Tax Administrative Challenges of the Digital Economy: The Croatian Experience

Sabina Hodzic

Abstract
In a modern and dynamic market, the complexity of social changes affects society. The main driver of these changes is the digital economy, primarily focused on the Internet the key objective of which is to provide easier and faster access to information so they could be available to everyone on the network. Digital technologies are thus transforming not only Croatia as a country but also the rest of the world, especially with regard to taxation systems. Croatian society has been undergoing profound changes. The majority of these changes has been driven by civilisation development and the importance of digital technologies in social interactions. In terms of the Croatian public sector, changes need to be made through the application of information and communications technology, especially in tax administrations. Digital and data technologies are challenging the way tax administrations go about their work by providing new opportunities to administer taxes, support taxpayers and encourage their participation. The main aim of this research paper is to analyse and describe barriers and drivers of the digital economy within the Croatian Tax Administration. SWOT analysis was used to evaluate the current implementation of information and communications technology within the Tax Administration. Its results showed weaknesses, such as underdeveloped information and communications technology in the countryside of Croatia, slow development of E-government and business, data security problems, etc., as well as opportunities such as lower hardware and software prices, attracting foreign investments, etc. Given Croatia’s accession to the European Union of 1 July 2013, the Tax Administration now faces even greater challenges.

1 Ph.D., Assistant Professor, University of Rijeka, Faculty of Tourism and Hospitality Management, Primorska 42, POB 97, Ika, 51410 Opatija, Croatia, email: sabinah@fthm.hr
1. **INTRODUCTION**

In everyday life, modern electronic communications and internet services are the main drivers of changes in our economy and society. They also stimulate economic growth by creating new jobs, savings in public expenditure, productivity and new possibilities for personal expression and motivation. The main driver of these changes is the digital economy, a well-known and important player in achieving growth and employment, especially by using a high level of scientific research, innovations and qualified workers. It also carries the scale of economic values together with capital, technology and the workforce. All regulatory changes need to be carefully designed in order to achieve full development potential, not only in the European Union Member States, such as Croatia, but also abroad. Therefore, fiscal policy plays an important role. Its task is to stimulate economic growth within the Single Market, reduce the tax burden of companies, and remove barriers which could discourage investment and growth. On the other hand, digital economy and the digital sector must fairly contribute to the development of public finance. Currently, the biggest taxation problems on the Single Market are tax avoidance and aggressive tax planning. Digital economy and the digital way of life are slowly but surely replacing traditional society because they strive to digitalise and mainstream every segment of life. In addition, digital economy and digital revolution create massive changes in society, which also affect existing tax systems of every country. In order to implement modern technology in a tax system, measures like digitalisation transform the functions of that system. Therefore, trust dynamics will lead to ‘a need for more citizens to know more about their tax affairs and it shifts the role of tax professionals from a primarily preparatory role to a confirmatory one’.  

In Croatia, a small country with an open economy and limited resources, digital economy will transform the existing taxation system. Consequently, access to public sector information implies not only greater transparency of tax and public administration, improvement of their management, reducing administrative burdens, and addressing tax evasion, but is also an important factor in information society development. It enables broader participation in digital culture, an increase in citizens' social capital and the development of their creative competencies. All of this motivates citizens to participate in public life more actively. The majority of changes need to be implemented through the use of information and communications technology (ICT) in tax administrations.

The main aim of this paper is to analyse and describe barriers and drivers of digital economy within the Croatian Tax Administration. In order to obtain results, a SWOT analysis was used to evaluate the current implementation of ICT within the Tax Administration. Given Croatia’s accession to the European Union of 1 July 2013, the Tax Administration now faces even greater challenges, one of them being harmonisation with the comprehensive and modern approach of the European Union and its objectives of fairness, competitiveness, integrity of the Single Market, and sustainability. The introduction is followed by section 2 that identifies the importance and characteristics of digital economy, key features and data about digital public services in Croatia. Section 3 describes the eGovernment model in Croatia and gives a review of the legal framework in the European Union and Croatia. In section 4, the Croatian Tax Administration and SWOT analysis of electronic services provided by the

---

2. **IMPORTANCE AND CHARACTERISTICS OF DIGITAL ECONOMY**

The main driver of digital economy is globalisation, which is also accompanied by networking, mobility, integration, e-business, digital products and services, new organisational forms, etc. Its main core are knowledge and the Internet and elements such as digitalisation, use of ICT, transformation of digitally recorded information into economic goods and market value, while its main characteristics are flexibility, cooperation and great speed as well as interactivity between entities in the value chain. To ensure that the European Union Member States, including Croatia, will keep their position in digital economy, the Digital Single Market was created by the European Commission. The foundation of all modern and innovative economic systems is ICT.

