

The drivers of tax reform: who are the key players and what are the key forces for change?



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Players and drivers of reform

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A turbulent political environment

- An emerging power confronts an established power
- Different vision of society compete
- Regional block take on more power
- The growth of populism and splintering of traditional political parties

Three consecutive economic crisis

- The 2007/ 8 financial crisis
 - The COVID Pandemic
 - The war between Russia and the Ukraine
- All leading to a backlash against globalisation

Emerging demands on government

- Changing demographics
- Demands for government intervention on social and physical infrastructure
- Meeting the needs of an ambitious climate change agenda
- Facilitating the spread of new technologies
- Need to spend more on defence

Which are the organisations that are the key players in the global tax debate

- The OECD Committee on Fiscal Affairs
- The UN Tax Committee
- The EU
- The Breton Woods Institutions
- Regional Tax Administrations Organisations
- The WCO
- And the role of the G20?

What is on the current international tax agenda?

- BEPS 1.0 15 Actions
- BEPS 2.0 The two pillar solution
- Tax transparency
- Redistribution taxes
- Tax administration transformation
- Cooperative compliance and ICAP
- New approaches to VAT/GST
- Environmental taxes and levies
- Countering IFF
- Link between trade, tax and investment agreements
A hesitant move towards multilateralism

Drivers of tax reform

- The need for revenue
- A fair sharing of the burden of taxation
- The need to maintain competitiveness
- Meeting the challenge of climate change
- Responding to new technologies

Technology: the driver of the next wave of reform

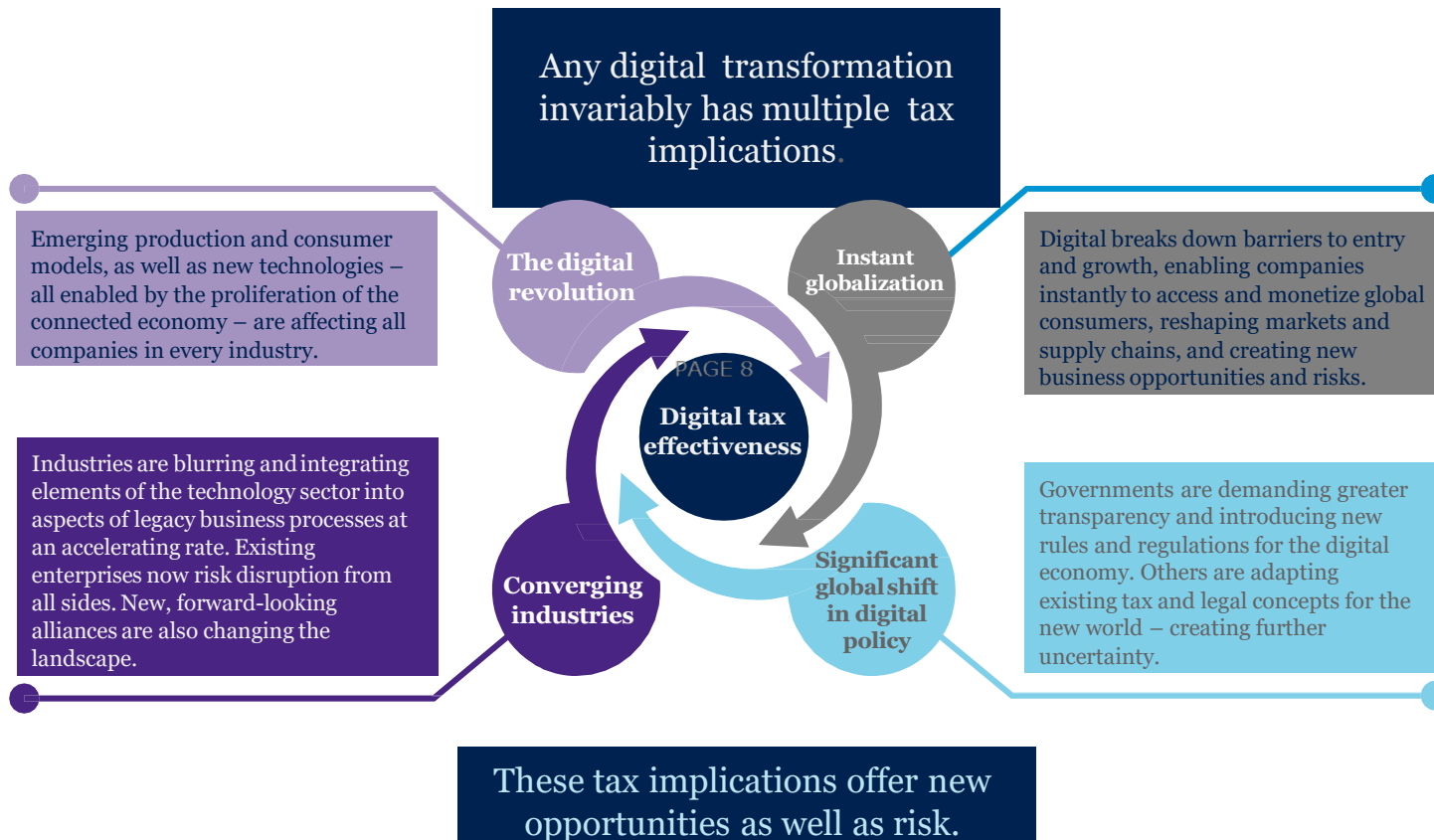
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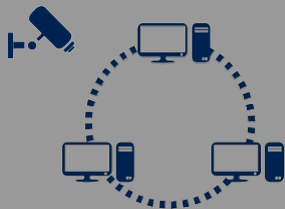
Digital tax effectiveness

