

Annex A

Findings from the survey of tax administrations and tax service providers

As part of this project, a survey was sent to the Task Group in August 2015. Members of this Task Group were asked to complete the survey for their tax administration (TA) and to share the other survey with tax service providers (TSP) in their countries. This resulted in 14 completed surveys from tax administrations and 36 completed surveys from TSPs. This annex presents the main findings of this survey in four parts by discussing the:

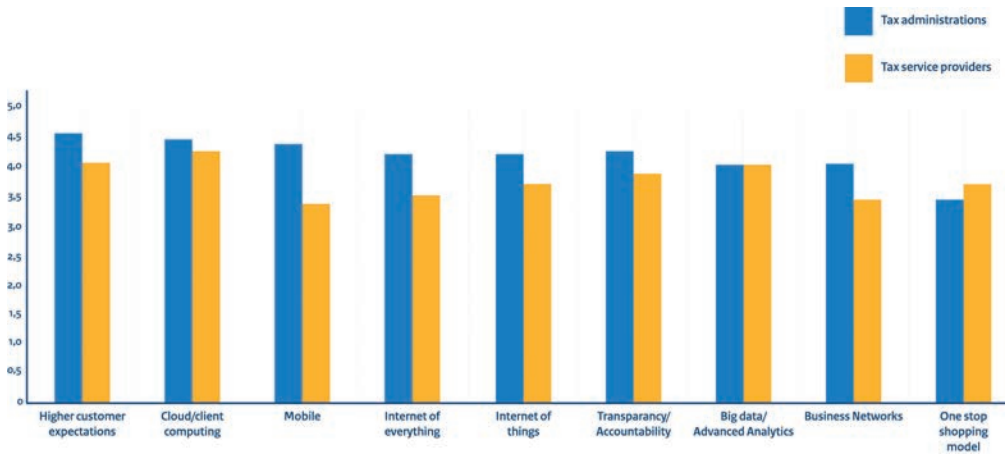
1. Perceived impact of new technological and business developments on tax service design and compliance;
2. Perceived relevance of some business developments for tax service providers;
3. Opportunities and risks; and
4. Current strategies of tax administrations in dealing with tax service providers

Perceived impact of new technological and business developments on tax service design and compliance

Tax administrations and TSPs were asked to indicate the impact of several technological developments on tax service design and compliance which were selected based on desk research.

The outcome of this survey is that tax administrations and TSPs view the impact of technological developments as highly relevant. There is not much difference between tax administrations and TSPs in valuing these developments, except for Internet of Things/Everything and Mobile which TSPs view as having a medium impact. However, among TSPs there's a high variety in views on the impact of these two developments, which means there is no consensus about the impact of these developments among TSPs.

Figure A.1. Perceived impact of technological and business developments on tax service design and compliance



1. *Higher customer expectations*: The overall view among tax administrations and TSPs is that higher customer expectations have a high impact. They indicate that SMEs need real time service delivery, anytime, anyplace any device service delivery, customised and personalised services, convenience and reduced compliance costs.
2. *Cloud/Client computing*: Tax administrations and TSPs indicate that cloud/client computing has a high impact with a low variation among tax administrations and a medium variation among TSPs. They indicate that cloud computing is a key development that will affect tax compliance. Cloud services will change the market for tax services. Important conditions such as data security and the role of current/new laws are frequently mentioned by tax administrations and TSPs.
3. *Mobile*: Mobile developments have a high impact according to tax administrations and a medium impact according to TSPs. Tax administrations view the increasing use of mobile technology as a very important development for providing “on the go” and “real time” services and systems.
4. TSPs have different views on this development. Some indicate that mobility is not relevant for their clients because their clients use office based computers instead of mobile devices while other TSPs emphasise the importance of having access to information anytime and anyplace. They indicate that mobility can make the contact and communications between the participants of tax services easier and

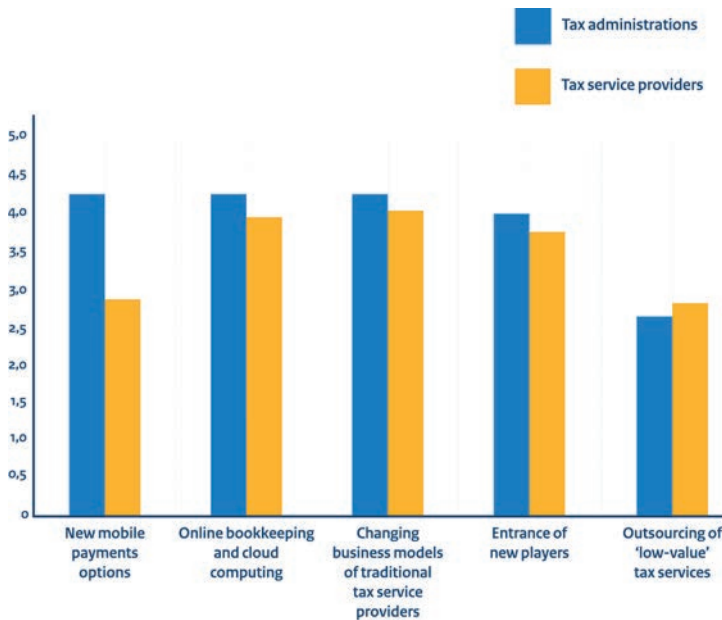
more convenient. So the rise of mobile payment systems and other mobile solutions further may contribute to new tax services.

