

OECD FTA Workshop on Small and Medium Enterprises

Utrecht, 10th and 11th of February 2020
Summary of the presentations held at the workshop



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1 Introduction

Across the OECD, SMEs account for 99% of all firms, for about 60% of employment and between 50% and 60% of value added. SMEs are also a main driver of employment growth, especially in services, as well as for productivity growth in many regions and cities.¹ SMEs matter from a tax perspective as well, as they report the largest proportion of total taxable business income, with much of this being reported by micro-enterprises due to their sheer numbers.²

Against this background, tax administration officials from almost 40 countries came together in Utrecht (the Netherlands) on 11 and 12 February 2020, to participate in the OECD Forum on Tax Administration (FTA) Workshop on Small and Medium Enterprises (SMEs). The purpose of the workshop was to discuss tax administration strategies on how to enhance SME tax compliance and how to reduce SME's administrative burden. Over the two days, workshop participants shared innovative practices and presented a number of case studies. This document summarises the presentations held at the workshop.

The presentations were grouped into three sessions:

- **Tax administration's strategies towards SMEs:** To address the ever-evolving needs and expectations of taxpayers and to minimise non-compliance, tax administrations are developing strategies that give them a holistic view and deeper understanding of their taxpayers and their ecosystems. The SME sector is particularly relevant given its economic importance. In this session, administrations presented and discussed design considerations for SME strategies, including the development of strategic plans, their implementation as well as the understanding of their effectiveness.
- **Engaging with SMEs:** Engaging with taxpayers and other stakeholders allows tax administrations to gather insight into the needs and expectations of those affected by administrations' efforts to fulfil their role as principal government collection agencies. SMEs play an important role in this, as technology creates new business models and changes the way businesses operate. In addition, the large spectrum of businesses in this sector, ranging from one-person businesses to enterprises that have dedicated human resource departments, require a set of different approaches. On the way to a system where tax becomes an integrated part of daily life and doing business, thus fundamentally changing taxpayer engagement, tax administrations have to focus on the steps that can be taken now without disrupting the system and current tax environment. Presentations held in this session focused on those incremental changes.
- **Towards seamless taxation of SMEs:** Digital developments will likely have a significant impact on efforts for reducing the cost of administering the tax system as well as reducing the taxpayer compliance cost. Further, the digital disruption will likely improve efficiencies in tax administration processes, including return filing and tax collection. While the previous session focused on the incremental changes that can be made to improve compliance and reduce burdens, presentations

¹ OECD (2019), OECD SME and Entrepreneurship Outlook 2019, OECD Publishing, Paris, <https://doi.org/10.1787/34907e9c-en>.

² OECD (2015), Taxation of SMEs in OECD and G20 Countries, OECD Tax Policy Studies, No. 23, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264243507-en>.

under this session looked at solutions that integrate tax affairs in the regular business operations, so called “seamless taxation” solutions.

