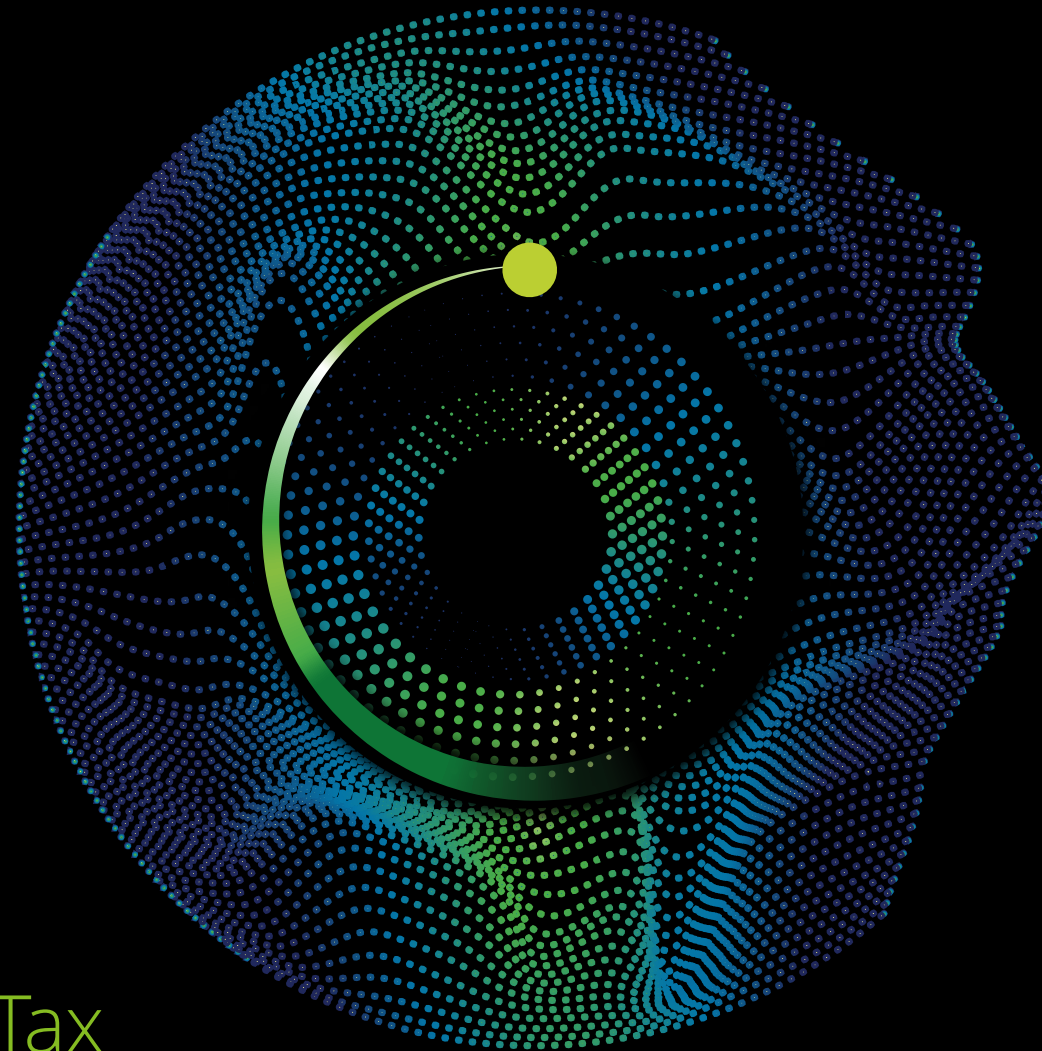


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Central Europe Tax Technology Report

MAY 2023

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Introduction

Wherever we look today, we can see how technology is impacting nearly every aspect of our lives – from the way we communicate, shop and spend our free time, to the highly developed solutions used in healthcare and other specialist areas.

This is creating a new age of process transparency and visibility, often in real time. And that is empowering businesses of almost any size to gather large amounts of data. The key to differentiation is how they process and analyse this data, as it feeds them with essential information about the effectiveness of the organisation's operations, its stakeholders and the way it is seen in the market.

To keep up with these developments, Tax leaders everywhere are turning to technology to improve data quality.

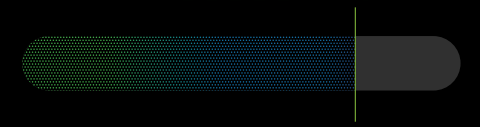
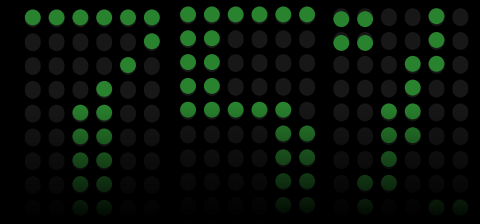
The Tax function is no exception to this fast-growing transparency. In an increasingly globalised world, the public and tax authorities are on the same digitalisation path, with a growing appetite to know more about taxpayers and whether or not they are compliant with the evermore complex labyrinth of legal provisions affecting every tax regime. With decreasing barriers to scrutiny, taxation issues are therefore having a direct impact on company reputations and brand perceptions.

To keep up with these developments, Tax leaders everywhere are turning to technology to improve data quality, ensure compliance and optimise the way their organisations operate.

This means they need not only to keep continuously developing their financial and accounting skills.

