

DIGITALIZATION AND REMOTE COMMUNICATION WITH THE TAX ADMINISTRATOR IN THE TIME OF COVID AND POST-COVID

Abstract

Today's rapid times with the rapid development of technology require a change in the performance of obligations of citizens and companies to the state. Whereas in the past we were content with the paper form of communication, now we are slowly abandoning it. The entire process has now been accelerated by the Covid-19 pandemic. However, the reaction time varies from industry to industry. In public administration in general, gradual digitalization is inevitable, but very slow. This happens due to a number of factors, such as the transparency of public procurement, insufficient system readiness or insufficient staff qualifications. Last but not least, a lot of sensitive data is sent when communicating with the tax administrator, so emphasis must also be placed on cyber security and data protection. It is the public sector in the Czech Republic that often faces the problem of outdated systems that have not been improved and changed for many years. Another long-discussed issue is the interconnectivity of individual systems that did not communicate with each other. This paper deals with changes in communication with the tax administrator on the example of the Czech Republic. The paper emphasizes the state before and during the Covid-19 pandemic, and predictions of the future development of digitalization in the tax administration.

Keywords: Digitalization, the Czech Republic, Covid-19, Remote communication, Tax administration

Introduction

Communication with the authorities and the financial administration is an essential step in preserving the rights and obligations of taxable persons. The communication itself has undergone a significant change over the years. Most developed countries have managed to move from physical, personal communication to partially digitized communication. Each country organizes its own tax policy, including the tax administration, and this results in different regulations and procedures. For the purposes of this contribution, it is therefore necessary to limit oneself to the example of one country. In this case, the Author chose the Czech Republic, as it is the country of her origin and her research in this area is of a longer-term nature.

It is clear that some countries are ahead in the digitalization initiative. In this area, we can also see, in addition to the individual procedures of individual states, a joint initiative of several states. For example, the Forum on Tax Administration was established in 2002, under the auspices of the OECD [<https://www.oecd.org/tax/forum-on-tax-administration/about/> (access 30.09.2020)]. Currently, the FTA has 53 members (the Czech Republic is also a member) who seek to identify global trends and potential problems. The Forum addresses topics such as the fairness, efficiency and effectiveness of the tax administration in the Member States of the Forum. The Forum also regularly issues publications summarizing progress in this field and cooperation of individual members.

The paper deals primarily with the digitalization of the Czech tax administration. The aim of the paper is to outline the history of digitalization in the Czech Republic, to describe the current state and to outline the future forecast of the speed of digitalization in the Czech Republic. The hypothesis is set out as follows: The development of the use of digital communication with the tax administrator was accelerated by the Covid-19 pandemic. In order to determine whether the hypothesis will be confirmed or rejected, it will also be necessary to answer the questions: What is the state of digitalization of the tax administration in the Czech Republic? And how has this condition changed during the Covid-19 pandemic? The Author will use methods of description, deduction and prediction to find out whether hypothesis will be confirmed or not.

Theoretical background

In order to be able to deal in detail with the issue of this paper and to confirm or refute the hypothesis, it is necessary to define the basic concepts with which the paper deals.

Digitalization is the technology of transfer a document content to another medium. That concerns conversion of the analogue documents (images, video, audio, text) to the digital form [http://aleph.nkp.cz/F/?func=direct&doc_number=000001728&local_base=KTD. (access 30.09.2020)].

Once we are dealing with digitalization of tax administration we should understand digitalization as a transition from an analogue form of communication with the tax administration to the digital form of communication. According to Veber: “Digital transformation in the Czech Republic, as in many other countries, is taking place on two levels. The first is the private sector, which implements various, but in most cases partial, applications. The second are government organizations, which on the one hand implement part of the activities related to the digitalization of public administration, and on the other hand develop a number of programs to support the development of digitalization in the Czech Republic” [2018, p. 50]. Base on the above mentioned, it could be said that both types of digitalization are currently on different levels.

Sometimes terms digitization and digitalization are two conceptual terms that are closely associated and often used interchangeably in a broad range of literature [<https://www.forbes.com/sites/jasonbloomberg/2018/04/29/>

digitization-digitalization-and-digital-transformation-confuse-them-at-your-peril/#192de0822f2c, (access 30.09.2020)]. According to Gartner’s dictionary, digitalization is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business. For the purposes of this paper the Author chose the term digitalization, which is according to the Author more appropriate.

