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Is your tax function future ready?

Global investors and superannuation funds are impacted by both the domestic and international tax landscapes. As tax has come under intense community scrutiny, recently it has elevated from just a compliance risk, to a reputational and even conduct risk.

As such, superannuation funds have had to ask themselves - what tax operating model they need both to meet current challenges and ensure their tax functions are future ready.

Local tax operating models

To determine current tax trends in Australian superannuation funds, Deloitte conducted a short, anonymous pilot survey canvassing respondents across industry, public sector, and corporate superannuation funds. The sample ranged from organisations with less than $10 billion net asset value to those with more than $30 billion, totalling at least $300 billion funds under management. ❯

From this sample 50% of Australian superannuation funds run a centralised model where most tax work is carried out and managed from a central team, as opposed to a decentralised or centrally co-ordinated tax function.

This centralised team is either part of the finance team or wholly outsourced to administrators. On average, the tax functions surveyed had one to two full-time equivalent (FTE) staff, although some were between six and 12 members.

The Red Queen effect
Both global and local research suggests that these tax functions feel as if they are in the Red Queen's world in Alice in Wonderland - that is 'running hard just to stand still'. One solution to this impasse is to make sure the business focusses on the tax drivers that are important and increase efficiencies for the business.
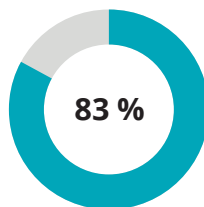
Importance
The Deloitte survey results ranked the importance of tax drivers for Australian superannuation funds as follows:

100 %
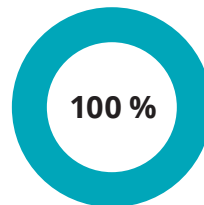
Quality

All respondents (100%) highlighted quality as the highest ranked tax driver of the tax function.

Quality is determined by expertise, accuracy, timeliness and reliability.
Note: As tax remains a specialised area of the law, it is not a skill set easily replicated.

83 %

Control

The next most important tax driver was control (83% of respondents high) and 17% (medium).

Control means transparency, visibility, risk management and consistency.
Note: The tax function needs to provide the business with tax advice that is both correct and within the broader risk management parameters outlined by the executive and ultimately, the board of trustees of the superannuation fund.

50 %
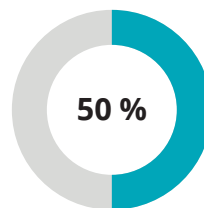
Process efficiency

50% of respondents ranked process efficiency as high, 50% of respondents ranked it medium.

Process efficiency is reflected by defined roles and responsibilities of personnel resources within (and allied to) the tax function, together with processes that produce accurate and timely data.

17 %
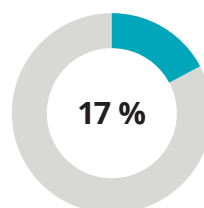
Cost

17% of respondents ranked cost high, and 83% ranked it medium

Cost drives return on investment and overall value for money.

Designing a 'future ready' tax operating model
Fundamentally, tax operating models are made up of:

Governance and strategy

Ensuring that the board trustee approved tax risk appetite is clearly outlined and understood

People, process and procedure

Role responsibility needs to be understood and accepted. Processes and controls reflect the operational tax risk management framework and should be owned by management.

Supporting technology infrastructure.
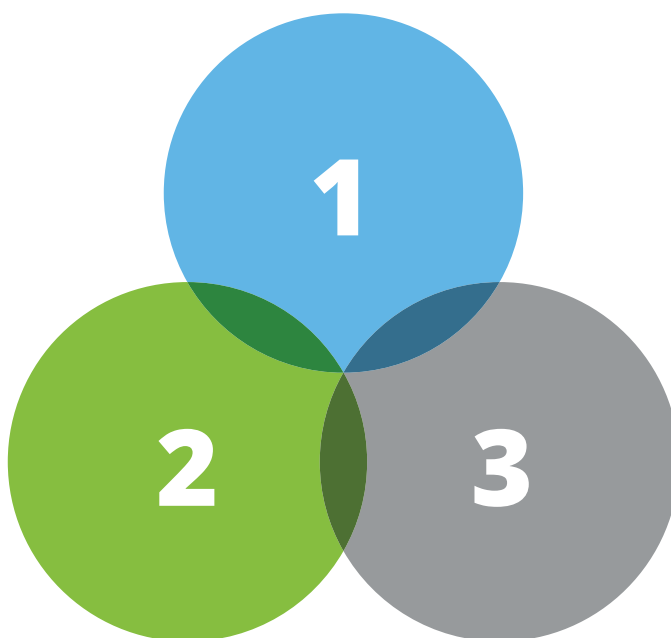
For tax functions of the future, determining the supporting technology infrastructure which will ensure the optimal resource model and delivery of the strategy, is both important and difficult. From global research, many respondents state they lack the requisite knowledge or in-house expertise to have the confidence to make the right technology decisions and investments. However, they recognise that making these decisions and getting them right could unlock the desired improvements and greater satisfaction they seek. In our Australian superannuation funds' survey, only one respondent had a tax technology plan in place.

Automation/robotics/robo-advice
As an industry, superannuation funds know they need to embrace automation. So how to determine the best benefit from these emerging technologies for the tax function of a superannuation fund? A sensible starting point is to consider the current 'IT architecture' and to assess what reasonable short, medium and long-term improvements can be achieved to gradually enhance the technology of the tax operating model.

There is no enterprise-wide or end-to-end automated tax offering for superannuation funds. Therefore, the short-term decision (subject to the available people, budget and plan) is to access what technology architecture is currently available to best meet the needs of its own superannuation fund.

RPA and data
Potentially the most relevant emerging technology for the superannuation fund tax function is Robotic Process Automation (RPA). Essentially RPA mimics human interactions with software applications automating repetitive, rule-based processes[1]. A key issue with tax information management in superannuation funds is the significant number of data points needed to undertake tax calculations and assessment.

Superannuation funds require tax information from e.g. trial balance and account details, administration systems for factors such as contribution classification, and pension member data, custodial reporting for tax investment information, as well as actuarial certificates.

1. Schatsky, David., Muraskin, Craig., Iyengar, Kaushik, Robotic Process Automation – A path to cognitive enterprise, September 2014, https://dupress.deloitte.com/dup-us-en/focus/signals-for-strategists/cognitive-enterprise-robotic-process-automation.html

Therefore, tax compliance is often calculated using cumbersome, linked spreadsheets which are at risk from data that is not up-to-date and do not appropriately calculate cells and data management risks such as being stored appropriately to meet the ATO's benchmark.

A tax function that is future ready will need to address this risk.

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To be future ready
To be future ready, the tax function in large superannuation funds should look at the tax operating model and determine whether it is really just a reporting function or, is positioned to add demonstrable value to the broader organisation.

Where the skills of tax personnel are deployed in creating high-value outputs for the business as a whole (e.g. proactive technical advice; meaningful insights from data analytics), rather than focusing on inputs of data for compliance purposes, then the tax function will be better positioned to demonstrate its value as a strategic business partner.

To manage higher volumes of reporting and deal with greater expectations from business stakeholders, perhaps a new 'business as usual' should be found.

To achieve this future ready state, arguably the effort needs to be focussed on process efficiencies, using tax personnel for high value work and successfully leveraging new technology.

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