Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Modernisation of the Tax Administration

Contents

1. Introduction

The Office of the Revenue Commissioners (Revenue) is the Irish Government agency responsible for the assessment, collection and management of taxes and duties. Its role also encompasses the implementation of proper import and export controls as part of customs administration.

The Mission Statement of Revenue is:

> *'To serve the community by fairly and efficiently collecting taxes and duties and implementing Customs control.'*

Revenue has actively sought to simplify and enhance its service offering to taxpayers (in this paper referring to business taxpayers, individuals and any other person who pays taxes) and agents where applicable over the years through digital solutions such as:

- bringing processes that were previously paper based into digital formats, and
- increasing usage of digital data and analytical tools.

In doing so Ireland developed a reputation as a location where it is relatively easy to pay and file taxes.[1]

However, Revenue was not born digital. Developments in the tax administration space globally have typically been achieved in a piecemeal fashion, effectively building digital solutions on legacy foundations, with a view to keeping pace with exponential technological changes in the past 20 years. Although a lot of strides have been made, in terms of e-filing and analytics, the underlying filed return, often remains in essence a digital version of the original paper based form, preventing Revenue from fully leveraging the benefits arising from emerging technologies. Such benefits can likely not be realised without a full digital transformation of the tax administration as a whole.

What is digital transformation?

There is no single agreed upon definition of digital transformation. The majority, however, revolve around the use of digital technology and digital strategy to enhance an organisation by leveraging technological solutions to:

- build new business processes and systems, and

[1] Ireland was ranked first in the EU (and fourth worldwide) for ease of paying taxes for businesses in the 2020 PWC-World Bank Paying Taxes report.

- enhance the customer experiences and organisational culture[2][3][4].

The concept represents an evolution of the pre-existing concepts of:

- *Digit**al**isation:* which refers to improving existing processes by leveraging digital technologies. Although elements of processes improve, it is done in an incremental manner, while the wider process operates in the same way. An example in a tax context would include the introduction of e-filing of returns.
- *Digitisation:* which refers to the initial transition from analogue to digital, such as the transition of paper financial records to digital accounting or spreadsheet software or the scanning of paper returns to PDF format.

Digital transformation refers to a broader re-imaging of how things are done in light of technological change. For example, digitalisation enabled the introduction of e-filing by tax administrations, however, as part of a digital transformation a tax administration may query whether a return is still the best way to collect tax data in light of emerging technologies.

Successful private sector digital transformations can be measured by financial metrics such as efficiency gains, market share, profit, etc. Public sector transformations, however, must also factor in less tangible concepts such as public purpose and involves additional considerations with regard to:

- ownership and persistence of public data (especially identity),
- data security and privacy[5],
- digital service accessibility and digital literacy[6].

Revenue recently undertook an exercise to completely rethink and redesign the administration of employment taxes under the PAYE system, by leveraging advancements in technology to introduce a real-time reporting approach. This was a significant programme[7] as PAYE accounts for approximately one third of total Exchequer receipts.

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[2] Digital Transformation 101: The Only Guide You'll Ever Need
[3] We need to think about digital transformation
[4] What is digital transformation? Definition, examples & importance
[5] Although data concerns also arise in the private sector, the volume and sensitivities of the information collected and retained by the public sector make this of particular concern in this space.
[6] Observatory of Public Sector Information (OPSI) - Digital Transformation
[7] A programme is a project management term which refers to a group of related projects managed in a coordinated way to obtain benefits and control not available from managing them individually.

The programme streamlined processes and generated efficiencies in a manner that reduced the scope for error and omission in the administration of the tax by transforming the administration process into a by-product of an existing business activity (being payroll). Consequentially, the exercise has led to sustainable reductions in the cost of collection, ultimately creating sustainable increases in Exchequer revenue in a manner akin to a base broadening measure. The approach has also facilitated timelier analysis of PAYE data as well as timelier intervention where anomalies are noted.

The programme demonstrated the benefits that can be derived through digital transformation of the tax administration – benefits that could not have been achieved had the organisation decided to continue to build on existing foundations without properly considering how things can be done better.

2. The risk of standing still

Failure to keep pace with developments in tax administration can lead to sub-optimal levels of compliance and revenue collection.

Revenue has constantly sought to digitise elements of the tax administration process with a view to both making it easier and less costly for:

- taxpayers to be voluntarily compliant (referred to as the *service for compliance* pillar in Revenue's Statement of Strategy[8] (SOS)), and
- Revenue to identify and effectively confront non-compliance by taxpayers (referred to as the *confront non-compliance* pillar in Revenue's SOS)

Developments relating to e-filing, e-payment, online self-service tools and chat functions make it easier for taxpayers to understand and to meet their obligations. Additionally, the increasing amounts of digital data available for analysis has allowed Revenue to use advanced analytical techniques to design better risk assessment models to target non-compliance.

Although digitalisation has led to tangible improvements to the tax administration process, fundamentally these improvements represent a redesign of sub-elements of existing processes. As such, digitalisation cannot fully address certain structural limitations that have crept into the administration process of a number of taxes over time.

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[8] Statement of Strategy 2021 to 2023

The following limitations can likely only be managed by way of a significant re-imagining of the administration process of these taxes:

- *Reliance on voluntary compliance:* Although Revenue provides extensive support to taxpayers to help them meet their obligations, where taxpayer choices remain, non-compliance can arise, whether deliberate or not. Additionally, compliance can be costly for taxpayers, both in terms of monetary cost as well as effort. Identifying points where the compliance process can be automated (for example through pre-population of returns) can reduce a taxpayer's compliance burden in addition to making it more difficult **not** to comply.
- *Timing of reporting and payment:* Tax reporting and payment usually occurs long after the taxable event, typically at the end of a set assessable period. Only then is the information subject to verification, analysis and (where required) intervention. These delays create payment risks and increased collection costs that can adversely affect Exchequer returns.
- *Taxation is often a stand-alone activity:* Although PAYE modernisation and Covid support payments have demonstrated the advantages that can be leveraged from deeper linkages between Revenue, Department of Social Protection (DSP) and businesses, the application of a more joined up approach to the administration of government and agency services, including taxation, is still in its infancy. This is due to a number of factors, such as:
    - the development of government and agency systems over time in isolation,
    - limited ability to use identity credentials across Departments and agencies,
    - GDPR concerns for individuals, as well as broader concerns relating to taxpayer confidentiality, and
    - inertia in terms of the consideration of potential synergies and the steps required to achieve them.

