

Digital Government



**Geneviève Verdier
Fiscal Affairs Department
International Monetary Fund**

**Chapter 2 of the April 2018 Fiscal Monitor
April 2018**

Digital government

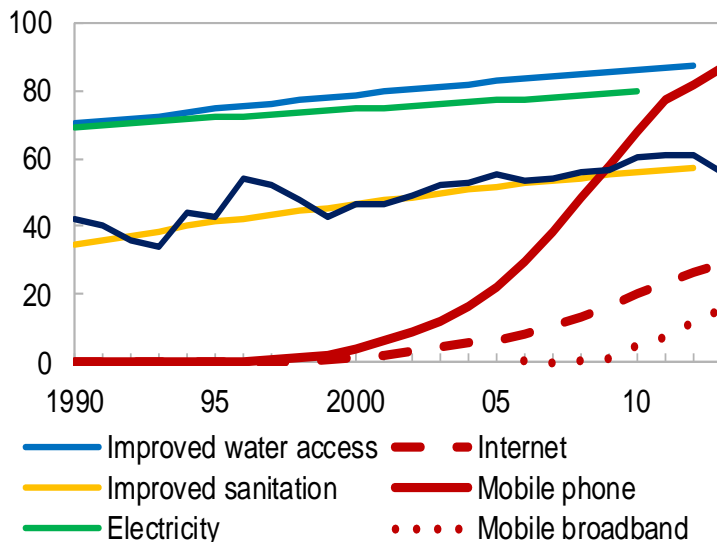


The digital transformation is underway

The rapid growth of the digital transformation is outpacing the provision of basic public services

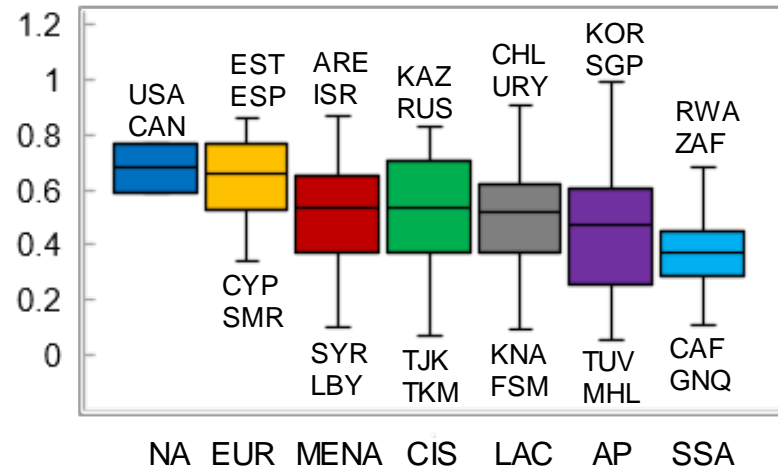
Digital technologies are spreading across governments, with some regional leaders

Access to Public and Digital Services in Developing Countries
(Percent of population)



Source: World Bank 2016.

International Digital Adoption by Governments
(Digital adoption index for governments, latest available year)



What governments are doing

Tax policy and administration

- **Digital tax administration systems**

- E-filing, e-invoicing
- Pre-populated tax returns
- Mobile payments
- Big data analysis

