

OECD FORUM ON TAX ADMINISTRATION

# Tax Administration 3.0 and Connecting with Natural Systems

Initial Findings



Tax

Welfare

Business data  
& events

Other  
agencies

OECD Forum on Tax Administration

# **Tax Administration 3.0 and Connecting with Natural Systems**

Initial Findings



This document, as well as any data and any map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

This document was approved by the Committee on Fiscal Affairs on 13 September 2022 and prepared for publication by the OECD Secretariat.

**Please cite this publication as:**

OECD (2022), *Tax Administration 3.0 and Connecting with Natural Systems: Initial Findings*, OECD Forum on Tax Administration, OECD, Paris, <https://doi.org/10.1787/53b8dade-en>.

Photo credits: © Shutterstock.com, Gettyimage.com, Istockphoto.com, Alex Butterfield (cc-by-2.0), Unsplash.com

© OCDE 2022

---

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at [www.oecd.org/termsandconditions](http://www.oecd.org/termsandconditions)

---

# Preface

I am pleased to present this report which showcases foundational thinking on the possibilities for more seamless interaction between tax administrations and platform businesses operating in the gig economy.

Technological advancements have enabled rapid growth in the sharing and gig economy – making the use of online platforms a normal part of our everyday lives. The same technology also presents opportunities for tax administrations across the world to support their citizens in paying the right tax at the right time.

In considering these opportunities, there are technological and policy challenges to address, so this report looks at both elements. The possibility of a technological framework also prompts key questions about digital identity and trust in Government's access to, and use of, transactional data, which are vital for any future system of proportionate, timely and relevant data exchanges but where attitudes can vary widely between countries.

The findings of the report demonstrate a clear need for greater multilateral cooperation with not only tax administrations and their citizens, but with the businesses who are operating at the cutting edge of technological advancements which disrupt traditional models of labour and asset use. Whilst this report focuses the discussions in the context of the sharing and gig economy, the policy rationale could also apply in a broader context, and pave the way for more detailed international collaboration and discussions about the role technology could have in developing the future of tax administrations.

I would personally like to thank all tax administrations who engaged with the Advisory and Drafting Group; Australia, Canada, Denmark, Finland, Ireland and Israel. The engagement and collaboration with my UK colleagues has been of the highest standard and sets the tone for a report which is exciting in scope and I look forward to engaging with future projects which progress some of this foundational thinking.



Angela Macdonald

HMRC Deputy CEO and Second Permanent Secretary

# Foreword

This report 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 part of the wider work programme to develop the ideas highlighted in the *Tax Administration 3.0: The Digital Transformation of Tax Administration* (“Tax Administration 3.0”) report and is a summary of the discussions between officials from Australia, Canada, Denmark, Finland, Ireland, Israel and the United Kingdom who participated in the Advisory and Drafting Group established following the publication of *Tax Administration 3.0*. This report aims to explore in more detail some of the issues and challenges involved in tax administrations’ systems connecting directly with taxpayers’ systems so that more ‘real-time’ data can flow in an automated manner between them, something which is a key component of the ideas in *Tax Administration 3.0*.

# Acknowledgements

This publication was authored by officials from the Advisory and Drafting Group, chaired by Bridget Micklem, Kristofer Ross and Mark Grace from HM Revenue and Customs in the United Kingdom, with the support of Paul Marsh of the OECD Secretariat, and David Jove Rey from the OECD Digital, Knowledge and Information directorate.

The authors would like to thank the officials from the countries who have provided technical information to support the development of this report and the input and assistance from Sonia Nicolas, Eunkyung Shin, Milton Pérez Rivera and the Communications Team of the OECD Centre for Tax Policy and Administration in finalising it.

# Table of contents

Preface	3
Foreword	4
Acknowledgements	5
Abbreviations and acronyms	8
Executive summary	9
References	10
<b>1 Introduction</b>	<b>11</b>
The integrated data vision	11
Scope of this report	13
References	14
<b>2 Technical exploration</b>	<b>16</b>
Principles of a technical architecture	16
Proposed framework	17
Areas for further exploration	18
<b>3 Digital identity</b>	<b>20</b>
Benefits	20
Challenges	21
Impacts on platforms	23
References	24
<b>4 Education</b>	<b>25</b>
The role of different participants	26
The characteristics of successful education activity	26
Areas for further exploration	27
<b>5 Data</b>	<b>29</b>
Key policy challenges	29
Recommendations and next steps	31
References	32

<b>6 Trust and transparency</b>	<b>33</b>
Challenges	34
Designing trust into a connected system	34
Areas for further exploration	35

<b>7 Recommendations</b>	<b>36</b>
--------------------------	-----------

## FIGURES

Figure 2.1. Principles of a technical architecture	16
Figure 2.2. Technical flow	19
Figure 6.1. Interdependent trust relationships	33

## BOXES

Box 1.1. Progress towards connected systems	13
Box 1.2. Why focus on the sharing and gig economy sector	14
Box 3.1. Identity Matching with and Identifier	21
Box 3.2. Privacy concerns with digital identity	22
Box 3.3. Different digital identities	23



# Abbreviations and acronyms

ABN	Australian Business Number
ADG	Advisory and Drafting Group
AEOI	Automatic Exchange of Information
API	Application Programming Interface
ATO	Australian Taxation Office
CRS	Common Reporting Standard
EOIR	Exchange of Information on Request
ERP	Enterprise Resource Planning
GST	Goods and Services Tax
PAYE	Pay As You Earn
RAM	Relationship Authorisation Manager
TIN	Taxpayer Identification Number
UTR	Unique Taxpayer Reference
VAT	Value Added Tax

# Executive summary

Tax Administration 3.0 (OECD, 2020<sup>[1]</sup>) sets out a vision for the digital transformation of tax administration, under which taxation processes become more seamless and frictionless. This digital transformation has the potential to build-in compliance into the natural systems that taxpayers use including to undertake transactions or to do business. This can significantly reduce the burdens that can arise from using different processes for taxation to those used in taxpayers' daily lives and businesses.

This is a journey which will take many years and requires many pieces to fit together to realise the full benefits. This includes collaboration with other parts of government, with private sector parties and internationally. Tax Administration 3.0 identifies that a critical building block in this process is ensuring that the systems of tax administrations, taxpayers and businesses are connected in a way which allows data to move automatically through machine-to-machine based processes, including in real-time where appropriate.

This report examines the issues and challenges related to moving towards connected data systems, primarily from a direct tax perspective. It explores the issues that stem from managing the availability, quality and accuracy of data that is drawn remotely from taxpayers' natural systems, and where international cooperation can help move this agenda forward.

Given the breadth of the topic, this report examines the questions and issues through the lens of the sharing and gig economy sector. It is worth noting that the ideas contained within this report are not limited to the sharing and gig economy sector, and it is anticipated that the ideas might be replicable in other areas of tax administration, within other taxpayer groups or in other tax types. It is also important to recognise that the work taking place on other Tax Administration 3.0 building blocks, in particular on digital identity, can significantly help this work.

Thanks to the work of the Advisory and Drafting Group, this report seeks to examine two key questions in the move to integrated data systems:

- Is there a possible technical architecture that could support the data exchanges envisaged?
- What are the administrative policy questions that might be raised by such a shift?

This report identifies the key issues raised by these two questions as seen by the participating tax administrations, and recommends that there is an ongoing and deeper collaboration between tax administrations and businesses to explore them further, with this work being a precursor to that collaboration. In particular, as the identified technical framework is critical to future progress, this exploration could include moving to a pilot or proof of concept stage to test the ideas further. Finally, this report also recognises that this work forms a small part of the wider set of potential work on Tax Administration 3.0, and that there are significant crossovers with the work on digital identity. It therefore suggests that structures are created to facilitate collaborative working between other TA 3.0 priorities.

