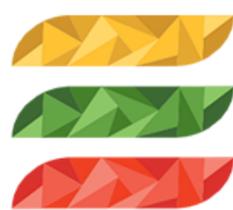


Payroll and self-employed tax automation: country cases



'Create Lithuania' project manager Eglė Čeponytė
2020-04, Vilnius

Kurk
Lietuvai



VALSTYBINĖ
MOKESČIŲ
INSPEKCIJA

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Self-employed tax automation: summary

MAIN TRENDS:

Tax authorities in cooperation with private accounting software firms create channels (e.g.: API) to enable system-to-system reporting.

System-to-system reporting (API)

Smart identification methods such as voiceprint are used.

Voice ID

Government bodies in cooperation with private firms develop apps to help self-employed to record revenue and expenses

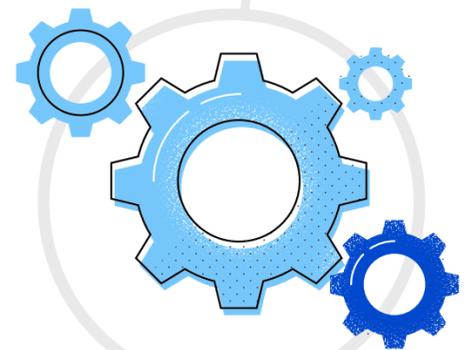
Apps

Tax payers' data backed up to cloud storage.

Cloud storage

Automatic exchange of data between self-employed bank accounts and accounting software or Tax Administration software.

Bank accounts

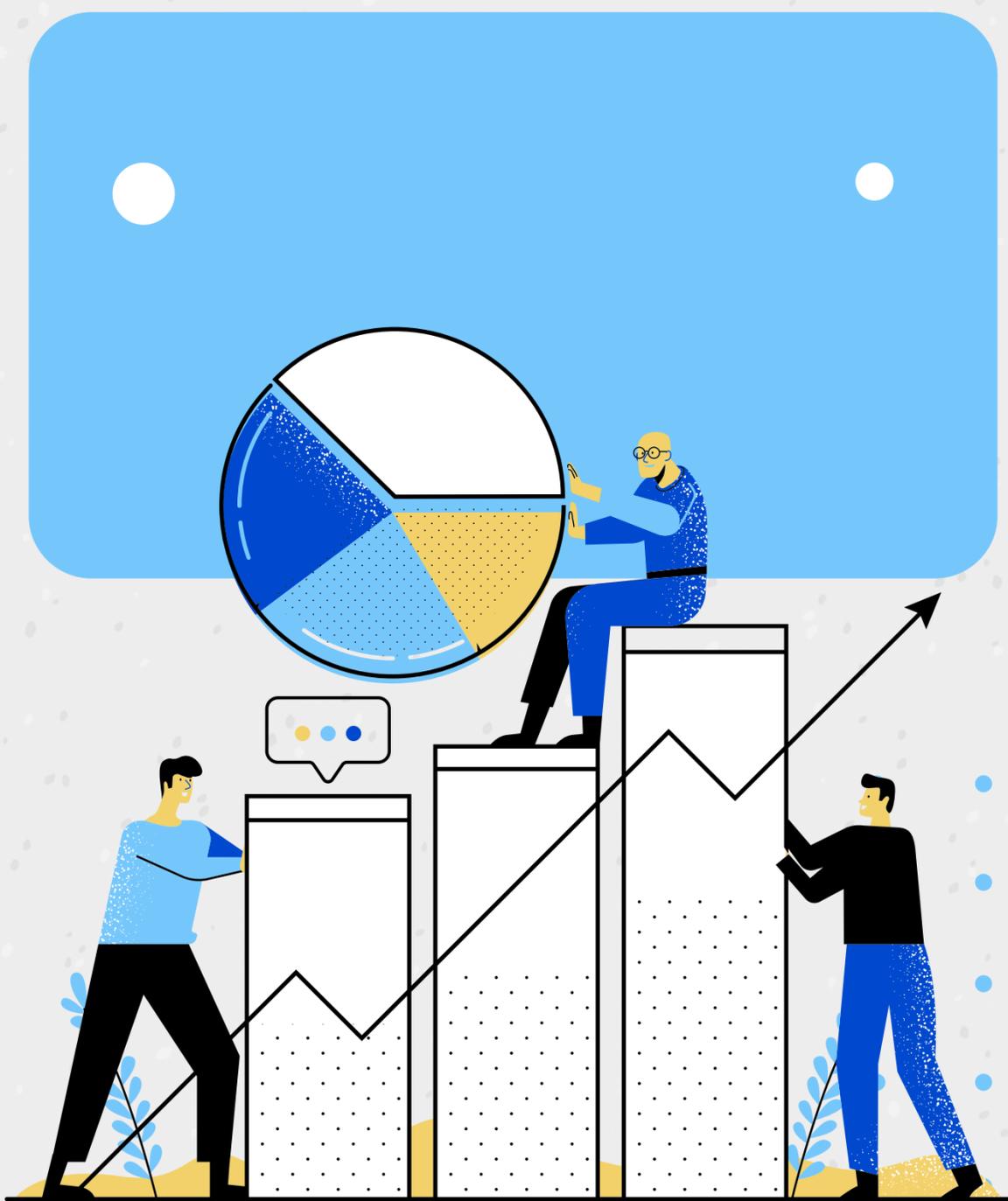


AUSTRALIA - myDeductions app

Australian Taxation Office (ATO) developed the myDeductions app. myDeductions makes it easier and more convenient to keep one's expense and income records in one place. It can be used by self-employed people as well as employees.

