

# A Person in the Digital Transformation of Tax Administration: Opportunities and Reality

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**Abstract** — The study focuses on the relation transformation in the digital economy between tax authorities and individuals using “Individual Taxpayer Personal Account” e-service of the Federal Tax Service (FTS). In this regard, on the basis of statistical data, the degree of the person’s integration into digitalization processes of tax administration is estimated. The FTS “Individual Taxpayer Personal Account” e-service is analyzed from a taxpayer’s perspective. First, wide opportunities available for an individual with an access to the personal account are systematized and described. Informational, control, and socio-economic functions of the personal account are determined. In terms of information, the e-service advantages are as follows: the possibility to obtain and, in case of discrepancy, to clarify the data on property objects, the amounts of accrued taxes, and to receive notifications from a tax authority. The advantages of the personal account from the control function viewpoint are that a taxpayer can monitor the progress of the desk audit; compare the amounts of income tax deductible according to the tax return and recognized by a tax authority. The socio-economic aspect of the e-service advantages is the ability to promptly schedule an appointment with a tax office; to file necessary requests to a tax authority and receive answers; to save time and money by filling out a personal tax return, paying taxes online; no need to visit a tax authority and bank reserving this option until absolutely necessary. The advantages of using the individual taxpayer personal account are proved by the survey and polling results of taxpayers by the authors. In reality, in using the e-service, a taxpayer encounters some difficulties, which are grouped per the following criteria: technical and human factors, the factor of taxpayer’s financial literacy. Technical problems, in particular, include the service unavailability due to technical failures, Internet access, and others. The human factor is manifested in the form of confrontation to innovations, distrust of e-services. The taxpayer’s financial literacy fails to provide insight into the tax legislation conflicts. These problems are also indicated by the taxpayers in the survey and polling process. Recommendations to increase the human interest and adaptation in using “Individual Taxpayer Personal Account” e-service are provided.

**Keywords** — taxes, tax authorities, tax administration, e-service, personal account, individuals, taxpayers, income tax.

## I. INTRODUCTION

The modern world trends, aimed at the society global digitalization, have mostly influenced economic processes in

our country. According to research, in 2017 Russia was ranked 40th, but by 2018 it dropped to 42nd in terms of the world digital competitiveness index, which indicates a rather weak position of the Russian Federation in global ratings of the economy digitalization [1]. In this regard, “Digital Economy” National Project, being implemented in the country, focuses on creating information space in relation to the needs of the individual, the entire society to obtain high-quality and reliable data. It promotes the development of information infrastructure and the use of Russian information and telecommunication networks, and the creation of a completely new technological basis both for social and economic areas.

The economy digitalization influences various areas of society including the transformation of the current tax system of the Russian Federation. It has primarily affected tax administration. In particular, it implies governmental activities in taxation. Since July 1, 2015, Federal Law No. 347-FZ “On the Amendments to Part 2 and Part 1 of the Tax Code of the Russian Federation” became effective; it introduced the concept of “taxpayer personal account” and defined the basic rules for its use.

In the taxation system, a group of taxpayers – individuals, who pay personal income, property, transport, and land taxes, plays an important role. The Russian Federation tax legislation also provides for reimbursement from the budget of taxes paid in the form of personal income tax, the so-called tax deductions, namely, property tax (in case of property sale or purchase including a mortgage – when it reimburses with interest) and social tax (reimbursements are received from the costs incurred on medical treatment, education, etc.) that are filed in the personal tax return, which at present can be implemented with “Individual Taxpayer Personal Account” e-service.

The purpose of this study is to evaluate opportunities of the person’s adaptation to digital reality in interaction with tax authorities.

The primary objective of the study is to assess the degree of the person’s integration into the tax digitalization process. Today, the FTS promotes the need for a “service-oriented” approach, but most taxpayers still distrust e-services. Therefore, the next objective of the study is to outline

opportunities and difficulties in using the individual's personal account e-service. Since the process of tax system informatization and modernization in the taxation of individuals has revealed a number of opportunities and difficulties for a full-scale implementation of changes in practical terms, the ultimate objective of the study is to determine directions for increasing the person's interest in using "Individual Taxpayer Personal Account" e-service.

