Automation and the future of tax payment

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THE process of collecting tax and complying with tax laws is changing fast. New generation computer software, real time reporting, artificial intelligence and machine learning technologies are transforming the tax systems of economies around the world.

As a result, most countries have improved their tax assessment and collection systems considerably over the previous one year.

The ease and efficiency of paying taxes can be measured by the time spent on complying with the tax rules of economies.

Leading emerging countries such as China have improved this metric significantly. According to the report published by PwC and the World Bank Group—Paying Taxes—it took businesses about 142 hours to comply with tax obligations in China in 2017.

This was a significant improvement from 207 hours taken for this activity the previous year.

However, changes brought about in a tax system do not always improve efficiency in the short term.

For example, implementation of GST in India has resulted in some metrics shifting in a different direction from that expected.

According to the report Paying Taxes, although the revenue department implemented the new GST system in India by deploying modern technology, the average time taken to comply with the rules increased from 216 hours in 2016 t0 275 hours in 2017.

This instance, however, should be reviewed in combination with other parameters of this transformation journey, such as abolishment of disparate and multiple pre-existing tax systems by rolling out a single tax system for the entire country, which created opportunities to bring about enhanced efficiency in business.

A number of global trends, including demographic changes, a shift in economic power to emerging countries, climate change, urbanisation, and above all, technological advancement, could affect how governments will collect taxes in the future.

The best tax regimes are nimble and responsive to changes in the structure of their economies. The next few years are likely to test these attributes as significant disruptive forces emerge.

One of the most significant disruptions is expected to emanate from use of artificial intelligence (AI) and its effect on the labour market.

AI, including robotics, is likely to automate a large number of manual labour-intensive jobs in coming years.

However, countries that collect the bulk of their taxes from labour-intensive activities, such as taxes from individual incomes and services, are likely to witness a short-term decline or slower growth in their revenue collection.

While a knee-jerk and populist reaction would be to enact laws to prevent rollout of such technologies, economies would actually do better in the long term to adopt them, since they hold the potential for additional job creation, provided countries are nimble enough to train their workforce and make them ready for the future.

This calls for training of the public in general and of tax officials and taxpayers in particular.

The main role of tax authorities is to ensure compliance with tax laws.

How a tax authority interacts with taxpayers and tax officers affects the degree of voluntary compliance in a country and public perception of the efficiency of the tax authorities.

SNAPSHOTS - PAYING TAXES

Cities	Number of payments per year	Time required for compliance per year
Dhaka, Bangladesh	33 times	435 hours
Mumbai, India	13 times	278 hours
Shanghai, China	7 times	142 hours
New York City, USA	11 times	175 hours

SOURCE: DOING BUSINESS REPORT BY THE WORLD BANK GROUP; DATA CORRESPONDING TO YEAR 2017

Appropriately trained and skilled tax officers are more likely to interact professionally with taxpayers, and thereby enhance their satisfaction and compliance with tax rules.

According to the 'Doing Business' data collected by the World Bank Group, training conducted for tax officers or taxpayers is not systematic.

It has been found that only 35 percent of the tax authorities in the 157 countries surveyed conduct regular training for tax officers. In most cases, training is only conducted when a new ruling or tax law is enacted.

With technological advancement, training cannot remain an intermittent ruling-driven event and needs to be planned for major technological upgrades and automation of work.

For example, modern software based on techniques such as machine learning can analyse a diverse set of data as well as tax returns, and identify potential cases of tax evasion.

Such automated processes significantly improve coverage of tax assessment and the efficiency of tax assessing officers.

However, the officers need to be trained on using such sophisticated tools that require a far higher understanding of computer-assisted techniques than of traditional methods of assessment.

Only regular training on fast-evolving technologies can help a tax system reap the maximum benefits.

The usual way in which taxpayers receive information is from the tax authorities via tax rulings, for instance, in Bangladesh, the Tax Department organises events such as tax fairs to train taxpayers.

