TAX TRANSFORMATION: BUILDING THE CASE FOR TECHNOLOGY

Grant Thornton
An instinct for growth™

the answer company™
THOMSON REUTERS®

FOREWORD

The digitisation of the economy means that real time finance and tax data now play an increasingly important role in decision making for businesses.

The Australian and global indirect tax landscape is continuously changing and tax departments are under tremendous pressure to understand external tax environmental factors and how it impacts on the businesses.

Regulatory complexity, growing globalisation, increased scrutiny and internal processes present a variety of challenges for tax departments worldwide. Further, the digitisation of the economy means that real time finance and tax data now play an increasingly important role in decision making for businesses.

Having robust technologies that eliminate manual error margins and ensure accuracy, transparency, compliance and control is essential to any enterprise that hopes to take a fully confident position on its tax affairs into the future.

This paper explores the indirect tax function, where the ground is moving for technical professionals when it comes to maintaining tax compliance and why having a well considered approach to technology adoption is essential.

ANDREW BARRAH
ASSOCIATE DIRECTOR
- INDIRECT TAX
GRANT THORNTON
AUSTRALIA

TONY WINDLE
PARTNER - GLOBAL
HEAD OF INDIRECT TAX
GRANT THORNTON
AUSTRALIA

The next generation of tax professionals are well and truly pushing forward to transform the way they go about business.

Tax continues to be a growing, moving and hungry beast. Increased complexity creates local and global legislative change. Simplicity can be found in this uncertain and ever evolving environment, and it starts with careful consideration and evaluation of all the technology options.

The next generation of tax professionals are well and truly pushing forward to transform the way they go about business. In the effort to stay ahead of growing globalisation, this cohort of tax leaders is working in conjunction with software companies to utilise technology to manage rising regulatory complexity, ensure responsiveness to increased scrutiny and ultimately reduce the burden within their tax departments locally and globally.

Discrete software solutions not only address the day-to-day needs of taxation professionals, but provide a set of tools that are automatically updated to ensure compliance, reduce risk and audit failures, whilst supporting productivity metrics.

What controls do you have in place to transform your tax department and ensure your calculations, processes and data is free from material errors?

BEN SCULL
MANAGING DIRECTOR,
ANZ TAX & ACCOUNTING,
THOMSON REUTERS

CONTENTS

1. CHALLENGES OF THE INDIRECT TAX ENVIRONMENT

In today's world, managing indirect tax is a tough job. The indirect tax environment is increasing in complexity, often resulting in the tax team spending more time on compliance. How businesses use information technology is key to maintaining competitiveness.

THE MOVE TO INDIRECT TAXES

The amount of government revenue collected through indirect taxes such as value added tax (VAT) or goods and services tax (GST) is increasing. As indirect tax grows in importance, the complexity, frequency of changes and scrutiny are also increasing.[1, 2]

The VAT or GST is often seen as an "easy fix" for fiscal or monetary policy as it taxes the transactions or the "things" (to use the terminology of the Australian GST Act), rather than the consequences (sic: profits or losses) created by the "things".

Notwithstanding this, VAT/GST is often viewed by companies as not a major priority impacting only on the tax and wider finance teams. However, a well-managed indirect tax function will gain buy in and attention (to varying degrees) from the entire organisation. It's also important to develop clear strategies to address the pricing and supply chain management issues thrown up by the increasing weight of indirect taxation.

SOME OF THE EXTERNAL TAX ENVIRONMENT ENCOUNTERED TODAY INCLUDES:

- Global footprint and international supply chain requiring multiple VAT/GST registrations
- Pace and quantum of tax rule changes e.g. the EU 'VAT package', & now BREXIT
- New VAT/GST regimes e.g. China GST Reforms and the upcoming introduction of GST in the GCC and India
- Penalty regimes focused on behaviour, systems and controls e.g. UK
- Increased requirements for integrated reporting – BEPS country-by-country reporting
- Changes to reporting requirements e.g. proposed standardised EU VAT return
- New invoicing requirements
- Frequency of tax rate changes e.g. US sales tax
- Standard audit file requirements e.g. France / Malaysia
- More sophisticated audits by tax authorities using data interrogation

The greater emphasis on indirect tax reflects an overall move from taxing goods and services at the point of supply to where they're consumed. It's seen as capturing more of the taxable value from digital business. Governments also like it because they can sustain tax revenues while offering competitive corporate tax rates.

UNDERSTANDING LIABILITIES

Understanding indirect tax liabilities and claims across multinational operations is proving to be increasingly difficult.

Key challenges stem from a complex web of place of supply and consumption tax rights, that differ from country-by-country, between goods and services, and between business-to-business and business-to-customer commerce. Within today's complex supply chains, it's hard to track which territories are touched and whether this could trigger any new liabilities. It's important for business to develop a clear overview of where liabilities are, the tax 'events' and how these interact across the supply and sales chain.

[1] http://www.grantthornton.com.au/en/insights/publications/lets-be-clear-indirect-tax-is-a-business-issue?utm_medium=social&utm_source=LinkedIn&utm_campaign=Lets%20Be%20Clear%20Indirect%20Tax%20Is%20A%20Business%20Issue&utm_term=[AU]&utm_content=Indirect%20tax%20report

[2] https://www.linkedin.com/groups/4415648/

This is particularly important for businesses that are going outbound from a familiar jurisdiction into a territory that is implementing a new tax (refer Malaysia [3], China [4], Gulf States GCC ; including UAE [5], Egypt, and India [6] – noting Puerto Rico aborted their efforts in early 2016 [7]).

The "mapping" of the value chain, including the impacts on cross-border activities is an important commercial driver that must be considered.

OPERATIONAL ISSUES

The need to code business inputs, suppliers, sales and customers is an important consideration. Businesses are also likely to need to undertake a detailed contract review and consider the need for new contracts, invoice templates and import/export licences. The big question is: has the tax function developed sufficient processes to capture this information?

Unlike a sales tax, VAT/GST generally provides credit for inputs. Business will therefore lose money if it misses input data and claims.

The data challenge and risk of error are heightened by the fact that while corporate tax returns are yearly, VAT/GST requires monthly (sometimes quarterly) preparation and disclosure. Tax authorities are also coming to demand more data, more quickly and are moving to require business to produce real-time data reporting such as Standard Audit Files.

Missed information or mistakes can raise costs by preventing a business from claiming full input credit. Just as damagingly, it can impair reputation risk with the tax authority and lead to significant penalties. In today's risk-based approach, lapses in VAT/GST can also attract closer scrutiny and investigation of other forms of taxation. It's therefore important to check whether your systems are compliant and whether the information from business teams is sufficiently timely, reliable and consistent.

A common but often missed risk stemming from rushed or organisationally disjointed preparation is unintentional profiteering. There are instances where sales teams have set out to round up/down the new inclusive of VAT/GST prices to come to a clearer figure. But when rounding up, they could be seen as profiting from the shift, which could attract tax authority sanction and reputational damage. It is therefore essential that sales and tax teams work together from the outset.

Within today's complex supply chains, it's hard to track which territories are touched and whether this could trigger any new liabilities.

[3] https://www.linkedin.com/groups/4415648/4415648-6121523927681359875

[4] https://www.linkedin.com/groups/4415648/4415648-6129290754335526912

[5] https://www.linkedin.com/groups/4415648/4415648-6136894793546027009

[6] https://www.linkedin.com/groups/4415648/4415648-6149577441942786050

[7] https://www.linkedin.com/groups/4415648/4415648-6141878009403101186

2. USE OF TECHNOLOGY BY THE ATO

The indirect tax environment is increasing in complexity from a global perspective; therefore, it is important for businesses to consider how technology can play a part managing the compliance of indirect taxes across supply chains in a given jurisdiction.