It allows individuals to collect, classify and store their income as well as certain deductions throughout the year such as car expenses, travel expenses, interest deductions, and other tax relevant information. The tool includes the ability to store photos of the receipts. This information (but not the images) can then be uploaded directly to the ATO.

Key benefits of myDeduction include: improved recordkeeping - users can easily capture records on the go; support for prefilling data into myTax and making this information available to the client's tax agent; and the ability for users to back up data to their personal cloud storage.



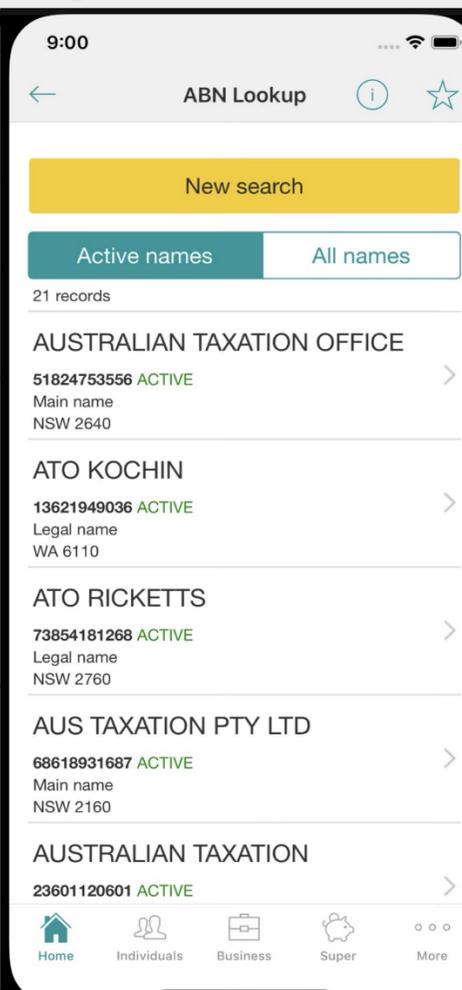
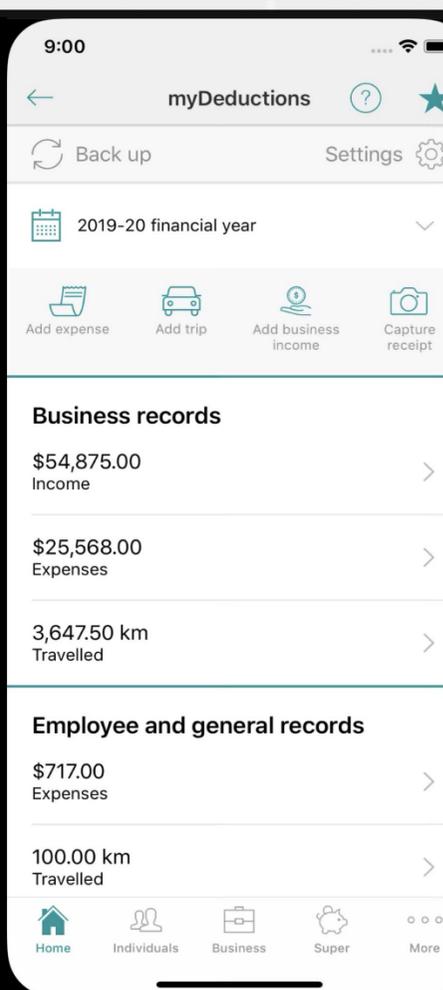
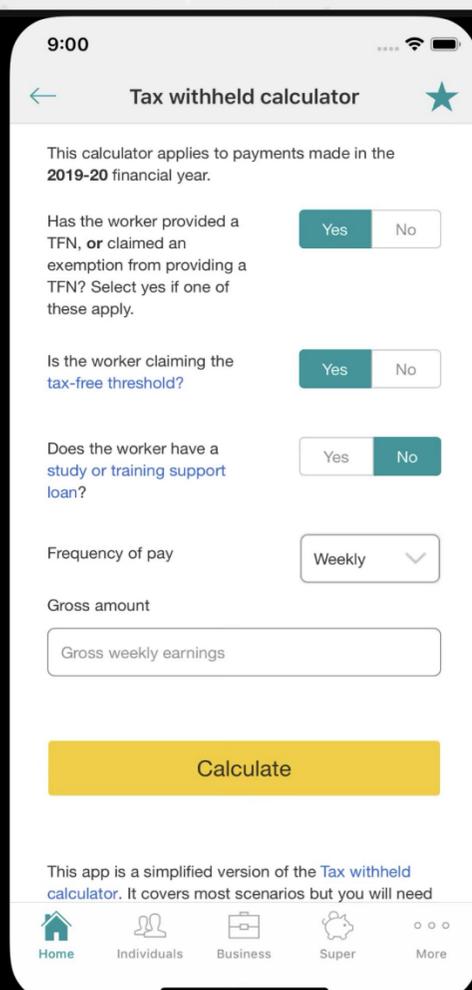
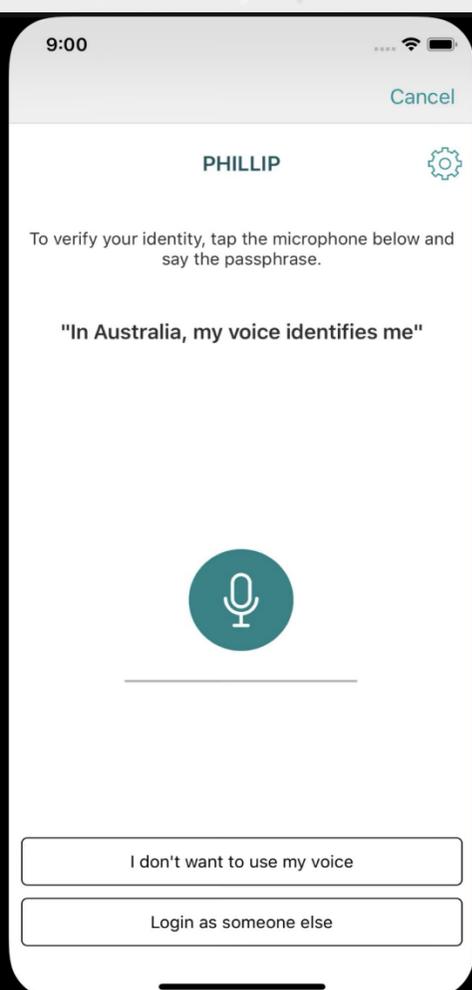
AUSTRALIA

