

## Management Summary



# TRENDS IN TAX

## THE AGILE TAX OFFICE

Tax offices all over the world are on the brink of sweeping digital changes. Tax offices will have to anticipate digital disruptions but are at the same time confronted with developments in society that impact the way taxes are levied. Capgemini has researched global trends that impact the conduct of tax offices, and the way these organizations are responding to those trends.

### The essence of taxation

The core task of tax offices is executing the fiscal rules and regulations they are tasked with. Put simply, this is the levying and collecting of (national) taxes.

Most tax offices use a compliance strategy in the execution of this strategic objective. Guiding principle is that the large majority of taxpayers will voluntarily fulfil their fiscal obligations, provided the following basic conditions are met, it should be as easy as possible, and the chance of apprehension should be discouragingly high. Based on this strategy, tax offices have invested heavily in the last decades to make tax declaration as easy as possible.

### Changing demands of provided services

In this context, tax offices have to deal with the demands of the digital age. It may seem as though most tax offices are able to meet the expectations of that digital age, but further investigation points out that behind the digital exterior lurks a still rather analogue interior. A high senior official of a European tax office puts it as follows: "We have automated tax levying. Now it's time to digitize tax levying".

Apart from the IT legacy issue, many tax offices are burdened by a legacy of paper processes that have seen large scale automation in recent years. This

landscape of obsolete processes severely hampers the agility of tax offices – even more so than outdated IT systems. This, while agility is crucial to tax offices.

## Changing society

The world is changing. This has substantial consequences for tax offices. Take, for instance, developments such as ageing, or the way labour is taxed. In the last fifty or so years, taxation of wages earned through working was a relatively simple affair. People in paid employment in most cases used to work for the same employer throughout their active life. In most cases, the wage tax withheld from the taxpayer was the same amount as the final levy for the income tax. But times have changed. In the current “gig-economy”, an employee has several parallel contracts at different employers. Contracts no longer adhere for forty years to the time frame of a calendar year. The amount of data and calculations is multiplying.

But there’s more. We see a shift towards taxation of consumption (increasing VAT rates) and taxation of use of energy, fuel, water and pollution, as a means to maintain tax revenues. This requires a different way of calculating the tax base. Moreover, the payable tax will – caused in part by the Internet-of-Things – be calculated, withheld and paid in real time, and no longer – as is now the case - after a certain period has passed.

The changing society confronts tax offices with new fiscal issues. What are the fiscal consequences of the “platform” economy? Where and how are profits made by multinationals taxed?

## The unlimited availability of data

Tax offices will have to become more agile in executing new tax types and changing international fiscal rules. In the meantime, tax offices are required to keep on successfully tracking down fraudsters and preventing tax evasion and avoidance. Tax offices have enormous amounts of data at their disposal that they can use to optimize the services they provide and increase the chances of apprehension. Tax offices have a very broad jurisdiction to request information from taxpayers and thirds (governed in the Netherlands by the so-called

Intelligence Articles in the law). With advanced analysis techniques, irregular patterns and complex fraud types can be effectively tracked down. But the availability of large amounts of information and computing power has its downsides. The legislator imposes limits on the use of data in the shape of purpose limitation, subsidiarity and proportionality; moreover, society demands transparency with regards to the use of data and algorithms.

## The ethical aspects of artificial intelligence (AI)

This means that tax offices are required to shed light on and account for the choices they make in the application of artificial intelligence. The ethical aspects of AI are being discussed all over the world; what is acceptable and what is unacceptable? This debate has only just started. Tax offices everywhere are still probing the boundaries and frameworks of AI use.

The trend report extensively addresses the aforementioned subjects. On top of that, it describes a future operating model for tax offices where organizations and execution processes will increasingly be modelled around data & analytics. In the process, traditional collecting organizations will migrate towards organizations that prioritize horizontal connections between professionals, in the interest of the taxpayers.

Finally: because the future belongs to the young, we have asked students at Rotterdam School of Management to comment on the report. Comments such as “please unburden taxpayers”, “one click tax”, “use chatbots for annual income tax declaration” and “be transparent about the data sources used for taxation” confirm our conclusion that getting rid of legacy and introducing new technologies are essential elements of any effort to optimize service towards tax payers and to secure effective tax levying and collection.

Trends in TAX is the result of worldwide research and interviews with tax officials, with the aim to enable each other to learn from best practices. In many cases, levying and collection are cross-border activities, as is the (re-) use of new technologies.



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