Using Digital Technologies to Improve Tax Collection – the Case of Togo

Dorothy Kang'oro, Fidele Ngerero and Ignatius Odongo

The increasing digitalisation of African economies over the past decade, and the spread of mobile money and digital financial services (DFS), present opportunities and challenges to tax administrations in Africa. In principle, the use of digital technologies and expanded use of DFS offer access to new digitised data, increased transparency, and an improved taxpayer experience. However, studies show that tax administrations face important challenges in how best to develop their capacity to use digitised data, and to re-align operations and skills to new digitalised operating models.

This policy brief is from a qualitative study in Togo, focusing on the digital transformation of the Office Togolais des Recettes (OTR). In 2014 OTR started investing in digital technologies – including tax e-payment services such as T-Money and Flooz, which were developed with telecom companies and banks. We analyse qualitative data from key informant interviews (KIIs) and focus group discussions (FGDs), and triangulated quantitative data from online surveys of taxpayers and OTR staff. With the surveys, 140 OTR staff responded to the OTR survey, and 162 taxpayers completed the online survey. We identify independent variables and drivers that are critical to achieving OTR's objectives for implementing digital technologies and DFS, and dependent variables representing outcomes relating to OTR's goals. Our regression model assesses the association between the drivers and outcomes, grouping them into key outcomes. Our research indicates that digital transformation was beneficial to OTR and taxpayers, but there are challenges that still need to be addressed.

Achievements

- **Faster and simpler tax declaration and payment.** Over 93 per cent of surveyed taxpayers agree that adoption of DFS had a favourable effect on tax declarations, making filing of returns much easier.

- **Improved taxpayer compliance.**
  - Reduced cost of compliance, with lower costs for transport, security and tax specialists.

- Easier taxpayer compliance, with faster and simpler tax declaration and payment.

- Simpler for taxpayers to declare and file more accurate tax returns due to automated validation and reduced processing times.

- Better data management and record-keeping of tax data on the e-Services platform, especially within large and medium enterprises, with almost full compliance on VAT declarations.

- **Improved efficiency and effectiveness of tax revenue collection.**

  - OTR and taxpayers find OTR more efficient due to faster processing, with data and information collected through one channel, automation of some administrative processes, and reduced data cross-checking and verification.

  - These efficiencies have not reduced tax audits, appeals or refund claims, as these have not been fully digitised. Taxpayers still submit physical documentation at OTR branches when making appeals or claiming refunds.

  - Quality of taxpayer services improved – 56 per cent of OTR survey respondents agree that relations between OTR and other key stakeholders improved.

- **Increased tax revenue** during the study period may be driven partly by improved taxpayer compliance and more efficient and effective tax revenue collection. It is probably due to digitalisation of processes and technologies, rather than DFS.

Challenges

- Taxpayers are reluctant to use online and mobile payment platforms, and prefer to use traditional bank transfers and cheques despite declaring and filing their taxes online – 54 per cent of tax payments in 2020 and 68 per cent in 2021 were via bank transfers. Large enterprises use online payments more, as they have access to required infrastructure, computers and connectivity, and use online banking facilities.

- The Customs Department has not yet provided facilities for online payment.
- OTR staff initially resisted the changes due to new working practices. OTR adopted a targeted awareness and communication strategy to encourage increased acceptance.
- Poor internet connectivity. To overcome this, OTR set up service centres with stable connections and staff to assist taxpayers having difficulty accessing digital platforms.

Policies that promote and enable digital technologies and DFS

Policies that helped adoption of digital technologies and DFS include: having adequate internet connectivity and technology infrastructure, and setting up service centres with stable power supplies and internet for taxpayers in areas of low connectivity; OTR making it mandatory for large and medium-sized enterprises to file their tax declarations using e-Services for the Tax Department and all customs processes; taxpayers establishing adequate infrastructure, equipment and qualified staff in their organisations; and OTR conducting a thorough needs assessment before rolling out digital technologies. OTR consider its strategy to raise tax awareness and facilitate change management helped with adoption of digitilisation – taxpayers feel the timing and frequency of this could be improved.

Recommendations

Taxpayers recommend OTR enhance e-Services to issue tax receipts immediately on payments being processed, and to allow instant reversal of any double- or over-payments. This would improve the perception of security and create confidence. OTR should continue to enhance the platforms for Flooz and T-Money mobile payment methods, as small and medium-sized enterprises prefer to use these. OTR staff emphasise developing internal resources and training staff to ensure the necessary competencies and skills are available.

"The study indicates that digital transformation was beneficial to the Office Togolais des Recettes and taxpayers, but there are challenges that still need to be addressed."