Managing interconnected themes



What is digital tax administration?

“The increasing demand for electronic submission of tax and financial data by revenue authorities, paired with other methods of data gathering, with subsequent analytic testing, digital auditing and digitization of the end-to-end compliance process”



- ▶ “Digital tax submissions” are defined as periodic data file(s) **mandated** by tax authorities
- ▶ Submissions are broader than traditional tax return filings and include:
 - ▶ e-Invoicing (real-time)
 - ▶ Operational data
 - ▶ e-Accounting
 - ▶ Digital submissions of tax returns
 - ▶ Invoice batches
 - ▶ Customs declarations
 - ▶ Cash register outputs
- ▶ Corporate data submission is paired with data acquired from other sources

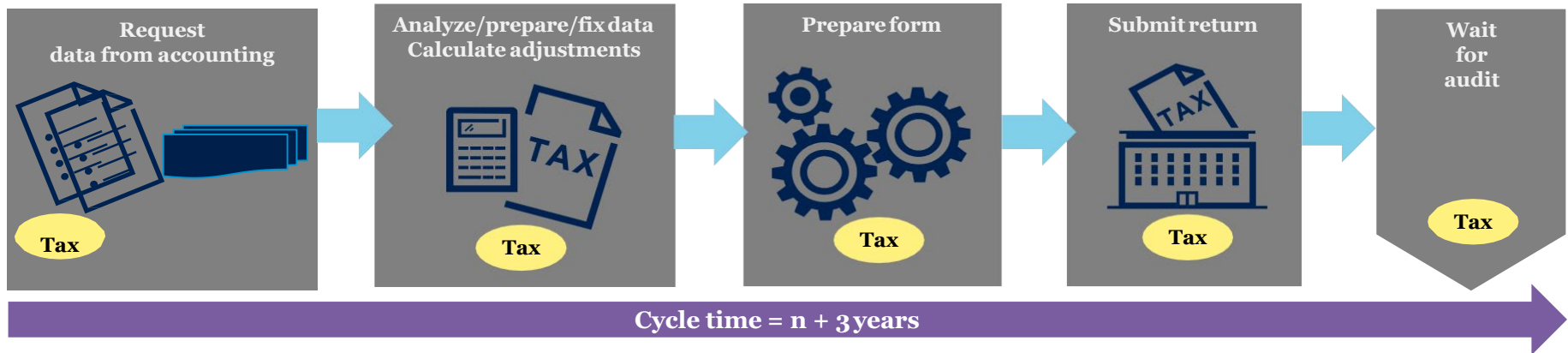
There can be significant tax risk as taxing authorities receive more source data and leverage sophisticated data analytic platforms to gain insight into that information, leading to e-audits and assessments, with increased exposure to tax and penalties



