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## **I. INTRODUCTION:**

*“The profound shifts in people's routines and lifestyles brought on by the digital age are the subject of this controversy has contributed to the development of the "digital disruption" phenomenon. As a result, it is inevitable that society will become entirely digital impacts economic activity and fundamental business strategies, halting, or interrupting them. This necessitates a change that is not always straightforward. They are unavoidable and harmless, regardless of whether we are discussing farming banking, retail, manufacturing, and service provision Platforms, the Internet, and the growing use of smart devices have made it possible to communicate quickly and cheaply with current software applications commercialization of concepts. We are witnessing a rise in limitless innovation and entrepreneurship as we expand into new markets<sup>1</sup>, as opposed to a small number of mega-corporations' restrictions and is much more flexible in response to new circumstances and user preferences demands (2016 ICAEW).*

*The foundation and operation of have been profoundly affected by the disruptions brought on by the digital age economy. A negative impact on taxation is one consequence. To support virtual businesses that operate internationally, tax regulations are insufficient. Nine out of the twenty largest corporations by market cap worldwide were not digital, according to the numbers. One of the twenty businesses included exclusively dealt with digital products. The most difficult problem is figuring out how to get the most out of this trend. A sustainable economy depends on internet businesses successfully collecting taxes. As established by governments all over the world, the primary objectives of taxation are **to enhance the collection and reporting of taxes**. This indicates that tax reform is required in a digital environment (European Commission, 2017; 2018 European Commission). The shift, it is advised to pursue two tracks concurrently: **first, changes to tax regulations and rates, then reform of the national tax system and methods”**.*

<sup>1</sup> Center for Policy and Governance, 2015. E-registers and e-government in Bosnia and Herzegovina as an instrument for efficiency and transparency. <http://www.cpu.org.ba/media/28010/E-registri-i-e-uprava-u-BiH-kaoinstrument-za-efikasnosti-transparentnost-sazetak-.pdf>, visited on 24<sup>th</sup> October 2022

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## **II. HISTORY:**

Digitalization of tax administration and procedures is necessary to establish the foundation for this tax reforms that modify the system further. It is essential to construct a solid tax administration system. Tax reform will be impossible without a more specialized workforce and a reliable information system. A fair and long-term tax structure is required for digital businesses to be taxed in accordance with a strategy to encourage economic expansion (*European Commission, 2017; (Simms & Juswanto 2017)*). One major effect of business digitization is an increase in tax evasion, *IOTA (2016) OECD (2013), (2015), and 2017 (b)* Lipniewicy. The act of avoiding tax obligations in whole or in part is known as "*evading taxes*". Tax avoidance that is legal and not legal must be distinguished. Taxpayers engage in activities that are not illegal but are intended to reduce a person's tax liability, or legal evasion, as it is more commonly referred to when someone avoids paying their financial obligations, they frequently become involved in criminal activity. Should a taxpayer attempt to avoid paying taxes by illegally avoiding payment of taxes? In light of the fact that this pertains to a deliberate action taken to defer or halt an already-due tax payment.

We will examine the history, present, and future of digital federal tax system reform in this essay. External and internal factors may have contributed to the outcome of the need for such a shift. The most important part of the whole is the constant. To keep up with modern society, tax administration must change. The issues are the result of uncontrollable factors due to the state of the economy, the absence of revenue for the government, the requirements of international financial organizations, and/or EU requirements. Contrary to popular belief, demonstrating to taxpayers worldwide that tax authorities can embrace change by embracing the digital transformation, reflecting on the past, and anticipating the future. Recent studies show that digitalization is already inevitable and will alter the tax system's cost-effectiveness. Problems are that there isn't a tried-and-true way to digitalize tax administration. "One" is the response. In every nation, things cannot be utilized to their full potential. In any case, it is absolutely necessary to emphasize the necessity of digital tax administration first. It is impossible to deploy a surge that only exists to make things happen using technology because

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it is impossible to make significant changes to social practices and structures without having significant consequences. There are some solutions to the problems that digitalization has caused, but prior to the fundamental automation of the tax system, a number of crucial and necessary strategic steps must be taken<sup>2</sup>. The first step is to recognize that goals must be achieved. Because of this, there needs to be political will, a lot of hard work, careful preparation, and a lot of effort. The most important question is whether the tax administration is prepared to work on such important issues as digitization's goals and similar issues, such as how to proceed and which tools can be used for this purpose. When it comes to taxes, where should you file, where should you file, and how should you handle the methods for locating online service providers and navigating the plethora of commercial offerings that are available over the Internet?