The complexity of the tax function continues to evolve beyond manual and time-consuming processes. Technology has been essential in managing the tax function with the increased complexity of tax, escalating level of risk, electronic audit trail requirements, the need for greater transparency to ensure adequate review and control, and the need for accurate tax results quickly.

AS PART OF AN ATO AUDIT IT WILL ASK AN ORGANISATION THE FOLLOWING:

ARE YOU CONFIDENT THAT:

- Your organisational structures dealing with GST are sound?
- Your organisation has well documented GST policies and procedures?
- The staff responsible for the organisation's GST accounting functions have sufficient knowledge, skills and experience to do their jobs properly?
- Any computerised accounting system your organisation uses correctly codes and calculates GST transactions?
- You have had an independent review of your GST function?
- Your practical obligations regarding GST registration, lodgement and payment have been completed on time?
- Your organisation is aware of ATO risk focus areas relating to your industry or business activity?

Organisations need to be in a position that they are comfortable and confident with the processes and systems in place to be able to answer 'yes' to the questions above.

INTEGRITY OF BUSINESS SYSTEMS ("IBS")

IBS risk has been stated by the Commissioner as the most significant GST risk in the large market. The multiplier effect of incorrect transactions can lead to significant financial risk.

We note that the majority of ATO adjustments relating to IBS were made as voluntary disclosures.

THE MOST COMMON REASONS FOR ADJUSTMENTS IN THE LARGE MARKET WERE:

- Activity statement preparation errors – 30%
- System related issues – 23%
- Unsure of supply status – 18%

The ATO utilises modern technology and data mining techniques using IDEA software for e-Audits.

COOPERATIVE ASSURANCE MODEL (CAM)

The ATO is encouraging taxpayers into Self Assurance and moving away from traditional audits.

Self Assurance is more suited to taxpayers with turnover of more than $250m.

Electronic transactional data is collected from taxpayers and a series of tests are performed by Computer Assisted Verification ("CAV") specialists in IDEA.

This software allows for efficient analysis of "big data" (high volume of transactions, larger review periods) to identify potential GST errors in a fraction of the time it would take under manual methods.

The CAM lists 50 proposed tests to perform on transactional data aimed at highlighting GST risks and issues that require further investigation.

The matrix below shows how the ATO (and most tax authorities) determine the risk factor associated with taxpayers.

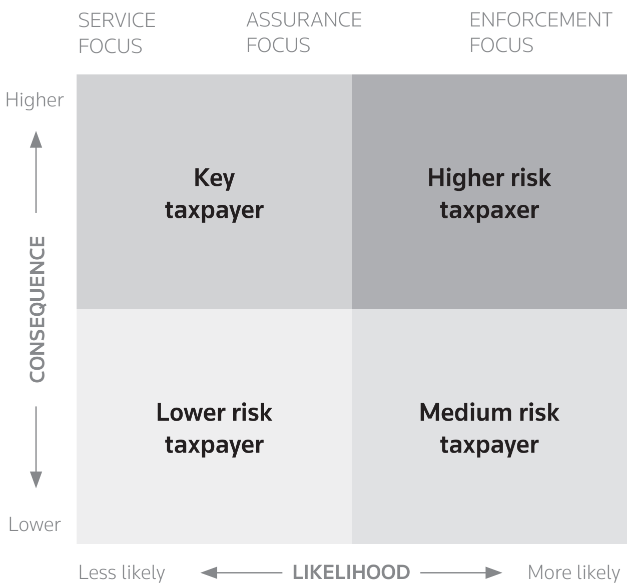
The matrix looks at the likelihood of making an error compared to the consequence of making said error. If an organisation is deemed to be likely or very likely to make errors and the consequence of the error(s) is high (this would generally be a monetary consequence, i.e. the ATO loses out on revenue), the organisation would be deemed to be a high risk taxpayer. This would result in the ATO focusing on the organisations compliance, processes and procedures. It is highly likely that the ATO will keep in touch with the organisation on a regular basis.

If an organisation is perceived as less likely to make an error, but if it was to make an error the consequence is high, the entity would be classed as a key taxpayer. The ATO would consider the organisations risk management of governance framework in detail, and if they are not in line with what is expected, the organisation is likely to be audited.

Where the ATO classes an organisation as highly likely to make an error but the consequence of the error is low, it is likely that the ATO would only target the organisation on an industry basis. Therefore, identifying any issues in the industry as a whole before contacting the organisation and undertake an audit or requesting information.

If an organisation is not likely to make an error and the consequence of any error made is low, this organisation is not likely to rank high within ATO's priorities.

RISK DIFFERENTATION FRAMEWORK



High Risk
Comprehensive Audit & Continuous Monitoring

Medium Risk
Targeted activities on an industry basis

Key Risk
Close interest in risk management and governance frameworks

Lower Risk
Monitoring market base issues

COOPERATIVE ASSURANCE REQUIRES ONGOING COMMITMENT BY A BUSINESS TO:

- Use assurance methods and tools to validate transactional systems
- Review output of risk tests
- Rectify procedural weaknesses; and
- Address and disclose any issues that may affect the correct reporting of GST obligations.

INCENTIVES TO ENCOURAGE ORGANISATIONS TO PARTICIPATE IN CAM INCLUDE:

- Placed in a lower risk classification
- Not subject to GST integrity of business systems risk compliance activity for a specified period; and
- Concessional treatment of interest and penalties.

THE BENEFITS TO A BUSINESS OF PARTICIPATING IN CAM WILL INCLUDE:

- Closure of prior periods
- Administrative solution to compliance issue (e.g. correcting GST mistakes thresholds)
- Concessional treatment of interest and penalties; and
- Technical issues resolved quicker.

3. EVALUATING INDIRECT TAX FUNCTIONAL MODELS

More and more frequently, tax departments are in-sourcing their indirect tax function to enable them to have full control and ownership of their database and also allow them to shift from compliance work to providing value-adding advice to optimise the business from a tax perspective.

THE ROLE OF IN HOUSE TAX – A CLOSER LOOK

Tax Functions will develop and implement a number of key strategic initiatives, including:

- Tax Strategies for both 1-year and 5-year timelines
- Tax Policy documents
- Tax audit and uncertain position provisioning process; and
- Risk rating matrix.

However, there are further risk management processes which could be enhanced by the use of tax technology, which include, but are not limited to:

- Additional formal documentation of procedures, adopted to review a risk matter, that are aligned to a risk control framework
- Establishing a non-MS Excel based central tax calendar to track key tax compliance obligations
- Greater automation and production of the tax returns
- Real-time visibility of global compliance status
- Enhanced reporting of tax risks and status
- Automated tracking of risk issues and escalation; and
- Automated tax provisioning and ETR management.

OTHER KEY FUNCTIONS PERFORMED IN HOUSE ARE:

REVIEW OF AGREEMENTS

Commercial agreements are shared either by the relevant commercial department or by the legal department, and cover a wide scope of agreements. Final executed versions of documents are retained by legal department and shared with tax upon request.

TAX RATE CHANGES

Where changes are required to be made to IT systems, for example a Withholding Tax rate change to be made to the ERP system, Tax receives an email from the Finance Manager at the Outstation. Tax then forwards this email onto IT to request the change to be made.

SUBSIDIARIES / DIVISIONS

Subsidiaries, business units and Outstations each have a range of tax compliance obligations in relation to returns, the primary of which is to fulfil such obligations as reside with divisional finance personnel. The actual preparation and submission of the return may be undertaken by the finance personnel themselves or by an external tax advisor. Nonetheless, the obligation to ensure that the returns are submitted completely and on a timely basis resides with the finance personnel.

Tax has an obligation to monitor whether finance personnel have fulfilled all applicable tax compliance obligations in a timely manner and to ensure that all GST refunds are being claimed where available.