2 Tax administration's strategies towards SMEs

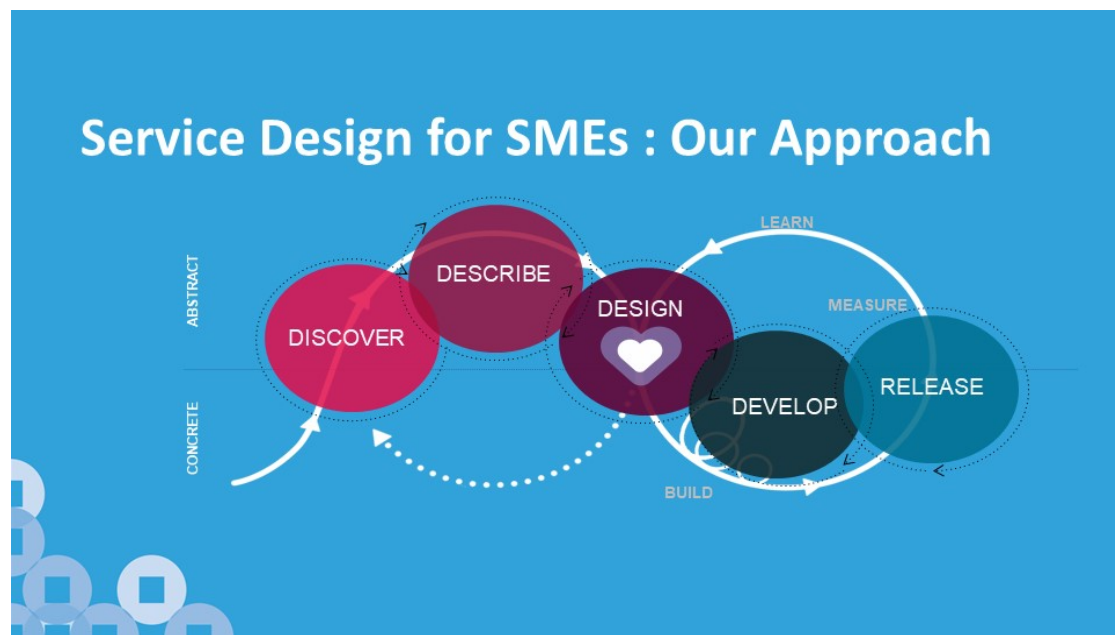
2.1. Singapore

Within the Inland Revenue Authority of Singapore (IRAS), the main priorities are to anticipate the needs of the taxpayers and co-create with them the most suitable approach to undertake; to connect 100% digitally; to use data intelligently, gaining insights for smarter decision-making; and to prepare the workforce to a fast changing environment. IRAS calls this approach “LEAD”, which means Leveraging Analytics, Design and Digitalisation.

Applying the LEAD approach towards SMEs has resulted in the development of the Service Design Project (SDP), the main characteristic of which are that it is completely taxpayer centred and focused on co-designed solutions.. The SDP has five steps, ranging from understanding businesses' needs to the release of new services.

The first step has been to understand the small businesses' environment though conducting 45 in-depth interviews with business owners, tax intermediaries and other relevant stakeholders. In order to talk with business not available for the interviews, IRAS officials went to markets, town and shopping centres to meet with business owners and their employees. Thank to the information gathered, IRAS enhanced their understanding of how taxpayer mind-sets manifest in different behaviours. In the first phase a “game” was set up involving over 70 participants from small businesses across 2 days. Its aim was to co-design the approach the tax authority should take with taxpayers. The main outcome was recognition of the importance of providing support at following the start-up of a small business so that they are better enabled to use digital tools to grow their business and achieve greater productivity.

The concrete outcomes of the co-design phase have been three tools customised for different taxpayer types. The first and the second were the New Company Start-Up Kit and the new Sole-Proprietorship and Partnership Start-Up Kit, which provided taxpayers with a tailored timeline showing first filing obligations as well as links to Enterprise Singapore's (ESG) website for information on industry insights and updates on grants and services to enhance business efficiency. The third outcome was the GST Registration Calculator, an interactive digital guide that determines if a business's sources of income should be included as taxable turnover to arrive at its GST registration liability. Finally, the last important step has been the release of the packages through multiple digitally connecting communication channels.

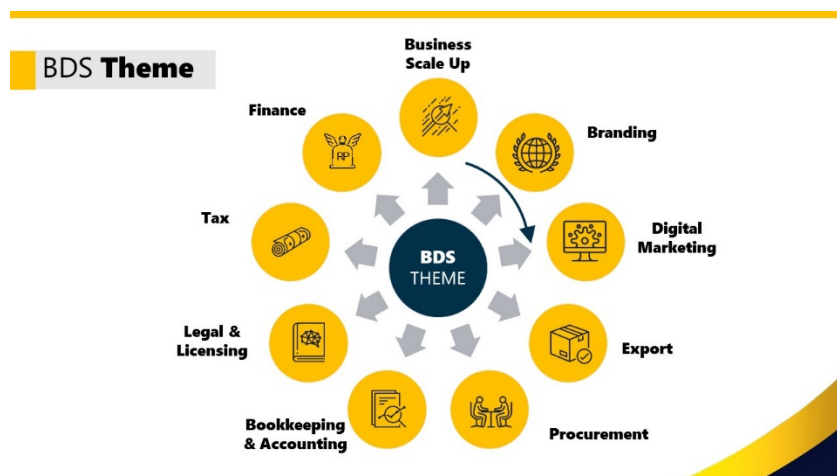


2.2. Indonesia

The Indonesian Directorate General of Taxes has implemented a Business Development Service (BDS), which includes coaching for setting up businesses and supervision strategies for SMEs taxpayers. Its aim is to encourage the development of businesses based on increasing awareness, engagement and compliance with taxes.