  The lack of a joined-up approach creates an additional burden on the taxpayer as it ultimately requires them to duplicate the completion of certain credentials across multiple departments. Where certain data elements are shared, it can benefit both the taxpayer as they may become aware of additional entitlements as well as the administration who may become aware of fraud risks through analysing available whole of government data.

In addition, the underlying legal and administrative framework for many taxes, often reflects:

- the relevant prevailing economic conditions, and
- what was administratively feasible,

at the time the taxes were initially introduced. The administration process for many taxes has often not been re-imagined beyond the introduction of "e" solutions for the existing processes (i.e. e-filing, e-payment). As such:

- the administrative process of some taxes may not be flexible enough to adapt to significant changes in economic activity such as those relating to:
  - *the emergence and rapid growth of sharing and gig economy platforms* (such as Airbnb and Uber) which has led to more people taking on self-employed income streams in addition to their standard salaried employment or fully transitioning into self-employment,
  - *changing business models over the past few decades* which have seen businesses more likely to engage in complex or cross border transactions than would have been the case in the past, or
  - *technological changes in how business is done* which were not envisaged when the administration was originally designed e.g. the use of digital currencies for payment and/or investment, and
- significant administrative improvement may be possible by updating the underlying frameworks of some taxes to take account of the technological capabilities of the administration.

Furthermore, individuals and businesses increasingly expect seamless integration of technology with their day to day activities.

Digital transformations could act as a key lever in:

- mitigating against the current structural limitations of the tax administration,
- improving administrative efficiency, and
- providing a service more in line with customer expectations.

Such transformations would seek to integrate the taxing process with the taxable activity, effectively building compliance into the system (i.e. *compliance by design*) by integrating the tax process with natural taxpayer systems[9] where possible. This approach can facilitate:

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[9] This refers to enabling an individual or business taxpayer to fulfil their tax obligations as part of their day-to-day activities as opposed to having to engage in a specific interaction with Revenue such as via payroll in the case of PAYE modernisation

- the pre-population of returns in as far as possible or (in some cases) the removal of the requirement to complete and file a return entirely, as well as
- ensuring taxpayer balances are updated in real-time or immediate payment of any tax due where feasible.[10]

Due to the current pace of technological change and the wider societal and economic effects such change can cause, standing still in this space will exacerbate existing limitations and give space for further ones to appear. Ongoing modernisation therefore appears critical to both:

- the collection of the correct amount of tax in a timely manner on behalf of the State, and
- the continued success of Revenue with regard to the delivery of the best service possible to taxpayers.

3. International conversation – *Tax Administration 3.0*

The international conversation on the topic of tax administration in this space is moving in a similar direction to that in Ireland. In December 2020, the OECD's Forum on Tax Administration (FTA) released the paper *"Tax Administration 3.0: The Digital Transformation of Tax Administration."*

The paper:

- envisages how digital transformations could be leveraged to develop a better tax administration by developing more seamless administrative processes, and
- seeks to stimulate future discussions with regard to the digital transformation of tax administrations of OECD nations.

The FTA intend to follow up with a roadmap setting out priority targets to achieve digital transformation in 2021[11].

Tax Administration 3.0 seeks to develop ways to incorporate tax processes into the natural systems used by taxpayers to run their businesses, undertake transactions or communicate.

The 3.0 model also envisages greater data sharing between public bodies as well as with private platforms, in some cases allowing private actors to collect and transfer tax and payment details in real-time. The intent is to allow taxes to be paid, verified and even challenged in real-time, reducing

[10] Immediate payment of tax due may give rise to cashflow issues for businesses. In such cases, a real-time balance approach, with tax paid over a number of intervals (annually, quarterly etc.), may be more appropriate.

[11] Not yet released

the compliance burden with a view to giving taxpayers a better understanding of how their obligations have arisen.

The document sets out suggested steps that administrations can take in order to modernise their offering.

The adoption of PAYE Modernisation has made Ireland a world leader with regard to the administration of payroll taxes. Reaching this standard in other taxes will be much more challenging as such taxes often have:

- more complicated administrative processes, and
- more disparate natural systems

and will require a significant rethink of longstanding accepted practices in these spaces. For example, in the case of VAT, corporation tax or business income tax records, the manner in which such records are kept by taxpayers is often less standardised than payroll records, with the level of detail more likely to vary depending on the size, sector and of the and financial position of the business.

4. Modernisation in action – *PAYE Modernisation (PMod)*[12]

Employees pay Income tax, PRSI and USC on their employment income through the Pay as you Earn (PAYE) system. PAYE refers to an administrative method of collecting taxes where they are withheld from wages or salary by the employer and paid on to Revenue[13].

PAYE is the biggest component of Exchequer receipts, accounting for 33.51% in 2020 and 32.67% in 2019 and affecting 3.2 million active employments in 2020 and 2.8 million in 2019.

The administrative mechanism for PAYE was re-imagined and re-designed effective from 1 January 2019 so that it can integrate with the natural systems (in this case payroll software) of employers and employees.

The redesign programme was called PAYE Modernisation (PMod) and represents the most significant development to PAYE since its introduction in the 1960s.

[12] Figures in this section are from the Evaluation of Budget 2019 Compliance Measures prepared by Revenue
[13] PAYE is also applicable to pension income and can be withheld by pension providers prior to payment of pension.

PMod ensures that the reporting and payment of taxes on employment income is fully incorporated into the payroll process and software[14]. As such, employers now submit full PAYE details to Revenue each time payroll is processed (*real-time reporting*) thereby avoiding the need for separate reporting.

The main objective of the programme was to embed proper compliance into the administration of the tax (*compliance by design*) - ensuring the right tax is paid at the right time.

In conjunction with this update, systems and data improvements were also made to the process for taxing social welfare payments, building on pre-existing links between DSP and Revenue, enabling Revenue to more accurately ensure the correct amount of tax that should be collected on such payments,[15][16] which has led to an estimated increase in Exchequer returns of €12 million from social welfare payments alone[17].