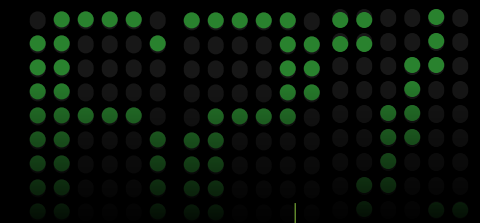
They are also having to broaden and deepen their understanding of the technology-related aspects of reporting, including their organisations' IT environment.

It was to find out how the Tax function's technology needs and strategies are evolving that we at Deloitte Central Europe have surveyed 120+ senior finance and tax executives from across the region. The survey addressed multiple areas, including the decision-making factors and challenges involved in technology investments, the implementation and upgrade of next-generation ERP systems, the use of various technologies to support the Tax function, the issues relating to meeting digital tax requirements and more. This report is the result of that work.



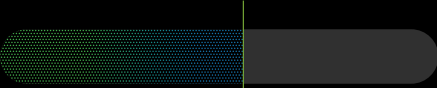
75% of respondents expect increased transparency

to lead tax authorities to carry out more focused, narrow-scope audits



62% of respondents are anticipating that tax authorities

will have more direct access to their IT systems over the next three to five years



56%

of respondents from across Central Europe are taking a proactive approach to their organisations' technology strategies



Leveraging wider digital-transformation projects and implementing next-generation ERP systems can help Tax teams address the challenges of taxes becoming more digital



75%

of respondents expect increased transparency to lead tax authorities to carry out more focused, narrow-scope audits



A company's tax strategy is predominantly set by other functions, such as Finance or IT; while the Tax function has some input into it, its control over the CapEx budget remains limited

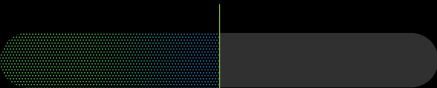


60%

of our respondents are not planning (or at most are only considering) the implementation of next-generation ERP solutions



Decisions relating to companies' technology investments are being driven by tax authorities' demands for digital filing, the increasing automation of compliance processes and the desire for better efficiency to free up resources



50%

of respondents identify a lack of time and resources as the main challenge involved in transforming their organisations' tax technology



62%

of respondents are anticipating that tax authorities will have more direct access to their IT systems over the next three to five years



33%

of respondents intend to outsource technology and processes that are not core to their companies' tax strategy



More than half of our respondents are planning to use business-intelligence dashboards and customised data-management tools in their operations, while 34% are looking at utilising robotic process automation

Technology approach

Emerging technology priorities are driving significant change in the breadth and range of Tax leaders' responsibilities.

This is because, as the Tax function undergoes transformation, Tax leaders are becoming increasingly involved in discussions around technology with Finance, with IT, and even with C-level management.

Just being involved is not enough. It is imperative that they also have real influence to adapt the shape of their operations to match the ever-changing shape of business. This is particularly true when it comes to

the critical decisions being made by other budget-holders about factors including ERP modernisation and the enterprise data strategy.

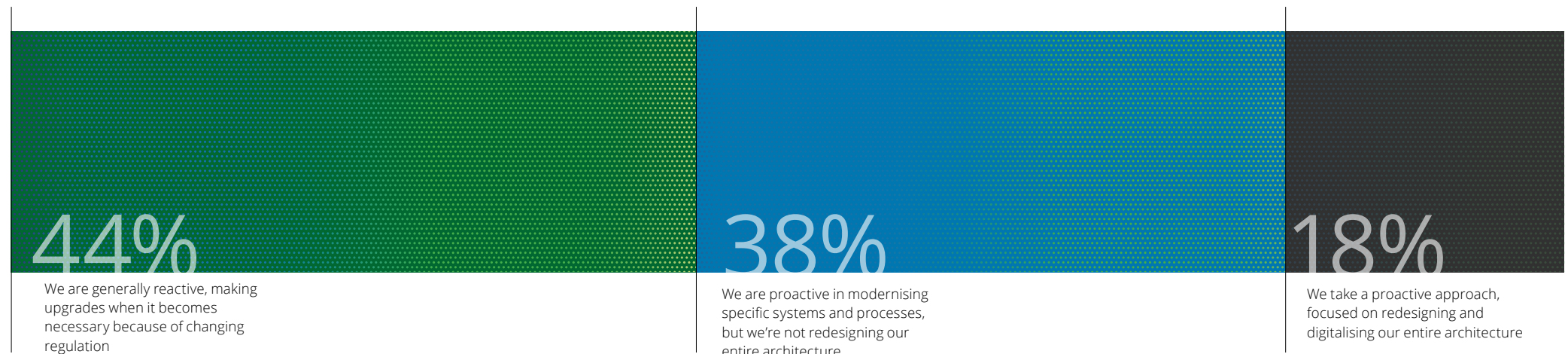
More than half (56%) of the respondents to our survey do take a proactive approach to their technology strategy. While the majority (38%) focus on modernising certain processes and systems, 18% are taking an even more expansive

approach that includes re-designing their entire infrastructure. [A Deloitte survey from November 2021](#) in 10 countries across North America, Asia, Western Europe and Australia revealed that 77% of the 300+ tax and finance leaders surveyed exert a significant influence over their function's technology destiny.

