

OPTIMIZING STATE REVENUE THROUGH DIGITALIZATION FOR NATIONAL DEVELOPMENT: THE ROLE OF STAKEHOLDERS

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2022 IAA CONFERENCE

August 17, 2022

**Internal Audit Agency
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INTRODUCTION

- Digitalisation is transforming many aspects of our everyday lives, as well as how economies and societies function.
- The breadth and speed of the change brought about by the digital transformation raises a large number of public policy challenges.
- With the aid of smart devices, digital payments are growing in scale and significance and data has become the currency of the future.

INTRODUCTION

- Information and communications technology (ICT) has become part of the foundational infrastructure for businesses and society, evidenced in a heavy reliance on efficient and widely accessible online communication networks and services, data, software, and hardware.
- In this changing environment, the challenges for policymakers are complex.

INTRODUCTION

- For tax matters, this means that policy development and implementation must be designed to allow for the changing environment, while being sufficiently clear to provide the certainty and clarity that facilitates sustainable, long-term economic growth.
- The focus for optimizing State revenue is a two pronged one:
 - Optimization in collection
 - Optimization in expenditure

DEFICIENCY IN DOMESTIC REVENUE COLLECTION

- International Monetary Fund figures show that about half of all developing countries have tax-to-GDP ratios less than 15 percent, compared with an average of 34 percent in OECD countries.
- Many African countries fall well below 20 percent.
- According to Kwakye (2020) Ghana collects only 12-13% of its GDP in taxes. (13.5% in 2021).

DEFICIENCY IN DOMESTIC REVENUE COLLECTION

- This figure compares unfavourably with an average of over 25% for middle income countries and the performance of key African peers such as
 - Rwanda (15%),
 - Cote d'Ivoire (18%),
 - Kenya (18%),
 - South Africa (28%), and
 - Seychelles (32%)
- [OECD Revenue Statistics].

DEFICIENCY IN DOMESTIC REVENUE COLLECTION

- Ghana's tax effort also falls far short of the minimum threshold of 20% set under the proposed Eco currency system of the Economic Community of West African States (ECOWAS).
- Ghana's tax performance is low in spite of having relatively high personal income and corporate tax rates. (30% upper limit for PIT and 25% CIT; 35% for mining and petroleum sectors)

DEFICIENCY IN DOMESTIC REVENUE COLLECTION

- The problem, therefore, does not lie with our tax rates; it rather lies with the taxes that we fail to collect.
- To raise Ghana's tax effort to international standards, the problem of tax losses must be tackled head on.

DEFICIENCY IN DOMESTIC REVENUE COLLECTION

- Ghana has consistently had challenges with raising enough revenue to fund its expenditure.
- According to the Ghana Statistical Service (2020) and the Bank of Ghana (2018), tax revenues in Ghana do not match public expenditures.
- While government expenditure increased by 20% from 2017 to 2018, tax revenues grew by 17%.
- This is not because Ghanaians are not willing to pay taxes.

DEFICIENCY IN DOMESTIC REVENUE COLLECTION

- Research has shown that most Ghanaians endorse taxation and are even willing to pay more in taxes to support the country's development.
- The challenge has substantially been finding out the taxes owed and the inconvenience in paying same.
- The challenge with revenue mobilization was heightened even the more in the wake of the Covid-19 pandemic where businesses had and continue to take a hit.

USE OF REVENUE COLLECTED

- Studies have shown that, there is apathy in paying taxes because among others, taxpayers distrust the Government and how it uses taxes collected.
- According to (Tayler 2006; Kirchler et al. 2008; Fauvelle-Aymar 1999), tax compliance can be influenced by the extent that citizens trust their government).
- The belief or trust in political authorities, institutions, and social arrangements to be appropriate, proper, just and work for the common good is essential in the payment of taxes.

USE OF REVENUE COLLECTED

- Furthermore, the presence of government expenditures may motivate compliance.
- Governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner (Cowell and Gordon 1988; Levi 1988; Tilly 1992; Moore 2004; 1998).
- Alm et al. (1992) note that compliance increases with (perceptions of) the availability of public goods and services.

USE OF REVENUE COLLECTED

- Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (quid pro quo).
- In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government (Moore 2004).
- The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion.

USE OF REVENUE COLLECTED

- Although most taxpayers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (Richupan 1987).
- It is then reasonable to assume that a taxpayer's behaviour is affected by his/her satisfaction or lack of satisfaction with his/her terms of trade with the government.