The activities include the simplification of the tax filing process and the coaching of businesses to develop an expertise on core concepts such as tax obligations, branding, digital marketing, exports, bookkeeping and accounting, etc.

The Directorate General of Taxes ensured the effectiveness of the programme though acting both independently, though printing campaign posters and conducting tax classes for the SMEs community at the tax offices, and co-ordinating with other domestic agencies to give bookkeeping and accounting classes and training on digital marketing. In order to help businesses to scale up as well as to improve tax compliance, the administration set up online chat groups.



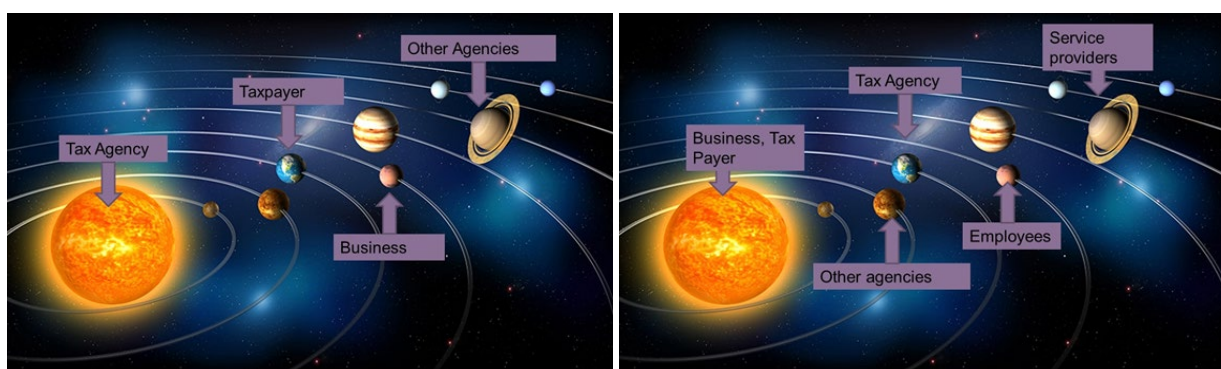
3 Engaging with SMEs

3.1. Sweden

The Swedish Tax Agency (STA) focused on a specific example of a one-stop shop. The STA described how several domestic agencies cooperate to bring together information and services to make it easier for owners to run their business. A website has been developed which is jointly managed by 13 national authorities plus some regional bodies. Everything is centred around the intended users: entrepreneurs and other SMEs. The services are developed for them and it is their needs that all agencies are aiming to address. “We need to be where the customers are.”

The STA emphasised the importance of looking differently at the taxpayer universe. Until now, the conceptual model often appears to be the tax agency sitting in the centre setting the conditions for how businesses should interact with them.

In the new model, everything revolves around the businesses. The focal point needs to be the taxpayers themselves, their needs and their everyday requirements for doing business in a smooth way.



3.2. Ireland

The approach of the Revenue Commissioners (RC) Office of Ireland on how to engage SMEs is based on providing services to support compliance and confronting non-compliance.

The RC is divided in five operational divisions (OD), each one dedicated to a segment of the taxpayer population. Every OD is responsible for the delivery of service, compliance and audit functions concerning that segment.

The RC surveys SMEs in order to better understand their needs, to improve the service and hence, to

Engagement with Tax Agents

TALC reviews and makes recommendations to achieve more effective and efficient administration.