5. *Internet of things/everything*: The internet of everything and the internet of things are seen as having a high impact according to tax administrations while TSPs value the impact of this technology as having a medium impact with a high variation among TSPs.
6. Tax administrations indicate that machine-to-machine interactions will become more common and important in ensuring business efficiency. The ability of tax administrations to interact directly with SMEs and other stakeholders holding tax information using machine-to-machine transactions would greatly promote compliance (not to mention efficiency).
7. TSPs have a mixed view. Some indicate that the prevalence of connected devices opens up possibilities for proactive, even “touchless” service, as well as new commercial models quite unlike the traditional fee-for-service one. Others indicate that increases in business-to-business activity will affect tax services, but to a lesser extent. It does not really have a direct impact on the tax services offered.
8. *Transparency/Accountability*: The overall view is that the impact of more transparency and accountability is high among tax administrations and TSPs. Debate on transparency and accountability are nowadays essential. In the case of SME compliance, it is important that SMEs know up front what they can expect, including what the “controlling” (accounting) firm will do and also the other way around. There should be no surprises for the SME.
9. *Big data/advanced analytics*: Tax administrations and TSPs indicate that big data/advanced analytics have a high impact with a medium variation among tax administrations and a low variation among TSPs. They emphasise the importance of big data/advanced analytics for tax administrations. This development supports better insights into the behaviour and needs of taxpayers and facilitates customised tax solutions. The relevance for SMEs depends on their core business. TSPs indicate that while big data and advanced analytics are important tools and facilitate better decision making, it doesn’t seem to be an issue in providing better services for SMEs from their perspective.
10. *Business networks*: The overall view is that there is a high impact of this development. Both tax administrations and TSPs indicate that the world is changing towards a connected world, not only in the communication between individuals, but also in the networks

integrating sectors and actors of a specific business such as tax management. Services are being shared across networks.

11. *One stop shopping model*: This business model is seen as having a medium impact according to tax administrations and TSPs. In some cases there is a need for a one stop-shopping model while in other cases SMEs need specific services/modules, which are being provided by (specialised) TSPs.

Figure A.2. **Perceived relevance of some business developments for tax service landscape**



Perceived relevance of some business developments for tax service landscape

In this survey respondents were asked to indicate the likelihood of some developments that may alter the tax service industry by responding to five statements. They have valued the likelihood of these developments on a scale from 1-5.

Statement 1: New mobile payment options likely to impact SME tax compliance and service-design

Tax administrations indicate that the development of mobile payment options have a high impact. Collaboration with banks and new players like mobile payment providers provide new opportunities in promoting compliance.

Tax service providers view these options as having a low to medium impact. However, there is a very high variation among tax service providers in valuing these options. Some TSPs indicate that mobile payments enhance the opportunity to detect non-compliance while others view the adoption rate of mobile payments as low.

Statement 2: Online bookkeeping and cloud computing likely to impact SME tax compliance and service-design

The overall view among tax administrations and tax service providers is that online bookkeeping and cloud computing have a high impact. They share the view that cloud services add to making tax experience more seamless and compliance easier. It simplifies the tax process, improves efficiency, reduces mistakes and facilitates the work of the administration. A commonly expressed risk is that tax intermediary online services, with no direct contact with their clients, may provide opportunities for the growth of tax fraud and other non-compliant activities

Statement 3: Business models of traditional tax service providers are changing

Many administrations indicate a significant change in how traditional TSPs operate. Traditional TSPs have to evolve more to advisory work. This view is shared by TSPs who see their business model changing. However, the adoption of these new business models varies by TSPs.

Statement 4: New players play an increasingly important role in tax compliance and design of tax services.

Tax administrations and tax service providers agree with the statement that new players are playing an increasingly important role. They indicate that different players such as financial institutions and software suppliers will significantly alter the role of bookkeepers. They provide automation to accountants that can free up time and resource for more value-added services.

Statement 5: Outsourcing of “low-value” tax services to other parties (and/or low income countries)

Tax administrations and tax service providers indicate that it is not likely that tax services will be outsourced to other parties and/or low-cost countries. A commonly mentioned argument is that there is no need for outsourcing because of automated processes and intelligent business reporting systems. Digitising services and cloud bookkeeping are more important in this field.