Development of digitalization in the Czech Republic has nowadays its legislative base in the Act No. 12/2020 Coll., on the right to digital services, as amended (also called Digital Constitution). It is the base for the possible further development of the digitalization of public administration in the Czech Republic. As the legal act is quite new, there is no further linkage to tax administration yet.

Tax administration includes all relationships between taxpayers and tax administrators [Radvan 2020, p. 88]. Tax payers in the Czech Republic are natural and legal persons. According to Radvan a taxpayer is a person whose income, property, or acts in law are directly liable to tax. In the Czech Republic we determine also a payor who is a person who has a material liability to transfer collected or withheld taxes from the taxpayer to the tax administrator [Radvan 2020, p. 89].

Tax administrator is a state employee, but generally it is the body of state administration who should take care about the main purpose of tax administration in the Czech Republic. This purpose is set by the Act no. 280/2009 Coll., Tax Procedural Code, as amended (hereinafter as “Tax Procedural Code”) and it is correct identification and determination of taxes and securing of their payment [Tax Procedural Code: Sec. 1, subsection 2]. Tax Procedural Code together with Act no. 456/2011 Coll., on financial administration of the Czech Republic, as amended, should be concerned as the most important acts of tax administration.

Past development of digitalization in the Czech tax administration

As everywhere in the world, communication with the authorities has undergone significant development in the Czech Republic. First, there was interaction in person and by postal services. However, both options are very limited. The most common obstacles to personal communication with the tax administrator are limited office hours and the availability of tax offices. In the case of postal services,

there may be a situation where the item is delivered late, destroyed or does not even arrive at the addressee at all. In the case of the use of postal services, it was also necessary to think about sending things in advance so that they arrived on time.

As already mentioned, times have gradually changed. Already in 2000, Act No. 227/2000 Coll., on electronic signatures, as amended, was adopted. This Act was later repealed and replaced by Act No. 297/2016 Coll., on services creating trust for electronic transactions, as amended. Above all, this change was intended to ensure greater use of this technology. The processing of electronic signatures is now harmonized in the European Union through European Union Regulation No. 910/2014 on electronic identification and trust services for electronic transactions in the European internal market (often referred to as eIDAS).

Electronic signature thus gradually became known to users and began to be widely used, for example, for signing VAT returns or for electronic communication with the tax administrator.

The electronic signature is based on certification services and in the Czech Republic it can be arranged only with qualified sub-providers maintained by the Ministry of the Interior of the Czech Republic (eg. Česká pošta, s.p.) [<https://www.mvcr.cz/clanek/prehled-kvalifikovanych-poskytovatelu-certifikacnich-sluzeb-a-jejich-kvalifikovanych-sluzeb-320051.aspx> (access 30.09.2020)].

Based on eIDAS, the electronic identity (e.g. electronic signature) will be used for another tool for digitizing communication with the tax administrator in the Czech Republic.

The data box is an electronic repository defined by Act No. 300/2008 Coll., on electronic acts and authorized conversion of documents, as amended. Data boxes are used to deliver electronic persons between legal and natural persons and between financial administration. An important fact is that in the Czech Republic, state administration bodies are obliged to have a data box set up. Legal entities registered in the Commercial Register have the same obligation. For most other entities, setting up a data box is voluntary. With the introduction of the data box, public authorities are obliged to send documents to the addressees preferably using the data box. The data box is available at www.mojedatovaschranka.cz.

The introduction of the data box prevented obstructions in the delivery of tax related issues. Transferring documents using a data box is fast and more efficient than with standard mail. Entities that have a data boxes set up must file tax returns through them.

The last of the important tools of remote access is the tax information box. It is defined in Section 69 of the Czech Procedural Code.

This concept was magnificent and the future of communication with the tax administrator lay in it. Historically, there have been some major problems with the implementation of DIS. For example, the implementation date was postponed by a quarter of a year in 2014 because the IT systems were not properly prepared. Another problem soon appeared when the data displayed in DIS could not be relied on and many times it was wrong. Unfortunately, their value is only informative, even nowadays [<https://www.businessinfo.cz/clanky/digitalizace-ucetnictvi-kulha-danove-informacni-schranky-vyvolavaji-zmatek/> (access 30.09.2020)]. Although the development of DIS has shifted since then, the authors still recommend that the offered list should be indicative.