- **Cross-border exchange of information**

Public spending and financial management

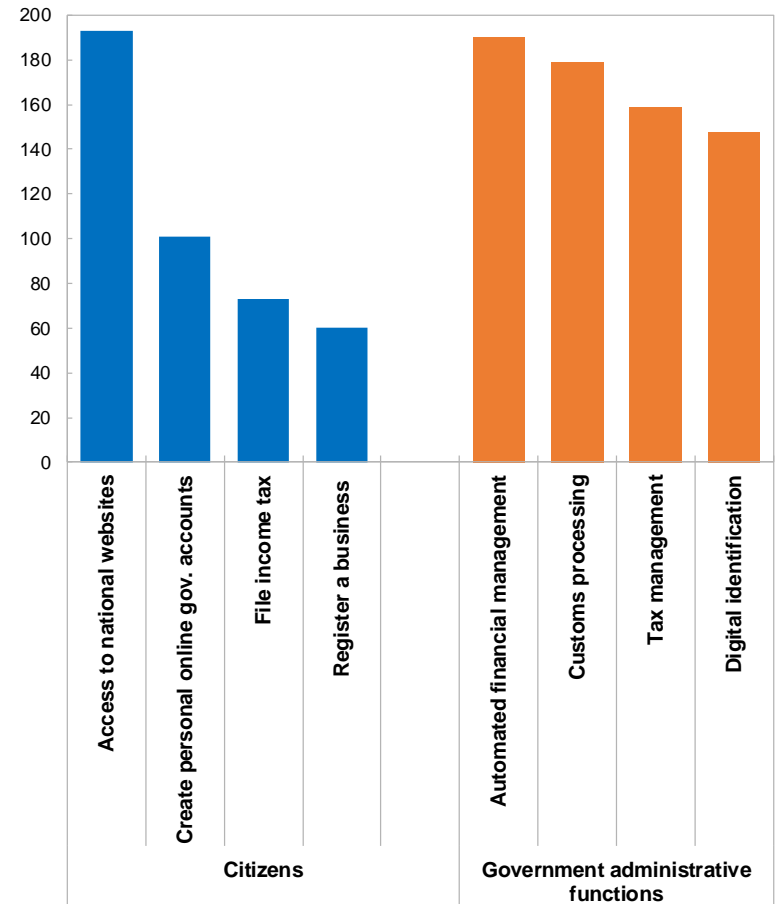
- **Public service delivery:**

- Information dissemination (health, agriculture)
- Biometric identification and digital payment systems
- Digital monitoring (education)

- **Governance:**

- Transparency portals

Number of countries with selected digital services



Outline

1. What governments can do now

- Reducing tax evasion from cross-border fraud
- Lowering revenue losses from personal income and wealth sheltered in tax havens
- Reducing leakage and take-up problems in social protection

2. Challenges, obstacles and risks

- Fiscal policy and digital businesses—A new challenge
- Digitalizing public finances—Obstacles and risks

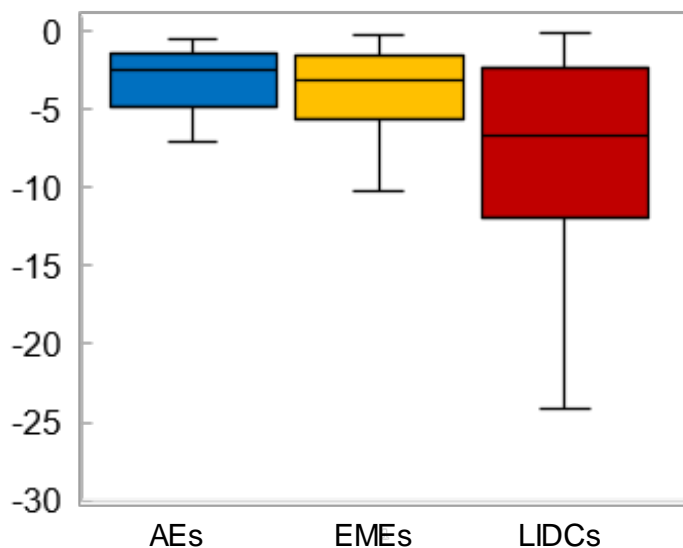
What governments can do now

Improving tax compliance: Customs

Could digitalization help reduce fraud in cross-border transactions?

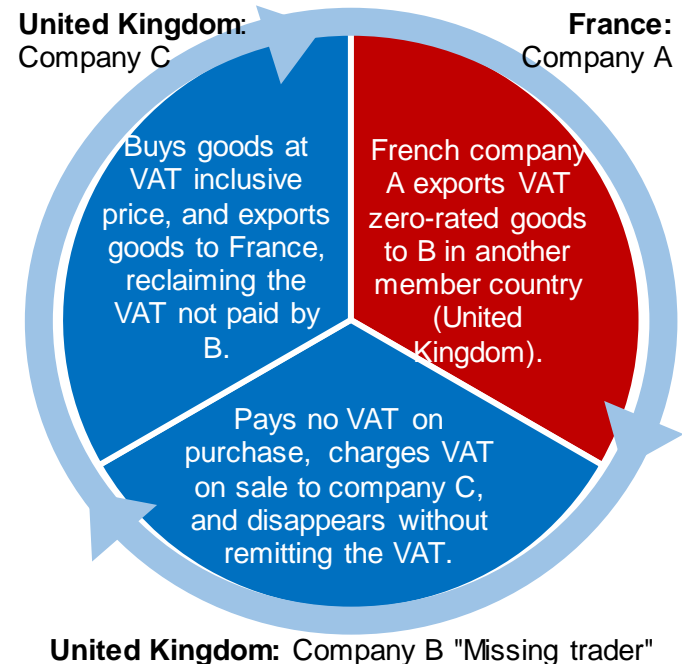
Trade misreporting is non-trivial, particularly in LIDCs...

