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DIGITAL TRANSFORMATION IN THE TAXATION SYSTEM: GLOBAL OPPORTUNITIES AND CHALLENGES

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Abstract

Digital transformation in the taxation system is a strategic step that can improve efficiency and transparency in global tax collection. With the use of digital technologies such as automation, data analytics, and blockchain, the taxation system can become more accurate, reduce the risk of fraud, and improve public trust. The tax payment process can also be simplified, increasing taxpayer compliance. However, this transformation also presents challenges such as the need for large investments in technological infrastructure, human resource training, and cybersecurity threats that must be managed effectively. In addition, regulatory adjustments and international coordination are needed to address the complexity of taxation in the digital era. With the right strategy, the opportunities from digital transformation in the taxation system can be optimised, although various challenges need to be carefully addressed.
Keywords: Digital Transformation, Tax System, Opportunities, Global Challenges.

Introduction

In today's digital era, digital transformation has become one of the main agendas in various sectors, including in the taxation system. Taxation is one of the important pillars in the development of a country, which functions as the main source of income to finance various government programs and infrastructure development (Michaels, 2019). Therefore, an efficient, transparent, and fair taxation system is very necessary.

An efficient, fair, and transparent taxation system has a strategic role in the economic development and welfare of a country. Efficiency in the taxation system ensures that the tax administration process runs smoothly, quickly, and at low cost for both the government and taxpayers (McKenzie, 2017). This not only helps the government to collect revenue optimally, but also reduces the bureaucratic burden and makes it easier for the public to fulfil their tax obligations. An efficient system can also minimise errors in tax calculation and payment, as well as reduce the potential for abuse or fraud that can be detrimental to the state (Sandell, 2017).

Fairness in the tax system means that the tax burden is distributed proportionally based on the ability to pay of each individual or entity, thus avoiding the injustice that may arise from uneven taxation (Bal, 2016). Transparency in the tax system builds trust between the government and the public by ensuring that the process of determining, collecting, and using taxes is open and publicly supervised. With high transparency, the public can understand how and for what purposes the taxes they pay are used, which in turn increases tax compliance and trust in the government. This combination of

efficiency, fairness, and transparency is the main foundation for a credible and sustainable taxation system, capable of supporting national development and creating a stable and fair economic climate (Mara, 2018).

Along with the rapid development of information and communication technology, the need to adopt digital technology in the taxation system is increasingly urgent. Countries around the world are starting to integrate digital solutions to improve the performance of tax administration, minimise errors, and reduce the potential for fraud. Digital transformation offers various opportunities, such as increased operational efficiency, better transparency, reduced administrative costs, and increased taxpayer compliance (Dombrowski & Nitschke, 2019).

However, this process is not without its challenges. The challenges faced include technical aspects, such as cybersecurity threats and the protection of taxpayers' personal data, as well as non-technical aspects, such as regulatory changes, the development of technological infrastructure, and increased digital literacy among the public. Each country has different conditions, so the approach to digital transformation in the taxation system also needs to be adapted to the respective local context (Vieira, 2021).

Digital transformation in the taxation system is expected to make a significant contribution to increasing state revenue and supporting more sustainable economic growth. However, the success of this transformation requires a planned strategy, supportive regulations, and collaboration between the government, the private sector, and the community (Millar & Sands, 2020).

Thus, this study aims to analyse the global opportunities and challenges in implementing digital transformation in the taxation system. Through this study, it is hoped that various potential benefits that can be optimised and obstacles that need to be overcome can be identified, so that the process of digital transformation can run more effectively and efficiently.

Research Methods

The study in this research uses the literature method. The literature research method, also known as a literature review, is a research technique carried out by collecting, analysing, and evaluating information from various previously published sources, such as books, scientific journals, articles, research reports, and other reliable sources (Carnwell & Daly, 2001); (Boote & Beile, 2005). This method aims to understand the development of knowledge in a field, identify research gaps, and explore relevant concepts, theories, and findings. With this method, researchers can develop a strong theoretical foundation, obtain historical and current perspectives, and enrich their analysis with evidence and arguments that have been put forward by previous researchers, thus making a significant contribution to the development of science (Yuan & Hunt, 2009).

Results and Discussion

Potential for Digital Transformation in the Taxation System

Digital transformation in the taxation system provides significant opportunities to improve efficiency, accountability, and tax compliance. Digitisation allows the tax authorities to automate many aspects of the taxation process, from taxpayer registration to the collection and supervision of tax payments. This automation can reduce bureaucracy and eliminate time-consuming manual processes, while reducing operational costs and increasing accuracy in tax collection. By using technologies such as data processing software and integrated information systems, governments can reduce errors in record-keeping and enable faster and more accurate verification processes (Valente, 2020).

One of the great potentials of digital transformation in the taxation system is its ability to increase transparency. Through the use of blockchain technology, for example, every tax transaction can be recorded permanently and cannot be changed, which allows for a clear audit trail that can be accessed at any time. This not only makes fraud more difficult but also increases public confidence in the taxation system. Such high transparency also facilitates supervision by independent parties and encourages government accountability in the use of tax funds (Ng & Darmansyah, 2020).