The Digital Single Market Strategy is built on three main pillars: 

1. ‘better access for consumers and businesses to online goods and services across Europe – this requires the rapid removal of key differences between the online and offline worlds to break down barriers to cross-border online activity;'
2. creating the right conditions for digital networks and services to flourish – this requires high-speed, secure and trustworthy infrastructures and content services, supported by the right regulatory conditions for innovation, investment, fair competition and a level playing field;
3. maximizing the growth potential of European Digital Economy – this requires investment in ICT infrastructures and technologies such as Cloud computing and Big Data, and research and innovation to boost industrial competitiveness as well as better public services, inclusiveness and skills’.

In general, digital economy, also known as internet economy, refers to an economy based on ICT technologies. As a new form of economy based on digital technologies, it is one of the most appealing opportunities for business growth and development. A study showed that ‘it grows seven times faster than any other branch of economy and produces almost five new jobs for every two that are lost in the “offline” economy ’. Moreover, information, innovation and creativity form its base aiming at the optimal development of economic potential. To achieve successful improvement in digital economy, every European Union Member State needs to have a supporting infrastructure (networks, telecom, hardware and software), e-commerce, e-government, and modernized ways of conducting business. This includes new skills, competences and processes. The role and level of development of digital economy varies depending on the economic development of a country.

2.1 **Features of digital economy**

From a tax perspective, key features that are relevant in the area of digital economy are:

1. ‘mobility with respect to the intangibles on which the digital economy heavily relies,
users, and business functions as a consequence of the decreased need for local personnel to perform certain functions;
2. reliance on data, including in particular the use of Big Data;
3. network effects, understood with reference to user participation, integration and synergies;
4. use of multi-sided business models in which the two sides of the market may be in different jurisdictions;
5. tendency toward monopoly or oligopoly in certain business models heavily relying on network effects;
6. volatility due to low barriers to entry and rapidly evolving technology’.

2.1.1 Mobility of intangibles, users and business functions

Intangibles are important elements in the creation of value and economic growth in different companies. In most cases, intangibles are present where technology is incorporated into a business model to manage tangible resources. For example, in companies, this can be software important for developing new products. In terms of tax rules, ‘the rights to intangibles can often be easily assigned and transferred among associated enterprises, with the result that the legal ownership of the assets may be separated from the activities that results in the development of those assets’. In addition to intangibles, users and customers also play an important role. They can carry out commercial activities while travelling across borders. A typical example is when they reside in one country, purchase an application in a second country and use the application from a third country. The problem that arises is the identity and destination of users. In addition, businesses are able to choose the optimal location for production activities, even if that destination may be distant from the destination of customers or the destination of other stages of production. In most cases, infrastructure resources are placed as close as possible to key markets of users. Therefore, users and customers experience less latency, shorter lag time and higher quality, while communication within and between companies improves. All these advances in technology, such as information management software and personal computing, have decreased the cost of organising and co-ordinating complex activities over long distances.

2.1.2 Reliance on data

To increase the importance of businesses of the digital economy, data gathered from users and customers plays an important role. This data can include personalised and non-personalised data which can be collected in a number of ways. For example, when registering for an online service, or recording Internet browsing preferences. But the problem is the accuracy of this data. Given the massive use of data, the problem is storage capacity. Therefore, data analytics become a driver for innovation in a number of scientific areas.

China is a major worldwide investor in digital technologies and one of the world's leaders of innovation and technologies in digital economy. According to the McKinsey Global Institute report, the current value of China's e-commerce transactions is estimated to be larger than in France, Germany, Japan, the United Kingdom and the United States. China's internet users of mobile payments grew from 25 percent in 2013 to 68 percent in 2016. Three factors contributed to digital growth. The first one is

---

6 OECD, above n 5, 65.
7 McKinsey Global Institute Report, "Digital China: Powering the economy to global competitiveness (2017), 1
disintermediation, the second one is disaggregation and the third one is dematerialization. The first one is a major trend in China, since companies like Alibaba and others have connected suppliers and consumers directly through digital platforms. The second one refers to the way in which digital attackers disrupt traditional business models. The third one changes products or processes from physical to virtual. These digital forces shift value from old business models to new ones and from one part of the value chain to another.

