



**OECD Forum on Tax Administration**

# **Towards Seamless Taxation**

**SUPPORTING SMES TO GET TAX RIGHT**





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# Preface

It is my great pleasure to introduce this report 'Towards Seamless Taxation'. It sets out the international developments in the drive towards tax becoming easier for small and medium sized enterprises and entrepreneurs (SMEs) as tax becomes more integrated into their business. Through this, we can create an environment which makes tax 'seamless' for SMEs. Given SMEs importance to the wider economy, it is vital that we do so. By reducing administrative burdens we can free up more of their capital, both financial and time, for entrepreneurship.

Achieving this goal of seamless taxation is a journey, and this report breaks that journey into defined stages. Each of these stages on their own can bring benefits to tax administrations and SMEs alike, so I hope therefore that the report may inspire colleagues across the world to start taking steps in this direction. Even though it may seem like a long journey, the combined potential benefits it can bring are significant, and should not be discounted lightly.

One of the strengths of this report is the practical examples it contains of steps tax administrations have taken in this journey. Learning from others in this way is especially valuable as we can all build more effective strategies that avoid common pitfalls and, where appropriate, build on tried and tested approaches. I hope this report is just the start of that sharing process, as the experience of more seamless taxation grows and the digitalisation of tax administrations continues.

I would like to thank all tax administration staff in the SME Community of Interest within the Forum on Tax Administration for their helpful input. It is thanks to the effective and open collaboration between countries that this report is so engaging and informative. In particular, I would also like to thank my colleagues in the Netherlands Tax Administration who have worked on this report, namely Marcel Snippe as project lead and writer together with co-writer Paul Jairath. Also a word of thanks to Willem Pieter van de Meer and Jeroen van Hulst for their management role in this process, and to Frans Hietbrink and Jos Jonkers for the explanation of the current developments in the Netherlands in their Community of Interest presentation. Finally, a word of thanks to the OECD FTA Secretariat for their support in preparing this report.

It is hoped that this report will be an encouragement to all tax authorities to learn more about seamless taxation developments, and whilst this report is not the final piece of these developments, I hope the FTA continues to provide a platform for stimulating debate that can encourage new thinking in this area.



Berry Roks

Director, SME

Netherlands Tax Administration

# Foreword

The Forum on Tax Administration (FTA), created in 2002, is a unique body bringing together tax commissioners from over 50 advanced and emerging economies from across the globe. Together, FTA member administrations raise over EUR 12 trillion a year to fund public services and to deliver government objectives. The FTA has a common work programme delivered through collaborative networks, time-limited and action-oriented projects and pilots, as well as through the publication of a wide range of reports aimed at sharing knowledge and developing new approaches for better tax administration.

This report is part of that work programme, and has been produced by the members of the FTA. Specifically, it has been developed by the Netherlands Tax Administration with the support of FTA Community of Interest on SMEs. The report looks at how new developments in tax technology can make it easier for SMEs to comply with their tax obligations, leading to reduced burdens on business and increased compliance rates. In addition to a number of examples from tax administrations, there are also two detailed case studies.

The report was approved by the Committee for Fiscal Affairs (CFA), as well as all members of the FTA, on 14 March 2022, and prepared for publication by the Secretariat.

# Acknowledgements

*Towards Seamless Taxation: Supporting SMEs to Get Tax Right* Series has been produced by the Organisation for Economic Cooperation and Development (OECD)'s Centre for Tax Policy and Administration (CTPA) under the auspices of the Forum on Tax Administration of the Committee on Fiscal Affairs.

It is the second in a series of reports by the OECD's Forum on Tax Administration (FTA) on supporting small and medium-sized enterprises and entrepreneurs (hereafter jointly referred to as 'SMEs') in complying with their tax obligations while minimising both compliance burdens and wider administrative burdens.

This publication was authored by officials from the Netherlands Tax Administration, led by Marcel Snippe as project lead and Paul Jairath, with the support of Paul Marsh from the FTA Secretariat, with input and assistance from Sonia Nicolas and CTPA Communications Team. The authors would like to thank colleagues from Chile for the preparation of their case study.

The report also benefit from the guidance and input of officials from the FTA members represented in the Community of Interest (COI) on SMEs, many of whom also provided examples for the report.

# Table of contents

Preface	3
Foreword	4
Acknowledgements	5
Abbreviations	8
Executive Summary	10
<b>1 Overview</b>	<b>11</b>
Accelerating digitalisation	11
Limitations of e-administration	11
Journey to seamless tax administration	13
Structure of this report	16
<b>2 Creating new services to support seamless taxation</b>	<b>17</b>
The power of APIs	18
Using API driven services to change operating models	19
Strategic considerations	22
<b>3 Collaboration and co-creation</b>	<b>24</b>
SME ecosystems	24
Strategic considerations	29
<b>4 Using third party data</b>	<b>31</b>
Working with intermediaries	31
Strategic considerations	37



5 Conclusion	38
Annex A. Case study: Making Standard Business Reporting accessible and beneficial for SMEs (Netherlands)	39
Annex B. Case study: Pre-filling (Chile)	42
References	48

## FIGURES

Figure 2.1. A traditional transactional chain	19
Figure 2.2. An API supported chain	20
Figure 3.1. The SME ecosystem	25
Figure 3.2. The aspirational SME ecosystem	25
Figure 4.1. Using different data sources to create prefilled tax returns	34
Figure 4.2. Change of data provision from bilateral to multilateral	35
Figure B.1. Pre-filling tax return process	45



# Abbreviations

AAM	Agent Account Managers (UK)
ACRA	Accounting and Corporate Regulatory Authority of Singapore
AFIP	Argentinian Federal Administration of Public Revenues
API	Application Programming Interfaces
AT	Additional Tax
ATO	Australian Taxation Office
CGT	Complementary Global Tax
CIT	Corporate Income Tax
CPAC	Chartered Professional Accountants of Canada
CRA	Canada Revenue Agency
DITR	Draft Income Tax Return
DVR	Draft VAT Return
eID	Electronic Identification
eIDAS	Electronic Identification Authentication and trust Services
FCT	First Category Tax
FTA	Forum on Tax Administration
IRAS	Inland Revenue Authority of Singapore
IT	Information Technology
NTA	Netherlands Tax Administration
NTCA	National Tax and Customs Administration of Hungary
NSG	Nordic Smart Government
OCR	Online cash registers
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay-As-You-Earn
PEPPOL	Pan-European Public Procurement Online
PKI	Public Key Infrastructure for Government
SAER	Sales and acquisitions electronic register

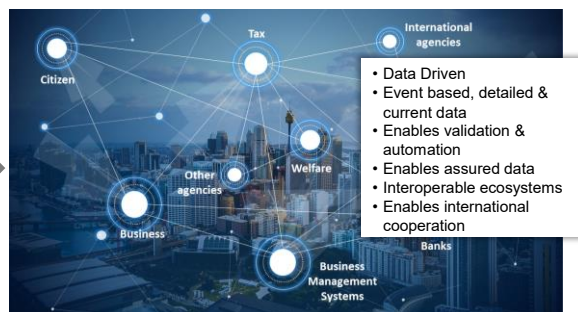
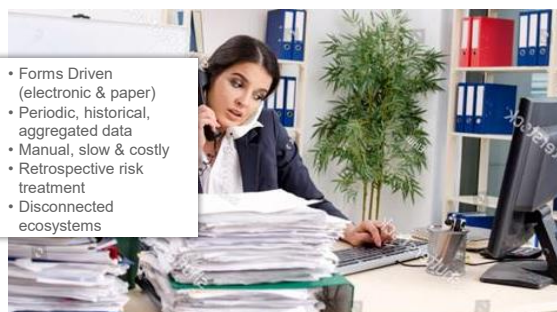
SBR	Standard Business Reporting
SCT	Second Category Tax
SII	Servicio de Impuestos Internos of Chile
SME	Small and Medium Enterprises
STP	Single Touch Payroll
SS	Sworn Statements
SSL	Secure Sockets Layer
SUNAT	Peruvian Tax Administration
SYB	Serving You Better
VAT	Value Added Tax
Vero	Finnish Tax Administration
XML	Extensible Markup Language

# Executive Summary

This report examines how tax administrations are currently working to integrate taxation processes into SME taxpayers' natural systems and identifies some of the key benefits and considerations. Where tax administrations are on this journey is, of course, dependent on the different priorities, stages of development and legal frameworks within their jurisdictions, and so this report does not set out a prescribed approach. Instead, the report therefore examines how tax administrations using this work to reshape tax administrations to adapt to the evolving natural systems used by taxpayers, seeking to build in compliance and significantly reduce burdens.

This frequently involves creating new natural systems for SMEs through the use of Application Programming Interfaces (APIs) which allow taxpayers to interact more seamlessly with tax administration systems. These range from applications limited to particular processes to more holistic systems which taxpayers can use to carry out all taxation processes. The report examines how tax administrations are using APIs, and as a result are frequently working on the co-creation of natural systems with SME taxpayers and their service providers. This in turn is leading to the wider joining-up of taxation processes with the wider SME taxpayer ecosystems, both private sector and other parts of government. This report is illustrated with a variety of examples from tax administrations, and there are two case studies in the Annexes which contain more detail on how two tax administrations have implemented some of the ideas within this report.

# 1 Overview



## Accelerating digitalisation

This report describes the elements of a journey towards more seamless taxation for small and medium sized enterprises and entrepreneurs (hereinafter SMEs). This journey is being enabled by the accelerating digitalisation of the economy, including of the SME sector, and by the significant steps taken in the digitalisation of tax administrations globally seen over the last decade. It is also likely to be influenced by some of the developments coming out of the COVID-19 crisis, in particular the rapid shift to closer working across government seen in many countries and the switch to more agile development methods. This stage in the digitalisation of tax administrations was described in the OECD 2019 Tax Administration Series (OECD, 2019<sup>[1]</sup>) report as a move to “e-administration”. This in, short, was a shift from the earlier digitalisation of paper processes within the tax administration to the use of technology tools and data to create more joined-up internal processes, to enable the greater use of data analytics and to facilitate the development of a range of online services for taxpayers.

E-administration has already led to greater efficiency and effectiveness in the core operations of tax administrations, from registration to tax assessments, compliance enforcement and dispute resolution. For taxpayers, it has also made it easier to meet tax obligations, including options for online filing and payment as well as many other online services, communication channels and help functions.

## Limitations of e-administration

As highlighted in the Tax Administration 3.0 report (OECD, 2020<sup>[2]</sup>), the current e-administration model of tax administration still largely relies on voluntary compliance for a significant proportion of the tax base, including SMEs.

As described in that report, while tax is not voluntary, the widespread use of the term “voluntary compliance” recognises that in many parts of the current tax system, taxpayers make choices as to the reporting, calculation and payment of tax. These choices are not just whether to comply or not to comply, but also include choices as to the effort made in order to get things right, such as record keeping, taking

the time to fill in forms correctly, resolving any lack of understanding and meeting reporting requirements and deadlines. The inherent complexity and granularity of some taxation processes can lead to errors in reporting and calculation and, for some, significant administrative burdens. This can be a particular issue for parts of the SME population which may have fewer resources to devote to tax compliance compared to larger firms, may face greater difficulties in adapting to new requirements, including reporting requirements, and may be at an earlier stage of digitalisation. The reliance on voluntary compliance can also provide opportunities in some cases for those deliberately seeking not to comply, for example not registering for tax, under-reporting of income or exaggeration of expenses. As well as leading to underpayment of revenue, this can also cause issues for the majority of honest SMEs who can face unfair competition as a result. This can have a significant impact on the tax gap as Box 1.1 illustrates.

### Box 1.1. Estimated tax gap for small business employers – United Kingdom

Statistics published by HM Revenue and Customs (HMRC) estimate the United Kingdom's tax gap in tax year 2019 to 2020 (the latest figures available) at 5.2% of total theoretical tax liabilities or GBP 35 billion in monetary terms.

In 2019 to 2020, the small businesses share of the tax gap is 43% (GBP 15.1 billion). The tax gap from small business employers is estimated at 0.9% of small business Pay As You Earn tax liabilities (GBP 0.7 billion) in 2019 to 2020.

Note: The 'tax gap' is the difference between the amount of tax that should, in theory, be paid to HMRC, against what is actually paid. The tax gap breakdown by customer group is primarily based on data – however, as some judgement and assumptions are involved, the estimates are subject to uncertainty which cannot accurately be quantified.

