' compliance or non-compliance. This report emphasises the need to focus on all factors when designing compliance strategies and shows the importance of the design of the tax system for compliance rather than a primary focus on the taxpayers' attitude.

The main drivers and factors are grouped into five categories:

- *Economy*: Factors that promote economic growth are expected to promote tax compliance as well.
- *Norms*: Norms, both personal and social, are considered to be the major drivers of compliance. There is a need for tax administrations to adopt a longer-term approach to outcomes (compliance levels) and be aware of, and promptly address public misconceptions or inaccuracies that may impact social norms (hence taxpayer behaviour).
- *Deterrence*: The aim of deterrence strategies (large audit adjustments and monetary penalties) is mainly to prevent tax evasion, but also so that punishment of an evader will discourage future evasion. It seems that the success of deterrence strategies is linked to taxpayers' norms. Communication also plays an essential role.
- *Opportunities*: Tax administrations should focus more on making it easier to comply (and harder not to), e.g. by using plain language in communications and simplifying forms and tax laws where possible.
- *Fairness*: It is argued that a lack of fairness is linked to a taxpayer's inclination (or justification) to not comply.

Source: OECD, 2010.

The OECD studies *Co-operative Compliance* (OECD, 2013a) and *Together for Better Outcomes* (OECD, 2013b) also emphasise the need to engage and involve taxpayers and stakeholders in the compliance process. Tax administrations can benefit from engagement and involvement strategies, as they may improve compliance and reduce costs. This is also and foremost beneficial to SMEs, who will be confronted with lower costs and a better service experience. Consequently, many tax administrations have adopted more systemic approaches, as highlighted in the reports.

The OECD *Tax Compliance by Design* report (OECD, 2014) introduces two approaches to build systems that better support tax compliance "end to end": a "secured chain approach" and a "centralised data approach". Both clearly start from a systems perspective. The difference between the two approaches is the role of the tax administration, with respectively less and more control of the tax compliance process.

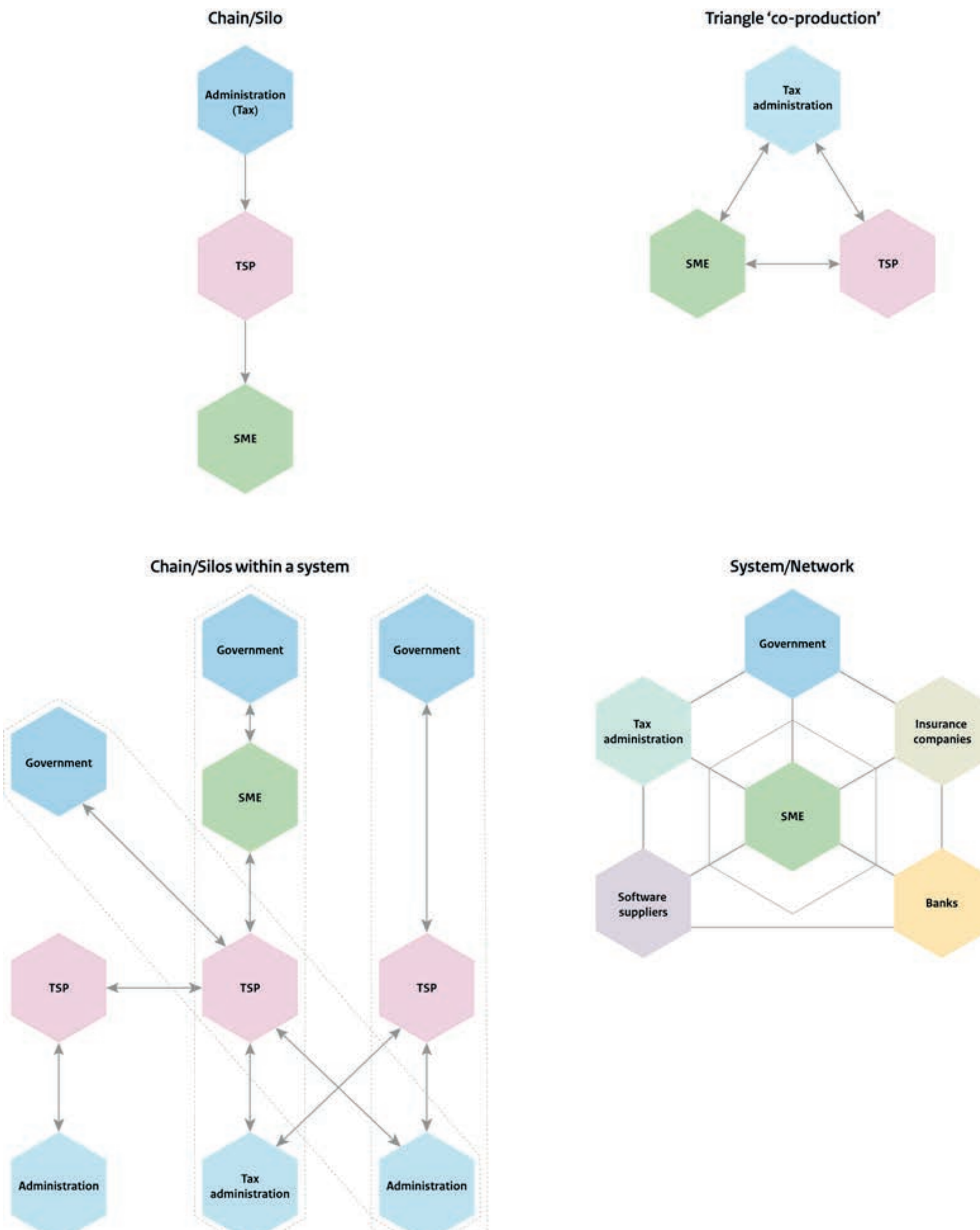
Box 2.2. **Secured chain approach and centralised data approach**

The central idea of the secured chain approach "is to create a secured flow of information from the capture of business transactions to the final determination of the correct amount of tax being paid. Tax compliance requirements are in this way built into the technology systems and processes used by the taxpayer anyway for the purpose of managing the business. The systems in this scenario are purposely designed to make it impossible or difficult to manipulate or erase information (or make such attempts easy to detect). The different participants that support the taxpayer (e.g. tax advisors or accountants) are subject to quality standards and quality assurance checks or certification schemes".

The idea underpinning the centralised data approach is that "the revenue body itself can capture as many business transactions from the source as possible in order to determine the right amount of tax to be paid with minimum information from the taxpayer. Tax compliance requirements are built into the IT systems and processes used by the taxpayer but not in the same way as the "secured chain approach". The taxpayer mainly reports information related to other taxpayers. The information collected by the revenue body can be presented to those other taxpayers and then used by them for the purpose of managing their business and/or to help meet tax obligations. It can thus support businesses and/or assist in reducing their compliance burden. By collecting information from the source in this way it should be easier to gain the desired level of certainty because the bulk of the data is not delivered by the taxpayer".

Source: OECD, 2014.

Figure 2.1. **Chain versus system perspective regarding tax compliance**



Source: Tax Service Providers Project Team.

Chain versus system perspective

As described above, one can take different perspectives on the role of the various stakeholders within the tax service landscape (as illustrated in Figure 2.1). In a chain perspective, the focus is on a single linear relationship between tax administration, TSPs and SMEs (see Figure 2.1, top left). However, this linear relationship has been debated, as many realise that tax administrations, TSPs and SMEs often are working in a more triangular relationship, as shown in the top right corner of the figure.

In a system perspective, the focus is on *the system as a whole*, in which many stakeholders play a role (e.g. other governments) and have relationships with each other. Technological changes and business developments subsequently affect all stakeholders and all relationships within the system, albeit indirectly. This system perspective still allows one to identify several "chains" of stakeholders (see Figure 2.1, bottom left), or one can take the entire network as a reference point in which all the stakeholders are connected (see bottom right of the figure). Note that the structure of the networks is the same in both situations. The essential difference due to the shift in perspective is a broadening of the scope, and an awareness (and subsequently establishment) of the many linkages with other stakeholders such as software suppliers and banks outside the initial scope.

This report uses a system perspective to describe the changing landscape of tax services for SMEs as mentioned in the earlier reports.

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Chapter 3

SME tax services: A changing landscape

The tax services landscape for SMEs is changing. New TSP services are arising that support tax compliance, provide high quality tax solutions, and drive down costs for SMEs. Tax administrations adopting new strategies that focus on upstream interventions and more co-operative approaches also promote these objectives. Key drivers behind these changes are new technological developments. These developments impact the way SMEs operate, lead to service innovation by TSPs and can reshape tax administration's compliance strategies. This holds great opportunities as it can create better service for SMEs, improve SME tax compliance and may drive down costs for SMEs, tax administrations and TSPs. This chapter describes the changing SME tax service landscape, in particular the impact of new technologies and the related need to switch to a service perspective on SME tax compliance.

SMEs and tax compliance

In both developed and emerging economies, SMEs contribute significantly to employment, economic growth and innovation. They play a key role in what is increasingly labelled as entrepreneurial ecosystems (Stam, 2015; Stangler, Bell-Masterson, 2015). SMEs bring diversity and dynamism to both established and new industries. SMEs are (like all firms) facing or giving shape to new technologies, new products and business models, digitalisation and increased levels of internationalisation. This is not just relevant for the larger SMEs, but also for micro-businesses with just a few staff and self-employed. In fact, these latter two categories comprise, by far, the largest number of SMEs.

Given SMEs' substantial role in the economy and the considerable effort of tax administrations to improve tax compliance in this very diverse segment, there is great interest in how tax policy and tax administration arrangements and their design, including special arrangements for SMEs, affect SMEs, as described in a recent OECD report (OECD, 2015). With regard to compliance regimes, this study states that: "the most important issues affecting SMEs are the disproportionately high impact of regulatory requirements and tax compliance costs. Even though many tax requirements appear to be relatively "neutral" for businesses of all sizes, the significant fixed costs associated with compliance represent a higher cost for SMEs as a percentage of sales and income, and consequently have a greater adverse impact upon SMEs than larger businesses" (OECD, 2015: 13)

Although it can be difficult to compare tax systems, comparative research (Coolidge, 2012; Evans et al., 2014) confirms this finding of disproportionately high compliance burdens faced by SMEs. One of these comparative studies on developing economies reports that tax compliance costs (or TCC)[1] "[are] much heavier, as a percentage of turnover, for smaller businesses than for larger ones. While medium and large businesses usually spend less than 1/10th of 1% of their turnover on TCC, small businesses often face TCC of 5% or more of turnover, which can be compared to an extra tax burden" (Coolidge, 2012).

When it comes to tax compliance, firms are traditionally confronted with the question of whether to outsource their tax activities and if so, to what degree. Large firms can afford to do the routine tasks in-house and choose to outsource complex tasks to specialised tax service providers. Smaller firms are, to a greater extent, dependent on the services of TSPs for most of their tasks. New technologies may bring new solutions that are better capable of serving the needs of the broad variety of SMEs.

Impact of new technologies on SME tax compliance

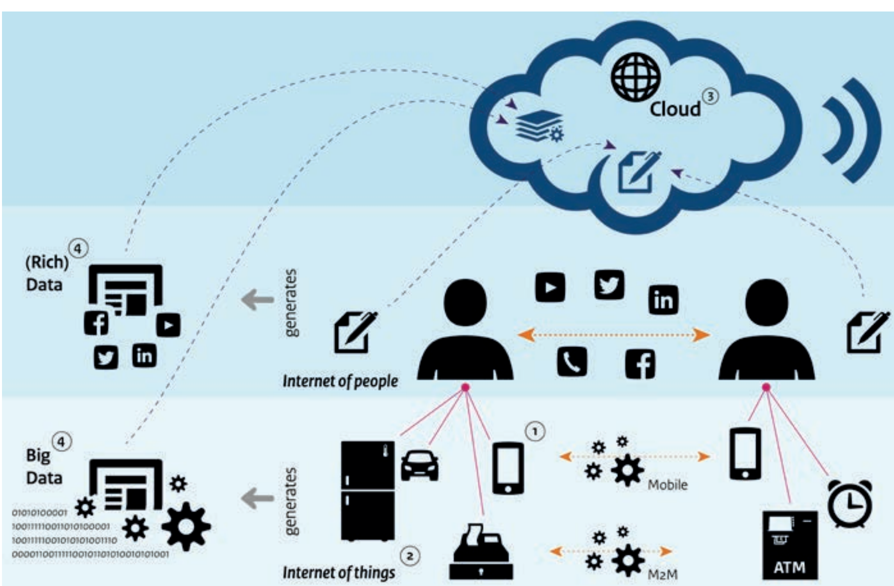
The surveys, which were part of this study, highlight the key drivers that may change the tax service landscape in the next couple of years. Figure 3.1 gives a schematic overview of the various technologies and how they are related.

People communicate with each other by sending digital information back and forth; this is called the "Internet of people". Below the network of interconnected people, a much larger domain is emerging, of devices owned by these very people. A device of pivotal importance is the smartphone (1). It has enabled people to communicate any place (and any time), thus greatly expanding the Internet of People's range – both in terms of geography and time (frequency). The defining characteristic of the Internet of Things (2) is that all devices now communicate directly with each other, via their unique IP numbers.

Whereas the Internet of People already generated a lot of data, the rise of the Internet of Things has truly multiplied the amounts of data being generated.

At the same time there is the development of what is called the "cloud" (3). The notion of the cloud basically refers to the ability to transfer local functionalities (e.g. storage and processing of data) onto the internet. Software

Figure 3.1. **Schematic overview of technologies**



Source: (Dialogic, 2016).

applications, for instance, no longer need to be installed and maintained locally at the user, but are hosted on and used over the Internet. Cloud computing and cloud storage also make it economically feasible to analyse the vast amounts of data being generated by the Internet of Things (e.g. mobile data) and by the Internet of People (such as social media, video streams: referred to as "thick data") – creating the world of Big Data (4).

These technological developments are changing the environment in which SMEs are operating and also affect the tax services landscape. For instance, modern business analytics software changes the way tax administrations and TSPs are able to handle compliance risks by providing the means to segment and profile SMEs. Technological innovations also provide opportunities for developing targeted services to help SMEs comply. Table 3.1 summarises the possible impact of the various technologies on SMEs, TSPs and tax administrations. These technologies will be discussed in the following subsections in more detail.

Mobile computing

The global adoption of mobile computing has outpaced the adoption of any other technology in history. By 2020, there will be around 5.5 billion global mobile users (up from 4.8 billion in 2015), and 11.6 billion mobile-ready devices and connections (Cisco, 2016). This will lead to the availability of business applications in multiple forms on multiple devices. In combination with machine-to-machine communication, sensors, and smart items, new services can be offered, for example settling consumption tax based on the specific location of the mobile device on which the payment is being made.

The development of mobile payment systems introduced by mobile service providers are opening up new forms of payment by SMEs, using their mobile phone. There is a growing use of such digital wallets and money transfer systems such as M-Pesa, which is used in many countries in Africa. M-Pesa is a mobile phone-based system for money transfer, financing and micro-financing service. It is an example of a completely new system, built on the widespread availability of mobile phones, which offers low cost and easy-to-use solution for users.

Another significant change of mobile payment options is the use of block chain technology. While the underlying transactions of mobile companies are still processed through established players using legacy systems (e.g. clearing banks and credit card solutions) this is not the case with "blockchain" technology (see Box 3.3). This block chain technology, of which Bitcoin is an example, is still in a very early stage of development. In the coming years, it may well change the way trading and payment transactions take place.

Table 3.1. **Possible impact and risks on SMEs, TSPs and tax administrations when adopting different technologies for tax compliance**

	Possible impact on SMEs	Possible impact on TSPs	Possible impact on tax administrations
Mobile computing	• New mobile business models • Better (real-time) information sharing with stakeholders • Enhancing transactions through mobile platforms • Less manual data entry • Risks: privacy and security	• Able to provide customised tax solutions • Entrance of new TSPs in the tax system, controlling main mobile platforms • Risks: privacy and security, quality of the data	• Increased compliance opportunities by integrating mobile business transactions within the tax system • Increased visibility of previously "unknown" SMEs • Increased real time service delivery with TSPs and SMEs • Collaboration with new (mobile) service providers • Possible risks: privacy and security, quality of data
Internet of Things	• Alignment of business, process and people • Real time data transmission with third parties (new business networks) • Reduced compliance costs • Risks: privacy and security, ownership and quality of the data, and standardisation	• Rise of real time data transmission between SMEs, TSPs and tax administrations • New customer interactions (automated, digital services for SMEs) • Risks: privacy and security, ownership and quality of the data, and standardisation (able to connect systems)	• Increase of digital solutions in servicing SMEs • Better information sharing by using tax information from third parties through M2M communication • Increased end-to-end processing of data between SME, TSP, tax administration with minimal intervention • Possible risks: privacy and security, ownership of the data, quality of the data and standardisation

Table 3.1. **Possible impact and risks on SMEs, TSPs and tax administrations when adopting different technologies for tax compliance** *(continued)*

	Possible impact on SMEs	Possible impact on TSPs	Possible impact on tax administrations
Cloud Computing	• Real time reporting • Enhancing compliance capabilities (greater information access and increased self-service opportunities) • Reduced compliance costs • Possible risks: security, privacy and ownership of data, concerns about leaving data outside the company on a third party server. Locked in effect by cloud based service providers	• Development of new business software • Shift from bookkeeper to forward looking business advisor • New customer interactions (any time any place service delivery, "working shoulder to shoulder") • Rise of cloud based networks and collaboration using new digital interfaces such as API • Possible risks: privacy, security, ownership of the data, quality of the data	• Improved services for SMEs in reducing compliance burden (e.g. more accurate pre-filled tax forms, automatic preparation of tax liabilities etc.) • Seamless provision of data from other sources (e.g. SBR) • Automation and simplifying the workflow • Simplifying interactions with TSPs and/or SMEs • Possible risks: privacy and security, quality of the data and difficulty of detecting fraud in automated computer environments
Big Data & advanced analytics	• Forward-looking analytics • Verification of data • Reduction compliance cost • Customised and tailored tax services • Risks: security, privacy and ownership of data	• Customised and tailored tax solutions • New customer interactions (digital services) • Shift from bookkeeper to forward-looking business advisor • Risks: security, privacy and ownership of data	• Better insight in compliance behaviour by monitoring real time and forecasting activities • Effective "customised" interventions • Optimise resources • Risks: security, privacy, (perceived) ownership of data, increasing expectations of public on TA's to safeguard the data, and being perceived as "Big Brother"

Source: Tax Service Providers Project Team.

Box 3.1. **The rise of new mobile tax services**

The Tax Administration Service (SAT) in Mexico offers, through the SAT Mobile application, new tax services such as the possibility to validate invoices through QR codes and to schedule appointments and view geo-localised Inland Revenue offices and Customs offices. It also offers tax payments and returns consulting services, a tax compliance indicator, a SAT Store and features as a Fiscal calendar, tutorials and relevant news. The application is integrated with social networks. One of the main features of SAT Mobile is the generation, view and download of electronic invoices. Information exchange takes place with services that are deployed in the cloud, which allows the billing process to be captured and sent from any mobile device that has the application installed. It also sends emails to the invoice issuer and recipient in XML and PDF format. The most recently added functionality is an electronic signature that works with One-Time Password (OTP) for access and authorisation of SAT services specially for tablets and mobile phones. SAT is considering further expanding the range of services offered through this channel.

Source: Mexico's Tax Administration Service (SAT).