Digital transformation can also improve ease of access for the public in fulfilling their tax obligations. With the online taxation portal, taxpayers can file and pay taxes from anywhere and at any time, without having to physically visit the tax office. The portal is also often equipped with automated assistance services such as chatbots and step-by-step guides, which help taxpayers better understand the tax filing and payment process. This can reduce the administrative burden on taxpayers and improve overall compliance (Devereux & Vella, 2018).

In addition, big data analytics can be applied in the taxation system to identify relevant patterns and trends to improve taxation policies and detect irregularities or non-compliance. By utilising data from various sources, such as e-commerce data and banking records, the government can develop predictive models that help determine potential risks and focus on more targeted supervision. This allows for more efficient and effective use of resources in tax management (Olbert & Spengel, 2018).

The interoperability of the tax system with other national databases is also one of the benefits of digital transformation. With good integration between the taxation system and various government databases, such as population records, company registrations, and financial data, the tax authorities can quickly and accurately confirm the information provided by taxpayers. This minimises the opportunity for fraud and ensures that the information is always up-to-date and relevant (Bratton, 2022).

Overall, digital transformation in the taxation system has great potential to create a more efficient, transparent, and fair tax environment. However, its implementation requires significant investment in technology and infrastructure, as well as efforts to train tax officials and educate taxpayers on how to use the new system. However, with proper implementation, the long-term benefits of this digital transformation will have a significant positive impact on the country and society as a whole.

Opportunities and Challenges of Digital Transformation in Taxation

Digital transformation has touched various sectors, including taxation. In this digital era, governments around the world are shifting to more modern taxation systems, utilising information and communication technology to increase efficiency and effectiveness. Digital transformation in taxation offers a variety of profitable opportunities, such as more accurate data collection, easier tracking, and faster service to taxpayers (Warren, 2019).

One of the main advantages of digital transformation in taxation is the increased efficiency and accuracy of tax data management. Digital systems are able to reduce human error in tax recording and calculation, thus improving the accuracy of tax reports. In addition, the automation of the taxation process can speed up the processing of tax filings and returns, reduce the workload of administrative staff, and increase taxpayer satisfaction (Campbell, 2021).

Digital transformation enables tax authorities to monitor and supervise taxation activities more effectively. With digital systems, law enforcement can be carried out more transparently and accountably. The use of big data and analytics enables early detection of potential tax fraud and identification of certain trends and patterns that may indicate violations (Byrnes & Munro, 2019).

However, the implementation of digital transformation in taxation also presents its own challenges, one of which is data security. Taxpayer data protection is essential to prevent unauthorised access and leakage of personal information. Cyber-attacks and hacking attempts are serious threats that tax authorities must overcome to maintain integrity and public trust (Chittenden & Sloan, 2016).

Digital transformation in taxation also requires adequate technological infrastructure readiness and skilled human resources. The availability of sophisticated technological devices and a stable internet network is a prerequisite for success in this process. In addition, training and skills development for tax officials is essential so that they can operate the new system effectively (Fenwick & Vermeulen, 2019).

The implementation of a digital taxation system also requires significant investment. Technology procurement, customised software development, and system maintenance require a substantial budget. The government must consider these costs

in their budget planning and ensure that these investments provide long-term benefits that are commensurate with the costs incurred (Slemrod, 2015).

The transition to a digital taxation system requires the support and participation of all parties, including taxpayers. Education and socialisation to the public about how to use this new system is crucial. Taxpayers must understand how to fill in and report taxes digitally and the benefits obtained from this system. An effective information campaign can help overcome resistance and misunderstanding of change (James & Otsuka, 2019).

In the future, digital transformation in taxation is expected to continue to develop in line with technological advances. Innovations in artificial intelligence (AI), machine learning, and blockchain can be the main pillars in creating a more sophisticated and reliable taxation system. However, challenges such as data security and infrastructure readiness must continue to receive attention so that the goal of making the taxation system more efficient and effective can be achieved (Oats & Tuck, 2018).

By seriously addressing existing opportunities and challenges, digital transformation in taxation has great potential to support fairer and more sustainable economic development.

Conclusion

Digital transformation in the taxation system offers significant opportunities to improve efficiency and transparency in tax collection worldwide. With the adoption of digital technologies such as automation, data analytics, and blockchain, governments can track income and business transactions more accurately. This reduces human error and tax fraud and improves the credibility of the taxation system in the eyes of the public. In addition, with better technological facilities, taxpayers can experience a simpler and faster process in fulfilling their tax obligations, encouraging higher compliance.

However, this transformation also presents challenges that cannot be ignored. One of the main challenges is the need for large investments in technological infrastructure and human resource training in order to effectively utilise new technologies. In addition, cybersecurity threats are a major concern, where sensitive tax data must be protected from unauthorised access and potential attacks. Adapting regulations and policies to keep pace with technological developments also requires significant time and effort, as well as harmonising the legal framework at the international level to address the complexity of cross-border transactions. These challenges need to be addressed strategically to ensure a successful digital transformation of the taxation system.

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