Source: (HMRC, 2022<sup>[3]</sup>)

Many of the issues regarding tax compliance and administrative burdens arise from the need for SMEs to use different systems or processes to comply with tax obligations than those that they use for their own purposes in running their businesses (their “natural systems”), which include the connections with other parties such as other businesses, financial intermediaries, customers etc. Tax requirements may involve the manual extraction or conversion of information from those systems, or the collection and reporting by SMEs of information obtained from third parties. These reporting requirements will often specify a particular format in which that information is sent as well as the periodicity, which will often be significantly downstream from the taxable event. While e-administration services have no doubt helped to alleviate some of the frictions in complying with tax obligations, most of the services currently offered are generic in nature and are still mostly presented as a “stand-alone” service provided via the website of the tax administration, rather than integrated into the natural systems of taxpayers.

The next stage in the digitalisation journey is to embed more taxation processes into the natural systems that SME taxpayers use to conduct their business, manage their finances and interact with their customers and employees. In such a system, the assessment and collection of tax can increasingly be done in a seamless and frictionless manner supported through the use of autonomous taxation algorithms and machine to machine interactions.

There is a long-standing and familiar example of this type of embedded process in pay-as-you-earn type arrangements for salaried employees whereby an employee's tax is calculated and withheld by employers. From the employer's perspective, this is an example of the incorporation of taxation processes into the natural systems that they use for purposes of paying their employees. For the employees and the tax administration, the result is a compliance-by-design outcome where there are often no or very few compliance choices for the individual employee to make and very little administrative burden, which can lead to increased compliance.

## Journey to seamless tax administration

Earlier work done by the Forum on Tax Administration (FTA) also referred to this move to more seamless and frictionless taxation as tax compliance by design (OECD, 2014<sup>[4]</sup>). This study discussed two basic approaches to achieving tax compliance by design – the “secured chain approach” and the “centralised data approach”.

- The **secured chain approach** involves the creation of a secured flow of information from the capture of business transactions to the final determination of the correct amount of tax being paid. The role of the tax administration is mainly to act as a facilitator of the features in the environment in order to make sure that the flow of information is secure.
- The idea behind the **centralised data approach** is to make sure 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. The role of the tax administration is more about managing the whole process, including handling and transforming all information by itself, so the need for the taxpayer to provide information on his own transactions is significantly reduced.

These two strategies are very different but they can also be combined in various ways depending on the context and desired future environment, enabling tax compliance to become much more automated and reduces costs for business and the revenue body alike.

### *Rethinking Tax Services*

In these developments, cooperation with the relevant parties is a critical element as set out in the report *Rethinking Tax Services, The Changing Role of Tax Service Providers in SME Tax Compliance* (OECD, 2016<sup>[5]</sup>). This report noted that the landscape of tax services, traditionally provided by parties such as tax advisors, accountants and other tax practitioners, is changing, thanks to new technologies and services such as online accounting and filing, mobile devices, and machine-to-machine communication. A large number of intermediaries require data as a starting point for their advisory services, which can also stimulate SMEs to use book keeping software. The report provided an overview of relevant technological and business developments and new service solutions and explored how these influence SMEs, tax service providers and tax administrations, as well as the way that they co-operate.

### *Tax Administration 3.0*

This vision of future, more seamless, tax administration has been further developed in the *Tax Administration 3.0* (OECD, 2020<sup>[2]</sup>) discussion paper. This sets out a framework of the core building blocks of digital transformation which, through collaboration with other parts of government, with private sector actors and internationally, can come together to allow taxation processes to be largely or fully embedded within taxpayers natural systems over time. These building blocks are:

- **Digital Identity:** supporting secure and unique identification of taxpayers and citizens in a joined-up way, helping to reduce burdens and helping to move processing into the background, connecting taxpayers’ natural systems.
- **Taxpayer touchpoints:** facilitating the engagement of taxpayers with tax administration processes as and when necessary (for example through access to real-time support), increasingly looking for opportunities to put such touchpoints into taxpayers’ natural systems, including in more automated ways.
- **Data management and standards:** creating the framework for how the administration manages data most effectively to maximise compliance and minimise burdens. In particular, this concerns the choices around where data is processed for different tax functions (within the administration,

within the taxpayers' natural systems or both), and the requirements for quality, availability and reporting of tax relevant data as well as metadata on the operation of taxpayers' systems.

- **Tax rule management and application:** creating and distributing tax laws in administrable and verifiable formats to allow stakeholders to integrate tax rules within their own preferred systems, including as they evolve, while providing robust and increasingly remote reassurance to the administration.
- **New skill sets:** planning for the new skills that will be required for the development and operation of digitally transformed tax administration, with human intervention taking place less frequently and with increasing support from artificial intelligence processes.
- **Governance frameworks:** guiding the development, implementation and connectivity of the other building blocks both within the tax administration and in cooperation with other actors, both domestically and internationally.



### Box 1.2. Tax Administration 3.0

The core elements of Tax Administration 3.0 are set out below. While this digital transformation will take some time, not least because of the need to spread the costs of change for administrations and taxpayers, in this vision tax administration is increasingly:

#### **Embedded within taxpayer natural systems**

Paying taxes will become a more seamless experience over time integrated into daily life and business activities as much as possible. Natural citizen and business behaviours and systems will increasingly be the starting point of taxation processes. Tax administrations and private sector organisations will increasingly collaborate in creating innovative and joined-up services, adding value to the taxpayer, reducing administrative burdens and assuring secure, transparent and highly reliable outcomes. Adapting taxation processes to fit in with taxpayers' natural systems will facilitate compliance by design and "tax just happening". Free-riding and being non-compliant will increasingly require deliberate and burdensome additional activities.

#### **Part of a resilient "system of systems"**

In addition to tax administration tasks currently carried out by businesses, such as Value Added Tax (VAT) and pay-as-you-earn (PAYE) systems, many digital platforms will also become "agents" of tax administration carrying out tax administration processes within their systems. Tax authorities will no longer be the single point of data processing and tax assessment. Instead, tax administration is conducted within a resilient network of seamlessly interacting trusted actors without one single point of failure. Some digital platforms are collecting tax and transferring payments instead of data, while others identify taxpayers and liabilities and share results and tax relevant information rather than all transaction data. Public and private actors join-up in collaborative governance models. Governmental bodies ultimately oversee and assure the quality, robustness and reliability of operations and outputs.

#### **Real-time tax certainty**

In order to stay synchronised with daily life and business transactions and events, tax administration processes will be increasingly real-time or close to real-time. Not all tax liabilities can be settled in such a short cyclic manner, so additional balancing mechanisms may be needed, such as real-time taxpayer accounts (possibly with crediting and debiting of tax payments and refunds). In most cases, swift and accurate provision of tax certainty is provided. Artificial intelligence tools and algorithms will support the characterisation and assessment of liabilities and will increasingly support decision-making.

#### **Transparent and trustworthy**

Taxpayers will have the opportunity to check and question taxes assessed, paid and due in real-time. It will be clear which rules have been applied to which data, reflecting facts and circumstances. This will allow taxpayers to challenge both automated and human decision-making. Citizens and businesses can check the origin and accuracy of the data used and can grant or deny access to personal data sources not needed for tax purposes. Although the tax legislation might still be complicated, to taxpayers the underlying tax administration process and results will be increasingly accessible and transparent.

#### **An integrated part of whole of government**

Taxation is increasingly joined-up with other government services and functions, employing common engagement models with citizens and business. One digital identity will support a seamless connection

between processes and data sources. Payments, benefits and refunds are matched and balanced from a citizen and business perspective.

### **A human touch and high tech adaptive organisation**

Although change is the only constant factor, a taxpayer-centric perspective will be the focal point around which tax administration processes are structured and governed. The key success factor is the intertwining of human staff and skills with advanced analytics and decision-supporting tools such as AI. This combination will support taxpayer compliance in the reducing number of areas where compliance choices still remain. It will also detect anomalies, leakages and flaws in the tax system. The agility of people, processes and systems assures that the tax administration can stay aligned with societal and economical change as well as respond to changes in circumstances, including crises.

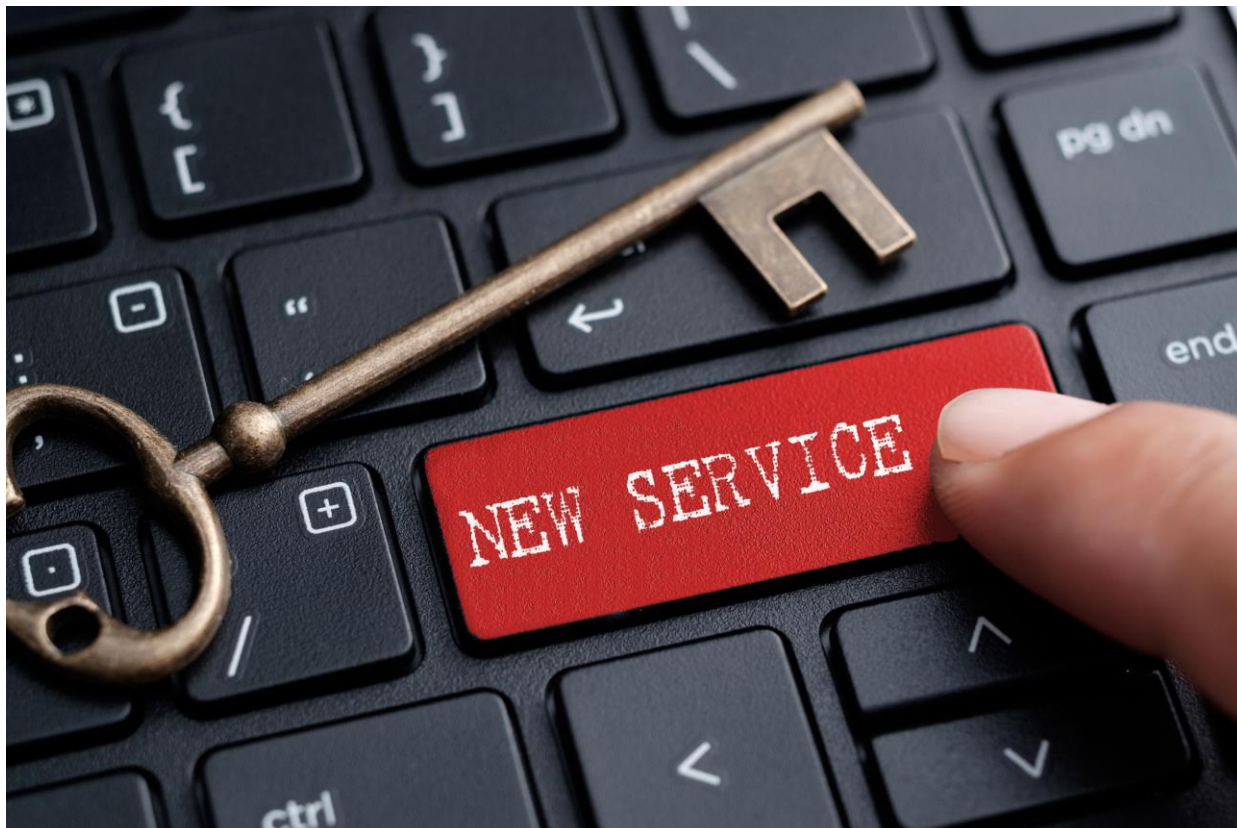
## **Structure of this report**

The rest of this report sets out the different ways in which tax administrations are currently working to integrate taxation processes into SME taxpayers' natural systems and some of the key benefits and considerations. While all of these approaches can be carried out at the same time, they can also be seen as different stages in the reshaping of tax administrations to adapt to the evolving natural systems used by taxpayers, seeking to build in compliance and significantly reduce burdens. Where tax administrations are on this journey is, of course, dependent on the different priorities, stages of development and legal frameworks within their jurisdictions.

- Chapter 2 looks at how tax administrations themselves are creating new natural systems for SMEs through the use of Application Programming Interfaces (APIs) which allow taxpayers to interact more seamlessly with tax administration systems. These range from applications limited to particular processes to more holistic systems which taxpayers can use to carry out all taxation processes;
- Chapter 3 looks at how tax administrations are working on the co-creation of natural systems with SME taxpayers and their service providers;
- Chapter 4 looks at developments in the wider joining-up of taxation processes with the wider SME taxpayer ecosystems, both private sector and other parts of government; and
- Chapter 5 gives some final thoughts on the journey to seamless taxation.