In order to achieve this development, Revenue had to reconsider the relevant stakeholders they needed to engage with in order to facilitate a seamless transition. Key components of the stakeholder engagement program included:

- co-design workshops with stakeholders to optimise design and gain buy-in, and
- monthly stakeholder face-to-face updates.

Payroll software providers emerged as a key stakeholder as payroll platforms needed to remain customer friendly while simultaneously collecting and remitting all relevant information to Revenue.

The investment in PMod cost approximately €30m, which was spread out over multiple years, and is indicative of the type of cost involved in such a major modernisation project. However, reimagining how PAYE operated gave rise to many benefits for both the administration and the end users (in this case employers and employees) including:

- *Directly addressing systemic compliance issues with the administration of payroll taxes:* The previous system for administering PAYE placed significant reliance on employers to comply

[14] Where an employer does not have payroll software, they must file documentation with Revenue each time payroll is run.
[15] In the case of certain DSP payments (listed here), DSP do not provide payment details beyond a marker that the payment is made. The taxpayer is required to declare the payment in their Form 12 in order for the payment to be correctly taxed.
[16] Tax on welfare payments is usually collected by way of Revenue reducing an individual's tax credits rather than by way of application of PAYE. This is because DSP are subject to a PAYE exclusion order which grants authorisation to DSP to not withhold PAYE to taxable welfare payments.
[17] It is envisaged that further Exchequer improvements could be made in this space if the current process for taxing welfare payments was re-examined.

with their obligations. A failure by an employer to administer PAYE correctly, whether intended or not, both:

- creates additional work for the administration in terms of collecting outstanding taxes and charges,
- harms individuals who do not have direct responsibility for the initial filing of the return or payment (employees).

The introduction of a compliance by design processes facilitated correct application of the tax and allowed for some of the systemic failures arising from relying on voluntary compliance to be addressed. For example, employers would often seek to 'clean up' payroll tax details via the Form P35 (end of year PAYE return) at the year end, leading to delays in collection for the Exchequer. This facility was removed as part of the update, forcing a real-time approach, requiring corrections to be made via payroll as soon as they are noted[18].

- *More proactive approach to confronting non-compliance:* Where the compliance issue is not directly addressed through automation, a real-time approach facilitates a more proactive approach to tackling non-compliance, whether intended or not[19]. The administration no longer needs to wait for the annual return to be filed a year later in order to intervene. The receipt of data, on a real-time basis, has allowed inconsistencies to be noted much more quickly by Revenue, which has led to the initiation of data integrity exercises, real-time interventions and direct engagement with employers. This:
  - has allowed systemic issues with the operation of PAYE to be addressed, and
  - prevents the creation of new systemic issues.

  Conservative estimates indicate that there was a €40 million Exchequer increase from data integrity exercises and employer payroll related interventions in 2019 which can be attributed to PAYE reform.
- *Reduced administrative burden for employers:* Payroll taxes are no longer a process outside of the operation of payroll itself. An employer is no longer required to complete additional returns or forms in order to ensure their tax obligations are correct and complete, which represents a significant saving in terms of time, effort and cost.
- *Increased agency and transparency for employees:* How employees interact with their tax affairs was also re-imagined. Employees can view their tax details and update them in real-

[18] Where these corrections are not made in a timely manner, penalties may arise.
[19] It should be noted that this is only the case for taxpayers that engage at some level. Deliberate under-reporting or cash economy behaviours (nixers) may not be spotted unless there is a clear swing in results in a particular reporting period.

time using Revenue services. Records can be requested on demand. Ultimately these taxpayers will have a better understanding of the system, will feel a sense of ownership over their own data and can trust that it works. Employees can also flag anomalies, which indirectly facilitates employer compliance.

- *Timely Exchequer collection:* By requiring correct application of the tax in real-time, PMod facilitates correctly timed Exchequer payments. Although the payment cycle for payroll taxes itself did not change:
  - real-time filing of payroll submissions facilitates timely payment to the Exchequer of PAYE by removing the ability to *'clean up'* at the end via the annual return, and
  - real-time information allows Revenue to better and more quickly identify non-compliance, quantify unpaid tax liabilities and pursue outstanding liabilities, which has a positive effect on outstanding Exchequer amounts.

In addition to the specific amounts referred to above, there was an overall general surplus above target for PAYE receipts of €178 million in 2019 alone - conservatively, €12.6 million of this general amount has been attributed to the introduction of more efficient processes as part of the PMod programme.

Overall, the effective and efficient administration of PAYE led to overall Exchequer increases of *at least* €64.6 million in 2019 alone, with such increases likely being sustainable into the future as compliance has been designed into the process of payroll itself.

The establishment of the PMod framework also illustrated the potential benefits available from a whole of government approach to administration including:

- the delivery of welfare payments as illustrated during the Covid-19 pandemic, and
- the quality of statistics that can be collected and the research that can be carried out thereon.

Employers have broadly welcomed the changes, with the majority of respondents to a 2019 survey of employers agreeing that PMod makes the payroll tax process easier and faster.

Figure 1: Extracts from 2019 Survey of Employers

89% Agree PMod makes it easier to submit tax returns and make payments	78% Agree that PMod means payroll takes less time

Source: Revenue Survey of Employers 2019

4.1 Enhancements to the delivery of welfare during Covid-19

4.1.1 Wage subsidy schemes

The economic shock occurring on foot of the Covid-19 Pandemic required the development of income support mechanisms on an unprecedented scale. Revenue played a significant role by administering the following emergency welfare schemes:

- the Temporary Wage Subsidy Scheme (TWSS), followed by
- the Employment Wage Subsidy Scheme (EWSS).

The schemes operate by allowing employers to claim wage subsidies for their employees through payroll reporting. This enabled employees to receive welfare supports while retaining employment links so that businesses were capable of a speedy re-ignition.

The scheme also reduced the burden on DSP, allowing it to focus on other Covid-19 related payments.

Revenue's headline result for 2020 highlight the scale of income support provided through these income support schemes:

Figure 1: 2020 Wage Subsidy Data

Temporary Wage Subsidy Scheme	Employment Wage Subsidy Scheme
€2.8bn in subsidies	€1.42bn in subsidies
664,500 employees	443,100 employees
66,600 employers	39,800 employers

Source: Revenue Annual Report 2020

As TWSS was in the nature of an emergency payment, it was not originally taxed (although taxable) [20] and was not subject to standard employee PRSI (Class A)[21]. As the pandemic continued and supports were required on a more long-term basis, TWSS was reviewed and replaced with EWSS. Under EWSS employers are required operate income tax, Class A PRSI[22] and USC on the payments through the PAYE system, ensuring that an employee is not building a future tax burden and that the correct tax is being collected at the correct time.

