FORUM ON TAX ADMINISTRATION

Tax Administration 3.0: From Vision to Strategy

Tax

Welfare

Business data & events

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FORUM ON TAX ADMINISTRATION

Tax Administration 3.0: From Vision to Strategy

OECD

PREFACE

One of the hardest things in public administration is turning strategy into delivery. This report helps Commissioners and those involved in large scale transformation do exactly that: turning the Tax Administration 3.0 (TA3.0) vision into organisational reality. It is a product designed to add value by supporting Commissioners in thinking about the approach to take to transformation in their organisation, guided by the vision described in TA3.0. It touches on key issues such as: the task of setting a clear direction from the top, making it relevant to our people in their daily jobs, making digital transformation a priority amid the day to day pressures of meeting our customers' needs, embedding taxpayer-centric thinking in governance and processes, addressing operational capability gaps and understanding the needs of our stakeholders and how to work with the wider tax ecosystem in the 21st century.

Achieving a TA3.0 operating state is a journey, and a key feature of this report is that it recognises each tax authority is starting on this journey from a different place, from the policy and legislative environment to the wider administrative practice and culture. Also, with the changing nature of technology, the opportunities for transformation will continue to iterate. A consistent feature will be the requirement for collaboration and cooperation between other parts of government, the private sector and internationally.

Although incremental in nature, the transformation should ideally be designed with the end goal in mind – a comprehensive long-term strategy supported by long-term funding. Helpfully this report provides a set of ideas and recommendations that are applicable to all. What, when and how we choose to act on these will depend on our unique circumstances.

Turning a vision into reality requires a shift from the theoretical to the practical, thanks to the work of this project team and the Forum on Tax Administration (FTA) we now have a blueprint for what Commissioners and senior leaders can do to support this agenda.

Angela MacDonald

His Majesty's Revenue and Customs,
Deputy Chief Executive Officer Second Permanent Secretary

ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

The OECD's 2020 Tax Administration 3.0 report set out a vision of future tax administration where existing tax administration processes are re-engineered to fully take advantage of the opportunities technology can bring (OECD, 2020[1]). Through this, tax administration can embrace the rapid digitalisation of the economy and the increasingly seamless interconnections that can be made between digital systems, for example as seen in the use of mobile phone and web applications.

At the heart of the Tax Administration 3.0 vision is the concept of the decentralisation of tax administration, with taxation processes increasingly taking place in the natural systems (or ecosystem) used by taxpayers for their own purposes, for example for running their business or undertaking transactions (OECD, 2022[2]). A current and widespread example of this is the automation of taxation processes within the payroll software used by employers in the pay-as-you-earn (PAYE) type systems already adopted in many countries.

The advantage of moving taxation processes into taxpayers' natural systems is that tax can increasingly be aligned with taxable events, resulting in fewer errors and underreporting, as well as substantially reducing burdens on taxpayers. This can have significant positive benefits for taxpayers and for the overall economy by reducing tax gaps and enhancing domestic resource mobilisation, as well as reducing the overall costs of tax compliance, freeing up time for more productive economic activities.

The challenge identified in the Tax Administration 3.0 report is that decentralising taxation processes in this way requires a fundamentally different way of working by tax administrations both internally and with the providers of the natural systems used by taxpayers. However, this fundamental change can only be incremental in nature, given that there can be no interruption in tax administrations' role in bringing in a large share of government revenue.

In order to help make progress in this incremental journey towards Tax Administration 3.0 and to realise some of the game-changing benefits as soon as possible, the senior level Tax Administration 3.0 Working Group of the Forum on Tax Administration was asked to develop recommendations for strategic actions that Commissioners might wish to consider taking now, acknowledging that all countries are at different starting points and are facing different challenges.

This document therefore:

- Sets out the case for change as well as a description of the benefits and challenges (Chapter 1)
- Sets out the Tax Administration 3.0 Working Group's recommendations on the interrelated changes needed over time in:
  - how administrations operate internally (Chapter 2); and
  - how they engage with the wider tax ecosystem, both private sector and government actors, on the design and operation of the tax system (Chapter 3).

In addition, to help inspire Commissioners as to what they might do in their own administration, this document also contains several links to presentations on actions already being taken by a number of administrations, as well as relevant background information. The intention is that this will be updated periodically with new examples and with new insights and learning from the wide-ranging collaboration taking place in the Tax Administration 3.0 Working Group.

While the focus of this document is on the actions Commissioners might take, it is hoped that other stakeholders, both in other parts of government and the private sector, will also find it of use in considering their role in the digital transformation of tax administration.

Finally, it should be noted that this document focuses mainly on the issues relevant for the digital transformation of tax administration and the actions that might be taken by Commissioners. As a result, it uses terms like "tax ecosystem" and "tax events" to delineate what is within the scope of tax administrations. In some countries, though, the digital transformation of tax administration is proceeding as part of the wider digital transformation of government where limitation to the tax ecosystem and tax events may not always be appropriate, something which may be elaborated on in future updates of this document.

Layout of the report

Organisational Change ▷

(recommended actions)

Core Components

Culture and values ▷	Organisational structure ▷	Organisational capabilities ▷

Set a clear direction from the top ▷

↓

Making digital transformation a priority ▷

↓

Make it relevant to everyone in their daily jobs ▷ ↔ Embedding taxpayer-centric thinking in governance and processes ▷

↓

Understanding the starting point ▷

↓

Addressing operational capability gaps ▷

↓

Building staff capabilities ▷

Ecosystem thinking ▷

(recommended actions)

Core Components

Understanding the tax ecosystem ▷	Whole of government approaches ▷
Co-owning the vision ▷	Co-design of incremental change ▷

Creating a shared vision ▷ ← Mapping the current actors ▷

↓

Leveraging the administration's knowledge and experience ▷

↓

Prioritisation of incremental steps ▷
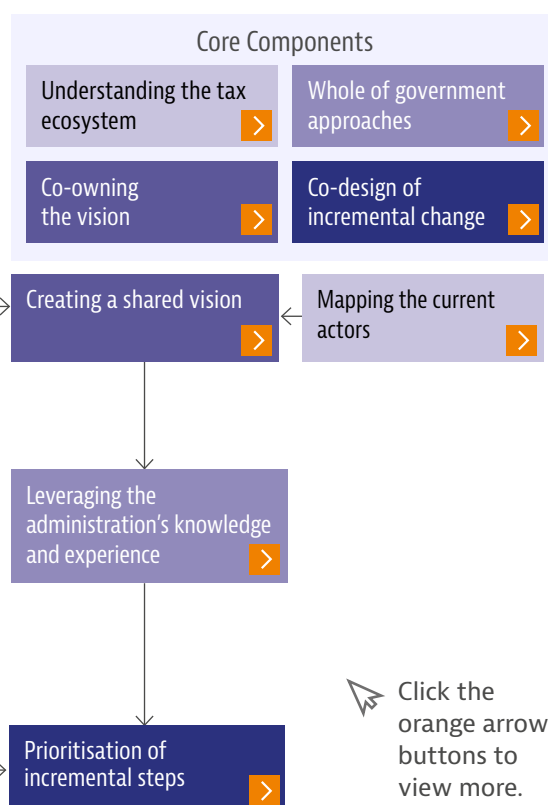
Click the orange arrow buttons to view more.