The members of TALC are:

- Revenue Commissioners
- Irish Tax Institute
- Consultative Committee of Accountancy Bodies
- Law Society

support timely voluntary compliance. The most recent survey was conducted entirely electronically with a response rate of around 20% (out of 10 000 SMEs invited to participate). The survey reflected a high level of satisfaction with the recent actions of the office of RC such as the redesign of the website and the reduction of administrative burdens. Additionally, the RC works with the Tax Administration Liaison Committee, a body bringing together the RC and tax agent representatives, to increase the level of voluntary compliance and to achieve a more effective and efficient administration. The RC office conducts public consultations too when important reforms, such as the recent employee tax project, are implemented.

3.3. France

A customised tax support for SMEs

- 1. Involvement of dedicated experts in regional directorates
- 2. Support concerning growth and innovation-related tax issues
- 3. Legal certainty arrangements so that company executives can focus on their business' growth

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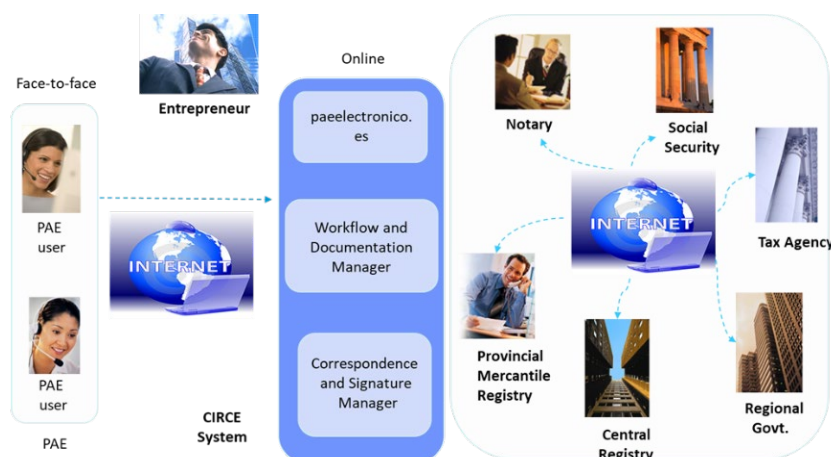
In France, the Direction Generale des Finance Publiques (DGFIP) has employed multiple actions to engage with SMEs given their importance of the overall economy.

First, DGFIP set up 412 local organisation, called Business Tax Departments, focused on SMEs. The objective was to have a single contact point for professionals. Second, in order to respond to the heterogeneous needs of the SMEs' owners, DGFIP customised tax support for SMEs. It involved dedicated experts in regional organizations, helping to support growth and innovation by providing

assistance on tax issues including through legal certainty arrangements (rescrits) so that company executives can focus on their business' growth.

3.4. Spain

The Spanish tax administration is part of the CIRCE system (acronym for Centro de Información y la Red de Creación de Empresas), created in 2003, to provide services to SMEs in order to facilitate and reduce their costs in the processes of starting and stopping economic activities. The CIRCE has a Telematic Processing System (STT) for electronic files which, through the Single Electronic Document (DUE), allows for the exchange of data and documentation necessary to set up and run commercial companies (limited liability company, community of goods, self-employed, among others). This service is carried out through a network of one-stop shops for services to SMEs called "Entrepreneur Service Point" (hereinafter, PAE). The entrepreneur only has to complete the electronic Single Document (DUE), which replaces a multitude of forms required by the various administrative bodies. The STT CIRCE system then automatically carries out all the formalities necessary to create the company by interacting with all the bodies involved (Tax Agency, Social Security, Commercial Register, Notary's Office and others at state, autonomous community and local level) to declare the start or cessation of the activity. In addition to the PAE network, citizens can also access the electronic PAE (www.pae.electronico.es) to process the DUE from the Internet and on-line using their ID CARD or digital certificate, without having to attend any office.