What initially began as an emergency scheme to maintain staff on payroll in the short term has evolved into a potential framework for the payment of income support payments to people in employment, which can leverage:

- the integration of PAYE into the payroll process,
- data gathered by Revenue, and
- interaction points between Revenue and DSP and/or other relevant Departments

in order to ensure support payments are effectively targeted and taxed. Incorporating the payment of income supports into the real-time reporting regime also ensures that Revenue can partake in real-time compliance activities allowing any non-compliance to be identified and tackled quickly.

4.1.2 Means testing/'only once' principles

COVID-19 Pandemic Unemployment Payment (PUP) is a social welfare payment for employees and self-employed people who have lost their employment due to the COVID-19 public health emergency. The PUP was originally paid at a flat rate, but a tiered payment structure was introduced in October 2020 to facilitate different levels of payment depending on individual circumstances.

PUP demonstrates the advantages of a whole of government approach to administration. Linkages between Revenue and DSP enabled DSP to access Revenue's real-time payroll data for the purposes of determining the correct rates of PUP payable to each recipient. Mechanisms like this could be used to assist with means testing of other DSP payments.

[20] Tax due from TWSS will be collected, interest free, by reducing an employee's future tax credits from 2022 over a maximum period of 4 years.
[21] This may also affect the ability of recipients to claim insurable benefits in future periods in the short-term.
[22] Employer PRSI on EWSS subsidies remains at a reduced rate which will affect the social insurance fund.

4.2 Enhanced statistics and research

The move to PMod has facilitated the analysis of payroll data at a more granular level than was previously possible.

As noted above, the receipt of data on a real-time basis, has allowed inconsistencies to be noted much more quickly by Revenue, which has facilitated data integrity exercises and real-time interventions.

Additionally, prior to the introduction of PMod, Revenue provided the CSO with payroll data twice yearly in arrears[23], but now up-to-date information can now be provided monthly in more a readily analysable format. Both organisations are now able to use this data to gain a more detailed and up-to-date understanding of the characteristics of labour force in Ireland. Datasets can now be produced and analysed, on current trends with to regard topics such as:

- seasonality of employment
- pay frequency by sector
- levels of pension contributions made
- changes in employment and earnings

The ability to see such data on a current basis can assist with the formation of policy decisions, which was of particular relevance when analysing the impact of Covid-19 on the labour market.

It is also now easier to combine current payroll data with data from multiple sources in order to derive better insights that might shape policy. For example, the CSO compile data with regard to the characteristics of property purchasers in the State which analyses data such as where houses are bought, how much they cost and the income of the purchaser(s). Prior to PMod, the study could only examine prior year income against current year purchases (i.e. the data referenced 2019 purchases but the 2018 income of the buyer(s)). With PMod, current year incomes can now be used.

PMod data has also contributed to the preparation of more accurate estimates of macroeconomic indicators (such as quarterly estimates of GDP) by the CSO.

The introduction of real-time reporting across other taxheads would facilitate the creation of more timely statistics which can be used to inform policy decisions.

[23] i.e. 2017 payroll data would have been sent to the CSO in April 2018 (preliminary) and August 2018

5. Opportunities arising from modernisation of the Irish tax administration

Improvements in methods of tax administration generally create simpler, more efficient ways of:

- managing and collecting taxes for the administration, as well as
- paying and filing taxes for taxpayers and agents.

Taking the time to consider how:

- existing available data, and
- new data sources and/or methods of doing things,

could be utilised, especially in light of changing business models, can lead to significant operational efficiencies - for taxpayers, agents as well as the tax administration as a whole.

Processes relating to the collection and calculation of taxes represent a large volume, potentially the greatest volume, of transactions undertaken by the civil service. The use of automation and other technologies to complete these transactions can reduce errors, speed up services and drive down costs. A 2015 study by Deloitte Access Economics in Australia[24] indicated that digital transactions could be up to 16 times cheaper than phone interactions, 32 times cheaper than postal interactions and 42 times cheaper than in-person interactions.

PMod has demonstrated that modernisation can give rise to (what are expected to be) long-term stable increases in Exchequer receipts, similar to that of a base broadening measure.

Where taxpayer data is pre-populated from sources such as:

- employee payroll details or business accounting software packages,
- other government departments or agencies,
- tax authorities in other jurisdictions, or
- private actors (e.g. banks or sharing economy platforms such as AirBnB)

an opportunity arises to better explain to taxpayers how taxes and charges have arisen which facilitates understanding of the tax rules and acceptance of same. Taxpayers can make significant time savings, needing only to confirm the existing information as accurate before submission. This also results in a saving in review costs for the tax authority.

[24] Digital government transformation (Commissioned by Adobe)

Additionally, the tax authority may be in a better position to inform taxpayers of any entitlements arising, incorporating an element of reciprocity into the tax administration process.

Revenue is currently in the process of scoping out the options and timelines for modernising other taxheads – with a view to determining how they could benefit from a real-time reporting approach.[25][26]

5.1 Developments required

The incorporation of tax administration processes into taxpayers' natural systems and increasing levels of pre-population of returns gives rise to unique challenges. Although beneficial, this work fundamentally changes the role of the tax administration as well as the nature of its relationship with taxpayers and agents and requires extensive collaboration with public and private actors.

In order for the expansion of modernisation to be successful, and in line with international best practice, a number of core elements need to be developed, within Revenue, the Civil Service and society more generally to facilitate the creation of an agile and progressive administration. These include the following:

- New digital architecture/environment
- Digital identity
- Legislation
- Employee skillsets
- Taxpayer acceptance

Further details on the above are set out in this chapter with a view to providing a general understanding of the advancements necessary for modernisation to be successful.

5.1.1 New digital architecture/environment

As part of modernising the tax administration process, the infrastructure of the administration as a whole needs to be reconsidered in the context of the modern business environment. Failure to do so leads to digital solutions being built upon legacy foundations, which creates inefficiencies in terms of cost, productivity and effort for both administration employees and taxpayers.

