

Caribbean Regional Technical Assistance Centre



E-Filing and E-Payments – The Way Forward

**Denise Edwards-Dowe
CARTAC Tax Adviser**

Paper presented at
Caribbean Organization of Tax Administration (COTA) General Assembly

Belize City, Belize
July 2008

Table of Content

I. Introduction	3
II. Background	4
A. The Manual and Partial-Electronic Self Assessment, Payment, and Return Processing Systems	4
B. Definition of E-Filing and E-payments	6
C. History of E-Filing and E-Payments Systems	6
III. Electronic Filing and Payment Systems	8
A. Benefits of E-Filing and E-Payment Systems	8
B. Challenges in Implementing E-Filing and E-Payment Systems	9
Tax Agencies Concerns	10
Frequently Asked Questions by Taxpayers	11
IV. Lessons	12
V. Concluding Remarks	13
References	14

I. INTRODUCTION

The purpose of this paper is to set out the potential opportunities and challenges of modernizing manual (paper) return filing and payment systems with electronic filing and payment systems. The paper draws on (1) surveys conducted by the Organization for Economic Co-operation and Development (OECD) and the United States Internal Revenue Service (IRS); (2) a draft paper written by Mr. Paulo dos Santos of the Fiscal Affairs Department of the IMF; and (3) publications by accounting professionals.

The use of technology to improve the effectiveness of tax administrations and expand taxpayer services has come to attract increasing attention in developed and developing countries. Governments worldwide have increasingly been demanding substantially more effective use of modern technology systems for the delivery of services to citizens. Often, they implement ambitious e-government projects and most modern tax agencies have also responded by expanding the scope and nature of electronic services offered to taxpayers and their agents.

The paper has a narrow focus (i.e., e-filing and e-payment/refunds) since it can be argued that electronic methods are critical to all revenue administration processes. For example, at the front-end, there are opportunities for on-line registration and taxpayer support systems while the back-end potential include the improvement of audit and enforcement methods, based mainly on risk management methods.

The increased focus on the provision of electronic services reflects a growing view that tax administrations must create an enabling environment to encourage voluntary compliance and enforce the law effectively. Individuals and businesses are becoming more receptive of the idea of transferring confidential information electronically e.g. via computers, blackberries and other similar devices, and tax administrations should be prepared to use these new technologies to improve taxpayer services and compliance, and enhance revenue collections.

The benefits of introducing e-services to the public are enormous as experienced by some modern tax administrations, however, tax administrations in developing countries, though very much willing, face the added burden of finding adequate financial and human resources to implement these services. In several cases, where such funding is available, e-filing and e-payment systems may not be efficient because the underlying administrative processes have not been reviewed. In addition, many tax administrations in developing countries have limited resources for IT.