In Central Europe, however, a large proportion (44%) of finance

executives are still taking a reactive approach to setting the Tax function's technology strategy, with a narrow focus just on the changes made necessary by changing legislation. At the same time, the region's tax authorities are taking a proactive approach to introducing new digital obligations, which may lead to companies' Tax teams having to be more responsive.

Figure 1 The Tax function's approach to technology strategy
[% of respondents]



50% of respondents identify a lack of time and resources as the main challenge in transforming their organisations' tax technology

The largest group of respondents, 43%, said that while their tax strategy was largely set by the Finance or IT teams, the Tax function still had a significant input. However, less than a quarter of our respondents (23%) reported that they had 'significant' control over their tax technology strategies. Control over the CapEx budget also remains limited for the great majority of respondents, with just 4% of them saying they have control over it. In this respect, the Central Europe region is lagging

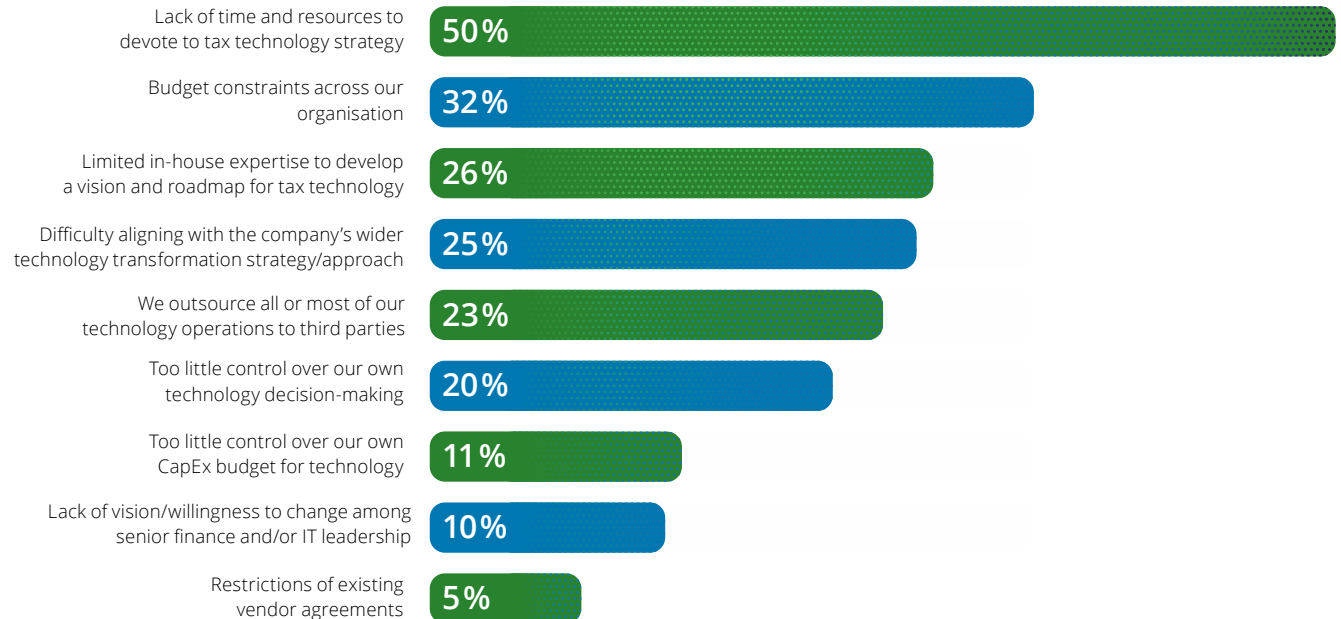
behind the respondents from the [November 2021 survey](#), in which 40% of respondents told us they have control over their CapEx budget.

The main challenge respondents identified in building a business case for tax transformation is a lack of time and resources. New reporting obligations, such as electronic invoicing, electronic reporting and SAF-T reporting, have been on the rise across Central Europe, and compliance is proving to take up

significant resources. With regulators being more active, companies are largely having to focus on compliance; as a result, efforts to develop technology solutions can lag behind. Respondents also pointed to other constraints across the organisation that can hinder the transformation of tax technologies, including limited budgets and in-house expertise for developing the tax-technology vision and roadmap, and challenges in aligning with the broader technology transformation strategy.

Figure 2 The biggest challenges in building a business case for tax technology transformation [% of respondents]

Note: multiple responses possible



Next-generation ERP systems and the role of the Tax function

Tax teams in Central Europe are facing a dilemma. On the one hand, they are often subject to the decisions made by Finance and IT, even when these will have a major impact on their operations. On the other, they do not always believe the decisions made by others are the most appropriate for their needs.

Therefore, making their voices heard will be key. With control over the budget predominantly held outside the Tax function, and with limited time and resources, it is becoming increasingly important for the Tax team to take advantage of wider transformation projects that can address their needs – even

if doing so is still challenging. Such projects might include leveraging next-generation ERP projects that can help Tax teams to improve data quality, enhance the processing of data and future-proof systems against the evolving digital tax-filing and reporting demands. Maintaining the proper quality of tax

transactional and master data would be a prerequisite for meeting the regulatory reporting requirements.

That said, more than half of our respondents (60%) are either not planning or are only considering the implementation of a true next-generation ERP solution in their companies. The percentage of those at a more advanced stage is significantly lower than in the results from the [November 2021 survey](#), when almost 40% of respondents were in the final stages of implementing such a solution. By way of comparison, just 6% of our Central Europe respondents to the 2023 survey said they were at this stage.