Box 3.2. **Mobile as a first point of access to the internet in emerging economies**

In emerging economies, mobile is often the first point of access to the Internet, and therefore opens up a huge range of activities that were previously inaccessible. SMEs in these markets have benefited enormously from mobile. A survey conducted among South African SMEs, for example, indicates that many entrepreneurs are changing the way they do business due to mobile technology: 35.1% of SMEs allow customers to purchase products from them using their mobile phones; 42.7% sell their products or services online; 76.7% of SMEs who have an e-commerce site have optimised them for mobile users and 42.3% have used some form of mobile payment service.

This also provides opportunities for tax administrations regarding tax compliance. "With South Africa having a large cash and informal economy, mobility is vital as many informal businesses, especially in the micro economy, move around from location to location. Tools such as cash registers and business applications on smart phones, which are recording all transactions, could be linked up to tax administration's systems. This makes record keeping and meeting tax obligations as easy as possible."

Source: (Fast Company, 2015) and survey among tax administrations, South Africa.

Box 3.3. **Block Chain Technology**

The block chain technology transforms the concept of trade. Traditionally, transactions are taking place by using money which facilitates trades; transactions are processed in ledgers of every organisation; and trusted third parties (TTP) such as paper money, banks, accountants, notaries are used to facilitate trade. With the block chain, technology transactions are taking place on the internet without any TTP and with one collective ledger. As new batches of entries are added to the distributed ledger, they include a reference back to the previous batch, so that all participants can verify for themselves the true provenance of everything on the ledger. These batches are called blocks, and the whole collection is a block chain.

Source: GOfS (2016).

Looking from a tax compliance point of view it is noteworthy that the use of mobile payment systems both can be an opportunity and a threat. The use of payment systems can lead to a better registration of payments and transactions, which opens opportunities for "real time reporting" that didn't exist in the "cash era". The governance and security measures that are part of payment systems make it more difficult for businesses to underreport, i.e. hide or disguise sales income (e.g. through the use of sales suppression software). The use of third party information from financial institutions will make detection of such practices easier. However, developments such as block chain solutions may also be less transparent and more difficult

Box 3.4. **Opportunities for mobile platforms/payment systems**

"Mobile payment is spreading to all businesses, especially SMEs, through mobile platforms belonging not only to banks, but also to other major internet players controlling the main platforms."

At the moment the Spanish Tax Agency is making contact with these operators. This is because the Agency has introduced full electronic obligation, including formal notifications for all types of companies (large, medium-sized and small) and the different kind of taxes (except for income tax for individuals). Nowadays, Spain wishes to take the next step which includes the use of mandatory e-invoices on-line, both issued and received, with a huge increase in M2M interaction. To manage these new measures, the tax administration has permanent contact with companies that develop accounting software and ERPs.

Source: Survey among tax administrations, Spain.

to include in the tax reporting processes. For tax administrations, seeking further co-operation with providers of financial services, this can bring new challenges. Taking a system perspective and looking at the system-as-a-whole, that is the chain of processes including invoicing, payment, accounting and reporting, is even more important.

Internet of Things (IoT)

On a transactional level, the multiple connections enabled by the Internet (of things) offer possibilities for real-time data transmission from businesses and government agencies to the tax administration. This makes it possible for interactions to take place with minimal intervention from the SME, which will result in greater convenience, better information and swifter procedures.

An example of an opportunity which has arisen from the IoT is the online cash register, which records all transactions and links with the tax system(s) and TSPs. This will help SMEs in record keeping and meeting their tax obligations and provide a good basis for correct reporting. As the system is connected with the tax administration's systems, it could support dealing with taxes more real-time. Tax administrations can work with TSPs (and SMEs) to develop tax applications that provide this interconnectedness.

Box 3.5. **A digital by default approach – Estonia**

E-Services are a routine aspect of everyday life in "e-Estonia", with almost all public services for businesses as well as citizens now available online. By means of a digi-ID and a mobile-ID, citizens can digitally sign documents. A data exchange system (X-Road), is enabling truly integrated e-services. X-Road is the backbone of "e-Estonia", allowing the nation's various e-services databases – both in the public and private sector – to link up and operate in harmony. As a result, Estonia has an established "telling only-once" principle, the main idea being that data only has to be collected once. The costumer submits a standardised form with information via e-services to the state and the state itself distributes the information to other public institutions. Machine-to-machine interface should provide a whole range of services to create processes and reports which are immediately integrated into consumers' real tax liabilities.

In relation to tax compliance, the aim is to have a No-Touch system in 2020. No touch means that the costumer will be informed by e-mail, SMS or other means that after x days the pre-filled data (declaration) is automatically submitted for him. A person maintains an option to complement or delete the data before the automatic submission.

Source: Conference *The changing landscape of TSPs*, 21-22 October 2015.

Note that the IoT is not an entirely new concept. So-called fiscal memory devices have already been used for over a decade in many countries from e.g. Eastern Europe and Central Africa. These electronic devices, such as cash registers, contain an encrypted module that is certified by a tax administration. First generation fiscal memory devices (which started to appear around 2000) still stored fiscal transactions locally. The second generation has an Internet connection to the tax administration's central server. Third generation fiscal memory devices use various encryption methods for the digital signing of each issued receipt. In some countries the function of fiscal memory devices has been moved into the cloud and has evolved into a pure software solution. OECD's Task Force on Tax Crimes and Other Crimes (TFTC) has considered a number of strategies adopted in different countries to tackle electronic sales suppression via the application of such systems (OECD, 2013).

Cloud computing

There is an exponential growth of cloud computing services in recent years. According to market research firm Gartner Inc. the worldwide public cloud services market will grow by 16.5% in 2016 to total USD 204 billion, up from USD 175 billion in 2015. The market for public cloud services is continuing to demonstrate high rates of growth across all markets and Gartner expects this to continue through 2017. This development reflects a shift away from legacy IT services to cloud-based services due to an increasing trend of organisations pursuing a digital business strategy.

Cloud computing, also known as "on-demand computing", is a kind of internet-based computing where shared resources, data and information are provided to computers and other devices on-demand. It has become an established concept for operating data centres and building new kinds of business software. The main advantage is that the initial investment for the users is low and they pay per use. Cloud computing allows tasks such as bookkeeping and reporting to be to largely automated, which leads to more efficiency, better quality and easier access to information.

The adoption of these services among SMEs is also showing significant growth. Research conducted by BCSG (2015) shows that nearly two-thirds (64%) of small business owners in Western Europe already have an average of three cloud based solutions in place. More and more software solutions are being developed for this market, aimed at supporting a broad range of small business needs, from staying on top of their finances to acquiring new customers. This technology is setting business owners free from the office, enabling them to work flexibly, and do away with the upfront cost of purchasing software. In its own way, cloud-based software is revolutionising the way SMEs do business.

The convergence of cloud and mobile computing will continue to promote the growth of centrally co-ordinated applications that can be delivered to any device (see Figure 3.1). Both internal and external applications will be built on this.

Using cloud computing offers opportunities to improve tax compliance. A high level of automation leads to better controls (including full audit trails), while every transaction or modification will be logged. It also enables tax administrations to offer more accurate pre-filled tax forms and automatic preparation of tax liabilities. The use of *standard business reporting* (SBR) software will enable seamless provision of tax return information to tax administrations.

Box 3.6. **Seamless provision of data**

"Business software will be increasingly available in the cloud and will interact with tax administrations' systems and advisors, making the tax experience easier. Through business software, the records for running a business will automatically generate the data for business tax affairs. The use of standard business software can enable seamless provision of this data to the tax administration. Business information will be able to be viewed concurrently by the tax administration and the SME or TSP to improve communication and engagement services." […] "In the future, any errors or omissions will be able to be picked up in real time, thus reducing the risk of errors in tax reporting and/or non-compliance. The proliferation of tax intermediary online services, where there is little to no direct contact with their clients, may provide opportunities for increasing tax fraud and other activities. Access to data located outside of the country may also become an issue".

Source: Survey among tax administrations, Australia.

From the point of view of TSPs, cloud computing enables them to work "shoulder to shoulder" with SMEs in a virtual space. The end result is a more efficient interface between service providers and SMEs, with less time spent on administration services through integrated digital solutions.

The use of cloud computing comes with several challenges, including how to ensure the correct operating of systems within computing environments that are located outside the tax administration's jurisdiction. Often, the jurisdiction of the server where the data is stored is not known and consequently it may be difficult to thoroughly check and control data handling practices (OECD, 2014b). Another legal issue is who has a legal right, and under which circumstances, to access the data processed and stored in the cloud. Other concerns relate to the safety of personal data, ownership of data, control of the information and security.

Box 3.7. **Personalised digital tax accountants in the United Kingdom**

By 2016, in the UK, every individual and small business will have access to their own secure digital tax account, like an online bank account, that enables them to interact with the tax authority (HMRC) digitally. By 2020, businesses and individual taxpayers will be able to register, file, pay and update their information at any time of the day or night, and at any point in the year, to suit them. For the vast majority, there will be no need to fill in an annual tax return. The vision in the UK is much more than simply adding digital tools to the current system: it is about transforming the UK tax system into something that feels completely different. HMRC will collect and process information affecting tax in as close to real time as possible, stopping tax due or repayments owed from building up. Individual and business taxpayers will no longer have to wait until the end of each tax year before knowing how much tax they should pay, avoiding any surprises and helping them to plan their financial affairs with more certainty. And taxpayers will be presented with a complete financial picture of their tax affairs in their digital account, able to see and manage all of their liabilities and entitlements together for the first time.

Source: HMRC (2015). Making tax easier: the end of the tax return.

Box 3.8. **Secure OnLine: The Netherlands**

A quality label "Secure Online" has been developed in public-private partnership (tax administration, software suppliers, online bookkeepers, accountants and IT-auditors) in the Netherlands. The co-ordination is in the hands of an independent association. This quality label provides a framework for issues like security, access to data, continuity, the location of the datacenter, logging, audit trails, standards for audit files, etc. In addition, agreements are made regarding the application of fiscal and compliance components (and functional analysis) within the software. As a consequence, there is trust in the quality of the bookkeeping and the tax administration might not always need to have access to the online bookkeeping of SMEs. At the moment, the tax administration is exploring if it can co-operate with these software providers of online accounting in order to provide SMEs with prefilled tax applications (or automatically filled tax applications).

Source: The Netherlands Tax and Customs Administration.

Big Data & Advanced Analytics

Organisations are more and more "data-driven". Data from business operations, machine-generated data and also unstructured data such as e-mail and tweets hold a wealth of information. Ongoing advances in analytic capabilities allow organisations to draw insights from these massive, previously often untapped sources (IoT, "thick data"), leading to new service possibilities. These developments are highlighted in more detail in the other reports of this series (OECD, 2016a) (OECD, 2016b).

The use of big data and advanced analytics also offers opportunities for tax administrations and TSPs. It allows them to proactively offer customised tax solutions. Advanced analytics also make it possible to target SMEs with different interventions and rapidly assess the effectiveness of these interventions (OECD, 2014a). In a similar vein, TSPs can use data analytics to support their pro-active and future-oriented business advice to their clients, as will be further discussed in chapter 4.

Box 3.9. **Better insight in SMEs' behaviour and needs**

"With the amount of data available and the application of analytics, tax administrations can obtain better insights into the behaviour and needs of taxpayers, which, in turn, allows them to proactively offer customised tax solutions. Examples include tapping into text-mining to identify the pain points of taxpayers, predictive analytics to identify taxpayers who may require help in specific areas (e.g. moving to electronic services) or taxpayers who are at a higher risk of being non-compliant, and designing interventions or solutions to address these areas."

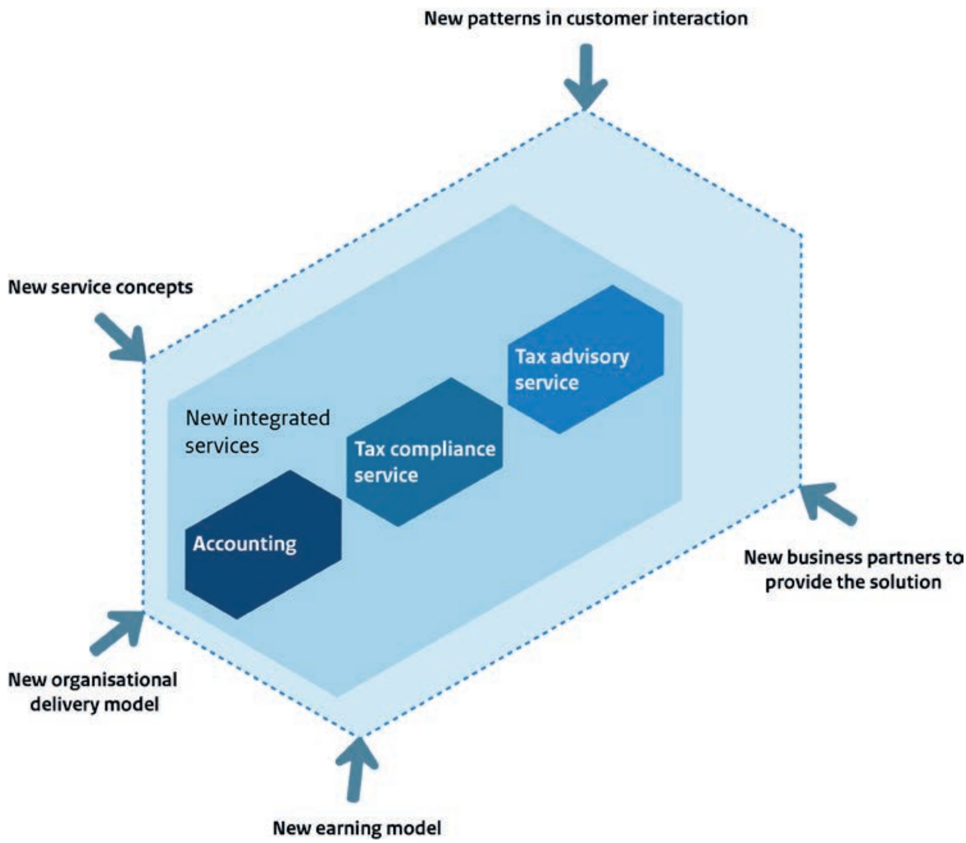
Source: Survey among tax administrations, Singapore.

Switching to a service perspective on SME tax compliance

The OECD (2014a) report *Tax Compliance by Design* marks the shift from a *goods perspective* on tax compliance towards a *service perspective* on tax compliance. It shifts the emphasis from tax return handling as the key process (and hence the tax administration and its processes as the dominant organisation to be served) towards the functionality or value that needs to be created for the various (categories of) SMEs. This is one of the reasons to typically co-produce the required service processes and to develop various modalities for different categories of SMEs. The value or functionality that SMEs might seek are, for example: certainty about their tax position, easy and low cost of the compliance process, confidence that they have paid the right amount of tax and that other SMEs are paying their fair share as well.

When introducing new services, both TSPs and tax administrations may need to consider the five service innovations dimensions represented by the five arrows in Figure 3.2. These five dimensions will be further discussed in this section.[2]

Figure 3.2. **A service perspective on tax compliance**



Source: Tax Service Providers Project Team.

New service concepts

The starting point of any service design is the value that it creates for the customer: SMEs and other stakeholders. The service concept (or service offering) captures the actual solution or experience an organisation is providing: what is the proposition really about? Technological options do provide opportunities, but it is by choosing a service concept that these opportunities are translated into a concrete service offering or experience. A TSP may choose to adopt a one-stop shop model as a key concept. In such an approach a SME can find several business services and advice under one roof. This of course has implications for the way that such services are designed and delivered. Tax services can be an integrated part of such broader offerings. Service providers may also choose a completely different service concept; for example, that of being a service boutique offering highly specialised services to a much smaller client segment.

Box 3.10. **Specialisation or one-stop shop**

"[…] Value-added services are becoming an increasingly common part of the tax advisory market. It may be only 10-20 years before we see the end of the "traditional accountant". Smaller agents are expected to become niche/specialist based and larger agents to become more one-stop-shops. The "trusted advisor" model is the aspiration, with agents expected to understand more than just tax"

" […] The questions we are getting are more complex and technical in nature. Tax is no longer about domestic tax. Clients have legal, financial and financing queries. They want international tax and estate planning advice all in one phone call. They expect our call centre to know everything about them. We need to be prepared to respond to the multiple disciplinary questions that arise."

Source: Survey among TSPs, United Kingdom and Canada.

Some new services may be co-designed by the tax administration and TSPs. An example of this is the co-operative compliance or horizontal monitoring approach as adopted in The Netherlands.

Box 3.11. **Co-operative compliance and SMEs**

The Netherlands Tax and Customs Administration (NTCA) applies co-operative compliance, so called horizontal monitoring, with a variant for large businesses and a variant for SMEs.

For tax service providers, representing SMEs, the NTCA looks at the design and existence of a quality system of the TSP. In addition, the NTCA assesses whether the TSP wants to co-operate with the NTCA on a basis of mutual

Box 3.11. **Co-operative compliance and SMEs** *(continued)*

trust, transparency and understanding. If the TSP has the willingness to co-operate and is able to deliver the required quality, an agreement will be signed. Subsequently the TSP selects SMEs that are able and willing to join the horizontal monitoring programme. This depends on the quality of the SME's administration and attitude towards tax compliance. The SME agrees that the TSP will discuss in advance ambiguous issues with the tax administration.

As a result of this approach the NTCA can reduce its supervision. The NTCA only audits a limited number of randomly selected participants in horizontal monitoring. The outcome of these audits may lead to an improvement of the quality system of the TSP or further adjustment of the supervision.

Source: The Netherlands Tax and Customs Administration.

This example from NTCA illustrates how co-operation between organisations can create new service offerings that create value for all parties involved. Core to such developments is that they place the SME in the centre of the service design.

Box 3.12. **The need for user-centric tax service design**

"By applying design-thinking, the taxpayer's needs are put front and centre, which has a direct impact on how the service is designed, from the functionalities to the look-and-feel. From a broader perspective, we can consider providing services in line with the needs of a SME along its life cycle, rather than look at it from a transactional perspective, such that they will view the platform as a one-stop shop for their tax needs. […] Behavioural insights (BI) are also fast-changing the way we design tax services for SMEs. With an understanding of behavioural traits, services can be designed to nudge businesses away from the status quo towards a certain decision that would ultimately benefit them. For example, when a tax administration sends a SME a reminder to file its tax return, it can tap on BI and design the reminder in a manner that nudges the SME towards e-filing the return, instead of filing the usual paper return. […] IRAS first applied BI in its programmes in 2013. Since then, we have completed more than 6 BI pilots and trials. We also have plans to scale up our BI efforts and systematically apply BI interventions within the organisation."

Source: Survey among tax administrations, Singapore.

New patterns in customer interaction

The report “Technologies for better administration” sets out how the emergence of new or expanded service offerings by third parties in a taxpayer’s ecosystem can improve tax compliance (OECD (2016a). Leveraging on these natural systems, the interaction between SMEs, TSPs and tax administrations will become much more digital, and more seamless. For example, the use of online accounting systems may imply that the service encounters between accountant and SMEs are replaced with electronic communication on a real time basis (see Box 3.13). This creates more room for high level and more specialised accounting services that involve a well-informed interaction between client and accountant.

Such developments can also fundamentally change the way SMEs and TSPs interact with the tax administration. If tax administrations are allowed to tap into all sorts of transactional data and tax processes become more real-time, there might be less need for an annual cycle of tax returns.