And with advances in technologies, paying taxes and submitting tax returns are fast becoming digital.

In many countries, taxpayers can now pay taxes online through interfaces with their banks and can also submit their tax returns online.

In some countries such as India, tax assessment proceedings are conducted on digital platforms, which eliminate the need for individuals to visit the tax office.

However, it is important to educate the taxpayers on new tools while rolling out.

Creating an ecosystem of authorised training providers is likely to improve the confidence of the taxpayers to use technology based tax systems effectively.

And by enabling taxpayers to interact with tax departments digitally would also improve their satisfaction with the services provided.

Bangladesh has been steadily increasing its tax collection over the past couple of years. Its National Board of Revenue offers several services over the internet to improve the speed and quality of its services.

The department also organises tax fairs to educate taxpayers and help them pay taxes according to mandated procedures. With additional training and technological enablement of tax officers, the revenue department can also improve its citizen-focused services further and increase tax collection in the country.

The writer is a partner at PwC. The views expressed here are personal.

STAR/FILE

People fill in tax returns on the opening day of a tax fair at GEC Convention Centre in Chattogram on November 13, 2018. One of the objectives of the event is to train taxpayers.

China could put reforms on hold to boost economy

AFP/FILE

The photo shows workers at a swimwear factory in China.

AFP, *Beijing*

PRESIDENT Xi Jinping hailed China's "reconstructive reforms" in a New Year speech, but the sorely needed changes could be put on ice in favour of averting a potentially devastating economic downturn.

The way ahead is further complicated by a volatile trade dispute with the United States that -- if unresolved -- will add to the burden of Beijing's policymakers as they seek to fuel an economy that is running out of steam.

Beijing has for years come under pressure to introduce much-needed reforms to the country's infrastructure and lumbering state-owned enterprises as part of a drive to tackle a burdensome debt mountain and transform its growth engine from investment and exports to domestic consumption.

But Gene Fang from ratings agency Moody's told AFP: "When trade-offs between reforms and growth arise, we expect that the priority will more often be given to supporting growth."

Ten years ago China unleashed the full power of its financial arsenal by introducing massive stimulus measures, which helped Beijing avert the worst of the financial crisis engulfing the rest of the world.

However, that helped sow the seeds of today's economic troubles, with debt at alarming levels and necessary economic reforms not addressed as leaders focused on maintaining stable growth and employment.

Now, with the global economy stuttering, a slowdown in key export markets is denting a crucial source of income while the country is also struggling with a plethora of structural problems such as an ageing -- and now shrinking -- population, a dwindling pool of rural workers, overcapacity and air pollution.

And then there is the trade war with the United States, which has magnified the problems while sending shudders through global markets.

"The Chinese economy is struggling, the debt mess is unresolved and the impact from the US tariffs has barely begun," said Bill Bishop, an expert on China, who added the Communist Party will do "everything it can to juice the economy" with "multiple forms of stimuli".

"Whether or not significant economic reforms will now also be forthcoming, and not just more promises, is the trillion-dollar question," he said.

Xi and US President Donald Trump may have agreed a temporary truce in their multi-billion-dollar stand-off -- and Beijing Friday announced face-to-face talks will begin next week -- but there is little optimism the row will be brought to an end any time soon.

In the absence of a breakthrough in current negotiations, "the US-China trade conflict will weigh on growth in China and on the wider Asia-Pacific region, via a slowdown in Chinese demand", according to analysts Oxford Economics.

The impact of the trade row came in to full view this week when Apple announced a shock cut in its revenue forecast for the December quarter blaming the steeper-than-expected "economic deceleration" in China and emerging markets and citing the China-US frictions.

Dollar cycle may be about to turn, supporting oil prices

JOHN KEMP *for Reuters*

THE US dollar has recently appreciated to its highest level in real terms since the start of 2017 and before that September 2003.