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[25] Statement of Strategy 2021-2023
[26] Revenue Corporate Priorities 2021

Existing processes need to be reviewed - existing digitalised and legacy systems need to be re-thought and re-designed and potentially reprogrammed. If systems are reliant on older programming languages, it becomes difficult to leverage new and emerging technology such as AI, machine learning, cloud computing and the internet of things (IOT).

Exercises will need to be undertaken to ensure that relevant legacy data is preserved and properly incorporated into the new system, rather than the incurring the expense of a *"two-speed"* system where possible.

Given the pace of technological change, introducing a new system overly-reliant on current technologies and standards will only push the current administrative challenges further down the road. Solutions need to be agile and technological, economic and tax policy changes in the future need to be anticipated.

On foot of technological change, increasing amounts of data are being generated by individuals and businesses – as such challenge arises with regard to determining:

- what data is relevant,
- how to best collect data (and whether it possible to collect that data when the taxable event takes place), and
- how to utilise that data in a way that allows monitoring and interventions can take place in real-time.

This will involve a rethink of the taxpayer touchpoints with the administration.

Taxpayer touchpoints

These are the points where a taxpayer interacts with the tax system such as:

- online service provision
- paper filing facilities
- telephony services, and
- the Revenue website.

This can also include indirect interactions such as those:

- between an individual with MyGovID (as the registration information is shared with Revenue to create a myAccount), or
- between a taxpayer and another Department/agency in scenarios where information relevant to that interaction is required to be disclosed or shared with Revenue.

Indirect interactions may also occur through private actors, such as payroll software provides in the case of PAYE. Embedding touchpoints in such interactions facilitates tax *'just happening'* as an automatic consequence of an individual or business carrying out their day-to-day activities (i.e. as part of their *natural systems*). Tax administration 3.0 proposes that these interactions with private actors be further expanded on to facilitate further automation of the tax administration and bring the tax administration process closer to when the actual taxable event occurs.

Digital touchpoints are often developed using APIs (application programming interfaces) which allow can allow different pieces of software to communicate with one another.

Although Revenue does have a range of direct online facilities[27] for taxpayers that have recently been developed and/or revamped:

- modernisation of direct services beyond PAYE services, and
- the number of indirect interactions,

is limited. Further work is needed to facilitate increased automation of the administration process – with Revenue needing to:

- identify and form relationships with new stakeholders (such as private actors and software vendors) to develop direct and indirect touchpoints, as was the case in PAYE modernisation, and
- determine how best to conduct real-time interventions in scenarios where data is collected on a real-time basis.

5.1.2 Digital identity

In order for tax to become a more seamless process, the development of a robust digital identity (eID) system that allows the administration to interact with other parts of government, other governments (in the case-of cross border transactions) as well as approved private actors is key[28].

[27] Examples include:

- myAccount: provides online PAYE and local property tax (LPT) services
- myEnquiries: a secure online communication channel
- Revenue's Online Service (ROS): enables taxpayers and/or their agents to view their current position with Revenue for various taxes and levies, file tax returns and forms, and make payments for these taxes online

[28] Different organisations and actors do not necessarily need to have the same digital identity system - the key aim is that systems used by the taxpayer and the administration can interact with each other in a frictionless manner.

Fundamental elements of such a system include:

- *A "once-only" /whole of Government attitude to data collection*: this is an e-Government principle that aims to ensure that persons (being individuals and/or businesses) do not have to provide the same information to the State more than once. However, this only works best where services across government departments and agencies are harmonised in terms of the information that they keep and how service users are identified.
  This information can then be re-used and exchanged within State functions (such as for pre-populating tax returns or for means testing), subject to data protection, taxpayer confidentiality and explicit consent.
  In October 2017 Ireland signed up to the Tallinn Declaration on e-Government[29], affirming its commitment to the application of *once-only* principles in public administration.
- *Verification mechanisms to enable the sharing of data between public and private actors*: As mechanisms for integrating the payment and reporting of taxes into taxpayers' natural systems are developed, a eID system that:
  - allows taxpayers to delegate certain actions to third parties, and
  - can verify that such actions are taken on a taxpayer's behalf,

  becomes increasingly important.

The appetite for developing eID systems has grown since the COVID-19 pandemic as governments looked to deliver services remotely and at scale. The experience with wage subsidy schemes has highlighted the benefits of enabling private business to integrate with state systems on behalf of taxpayers.

Ireland launched a basic eID system, MyGovID, in 2017 to facilitate access to services from multiple government departments and agencies using with only one account. Given its initial premise, its utility as an eID system in a modernised tax administration is limited. This is because:

- it can only be used for a limited number of public services,[30] the majority of which require possession of a Public Services Card (PSC),[31] for access,
- it cannot be used as an eID with private services, and

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[29] A political commitment at EU level to work towards ensuring quality, user-centric digital public services for citizens and seamless cross-border public services for businesses.
[30] A full list of services that are compatible with MyGovID are available here.
[31] Although the PSC is not a national ID card, it holds identity data and can be used to verify identity and facilitate sharing of information where the proper legislation, data sharing agreements and user consent are in place.

- MyGovID is only available for use by individuals and not businesses[32].

In June 2021[33], the EU launched new proposals for a framework for a European EID. It is anticipated that this framework will facilitate making eID:

- available to all EU citizens, residents, and businesses who want to identify themselves or provide confirmation of certain information, and
- able to be used for both online and offline public and private services across the EU,

and will reduce the need for private identification methods and the unnecessary sharing of personal data. A European eID is not intended to replace national eIDs, rather to build on existing ID and extend its functionality and usability by means of a personal digital wallet.

Alongside these proposals, the Commission issued a Recommendation[34] inviting Member States to establish a common toolbox by September 2022 to assist the design of the European Identity Framework, which are ultimately expected to be incorporated in regulation[35]. The EU anticipate that this framework will enable at least 80% of EU citizens to use an eID solution to access key public services by 2030.

How these proposals will affect eID in Ireland is not yet known.