## References

OECD (2020), *Tax Administration 3.0: The Digital Transformation of Tax Administration*, [1]  
<https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.htm>.

# 1 Introduction

Tax Administration 3.0 (OECD, 2020<sup>[1]</sup>) is an ambitious vision for the digital transformation of tax administration, where tax processes become more seamless and frictionless over time. This digital transformation has the potential to build-in compliance in an increasing number of areas, to move taxation closer to taxable events and to significantly reduce the burdens that can arise from using different processes for taxation to those used in taxpayers' daily lives and businesses. As these opportunities increase, it may be possible to make significant inroads into the structural limitations of current tax administration by opening up new policy options that can help tackle persistent tax gaps, large amounts of uncollected tax debt and compliance burdens.

This is a long term vision and requires many components to come together to realise the full benefits. This includes co-development of many of the building blocks of digital transformation with other parts of government, with private sector parties and internationally.

A critical building block in this process is ensuring that the systems of tax administrations, taxpayers and businesses are connected so that the *relevant* data can flow seamlessly between all parties. Identifying relevant data is critical to the effective development of connections between taxpayers, business and tax administrations. Much of the previous work on cooperation in this area has seen large periodic data flows moving between parties, which can then be analysed in data pools. The vision of Tax Administration 3.0 is different, as it has a greater focus on both the timeliness and relevance of data to the taxation process, with other data kept within taxpayers' natural systems. This may involve more machine to machine connections allowing accurate data to flow automatically between parties according to specified parameters as well as the development of robust assurance frameworks (which may include remote assurance).

## The integrated data vision

Over the last 20 years, the data available to tax administrations has grown exponentially. Not only has this happened domestically, but an increasing number of frameworks have been developed to facilitate cross border collaboration. For example, the international Exchange of Information on Request (EOIR) standard (OECD, 2016<sup>[2]</sup>), allows tax authorities to request information on accounting records, bank accounts and on legal and beneficial ownership of assets, for enforcing the provisions of a tax treaty or its domestic tax laws. Furthermore, the Common Reporting Standard (OECD, 2014<sup>[3]</sup>) facilitates the collection of a predefined set of information from financial institutions with respect to account holders resident abroad and to automatically exchange this information on an annual basis.

This means that the principle of automatic exchange of information has become an accepted principle in a host of other domains in recent years. For example, at the level of the European Union, the Directive on Administrative Cooperation (Union, 2022<sup>[4]</sup>) provides for mandatory exchange of various categories of income and assets, including employment income, pension income, directors fees, as well as income and ownership of immovable property. More recently, and reflecting the rapid growth of the gig and sharing economy, the OECD released the Model Reporting Rules for Digital Platforms (OECD, 2020<sup>[5]</sup>) in 2020, requiring operators of digital platforms to report to tax authorities the identity of sellers active on their

platforms, as well as details on the transactions they have concluded. Currently, the OECD is developing a new global tax transparency framework designed to ensure the collection and exchange of information on transactions in Crypto-Assets and is conducting the first review of the Common Reporting Standard.

This growing wealth of data has complemented the increasing use of technology by tax administrations in a domestic setting. IT-driven data analysis tools have supported more complex taxpayer risk assessment, helping to increase the deterrent effect by uncovering new connections between taxpayers and undeclared assets and income. Some tax administrations have also been able to incorporate exchanged data into their electronic tax returns programmes, helping taxpayers complete their tax return, and reducing the possibility of input errors.

While the present policies and architecture have been highly successful in providing access to standardised information, there are inherent limitations. In particular, the collection, reporting and exchange process is generally periodic in nature, which means that the information only reaches tax administrations with a delay, which depending on the policy area often ranges from six to 18 months. In practice, this means that the information arrives too late to permit upfront compliance mechanisms such as prompts to taxpayers, the pre-filling of tax returns or to enable new policy approaches (such as more accurate withholding systems).

The integrated data vision is that by designing the data collection, reporting and exchange elements into the existing processes of taxpayers and businesses, with the data moving automatically through machine to machine based processes, including potentially in real-time, tax compliance can increasingly be designed in. Through this compliance burdens can be reduced for businesses and taxpayers, and tax certainty increased, as there are opportunities for more real time views of a taxpayer's status.

Furthermore, as tax compliance is built into the systems, there is a reduced need for tax administrations to hold and collect large volumes of individualised data as the focus becomes on identifying the key pieces of data to facilitate compliance and upfront validation rather than collecting information for retrospective risk detection and assessment. This allows tax administrations to position the collection and exchange of data more as a service to taxpayers, which helps to reduce burdens, giving opportunities for data collection to be more transparent to the taxpayer as well as permissive. Tax administrations across the world are starting to explore these questions domestically, and are identifying ways to connect systems, and deliver new services to taxpayers.

### Box 1.1. Progress towards connected systems

A number of jurisdictions have introduced real-time invoice reporting requiring businesses to report sales transactions electronically to their tax authority as transactions occur. In some instances, software is relied upon to integrate the business' ERP or accounting system with that of the tax administration, resulting in faster and more accurate compliance.

Denmark has built a system that connects accounting software to the VAT return system, meaning information flows between the tax administration and businesses, automating much of the VAT return process

Singapore has built a no filing service for private car hire drivers where their tax bills were computed based on information obtained directly from the third parties where they derived their income from. This includes a system for automatically dealing with expenses.

Source: OECD (2022), Tax Co-operation for the 21st Century: OECD Report for the G7 Finance Ministers and Central Bank Governors, May 2022, Germany.

## Scope of this report

Tax administration 3.0 identified a number of key building blocks as part of the long term journey towards digital transformation. It requires change domestically, and within businesses, as well as internationally to deliver the necessary connections, and relies on close collaboration between all parties to identify solutions. It is important therefore that, where practicable, this work does not happen independently in countries across the world, as this can lead to fragmented approaches, and incompatible solutions, which can increase burdens for taxpayers and businesses alike.

This report examines the issues and challenges related to moving towards connected data systems. Although this report examines these questions from a direct tax perspective, over time it is anticipated that this work could inform similar work in other areas of taxation.

Additionally, recognising the progress that is being made domestically in many jurisdictions, it is important to note that this report does not seek to prescribe a particular approach. Instead, it looks to explore the issues that stem from managing the availability, quality and accuracy of data that is drawn remotely from taxpayers' wider systems. In turn it is hoped that this might inform the thinking that is happening domestically, potentially allowing solutions identified at the international level to be adopted domestically by interested countries.

Additionally, given the breadth of the topic, this report examines the questions and issues through the sectoral lens of the sharing and gig economy. It is worth noting that the ideas contained within this report are not limited to the sharing and gig economy sector, and it is anticipated that the ideas might be used in other areas of tax administration, or within other taxpayer groups and tax types. It is also important to recognise that the work taking place on other Tax Administration 3.0 building blocks, in particular on digital identity, intersects with and strategically supports this work.

### Box 1.2. Why focus on the sharing and gig economy sector

- As it is an emerging sector there are fewer legacy systems within tax administrations which could constrain thinking
- Digital platforms are experienced in technology, and
- Greater multilateral cooperation and collaboration can improve emerging domestic systems and offer the opportunity to influence early thinking, thus reducing fragmentation risks

Thanks to the work of the Advisory and Drafting Group, this report seeks to examine two aspects of the move to integrated data systems. This work has been completed through a series of discussion cycles and workshops and technical discussions, as well as some early informal discussions with business (which it is intended to deepen in the next phase of this work).