myDeductions app ratings:

- on Google Play: 3.3 out of 5
- on App Store: 2.6 out of 5

App's features:

- user can record and manage expenses and trips relating to your work as an employee, your business as a sole trader or other general expenses. Sole traders can also record income.
- upload your myDeductions records to your tax return at tax time or email a copy to your tax agent
- enrol your voiceprint with the ATO. You can then use this to verify your identity when you call us or to log in to our online services for individuals via the app
- calculate the amount of tax to withhold from salary and wage payments
- search for an Australian business number (ABN) using ABN Lookup
- work out key dates and set important reminders and alerts for tax and super obligations
- use the Business performance check tool to compare your business with similar businesses in your industry using the latest Small business benchmarks
- access a number of other useful tools and calculators.



DENMARK - EasySME concept

The Danish Tax Administration (SKAT) is developing a concept known as "EasySME" in co-operation with accounting software developers. The objective is to make it easier for small businesses to get an overview of the situation of their business and at the same time make it easier for them to comply with the tax legislation.

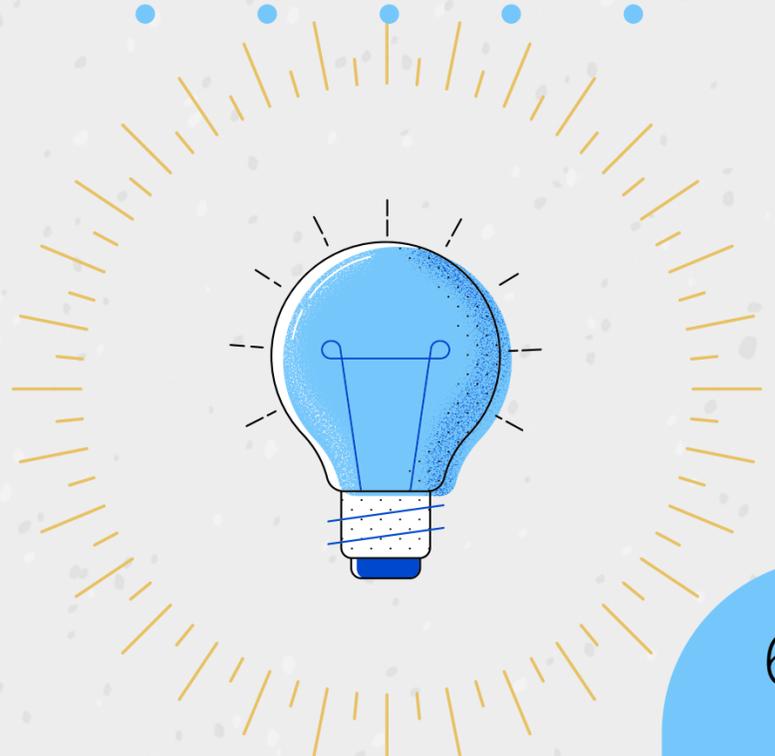
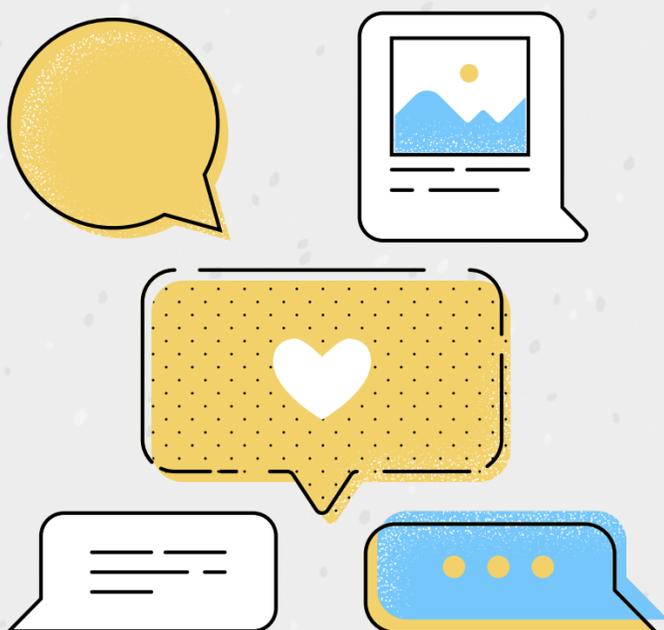
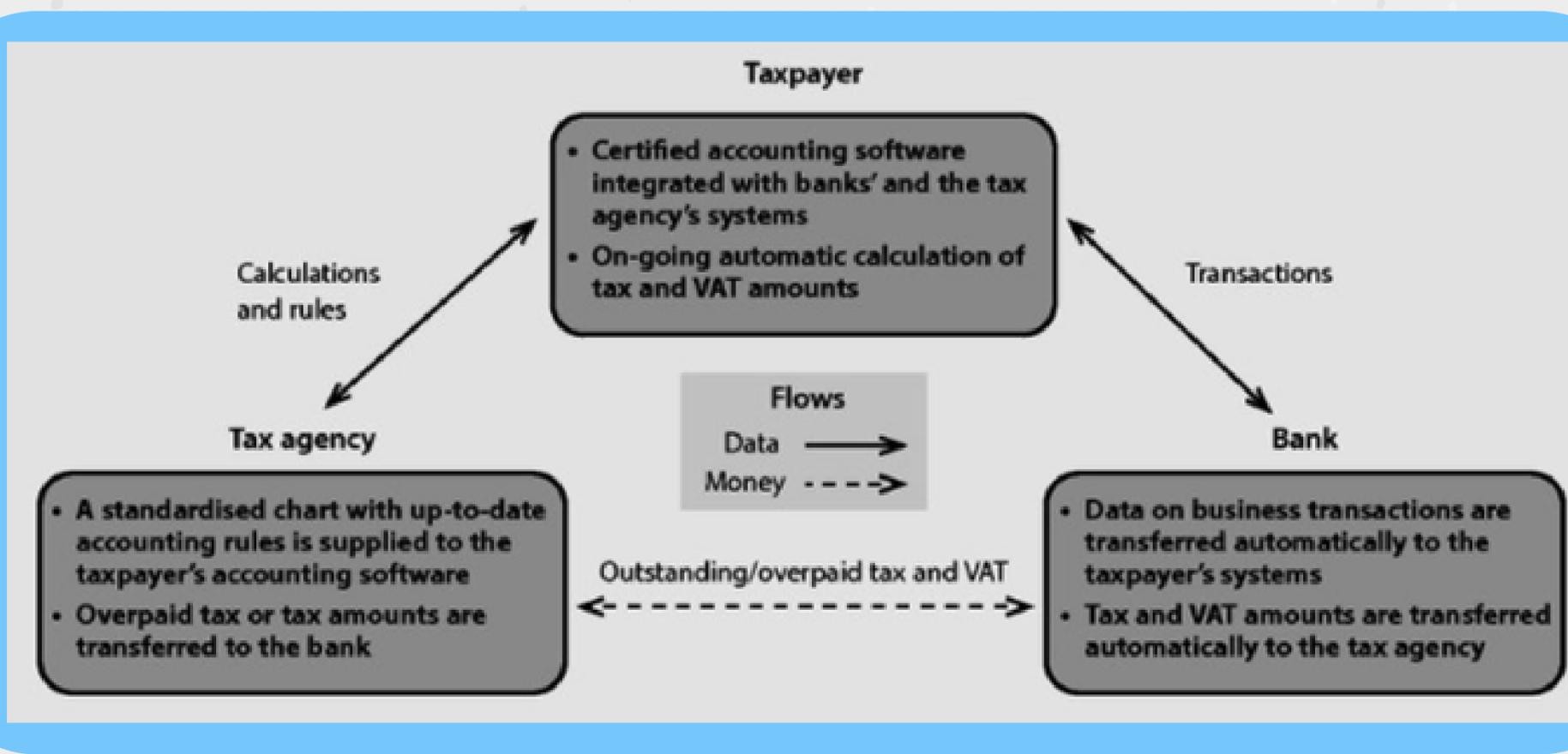
The concept requires that the taxpayer use one bank account for all business transactions. The taxpayer must also choose an accounting system certified to the concept and it is based solely on the use of electronic transactions. The transaction data is imported from the designated bank accounts into the accounting system and this makes it easy to do the book-keeping of the transactions based on a fixed standard accounting plan.