Finally there are two case studies in the Annexes which contain more detail on how tax administrations have implemented some of the ideas within this report. In considering the examples and analysis in this report, administrations and stakeholders may also wish to refer to the OECD 2021 Digital Transformation Maturity Model (OECD, 2021<sup>[6]</sup>). This model, intended to be used by tax administrations on a self-assessment basis, sets out descriptions of different maturity levels for each of the building blocks identified in Tax Administration 3.0. As well as enabling administrations to assess their current level of maturity, it can also be useful in helping to identify possible areas for further reform.

## 2 Creating new services to support seamless taxation



In the same way that tax administration has become increasingly digitalised, the process and systems of SME's have also gone through major changes in recent years. Where functions such as business administration, invoicing, or sales management were paper-based, in many cases these functions are capable of coming together within a digital system or connected systems. These changes provide opportunities in the move towards seamless taxation of SME's. The first step is for the tax administration to think about tax systems and how they can digitally connect into a SME. That connection can be into business software or into the electronic devices that SMEs use as business tools. Through this new digital tax administration services can be created that can simplify and automate existing tax administration processes.

If the first wave of digitisation in tax administrations could be characterised by the building of web based services, that digitised paper based processes, the introduction of the smartphone and associated technologies is now leading a shift and expansion to the next wave of technological development. This is seeing services increasingly delivered through applications (apps) capable of incorporation into those devices.

These apps are not driven by connections into web pages, but instead are supported by connections into the data systems that extract the required data specifically for the relevant service. These connections are provided by Application Programming Interfaces (APIs). The 2019 OECD report *Unlocking the Digital Economy – A Guide to Implementing Application Programming Interfaces in Government* (OECD, 2019<sup>[7]</sup>) contains more detail on this.

### Box 2.1. What is an API?

APIs are a set of functions and procedures allowing applications to access the features or data of an operating system, application, or other service. The structure (including the API) provides the ability to securely separate the service from the backend systems that store the tax information.

APIs, and in particular some of the more recent programming languages, can facilitate the exchange of data real time payments and other information between systems. As a result, APIs also reduce the risk of errors, as the same data is used across systems, and the need for human data entry is limited.

In parallel, the development of software applications has increased in SME's, and key examples of these are accounting and business management software. These systems are able to leverage off the growing range of APIs to gain access to data to support real time updates and transactions. This has created a shift away from the previous “digitising paper” based approaches to systems where the required data, and only the required data, needed to support a specific taxation process is transmitted.

## The power of APIs

As a result, APIs are becoming the foundation of the digitisation of business, which in turn is creating opportunities for tax administrations. As APIs can allow secure connectivity between systems, whether machine-to-machine or through the intervention of a person, tax administrations can access the specific data needed to support SME compliance direct from SMEs.

Using the connections facilitated by APIs, tax administrations can take an important step in the journey towards seamless taxation for SMEs, as they open up new services and approaches. APIs can:

- **Support the move beyond “electronic” forms to real digital interactions:** Seamless taxation requires a move beyond electronic forms towards fully digital end-to-end transactions that require reduced user involvement. There may be many touch points in a digital end-to-end transaction, but on face value, the interaction will be seamless and almost instantaneous - the data goes everywhere it needs to go and there is connectivity throughout the entire system.
- **Create a compliance by design system:** Connected systems makes it easier for citizens to comply with their obligations while making it harder not to. APIs can also facilitate conditionality, making sure a transaction can only progress when certain conditions are met, such as a valid business registration.
- **Facilitate multi-directional information:** Electronic forms provide functionality for the inward transmission of information, but there is little opportunity for data to be returned through the same channel. APIs allow for data and information to be exchanged in multiple directions. Information can be sent in and out between multiple parties in a digital ecosystem.
- **Increase the consistency and correctness of data:** APIs facilitate the exchange of data, real time payments and other information between systems. Data exchange can be as a result of a transaction, or data from a transaction can be extracted and used to fulfil other reporting obligations. APIs reduce the need for double handling of data as they facilitate the connectivity to

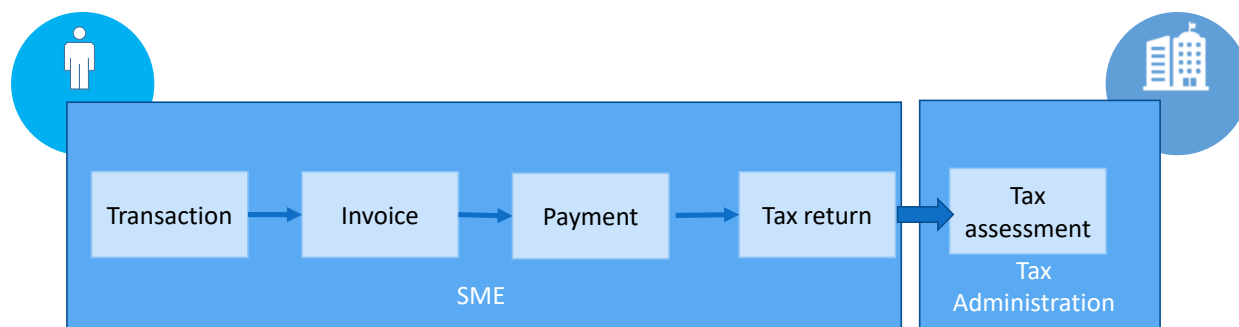
various different data repositories. This means content is less exposed to errors while transposing as the need for human data entry is limited.

- **Support timely timing:** Through the use of APIs, reporting can be event based or posted close to real time instead of annual or quarterly. Events can be reported simultaneously to different end points or can be reported in a series of transactions dictated by rules built into the ecosystem, only having the next transaction take place on the successful execution of the previous transaction. As APIs can create a new connectivity between systems, people and things without facilitating direct access to sensitive data, tax administration processes can connect to the systems of the taxpayer, and collect relevant information.
- **Create a new and improved taxpayer experience:** Taxpayers expectations of when they do business is changing. SMEs are often expected to be available to their customers at all times of day. This is changing their expectations of tax administrations, and they increasingly expect to access services 24/7.

## Using API driven services to change operating models

The connectivity and access to data that APIs can deliver help drive changes in operating models that can lead to more seamless taxation. Figure 2.1 sets out how a non-API driven model could be characterised as a linear one when a SME completes a transaction, raises an invoice, receives payment and records the transaction in accounting software. All these steps are manually made by the SME without electronic connectivity. This data is then input into a tax return which the tax administration assesses, and subsequently issues a demand for payment. Not only is this manual process burdensome for all parties, but it opens up opportunities for fraud and error as data can be misreported deliberately or accidentally.

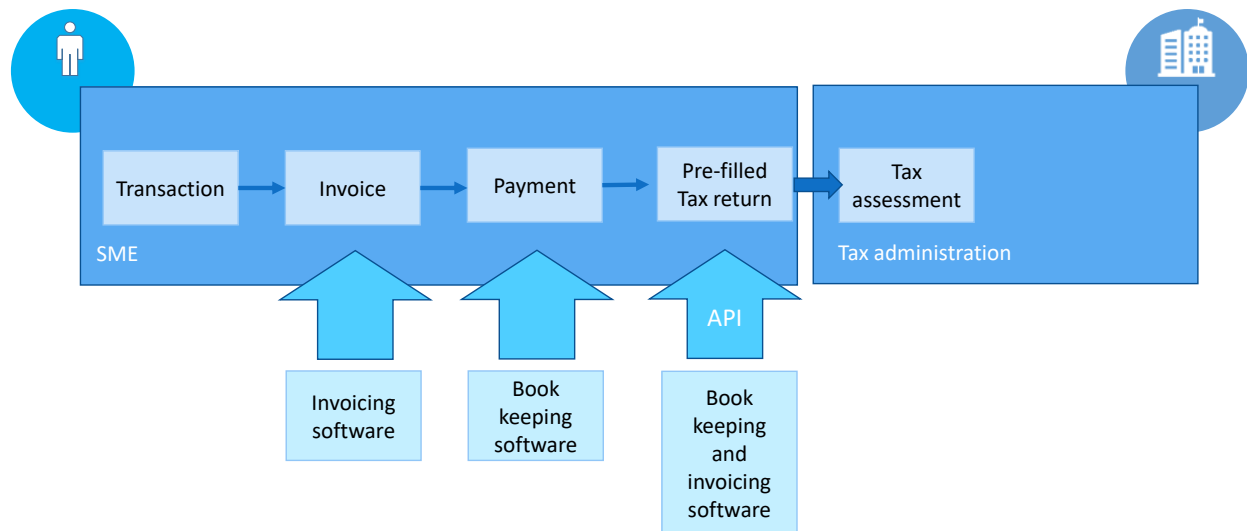
Figure 2.1. A traditional transactional chain



As Figure 2.2 shows, integrating APIs into this system means that the tax administration can receive data directly from the SME outside of the traditional tax return process. This data can then be used by the tax administration to create pre-populated tax returns which can reduce administrative burdens, freeing up more time for entrepreneurship. Furthermore, as tax administrations have greater and earlier insight into the activity of SME's, and have more confidence in the data they are also able to focus their efforts on the non-compliant SMEs, can help to create a more level playing field for SMEs. This can begin to create a virtuous circle for all parties.

It is important therefore that tax administrations understand the existing systems an SME might use, and identify where a connection may be helpful. For example, the existing SME functions to create invoices, and maintain accounts can all connect into a piece of tax administration software via APIs. This can facilitate the creation of a tax return using prefilled data which both the taxpayer and the tax administration verify, leading to reduce administrative burdens, and greater tax certainty amongst both parties.

Figure 2.2. An API supported chain



In above mentioned supported chain, depending on the systems and functions of both the SME and tax administration, it is possible that *all* the steps can be completed electronically by APIs. Using this approach, tax administrations have made significant progress towards more seamless operating models, which are set out in Box 2.2.

### Box 2.2. APIs supporting new services for SMEs

#### Argentina

In Argentina, the Federal Administration of Public Revenues (AFIP) provides an electronic billing service through the AFIP Portal, which is connected to SMEs through APIs. The 'Mobile Billing' application has the following objectives:

- Issue all the invoicing electronically. Paper invoices are for contingencies only.
- Record all invoices billed in real time on the AFIP databases.
- Integrate the application with the different electronic payment methods, to make tracking easier.

#### Australia

Single Touch Payroll (STP) is an Australian Government initiative to reduce employers' reporting burdens to government agencies. STP started on 1 July 2018 for employers with 20 employees or more and is progressively expanding to include all employers. With STP, employers (including small businesses) are able to fulfil their reporting obligations by:

- Reporting employees' payroll information to the Australian Taxation Office every time employees are paid through STP-enabled software. The information reported includes salaries and wages, the tax withheld from payments, and superannuation (for employees' retirement savings). From January 2022, STP is expanding to report data for other Australian government agencies, further reducing the reporting burden for employers (including small businesses).
- Prefilling taxation requirements for employers and employees using the information gathered from the STP-enabled software.

## Finland

The Finnish Tax Administration (Vero) has recognised that APIs make data transfer between taxpayers and the Vero. Vero API is aimed for platforms, software vendors and other service providers who do their own software development. Vero API makes software development easier by offering materials and documentation in English.

When software is directly connected to Vero through an API, filers do not need to separately log in to the Vero to complete a return and then submit it. Through APIs, Vero receives reported data quickly and in the correct format directly in Vero systems. APIs also reduce the need for services, as data can also be sent outside the tax administration automatically.

Vero API is continuously developed together with the users. Developers can test the planned interfaces in the sandbox environment or give ideas for further development by contacting Vero.

Vero API has already launched numerous interfaces including:

- CIT prepayment request, which can facilitate checking the current prepayment amount, make a test calculation of the prepayment amount based on new information and request a new prepayment;
- Value-added tax, which can facilitate checking VAT tax periods and due dates, file a VAT return and search for previously submitted VAT returns;
- Withholding information and details on pensions and benefits, which can facilitate searching the withholding percentage rates that are currently valid for a person who will receive payments, including payer specific rates for pensions and social benefits as well as sending reports containing information on the pensions and benefits;
- Decision, letters and information requests, which holds taxpayers' letters and information requests in pdf format as well as responses to information requests with text and attached files;
- Returns on platform economy sales, where parties that offer intermediary services or their representatives in Finland can use this to file tax returns on transport service charges and rental income.