2.1.3 Network effects

These effects refer to the fact that decisions of users may have a direct impact on the benefit received by other users. It can also refer to a communications network. The more users are on a network, the higher the value that is created. A typical example is a media sharing site (i.e. LinkedIn, Facebook, etc.), where the content is generated by users and the experience of users is enhanced as additional users join and share content.

2.1.4 Use of the multi-sided business model

This model is based on a market in which multiple distinct groups of persons interact through an intermediary or platform, and the decisions of each group affects the outcome for the other groups of persons through a positive or negative externality. An example of positive externality is the card system payment, while examples of negative externality can mostly be found in the media industry (a newspaper, a magazine, television or radio programming, a phonebook). Flexibility and reach present two key features of multi-sided business models. The first one is important because digital economy collects, analyses and manipulates user and market data on the dynamic market. The second one makes digital economy easier to locate, especially different sides of the same business model in different countries.

2.1.5 Tendency toward monopoly or oligopoly in certain business models

Network effects play an important role in achieving a certain company position on a market. Based on specific business operations and the market, this can be achieved through monopoly or oligopoly. In the first case, digital economy on a monopolised market may be influenced by other markets and it can also moderate monopoly power in the first market.

2.1.6 Volatility

Innovative approaches have a very important role in the use of digital technologies within companies. This implies the use of improved or new procedures, products, services in business activities, all of which span from the application of smaller, useful ideas to a complete overhaul of business policy. Organisations are focused on reducing costs, therefore, digital solutions are increasingly more accepted. The increased development of ICT through research and development is definitely a very important factor for further development of an information society and the digital economy.

2.2 Digital economy and society index

8 OECD, above n 5, 70.
9 Ibid., 71.
A communication infrastructure and global platform are necessary for the mutual communication of people and organisations within the digital economy. This digital infrastructure comprises telecommunication networks, the Internet, intranet and other related technologies. People and organisations use this global platform to cooperate, communicate, investigate and access information, exchange digital goods and services and execute financial transactions. The disadvantages of digital economy are unemployment, invasion of privacy and the rate of cybercrime. There are several indicators of the current state of digitalisation on the territory of the European Union. One of them is the digital economy and society index (DESI), which is a composite index that measures the progress of European Union Member States towards a digital economy and society using relevant indicators of digital performance. It is structured in five principal dimensions, each divided in a set of sub-dimensions, which are in turn composed of individual indicators (see Table 1).

Table 1: Structure of DESI

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Sub-dimension</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connectivity</td>
<td>Fixed Broadband</td>
<td>Fixed Broadband Coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fixed Broadband Take-up</td>
</tr>
<tr>
<td></td>
<td>Mobile Broadband</td>
<td>Mobile Broadband Take-up</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4G Coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Spectrum</td>
</tr>
<tr>
<td>Speed</td>
<td></td>
<td>NGA Coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subscriptions to Fast Broadband</td>
</tr>
<tr>
<td>Affordability</td>
<td></td>
<td>Fixed Broadband Price</td>
</tr>
<tr>
<td>Digital Skills</td>
<td>Basic Skills and Usage</td>
<td>Internet Users</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------</td>
<td>----------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>At Least Basic Digital Skills</td>
</tr>
<tr>
<td></td>
<td>Advanced Skills and Development</td>
<td>ICT Specialist</td>
</tr>
<tr>
<td></td>
<td></td>
<td>STEM Graduate</td>
</tr>
<tr>
<td>Use of Internet</td>
<td>Content</td>
<td>News</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Music, Videos and Games</td>
</tr>
<tr>
<td></td>
<td>Communication</td>
<td>Video on Demand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Video Calls</td>
</tr>
<tr>
<td></td>
<td>Transaction</td>
<td>Social Networks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shopping</td>
</tr>
<tr>
<td>Integratio n of Digital Technology</td>
<td>Business digitisation</td>
<td>Electronic Information Sharing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Radio-frequency Identification Technologies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social Media</td>
</tr>
</tbody>
</table>
From the perspective of Tax Administration and eGovernment in Croatia, the most important dimension are digital public services. A more effective use of digital technology in public services will fulfil a more demanding set of business and citizen needs and simultaneously reduce business and operation costs. In particular, the use of electronic systems in areas such as public procurement or taxation will increase efficiency, improve transparency and reduce opportunities for corruption and evasion.