Caveat

In reading this document, it is important to note that tax administrations operate in varied environments and the way in which they each administer their taxation system differs with respect to their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practicable nor desirable in a particular circumstance. Therefore, this report and the observations and recommendations it makes need to be interpreted with this is mind. Care should also be taken when considering a jurisdiction's or tax administration's practices to fully appreciate the complex factors that have shaped a particular approach. Similarly, consideration needs to be given to the distinct challenges and priorities that each administration is facing.

INTRODUCTION

Chapter 1   INTRODUCTION
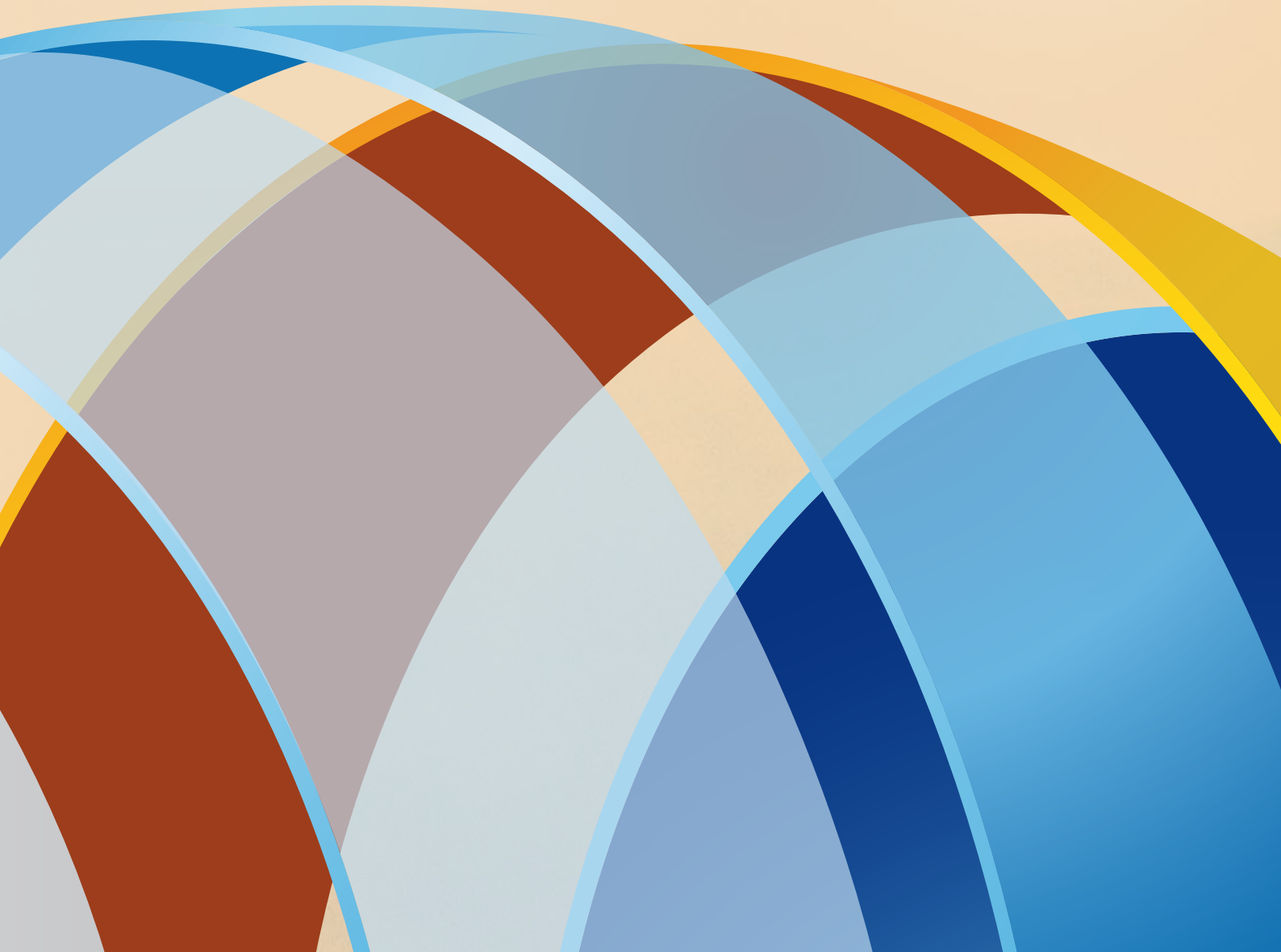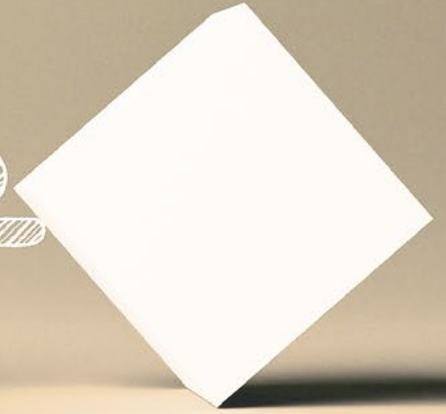
The Tax Administration vision – The paradigm shift

The three key high-level messages from the Tax Administration 3.0 report are that:

- Tax administration will become **taxpayer-centric**, with a focus on how to make taxation a more seamless and burden-free process.
- Taxation processes (which include identity, verification, assurance, tax calculations and payments, among other things) will increasingly be **carried out in the natural systems of taxpayers**. These are the systems that taxpayers use to transact, run their business, make or receive payments, communicate etc.
- As a result, future tax administration will have a **fundamentally different operating model**.

The driver for this vision is that the current model of tax administration, which relies heavily on taxpayers to extract, collate, verify and report tax relevant data, is reaching its limits as to how much further it can reduce tax gaps and burdens. In addition, the benefits achieved in the digitalisation of the current model may start to unwind. As the wider economy increasingly transforms and integrates, and as business and employment models change, the current tax administration model will be an increasing source of friction, inefficiencies, and economic costs.

For further information, please click on the following link.

TA 3.0 Overview $\rightarrow$

The vision in practice

By way of illustration of the vision, one part of the tax administration system in most countries is already close to the Tax Administration 3.0 model. This is the PAYE system for salaried employees. In many of these systems, taxation processes are embedded in the payroll software used by employers to pay their employees.

These payroll systems, which form part of the natural systems of taxpayers, automatically calculate the tax due alongside salary calculations and, in many cases, then directly send the tax payment to the tax administration.

The burdens on the employer and employee are relatively low, and the tax gap negligible. For example, a UK tax gap report estimated that the tax gap was less than 1% for PAYE compared to 15% for self-reported income by small and medium sized enterprises (SMEs).[1]

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1   HMRC Measuring tax gaps 2024 edition: tax gap estimates for 2022 to 2023, **https://www.gov.uk/government/statistics/measuring-tax-gaps**

In addition, in a number of countries, further progress has already been made in the area of personal income tax, with an expansion beyond salaried employment to include the calculation of other elements of personal income tax from third party systems. The systems either withhold and remit tax due or provide inputs that are then used to partially or fully prefill tax returns. The challenge now, and the prize, is to extend the learnings from these related models to other parts of the current and future tax base.