Difference between importer and exporter reported values in percent of GDP



...but VAT-related fraud is also a concern in Europe

The Missing Trader and Carousel Fraud

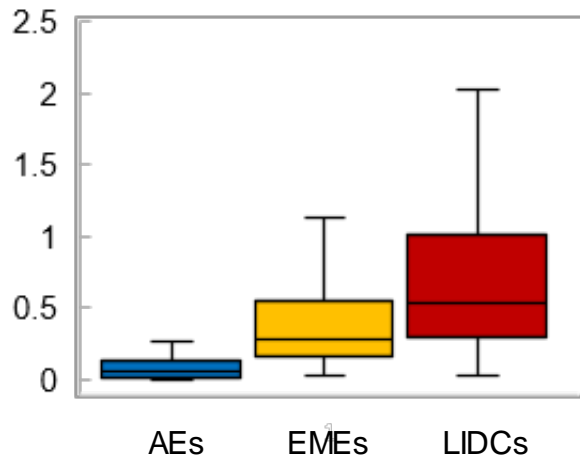


The EC estimates that EUR 45-60 billion are lost annually

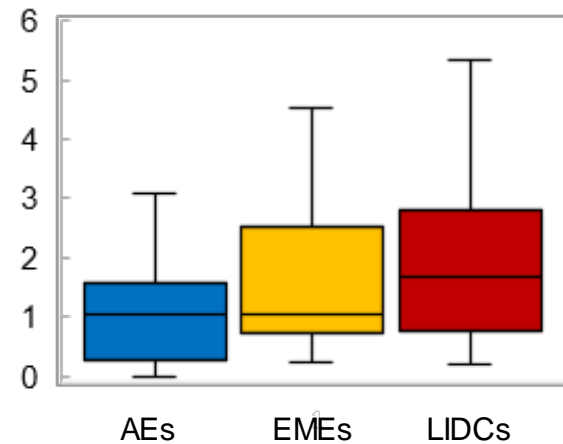
Improving tax compliance: customs

The link between evasion and digitalization is significant and potential revenue gains are substantial

Potential Tariff Revenue Gains



Potential VAT Revenue Gains

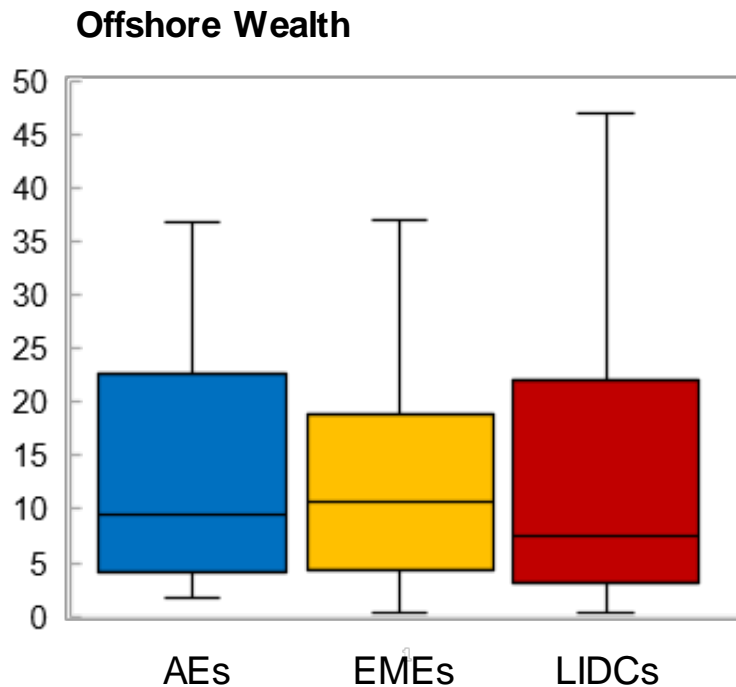


Median revenue potential is between 1 to 2 percent of GDP. In Europe, total gains of 0.5 percent of European GDP in VAT collection.