60% of respondents are not planning to implement a next-generation ERP solution, or are only considering doing so

2 NEXT-GENERATION ERP SYSTEMS
AND THE ROLE OF THE TAX FUNCTION

The Tax team was consulted in most cases (71%) when a next-generation system is already up and running. In almost a third of those instances (29%), Tax played a leading role in shaping the system's design from the earliest days of the project. While these results are encouraging and show the growing involvement of Tax teams in strategic decision-making, the survey revealed that there is still room for improvement: in 29% of cases, the Tax team was only consulted to a limited degree, and that only after major decisions had already been taken.

The varying and sometimes limited involvement of the Tax team in the

rollout of next-generation ERP systems could be a reason for the team not to be entirely confident in a system's ability to address their specific needs. Our survey reveals that around 50% of respondents were not confident that their specific tax needs would be addressed by the ERP system. In addition, local differences in legislative and compliance requirements, including real-time reporting, local SAF-T, local sales and purchase listing obligations and more, can further restrict the team's confidence that having a global rollout of an ERP solution will solve their local tax challenges. In short, extensive localisation in the Central European region will

be required to ensure specific local requirements are met.

Those respondents who have already implemented a next-generation ERP system have greater confidence in the benefits it can bring to the Tax function. Namely, they believe it will enhance the straight-through processing of data for tax purposes (67%) and will embed preventative control to resolve existing quality issues with tax data (67%). There is also substantial confidence that it will help address the evolving demands around digital tax filing and reporting (61%) and will allow the seamless integration of bolt-on tax solutions (61%).

Figure 3 How confident are you that the next-generation ERP upgrade will specifically address tax challenges in the following areas?

[% of respondents who have already implemented a next-generation ERP system and said that they are extremely or somewhat confident]

Note: multiple responses possible

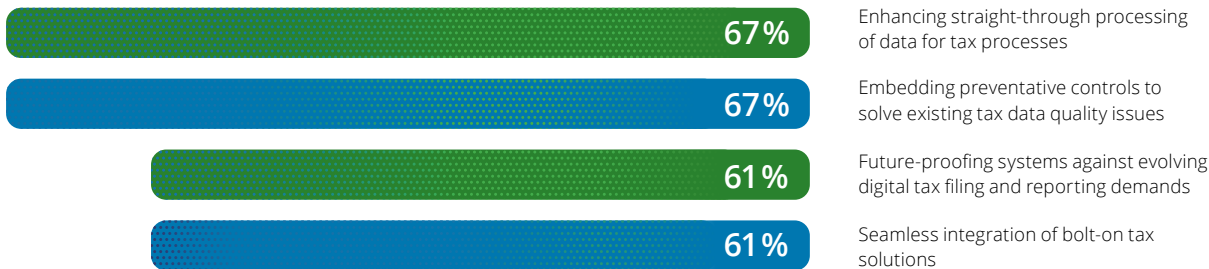
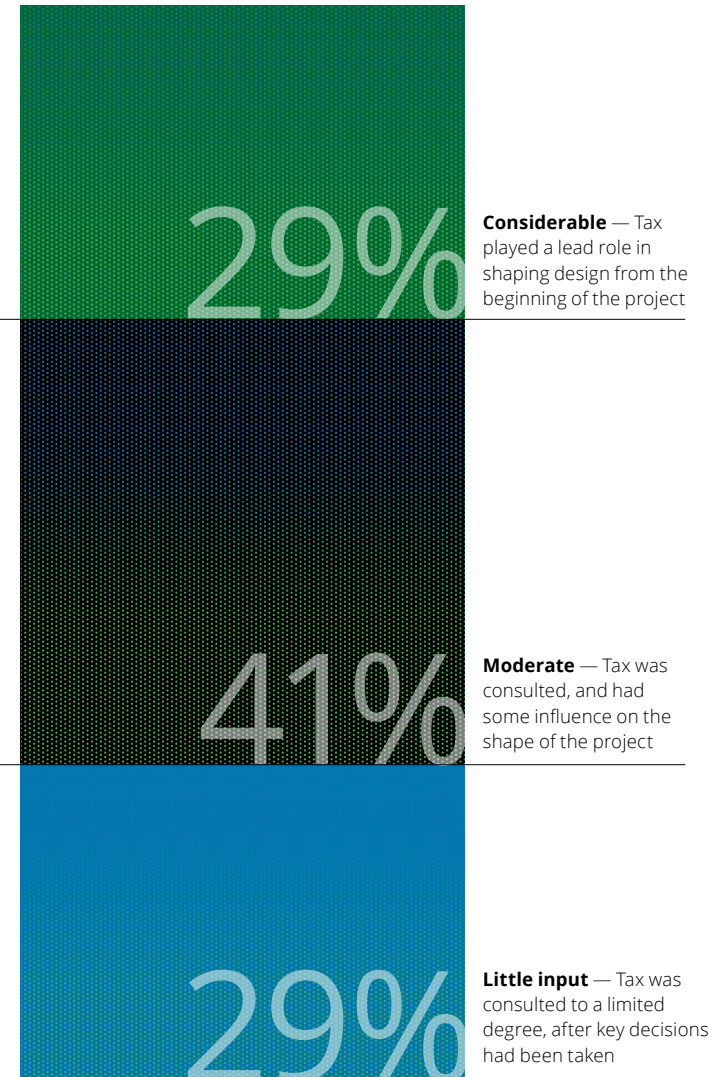


Figure 4 What was the Tax function's input to the design/implementation of the next-generation ERP system? [% of respondents who have already implemented a next-generation ERP system]



Note: due to rounding, some totals do not equal 100%

Digital tax requirements

The pace of change and varying national requirements across Central Europe are complicating factors for Tax leaders in many countries.