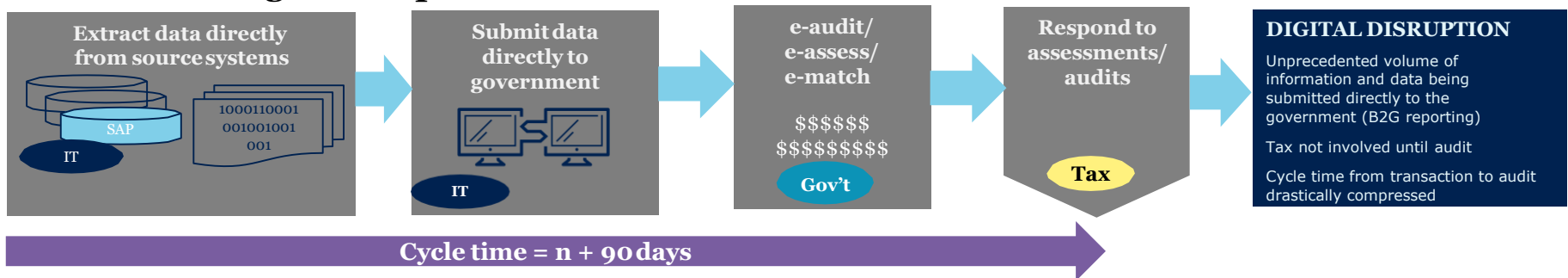
Digital disruption of compliance

The shift in focus from returns to data

The traditional compliance model



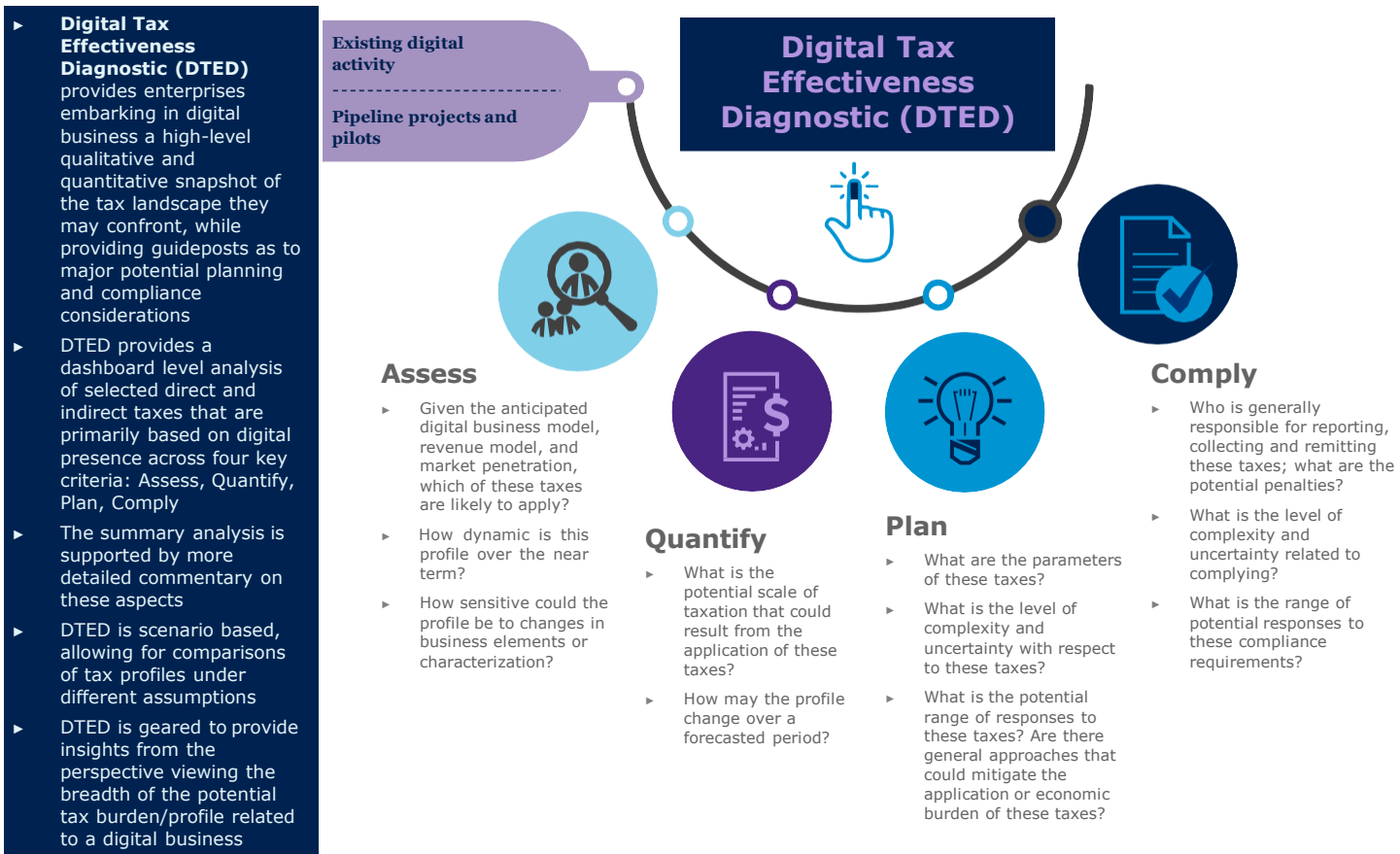
The digital compliance model



The Digital Roadmap

Level 1	Level 2		Level 3	Level 4		Level 5
"E-file"	"E-accounting"		"E-match"	"E-audit"		"E-assess"
Use of standardized electronic form for filing tax returns required or optional; other income data (e.g., payroll, financial) filed electronically and matched annually	Submit accounting or other source data to support filings (e.g., invoices, trial balances) in a defined electronic format to a defined timetable; frequent <i>additions and changes at this level</i>	Paradigm shift	Submit additional accounting and source data; government accesses additional data (bank statements), begins to match data across tax types and potentially across taxpayers and jurisdictions in real time	L2 data analyzed by government entities and cross-checked to filings in real-time to map the geographic economic ecosystem; taxpayers receiving electronic audit assessments with limited time to respond	Disruptive	Government entities using submitted data to assess tax without the need for tax forms; taxpayers allowed a limited time to audit government-calculated tax

Implications for business: Digital Tax Effectiveness Diagnostic (DTED)



What new tax administration opportunities are opening up?

- Moving Tax Administration from auditors of outcomes to certifiers of systems
- Moving away from a return based system of assessment and collection
- Improved taxpayer service
- Integration of CIT and VAT for administrations purposes
- The demise of the CIT?
- New technologies as a trade facilitator

Moving along the tax administrations digital road map

- **Strategy and capability**
 - Understand and address how AI can form an integral part of business strategy
 - Actively manage data to verify that it is fit for purpose, relevant
- **Operating model**
 - Secure senior, executive-level support within the organization,
 - Consider how cross-department sharing of skills, insights, leading practices will work **Initiative design**
 - Experiment with small-scale pilots
 - Consider longer term processes, resources required
- **Intervention design**
 - Tackle cultural barriers via change management programs
- **Workforce**
 - Create a talent management strategy
 - Proactively address broader workforce implications
- **Managing results**
 - Consider political ramifications of what AI (and advanced/predictive analytics) may tell you about revenue authority priorities

Automation at scale: Most relevant for a tax authority?

- ▶ Strong, service-delivery focused leadership needed
- ▶ Cross-fertilize AI / automation skills between departments
- ▶ Mix between tactical taxpayer service and long term strategic process / approach change
- ▶ Workforce dissatisfaction around potential impacts of automation
