Topic 1: Facilitating, monitoring and enabling compliance through technology

There are vast opportunities for improving compliance through the use of technology. Increased digital presence creates an opportunity to deliver significant improvements in service delivery, countering fraud, dealing with informal and shadow economy.

In an environment of continuous technological innovation and business change, tax administrations around the world use information technology (IT) solutions to meet operational and strategic needs. Modern technology solutions for tax administrators may be divided into four main capabilities:

- A core tax system providing support, automation, workflow management, and authorisation management to tax administration functions.
- An e-tax system that provides information, education, and support to taxpayers and facilitates compliance and administration.
- A compliance performance system that deploys risk based procedures to detect and deter non-compliance and tax avoidance/evasion.
- A management information system that facilitates the collection and reporting of performance information to staff and management.

A core tax system providing support, automation, workflow management, and authorisation management to tax administration functions.

The Maltese tax administration has a fully automated system for the processing of the income tax returns submitted annually by taxpayers. Also the Tax Department has developed a system whereby information regarding the taxpayer is collected directly from different sources and in that way taxpayers who are employed, pensioners or students do not need to register and file a tax return with the Inland revenue Department. This non-filer concept has resulted in 70% of the natural person taxpayer population not required to file an income tax return. This principle has been extended also to social security, whereby taxpayers who have already applied for a benefit once are not required to apply again as benefits are issued automatically based on information retrieved automatically from income tax returns and the non-filers automated process. The automation process requires a concentrated effort by all IT staff. The processes required to run the annual

tax return cycle programmes are quite intensive since there are a considerable number of systems that need to be maintained to collect and process efficiently the information from third parties.

Correspondence received by the department is handled through software developed in-house which handles efficiently the workflow management and the authorisation according to the business processes. In 2016 The Electronic Communications legal notice was amended consolidating all services provided by Inland Revenue and the VAT Department enabling tax payers and tax practitioners to use the same authorisation and access mechanisms to access both IRD and VAT on-line services.

<u>An e-tax system that provides information, education, and support to taxpayers and facilitates compliance and administration.</u>

The Tax Administration has developed an on-line tax return for Companies. Each year an average of 96% of all corporate tax returns are endorsed by company auditors on-line. The Department has also developed a direct interface with the Registrar of Companies and in that way within minutes that a company is registered with the Registrar, an income tax number is generated automatically and made available to the authorised tax practitioners.

Employers are filing the end of year documents of their employees on-line. This enables timely process of the documents, reduces drastically errors as the system automatically checks the data being submitted and flags erroneous data making it easier for taxpayers and tax practitioners to be compliant.

A web based income tax declaration for individuals has also been developed which is a quick, easy, safe and secure way to prepare and submit. Since it is web based it does not require any downloading and it can be lodged on any range of devices (computer, Smartphone or tablet). The e-tax return pre-fills information provided by employers, banks, government agencies making it easier to complete the tax return. Notwithstanding, the individual taxpayer still prefers to submit the tax return manually as there is less than 10 per cent of the individual taxpayers who are required to file a return who are making use of the on-line service.

The Department has been working on a new initiative to provide online services to notaries for the filing of promise of sales and property transfers

forms. Early this year the online filing system has been made available to a restricted group to determine usability, confirm the requirements and make the necessary improvements before launching the product with all notaries.

The Inland Revenue receives payments over the internet for self assessment, settlement tax, tax arrears and provisional tax. The Department encourages the use of this service so that taxpayers need not call and queue at the department's cash office or send a cheque with the risk of incurring additional taxes if the payment does not arrive in time. Currently there are about 40 per cent of taxpayers who are using the on-line payments method but the percentage is on the increase year in year out.

The Inland Revenue portal provides information related to the department, its organisational setup, functions, tax law and Rules guidelines and international taxation.

<u>Compliance performance system that deploys risk based procedures to detect and deter non compliance and tax avoidance/evasion.</u>

In a report commissioned by the Ministry of Finance it has been identified that the tax departments lag behind where it concerns the use of IT to extrapolate useful date during audits and the performing of risk analysis procedures and a roadmap detailing the way forward has been drawn.