The STT CIRCE also facilitates the application for a tax identification number (TIN) by the company and the communication of which economic activity constitutes its corporate purpose, where it is going to carry it out and what tax obligations it must fulfil in relation to the taxes that will be applicable to it (VAT, Income Tax and others). When the tax authorities receive the documentation required for registration of the company by electronic means, they issue a provisional tax identification number electronically. This documentation is subject to the same controls as the request received directly from the taxpayer. Once the STT CIRCE certifies the registration in the Trade Register, the STT- CIRCE informs the Tax Office, which issues the final tax identification number. The tax authorities send the TIN card to the company's declared tax domicile. If there are any inconsistencies in the documentation provided, the census control procedures are initiated.

3.5. Dutch Association of Tax Advisers

The Dutch Association of Tax Advisers provided a wide range of comments on the OECD work on reducing the tax compliance burden for SMEs, including the possibility of sending data directly or via third parties to the tax administration in order to enable pre-filing. The speaker remarked that sending unchecked data is not acceptable from an advisor's perspective as it could adversely affect the taxpayers' position as an essential mechanism of check and balances would be missing. Moreover, data could be misinterpreted without any context and other adjustments may be needed. Also, the association did not envisage any efficiency gain from the direct provision of data. Subsequently, the speaker provided some context on the main administrative challenges when dealing with tax issues in the Netherlands, such as rules complexity, and commented on the priorities for reducing the burden of SMEs as well as ensuring tax certainty. The speaker highlighted the idea of also building up horizontal supervision mechanisms for small businesses by creating a platform to discuss issues upfront. Additionally, the tax administration could provide extra services such as a special phone number for SMEs simple questions, the setting up of a one-stop shop for taxpayers' more detailed questions or the scheduling webinars on SMEs' tax issues.

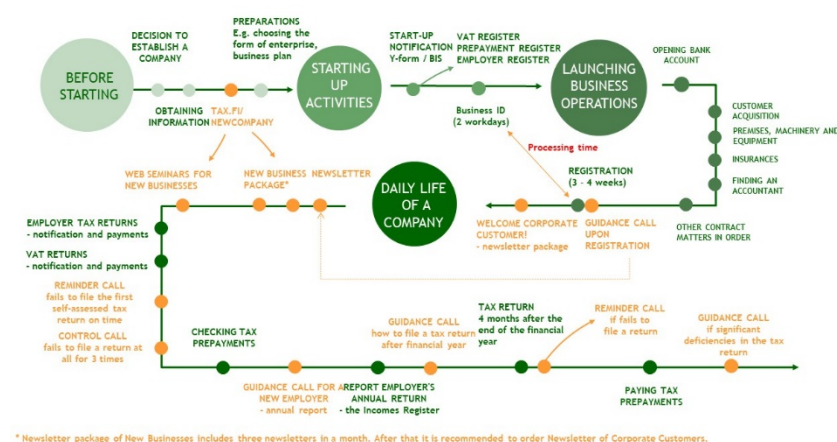


Tax administrative challenges

How to reduce the burdens for SMEs while enhancing tax compliance?

- Introduction of well thought-out and more simple rules
- Avoid uncertainty
- Avoid initially unclear and ambiguous rules
- Introduce a central Front Office for the tax authorities (instead of different departments for levy and collection)
- Introduce a contact person from the tax administration and the possibility of horizontal supervision. SMEs do not have these possibilities.

3.6. Finland



The Finnish Tax Administration has developed a guidance model that is aimed specifically to newly started businesses (usually SMEs). The focus of the model is on proactive guidance that helps to ensure that taxpayers know their obligations and act in the right way. According to the model, the newly started businesses are guided through several channels. The channels include for example a

dedicated website for new businesses, videos on YouTube, guidance letters and newsletters. The objective of all the material found on these channels is to help the new business to handle all their tax matters correctly and on time.

To ensure that the model steers the new businesses correctly, the number of the actions and the effectiveness of the model is monitored regularly. The key indicators to track the outcomes of the guidance model are the following:

- Repeated reporting deficiencies (guidance call made vs. not reached)
- Late filing for VAT returns and employer returns (guidance call made vs. not reached)
- VAT and employer returns estimated (guidance call made vs. not reached)
- Tax debt (guidance call made vs. not reached)
- Tax.fi/newbusiness - the number of visitors on site

According to the findings, the results of the model have been very encouraging and most of the indicators point to customers benefitting from the model. The customers who have received guidance calls upon registration have better compliance rates for filing their returns and less tax debt. In addition to better compliance, according to a customer survey done during the year 2019, the average satisfaction rating for guidance and control calls was 4.2 on a scale of 1 to 5 with 5 being completely satisfied with the service and 1 not at all satisfied.