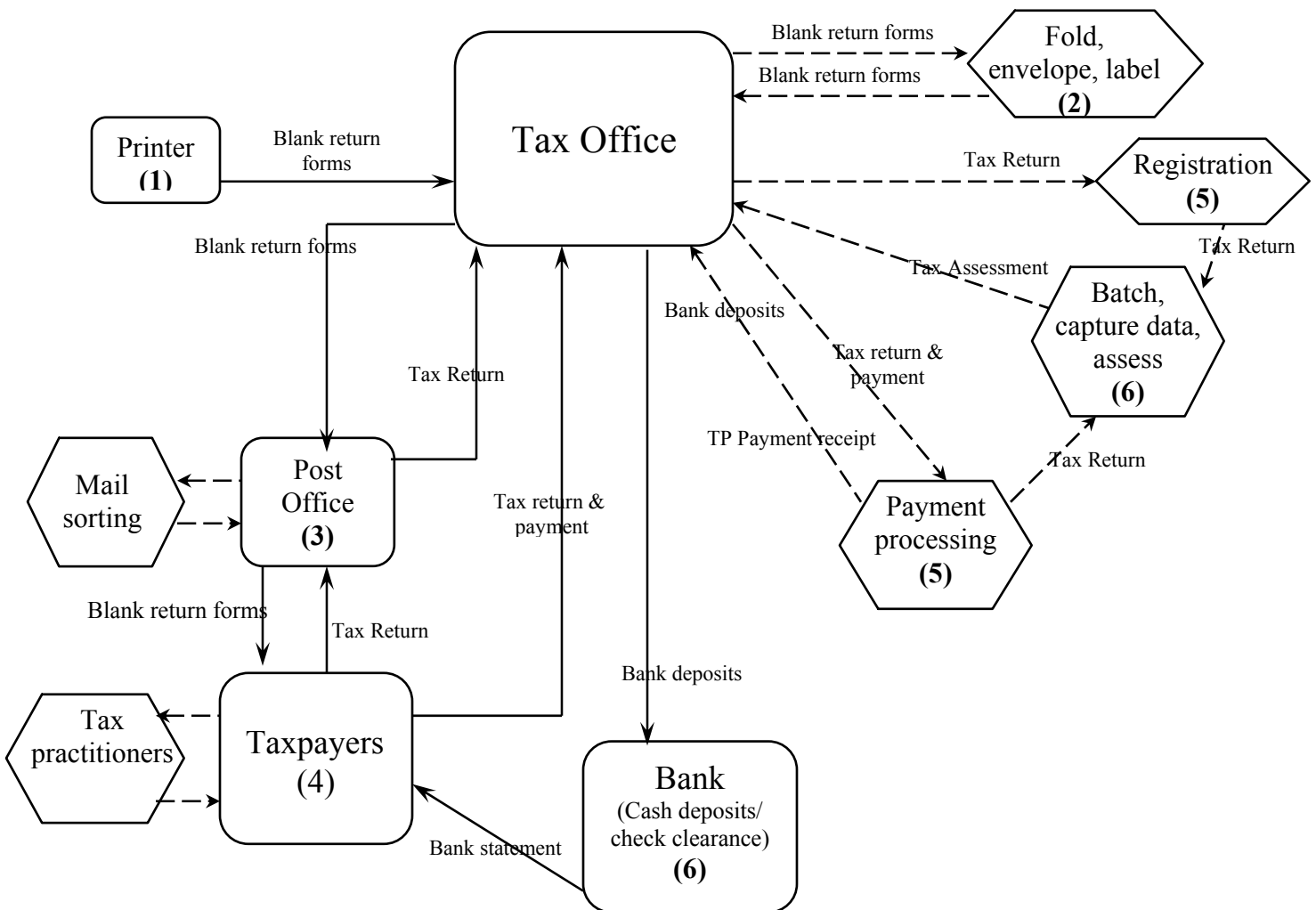
This paper sets the tone for further discussion on the introduction of e-filing and e-payment systems in tax administrations. Section II reviews the manual and partial-electronic systems used by some CARICOM countries; provides a definition for e-filing and e-payment; and gives a brief history of the e-filing and e-payment programs. Section III then focuses on the potential benefits of e-filing and e-payment systems and highlights the challenges of implementing these systems. Section IV discusses the lesson learned based on other countries experiences.

II. BACKGROUND

A. The Manual and Partial-Electronic Self Assessment, Payment, and Return Processing Systems

Most tax administrations grapple with the issue of minimizing administrative and compliance costs. The issue is most pronounced for tax administrations in developing and transition or middle-income countries with limited financial resources and corresponding pressures to produce increased revenue. Most of these tax administrations operate costly manual and partial-electronic systems with inefficient processes. Figure 1 provides an example of the manual partial-electronic filing system used by some CARICOM countries. Despite its deficiencies, the current system is a major upgrade when compared to what existed up to the mid 1990s – it has eliminated the use of cash books, taxpayer account cards and the blank assessment forms.

Figure 1. Manual Return Filing, Payment and Processing System used in some CARICOM Countries



On the surface, the chain shown in Figure 1 appears to flow quite smoothly, however, the system falls short of the requirements of a return filing, payment and processing system for a modern tax administration.

Firstly, the process of issuing blank return forms and receiving completed returns is costly and slow. Tax administrations using the manual system spend enormous amounts of time and financial resources to print blank return forms and fold and stuff these forms in envelopes (in many instances, temporary staff are recruited). The process is delayed further as the mailing system in many countries is slow and often the form reaches the taxpayers after the end of the filing period. Taxpayers also spend time repeating entries, which they may maintain electronically, on the manual returns.