Box 3.13. **Increasing electronic interface**

“Data analytics and computer programs will interpret and increasingly replace the human element in processing and interpreting business transactions. Consequently individuals and businesses will demand faster, more accessible, more understandable, more accurate and more economical tax services.” *(survey among TSPs, Canada)*

“(Digital) Exchange of data between authorities is increasing. In Finland the goal is to collect data only once from the same customer in order to reduce the administrative burden. Finland is currently developing a National Income Register for private persons to enable real time taxation. In addition, XBRL (eXtensible Business Reporting Language is used to automate the reporting chain and increase companies’ transparency in financial management. The key objective is to reduce the administrative burden for SMEs.” *(survey among tax administrations, Finland)*

“Increasing electronic interface is a big change TSPs are facing, one that is becoming increasingly important and possibly complex in dealing with clients and the tax administration. Current developments are Cloud, Single Touch Payroll, Remote access of data via internet gateways/providers and working more and more from home offices due to travel and family commitments. There is cost pressure in the marketplace for compliance work, and the amount of compliance work associated with taxpayers’ simple affairs has decreased due to pre-filing and automation of return information. The issue of ownership of cloud information has come to the fore and may inhibit growth” *(survey among TSPs, Australia).*

Source: Survey among TSPs and tax administrations, Canada, Finland and Australia.

At the same time interaction with the SME on meta-level becomes more important: examples are receiving feedback on how services are appreciated, involving SMEs in the design of new service concepts or receiving information that makes it possible to better customise the service. Such types of customer interaction will be vital to TSPs (and tax administrations) to effectively shape their service offerings.

New business partners to provide the solution

As is evident from the description of the changing landscape, tax solutions involve many stakeholders. New service offerings by TSPs may be based on co-operation with new partners. Traditional TSPs may seek co-operation with software firms to enable new solutions or they may partner with banks and other financial institutions to develop more integrated systems. Co-operation with suppliers in the value chain, or new service providers such as Uber or Airbnb may also allow more integrated solutions for accounting and tax filing. Such new arrangements may create a better compliance environment for smaller businesses and self-employed working in the cash economy. Co-operation between TSPs, providers of e-invoicing, e-payment and accounting and possibly providers of (online) sales systems may bring better, cheaper and more compliant solutions for SMEs. Tax administrations may have an interest to engage in such developments.

New revenue model

The shift towards a service perspective and the available technological options might also significantly change the TSPs' revenue streams. The rise of online accounting software leads to standard subscription fees for standardised services, instead of charging hourly fees. Activities outside such standard services, such as specific advice and possibly also interaction with the tax administration, will often still be charged on the basis of such fees. The revenue model may have implications for the interaction with the tax administration: it may drive efficiency, but it may also affect quality. Monitoring the quality of the services delivered is therefore an important feature for tax administrations to consider in their relationship with tax service providers. Of course this is not only related to the revenue model, but also and even more so, to the broader quality framework that is applied.

For software providers, a new revenue model can mean a shift from the traditional product based approach to a model based on the types and volume of online services that are provided ("Software as a Service" or SaaS). An additional stream of revenue may come from new knowledge-based services that draw on the availability of large amounts of data about the SMEs they serve. This can be the basis for services such as benchmarking or advice that is more tailored to the specific situation of a SME.

New organisational delivery model

A final innovation dimension to consider is the organisational delivery system. This dimension refers to the organisation's capability to develop and deliver new services. It is about the skills, organisational routines and organisational culture needed for creating innovative tax compliance experiences and solutions. Such capabilities include the ability to co-operate across organisations and take user experience as a starting point for design. It could also include new organisational arrangements, such as SMEs or TSPs maintaining part of the tax data themselves, instead of following a procedure via the tax administration. New service concepts such as co-operative compliance or pre-filling tax forms are examples of new services that require rethinking of current organisational delivery systems.

Box 3.14. **Voice of the customer**

"From a modest start, whereby taxpayers and/or their agents have been able to file a range of tax related returns and capture certain data issued by HM Revenue and Customs (HMRC), we expect HMRC to enable taxpayers and/or trusted third parties to be able to access much of their non-sensitive data in order to amend it without written or phone contact with the government authority".

Source: Survey among TSPs, United Kingdom.

SME user needs regarding tax compliance

The move towards a service perspective, by creating service sensitive organisations, is one that must meet the enhanced expectations of SMEs' user needs regarding tax compliance. Meeting such expectations, however, is – according to the survey – one of the main challenges for TSPs and tax administrations. These expectations and needs are not static. SMEs themselves (as well as the people they employ) experience faster, easier and more customised ways of co-producing solutions and service experiences in their own business activities, including: in their interactions with other firms (such as their suppliers, but also service providers as banks, insurance companies and tax service providers) and in their interactions with other governmental administrations. Innovative and pro-active SMEs will project their experiences from these activities to the tax domain and raise, or change, their expectations as to how TSPs and tax administrations should support and help them, for example, by making it easier to comply.

Based on the surveys among 14 tax administrations and 36 TSPs in OECD countries, the perceived needs and expectations regarding tax service delivery are the following:

- *Reduced tax compliance costs:* Compliance costs are one of the main challenges SMEs face in relation to their viability and growth, next to market failures and capital market imperfections. As outlined earlier in this report, compliance costs for SMEs are relatively high compared to large enterprises. Unlike large businesses, SMEs often do not have sufficient organisational and financial resources to meet their obligations in an effective and efficient way. This is one of the reasons that SMEs make use of services of external parties such as accountants and tax advisors.
- *Convenience:* SMEs expect greater convenience in meeting their tax obligations. There must be an easier way in terms of contracts, payments, general record keeping, payroll and transactional processes that are necessary for collating and recording information required to meet tax obligations. Government services as well as services as provided by TSPs need to be co-ordinated to make it easy for SMEs to comply and to minimise red tape.
- *Real time service delivery:* More immediate or even real-time services allow SMEs to be more agile and have a better insight in their tax position. This calls for new types of services, using new channels.
- *Customised and personalised services:* SMEs form a very heterogeneous group. Self-employed SMEs have needs that are different from larger SMEs. A subcontractor working for larger companies is likely to have expectations that differ from those of a small trader working in a cash environment. A part-time consultant has other questions than a farmer or bakery owner. Personal circumstances can be very different, as well as the level of cross-border transactions. Some events, such as large investments, call for other types of interaction compared to day-to-day business. The more that service offerings can be tailored to all these different needs and circumstances, the more effective they will be. This is an important reason why it is beneficial for tax administrations to collaborate with TSPs, as the broader TSP community is much more suited to accommodate all these different needs and expectations.
- *"Anytime, anyplace, any device" service delivery:* With the massive adoption of mobile computing, SMEs, when interacting with the tax administration, prefer to access information and services in a way, and at a time, that suits them. This requires services/systems that go across multiple devices and are delivered in a way that align with the products and platforms used by SMEs.

Meeting customer expectations (in this case expectations of SMEs) such as real time service delivery, customised services and anytime, anyplace any device service delivery encourages tax administrations and TSPs to deliver new service concepts (like integrated digital solutions), change customer interaction (co-design, co-production) and devise new service delivery models.

Box 3.15. **Tax advice on a real time basis**

"Higher customer expectations of both tax professionals and tax administrators are likely to impact the nature, channels and speed of tax services provided to SMEs. E.g. real time service delivery that is digital by default; increased transparency and accountability; services/systems that go across multiple devices; contemporary services that align with the products and platforms used by business; and whole of government service delivery" *(survey among tax administrations, Australia).*

"With the increased use of smartphones and mobile applications and the availability of free messaging apps such as WhatsApp, Line, etc. there appears to be an increasing trend of clients who expect their tax advisors to provide them with tax advice on a real time basis" *(survey among TSPs, Singapore).*

Source: Surveys among tax administrations and TSPs, Australia and Singapore.

Overall, the co-evolution of technological and service innovations along with SMEs' changing expectations regarding tax service delivery is considerably altering the SME tax services landscape.

Notes

1. Most authors define TCC as "Costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities over and above the actual payment of tax; costs which would disappear if the tax was abolished".
2. Based on den Hertog (2010).

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Chapter 4

Tax service providers in a dynamic market

TSPs play an important role in assisting SMEs to comply with tax regulations, but often provide broader services to SMEs. Due to the technological developments discussed in the previous chapter, the TSP market is rapidly changing. TSPs face higher customer expectations, more upfront strategies that are adopted by tax administrations, and new entrants and service offerings that enter the market. This chapter addresses the changing business models of TSPs and assesses how the entry of new service providers and their service offerings change the (established) TSP industry. This also affects the expectations that both established and new TSPs have towards tax administrations.

The role of tax service providers in taxation

In most FTA countries, TSPs play an important role in assisting SMEs to comply with the tax law. The type of assistance may vary: markets offer a wide range of tax services by different types of providers. However, there are no exact figures available on the type of assistance provided to and the use of these services by SMEs, or even about the proportion of tax returns prepared by TSPs (OECD, 2015: 266).

The three main categories of TSP assistance that can be distinguished are:

Compliance: activities focused on delivering tax returns or other reports to meet legal obligations.

Accounting: bookkeeping, payroll services and preparing financial statements.

Advisory: providing tax advice and representing clients in tax affairs.

TSPs focus on one of these activities, or provide a broader portfolio of services. Especially for smaller SMEs and the self-employed, the tax service provider will often act as the primary advisor of the business and offer a full range of services, including broader financial and business advice.

The role that TSPs such as tax advisors, accountants and other tax practitioners play in the taxation of SME varies among countries. This depends on factors such as the complexity of the tax system, the regulatory framework (as will be further discussed in chapter 5) or the relative cost of such services. Based on the survey results it seems fair to conclude that in more advanced economies most SMEs make use of services provided by TSPs to comply with their tax obligations.

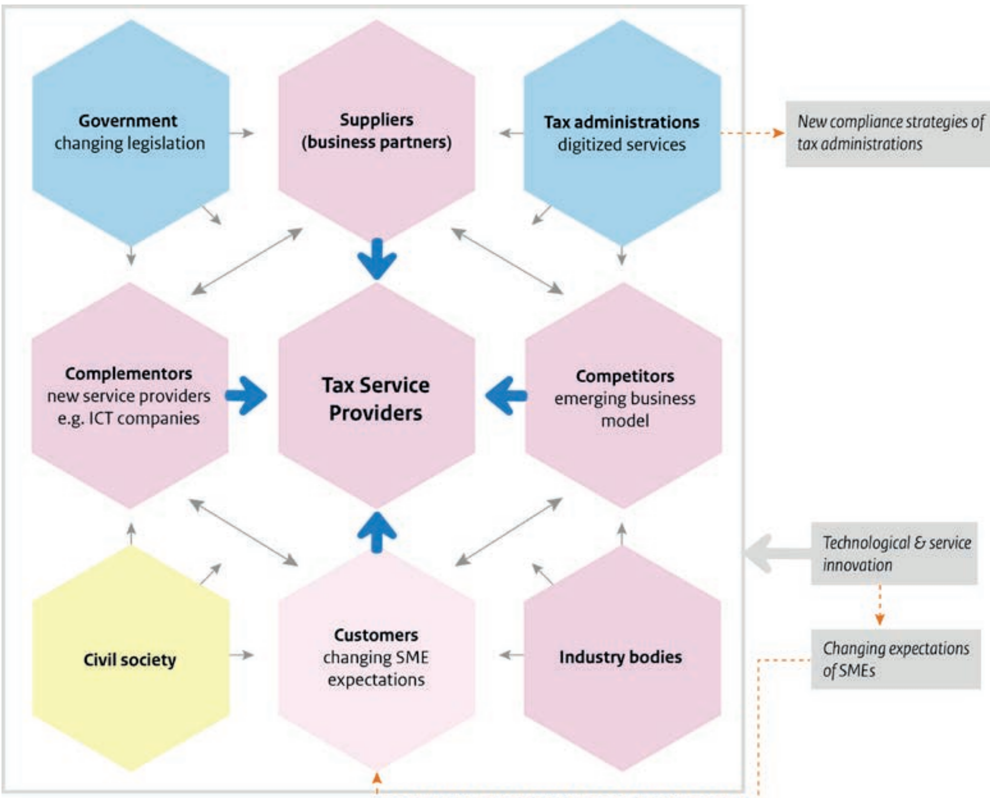
The impact of technological and service innovations

The environment for any firm can be described in terms of four key players: customers, suppliers, competitors, and complementors. The latter are players who provide a product or service than can be linked to a firm's products or services in such a way that both offerings are more attractive for customers (Brandenburg & Nalebuff, 1996).

Customers and suppliers are located in the "vertical dimension". Labour, materials or services flow from supplier to the firm, where they are converted into products and services that deliver value to the customer. The company needs both suppliers and customers to be viable. In the "horizontal dimension", the company will normally have competitors and complementors. Often, organisations shape their strategy exclusively around what their competitors are doing, but can also find opportunities to connect and grow with potential complementors.

Using this information, Figure 1.1 (Chapter 1) can be redrawn from the perspective of the TSP.

Figure 4.1. **Driving forces changing the tax service landscape**



Source: Tax Service Providers Project Team.

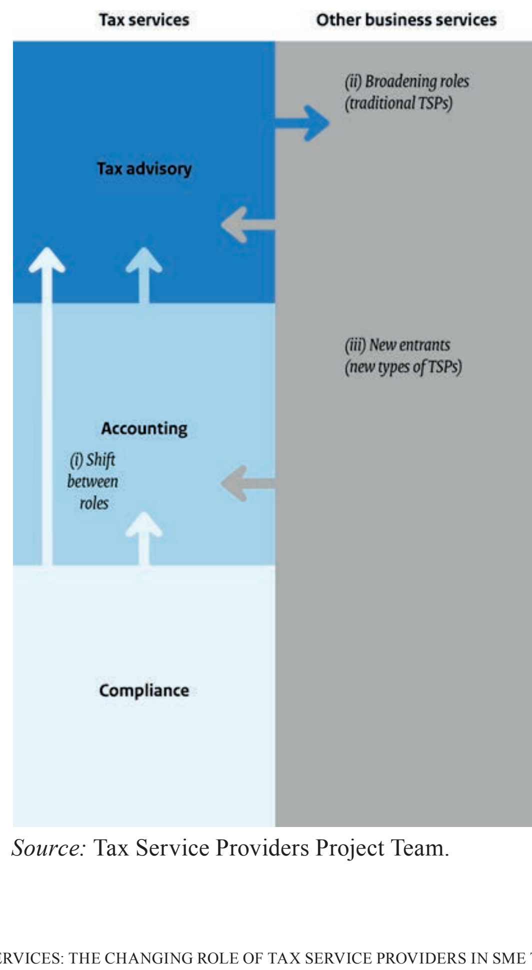
Changing roles in the current market for tax services (new business models)

The technological and service innovations, as described in the previous chapter, affect all three categories of TSP assistance, albeit at a different pace and to a different degree. These external drivers initially may induce three types of shifts (see Figure 4.2):

i. A shift *between roles*. As compliance and accounting services become more automated and standardised these tasks will become more of a commodity, which can reduce the compliance costs for SMEs, and also lower the revenues and margins on these activities for TSPs. Technological developments at the same time create new tools to assist in advisory work and provide new more sophisticated services. Hence, SMEs are likely to move away from using TSPs primarily for compliance and accounting activities toward using TSPs to provide more high-end advisory services that require more personal interaction. As a consequence, the profile of the TSPs will likely transition from bookkeepers who perform routine data entry and lodgement work, towards highly skilled advisors. SMEs may also make greater use of increasing software support from software suppliers.

ii. *A broadening of the roles* of a TSP, outside the traditional scope of tax services, is an example of a shift that can already be observed for TSPs (e.g. starting to provide more generic business services as well).[1]

Figure 4.2. **Changes in the current market for tax services**



Source: Tax Service Providers Project Team.

iii. Based on their core capabilities *new types of TSPs are entering the market*. An example is business application software developers who have so far just been stakeholders in the compliance chain, but who can now start to offer tax services. These new TSPs also introduce services from their existing market to the market for tax services. These latter new services either did not exist before or rather, were not yet regarded as relevant or as a core activity by the original tax service providers (Christensen, 1997). An example would be services that monitor all business activities of a SME and benchmark these against other available data. In the domain of tax, such services could include the tracking of tax relevant events as a basis for more tailored advice. This change towards new types of services offered by current and new TSPs is already happening.

However, the speed of change varies by country. For instance, although technologies are now available to link various software systems (see chapter 3), adoption rates vary greatly between countries and between SME categories. Moving to a digital environment already poses a significant challenge to some traditional TSPs, let alone linking their information system to other actors, or even moving large parts of their activities into the cloud. Box 4.1 illustrates this shift in roles and services by outlining three "personas".[2] It is likely that the different business models will co-exist: TSP roles 2.0 and 3.0 are not necessarily better than the traditional model, and, at present, TSP role 1.0 is probably most common is many countries.

Box 4.1. A shift in roles of TSPs: three personas

TSP 1.0: Traditional TSP

Bookkeeper, 53 years old. 60% of his clients don't have any employees, 40% are small businesses with an average of three employees. He doesn't really enjoy dealing with his larger clients, because of the complexity and lack of personal contact. He knows his customers personally, meets them at their place and comes by whenever he is needed. He doesn't think highly of the new advisors who he believes only care about money. He works on a desktop with a server, uses standard accounting software and has an impressive cabinet with all his clients' files.

Added value: knows his client and helps them where- and whenever needed

TSP 2.0: TSP new-style

Tax advisor, woman, 37 years old, professional. She co-operates with other advisors and enjoys working for big clients. She gives tax and legal advice, and provides clients with thorough analyses of their results. She is not interested

Box 4.1. **A shift in roles of TSPs: three personas** *(continued)*

in bookkeeping as such. Accounting work is mostly outsourced to low cost providers. She works remotely on a laptop, uses business software for data analysis and generating reports. She considers co-operating with an online cloud provider which could be an efficient way of working, perhaps at lower cost.

Added value: tailored tax and business advice

TSP 3.0: Next TSP

Entrepreneurs, 18 to 30 years old, with limited financial or fiscal background. They work as a group of Young Professionals, who run a network and community, fully cloud-supported with a financial and fiscal module. They like to help start-ups with their day-to-day business (including financial and fiscal advice more based on the "wisdom of the crowd"). Existing businesses are also interested in their services because of the intuitive nature. Their aim is to fully integrate the software with e-services, logistical systems, shop floor control systems, supply management, billing, and payment. They are keen to co-design and even more to re-design.

Added value: tax-module part of wider ICT solutions, adaptive to new issues, 24/7

Source: Tax Service Providers Project Team.

TSPs' shifting business models

An ongoing development in the provision of tax services is that the modern TSPs' value proposition is replacing a reactive mode of fulfilling customer demand with a more proactive one. Whereas many TSPs are used to executing more operational tasks, based on legal obligations, they are gradually acquiring a more strategic role when it comes to financial planning and business advice. Data analytics, predictive modelling and more advanced decision support systems allow TSPs to create a comprehensive understanding of their client's situation, which provides a basis for the more tailored advice, as indicated in Chapter 3.

Estimations differ as to the speed at which this type of transformation will take place. In more developed market economies this development is more pronounced already, whereas in emerging economies and in more regulated economies "traditional TSPs" still dominate the scene.

Table 4.1 disentangles the multiple parallel developments and contrasts the traditional business model with the new (emergent) business model.

Although technology in itself is not a business element in the chosen framework, most of the reported developments clearly draw strongly on advances in information communication technology (ICT).

Table 4.1. **Examples of traditional and emergent TSP business models**

Business model element	Traditional business model	Emergent business model
Value proposition	Taking over financial administration tasks (reactive)	Thinking along strategically (proactive)
Value configuration	Transaction processing, compliance auditing, tax advice	Idem, plus: Business planning / coaching, wealth management, IT consultancy
Target customer	Many SMEs, any kind	SMEs with particular needs (customisation)
Relationship	Incidental brief contact with client	Continuous interaction, deep and long-lasting relationship
Partner network	Software vendors	Collaboration with alliance partners
Core competency	Accounting and tax expertise	Strategic and technical skills
Distribution channel	Digitalised administration	Automated administration, personal advice
Cost structure	Remuneration for mature staff	Dynamic workforce, software purchase / development
Revenue model	Pay-per-hour, fixed price	Value pricing

Note: Business model elements taken from a business model canvas (Osterwalder & Pigneur, 2009).