In the tax information box, it is thus possible to view the personal tax accounts of tax subjects, their statuses; the tax information box also allows to see an overview of documents, a personal tax calendar or information about a tax subject [https://adisspr.mfcr.cz/adistc/adis/idpr_pub/dpr_info/co_je_to_dis.pdf (access 30.09.2020)].

Access to the tax information box is possible in cases when a tax subject has access to the data box or possesses Qualified Certificate. Subsequently, it is necessary to submit an electronic “Application for the establishment of a Tax Information Box”.

The main reason why tax information box is useful, even with lot of imperfections, rises from the possibility to control tax affairs. Plenty of tax subjects are paying their attention mainly to their own business and their tax affairs are not that important for them. But there are some occasions when it is worth it.

Although DIS is still imperfect and has only limited functions, thanks to it, it is possible to monitor mainly possible underpayments on individual taxes and possible sanctions resulting from them.

The importance of a clear and accessible display of the status of individual tax accounts of a tax subject can be shown not only on the example of sanctions for arrears, but also on the example of registered overpayment.

Specifically, the Czech Tax Code stipulates that if an entity does not request a refund of the refundable overpayment within 6 years from the end of the year in which the overpayment arose, the overpayment expires and becomes budget revenue from which the tax administrator who registered it is paid (this is stated in Section 155 of the Tax Procedural Code). It is therefore very important to be interested in what happens on each personal tax account, what the balance on the account is or to ask tax authority to send the records, which should be not only informative but right. This could be done via short request send directly to the tax authority and it should contain the time period of records you would like to be sent. It is possible that a refundable overpayment will arise without being noted by an average taxable person. In such case it is very important to act and be aware of the balances.

Current situation and the impact of Covid-19 disease

The Czech Republic lags far behind in digitalization in general compared to other European countries. There are definitely positive developments in this area, which the Authors will demonstrate below, but in comparison to other Member States of the European Union, the Czech Republic in 2018 was ranked 22nd out of 28 Member States [http://ec.europa.eu/information_society/newsroom/image/document/2018-20/5_desi_report_digital_public_services_B5DBE542-FE46-373383C673BB18061EE4_52244.pdf, access 30.09.2020)]. However, a significant number of factors is entering into the digitalization of public administration (from political priorities to constraints related to the level and extent of connectivity) that make the process itself highly variable and unique in each country [<https://www.gartner.com/en/information-technology/glossary/digitalization> (access 30.09.2020)]. In addition, the Czech Republic was ranked 27th out of 28 EU countries in the usage of e-services offered by public administration [http://ec.europa.eu/information_society/newsroom/image/document/2018-20/5_desi_report_digital_public_services_B5DBE542-FE46-373383C673BB18061EE4_52244.pdf, access 30.09.2020)].

The main change in the field of taxation now comes with the forthcoming amendment to the Tax Procedural Code. The amendment to the law is relatively extensive and affects almost all areas of the tax process. Regarding

digitalization, it mainly focuses on the MY TAXES project, which is an extension of the functions of the Tax Information Box. My taxes (in Czech My Taxes) is to be a platform for modern and simple communication and management of tax matters. MY TAXES project should also include great possibilities of remote actions and legal filings during tax audits.

The amendment to the Tax Code, the final version, was signed by the President of the Czech Republic in summer 2020 [<https://www.dreport.cz/blog/senat-schvalil-novy-navrh-novely-danoveho-radu-k-prijeti-zbyva-uz-jen-podpis-prezidenta/> (access 30.09.2020)]. The amendment will be effective as of 1st January 2021.

It would now have the possibility to provide a tax subject with useful information and advice through notifications (there is no idea yet what it will look like). As already mentioned, the portal will use existing Tax Information Boxes.

The law only regulates the legislative basis for future development, it still depends on the technical capabilities of the tax administrator to make the tool available. If the technical capabilities of the tax administrator allow this, they must publish this information and at the same time publish that they are allocating access data. It does not oblige the tax administrator to make full use of these possibilities. The law explicitly mentions the responsibility for possible misuse of data.

