

Article

Tax Administration 3.0: Is it possible to pass from a voluntary compliance model to one of compliance by design?



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ABSTRACT:

This article presents an analysis regarding the possible transition of the Tax Administration from a management model currently in force and known as "voluntary compliance" to a "compliance by design" model, also known as Tax Administration 3.0, as something that surpasses the current one, taking advantage of it. All the advantages that digitalisation brings. To do this, we first analyse the current voluntary compliance model's possible limitations and the proposed model's advantages. Then, the different reports and advances on Tax Administration 3.0 are presented following different documents published by the OECD Tax Administration Forum and recent status reports on the digitalisation of the TAs in the European Union. In the final section, some reflections on the topic are formulated.



PALABRAS CLAVES:

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RESUMEN:

Este artículo presenta un análisis respecto al posible paso de las AATT de un modelo de gestión hoy vigente y conocido como de “cumplimiento voluntario” a un modelo de “cumplimiento por diseño” también conocido como Administración Tributaria 3.0 como algo superador del actual aprovechando para ello todas las ventajas que la digitalización trae. Para ello se analizan en primer lugar las posibles limitaciones al actual modelo de cumplimiento voluntario y cuál serían las ventajas del modelo propuesto. Luego se presentan los distintos informes y avances en el tema de Administración Tributaria 3.0 conforme a distintos documentos publicados por el Foro de Administración Tributaria de la OCDE como así también recientes informes de estado de digitalización de las AATT en la Unión Europea. En el apartado final se formulan algunas reflexiones del tema.

MOTS CLES :

dd

RESUME :

Cet article présente une analyse concernant la transition possible des administrations fiscales d'un modèle de gestion actuellement en vigueur et connu sous le nom de « conformité volontaire » à un modèle de « conformité dès la conception », également connu sous le nom d'administration fiscale 3.0, comme quelque chose qui surpasse l'actuel, en prenant profiter de tous les avantages qu'apporte la numérisation. Pour ce faire, nous analysons d'abord les limites possibles du modèle actuel de conformité volontaire et quels seraient les avantages du modèle proposé. Ensuite, les différents rapports et avancées sur le thème de l'administration fiscale 3.0 sont présentés conformément aux différents documents publiés par le Forum de l'administration fiscale de l'OCDE, ainsi qu'aux récents rapports de situation sur la numérisation des TA dans l'Union européenne. Dans la dernière section, quelques réflexions sur le sujet sont formulées.

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1 INTRODUCTION

The digital transformation of the Tax Administrations (TTAA or TAs) is a process in constant evolution, and it is clear that we are witnessing a historic moment in the matter, which accelerated, in an unplanned and unforeseen manner, due to the isolation measures and closure of many of the facilities as a result of the coronavirus pandemic.

The digital transformation constantly changes the TAs' functions, structures, and how they manage and relate to citizens.

As [CARBAJO VASCO DOMINGO & COLLOSA ALFREDO \(2022\)](#) state, all international reports reflect the unstoppable process of digitalisation of the TAs. Furthermore, those TAs that have not systematically undertaken this transformation are usually the object of criticism, with international organisations and institutions urging a generalised change, framed, of course, in precise planning of such alteration and being the subject of debate whether this transformation can or should occur at the same time as other government units and in which units of the TAs it should be concentrated with greater intensity, since this last question depends on what model of relationship with taxpayers is intended, from the classic "voluntary compliance model" or the recently advocated by the OECD, "cooperative compliance model" (2013) as well as the emerging "compliance by design"

Therefore, the objective of this article is to formulate some ideas regarding the possible transition of the TAs from a management model currently in force and known as "voluntary compliance" to a "compliance by design" model, also known as Tax Administration 3.0 as something superior. of the current one, taking advantage of all the advantages that digitalisation brings.

The possible limitations to the current voluntary compliance model will be analysed first, and what the advantages of the proposed model would be.

Then, the different reports and advances on Tax Administration 3.0 are presented following different documents published by the OECD Tax Administration Forum and recent status reports on the digitalisation of the TAs in the European Union.

In the final section, some reflections on the topic are formulated.