A shift towards value-added services

The core of a TSP value configuration is the processing and auditing of information/data related to taxation, as well as providing tax-related advice. It is by extending the advisory part that TSPs are becoming involved in activities like business planning, wealth management and broader themes such as Corporate Social Responsibility (see Figure 4.2). As it is increasingly easy to automate large parts of the administrative processes, the emphasis is shifting towards value-added services such as business coaching, business valuation (including due diligence), finance sourcing, succession planning and even HR-related advice. Many of the earlier mentioned changes in SMEs' expectations (e.g. convenience, customised services) translate into the demand for one single contact point for support on such a broad range of financial matters. Some TSPs are responding to this trend by broadening their range of services and capitalising on their knowledge of the client's financial situation, fed by automated information streams between the two. Other TSPs choose to benefit from scale economies offering mass customised services to large groups of clients.

Box 4.2. **A shift towards high value services**

"Demographic shifts across the tax profession, combined with the challenges posed by globalised business, offshore advisory sourcing, increased competition (from both within and outside the profession) and digital innovation, are challenging existing approaches in the tax service providers market. Shifts in the profession are also being driven by tax administration initiatives such as pre-filling and simplification/differentiation of returns. The trend is leading to a broadening of the advisory role, beyond simple tax advice, to include broader business services. There is also potential for tax service providers to shift the market focus away from individuals and micro business to SME markets, as the role in simple return preparation diminishes."

Source: Survey among tax administrations, Australia.

In the future, tax service providers' advice and planning are likely to be the main work streams in their business model; tax-related services will also underpin the development of forward-looking financial advice. The concept of "trusted business advisor" may be more suitable than "tax service provider". The "trusted advisor" model involves service providers expected to understand more than just tax, but would include governmental/regulatory affairs, financial advice and legal services. This will not only expand the role of traditional tax service providers, but also increase the influence of a broader range of new service providers in the tax system. For both groups, this boils down to two opposite strategic directions: either specialise and focus on particular niches, or become more and more a one-stop-shop dealing with all government regulatory needs, not just taxation. The choice of a particular strategy is not necessarily linked to scale. Although the niche/specialist role might be prevalent among small and medium-sized TSPs, and the one-stop-shop model in larger firms, many smaller TSPs are actually moving to the one-stop-shop model through alliances with other TSPs, without losing their autonomy. This model fits SMEs' expectations for TSPs to offer a higher level of advice such as on the most tax-effective approach to grow their company, rather than just tax compliance. For many SMEs, this could mean TSPs are starting to operate as their "external CFO" (CPA Australia, 2007).

Box 4.3. **Tax agent trends in the United Kingdom**

The largest tax agent firms (with over 50 employees) in the United Kingdom are generally seeking to become a "one stop shop" which would bring more specialists all under one roof. This is to take advantage of advice needs as a result of increasingly complex legislation, and to provide a truly "end to end" service for their clients. Mid-size and smaller agent firms (10-49 employees) are also planning to specialise, but in fewer areas. Many agents in mid-sized firms want to move into consultancy as they feel this would be profitable work, and because greater use of technology and automated packages had "freed up" time that could now be used in this way.

Agents in the smallest (micro) firms (1-9 employees) and sole traders are less likely to say they would adapt their service offering; they feel they have a regular, loyal client base and/or offer a relatively niche service which they do not need to expand. The majority (86%) of small and mid-sized businesses in the United Kingdom use a paid, professional tax agent to assist with some tasks. This is usually to prepare and submit tax returns (84%), and for help with complex tax matters (70%).

Businesses report using agents because these are perceived to be skilled and knowledgeable, and thus provide peace of mind and efficiency. The main reported downside to this arrangement is the financial cost, particularly for those using professional agents (as opposed to informal agents such as friends and family members).

Source: HMRC research (2015).

The need for collaboration

In order to deliver all the required services at a sufficiently high level, emerging TSP business models typically have new organisational structures. Some TSPs will have a wide range of services in-house, while other TSPs will probably have to rely on an extensive partner network. Catering to a variety of customer demands requires TSPs to adopt a networked strategy in which they build on the expertise of alliance partners. Such networks can be formal as well as based on referral. A shortage of skilled labour might require TSPs to seek assistance from other parties, e.g. when outsourcing less strategic activities to para-professionals. In either case, the indispensable part of any TSP's network is the provider of various types of technology.

In many ways the emerging TSP business models are enabled or even driven by ICT hardware and software. Technologies as described in chapter 2 allow TSPs to streamline communication internally as well as with clients, business partners, and other parties that make up a TSP's ecosystem like banks. Vendors of specialised software for encryption, collaboration and file transfer are to be regarded as important partners in an age when updates and new versions follow on from each other at a fast pace. While this also applies to TSPs adhering to a traditional business model, the markedly higher dependence on ICT in networked TSPs requires the relationship with technology suppliers to be more intensive.

Box 4.4. **Towards automated taxation**

"Developments are moving towards automation both for indirect and direct taxation. In the future, VAT information could be transferred to the tax administration from the e-invoice. This helps automate the VAT filing. In that case accounting firms should be able to offer automated bookkeeping as well as expertise in the most demanding tax problems. Alongside regulatory reporting, accounting firms have to create even better services and reporting for their customers, thus helping entrepreneurs with their economic management and development of their business"

Source: Survey of TSPs, Finland.

Strategic IT skills & information architecture

Given the pervasive influence of ICT, the core competency for TSPs is no longer "just" to be proficient in accountancy and legal matters. Administrative tax procedures can be increasingly automated or at least outsourced, and this could shift the focus to strategic skills relating to interpretation (data analytics) and advice. Consequently, IT professionals and data scientists form an increasingly large share of TSP firms.

Internal IT capacity is in fact becoming a basis for TSP services. While helping their clients set up the collection, communication and analysis of financial data, TSPs integrate themselves in their clients' business and acquire a role for advising on other IT and data issues as well. Aligning IT systems is thus a way to ensure current operations run smoothly while opening up possibilities for new revenue flows.

The evolution is not restricted to a modified distribution channel based on going paperless simply by digitalising existing administrative procedures. Instead, currently available technology takes it one step further by radically redesigning the architecture of information flows (e.g. tax administration directly connected to sales of financial administration). An important challenge here is the threat of cybercrime related to secure data exchange. Again, as TSPs must manage the security of their own IT tools, they might as well take care of their customer's IT system too.

Box 4.5. Using the Internet of Things (IoT) to develop new services

"Today's complex society still needs accountants and tax advisors. However, to stay relevant for customers and add value, it is necessary to stay on top of the Internet of Things (IoT) developments. The IoT allows clients to link their suppliers and customers directly to a system, enabling TSPs to retrieve data from them, import the data into the system, compile them in the accounts and tax returns […] New filing software can be linked to the current CRM systems in order to read pre-populated returns. The ultimate goal is to link up all the systems".

Source: Survey of TSPs, The Netherlands.

New cost structure and revenue models

The altered value proposition comes with a different revenue model. Leaving behind the traditional model to charge clients per hour, or based on a fixed price agreement, the new approach is being of maximum value to clients. In a value-dominant logic, TSPs aim to let their clients perform as well as possible. "Value pricing" is a key concept when it comes to the associated revenue model (Baker, 2010). Rewards for TSPs employing this pricing model are based on the extent to which it ultimately improves their clients' profitability. Calculating and agreeing on this requires a thorough understanding of the value being delivered.

Entrance of new service providers and new types of services

A change in perspective from chain to system (see Figure 2.1), is also a shift from **inside-out** to **outside-in** in terms of organisations (potentially) involved in the tax compliance system. From a chain perspective, the relevant environment is defined by the type of organisation – the tax service industry consists of organisations that are considered or present themselves as TSPs; whereas from a systems perspective, all organisations that play a role in the overall tax compliance process are considered relevant. This greatly enlarges the scope of the environment because it now encompasses all types of stakeholders in SME compliance (see Figure 1.1 and Figure 4.1):

i. Intermediaries: accountants, advisors, tax agents, practitioners, bookkeepers.

ii. Stakeholders in the compliance chain: providers of cash registers/ POS systems, invoicing solutions and accounting software.

iii. SME business partners: banks, investors, contractors, franchisers, suppliers, customers, staff.

iv. Industry bodies.

Type (i) are the organisations that traditionally are referred to as tax intermediaries. They provide the tax-related **skills and knowledge** in the system. This group is and probably will remain in the near future at the core of the tax services market. Yet in order to remain competitive they will want to use technology to streamline their processes. They will also aim to offer competitive advantages such as specific industry knowledge or by expanding their capabilities and service offerings. Using their industry organisations or certification schemes can help to make the quality of their services more transparent.

Box 4.6. **Online accounting services**

Most of the TSPs that offer services online are born in the cloud, although some established accounting software firms have migrated from traditional locally installed software applications. Currently, all online accounting services are cloud based. This means that all data is stored and managed centrally but all services can be run directly from any place in any web browser.

The starting point of these firms is the flow of data. This could encapsulate a very broad range of data streams, including payments, invoices, bank transactions, payrolling, inventory expenses claims and tax returns. A large part (up to 80% or more) of these transactions is being automatically imported and processed into the consolidated online administration of the client. This far-reaching automation makes expensive and error-prone data entry almost obsolete. This is one of the unique selling points of these services, together with the ability to access the administration any time, from any place and any device (including mobile devices). One of the most heralded claims to SMEs is that they now have a real-time, integrated overview of their actual financial situation.

A second important feature is the ability to integrate the various data streams. Most suppliers offer dozens to hundreds of data linkages to a wide range of business partners including banks, chambers of commerce, tax administrations and various types of software suppliers (point-of-sales, CRM, CMS/web shops, data analytics/visualisation etc.).

Most new types of TSPs target two types of customers: SMEs (based on easy to use, e.g. real-time overviews without accountancy jargon) and accountants (based on the ability to monitor and support SME clients from a distance, hence to increase the efficiency and effectiveness to support their clients).

Pricing is usually based on a pay-per-use basis (e.g. number of imported invoices, processed bank transactions etc.), sometimes combined with a modular model (e.g. pay per additional functionality like use of multiple currencies or per additional data link).

Source: Several selected business websites.

Type (ii) firms provide the technology in the system. It is expected that most new entrants originate from this group of stakeholders. In fact, the emergence of IT firms is radically changing the tax service landscape. Especially in forerunner countries, SMEs are already using online accounting systems on a large scale because they can manage their accounting more easily and cheaply. Information systems in many different organisations and across all types of stakeholders (including tax administrations) are being connected. Massive amounts of data are being exchanged. The rise of cloud services has greatly lowered the costs to store and analyse all this data, making Big Data now also accessible to SMEs.

It is expected that online accounting systems will eventually be used on a large scale in emerging economies as well. In fact, online accounting may be more accessible and less expensive in some cases than more traditional accounting services. This offers these countries possibilities for technological leapfrogging: entering the stage of mobile and cloud based accounting, without going through stages as more traditional bookkeeping solutions first.

Type (iii) provides the resources to the system. Such resources not only include money (investments, purchases) but also human resources and components for the infrastructures underpinning the provision of the services in the network. An important strategic decision for SMEs, business partners, TSPs and tax administrations alike is whether to use one uniform

Box 4.7. **Software developers as key stakeholders: Australia**

Software Developers are a key stakeholder in delivering digital services to the business community. The ATO has had an extensive relationship with software developers, having engaged them from the initial phases of design, and this relationship continues. The ATO will leverage the existing support models to assist software developers when building their products.

The benefits of partnering with software developers are:

- The enhanced and improved functionality and services offered to clients.
- Providing clients with real time, interactive services through tailored software.
- Maintaining or improving competitive market positioning, by implementing the latest technology.
- Interacting electronically with government reducing the cost of building, maintaining or operating multiple software products.

Source: ATO.

authentication system for the entire system (using public tokens for private solutions or the other way around – re-using an existing bank system as a means to access online public services like tax services) or to maintain separate systems for the public and private sectors.

Lastly, type (iv) provides the norms to the system. These include both technical standards (such as XBRL and other, to connect and/or transfer relevant data – see also Chapter 6), and industry standards being used to certify and/or benchmark TSPs, software providers and contractors. Note that type (iv) also includes government bodies. Government often play an important (yet sometimes underrated) role in the development of new technologies and in the setting of technological standards (Mazzucato, 2013).

In practice, from a systems perspective, the distinction between the various types of stakeholders will be less clear-cut. This is because the relevant distinction is in functions – not sectors – and organisations in various sectors might fulfil different functions in different processes at the same time.

Dynamics in the TSP market

As described earlier, the traditional TSP elements of compliance, accounting and tax advisory services might evolve to become further integrated into their clients' businesses and subsequently put them in a position to also advise their clients on a broader range of topics. Although the emergence of IT firms in the market for tax services (thus the *outside-in* movement) is probably more visible, the evolution of traditional TSPs into software firms (the inside-out movement) is not a rare occurrence either. In fact, a frequent pattern is that many software firms originate from specific niches outside IT. A typical route is that a firm in a specific non-IT sector like construction, health care, education or brokerage first codifies its tacit knowledge, then transcribes these rules (as algorithms) into software, sells this software to other firms in the same specific sector (billing systems for general practices, online services for brokers and so on) and eventually to firms in other sectors (see survey Velde et al., 2014).

The direction of the movement, thus the prevalence of the patterns in the industry dynamics, is mainly driven by the nature of the knowledge base in the specific sector. If practices are complex and there is a lot of tacit knowledge, transcription into algorithms is difficult. Few sector-specific software firms will arise and if they do, they will mostly originate from outside the sector. The other way around, if practices are less complex, transcription into software will be more prevalent and usually done by IT firms outside the specific sector. After all, their core competences are in software development, and relatively little industry-specific knowledge is required.

Given the well-structured and logical nature of most tax legislation, the tax services domain seems to be well suited to codification. Also, tax administrations themselves may, as part of a move towards a more service-oriented approach (as described in Chapter 3), enable third party providers to integrate tax rules into their commercial software. These are essentially decision rules based on current tax legislation that can be merged as stand-alone modules into software applications. Such a trend would favour the outsiders (IT firms) over the insiders (traditional TSPs) because the former they would be able to enter the market for tax services without requiring detailed inside knowledge of tax services.

Box 4.8. **Increasing efficiency through better APIs**

"[…] Through better APIs, third party software will be able to use the same rules and logic that HMRC services use and can be prepopulated with data. This will make tax easier for customers and help more of them get it right first time. In turn, this will allow HMRC compliance staff to focus their efforts on the minority of deliberate rule-breakers, and not the majority who are trying to do the right thing".

Source: HMRC third party tax software and application programming interface (API) strategy, United Kingdom.

So far IT firms are depicted as rivals to the traditional TSPs. However there is considerable room for collaboration and the new entrants might be regarded as "complementors" instead of competitors (Brandenburg & Nalebuff, 1996).[3] A much more symbiotic relationship might arise between TSPs and IT firms and in some countries this is the case already. This could take different forms. Firstly TSPs – being power users of accounting applications – can co-develop and help configure and implement the software provided by IT firms. They can also integrate specific software solutions into their own business processes, for instance to allow them to interact with their clients online instead of the traditional (expensive) face-to-face advice. This would urge their SME clients to use the same type of software. In this case, the IT firm that provides the specific software becomes the preferred supplier to the SME – a textbook example of "co-opetition" (Brandenburg & Nalebuff, 1996).

A second and similar symbiotic co-opetition relationship might also evolve from another direction (the *outside-in* movement). In this case, an

IT firm offers software solutions for low-end accounting and compliance activities but refers to an affiliated TSP for the more complex, high-end activities that require specialist knowledge. The TSP then becomes the preferred supplier to the SMEs that use this IT firm's software. Looking at the dynamics in the tax services landscape, tax administrations that take a more system based approach will want to focus on the quality measures that are in place in such new service offerings and carefully monitor the quality of the outcomes of such services. Tax administrations may also want to be involved in setting standards and norms for these types of services and the registrations that are part of these.

TSPs' expectations towards tax administrations

The dynamics in this changing tax landscape lead to new expectations from TSPs for services to be provided by tax administrations. Based on the surveys conducted, the main new expectations are:

- *Stimulating digital solutions*: TSPs indicate the need to reduce compliance costs for SMES by making it easier to comply. Tax administrations should help SMEs and their representatives by promoting digital interactions as much as possible. Tax administrations can facilitate this process by encouraging or even mandating SMEs (and through them TSPs) to progress to newer digital solutions, for example paperless lodgement of tax returns. An important condition is that SMEs and TSPs, e.g. in rural areas, have access to the internet.
- *Digital access to client information*: TSPs would like to engage with government and link clients to their practices through a single and secure digital entry point. They would like access to shared data from other agencies, for example "pre-fill" data on income, bank interest, dividends, etc.
- *Integrated practical software*: TSPs (and software suppliers) want to fulfil their clients' tax obligations more easily through integrated practice software which links their and their clients' software with that of the tax administration. Tax administrations should offer open APIs (application programme interfaces) which enables tax services to be embedded in third party software. In this situation there is a digital real-time exchange of information between tax administrations and TSPs (avoiding errors), which includes payment transactions. This should lead to an interactive compliance service with quick real-time, one-touch processing.

Box 4.9. **Access to shared data**

"Tax Administrations can help all of us to embrace the new technological opportunities. They can encourage, or even mandate that we progress to newer technology. The tax administration should engage tax industry service providers as early as possible when developing new technologies and systems relevant to SMEs" […] "Tax administrations could be a source for the information required to help clients fulfil their tax obligations but not competitors providing services that we can offer. We would like access to other agencies' shared data. Integration of all portal functions into tax practice management software – a more seamless process – is what most tax practitioners would like to see".

Source: Survey of TSPs, Australia.

- *Using software standards:* With the introduction of the standard business reporting code set, a company can make its financial statement and tax return in a structured form using an open standard (XBRL). This enables more automated and seamless interaction and reporting between SME, TSP and the tax administration. The Standard Audit Files (including the Standard Audit File for Tax, SAF-T [OECD (2010)]) also provide a basis for information exchange between SMEs and the tax administration. Such standards contribute to the quality of the accounting and filing processes as a business transaction is kept in a standard format from source to the final reporting. This reduces the risk of errors as well as changes in information as no conversion from one software environment to another is needed.
- *Partnership*: Partnership and co-operation between tax administrations and TSPs are considered essential and indispensable. Collaboration provides substantial savings in time and costs. The TSPs who participated in the survey indicate that they would want to be engaged early on when tax administrations develop new technologies and systems relevant to SMEs. This also applies to software providers who seek a partnership with an administration to develop and implement solutions that make compliance with the tax regulations and procedures easy for users. In developing and implementing new or enhanced solutions, a better understanding of each other's operating environment helps to co-operate on new solutions.

Box 4.10. **Important conditions for better co-operation according to TSPs**

"Some important conditions for better co-operation are: digital as standard; portals instead of letters; predictable pace of computerisation and digitisation from the government; transparency; digital real-time exchange of information between the tax authorities and tax service providers (avoiding errors), including payments; more API connectivity to supply or retrieve relevant tax information to and from the tax administration; and, easily explain the tax rules and implement smart rules in the financial administration so that our company and individuals are benefitting from tax" (survey among TSPs, The Netherlands).