## II. LITERATURE REVIEW

In the context of digitalization, the relations between a taxpayer and tax authorities are changing, the latter are trying to ensure efficient functioning of the tax system and tax control propelling them to a new level [2, 3, 5] N. Vetrova and E. Evsegneeva write in their works that in the innovation paradigm, the form and content of tax administration is changing. The authors analyze current trends in the development of digital tax administration as part of the digital government subsystem in the Russian Federation [6].

R.A. Ambrus and S. Seles study the frequency of taxpayers' use of e-services and the demand for personal appeal to the Hungarian tax authorities. The authors analyze the time period spent by tax authorities on administration and by taxpayers on their understanding of the complex legislation. The opinions of the authors were divided between electronic and personal administration, giving preference to the latter. The authors explain their opinion by the fact that taxpayers want a full-time participation of tax authorized representatives, despite the reform of the Hungarian tax system and the implementation of e-services [7].

P. Molan, in a study conducted on the example of Ireland, notes the need to use high technologies for interaction between taxpayers and the public sector to increase the level of control, but without affecting the taxpayers themselves [8].

B. Chang and D. Limato analyzed the development of taxpayer assistance programs, educational programs, and e-services of the Internal Revenue Service. The results of the electronic tax returns study showed both a growing tendency to use online technologies in tax assistance programs and a positive tendency to submit individual tax returns in electronic form, while the tax authorities did not detect either increase or decrease in mathematical errors in individual tax returns [9].

M. Kin and D. Slemrod analyzed the relation between tax administration and tax collection rate, and raised the question of importance to achieve an optimum balance between them [10].

A similar study on assessing the administration efficiency in the Russian Federation in the context of tax revenues to the budget was conducted by N. A. Semyonova and N. A. Filipova. The authors point out the need for a qualitative development of tax administration in the digital transformation [11].

The 13th International Conference on Tax Administration, organized by the University of New South Wales in Sydney in 2018, focused on the impact of digitalization on tax administration and other taxation components. In their presentations, most authors problematized and mentioned opportunities of using e-services in the taxation [12].

## III. METHODS AND MATERIALS

The research materials for this theme are scientific literature, statistical data, and information from the FTS Directorate of Russia for the Tyumen Region, institutions in Tyumen, survey and polling results.

It is possible to find out whether the taxpayer personal account is useful or useless by asking the person who uses this account. In this regard, the following research methods were selected: a questionnaire consisting of 10 multiple-answer questions for respondents (Google form, the number of respondents is 350); interviewing, i.e. the survey of individuals to check their involvement into tax authority services. The study uses the analysis method of scientific literature on the digital transformation of tax administration; a graphical method enabling to visually represent the person's involvement into the digital transformation of tax administration. The content analysis was applied, the subject of which was the content of text blocks from social networks where the FTS of Russia was one of the participants; classification as a method of dividing taxpayer personal account properties according to essential features; structuring, which allows one to analyze properties of tax administration both inside the taxation system and in the economy digitalization.

## IV. RESULTS

Currently, it can be stated that personal accounts for all categories of taxpayers, including individuals, have become key services of tax authorities.

86.1 % of the respondents have answered the question: "Are you familiar with "Individual Taxpayer Personal Account" e-service?", that they know about the personal account, and only 13.9 % of the respondents are not knowledgeable about this information. Compared to any widespread phenomenon in society, almost 40 % (39.6 %) of the respondents sourced information about the taxpayer personal account from friends who use this service. 32 % of the respondents learnt about the personal account from the FTS advertising campaign, 27 % – from the Internet. Almost half of the respondents (45 %) have access to the taxpayer personal account, and about 16 % (15.9 %) intend to open it, and only 9.3 % assume it unnecessary.

In total, according to the FTS Directorate of Russia for the Tyumen Region, 331441 individual taxpayers have a personal account.

The number of hits on the taxpayers' personal account in 2018 is shown below (Fig. 1).

The trend of implementing digital technologies into the person's life shows that individuals are ready to use services of the Russian FTS and, basically, the digital transformation of social and economic processes does not frighten the population of Russia. Definitely, this requires specific preconditions. First, a person wants to see advantages of the digital transformation of tax administration via connecting individuals to the taxpayer personal account.