 The current complement of Vat inspectors are not IT savvy and do not possess the skills to carry out proper e-audits. The officers at the Tax Compliance Unit who perform the investigative audits are all qualified accountants by profession, however are not necessarily trained in performing e-audits. It has been identified that there is a requirement to recruit a team of system analysts who would be responsible to perform risk-analysis and identify areas where there could be more risk for tax avoidance and evasion.In this regard the Commissioner for Revenue will engage a select group of officers with a strong ICT background who would be specifically trained to work as E-Auditors. At the same time a team of system analysts will be recruited who will also be responsible to handle big data and exchange of information. Currently the Department has to focus all its efforts to provide information to requests received from other countries but is not in a position to extrapolate the useful data from the mountain of data received from other countries.

The software tools used in conducting audits are at this time Microsoft Excel 2016 and SAP Business Objects Edge v4.0 and there are a few officers within the Ministry who have the basic knowledge on how to extract reports and analyse data using

SAP Business Objects and audits are still conducted in the traditional manner using back duty exercises on spreadsheets.

Since POS systems often contain thousands of transactions it is impossible to audit without using Computer Assisted Audit Tools and Techniques (CAATTs). Such tools enable an auditor to import data from almost any format or file and carry out a wide range of analyses on it as well as identify unusual transactions that might suggest fraud or money laundering.

The tax administration has chosen IDEA as the software to use. The selection of the data files is not a straight forward procedure, particularly where a business uses an ECR or a Hybrid system, as opposed to a PC-based POS system. The use of such particular tool depends on the type of POS to be audited, i.e. whether stand alone for small business or POS for multi-outlet business. Cash registers would need to be audited in a different way from a POS. Further, it would also be required that every business with a turnover above a certain threshold would have to have a standard audit file for tax (SAF-T). SAF-T (Standard Audit File for Tax) is an international standard for electronic exchange of reliable accounting data from organisations to a national tax authority or external auditors. It is an XMl file generated by the same accounting package used by the business. The file is to be forwarded to the Department prior to the commencement of an e-audit.

A management information system that facilitates the collection and reporting of performance information to staff and management.

Tax Administration employees submit monthly performance reports to their respective heads of sections. Heads of sections draw up monthly reports of their section and submit to top management who in turn evaluate these reports during monthly management meetings. The Department's overall performance is measured and the necessary decision making is taken based on these reports. However, the Tax administration is well aware that the way forward is to implement a Management Information System (MIS) to automate the processes and extract more meaningful information. The introduction of an MIS would improve considerably the operational efficiency and overall objective management which would also affect the quality of the service given to the public.

The IT approach to-date of the Maltese tax departments has been to have their requirements custom-built mainly by the Malta Information Technology Agency (MITA) which is the central driver of the Government's Information and Communications Technology policy and programming requirements. These custom built solutions are good in that they accommodate specific and usually current business processes. They allow tax administrators more control over the solutions, leverage internal experience and systems. Experience has taught us that custom-built solutions are too dependent on internal expertise, which can be difficult to acquire and retain. Another drawback of custom built technology is that it is difficult for the tax administrators to continue innovating the software and keep up with technological innovations. The Malta Tax Administrators are conscious that the way forward is to diversify and start using also commercial off-the-shelf solutions (COTS). COTS solutions are ready, vendor made and transferable solutions designed to accommodate leading practice in business processes. They provide cutting-edge technology with potentially shorter implementation timelines, are rigorously tested, share development costs among users, and over time, can have a lower total cost of ownership than customised solutions. However, COTS can only be found for leading practices common among tax administrators worldwide and allow less control over functionality, support and maintenance as well as usually carry a cost for intellectual property rights.

Whatever the type of software, what is key is that the Tax Administration has a workforce that is well trained in information technology. Here again the use of technology driven training plays an important role. Notwithstanding, while technology provides the building blocks for employee training and development, it is in addition to, not a replacement for employee training and development processes. Building an employee training and development program requires the integration of instructor-led training, employee assessment and employee coaching.