"It is important to move towards contemporary services and expose key information/business data through APIs; constant two-way consultation; system design that meets both business and administration needs; real simplification; interactive compliance service; e-payment solutions; quick real-time, one-touch processing; handling confidential information" (survey of TSPs, New Zealand).

"Tax service providers should be viewed by the revenue authority as "partners" sharing a common goal of tax compliance. […] The revenue authority needs to create a conducive environment for tax practitioners, for example providing express counters at their branches to expedite transactions" (survey of TSPs, South Africa).

"E-filing exists already but can be improved. Increased e-mail correspondence (instead of regular courier) is needed as it speeds up and facilitates communication with the tax authority. There should be online access to all historical data (tax returns, communications, documents, queries, decisions etc.)" (survey of TSPs, Sweden).

Source: Surveys among tax administrations and TSPs, The Netherlands, New Zealand, South Africa and Sweden.

Notes

1. Note that this broadening could also refer to a *geographic* broadening of the service provision while often at the same time concentrating on specific markets or market segments. ICT has greatly lowered the costs of interacting with customers at a distance. Hence, TSPs can now potentially reach many more customers. This enables them to *specialise* in specific customer segments or branches but on a larger geographical scale.

2. These personas were developed by the project team, based on the discussions in the Working Group.

3. An example of this collaboration is the online platform of tax service providers in the Netherlands. The purpose of this platform is to improve knowledge sharing among tax service providers and between tax service providers and the tax administration. Many tax service providers use this platform. The tax administration facilitates this "wisdom of the crowd" concept.

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Chapter 5

How tax administrations can relate to tax service providers: four network strategies

Tax administrations can adopt different types of network strategies for co-operating with TSPs. This chapter identifies four basic network strategies. These strategies can be characterised as being more closed (specifically targeting businesses' tax processes) or more open (looking at the broader business processes). They can also be more "government-driven" versus more "market-driven". It is important that such strategies fit the broader compliance strategy of a tax administration and meet the specific legislative, technological and cultural environment of a tax administration. "Finding the right strategy" involves many factors, and the right strategy is often not a single strategy. The environment may be different for different taxpayer segments, types of tax service providers or industries, and given that tax administrations also operate in existing networks and alliances, a combination of network strategies may be helpful.

Two key dimensions: openness and governance

The primary goal of a tax administration is to collect taxes and duties in accordance with the law. Rights and obligations for SMEs need to be clear and easy to fulfil, the integrity of the tax system maintained and the overall confidence in the tax system and its administration needs to be sustained. The way in which this goal is accomplished, however, can differ considerably. Tax administrations set out their approach in specific strategies. Such strategies will be different for different administrations, depending on the specific circumstances of a tax administration and the societal context in which it operates.

This chapter discusses the different strategies a tax administration can have, based on two dimensions. From the research on which this report is based, these two dimensions seem to reflect the dilemmas that many tax administrations face at the moment. A first dimension is the level of openness, which is how far an administration can and wants to engage in the broader business environment of SMEs in order to ensure revenues and compliance with the tax regulations. A second dimension relates to the role that tax administrations see for themselves in the tax services landscape: do they consider the development of tax services something that primarily needs to be driven by the market, or do they want to play a more initiating and leading role themselves: either in providing such services or in regulating such services.

Level of openness

In a more closed orientation, which can also be labeled a "silo perspective", the focus of the tax administration is primarily on the logistics of the tax processes: proper registration, the filing processes, assessment and audit and the collection cycle. This relates to the "goods perspective", mentioned in the *Tax Compliance by Design* report (OECD, 2014). This focus on the core processes defines the relationship of the tax administration with TSPs and other stakeholders.

In a more open perspective, which can be characterised as a "systems (or network) perspective", the tax administration focuses more on the broader business environment of the SME, seeking arrangements that create value for SMEs and ensure compliance. As outlined in the previous chapters, adopting such an approach means opening up to a broad group of TSPs and other stakeholders. The core driver of such an approach will be "making it easier for SMEs to comply and to do business". Taking a customer centric approach, as discussed in chapter 3, is a key characteristic of a more open network strategy. In such more open systems the tax administration can have different types of involvement, varying from "distant follower" to "initiator and participant". In some situations, when institutional arrangements within the market or an industry are yet weak, the tax administration may be in the best position to help launch initiatives that facilitate better accounting, tax filing and related business processes.

Governance: government-driven versus market-driven

Tax administrations can take different approaches in the extent to which they allow or support market actors to play a role in increasing SME tax compliance: more government-driven and hierarchical versus more market-driven and "horizontal".[1]

In a market-driven approach, a tax administration will make use of initiatives created by established and new TSPs in the market, without deliberately steering this process. Tax administrations (or broader government) may facilitate and possibly encourage market actors to make tax services a part of their service offerings. This may stimulate established TSPs or new entrants to develop new services and come up with innovative solutions that support businesses' tax processes.

In a government-driven approach, the tax administration (or broader government) defines the conditions under which services can be provided. An example would be a requirement that tax returns need to be prepared or evaluated by certified TSPs. Following a more government-driven approach does not imply that TSPs have no role in the tax processes; rather it implies that their role is predominantly defined and sanctioned by the government.

Four network strategies

The two dimensions stated above are conceptual simplifications and take matters to extremes. In practice, most countries have a **combination** of more or less open perspectives on the system, as well as more or less encouragement for market-driven initiatives. Most tax administrations already operate in networks and alliances. These networks will differ in their degree of openness and type of governance. Using these two dimensions, we can differentiate four network strategies (see Figure 5.1).

The network strategies can help a tax administration determine how it may want to position itself in relation to TSPs, and hence indirectly towards SMEs. The choice of strategy depends on how an administration wishes to respond to the technological and business changes described in this report, and with regard to the possibilities it sees for collaboration with TSPs, given the role they play, their level of organisation and the value that they can add.

The characteristics of each strategy are reflected via a short description and a verb signalling the tax administration's typical role in this strategy.

Finding the right strategy involves many factors. The right strategy is often not a single strategy. As the environment may be different for different taxpayer segments or industries (e.g. maturity of tax service solution available in a market or industry) and given that tax administrations also operate in existing networks and alliances a combination of network strategies may be helpful. Tax administrations will find that they interact in many ways with TSPs (having interactions listed in more than one quadrant). This does not mean they have an incoherent TSP strategy as the nature and scope of the various interactions may justify using more than one strategy.[2]

Figure 5.1. **Four network strategies governing the relationships between tax administrations, established and new TSPs and other stakeholders**

Governance Scope of the Tax Administration	**Government driven** Government are more in control of the services and related data and information streams needed for tax compliance.	**Market driven** Government makes use of the various services and related data and information streams that are available in the market for tax compliance.
Closed ("Silo") perspective Tax administration is closed in relation to the broader system. It focuses on the core tax processes.	*Controlled Network* **Act/develop** Government itself is primarily responsible for increasing SME tax compliance and develops solutions for this in-house. The role of established and new TSPs as well as other stakeholders is limited.	*Hybrid closed Network* **Regulate** Established and new TSPs and other stakeholders do play a role in increasing SME tax compliance, but their role is well regulated in advance.
Open ("System") perspective Tax administration is more open to the broader system. It involves with the broader group of administrative stakeholders surrounding SMEs.	*Hybrid open Network* **Organise** Government is primarily responsible for increasing SME tax compliance and more widely making it easier for SMEs running a business. Services, data and information can be derived from other public and private stakeholders, but are steered by the tax administration.	*Adaptive Network* **Stimulate** Established and new TSPs and other stakeholders are stimulated to step forward with innovative solutions that increase SME tax compliance and more widely making it easier for SMEs running a business.

Source: Tax Service Providers Project Team.

Controlled network strategy

The **controlled network strategy** is a strategy where a tax administration chooses a more controlling role in the network and mainly builds on its own strengths and capabilities, to develop services that help SME taxpayers to comply with tax procedures and regulations. Co-operation with TSPs can nevertheless play an important role in this strategy. The conditions for such co-operation though will be set by the tax administration. Tax administrations feel responsible for raising and maintaining tax compliance and invest in their core processes as registration, services, audit and collection.

Tax administrations will leverage on technological developments by making better use of third party data and developing more easy-to-use services (via apps and other) for business taxpayers. The actions characterising this strategy are **act & develop.** In this strategy a tax administration's co-operation with TSPs will focus on the operational tax processes. The tax administration will not actively seek or accommodate new service solutions from TSPs or involve new types of service providers.

A major advantage for the tax administration of this network strategy is that it keeps control of the tax compliance process, providing clarity to SMEs on what procedures are and where guidance is available. A disadvantage is that service solutions are primarily defined from the administration's perspective (limited to the silo of tax compliance). Consequently, tax administrations and SMEs do not benefit so much from the innovation potential present elsewhere in the market. This might lead to fewer service solutions that could potentially make tax compliance more seamless and customised.

The adaptive network strategy

The **adaptive network strategy** is in almost all respects the opposite of the controlled network approach. Notwithstanding the responsibility of the tax administration for the functioning of the tax system, the tax administration will take a more open and system perspective in co-operating with TSPs. This might also involve interacting with actors who traditionally had no role in tax processes.

Assuring that tax regulations are well observed and that SMEs can obtain high quality tax services is seen as a shared responsibility, where there is ample opportunity for market-driven initiatives. The tax administration deliberately **stimulates** market actors to step forward with innovative solutions, as it realises that TSPs may be in a better position to provide SMEs with more integrated and tailored services. This offers SMEs a wide choice in types of services and providers.

A major advantage for the tax administration is the likelihood of tapping into the innovative potential of numerous TSPs and other stakeholders. A possible disadvantage could be that SMEs may view the tax administration to be the steward of the system and thereby responsible for any errors in the overall system, even if the error is due to one of its partners. This could mean that tax administrations could get an additional role in assessing the quality of the overall system. Possible disadvantages are that the tax compliance landscape for SMEs might become less transparent, as various service solutions co-exist and switching costs between TSPs could be high for SMEs (giving rise to a service lock-in).

Hybrid closed network strategy

With a **hybrid closed network strategy**, the tax administration still positions its own administrative process at the centre of the tax compliance process (adopting a more closed output or silo perspective), but allows market actors to contribute service solutions. In this scenario the tax administration will allow more freedom for the market to develop services that help SMEs to deal with their tax issues. As a tax administration in this scenario will be more dependent on services provided by TSPs it will choose to **regulate,** such regulation can either be targeted on the qualifications of the professionals providing tax services, or on the services itself via standards and certification schemes. An option in this scenario is that tax administrations will focus on services that help TSPs to assist SMEs. The latest FTA Tax Administration Series publication to which 54 tax administrations contributed (OECD, 2015) gives some insights on the extent to which tax administrations provide specific services to TSPs.

Table 5.1. **Services provided by tax administrations to TSPs**

Specific Services to TSPs	
Dedicated website section	*26* (48%)
Specific phone line	*14* (26%)
Access to technical experts	*24* (44%)
Relationship managers	*15* (28%)
News/Information bulletin	*31* (57%)
Other arrangements:	
Formal consultative forum	*34* (63%)

Source: OECD, 2015.

The advantage of this strategy is that there is more room for innovative solutions by TSPs and other stakeholders compared to the controlled network strategy, although their role is still confined, as they need to act within the processes as laid out by the tax administration. This means that this approach will require some form of regulation, or at least registration of TSPs. The tax administration needs to know who their partners are and to what type of services they are entitled. This may come with specific requirements regarding professional skills and some form of monitoring of quality.

In addition, SMEs still face various parallel administrative processes regarding compliance, which might entail a considerable administrative burden.

Hybrid open network strategy

With the **Hybrid open network strategy** the tax administration is well aware that it can benefit from a myriad of players in the system (both tax and non-tax), but chooses a more "control" approach in allowing what type of service providers and type of services are needed and allowed in the system. This also applies to the data and information streams from all sorts of players in the system (both tax and non-tax). TSPs may play a role in all this, but the tax administration very much **organises** these initiatives.

> Box 5.1. **Registration of Tax Preparers Program: Canada**
>
> "Under the proposed Registration of Tax Preparers Program (RTPP), tax preparers who prepare individual or corporate income tax returns for a fee would be required to register with the Canada Revenue Agency (CRA). The goal of the programme is to identify which tax preparers are making errors and to work with them to prevent these errors before the tax return is filed. Through the RTPP, the CRA anticipates providing feedback to tax preparers on the type and frequency of errors on the tax returns so that the preparers can improve the quality of future tax returns. At this time, the CRA does not feel that it is necessary, as part of the RTPP, to introduce tax competency standards, some of which are already in place among the professional accounting associations to which some tax preparers belong"
>
> *Source:* Canada Revenue Agency (CRA).

The major advantage of this network strategy is that tax administrations have more control over the tax services offered, but it also allows the provision of more integrated and more tailored services to SMEs, including both tax *and* non-tax administrative processes. The likelihood of standardisation is higher. The downside of this strategy is that it is quite demanding for tax administrations: it supposes that the administration oversees all administrative processes surrounding SMEs. Furthermore, the degree to which innovative and customised service solutions become available is probably lower compared to the adaptive network and also to the hybrid closed network strategy.

Box 5.2. **Tax Professional Engagement Strategy: Australia**

"We have developed a Tax Professional Engagement Strategy together with tax professionals, professional associations and software developers, driven by significant change in the profession and for the ATO. We have identified common goals focused on: making it easy for people to participate, having access to contemporary and tailored services, and building and maintaining purposeful and respectful relationships.

The engagement strategy aims to outline how we will work in partnership to deliver on these goals. Key strategies include:

- Providing more ways for tax professionals to stay informed and have greater access to services that support them.
- Increasing consultation on a range of matters relevant to tax professionals, raising awareness and understanding amongst tax professionals and software developers for upcoming changes and helping them to prepare their practices and staff.
- Establishing the Working with our Partners programme of work. The aim of this programme is "through consultation and collaboration with our existing and new partners in the tax and super systems, the ATO ensures the systems are operating at a Whole of Government and global level".
- Developing our understanding on how we will deliver the experience for tax professionals, as outlined in the Reinventing the ATO Program Blueprint.

We provide support and assistance strategies for tax professionals to make it easier for their clients to comply, and to assist those practitioners experiencing difficulty meeting their obligations. We also develop, implement and co-ordinate compliance strategies to influence a positive change in tax professionals' risk behaviour and take firm action against instances of non-compliance. For instance, we have specific programmes aimed at addressing high risk behaviour of tax intermediaries, such as accountants with patterns of omitting income from their clients' returns. Some particular areas of the "Working with Our Partners programme" we are looking at through this strategic programme include:

- Working with our partners and intermediaries to establish trusted relationships
- Working with our partners and intermediaries to transform the client experience, leveraging our partners and intermediary network to influence changes needed to the Tax and legal framework
- Building the ATO's enterprise intermediary/partnership management capability.

Box 5.2. **Tax Professional Engagement Strategy: Australia** *(continued)*

As part of this programme, we are looking at intermediaries beyond traditional tax service providers such as tax and BAS* agents, to intermediaries such as insolvency practitioners, financial planners and their professional associations and financial institutions. Note that some of the data exchanges with financial institutions were developed through co-design and are managed using a collaborative web-based workspace and joint industry/ government committee".

Source: Survey among tax administrations, Australia.

*A BAS agent prepares financial reports for the preparation and lodgement of Business Activity Statements (BAS) and provides advice to clients assisting them to comply with the Goods and Services Tax (GST) regime and related legislation.

Stylised characteristics of the four network strategies

In Figure 5.2 various strategic dimensions of the four network strategies are given and their implications briefly discussed.

Strategy towards TSPs

The first dimension is crucial as it basically determines how the tax administration sees and positions itself in the tax service landscape in relation to other actors. The *controlled network strategy* typically starts from its own (actual or perceived) strengths. Here the tax administration is in control and sees a large role for itself in enacting and developing the required systems and coalitions for increasing tax compliance among SMEs. The administration decides what is needed. Thus the strategy is focused on influencing others and prescribing or setting market conditions. In an *adaptive network approach*, the tax administration will give much more room to other organisations that play a role in the tax compliance process. Thus the administration has a more distant role as it sees all sorts of solutions arising in the market. These solutions can come from established TSPs, but equally from new types of TSPs and other stakeholders. The administration takes the stance that the market will decide what solution provides the best value to SMEs. The strategy is focused on being open to and being influenced by what happens in the market and also leaves considerable room for SMEs' preferences. This is not to say that "everything goes" as tax administrations still have to make sure tax compliance meets certain minimum requirements. The hybrid open and hybrid closed network strategies are somewhere in between the first two strategies. In the *hybrid open strategy*, which is clearly

Figure 5.2. **A tax administration's strategic positioning for the four network approaches in a changing tax landscape**

Strategy / Dimensions	Controlled network	Adaptive network	Hybrid open network	Hybrid closed network
Strategy towards TSPs	"We know best": the tax administration acts and develops the chain for collecting tax	"We enable": the tax administration stimulates variety, innovation and customization.	"We know the sytem": the tax administration organizes the system and asks for help where needed.	"We are responsible": the tax administration regulates the TSP market.
Level of collaboration with TSPs	Low	Will vary	High	Intermediate
Distribution of power	Tax administration sets the rules	More balanced	More balanced	Tax administration sets the rules
Value proposition towards SMEs	Transparant, but less convenience. One size fits all (no customization).	Less transparancy, but more convenience. Tailor-made solutions.	Less transparancy, but more convenience. Mostly one size fits all (some customization).	Transparant, but less convenience. Some customization.
New Products & Services (generic or customized solutions)	Tax administration decides on new P&S (directly related to tax compliance). More generic solutions.	Established and new TSPs create new products and services. Strong bias towards customized solutions.	Co-production. Tax administration as gatekeeper for new products and services by TSPs. Some room for customized solutions.	Co-production. Mainly established TSPs propose new products and services in regulated market. Some room for customized solutions.
Regulation of TSPs	Will vary depending on role that TSPs have in the system. Tax administration will regulate whereas TSP have a formal role and will impose mandatory standards to be used in the tax domain	Combination of soft regulation of products and services and self-regulation of TSPs.	Regulation through mandatory standards to be used in the digital public domain and self-regulation of TSPs.	Regulation of the TSP professions and their role combined with forms of self-regulation.
Information infrastructure	Centralized. Customized systems of the tax administration.	Secure chain (market defined). All sorts of of coupling and sharing.	Secure chain (but defined by the tax administration). Coupling and sharing government driven.	Mostly centralized. Some room for coupling and sharing linked to core processes of the tax administration.
Scope for data and information sharing	Defined by the tax administration. Less sharing. Moderate use of data generated by TSPs and wider set of stakeholders.	Room for market initiatives. High use of data generated by the tax administration, TSPs and wider set of stakeholders.	Shared information position of the tax administration, TSPs and stakeholders. Trust is important. High use of data generated by the tax administration, TSPs and wider set of stakeholders.	Shared information position of the tax administration, TSPs and stakeholders. Trust is important. Moderate use of data generated by the tax administration, TSPs and (more limited) a wider set of stakeholders

Source: Tax Service Providers Project Team.

government-driven, the tax administration, together with TSPs and other stakeholders, sketches out the big picture of how tax compliance should be organised. However, the administration follows a much more co-operative strategy vis-à-vis these organisations. In the *hybrid closed network strategy*, the presumption is that some parts of the tax compliance process are looked after by TSPs. In that sense it is also a co-operative strategy, although where and how a TSP can contribute is well regulated. There is probably less room for innovative players who have traditionally not played a role in tax compliance, to come up with innovative solutions.