The countries that most improved their digital economies in the European Union in 2017 are Denmark, Finland, Sweden and the Netherlands. In contrast, the countries that are at the bottom of the list are Romania, Bulgaria, Greece and Italy. In the dimension of digital public services, Estonia had the highest score, followed by Finland, Netherlands and Denmark, while Romania, Hungary and Croatia had the lowest score. In Croatia, digital services are provided through the eCitizens service. According to DESI 2017, Croatia ranks 24th out of the 28 Member States. Since other countries progressed faster from 2016, Croatia fell back from rank 23 to rank 24. Croatia showed some progress during 2017 in terms of eGovernment, but fell back from rank 25 to rank 24.

Source: European Commission, DESI 2017.10

26 due to instabilities related to government policy and government decisions. A more detailed overview of data and values related to digital public services in Croatia in 2014-2016 is presented in Figure 1.

**Figure 1: Digital public services**

![Figure 1: Digital public services](image)

Source: Digital Economy and Society Index, country profile Croatia.

Observed data show an increase in the period 2014-2016 despite instabilities in the Government. There was an increase in the number of eGovernment users from 18 to 23 percent and in the percentage of the maximum score of open data from 32 to 60 percent. The only decrease was observed in the use of pre-filled forms whose score fell from 21 to 20. The eCitizens web portal was introduced in 2014, so the first results in terms of effectiveness were observed in 2015, so the use of pre-filled forms jumped from score 2 to score 21. eCitizens is a one stop shop portal. It consists of a central web page (gov.hr) where all web pages of all state administration bodies have been included. It also consists of a personal mailbox dedicated to communication with the Government and other state institutions. All e-Services of governmental institutions can be found on the platform. These e-Services include e-registers (birth and marriage); insurance records and health insurance; medical appointments; electronic employment status, tax cards; e-Voters; e-certificates of residence and vehicle ownership, applications of residence online, etc. Since this is something new in the Croatian system, in the future it will certainly make life easier and simpler for all Croatian citizens. By activating the online application on their computers, citizens can see or get desired information or documents. Nowadays, these applications are available not only on computers but also on mobile phones. The key to success of digital economy is the digitalisation of business in such a way so as to create an interactive interface and enable constant availability and a personalised approach. Therefore, companies and governmental institutions need to accelerate the digitalisation of business processes, especially in Croatia. With that in mind, it is necessary to create new business processes that have more flexibility and automation and require as little documentation and form filling as possible as well as that ensure a high level of security. Croatia, in some way, already does that, but not on a satisfactory level.
3. **E-GOVERNMENT MODEL IN CROATIA**

In literature, there are numerous articles, studies and research dealing with this topic. The information age and knowledge society contributed to the development of eGovernment. Different authors define eGovernment in different ways, but there is a unanimous agreement that it refers to the delivery of services to citizens via the Internet. The goal is to capture the benefits of digital economy. Therefore, Griffin and Halpin reported that the evaluation of eGovernment focuses on eGovernment stages of growth, electronic service delivery via the Internet, stakeholders involvement and the cost and benefit of eGovernment. It can also improve the quality of government and citizen participation by facilitating citizens to have their say in the government, receive services from government organisations, be better informed about laws, regulation, policies and services. As such, it brings administration closer to citizens and businesses through the use of the Internet. The benefits are lower labour costs, improved efficiency and higher quality of services and transparency.

In 2017, Croatia adopted the 2020 eGovernment Strategy as the eGovernment and government digitalisation plan and strategic document. The objective is to achieve interoperable government systems and services to provide eGovernment services and reduce bureaucracy. All the costs will be covered from national funds and co-financing of the European Union under the Multiannual Financial Framework 2014-2020 in cooperation with other ministries, public institutions, businesses and the academic community. Key strategies with which the e-Croatia 2020 Strategy is aligned are the following:

1. the National Cyber Security Strategy (NCSS);
2. the Strategy for Broadband Development in the Republic of Croatia 2016-2020 and
3. European and national strategic context.

Complying with European Commission guidelines, various services for citizens and businesses have been developed in order to monitor the development of eGovernment. These services for both citizens and businesses include eCitizens, eTax, eHealth, eSchools, ePermit, eTourism, etc. The preconditions for e-service development are electronic identification (eID), electronic documents (eDocuments), authentic sources, electronic safe (eSafe) and Single Sign On (SSO). In the area of finance and taxes, obligatory e-services are the following:

1. ‘fiscalization – a service of the Tax Administration which collects information on every invoice the moment it is issued;
2. services, submission of forms via the eTax portal, including groups of services/forms such as value added tax, income tax and contributions (JOPPD form), profit tax, consumption tax and lottery and prize draw competitions;
3. eCustoms – refers to the calculation and collection of tax revenues from customs duties on import and export, better and higher quality control of excise goods subject to excise duties;
4. eExcise – since 1 September 2014, all excise duty payers and payers of special taxes are obligated to submit all forms electronically;
5. submission of the JOPPD form;

---

14 Ibid., 28.
6. electronic submission of all the available forms is obligatory for taxpayers classified as medium-sized and large enterprises within the meaning of the Accounting Act. The objective of this Strategy is also to increase the number of citizens who use aggregated e-services from 31.9 percent in 2014 to 75 percent in 2020, and the number of businesses from 92.7 percent in 2013 to 97 percent in 2020.