Improving tax compliance: Tax havens

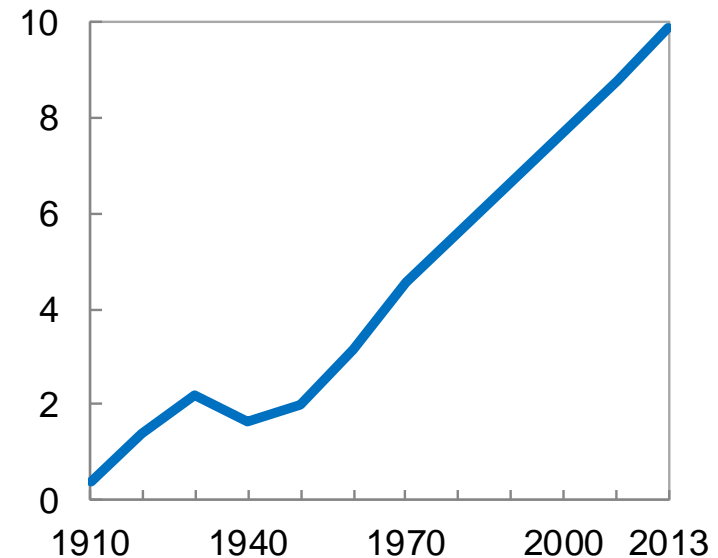
Could digitalization help reduce evasion to tax havens?

Wealth sheltered in tax havens is large



The share of European financial wealth held in tax havens has grown dramatically

Estimated Wealth of Europeans in Low-Tax Jurisdictions
(Percent of the financial holdings of European households)