The software developers can get to know the Finnish Tax Administration's current and upcoming interface services in the so-called sandbox environments. The sandbox offers fast and easy access to the interfaces without certificates. All you need is an API key that you get when you register as a software developer for the sandbox. The sandbox interfaces do not send out actual data, but the data contents are in the correct format. The sandbox is not connected to the Tax Administration's background system.

## Hungary

Through the introduction of Online Invoice data reporting, the National Tax and Customs Administration (NTCA) of Hungary has provided users with a free programme so they can that automatically complete their online data reporting obligation. In July 2020, a free mobile application developed by the NTCA was also launched as a mobile version which allows the issuing of invoices via a mobile phone. This supported the activities of taxpayers who were not office based or provided services from multiple locations. By using the mobile application, the status of invoice data reports sent to the NTCA can be checked at any time, and incoming and outgoing invoices can be queried anywhere.

### Mexico

Mexico offers various electronic tools to support taxpayer compliance:

- Mis cuentas (My Accounts): allows taxpayers to keep income and expenses records, fulfilling the obligation to keep records of its operations, as a simplified accounting.
- Factura fácil (Easy invoice): which provides the electronic invoice generating service in a simple way.
- Nómina Mis Cuentas (Payroll My accounts) allows taxpayers to issue an electronic payslip which automatically calculates the withholding tax, required deductions such as social security contributions, and any allowances or other entitlements.

### Peru

The tax administration (SUNAT) has developed specific apps for SME's and entrepreneurs:

- App Emprender SUNAT, an application developed especially for SME's with the purpose of helping them to comply, quickly and easily, with their tax obligations;
- App Personas SUNAT, an application specially developed for independent or dependent workers, which allows them to quickly and easily consult on (i) expenses, which have been validated by SUNAT, and (ii) establishments that have registered as restaurants, bars or hotels in the single taxpayer record file and that are electronic emitters.

### Singapore

Singapore is working on seamless filing for corporate tax. This is a joint initiative between IRAS and Accounting and Corporate Regulatory Authority (ACRA) to co-create a seamless filing solution with software developers. Under this initiative, software developers will enhance their accounting software with a suite of IRAS' and ACRA's APIs that can generate documents required for companies' statutory filing. In other words, companies that use the accounting software can generate documents, review and submit them directly to IRAS and ACRA. Such documents include IRAS' Income Tax Return, ACRA's Annual Return and financial statements in extensible business reporting language ('XBRL') format.

Source: Argentina – Federal Administration of Public Revenues (2019), Australia - Australian Taxation Office (2022), Finland – Finnish Tax Administration (2022); Hungary National Tax and Customs Administration (2022); Peru – SUNAT (2019), Mexico – Mexico Taxation Service (2019); Singapore – Inland Revenue Authority of Singapore (2019).

## Strategic considerations

When tax administrations are considering the implementation of APIs, it is important that they examine the strategic issues that this can raise, as poorly designed APIs can lead negative impacts that can increase burdens for all parties. The recent report from the FTA “Unlocking the Digital Economy – A Guide to Implementing Application Programming Interfaces in Government Strategic considerations” (OECD, 2019<sup>[7]</sup>) explores this topic in more detail, but key observations include:

- It is critical that tax administrations consider their impact on the existing systems of SMEs, to avoid the inadvertent creation of new burdens or barriers. A sound understanding of the SME environment is therefore essential to successful implementation of APIs.
- A system based around APIs depends on the effective transmission of data. It is essential therefore that the transmission system created by the tax administration is trusted by the SME. That can mean creating a secure environment for the data that has relevant data protection frameworks.



These frameworks can include data management protocols covering data collection, transfer and assurance that are secure enough to meet legal standards but are flexible enough to meet the huge variation in SME's.

- New technical developments and influences from legislation and regulations take place continuously, and so it is important that the systems and applications anticipate and take account of new developments. A useful tool in this is the continuous mapping of data sources that would enable particular tax administration API functions to work as effectively as possible. By doing this, tax administrations can ensure that the API systems and network maintains its effectiveness and integrity.
- Implementing APIs can have impacts on existing systems and process, and by carefully examining the impact risks can be mitigated so that the execution meets the strategic goals.

The evolution of these new API driven systems can open up new opportunities that mean new services can be developed that move away from SME's fitting into the process designed by the tax administration to embedding tax administration processes into the natural systems used by taxpayers to run their business, for example, payroll services and accounting software. This is the next stage on the journey to seamless taxation, and requires tax administrations to collaborate with developers, intermediaries and taxpayers in designing new tax processes. This is discussed in the following chapter.

# 3 Collaboration and co-creation



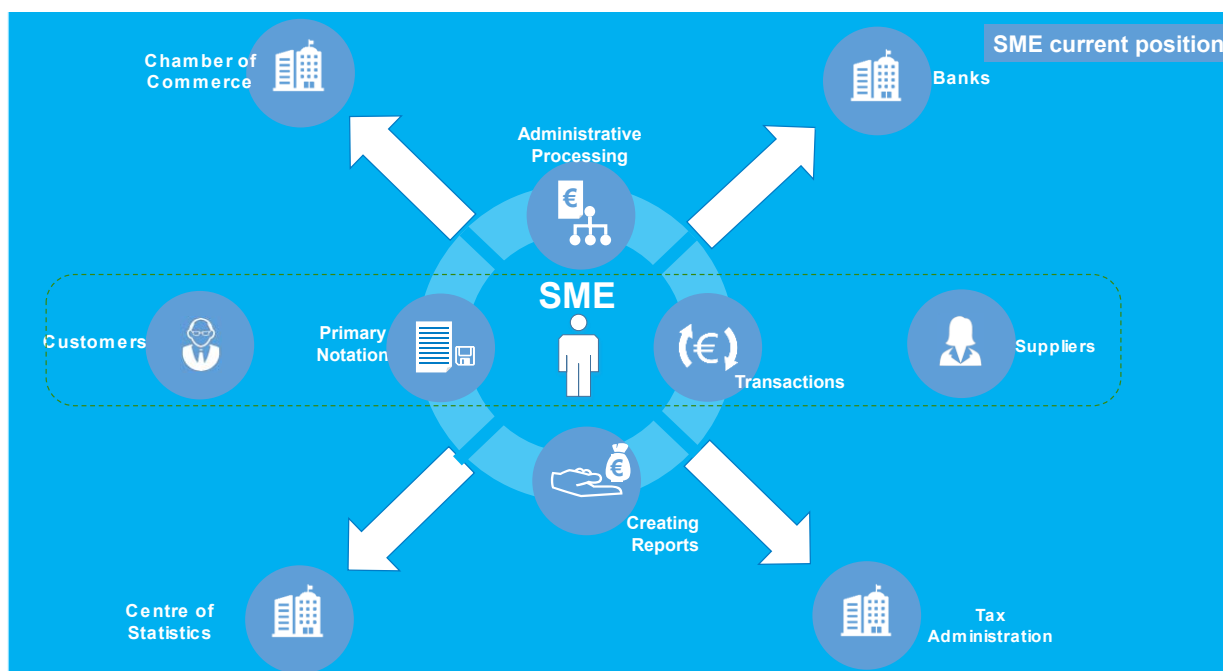
As set out in the previous chapter, the creation of links between the tax administration and SMEs creates opportunities for SMEs to share information directly with the tax administration, which can reduce burdens for all parties.

The next stage in the journey towards a seamless model of taxation, is for tax administration processes to become more embedded into the natural systems used by taxpayers to run their business, instead of there being specific tax administration software or modules. This requires SMEs and tax administrations to collaborate, and a tax administration needs to think about its process and systems, and where they might fit in the wider business ecosystem. This is essential for the flow of data that seamless taxation depends upon, and enables all businesses, including small ones even without specialist accounting staff, to effectively connect to the tax administration.

## SME ecosystems

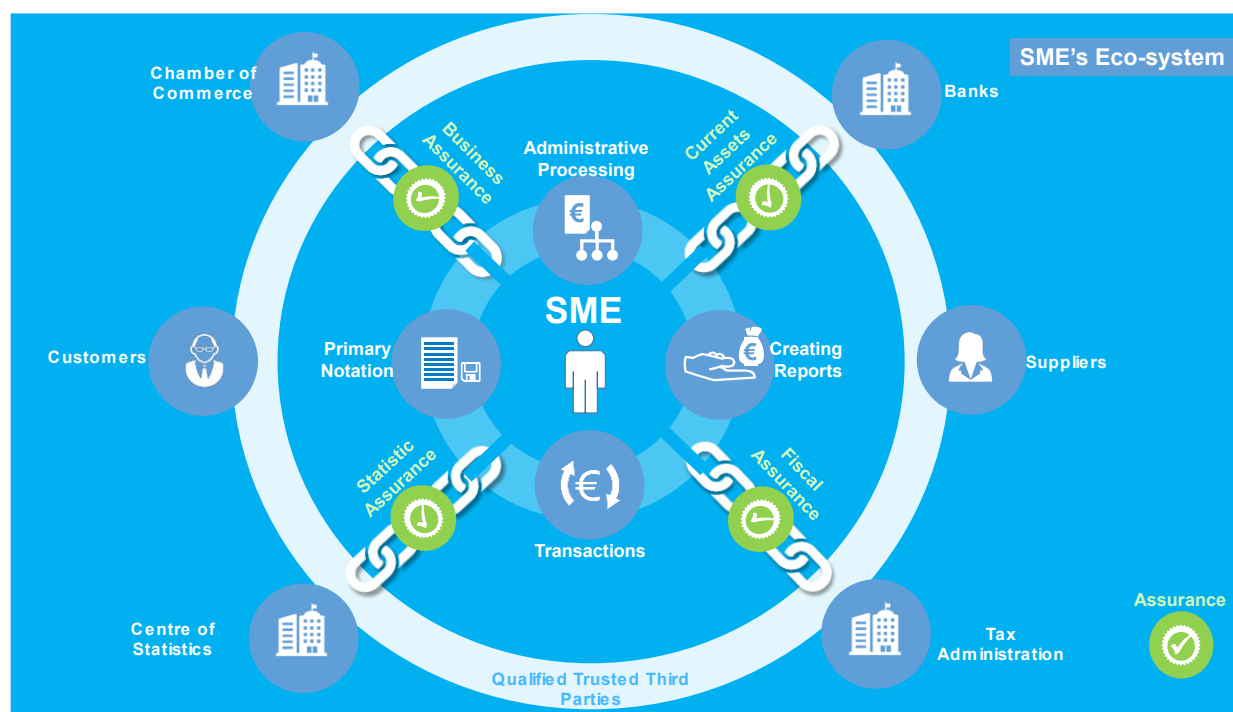
The current (traditional) environment in which SMEs operate, (their ecosystem) is illustrated in Figure 3.1. SMEs interact within this wider ecosystem through the creation of separate documents, reports and data, including for other related parties. This can result in different processes for the collection and reporting of information and reports depending on the requirements of the different actors.

Figure 3.1. The SME ecosystem



In seamless taxation as shown in Figure 3.2, tax compliance by a SME is integrated across an entire ecosystem, where the links between all participants are based on mutually accepted data quality standards and formats both to provide assurance and to minimise burdens. The impact of seamless taxation can be visualised by a changing position of the business related to the tax authority. The administrative processes of the SME – from supplier to client to tax administration – is connected to the tax administration and secured through trusted service providers and effective data security.

Figure 3.2. The aspirational SME ecosystem



## ***Achieving the vision***

Achieving this vision is not without challenges, and resolving them will require **collaboration** between businesses and the tax administration. Co-operation with software providers is particularly important as it can help in the development of products for SME's that integrate tax administration requirements into software.

Underpinning this collaboration will be the need to establish **long-term strategic frameworks** that are jointly owned by all parties and have common high-level objectives and principles. This can involve designing national strategies and action plans, and coordinating investments and action across the board.

It may also require some change across wider government so that government services are integrated. This might require the creation of a **robust legal framework**, which not only supports the tax administration approach but also creates the right gateways that allow the transmission of data. There is the need for a legal framework that supports any approach implemented, for example, by mandating those concerned to transmit data to the tax administration and, where necessary, to do that using specific devices and/or formats. This may also require reform of the **accounting and book keeping rules**, whereby the tax administration obligation corresponds as much as possible with the requirements set from other laws and regulations to reduce burdens on the SME.