3.1 Legal framework of the e-government model

Despite new and digital technologies, the question of information, data security and personal privacy is becoming a fundamental issue. It should be determined which amendments to existing regulations and/or adoption of new regulations on the national and local levels and on the level of public services are important for the digital economy and digital rights. In the European legal framework context, the following directives, regulations and proposals are relevant: Directive 2006/123/EC on services in the internal market, Directive 2014/55/EU on electronic invoicing in public procurement, Regulation 910/2014 on electronic identification and trust services for electronic transactions in the internal market, Directive 2014/24/EU on public procurement, Directive 2011/24/EU on the application of patients' rights in cross-border healthcare, Directive 2003/98/EC on the re-use of public sector information, amended by Directive 2013/37/EU, and Proposal for a Directive of the European Parliament and of the Council on the accessibility of public sector bodies' websites.

After the accession to the European Union, Croatia also needs to comply with the European Convention on Human Rights and the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data. The legal framework of the eGovernment model in Croatia is regulated by the following legislation:

1. Constitution of the Republic of Croatia (Official Gazette No. 56/90, 135/97, 8/98, 113/00, 124/00, 28/01, 41/01, 55/01, 76/10, 85/10);
2. Act on Personal Identification Number (Official Gazette No. 60/08);
3. Act on Protection of Personal Data (Official Gazette No. 103/03); and

This legislation establishes guidelines in order to solve issues on the digital market and outline certain public administration rules. In the future, there will certainly be changes since the digital market will expand.

3.2 Improvement and exchange of information between tax administrations in different countries

The Croatian tax system is based on the principles of equality and honesty. In the Croatian tax system, the main controllers of finances and tax compliance are the Ministry of Finance and the tax administration as the revenue body. The Tax Administration largely relies on tax returns filed by taxpayers, but control is exercised through the fiscalization system; Reports on Receipts, Income Tax, Surtax and Contributions to Compulsory Insurance (the so-called JOPPD form); and compliance risk management system risk analysis. In addition, the information relating to the VAT

---

15 Ministry of Public Administration, above n 13, 44.
The Tax Administration also puts a lot of effort into the digitalisation process and, together with the Ministry of Finance, now invites sealed bids from eligible bidders for the design, development and implementation of the compliance risk management system. The objectives of the assignment are the following: to design, develop, install and implement in the information system of the tax administration a tax risk management system that will meet user needs, international and national requirements and comply with standards and the law; and to establish sound and efficient compliance risk management processes within the tax administration at both the strategic and operational level, including the development of appropriate strategies and structures within the tax administration for the purpose of effectively combating tax fraud. The overall task of the project under this procurement is to develop and implement a computerized system consisting of the following subsystems: data warehouse subsystem, subsystem for risk analysis, selection of taxpayers to be audited, determining of risk values and screening, and the general audit support subsystem.

Implementation of the computerized system will enable the tax administration to increase the efficiency of tax collection; make use of practically all data stored at the Croatian Tax Administration; select a reasonable number of taxpayers to be audited; and improve the planning, conducting and control of tax audits. Implementation of the above-mentioned risk values and screening will enable the tax administration to determine taxpayer risk scores and levels, and effectively select a reasonable number of taxpayers to be audited based on the knowledge, experience and data available to the tax administration. This will ensure the effective planning, conducting and control of tax audits. The automation of the tax audit process and the use of software will provide conditions for speeding up taxpayer audits, so that tax audits will be less time-consuming both for taxpayers and tax officials, and audit quality will improve.

In Croatia, banks, advisors and other taxable persons may refuse to give information, but in practice at the request of the tax administration, they will deliver all necessary data. This is covered by article 69(1) of the General Tax Act which clearly defines that banks, advisors and other taxable persons who have access to information essential for taxation or keep records on the ownership of securities and registers of assets, must provide data required to determine tax liability. On the other hand, information may be withheld by lawyers, public notaries, tax consultants, auditors, medical doctors, pharmacists and midwives, as stated in article 74(1) of the General Tax Act. However, this provision also mentions that the right of public notaries to withhold information is limited by their obligation to report facts that are relevant for taxation in accordance with special regulations.