In respect of such monitoring, there are a number of processes that are completed by the Divisional staff following a request by Tax. These processes are:

- Tax Packs (quarterly); and
- GST reports (monthly).

TAX AUDIT AND UNCERTAIN POSITIONS

Uncertain tax positions can be identified from a range of sources. Similar to tax audits, one of the sources of the information is local finance personnel, who, through their awareness of local activity are often best placed to report the transactions that create the uncertain tax positions. Uncertain tax positions are also identified by Tax, which is able to utilise its awareness of commercial activities in order to assess whether tax risks arise from such activity. Moreover, Tax is able to leverage on industry forums to understand the tax risk issues being faced by other airlines and assess whether such issues are also relevant.

One component of the tax risk management process for tax audits and uncertain tax positions is to ensure that provisions are appropriately recorded, where required, for tax risks. These risks are documented with an outline of the financial quantum of this risk and a recommendation as to whether a provision should be made for this risk, determined in accordance with International Financial Reporting Standards (IFRS) guidance on this matter. This document is produced on a quarterly basis.

PLANNING AND DOCUMENTATION OF KEY TAX ISSUES

Tax issues are identified by Tax following interactions with a variety of different stakeholders within the Business (e.g. Commercial, Corporate Strategy, Financial Control, Legal, etc.) Issues can either be identified by Tax as these stakeholders provide an update on business activity; otherwise the tax issue can be identified by the business stakeholder who escalates the matter to Tax.

TAX ACCOUNTING AND EFFECTIVE TAX RATE (ETR) MANAGEMENT

Tax accounting calculations include current tax calculation, deferred tax calculation, prior year true-up and preparation of various disclosures required in the financial statements. Tax reviews and seeks appropriate clarification, and communicates its findings and conclusions with the entity tax department. Tax then consolidates the individual tax accounting calculations in order to assess the Effective Tax Rate for the Group as a whole, and to prepare disclosures for the consolidated Group financial statements. Standalone tax provisions are communicated by Tax to Financial Reporting team for financial consolidation purposes.

The current and increasing sophistication of enabling technologies can make a powerful difference to the ability of the tax function to manage and support its deliverables within appropriate risk management and time frames. With tax technology, in whatever form that takes, the tax function wishes to increase the control environment, obtain better visibility of the tax domestic, regional or global footprint and enhanced tax reporting and risk management.

Aside from in-sourcing, the other options for the tax department to consider include co-sourcing and outsourcing, and each of these comes with its own set of positive and negatives.

TABLE: IN-SOURCE VS. CO-SOURCE VS. OUTSOURCE

IN-SOURCE

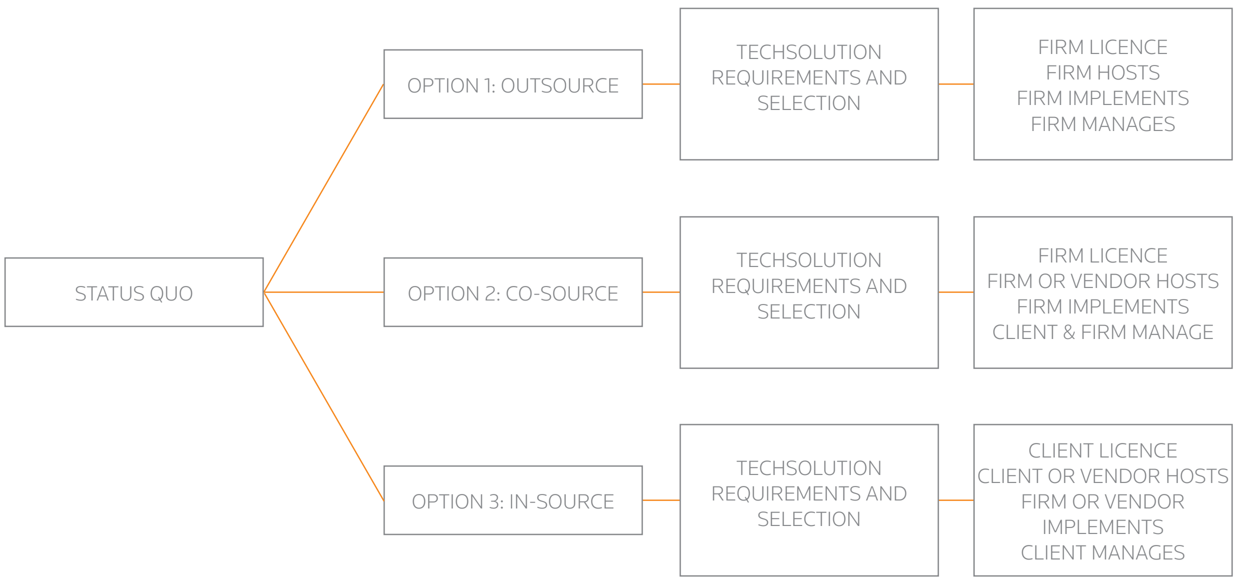
- **Pros:** Client maintains ownership of data and has control to drive their own processes to mitigate tax risk. The role of the tax advisor shifts from performing compliance work to providing value-add advice to optimise the business from a tax perspective.
- **Cons:** Client needs to build an appropriate business case for the company to invest in technology.

CO-SOURCE

- **Pros:** Client has the benefit of utilising software whilst still remaining in control of part of the tax process (i.e. can complete part of the work inhouse before handing over to review to the tax advisor). Again, allows tax advisor to focus on the value add areas. In the future if the client wants to bring the process in-house this would be easily achieved.
- **Cons:** Client does not retain control over the complete tax process but in essence is utilising the tax advisor to focus on the value add areas.

OUTSOURCE

- **Pros:** Client has Tax Advisor assurance on the output generated and can use their own time to focus on more value-add work to drive improvements and efficiencies across the business.
- **Cons:** Client loses ability to own the data and the tax process. Ultimately, the onus is still on the client to ensure the data from the source.



4. TAX TECHNOLOGY VALUE

Most organisations tend to be reactive to process events and circumstances outside the controlof the tax function. The challenge is to be more proactive and this is where tax technology makes the difference.

Tax technology enhances management, control and visibility over the tax obligations globally. It enables greater accuracy and compliance, streamlining of processes, increased transparency and greater collaboration with overseas Outstations — all of which equips a tax department to better face challenges head on.

Tax affairs and transactions have increased transparency across the business, which provides organisations with better insight and the ability to accurately foresee events that may not have otherwise been apparent. Better use of tax data, automation of processes, increased productivity outcomes, reduced margins of error and development of a sustainable Tax Risk Framework for the future are all benefits that tax technology can contribute to helping a tax function becoming the "best in class". This in turn can elevate the profile of Tax within a global organisation.

Investment by organisations in the use of tax technology has provided the ability to highlight trends prior to becoming material compliance issues. This provides an advantage over organisations that are unable to identify trends or issues due to system limitations. Organisations that have adopted new ERP's or upgraded ERP's have been more readily able to invest in tax technology.

Organisations should utilise the existing Tax Risk Framework to develop a case for using data analytics / technology to become proactive.

THE PROBLEMS OF EXISTING SYSTEMS

From the perspective of managing the above more strategic objectives, the in-house function is faced with managing the operational risks which will detract from the strategic objectives.

