

Technology and Taxation in Developing Countries:
From Hand to Mouse

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Final Summation

Tax systems in developing countries, like those in more developed countries, face both new challenges and new possibilities as a result of technological change. In developing countries, taxpayers and tax administrations must cope with more difficult environments with fewer resources.

Some issues (such as privacy, the benefits and costs of public/private partnerships, and corruption) are common to both developing and developed countries, but differ in relative importance in particular countries. For example, over the last 40 years there have been significant technological advances, but developing countries still have relatively low levels of tax collections as a percent of GDP, and relatively high levels of tax non-compliance. Other issues (such as how new technology may or should influence the way a country's tax system or particular taxes are designed and administered) may be more important in developing countries. This new technology may include banking systems, credit cards, smart cards, and online transactions – any of these advances will present both opportunities and challenges to tax authorities. Changes in the economic environment will also allow for improvements in tax compliance for some taxes and more challenges for other taxes.

Given the diversity among developing countries, it is difficult to make generalizations as to the future relationship between tax and technology. Some economies in developing countries are growing at over 10 percent a year with a high rate of technological change. Other developing countries (or, more accurately, non-developing countries) have stagnant or declining growth rates, and even declining life expectancies in a few instances. However, advances in technology will clearly change the tax environment in developing countries by changing the underlying economy. Technology will provide additional tools to tax administrators to observe and monitor individuals and transactions (e.g., it is likely that many capital goods such as cars, heavy machinery, or even televisions will have identification and tracking tags included as part of the manufacturing process.) This combination will provide an opportunity for countries to make tax policy changes both as to the relative role of different taxes in financing government, and as to the design of specific tax instruments. With potential benefits come substantial potential costs. Most notably, developing countries need political, administrative, and judicial safeguards to protect the privacy of individuals and to protect against potential misuse of information gathered for tax or other purposes.