In Croatia, the exchange of information with other tax administrations in different countries may be granted upon request, spontaneously or automatically, depending on certain actions. In practice, this means that if the competent authority of another Member State requests information on taxes of any kind, the Croatian Tax Administration must submit all requested information. In order to ensure the correct application of laws, the Croatian Tax Administration will undertake audits, inspections and other procedures. In terms of the spontaneous exchange of information, the tax administration will also submit all necessary information to the competent authority of

\[19\] Ibid., Art. 175(1).
any other Member State. There are five possible cases of spontaneous exchange of information based on articles 174(1) and 176 of the General Tax Act. In a case of automatic exchange of information, only specific categories are included. These are income and property, income from employment, compensation of members of boards and governing councils, life insurance products not covered by other legal instruments of exchange of information, pensions, ownership of immovable property and income from property and property rights. All of this information is available and related to the tax period beginning on 1 January 2014.


In the case of an exchange of information with a jurisdiction without an exchange of information agreement, Croatia may exchange information under its domestic law. Croatia will provide the requested information to the requesting jurisdiction if there is reciprocity; the requesting jurisdiction commits itself to use the received information only for the purposes set out in article 26(2) of the OECD Model; the requesting jurisdiction displays the willingness to enter into an agreement to avoid double taxation; and the provision of information is in line with article 26(3) of the OECD Model. In general, it has 104 exchange of information for tax purposes relationships. These relationships are based on bilateral and multilateral exchange of information agreements, including 62 tax treaties, the Multilateral Convention and European Union law for exchange of information such as the EU Directive on Administrative Cooperation.

4. **TAX ADMINISTRATION AND SWOT ANALYSIS**

The Croatian Tax Administration was founded in 1994 and has so far reached a remarkable level of expertise and professionalism. It works within the Ministry of Finance and its basic task is to implement tax regulations and regulations concerning...
the payment of obligatory contributions. The primary responsibility of the Croatian Tax Administration is to conduct the following:\textsuperscript{23}
1. ‘assessment and collection of taxes and obligatory contributions;
2. review of tax returns, their timely submissions and liability;
3. determination of tax base and tax obligation;
4. tax audit – conducting tax audit and supervision of the calculation of obligatory contributions;
5. enforced collection – conducting enforced collection in order to collect taxes and obligatory contributions’.

The accession to the European Union in 2013 brought new challenges for the Tax Administration. The biggest changes have been recorded in the value added tax system. The cooperation with other Member States’ tax administrations also needed to be improved. At the moment, the Croatian Tax Administration conducts multilateral controls with other Member States in order to prevent tax evasion and abuse of the value added system. The organization and operations are run in compliance with the following values and ethical principles: application of regulations, fair, just and equitable treatment, efficiency, professionalism and willingness to cooperate.

As a territorial organization, the Tax Administration consists of the Central Office in Zagreb, 7 regional offices (Large Taxpayers Office - national, 6 regional offices - territorial) and 57 local offices. The tasks are regulated by the Tax Administration Act as well as constitutional principles. Pursuant to this legislation, it provides expert opinions in individual cases on the application of regulations, participates in the work of the European Union institutions in order to implement common tax policies, maintains administrative cooperation with the European Union Member States and third countries, participates in the preparation and conclusion of international agreements.

According to the Strategy Plan for the 2016-2020 period, the following strategic objectives will be emphasized:\textsuperscript{24}
1. fair and efficient public revenue collection – to achieve this, the tax system needs to be simple with clear regulations, taxpayers familiar with the procedure, awareness raised in society and the information system modernised, especially the set of electronic services – ePorezna (e-Tax Administration). Easily accessible services will raise voluntary compliance to a higher level, where the Tax Administration will not have to perform costly audit procedures or enforced collection. Some of the activities that need to be provided within this strategic goal are:\textsuperscript{25} continuous modernization of the information and telecommunication system to support all business processes; further development of the Tax Administration’s website and call centre as the foundation of modern communication with taxpayers; creating new channels for targeted communication with taxpayers; strengthening the role of the central office in terms of capacity, structure and optimization of internal organizational units; revision of tax regulations and establishment of a rational tax system, etc.