5.1.3 Legislation

Modernisation of the tax administration needs to be fully underpinned by legislation. Legislation has two key roles in this exercise:

- *Authorisation of the collection and use of data where relevant for the administration of tax:* In the absence of a proper legal basis for the collection and use of data, taxpayers or other relevant stakeholders have no obligation to comply with information or data sharing requests.
  Specific General Data Protection Regulations (GDPR) risks can also arise with regard to data requests from *individual* taxpayers. In the absence of any legislative basis for collecting, retaining or sharing an individual's data, any request to do so is effectively voluntary -

[32] There is currently no standardised digital Business ID in Ireland.
[33] Commission proposes a trusted and secure Digital Identity for all Europeans
[34] Recommendations are non-binding acts by which the European Union means to achieve certain ends without imposing a mandatory legal framework. Recommendations may relate to both policies of the EU as well as individual member states.
[35] As this relates to a non-tax measure, the regulations may be agreed by a qualified majority vote

however, due to the power imbalance between the State and the *individual*[36], a request by the State for information to an individual can never be voluntary in nature.[37] An individual's data can only be collected, retained and/or shared where:

- there is a clear legal basis for doing do,
- the individual is informed of how the data will be used, and
- the necessary safeguards and protections required to protect an individual's data under GDPR,

are in place. As such, it is vital that data protection impact assessments (DPAIs) are carried out to ensure that this is the case.

Public Services Card (PSC)

In 2011 the PSC was introduced as a pilot project to facilitate the payment of social welfare by providing a means by the recipient's identity could be authenticated.

In 2017 it was announced that:

- the card would be rolled out to other facilitate access to other public services outside of the welfare space, such as drivers licences and passports in the same manner, and
- ownership of the card would be required to order to access these services (both online and in person) due to the identity authentication it provided.

After this announcement, the Data Protection Commissioner started an investigation into the card in 2017, with an aim to examine the project's transparency and its compliance with existing data protection legislation.

In 2019, the DPC ruled that there was:

- no legal basis for public sector bodies outside of DSP to require the use of the card to access public services,
- insufficient transparency regarding what personal data is processed, and how it is treated, and
- no lawful basis for retaining the information submitted by individuals to DSP during the application process and that this data should be destroyed.

[36] The remit of GDPR is limited to living individuals
[37] Although not all parts of a tax return are prescribed, the request of such information is typically proportionate and necessary to facilitate the correct calculation of tax

The DPC ruling is currently subject to legal challenge by the Government and whether or not this ruling will be upheld by the courts is not yet known.

- *Shaping how a taxing measure will be operated and collected:* Failure to think about how a tax or a new measure will be administered as its underlying legislation is being drafted will give rise to unnecessary complexity in how the tax or measure is administered.
  For example, the Sugar Sweetened Drinks Tax (SSDT) introduced in Ireland in 2018 does not apply to returned or exported products, however due to how the legislation is designed, the tax must be paid on these products and then returned to the taxpayer one month later. The legislation as drafted does not allow these amounts to be offset against the taxable amount in real-time, which creates cash-flow implications for traders and unnecessary additional work for the administration who are required to collect money in one month only to immediately return it the next. Had administration and IT solutions been central to the legislative process, a more streamlined solution would likely have been designed.

5.1.4 New skill-sets

As tax administrations leverage developments in technology, transactional processing and verification work will increasingly be automated. As such, the required skills base of the administration as a whole will change. Although tax technical staff will continue to be required to deal with complex tax issues, staff who can think digitally will become key to the organisation as they will be required to rethink processes and design appropriate taxpayer touchpoints. Increasing numbers of staff will need to be recruited in areas such as data science, data protection, cybersecurity and artificial intelligence.

Although some of these staffing requirements can be addressed through recruitment on foot of turnover of staff (23.7% of staff have at least 35 years of service[38]), there is a change management challenge here for Revenue. Existing staff will need to be retrained and encouraged to embrace a new approach to administration, which will require significant time and monetary investment. The challenge will not be limited to Revenue as the automation of aspects of traditional compliance work will require tax agents to rethink how they can provide support to their clients and new stakeholders

[38] As at 31 December 2020

(such as data security experts, software platform providers) will have to become engaged in consultation processes.

Additionally, recruiting the necessary talent to lead this change may prove challenging for Revenue as these jobs are in high demand and the value proposition for potential employees in this space in the civil service has recently proven unattractive compared with the salaries and benefits available for similar roles in the private sector and in need of redesign[39].

5.1.5 Taxpayer acceptance

As part of the digital transformation of the tax administration process, it is important to ensure that people have faith in the system and are comfortable engaging with it.

Although data collection has a key role in tax administration, reliance on data sets can give rise to public concerns in respect of:

- privacy and data ownership as data can theoretically be pieced together to build a profile on an individual,
- data security, due to the risk of personal data being compromised, and
- data usage, and transparency as people want clarity on why certain data is needed.

Recent survey data indicates that just under half of all Irish people are not yet comfortable sharing their data online[40]. Additionally, cybersecurity attacks are a serious concern wherever personal data is involved due to the valuable and sensitive nature of the information and the ramifications of the recent HSE ransomware attack are unknown with respect to the public's trust in government systems.

However, in practice individuals and businesses do appear to have a degree of comfort engaging with government departments and agencies digitally. 71.3%[41] of correspondence received by Revenue is currently dealt with via Revenue's digital correspondence solution, MyEnquiries (up from 63.5% in 2019 pre-pandemic) with a further 15.7% of correspondence dealt with by email (up from 13.8% in 2019). 97.9% of Income Tax returns and 99.9% of Corporation Tax returns were filed online in 2019. Although this is a high level of online engagement, it should be noted that all Corporation Tax filers and the majority of Form 11 Income Tax filers are required to file online on a mandatory

[39] Government doubles cyber security director salary and promises 45 more staff
[40] Almost half of Irish people are concerned about sharing personal information online
[41] YTD figure for 2021

basis.[42] Of those who were not mandatorily required to file online in 2019 (Form 12 filers[43] (1,018,594 taxpayer units[44]) and a subset of Form 11 filers (totalling 2,694 taxpayer units in 2019)), 98.75% of Form 12 filers[45] and 58.91% of the subset of Form 11 filers opted to file online. The data indicates that moves to mandatory online filing do not generally appear to be resisted and engagement by non-mandatory filers is high. However, the rationale behind cohorts continuing to currently opt out of using digital channels should be examined to ensure their needs as taxpayers are satisfied in a modernised environment.