DENMARK

The taxpayer reports VAT, estimated profit and personal income directly from the accounting system to SKAT. Figure below depicts the main elements of the concept.

After reporting of VAT and Income, the Tax Administration recalculates the relevant key economic parameters and return updated figures to the accounting system so that the business can make informed decisions.



ESTONIA - Entrepreneur account

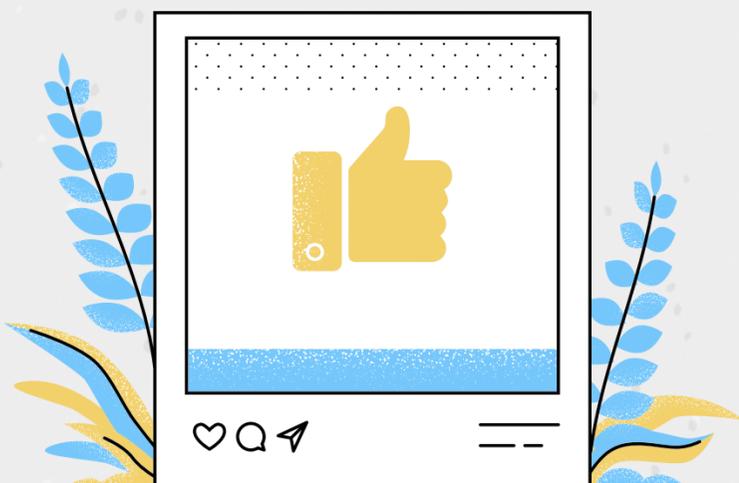
From January 2019 a natural person has the opportunity to open an Entrepreneur Account in LHV Pank and fulfill his or her tax liability according to the Simplified Business Income Taxation Act.

An Entrepreneur Account is meant to be a way for a private person to operate as an entrepreneur in a bureaucracy free and affordable manner, without worrying about financial statements, monthly tax declarations and the payment of taxes – all of this takes place automatically under Entrepreneur Account entries.

