

Blockchain and tax: Exploring the next frontier

Presentation

I want to share with you readers my dream about emerging blockchain technologies to transform our tax systems.

I see blockchain as part of the evolution of the internet from a tool for exchanging information to a tool for exchanging value. The movement towards an internet of value can be facilitated by the distributed ledger technology and smart contracts that lie behind blockchain and digital currencies. Already business and governments are recognising, although perhaps too slowly, the potential of these technologies namely:

- To advance and enhance global trade, which is particularly important at a time when we are experiencing unprecedented trade tensions and also as a means of streamlining global value chains.
- To transform the way that citizens and government interact.
- To disrupt the internal operations of companies and the way the different parts of large multinationals interact.
- And of course to transform our tax systems and the way that tax administration and business approach compliance.

Blockchain has been around for just over a decade but it's only since 2018 that we've seen a significant increase in the volume of blockchain projects, especially in their use in global supply chains, finance and insurance markets but also in tracing illicit financial flows.

The next push will come in the area of professional services, including tax services, and looking at the way that blockchain can increase transparency in financial flows.

In fact blockchain is appropriate for any area which involves multiple geographically dispersed users with a shared business logic, areas where there is a lack of trust between the parties, and where transparency is a critical element.

The attraction of blockchain is in its ability to handle large scale complex transactions in an efficient and fair manner. Also blockchain and tokenisation offer the opportunity to separate the holding of the physical assets from the ownership of goods and services, for example in the area of insurance.

I believe that we will over the next 10 years see a maturity of blockchain. The wild West era will terminate, governments will intervene to provide stronger governance structures, central banks will begin to issue their own cryptocurrency. This will be a new universe. At the same time we will find ways to reduce the energy consumption by blockchain miners. Perhaps of more significance we will see the move from private to public blockchains. This is particularly important since public blockchains are better able to exploit the network effects of blockchain and also lead to greater harmonisation of standards.

Also whilst new technology today is mainly used by large multinationals, including Chinese multinationals, we will see more and more small and medium-sized enterprises using open source blockchain such as the platforms set up by Alibaba to gain access to global markets, bypassing intermediaries. In the long run this movement has the potential to disrupt the disrupters, companies such as Tencent, Google, and Amazon need to be aware that the new generation of disruptors are coming!

Today politicians and others are focusing on the risks by these technologies to facilitate money laundering and tax crimes and one can't deny that anonymity offered

these technologies can be misused by criminals but in the long term the same technologies will offer us opportunities to improve compliance by enhancing known customer rules and by embedding compliance into the codes that lie behind blockchain and which will lead to more effective ways of countering illicit financial flows.

The analogy that I like is that blockchain is moving out of the teenage stage into adulthood and taking a more responsible view towards their obligations towards society.

What is the potential of blockchain, artificial intelligence and robotics to transform our tax systems. Here is my vision:

Traditional approaches to VAT and payroll taxes will be replaced by tax administrations having direct access into the account of companies: no invoices or audits, minimum tax fraud. Human intervention will be replaced by automated intervention.

AI powered tax assistants will take over much of the role of humans in identifying tax evasion patterns and in developing more effective risk management strategies.

Technologies will transform the way we tax land and buildings as a way to update valuations and have greater public scrutiny.

Blockchain registries of ownership of offshore assets: the end of the types of scandals that we've seen in the BVI and in Panama, but especially if we can link up these national registries.

Blockchain may in the long run enable us to replace the corporate income tax as we know today and replacing it with a tax on both distributed and retained profits is now feasible from a technical perspective.

So this is the new world: a world that president Xi clearly understands. Today the global economy is worth just over \$75 trillion and 11 trillion is collected in tax. Some

have estimated that up to \$4 trillion of tax is not collected: the tax gap. Blockchain, artificial intelligence and other technologies can embed tax compliance into the fabric of the codes used by blockchain can help to tackle this tax gap and at the same time can reduce the administrative and compliance costs associated with tax collection, reducing the deadweight loss, level the playing field between large and small companies and lead to smart tax policies.

But we need to be patient: the transformation will take time and it will require a heavy involvement of government. Even in Silicon Valley the technological community now recognises that to get the full benefits of blockchain will require governments to provide a strong and transparent governance framework. The fact that the Chinese government has recently announced that it would be prioritising the development of blockchain could accelerate this move and provide a model for other countries could fall.