- ▶ Proactive talent management – upstream / downstream
- ▶ Flexibility to manage unexpected results
- ▶ Managing (leveraging) public perception around AI use

- New opportunities may be opened up for cyber crimes
- Lack of understanding and technological competence may increase the gap between the tax administration and private sector, as entirely new business models are being developed
- Lack of traceability, if no identification is secured that ties the digitalised asset, including crypto-currencies, to the taxpayer
- Opportunities for the growth of shadow economy
- Currently no reliable mechanism is developed to secure the integrity of data that is fed into the DLT and AI
- Fully virtual existence
- Challenges to source taxation
- Challenges to customs revenues for cross boarder goods from 3D printing
- Handling the transition from the old to new technology

What new tax policy opportunities are opening up?

- Potential new tax bases (Robots, IA, Data)
- New ways of applying old taxes (e.g. environmental taxes)
- Opportunities to reassess the effectiveness of taxes on capital to reduce inequalities
- Big data and fact based tax reforms
- An acceleration of a move towards a cashless economy
- More effective measure to counter IFF

Concluding comments

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New technologies can help us address old tax problems

- But this requires that both business and tax administrations are prepared to embrace tax transformation
- It also requires a rethink of the role of intermediaries and service providers
- And a cultural change in tax administrations: from verifiers of outcomes to certifiers of systems and greater trust between tax administrations and taxpayers
- That corporate Tax dept become more integrated into the overall corporate strategy
- All with the aim of providing taxpayers with greater tax certainty
- The three **T**: **T**ransperncy, **T**rust, **T**echnology will drive the debat

- Will disruptive technologies enable us to replace the corporate income tax with a tax on the shareholders?
- Moving to life cycle taxes that do not focus on the income earned in one year but over the course of citizen's life;
- Considering the development in robotics and likely disruptive effect on the labour market, will tax base shift from payroll to VAT or capital?
- Will the ability to collect and analyze terabytes of data reverse the trend towards the formulary apportionment for TP and shift back to transaction-based approach?
- Will the Metaverse become the ultimate offshore jurisdiction?
- Are these technologies the start of a move to integrated tax and benefit systems?
- Will tax administration move into the areas which have traditionally been the responsibility of other government depts (e.g. forecasting prices, competition policy) and private consulting firms?

Thank you



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