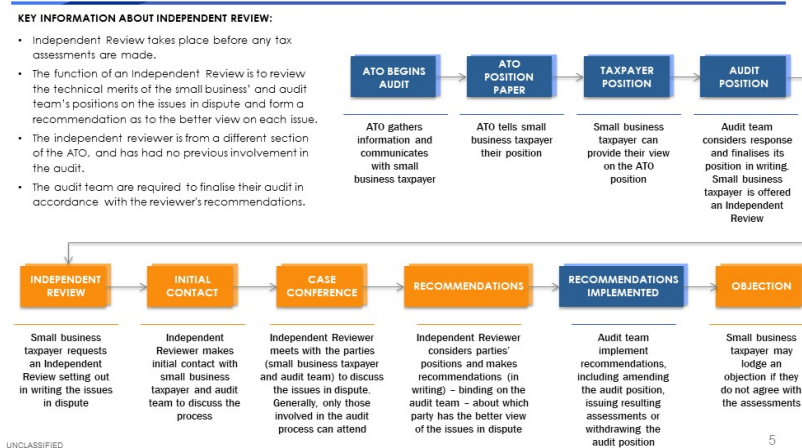
3.7. Australia

The Australian Tax Administration (ATO) strategy with SMEs moves along different types of engagement. Among multiple actions, ATO sends an email within 30 days from business registration with links to free online education, offering a small business newsroom with information on monthly tax and superannuation headlines and special programs for indigenous small business taxpayers.

The case study presented by ATO at the workshop focused on the promotion of tax certainty through an independent review mechanism of ATO audits of small businesses. The independent review takes place after the local ATO office has given their audit position to eligible small businesses. At that point, if the taxpayer requests, then a different section of ATO which has had no previous involvement in the audit will review the case and provide recommendations to the audit team before final assessments are issued. The

piloting of this approach has resulted in more confidence on the entrepreneurs' side in the decision of the administration.

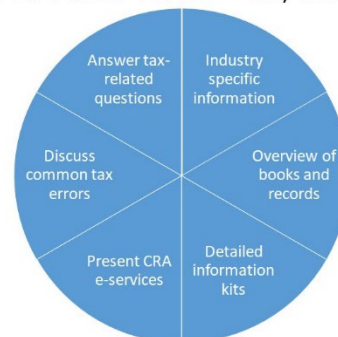
SMALL BUSINESS INDEPENDENT REVIEW PILOT – PROCESS



3.8. Canada

The Canada Revenue Agency's (CRA) case study looked at various CRA business support initiatives, with a focus on the Liaison Officer (LO) service. The CRA emphasised the importance of establishing a positive working relationship with the SME community in order to foster voluntary compliance. To achieve this, the CRA has adopted an approach to compliance specifically tailored for self-employed individuals and SMEs which focuses on the importance of identifying non-compliance early, intervening in the least intrusive way possible, and taking service-oriented measures to prevent taxpayers from becoming non-compliant.

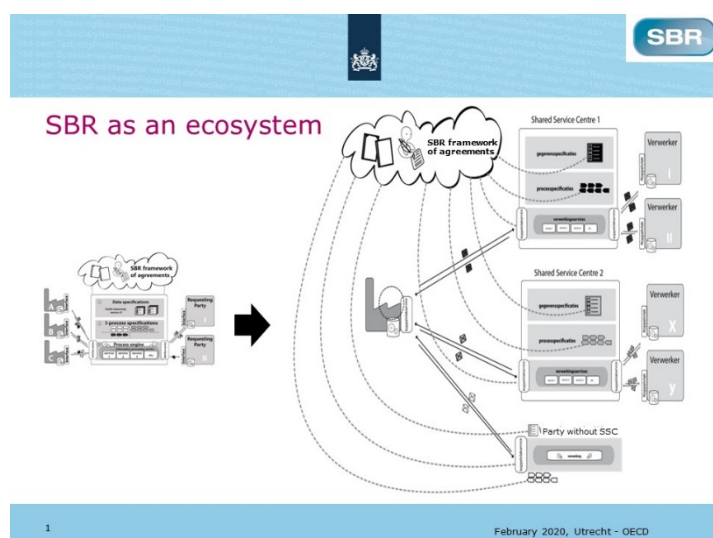
The Liaison Officer service – key activities