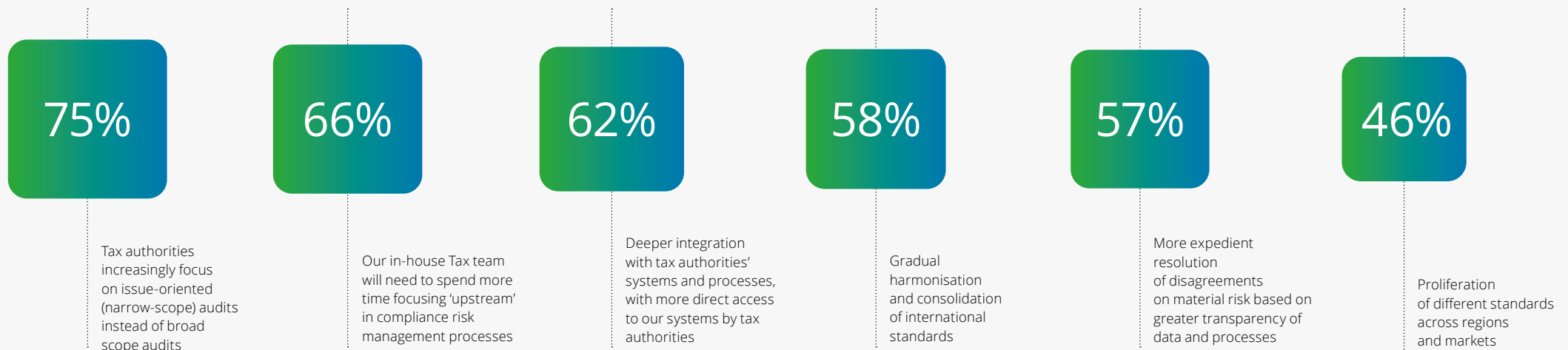
The primary objective of the digital strategies defined by the local tax authorities or even the European Commission is to modernise the tax systems and to make them more resilient to fraud by embracing digitalisation of tax and respective digital reporting requirements. Data will play an increasingly important role in tax since reporting requirements are changing from tax forms to a

transactional level. By introducing automated, standardised and, in some cases, almost real-time reporting requirements at a transactional level, tax audit procedures could be significantly shortened and could become more effective than ever. Understanding the significance of the future role of such reporting standards would be a competitive advantage for Tax leaders.

Our respondents believe the rapid shift toward digital tax administration that's underway in many Central European countries is further progressing the transformation of tax.

Close to two-thirds (62%) think it is "somewhat likely" or "extremely likely" that tax authorities will have more direct access to their IT systems over the next three to five years.

Figure 5 Likely outcomes over the next 3-5 years from tax authorities' move toward digital filing and reporting [% of respondents believing the indicated outcomes to be "somewhat likely" or "extremely likely"]





Three-quarters (75%) of respondents also expect increased transparency to lead to more focused, narrow-scope audits by tax authorities that are newly empowered by access to more detailed information. Enabling more direct access to data poses a significant challenge for companies needing to integrate their internal systems and processes with tax authorities' digital interfaces. In addition,

almost half of the respondents (45%) are concerned about their ability to adapt and upgrade their systems quickly enough to meet fast-evolving digital filing and reporting requirements. The different local data requirements across the countries in Central Europe (such as real-time reporting and e-invoicing in Hungary, Romania, Serbia and Poland, SAF-T reporting in Romania, Poland and Lithuania, and the need for local sales and purchase

listings in the Czech Republic, Hungary and Slovakia) are causing further complications. Although the underlying technology standards could ease the implementation of such reporting requirements, respondents are mostly concerned about the limitations of their ERP systems or the maintained data quality.

Our survey has revealed that company Tax departments in

Central Europe are mostly planning to address digital tax-filing and reporting requirements by using in-house resources with the support of different local IT solutions as needed. This approach might be due to the various specific local requirements for which in general it is hard to find and maintain a one-size-fits-all in-house IT solution.

Enabling more direct access to data poses a significant challenge for companies needing to integrate their internal systems and processes with tax authorities' digital interfaces.

Technology investment

The right technology can make Tax departments more efficient and effective.

Streamlining and automating processes can free up tax professionals to focus on high-value work, while bringing accuracy, transparency and control to the Tax function and position. Demonstrating the benefits brought by technology can help Tax departments make their voices heard more effectively across the organisation, especially when it comes to technology investments and decisions about the wider technology roadmap.

Companies are putting the need to respond to tax authorities' growing demands for the digital filing and reporting of indirect taxes high on their agendas, alongside increased automation of compliance processes and better efficiency to free up resources. These priorities are also dictating their technology-investment decisions over the next three to five years.

Breaking down the survey results by country demonstrates that most

respondents (over 80%) in countries currently undergoing major changes in compliance, such as Poland and Romania, see the ability to increase the automation of compliance to free up team resources as a driving factor for their technology investments. This factor is less important for respondents in countries like Hungary and the Czech Republic that are not introducing major changes to compliance: here, only around 50% of respondents are placing it high in their decision-making processes.