This report summarises the outputs from those discussions, and it therefore does not provide a series of solutions or recommendations for how to achieve the goal envisaged in Tax Administration 3.0. Instead, it identifies key topics for further exploration and discussion both between countries and business.

- Chapter 2 explores a possible technical architecture for implementing such a data exchange. This is based on discussions with technical experts in tax administrations, and identifies where cooperation is needed between jurisdictions to deliver effective collaboration and simplified solutions for business. This is very much preliminary and exploratory in nature and has been undertaken as a starting point for further engagement with business.
- Fundamental to any technical architecture is Digital Identity, and chapter 3 explores the policy administration issues related to digital identity in this context.
- Chapter 4 examines the importance of taxpayer education, and the role of tax administrations and business in that education so that taxpayers can see the service benefits that flow from this approach.
- Chapter 5 looks at the implications for data security, and considers the legal framework that would be needed to support collaboration in this way.
- Chapter 6 considers the need for a transparent and trusted system that is clear to all parties.
- Recognising that this is a long process, Chapter 7 covers the next steps and possible further actions in the journey towards closer integration between business and tax administrations.

Finally, it should not be forgotten that this work forms part of a wider Tax Administration 3.0 vision. Many of the issues that are highlighted in this report, could apply in other circumstances that Tax Administration 3.0 is considering. It is anticipated therefore that the solutions identified in this work could benefit other projects more widely, and so it is recommended that structures are created to facilitate collaborative working between other TA 3.0 priorities on important cross-cutting issues like digital identity.

## References

- OECD (2020), *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy*, <https://www.oecd.org/ctp/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm>. [5]

- OECD (2020), *Tax Administration 3.0: The Digital Transformation of Tax Administration*, <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.htm>. [1]
- OECD (2016), <https://www.oecd.org/tax/transparency/documents/terms-of-reference.pdf>. [2]
- OECD (2014), <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/>. [3]
- Union, E. (2022), [https://taxation-customs.ec.europa.eu/taxation-1/tax-co-operation-and-control/general-overview/enhanced-administrative-cooperation-field-direct-taxation\\_en](https://taxation-customs.ec.europa.eu/taxation-1/tax-co-operation-and-control/general-overview/enhanced-administrative-cooperation-field-direct-taxation_en). [4]



## 2 Technical exploration

A great deal of technical expertise exists within tax administrations, as work is already progressing domestically in tax administrations to connect systems and develop solutions. As these solutions progress, the risk is increasing that these domestic connected systems will cut against the longer-term vision of Tax Administration 3.0 by being:

- Incompatible with each other, which can make cross border collaboration harder;
- Costly for tax administrations as any future multilateral solution may require rework of the existing domestic implementation;
- Different domestic solutions will require multiple implementations in business, which increases burdens and fragmentation risks for businesses operating across borders; and
- Confusing as taxpayers with liabilities in multiple jurisdictions may face inconsistent obligations and requirements.

By beginning discussions on a multilateral technical architecture for sharing and gig economy platforms, and the areas for multilateral collaboration early on, it is hoped that this can inform the domestic discussions and the risks highlighted above can be avoided. This work has been completed thanks to the participation of technical experts from Advisory and Drafting Group countries and the OECD, and as a result, this chapter examines both the principles for multilateral collaboration and a possible technical architecture. This architecture is not a complete solution, as it will require further exploration from a wider group involving both jurisdictions and platforms, as well as integration with the administrative policy questions identified later in this report. This chapter examines therefore the challenges of integrated systems from two aspects:

- The connections needed between a tax administration and a business
- The connections needed between tax administrations across borders

### Principles of a technical architecture

There are many different ways to tackle the technical issues for building connected systems between tax administrations and platforms. To shape the future discussions, it is necessary to agree some core principles against which different proposals and approaches can be assessed. Whilst these may change as the project progresses, the current identified principles are that solutions should be:

Figure 2.1. Principles of a technical architecture



Source: OECD.

- **Transparent** to the taxpayer, so they are aware of the connected systems, and what is happening to their data
- **Simple** so that they minimise additional implementation burdens
- **Open** to all by using existing standards and protocols, which helps maintain a level playing field
- **Facilitative** by not limiting domestic or multilateral policy choices

## Proposed framework

The challenge that any technical architecture has to meet can be broken down into three main tasks.

- Firstly, it needs provide a way for a platform and a tax administration to agree a common view on the identity of mutual customers.
- Secondly, it needs provide a way for platforms and tax administrations to connect their systems so that data can flow smoothly and securely between machines without human intervention.
- Thirdly, it needs to provide a common set of definitions so the data flows is consistent.
- The framework needs to work across multiple jurisdictions, whether directly or between tax administrations, requiring mechanisms to ensure sufficient interoperability of digital identities.

However, it is important to note that this proposed framework is not a definitive solution, and other options have been explored as part of the technical group discussions. The ideas for the framework are therefore a starting point for further discussion and it is hoped that through further collaboration between platforms and tax administrations new ideas will emerge.

### *Identifying common customers*

From the start, it is important to state that a domestic digital identity of some form is crucial to this approach – without this; there is no identified effective way to design a technical architecture. This may lead to country implementations at different speeds, but on the basis that the guiding principles are agreed by all then this should not impact on progress.

Even with a digital identity, one of the main constraints to agreeing a common customer identity is the variety of domestic implementations of digital identity systems and how to capitalise on existing investments. This challenge is not unique to tax systems, and agreeing a common view of a mutual customer is a challenge faced by a range of organisations.

Following discussions, and examining solutions in other contexts, it is proposed to leverage existing digital identity systems in the tax administration to identify the taxpayers and to explore the use of a system based on OAuth2 to authorise the platforms to update the taxpayer's information. This is a standard that is already frequently used in tax administrations and businesses alike, allowing one website or application to access resources hosted by another. This has the benefits of being:

- **Transparent** to the taxpayer, as OAuth2 depends on taxpayers giving their permission for their data to be shared between platforms and tax administrations
- **Simple** as it is already in use by tax administrations and platforms alike
- **Open** as it is an open standard available to all
- **Facilitative** as it does not prescribe a particular approach.

Finally, it should be recognised that the cross border aspects of digital identity should not be ignored. This brings some technical challenges, but also legal, and data protection questions too. These questions will need to be addressed in work going forward.

### ***Seamless data flows***

Ensuring machine to machine connections work smoothly, and can be trusted, is a core part of integrating data systems. This is an area where many tax administrations have a great deal of experience of creating common interfaces between systems, as a result of significant activity domestically, in particular around the prefilling of tax returns, the operation of pay-as-you-earn systems and the growth of taxpayer services. These secure machine to machine connections have been driven by the use of APIs, and should be the core of the connected system solution in this context. This has the benefits of being:

- **Transparent** as the APIs will be published, and the data that is being transmitted is clear
- **Simple** as it is already in use by tax administrations and platforms alike, which can minimise burdens
- **Open** as they are available to all
- **Facilitative** as it does not prescribe a particular approach.

### ***Common language***

Having a consistent view of the implementation of the connected system on a multilateral basis is essential for an effective functioning system. Not only does this reduce fragmentation risks for platforms, it also provides opportunities for efficiencies in implementation domestically. Agreement of a common set of definitions and specifications of key data terms should be an important early task of any future work, as this will guide the development of possible solutions. To assist with this, wherever possible existing data definitions and standards should be used, and once defined they should ideally be reused across other areas to minimise burdens. Central to the success of this will be administrative agreement amongst countries to use a common set of data definitions for an API, the complexity of which should not be underestimated, especially as it may impact existing domestic solutions. The benefits of this approach are significant, being:

- **Transparent** so all parties will have a common view
- **Simple** as once agreed it provides a consistent framework
- **Open** as they are available to all
- **Facilitative** as it does not prescribe a particular approach.