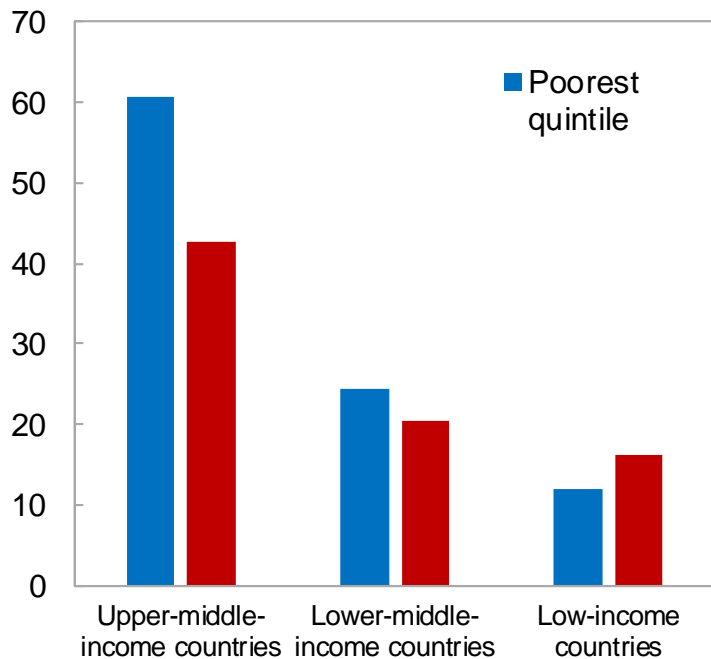


Improving social protection coverage

Inclusion (leakages) and exclusion (non take-up) errors are sizeable

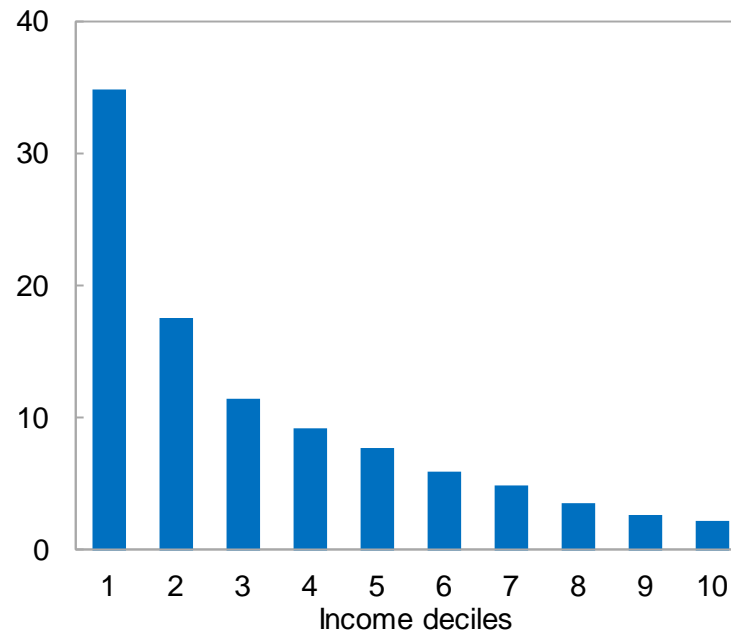
In developing economies, coverage of the poor is far from complete

Household Coverage by Social Assistance Programs in Developing Countries
(percent of households in income quintile)



In Europe, 1/3 of total spending on means-tested programs is going to the top 6 income deciles

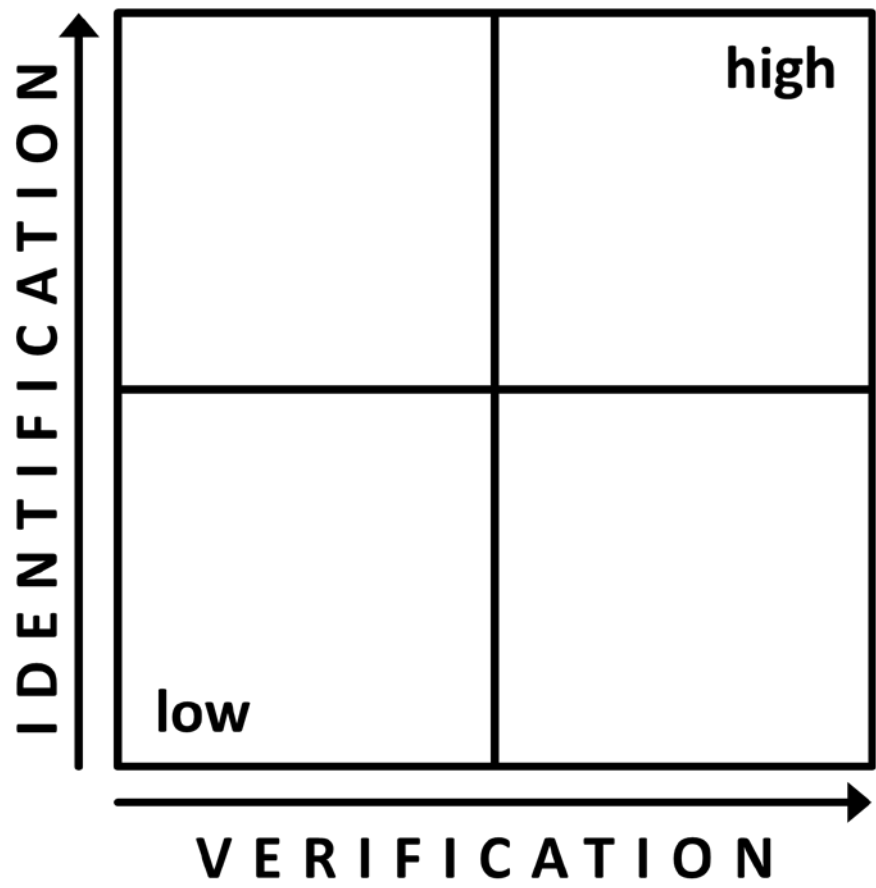
Average Share of Total Spending on Means-Tested Social Assistance Programs in EU 28
(percent of total spending across income deciles)