THE ISSUES FACED BY THE INDIRECT TAX MANAGER (TERM USED GENERALLY) CAN BE SEEN IN THE FOLLOWING COMMON PROBLEMS:

- Too many spreadsheets (and an overreliance)
- Increased manual intervention leading to human error
- Regular errors in tax liability
- Deficiencies and delays in reporting
- Increased voluntary disclosures and penalties
- Invalid tax invoices
- Lack of visibility over global compliance
- Difficulty in demonstrating controls
- Difficulty in cash flow planning
- Time consuming manual changes in systems by the IT department for every change in liability and rate
- Delays in input tax recovery
- Invalid tax invoices
- Lack of visibility over global compliance
- Difficulty in demonstrating controls
- Difficulty in cash flow planning
- Time consuming manual changes in systems by the IT department for every change in liability and rate
- Delays in input tax recovery

Any of these may present a cost, or a risk to the management of the indirect tax function. What then can be done to manage these risks?

Tax technology enhances management, control and visibility over the tax obligations globally.

GST NIRVANA: WHAT IS "BEST IN CLASS" AND WILL "BETTER IN CLASS" DO?

In today's environment, it is critical for the tax department to be connected throughout the organisation, and seen as both a partner in the business and as a way to drive the business forward.

The term "best in class" is often used when describing the utopia or "nirvana" of tax risk management and operation, but what is best in class and does it exist?

ON AN ENTERPRISE-WIDE PERSPECTIVE, THE ISSUES CAN BE GROUPED (ON A NON-EXHAUSTIVE BASIS) AS FOLLOWS:

GOVERNANCE AND RISK MANAGEMENT FRAMEWORK

- Group-wide approach to GST/VAT management and compliance (global)
- Proactive vs reactive
- Set key principles for each BU to adhere to and follow
    - Approach to preparing and reviewing a GST/VAT return
    - Filing accurate returns in a timely manner
    - File maintenance
    - Clearly identifiable roles and responsibilities in relation to GST management and compliance at a Group/Division/Business level
    - Training and regular updates (internal & external)
    - Assurance testing (internal & external – periodically)
        - Data analytical analysis
        - BU Sign-off on controls working effectively, etc.

VISIBILITY

- Self service capability (drill down to source documentation)
- Flexible reporting/viewing capabilities (by BAS disclosure / GL account, etc.)
- Meaningful information (by legal entity / business unit, etc.)

STANDARDISATION

- Enterprise management / billing system interfaces
- General ledger setup (input/output/clearing at lowest level)
- Process and procedures for managing GST compliance (manuals and reference materials)

AUTOMATION

- Remove all manual steps/processes
- Real time reporting (incl. dashboard reporting of key metrics/data)
- Instantaneous reporting (remove all waiting times)

DATA INTEGRITY

- Trend analysis
  - Current v last month / current v same period last year, etc.
  - BAS disclosure items / tax code
- Exceptions reporting
  - Setting parameters within the system i.e. taxable supplies should return GST of 10% - report where this is not the case (excluding rounding)
  - Test for invalid ABNs and GST registrations (real time checks)
- Reasonableness testing
  - Compare BAS disclosure to operating results
- Reconciliations
  - GL GST accounts
  - Between GL and other systems

Underpinning all of the above is communication and the ability to be involved in the business decisions.

Technology is one of the most powerful tools available to assist tax functions in managing communication, process and risk. "Best in class" tax groups are continuously working with their internal and external IT departments and providers to adopt and implement technology solutions. When properly used, we have seen technology greatly assist tax departments in meeting their desired state in an organisation.

THE FOLLOWING TOOLS CAN BE USED AS MANAGING THESE RISKS:

- Workflow manager tool
- Tax compliance tools to automate tax filings across VAT/CIT/WHT
- Global entity and compliance tracking systems
- Document management
- Tax audit management
- Tax accounting, including deferred tax and ETR management; and
- Tax audit and uncertain tax positions provisioning & risk register.

5. SEVEN REASONS TO TRANSFORM TAX WITH TECHNOLOGY[8]

As today's tax professionals know all too well, issues like globalisation and ever-changing regulation present a variety of challenges for corporate tax departments that simply didn't exist 20 years ago. Because most tax departments are strapped for time, making changes to a "good enough" tax process to keep pace with these trends may seem unnecessary. However, today's environment calls for a change. In fact, it has been calling for it for some time. Here are seven reasons why:

1. ACCURACY AND COMPLIANCE

From BEPS to GAAP to IFRS, as well as statutory and local requirements, there are a plethora of regulations that require compliance from multinational tax departments. This increased regulation demands that multinational companies provide accurate information related to the global allocation of their income and taxes paid, together with certain indicators of the location of economic activity, as well as information about which entities do business in a particular jurisdiction and the business activities each entity engages in.

To ensure compliance, multinational companies are looking to tax technology as the basis for a worldwide control system for master file and country-by-country reporting.

Tax technology increases accuracy and compliance through comprehensive data management, allowing tax departments to adhere to increasing regulation, enhance audit and closing activities, and keep tax activities in-house.

2. PROCESS EFFICIENCY

Tax technology has moved beyond the spreadsheets and shared drives of years past. Today, dashboards, single sign-on platforms, cloud-based systems, and ERP migrations have permeated the industry, leading to an unprecedented opportunity to streamline and standardise tax processes. The need for this type of process efficiency becomes more and more necessary as timeframes for audit requests and closing activities continue to shrink.

TAX TECHNOLOGY ENABLES MORE EFFICIENT TAX PROCESSES BY

- Facilitating the flow of data
- Eliminating duplicate work
- Decreasing the time and resources spent on tax processes

3. GLOBAL COLLABORATION

Tax technology enables you to meet the demands of today's global environment by breaking down time zone, language and data access barriers and allowing tax operations to run continuously.

[8] Thomson Reuters Tax & Accounting, *7 reasons to transform tax with technology*, 2016, tax.thomsonreuters.com.au/taxologist

To ensure compliance, multinational companies are looking to tax technology as the basis for a worldwide control system for master file and country-by-country reporting.

4. TRANSPARENCY

In today's environment, the importance of transparency cannot be overlooked. Traditionally, tax areas like indirect, transfer pricing and customs have worked independently. Tax technology provides an opportunity to break down these walls. This holistic look at the interactivity of calculations between different tax areas gives corporate tax departments a much higher level of insight than ever before.

Tax technology gives you unparalleled insight into the interconnectivity of calculations between tax areas, enabling you to take a holistic view of your tax activities. Technology also decreases the administrative burden resulting from increasingly aggressive global disclosure and transparency requirements and fortifies your audit.

5. TAX TEAM SATISFACTION

Most tax departments underestimate the importance of becoming a strategic asset to their organisation. With tax technology, there is more time to focus on value-added activities that positively impact the bottom line and an opportunity to create a more rewarding work environment.

6. KEY INSIGHTS & METRICS

Tax departments large and small are constantly in need of targeted information to make decisions. Until recently, the underlying data was not readily available and tax leaders were forced to manually collect what was needed—or forgo the effort altogether. Technology provides tax departments with the data and information they require to analyse and make decisions. These metrics are key to reaching the next level of insight into your tax department.

7. SUSTAINABILITY

There is no doubt the tax landscape and your organisation will continue to evolve, so make sure to carve out regular time to look holistically at your tax department's operational processes and technology, where you want to be five to ten years from now, and make adjustments as necessary. What you'll discover is that technology lays a sustainable foundation to take your tax department into the future.

A comprehensive tax technology strategy always plays a vital role for any company to be efficient and accurate in transforming from a manual process to a fully automated process.

TAX TECHNOLOGY MATURITY

A comprehensive tax technology strategy always plays a vital role for any company to be efficient and accurate in transforming from a manual process to a fully automated process. The below diagram illustrates the shift from 'hindsight' to 'foresight' in respect to process and systems maturity.[9]

In essence, the first step any company should make is to try to move away from Excel as much as possible as this would be prone to heavy manual intervention and human errors. This will demonstrate the significant savings in time, effort and resources. The second step is to move towards full automation of the raw data. The 'hindsight' to 'foresight' transition is considered further below in respect of the indirect tax process.