In addition to these considerations, general discussions have also raised the need to consider:

- Security and data protection, with the aim of gaining a common position on key issues, which may require engagement with stakeholders outside of the tax administration
- Costs need to be borne in mind, and a minimalist approach is essential to this
- Capacity constraints, as the time to implement a solution as described will depend on the IT status of each jurisdiction and competing domestic priorities.

### **Areas for further exploration**

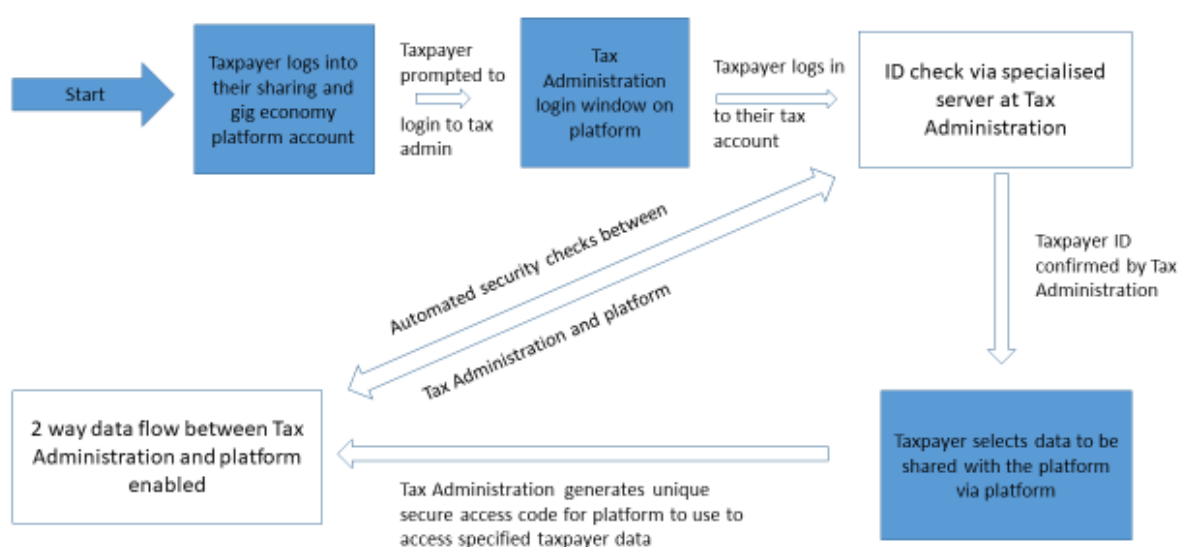
Meeting the technical challenges of integrated data systems is a complex project that will require close working between tax administrations and businesses. Without this, the risks highlighted throughout this chapter will materialise, namely:

- Systems will be incompatible with each other, which makes cross border collaboration harder;
- Costs will rise for both tax administrations and business alike
- Different domestic solutions will increase burdens and fragmentation risks, and

- Taxpayer benefits will be diminished, especially as taxpayers with liabilities in multiple jurisdictions may have inconsistent obligations and requirements.

Multilateral cooperation and exploration can help address these risks by the agreement of a common language and interpretation of standards. The technical discussions that have already taken place have identified a series of potential options to address these challenges. The next steps in this technical process therefore is a more detailed exploration of these ideas both with business, and with other tax administrations. A visualisation of the framework identified earlier in this chapter, that could form the basis for this engagement is set out below.

**Figure 2.2. Technical flow**



Source: OECD.

Through these discussions, the viability of this technical framework options can be assessed further, and potential improvements identified. Strategic, legal and data protection issues identified later in this report can also be explored further in these discussions, as well as cost implications. This can help make progress on assessing the viability of agreeing a common interpretation of standards, and how the cross border issues can be addressed.

# 3 Digital identity

One of the central challenges presented to tax administrations by the sharing and gig economy is ensuring visibility of taxpayers who transact and earn an income using the platforms. Similar to other areas of tax compliance, tax administrations rely upon the users of platforms being voluntarily compliant and also their ability to understand their filing and paying obligations. The move to real time reporting and seamless taxation, presents an opportunity for tax administrations to increase the visibility of taxpayers activity on platforms, and help them meet their obligations. However this relies on tax administrations and platforms reaching a shared view of the identity of their mutual customers.

In moving to a more seamless taxation approach the capability to accurately match a person, a business entity or authorised representative to their online transactions is vital and is a significant step towards enabling real time reporting of sharing and gig economy data. Implementation and use of a robust digital identity system is critical to enable accurate validation of data in real-time. For this to work, a digital identity must be:

- easy to obtain
- verifiable
- secure
- easily available to platform providers at minimal effort and cost.

The attributes utilised when creating a secure digital identity should also be varied to cover different scenarios such as a person acting as an individual taxpayer or transacting on behalf of another business entity. From a global context, a solution will also need to be implemented to support the identification of taxpayers in cross-border situations i.e., supporting non-resident taxpayers. This will provide tax administrations with the ability to identify the global income of a taxpayer and calculate the right amount of tax (in line with existing double taxation treaties) that should be reported and collected. While the benefits to the sharing and gig economy can potentially be quite significant, for example enabling streamlined reporting and a reduction in manual compliance activities, tax administrations need to understand the challenges and impacts to taxpayers and platforms of collecting and using digital identity data to implement a process to ensure that it is effective and proportionate. The wider issues raised by digital identity in a Tax Administration 3.0 context are explored in the report (OECD, 2022<sup>[6]</sup>) produced by Advisory and Drafting Group on Digital Identity.

## Benefits

The primary objective for integrating the use of digital identity in the sharing and gig economy platforms is to confidently and securely identify individuals and match to the relevant data. This will ensure that the right amount of tax is collected at the right time, significantly minimising non-compliance, and building a trusted, transparent, and fair outcome. This would also enable streamlined reporting for all parties involved and help resolve data matching issues currently experienced by tax administrators. Being able to accurately identify participants in the sharing and gig economy could also be of value for platform providers as it gives them a verified picture of their users. As well as potentially helping platforms to meet regulatory

requirements in a more efficient and effective way, it could also help to prevent possible abusive practices (e.g. creation of multiple profiles under the same identity or fake accounts).

### Box 3.1. Identity Matching with and Identifier

In 2015, the Australian Taxation Office (ATO) issued a directive stating that drivers who generate an income via a ridesharing platform are required to obtain an Australian Business Number (ABN) and register for Goods and Services Tax (GST). Uber filed a lawsuit challenging this with the Federal Court of Australia, however a decision was handed down in 2017 upholding the ATO's requirements.

Prior to this the ATO had visibility of data within the ride-sourcing community but did not have a robust data-matching capability. Since then, the ATO has seen a significant increase in accurate data matching rates because of the ABN.

Source: Australia (2022).

