Digitalization and Public Finance

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• Digitalization
• Implications for fiscal policy
• Scope for innovations in policy design
• New challenges
• Way forward
Subject of a Recent IMF Book...

The book can be downloaded from: http://www.elibrary.imf.org/drpf
I. Digitalization

Data Capture

Data Storage and Availability

Data Processing

Data Analysis

Data Sharing and Linking
I. Digitalization

- DOING THINGS BETTER
- INNOVATIONS IN POLICY DESIGN
- NEW or INTENSIFIED FISCAL POLICY CHALLENGES
II. Implications for Fiscal Policy

- Tax authorities capture private sector data
- Tax authorities creating a profile of individual income
- Digital platforms allow access to data across gov’t departments
II. Implications for Fiscal Policy

- Growth in Peer-to-Peer platforms
  - Withholding agent (hotel taxes by Airbnb)
  - Third-party information
- Cross-border exchange of information
- Digital tax administration systems
  - E-filling, e-invoicing
  - Pre-populated tax returns
  - Mobile technology
II. Implications for Fiscal Policy

- Biometric identification and digital payment systems
  - Cuts bureaucratic inefficiencies
  - Improved targeting and delivery of benefits and public services
- Availability of real time fiscal data
  - Better monitoring of economic activity
  - Better forecasting and budget preparation
III. Scope for Innovations in Policy Design

More efficient tax design:
- A longer time horizon for income tax
- Progressive individualized VAT

More targeted subsidies/benefits
III. Scope for Innovations in Policy Design

Use of big data for assessing the impact of tax and spending policies

Use of blockchain technology for customs administration; replace VAT?
IV. New Challenges

- **Privacy Considerations**
- **Cybersecurity**
- **Digital Inclusion**
- **Institutional Capacity**
IV. New Challenges

Defining ‘Physical Presence? Rethink Source vs. Destination

AUTOMATION

TAX?
V. A Way Forward

- There is urgency of government action to harness the opportunities afforded by digitalization and mitigate its risks
- Each country’s path to digitalization depends on its circumstances
- “Leapfrogging” by developing countries is possible
- But all countries must act including by strengthening their fiscal, political and governance institutions to deal with challenges arising from digitalization
Thank You