HINDSIGHT

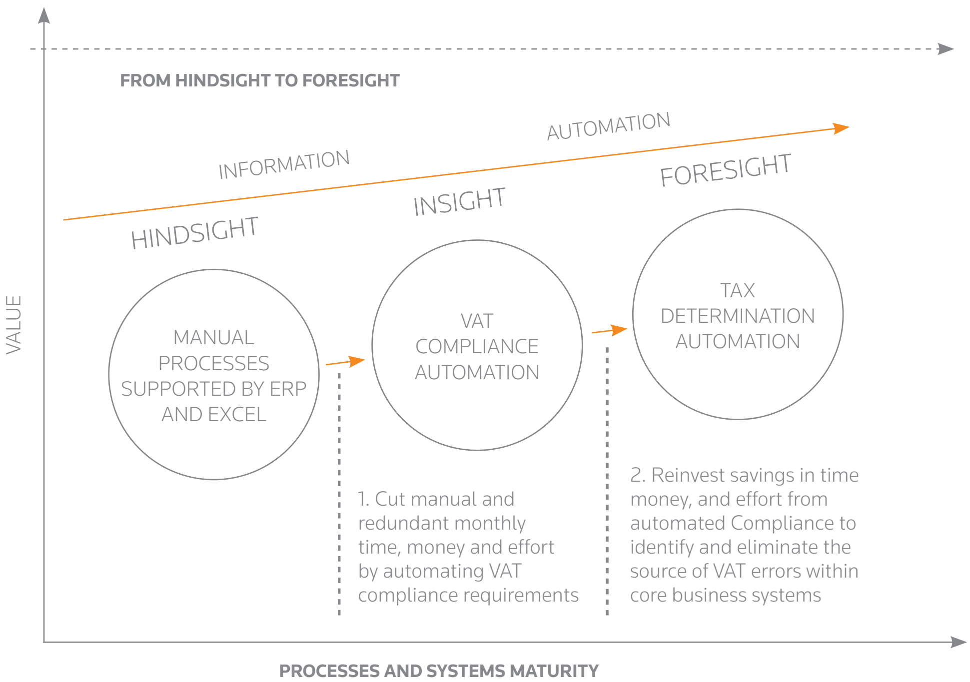
Many organisations operate with a 'hindsight' approach to tax compliance, investing their time, money, and effort into manual processes that compile and file tax data. Any analysis completed 'after the fact' is typically focused on verifying the accuracy of the input data.

INSIGHT

Organisations typically first invest in improving their 'detective measures' enabling the automation of data validation and error identification. This enables the tax team to invest their time, money, and effort into analytics that provide more timely insight into business operations and tax positions.

FORESIGHT

Organisations seeking high levels of value will typically invest in automating 'preventative measures' that minimise the opportunity for errors to be generated, and provide proactive and early assurance of data integrity. This enables end-to-end automation and frees up significant resources to invest in generating 'real-time' analytics and value-add modelling for the tax and finance teams.



[9] Thomson Reuters – *Taxation in the GCC – Considerations and the Case for Tax Technology*, 2016

COMPLIANCE Vs DETERMINATION

As discussed previously in this paper, the shift from a manual process to the implementation of technology is generally considered a phased approach. Indirect tax compliance is generally the first step to automating the indirect tax process, which is where any tax department will spend most of its time to conduct exception reporting testing to uncover errors, conduct manual overrides and compile and lodge the indirect tax returns.

Once the processes of automating the indirect tax returns has been undertaken, focus then shifts to correcting the errors that arise in the raw data itself i.e: at the ERP level. This is the base data on which companies will ultimately produce their indirect tax return, and today's technology allows for automation directly at this level. This particular technology is usually called a "tax engine" and can automate tax determination at a transactional level, i.e. making sure the right amount of tax is applied on every transaction posted in your ERP.

ERP systems are generally not designed to handle the modern complexities in GST and global indirect tax, particularly in an evolving era where any given company's supply chain, distribution chain and customer base involves multiple jurisdictions. Jurisdictional complexity also adds to the value of a tax engine, particularly where there are multiple taxing jurisdictions in any given country. For example, in the US alone there are approximately 15,000 taxing jurisdictions, 88,000 rates, 177,000 rules resulting in approximately 5,000 changes a year. Similarly in APAC, there over 125 taxing jurisdictions resulting in approximately 500 changes a year, this is in addition to new indirect tax regimes being introduced such as in Malaysia and India.

ERP SYSTEMS GENERALLY HAVE LIMITED FUNCTIONALITY IN RELATION TO GST INCLUDING:

- Limited number of tax codes and tax tables
- Limited exception reporting
- Limited controls, allowing manual overrides
- Struggles with cross-border requirements
- Manual and lengthy process to update rates and rules
- Inability to provide summary data for reporting in relevant format
- Difficulty in running reports and queries

DETERMINATION

The Tax Determination Engine automates the GST/indirect tax treatment by applying the company's indirect tax policy to every transaction generated in the underlying source systems (e.g. The Master Data contained in the ERP, billing systems etc).

- Automating Upstream
- Master data transferred to core transaction systems
- Flow of sales transactions:
  - Customer ⟶ Order ⟶ AR system
- Flow of purchase transactions:
  - Vendor ⟶ Order ⟶ AP system

COMPLIANCE

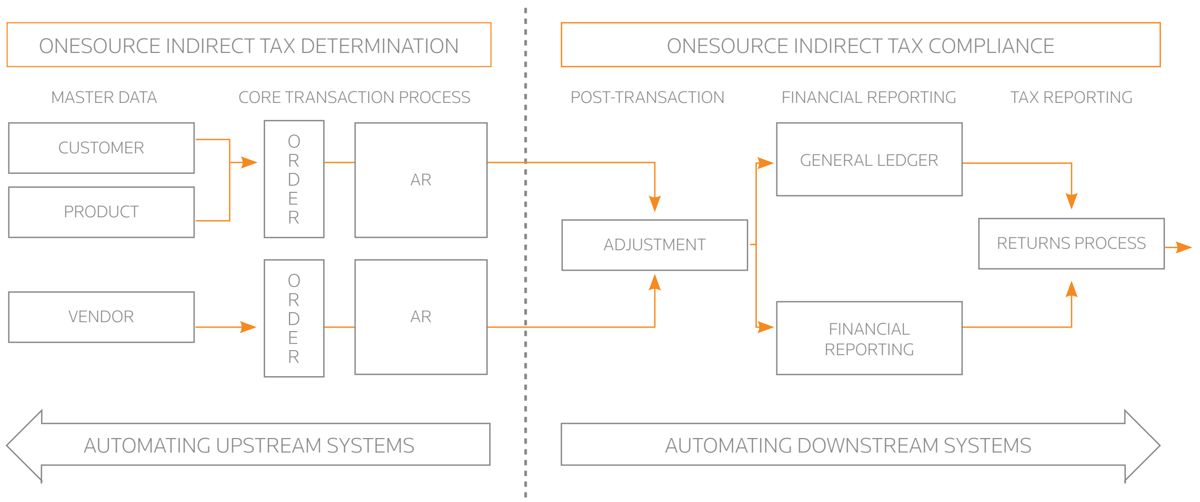
Data from core transaction systems is imported into a tax compliance solution which automates the exception report testing, BAS forms and electronically lodges with the ATO.