The use of digital identity in the sharing and gig economy platform would assist with enabling the use of real time reporting where relevant. This would allow taxpayers and tax administrators to access high-quality and relevant information at the optimal time, for example for the prefilling of tax returns or real-time taxation

The ability to have real time reporting data could mean that individuals and entity sellers prepare and finalise their tax returns with ease. It may also present opportunities for more withholding style approaches in which, potentially, marginal tax rates or other tax relevant information could be sent automatically to the platforms. This is because tax administrators will hold validated information such as revenue earned through platforms and fees, and commissions and taxes already paid or withheld by the platform operator. This includes being able to streamline reporting of multiple sources of income such as traditional pay-as-you-earn systems (PAYE) and using multiple platforms for the same activity i.e., cab/taxi apps or multiple differing sources of income). This would also ensure that activities by participants in the sharing and gig economy would not remain undetected by tax administrators in cases where a participant may deliberately choose not to declare their income earned through such platforms.

Providing a personalised service to taxpayers based on real-time events will enable them to track their income, understand their obligations better, and calculate the right taxes due. The data available to taxpayers may also be used for other purposes i.e., improved understanding of cash flow, improved financial planning ability or resilience measures such as those needed during the Covid-19 pandemic. This may also allow information to be used efficiently and securely in an international context, promoting international co-operation. Once a digital identity has been setup, taxpayers will have to authenticate themselves to use the platform using the digital identity. They will not have to verify themselves using their identity documents each time they would like to register for a new platform, they would use their digital identity to seamlessly identify themselves. This might also benefit platform providers by providing them with important and verified information regarding their users which they can use to provide a more personalised and global service.

## Challenges

Whilst it is clear that effective use of digital identity is a key part of introducing real time reporting for the sharing and gig economy, it is also clear that there are challenges that need to be overcome. One of the major hurdles to implementing digital identity to sharing and gig economy platforms is enabling interoperable frameworks which allow the use of one or more digital identities across platforms and jurisdictions. Interoperability requires bridging between technologies, and, for any digital identity solution

to be considered effective it will require a framework to use the digital identity of the taxpayer's choice to prove who they are and how that identity can be used within a platform. Without this, there is a risk that identity solutions will be developed in isolation, the information they contain will not be interchangeable or suitable for use, and their application will be inconsistent rendering them unusable for their intended purpose.

The framework should also allow the digital identity to be functional across multiple platforms traversing international borders in an ever-developing landscape. Depending on local legislative requirements, platforms and users may be required to provide additional information and may have different reporting obligations. Not having an interoperability framework will likely lead to a poor user experience, non-compliance, or intentional fraudulent activity. There are concerns regarding the different processes to identifying individuals and business entities. In some countries two different digital identities may be required to overcome this issue, but this may not be true for every country and so any framework will need to address this issue. This is particularly important when thinking about how data is updated e.g., change of name, address. The process of maintaining a digital identity needs to be easy, since incorrect or outdated identities may lead to non-compliance or tax collection risks.

For real time reporting and seamless taxation to move closer towards a reality, consideration will need to be made to any legal constraints and or privacy agreements that could affect their use. Taxpayers, platforms, or administrators would be unlikely to invest or trust a digital identity without a strong security and privacy policy framework and domestic legislation to manage usage and implementation. This will be further explored later in this report.

With the use of a digital identity often comes the concern over privacy, particularly who has access to the data and what information third parties can see. If a third party is involved in verifying data for tax purposes, this can weaken the social contract that citizens have with governments in complying with legal requirements to carry out their tax obligations.

### Box 3.2. Privacy concerns with digital identity

In Australia, the Digital Transformation Agency released a report highlighting the feedback received during their consultation on Digital Identity legislation. One of the key themes emerging from the consultation was privacy and other safeguards. A key rationale which was established from this exercise was to ensure that standards regarding privacy and consumer safeguards in law cannot be changed without public scrutiny.

Australia's identity verification solution enables individuals to verify their identity once, then create a digital identity that can be used to access different government services. The solution was designed to include an 'identity exchange' which conveys, manages and coordinates the flow of identity attributes, and claims between members of the identity federation. This exchange follows a 'double blind model' which sits between the digital services and the identity provider. It protects the user's privacy by making sure the digital service cannot see the user's personal information and the identity provider can not see which service the user is accessing.

Source: Australia (2022).

Tax systems are complex and may create opportunities for those who choose not to be voluntarily compliant. This is true in this sector also, as individuals using platforms or working in the sharing and gig economy may wish to operate outside the scope of a tax administration's knowledge. The action of someone operating beneath the tax net and thus eroding the trust and transparency in a fair and open tax code will be reduced by the flow of data and the requirement to have a digital identity. It is important to



note though that the greater integration of data between platforms and tax administrations will create opportunities for new service based approaches with taxpayers. By making tax easier and more seamless, it is anticipated that it will become easier to comply than not, changing the balance of risk for those considering non-compliance, and creating fairer outcomes for the compliant.

As this is a digital system, it is important to note that there are varying levels of literacy and capability when it comes to information technology and tax law. Individuals may be limited in their ability to engage in a system which is complex or technologically advanced. Therefore, any digital identification system must be designed in a way which delivers a positive experience and user interface which is capable of being used by the majority of society with support for those who need the additional help, and any language barriers taken into consideration.

Consideration will need to be paid to ensuring any system works across the majority of situations and circumstances, and the system will also need to ensure that registration and set up can be completed easily. As data can very quickly become outdated e.g., change of name, address, the process of maintaining a digital identity needs to be easy as incorrect or outdated identities may lead to compliance or tax collection risks.

### Box 3.3. Different digital identities

In Australia, the government issued digital identity myGovID is linked to the individual once they have verified their Australian identity documents (i.e. drivers licence, passport, birth certificate). The individual has the option to connect their business' Australian Business Number (TIN for business) to their identity using Relationship Authorisation Manager (RAM). RAM allows businesses to authorise others to act on behalf of the business with participating government online services.

In Denmark, there is a 1:1 link between TINs and individuals. In the context of Sharing and Gig Economy income reporting, the tax authorities have developed an alternative Government Verification Service. The authorities issue a Token Identity Code, when citizens establish a link between their digital platform profile and the public tax filing system. This is then used for reporting to the tax authorities. This set-up enables platforms to report their users' income data, without handling or disclosing users' TINs. Denmark also has a TIN for businesses. This can link to more than one business activity – if the activities are performed by the same overall legal entity. At present, it is only possible to use the Government Verification Service for individuals. However, legal entities can use NemID (Denmark's Digital Identity).

Source: Australia (2022), Denmark (2022).

## Impacts on platforms

As platforms may have access to digital identity information, under the envisaged solution platforms will be required to secure this data and share it in an appropriate manner. This may lead to additional costs in managing this process and create an administrative burden on platforms (although of course many platforms already store considerable amounts of personal information). Furthermore, as platforms will vary in terms of their size and level of digital maturity, the adoption of digital identity should not become a barrier to market entry or growth. For example, during development of Australia's Sharing Economy Reporting Regime (based on OECD Model Rules), platforms were consistently vocal in the fact that while they were happy to engage and report, they were hesitant to incorporate anything into their processes that would extend beyond their existing processes and create friction with their customer base. In addition there were



concerns that customers will simply move onto alternative providers if the process of registering with the platform is time consuming or burdensome.

The process of reporting and obtaining digital identity should be as seamless for business as it is for taxpayers. In this regard, and for legal reasons around exchange of data, examination will need to be given on the potential need for information as well as for whether it would be necessary to exchange data through the domestic tax administration.

## References

- OECD (2020), *Tax Administration 3.0: The Digital Transformation of Tax Administration*, [1]  
<https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.htm>.

# 4 Education

Helping taxpayers understand their obligations is a key part of tax administrations' compliance work. Education is more than awareness; it is about helping taxpayers understand how to do things that are new to them - or that may have changed - so they can positively change their behaviour. Most taxpayers want to get things right, but tax rules can be complicated and time consuming. Some sharing and gig economy participants may have a low tendency to seek advice when starting but still have a need for educational support due to their limited knowledge and lack of confidence. They also have diverse and complex needs as a result of differing financial capability, varying competence, learning styles and barriers to learning. Ensuring a tailored educational experience is essential.