A person who has opened an entrepreneur account is not obliged to register as an entrepreneur and to calculate revenues and expenses or do any of the accounting.

Estonian Tax and Customs Board transfers the taxpayer's data received from LHV Pank upon the conclusion of the agreement of opening the entrepreneur account into the register of taxable persons and deletes the taxpayer's data from the register upon the end of the term of the entrepreneur account agreement

By signing the agreement, the entrepreneur account owner will give arrangement LHV Pank to reserve business income tax from the total amounts received on the entrepreneur account and transfer the business income tax to the Estonian Tax and Customs Board.



Entrepreneur Account

What is it?

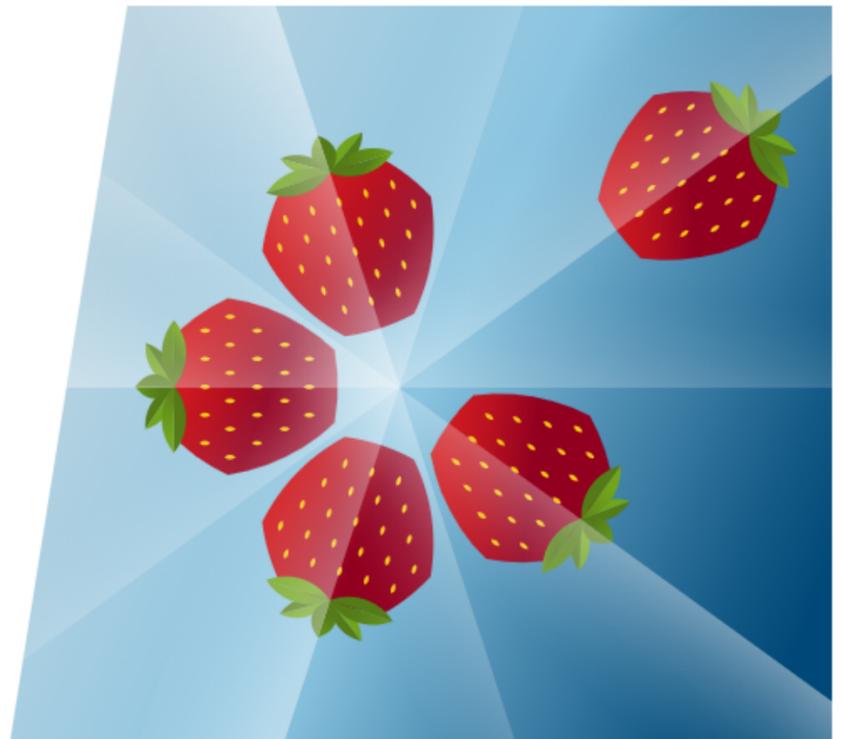
How to open one?

Open an Entrepreneur Account

The simplest way to get started in business

- ✓ No accounting obligation
- ✓ Calculation of taxes and payment to the Tax and Customs Board is automatic
- ✓ Conclusion of the agreement and the account are both free of charge

Open an Entrepreneur Account



Entrepreneur Account

What is it?

How to open one?

Open an Entrepreneur Account

What is an Entrepreneur Account?

An Entrepreneur Account is meant to be a way for a private person to operate as an entrepreneur in a bureaucracy free and affordable manner, without worrying about financial statements, monthly tax declarations and the payment of taxes – all of this takes place automatically under Entrepreneur Account entries.

An Entrepreneur Account is the best choice when one private person pays another private person for services or goods that they have provided, and for fulfilling the tax obligation arising from the income received.

An individual that has opened an Entrepreneur Account is under no obligation to register as an entrepreneur or to keep a statement of revenue and expenditure.

When using an Entrepreneur Account you may not be a person liable to value added tax or operating as a self-employed person (FIE) in the same or similar area of activity.



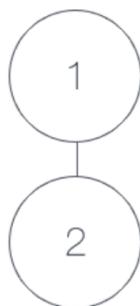
Entrepreneur Account

What is it?

How to open one?

Open an Entrepreneur Account

How do you open an Entrepreneur Account?



Open an account

If you are not a client of LHV, open a private [account](#)

Conclude an agreement

Enter the LHV Internet Bank and conclude an [Entrepreneur Account Agreement](#)

Terms and Conditions and additional information

- Entrepreneur Account Terms and Conditions
- Tax and Customs Board: Simplified taxation of a self-employed person's business income
- Simplified Business Income Taxation Act

Frequently asked questions

- Who is eligible to open an Entrepreneur Account?
- Who would benefit from using an Entrepreneur Account?
- Who would not benefit from using an Entrepreneur Account?

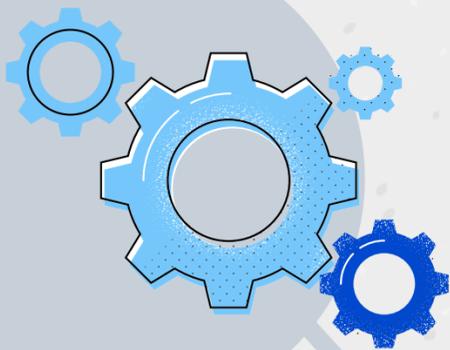


More information:

<https://www.lhv.ee/en/entrepreneur-account>

NETHERLANDS - system-to-system tax returns (pilot)

In 2019 the Dutch Tax Administration (NTCA) introduced a pilot project of an automated profit and turnover tax returns. The returns are to be filed on the system-to-system channels, namely, directly from the freelancer's accounting software to the NTCA database. The overall aim of the initiative is that all accounting systems of the freelancers would align with the tax reporting requirements and there would be an uninterrupted chain between the transactions of the freelancers and the direct submission of the tax return details to the NTCA.