Box 5.3. **Working with Our Partners program of ATO: Australia**

"The Working with Our Partners program highlights our recognition of the importance of intermediaries, as partners in the tax and super systems and acknowledges their collective role in improving compliance. Through the program we aim to build excellent working relationships with our intermediaries, supporting them in their key roles of influencing compliance behaviour.

We recognise the tax and super systems cannot work without the tax profession, financial advisors and other intermediaries. Not only do they play a significant functional role, they also play a major role in influencing attitudes towards the tax and super systems.

We need a productive and open relationship with these business partners and intermediaries where we can identify and deal with issues early, in a transparent and timely fashion. We are currently building a partnership framework that encompasses this and allows us to build enhanced relationship with our intermediaries and partners that we can leverage to increase compliance levels and willing participation in the tax and super systems."

Source: ATO.

Level of collaboration and the distribution of power

The second and third dimensions are in line with the strategies outlined above. In the more closed strategies, the tax authorities will define the rules under which TSPs can play a role in the system. That is to say in the relationship to the tax administration. Of course services that solely relate to the SME, such as tax advice, will not necessarily be regulated. However, specifically in the SME market TSPs often offer broad services, as mentioned earlier. In that situation, free access to and a good relationship with the tax administration are vital.

In an *adaptive network strategy*, the level of collaboration will vary, depending on the role that the tax administration wants to play. Tax administrations may be involved in market initiatives, via public-private partnerships or as participants in, for instance, standardisation bodies. A tax administration can also choose to play a less active role and concentrate on the minimum standards necessary for data sharing and exchange, while also focusing more on monitoring the quality of the various services or systems, rather than being involved in them. TSPs will be knocking on the tax administration's door with new and innovative services that can take over activities currently regarded as core tax administrator activities. This also signals a more balanced distribution of power between tax administrators and TSPs. A similar balanced relationship is visible in the *hybrid open network strategy*, although there may be less competition and innovation than in a more market-driven strategy.

Value proposition towards SMEs and new products & services

Regarding the fourth and fifth dimension, the four network strategies are quite different as well. In the *controlled network strategy* it is likely that the value proposition from the tax administration to the SME it serves is quite transparent. However it is designed around the needs of the tax administration and might therefore be less convenient for the SME as it offers little room for customisation. It is the administration that decides on new products, technological options and services to be developed, probably resulting in more generic solutions.

In almost all respects, the *adaptive network strategy* can have a different outcome. The tax administrations allow for more tailor-made solutions that pop up in the market. This might lead to less transparency for SMEs on what proposition to choose. At the same time it might also lead to more convenience, as there are now market players focussing on certain industries and categories of SMEs and coming up with customised solutions. The *hybrid open network strategy* is a mixture of the previous two strategies. There is probably more customisation than in the first strategy, but less than in the second. The tax administration may act as a gatekeeper for new products and services. In the hybrid *closed network strategy* a similar co-production is present. Yet here it is evident in what segments and for what functions (mostly) established TSPs may come up with new products and services. There is therefore some limited room for customisation and customised tax service solutions.

Regulation of TSPs

It is quite common in professional services to regulate access to markets and set professional standards. This practice also applies to established TSPs.

However, as was illustrated in Chapter 3, the current TSP market is highly dynamic and new players from different industries such as software, POS systems or banking are entering the market for compliance, advisory and accounting services. Many of these new players have no tax background, introduce completely new types of services using different business models and compete with the incumbents. They either join forces with established market players or carve out a niche with a completely atypical business proposition that is new to the market. Such new TSPs and other stakeholders that can play a role in these new services face governments with quite different traditions in regulating TSPs.

The European body of tax advisors distinguishes five types of regulatory situations (Conféderation Fiscale Européenne, 2013):

- The role of tax advisor falls under the regulations for lawyers or accountants
- The tax profession is self-regulatory
- The title of tax advisor is regulated, but anyone can offer tax services
- Voluntary acceptance of qualification requirements, based on the membership of a professional body
- There are no specific qualification requirements. In practice, persons who provide tax services are often a member of another regulated profession such as lawyers or accountants.

In a study of the OECD special reference has been made to the role and value of regulation and registration of tax intermediaries:

> "An ability to identify tax intermediaries is generally seen as being an important step in understanding and effectively managing their role within the tax system. However, the level of revenue body involvement in the registration and regulation of tax intermediaries varies considerably. In some FTA countries, tax advisers are entirely self-registered and regulated, generally within the framework provided by professional bodies. This framework can be very strict as some tax intermediary businesses are tightly regulated and operate under a number of professional and ethical codes. The United Kingdom is an example of a country that, to some extent, relies on self-regulation by professional bodies. The five main principles of one such body, the Institute of Chartered Accountants in England and Wales (ICAEW), are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour." (OECD, 2008: 18)

Arguments for imposing some form of regulation on TSPs and tax-related professions are that it improves consumer protection, has built-in mechanisms to maintain quality (such as codes of conduct, reviews, disciplinary actions) and helps to create a focus on improving quality. Other arguments that make the case for regulated professions are that well organised professions can help businesses grow, improve compliance and may lead to a greater focus on serving the interest of society as a whole. There are also mostly dynamic efficiency arguments not to regulate or at least not to automatically regulate markets. Regulation may deter new innovative players from entering the market, which might lead to higher costs due to lack of competition and more bureaucracy. Instead of creating dynamic efficiency gains through new (cheaper or more customised or both) services, existing interests may be protected and existing professions not incentivised to innovate their services and service models. The effects of regulation are also difficult to assess.

In terms of regulation of TSPs, the four network strategies will most likely emphasiqe different forms and different degrees of regulation. It is well conceivable that in all network strategies, elements of strict legal regulation by government, self-regulation and standards do play a role. However, the actual mix will differ as will the degree to which the professions or the products and services provided by TSPs are regulated. Depending on the degree of openness, the regulation will be restricted to the tax domain or more widely to the administrative system surrounding SMEs or the digital public domain.

Box 5.4. **Regulation of tax service providers: South Africa**

In South Africa the Tax Administration Act (TAA) has regulated tax service providers. This means that only those belonging to a Recognised Controlling Body (RCB), which are tax compliant, do not have active criminal records, and fulfil their RCB's qualification and continuous professional development are recognised as registered tax service providers. The same does not apply to Customs clearing agents who remain largely unregulated. People completing/acting on behalf of taxpayers who do not fall under this category are called tax preparers and they do not have the capacity to submit returns on behalf of taxpayers.

Source: Survey among tax administrations, South Africa.

In situations where more responsibility is given to the private sector, regulation may be more a combination of soft regulation (through for example quality marks, certification, voluntary standards) of products and services and self-regulation by TSPs. As new TSPs will thrive in this network strategy they might infuse the tax world with new types of (self-)regulation. The latter could include registers of professionals and firms, qualification requirements, professional standards and professional codes of conduct.

Infrastructure and scope for data and information sharing

The seventh and eighth dimensions from Figure 5.2 link the information infrastructure and scope for data and information sharing that are typical for each of the four network strategies. In the two strategies with the closed output perspective, more centralised information infrastructures will emerge. Nevertheless, in the hybrid closed network strategy there is some room for "coupling and sharing" as long as these are linked to the tax administration's core processes. In the two more open (outcome oriented) perspectives, the point of departure is that all possible administrations and actors can play a role in gathering and sharing relevant data and a secure chain information architecture are more likely here.

In the more open network strategies (the *adaptive network* and *hybrid open network strategy)* all sorts of coupling and sharing takes place. Data and information gathered by the tax administrations may be shared with other government agencies, industry organisations or business partners. The scope for data and information sharing is also highest in these strategies, as the starting point is not based on data needed for tax collection but on a much wider set of administrative processes surrounding SMEs.

Box 5.5. **Changing the network approach**

The strategic positioning of the Tax Administration Service (SAT) in Mexico is changing towards more transparency and convenience, with a focus on conclusive services and improved user experience. In 2015, first steps were taken towards solutions that are more customised for SMEs in specific sectors. This is done in close co-operation with TSPs. New programmes are being implemented with authorised providers for electronic invoicing, electronic accounting information and tax returns. Steps are being taken to share the security technology (electronic signature) with other government entities. The aim is to standardise the process of identification of all citizens and allow them to pay local and federal taxes with the same identification and authorisation process.

Source: Mexico's Tax Administration Service (SAT).

Notes

1. For the seminal article on these two approaches, see (Williamson, 1981). To these two options Powell added a third category i.e. networks as a governance mechanism, see (Powell, 1990). In our view, networks can be defined as hybrid organisational forms combining the benefits of hierarchies (long-term structural co-ordination of activities) and the market (flexibility, more open to innovation and change, greater motivation for efficiency). We could argue that networks allow for forms of co-specialisation and co-production. However, networks can also have the downsides of hierarchies and markets namely bureaucracy, unbalanced power relationships, opportunism and even abuse of trust.
2. If tax administrations would map each of their activities in which TSPs are involved a pattern may emerge for their overall TSP strategy.

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Chapter 6

Finding and implementing a tax service provider strategy

The developments discussed in this report present tax administrations with challenges and dilemmas. The shifts in the market of tax service providers bring opportunities to better serve the taxpayer and improve tax compliance. Tax administrations need to consider their strategies: allowing a strong role for the tax services industry, or focusing more on strengthening the direct relationship with SMEs – enabled by the same technological developments that are reshaping the market of tax service providers. This chapter aims to provide guidance on how tax administrations can develop and implement a TSP strategy with TSPs and how this can be put into action. It also discusses the technical, legal and organisational conditions that are important to make such a strategy work.

How to relate to TSPs: finding your strategy

As tax administrations operate in different contexts, there is no one size fits all solution or standard procedure. When developing a TSP strategy, three important aspects may be considered:

- Making a TSP strategy part of your broader (SME) compliance strategy.
- Systematically assessing trends and developments in the tax landscape.
- Including principles on data and information sharing in your TSP strategy.

Make a TSP strategy part of your broader (SME) compliance strategy

Many tax administrations today are adopting more upfront approaches. They aim to better align with SMEs' business processes to provide a more seamless and real-time interaction. Collaborating more extensively with TSPs can help implementing such strategies.

A TSP strategy therefore should be seen as a part of the wider compliance strategy. Some key questions to consider are:

- *Who are the relevant (new) stakeholders in the compliance process?* It is important to involve and engage both established and new TSPs and stakeholders (including new entrants). These can be any organisation that directly or indirectly supports SMEs in complying with tax regulations – or could play a role in that. Obvious examples of course are tax advisors and preparers, accountants, and providers of accounting and filing services. It may be worthwhile to establish a dialogue with these types of organisations, depending on the specific strategies that a tax administration may want to implement. Also financial institutions such as banks, industry organisations, standardisation bodies or other government agencies could play an important role in the system. And on a broader level it may be worthwhile to consider the role that business networks, internet discussion groups, publishers etc. play. Assessing the full landscape may identify organisations and groups that do not automatically come to mind as TSPs, but nevertheless can play an important role in supporting SMEs.
- *How can these TSPs help to increase the efficacy and efficiency of tax compliance?* It could be helpful to take a look at and learn from other tax administrations' strategies for TSPs and assess what would need to be adapted for your particular tax administration.

A TSP strategy should best take the business (SME) perspective as a starting point. A strategy that is in line with SMEs' needs and demands is more likely to be successful. A TSP strategy is not static: new technologies and new service options may change TSPs' roles and capabilities over time. It is therefore necessary to monitor and evaluate this TSP strategy periodically.

Box 6.1. **Improving tax compliance via the role of tax agents: New Zealand**

"In 2012, IR developed the "Improving New Zealand tax compliance – the role of tax agents" strategy aimed at improving and promoting New Zealand tax compliance via the role of "tax agents" (as that term is defined under our current Tax Administration legislation). The strategy considers the current and future needs of IR, tax agents and their clients. The strategy's overarching goal is to improve compliance, and the guiding principles are to:

- Maintain and enhance enduring relationships
- Improve mutual transparency and expectations
- Build a robust intelligence position
- Ensure future proofing

The strategy considers the current tax agent market (within the New Zealand context only) and some expected changes from a future perspective. It provides an overview of the role tax agents play in compliance (now and potentially in the future) and explores what that might mean for IR.

Furthermore, it seeks to make more use of existing co-operation by providing a more comprehensive compliance approach with a broader focus, supported by a robust intelligence led position. The ultimate aim is to develop an approach to improve compliance by recognising and building on the role of tax agents to positively influence desired compliance behaviour. By doing this IR can work more efficiently by shifting attention to where it is most needed. Broadly, the strategy seeks to influence the standard for tax agents' performance by identifying areas of high performance and quality as well as identifying and addressing low-compliance and poor process performance behaviour now and in the future. In pursuing this goal, IR recognises that there is no "one size fits all" approach when interacting with tax agents.

In addition, the Business Transformation Change Management and Business Readiness strategies will look at the change impacts for tax agents/intermediaries. As part of an early initiative, IR is already co-designing with two software developers.

On the operational side, our Community Compliance business unit has dedicated officers who have developed and continuously maintain strong relationships with tax service providers. The role of the Account Manager is to facilitate compliance for the agent – both in their personal obligations and their client listings. The aim is to influence desired behaviours and identify and address some low compliance and poor performance behaviours now and in the future."

Source: Survey among tax administrations, New Zealand.

Assess trends and developments in the tax landscape and adapt your strategy if necessary

A related prerequisite for determining your strategy is the capability to "scan the environment". A tax administration can establish a sensing capability to assess promising trends and developments in the changing tax landscape as early as possible. Systematically looking for and interpreting signals in the tax landscape is key for adapting (or innovating) your service offerings as a tax administration.

Box 6.2. **Sensing user needs and technological options**

There are two important sub-capabilities: sensing user needs and sensing technological options

- From a tax compliance perspective, the first refers to the capability to empathically understand taxpayers (and the various categories of TSPs that serve them) and sense their potential needs relating to tax compliance well in advance through intensive interaction. Tools for helping tax administrations to sense user needs early on include: dialogues with lead users, joint experimentation and prototyping, account management systems, client profiling, detailed analysis of how current tax services are being used, trend analysis in client groups or adopting some of the principles of service design.
- The second capability of sensing technological options is equally important. Again from a tax compliance perspective, this is about understanding how new technologies (see chapter 2) provide new ways of interacting with taxpayers, enrich service dialogues, enable self-service or allow for completely new types of services to be provided by either the tax administration itself or by established or new TSPs.

Source: Den Hertog (2010).

"Sensing" is not a passive activity, but an active, rather open process (and attitude) with broad, but well specified leading questions in mind that support the strategy process. Key leading questions (not exhaustive) when considering the changing tax landscape and the role of TSPs are:

- What new technological options might radically change the tax compliance process?
- Which stakeholders can potentially become TSPs or support tax compliance?

- What are the newly established TSPs' business models?
- How will they potentially affect the position of the incumbent TSPs?
- Is there a need to develop standards or encourage standards for the services provided by TSPs?

Include principles on data sharing in your TSP strategy

From a network perspective, the assumptions that data can be owned by one particular entity and be directly translated into benefits for the organisation are doubtful (NZDFF, 2015). Data is regarded as extremely valuable yet the value added is not in the data itself but in the result of the data exchange. That is, the information is shared because it improves the operations and/or intelligence of all partners: both the tax administration as the TSP and SME and other parties such as other government bodies.

A shift towards more network based and collaborative approaches puts the issue of information-sharing to the forefront. Collaboration potentially stretches across many agencies, partners and international borders. It also implies a changing role for the tax administration, from data owner to data "steward". The latter role might involve the following dimensions:

- Within the boundaries of the legislative framework for data protection and privacy, the tax administration will act more as a provider of data. Data is an asset that is fundamental to the efficient and effective delivery of public services. This implies an integrated delivery and hence co-ordination between tax administrations and other government parties.
- Tax administrations should proactively look for opportunities where data for which they are responsible can be re-used. This implies that public information should be published, unless there are overriding reasons not to (Cabinet Office, 2011). The fact that the information is a priori only intended for a particular purpose does not imply that it should not be used for other purposes.
- To enable such sharing and re-use of data, tax data must be standardised and combinable.[1] This requires co-operation between the authorities, and also between the tax administrations in different countries and between tax authorities and business partners including TSPs.
- In its capacity as data steward, a tax administration has to balance the interests of the taxpayer (privacy) and the re-user (e.g. improved operations). To do so, tax administrations should ensure that taxpayers are able to access information about themselves, along with an explanation by the tax administration of how this information is being used.

In a networked approach, building a shared information position with not only SMEs, but also with TSPs (who act on behalf of the SME), lays the foundation for more reliable tax reporting and a more seamless interaction between tax administration, SMEs and TSPs. Given their central role in the network, tax administrations may be best placed to drive the developments in this domain, but co-operation with all stakeholders is a condition for success.

How to relate to TSPs: putting your strategy into action

This section offers suggestions on customer centricity, regulation, engaging TSPs and the need for experimenting and learning to help tax administrations put their chosen TSP strategy into action. These are general suggestions for tax administrations to consider. For almost any TSP strategy, however, their exact operationalisation is highly dependent on the tax administration's and the TSPs' institutional set-up, social context and industrial structure.

Take a customer centric approach

As stated in the country example from Singapore in Chapter 3 "by applying design-thinking, the taxpayer's needs are put front and centre, which has a direct impact on how the service is designed, from the functionalities to the look-and-feel." Taking a customer centric approach and taking the SMEs processes as a starting point instead of "dragging the SME into the tax administration's procedures" will improve the customer experience. A shared data position, third party reporting and the use of more integrated and "trusted" services can help to make it easy to comply (and difficult not to). This can include increasing the opportunities to comply using "nudges" or simple procedures such as e-filing, clear and timely messages, prefilled fields in returns and similar.

Tax administrations that seek to relate better to final users and TSPs and to design services from a client perspective may want to:

- Make sure they are informed about actual user needs. Different users may want different kinds of user experiences and thus tax administrations have to make sure they are well aware of the changing user needs and more widely the changing tax service landscape (see Chapter 2 and preceding section).
- Be informed about what technological options are available in the market, as discussed earlier.
- Adopt a customer centric approach when designing and introducing new services, taking an outside-in approach by putting user experience centre stage and adopting customer centric service models. This could include setting up an User Experience Lab, setting up SME and TSP panels, and arranging co-design sessions with TSP's and SME's.

As was outlined in chapter 2, meeting the expectations of SMEs calls for further customisation of services. Tax administrations may consider that TSPs not only bring valuable insights about SMEs needs and demands: they could also be better equipped to provide more tailored approaches, especially ones that are part of more integrated business services of which tax is a part. Collaboration with TSPs may add significantly in providing better services to SME taxpayers. In Singapore, IRAS has collaborated with TSPs to design and develop a suite of digital services specifically for them. Design-thinking was employed to identify TSPs' needs and to co-create services that would meet those needs. For example, based on TSPs' needs and suggestions, IRAS is currently building a dashboard for TSPs for a better overview of their clients' affairs. This is envisaged to help TSPs to better serve their clients.

Assess the need for regulating TSPs

A second key issue for putting a TSP strategy into action is the issue of whether or not to regulate TSPs, and if so, how? Countries differ in how they strike the balance between regulation and market dynamism and between the pros and cons of new entrants offering new services or existing services using different technologies, customer interaction and pricing strategies. When confronted with rapidly changing TSP markets and new service offerings, tax administrations and their governments will have to determine whether and how they want to regulate TSPs. The questions below may help tax administrations to determine a position:

- What consumer protection is in place in (established and new) TSP markets? To what extent are SMEs in need of consumer protection when it comes to new services as offered by new TSPs?
- What is the level of the quality of services offered by TSPs? How transparent is the level of quality of individual TSPs to SMEs and tax administrations?
- Can the new TSPs compete under favourable conditions because they are not bound by the regulations that are in place for existing TSPs? What are the risks of not regulating new TSPs?
- Will new TSPs become accessible for more clients than established TSPs, or drive out established TSPs leaving some SMEs without a TSP?
- Is there a way to benefit from the ingenuity of the new TSPs and related stakeholders without jeopardising SME protection (including privacy, data protection, etc.)? Can registration or quality assurance systems be put in place without losing the new TSPs' innovative drive?