Secondly, most taxpayers in these tax administrations make payments (in person) at the tax office, treasuries and at the bank. The payments in tax offices and treasuries result in very long queues and the need for larger public service areas and additional cashiers to receive and process payments. A high volume of checks are returned by the banks, for a 'return fee', and staff must be assigned to resolve returned check issues with the taxpayers.

Last but by no means least, is the slowness and inaccurate nature of the return processing system. Data entry for individual tax returns for any given tax period can take several months and in some cases up to two years, as the administration re-enters and reviews all the entries completed on each tax return. Irrespective of the reviews, there are several unspotted data entry errors each year, much to the annoyance of the taxpayers.

The potential for e-filing and e-payment is linked to other electronic processes in the tax administration. For example, information can be made available on-line and on websites for taxpayers. Taxpayers can also register and provide other relevant information (e.g., change of address and business) while the data stored by the administration can be used to improve audit and enforcement procedures through the implementation of risk management systems. Hence, while the paper focuses on filing and payments, a holistic approach is required to optimize the use electronics methods to improve revenue administration.

In summary under a manual system: (1) Taxpayers have to follow complex procedures to manually prepare their tax returns, leading to a high rate of errors; and (2) The data-entry of paper returns is cumbersome and time-consuming. Additionally, the processes – printing, enveloping, mailing, registering, cashiering – make a manual system very slow, costly, resource intensive, inaccurate and thus very inefficient. The significant challenges of the manual system has resulted in the introduction or planned introduction of e-filing and e-payment systems in many countries.

B. Definition of E-Filing and E-payments

E-filing

For the purposes of this paper we will define e-filing as the transmission of tax information directly to the tax administration using the internet. Electronic filing options include (1) online, self-prepared return, using a personal computer and tax preparation software, or (2) online submission of returns using a tax professional's computer and tax preparation software. Electronic filing may take place at the taxpayer's home, a volunteer site, the library, a financial institution, the workplace, malls and stores, or a tax professional's place of business.

E-payment

This paper defines e-payment as the transfer of money from a person's bank account to the tax administration's bank account using the internet. E-payments can be made online, at any time (during and after banking hours), and from any place.

Generally, under an e-filing and e-payment system returns are filed and payments are made via the internet and the tax administration sends an electronic confirmation acknowledging receipt of the return and/or payment. In the case of e-payments, the taxpayers also receive a debit confirmation from their financial institution.

C. History of E-Filing and E-Payments Systems

An e-filing program was first introduced by the US-IRS as a pilot project for the 1986 filing period with the primary objective of improving its efficiency in processing tax returns. Prior to the launching of the project, the IRS worked closely with tax-preparation software providers and tax professionals to ensure a successful launch of the program. During the test year, the IRS offered e-filing services in three cities and restricted the types of taxpayers and the types of return that could be filed electronically – e.g. tax preparers were only allowed to file returns with nil balances.

The pilot project was successful and the IRS gradually expanded the program to other cities and states and by 1990 were able to offer e-filing of balance due returns, followed by tele-filing in 1992 and e-payments in 1996. Table 1 provides details of how the United States e-filing rates for individuals have increased since its introduction.

**Table 1: IRS Electronic Filing for Individual Tax Returns
(in millions)**

Year	Total E-filed Returns	Total Returns	Percent E-filed
1986	0.025	102.1	0.02
1990	4.2	112.8	3.7
1994	13.5	114.9	11.7
1998	24.6	123.8	19.9
2002	46.9	131.7	35.6
2005	68.5	134.0	51.1
2006	73.3	136.1	53.8

Sources: www.irs.gov/taxstats/compliancestats/article
www.irs.gov/taxstats/indtaxstats/article
www.treas.gov/irsob/meetings

Based on the success and positive responses from the IRS program, several countries including the Australia, Canada, France, Spain and many Latin American countries have introduced e-filing and e-payment services. The e-filing and e-payment performances for these countries are shown in Tables 1 and 2.