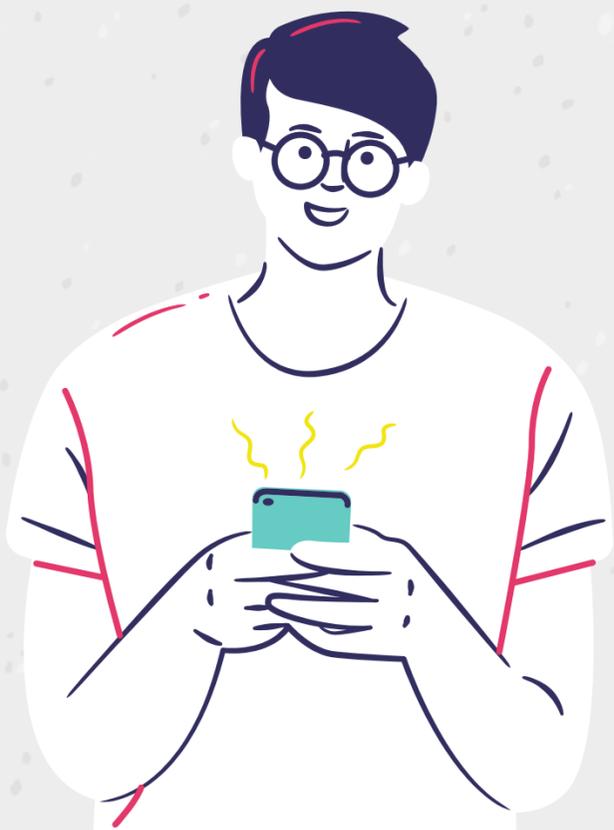
The idea is that when the freelancer sends an electronic invoice, it automatically ends up in his accounts. If he or she buys something and receives a paper invoice and then scan it with a smartphone, the costs will be recognized by the software and correctly added to the correct cost category. At the end, the freelancer can file and pay this turnover and profit tax returns by one push of the button.



NORWAY - loan application scheme

Norway has developed a digital consent-based loan application scheme in collaboration with the financial sector. With customer consent (in "single use" form), banks can now have digital access to high quality information from the tax administration about the applicants' income and their tax return, which simplifies the application process for home loans and personal loans. This reduces paperwork and also ensures better data quality for the bank's loan officer when considering an applicant's credit rating. This feature is especially valuable for freelancers as they usually do not have formal labour contracts to prove their constant income levels.

Loan applications can be entirely computer-processed within a matter of minutes. The savings are estimated to be from EUR 600 million to EUR 1.3 billion over a ten-year period.



UK - Making Tax Digital

Making Tax Digital (MTD) - requires businesses to use digital record-keeping tools and submit tax return data directly from those records using MTD-compatible software. It harnesses the freedom provided by Application Programming Interfaces (APIs). This has energised the market for software, resulting in a rich array of products being available to businesses and in turn providing businesses with more choice over what tools they use to run their business and take control of their tax affairs.

Some businesses have chosen to incorporate MTD into their bespoke IT systems, allowing tight integration with other business processes. Others have chosen an off-the-shelf solution that, in addition to keeping their tax affairs in order, gives them new tools and provides new insight into the performance of their business. Others simply want to continue using the spreadsheets they are familiar with, in conjunction with a piece of "bridging" software (some of which are available to businesses for free), to upload their VAT returns directly to Her Majesty's Revenue and Customs (HMRC).

Currently businesses are required to submit only their VAT returns through MTD. Businesses can also submit their Income tax returns through MTD but it is not yet a requirement.

The pilot scheme is also already functioning for self-employed people and landlords to submit their Income tax returns. The pilot lets one keep records digitally and send Income tax updates to HMRC instead of filing a Self Assessment tax return. HMRC say this leads to a more real-time system and lets one see how much Income Tax they might owe as they go. Self-employed participating in this scheme need to use a compatible software software to keep records and send an income and expenses summary to HMRC every three months.

Payroll tax automation: summary

MAIN TRENDS:

Tax authorities in cooperation with private accounting software firms create channels (e.g.: API) to enable system-to-system reporting.



System-to-system reporting (API)

The number of reporting requirements is substantially reduced by creating centralized systems where employers have to report all the employment-related information. The information is then distributed among government bodies (such as Tax agencies, statistics departments, etc.)

Single point of entry (reduction of forms submitted and centralized databases)



AUSTRALIA - Single Touch Payroll

Single Touch Payroll (STP) works by sending tax and social insurance/superannuation information from business' STP-enabled payroll or accounting software to the Australian Taxation Office (ATO) as businesses run their payroll.

STP-enabled payroll software will send to ATO a report which includes the following information:

- salaries and wages;
- pay as you go (PAYG) withholding;
- super liability information.

This information must be submitted using a specific format known as SBR (Standard Business Reporting).