Figure 1.1. Example of natural systems within the taxpayers' ecosystems
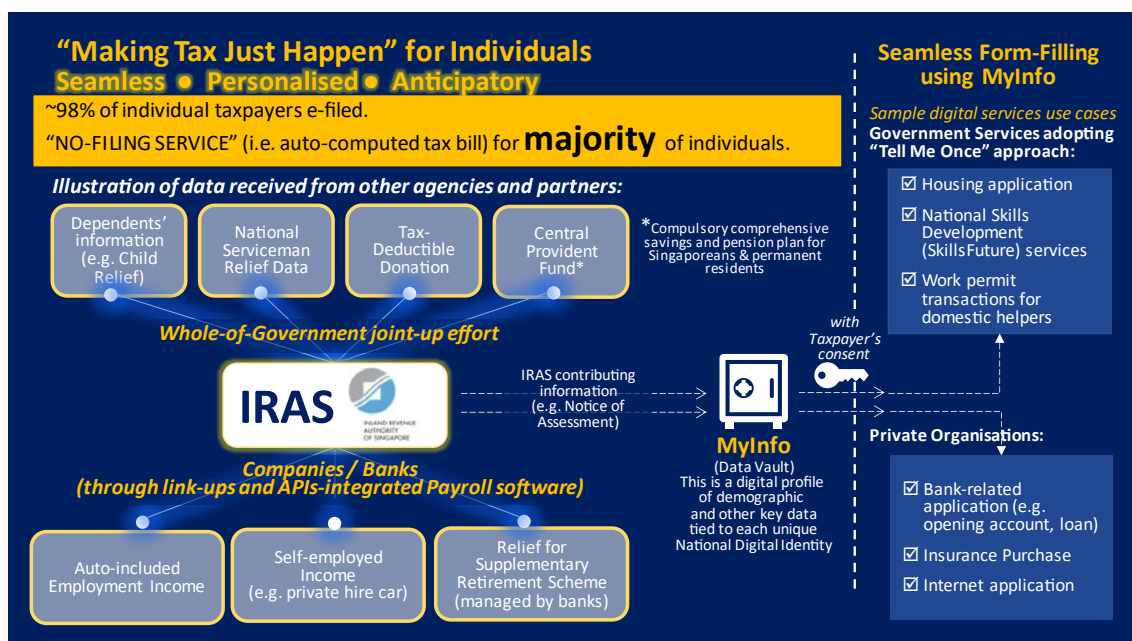
Source: Inland Revenue Authority Singapore

Examples for inspiration:

Singapore: "Making Tax Just Happen" for individuals ▶

United Kingdom: Making Tax Digital ▶

The benefits

The benefits of moving taxation processes into taxpayers' natural systems include:

- **The significant reduction or, in some cases, the elimination of burdens** on taxpayers as tax is calculated, and potentially paid, alongside the taxable event within their natural systems. This can reduce direct costs and free up time for more productive activities.

- **The elimination of errors caused by taxpayer mistakes or negligence**, as well as making it much harder to undertake deliberate non-compliance. This has the potential to significantly reduce tax gaps.

- **Allowing taxpayers to receive benefits automatically**, whether tax allowances, welfare benefits or other benefits related to their tax status.

- **Increased opportunities for real-time tax certainty**, making it easier for taxpayers to understand their real-time tax and cash-flow positions, helping to inform decision-making and reducing risks of arrears, as well as increasing opportunities for more timely payments.

- **Increased taxpayer control over their data** and the reduction of risks from the centralisation of personal or sensitive business data within tax administration systems.

- **Elimination of the need for costly new stand-alone systems to be developed.** For example, new reporting obligations have often needed new systems to be developed to extract, verify and format data.

- **Increased possibilities for developing standardised technological solutions** for automated connections between tax administrations and between tax administrations and third parties.

- **Reduced costs from policy changes** since taxation processes embedded in taxpayers' natural systems can evolve within those systems.

The scale of these benefits is potentially enormous. For example:

- Based on published tax gaps, a conservative range for global tax gaps is around 5% to 10%. Applying this to the EUR 13.7 trillion annual revenue collected by the 54 members of the Forum on Tax Administration, suggests that the tax gap may be between EUR 685 billion and EUR 1,370 billion. If the tax gap could be reduced to 2% to 4%, then the increase in collected revenue could be of the order of EUR 274 billion to EUR 685 billion.

- As for burden reductions, it could be beneficial to undertake collective work to try to understand their size and the impact of taxpayer burdens on the economy, but a range of studies suggest they are significant, particularly for small and medium sized enterprises. By way of example, a 2020 report by the EU Commission estimated that the cost of tax compliance for SMEs may amount to up to 30% of taxes paid.[2]

In addition to the benefits directly related to tax administration, the ability to connect with other administrative systems, such as welfare systems, population registries, regulatory agencies and so on, also offers significant opportunities to provide more seamless digital public services to citizens and residents in general. In some countries, such whole of government digital transformation processes may be developed in tandem with the digital transformation of tax administration (OECD, 2019[3]). This can be mutually reinforcing as the benefits for taxpayers, citizens and residents will grow as more interconnections are made.

The Tax Administration 3.0 operating model

As set out above, the core change envisaged in the tax administration operating model is moving tax administration processes into taxpayers' natural systems, as has been done in many PAYE systems.

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2 European Commission (2020), Communication from the Commission to the European Parliament and the Council: Action Plan for Fair and Simple Taxation Supporting the Recovery Strategy, **https://eur-lex.europa.eu/resource.html?uri=cellar:e8467e73-c74b-11ea-adf7-01aa75ed71a1.0003.02/DOC_1&format=PDF** (accessed on 2 June 2025)

Critically this means that **much of the administration of tax becomes decentralised**, with the tax administration's role moving to one of assurance that the natural systems work to deliver what is intended. This requires a different way of working within the tax administration (Chapter 2), and a different way of engaging with the broader tax ecosystem, which is the provider of taxpayers' natural systems (Chapter 3).

The **tax ecosystem** is the network of service providers, intermediaries, software developers, processes and technology tools which are involved in taxable events or tax related events, such as the registration or closing of a business, or the birth or retirement of an individual (these may also be described as "life events" which have tax consequences).