Table 1: Use of E-Filing for PIT Returns – (Based on data gathered in 2004)

Country	Date of Introduction	% of Returns E-filed in Last Full Year
Australia	1990	80
Canada	1992	48
Spain	1999	9
France	2001	4

Table 2. E-filing Performances in some Latin American Countries in 2006

Country	Introduction of E-filing	Percent E-filed
Brazil	1997	98.41
Argentina	2002	82.86
Chile	1999	58.22
Guatemala	2001	29.23

III. ELECTRONIC FILING AND PAYMENT SYSTEMS

A. Benefits of E-Filing and E-Payment Systems

The key objective for tax administrations, particularly those in developing countries, is to maximize revenue collections by improving compliance through enhanced customer services. These tax administrations also operate with very limited budgets and, for these reasons, the administrations are inclined to explore the potential benefits of e-filing and e-payment systems. E-filing and e-payment systems can provide many benefits to taxpayers, tax practitioner and tax administrations, and these include:

E-Filing

- Convenience – returns can be filed at anytime (day or night);
- Increased customer satisfaction;
- Certainty of delivery and quick confirmation – provides immediate confirmation from tax administration that returns have been received;
- Fast refunds – allows taxpayers receiving refunds to get them sooner;
- Taxpayer privacy and security assured;
- Online help facilities and user guides;
- Use of online commercial tax preparation software;
- Eliminates error notices from tax administrations caused by data entry errors;
- Reduced operating costs for tax administration by reducing the cost of handling paper returns and the need to hire large numbers of staff to manually fold and stuff and open returns, sort attachments and capture data;
- Timely information on returns; and
- Improved data quality, thus reducing the risk of audits and penalties as returns filed electronically have a much lower error rate than paper returns.

E-payments

- Convenience – e-payment can be made at anytime and can also be scheduled for a later date;
- Safe and secure payment option;

- Reduced payment cost – used instead of checks and many banks provide free online payment services;
- Increased customer satisfaction;
- Speedy revenue collections;
- Reduced check handling costs; and
- Provides timely information on payments.

B. Challenges in Implementing E-Filing and E-Payment Systems

The basic prerequisites for implementing successful e-filing and e-payment systems are: (1) a reliable and accessible internet service; (2) cooperative financial institutions; (3) an IT oriented public; and (4) adequate financing to set up the appropriate infrastructure in tax offices. Ideally, the setting of an e-filing and e-payment system should form part of a comprehensive IT design, development and implementation strategy.

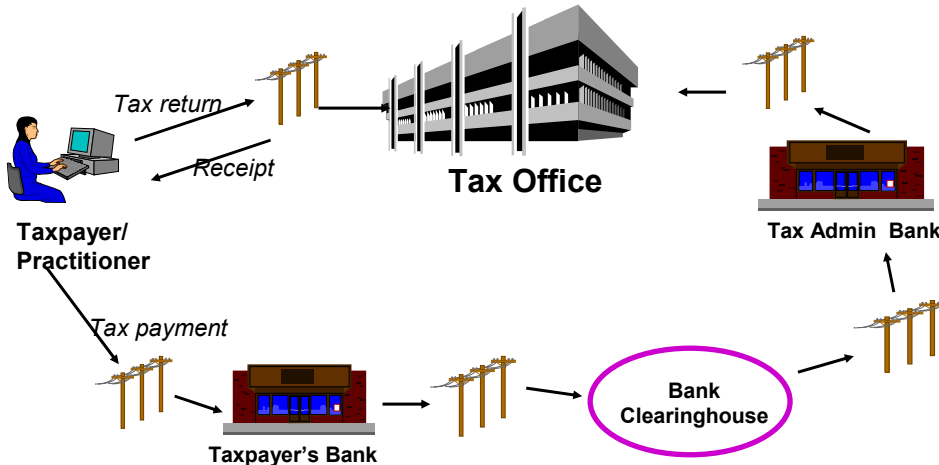
The implementation process for e-filing and e-payment systems begins with the development of a strategic business plan – documenting the ideas and actions, desired outcomes and the time frame for each component, taking into account the strengths and weaknesses of the tax administration and environmental opportunities and threats. The plan should also document the implementation strategy including the implementation approach. Many countries have taken a gradual approach by allowing voluntary e-filing and e-payment for select segments of the taxpayer base, e.g. individuals or companies only, in the initial stages to allow for live testing of the system. After testing is complete filing becomes mandatory for some taxpayers, e.g. companies.