- Automating Downstream
- Data from core transaction systems imported into financial reporting and tax reporting
- Financial reporting from GL ⟶ Tax Reporting ⟶ Return

BENEFITS OF TAX DETERMINATION AND COMPLIANCE

- Reduction of errors caused by manual processes – adjustments and journals
- Increases the accuracy of indirect tax treatment of supplies and coding of acquisitions
- Tax technology provides a greater level of transparency – therefore reducing risk by providing a clear audit trail
- Not as time intensive as compliance
- Reduction in the level of steps required to complete returns
- Enabling of global consistency

END-TO-END GST MANAGEMENT



6. TAX TECHNOLOGY ASSESSMENT

An ever-changing technology landscape presents both a boon and a burden to businesses. New versions of the latest technology are released more quickly than you can buy the original, and organisations must adapt with greater speed than in the past. Technology has also enabled businesses to explode across the globe. With the click of a button, we can instantly access the far corners of the world. What is one result of this? Change at an exponential rate—thereby requiring more planning around technology and greater transparency into existing systems and processes.

EACH TAX DEPARTMENT SHOULD ANSWER THESE QUESTIONS:

- What is your department's tax technology strategy?
- Have you met with Tax leadership and your colleagues to articulate and document that strategy?
- How are you prioritising what is most important to your department?
- How does that translate into the world of technology?
- How is the strategy impacted by the organization's key risks and approach to risk management?
  What are the strategic priorities for the company and the most significant risks?
- How is your department currently mitigating those risks?
- What are your relationships with IT and Finance within the organisation? Do you have strong partnerships? If not, why?
- How can these relationships be broadened? We suggest starting at the top and engaging leadership by informing them of the need and asking them to cue it up with the respective leaders of those areas as a first step.
- Do you have a plan or roadmap for managing your technology landscape over the next five years? If you do not have a plan, why not?
- Who currently manages the technology supporting Tax? What is that process?

FOUR STEPS TO EVALUATING YOUR TAX TECHNOLOGY:[10]

1. ACCESS YOUR PROCESSES AND TECHNOLOGICAL LANDSCAPE

What is an assessment? Tax managers are generally aware of the landscape of systems and processes supporting their daily activity. In addition to the systems utilised within their own departments, they often know who and what impacts data both upstream and downstream and who manages the workload and content. They may also have knowledge of tools and procedures other departments use that are most relevant to Tax. If this is the case, what is left to assess?

A proper assessment entails more than having a general knowledge of your systems and a detailed understanding of your tax processes. It involves drilling a layer deeper to look at the world from different angles in an attempt to capture the full picture of what truly exists. An assessment must include both the macro and micro and should be performed from several perspectives.

[10] Thomson Reuters Tax & Accounting, Kovar, Lauren B. *4 Steps to evaluating tax technology*, 2014.

A proper assessment entails more than having a general knowledge of your systems and a detailed understanding of your tax processes.

So how do you start your assessment? It is always best to begin at the beginning, which is with what we already know, and then seek the missing information. The goal of any assessment is to gather data to identify risks, opportunities, and priorities; formulate a plan, gain approval, and implement a change. Strong documentation will make a difference in your ability to support your results and recommendations forward.

2. MAP RELATIONSHIPS

The sharing and processing of tax data and documents is rarely clean. Most handoffs are not system-to-system, and information rarely goes from Lucy to Jane and then into a system without some degree of manipulation. There are calculations, transformations, and new source data and inputs along the way.

The results of your assessment may have already called out several relationships between people, processes, or technologies, and it's likely you are already brainstorming ways to utilise technologies across teams. In Step 2 we take this to the next level to map the relationships to other areas of tax and beyond tax.

3. TAKE IT GLOBAL

Multinational organisations face many tax and financial reporting challenges as legislators and tax authorities around the world pass new laws to regulate compliance. Gone are the days when local finance teams could make local decisions as tax compliance is increasingly becoming an international process – often global, frequently regional. New international legislation such as country-by-country reporting requires multinationals to have a consistent process across multiple countries to manage source data and compliance reporting.

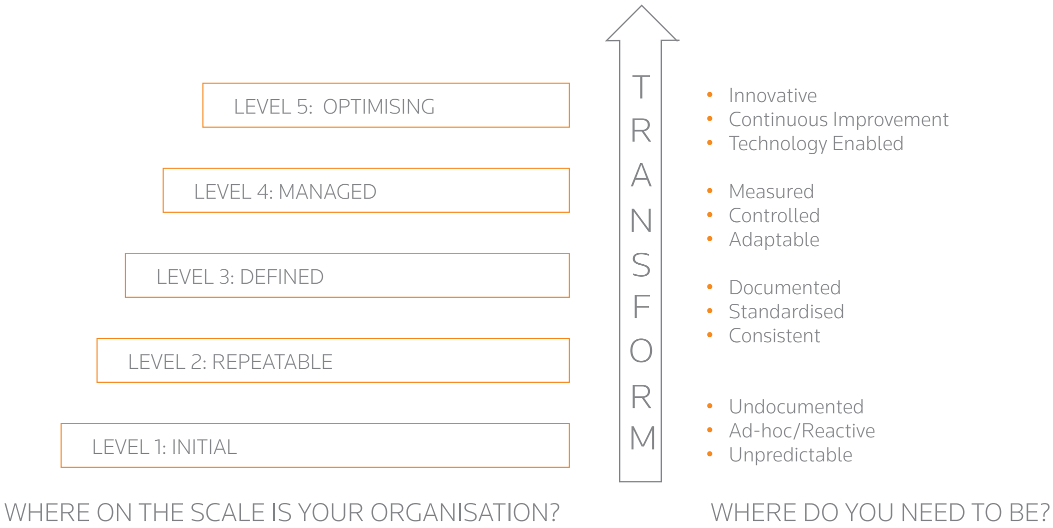
Regardless of the scale of your global relationships and mapping, it is not something you can ignore. Do not be intimidated if others immediately default to the phrase, "it cannot be done." You may be surprised to learn that a tax manager in China is going about the same process you are to assess their current landscape and develop a plan to improve. By combining efforts, you may find new channels of support.

4. GROUP ISSUES AND IDENTIFY PATTERNS

Once you have completed your list of process and technology issues, you should begin to look for common results and patterns. Issues can fall into several categories or types. For example, are you experiencing issues because you aren't fully familiar with the system and might need additional training? Or are you experiencing infrastructure problems like bugs, error messages, time-outs, and numbers that don't tie out? Ask questions like, "Why is tax using different systems for time management when there's an opportunity to use the same system?"

In most cases, you will need help to analyse your issues. With the exception of minor process or training issues, it is not recommended that you take on the burden to diagnose by yourself. Ask for assistance from experts to who will be able to call upon their expertise to identify the potential cause and eventually recommend a course of action.

STAGES OF TAX TRANSFORMATION



VALUE REALISATION

To achieve optimal use of a tax technology solution, transformation needs to focus on four key areas:

PEOPLE

- Enable team members to own controls necessary to ensure best in class tax compliance
- Documentation of roles and training for individuals in those roles

PROCESS

- Documentation of processes and any improvements in those processes
- Development of templates
- Effective compliance management
- Documentation of a sustainable Tax Risk Framework

TECHNOLOGY

- Implementation of a Tax Technology solution designed to increase productivity and efficiency of tax planning and compliance functions
- Enable Tax to focus on key risks and value-add initiatives
- Increase visibility over global compliance obligations

DATA

- Tax sensitised data should be the foundation of the tax function
- Tax Technology can be used to enhance the quality of tax data, analyse it, share it and provide management with key analytics and metrics.