2 VOLUNTARY COMPLIANCE. SOME LIMITATIONS TO THE MODEL.

As [DIAZ YUBERO FERNANDO; COLLOSA ALFREDO \(2022\)](#) say, the mission and central objective of the TAs is to achieve the correct application of the tax and customs system.

Most countries have defined a general strategy to achieve this: promoting "voluntary" compliance with tax obligations by citizens, based on two fundamental lines of action aimed at preventing fraud and avoidance:

- Minimise indirect costs associated with compliance with tax obligations by offering facilities, information and services. It is about making it easy for taxpayers who want to comply with their tax obligations. To achieve this, the entire AT must be oriented in that direction.
- Furthermore, while maximum facilities are given to those who want to comply, an effective control system is essential to detect, correct and sanction tax non-compliance through control actions.

Regarding the reason why the TAs adopt the strategy of voluntary compliance, there are undoubtedly many causes, but it is worth highlighting:

- a) The wide scope of modern tax systems that impose formal and substantial obligations on the vast majority of citizens implies a large workload for the TAs that cannot be adequately managed without more or less voluntary collaboration from broad social sectors.
- b) In most countries, the percentage of effective collection obtained due to administrative action against tax fraud barely represents 2/3% of total tax collection. The rest, around 97/98%, comes from the income made by taxpayers in self-assessments submitted voluntarily.
- c) If the TA's function is to provide tax services to society by applying the tax system, the cost of these services cannot be indifferent.

As stated in recent reports from the OECD Tax Administration Forum,¹ the current electronic tax model still depends largely on voluntary compliance for a significant proportion of the tax base.

However, it was said that this “voluntary compliance” model recognises that taxpayers make various decisions regarding the tax declaration, calculation and payment.

Nevertheless, these options are not only whether to comply or not comply but also include options regarding the effort made to comply correctly, including the costs of tax compliance.

Compliance costs are the costs incurred by taxpayers to comply with their tax obligations and include two components: on the one hand, the time spent to comply with tax obligations and, on the other, the payment of fees to their tax advisors.

Many of the problems related to tax compliance and compliance costs arise from the need for taxpayers to use different systems or processes to comply with tax obligations than those they use to operate their businesses.

In this sense, while the current ATTT services have undoubtedly helped alleviate some of the costs of compliance with tax obligations, the majority of the services they currently offer are generic and are still presented primarily as a “stand-alone” service.” provided through the TAs website, rather than integrated into the systems commonly used by taxpayers.

Due to all these limitations, it is suggested that the next stage of digitalisation is to further integrate the tax processes of the TAs with the systems that taxpayers use to conduct their businesses, manage their finances and interact with their clients and employees.

3 BACKGROUND OF THE COMPLIANCE BY DESIGN MODEL.

There is a familiar and long-standing example of this type of process, which is that of employers calculating and withholding income tax from their dependent employees, known as PAYE (pay as you earn) systems, where the results are very successful for all parties in the case of a tax compliance model by design.

Since 2014,² this model of tax compliance by design has been cited in an OECD document, where two different approaches were analysed.

¹OECD (2022), *Towards Seamless Taxation: Supporting SMEs to Get Tax Right*, OECD Forum on Tax Administration, OECD Publishing, Paris, <https://doi.org/10.1787/656c89ab-en>

²OECD (2014), *Tax Compliance by Design: Achieving Improved SME Tax Compliance by Adopting a System Perspective*, <https://www.oecd.org/tax/forum-on-taxadministration/publications-and-products/tax-compliance-by-design-9789264223219-en.htm>

The first approach involves the creation of a secure flow of information from the capture of commercial transactions to the final determination of the correct amount of taxes to pay, where the TAs would act as facilitators to guarantee that information security.

The other compliance-by-design approach is “centralised data”. It seeks to ensure that TAs themselves can capture as many commercial transactions from the source as possible to determine the correct amount of taxes to pay with minimal information from the taxpayer.

Here, the role of the TAs is more about managing the entire process, including the management and transformation of all the information itself, so the need for the taxpayer to provide information about its transactions is significantly reduced.

These two strategies are very different, but they can also be combined in various ways depending on the context and the desired future environment, allowing tax compliance to be much more automated and reducing costs for companies and TAs.