More than half of respondents are planning to use business-intelligence dashboards and

Figure 6 The main drivers of tax technology investment over the next 3-5 years

(% of respondents ranking each factor among their top three drivers of technology investment)

Responding to increased tax authority demands for digital filing and reporting of indirect taxes

69%

Increasing compliance automation and efficiency to free up team resources

68%

Strengthening risk controls in tax processes

65%

Preparing for future tax authority moves towards digital filing and reporting for direct taxes

57%

Improving our data analytics applications to help us deliver better advisory insight to the wider business

57%

customised data-management tools in their operations. A third (34%) are looking at the use of robotic process automation. The rapid development of Artificial Intelligence (AI) and machine learning will create further opportunities for companies to optimise their operations. Respondents see the biggest

potential for using AI as being in the areas of improving data quality and managing tax risks.

More than half our respondents (56%) believe the lack of standardisation in processes and structured data is the main challenge companies face when seeking

technology solutions to increase their levels of automation. More than half (54%) also find it difficult to attract talent with the necessary skills. Another factor that's likely to delay the adoption of new technologies is internal resistance to change, cited by 41% of respondents.

Companies are putting the need to respond to tax authorities' growing demands for the digital filing and reporting of indirect taxes high on their agendas.

Pairing Tax with analytics and AI

Increasingly often, tax authorities are requiring businesses to provide their tax information in standard electronic formats. They then use analytical technologies to review the data, plan their audits and carry out any necessary enforcement. A proactive approach to tax analytics by businesses can help address this growing area of tax-risk

management. For example, we have seen analytics successfully used to support VAT reporting. By using technology to carry out bulk reviews of comprehensive document sets, potentially non-compliant material can be identified in advance to minimise risk and reduce the time companies have to spend on mundane manual tasks.

Taking a broader approach to tax analytics can leverage data and initiatives from across the business – from the Tax and Finance functions, for example, as well as from various other business units. This information can then be used to create insights and visually depict trends,

make fact-based decisions and drive strategy, empowering Tax departments to strengthen and sustain their business-advisory role.

AI technologies are gaining ever-stronger traction as they continue to improve in areas such as the training required, the languages covered and their range of functionality. As a result, we're seeing more and more use-cases of companies using these technologies to aggregate and draw conclusions from multiple data sources and provide solutions to the specific challenges faced by individual Tax departments.

Technology and the tax operating model

As organisations look to grow and innovate, new disruptive technologies have a key role to play in their success.

Technology skill shortages and competition in the talent market are critical roadblocks for organisations attempting to acquire the skills needed to organically support new and critical capabilities. In addition, the evolving legal and regulatory environment is making it challenging to keep up, let alone to outstrip the pace of change that's reshaping business today.

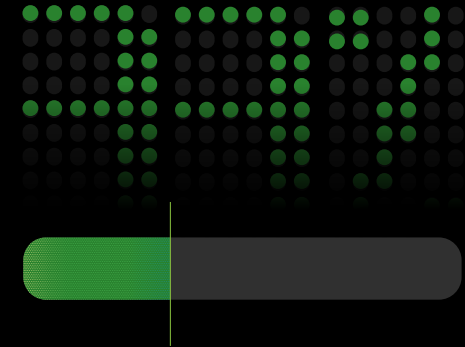
As a result, organisations are turning to service providers to help them overcome existing challenges.

Around one in three of the corporate Tax departments we have surveyed are planning to outsource technology and processes for certain specific tax functions that are not core competencies in their organisations' long-term tax strategies. Tax calculation and compliance remain

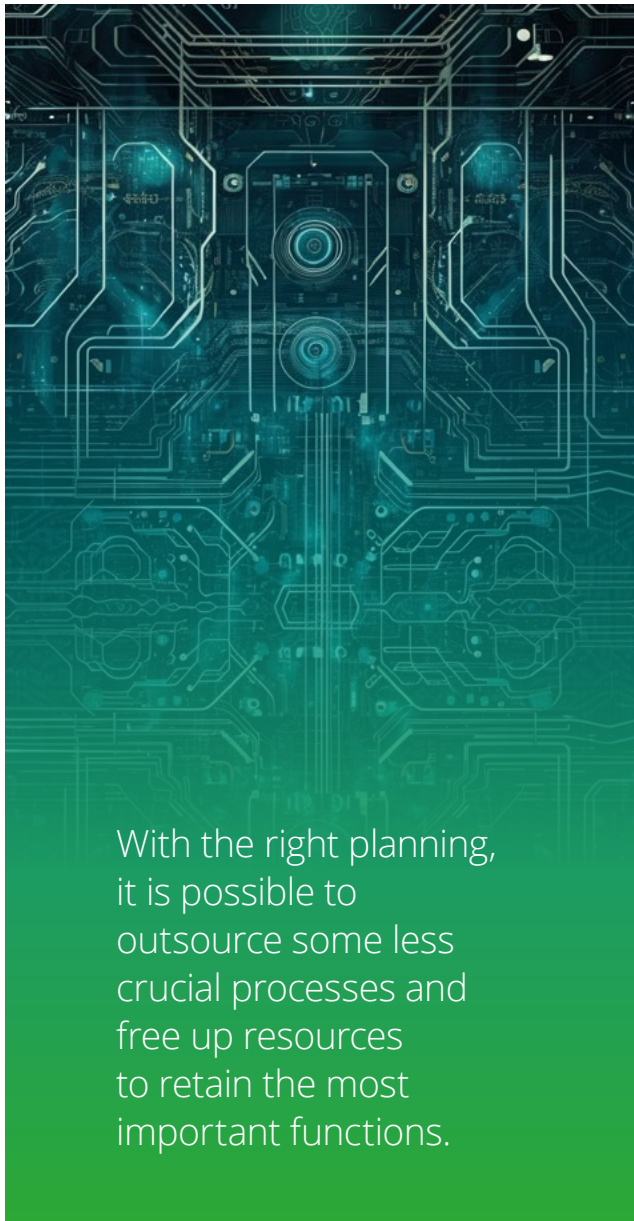
the two main operations that are most likely to be outsourced.