TRANSFORMATION

DATA	TECHNOLOGY	PEOPLE	CONTROLS	
• Embedded analytics in data source systems and enterprise tools (automated validations and exception reports) • Centralised access rights to data • Drill down capabilities	• Rules based workflows • Portals integrated with internal and external stakeholders • Online global centralised data and calendar	• Tax strategy aligned with Board risk management policy • Business leaders aware of tax matters • Integrated function adapts to change	• Emphasis on detective analytics • Trigger analytics to control tax risk and optimise planning • Integrated controls within workflows	**FINANCE AND TAX FUNCTION INTEGRATION LEVEL FIVE**
DATA	**TECHNOLOGY**	**PEOPLE**	**CONTROLS**	
• Self-service reporting from enterprise core data systems • Use of some data analytics replacing manual analytic work papers and procedures	• Enterprise level portals • Automated dashboard feeds • Some workflow automation • Controls are inherent within applications	• Strategic use of business partners • Objective tax performance goals aligned with enterprise goals • Value focus	• Work is pre-emptive and forward thinking • Documented processes/approvals • Work shifted and scoped to leave time for analytic activities	**TAX FUNCTION OPERATIONAL EXCELLENCE LEVEL FOUR**
DATA	**TECHNOLOGY**	**PEOPLE**	**CONTROLS**	
• ERP, GL, forecasting or consolidation tools are "tax aware" for all stages of tax cycles • "Single version of the truth" data used across tax functions • Ad hoc data retrieval	• Automated information delivery • Tax Data warehouse integrated w/ enterprise systems • Spreadsheet and system integration	• Formalised alignment of tax, finance and business units • Quality people in key roles • Succession / turnover planning in place	• Preventative controls • Detective controls with granularity sufficient to evidence and test	**ENTERPRISE DATA AND KNOWLEDGE LEVEL THREE**
DATA	**TECHNOLOGY**	**PEOPLE**	**CONTROLS**	
• Tax database or warehouse has automated feeds but is separate from accounting/ finance • Databases differ between tax areas	• Tax accesses some GL, consolidation, or planning tools	• Tax operates in a silo, lacking enterprise data, systems and knowledge • Defined tax roles • Quality focus	• Controls focused on detective "reviews" • Manual document management procedures for version control	**SILO TAX DATA AND KNOWLEDGE LEVEL TWO**
DATA	**TECHNOLOGY**	**PEOPLE**	**CONTROLS**	
• Use of spreadsheets to gather, manipulate, store and retrieve data • Use of email to collect data and documents and oversee status	• Significant manual processes • Standalone tax functional technology solutions • Manual reporting	• Independent tax groups (e.g. Compliance, planning, etc.) • work is reactive and compliance focused	• Lack of automated and standardised workflow • Lack of access controls and segregation of duties	**ISOLATED TAX ORGANISATION LEVEL ONE**

7. TAX TECHNOLOGY LIFECYCLE

ROADMAP

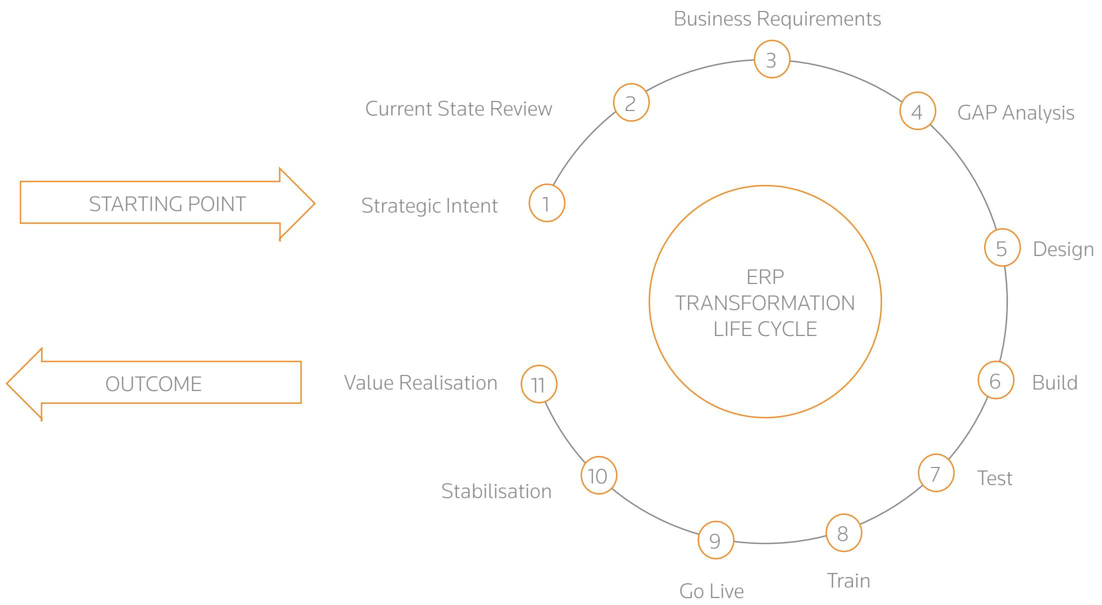
AN ORGANISATION SHOULD DEVELOP A VISION AND STRATEGY FOR THE EFFECTIVE IMPLEMENTATION AND USE OF TAX TECHNOLOGY. THIS SHOULD INCLUDE THE FOLLOWING:

- Design a 1-5 year roadmap to achieve tax department's goals and address how to leverage technology
- Assess how data is structured across all platforms
- Identify the best processes to complete the tax life cycle
- Review technology currently in place
  - Optimise configuration and use
  - Consider capabilities needed with business/process changes
- Keep focus on appropriate and desired alignment of people, process, and data along with technology

BUSINESS TRANSFORMATION AND VALUE REALISATION

While many businesses invest in a new ERP for scalability and standard process, there is a need to ensure that key local country tax requirements are defined, blueprinted and met within the system. Where there are gaps, a business should consider how the requirements can be met outside the native ERP, through People, Process or Technology. This should be explored by viewing the ERP as a life cycle.

POTENTIAL STAGES OF THE LIFE CYCLE INCLUDE:



BUILDING A BUSINESS CASE FOR TAX TECHNOLOGY[11]

The development of formal and informal business cases to support tax technology investments is an area receiving growing attention inside companies and throughout the broader marketplace. Business cases have been in use for a long time and serve as the basis to capture reasoning for starting a project or initiative, including the purpose, scope, estimated cost, and expected benefit.

WHAT ARE THE REQUIREMENTS?

- Who (or what business unit) requires the case?
  - Tax Leadership, IT, Finance, Procurement?
- What is the format?
  - Written? Verbal? Is there a template? Is it formal?
- What elements must be included?
  - Scope of implementation? License fees?
- What is the need / problem being addressed?
  - What is the scope of the project?
  - What are the marketplace options?
- Who is the audience for the document?
  - Does it cross multiple business units and levels of responsibility?
- What is the timing and frequency?
  - Does it align to annual budget cycles? How many times per year are requests considered?
- How will changes in circumstances be evaluated?

A business case is written to persuade and is directed at a main audience of key decision makers. Understanding what they are looking for is a critical first step.

ALIGN TO YOUR TAX TECHNOLOGY STRATEGIC PLAN AND ROADMAP

Tax cannot rely solely on tax acumen when organising an approach to persuade the organisation to invest in tax technology. By aligning your business case to a holistic tax technology strategy and objectives, decision makers will join in your discussions toward a bigger picture result and have better information when prioritising funding for each individual project request. Depending on the requirements, consider writing your business case to cover multiple related projects slotted in the tax roadmap.

Tax cannot rely solely on tax acumen when organising an approach to persuade the organisation to invest in tax technology.

[11] Thomson Reuters Tax & Accounting, *What to expect when implementing tax technology*. 2016, tax.thomsonreuters.com.au/Taxologist

UNDERSTAND ORGANISATIONAL DRIVERS AND CONSTRAINTS

EVERY AREA OF YOUR BUSINESS HAS A DIFFERENT SET OF PRIORITIES, AND ORGANISATIONAL DRIVERS WILL PLAY A LARGE ROLE IN DEFINING WHICH PROJECTS RECEIVE FUNDING. EXAMPLES OF THESE DRIVERS INCLUDE:

- Short financial statement close windows
- Transformation initiatives
- Disparate Enterprise Resource Planning (ERP) landscapes
- Shared service centers / centers of excellence
- Heavy acquisitions
- Overall risk adversity

These drivers are distinguishable from environmental drivers, which may include economic factors, increased regulatory scrutiny, or the impact of globalisation.