THE TAX GAP

- One of the most efficient ways for policymakers to raise revenue is to close as much of the “**tax gap**” as possible.
- A tax gap is the difference between revenue actually collected and the potential revenue that could have been collected.
- According to Opoku and Tanaka (2020) “**the total corporate tax gap of Ghana was estimated to be 85.6 percent of potential tax revenue and was equivalent to 12.7 percent of GDP**”.

THE TAX GAP

- Excluding the manufacturing companies located in Tema, the free zone area, the estimated tax gap is 81.6 percent and 9.4 percent of potential corporate tax revenues and GDP, respectively.
- The corporate income tax gap is estimated to be at least 81.6 percent, the highest among the estimated tax gaps, followed by Value Added Tax (VAT) gap of 39.3 percent and Import duty tax gap of 32.5 percent.
- What is therefore needed is a system that shall encourage and facilitate compliance with tax administration by reducing the challenges significantly.

THE TAX GAP

- As indicated by H. E. the Vice President, Dr. Mahamudu Bawumia, at the launch of the Revenue Assurance and Compliance Enforcement (RACE) Initiative, (25th August 2021), although the government has been able to increase the percentage of the adult population with a TIN from 4% in 2016 to 86% today, the GRA still has the challenge as to how to convert the 86% into actual taxpayers, as that would be one sure way of closing the tax gap.
- Sieving through the 86% of those with TIN to identify those who should be paying tax may require the use of digital technologies the GRA may not have hence, the need for digitization.

THE TAX GAP

- The challenges of closing the tax gap by widening the tax net include:
 1. difficulty in accessing tax obligation information
 2. cash transactions with no trails
 3. large black economy
 4. tax evasion
 5. narrow tax base
 6. lack of transparency and integrity in tax administration
 7. corruption on the part of some tax officials and taxpayers

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- The payment of taxes is a constitutional duty, under Article 41(j) of the 1992 Constitution.
- Accordingly, with a labour force of about 13,701,717 in 2021 (according to the World Bank), and a tax paying population of about 2,364,348 (as at August 2021, according to the Hon Finance Minister), there is a wide disconnect between the citizenry and the performance of the Constitutional duty.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- In the 2021 budget, titled Economic Revitalization through Completion, Consolidation and Continuity, Ghana's Revenue shortfall amounted to GHC13.6 billion in 2020.
- This is indicative of the need to optimize all avenues, including digitization to boost domestic tax mobilization.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- The influence of the digital era on the everyday life and activities of people has caused the phenomenon of "digital disruption" which has significant implications on the organization and functioning of the economy.
- The digital age has therefore inevitably shaped how economies and businesses operate, thereby disrupting traditional business models.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- As an example, in Norway, it is reported that 96% of all payments are made digitally, and only 6% involve cash.
- Thus, more than 90% of the population of Norway make online payments and 80% do person to person payments, also digitally.
- In a tax administration, if 90% of the taxpayers make digital payments, it will mean much less of unpaid taxes and much more of tax revenue inflow into government coffers.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- **Australia** has “Alex”, a virtual tax assistant, which answers questions about general taxation.
- **Azerbaijan** has no less than 62 digital services for taxpayers, including e-declarations, e-chancellery, e-registration, e-audit, and mobile identification as well as social incentives to motivate people to voluntarily comply, with social network activity on Facebook, Twitter, and YouTube.
- **Brazil** has a system for businesses to e-file their accounting and tax records, allowing federal authorities to electronically exchange corporate income tax data.
- **Canada** allows for e-invoicing, though not legally required. Supporting tax documentation can thus be sent electronically, plus taxpayers can use a mobile app to access tax information and receive tax reminders.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- **China** has its State Administration of China undertaking digitalization as part of their “Internet + Tax” action plan with the goal to reduce compliance burden by providing “comprehensive eServices as a smarter tax authority”.
- **Columbia** started e-invoicing in 2019.
- **Estonia.** About 90% tax returns are done through e-filing through one-click return, where the taxpayer basically just needs to verify and submit because information has already been pre-filled as a service provided by the government, and receives a refund in 5 days. A single shared platform, X-Road, unites effectively all government services and links all aspects of citizens’ digital identity together from a single secure identity log-on.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- This, in turn, requires adaptations and changes to meet the trends of the time.
- Modern software solutions, online platforms and massive use of smart devices as well as the Internet enable quick and inexpensive implementation of business ideas.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- Tax authorities are not exempted from this trend.
- Digitalization of the national tax administration and tax procedures is therefore an imperative.
- This has already been envisaged by the tax laws which empower the Commissioner-General to operate an electronic document system and taxpayer accounts, under sections 26 and 50 of the Revenue Administration Act, 2016 (Act 915) for
 - electronic filing of documents
 - electronic service of documents
 - electronic payments by persons; and
 - the issuance of tax clearance certificates by electronic means.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- In order to curb the tax losses, it is important that the tax net is widened to incorporate as many eligible taxpayers as possible.
- By way of reforms, the Ghana Revenue Authority has rolled out technology to reach out to eligible taxpayers.
- As pointed out in the Afrobarometer survey of 2021, some people fail to pay taxes because of the inconvenience associated with the payment of taxes.

