

Theme: Leveraging technology to enhance revenue administration

Topic 1: Facilitating, monitoring and enabling compliance through technology

1.0 Introduction

Information and Communication Technology (ICT) are reshaping the economy by creating new products, new services and new business models. Portal solutions, sharing economy, social media, mobile platforms, cloud computing and Big Data technologies are creating new opportunities for citizens as well as challenging the way tax administrations go about their work. ICT should be used extensively to improve the way to administer taxes, support taxpayers and encourage their participation.

All revenue authorities share a common interest in technological solutions that can improve their performance. The successful adoption of ICT will determine the future success of revenue authorities in managing compliance risks and meeting rising service expectations (OECD, 2016).

2.0 Current Systems

IRBM has been incorporating ICT in its day to day operation consistently for the past 20 years. The budget for ICT investment is increasing every year. In 2015, an amount of RM108,115,500 is budgeted for financing ICT Project which is 93.9% of the total capital expenditure for the year (IRBM, 2015 Annual Report).

Currently, IRBM has several systems in place for different purposes, some of the main systems are;

1. E-Filing / m-Filing - In Malaysia, IRBM has started e-filing since 2004. It has recorded a steady increase in number of users to use e-filing. For the year of assessment 2014, an amount of 3,575,740 e-filing users which is 87.47% of the total return received in the calendar year 2015 (LHDNM, 2016)(IRBM 2015 Annual Report). Furthermore, 3,714,654 e-filing users were received for the year of assessment 2015 (in the calendar year 2016), 89.18% of total return during the year. E-filing system has been upgraded and enhanced every year to ensure the user-friendliness of the system without sacrificing the security aspects of the system.
2. e-Payment - for payment via banking online transfer, credit card. Taxpayers can pay their taxes through the convenient of Internet Banking. The effective deployment of e-services (e-filing and e-payment) and other emerging

technologies should provide better services to taxpayers and lower operational cost to the tax administrator.

3. Tax Audit Compliance System (TACS) for audit case selection, IRBM started to use this system in 2009. Audit cases were selected using this system. This system is an advanced analytic tool that analyse the return form data and prioritize the high risk taxpayers to be audited. By using the system, a more targeted compliance enforcement activity such as Audit or Investigation could be carried out. Thus, optimum resources could be utilised more efficiently and effectively.

However, the system is not adequate for the future because the analysis only limited to data source from the tax returns only. Future planning is already in place to incorporate other data sources (internal and external) for more advance analytical purposes. Thus, IRBM will be able to prioritize more intelligently and eventually increase the tax compliance.

4. Data Warehouse - The Data Warehouse will be able to provide taxpayer information to assist the Compliance and Investigation Divisions to assess the taxpayer's income in relation to their assets acquired to identify possible tax noncompliance. All data from various sources will be gathered and treated in the data warehouse. The IT department will then consolidate data and present it into a system called Enterprise Taxpayer Profiles (ETP). The end users will be able to view a comprehensive taxpayer profiles from various sources. The taxpayer profile report in the ETP will help the auditor to gauge the tax non-compliance and help the auditor to prepare and plan before the actual audit.

Data gathering from inter-agencies was significantly increased with the help of latest technology such as eXtensible Business Reporting Language (XBRL). XBRL standard will be adopted by IRBM in the near future to conform to the international standard for exchanging business information. The data would become more structured and could easily be incorporated in the existing data warehouse infrastructure.

5. Revenue Management System (ReMS) - this system was developed in 2007 and deployed in 2008. In 2015, analytic tool was incorporated in the ReMS to analyse the payment records of the taxpayers in order to make a more informed decision to pursue the taxpayers to collect debt. ReMS is part of overall Data Warehouse system.

3.0 In the Pipeline

IRBM has taken a bold step in implementing the Big Data technology by upgrading current data warehouse storage system and analytical capabilities with a project

called “HASIL Power Data”. Currently, the project is at a stage of finalizing its user requirements specification. The system is targeted to be running by early 2018. The system is expected to integrate all the existing system data (internal and external sources) into a *Data Lake* and powered by advance analytical tools.

Some of the components of the HASIL Power Data are taxpayers profiling, digital economy, means test, Goods and Services Tax, Transfer pricing, withholding tax, forecasting for tax collection.

HASIL Power Data would enable IRBM;

- to understand and predict taxpayer compliance behaviour,
- to forecast tax collection more accurately,
- to have complete profile of taxpayers
- to learn about business trending, sentiments and perception
- to select more accurate case for audit based on holistic approach

4.0 Automatic Exchange of Information

In a borderless world that we are currently experiencing, Automatic Exchange of Information (AEOI) is a must have component in Tax Administrator. The increase of cross-border transactions which correspond with the increase of digital economy activities require an equivalent technological response from the tax administrator point of view. Among the benefits from the AEOI are;

1. Increase compliance and surveillance of cross border transaction
2. Increase cooperation between tax authorities to reduce double taxation and dispute resolution

IRBM plans to have IT solutions that would help in the implementations of its commitments in the inclusive framework. IRBM is committed to comply with Common Reporting Standard (CRS) for the exchange of financial and accounting information as well as to adhere with the Foreign Account Transaction Compliance Act (FATCA) of United States of America (USA). We have engaged with IT solution provider for software development of the CRS.

5.0 Major important sources of data

Banking information, payment gateway, asset ownership, return form are among the important sources of data. These data should be treated as a strategic asset to the tax authorities. However, all these data could only be useful to the tax authorities

with proper analytical tool. Therefore, the tax authorities should prioritize their IT investment towards enhancing analytics capabilities.

Tax authorities should be smarter, faster and more efficient at using data analytic tools to obtain, analyse and assess underpaid tax. In-depth reviews that once took from three months to two years to complete can now be done on a data-driven basis in a matter of days.

6.0 Challenges

Technologies present challenges to the tax authorities in incorporating the technology in its administration as well as to understand new way of doing business using the technology. Some of the challenges are;

- Certain legislation limit the power of tax authorities to access certain data.
- Budget constraint to acquire new technologies
- Manpower know-how - shortage of expertise such as data scientist
- Environmental constraint - changes and emergence of new technologies and abuse of technology usage by the underground economy (darkweb).

7.0 Conclusion

As with most new technologies, ICT is a double-edged sword. In the hands of taxpayers, it may make tax administration more difficult (especially in an open economy). In the hands of tax authorities, it may enable a more robust response to such challenge.

Tax authorities should further develop compliance approaches where taxpayers can obtain the certainty and convenience they need, and revenue bodies get the transparency they require to ensure effective management of the tax system. We must continue to monitor new and emergent technologies that have the potential to disrupt both the delivery of services to taxpayers and the more broader revenue collection management.

References

LHDNM. (2016). Annual Report 2015.

OECD. (2016). Technologies for better Tax Administration: A Practical Guide for Revenue Bodies. Paris. <https://doi.org/http://dx.doi.org/10.1787/9789264256439-en>