Dollar appreciation weighed on oil prices in 2018 as prices in some non-dollar currencies hit record levels earlier in the year and dampened consumption growth.

Yet there are signs that the dollar's rise may be coming to an end as trade tensions with China weigh and pressure to raise rates dissipates, lifting prospects for oil prices to recover.

For now, dollar strength has helped hold down US inflation even as unemployment has fallen to its lowest level in decades.

But it has contributed to a worsening trade deficit and cut the dollar value of overseas earnings of US-based companies.

The United States is currently running a mix of expansionary fiscal policy (tax cuts and increased spending on the military) and a less accommodative or contractionary financial policy (rising interest rates).

The consequence is an improvement in the trade-off between employment and inflation (internal balance) but a deterioration in the trade deficit (external balance).

Exchange rate movements have suppressed inflation despite the booming economy but at the cost of declining international competitiveness despite tariffs.

The strong dollar has posed a dilemma for the Federal Reserve: halting interest rates hikes runs the risk of pushing down the real exchange rate and pushing up inflation.

The Trump administration and the Federal Reserve are to some extent re-running the policy mix of the Reagan administration and the central bank under Paul Volcker in the 1980s.

The Reagan administration's tax cuts and defence build-up coupled with higher interest rates caused the dollar to surge and the trade deficit to soar.

The Reagan administration pressed trading partners to cut exports to the United States (especially cars, steel and electronics) and boost their currencies.

Eventually, the White House pushed the Fed to adopt a more accommodative policy, triggering the departure of the chairman.

It is worth noting the current US Trade Representative Robert Lighthizer was the deputy trade representative in the Reagan administration when it forced Japan to accept "voluntary export restraints" to curb its exports to the United States.

The administration went on to press the other major economies to appreciate their currencies and depreciate the dollar as part of the Plaza Accord in 1985.

The strong dollar of the early 1980s worsened the demand destruction and oversupply of oil in the early 1980s and contributed to the price crisis of 1985 and 1986.

Subsequent dollar depreciation likely helped steady oil prices in the second half of the 1980s, at least it did once Saudi Arabia's oil minister Ahmed Zaki Yamani was replaced and the kingdom abandoned netback pricing and its volume warfare strategy.

Just as Japan was the target for US policymakers in the 1980s complaining about unfair trading practices, China has become the target in the 2010s.

The experience of the fiscal expansion, strong dollar and trade deficits of the 1980s hold important lessons for the next two years and a possible roadmap.

The trade war between the United States and China has pushed both economies as well as their trading partners towards a slowdown or even a recession in 2019.

As economic growth slows, both countries are likely to become increasingly eager for a negotiated solution that kickstarts business activity and raises equity prices.

The worse the economic news becomes, the greater the pressure on both countries, particularly the United States which holds a presidential election in 2020, to reach a deal.

Lighthizer's involvement suggests any eventual deal with China (and deals with the European Union and other trading partners) will likely employ some combination of managed trade to reduce the deficit.

Voluntary export restraints, purchases of big ticket items such as aircraft and farm products, together with selective tariffs and quotas are likely to form part of the eventual deal.

US negotiators will also push for structural reforms on intellectual property, subsidies and state-owned enterprises, probably even harder than they did with Japan in the 1980s.

The Trump White House has already made its displeasure with the Fed over recent interest rate increases very clear.

Signs of a domestic slowdown will give the central bank an opportunity to re-examine the case for further rises, or even contemplate a cut, if policymakers wish to do so, without more pressure from the White House.

The White House has been vigilant over the strength of the dollar, pressing other trading partners not to depreciate their currencies further.

It is not clear whether the administration will try to repeat the Plaza Accord or include exchange rate conditions in any trade with China.

Even without a formal exchange rate agreement, an end to US interest rate increases could halt the currency's upward move and interest rate cuts would probably send it lower again as they did between 2009 and 2011.

REUTERS/FILE

A money changer counts US dollar banknotes at a currency exchange office in Turkey.