

# Digital Transformation of Tax Administrations in the EU

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## Regulatory challenges of the use of artificial intelligence by tax administrations

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Digital Transformation  
of Tax Administrations in the EU



Thank you very much for the presentation and it was great to see also in Yaki even in on the screen we miss you all in Yaki. Good afternoon everyone and Congrats Alvaro of course for coordinating the project and all my colleagues from Valencia for helping us in the organization of this interesting event. It is a great pleasure for me to deliver the opening address and title. Regulatory challenges of the use of artificial intelligence by tax administration. In my presentation, I would like to highlight several issues around three questions. First of all, how to regulate the good use of artificial intelligence by tax administration? Secondly, how to create confidence to promote tax compliance? And thirdly, where the limits of the use of artificial intelligence by tax administration are.

To answer the first question.

The next slide, please.

Yes, how to regulate the good use of artificial intelligence by tax administration. To me, we should consider at least three factors. First of all, if the regulations should use Harlow or soft law instruments and insufficient regulatory coverage was one of the factors are used in the case happened on the Netherlands I know you. You already know this case where a bad use of artificial intelligence made possible abuses that have financially damaged recipients of tax benefits for childcare.

If we know that to include in regulation safeguards for the protection of rights in the algorithms is highly recommended. The best way of doing that would probably depend on the level of legal action and the rights to be protected.

Sometimes new law will be needed. For example, we have a recently heard about EU law for digital services and other times the so-called charters. For example, the Charter of Digital Rights will represent a more flexible tool to verify the real needs in any case, to set minimum standards and to list the basic legal principles for the good use of artificial intelligence.

Are essential starting points to improve our current in satisfactory legal frame.

There are several common regulatory challenges in the legal field.

The technology and the use of artificial intelligence. We have to be regulated according to the parameters that adhere to the current laws.

Even if protection is optimized differently in each area of law, the multifaceted nature of human beings has to be considered in any case.

Particularly, precautions must be taken to stay in compliance with data protection rules and with fundamental rights.

On the other hand, there are specific regulatory challenges in the tax field.

And at least three situations have to be tackled to my to my mind

.First of all, when automatic exchange of information based on EU directive or change exchanges of information under the context of double Tax Convention is applied because the risks increase.

Secondly, they're legal requirements related to electronic fiscal balances and invoices due to the tendency of accommodating these documents in tax administration websites, and finally, to address the issue of whether we should adapt new problems to the current legal context or create a parallel or specific legal digital tax word recognizing new taxpayers rights.

Not second and second question. Before this slide 2.

Thank you very much. Sometimes the principle of efficiency is used to justify a more use of artificial intelligence, but without sufficient protection of the right of respect for privacy and personal data, taxpayers are unlikely to be willing to provide data.

Then the second question that I would like to raise now is how to create confidence to promote tax compliance.

What should be the steps to promote voluntary tax compliance?

To answer the question this question, some areas had to be considered.

As if, for example, the following to improve the source of information they use and the data treatment by tax authorities to increase taxpayers assistance to allow compliance, guaranteeing legal certainty. And of course to improve transparency. Citizens deserve explanations, at least regarding the confidentiality.

For a good relationship between tax administrations and taxpayers to control the origin and quality of this data on which administrative decisions are based without black boxes, using as an excuse behind which those tempted to commit possible arbitrariness is crucial.

Tax administrations cannot keep and use data in an unlawful and discriminatory way.

To develop and reinforce new ways of cooperation with taxpayers and to assess the possibility to use certificates or other issues to be explored. Next slide please.

3rd question is where the limits are the implementation of appropriate limits is also a complex regulatory challenge. In this area, attention should be paid at least to two factors. First, the importance of having a good balance between fighting tax fraud and guaranteeing taxpayers rights. It is not a comparable situation. The one in VTA.

Or in corporate income tax with regard to other taxes, because the regulatory frame is extremely harmonized in VAT and inside has transnational effects.

Limits To specify the importance of certain basic legal principles like proportionality and legal certainty may be a good way, or at least the first state to concrete. The most basic limits. The second factor is in the absence of an appropriate legal framework. The key role of the courts and the jurisprudence to define these mention principles and other basic principles like non discrimination.

Good administration, good faith, transparency transfer and tracing of the data for the use and transfer of information, or the reinforcing in the need to motivate administrative decision using artificial intelligence.

Moreover, verification of the use of data and determining what are the institutions that are currently monitoring the tax automatization process in every country are other issues to consider for improving the current pattern.

As Professor Rao reminds us in a very recent article published in the Northwestern Journal of Technology and Intellectual Property, Artificial Intelligence cannot solve the problem of tax noncompliance. To compensate the limitations of the law and the application of the law.

To me as academics, we should be able to provide elements to better define where the basis and the roots are to build a new model of the of the tax relationship considering different scales of taxpayers, the size of the taxpayers and the real gaps in the use of data for international cooperation.

And next slide is just to say Many thanks for your attention. Many thanks for the organizers to to arrange this this event and my best wishes for all of you be specified not only in tax regulation, but also in the application of the law.