The Digitalization of Tax Administration in Asia and the Pacific

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Opening Remarks

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Distinguished experts, dear participants, colleagues,

Good afternoon and a warm welcome from Bangkok to this regional workshop on 'The Digitalization of Tax Administration in Asia and the Pacific'. I am Hamza Malik, Director of Macroeconomic Policy and Financing of Development Division here at ESCAP. This is our second workshop on tax issues (we had one yesterday on taxing the digital economy), as part of our latest work on supporting countries in enhancing tax revenues and thus improving fiscal space.

It is no exaggeration to say that we are experiencing very difficult economic circumstances currently, globally and here in Asia and the Pacific. The COVID-19 pandemic wrought havoc on economic activities and public finances and exacerbated the challenge of effectively pursuing sustainable development. The ongoing war in Ukraine has only made matters worse. Substantial fiscal and debt pressures along with rising inflation and increasing interest rates suggest limited policy space going forward. Policymakers need new opportunities and ideas to strengthen their fiscal positions to cope with these challenges.

In this context, it is worth highlighting that the average total tax revenue collection in Asia and the Pacific, as a percentage of GDP, is considerably lower (around 20%) compared to other regions and advanced OECD countries (around 34%). Admittedly, paying taxes is one of the more difficult and time-consuming activity for citizens in most countries around the world. Nevertheless, to be able to finance public goods and services and effectively pursue sustainable development, governments need to increase tax compliance and collect sufficient revenues.

Better tax administration contributes to higher tax revenue collection and other economic benefits, by reducing tax avoidance and evasion, including by influencing people's willingness to pay taxes. The benefits of effective tax administration also go beyond tax revenues. Research shows that better tax administration helps narrow the productivity gaps between small and large firms, as smaller companies typically face higher tax compliance costs.

The quality of tax administration depends, among other things, on effective tax legislation and its enforcement, increasing the use of digital technologies in tax operations, adopting risk-based compliance control, and training of tax officials. Some indicators of good tax administration include a low cost-to-collection ratio, a high actual-to-target tax revenue ratio and high filing and payment compliance rates, as well as the timeliness and quality of tax services.

In 2018, ESCAP developed a 'Tax Administration Index' that examined: (1) institutional arrangements that grant autonomy to tax authorities; (2) core business functions that facilitate compliance and use advances in technology to enhance tax collection; and (3) a legal and regulatory framework that enables tax authorities to gain access to information in order to validate taxpayers' liability.

Our research found that the quality of tax administration in developing Asia-Pacific (in terms of its relationship with tax-to GDP ratio) is weaker than that in developed countries and developing countries in other regions of the world. Our research also found that a one-point increase in the value of 'Tax Administration Index' is associated with a tax revenue increase of 0.15 percent of GDP.

While there are several policy issues that need attention to address such issues, the focus of todays workshop is on improving the capacity of tax administrations in eliminating compliance barriers and increasing tax collections using digital technologies.

In the past decade, the rate of digital transformation has accelerated as the price of digital technology has decreased and application development tools have become more user-friendly. For instance, not too long ago, cloud-storage was nearly 50 percent more expensive than it is today.

The digitalization of tax administrations not only plays a crucial role in assisting tax authorities in reducing compliance and administrative costs but also help collecting revenues in a more effective manner, improving taxpayer service and transparency, and accommodating big data flows.

Based on our recent report (that will be presented in today's workshop) we expect the future of tax administration to look different. Administrations will have access to encrypted, distributed ledgers that will enable smooth, real-time tax data collection and monitoring. Artificial intelligence will increasingly complement and strengthen the judgment of tax authorities. However, the system must be continuously monitored for faults and accountability for mistakes must be clearly established.

With digitalization of tax administration, the tax system is expected to become considerably more accessible. Services including pre-filled tax forms, possibility for taxpayers to access their own filing information and data exchange between banks and government agencies accelerating credit approval will become more and more common.

Today's workshop examines how tax administrations in Asia and the Pacific have been utilizing digital technologies to enhance their capacities. Our objective is to aid countries' policymakers as they begin planning processes and we highlight several implementation considerations for digitalization of tax administrations.

Without any further ado, let me hand over to my colleagues to initiate the substantive discussions.

Thank you, and I wish you a productive workshop.