Opportunities and risks

There are various opportunities and risks as a result of the developments mentioned that were indicated. Some of these are mentioned in the Box A.1 as indicated by tax administrations and TSPs.

Box A.1. Opportunities and risks of technological and business developments

Opportunities

- Standardisation of better quality, customised services.
- Possibility to develop services better adapted to special groups, taking advantage of the possibilities the market provide through specialised Apps.
- Improvement of control and reduction of fraud, through systems that are real-time.
- Improvement of relations with tax services providers
- Decrease of the cost of compliance and increase of the level of satisfaction.

Risks

- Security, cyber security and protection and control of personal and business data.
- Difficulty to retrieve IT control after outsourcing if the service is not as expected
- Estrangement from the taxpayer (SME) if the tax administration only relates to tax services providers.
- Benefits must reach the taxpayers and not remain with the tax services providers. Significance of mistakes will become increasingly more important. It is necessary to implement systems (“watch-dogs”) to provide alerts warning errors in automated massive procedures.

Source: Tax Service Providers Project Team.

Current strategies of tax administrations in dealing with tax service providers

The participating tax administrations have been asked to indicate what their current strategies are in dealing with TSPs and their professional bodies. While a few countries have indicated that they have no specific tax agent strategy, many countries have taken several initiatives in dealing with TSPs and their professional bodies. Some of these initiatives will be discussed.

Regulation of the TSP market

Many tax administrations are taking initiatives to regulate the TSP market, showing different approaches.

- In South Africa, TAA has regulated tax practitioners. This means that only those belonging to RCBs, which are tax compliant, do not have active criminal records, fulfil their RCB's qualification and continuous professional development (CPD) are recognised as registered tax practitioners.
- The strategy of China is to supervise all TSPs by their agencies. Anyone who wants to provide tax service must be registered under a tax service agency. And to set up a tax service agency, the applicant must apply for a practicing certificate from the tax administration.
- In the United Kingdom, HMRC aims to change the way they interact with agents. Their goal is to promote voluntary compliance by raising standards and differentiating between agents based on their competence and behaviour so that they can reduce errors, processing times and contact costs, thereby improving the experience of paying tax for all customers.
- In Canada, a Registration of Tax Preparers Program (RTPP) is being proposed. The objective of this programme is to enhance compliance by improving the accuracy and completeness of tax returns. This goal will be achieved by identifying tax preparers who are making errors and providing them with guidance to prevent these errors from occurring in the future. Tax preparers who file and prepare income tax returns for a fee will be required to register with the Agency, once the programme is implemented.

Co-operation with new tax service providers

There is an increase in co-operation among several tax administrations with new TSPs, such as software providers.

- The Swedish Tax Agency aims to collaborate with operators in securing the quality and automation of the filing of data, for example through collaboration with software developers to reach a higher level of machine-to-machine integration of SMEs bookkeeping systems. Their aim is to supply open data and open services for other operators to use in their development of solutions. In development of new systems, applications and services they have in recent years started to use dialog with users as a key element, in an effort to make their services more user friendly.
- In the Netherlands, there is an increase in co-operation between the tax administration and software providers. The administration stimulates industry initiatives. There is no exclusive co-operation with one stakeholder, everyone can participate. The Tax Administration has an initiating, inspiring or facilitating role (create conditions). The administration is promoting the use of “trusted” administrative software to prevent data manipulation; support internal control; enable external control and providing a trusted “tax chain”.

Full engagement strategy with tax service providers

Some tax administrations have taken a full engagement strategy in dealing with TSPs. For example, ATO has developed a Tax Professional Engagement Strategy together with tax professionals, professional associations and software developers, driven by significant change in the profession and for the ATO. One of their strategic programmes is the Working with Our Partners programme which includes:

- working with their partners and intermediaries to establish trusted relationships,
- working with their partners and intermediaries to transform the client experience,
- leveraging their partner and intermediary network to influence changes needed to the Tax and legal framework, and
- building the ATO’s enterprise intermediary/partnership management capability.

Co-operation with professional bodies

Many tax administrations indicate they co-operate with professional bodies.

- The Spanish Tax Agency holds two permanent forums with the large companies and the tax services providers. In these forums, there are several specialised working groups. Participants discuss all the issues

that affect businesses and administration, and propose measures or services to be developed in the future.

- The Swedish Tax Agency interacts with about 30 different areas of trade (130 trade organisations) in an effort to prevent errors and meet need of information. Collaborating with trade organisations is a way for the Tax Agency to learn more about different circumstances and needs of a specific area of trade, as well as experiences and points of view in different matters. The purpose of collaboration with trade organisations is to minimise the tax gap through greater understanding of tax regulation and at the same time gain a greater trust for the tax agency.



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