The law explicitly regulates the function of filing from a new tax information box as a filing made by a tax subject. It is still not a full-fledged view of the file. The timeliness and scope of the information depend on the technical capabilities of the tax administrator. The tax information box is left as optional by the amendment. In addition to information for taxpayers, the new portal should also offer the possibility of active and passive communication with the tax administrator, for example, the possibility to file tax returns via online forms, which will allow a certain degree of pre-filling the data of taxable persons. However, communication should also work in the opposite direction, i.e. from the tax administrator to the tax subject, in the sense of delivering documents. The Ministry of Finance estimates that the portal will be launched in the last quarter of 2020.

All the information should be posted on the website www.mojedane.cz. Unfortunately, the government is posting less information than in the past. On the other hand, the development of the new system should be in progress.

The situation of digitalization of the Czech Tax Administration without the effects of the Covid-19 pandemic was set above. However, it was the pandemic that affected the digitalization to a large extent, and the main components of the digitalization, which it significantly affected, will be listed below.

Already during the first wave of the Covid-19 pandemic, the office hours of tax administrators were reduced in the Czech Republic. At present (as of October 2020), office hours are being reduced again [https://www.vlada.cz/cz/epidemie-koronaviru/dulezite-informace/mimoradna-opatreni-co-aktualne-plati-180234/#cinnost_uradu, (access 30.09.2020)]. It is these restrictions that force taxpayers to look for other forms of communication, and at a time when taxpayers' fear of Covid-19 is prevalent, this is not surprising. What is left is telephone or correspondence communication. Some tax entities have started to use the tax information box more. The tax authorities in the Czech Republic are used to deal with a lot of documents with tax subjects in person. To some extent, this has also passed. And personal contact is now limited to exceptions of personal discussion of documents necessary by law. A significant change here will be the amendment to the Tax Code, which provides a restriction of personal discussion of documents. For example, a report on a tax audit or the commencement of a tax audit should take place remotely.

The era of Covid-19 and related tax incentives to support the economy has also forced more taxpayers to follow the official website of the financial administration, which has become more or less the only comprehensive source of tax incentives.

It can be assumed that the work on My Taxes portal will be affected by the shortage of staff who are currently working on projects related to the fight against Covid-19. Therefore, the final implementation of My Taxes could be postponed. Unfortunately, there is currently no more information on this.

It can be concluded that digitalization is slowly but surely finding a place in the Czech tax administration. Undoubtedly, these are steps that make financial management more efficient and faster. Current tools are not yet perfect and the whole process of digitization is also affected by the Covid-19 pandemic. It cannot be said that the temporary impact of the pandemic is only to speed up the digitalization process, some aspects of the pandemic also hamper digitization. The great advantage now is the approaching

effectiveness of the amendment to the Tax Code, which, as the Author believes, will move the digitalization of the tax administration even further.

Future prediction and Conclusion

Through the COVID-19 pandemic, people have realized how important it is for authorities to be able to maintain their function digitally. Authorities and ministries have experienced what it is like to work remotely without digitalization. After this experience, the public organizations found out how much easier is to make and evaluate applications when the filings are made electronically instead of on paper. The COVID-19 pandemic helped a lot in the pressure to accelerate digitalization.

The Author of the paper sees a great potential of MY TAXES portal. It could be expected that in the future we will communicate with the tax administration on a basis similar to electronic banking, through which we will not only be able to pay our tax obligations, but also handle all documents and communication with the tax administrator. This would mean a great simplification and a step towards clarity of tax processes and management in the Czech Republic. As always before the implementation of a new platform with such extended functionalities compared to the original tax information box it is especially important what the authors of the new system will do and how they will manage to bring all functionalities to life to really make work easier. Another question is the time horizon in which this platform will be accessible to people.

Today, no one can say with certainty when the tax administration of the Czech Republic will be fully digitized or when the effects of the Covid-19 pandemic will end. It is possible to predict only an increase in cooperation and communication between tax subjects and tax administrators in the online environment. The Author believes that the government will soon create the best possible conditions for more efficient administration and collection of taxes at a distance.

Based on the all above mentioned, the hypothesis that the development of the use of digital communication with the tax administrator was accelerated by the Covid-19 pandemic was confirmed.

Lastly, future digitalization should focus not only on the speed of implementation of new systems, but also on cyber security. Especially in tax administration, sensitive data and trade secrets are very often treated, so this data

must not be endangered in any way on the way to the efficiency of tax administration.

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