4 TAX ADMINISTRATION 3.0

In December 2020, the [Tax Administration Forum \(OECD\)](#) published a document titled “Tax Administration 3.0: The Digital Transformation of Tax Administration”, which invited us to rethink a new Tax Administration (TA) model.

The central characteristic of the proposed model called Tax Administration 3.0 (AT 3.0) is that the TA processes are increasingly integrated with the systems used by taxpayers to carry out their operations, which will allow the automation of many aspects of the TA and will bring Potentially significant reductions in both compliance and administration costs.

This is because the current model has certain limitations for taxpayers considering compliance costs and for the TAs with high administration costs.

Compliance costs are the costs incurred by taxpayers to comply with their tax obligations and include two components: on the one hand, the time spent to comply with tax obligations and, on the other, the payment of fees to their tax advisors.

As more interconnections are made between the different systems used by taxpayers to manage their businesses, carry out transactions and communicate, the more tax processes can be transferred to said systems, always subject to adequate guarantees, that is, respecting the rights and taxpayer guarantees.

The management models currently used by the TAs have structural limitations, particularly regarding the ability to substantially reduce fiscal gaps and make further reductions in compliance and administration costs.

Therefore, it is said that the new AT 3.0 model has the potential to improve compliance in an increasing number of areas as it seeks to bring taxation closer to taxable events and thus significantly reduce compliance costs.

The central elements of the new AT 3.0 model are the following:

- Integrated within the systems used by taxpayers – paying taxes will become a more seamless experience over time, integrated into daily life and business activities as much as possible. The TAs and private sector organisations will increasingly collaborate in creating innovative and joint services, adding value to the taxpayer, reducing administrative burdens and ensuring safe, transparent and highly reliable results.
- The TAs will no longer be the only data processing and tax determination point. Some digital platforms will collect taxes and transfer payments instead of data,

while others identify taxpayers and share results and relevant tax information instead of all transaction data. Public and private actors come together in collaborative governance models. Ultimately, government bodies oversee and ensure the quality, robustness and reliability of operations and results.

- Fiscal certainty is provided by acting in real-time. AT processes will increasingly be real-time to synchronise with business transactions. Artificial intelligence (AI) tools and algorithms will increasingly support decision-making.
- Taxpayers can verify and dispute taxes assessed, paid and owed in real time. It will be clear which rules have been applied to which data, reflecting facts and circumstances. This will allow taxpayers to challenge both automated and human decision-making. Citizens and companies can verify the origin and accuracy of the data used and grant or deny access to sources of personal data that are not required for tax purposes.
- Taxation is increasingly linked to other government services and functions, as well as those of private actors, using common models of interaction with citizens and companies. A digital identity will support a seamless connection between processes and data sources.
- A taxpayer-centric perspective will be the central point around which TA processes are structured and governed. The key success factor is interweaving human staff and skills with advanced analytics and decision support tools such as AI.

In chapter 4 of the document, six fundamental pillars of the future AT 3.0 are identified:

1. Digital identity supports the secure and unique identification of taxpayers and citizens, helping reduce compliance costs.
2. Taxpayer touchpoints: facilitating taxpayer engagement with AT processes where necessary (for example, through access to real-time support), increasingly looking for opportunities to put those touchpoints into the systems that are used by taxpayers, even in a more automated way.
3. Data management and standards: refers to the options about where data is processed for different tax functions (within the TA, within the systems used by taxpayers or both) and the quality, availability and reporting requirements of relevant data.
4. Tax Rules Management and Enforcement: Tax laws in manageable and verifiable formats to enable stakeholders to integrate tax rules within their systems.
5. New skills will be necessary for developing and operating a digitally transformed AT, with less frequent human intervention and increasing support of AI processes.
6. Governance frameworks: guide the development, implementation and connectivity of the other building blocks both within the TA and in cooperation with other national and international actors.

The intention of the discussion paper is not, of course, to suggest that this is the only possible outcome nor that AT becomes fully automated in the future.

Rather, it is to stimulate a debate about the best way to work collectively, inside and outside the TAs, on the basic components of a new way of administering taxes, more closely aligned with the systems used by taxpayers.

