

# How SA and other emerging markets led the charge for a digital tax future

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15 Aug 2019

The Organisation for Economic Cooperation and Development (OECD) has identified digitalisation as one of the most transformative trends shaping the global tax space. That's hardly surprising, especially given the pressure on governments around the globe to better account for the taxes paid to them and to crack down on excessive tax avoidance by private and corporate citizens.



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But while many developed economies are just at the start of their digitalisation efforts, emerging markets have been ahead of the game for some time now.

The impact these efforts have had could be a good indicator of what the future of taxation looks like and also what implications digitalisation might have for high net-worth individuals (HNWIs).

## Pioneering efforts

One of the first countries to embrace digitalisation was Estonia. In fact, it's had a digitalised tax authority since 1991 when it achieved independence from the USSR.

In line with its overarching mission to become Europe's leading digital economy, it has continued to invest in its digitalised tax services over three decades, constantly maintaining and improving its digitalised service offering to taxpayers.

As a result, almost all declarations of income tax are done online, with percentages for VAT and customs declarations even higher.

South Africans, meanwhile, have been able to digitally file taxes since 2001, when the South African Revenue Service (Sars) launched its e-filing service. Once regarded as a leader in digitalised platforms for tax administrations, things were allowed to slip, with no IT upgrades between 2014 and 2018. This was reflective of a wider malaise in the revenue service, which saw revenues shrinking for several years.

How much impact a refreshed e-filing site, launched in July, mirrors a revamped Sars remains to be seen, although early indications have been that most users are happy with the changes made to date.

Another successful example of digitalisation is the Russian Federal Tax Service (FTS). When Mikhael Mishustin was appointed as the head of the FTS in 2010, he adopted a 'digital first' strategy across the service. Mishustin is a systems engineer which actually aided his strategy and vision. Thanks to thorough pilot testing and tax payer-centric services, the FTS' digital platform has been widely embraced and revenue from personal and corporate taxes have increased.

Finally, it's worth mentioning that in Israel, the former chief tax receiver was an experienced administrator, not tax specialist, and he revolutionised its tax administration collection methodology through data mining, exchange of information, and mass mailing campaigns.

## **Developed markets and HNWIs**

As tax authorities in developed markets look to replicate these results, it's important that they learn from the successes as well as failures.

If they're going to adopt digitalisation, they have to commit to it fully, test and pilot thoroughly, and ensure that the platforms they build are updated regularly.

Paying taxes is something that most people do grudgingly. The better the overall experience, the more likely people are to file their tax returns accurately and on time. And, as with all spheres of government, a well-functioning revenue service adds to the sense that taxpayers are playing their role in building a prosperous society.

It's also vital that tax authorities are as transparent as possible when it comes to helping taxpayers understand the filing and returns process.

Getting this combination right also helps reduce the chance of any one group, including HNWIs, being unfairly singled out by the authority.

This is especially important for a country like South Africa, where Sars has missed revenue targets for the past five years. If the country is to have any hope of stemming the tide of wealth leaving its shores, Sars has to demonstrate reform and evolution. This is true not just of its internal practices but also the products it presents to the public.

The data gathered through the digitalisation of tax, meanwhile, means that authorities can better model how much revenue they're likely to get in any one year.

Backed by sensible political policies, this should result in fairer tax regimes for everyone.

Ultimately, successful digitalisation can increase the revenue pool simply by improving overall compliance and self-reporting. Importantly, it can help unlock digitisation in other spheres of government. If people see the benefits of digitised

taxes, they'll demand similar services from their local municipalities, vehicle licensing authorities, and other administrative departments.

The digitalisation of tax is inevitable, the onus is authorities to implement it sensibly in a way that appeals to the taxpayers themselves.

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