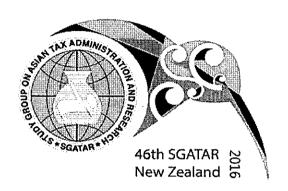# WG 3 – SME

46th SGATAR
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Overview

- Importance of small and medium enterprises (SMEs) to economic and social prosperity

- Developments in technology and the changing role of tax service providers (TSPs)

- Tax administration strategies to enhance compliance through TSPs

- Impact of technology on service design

- Researching the effectiveness of improved services

- Recommendations

Chairperson: **Ms Dwi Astuti - Indonesia**
Rapporteur: **Mr John De Gori - Australia**

The Changing Landscape

- SMEs' limited resources and tax knowledge lead to reliance on TSPs.

- TSPs ability to influence a variety of compliance outcomes;
    - Registration
    - Timely filing
    - Accurate reporting
    - Timely payment

- The changing role of TSPs from routine accounting and return preparation services to highly skilled advisors that provide expert advice.

Tax Administration Strategies for TSPs

- Investing in skilled and agile employees to facilitate building effective relationships with TSPs.

- An effective communication strategy that makes the best use of online tools and traditional communication methods.

- Leveraging the propensity for TSPs to be early adopters of technology.

Technology and Service Design

- Online registration and filing of returns

- Applications for smart devices that automate tax calculations

- Using technology to make paying tax easier

- Moving from an adversarial enforcement focus to a focus on facilitating voluntary compliance.

- Leveraging the benefits of 'big data' and 'advanced analytics'

- Interactive and automated systems e.g. call answering systems

Research

- OECD report identified needs and expectations:
    - Reduced compliance costs
    - Greater convenience to meet obligations
    - Real time service delivery
    - Customised and personalised services
    - "Any time, any place, any device" service delivery

- The benefits of research into service effectiveness

- Limited depth of research currently available

Recommendations (1)

- Recognise the benefits of engaging with SMEs electronically in relation to all aspects of the tax process.

- Leverage the availability of big data to reduce compliance costs for SMEs

- Consider whether to offer incentives to encourage adoption of digital services.

- Increase research into the effectiveness of new technology-based services

- Consider specific legislation to simplify tax rules for SMEs

- Work closely with all stakeholders when designing services (e.g. professional associations, software developers and other government agencies)

Recommendations (2)

- Share results of research between SGATAR members where appropriate

- Learn from the experiences of SGATAR members and continue to build on existing relationship

- Recognise the increased need for tax administrations to have a deep understanding of technological developments.

- Identify any barriers to increased technology use in service design

  - Reduce barriers
  - Eliminate barriers

- Consider options for appropriate use of social media for interactions with SMEs

Thank You

Report on Working Group 3: Changing Role of Tax Service Providers in Small and Medium Enterprise (SME) Tax Compliance.

Chairperson: Ms Dwi Astuti - Indonesia

Rapporteur: Mr John De Gori – Australia

Introduction

Small and medium enterprises (SMEs) are very important to the economic and social prosperity of SGATAR members. For many jurisdictions they account for over 90% of total businesses and employ a significant proportion of the population.

Developments in technology such as mobile computing, new software applications and advanced analytics combined with the exponential increase in electronic storage and transfer of information are changing the traditional role of tax service providers (TSPs). This changing environment presents significant opportunities for tax administrations to develop strategies to work with TSPs that will enhance the compliance of SME taxpayers.

Discussion Points and Observations

A consistent theme that arose throughout the discussions was that SGATAR members considered electronic platforms and new technology held significant benefits for tax administrations.

The Changing Landscape

SMEs often have more limited resources than larger businesses and may lack detailed knowledge of relevant tax laws. Consequently they often place reliance on TSPs to assist them to comply with their tax obligations. The role of TSPs puts them in a position to influence all aspects of SME compliance, specifically:

- Registration with the tax authority
- Timely filing of tax returns
- Accurate reporting of tax obligations
- Timely payment of tax due

A number of SGATAR jurisdictions reported that traditionally the central role of TSPs focused on preparing tax returns and assisting taxpayers to manually complete forms. More recently, technological developments have resulted in these functions becoming increasingly automated and standardised. At the same time, new technology has increased expectations for what is possible and SMEs are demanding more tailored expert advice on a real time basis from TSPs.

These trends have required TSPs to change their role from the provision of bookkeeping, data entry and other routine accounting services to becoming highly-skilled advisors. TSPs have needed to commit additional resources to keep up with the rapid development of technology.