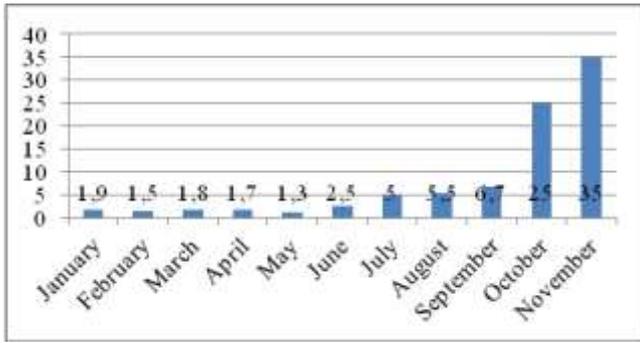


Fig. 1. Number of hits (in mln) on the taxpayers' personal account according to the FTS in 2018.

Certain advantages of the taxpayer personal account will allow increasing the percentage of people involved in the digital transformation of tax administration. In our opinion, the advantages of the taxpayer personal account can be classified according to function-related attributes of the personal account:

- **Informational.** One can find out and, in case of discrepancy, clarify the data on property objects (40.3 % of the respondents prefer this information), the amounts of accrued taxes, notifications from a tax authority.
- **Control.** A taxpayer can monitor the progress of the desk audit; compare the amount of personal income tax deductible according to the tax return and recognized by the FTS Inspection.
- **Socio-economic.** The ability to promptly schedule an appointment with a tax office, to file necessary requests to a tax authority and receive answers; to save time and money by filling out a personal tax return, paying taxes online; no need to visit a tax authority and bank reserving this option until absolutely necessary.

The importance of the socio-economic function should be mentioned, and the survey results prove it. At present, online payment using mobile communication is so appealing to people that 81.3 % of the respondents on the taxpayer personal account prefer to pay the accrued tax via a digital resource, 63.3 % of the respondents prefer to use the personal account to fill out and submit a tax return, 58.3 % – to file a request to the FTS, 54.7 % – to schedule an appointment with the FTS.

The question about the advantages of using “Individual Taxpayer Personal Account” e-service was the final one in the questionnaire. The respondents answered as follows: most of them (78 %) are satisfied with the promptness of obtaining the required information, 25 % prefer a personal account for timely updating of accounting objects, and 18 % are quite satisfied with no need to visit the FTS Inspection.

Although the personal account has a lot of features, not all taxpayers use them. This can be explained by the fact that reality of personal account functioning indicates a number of problems, primarily, for the taxpayers. They are grouped in view of the following factors (Fig. 2).

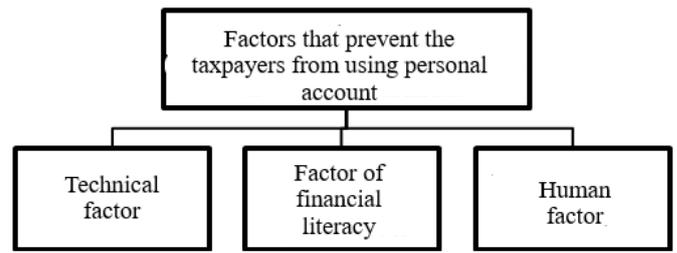


Fig. 2. Factors that prevent the taxpayers from using personal account

The respondents answered the question about the disadvantages of using this e-service in the following way: the largest percentage of the respondents, 33.6 %, cited frequent unavailability of the service due to technical failures as inconvenience, and problems with Internet access (20.3 %). The Internet data during the declaration campaign confirm this. Thus, on February 4, 2019, Nadezhda V. asks: What happened to the tax service website? I failed to log in to my personal account for a few days. First it said that some process works were in progress, and today the service is unavailable at all [13], [14].

“Clerk” Digital Edition recommends everyone who has submitted personal tax return and received a refund to check the individual personal account at the tax service website. Reportedly, due to another software error, tax return forms disappear, and the refund amount shows as tax arrears with charged interest penalty [15].

Another technical problem for taxpayers is a difficulty in understanding the personal account content. This fact was noted by 25 % of the respondents in the questionnaire.

The lack of computer literacy or its absence, specifically for senior citizens, is also a technical issue.

The second group of the mentioned above problems relates to the financial literacy of the population. Thus, only 33.8 % of the respondents answered affirmatively to the question “Can you fill out a personal tax return on your own in your personal account?”. For 45.3 % of the respondents, the first step will be to study the instructions for filling out the personal tax return, 13.5 % would still like to get advice from people who have already used this service, and only 7.7 % of the respondents admitted that they would not be able to fill out the personal tax return themselves. According to the respondents, they need to submit a personal tax return to receive tax deductions for several reasons (for example, social and property deductions), and this causes difficulties in its independent formation. Taxpayers are often unaware that paper-based tax notices are no more mailed when “Individual Taxpayer Personal Account” e-service is activated, and this leads to missed deadlines and the imposition of tax authority sanctions.