This is even more important in the sharing and gig economy, as it is a new sector which is highly dynamic. Taxpayers who receive income through a platform may not therefore be aware of or understand their tax obligations. This is because there can be widespread misconceptions on the obligations relating to platform income for example tax liabilities are dealt with like PAYE, without the need to file or report to the tax administration.

This is compounded by the fact that sharing and gig economy transactions may be for small monetary values, which happen quickly and easily, making it harder for taxpayers to pause and think about any wider obligations. For example, there can be a general lack of awareness that there are domestic tax obligations should a taxpayer rent out property in another country or provide ride sharing services. The taxpayer may not realise this can be classed as additional income and worldwide income can be taxable. These issues can be compounded if taxpayers are incorporated in some form, or the taxpayer is able to claim tax deductible expenses, leading to greater complexity.

Tax administrations also need to consider the profile of the sellers on sharing and gig economy platforms. There may be language barriers, income across multiple platforms or mixtures of domestic and cross border activity. There will also be taxpayers of different levels of sophistication and understanding of the tax system. For example, although many active sellers within the sharing and gig economy may be younger digital 'natives' with limited experience of the tax system.

The move to more integrated data exchanges between platforms and tax administrations can help tackle these issues. However, the need for taxpayer education does not go away. Taxpayers still need to understand their obligations, which can vary depending on the policy choices made. For example, taxpayer education is very different under a withholding model versus a sophisticated 'pre-filling' approach.

This chapter considers:

- the role of the different parties in the education activities
- the nature of that activity; and
- areas for further exploration.

## The role of different participants

Taxpayer education is an existing core activity of tax administrations. However, in the context of a move to more closely connected systems, closer consideration needs to be paid to explaining the role of the tax administration and the role of the platform in this process. Not only is this because they both share a mutual customer, but also because without clearly defined roles and responsibilities messages can become blurred.

This may require tax administrations to adopt new working practices, and in particular collaborate more closely with platforms. For example, platforms may be able to provide tax administrators with insights on the activities of taxpayers and where tax information could be helpful, and the best way to deliver that material. Tax administrations will need to consider the nature and timing of their interventions so that it does not increase friction in the relationship between a platform and their sellers. This is likely to require significant investment by the tax administration as they will need to produce new materials, that are flexible enough to work across a wide range of platforms.

The platforms themselves may also need to revisit their practices surrounding their communication at key parts of their relationship with their sellers. For example, a critical part of the education process may be when a new seller is on-boarded to the platform. This is also a critical part of their customer journey for platforms, and tax administrations may wish to include information on tax obligations into this process. This is also an important step for platforms themselves, so careful consideration will need to be paid to include information on tax obligations into this process. Changes here may also incur costs and additional burdens for the platforms.

It is therefore important to consider the impacts and benefits to all parties and communicating it clearly. Achieving this will require a collaborative communication strategy outlining the strategic direction of tax administrations which takes into account the impacts on all parties involved in the connected system.

- For taxpayers
  - Positive impacts might be smoother transactions, greater tax certainty, and reduced administrative burdens.
  - Negative impacts might be those with limited access to IT could be left behind, and non-residents may have conflicting advice.
- For platforms:
  - Positive impacts might be reduced burdens with easier data transfers, and an improved customer experience as there is greater clarity over the identity of their sellers.
  - Negative impacts might be the investment costs required to establish a system, which may be difficult for smaller platforms. There may also be additional customer support requirements, and increased risks due to the data transfers.
- For administrations:
  - Positive impacts might be better access to data, improved compliance rates, and smoother taxpayer journeys.
  - Negative impacts could be around the investment required to establish a system. In addition, accessing data from other administrations could require legal agreements and increase costs.

## The characteristics of successful education activity

It is important to recall that the primary responsibility of the quality and accuracy of any taxpayer guidance lies always with the tax authorities, and even if it would appear that platforms are best placed to promote

educational material, they are not tax specialists and are rightly reluctant to produce information that could be misleading or become outdated.

This means that tax administrations will need to be the primary source of education and communication materials to platforms to ensure consistent messages are provided to taxpayers. The mutually shared goal remains - that taxpayers are made aware of the processes and obligations they have. Tax administrations should maintain active, collaborative long-term relationships with the platforms to make sure that educational material stays current and is improved based on user experience gathered by the platforms.

Depending on the policy choices made by tax administrations, the educational materials will have a wide variety of requirements. They will also vary according to the audience, but consistent across all activity will be the need for it to be:

- Flexible so it is done at a time and pace that suits the learner.
- Interactive so it can suit different learning styles.
- Accessible so it can be revisited at any time.
- Targeted to the seller, and the activity they are carrying out on a platform. This might mean using guidance, at a point when an action or tax liability is likely to occur or providing prompts that actions may need to be taken could maximise effectiveness.

Through the collaboration with platforms, tax administrations might identify numerous points where messages could be delivered. For example:

- Platform providers already have a direct link to their users and a way to send them jobs, messages, updates, so these channels could be used to send educational / reminder messages about tax.
- Education pieces could be built in into the apps / platforms being used, so it is at the “right place and right time” for the piece of gig work being undertaken. This could be, at the end of an assignment, or a sale/rental.
- Messages or prompts about tax could be sent out to platform users at critical time in the tax process.
- A targeted messaging approach could be sent the first time an action is taken such as the first transaction so the right behaviour is embedded from the start.

With so many options and possibilities it is important therefore for the frequency of the messages to be considered carefully, in order not to overwhelm the taxpayer and impact on the economic activity on the platform. It is also important that this activity does not impact on the important part of the education programme which is helping taxpayers understand how their data is being used and collected, so that they can see the benefits of systems being connected. Achieving this understanding and acceptance of the transmission of data will require a high degree of transparency in the process, as well as mechanisms for correcting errors, which is considered in the following chapters.

## Areas for further exploration

The key to successful taxpayer education is collaboration between platforms and tax administrations. This will involve:

- Clearly defining roles;
- Creating common strategies;
- Identifying key messages; and
- Identifying the most appropriate points for that messaging.

Exploring these issues in a partnership between tax administration and business is critical so burdens and impacts can be minimised. Through this, the goal of connected systems can be realised and accepted by taxpayers who appreciate the service benefits it can bring to them, depending on the policy choices made.

# 5 Data

Data sits at the heart of many projects, and Tax Administration 3.0 is no different. Building connected systems so that data can flow smoothly, and without human intervention, is central to its vision. There is a long tradition of domestic information exchange programmes and multilateral cooperation to support direct tax compliance such as Automatic Exchange of Information (AEOI) (OECD, 2014<sup>[3]</sup>), and the OECD Model rules for the Sharing and Gig economy (OECD, 2020<sup>[5]</sup>), will provide exchange of information in the platform sector. However many of these systems, both domestic and international provide for the periodic and retrospective exchange of bulk data, which supports downstream compliance activity. The vision this report is exploring is different in that it is exploring a move to more real time exchanges of information, which can facilitate new policy approaches such as withholding taxes, or more upstream compliance activity which can help tax administrations can intervene at the right time. For example, it may become easier to identify when a taxpayer might be approaching a threshold allowing an early intervention rather than conducting an analysis at year end which might lead to a liability.

## Key policy challenges

Tax administrations have a great deal of experience in handling periodic data exchanges, and also handling existing systems like pay-as-you Earn (PAYE). This is invaluable when considering the issues raised by more connected systems, and this chapter therefore considers some of the main data policy issues that need to be considered.