At the heart of this new seamless approach is the **effective exchange of reliable and verified data** between SME's and the tax administration. Ideally this requires data flows from one stage to another without manual intervention with the aim of providing a smooth flow from an SME completing a transaction to it being included in relevant taxation processes, for example the tax return or withholding arrangements. In such a model, the data is used direct from the source and the data is automatically transferred from one process to the next. Using APIs, data transfer is built into the SME's software solutions rather than having to be adapted by the SME to support uploading into a specific tax administration piece of software.

Tax administrations may want to look at the wide range of existing natural systems and elements that SME could use to provide this source data, such as

- Creating and paying electronic invoices (e-invoicing)
- Online cash registers (OCR)
- Electronic book keeping

Within this complex chain, it is therefore essential that there are a set of common standards for data and data management. Tax administrations can play a significant role in this, and drive the cooperation with developers to ensure a shared commitment to the architecture and the individual functionalities. In addition to the elements mentioned in this chapter, Chapter 4 also examines the use of audit files, the role of fiscal intermediaries and other third party information sources.

## ***E-invoicing***

The examples set out below highlight that many tax administrations are finding e-invoicing to be very effective in helping achieve seamless taxation as many jurisdictions make e-invoicing mandatory for all transactions, meaning invoice information is sent to the tax administration in a structured electronic format.

By building tax processes into the e-invoicing software, this can lead to the automatic completion of tax returns via a business' software systems which can assist in reducing the tax administrative burden. E-invoicing can also have a significant positive impact on tax compliance as administrations receive vast amounts of data that can input in risk assessment mechanisms. Tax administrations can use the data to detect unusual behaviour and underreporting, and taxpayers' perception of risk may increase, thus positively influencing compliance behaviour.

### Box 3.1. E-invoicing

#### Australia

Australia has adopted the PEPPOL framework as a common, standardised approach for e-invoicing. This has allowed service providers to develop interoperable e-invoicing solutions for their customers, including SMEs, which will assist with business cash flow and record keeping.

PEPPOL has made the digital exchange of invoice information possible between different accounting systems, reducing manual data entry and errors, and providing a seamless and more secure channel to exchange invoices than email. PEPPOL also enables all businesses, regardless of size, to participate in the digital economy because the PEPPOL network and specifications are open, allowing for low-cost solutions and network access. The PEPPOL framework has been proven for over a decade and is now used in almost 40 countries across Europe, North America and the Asia Pacific region, including Australia, New Zealand, Singapore and Japan.

The Australian Taxation Office (ATO) is Australia's PEPPOL Authority. The ATO is not providing the e-invoicing platform or services, instead it is overseeing the local requirements and access points. Under this model, businesses will have a choice of service providers and solutions to suit their business needs when adopting e-invoicing into their business practices. E-invoicing will help Australian businesses further automate their business processes and reporting obligations.

#### Chile

In Chile, electronic invoicing is mandatory to all taxpayers since 2018. In this context, the Servicio de Impuestos Internos (SII) provides a free electronic invoicing solution to all taxpayers, available through the SII web portal and through a mobile app. This solution is utilised mostly by micro, small and medium enterprises. The electronic invoicing operational model requires the taxpayers to send the invoices in real time to the SII for validation. Exploiting this information flow, the SII implemented a transaction-based register named "Sales and acquisitions electronic register" (SAER). The SAER registers the information about electronic invoices issued or received for any taxpayer and replaces the record-keeping obligations for VAT purposes. Additionally, taxpayers are required to upload any additional information necessary to the correct determination of the VAT due for particular a tax period. The SAER has proven to be an extremely useful tool to the SII, allowing us to offer a draft / pre-filled VAT return form. This initiative simplifies and makes the task easier for taxpayers, as it comes pre-filled with the VAT due to be declared and paid, with a great adoption rate by the SME sector. As the information is obtained from validated documents, there are fewer errors and inconsistencies in the VAT return process. The SAER also is an important tool to the tax audit process and risk assessment, through the automation of data cross-match.

#### Portugal

In Portugal, it is mandatory to issue an invoice for any single transaction regardless its amount or the size of the taxpayer. Since 2013, based on some fields of the Standard Audit File, taxpayers have to submit electronically, on a monthly basis, some of the fields of each invoice issued. This information is cross-checked not only with the VAT returns, but also between all the companies, in order to detect mismatches. Mismatches are made available on the tax authority's Web Portal within the taxpayers' private space for them to justify or solve the mismatches. Where taxpayers do not react, for some types of mismatches, an assessment is automatically issued and, for other situations, the information is used for risk analysis and taxpayer selection for audit purposes.

Source: Australia – Australian Taxation Office (2019), Chile – Servicio de Impuestos Internos (2019), Portugal – Portuguese Tax and Customs Administration (2019).

## **Online Cash Registers**

E-invoicing can be augmented by Online Cash Registers data as over the past years, many countries have introduced legal frameworks that require businesses in the retail sector to use some form of secure electronic cash register to process and record sales transactions for tax compliance purposes. There are different types of models for how data is stored and secured, and how the data is made available to the tax administration. This is examined in the 2019 OECD report: “Implementing Online Cash Registers: Benefits, Considerations and Guidance” (OECD, 2019<sup>[8]</sup>). As this report sets out, in its most advance form the online cash register (OCR), allocates each sales transaction a unique electronic signature and the transaction details are transmitted directly or through an approved intermediary to the tax administration.

The use of OCRs, where data transmission to the tax administration takes place periodically or in real-time, provides the administration with large quantities of data across the retail sector. This allows the administration to apply data science techniques to uncover patterns which indicate a higher risk of misuse of the tax register and under-recording of transactions, thus creating an environment that makes it harder for businesses not to comply with tax regulations.

In situations where the OCR is used for all business transactions, the administration could also collate the information received from a specific business and use it to pre-populate the income fields in the income tax return or VAT return. The business would then only have to review the figure and provide missing information such as business expenses.

OCRs can also provide seamless taxation when connected to the businesses’ accounting and tax reporting software and all transactions are automatically booked in the system. The system could automatically prepare tax returns, if other business transactions, e.g. purchases, would be captured directly from the banking system. This would significantly reduce compliance burdens for taxpayers.

Where countries have not implemented e-invoicing, it is still possible to build the links between OCRs and invoices in the secured administrative chain. Paper-based invoices can be integrated into the chain by using ‘Invoice capture software’. The capture software provides SMEs an automated conversion of paper invoice to digital data crucial for the chain, and is a self-learning automated data entry solution. It recognises all key data needed, and can become an important part of the ecosystem.

### **Box 3.2. Online cash registers in Hungary**

The introduction of online cash registers has created a significant opportunity for targeted tax audit and data mining because more than 200 000 machines have been installed. These cash registers send more than 10 million lines of data to the tax authority every year.

Using this data, a complex risk management system has been built which includes:

- Continuous analysis of incoming data;
- Making comparisons between incoming data and data from tax returns;
- Making comparisons between other data available on taxpayers (e.g. reported data on permanent establishments, current accounts) and corresponding data from the cash register.

Source: Hungary – National Tax and Customs Administration (2019)

## **Electronic bookkeeping**

The administrative chain of SMEs has connections with a wide range of other parties and therefore a great diversity of components to make it operational. The administrative system – of which the bookkeeping

process is a part – plays an essential role in controlling business activities. It is the instrument for collection of data, usually in monetary terms, on economic activities, the processing of this data and the disclosure of that data. It therefore plays a central role as a management tool for SMEs but also for accountability to stakeholders such as financial institution and government. Digitisation is also taking place in these tools driven by a shift from paper documents to online.

The integrity of the electronic bookkeeping system is therefore an essential part of the administrative chain. Usually, standard electronic bookkeeping software is used to process the stage from registration to reporting of the accounting documents (such as financial statements and tax returns). Tax requirements are increasingly integrated into the relevant software, which increases the reliability of the documents and in turn ensures a more secure administrative chain.

Ideally, the tax software solution would prepare the data in such a way that it can be sent directly to the tax authorities (without the need for further manual processing or manipulation) or that the tax authorities can be authorised to retrieve the data direct from the company systems.

To develop a seamless experience, tax authorities must work with all software vendors, including the developers and vendors of the bookkeeping software, to determine the required set of information and provide the tax rules to be built into the software solution. Through this standardisation, the information set across the entire administrative chain can become a chain of qualified data.

The process to achieve this integrated solution cannot be seen as isolated. The architecture and functionalities should focus on data management and obtaining common standards for comparable data from the entire administrative chain. Collaboration with all parties, including the tax administration, the SME sector itself, the (tax and accounting) service providers in the sector and the software developers can help create accepted data management and standards. Through this, the separate parts of the chain connect seamlessly with each other.

## Strategic considerations

Seamless taxation will only be successful if it fits in with the needs of SMEs, and makes the lives of all parties easier. This means that SMEs will have to be central to any process, and requires **an open attitude from the Tax Administration towards both SMEs and other relevant parties** (such as service providers, software providers and intermediaries). This attitude is the starting point to provide services which can be adopted in the natural systems of business.

### Box 3.3. Netherlands: Integrating tax into the SME ecosystem

From 2019, the Netherlands started a collaboration with a limited number of external service providers/software developers for accounting software. The aim of the collaboration was to pre-fill out the VAT tax return straight from the accounting software used by the entrepreneur. After pre-filling the tax return, the tax return could be filed direct with the tax administration and any payment due made. As a result of these steps in achieving, an administrative chain with compliance by design was achieved. Typing errors in all steps of the process were avoided. The success of this pilot lead to more software developers integrating the pre-filled VAT tax return and payment process in their accounting software.

This cooperation with groups of developers for accounting software and payment service providers has extended to other taxes along with a direct payment facility.

The Netherlands is setting up next pilots to experiment with the integration of fiscal reliefs / fiscal business rules / pre-calculation and computations into accounting and fiscal software (providing fiscal information early in the chain). The close cooperation with the service providers is essential to create the required knowledge and broad acceptance of these innovations.

Source: Netherlands – Netherlands Tax Administration (2019)

This approach is also essential, as the tax administration will need to balance competing aims such as:

- Supporting both SMEs and software providers Tax administrations may be under pressure to provide certain software free of charge, to incentivise take up, especially if SMEs are unable to pay for it. However, this may in turn stifle the diversity of the market, and can create an un-level playing field between businesses. It may also lead to tax administrations having to take on maintenance responsibilities.
- The need to balance costs to the tax administration and costs to SMEs. Underpinning this entire system is the effective transfer of data between parties. This means that the communication between the parties has to be as clear as possible and that the parties understand each other and, in principle, speak the same language such as in a Standard Business Report. This may require tax administrations to establish clear rules and definitions for software that can facilitate effective exchange. Annex B has more detail on the Netherlands experience of establishing these rules.
- Encouraging competition between providers, to encourage innovative solutions, and greater functionality, whilst at the same time balancing collaborative approaches. This applies both across the private – public partnership, but also within the public sector. It may be that data needs to be exchanged between public sector bodies, and the tax administration may need to broker new relationships and create new gateways to facilitate co-operation.

By exploring these strategic considerations, gaining a deep understanding of the SME ecosystem, and co-creating APIs, the SME and the tax administration can become more closely connected. As these links deepen and become more trusted this can create further opportunities for third party data to become integrated into the connection between tax administrations and SMEs. This is the final step in the journey towards seamless taxation and is discussed in the next chapter.



# 4 Using third party data



The chapters before have described how tax administrations can integrate taxation processes into the existing systems of SMEs to help to create new services, in order to reduce burdens and improve compliance. One of the common themes from those chapters is ensuring that there is sufficient trust in the data supplied between SMEs and the tax administration, to ensure efficient functioning of the chain. As Chapter 2 highlighted, the SME ecosystem is very diverse, with relationships across banks, regulators and numerous parts of government. All these relationships involve the exchange of data in some form, and systems similar to those described in chapters 2 and 3 may have been established to facilitate them.

## Working with intermediaries

By integrating all information from different actors in the SME's ecosystem, such as that from financial intermediaries, other parts of government, and other tax administrations into tax administration processes, a pool of enhanced and verified data can be created, opening up possibilities for new approaches to both auditing and the pre-filing tax returns. Common building blocks for helping build that pool of trusted data include:

- Promoting (or obliging) the use of certified software delivered by certified software developers.

- Supporting the SME and the software developer by supplying digital tax calculation formulae and delivering tax applications that can easily be integrated into software packages and APIs.
- Providing specific support to help with this integration which is consistent across all the channels.
- Consistent standards that are enforced across sectors so that the quality of data is assured, and can be verified by regulated third parties such as accountants.