The CRA offers this free in-person LO service to owners of small businesses and self-employed individuals to help them understand their tax obligations through what is effectively a confidential service between the LO and the taxpayer. Participation in the LO service is voluntary and with no tax consequences. The LO service is carried out through in-person visits to a taxpayer's home, place of business or at a CRA office, or through group seminars in a common area. The LOs answer tax-related questions, address concerns, discuss common tax errors, and provide information on various tools and services offered by the CRA. The LOs also offer to review books and records, and provide recommendations on how to strengthen bookkeeping systems. This initiative was very well received by the SME business community. Despite the overwhelmingly positive feedback from taxpayers, the CRA was faced with several challenges along the way, including program coverage given Canada's geography, building awareness and trust, and program measurement. The presentation concluded with an explanation as to how the CRA plans to address these concerns, and expand the program going forward.

4 Towards seamless taxation of SMEs

4.1. Netherlands



The NTCA's presentation discussed the past and the future of standard business reporting in which SMEs play a key role. The first part of this presentation looked back to the paper based reporting era and explained the need for standardized digital data exchange. The different programmes and policies that have led to the effective SBR ecosystem we know today were highlighted. The second part of the presentation looked ahead to the new improvement opportunities resulting from the rise of "trust services" across Europe. The trust services are expected to provide higher levels of certainty starting at the SME, opening new opportunities for

innovation in the SBR ecosystem.

4.2. United Kingdom

HMRC has the ambition to become one of the most digitally advanced tax administrations in the world. A key step in modernising the UK's tax system and ensuring HMRC is fit for the future is Making Tax Digital (MTD), which requires businesses to keep digital records and use compatible, commercially available software to send their tax returns to HMRC. The use of software is expected to reduce the UK tax gap (the difference between the amount of tax that should in theory be paid to HMRC, and what is actually paid) by significantly reducing the opportunity to make some types of mistakes, particularly simple arithmetical errors.

The essence of MTD – where we are heading

Software providers link with HMRC Application Programming Interfaces (APIs) so that customers can send 'updates' instead of a traditional tax return. As APIs are updated, software providers add more functionality. Customers sign up on GOV.UK, choose a software provider, keep digital records and send updates. Records and transactions are stored on the Enterprise Tax Management Platform (ETMP), in line with the customer centric HMRC vision of a single financial account.



Other digital services enable and enhance this customer journey (and support other changes in HMRC) – these include the Business Tax Account, the Streamlined Customer Registration Service (SCRS) and the Agent Services (AS) Account.

HM Revenue & Customs









MTD is delivered through software providers using an Application Programme Interface provided by HMRC. The API allows the transfer of data from the software to HMRC systems removing the need for customers to complete traditional tax returns. HMRC provide a list of software providers on a government website, the taxpayers can use this website to choose a software provider that meets their need.

MTD has been introduced for VAT, with the aim of expanding this over time to other taxes. MTD is mandatory for businesses with turnover above the VAT threshold of £85,000. HMRC recognises that businesses will require time to become familiar with these new requirements, thus during the first year of VAT mandation, it has been decided to take a light touch approach to penalties. Digital record keeping or filing penalties will not be issued where businesses are doing their best to comply with MTD. Sanctions remain possible in cases of deliberate non-compliance.