Organisational drivers provide insight into the culture, attitudes, and priorities of leadership. They often tell of the current strategy and will ultimately influence where the money goes.

Work to align Tax's needs with those of the organisation as indicated by the drivers. Clearly illustrate those connections in your business case and how the investment in Tax's initiative supports or leverages opportunity produced by broader business goals.

THE 3 D'S – DUE DILIGENCE AND DOCUMENTATION

The strongest business cases win. If you have done work to understand the requirements and aligned to Tax's strategy and organisational objectives, then you can now turn your attention to the information you need and how to present it.

Your business case must include quantitative and qualitative information and cover both the value of the request and detailed aspects of the expected spend, as well as the return on that investment, or ROI. A distinct business case for technology investment includes the estimated cost (often as determined by effort) for the full scope of the project — from planning and project management through design, implementation, deployment, and post-project phases. Technology license fees, maintenance fees, and future phase costs should also be incorporated.

IN ADDITION TO THE COSTS OF THE INVESTMENT, METRICS SUPPORTING THE BUSINESS NEED AND ROI ARE EXPECTED. TO DETERMINE THESE, ASK YOURSELF:

- What am I trying to measure?
- How do I measure it?
- How do I measure the cost associated with NOT making the investment?
- What information do I need to compute the answer?

A WORD ABOUT RISK

Identifying risks comes naturally to tax professionals. Your business case for technology must articulate the risks you expect to mitigate with the solution. Risk can be measured in different ways, from estimates of expected penalties and fees to an increased potential for errors when moving data between systems. If you are unsure how to quantify a particular risk, seek input from your colleagues or trusted advisor to suggest an approach.

LEVERAGING OPPORTUNITIES

Strategic and proactive planning for tax technology is about opportunities, not just problem solving. Throughout your strategic planning process, you will have identified multiple technology initiatives being proposed by business units outside of Tax. These initiatives represent opportunities for change that could "open the door for the tax function to integrate itself better with the business and improve its data management and collection processes — in turn enhancing performance in areas such as global provision, compliance, and tax planning.

EXAMPLES INCLUDE:

- ERP implementations, consolidations, upgrades, migrations
- Finance Transformation
- Shared Services Centers and COEs
- Supply-chain initiatives
- Capital expenditure planning

Building a business case is necessary to receive an allocation of the overall project funding toward Tax's specific requirements and resource needs on an enterprise initiative.

Assemble the key project stakeholders and owners of the initiative to gather the inputs needed and begin the verbal process of championing them to your cause. Learn more about the effort and educate them on its importance to Tax. Be prepared to show them why how your results impact them.

BUILDING UPON SUCCESSES

Your request has been approved! But don't stop there.

What about the next request? When it is time to lobby for Tax's next purchase, you'll be able to better support your claims, persuade your stakeholders, and grab their attention more quickly.

Tax professionals must be equipped with the knowledge and skills to build and win their case for investment in technology. Moving from the whiteboard to an actionable plan forward requires a proactive and methodical approach to building a compelling business case. Using these essentials will give your project its best chance for success.

Moving from the whiteboard to an actionable plan forward requires a proactive and methodical approach to building a compelling business case.

8. BUSINESS REQUIREMENTS

There is no 'one size fits all' automated indirect tax solution.

Instead, there is a suite of solutions available (from different software solution providers and consultants) which are each designed to relieve specific pressure points in the VAT/GST compliance process.

The solutions including the following options tax engines, workflow management tools, GST return compliance tools and return on investment analysis. Further, improvements and solutions can be sought through enterprise resource planning optimisation and outsourcing certain functions.

TAX TECHNOLOGY REQUIREMENTS

PRELIMINARY ACTIONS

In order to implement tax technology there are a number of preliminary steps that an organisation must undertake. These are explored below:

PROJECT PLANNING AND ON SITE PREPARATION

This step involves the review of current document and processes, and identification of resource roles, assignments and key stakeholders

CONDUCT INTERVIEWS AND GATHER INFORMATION

The organisation should conduct workshops to capture strategic requirements and to understand, collate and blueprint those requirements.

As part of this, a review existing processes, current workflows, compliance management and controls and any existing tax technologies should also be performed.

ANALYSIS AND ASSESSMENT OF CURRENT STATUS

The organisation should analyse and critique current processes as well as identify inefficiencies, risks and tasks.

Consideration should also be placed on defining Tax Technology scope in terms of taxes and jurisdictions. Business requirements and essential functionality should be documented.

VENDOR AND SOLUTION IDENTIFICATION

This step involves the identification of potential vendors and solutions through research and existing relationships. The solution options should be mapped to relevant improvement opportunities.

Collaboration with Tax and Procurement is also required to draft relevant documentation for publication to vendors.

VENDOR AND SOLUTION EVALUATION

The organisation should approach the vendor assessment process in a strategic manner and assist with the organisation of vendor presentations.

DEVELOP DELIVERABLES AND PRESENT FINDINGS

As part of this step, delivery of an executive presentation of findings and recommendations of tax technology solutions should be performed. Assistance should also be provided to help key stakeholders decide on the best solution.

The next step will be to prepare a draft roadmap for implementation and deployment of the tax technology.

Once the preliminary work is undertaken a dashboard can be created. The dashboard provides links into various functions and provides transparency into the tax accounting. One example of where tax determination provides a benefit is if an organisation has obligations to file tax returns in a numerous countries, the filing status of returns can be flagged through a function in the dashboard, prompting the tax team that a return is due.

The diagram below is an example of how a tax dashboard is created and the various functions that feed into it.

CONCLUSION

In the evolving world of regulatory complexity, growing globalisation, increased scrutiny and the increase in tax complexity – which shows no signs of remaining static – organisations, need to consider the use of technology within their tax affairs.

We have discussed in this paper the comparison between tax determination and tax compliance and it is evident that tax determination provides greater controls, processes, transparency and a reduction in risks.

Across the globe it is becoming evident that managing tax risk is high on the agenda of many organisations especially global organisations. This is especially because organisations do not want to come under scrutiny for their tax affairs.

The indirect tax landscape is forever evolving and becoming more complex, and where organisations are global and have tax risks to manage in a number of jurisdictions, they need to consider how they are going to manage their tax affairs and how they are going to manage risk.

When it comes to indirect taxes, Grant Thornton's specialists understand the pitfalls and the safe pathways. With our deep technical knowledge and practical experience, we can help you minimise the impact of GST and indirect taxes.

We deliver practical, commercial and tax-effective advice.

CONTACT US:

ANDREW BARRAH
Associate Director - International Tax

T: +61 3 8669 6063
E: andrew.barrah@au.gt.com

TONY WINDLE
Partner - Global Head of Indirect Tax

T: +61 7 3222 0381
E: tony.windle@au.gt.com

GRANT THORNTON AUSTRALIA
T: +61 3 8320 2222
W: grantthornton.com.au

Join over 150,000 tax professionals worldwide who are transforming their tax processes with ONESOURCE.

CONTACT US:

NEHA MAHINDRU
Indirect Tax Manager - Product Specialist

T: +61 3 8684 2193
E: neha.mahindru@thomsonreuters.com

PETER KANE
Business Development Director

T: +61 2 8587 7183
E: peter.kane@thomsonreuters.com

T: 1800 074 333 (Australia)
0800 785 483 (New Zealand
W: tax.thomsonreuters.com.au/onesource
E: info.anz@thomsonreuters.com