Delivering integration of data in this manner requires close working with intermediaries and third parties. This can offer significant opportunities to deliver compliance on a large scale as intermediaries can represent large numbers of SMEs. In Australia for example, around 86% of small businesses engage a tax professional to support their interactions with the Australian Taxation Office. Given the importance of intermediaries, a clear engagement strategy is essential that:

- Informs and educates on tax changes, including helping intermediaries pass these messages on to their clients;
- Has clear mutually agreed data quality standards; and
- Has transparent auditing requirements of the agreed standards.

#### Box 4.1. Working with intermediaries – Country examples

##### Australia

Recognising the importance of managing cash flow in the long-term viability of SMEs, Australia has worked with the tax profession to develop a Cash Flow Coaching Kit. The kit is designed to increase business and financial acumen to help SMEs understand and improve their cash flow.

This program is delivered via tax agents as well as industry and professional associations and includes a focus on tax professionals and small businesses who may be at higher-risk or in shadow economy industries via their industry associations, for example Master Plumbers Association and the Queensland Building and Construction Commission.

##### Canada

The Canada Revenue Agency (CRA) recognises that the service needs and compliance risks associated with SMEs are unique and require a tailored approach. In this way the CRA remains attuned to keeping compliance burden commensurate with risk, and continues to make strides by listening to Canadians through various channels of communication.

For example, every two years, the CRA partners with the Canadian Chamber of Commerce and the Chartered Professional Accountants of Canada (CPA Canada) to hold Serving You Better (SYB) consultations, which provide a forum for small and medium businesses and accountants to share valuable insights which the CRA can use to make its programs and services more streamlined and client-focused. The most recent consultation, which was held in 2018, has provided a forum for small and medium businesses and accountants to share valuable insights that the CRA can use to make its programs and services more streamlined and client-focussed. Small and medium businesses and accountants were invited to provide recommendations and advice on the CRA's services online or face-to-face with CRA senior officials in cities across Canada. Commitments made as a result of these consultations are publicly available and regularly tracked and monitored within the Agency. The recommendations struck an important balance between reducing red tape and maintaining the integrity and fairness of Canada's taxation system.

## France

A tax compliance review made by a “trusted third party” has been in place in 2018 that concerns companies subject to corporation tax. It enables these companies to use the services of a third-party certifier (auditor) who will audit some of the usual tax topics and will provide companies with a certificate of compliance after, if necessary, correction of anomalies by filing a corrigendum. For the company that has complied with the recommendations of its certifying third party, no penalty and no late payment interest will be applied if the administration questions the certifier’s position.

## Norway

In Norway, the tax administration hosts during November of each year 50 conferences for accountants, auditors and advisors. In addition, an online newsletter ‘Tax Info’ is sent electronically eight times a year to 4 350 accountants and auditors throughout the country. The newsletter covers news about taxes and provides practical information on, for example, form completion and submission.

## United Kingdom

The tax administration has a UK-wide team of Agent Account Managers (AAMs) to help deal with tax agents and advisers more effectively. AAMs help resolve client-specific issues. They act as an intermediary between agents and the tax administration where the normal communication channels have broken down. They act as a single point pre-complaints channel to help resolve any ongoing client-specific problems when the usual escalation processes within the tax administration have failed. The AAMs mediate with the business area to reach a satisfactory conclusion to issues.

The tax administration has 19 online toolkits covering a range of taxes including VAT, Self-Assessment, Corporation Tax and PAYE. The toolkits are updated each year to reflect any changes coming in and contain:

- a checklist to help identify the key areas errors often occur
- explanatory notes which identify the underlying types of error, how to avoid them and a brief outline of the tax treatment
- links to relevant online guidance

## United States

The tax administration has created a Stakeholder Liaison organisation to establish relationships with practitioner and industry organisations representing small business and self-employed taxpayers. The organisation provides information about tax policies, practices and procedures. Additionally, a Communications and Liaison office supports the tax administration’s mission by building relationships and understanding amongst its stakeholders through effective information sharing.

Source: Australia – Australian Taxation Office (2019), Canada – Canada Revenue Agency (2022); France – General Directorate of Public Finances (2019), Norway – Norwegian Tax Administration (2019), the United Kingdom – Her Majesty’s Revenue and Customs (2019) and the United States – Internal Revenue Service (2019).

Through working with intermediaries in this way, the ability of the tax administration to repopulate a tax return increases. For example, tax administrations can pre-fill a tax return with trusted information on both income sources and on tax-deductible expenses. Furthermore, as the data is trusted, the tax administration can apply a more risk based approach to auditing.

Previously much of the work on prefilling tax returns has been done in the field of personal income tax. However, the growth of a digitised SME ecosystem means that it is starting to become a possibility for SMEs, and in particular for Value Added Tax (VAT). This is because SME’s already supply significant

amounts of data to tax administrations on VAT and tax administrations can trust this data. Annex C contains a detailed case study of how Chile implemented a system to take e-invoicing information, and combine it with third party information from the private sector to create pre-filled tax returns.

The use of data from third parties is not limited to the private sector, as the public sector can also provide helpful data. Not only can this be used for prefilling, but it can also provide data to support other processes which can reduce burdens on SME's. One development in this field is the creation of a centralised platform for delivering e-government services to citizens, with a single point of access to electronic services and information offered by different public authorities. In these "One-stop shops" a tax authority can share data with other government services to reduce burdens and increase efficiencies for all parties.

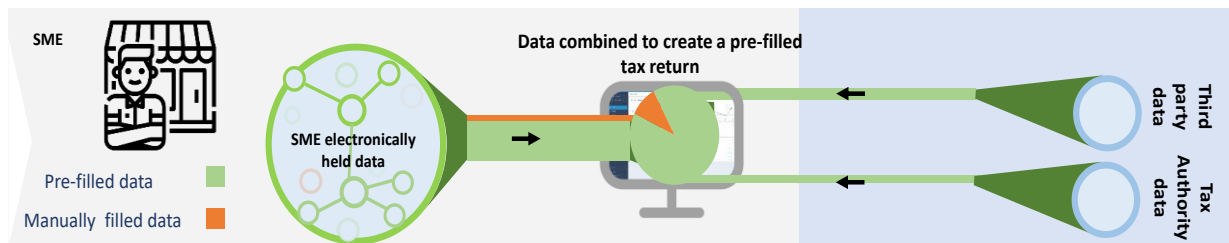
### Handling data

Tax administrations have often considered different strategies to receive data from different sources. Some have chosen to collect aggregate information from the taxpayer or third party, while others chose to collect all information and then complete the aggregation. The mixture of the sources will also be determined by the nature of the taxes involved.

For a corporate tax return, where there can be deductions for costs and fees, this can require a lot of effort for the SME to provide the data, and complete the return. That is why by creating a mix of data owned by the SME itself and data from third parties, a fully completed tax return with minimal manual input becomes possible.

Not only can the information from third parties - depending on the nature of the tax - provide additional information for the tax return, but it can also add certainty to the data supplied by third parties, contributing to greater tax certainty. By cross matching the taxpayer's own data with data from third parties within the SME's ecosystem, additional certainty is added to the tax return data. This ultimately provides qualified trusted information between all participants (e.g. suppliers, customers and authorities).

Figure 4.1. Using different data sources to create pre-filled tax returns



Source: Netherlands Tax Administration 2021

It is important to recognise that the interconnected nature of the SME ecosystem means that data sources and uses will converge over time. For example, in e-invoicing, companies are the primary data providers for information about all of their own taxable transactions as well as providing information about the activity of others.

This means that tax administrations may need to rethink their data strategy to take account of how they receive all kinds of data, both from the taxpayer and third parties. As this data is highly interconnected, it also means that a comprehensive system of registration, identification and authentication is critical for the effective operation of the ecosystem. Therefore, in addition to a check of the integrity of the received data, it is essential that all the third-party data (including reports) received by the tax administration contains a high integrity digital identity.

These complex exchanges of data within the SME ecosystem mean that data provision essentially becomes multilateral. To avoid large volumes of data flowing across the ecosystem a new emerging technical solution to the multilateral use of data could be provided by blockchain technology.

Blockchain allows data to be collected and stored by users, who then give permission for other users within the same network to access it. In this way, the participants keep control over their own data and it gives full transparency on how administrative bodies share the data. This gives a multilateral relationship that is set out below:

**Figure 4.2. Change of data provision from bilateral to multilateral**



Regardless of the approach used, tax administrations will need to ensure that the legal framework is in place to support the provision and use of information across third parties. Issues to consider include the obligations on third parties to transmit data in a timely manner to the tax authorities and, where necessary, to give permission to use the specific data in processing of the taxation for others.

### ***Changing compliance approaches***

By using third-party information, and combining it with taxpayer provided data, it is possible that tax returns can mostly be pre-filled by an interconnected system of the secure administrative chains of the SME ecosystem. This results in qualified trusted information, and allows tax administrations to move beyond a tax system which is based on information usually provided a long time after the related transaction and controlled retrospectively. Instead, it creates a system that is seamless for the SME, where tax administration is built into their natural systems that happens more in real time and the integrity of the tax data is verified by a wider system of third-party information. As set out in previous chapters, this can bring significant benefits for all parties.

In particular, it can have a significant impact on compliance. Where taxpayers have the opportunity not to comply with the tax system, for example by not including all taxable transactions in the calculation of income, the use of compliance by design approaches that lead towards seamless taxation (e.g. e-invoicing or online cash registers [OCR]) make it significantly harder for non-compliant taxpayers to circumvent the tax system. This is largely a result of the wealth of data that would be available to tax administrations because of those approaches, which, combined with new data science techniques, allow the administration to identify taxpayers that deviate significantly from those in comparable circumstances.

The other impact is the significant simplification of the tax system administration for those taxpayers that want to comply from the outset. The incorporation of tax relevant third-party data allows tax administrations to provide taxpayers with new services that reduce the administrative burden. Such approaches will reduce the time spent by taxpayers on their tax return and reduce the likelihood of unintended errors thus making it easier for the compliant taxpayer to adhere to the tax system.

## Box 4.2. New compliance approaches for SME's

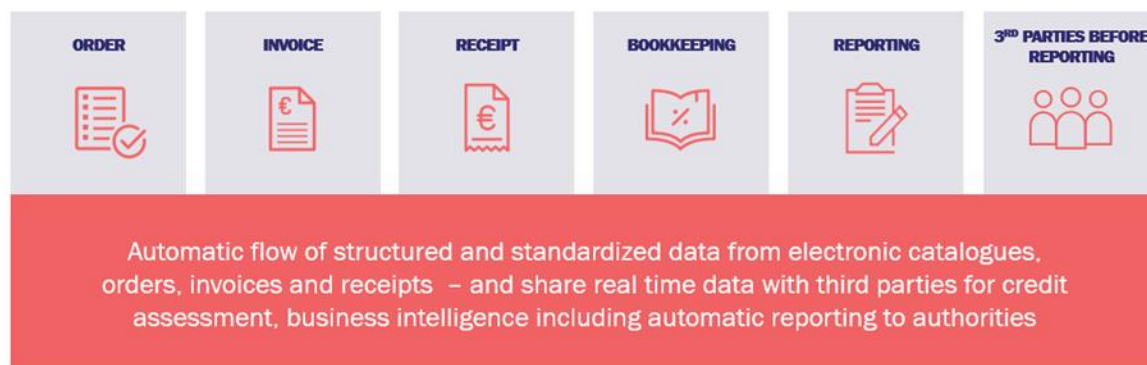
### Finland

Finland is part of Nordic Smart Government 4.0 (NSG) initiative, among all the other Nordic Tax Administrations and Business Registers, where the core idea is that structured and standardised business data can be shared automatically and thereby replace burdensome manual handling of data exchange. This involves alignment of digital systems and services as opposed to digital silos, and requires collaboration across sectors using the business data.

The mission is thus not to implement a centralised IT-system, but to enable and facilitate a transformation of the Nordic ecosystem and business processes, both nationally and across the Nordic borders. Once Nordic Smart Government is fully implemented, it will be easier for businesses to interact with other businesses and authorities. This requires that systems processing business data – both private and government systems – become connected, so information can flow seamlessly and be shared.