5 TAX ADMINISTRATION 3.0 – UPDATING THE ACTION PLAN.

In January 2022, [OECD](#) published a document titled “Tax Administration 3.0—an Action Plan Update.

It intends to support members of the Tax Administration Forum and other TAs in considering the path towards that vision of the future TA in terms of possible internal reforms and possible new international solutions.

These Actions can be broadly divided into three overlapping categories: maturity assessments, international solutions, and knowledge sharing.

a) Maturity evaluations

1. Action 1: Digital Transformation Maturity Model
2. Action 2: Inventory of Tax Technology Initiatives

b) International Solutions

3. Action 3: Digital identification
4. Action 4: Global e-invoicing solutions
5. Action 5: Include tax processes in collaborative and collaborative economy applications.

c) Capacity development and information exchange

6. Action 6: Support for the digitalisation of tax administrations in developing countries
7. Action 7: Knowledge Sharing Group

The document analyses these seven actions, their degree of progress and the next steps to follow.

In addition to continuing to advance the seven individual Actions, creating a broader strategic framework that covers both digitalisation and digital transformation is also planned.

This recognises that TAs are at different stages of their digitalisation journey, operate in different legal and social contexts and have different priorities.

While some administrations may wish to focus more on the building blocks of a seamless future TA, others may still see considerable value in further digitising existing processes and service offerings to reduce fiscal gaps and improve resilience.

Based on the results of Action 1 and Action 2, the proposed strategic framework will analyse and, where possible, quantify both the short-term digitalisation opportunities and the longer-term impacts of introducing the basic components of digital transformation as described in Tax Administration 3.0.

The intention is that this strategic framework will help inform both national decision-making and future collaborative projects, which may also involve other public and private sector partners.

6 TAX ADMINISTRATION 3.0. SMES AND A NEW MANAGEMENT MODEL.

The Tax Administration Forum published a very interesting document titled “Towards Seamless Taxation” ([OECD, 2022](#)), inviting us to rethink a new Tax Administration (TA) model that surpasses the current approach based on voluntary compliance.

Given the importance of SMEs for the economy, it is vital to reduce administrative burdens such as tax compliance to free up more of their capital for the entrepreneurship and development of countries.



The report examines how TAs are working to integrate their tax processes with the systems used by SME taxpayers and identifies key benefits and considerations by setting out concrete use cases.

Chapter 2 analyses how the TAs create new systems for SMEs through application programming interfaces (APIs) that allow taxpayers to interact more fluidly with the TAs' systems. These range from applications limited to particular processes to more holistic systems taxpayers can use to carry out all taxation.

An API is a set of software functions and procedures that allow applications to access another software solution's functions and/or data. Applications can send requests to this interface and receive responses.

Digitalisation opens up the interaction between taxpayers' ICT systems and TA's ICT systems, and a proven successful method of such interaction is through APIs.

For this reason, the report presents the multiple advantages of APIs, the strategic considerations for their implementation, and specific cases where they are already used.

The cases of Argentina are cited for electronic invoicing with an application called "My mobile biller", Australia with Single Touch Payroll (STP), where employee data is reported to state agencies, Finland where the API is aimed at facilitating software developers interaction with the AT (VERO), Hungary where a mobile application was created to allow the issuance of invoices, Mexico with mobile applications to facilitate taxpayer compliance, Peru where specific applications were developed for SMEs and entrepreneurs and Singapore where work is being done to facilitate compliance with corporate income tax by integrating taxpayer systems with those of the TA.

Chapter 3 analyses how TAs work on co-creating systems with SMEs and their service providers.

Collaboration between companies and the AATT is essential, with software providers and all organisations interacting with SMEs such as Banks, Chambers of Commerce, etc.

The big goal is to achieve mutually accepted data quality standards and formats to provide security and minimise burdens on all parties involved. This may require changes in legal regulations, such as accounting standards since the heart of the new approach is based on the exchange of reliable and verified data between SMEs and the TAs.

Specific cases highlight the use of electronic invoicing to reduce compliance costs, which can be a starting point for the proposed model. The cases of Australia, Chile and Portugal stand out.