The group of problems called the human factor includes, in our opinion, as follows: the absence of modern technology recognition by indigenous small ethnic communities of Russia. They do not use computers, telephones and other electronics; a skeptical approach of certain population groups to innovations and information technologies; the habit to pay

in cash, not by credit cards; the absence of a required bank in the FTS partner bank list and the reluctance to become familiar with “Yandex.Taxes” service; the need to visit a tax authority to obtain access data to the personal account.

Accordingly, more and more taxpayers request assistance in specialized institutions. This is evident from the data provided by a director of one of large tax assistance centers in Tyumen (Table 01).

TABLE I. NUMBER OF FILLED OUT PERSONAL TAX RETURNS FOR 2015-2019 BY TAX ASSISTANCE CENTER IN TYUMEN

Indicator	2015	2016	2017	2018	2019
Number of filled out personal tax returns, pcs	11 296	15 064	17 912	19 984	22 135

From our point of view, the presence of disadvantages of the FTS e-services and the increase of citizen requests to specialized tax organizations, for instance, to file a personal tax return, by no means represent the person’s reluctance or refusal to be involved in the tax administration digitalization. The survey results show that the digital transformation process is quite successful, but, like any social phenomenon, it faces a lack of understanding, which eventually decreases.

## V. CONCLUSION

Being once included into global digitalization process, the state remained wary of the population feedback. The Russian tax system was one of the first to get involved in this process. The participant in tax relations is also a person whose opportunities are considered unlimited. Despite the power of habit, often the lack of proper information and maybe even a kind of distrust, the degree of the person’s integration into the tax digitalization process can be currently estimated as close to a high one. The very fact that no tax notices will be in the mailbox directs the person’s attention to the FTS e-services, namely, to use the taxpayer personal account, the advantages and disadvantages of which are outlined in this study.

Despite the disadvantages of the taxpayer personal account, the percentage of surveyed citizens was distributed in practically all survey questions in favor of this service, which has a wide range of functions. This allowed the authors to classify the advantages and disadvantages according to essential features. The given classification could be a step towards solving the remaining problems with using the taxpayer personal account as the cited data for each feature indicates a greater person’s willingness to use this service.

People say that when a person wants something, he looks for an opportunity, when he does not want, he looks for a reason. In reality of the digital transformation of tax administration, there were more people looking for an opportunity to start using e-services than those looking for a reason not to do so. The conditions for the person’s integration into the tax digitalization process should be really beneficial for him, not so much from the financial point of view as from the standpoint of moral satisfaction.

The results of the individual taxpayers’ survey showed that only one third can fill out an electronic personal tax return independently. For most citizens the main difficulty is the structure of the tax return itself. As far as there are several grounds for receiving tax deductions, and citizens are not less likely to purchase housing and receive medical care, according to the authors, it seems logical to divide the personal tax return into two separate ones, for each type of deduction (social, property).

The taxation of individuals is fairly transparent. People by nature expect the so-called “cashback” from any project. Therefore, in the conditions of tax administration digitalization, in our opinion, it is necessary to interest the individual taxpayer. For example, using communication provider services, a person gets either a part of the subscription fee back to the account or a better price. If a person learns about traffic fines and settles payments within 20 days, the amount payable is reduced by 50 %.

In case of using the taxpayer personal account, the following bonuses for individuals can be offered: to provide an opportunity for the taxpayers who frequently pay taxes using their personal accounts to receive a tax credit, tax holidays, or a tax amount reduction. This applies, in particular, to transport tax as a regional one, and to local taxes – land and property taxes for individuals. In case of systematic submitting of the electronic personal tax return, for example, given the correlation of all public e-services (government services, traffic police, Pension Fund of the Russian Federation, Sberbank, etc.), to provide benefits in obtaining health resort and camp vouchers. The so-called “Individual Tax History”, which allows a person to get returns in the form of additional priority conditions when participating in social programs (in obtaining subsidized housing, soft loans) can be created on the level of using the personal account services.

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