2. protection of society and financial interests of the Republic of Croatia and the European Union – this will be improved by introducing a compliance risk management system, with the aim of reducing any benefits that taxpayers might gain from any form of tax evasion and the aim of increasing confidence in the system. The activities within this strategic goal are:\textsuperscript{26} application of modern tools for detection of high-risk taxpayers.

\textsuperscript{23} Ministry of Finance, ‘External and internal communication strategy for the 2012-2015 period’ (2012), 1.
\textsuperscript{25} Ibid., 7.
\textsuperscript{26} Ibid., 8.
and continuous development of the database and system for analysis of information on
taxpayers; improvement of audit processes using information and telecommunication
tools for e-audit and e-commerce; acceleration of the process of penalizing taxpayers
who do not comply with the law; and improvement of the exchange of data and other
information with the European Union Member States and third countries.

3. orientation on cooperation and partnership – to achieve a higher level of taxpayers' satisfaction, trust between taxpayers and the Tax Administration needs to be more developed. In order to strengthen the partnership, open communication with taxpayers is inevitable because it serves to inform and educate taxpayers about their rights and obligations. The best strategic guideline to improve this is distance learning. The planned activities are:27 continuous strengthening of organizational culture; developing quality service in line with taxpayers' needs; 'Service Catalogue' development and continuous key performance indicators monitoring; business process management regarding internal and external changes; education of taxpayers; performance monitoring of all Tax Administration's units; and monitoring of taxpayers’ satisfaction.

4. improvement of efficiency in the use of Tax Administration's available resources – to achieve the best possible results, financial resources need to be effectively used for funding necessary improvements; the information system must cover all core business processes and modern information and telecommunication equipment. To modernize equipment, financial sources from European Union funds need to be used. The activities planned within this goal are:28 improvement of the system of optimal planning and rational use of financial resources; establishment of a fully functional compliance risk management system; implementation of information and telecommunication solutions that will enable the simplification and automation of business processes; leaving employees more time for analysis and control; reduction of compliance costs; further development of intranet sites; and improvement of the exchange of information between public authorities in order to reduce administrative costs and improve services for taxpayers.

Key performance indicators of the Tax Administration show that the total cost of Tax Administration as a percentage of collected state budget revenues and other public levies amounted to (0.77) in 2014 and 2015, (0.80) in 2016 and (0.80) in 2017. The number of services offered in ePorezna (e-Tax Administration), which is an important factor of digitalisation, increased from 25 (2014), 31 (2015), 35 (2016) to 38 (2017). In the future, the Tax Administration must increase its efforts devoted to the education of taxpayers and employees, adjustment of services in order to meet their needs and to the modernisation and simplification of the tax system, available to anyone and on mobile phone applications.

The application of this modern tax administration system with eServices is limited by financial resources and infrastructure. Therefore, the Tax Administration offers the following electronic services: ePDV – electronic services for filing forms in the value added group of taxes; ePD – electronic services for filing forms in the profit tax group; eID – electronic services for filing taxes in the income tax group, ePKK – electronic services for accessing the taxpayer’s tax and accounting card, reviewing form status, accessing received forms and sending requests for electronic operations.

To create a modern digital tax administration, the process of digitalisation must consist of a standardized electronic form for filing tax returns; submission of accounting or other source data to support filings in a defined electronic format at a defined frequency; submission of additional accounting and source data and government access to

---

28 Ibid., 10.
additional data, such as bank statements; real-time cross-check of filings to prevent fraud and to assess tax without the need for tax forms. Therefore, based on all the above elements, the SWOT analysis of the Tax Administration electronic services is shown in Table 2.