The design of systems will depend on the environment within which the tax administration operates, the quality of its business processes, and the amount of funds available for system development. However, implementation of most e-filing and e-payments include the following three steps:

- (1) developing a program for the preparations of returns which:
 - (a) is extremely user friendly;
 - (b) allows data import from taxpayer's system; and
 - (c) has a special version for tax practitioners;
- (2) developing a system with appropriate IT modules and firewalls to receive and validate electronic returns; and
- (3) developing an electronic fund transfer system which:
 - (a) is safe and secure;
 - (b) permits taxpayers to schedule payments on different dates; and
 - (c) ensures the only amounts declared in tax returns can be debited from taxpayers bank accounts.

An ideal paperless return filing and payment system is shown in Figure 2.

Figure 2: An ideal Paperless Filing and Payment System



To support all of this, a project team should be appointed to lead the process and that team should include persons responsible for IT, business processes, legislative amendments and public education. The administration also requires modern computer equipment and a good IT platform.

Tax Agencies Concerns

Implementation of e-filing and e-payment systems require financial, political and technical support.

In many instances, the successful negotiation of financial resources for tax projects depends on the tax administration's ability to provide a cost/benefit analysis to the political directorate. During the first few years of operation, the cost savings are low, if any, because countries are forced to continue with overlapping manual systems as they try to increase e-filing and e-payment rates.

Additionally, a system of that magnitude requires significant IT expertise during and most importantly after implementation. Some tax administrations have found it difficult to retain good IT staff due to their inability to provide competitive remuneration packages vis-à-vis the attractive opportunities provided by the private sector.

Further, the transition from a manual, paper driven return filing, payment and processing system to modern electronic filing and payment systems can be a daunting and intimidating task for many tax administrations preparing to implement that system. In particular,

management will be concerned about: (1) taxpayers inability to sign the electronic returns (digital signatures and data encryption are the most appropriate – legislative amendments may be required to support e-filing system); (2) the security of the transfer of information e.g. integrity of the information and confidentiality; (3) the possible fraud risks; (4) their ability to address taxpayers concerns; and (5) their ability to achieve high e-filing and e-payment rates – will taxpayers use the system?

Staff will most likely be concerned about job security and moving away from their comfort zone (the manual system) into a new, unfamiliar IT environment. Furthermore, it is necessary to review and change the underlying business processes to avoid their automation—a problem that persists with automation in revenue administration reforms.

Frequently Asked Questions by Taxpayers

E-filing and e-payment systems should be designed to make life easier for taxpayers and therefore, improve tax compliance. In addition to the simplicity of the system, taxpayers must become comfortable with the idea and process of filing their returns and making payments online. They depend on the tax administrations to provide timely feedback on a range of queries including questions pertaining to the security and benefits of the system (filing/payment). A list of frequently asked questions can be seen in Box 1.

Box 1. E-filing and E-Payments – Frequently Asked Questions

- How does e-filing and e-payment work?
- What are the benefits of e-filing and e-payment?
- Am I eligible to e-file?
- How can I e-file and e-pay?
- Is it safe and secure to e-file?
- Can a third party e-file for me?
- What if I owe money when I e-file - how do I pay?
- Is it safe and secure to e-pay?
- Can I set-up a special account to e-pay?
- Is there a fee to e-file or e-pay?
- How do I know if my e-filed return has been received?
- Do I need to submit any paperwork or supporting documentation if I e-file?
- How do I sign my electronic return?
- How do I amend my e-filed return?

Overall, the main concern for most taxpayers would be the use of the e-payment system as many taxpayers may be reluctant to provide bank account information to the tax office. Table 3 shows the e-payment rates for a few Latin American countries.