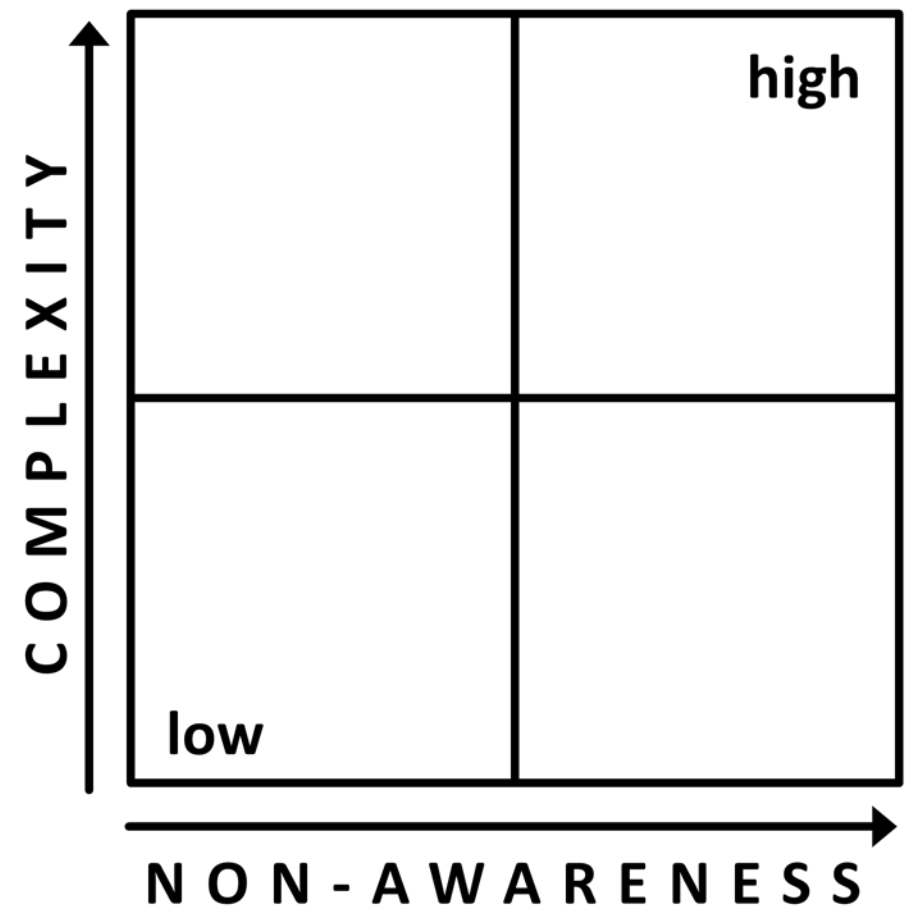
Sources: EUROMOD; World Bank, Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE); and IMF staff calculations.
1/ EU-28 = European Union group of 28 countries (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, Spain and United Kingdom).