Figure 1.2. Examples of ecosystem participants
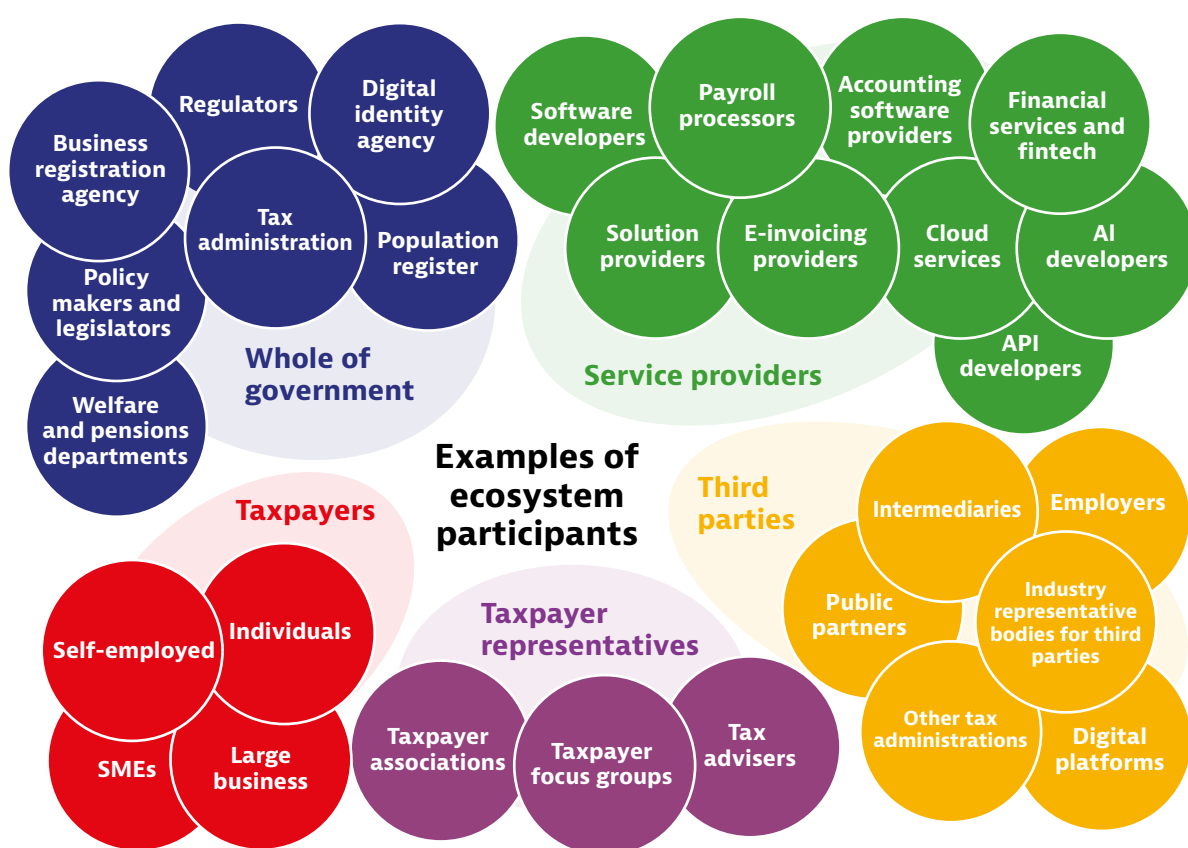

Source: OECD

The relevant parts of the tax ecosystem may well be different for different tax events or tax related events. However, to understand how and where tax administration processes can be embedded, and to assure the robustness and integrity of all the various underpinning connections, requires engagement, understanding and partnership with the wider tax ecosystem.

An example might be a digital economy platform that provides an App or web application which is the interface used by a taxpayer to sell services and generate a potentially taxable income. The business processes accessed through the App or web application form the natural system from the taxpayers' perspective, since that is what they use to sell their services and generate income. But those business processes will usually have multiple connections to a wider tax ecosystem, for example to:

- Providers of digital identities (which may be governments or private sector)
- Payment service providers
- Cloud services
- Software developers
- Regulatory authorities
- Communication services
- Other platforms, for example those providing ancillary services

Example for inspiration:

Netherlands: Taxpayer touchpoints, ecosystems and natural systems ▶

Why develop a digital transformation strategy?

A fundamental change in an operating model for an organisation as large and complex as a tax administration cannot, of course, happen in a "big bang" approach. There are too many moving parts, inter-dependencies and risks, including risks to revenue flow, to administration and taxpayer costs and to the security and assurance of data.

It can only be an incremental change, but ideally an incremental change that is managed in a strategic manner. This is necessary to help ensure that it proceeds smoothly and coherently, and that all stakeholders are aligned on the end goals as well as the timing and priority of the incremental steps. The underlying strategic challenges include:

- Getting people on board with a new way of thinking about tax administration as a decentralised process, co-designed and co-owned with the tax ecosystem;
- Reconciling the long-term nature of the change with the likely early upfront costs for both administrations, taxpayers and other tax ecosystem participants;
- Understanding the wider tax ecosystem in which different taxpayers operate and how, where and when to incrementally embed taxation processes into natural systems;
- The different types of assurance processes needed - i.e., assurance that the systems in which taxation processes are embedded, as well as other interconnected systems, are reliable, robust and secure to maintain trust for both taxpayers and the tax administration;
- Understanding the necessary elements of an underpinning legal framework, including as regards roles, responsibilities and accountability;
- The development of new types of international cooperation to remove frictions in cross-border activities, including for taxpayers that operate in multiple countries. This can help to reduce fragmentation risks where different countries adopt different

approaches, which can create additional costs and friction compared to what might be achieved through standardised approaches. In addition, the costs of development may be reduced through collaborative working and pooling of knowledge.

In addition, the Tax Administration 3.0 model will create new policy choices that also require early strategic input from the tax administration, for example:

- how new tax policy is designed and implemented, particularly large-scale changes like e-invoicing;

- how reforms to other government agencies' policies or systems might take account of possible linkages with the tax administration, including in possible whole of government approaches;

- how data protection and data privacy can best be assured when enabling enhanced services to taxpayers, citizens and residents.

Example for inspiration:

China: Broader digitalisation landscape ▸

GANISATIONAL CHANGE
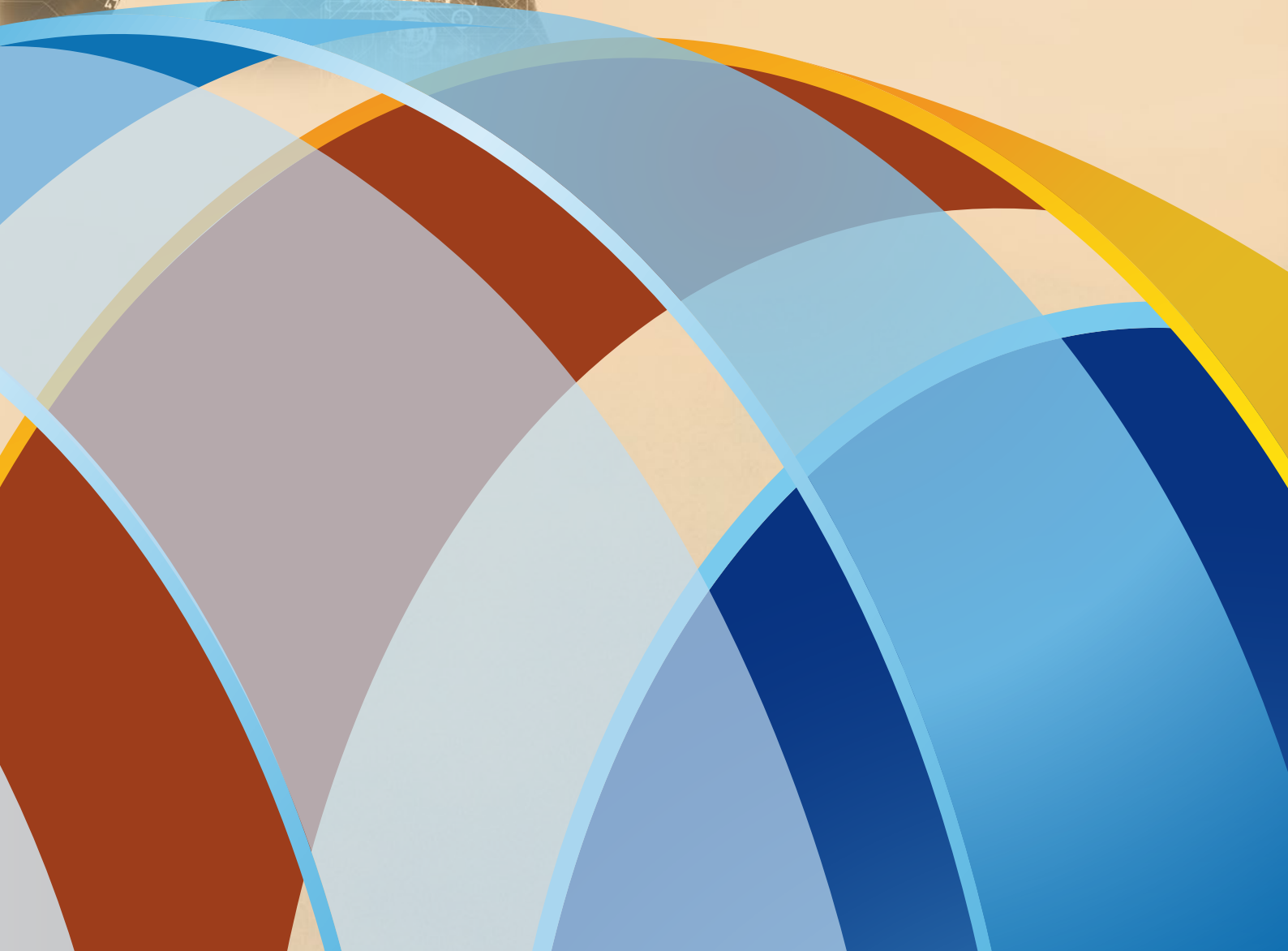
ORGANISATIONAL CHANGE

Changing the current model of tax administration

Most administrations are very well set up to deliver the current tax administration model effectively and efficiently as a result of the increasing digitalisation of existing processes, as well as better use of data in managing compliance and improving services. This model is based in large part on supporting voluntary compliance as well as undertaking a range of downstream compliance activities, in particular assurance, auditing, collection and dispute resolution processes. This position is reflected in the staff functions reported by tax administrations in the OECD's Tax Administration Series (OECD, 2024[4]). In general, the "audit, investigation and other verification" function is the most resource intensive, employing on average 30% of staff.

Figure 2.1. Current tax administration model

Taxpayer services				
Registration	Assessment	Verification	Collection	Dispute
Data management				
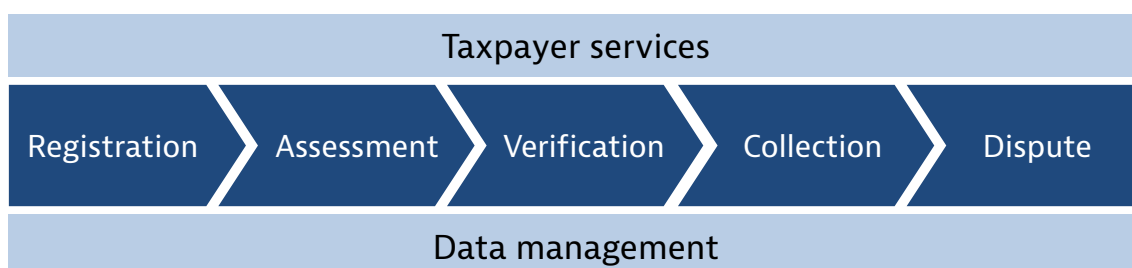
Source: OECD

The starting point of any strategy for digital transformation is how to adapt these organisational features, currently well suited to the existing model of tax administration, to work for a fundamentally different operating model.

There are, of course, many different ways of approaching long-term organisational change, supported by a wealth of literature. A common theme, though, is that fundamental change needs to be championed and driven by an organisation's leadership and that staff at all levels need to understand where the organisation is going, how it is going to get there and what their role is in achieving that goal.

For its part, the Tax Administration 3.0 Working Group, which considered these issues through the lens of actions it would like to see Commissioners consider taking, identified three core components:

- **Culture and values**
- **Organisational structure**
- **Organisational capabilities**

Changing these elements is no easy task, particularly given that, as set out in the introduction, the current model of tax administration can only be changed incrementally, and the existing model will need to continue in many areas for a large number of years.

That said, taking actions to change these organisational elements over time should not be disruptive to the operation of the existing tax administration model since it primarily concerns a shift in mindset. This change in the way that tax administrations think about their future role may well help to create a virtuous circle that both enhances the existing model while accelerating the move to digital transformation. For example, if auditors are mandated to use their expertise to look in-depth at how certain mistakes were made by taxpayers or what it was that allowed them to circumvent the rules, then they can be part of finding structural solutions to these weaknesses, even if aspects of any structural solutions have to proceed incrementally. This applies across almost all tax administration functions.

Organisational culture and values

Transforming the organisational culture and adopting an innovative and taxpayer-centric mindset throughout the organisation is a core element for successful digital transformation. In practice, this means that all levels of the organisation should understand the purpose of the change and their role and responsibilities, with the whole administration invested in the transformation effort at every stage of the journey.

The starting point for cultural change is communication and explanation of the high-level vision of digital transformation and the benefits it can bring to taxpayers, society and the wider economy. Such a shift in thinking about the wider environment in which tax administration sits was evident in many countries during the Covid-19 crisis. In many cases, this required a rapid shift to new ways of working and to looking at issues from a taxpayer and indeed whole of society perspective.

Leadership is crucial for changing organisational culture. It is necessary that everyone sees that this is something that matters in the here-and-now, that it is something that is valued and assessed by leadership and that there is a clear direction of travel and common language. But to change culture, it also needs to be driven by bottom-up processes, so as to create both a wide understanding of what digital transformation means and also to create a feeling of ownership and a sense of purpose.

Recommended actions for Commissioners

Set a clear direction from the top

- **Develop a longer-term mission statement** that sets out at a high-level, and in easily understood and memorable format, the administration's vision for the future, potentially including its role in society, wider government and the economy. This may help both internally and externally in communicating how serious the administration is about digital transformation and the value that is placed on current efforts, even though it is a long and incremental journey.

• **Develop a high-level, taxpayer-centric narrative** setting out what digital transformation might achieve in the particular country context, to help ensure that there is a common understanding and a common language. This could be drawn up in a consultative process across the tax administration functions to help ensure that everyone understands that they have a role to play and that this is an opportunity and not a threat.