4.3. Russia

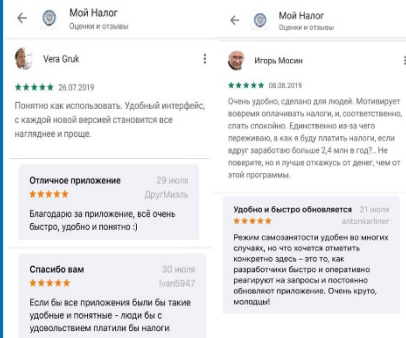
The Federal Tax Service of Russia, together with the government, has experimented a Professional Income Tax pilot project in Moscow, the Moscow and Kaluga regions, and in the Republic of Tatarstan. The objectives were to establish a simple and convenient tax regime for the self-employed, to allow the tax administration to have a remote interaction with the taxpayer and to incentivize self-employed activities to become legal and leave the shadow economy.

BENEFICIAL FOR PEOPLE
Simple. Convenient. Fast.

-  No visits to the tax office
(online registration)
-  No reporting
-  No cash register
-  Tax rate of 4-6% instead of 13%
-  24/7 Interaction with tax authorities
-  Open API

...and they like it

Mobile app's rating in
IOS и Android **4,6**★



The bilateral relationship between the tax administration and the taxpayers became easier as a result of the new mobile app. Taxpayers are no longer obliged to visit the tax office for business registration which can now be done online. Tax reporting and the maintenance of separate cash registers are no longer necessary thanks to the automation of flows of information from businesses to the tax administration. The tax rate has also been decreased to 4-6% from 13%. The app also allows taxpayers to interact with tax authorities 24/7. The main innovation of the project is the API, which has allowed the integration of all app's features with software solutions of platforms and banks and facilitated the automated taxation of income of the self-employed.

The measures have already led to significant results. During 2019 more than 337 000 people registered as self-employed. Half of those registering had never declared their income before (and so far the app only covers 4 regions out of Russia's 85 regions). It is estimated that the measure triggered the issuing of 39.3 million receipts, amounting at RUB 44.2 billion.

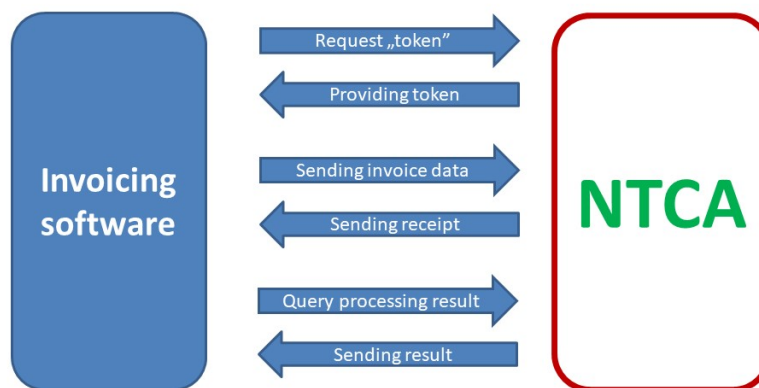
4.4. Hungary

The National Tax and Customs Administration of Hungary have developed an Online Invoice System for B2B transactions. It aims at the reduction of taxpayers' administrative burden in order to enhance tax compliance, the strengthening of digitalization processes and, as a result, the reduction of the VAT tax

gap. The system consists in creating an end-to-end process between the taxpayer, who will be integrating tax duties into her/his business as usual, and the tax administration, which will have the possibility to be more effective. In fact, being able to receive VAT information real time leads to multiple benefits such as the possibility to conduct risk analysis more efficiently, focus audit resources to riskier cases and trigger enforcement through sending immediate claims. Additionally, an online invoice system facilitates a direct communication with taxpayers, helping the adjustment of minor errors, allowing for the identification of typical invoicing issues and processing queries more instantaneously.



Method of data reporting (M2M)



The system is designed to reduce administration burdens and it is free of charge for Hungarian taxpayers. It reduces exponentially the time costs of understanding tax laws as the software tracks legislative changes and it provides free of charge electronic archiving.

The next step will be the joint use of online VAT invoicing data together with data from the Online Cash Registers and other third party data in order to prefill VAT tax returns.