### ***Who has the data?***

As previously identified there are three parties within this system – the platform, the tax administration and the taxpayer. However, in terms of data there may be other parties. For example the platform may use intermediaries to process payments; tax administrations may need to access data held by other government bodies; or taxpayers may be selling on a platform located in a different country to that where they are resident. Some of this data may also be held across borders. A critical early challenge is therefore mapping and understanding the data that is both available and is needed, and the relationships between all these parties.

### ***What is the critical data?***

The previous work conducted by the OECD on the Model Rules for the Sharing and Gig Economy identified the key data that is needed to support periodic exchanges. Whilst this provides an important basis for future work, it is important that close consideration is paid to the data that is needed in more connected systems. In particular, analysis is required to identify the essential data to minimise data volumes that are being transmitted. This is important so that not only are exchanges kept with the capacities of systems but also to maintain the proportionality of the exchanges and to achieve the end aim of seamless taxation.

### ***Who is responsible for the accuracy of the data?***

Given that there are three parties who have an interest in the data - taxpayers, tax administrations and platforms - clarity is needed for who is responsible for data accuracy is essential to an effective functioning system. Much of this maybe determined by the legislative basis that such exchanges may operate under. However, what is clear is that in certain areas sole responsibility for certain issues may be challenging, and ensuring data accuracy may often be a collaborative effort between tax administrations and platforms. For example, this collaboration might cover

- Ensuring accuracy of the identity of sellers
- Validating the address and tax status of the seller
- Confirming accurately reported income
- Validating the service that is being offered on the platform, for example the address of a rental property, or the details of a vehicle, or confirmation of a driving licence

Taking on responsibility for data in this way will require platforms to take on new risks, as they will need to be responsible for compiling the data that they are sharing with the tax administration. This may require them to take on new due diligence work, and adapt existing systems. Tax administrations will need to be aware of the additional burdens this may place on platforms, and should take on a more 'assurance and trusted partner' style approach to the data that is sent by platforms, rather than a compliance/audit approach.

### ***How are errors and corrections handled?***

Tax administrations will also have to consider the systems that are needed to respond to identified errors and how they are corrected. This is a critical part of the system and who is responsible for correcting the error will need careful consideration as privacy regimes may govern how and what data is passed back. This is especially important given the multiple lines of responsibility identified earlier. Clarity for taxpayers is therefore essential, so that complex and circular correction loops are not established.

One option that may help with this is the creation of regular taxpayer summaries of the data sent by both the platforms and the tax administration so that sellers can see the data that is being sent about them. Not only would this provide opportunities for corrections but would also provide greater transparency of the system, which in turn can support trust in the system. It should be noted though that such a system will need careful consideration to ensure that there are high levels of confidence in the data being presented.

To support this, it might be explored whether tax administrations could provide platforms with accumulated data quality summaries, which might help them understand where there are frequent gaps or errors. This could be a possible mechanism for helping platforms review and improve their reporting performance over time, and provide a basis for ongoing platform/tax administration communications.

### ***What are the system capabilities and limitations?***

Moving to more connected data systems may be a shift for both the platforms and tax administrations alike. It is therefore important to consider what the impacts on the internal systems of such a shift might be, and what changes are needed to deliver it, as the receipt and transmission of regular flows of data is likely to be challenging. Not only are the governance systems likely to be impacted, but tax administrations will need to consider how the data is stored and accessed. This is particularly important in a cross border context, as it will likely bring a new level of challenges to the governance and system capability questions.

### ***What are the legal frameworks that support these connections?***

Domestically, tax administrations will need to consider the most appropriate way to implement connected systems. This will need to take account of their domestic or international requirements, if a system is voluntary or not, and how to comply with data protection obligations. Tax administrations must therefore secure a legal framework which is adapted to the new platform economy, and provide systems to guide and audit the platforms new processes. Tax administrations may also have regional requirements such as those created by the European Union through the Directive on Administrative Cooperation.

Issues that need consideration may include requirements for platforms to:

- Adapt their requirements with any intermediaries they use;
- Collect additional identification information of their sellers or require the sellers to provide a specific TIN as a condition for using the platform;
- Require use of a government approved identity verification service;
- Withhold certain amounts if the taxpayer status is not clear;
- Take additional measures to protect personal and confidential information obtained from the sellers and include penalising provisions where these measures are not taken;
- Meet agreed minimal technical standards for collecting, storing and transmitting information which would include the maintenance of their systems and measures to protect against hackers or other security concerns; and
- Establish clear guidelines for transmitting information including deadlines and timeframes within which they are to transmit the information.

One of the key advantages of connected systems is that it allows cross border activity to be more effectively identified and incorporated into domestic tax systems. This is not however without specific challenges such as:

- The relationship with existing international agreements in the platform space will also need to be considered so that obligations are not duplicative. This may mean that existing international agreements and frameworks may require amendment/modification, or new agreements required to enable international exchanges of this type of information.
- How will platforms respond to cross border sellers where not all jurisdictions are engaged in real time reporting? For example, can different exchange periodicities be accommodated?
- What is the framework for tax administrations sending and collaborating on more real time data?
- Divergent data privacy policies may bring differing requirements and obligations.

These specific cross border questions will need to be addressed early on in any future work.

### **Recommendations and next steps**

The introduction of connected data systems could benefit platforms and sellers by reducing their reporting burden while aiding in reducing tax gaps and improving overall tax compliance in regards to the platform economy. Regardless of the policy choices made domestically, such as moves to withholding models, or improved prefilling of tax returns, the interconnection of systems should also help to:

- build better risk profiles of taxpayers leading to the appropriate type of intervention, for example with communication products being adjusted based on better insights acquired from the transmitted information by tailoring them and providing them on a just in time basis.



- improve business intelligence which can help identify tax avoidance schemes and other non-compliance earlier in the process.

However, all the benefits of the connected systems depend on data and, as this chapter has highlighted, effective consideration of the issues is central to future progress. Whilst the issues in this chapter are not an exhaustive list, it is hoped that they can act as a stimulus for further collaborative discussion between business and tax administrations.

A guiding principle of these future discussions needs to be that any data obligations should not become burdensome, and a level playing field is maintained across jurisdictions and between platforms. If legal or technical requirements become too great or too costly it may impact on the ability of smaller platforms to compete and grow.

## References

- OECD (2020), *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy*, <https://www.oecd.org/ctp/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm>. [5]
- OECD (2014), <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/>. [3]

## 6 Trust and transparency

Broadly defined, trust encompasses individual beliefs that others will be socially, morally and behaviourally responsible and comply with their obligations in an appropriate manner. In the case of the sharing and gig economy, the trusted relationships are essential to many aspects of its functioning, from the relationship between seller and customer, to the technology platform itself.

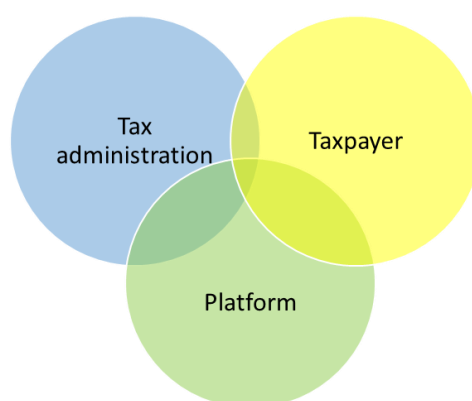
This is because the models in the sharing and gig economy facilitate interactions often with anonymous individuals and entities. This requires ‘system trust’ which goes beyond individual trusted relationships, and in particular requires:

- Trust of information of consumer of products and services
- Trust of providers sharing data with tax administration
- Trust of providers data with the platforms

Thanks to the work platforms have done to build trust amongst their users, platforms are now widely considered an everyday part of life, and taxpayers are comfortable interacting with them. There therefore appears to be an inherent level of trust in the transactions carried out via sharing and gig economy platforms, without a detailed understanding of the systems that drive those transactions. Taxpayers also have relationships with tax administration which have different levels of trust to that of the platform.