Make it relevant to everyone in their daily jobs

• **Develop supporting material for managers** to engage with staff in various tax administration functions. This could include encouraging people to identify existing burdens on taxpayers as well as sources of errors and opportunities for deliberate non-compliance, helping people to see connections between their job and future tax administration.

• **Encourage a collaborative approach**, putting in place mechanisms to bring people together from different parts of the tax administration to consider options and priorities for incremental reform. This could also include competitive elements, for example awards for innovative ideas or the use of hackathon type approaches.

• **Putting in place digital transformation champions** to help others to understand what digital transformation entails, using examples from outside the tax administration of what can be achieved and promoting success (this might be supplemented by bringing in external speakers to talk about aspects of digital transformation in their organisations, including how they have gone about it and lessons learned).

Example for inspiration:

Canada: Digital Transformation Officer ›

France: Digital Champions ›

Understand the starting point

• **Using the digital transformation maturity model.** The digital transformation maturity model was developed after the publication of Tax Administration 3.0 to help administrations assess their current level of maturity (OECD, 2022[5]). The model covers both digitalisation and digital transformation, allowing administrations to see core stages of the incremental journey. The model has already been used by over 60 tax administrations. Some have put together small groups to undertake a self-assessment and other administrations have taken a wider approach, seeking input from staff across the organisation. The model can also be used to inform discussions in specific business areas, since there can be differences in maturity across the organisation.

• **Building on the digital transformation maturity model.** In addition to helping understand the current maturity level, the model can also be used by administrations to help inform consideration of future actions and reforms. It can be the basis of a further, more detailed analysis of the current level of maturity and help inform action plans for the administration as a whole or for specific business areas.

For further information, please click on the following links:

The Digital Transformation Maturity Model ›

Using the Digital Transformation Maturity Model ›

Organisational structure

During the transition to digital transformation, tax administrations should consider moving from what may in some cases be a siloed, programme-specific focus, to more horizontal and enterprise-wide initiatives across various functions, taking account of the digital transformation vision.

Creating a horizontal approach to programme and service delivery in the near-term means more collaboration, redefining business processes, and determining how to identify and address frictions facing taxpayers as well as how to improve compliance in a coordinated way. This can also help in considering opportunities for more fundamental digital transformation as well as helping employees to anticipate and identify how their work is changing and how they can add most value in practice.

As digital transformation progresses and taxation processes increasingly move into taxpayer's natural systems, the tax organisation structure will become more orientated around managing engagement with, and assurance of both natural systems and the wider tax ecosystem, including ensuring that it is reliable, robust and secure.

Recommended actions for Commissioners

Make digital transformation a priority

- **Create a senior executive role to focus on digital transformation.** This role could be tasked with delivering a central unified approach to digital transformation within the organisation. This will help ensure that longer-term transformation is considered alongside other short-term tax administration priorities. For example, this role could perform a challenge function, looking at incremental reforms to the existing tax administration model to ensure that opportunities for transformational reforms are not overlooked. This could involve a process of analysing and documenting how choices align with or provide building blocks towards longer-term transformation.

  The seniority of the role will signal its importance to the tax administration and also help to enable a move to horizontal consideration and actions supporting digital transformation. At the outset the role may focus on putting in place processes to consider opportunities for digital transformation, including engaging with stakeholders inside and outside of government. As digital transformation projects start up, the supporting infrastructure may increase with dedicated teams being formed to support engagement with the wider tax ecosystem and to carry forward incremental projects.

Embed taxpayer-centric thinking in governance and processes

- **Develop objectives on supporting digital transformation.** Ideally, there would be a set of cascading objectives on supporting digital transformation running from the top of the administration to all levels. This will allow staff to see how their objectives relate to those above and below them in the management chain, helping to ensure alignment across the organisation. Alternatively, there can be horizontal objectives across the organisation or at the business unit levels. It is important that these are measured and assessed, including in performance discussions, as otherwise current priorities are likely to crowd-out thinking about longer-term reform. In addition to supporting

digital transformation, this can give staff a clearer understanding of how their roles will develop and promote a culture of innovation.

Example for inspiration:

Finnish Tax Administration: Customer Orientation ▶

Organisational capabilities

The capabilities of the tax administration are the set of things that it is able to do as a result of having various tangible and intangible assets in place. The capabilities needed for digital transformation will be significantly different in some areas to what is needed for the current model of tax administration, and adaptation will be necessary. Among the many questions that might be considered are:

- Does the legal framework need to be adapted to enable tax administration processes to be built into taxpayers' natural systems, including where data exchange from other parts of the tax ecosystem is necessary for verification purposes?

- Do the administration's staff currently have the right capabilities and, where not, how can they be supported or trained, and what might future recruitment look like?

- Are the current IT systems capable of connecting to natural systems at scale and of supporting other elements of digital transformation, such as automated machine-to-machine interactions and the full joining-up of information. If not, what changes are needed?

- Does the administration have sufficient budget to progress digital transformation while continuing to manage the existing tax system?

- Does the governance framework allow for sufficient flexibility and agility to manage a complex change management programme, including engaging in different ways with stakeholders?

Recommended actions for Commissioners

Address operational capability gaps

- **Commission an assessment of operational capabilities relevant to digital transformation.** This could be led by a senior official responsible for digital transformation and/or tax administration strategy, and bring together, for example, business area leads and those leading IT projects as well as legal and budgetary colleagues. A starting point for undertaking these considerations in many administrations might be reviewing the capabilities necessary for managing and assuring the reliability and accuracy of existing cases where taxation processes are already embedded in taxpayers' natural systems, such as PAYE. This will give a base understanding of what might be necessary more generally to enable wider digital transformation, as well as help to identify key priorities. This will also help inform engagement with the wider tax ecosystem.

Examples for inspiration:

Canada: Digital Learning and Culture Overview ▶

Sweden: The Boost Programme Initiative ▶

Build staff capabilities

- **Commission an assessment of the current capabilities of staff within the administration relevant to digital transformation and the creation of an action plan to enhance these capabilities over time.** This will require a prior consideration of the main capabilities needed for achieving digital transformation. Among other things, this will include:

  - Change management skills for preparing, planning and implementing large scale change;

  - Digital literacy skills and an understanding of how digital technologies and data are used within the tax administration and, more generally, how they are used within the wider tax ecosystem;

  - The understanding of data protection and data security, including risks and mitigations;

  - Analytical abilities for understanding the causes of the frictions within the current model of tax administration and the opportunities for non-compliance and fraud;

  - Skills to address behavioural challenges linked to these new ways of working;

  - Technical and innovation skills to identify options for embedding processes into taxpayers' natural systems as well as the practical implementation challenges;

  - Project management skills to deliver complex technical projects; and

  - People skills necessary for bringing people together from inside and outside of the tax administration to work in partnership.