**Table 2: SWOT analysis of the Tax Administration electronic services**

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional information and telecommunication labour force</td>
<td>Lack of monitoring of key performance indicators</td>
</tr>
<tr>
<td>Information and communication services are free to use, easily available, well documented and secure</td>
<td>Data security problems</td>
</tr>
<tr>
<td>Lower costs of fulfilling tax liabilities</td>
<td>Shortage of information and telecommunication regulatory base</td>
</tr>
<tr>
<td>Connection with other public authorities and government institutions</td>
<td>Underdeveloped information and telecommunication infrastructure in the countryside</td>
</tr>
<tr>
<td></td>
<td>Small percentage of information and telecommunication users of electronic services</td>
</tr>
<tr>
<td></td>
<td>Shortage of public access to the Internet</td>
</tr>
<tr>
<td></td>
<td>Slow development of e-Government and e-Business</td>
</tr>
<tr>
<td></td>
<td>Delays in informatisation in relation to the European Union Member States</td>
</tr>
<tr>
<td></td>
<td>Lack of public presentation and citizens awareness</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplify tax procedures and reduce costs of taxpayers</td>
<td>Insufficient funds for modernization</td>
</tr>
<tr>
<td>Lower hardware and software prices</td>
<td>Insufficient number of employees</td>
</tr>
<tr>
<td>Improvement of compliance risk</td>
<td>Brain drain</td>
</tr>
<tr>
<td></td>
<td>Diminishing opportunities to compete in the European and world markets</td>
</tr>
<tr>
<td>Tax Administrative Challenges of the Digital Economy: The Croatian Experience</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management system</th>
<th>No reward system for employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of administrative costs and improvement of services to taxpayers</td>
<td>High dependency on external partners for improvement of core business processes</td>
</tr>
<tr>
<td>Development of Intranet sites</td>
<td></td>
</tr>
<tr>
<td>Rapid growth of ICT sector</td>
<td></td>
</tr>
<tr>
<td>Use of e-signature</td>
<td></td>
</tr>
<tr>
<td>Export of information and telecommunication services</td>
<td></td>
</tr>
<tr>
<td>Attract foreign investments</td>
<td></td>
</tr>
<tr>
<td>Broader application of information and telecommunication in the business and public administration sectors</td>
<td></td>
</tr>
<tr>
<td>Education and motivation of users for the use of electronic services</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors systematization.

The implementation of new electronic services will be a great challenge for the public and tax administration. Inevitable difficulties may emerge in the fields of insufficient skills, creating an information and communication infrastructure and financial resources. In order to create a more modern digital tax administration, some of the barriers need to be overcome. For example, digital exclusion in the sense that users or taxpayers do not have records in the appropriate digital format for compliance; lack of financial resources to simplify tax filings, to buy new software which will comply with new requirements; security and privacy to avoid phishing and identity theft and technological capabilities and standards.
5. **CONCLUSION AND FUTURE RESEARCH**

The digital economy as a concept and strategy will in the future improve our everyday life and dynamic environment. It will create added value for industries, organisations and society. The use of communications and information technologies makes the global market now available to all small and medium size companies. Today, this is not a privilege of the biggest and richest companies because now the smallest companies can participate in the global market race. Digital economy is important because it enables an easier and faster connection with and within companies, faster business operations and easier access to information necessary for doing business. The organisation structure must be designed to respond to the requirements of new processes and needs in the dynamic market. In order to be able to reach decisions, data management has to be adapted to create a better connection with users and to enable easier monitoring of their effect. It is precisely digitalisation that significantly contributes to the increase in productivity, thereby creating new values and enabling the monitoring of users and their consumer and personal habits. Therefore, digitalisation is attractive to the government for many reasons. These are ‘to help tax authorities gain additional insight into the economy and taxpayers' affairs and to close the tax gap, reduce the administrative burden both on the collecting authority and taxpayers and make the process of compliance simpler.’

Advances in new technologies and investment are very well developed in the developed world, but unfortunately Croatia is still lagging behind. As a consequence, the companies and institutions that fail to take part in electronic business assume the risk of irreversible lagging and losing their position on the market. Digital economy cannot be applied if it does not comply with moral and ethical principles. In addition to its numerous benefits, digitalisation also brings numerous dangers which require a swift legislative response. Changes should be monitored, especially legislation related to copyrights, consumer protection, privacy protection, cybercrime, etc. Croatia has in force legislation related to electronic communications, the Act on Electronic Commerce and some other regulations which aim to contribute to greater responsibility for publishing Internet content. A survey of Croatian citizens about their satisfaction with digital public services by county should be an integral part of any future research. In order to know more about efficiency and the level of satisfaction of taxpayers and employees, a monitoring system that is more detailed and publicly available is essential. Recommendations for improvement in terms of challenges include: a quicker response to taxpayer expectations of contemporary e-service; increase of agility and responsiveness in dealing with rapid and unexpected changes; ensure that everyday operations are supported by collaborative platforms and simplify integration needs; reduce the difficulty of transitioning to digital administration methods; develop new capabilities and establish a data-driven and intelligence-led culture. All of that will ensure faster compliance processes, improved taxpayers services, prevention of tax fraud and evaluation of macro-economic trends and policy changes. In order to achieve an efficient digital tax administration, everyone must be involved, for example policy makers, tax administration, businesses, academia, accountancy firms and individual and business taxpayers.

29 ICAEW, above n 2, 4.
30 Act on Electronic Communications, Official Gazette, No. 73/08, 90/11, 133/12, 80/13, 71/14, 72/17.