Improving social protection coverage

Leakage Issues



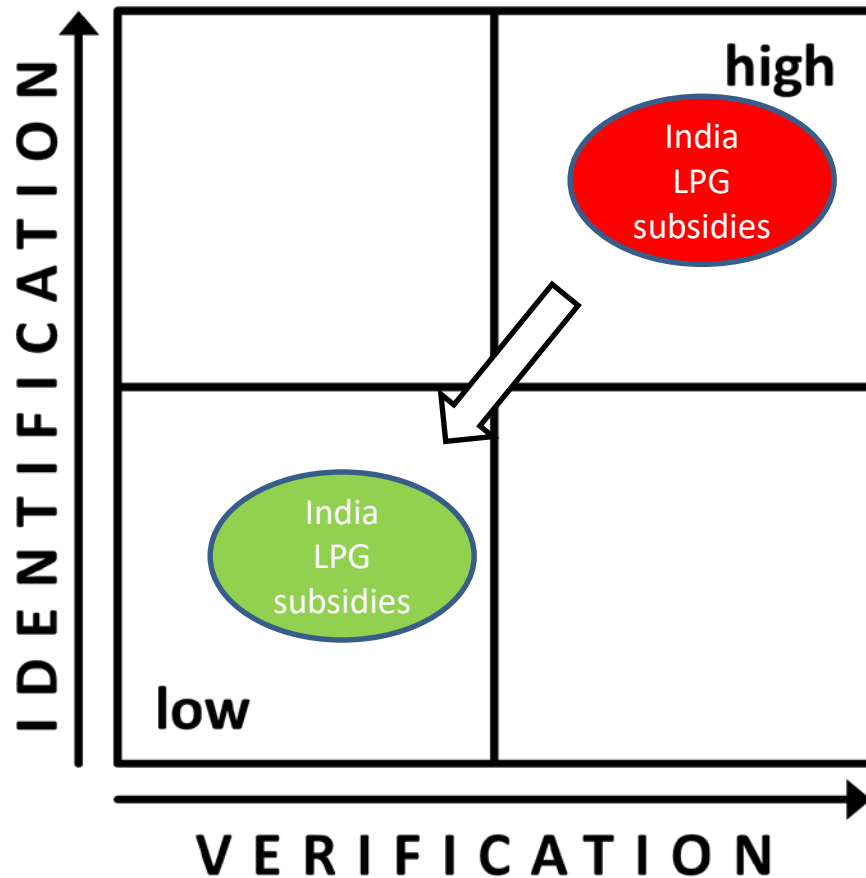
Take-up Issues



Improving social protection coverage

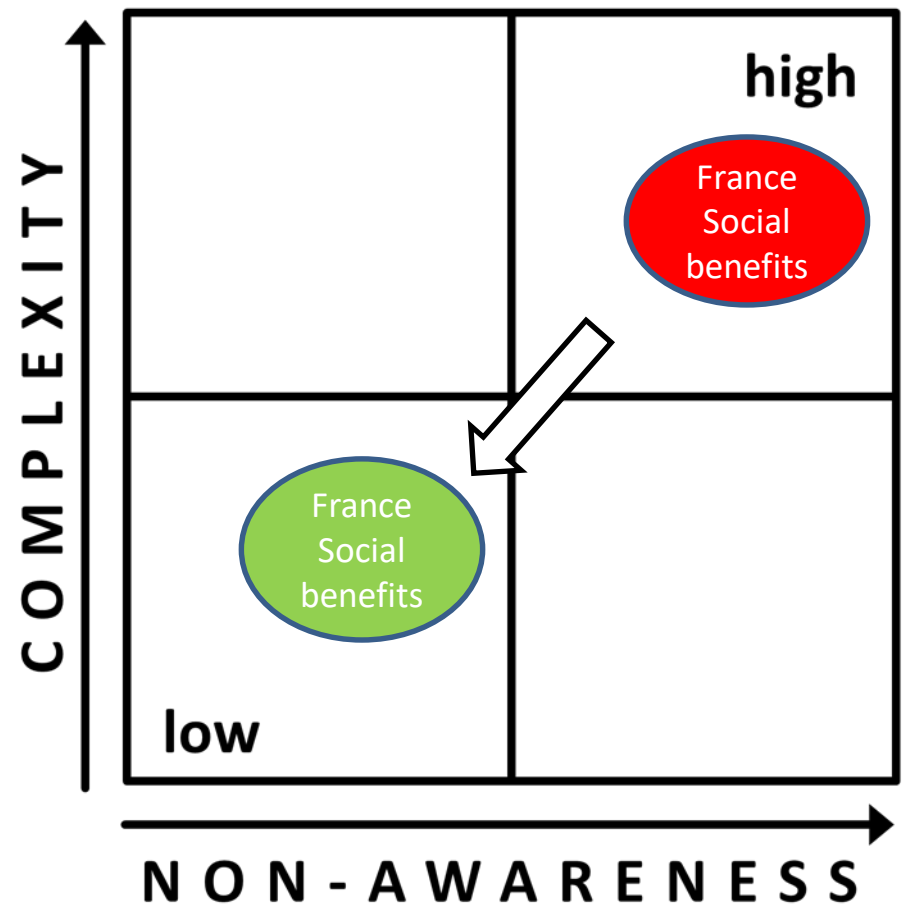
India
LPG subsidies

Leakage Issues



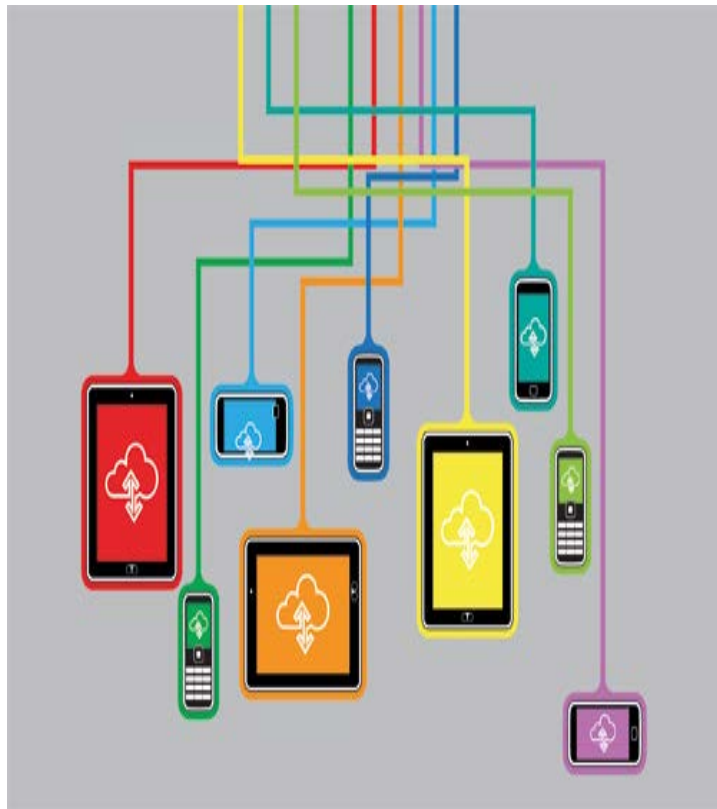
France
Social benefits

Take-up Issues



Improving social protection coverage

Digitalization can help ...



... but is only part of the solution

- Comprehensive reforms (India)
- Privacy and security controls are essential (India and South Africa)
- Digital exclusion can put program objectives at risk (India)
- Digital outreach tools are not sufficient (France)

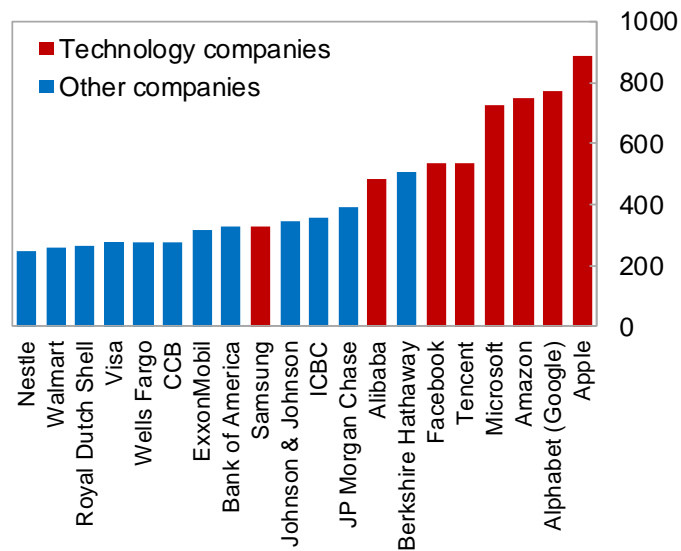
Challenges, obstacles and risks

Taxation and the digital economy

Tech giants are increasingly dominant

The Race to a Trillion

Global Top 20 Firms By Stock Market Capitalization
(Billions of US dollars, March 7, 2018)



- ✓ High profitability
- ✓ Heavy reliance on intangible assets
- ✓ Sales with little or no physical presence
- ✓ User-generated value

Taxation and the digital economy



- What is different? The scale of operations.
- But they should not be singled-out for taxation purposes
- Measures should be internationally coordinated and consistent with a long-term vision for international corporate taxation



Obstacles and risks



Digital exclusion



Resources



Institutional capacity

Obstacles and risks



Fraud



Privacy and cybersecurity

Policy implications

- Digitalization is transforming how we live and the conduct of policy
- Governments cannot stay on the sidelines of this transformation
- Overcoming challenges will require:
 - A comprehensive reform agenda
 - Risk mitigation
 - Adequate resources
 - International cooperation

Thank you!