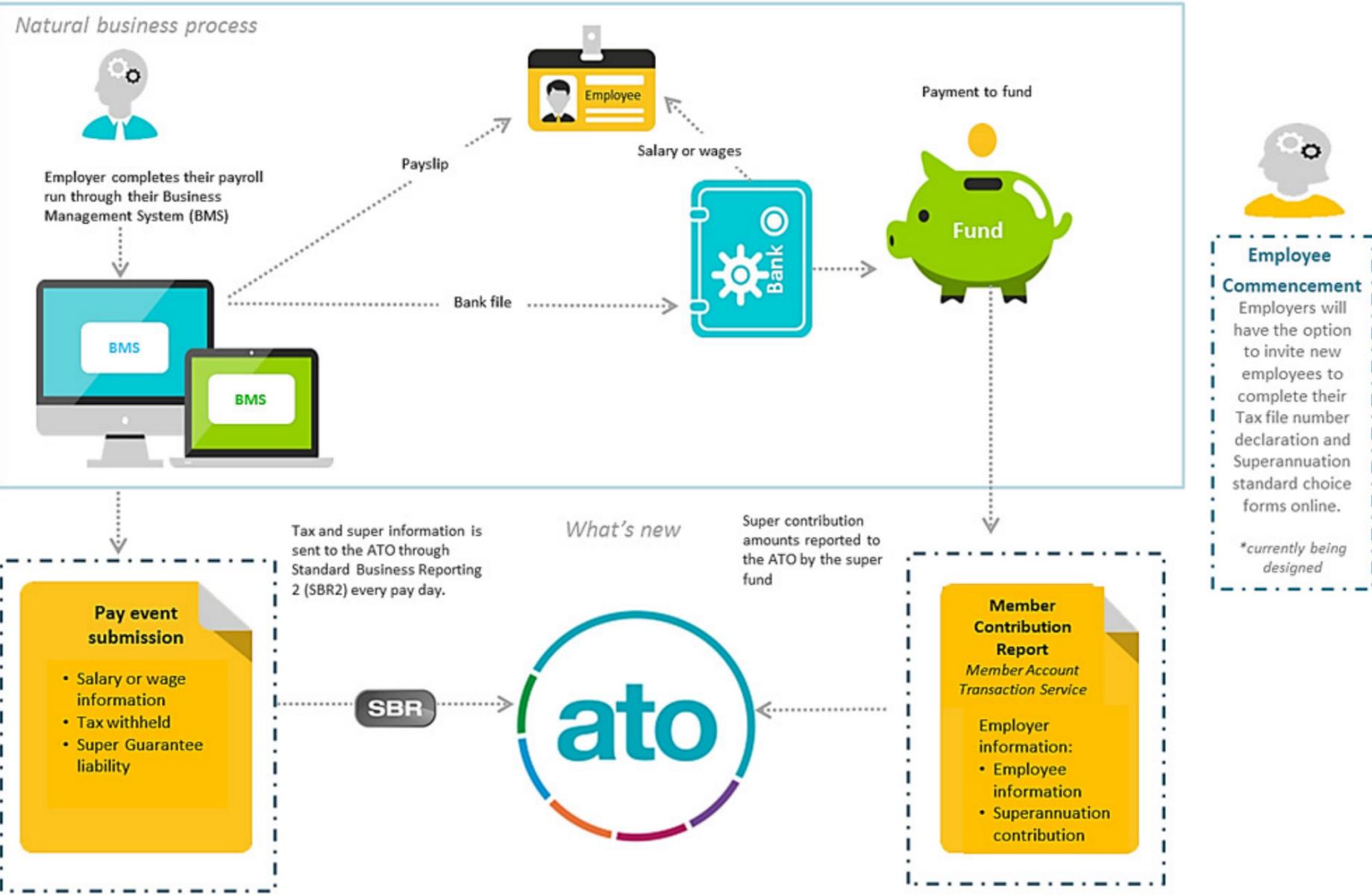
Employers with 1–4 employees are eligible to use the no-cost or low-cost solutions the ATO have asked software developers to build. These solutions should cost \$10 per month or less.



AUSTRALIA

The administrative costs have been reduced as businesses no longer need to prepare annual payroll reports for the ATO and each employee.

If employees have a myGov account linked to ATO online services, they will be able to see their salaries, year-to-date tax and super information.



BRAZIL - eSocial

eSocial is a centralized reporting system and database where all employers are required to report employment data digitally. The system replaces 15 different reporting obligations with one streamlined method of submitting employment data to agencies including the internal revenue services, the social security institute, the labor and employment ministry, and the government bank that manages the national employee savings fund system. Under the old system, around 70 different forms were used to report regular employment data to the government - which are eliminated by eSocial.

The concept requires that the taxpayer use one bank account for all business transactions. The taxpayer must also choose an accounting system certified to the concept and it is based solely on the use of electronic transactions. The transaction data is imported from the designated bank accounts into the accounting system and this makes it easy to do the book-keeping of the transactions based on a fixed standard accounting plan.



eSocial

DENMARK - EasySME concept

For the review of the EasySME concept see page 5.



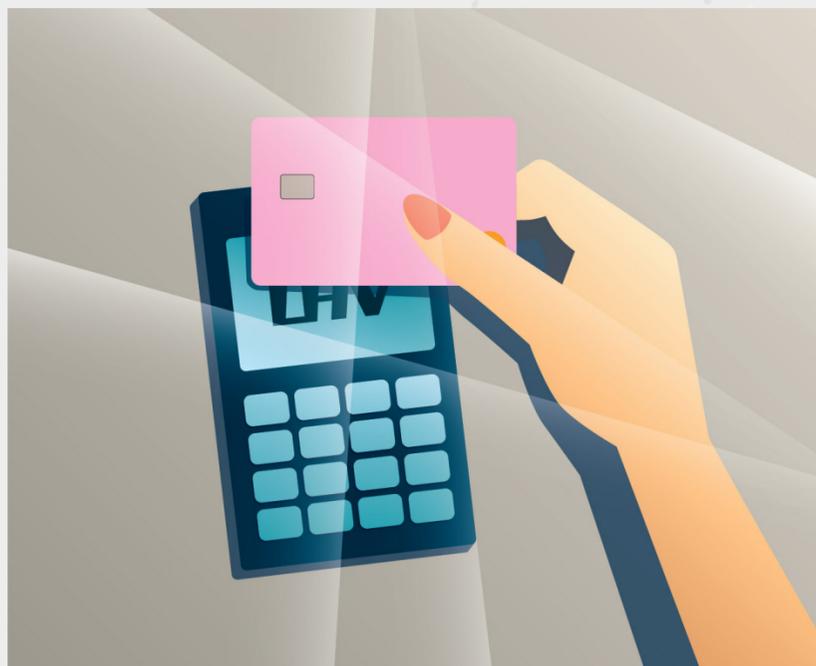
ESTONIA - Salary Payment

Salary Payment is an innovative payment solution, set up in cooperation between LHV bank and the Tax and Customs Board, mainly for small and medium-sized enterprises, that enables the enterprises to pay out salaries to their employees and declare state taxes in a single channel – the LHV internet bank.