Understanding the changing role of intermediaries due to developments in technology presents opportunities for tax administrations to influence the compliance of the SME population.

Tax Administration Strategies for Tax Service Providers

Building effective relationships with TSPs relies on tax administrations having capable and agile employees. The demand for expert advice from TSPs in turn creates demand for high levels of tax technical knowledge from tax officers. SGATAR members invest in their employees through a variety of methods including; general training, workshops and online training courses.

Given the significance of the advisory function, having an effective communication strategy with TSPs is important for tax administrations. Technology can be used to ensure that the right information is available and that it is readily accessible. Online guidebooks, tax training videos and publicly available technical opinions are some of the tools that can be made available.

In addition, traditional communication techniques, such as technical workshops, still have a role to play in communicating with TSPs.

TSPs often have a high uptake of new digital services. The propensity to adopt new technology can be leveraged by tax administrations by supporting the introduction of software that makes accounting and tax part of running the business, instead of an extra process for SME businesses.

Impact of New Technology and Business Changes on the Design of Services

New technology is impacting on how tax administrations design the services they offer to both TSPs and those SMEs who engage with them directly. SGATAR members reported a number of areas where technology has changed the design of services, these included:

- The ability for registrations and return filing to be completed online rather than by filling in paper based forms. Online registration and filing is an example of a development that reduces both compliance costs for taxpayers, and administration costs for the revenue authority. SGATAR members expressed a clear preference to engage with taxpayers electronically where possible.

- Applications for smart devices and online tools that automate tax calculations. These calculations are frequently complex and therefore the ability to provide tools that simplify them can directly improve compliance.

- SGATAR members identified that compliance can also be improved by making it easier for TSPs and SMEs to make tax payments. Specific initiatives included; expanding the number of organisations that can accept tax payments (e.g. banks) and increasing the number of payment options (e.g. online banking and ATM payments), providing an application that includes a 'Tax Calendar' to keep track of the dates payments are due and SMS notifications.

- Moving away from a focus on adversarial and enforcement based activities to service based activities that focus on facilitating voluntary compliance.

- Technology allows more data to be collected, allows it to be collected more rapidly and can also result in more accurate data. This 'Big Data' combined with advanced analytics reduces tax administration costs and increases the effectiveness of risk identification and computer based audits.

- Interactive telephone answering systems and automated enquiry services have the ability to reduce wait times for SMEs and lower administration costs. At the same time interactive websites give SMEs 24 hour access to online tools and information.

Using Research to Improve Service Design

A recent OECD report[1] of tax administrations and TSPs identified the following perceived needs and expectations regarding tax service delivery:

- Reduced tax compliance costs
- Greater convenience for SMEs to meet tax obligations
- Real time service delivery
- Customised and personalised services
- "Anytime, anyplace, any device" service delivery

There is a clear link between meeting these needs and expectations and improving SME compliance. SGATAR members acknowledge that in some areas the depth of research into the effectiveness of new services is more limited. Increased research activity therefore has the potential to yield valuable information that could feed back into the service design process.

Researching the effectiveness of services provided to TSPs and SMEs could inform tax administrations on whether the services provided are meeting the needs and expectations of SMEs as identified in the OECD report.

Recommendations

- Recognise the benefits of engaging with taxpayers electronically, not only for return filing but also in relation to other aspects of the tax process, for example online registration and e-payments.

- Encourage compliance by being more transparent with SME taxpayers and offering them multiple channels to engage with the revenue authority – this could include identifying any barriers to the increased use of technology when designing taxpayer services. An example could be geographical location of SMEs who are less technologically sophisticated.

- Leverage the availability of 'big data' to reduce compliance costs for SMEs, for example pre-populating sections of tax returns.

- Consider whether to offer incentives to encourage adoption of digital services. Examples of incentives might include filing extensions and more timely refunds.

- Tax administrations to consider conducting research into the effectiveness of new technology based services offered to TSPs and SMEs. Research findings to be made available and shared between SGATAR members where appropriate.

- Look for opportunities to learn from the experiences of other SGATAR members and continue to build on existing relationships.

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[1] OECD (2016), Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance, OECD Publishing, Paris.

- Consider whether specific legislation can be enacted for SMEs to simplify tax rules and reduce compliance costs.

- Tax administrations could further enhance the design of services by working cooperatively and collaboratively with other tax industry stakeholders, for example professional associations, tax software developers and other government agencies.

- Recognise the increased need for tax administrations to have a deeper understanding of technological developments such as 'big data', advanced analytics, cloud and mobile computing.

- Give consideration to appropriate ways of using social media for interactions with SME taxpayers.