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- By its Cashless Policy, the GRA states that it

“is embarking on a massive digitization drive as part of the Transformation Agenda to make the Authority a world class revenue administration. The Authority is making a definite move towards a full end-to-end digital tax process where taxpayers can file and pay their taxes from any part of the world at any time. To this end the Commissioner-General has directed that GRA goes cashless”. (www.gra.gov.gh/cashless-policy/)

THE NEED TO OPTIMIZE RESOURCE MOBILIZATION

- The GRA further provides the “rationale to go cashless as follows, to:
 - digitize the economy and modernize payments to Government through a centralized system.
 - fulfil government’s goal of creating a cash-light economy.
 - improve ease of doing business
 - improve tax compliance”
- (www.gra.gov.gh/cashless-policy)

BENEFITS OF DIGITALIZATION

- The approach to improving the delivery of public services and to increase revenue is to minimize human contact as much as possible.
- One dynamic step the government needs to take to ensure maximum realisation of revenue mobilisation is the digitalization of our tax administration and the process of service delivery across many public institutions.

BENEFITS OF DIGITALIZATION

- According to Baisalbayeva et al.,(2018), these technological trends have the power to increase taxpayer satisfaction, empower tax agency employees, optimize operations and modernize services.
- This will enhance the capacity of tax authorities to get access to information in real-time to carry out their activities efficiently.
- Digitalization of the Ghanaian economy, likewise the tax administration will improve the tax system and enhance revenue collection.

BENEFITS OF DIGITALIZATION

- This will also mitigate the incidence of tax evasion in the country.
- If tax administrators can effectively analyze all the information they handle, they can provide better services and become more efficient.
- This is the promise and potential enabled by digital transformation.

BENEFITS OF DIGITALIZATION

- A proper digitized tax administration would lead to:
 1. A win-win situation among tax administrators and taxpayers.
 - For administrators, the use of “new technology” increases their motivation, makes them more productive and optimizes operations and spending.
 - For taxpayers, it enhances the number and types of taxpayer services, engaging citizens in new ways and leaving them more satisfied with their overall experience.

BENEFITS OF DIGITALIZATION

2. Available data / information: There would be enough data to inform policy decisions and analyze economic trends using data analytics tools.
 - Many digitization efforts will require that taxpayers submit information in a prescribed data format.
 - To achieve this, the efforts of software vendors shall be essential for input.
 - While the tax authority may provide software or a portal to aid with this, as the GRA has already developed and in use, in many cases third-party software will be needed.

BENEFITS OF DIGITALIZATION

3. Wide tax bracket: Many young adults, who happen to be the future of the country, spend at least a quarter of their day online, with instant messaging and social media which enables an “always-on lifestyle”. (OECD 2020).
- Consequently, in this era of social media, there would be an avenue for social media-based public to send out a broader message – a low-cost to educate taxpayers.
 - Additionally, due to the incidence of mobile phones and the mobile money platforms, taxpayers can be linked with the mobile money platform to facilitate and encourage payment thereby widening the tax bracket and facilitating payments, just as the GRA has instituted through its cashless policy via mobile money on *222# on all mobile networks, and needs to be commended.

BENEFITS OF DIGITALIZATION

4. While it would increase revenue within a less operation time, digitalization would also reduce operation cost and improve audits.
5. For the taxpayer, compliance becomes simplified and tax errors are prevented due to automation.
 - There would be records to ascertain assessments from the Revenue Authorities.

BENEFITS OF DIGITALIZATION

6. The availability of various platforms by software vendors, gives payment options and thereby tremendously accelerate the timing of tax reporting as well also encourage “e-audits”.
7. Compliance: Once the process is simplified and the bottlenecks are removed, compliance will be encouraged, thereby reducing tax evasion.