In NSG, digital systems and solutions apply standardised interfaces, which make them able to share data automatically and support efficient use of data by various parties. For example, a company from Finland can send an invoice to a company in Norway and the data quality and content can automatically be handled in both buyers and seller's digital systems. This means that SME's have no need to manually enter data from one system to another. This saves the SME's time as well as increases the quality of data for the tax administration.

### Aligning the digital infrastructure in order to make business data accessible and usable across the Nordics



NORDIC SMART  
GOVERNMENT

### Netherlands

In the Netherlands the creation of a trusted ecosystem, is based on the legislation of the eIDAS Regulation (Electronic Identification Authentication and trust Services). The framework provides high standards of digital assurance of reliable data-exchange and user-friendly services. It operates across domains and provides data exchange between citizens, companies including SME's and governments.

In this public-private joint venture, users and qualified trust service providers set out the governance for the ecosystem together. Broad availability of qualified trust services brings a high level of online reliability within reach and provides a boost to the e-Society. Public and private organisations, including the tax administration, are initiating a reliable online ecosystem to make these qualified trust services accessible.

The trusted online ecosystem is currently in the initiation phase. Technical tests have successfully demonstrated the proper functioning of the ecosystem. In a multiplier approach, these parties are experimenting with the ecosystem by implementing use cases whilst, in parallel, setting up a structural governance and framework of agreements. In accordance with this intention, public and private parties are jointly establishing formal governance for the management, organization and functioning of the ecosystem.

Sources: Finland – Finnish Tax Administration (2022) and the Netherlands – The Netherlands Tax Administration (2019)

## Strategic considerations

It is important that tax administrations consider carefully the implications of the integration of third party data into taxation processes. Whilst many of the same considerations set out in previous chapters around collaboration, transparency, and market insight apply, tax administration should ideally develop a clear understanding of taxpayer attitudes to the use of data, and how they might build acceptance and trust. Taxpayers and their advisors might for example:

- Be bound by non-disclosure agreements, or have specific concerns about data processing, data security and data privacy;
- Have concerns about liability if data is found to be incorrect; and
- Have concerns about the wider use of such information beyond tax purposes, even where it might be beneficial (such as helping to join-up government services).

Tax administrations therefore have a significant role to play in creating taxpayer trust in this new approach. It requires collaboration with business, other government agencies and non-governmental organizations as well as the development of highly transparent and permission-based approaches. By doing this it can help build a wider societal acceptance of this approach, and help reinforce the tax administration as a leading organisation. This requires careful change management within the tax administration, to ensure that IT infrastructure as well as staff capabilities can adapt to this new seamless approach as well as a whole of government approach to reinforce trust.

# 5 Conclusion

In the four previous chapters, a number of developments both domestic and international have been outlined towards the integration of tax processes in the business operations of SMEs. This can simplify the process of taxation for businesses, entrepreneurs and tax authorities. Through this tax compliance costs can decrease for all concerned, and in turn increase compliance rates.

Achieving this vision of seamless taxation, will require tax authorities to make a journey that takes in many stages. This report proposes possible solutions to facilitate and smooth that journey. However, each tax administration begins its own unique journey at different points, depending on their own principles, experiences, systems and objectives. Regardless of the starting point, one of the most critical influences is the status of the Digital Transformation programme within the tax administration.

The changes that Digital Transformation can bring about are central to the new opportunities in the process of integrating tax into the entrepreneurial ecosystem. In this context the OECD Digital Transformation Maturity Model (OECD, 2021<sup>[6]</sup>) can be a guide for identifying future priorities or reviewing existing progress which can then inform the necessary strategic discussions. This model can also help facilitate the sharing of knowledge and experiences between tax administrations, which can be very valuable in smoothing the journey of a tax administration.

However, it is not just the technical possibilities that will determine the future, and the successful journey. As this report highlights, cooperation between tax administrations, SME's and other interested parties is one of the cornerstones on the road to seamless taxation. This can help the deliver the overall strategic vision, which the earlier OECD report in this series, "Supporting SMEs to Get Tax Right Series: Strategic Planning" (OECD, 2020<sup>[9]</sup>) gives further thought to.

Finally, the Community of Interest that has written this report can continue to have a critical role in supporting tax administrations as they progress through their own journeys. This can be through reports such as this one or others in the series, the formal sharing of experience such as through case studies, providing mentoring opportunities or informal discussion. Through this collaboration tax administrations across the world can make progress together towards the shared goal of seamless of SMEs.



## Annex A. Case study: Making Standard Business Reporting accessible and beneficial for SMEs (Netherlands)

Standard Business Reporting (SBR) is the Dutch national standard for the digital exchange of business reports. The standard had been developed as a joint venture with third parties such as accountants, bookkeeper's software developers and banks. As a result of SBR, the data of financial administrations is once recorded in a standardised way, which can be used for submitting a variety of reports to different (government) parties.

With the introduction of Standard Business Reporting (SBR), the Dutch government has made substantial contributions to reporting across government and business. Almost all 12 000 intermediaries and tax specialists submit and receive tax reports via SBR to the Netherlands Tax Administration (NTA). The same applies for accountants that file annual reports to the Business Register.

As a result, SBR has led to a decrease in administrative burden for large businesses as they have the IT resources to support it, meaning SMEs often do not reap the (full) benefits of SBR. The NTA is aiming to make SBR more beneficial to SMEs in order to further increase its success. The first step was to analyse the obstacles which included:

- User-friendly electronic identity solutions were needed to confirm that all the actors in the chain (SME, intermediary, software-supplier, Banks, Business Register, government parties such as the Tax Administration) can trust the authenticity of information. This also involved digitally signing documents as an individual (qualified electronic signature), as an organization (qualified electronic seal) or as a system (SSL certificate). The process for obtaining these was complex and slow meaning many SME's did not take it up.
- The centralised infrastructure of the digital gateway to government was oriented towards high data volumes with limited variation in service levels. This suited large business but lacks flexibility to fit other types of information chains, such as SMEs.
- Only a small number of companies were involved in the development of SBR, meaning innovation was limited. This was preventing new entrants to the market who might develop solutions that could support different use cases for SMEs.
- Only a small number of large enterprises were involved in the governance, which focussed the governance on the needs of large business.

### Overcoming obstacles

A big step forward in the field of electronic identification (eID) and the qualified electronic signature, was the introduction of eIDAS in 2014 (Regulation 910 / EU). This European regulation and the underlying standards for Cloud Signing solutions, created a foundation for eID services. Combined with the emergence of mobile phones that could support sophisticated eID services qualified certificates under the

so-called Public Key Infrastructure for Government (PKI) could be requested via mobile phone, or via APIs for cloud sealing making it easier to connect systems for qualified exchange.

In parallel, the huge increase in bandwidth, the introduction of cloud computing and software as-a-service means ecosystems of applications could be more easily interconnected via APIs. This made software more accessible and easily distributed, putting a wide range of administrative tools within taxpayer's own control.

These developments boosted the opportunities for a new SBR ecosystem amongst SMEs. To capitalise on this, it was necessary to examine existing SBR implementation and to look at where adjustments had to be made. This involved:

- Collaborate in initiating an ecosystem between all parties with aligned ambitions in qualified information exchange across business to government, government to government and business to business;
- Encourage opportunities for cooperation and alignment of SBR and the ecosystem;
- Analyse use cases to ensure the solutions were appropriate; and
- Develop and pilot a detailed approach for implementation.

## Challenges faced during the implementation

Significant challenges during implementation included:

- It was essential that all participants agreed on the legal consequences of each position and step. Therefore, the process needed to be governed and specified precisely by a wide range of parties including the NTA and the associations/organizations of tax advisors. This was challenging as tax advisors might feel threatened to be disintermediated when SMEs are able to submit and receive reports themselves. By setting out that the aim of this process was not to put tax advisors out of business, but instead, to simplify formal reporting so that tax advisors no longer have to submit reports but can focus on tax advisory (which is their core business), tax advisors became supportive. They also appreciated that the data they would receive from their clients would be improved.
- The change management approach needed careful consideration to introduce new governance structures in response to the new wider ecosystem, and also for introducing the new technologies to SBR. This required clear management to adequately steer the change process.
- As the qualified trust services were relatively new, the acting spaces used in the pilot did not entirely provide the user experience to be expected from finished mature applications. For the pilot workarounds had to be used to provide an acceptable user experience level.

## Next steps

The pilot of the new trusted online ecosystem to support SME tax filing is being measured against the following criteria.

Criteria	Measurement
The practical viability of a trusted online reporting ecosystem	<p>A functioning reporting chain is implemented, and is operated.            A user population has filed via the ecosystem.            functioning reporting chain has:</p> <ul style="list-style-type: none"> <li>• A clearly defined and designed reporting process;</li> <li>• Definitions of data elements, syntax and semantics for report instances;</li> <li>• Authentication of all actor types in the chain;</li> </ul>

	<ul style="list-style-type: none"> <li>• A support process that is fit for use by different user types in the chain;</li> <li>• The technical protocols and components in place to operate the reporting chain.</li> </ul>
The viability of a trusted ecosystem for SBR	Analysis on compliance with SBR current framework of agreements.
Reduction of administrative burdens for the SME entrepreneur	<p>When filing:</p> <ul style="list-style-type: none"> <li>• An intermediary is not needed;</li> <li>• Receiving and sending a paper letter is not required.</li> </ul>
Increased user friendliness for the SME entrepreneur	<p>By user evaluation, can the user:</p> <ul style="list-style-type: none"> <li>• largely complete the process in an automated way;</li> <li>• provide a qualified electronic signature in a simple manner;</li> <li>• understands the process flow and the current status;</li> <li>• file quickly;</li> <li>• Feel added value from these improvements.</li> </ul>

## Annex B. Case study: Pre-filing (Chile)

### Background and overview

The Chilean Tax Authority, Servicio de Impuestos Internos (SII), has been an agent of change and innovation in the context of the Chilean public sector, acting as a pioneer in the migration from on-site to online services. This has led to significant improvements in revenue collection and a reduction in non-compliance.

The guiding principles of the SII focus on putting the taxpayer at the centre of its mandate. This means constantly working on offering new services to taxpayers to make tax compliance easier. The technological advancements of the last few decades have allowed the SII to improve their tax control work significantly, achieving greater coverage with lower costs for both the administration and taxpayers.

Following this model, in 2001 the SII started to offer a Draft Income Tax Return (DITR), pre-filling the taxpayer data in the corresponding electronic form (F22), as part of its wider strategy to minimise non-compliance by simplifying the filing requirements.

The Chilean income tax system affects:

- (i) Business Profits (“Impuesto de Primera Categoría” - First Category Tax - FCT);
- (ii) Salaries and remunerations (“Impuesto Único de Segunda Categoría” - Second Category Tax - SCT);
- (iii) All income of individuals resident or domiciled in Chile (“Impuesto Global Complementario” - Complementary Global Tax - CGT); and
- (iv) Income obtained by non-residents nor domiciled (“Impuesto Adicional” - Additional Tax - AT).

The SII offers a complete and accurate DITR (i.e. containing all the required fields from the F22) to individuals subject to the SCT and the CGT. On the other hand, a partial DITR is offered to the taxpayer’s subject to the FCT (particularly to taxpayers of the SME segment), maintaining the same objectives indicated above.

Given the positive DITR experience, the current IT capacity to handle large volumes of data and the country’s advances in electronic invoicing, as of August 2017 the SII started to offer every registered VAT taxpayer a Draft VAT Return (DVR), pre-filling the taxpayer transaction data in the corresponding electronic form. This initiative was developed and implemented with a strong focus on the particular needs of the SME sector.

It is important to note that the DITR and the DVR are not considered as a “deemed acceptance” system; a formal confirmation by the respective taxpayer is still required. In addition, no hard copies are produced as the DITR and DVR are facilitated electronically through the webpage of the SII.

### Implementation process

The implementation of these initiatives ensures that taxpayers have access to adequate and accurate information about their tax situation and transactions.

### ***DITR: Third-party information***

In the case of the DITR, the information is primarily obtained by requiring third parties to communicate relevant data to the SII through the so-called Sworn Statements (SS-Forms).

Withholding agents are taxpayers legally required to withhold part of the income they pay to third parties, such as employers on employees' income taxes. They have the obligation to file the SS-Forms during February and March of each tax year concerning the amounts withheld in the previous commercial year.

Reporting agents, on the other hand, are taxpayers or other entities for whom the law or the SII has established the obligation to report all or part of the transactions carried out by third parties, such as banks, stockbrokers, and pension fund managers, amongst others. They are also required to file the SS-Forms during February and March of each tax year concerning transactions carried out in the previous commercial year.