Our survey has revealed that those tax-paying organisations that have already implemented next-generation ERP systems are more likely than others to either have already outsourced some aspects of their Tax function or to do so in the near future. This may be due to better scaling potential that new systems offer when compared to previous generations of ERPs.

One question we asked in the survey was about the benefits respondents expect to gain by outsourcing their



33% of respondents intend to outsource technology and processes that are not core to their companies' tax strategy



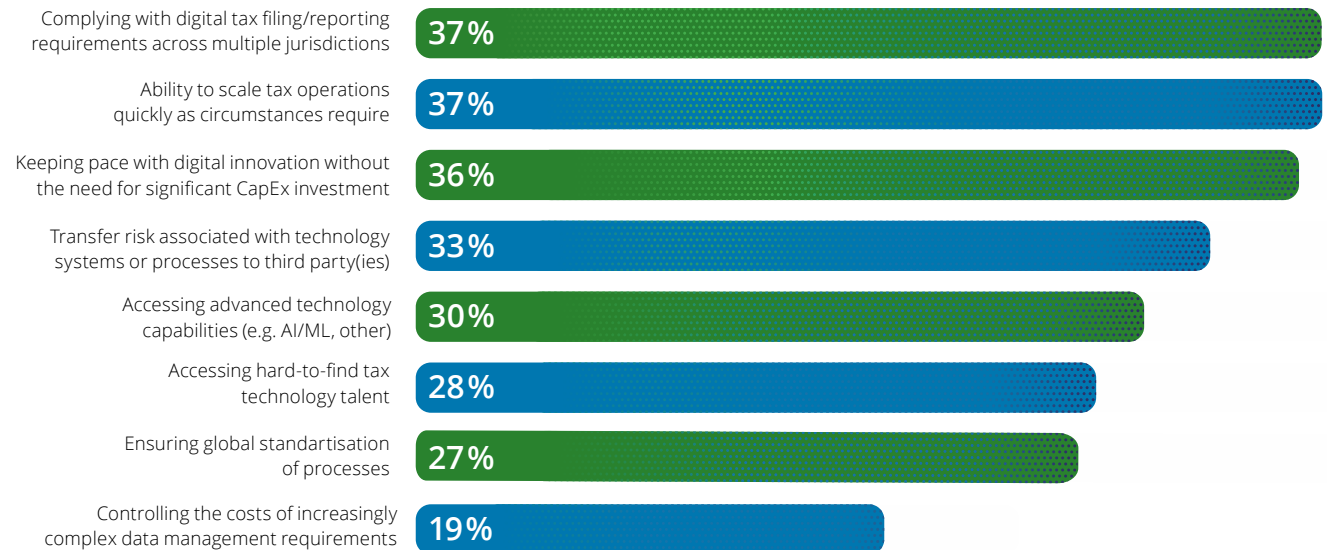
tax processes. The two leading perceived gains related to compliance with digital tax requirements across multiple jurisdictions and the ability to scale tax operations quickly (both selected by 37%). The three next most widely-selected benefits were the ability to keep pace with digital innovation at relatively little cost (36%), the opportunity to transfer to a third party risk relating to technology systems and processes (33%), and being enabled to access advanced capabilities such as AI

and machine learning. Overall, the findings show that there is a widely-held belief that outsourcing a company's tax operations can confer some important benefits.

By way of contrast, almost half of respondents believe it still makes sense to keep some of the most crucial tax processes and systems in-house, enabling them to retain knowledge of key processes in the organisation and to keep a lid on tax-risk management.

For many tax-paying organisations in Central Europe, the operating model of their Tax departments therefore involves a careful mix of outsourcing and in-house operations. With the right planning, it is possible to outsource some less crucial processes and free up resources to retain the most important functions, even in the face of rising number of digital reporting and compliance requirements from local tax authorities.

Figure 7 Main technology advantages of outsourcing tax operations
[% of respondents ranking each advantage among their top three]



More about the research

The findings in this report are based on a survey of 125 senior tax and finance executives in 15 jurisdictions in Central Europe – Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia.