BENEFITS OF DIGITALIZATION

8. Furthermore, a digitized system enables the early detection of tax fraud since data from companies and their related parties are readily available, a great assistance to the Transfer Pricing Unit of the GRA in following up on TP Audits.
9. Reduce corruption: Other than increasing revenue, a fully digitized process would significantly cut down on the perceived corruption within the system, owing to the reduction, if not the elimination of face-to-face interactions with revenue officers. Consequently, saving the country much needed funds.
10. Finally, it would lead to transparency, which shall boost confidence in the system.

STAKEHOLDERS IN THE EFFORT TO DIGITIZE

The Taxpayer

- Digitization can be achieved by recognizing the various stakeholders and addressing the expectations of the system.
- It is from the taxpayer that tax revenues are generated hence mechanisms must be put in place to ensure the taxpayer's expectations are met.

STAKEHOLDERS IN THE EFFORT TO DIGITIZE

The Taxpayer

- The taxpayer usually views the process of tax filing as unnecessary and tedious.
- But imagine a world where paying taxes felt like using your favourite app; automatic, real-time responses, user friendly.
- A simple and yet convenient way of interacting with the system is what technology should offer the taxpayer through digitization.

STAKEHOLDERS IN THE EFFORT TO DIGITIZE

Tax Officers

- The analogue nature of tax administration fuels a lot of traffic during rush seasons thereby bringing pressure to bear on tax officials.
- With the appropriate digital platform, officials should not be overburdened.

STAKEHOLDERS IN THE EFFORT TO DIGITIZE

Government:

- Government is a major stakeholder in tax administration.
- All revenues are generated for the government.
- The government provides policy directions and funds tax administration.
- As earlier indicated, the benefits of digitizing accrue to government for the social benefit.

EFFORTS INTRODUCED THUS FAR

- Introduction of the Integrated Tax Application and Preparation System (iTaPS), which was replaced with the Ghana Integrated Tax Management and Information System (GITMIS)
- Training
- The Use of National Identification Numbers
- Modified Taxation
- Mobile Tax App

EFFORTS INTRODUCED THUS FAR

- Since January 2021, the Ghana Integrated Tax Management and Information System (GITMIS) is what has been deployed and in operation to replace TRIPS.
- GITMIS, among others
 - is a capable Tax Management System that captures all aspects of required and prevailing tax administration in Ghana.
 - makes use of data points captured in the system for easy decision making.
 - determines or predicts the Tax Compliance of taxpayers in a more targeted manner using the easily accessible data.

EFFORTS INTRODUCED THUS FAR

- GITMIS aims at
 - making tax paying easy for the taxpayers
 - making tax administration easy for the tax administrators
 - making tax transactions easy for the taxpayer
- From April to 18 September, 2021 (5 months), the GRA received about GHC6.5 billion through the online taxpayers portal.

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SUMMARY/RECOMMENDATIONS

- Pre-population of returns can provide substantial benefits, but requires extensive collaboration with third parties.
- Relationship with third-party information suppliers and software vendors are crucial in building a system that is efficient and provides value to the taxpayer.
- Simplicity drives success: the older and more complex a tax system is, the harder it will be to create an understandable and reliable digital equivalent.

SUMMARY/RECOMMENDATIONS

- Digital exclusion must not be ignored or underestimated; those that cannot or will not use digital methods must be properly considered and catered for.
- Proper legal support for digitization must be established – for example by including the legal status of digital records in court, the necessary powers to require digital filing and a legislative basis for digital identity.
- There are key factors which make different tax systems variously harder or easier to digitalize. For example, pre-existing universal filing, or high levels of tax morale, or a pressing need to crack down on the underground economy can all work in favour of digitization.

CONCLUSION

- Using digitalization to optimize revenue mobilization requires digitization of tax administration, which entails five elements:
 1. technologies,
 2. people,
 3. managing of tax risks,
 4. financial resources, and
 5. communication.

CONCLUSION

- In light of the pivotal role of taxation in the economy, a proper tax administration system is essential for growth and development.
- To achieve this, Ghana must adapt to the changing trends of the era.
- Digitalization of the tax administration system while it may come at a cost has benefits that outweigh the cost in optimizing state revenue for national development.

CONCLUSION

- This requires all stakeholders to play their respective roles effectively and efficiently.
- Hence, it is imperative for our economic growth that we digitalize our revenue administration and tax systems which will assist us, as a country to broaden the tax net and ensure that everyone contributes to the national kitty for the development of Mother Ghana.

**THANK YOU FOR THE
OPPORTUNITY AND
ATTENTION.**

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