



## Digital Government Strategies: Good Practices



### Portugal: IRS automático

The OECD Council adopted on 15 July 2014 the Recommendation on Digital Government Strategies. The Recommendation provides a set of 12 principles structured around 3 pillars. The OECD Secretariat has developed a Digital Government Policy Toolkit to support OECD member countries and non-member adhering countries with the implementation of the Recommendation. This practice was submitted by the government of Portugal to be considered as a good practice in the implementation of one or more of the principles contained in the Recommendation.

#### Description of the practice:

**Organisation:**

Agency for Administrative Modernization (AMA)

**Name of the practice:**

IRS automático – automatic filling and assessment of individual's income tax return

<http://www.portaldasfinancas.gov.pt/at/html/index.html>

#### **Description:**

The automatic filling and assessment of individual's income tax return enables the tax return to be delivered in a simple, convenient and timely manner, as it exempts the taxpayer from any interaction except the confirmation of the prefilled values.

The tax return is fully filled out by AT with the data gathered (income and expenses) from third parties information (employers, businesses, banks, etc.) and from the individual elements declared by the taxpayer in the previous year.

#### Results

In 2018, the volume of declarations (and subsequent assessments) handled under this initiative was 1 543 430, which made up to 30% of total IRS tax returns, an increase of 14 percentage points. These figures amounted to twice the volume of submitted tax returns via the automatic IRS, comparing to the previous year.

Building capacity for expanding the range of beneficiaries is the medium-term goal set for this initiative.



## Development

### **Implementation:**

The need to reduce the administrative burden on citizens and on businesses has been a driving force for modernization and improvement in the Portuguese public administration, along with the need to use technology wisely and to increase new capabilities to tackle larger amounts of data and to do it timely and efficiently.

Past initiatives led by the Tax and Customs Administration/ AT (such as the groundbreaking projects on electronic invoicing), on collaborative projects within the Portuguese public administration (such as the collection of master data) and on the approval of rules and laws that establish a single requirement of information from the citizen (then replicated to all other intervening public administration bodies) granted the opportunity for the simplification of declarative obligations. For a large number of taxpayers, the Tax Administration already gathers all the relevant information needed to fill out provisional tax returns and, therefore, to assess their taxable income. In 2016 the government and the administration decided to gradually start phasing out the obligation for submission of IRS tax returns. The chosen set of first beneficiaries were the taxpayers whose only sources of income were employment or pensions, with no dependents in their care and no deductions or other tax benefits, among other pre-established criteria.

In light of the results of that first experience, in 2018 the decision was made to go further and to remove from the range of beneficiaries the restrictions on having no dependents in their care and having no tax deductions derived from donations made.

It was thus decided to make the necessary legal adjustments, in internal proceedings and in information technologies in order to start shifting the burden from the taxpayer to the Tax Administration, making AT responsible for providing a provisional statement of income based on the data gathered, along with the corresponding provisional assessment of tax and the detail about the elements that supported the calculus of tax credits. After, the taxpayer has the option to accept and confirm the provisional statement or to submit, under normal terms, a tax return on an official form. The acceptance and confirmation of the provisional statement are considered to be tacit, if no action is undertaken by the taxpayer until the end of the deadline for submission under normal terms, which runs from April 1st to May 31st. The provisional statement becomes definitive and it is considered as submitted by the taxpayer for all legal aspects.

The development of information systems and software to support the provisional statements and assessments was made possible because there was a strategic investment in the simplification and enrichment of ancillary obligations (which provide the needed data on income) and with the mandatory communication of electronic invoicing (which provides the needed data on expenses eligible for tax credits). For eligible taxpayers, this saves time and prevents mistakes (by action or omission), when filling out income and gains tax returns.



It also contributes to the reduce litigation between the Tax Administration and taxpayers, by facilitating and promoting voluntary compliance.

In short, this innovation helps to achieve goals such as:

- Facilitating compliance with tax obligations;
- Providing a faster response to citizens;
- Increasing the quality of the services provided to taxpayers.

### **Partnerships:** Public Sector Organisations

The project was implemented by AT as part of its regular activities. Nevertheless, some of the prerequisites for this project are connected with several projects that AT develops or participate with other public bodies. E.g., the case of the Citizen Card project (the main source on personal identity data) and those of ancillary obligations projects, implemented in collaborative efforts with social security, financial supervision, healthcare, statistical supervision and others.

### **Lessons learned**

It is crucial to communicate clearly the changes the new frameworks and rules, and to monitor and manage the taxpayers' expectations, providing them a timely and relevant set of information and also standard replies to frequently asked questions. Technically, the test phase must be very thorough and must also be fast to identify and to tackle software mistakes that reach the implementation stage.

### **Challenges and Failures**

The complexity of the tax framework allows many variables to be considered in the tax assessment. As not all relevant data is reported to AT through third parties ancillary obligations, some eligibility criteria had to be met, obliging taxpayers excluded to submit a statement under normal terms. AT is actively working on other criteria, to accomplish the long-term objective of turning the submission of a tax return into a residual exception, leaving to AT the responsibility for gathering a full provisional income statement.

### **Conditions required**

In matters as complex and sensitive as taxation, it is a pre-requisite that the legal framework is clarified and that it is communicated to the general public well in advance of its' implementation so that few errors, complaints and litigation occur. The rules must be known by all potential beneficiaries and there must be a careful preparation of the response capacity of both IT and officials/services because a significant change of proceedings may induce an abnormal demand for information and/or services.



In initiatives that tend to relieve citizens from redundant efforts it is also critical to assure, in advance, that all the relevant information is gathered through other sources. It is essential to assure that the quality will not decrease from the change in the source of the data inputs.

### Replication

The innovation has the potential to be replicated in other areas of government, reducing the volume and complexity of declarative obligations imposed on individuals.

Also, as part of the indirect impacts of this initiative and those of other complementary projects, there is a goal, cross-cutting the entire Portuguese public administration, of reducing significantly the need for citizens to deliver to any service of the administration documents that were issued or information that was already gathered by another service of the administration. This fast and/or automatic sharing of information (always within the boundaries set by personal data protection regulations), will create suitable conditions for other services to, in turn, also disoblige citizens from having to submit information that the administration, as a whole, already has knowledge of.

### Innovation

The most disruptive aspect of this innovation is the shift of the burden, from the taxpayer to the Tax Administration. For those eligible under this initiative, the responsibility rests on AT to provide a provisional statement of income based on the data it has gathered (along with the corresponding provisional assessment of tax and the detail about the elements that supported the calculus of tax credits), instead of obliging the taxpayer to submit a tax return on an official form.

This kind of approach had already been implemented on several initiatives within the Portuguese public administration, but they focused on granting benefits or issuing official documents (in situations when all the relevant information was already available to public administration bodies) without a formal request. With this initiative, the administration seeks to greatly reduce the burden of administrative obligations, imposed on citizens, using the data already submitted by the citizen or by a third party.

### Additional information

The implementation started in 2017 regarding 2016's income and gains tax campaign. This phase was considered to be a prototype for the desired phasing out and the criteria set for establishing eligibility, covering the least complex tax frameworks.

Since the results were considered to be in line with expectations and no relevant constraints arose, the next phase was immediately set for the tax campaign regarding 2017's income and gains (which took place in the second quarter of 2018). This second phase enlarged substantially the range of beneficiaries with the inclusion of taxpayers who had dependents and/or were eligible for tax deductions derived from donations made.