MyWelfare.ie processed over 2.9 million customer transactions in 2020, compared to 450,000 in 2019, which appears to be reflective of a willingness to engage with online public services.[46]

In scenarios where the State service is completely optional, engagement with public sector online service channels appears to be on the rise. In 2019, 41.09% of passport applications/renewals were made using Passport online, up from 13% in 2017. The number of drivers licence applications is increasing, but at a slower rate[47]. Just 23.5% of those that were eligible in 2020 opted to apply online. However, this engagement is a notable increase from 2018 where 8.25% of those that were eligible applied online,[48] indicative of a growing willingness to engage with online channels.

Additionally a 2019 survey by DSP indicated that 87% of respondents would be happy to see the PSC used to confirm their identity to access non-welfare public services[49][50]

[42] A paper return does persist to address any digital exclusion issues that may arise.
[43] Form 12 filers file online by submitting the relevant information via Revenue's myAccount portal.
[44] A taxpayer unit refers to an assessable grouping for tax purposes. A single person represents one taxpayer unit. A married couple who are subject to joint assessment represent one unit. A married couple who are subject to separate assessment represent two units.
[45] A PAYE taxpayer only needs to complete a Form 12 where they have additional income to declare or credits/reliefs to claim so this percentage could potentially overstate willingness to engage online. However, the total number of PAYE taxpayers who do not make such claims (and could potentially have difficulty engaging with the tax system whether online or via paper filing) appears proportionally low. 134,409 PAYE taxpayers were identified in 2019 as not having made any claim for credits/reliefs between 2015 and 2018. Where no claim is made in a 4 year period by a PAYE taxpayer, Revenue typically issues a letter to remind them of the time limits for claiming credits/reliefs in advance of the final deadline.
[46] It is noted that Covid support payments will have led to increased claims in this period. Additionally, as failure to claim a welfare payment may cause hardship, this may be an unreliable comparator. However, it is noted that paper form applications could still have been made.
[47] Unlike passports, an online driver's licence application requires the applicant to have a PSC.
[48] A greater number of individuals were eligible to apply for their licence online in 2020 than 2018, but this metric is looking at the % of the total group who were eligible and willing to apply online in a given period.
[49] Findings of the customer experience research of Public Services Card (PSC) holders
[50] For completeness, it should be noted the query asked about satisfaction as to whether the card may be used rather than satisfaction with mandatory use.

Outside of the public sector space, 56% of Irish consumers now make new investments online while 62% cite online resources such as online banking and investment websites, blogs, social media and financial news websites as their preferred means of seeking investment information[51].

Although online engagement appears to be on the rise, it remains vital to ensure the necessary time and capital are invested in the digital transformation process to ensure that:

- the public have confidence in the system and understand how their data is being used,
- legacy systems are modernised to prevent data being compromised, and
- the individual protections provided for in GDPR are at the heart of any decisions made in relation to an individual's data.

Also, as cybersecurity attacks are often the result of human error, it is imperative that administrations are mindful of their obligation to educate taxpayers about the key risks and safeguards as the level of digital communication increases.

5.1.6 Mechanisms to address digital exclusion

Although increasing numbers of people expect to be able to carry out their day to day activities online, some cohorts will likely never adapt to the digital environment. This may be down to any of the following factors:

- Additional compliance costs relating to acquiring internet access, digital devices or licences for compatible software-based touchpoints
- Generational factors
- Poor digital literacy
- General resistance to technology

Although some of these factors can be mitigated by way of:

- effective public outreach,
- education,
- inclusive customer experience, and
- effective customer service,

[51] CCPC research: consumers are 'going digital' with investments as majority invest online

fully removing digital exclusion may not be possible. Additionally, exclusion may occasionally affect wider audiences on a temporary basis – for example the recent HSE ransomware attack resulted in a loss of digital health related services has not yet been fully restored[52].

As such, a non-digital avenue may need to be retained to some degree, whether by way of manual filing, telephone-based or other support. What is important in selecting the mechanism is ensuring that people are afforded the opportunity to comply with their obligations in a manner compatible with the wider modernised administration.

There may be a temptation to retain existing paper systems for these individuals, but these elements should also be redesigned to leverage on updates to the updated digital architecture insofar as possible and with a view to making compliance easy. Individuals affected by digital exclusion are less likely to have access to agents or to have engaged in complex transactions. As such, investing the time in simplifying forms may facilitate compliance. When Revenue began introducing online solutions for employees to address their tax obligations, a simplified paper version of the employee tax return[53] was also introduced to facilitate the claiming of basic credits and expenses by individuals, which is helpful for those affected by digital exclusion.

5.2 Opportunities

Modernisation of the tax administration, in conjunction with the introduction of a whole of government approach to Government and agency administration, represents an opportunity for Revenue, and the wider civil service administration, to provide better quality customer service to taxpayers.

Taxpayers interactions with government administrations and agencies are more likely to take place at intervals that are stressful or busy such as:

- where a change to family status is taking place,
- where an individual is seeking to access welfare services,
- where a large asset is being purchased,
- when an individual has had to seek heath care,
- when a person is setting up a business or seeking access to grant funding,

[52] Over 95% of services and devices disrupted by HSE cyberattack fully restored
[53] Form 12S

and individuals in business as well as companies often have to balance a large volume of day-to-day administrative duties while also ensuring their tax obligations are up to date. Such obligations may cross several taxheads (for example a small company owner may have VAT, PAYE, Corporation Tax, Stamp Duty and Dividend Withholding Tax obligations in a single period).

Minimising a taxpayer's interactions with administrative services, while also ensuring the necessary tax administration steps are still taken, provides peace of mind and give a senses of reciprocity to the tax system by actively demonstrating to taxpayers that:

- their taxes and charges have contributed to the provision of quality services (in this case being the service provided by the tax administration service), and
- they will be notified of entitlements or such entitlements will be applied directly.

Additionally, moving the timing of the tax administration process closer to the taxable event can aid understanding as to how a charge arises. Concerns around buy-in from taxpayers with regard to modernisation can be mitigated by demonstrating that modernisation can lead to the provision of better service and that data will be managed appropriately.