However, when considering the transition to connected data systems, the trusted relationships change as the tax administration is inserting itself into the existing relationship between seller and platform, and the preconceptions of the tax administration may colour that existing relationship. This creates interdependencies between the parties that can govern the overall trust relationships.

**Figure 6.1. Interdependent trust relationships**



Source: OECD

This chapter explores those interdependencies, and the importance of trust in building the connected data systems. It considers the challenges and issues associated with this change to a tripartite relationship, and

how the different needs of the various parties in the connected system can be balanced so that trust systems can become mutually reinforcing.

## Challenges

The trust between a taxpayer and the tax administration is a complex relationship, and those perceptions can rapidly change or be weakened depending on the actions of the administration or the taxpayer. This is particularly true in the area of connected systems, where data protection can be a sensitive subject. This means that taxpayers are often willing/required to share their information with the administration, but they may also approach the issue of data sharing with caution and a level of scepticism, as well as inherent concerns about the amount of data the government is holding. This is different to the relationship with platforms where there is a clear commercial exchange as the users of the platforms services need to provide data to access those services.

There are also frequent misconceptions amongst taxpayers about the access to data that tax administrations may already have, and the data powers they hold. For example, there may be perceptions that personal data is already being shared between administrations and private companies.

Against this background, establishing and maintaining trusted relationships is challenging. This can be further compounded because there may be competing needs in the tripartite relationship. Balancing the needs of these different groups is challenging because:

- Taxpayers may have concerns about the amount and type of data that is being shared between platforms and the tax administration. This can be compounded if there is a history of ‘data breaches’ within a jurisdiction which can cause questions around the measures in place to protect data. They may also have questions about how data is used or processed, which will need to be clear and easy to understand for taxpayers.
- Platforms may have regulatory concerns around data and the proportionality of what is required, and also concerns about the burden of reporting that is being placed upon them. They will want confidence that the principles and regulations are consistently interpreted between jurisdictions, and data requirements will not change regularly. There may also be concerns about a level playing field between all platforms.
- Tax administrations will want to trust that the data they receive is accurate and can be used for tax calculations. They will also want to be sure that any data that is sent to platforms is appropriately protected. This is especially the case if a platform engages third parties in its data processing. Tax administrations will also want to ensure that any cross border activity can be trusted and is subject to consistent interpretation of data protection rules.

Solving these challenges is therefore not easy, and will require a great deal of collaboration between platforms and a tax administration. Fundamentally, good levels of transparency of protocols and technical solutions will be required, this will need to cover responsibilities of all parties.

## Designing trust into a connected system

Increasing the trust of a connected system between all parties will take time, and is a responsibility of both platforms and the tax administration. Ideas will need to be designed into a connected system right from that start that will help foster a culture of trust. This will require being clear on the scope and extent of the connected system, and this being clearly set out in any design. Features that could be designed into the connected system might include

- Agreeing an international data framework which introduces standards and protocols. This might include structuring data standards and sharing protocols to limit the amount of data to be collected and shared to the minimum that is required. This might include the development of some form of secure API or other technical solution which protects the information of the parties involved, reduces admin burdens, and mitigates risks should be explored with a view to increasing trust between the parties and IT solutions.
- Designing/updating charters or other such statements that ensure fair and equal treatment of all parties and provide avenues for recourse in the event of any disputes. This will need to take account of the cross border context so taxpayers can get similar transparency rights in a cross border context. In particular, the question of how different administrations legislation or international agreements impact on data sharing should be investigated so that it can be used to promote confidence and therefore trust.
- Involving industry in the development and creation of any initiatives, framework or legislative proposals or solutions. This might include encouraging taxpayer participation rather than imposing it.
- Creating the ability for taxpayers to take control of their data and modify incorrect or incomplete information.
- Agreeing assurance frameworks which provide assurance to all parties that the connected systems are working as intended.

### Areas for further exploration

The work on trust cannot end once a connected system is launched; it will need ongoing nurturing. Through this, a vision of mutually reinforcing trusted relationships can be achieved. To meet this vision actions should be identified to create a culture of transparency so that the parties understand:

- what is being collected and shared;
- what happens when the trust relationships are disrupted;
- how the information is used; and
- why the information is being collected.

This work cannot happen in isolation as connected systems are not the only area where trust and transparency are central to the development of ideas within Tax Administration 3.0. It should therefore be recognised that that any work in the context of connected data systems reflects any wider work on trust and transparency. To assist with this, the development of an international trust and assurance framework in a platform context could be explored to understand its necessity in creating and maintain trust. This may also help outline the existing standards in this area, and identify new ones that parties would agree to adhere to

This framework could explore the role of ethics in relation to the handling of data and treatment of the parties involved in the sharing and gig economy when participating in potentially real time reporting. It could also consider how parties could be incentivised to engage with and promote trust within the sharing and gig economy without negatively impacting trust perception so that the benefits are more clearly defined.

# 7 Recommendations

The ideas and thoughts set out in this report are thanks to the close collaboration between a small group of countries who participated in the Advisory and Drafting Group, established as part of the Tax Administration 3.0 project. This group has successfully identified the key challenges and issues for further exploration in the development of connected systems between platforms and tax administrations, as well as a possible technical framework. These ideas have been informally tested with a small number of business contacts.

To progress this work further, and potentially move to a pilot “test of concept” stage, the ideas within this report need to be explored further, but in a more formal way by a larger group of tax administrations, and a wider group of businesses. This is inevitably a long process, which will require a commitment of resources from all parties.

As a priority, the issues around digital identity, and reaching a common view of mutual customers should be explored first. This is because the digital identity is the cornerstone of the project, upon which the whole project of interconnected systems depends. In particular, and whilst they are likely the most challenging, the cross border issues should be considered as part of this ongoing project. It is expected that multilateral collaboration could have a significant benefits, and solve some emerging issues.

Finally, it should not be forgotten that this work forms part of a wider Tax Administration 3.0 vision. Whilst the focus of this report has been on direct tax issues, many of the ideas that are highlighted in this report could apply in other circumstances that Tax Administration 3.0 is considering, or support work in other taxes such as consumption tax.

It is anticipated therefore that the solutions identified in this work could benefit other projects more widely, and so it is recommended that structures are created to facilitate collaborative working between other Tax Administration 3.0 priorities. Through this, synergies and cross-pollination can benefit all these important projects.

# Tax Administration 3.0 and Connecting with Natural Systems

## Initial Findings

The 2020 report *Tax Administration 3.0: The Digital Transformation of Tax Administration* identified the automated connection of systems between tax administrations and business as one of the core building blocks of seamless tax administration. This report, *Tax Administration 3.0 and Connecting with Natural Systems: Initial Findings*, explores this issue in the context of sharing and gig economy platforms and identifies the key questions for businesses and tax administrations to consider. It also lays the ground work for future collaboration by identifying a possible technical framework to support these connections. This report was developed by officials from Australia, Canada, Denmark, Ireland, Israel, Finland, the United Kingdom, and supported by the Secretariat of the OECD's Forum on Tax Administration.