As of 1999, the SII started accepting the income tax SS-Forms electronically and since 2004, they can only be filed this way. For the fiscal year 2021, there were 57 income tax SS-Forms, some examples being:

Information required	Number of withholding / reporting agents	Number of reported taxpayers	SS Form N°
Withholdings on professional fees paid to independent contractors	563 074	3 483 276	1879
Salaries paid and withholdings on employees	366 347	8 968 642	1887
Purchases or sales of shares, other securities or digital assets through Stock Exchange or other intermediaries	38	9 238 684	1891
Investments and withdrawals of mutual funds	29	12 831 824	1894

The whole income tax return process is carried out entirely online. The pre-filled DITR is offered to taxpayers logged into the SII portal using data from the online F22 form. If the DITR is confirmed by the taxpayer, the tax return is filed electronically, otherwise the system allows the taxpayer to amend the F22 form before confirming.

The whole income tax return process considers the following stages:

- (i) Reception of the SS-Forms (February – March);
- (ii) Creation of the pre-filled DITR (April);
- (iii) Review / confirmation or amendment, electronic filing of the tax return by the taxpayers (April – first week of May);
- (iv) Data cross check and validation of tax returns filed (May);
- (v) Tax refund, if applicable (May – June); and
- (vi) Audit process (rest of the fiscal year).

### ***Draft VAT Return: Real-time Transactional Information***

The implementation of a process to obtain the necessary information for the development of the DVR was linked to the introduction and evolution of electronic invoicing in Chile. Prior to electronic invoicing, tax documents in Chile first required a seal of approval from the SII for paper documents issued by the taxpayers to support the transactions performed in the course of their economic activities. In fact, the application of an official stamp was required on each document as well as on any respective copies.

The growing volume of documents that had to be stamped forced both the SII and the taxpayers to allocate an increasing amount of resources to comply with the filing requirements. Moreover, managing

documentation on paper and in physical accounting books was burdensome for both the SII and the taxpayers.

Due to the high administrative burden associated with paper filing, in 2002, after consultations with relevant companies of several economic sectors, the SII launched a pilot plan with the purpose of testing an electronic invoicing model (based on XML) to operate in the country.

Once this model was validated, the electronic invoicing system was open for public access in 2003. Initially, the pilot programme was implemented on a voluntary basis and offered as an alternative to the paper-based system. Gradually, a growing number of companies embraced this new system. In 2014, Law N° 20.727 was passed, establishing the mandatory issuance of tax documents in electronic format, and therefore becoming applicable to all taxpayers in the country with a few exceptions (i.e. taxpayers located in zones without electrical connection or internet coverage, or in areas affected by a catastrophe as declared by the President).

Mandatory electronic invoicing was implemented gradually and in stages. The first stage started in November 2014, affecting large enterprises (representing about 80% of all the documents issued in the country) and the last stage was finished in February 2018, when the microenterprises located in rural areas were incorporated. Today, around 100% of all invoices are issued electronically.

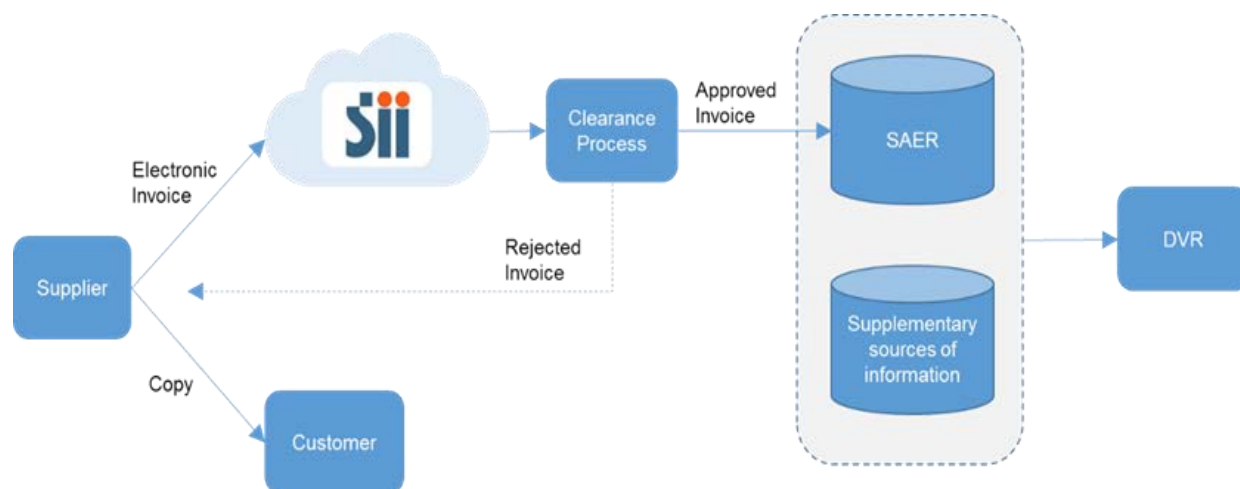
The electronic invoicing model requires taxpayers to send each invoice to the SII for the purpose of validation. Once validated, the invoice is considered a legally binding tax document. Each invoice must be generated in a standard format defined by the SII and must contain a digital signature in order to ensure the identity of the issuer and the integrity of the document. As an additional safeguard, incorporation of a “digital stamp” is required for further audit purposes. The SII’s systems currently processes more than 45 million electronic invoices per month.

This operational model grants the SII centralised real-time access to the vast majority of transactions performed by taxpayers. Access to this information allowed the SII to eliminate the obligation to keep physical VAT ledgers as proof of the assessment of the tax due (alongside other reporting obligations). These physical proofs are replaced with an electronic record prepared by the SII automatically using electronic invoices issued and received by each taxpayer and which are communicated to the SII, named Sales and Acquisitions Electronic Register (SAER).

Taxpayers are required to supplement the SAER with the necessary information to fully and accurately reflect their tax situation. Some relevant examples are the information about consumer receipts issued on B2C transactions (total amount and number of documents) and non-electronic invoices (if applicable), amongst others. The SAER is now the basis for VAT assessments in Chile.

The data registered in the SAER allows the SII to offer a DVR based on the transactions carried out by the taxpayers in a particular monthly tax period.

Figure B.1. Pre-filling tax return process



The DVR is offered to taxpayers who are registered under the SII portal. The SII portal will populate the online F29 form. If the DVR is confirmed by the taxpayer, the tax return is then filed electronically, otherwise the system allows the taxpayer to amend the F29 form before filing.

## Challenges faced during the implementation

### *Cultural change*

Both initiatives, DITR and DVR, involved the digitalisation of different aspects of the relationship between the SII and the taxpayers.

This process has involved a deep change in how tax audit tasks are performed at the SII. The new data matching and checking process is primarily conducted through algorithms. This has allowed tax inspectors to focus on more complex activities and case. It stressed the need for appropriate capacity building, and it also required important changes in the organization, back-end platforms and internal procedures.

### *Adaptation of the IT systems of the SII*

The implementation of both initiatives required us to substantially expand and improve the IT capacity of the SII in order to serve an increasing number of web transactions and to handle, store, and exploit large volumes of data. To this end, significant investments have been made in technological infrastructure and training of SII professionals.

Additionally, the DVR required a significant investment in big data technologies in order to allow the proper classification and recording of tax documents in the SAER and further analysis of all data received by the SII for control and audit purposes.

### *Ensure access of the SII to relevant tax information*

Initially, the development of the DITR involved the challenge of ensuring that third-parties' relevant information was communicated to the SII timely and sufficiently. To this end, it was necessary to adapt both the legislation and the procedures of the SII.

While the SII has legal powers to require and enforce the delivery of SS Forms, it is also concerned with the administrative burden placed on withholding and reporting agents. This transition has been carried out mainly through the development of APIs, dedicated web services, etc. to simplify the task of submitting the

required information. In addition, communication channels were established with association groups and agents in order to ensure that the required information is available to companies. This provided the necessary time to implement or adapt their internal systems.

With respect to the DVR, and before the implementation of the SAER, there were many obligations such as requiring the taxpayers to report their transactions, including their registration in a special ledger, the transmission of electronic summaries to the SII, and/or the preparation of VAT Sworn Statements, amongst others. Some of these obligations presented substantial levels of non-compliance and inconsistencies regarding the information submitted.

This led the SII, in the context of the implementation of the DVR, to move towards a model without intermediaries, retrieving the transaction information directly at the time of issuance of the electronic document, a model considered qualitatively better.

### ***Mandatory electronic invoicing***

As mentioned before, taxpayers are only allowed to issue invoices and other tax documents in electronic format, with just a few exceptions. Currently, in Chile, 100% of invoices are issued electronically. This was crucial to the development of the DVR.

The process to successfully implement mandatory electronic filing demanded several adjustments, both legal (e.g. Law N° 20.727) and in the IT systems of the SII. In this context, the SII developed an Electronic Invoicing Portal ([www.sii.cl/mipyme/](http://www.sii.cl/mipyme/)), aimed at providing micro and small taxpayers with a system that allows them to operate as electronic issuers free of charge.

### ***Regulatory amendments***

Both initiatives have been developed by the SII using its statutory attributions. Therefore, it was necessary for the SII to issue a regulatory framework to regulate the scope and effects of these changes.

Some of these regulations have subsequently been incorporated into our tax legislation.

## **Outcomes and next steps**

In general, the development of pre-filled tax returns has been an effective tool to make tax compliance easier and to provide valuable information about deductions or exemptions that are often unknown to the taxpayers, thus generating multiple benefits for both the taxpayers and the tax administration. Ultimately, the model seeks to reduce non-compliance by promoting voluntary compliance.

In relation to the DITR, during the first year of its full operation (2001), the income tax returns submitted electronically increased by 523% in comparison with the previous year, reaching 25.7% of the total tax returns submitted. Considering the internet coverage at the time, these numbers constituted a milestone in the digitalisation of state services in Chile.

In 2011, of the total income tax returns filed, 63% of taxpayers used the DITR offered by the SII, either confirming the DITR without making any amendment or using it as the basis for an amended income tax return form (F22). By 2021, that percentage increased to 83.86% of taxpayers.

The processes for capturing and matching large volumes of third-parties' income information has been highly effective in detecting unreported income, resulting in the collection of substantial amounts of additional tax revenue.

Since the launch of the DVR in August 2017, the adoption rate reached and stabilised at levels above 90%, measured as the percentage of VAT paid using DVR in relation to the total VAT income.



Today, 94.69% of the taxpayers required to declare VAT have been doing so through our initiative (DVR). This represents 93.13% of the total VAT (declared and paid).

Similarly, to the DITR, the process to capture the information for the development of the DVR has been an extremely useful tool to detect VAT taxpayers who have failed to submit their returns. In addition, the number of taxpayers under-declaring the VAT has significantly decreased over time.

Another benefit of the introduction of the DVR has been a drop in the error rate of VAT returns filed. The period of August 2017 to November 2021 showed a decrease of 70% in the number of rectification requests.

The DVR has been an effective measure to simplify and clarify the VAT return process for taxpayers of the SME segment especially as it considers the specific characteristics of the taxpayer and its operations.

It is important to note that as of 2017, the SII has been offering a complete DITR on FCT to the taxpayers of the SME sector. This knowledge will be useful in effectively resolving any issues that occur in relation to the implementation of the recently approved Law N° 21.210, which establishes the obligation of the SII to provide such pre-filled tax returns to SME taxpayers.

Considering the success of the DVR, we expect to evaluate the full implementation of this pre-filing tax return. We also expect to offer a DITR to large companies in the future.

In relation to the DVR, the next step is to automate the capture of information about consumer receipts in B2C transactions. Currently, that information is uploaded (summarised) to the SAER by the VAT taxpayers. The same Law mentioned above contains provisions that make the electronic issuance of those receipts' mandatory.

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**OECD Forum on Tax Administration**

# **Towards Seamless Taxation**

## **SUPPORTING SMES TO GET TAX RIGHT**

This report looks at how new developments in tax technology can make it easier for SMEs to comply with their tax obligations, leading to reduced burdens on business and increased compliance rates. In addition to a number of examples from tax administrations, the report also highlights two detailed case studies. The report was developed by the Netherlands' Tax Administration with the support of the Forum on Tax Administration's Community of Interest on SMEs.