Likewise, online cash registers and electronic accounting are presented as elements that can ensure the transition to the new model.

Chapter 4 analyses progress in the broader articulation of tax processes with SMEs in general. The SME ecosystem is very diverse, with relationships between banks, regulators and numerous parts of government. Aspects are described to work together with all these parties in the unification of systems to be used to exchange information in an agile and secure way between all the agents involved.

Many cases are presented of countries working with various intermediaries and service providers on this issue of unifying the systems to be used.

Chapter 5 offers some final thoughts on the path toward more effective taxation with lower tax compliance costs.

Achieving this vision will require the TAs to carry out many stages, so possible solutions are proposed to facilitate them. However, each AT begins its unique journey at different points, depending on its principles, experiences, systems and goals.

Regardless of the starting point, one of the most critical influences is the state of the Digital Transformation program within the AT. The changes that Digital Transformation can bring are central to the new opportunities in integrating taxes into the entrepreneurial ecosystem of SMEs.

The OECD Digital Transformation Maturity Model ³ can be a guide to identify future priorities or review existing progress, which can then inform necessary strategic discussions. This model can also help facilitate the exchange of knowledge and experiences between TAs.

However, not only the technical possibilities will determine the future and successful journey. Cooperation between TAs, SMEs and other interested parties is one of the cornerstones on the path towards more effective taxation with lower tax compliance costs.

Finally, two case studies in the Annexes contain more details on how the TAs have implemented some of the ideas in the report. The first is the case of the Netherlands, where Standard Business Reporting (SBR) is described, which is the Dutch national standard for the digital exchange of commercial reports, and the case of Chile with all the experience of the SII on the subject of pre-filing of declarations—sworn or draft VAT affidavits.

7. DIGITALISATION OF THE TAX ADMINISTRATIONS OF THE EUROPEAN UNION

In a very interesting document that analyses the digitalisation of the TAs of the European Union written by [OWENS, J., LAZAROV, I., OLIVEIRA COSTA, N. \(2021\)](#), it is concluded that due to the existing fiscal autonomy concerning digitalisation of the TAs, Member States develop technological solutions unilaterally and in parallel, except in the relatively limited areas of coordinated action of the Union, such as the exchange of certain types of tax and customs information.

National solutions developed by Member States perform similar tasks but are not necessarily compatible between Member States.

Therefore, it is noted that the lack of interoperability puts cross-border taxpayers at a disadvantage since their tax liability cannot be subjected to an automated evaluation due to the lack of structured real-time data equivalent to that collected at the national level.

Therefore, a certain level of intra-community coordination for the interoperability of Member States' national digitalisation efforts is desirable, especially in the context of achieving a single digital market.

Member States would also be interested in greater coordination due to expanding their tax bases with taxes based on accurate cross-border information in real-time.

The successful coordinated implementation of new technologies and process automation depends on two main factors: (i) standardised data and (ii) a sufficient level of harmonisation of the underlying rules.

Several legal challenges arise regarding digitalisation in the context of coordinated action at the EU level.

³ OECD (2021), *Digital Transformation Maturity Model*, OECD, <https://www.oecd.org/tax/forum-ontax-administration/publications-and-products/digital-transformation-maturity-model.ht>

These challenges relate to (i) the legal basis and the need to demonstrate obstacles to cross-border mobility or appreciable distortions of competition in the absence of harmonisation; (ii) the need to protect the rights of taxpayers, especially regarding the privacy of natural persons; (iii) the role of intermediaries such as banks, digital platforms or advisors in the provision of structured data that allows the automatic calculation of the tax obligation.

Finally, it is said that the EU can play a necessary but modest role in the digitalisation efforts of Member States by (i) taking coordinated measures at EU level to ensure the interoperability of the technological systems used, especially concerning standardisation of data collection and sharing; (ii) provide a common infrastructure for the automation of tax results in harmonised areas; (iii) assist the TA of Member States by issuing soft law instruments and providing the necessary framework for training and cooperation; (iv) provide regular updates to Member States on emerging technologies and their potential use in the tax field.