### **III. DIGITALIZATION OF TAX PAYMENT:**

The digitization of tax administration rests on the five pillars of technology, people, processes, data, and policies directing the management of funds, data, and potential tax risks. Data related to disability insurance and pensions would be centralized in an integrated IT system. The Ministry of Internal Affairs must first digitize tax filing before the Health Insurance Fund, Customs, the National Health Service, and the Administration, internet censorship, and tax collection are all functions of the government unchecked accumulation. The government will be responsible for covering the associated administrative costs in addition to paying some taxpayers' tax bills. As a result, there will be savings for both the government and taxpayers (*OECD (b), 2017*); *OECD, 2016*). The fact that technology appears to be a significant factor should not be taken as evidence that it is essential to consider human nature. Digital transformation is taking place in tax administration possible in a variety of ways, such as by providing tax officials with a final performance review (*tax technician*) and a standard or exceptional incentive and compensation structure. However, it is essential to prudently evaluate existing methods and data (*self-evaluation of digitalization*). Evaluation of Capacity before

<sup>2</sup> ERNST&YOUNG. 2017. Tax authorities are going digital. <http://taxinsights.ey.com/archive/archive-articles/tax-administration-continues-to-godigital.aspx>, visited on 25<sup>th</sup> October 2022

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allowing in fresh expertise and materials. The manner in which the government spends its funds is the next major issue. It is generally accepted that every nation's representative has the primary sovereign authority to vote on the budget. Bodies of authority such as municipal councils, state and federal legislatures, and regional and local governments, the second crucial component is the fact that nearly all government budgets are annual<sup>3</sup>. Lastly, the rule that the Ministry of Finance decides how to allocate the A portion of the annual budget for the government to the tax administration agency. The fact that the government's mandate will only last four to five years is the fourth factor to take into account. The tax authority must plan far into the future if it is to function effectively. Regarding the public's relationship with the tax authority, we owe it to our taxpaying customers to be open about the obstacles ahead. The tax might play a role. There is a hidden authority structure in its domain. The person who shares information, defends it, offers alternatives, and solicits opinions is up to date with the state's effective communication methods; however, the tax administration's communication efforts are just beginning.

As a result, it's critical to understand that communication, whether it's a recommendation, announcement, explanation, or explanation, is extremely beneficial to all parties involved when it comes to creating and adhering to standards and comprehending taxpayers. Precision, consistency, and clarity are necessary for effective communication professionalism. There should be no chance that the tax office will provide data that is incorrect within its purview or jurisdiction. The community of taxpayers shouldn't get in the way or split up. Finally, the plan for public communication developed by the tax administration must encompass more than merely public education from the bench, but it should also get feedback from citizens, organizations, corporations, and internal sources. When tax authorities and taxpayers can communicate well, all the facts, questions, guidelines, and conclusions are laid out in a way that is easy to understand and comprehensive opportunities. The difficult task of going

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ICAEW. 2016. Digitalisation of tax: international perspectives.  
<https://www.icaew.com/en/technical/technology/technology-and-the-profession/digitalisationof-tax-international-perspectives>, visited on 26<sup>th</sup> October 2022

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paperless in tax administration necessitates significant modifications to the structure's description. However, using digital technology for management comes with a price. On numerous occasions, the administration's interactions with this kind of work have been tense. The issue is that, like any other business, tax administration occasionally fails. Work and technology are utilized with a sizable budget and the goal of developing its own computerized management and data storage system. Digitalization is a top priority for the Serbian government under the current administration the program's most crucial components. This interpretation is incorrect given the circumstances as merely another<sup>4</sup> "*politically acceptable but hollow endeavor*" that politicians put forth in an effort to win over voters.

It is likely to be demonstrated that going paperless with tax filing is a good idea by looking at the costs and benefits. Despite its high cost, administration is valuable. Consequently, when considering the potential effects of the tectonic shifts on the operation of Serbia's tax system. If we rely on the work of others to develop our information systems, their security and dependability may be compromised. Only IT experts: Taxpayers (*or their representatives*) and employees of tax agencies are not included. They just barely fit in from previous attempts we know that success is impossible. Similar to other government agencies, tax administration IT solutions cannot be successful without the involvement of senior officials. Similarly, to the IT message recipients. People now generally agree that tax. The administration should actively seek out suitable responses that would make taxpayers' contacts with the authority to levy taxes rather than lagging behind in embracing new technology. This indicates that numerous legal and technical issues, including checks, must be resolved and the dependability of electronic signatures, email addresses of taxpayers, payments, and other things. As a result of the transition to digital processes, tax collectors are not required to study, acquire new digital skills, or develop existing ones working as designed, corresponding to user expectations for software products. The three-click approach is now required because of digitalization. The term "*tax technologist*" may be used in studies that use data from the real world. By scanning the bar