- Are established TSPs competing and collaborating with new TSPs?
- To what extent are the established and new TSPs capable of self-regulation (such as establishing quality standards for example) and driving poor performing TSPs from the market?

A tax administration should at least take stock of the various forms of regulation being applied and, if possible, gain insight into their (static and dynamic) costs and benefits. Another relatively soft measure to start regulating the TSP industry is to introduce a register of TSPs, possibly as a joint effort with the relevant industry and/or professional associations. Creating such a register can be a helpful first step in achieving an overview of the various TSP categories (including the new entrants). It should be noted that identification of TSPs involved in the tax compliance process may prove to be difficult (this can especially be the case if the services are of a digital or more automated nature). It might also help in protecting SMEs from mal-practitioners, for example by removing these from such a register.

Decide how you want to engage with TSPs

As mentioned earlier, a TSP strategy needs to be part of a tax administration's wider (SME) compliance strategy. This requires further engaging and involving TSPs and other stakeholders/business partners to draw up such a strategy, and subsequently put mechanisms in place to shape such consultation and collaboration between tax administrations and the various TSPs. Two levels of TSPs' involvement can be distinguished. Firstly, by starting to liaise and establish a dialogue (see the boxes on China and Sweden below), and secondly, by reaching out to TSPs for more practical issues and helping them get better access to tax administration, setting standards or supporting them (see the boxes on the United Kingdom and Singapore below).

Various tax administrations are investing in dialogues with TSPs by using seminars, training programmes and special hotlines allowing TSPs fast access to tax administrations.

Box 6.3. **Communication mechanism with TSPs and taxpayers: China**

Currently, China has established a communication mechanism among tax authorities, tax service providers, and taxpayers in a majority of regions to promote mutual understanding, trust, and benefits among the three parties. In principle, the mechanism is implemented mainly through periodic communications in the form of co-meetings, which may consist of face-to-face communications, telephone communications, and online platform communications, and so on.

Box 6.3. **Communication mechanism with TSPs and taxpayers: China** *(continued)*

Through the co-meetings, the tax authorities convey information about tax policies, administrative measures, and service guidelines related to tax service providers and taxpayers. At the same time, they seek comments and suggestions from taxpayers and tax service providers on tax-related matters or tax services. The tax authorities timely release information about tax policies and tax trainings through Web sites, "QQ" groups, and "WeChat" groups, which has been commonly welcomed by tax service providers and taxpayers. In addition, using the three-party communication mechanism as a platform, the tax authorities encourage and guide tax service providers to proactively participate in enhancing tax publicity, protection of taxpayers' rights, and other volunteering, non-profit taxation activities to increase the social recognition of tax service providers. Overall, the mechanism co-ordinates the three parties together and makes it easier for communication and problem solving, resulting in the promotion of tax compliance.

Source: Survey among tax administrations, China.

Box 6.4. **Establishing a dialogue with final users and TSPs: Sweden**

The Swedish tax administration has in recent years, for the development of new systems, applications and services, started to use dialogues with users as a key element in an effort to make services more user friendly (although this practice is still in early development and this practice will most certainly expand in the future). This dialogue extends to established and new TSPs such as software developers. It was stated that The Swedish Tax Agency aims to collaborate with other operators in securing the quality and automation of the filing of data, for example collaboration with software developers to reach a higher level of machine-to-machine integration of SMEs bookkeeping systems. This collaboration aims to supply open data and open services for other operators to use in their development of solutions. By organising this type of dialogue, tax administrators can come to grips with new technologies, with new service models based on these technologies, and also get to know those new TSPs with a non-tax background (including understanding risks that may be associated with the entry of this type of players on the market).

Source: Survey among tax administrations, Sweden.

All four network strategies require liaison with TSPs (as well as final users), but to a greater extent in those strategies where tax administrations rely more intensively on TSPs and their services. The key question here is to what degree a tax administration should lean on the services provided by TSPs. On the one hand co-operating with TSPs might lead to faster introduction of more customised tax solutions in the "market". On the other hand, it may also result in a higher dependency of tax authorities on TSPs, and possibly a tax service landscape that is quite complex.

Box 6.5. **HMRC's Agents Strategy: United Kingdom**

"HMRC's Agents Strategy sets out our relationship with tax service providers, and our proposed methods for engaging with them in the future. We aim to change the way HMRC interacts with agents, increasing the professionalism of the market and leveraging the role that agents play in order to maximise taxpayer compliance.

Our goal is to promote voluntary compliance by raising standards and differentiating between agents based on their competence and behaviour, so that we can reduce error, processing time and contact costs, and in doing so improve the experience of paying tax for all of our customers. The Agents Strategy should allow us to re-focus our resources on tackling evasion and poor-quality agents, ensuring that we protect the accountancy market, the tax system, and our individual taxpayers

Current areas of work include:

- Engaging with professional bodies to strengthen standards, promote public interest disclosures and reduce instances of avoidance;
- Using data and insight to segment the agent market and develop differentiated services to drive up standards;
- Improving our ability to refuse to deal with poor agents;
- Trialing pilots and nudge approaches to test the effect of interventions in the market;
- Developing new online services, including Agent Online Self-Serve, to allow agents greater functionality than before."

Source: Survey among tax administrations, United Kingdom.

Tax administrations might consider the following actions for engaging and collaborating with TSPs:

- Liaise with industry and professional bodies and associations of both established and new TSPs and develop a joint agenda or programme, which institutionalises the dialogue and further shapes the co-operation. This might require some form of account management or alliance management from the side of the tax administration. It further presumes a well-developed environmental scanning function at the tax administration, as discussed earlier. Listen to TSPs and assess what they need to improve tax compliance among SMEs, but also what can help them in their working processes to provide better services to SMEs. Consider building alliances with TSPs (making this a joint responsibility).
- Open up to TSPs and see to what extent they could benefit from the tax administration's help in getting better access to relevant data from the tax administration, putting in place professional standards or providing training. Another option for a tax administration to consider is to share (some of) its validation checks and risk rules for assessing tax returns with the TSP, so that errors and risks can be detected and dealt with early on.

Engaging TSPs and other business partners typically requires a step-by-step approach to make sure the resulting dialogue and co-operation is worthwhile for both tax administration and TSPs. A common pitfall is to come up with an already well-developed and detailed plan. Co-designing and a shared understanding of the issues at stake will build a stronger engagement and most likely deliver better results. Tension could however arise with TSPs as interest may not always be similar. The promotion of easy-to-use digital solutions may not be welcomed by TSPs offering more traditional bookkeeping services. It is important for tax administrations to take such possible effects into account when liaising with TSP and setting out a strategy.

Box 6.6. **Greater collaboration with tax service providers: Singapore**

In Singapore, IRAS' relationship with tax service providers (TSPs) is guided by the Enhanced IRAS-Tax Agent Framework ("Framework"), which envisions a mutually beneficial relationship between the authority and TSPs. This co-operation aims to achieve common desired outcomes, as lower compliance costs for all, improved voluntary compliance among taxpayers, and a competitive and sustainable tax regime.

Box 6.6. **Greater collaboration with tax service providers: Singapore** *(continued)*

In line with the Framework, IRAS holds regular dialogues with TSPs, primarily with members of the Singapore Institute of Accredited Tax Professionals (SIATP), the main professional body relating to tax agents in Singapore. IRAS also frequently consults TSPs, when there are proposed tax policy of administrative changes that have significant impact on them and their clients.

IRAS will be enhancing the Framework to place greater emphasis on raising ethical standards within the tax industry and to take into account the evolving role of TSPs, which are gradually moving away from simple compliance services to more complex tax advisory work."

Source: Inland Revenue Authority Of Singapore.

Box 6.7. **Canada Revenue Agency – Chartered Professional Accountants of Canada Framework and Committees – Canada**

The CRA and the group representing Chartered Professional Accountants (CPAs) in Canada have established a process for continuous engagement and open collaborative dialogue. Under this Framework several working committees have been struck that focus on identifying ways to enhance CRA services, reduce red tape, or find solutions/synergies. It is also a way for the CRA to receive early input on CRA compliance communications and to ensure that it continues to receive valuable feedback.

The 8 working committees co-chaired by the CRA and CPA Canada are:

- Service
- Commodity Tax
- Red Tape Reduction
- Scientific Research and Experimental Development
- Compliance
- Appeals
- Tax Administration
- Training

Source: CRA, Canada.

Set out a roadmap

Exploring interests and aligning expectations are important in the first stages of building co-operation. Discussing expectations can reveal where common ground and shared interests are. Having a dialogue and sharing research on customer needs and possible future solutions does not only generate new insights, it will also build relationships and form a foundation for joint initiatives. Such a dialogue is important to identify common goals and also to identify what the various partners can contribute to the success of initiatives. For example, when a tax administration wants to make filing of tax returns easier for SMEs, this type of dialogue could point out that the lack of well-defined standards is preventing TSPs from investing in this direction, or that they are concerned that such an initiative will impact their business model and/or affect the relationship with their clients. Trying to identify common ground can also reveal possible opposite interests and expectations. After identifying and setting common goals, a shared agenda and joint roadmap can be developed that provide insight to common and individual actions and dependencies. To test such co-operation, small scale initiatives can help build a trust-base for further co-operation.

Co-operative initiatives benefit from a structured approach and buy-in from the top of the organisations. A written statement on the intentions and agreements relating to the co-operation can build a solid base for concrete actions and demonstrates the commitment of the involved parties to the broader environment. This top level buy-in will help with navigating a joint initiative through a dynamic and changing landscape. A joint roadmap will illustrate how smaller experiments or pilots fit into the broader path of developing new services (or creating an environment that better facilitates such services).

Tax administrations should be aware that their participation in public-private initiatives may affect the expectations of the public on the responsibility and accountability of the administration for such co-operation and its outcomes. Research on perceived responsibilities by the public can help tax administrations identify these expectations.

Framework conditions

There are two types of framework conditions. The first has to do with information exchange and especially refers to technical and legal preconditions. The second type has to do with the necessary changes in ways of working, especially capabilities and organisational culture.

Technical preconditions

The technical dimension refers to two different issues: whether information *can* be exchanged (information exchange) and whether it is *safe* to exchange information (security).

Information exchange

For frequent information requests, structured data interchanges can be arranged, using for instance Electronic Data Interchange (EDI) or APIs. This requires substantial investments from both sides. Hence it is often only economically feasible for larger volumes, thus more generic types of information exchange. There should be protocols in place, that is, agreements between the parties involved in the data exchange on how to standardise the communication.

Box 6.8. **Online support and Open Data: The Netherlands**

At the moment, the Netherlands Tax and Customs Administration, together with the Ministry of Economic Affairs, different sector and professional organisations and TSPs, are developing digital tools regarding compliance. These digital tools can be used by SMEs (or individual tax payers) in order to determine which regulations apply to them.

The business rules used by these applications are published online as open source so that they can be used by everyone (e.g. SMEs and TSPs). The digital tools are actually built and made available on the website of the tax administration as an open source service (accessible through APIs). TSPs can re-use these tools, and provide them as a service to their clients. One of the major advantages for the tax administration is that it can be confident that the different tax rules are applied in a correct way. In that regard, the development of this open source service seems very promising and many stakeholders are enthusiastic about it.

Source: The Netherlands Tax and Customs Administrations.

Data should preferably be stored in a structured manner (e.g. by using XML and specific versions such as XBRL). Although there are nowadays big data techniques available to deal with ill or non-structured data, subsequent data processing further downstream (e.g. by other parties such as TSPs) is greatly facilitated by structuring data. If the data has to be structured later on, that is, more downstream (by a TSP or a SME), it usually requires much more investment than when it is already being done upstream, at the source. If a tax administration wants to ensure the proper use of its data by TSPs or other third parties, it has to make sure that they can interpret the data in a uniform, consistent manner.

Box 6.9. **Standard Business Reporting: Australia**

"Standard Business Reporting (SBR) is a standardised approach to online or digital record-keeping that was introduced by Government in 2010 to simplify business reporting obligations. SBR functionality can be built into business software packages to make them "SBR-enabled". Benefits include real time validation, and less data entry thereby reducing the need to switch between different systems.

The Electronic Lodgement Service to SBR programme is focusing on transitioning those services offered in Electronic Lodgement Service to SBR. Once Software Developers build their Standard Business Reporting product to include these services Tax Practitioners and Business Activity Statement Agents will have access to this technology. The Electronic Lodgement Service to SBR Program has undertaken extensive co-design in the ATO and with external stakeholders since 2012".

Source: ATO.

Security

Basically, this information sharing can be organised in two ways: active or passive. With *active information sharing* it is the tax administration that, on request from the TSP, provides the information. With *passive information sharing* the tax administration grants the TSP access to (parts of) its information system and the TSP obtains the information.[2]

For both active and passive approaches, a choice can be made between *one way* or *two way information exchange*. Two way exchange of information (active) or granting mutual access to information systems can also be a precondition from the tax administration before information is shared at all. In this case, access is only granted if a TSP (or SME) also, at least partly, opens up its own information system.[3]

In a high trust environment, "controlled access" is a widely used option. Often, both parties open up a separate, "walled" part of their information system to the other. Depending on the level of trust, access can be granted on various levels within the IT architecture. The lower in the hierarchy, the higher are the potential for security breaches. The widely used technology of application programming interface (API) grants access on a high level. The API defines the access to the functionality so that third parties (like TSPs or software providers) can use the functionality of tax administration's information system without revealing details of the system. Websites can also make a public API available, and many tax authorities already use such (Web) APIs.[4] One widely used alternative would be a hybrid passive form, namely to grant only indirect access, via a trusted third party (TTP).[5] In this case, a TSP requests information from the tax administration (or the other way around) via the TTP. The TTP service does not return the requested records themselves but only provides metadata about these records. For example, a TSP enquires about a certain status of one of its SME clients ("does it have status A?") and the TTP service replies with a simple yes or no. In this way, information can also be shared about individuals or individual firms without revealing further details.

Box 6.10. **Data security and privacy (1)**

"There is a need for a high level of security of taxpayer information while also enabling taxpayers to easily access their own information. Within the tax administration, there are significantly increased expectations regarding security measures for data as we move to an electronic environment (e.g. controls to eliminate lost data files, data corruption, on-line fraud, on-line hacking, identity theft, etc.)."

Source: Survey among tax administrations, Canada.

Box 6.11. **Data security and privacy (2)**

"Software applications can be manipulated and it can be difficult to monitor the true value of the transaction undertaken by SME entities when intending to avoid or evade tax; and Revenue authorities need to be ahead of these technological advances in order for policy formulation to include technological changes when governing the regulatory aspects of the taxation acts. This will ensure that SME entities meet their true tax obligations when it is due."

Source: Survey among tax administrations, South Africa.

Legal preconditions

The legal dimension refers to the question whether *it is allowed* to exchange information, and most of the time this has to do with privacy aspects. In most countries, the exchange of personal data and confidential business data (e.g. tax data) is subject to strict regulation.

The rise of the Internet of Things and the availability of big data techniques have exacerbated these potential privacy issues. "Confidentiality of data and privacy may be compromised in online environments, where it is difficult to ensure the integrity and confidentiality of electronic client data and information available to a large pool of internal resources and potentially external resources. In developing all compliance tools and services, care must be taken to ensure the risks associated with data security and client confidentiality are mitigated." (Survey among TSPs, Canada)

Similar to what has been said before, data with a personal profile can also be generated by combining various data sources – even if these individual sources do not contain any personal information.[6] De-identification of personal data – the traditional approach towards safeguarding the anonymity of individuals or firms, might no longer work in an age of dynamic data generation.

This could even necessitate a fundamental shift in legal regimes from ex ante to ex post regulation. In the first instance, it is assumed that people know *a priori* what personal data is. Also, if one particular record is assumed to be confidential, usually access to the entire dataset is denied. In a similar vein, although greatly increasing the power and applicability of big data analytics, coupling of data from different datasets at the level of individual records (individuals or firms) is usually not allowed.

In the latter instance, whether information is personal or not is *a posteriori defined*, and whether access is given or not depends on the particular *use* of the data. Coupling at micro data level could be allowed (also to other actors in the network such as other government bodies or research institutes) if the results of the analysis would have important social value (e.g. fighting fraud or financial crime) or would only be published at the aggregate (group) level. For instance, tax administrations themselves or TSPs (or government or industry bodies, banks or civil society organisations) could provide new types of tax services (see chapter 4) based on such aggregate analyses (e.g. sector and/or industry analysis, technology trends, consumer trends and so on).

Capabilities and organisational culture

Adapting and constantly renewing the service experience offered in a changing tax landscape and relating to a varied set of TSPs requires a certain set of organisational capabilities and culture that supports this in the first place. Tax administrations will therefore have to assess whether they have the right organisational capabilities needed for adapting to and experimenting in a changing tax landscape. As a side note, it is important to bear in mind that international standardisation, and exchange of best practices, can be helpful, especially for smaller tax administrations, which lack the capacity to embark on these kinds of developments themselves.

Box 6.12. **Organisational capabilities for a tax administration to adapt and improve services**

- *Sensing user needs capability.* This capability refers to the unique set of resources and routines necessary for tax administrations to empathically understand users and sense their (potential) needs well in advance e.g. interacting intensively with taxpayers and TSPs. This may include dialogues with lead users, joint experimentation and prototyping, use of UserExperience labs, user testing, panels and account management systems.
- *Sensing technological options capability.* This capability allows for adapting and renewing the product portfolio, including new ways of interacting with clients, on-demand production, enriching service dialogues, or offering opportunities for customised solutions (including opportunities for self-service).
- *Conceptualising capability.* This capability is about transforming various strands of knowledge into a prototype of a service concept. This capability should be understood by colleagues and external partners, and recognised by taxpayers and TSPs and stakeholders/business partners as a useful, valuable new proposition.
- *Co-design and co-producing capability.* Managing across the boundaries of a tax administration and managing or engaging in networks is a key capability for tax administrations. Many tax-related service propositions are combinations of activities of different stakeholders (tax administration, TSPs and business partners and also the taxpayer) that together fulfil a certain need. The tax administrator as the core organisation or "aggregator" will be asked to co-design and co-produce a new service with other suppliers (such as TSPs, stakeholders and business partners) and manage the accompanying alliances.

Source: Tax Service Providers Project Team.

Notes

1. The opportunities for using information greatly increase when it is made available in standardised and linkable formats. Proper treatment of data greatly facilitates subsequent re-use. If the data has to be structured later on, that is, more downstream, it usually requires much more investment than if it is already being done upstream at the source (here the administration).

2. The obvious advantage of a passive modus over an active one is that the latter requires efforts from the tax administrations whereas a passive one shifts the efforts to the TSP. For this reason banks have shifted in droves to online banking solutions, which have enabled them to significantly reduce their number of workers.

3. Note that, from a technical point of view, it is nearly impossible to devise IT architectures that are purely one way. For example, identity management (which is needed to guarantee the authenticity of a user) requires the exchange of unique identities on either side.

4. For open data repositories, also public APIs are often used.

5. Tax administrations could also function as a TTP themselves. This would in fact be a typical role in a hybrid open network.

6. For instance, payment patterns are often quite unique for a certain individual. The same goes for mobility patterns derived from smart phones or navigation systems.