ECOSYSTEM THINKING

ECOSYSTEM THINKING

In order to be confident about embedding taxation processes in a particular natural system, the tax administration and the taxpayer will need to rely on, trust and work with the various actors in the ecosystem involved in aspects of the tax event or tax related event. This requires ecosystem thinking – i.e., considering the role of the tax ecosystem as a whole in tax administration processes.

In the model of decentralised tax administration, the tax administration cannot control the ecosystem, since it is ever evolving, complex and varied. Among other things, technology, communication preferences, payment systems and business models are constantly changing over time. Instead, the tax administration's role becomes one of monitoring and steering how the tax ecosystem comes together to produce trusted results, reduce burdens and ensure compliance.

This will require tax administrations to agree with ecosystem participants on a clear framework for the components of a successful tax ecosystem. In some cases, the administration may be passive where tried and tested aspects are in place, such as secure digital identity systems (public and private) and trusted API providers. In other cases, there may be a role for the tax administration to play a more active role, for example by setting common standards or by regulating aspects of the ecosystem (for example through licensing for certification arrangements), particularly where there is a risk of bad actors. This may particularly be the case during the incremental transition to a model of digital transformation.

An important part of engaging with the tax ecosystem is also understanding where it is not digitalised and considering how the tax administration, together with other stakeholders, can influence change. This may be through the mandating over time of standardised data formats, digital record keeping, digital payments and digital reporting, or through encouraging take-up of digital options. Of course, in doing this tax administrations will need to take account of those unable to adopt digital options, for example vulnerable people and parts of the older population as well as those without access to digital tools and infrastructure.

The Working Group identified four main strategic components of ecosystem thinking, which are covered below.

- **Understanding the tax ecosystem**
- **Co-owning the vision**
- **Co-design of incremental change**
- **Whole of government approaches**

Example for inspiration:

United Kingdom: HMRC's work on trust ▷

Understanding the tax ecosystem

The purpose of understanding the ecosystem is ultimately to determine where taxation processes might best be embedded within the tax ecosystem, as well as its reliability, robustness and security. This requires not only a deep understanding of the natural system, but also of the part played by different tax ecosystem actors in each tax event.

For example, in the case of a sharing and gig economy platform, in addition to the platform's own software, reliance is placed on systems that identify the taxpayer and systems that make the payments. In some cases, the process may be split up with the platform only matching buyers and sellers, with communications and payments taking place without any connection with the platform. These would need different solutions as regards embedded taxation processes.

Among the elements of understanding the tax ecosystem are identifying:

- The core natural systems within which tax events take place (that may be more than one);
- The natural systems that are providing, recording or validating tax relevant information, for example on identity, on tax residency, on payments, on the taxpayer's status (e.g., for allowances or special rates) etc.;
- The natural systems which may be non-tax related, but may bring benefits to taxpayers if connected to other systems (for example in whole of government applications);
- The natural systems that do not add value to the tax ecosystem or could harm taxpayers through their actions or advice.

Recommended actions for Commissioners

Understand the tax ecosystem

- **Commissioning the mapping of current actors in the tax ecosystem.** In addition to a broader map of all the main actors, administrations may wish to produce similar maps for the taxpayer segments of individuals, small and large businesses and/or particular tax types. Ideally this would be done by tax administration officials and selected representatives of the wider tax ecosystem, followed by wider consultation. The aim would be to identify trusted actors in the ecosystem, as well as potential bad actors. Such a tax ecosystem map should be a living document that is modified over time as the system evolves.

  The development of a tax ecosystem map would also pave the way for an assessment of the health of the wider tax ecosystem, the risks it faces and its capabilities. It will allow consideration of where actions might need to be taken by the market or through setting standards to support the embedding of tax administration processes into a greater range of natural systems.

Examples for inspiration:

New Zealand Inland Revenue: Ecosystem Categorisation ▷

Finnish Taxation Office: Real Time Economy Ecosystem ▷

Encourage co-ownership of the vision

The starting point for engagement with the wider tax ecosystem is discussion and agreement of the high-level vision. While there may be some understanding about the principles of Tax Administration 3.0, many ecosystem participants may well view digital transformation as the continued digitalisation of the existing system rather than an evolution of the tax administration model. Messaging by the tax administration as to the nature and benefits is hugely important given the role of tax administration in shaping the tax ecosystem and in giving confidence to ecosystem participants as to the direction of travel as well as roles and responsibilities. Messaging can only be the start, though, since digital transformation requires co-ownership of the vision of future tax administration.

Recommended actions for Commissioners

Create a shared vision

- **Share the high-level vision of future tax administration and the role of the tax ecosystem through targeted engagement with core stakeholders.** This can be done through a variety of methods – speeches, consultation processes, use of media, non-public engagements etc. The aim is to make the tax administration's position and commitment to long-term digital transformation clear. This is important given the long-term investments that ecosystem participants will need to make as well as committing early resources to incremental change. They will need a high degree of confidence that this direction of travel will be maintained.

  The core stakeholders will be different in different countries, but may include:

  - **A range of representative ecosystem service providers and third parties.** This group sits at heart of future tax administration alongside the tax administration. It is important that they share the vision and that they see the benefits to their businesses and to the tax ecosystem as a whole of helping to reduce burdens on their customers.

  - **Policy-makers, budget holders and legislators.** It is necessary to engage early with this group on the broad direction of future tax administration given its long-term nature, which may require increases to budgets, updating of the current legal framework (including possible mandating of elements of digitalisation) and long-term commitments which will go beyond the usual political cycle in most countries.

  - **Taxpayers and their representative bodies.** Given that digital transformation can bring additional short-term costs for taxpayers, it is important that taxpayers understand the potential longer-term benefits both in terms of reduced burdens, such as time freed-up, as well as fairer competition as a result of tackling non-compliance. This will also help administrations to start to surface what taxpayers see as the main areas of cost and friction in the current system and where feasible incremental reform might be of most short-term benefit. A key additional element will be responding to issues of trust in the tax administration, transparency, the use of data, assurance processes and costs.

- **Other government agencies.** A number of government agencies will hold tax related information, for example, about other sources of incomes (for example, pensions, benefits, grants etc.), identity information (for example, business registration on population registries), information relevant to residency status, information relevant for tax allowances (for example, child allowances, age allowances, marriage allowances) etc.

  Digitalisation of these agencies may offer new opportunities for automating more aspects of tax. This can also enhance the provision of services to their clients where relevant information from the tax administration can be automatically shared. This could help ensure that those entitled to receive benefits, allowances or services can receive them automatically.

- **Set up or participate in an ecosystem representative group.** In addition to wide messaging, it will be important to engage with a core group of ecosystem participants on taking forward the incremental reforms towards decentralised tax administration. Important early tasks will be:

  - **Developing high-level estimates of the costs and benefits of digital transformation** for different types of taxpayers and taxes, and what this means for revenue and the wider economy. This will both help with building the evidence base and understanding priorities for incremental reform.

  - **Examination of the high-level technical architecture** for embedding taxation processes in natural systems, building on the work being done in the Tax Administration 3.0 Working Group on automating information exchange between tax administrations and between tax administrations and third parties.