Table 3. E-payment rates in in 2006

Country	Percent E-paid
Brazil	27.83
Argentina	13.01
Chile	31.73
Guatemala	29.23

IV. LESSONS

Although the implementation of electronic filing and payment systems has been successful in most countries, there are several lessons to be learned from countries experiences.

1. A good public awareness program is required to achieve high e-filing take up rates. The public awareness strategy depends on the culture of each country, e.g. direct telephone calls to taxpayers and practitioners worked very well for the authorities in Denmark, however, many developed countries found the use of flyers to be ineffective as these flyers get lost in other junk mail. Some countries realized increased participation in the program as a result of explanatory information provided to taxpayers, tax forums and education seminars.

Perhaps even more important is the provision of adequate and timely information after the system is fully functional, to stimulate growth in the e-filing and e-payment rates. A plan to address the needs of customers should be developed and implemented after the launching of e-filing and e-payment programs.

2. Relationship building with other interest groups during the implementation process is critical. The development of an e-payment system must be done in conjunction with local financial institutions. Countries that have partnered with financial institutions, tax practitioners and other organizations have seen greater acceptance and use of the system and higher satisfaction levels. An especially important aspect is the face-to-face interviews with tax practitioners in the early stages of development of system due to their important roles. These tax practitioners assist the tax administrations to promote the use of the system.

3. There is a need to test the system during the initial stages of its launching. Testing should be conducted to ensure functionality of the system including testing to avoid false entries into the system. Many countries recommend a gradual implementation approach until the system is fully tested.

4. There is a need to develop and implement e-filing and e-payment service standards from the outset to measure and report the performance achieved.

5. The use of incentives has increased the take up rates in many countries – the most common incentives are supplying free return preparation programs, providing faster refunds, and extending e-filing and e-payment due dates.
6. In many countries staff have resisted the adoption the e-filing and e-payment systems and in some instances have challenged the legality of the system.

V. CONCLUDING REMARKS

The use of electronic services to improve tax administrations' efficiency and provide enhanced taxpayer services has become one of the main objectives of many tax administrations. This paper has focused on the provision of e-filing and e-payment services. It has covered a few salient points but is by no means exhaustive. Many developed countries, for instance, offer tele-filing, electronic requests for filing extensions and electronic request for tax clearance to compliment the e-filing and e-payment services. These e-services are available for income, value added and payroll taxes.

This paper has provided e-filing and e-payment systems as options to be considered by countries using manual systems. It has highlighted the benefits and challenges of such a system and has shared some countries experiences with these systems. In short, an e-filing and e-payment system, if well developed can provide many benefits to taxpayers and tax administrations – reduced costs, accuracy and timely data, convenience, quick collections etc. However, as seen with the introduction of e-filing and e-payment in many countries, the filing and payment rates may be low during the first few years of programs e.g. the US attained 50% e-filing rate after 20 years. Although research indicates that e-filing is generally perceived as an exciting and positive development for taxpayers, tax administrations must partner with third parties and continuously market the program to achieve success.

REFERENCES

Anderson, Tracey; Fox, Mark; Schwartz, Bill N., 2005, "History and Trends in E-filing: A survey of CPA Practitioners", Publication of the New York State Society of CPAs.

California Society of Enrolled Agents (reprint), 2003, "Benefits of E-filing Your Tax Returns Outweigh Perceived Drawbacks".

Dos Santos, Paulo, 2007, "Electronic Filing and Payment", draft Discussion Paper, International Monetary Fund (IMF).

Organization for Economic Co-operation and Development Centre for Tax Policy and Administration, 2005, "Survey of Trends in Taxpayer Service Delivery Using New Technologies".

Organization for Economic Co-operation and Development Centre for Tax Policy and Administration, 2005, "Achieving Success With Electronic Services – The Importance of Having a Sound Business Architecture", (Forum on Tax Administration Taxpayer Services Sub-group).

Organization for Economic Co-operation and Development Centre for Tax Policy and Administration, 2006, "Strategies for Improving the Take-up Rates of Electronic Services", (Forum on Tax Administration Taxpayer Services Sub-group).

Woolf, King, 2004, "Closing the Gap Between Recognizing and Realizing the Benefits of e-Filing", (*Trustfile*).