Taking the death of a spouse as an example – if the registration of a death with the HSE was automatically shared with Revenue, with assessing details and credits automatically amended to reflect this change, this could prevent:

- an individual from having repeated interactions with civil service administrations at a difficult time, and
- a financial shock arising[54] if this data was not amended until a future claim is made.

Lessons can also be drawn from the modernisation exercises of other jurisdictions. For example although in Ireland, it is now possible to use PMod to acquire proof of income documentation at any time, Norway have taken this one step further. Where a taxpayer is seeking a loan, the taxpayer can authorise the Norwegian Tax Authority (on a single use basis) to provide the necessary income information directly to the lending bank. Loan applications can now be assessed in minutes which has led to significant cost savings – with the expected savings for taxpayers, businesses and government estimated to be between €600 million to 1.3 billion over a ten-year period.

Estonia has become a world leader in digital identity and digital public service. The Estonian national ID card provides digital access to all of Estonia's public services digital identity cards and can be stored on mobile phones. The average Estonian tax annual personal tax return only takes between 3-

[54] As prior period

5 minutes to complete, due to the level of pre-populated data. The country introduced a single shared platform, X-Road in 2001, to unite all government services and link all aspects of citizens' digital identity together from a single secure identity logon. These interactions significantly cut down on down on paper, time and cost. In 2016, it was estimated that 3 minutes of X-Road exchanges completed an amount of administrative work equivalent to approx. 240 hours of manual administration.[55]

In the business space, the UK are currently investigating ways in which business tax administration can be incorporated into the process of completing day-to-day financial records, with a programme called Making Tax Digital[56]. Certain VAT-registered businesses are now required to keep digital records and use software to submit their VAT returns. It is expected this process will adapted for income tax and corporation tax administration over the next few years. Separately, a number of European countries are at various stages of working out how VAT administration can be incorporated into the invoicing process.

Technological developments have created the opportunity for the tax administration to provide a seamless level of customer service in Ireland, where the appropriate legal, data and software relationships are implemented.

6. Broader Civil Service environment

This opportunity to modernise the tax administration is happening at a time when the wider civil service is in the process of determining the best way adopting a digital approach to administration.

The Civil Service Renewal 2030 plan launched in May 2021 and is built around themes that address the challenges of developing digital and whole of government solutions to administration and policy formulation such as data protection and security and the development of new employee skillsets. One of the key goals is to ensure that 90% of public services are available online through the use of *'integrated and customer-driven solutions.'*

This plan builds on a growing culture within the public service of supporting the sharing of data across Government Departments and Agencies to:

- improve service delivery,
- support better decision making,

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[55] X-Road introduction (longer version)
[56] Overview of Making Tax Digital

- increase the ease of access to services, and
- drive efficiencies.

and to adopt *'once only'* type principles with the necessary data management and protection protocol in place across the public service in order to improve customer service in a manner that protects customer data rights.

The approach has been legislated for in the Data Sharing and Governance Act 2019 which provides a general legal basis for public bodies to *share*[57][58] data for specified purposes in line with a once only approach and in a manner that preserves the individual's rights in a fashion consistent with GDPR. This Act has been commenced on an incremental basis with the final elements due to come into force in March 2022[59].

A number of projects and strategy initiatives have also been introduced in recent years which support a digitalised, 'once-only' open-data approach including the following[60]:

- National Data Infrastructure
- The Open Data Strategy
- Public Service ICT Strategy
- Public Service Data Strategy

7. Conclusion

The digital environment (supported by legislation) has created an opportunity to re-imagine the tax administration in a manner that can design out non-compliance and reduce the administrative burden for both taxpayers and Revenue - reducing errors, speeding up services and driving down costs.

As the conversation in both in the Irish civil service and the OECD has moved towards determining how digital solutions can provide better customer service and drive efficiency, now is the time for Revenue to apply the lessons learned from PMod and the pandemic to other taxheads.

[57] Whilst public sector bodies should be aware of the rules and requirements set out in the Act, these are in addition to the general principles required under data protection law.
[58] The Act itself does not provide a legal basis for *collecting* data
[59] Minister McGrath and Minister of State Smyth announce enactment of the Data Sharing and Governance Act 2019
[60] Our Public Service - Action 7: Optimise the use of data

Key to this process should be the taxpayer. The service should seek to create seamless interactions by:

- relying on taxpayers' natural systems, bringing tax administration closer to processes driving the actual taxable event, or
- ensuring that any question asked by the wider government administration only needs to be asked once.

The process cannot just focus on collection by Revenue, but needs to be designed in a way that provides genuine utility to the taxpayer to ensure an effective transition and improve tax morale[61].

Seizing the opportunities that exist with regard to real-time reporting will require significant capital and labour investment over the medium term. Irrespective of the initial upfront cost, modernisation should be considered in the same vein as a base-broadening measure as the initial investment can generate sustainable cost savings and allow for data anomalies to be identified more quickly, which can increase Exchequer receipts on an ongoing basis.

Additionally, reducing the cost of compliance, both in terms of money and time allows the taxpayer to focus on more economically productive activities.

Beyond this, the availability of tax data on a real-time basis facilitates the making of better more effective policy choices based on the most up-to-date information available.

8. Proposals the Commission may wish to look at – forward looking

[How far these proposals can or should be applied to the administration of welfare is something that Commission may wish to consider]

- How modernisation of the tax administration can facilitate the achievement of the broad policy aims set out in terms of reference.
- The administrative efficiencies and customer service improvements that can be derived from integrating (elements of) the tax and welfare systems, including what lessons can be drawn from the manner in which TWSS and EWSS were administered during the Covid-19 pandemic.

[61] Refers to the general opinion of paying taxes in a country and the level of satisfaction the services received in return

- Ways to ensure buy-in by all relevant stakeholders to modernisation of the tax administration including whether protocols for identifying and interacting with stakeholders are required.
- How to best ensure individuals with limited digital access are not left behind as the tax and welfare administrations embrace modernisation.
- Data protection and security challenges and solutions in this area.
- Whether guidelines are needed to ensure that tax policy measures and subsequent legislation are designed to be compatible with a digitalised framework.
- How international best practice examples can be applied in this space.

Appendix 1 Reading list

Revenue, Evaluation of Budget 2019 Compliance Measures, (2020)

OECD, Tax Administration 3.0, (2020)

Department of Public Expenditure and Reform, Civil Service Renewal 2030, (2021)