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<sup>4</sup> Lipniewicz, R. 2017. Tax administration and risk management in the digital age. Information System in Management, Vol.6(1), 26-37, visited on 27<sup>th</sup> October 2022



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codes of products, the Administration's tax collectors can conduct a stock take. Any information that is gathered is sent to "bots," who are also authorized by the tax authorities and are compared to stocks of goods and services owned by a select group of taxpayers (*or possibly all of them*). After that, we looked at the results. The tax office uses software to figure out deficits, surpluses, and other numbers includes the value-added tax and sets the tax rate. A message that appears suddenly on the taxpayer's screen. For instance, the tax authority might send a notification of unpaid taxes. ***They can select one of the following: The submitter has eight days to justify their objection if you select "objection" Either***

*(a) by utilizing the appropriate application or*

*(b) by utilizing the "pay" button, which will immediately initiate a payment order created.*

The funds will be transferred to the tax authority from the taxpayer's account by clicking "approve." Automatically, the *Tax Liability and Administration Account* will be updated obligation to pay taxes (EY Company, 2017). Modernization of the tax system through electronic filing (*electronic filing of tax returns*) enables administration to modify staff members' tax status from afar. We can thus reduce the number of personnel officers in our organization. five paperwork, these employees will receive new training and be promoted to roles that provide services. checking of assets, monitoring of taxpayers, and protection from the underground economy *According to Lipniewicz (2017)*, it is essential for tax administration to be adaptable enough to accommodate two important power centers.

The first step is to make certain that the electrical model is in sync with the digital business and the tax administration's approach to tax legislation, which is tailored to the requirements of businesses and tax authorities' typical approaches to business management. Regarding the second operational domain, it necessitates new regulations for the global exchange of tax agency data<sup>5</sup>. As a result, it follows that international tax authorities must work together to effectively combat tax evasion. When determining the tax base for foreign income, tax

<sup>5</sup> OECD. 2015. Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report. Base Erosion and Profit Shifting Project. OECD/G20. <http://dx.doi.org/10.1787/9789264241046-en>, visited on 27<sup>th</sup> October 2022

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information sharing is a necessary tool. Using arbitrary tax laws in light of international treaties is one example of an effective method for protecting states' tax bases and ensuring their proper administration and protection. It is essential to keep in mind that the tax code must be revised to address issues brought on by technological advancements in addition to the responsibilities of the tax administration (*Karxhner & Somare, 2017*).

According to (*OECD, 2017;2017 (Olbert & Spengel)*). The territoriality paradigm, which asserts that the state alone has the ability to tax revenue differently depending on where it is earned or where the taxpayer resides, underpins legal frameworks to the extent that the requirements of Aspects of international tax law concerning the allocation of taxing authority among nations. Online purchases are no longer subject to territoriality.

#### **IV. CONCLUSION:**

In conclusion, the structure and operation of businesses are being altered by the digital economy worldwide with ease via the Internet. *The Internal Revenue Service* needs to make sure that every taxpayer follows the rules and pays their taxes on time real taxes Preventing tax evasion is the only way to successfully achieve this objective. New models analyze and make use of the vast amounts of data that can be found on the Internet, and Tools for effective international tax cooperation using electronic means, have been mandated by the rise of the digital economy to replace traditional methods of tax administration.

Numerous nations' tax administrations have realized that digitization has the potential to improve their effectiveness and efficiency as well as made better. Internal and external tax administrations can become more streamlined and effective by utilizing digital tools improving the reliability of tax filings and collections and reducing tax-related scams<sup>6</sup>. The fact that technology appears to be a significant factor should not be taken as evidence. Even in computerized administration, the human touch continues to be essential. You must, without a

<sup>6</sup> Lipniewicz, R. 2017. Tax administration and risk management in the digital age. Information System in Management, Vol.6(1), 26-37, visited on 27<sup>th</sup> October 2022

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doubt, implement a formal authoritarian mindset change in the way taxpayers are treated everywhere, assist taxpayers in carrying out their responsibilities (*the taxpayer is a client, not an adversary*), promptly exercise control over complete commitment compliance, and effectively collect debt. Tax authorities face challenges as a result of the global push for digitalization the same difficulties in ensuring effective operation and tax revenue collection, as well as conformity with international standards.