During the digitalisation process, the TAs must ensure that:

- Senior management understands the importance of data-driven approaches and communicates this regularly and effectively to staff.
- There is effective collaboration between data officers and administrative and execution specialists.
- There is a structured training program to support skills development in the areas defined by the competency profiles that cover key job streams.
- Databases have been inventoried, fields have been described, data owners have been identified, etc.
- Data quality is regularly assessed and improved, and a central repository with red flags for further improvement exists.
- Analysis and visualisation software is commonly used to analyse complaints, cases and investigation performance.
- The application unit has an effective partnership with frontline staff (i.e. AT and procurement staff) necessary to understand their data, reflect red flags, etc.
- Effective agreements have been established to share data with other agencies such as police, AT, procurement, financial intelligence units, etc.
- The information security strategy and control framework are established, legal risks (e.g., those related to GDPR) are well understood, and responsibilities are assigned and monitored.

7 FINAL THOUGHTS

The growing digitalisation of the contemporary economy and society, structural and accelerated by the pandemic, forces TAs, like companies and citizens, to digitalise when providing their services to citizens and to fulfil their obligations and functions.

Digitalisation is producing dizzying changes not only in the structures of the TAs but also in their main functions of collection, inspection, information and assistance, in internal and international information exchanges, and, of course, in the organisation of the work of the TAs own TAs.

It is clear that the change also occurs in the context in which they have to act, with new business models such as the digital economy, the tokenisation of the economy with various crypto-assets and the emergence of the metaverse, just a few topics.

The digital transformation led by modern technology, such as AI and Blockchain, is changing the ways of doing business and our lives in various aspects, and that is why I believe that countries and TAs will adapt their way of managing taxes to this.

The documents reviewed seem important to me, including an innovative proposal which is that the TA systems adapt to those used by taxpayers, seeking in this way to reduce compliance and administration costs as well as the issue of interoperability. of the systems used by the various TAs and also with the various Organisations within each country.

The analysed reports invite us to rethink how we can move forward from the tax compliance model to a compliance-by-design model that surpasses the current one, where the main objective is the reduction of compliance costs and system administration costs, achieving more efficiency and effectiveness for all parties involved.

Also very important is the document analysed regarding the digitalisation of the EU TAs, which highlights that a certain level of intra-community coordination is desirable for the interoperability of the national digitalisation efforts of the Member States, especially in the context of the achievement of a single digital market.

I am convinced that technology should further simplify taxes, not only the tax systems but how they are managed, and the documents analysed show ways to do so.

This digital transformation that seeks to simplify tax compliance costs must always be guided by respect for the rights and guarantees of taxpayers.

Not all countries and their TAs have the same degree of digitalisation, the same human and material resources, nor the same social reality of carrying out their management. However, perhaps one of the most important aspects of the documents analysed is to invite us to rethink a new AT model, which implies a paradigm shift from the current one.

At this point, the most important thing is that if the TAs focus on where they want to go and how they can get there, this will help them make better decisions regarding today's digitalisation processes.

Many existing documents and studies such as those mentioned highlight digitalisation's undeniable advantages due to its contribution to transparency, traceability, efficiency and effectiveness of all processes, which will undoubtedly result in a better quality of life for citizens.

Digital transformation is a new opportunity for countries, and those who commit to it can develop more quickly and avoid the inequalities that can be generated if it is not included as a state policy.

Today, more than ever, we must continue to advance cooperation and multilateralism at the international level, increasingly involving different actors from both the public and private sectors.

I warn that the digital transformation of the TAs should not be faced in isolation but within a process of each country in what is known as digital government.

In digital transformation processes, governments must put citizens at the centre of their actions and always seek to simplify taxes, reducing compliance costs for taxpayers and the tax system's administration costs.

Today, without a doubt, we are facing a unique opportunity to accelerate the pace towards digital governments, to rebuild trust by being more transparent and efficient, and to promote the smarter use of new technologies and data analysis.

In short, the digital transformation of the TAs should be approached holistically, redefining processes, orienting services to the citizen and, of course, establishing a strategy



that combines the citizen-centred approach with a more efficient, interconnected, collaborative model—adapted to social reality, such as the one proposed by the Tax Administration 3.0 model, for example.

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