

Tax administrative challenges of the digital economy: the Croatian experience

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In a turbulent and dynamic market, complex social change affects society. The main drivers of change today are the speed of development of emerging technologies and increased digital connectivity, creating the digital economy. This article outlines the need to digitalise the Croatian tax administration to harmonise with other European Union member states, which are in the process of moving to digital delivery. The article analyses the strengths, weaknesses, opportunities and threats of the Croatian tax administration to evaluate the current implementation of electronic services and to suggest how it can improve its services through digitalisation. The results showed weaknesses, such as underdeveloped information and communications technology in rural Croatia, slow development of government and business, and data security problems, together with opportunities, such as lower hardware and software prices and to attract foreign investments.

.H\ Z R:U Digitalisation, tax administration, tax compliance, Croatia

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From a tax perspective, the Organisation for Economic Co-operation and Development (OECD) describes the key features that are relevant in the area of the digital economy as³

1. '[m]obility with respect to () the

Basic Skills and Usage

Internet Users

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The EU countries that not improved their digital economies in 2018 were Denmark,

interoperable government systems and services to provide e-government services and reduce bureaucracy. To achieve these objectives, the Croatian government faces several challenges. These include the training of public administration employees in the field of ICT, the creation of cross-sectoral workshops, the regulation of business processes, the arrangement and collection of data in public registers and the development of a network which will provide ultrafast access (100 Mbit and more) through public institutions, central government and self-government units.

The cost to overcome these challenges will be covered by national funds and co-financing by the EU under the Multi-Annual Financial Framework 2014-2020. It requires cooperation with other ministries, public institutions, businesses and the

Following its accession to the EU in 2013, Croatia also needs to comply with the EU General Data Protection Regulation.¹⁷ The legal framework of the government model in Croatia is regulated by the following legislation¹⁸

- 1 Constitution of the Republic of Croatia (Official Gazette No 56/90, 135/97, 89/8, 113/00, 124/00, 28/01, 41/01, 55/01, 76/10, 85/10);
- 2 Act on Personal Identification Number (Official Gazette No 60/08);
- 3 Act on Protection of Personal Data (Official Gazette No 108/08); and
- 4 Act on Information Security (Official Gazette No 79/07).

This legislation establishes guidelines to resolve digital market issues and outline certain public administration rules. In future, there will be changes as the digital market expands.

¹⁷ 7%; \$'0,1,675\$7,21 \$1\$/<6,6

The Croatian tax administration was founded in 1994 and has developed a high level of expertise and professionalism. It works within the Ministry of Finance and its primary

fair, just and equitable treatment; efficiency, professionalism, and willingness to cooperate

As a territorial organisation, the tax administration consists of the central office in Zagreb, seven regional offices (Large Taxpayers Office national, six regional offices

improve this is distance learning for staff. The planned activities are continuous strengthening of organisational culture, developing quality service in line with taxpayers' needs, 'Service Catalogue' development and continuous monitoring of key performance indicators, business process management regarding internal and external changes, education of taxpayers, performance monitoring of all the tax administration's units, and monitoring of taxpayers' satisfaction.

4. Improvement of efficiency in the use of resources available to the tax administration to achieve the best possible results: financial resources need to be used effectively for funding necessary improvements; the information system must cover all core business processes and modern information and telecommunications equipment. EU financial sources will fund equipment modernisation. The activities planned within this goal are²¹ improvement of the system of optimal planning and rational use of financial resources; establishment of a fully functional compliance risk management system; implementation of information and telecommunications solutions that will enable the simplification and automation of business processes; leaving employees more time for analysis and control; reduction of compliance costs; further development of internet sites; and improvement of the exchange of information between public authorities in order to reduce administrative costs and improve services for taxpayers.

The strategic objectives are only for the 2016-2020 period, and the lack of publicly available reports for the period 2017-2020 is a significant shortcoming.

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<ul style="list-style-type: none"> - Professional information and telecommunication labour force - Information and communication services are free to use, easily available, well documented and secure - Lower costs of fulfilling tax liabilities - Connection with other public authorities and government institutions 	<ul style="list-style-type: none"> - Lack of monitoring of key performance indicators - Data security problems - Shortage of information and telecommunication regulatory base - Underdeveloped information and telecommunication infrastructure in the countryside - Small percentage of information and telecommunication users of electronic services - Shortage of public access to the Internet - Slow development of e-Government and Business - Delays in formatting information in relation to the EU Member States - Lack of public presentation and citizen awareness
<ul style="list-style-type: none"> - Simplify tax procedures and reduce costs of taxpayers - Lower hardware and software prices - Improvement of compliance risk management system - Reduction of administrative costs and improvement of services to taxpayers - Development of Intranet sites - Rapid growth of ICT sector - Use of e-signature - Export of information and telecommunication services - Attract foreign investment - Broader application of information and telecommunication in the business and public administration sectors - Education and motivation of users for the use of electronic services 	<ul style="list-style-type: none"> - Insufficient funds for modernisation - Insufficient number of employees - Brain drain - Diminishing opportunities to compete in the European and world markets - No reward system for employees - High dependency on external partners for improvement of core business processes

Source: Author's systematisation

The implementation of new electronic services will be a great challenge for the public and tax administration. There are key risks due to limited financial resources

insufficient skills, and the challenge of creating an information and communications infrastructure. These will be seen, for example, in digital exclusion in the sense that users or taxpayers don't have records in the appropriate digital format for compliance, lack of financial resources to simplify tax filings, or to buy new software which will comply with new requirements, inadequate security and privacy to avoid phishing and identity theft, and inadequate technological capabilities and standards. To create a modern digital tax administration, some of these barriers need to be overcome. An essential element is the human factor: It will require a change in attitude towards taxpayers which makes all changes 'friendlier' for taxpayers. This includes providing assistance to taxpayers in f !