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Chapter 7

Conclusions and recommendations for tax administration

This chapter provides an overview of the main findings of this study. It also gives some recommendations on how tax administrations can further develop their strategies for co-operating with tax service providers.

Conclusions

Tax Service Providers play a key role in supporting SME tax compliance. Tax regulations can be complex and burdensome for SMEs. Broader than assisting SMEs in fulfilling their fiscal obligations, tax service providers traditionally often also play a role in providing business and financial advice. Tax service providers act as a recognised and trustworthy source of advice and support for SMEs.

Technological and business developments give rise to new services and solutions that tax service providers are increasingly able to offer to SMEs, such as online accounting and filing services. Such services may also include online advisory services. Combining online services with more extensive use of data and advanced analytics allows service providers to develop new, more integrated service offerings for SMEs. Examples of these are integrated and easier-to-use systems for invoicing, payment and accounting. Improvements in services also include better analytics, such as performance assessment based on benchmark data and insights into the cash flows and results of businesses.

The uptake of mobile devices on a global level is unprecedented and this allows for 24/7 service offerings by providers of tax and accounting services. This also enables SMEs across the globe to integrate tax into their day-to-day operations, which helps them to better run their business, at lower cost, whilst achieving better tax compliance outcomes.

These developments reshape the market for tax services, and stimulate tax service providers to modernise the services they offer to their customers. Some traditional tax service providers, such as tax preparers, tax advisors or accounting firms, may choose to continue their current operating model. Yet many are already opting to reposition themselves in the market, creating efficiencies and improving responsiveness by adopting online services themselves or building a more digital interaction with their customers and with the tax administration. Others will seek to extend their services to broader business and financial advice in the future, making better use of available data and knowledge.

The same developments also create opportunities for new entrants in the market, such as software developers coming up with online accounting and tax services. As technology allows offering services any place, any time and that are designed from a customer perspective, new types of services are likely to emerge within the next years. Such services may further link tax processes to payment or invoicing processes, to devices as mobiles, online cash registers or other devices which are becoming part of the Internet of Things. As business-to-business processes as well as business-to-consumer processes become more integrated and seamless, there is great opportunity to integrate tax services into such emerging new digital value chains.

These developments however also bring new challenges for tax administration.

Survey findings and country examples indicate that the changes in the landscape of tax service providers hold great opportunities for both SMEs and for tax administrations. Involving TSPs in these developments can create better service for SMEs, improve tax compliance and may drive down costs at both ends.

As SMEs are seeking more integrated and seamless services, tax administrations may not necessarily be in the best position to develop such services on their own. Cooperative approaches with existing and new tax service providers can lead to services that are better integrated and more trustworthy. Such services may drive down costs, as they drive out error, create opportunities for better advice upfront and improve tax compliance.

In countries without an established tax service provider infrastructure, leveraging new technologies such as online services and mobile payment may create new possibilities to provide a supporting infrastructure for SMEs.

Especially in developing and emerging economies, the high uptake of mobile phones and smartphones makes it possible to make tax compliance much easier. This can help to bring SMEs into the tax system and the formal economy, especially as taxation is embedded in broader invoicing and payment services. Though this report provides some examples of such more integrated solutions in more advanced economies, further research would be needed to identify key success factors for such an approach in emerging economies.

Tax administrations can adopt different types of network strategies for co-operating with tax service providers. It is important that such strategies fit the broader compliance strategy of a tax administration.

This report identifies four basic network strategies. These strategies can be characterised as being more closed (specifically looking at the tax processes) or more open (looking at the broader business processes). They can also be more “government-driven” versus more “market-driven”. As many tax administrations already operate in networks and alliances in practice most administrations will have a combination of such strategies, depending on the specific circumstances.

More open strategies can be powerful in using new technological possibilities to the full extent. In such strategies tax administrations can consider developing building blocks, instead of developing full services themselves, allowing tax service providers to create more integrated services.

Building blocks could, for instance, be business rules regarding calculation and controls, or content such as information to be used on websites or in publications. To operate in such a more open environment calls for new skills and also for a clear set of standards for data sharing and governance arrangements. This would include standards on data protection and privacy that protect the interest of the SME.

Taking a whole-of-government approach can help to create more integrated services for SMEs. SMEs don't just have to comply with tax regulations, but also with broader administrative regulations imposed by other government agencies. Tax administrations can play a role in aligning these broader requirements.

Tax administrations may want to carefully consider the extent to which regulation can be helpful to enhance the quality of the services provided by TSPs.

There are several mechanisms that can promote the quality of tax services provided to SMEs. These vary from legal arrangements to voluntary arrangements by professional bodies or industry organisations. Regulatory arrangements should be weighed against the need to stimulate innovation and maintain a level playing field. Tax administrations and regulators should be aware that the rise of new business models and the entrance of new types of providers may make it more difficult to set out an effective regulatory framework for tax services.

Recommendations

In the light of this report, tax administrations are encouraged to:

- *Consider the possible role that tax service providers can play* in their SME compliance strategies building on the network strategies outlined in this report;
- Invest in a "*sensing capability"* to monitor technological and business developments in the domain of tax and other business services and to assess opportunities that such developments may bring to better integrate tax services in the broader ecosystem of SMEs;
- *Assess their role in stimulating the development of tax services* by participating or engaging in joint initiatives with other government and business partners, in the setting of standards and in implementing systems to monitor and improve quality. *Considering the need for regulation* may be part of this assessment;
- *Adopt a structured approach* when embarking on co-operative initiatives with TSPs and other parties. This approach will put users' experience and their expectations in the centre, and it will have a shared vision and a clear roadmap, which allows for learning. Tax

administrations should be aware of public expectations that their involvement in such initiatives may bring.

- *Continue to share best practices and experiences with other FTA members, in co-operation with tax service providers,* to stimulate further co-operation on this topic.

Annex A

Findings from the survey of tax administrations and tax service providers

As part of this project, a survey was sent to the Task Group in August 2015. Members of this Task Group were asked to complete the survey for their tax administration (TA) and to share the other survey with tax service providers (TSP) in their countries. This resulted in 14 completed surveys from tax administrations and 36 completed surveys from TSPs. This annex presents the main findings of this survey in four parts by discussing the:

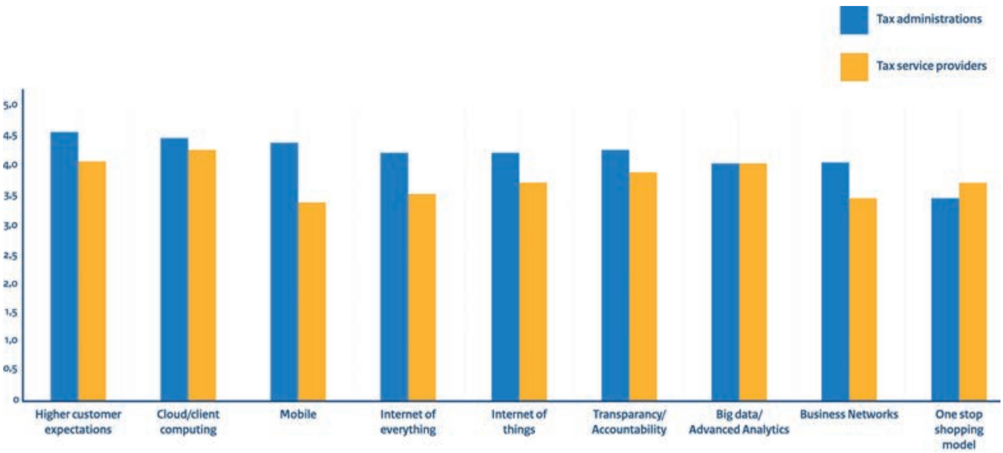
1. Perceived impact of new technological and business developments on tax service design and compliance;
2. Perceived relevance of some business developments for tax service providers;
3. Opportunities and risks; and
4. Current strategies of tax administrations in dealing with tax service providers

Perceived impact of new technological and business developments on tax service design and compliance

Tax administrations and TSPs were asked to indicate the impact of several technological developments on tax service design and compliance which were selected based on desk research.

The outcome of this survey is that tax administrations and TSPs view the impact of technological developments as highly relevant. There is not much difference between tax administrations and TSPs in valuing these developments, except for Internet of Things/Everything and Mobile which TSPs view as having a medium impact. However, among TSPs there's a high variety in views on the impact of these two developments, which means there is no consensus about the impact of these developments among TSPs.

Figure A.1. **Perceived impact of technological and business developments on tax service design and compliance**



1. *Higher customer expectations:* The overall view among tax administrations and TSPs is that higher customer expectations have a high impact. They indicate that SMEs need real time service delivery, anytime, anyplace any device service delivery, customised and personalised services, convenience and reduced compliance costs.
2. *Cloud/Client computing:* Tax administrations and TSPs indicate that cloud/client computing has a high impact with a low variation among tax administrations and a medium variation among TSPs. They indicate that cloud computing is a key development that will affect tax compliance. Cloud services will change the market for tax services. Important conditions such as data security and the role of current/new laws are frequently mentioned by tax administrations and TSPs.
3. *Mobile:* Mobile developments have a high impact according to tax administrations and a medium impact according to TSPs. Tax administrations view the increasing use of mobile technology as a very important development for providing "on the go" and "real time" services and systems.
4. TSPs have different views on this development. Some indicate that mobility is not relevant for their clients because their clients use office based computers instead of mobile devices while other TSPs emphasise the importance of having access to information anytime and anyplace. They indicate that mobility can make the contact and communications between the participants of tax services easier and

more convenient. So the rise of mobile payment systems and other mobile solutions further may contribute to new tax services.

5. *Internet of things/everything:* The internet of everything and the internet of things are seen as having a high impact according to tax administrations while TSPs value the impact of this technology as having a medium impact with a high variation among TSPs.

6. Tax administrations indicate that machine-to-machine interactions will become more common and important in ensuring business efficiency. The ability of tax administrations to interact directly with SMEs and other stakeholders holding tax information using machine-to-machine transactions would greatly promote compliance (not to mention efficiency).

7. TSPs have a mixed view. Some indicate that the prevalence of connected devices opens up possibilities for proactive, even “touchless” service, as well as new commercial models quite unlike the traditional fee-for-service one. Others indicate that increases in business-to-business activity will affect tax services, but to a lesser extent. It does not really have a direct impact on the tax services offered.

8. *Transparency/Accountability***:** The overall view is that the impact of more transparency and accountability is high among tax administrations and TSPs. Debate on transparency and accountability are nowadays essential. In the case of SME compliance, it is important that SMEs know up front what they can expect, including what the “controlling” (accounting) firm will do and also the other way around. There should be no surprises for the SME.

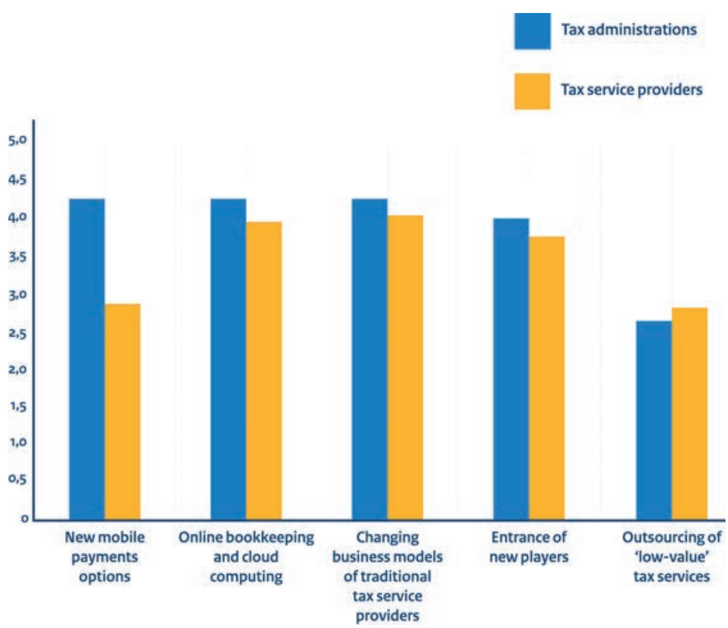
9. *Big data/advanced analytics:* Tax administrations and TSPs indicate that big data/advanced analytics have a high impact with a medium variation among tax administrations and a low variation among TSPs. They emphasise the importance of big data/advanced analytics for tax administrations. This development supports better insights into the behaviour and needs of taxpayers and facilitates customised tax solutions. The relevance for SMEs depends on their core business. TSPs indicate that while big data and advanced analytics are important tools and facilitate better decision making, it doesn’t seem to be an issue in providing better services for SMEs from their perspective.

10. *Business networks:* The overall view is that there is a high impact of this development. Both tax administrations and TSPS indicate that the world is changing towards a connected world, not only in the communication between individuals, but also in the networks

integrating sectors and actors of a specific business such as tax management. Services are being shared across networks.

11. *One stop shopping model:* This business model is seen as having a medium impact according to tax administrations and TSPs. In some cases there is a need for a one stop-shopping model while in other cases SMEs need specific services/modules, which are being provided by (specialised) TSPs.

Figure A.2. **Perceived relevance of some business developments for tax service landscape**



Perceived relevance of some business developments for tax service landscape

In this survey respondents were asked to indicate the likelihood of some developments that may alter the tax service industry by responding to five statements. They have valued the likelihood of these developments on a scale from 1-5.

Statement 1: New mobile payment options likely to impact SME tax compliance and service-design

Tax administrations indicate that the development of mobile payment options have a high impact. Collaboration with banks and new players like mobile payment providers provide new opportunities in promoting compliance.

Tax service providers view these options as having a low to medium impact. However, there is a very high variation among tax service providers in valuing these options. Some TSPs indicate that mobile payments enhance the opportunity to detect non-compliance while others view the adoption rate of mobile payments as low.

Statement 2: Online bookkeeping and cloud computing likely to impact SME tax compliance and service-design

The overall view among tax administrations and tax service providers is that online bookkeeping and cloud computing have a high impact. They share the view that cloud services add to making tax experience more seamless and compliance easier. It simplifies the tax process, improves efficiency, reduces mistakes and facilitates the work of the administration. A commonly expressed risk is that tax intermediary online services, with no direct contact with their clients, may provide opportunities for the growth of tax fraud and other non-compliant activities

Statement 3: Business models of traditional tax service providers are changing

Many administrations indicate a significant change in how traditional TSPs operate. Traditional TSPs have to evolve more to advisory work. This view is shared by TSPs who see their business model changing. However, the adoption of these new business models varies by TSPs.

Statement 4: New players play an increasingly important role in tax compliance and design of tax services.

Tax administrations and tax service providers agree with the statement that new players are playing an increasingly important role. They indicate that different players such as financial institutions and software suppliers will significantly alter the role of bookkeepers. They provide automation to accountants that can free up time and resource for more value-added services.

Statement 5: Outsourcing of "low-value" tax services to other parties (and/or low income countries)

Tax administrations and tax service providers indicate that it is not likely that tax services will be outsourced to other parties and/or low-cost countries. A commonly mentioned argument is that there is no need for outsourcing because of automated processes and intelligent business reporting systems. Digitising services and cloud bookkeeping are more important in this field.

Opportunities and risks

There are various opportunities and risks as a result of the developments mentioned that were indicated. Some of these are mentioned in the Box A.1 as indicated by tax administrations and TSPs.

Box A.1. **Opportunities and risks of technological and business developments**

Opportunities

- Standardisation of better quality, customised services.
- Possibility to develop services better adapted to special groups, taking advantage of the possibilities the market provide through specialised Apps.
- Improvement of control and reduction of fraud, through systems that are real-time.
- Improvement of relations with tax services providers
- Decrease of the cost of compliance and increase of the level of satisfaction.

Risks

- Security, cyber security and protection and control of personal and business data.
- Difficulty to retrieve IT control after outsourcing if the service is not as expected
- Estrangement from the taxpayer (SME) if the tax administration only relates to tax services providers.
- Benefits must reach the taxpayers and not remain with the tax services providers. Significance of mistakes will become increasingly more important. It is necessary to implement systems ("watch-dogs") to provide alerts warning errors in automated massive procedures.

Source: Tax Service Providers Project Team.

Current strategies of tax administrations in dealing with tax service providers

The participating tax administrations have been asked to indicate what their current strategies are in dealing with TSPs and their professional bodies. While a few countries have indicated that they have no specific tax agent strategy, many countries have taken several initiatives in dealing with TSPs and their professional bodies. Some of these initiatives will be discussed.

Regulation of the TSP market

Many tax administrations are taking initiatives to regulate the TSP market, showing different approaches.

- In South Africa, TAA has regulated tax practitioners. This means that only those belonging to RCBs, which are tax compliant, do not have active criminal records, fulfil their RCB's qualification and continuous professional development (CPD) are recognised as registered tax practitioners.
- The strategy of China is to supervise all TSPs by their agencies. Anyone who wants to provide tax service must be registered under a tax service agency. And to set up a tax service agency, the applicant must apply for a practicing certificate from the tax administration.
- In the United Kingdom, HMRC aims to change the way they interact with agents. Their goal is to promote voluntary compliance by raising standards and differentiating between agents based on their competence and behaviour so that they can reduce errors, processing times and contact costs, thereby improving the experience of paying tax for all customers.
- In Canada, a Registration of Tax Preparers Program (RTPP) is being proposed. The objective of this programme is to enhance compliance by improving the accuracy and completeness of tax returns. This goal will be achieved by identifying tax preparers who are making errors and providing them with guidance to prevent these errors from occurring in the future. Tax preparers who file and prepare income tax returns for a fee will be required to register with the Agency, once the programme is implemented.

Co-operation with new tax service providers

There is an increase in co-operation among several tax administrations with new TSPs, such as software providers.

- The Swedish Tax Agency aims to collaborate with operators in securing the quality and automation of the filing of data, for example through collaboration with software developers to reach a higher level of machine-to-machine integration of SMEs bookkeeping systems. Their aim is to supply open data and open services for other operators to use in their development of solutions. In development of new systems, applications and services they have in recent years started to use dialog with users as a key element, in an effort to make their services more user friendly.
- In the Netherlands, there is an increase in co-operation between the tax administration and software providers. The administration stimulates industry initiatives. There is no exclusive co-operation with one stakeholder, everyone can participate. The Tax Administration has an initiating, inspiring or facilitating role (create conditions). The administration is promoting the use of "trusted" administrative software to prevent data manipulation; support internal control; enable external control and providing a trusted "tax chain".

Full engagement strategy with tax service providers

Some tax administrations have taken a full engagement strategy in dealing with TSPs. For example, ATO has developed a Tax Professional Engagement Strategy together with tax professionals, professional associations and software developers, driven by significant change in the profession and for the ATO. One of their strategic programmes is the Working with Our Partners programme which includes:

- working with their partners and intermediaries to establish trusted relationships,
- working with their partners and intermediaries to transform the client experience,
- leveraging their partner and intermediary network to influence changes needed to the Tax and legal framework, and
- building the ATO's enterprise intermediary/partnership management capability.

Co-operation with professional bodies

Many tax administrations indicate they co-operate with professional bodies.

- The Spanish Tax Agency holds two permanent forums with the large companies and the tax services providers. In these forums, there are several specialised working groups. Participants discuss all the issues that affect businesses and administration, and propose measures or services to be developed in the future.

- The Swedish Tax Agency interacts with about 30 different areas of trade (130 trade organisations) in an effort to prevent errors and meet need of information. Collaborating with trade organisations is a way for the Tax Agency to learn more about different circumstances and needs of a specific area of trade, as well as experiences and points of view in different matters. The purpose of collaboration with trade organisations is to minimise the tax gap through greater understanding of tax regulation and at the same time gain a greater trust for the tax agency.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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