Salary Payment can be used for 6 of the most common payment types: salary, dividend payment, Management Board member's fee, sick pay, remuneration based on a contract under the law of obligations, and the minimum social tax obligation.

How does it work?

- the employer enters his internet bank account, select a suitable payment basis and enter the recipient's details;
- data is sent to the Tax and Customs Board in real time, where the tax amount to be paid is calculated;
- payments are made and tax details are added to the declaration simultaneously. The declaration is confirmed automatically;
- payments can be saved, so that future Salary Payments could be made with a single approval.



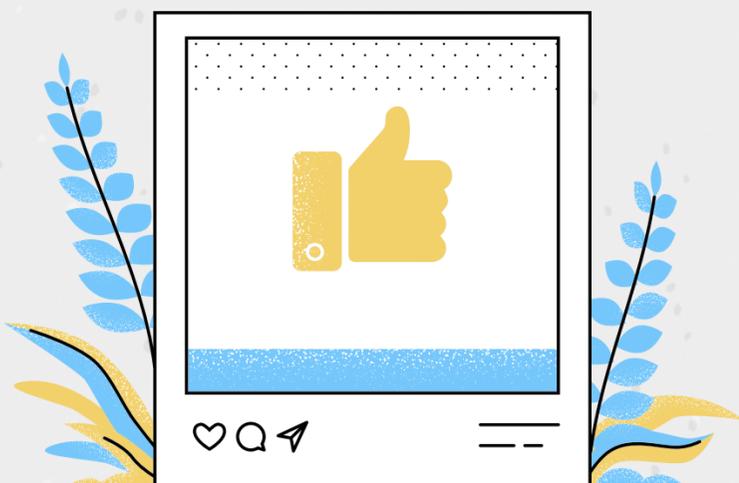
NEW ZEALAND - PAYE system

Each pay period employers need to calculate and deduct PAYE (pay-as-you-earn). Each payday employers send Inland Revenue the pay details for their employees.

There are three options for payday filing:

- Directly from business accounting software (if it's been enabled for payday filing). This is system-to-system reporting which does not require additional human involvement and saves administrative costs;
- Online through Inland Revenue's myIR service.
- On paper forms — but only if business' annual PAYE and ESCT (employer superannuation contribution tax) is less than \$50,000 or it is a new employer.

As a result there is no need to file an Employer Monthly Schedule (EMS) or employer deductions form — these have been replaced with payday filing.

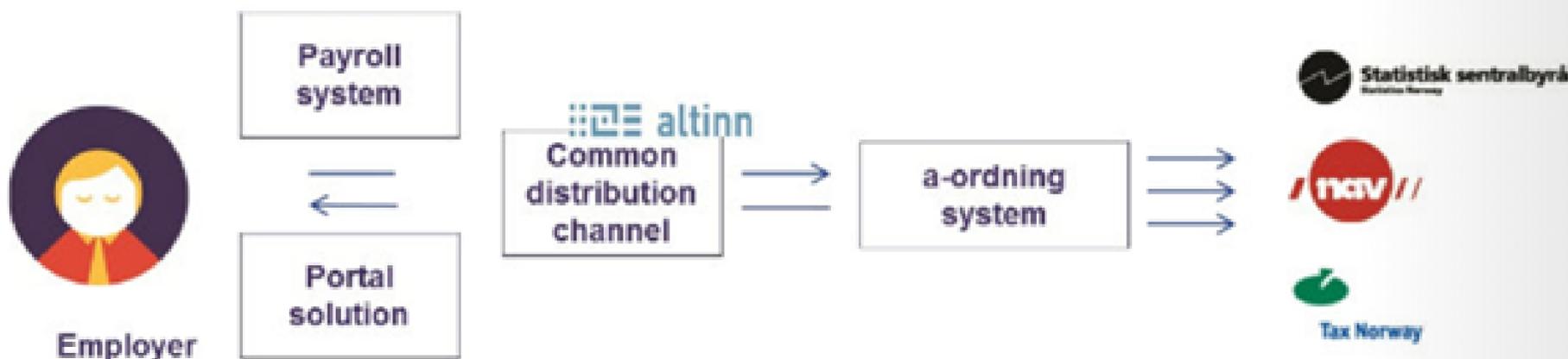


NORWAY - A-ordningen

A-ordningen is a centralized reporting system. The main goal of this service is to reduce the burden associated with reporting income and employment information to the authorities.

Before this new service Norwegian employers had to report overlapping and identical information on five different forms to three different government agencies. By coordinating Tax Norway, the Welfare Administration and Statistics Norway, these five forms were reduced to one single, digital submission. Employers report once a month directly from their own payroll system. This level of integration has been made possible by cooperating closely with system providers.

Recent profitability analyses have shown that new service will yield savings of up to 70 EUR million annually for employers.



UK - Making Tax Digital

For the review of the Making Tax Digital initiative see page 11.

