Business at OECD (BIAC)

Principles for the Digitization of Tax Affairs

November 2022

Summary of Principles

- **Efficiency is the key principle underpinning the promotion of automation and digitization of tax affairs for businesses and tax administrations.**

- **Legally certain and consistent international regulatory and technological frameworks are key considerations for achieving progress in this field.**

- **A consideration of automation and digitization should also be undertaken throughout the entire process (i.e., from design through to implementation stage), when changes are being introduced to tax legislation.**

Business at OECD **(BIAC) has set out the following principles, which are viewed as being critical for improving the digitization of tax affairs:**

International harmonization and standardization

Data privacy and security

Proportionate reporting

Automation by design

Digital communication and interaction

Single reporting

Preserve technology neutrality

Appropriate lead time and business consultation

Principles for the Digitization of Tax Affairs

1. International harmonization and standardization:

- The harmonization of tax rules is an important enabler of automation and digitization, especially in areas with significant volumes of transactions or other similar regular frequencies. Similarly, standardization of digital exchange formats and interfaces to achieve secure, internationally consistent and efficient levels of data exchange, within the boundaries of principle 7, is also a crucial factor. The OECD as an international organization with a global outreach is well placed to advance the drive towards international harmonization and standardization of tax affairs, with technology acting as an important enabler.

2. Data privacy and security:

- The collection of data for tax purposes must not lead to a breach of existing data protection regulations for taxpayers collecting this data from individuals. Non-anonymized data must not be stored to a greater extent or longer than it is required for the completion of taxation-procedures. Collected data that has already been reported to authorities must be governed by security and data access parameters that provide clear rules regarding which authority is entitled to access data provided by taxpayers.
- These parameters should be based on international norms and should specify how, and for what purposes, data is to be used. Taxpayer data that has already been reported to authorities must be protected against all unauthorized access and should not be accessible without the specific access request being logged.

3. Proportionate reporting:

- While digitization may be seen as an opportunity to obtain more information from taxpayers, only data which is relevant and required by tax administrations should be collected from businesses. Collection should be proportionate and should be based on specific criteria, such as the size and complexity of the business, the unique features of the business sector, etc.
- Regular evaluations of the effectiveness of data collection should also be performed to ensure that collected data is being used for the purpose intended. New tax reporting obligations should only be introduced where there is a demonstrated material risk of systemic non-compliance with national or international tax regulations. This risk standard should be a decisive factor in the determination of the scope and granularity of data requested by authorities. As taxpayers report more and more granular data, authorities should have better means to control tax returns and to detect unintended errors, thus limiting the need for penalties.

4. Automation by design:

- When new rules are being introduced or existing rules are being altered, legislators and tax administrations should consider the impact of these legislative changes on the automation and digitization of tax processes for both businesses and administrations. Legislators and tax administrations should take the opportunity to introduce simplifications and to minimize the use of vague (non-digitizable) legal terms.

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Continuous changes to data collection requirements and methods of exchange should also be avoided where possible, given the impact that each adjustment has on reporting processes. All changes in tax rules should build towards "real-time economy": an environment where all financial and administrative transactions connecting citizens, businesses and public sector entities are in structured standardized digital format, generated automatically and completed in real-time. Manual work and processes in all stages of design should be minimized.

5. Digital communication and interaction:

- The digital exchange of documents and digital communication between taxpayers and tax administrations (e.g., tax audits using collaboration tools and platforms) should be completed in an efficient and secure way.

6. Single reporting:

- Taxpayers are frequently obliged to file the same data with multiple government authorities, including multiple authorities within the same jurisdiction. Overlapping reporting requirements should be avoided by sharing reported data within government authorities, where it is possible to do so from a data privacy and security perspective. Improved digitization of tax reporting could simplify processes and generate significant cost savings, particularly if implemented in a harmonized manner (e.g., through the harmonization of transactional reporting in areas such as VAT, customs, Intrastat and transfer pricing). Data filed digitally should, in general, not also be required to be filed in paper form.

7. Preserve technology neutrality:

- When it comes to technology, it is crucial that businesses can decide whether internal or external technology solutions are used, which software providers are chosen, and how internal processes and technology frameworks are structured and operated. Investments in legacy technology procedures and applications should be respected, wherever it is possible to do so without directly thwarting the purpose of the new regulation.

8. Appropriate lead time and business consultation:

- Businesses and tax administrations should both be provided with appropriate lead time (e.g., based on industry practice) to successfully implement any IT technology solutions. When an automation or digitization solution is being explored by tax administrations, user experience from a range of stakeholders (e.g., software companies, auditors, bookkeepers, tax administrations) and a mutual understanding of digital processes from concept to implementation is critically important. The involvement of business in the comprehensive development of these processes across taxes through *Business at OECD* (BIAC) is therefore crucial, making use of well-established and well-functioning consultation processes.

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