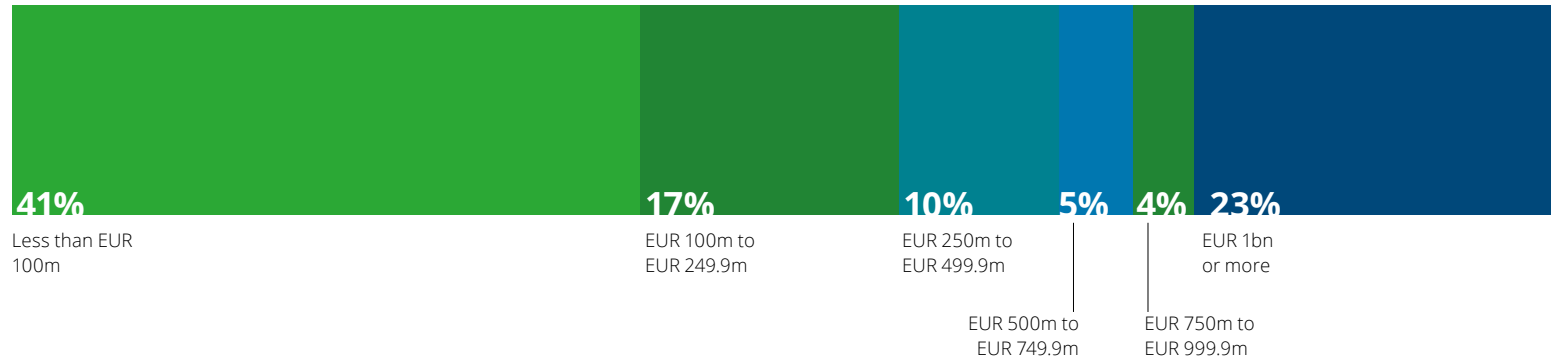
The main industries represented are consumer goods and products, manufacturing and TMT (telecommunications, media & technology), energy, resources & industrials, life sciences & healthcare, and financial services.

In terms of global annual revenues, companies ranged from less than EUR 100 million (41%) to more than EUR 1 billion (23%).

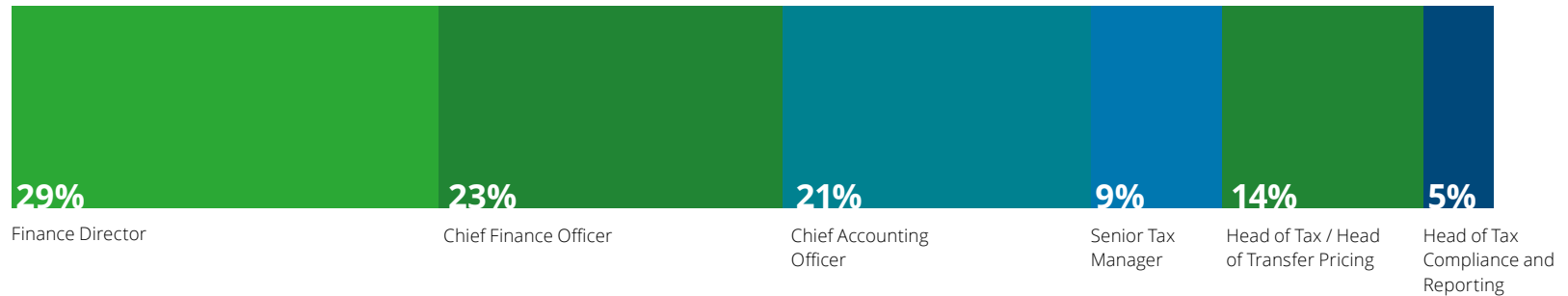
Survey fieldwork took place throughout February – March 2023.

**We thank all the respondents
who participated in the survey.**

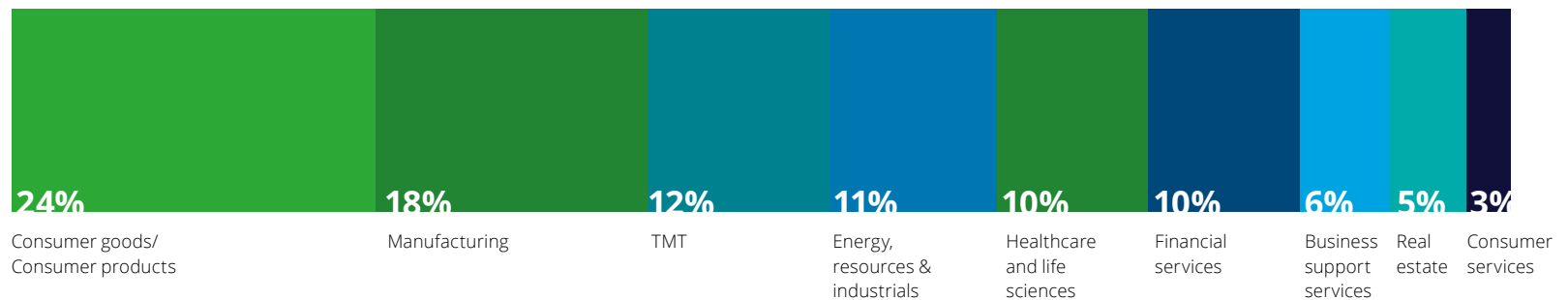
Company size



Role

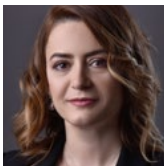


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Get in touch

We are here to help. Contact us to arrange a meeting to discuss your organisation's needs, respond to an RFP, or answer any other questions.



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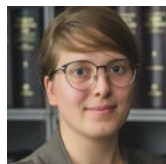
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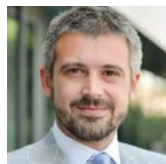
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