  - **Agreeing on a set of principles for a successful tax ecosystem.** This might include among other things:
    - A trust framework for identifying actors that add value to the ecosystem and how to implement it.
    - Co-design, collaboration and networks, including in ensuring the resilience of individual systems and the tax ecosystem as a whole.
    - Clear legal frameworks and standards governing responsibility for the security and accuracy of information for those participating in the ecosystem.
    - Transparent operational policies and processes, including around the use of data and automated decision making.
    - Assurance of the integrity of systems, including connected systems.
    - The responsibilities of all parties to enable the sharing of accurate information.
    - The capability to recover information from different parts of the ecosystem where there are failures.

Examples for inspiration:

New Zealand Inland Revenue: Stewardship of the Tax and Social Policy System ❯

Fudan University and State Tax Administration China: Cost-Benefit Strand ❯

Co-design of incremental change

The move to digital transformation is an incremental process, but it is also one where virtuous circles can be created to accelerate change. In particular, early projects will provide a lot of learning about the approach that should be taken as well as how to create interlinkages between natural systems. This might then lead to processes and outcomes that can be replicated more widely as well as stimulating other actors, or new actors, to provide the required capabilities in the wider tax ecosystem.

Recommended actions for Commissioners

Prioritise incremental steps

- **Develop a roadmap of potential projects, in close cooperation with other tax ecosystem participants.** Given the large number of potential projects, the main principles for identifying projects might be:
  - Where there is a clear identified friction that can be addressed through the embedding of taxation processes in taxpayers' natural systems, and where the long-term benefits exceed the initial and ongoing costs.
  - Where the outcome of the project is capable of being leveraged to address other known frictions of a similar type.
  - Where the project is either capable of being implemented immediately or there is clarity about what changes to the legal framework may be necessary for implementation.
  - Where the project can be completed in a reasonably short period of time.

In order to leverage the learning of incremental projects, it will be important to establish a common project framework. As part of this, it might be helpful to:

  - Clearly demonstrate the logical chain from the vision of TA 3.0 to the detailed implementation of projects, thus enhancing confidence in the value of the project and in continuing to provide resources for digital transformation;
  - Break down the vision into smaller, more detailed and executable elements by dimensions such as time, department, and project, ensuring that the digital project matrix covers all the proposed goals;
  - Ensure that each specific project follows common value, methodologies, standards, and technical architecture, reducing the possibility of a lack of coordination and interoperability between projects;
  - Provide basic standards (which can be further refined over time) to assess each project's effectiveness, efficiency, agility, resilience etc., before, during and after project implementation;
  - Share the outcomes of the projects with ecosystem participants in order to generate positive spillover effects from tax administrations to the whole government and other stakeholders.

Example for inspiration

Finland: Business Activity Ecosystems ❯

Whole of government approaches

The rest of this note has focused on the issues relevant for the digital transformation of tax administration and the actions that might be taken by Commissioners. In a number of countries, though, digital transformation is also being considered in a whole of government approach, with the focus on improving whole of society outcomes. Such approaches, although involving many different agencies and therefore bringing a greater complexity in coordination and prioritisation, can provide a strong impetus to developing the building blocks and the interconnections necessary for comprehensive digital transformation. This is as a result of the wider government prioritisation and funding of such projects and the more significant benefits that can arise when the focus is on reducing frictions for citizens, residents and businesses in every aspect of their interactions with government.

Recommended actions for Commissioners

Leverage the administration's knowledge and experience

- **Collaborate with other government agencies to identify common opportunities.** There are perhaps two aspects to this. First, a more practical one which may involve identifying critical sources of information held by other government agencies where automated digital exchange of that information might bring mutual benefits. The tax administration will be well placed to initiate conversations on how this might be done and, potentially, to take the lead in building solutions. The second aspect, where there is no current whole of government initiative in place, is the role that the administration might take, where possible and appropriate, in promoting the benefits of customer-centric digital transformation. This would be through using its knowledge and expertise to identify the building blocks of such an approach, helping to identify the costs and benefits, and acting as a catalyst within wider government.

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GLOSSARY OF TERMS

Administration function: This could be a business unit of the administration, for example the auditing or compliance function, or functions which may run across business units, such as analytics, behavioural insights etc.

Aligned with: This means something that matches or is very close in approach or timing to something else (for example a process, objectives or views).

Artificial intelligence: The ability of computer systems to perform tasks normally requiring human intelligence, such as learning, decision-making and problem solving.

Burdens: The financial impact of taxation on individuals, businesses or economies.

Compliance: The fact of conforming to legal obligations.

Decentralised: Something that is done, or overseen, by several actors or functions, with the main example in the report being the movement of tax administration processes into the natural systems of taxpayers.

Digitalisation: Converting data into digital, computer-readable formats. This allows for the substitution of paper-based business processes by digital data processing applications, enhancing overall efficiency levels.

Digital transformation: The technology-enabled migration of tax administration processes from within the tax administration system and into the systems that taxpayers use to undertake their business, make payments, keep records and communicate – their "natural systems".

Driver: The factor or factors which cause, whether individually or combined, a particular outcome or set of outcomes to occur or which affect ongoing performance (positively or negatively).

Ecosystem: The tax ecosystem is the network of service providers, intermediaries, software developers, processes and technology tools which are involved in taxable events or tax related events, such as the registration or closing of a business, or the birth or retirement of an individual (these may also be described as "life events" which have tax consequences).

Impact: The effects of something on another thing, person etc., which may be positive or negative.

Incremental: A small change or set of changes over time that take place through small steps.

Journey: The incremental steps that might be taken towards an end goal, such as a desired reform.

Mission statement: A declaration of an organisation's core purpose, values and goals that is used to guide its decisions and actions.

Natural systems: These are the systems through which taxpayers undertake transactions, make payments and communicate as well as their own accounting, software and internal technology solutions.

New technology tools: This phrase encompasses the use of tools, such as artificial intelligence and machine learning, which can help to enhance analysis and decision-making.

Organisational capabilities: These are an organisation's core competencies, resources, and processes that enable it to achieve its goals and operate efficiently.

Organisational culture: The common values, views and working methods of an organisation as generally perceived (internally or externally). This may not be the same as the stated aims or values of an organisation.

Pay-as-you-earn (PAYE) tax systems: This refers to the relatively common system of income tax withholding on employees' salaries by employers which then remit the tax revenue to the tax administration.

Seamless: In very close connection and coordination and with little friction, such as "working seamlessly together".

Stakeholders: Individuals or groups with a relevant interest or concern in a particular issue.

Standardised process: A process that is carried out in the same way by different people or groups using the process.

Tax Certainty: Refers to the consistency and predictability of tax laws, regulations and their application, enabling taxpayers to plan and comply with confidence.

Taxpayer-centric: Culture, processes or policy which are designed around the needs of the taxpayer rather than the tax administration.

Technological solutions: Innovative tools or systems that leverage technology to address problems and improve efficiency.

Transparency: Being open and frank, for example about processes, the criteria for decisions and outcomes.

Whole of government approach: Collaboration between the different public agencies of government to help provide better services, enhance compliance and provide common solutions.

https://www.oecd.org/en/networks/oecd-forum-on-tax-administration.html