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Deloitte 2021 M&A Tax Virtual Conference

Day 5: Technology and digital trends in M&A Tax

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Day 5: Technology and digital trends in M&A Tax

Introduction and Contacts

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Quote "*I am not a robot*"

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Quote *"Nothing will remain secret"*

Contents

Why spreadsheets are no longer fit for purpose? 4

- An unprecedented level of transparency in tax matters 5
- Live examples: FAIA 6

Digital tax administrations: no longer a distant vision 7

- Changing face of tax administrations 8
- From Tax administrations 1.0 to 3.0 9

Perspectives of tax departments 13

- Challenges and concerns 14

Tax data management and analytics: the building blocks of tax compliance, planning and audit support 2.0 18

- Tax data management 19
- Tax analytics 20

Deloitte M&A Digital Solutions 21

Why spreadsheets are no longer fit for purpose?

Why spreadsheets are no longer fit for purpose ?

An unprecedented level of transparency in tax matters

"Since the G20 declared the end of banking secrecy in 2009, the international community has achieved great success in the fight against offshore tax evasion. Working through the Global Forum, countries have implemented robust standards that have prompted an **unprecedented level of transparency in tax matters**"*.

*http://www.oecd.org/tax/transparency/

This unprecedented level of tax transparency in tax matters is leading to

- an era of **more intrusive tax authorities controls**,
- a growing demand for **complex tax data and information**,
- a need to develop **new models for tax compliance and reporting** and
- a higher potential for **tax controversy**.

Tax executives are being confronted with mass proliferation of data, global regulatory changes (BEPS-related legislations), and a push from stakeholders (tax authorities, investors,…) for real-time access to information.

In order to cope with the pace of transformation required to address those new demands **time, FTEs and spreadsheets are unfortunately no longer fit for purpose**.

Many are looking to automation to relieve the pressure of tactical execution. It is now admitted that the use of technology solutions is necessary to amplify tax departments' own insight, collaborative capability, accuracy, and speed of execution.

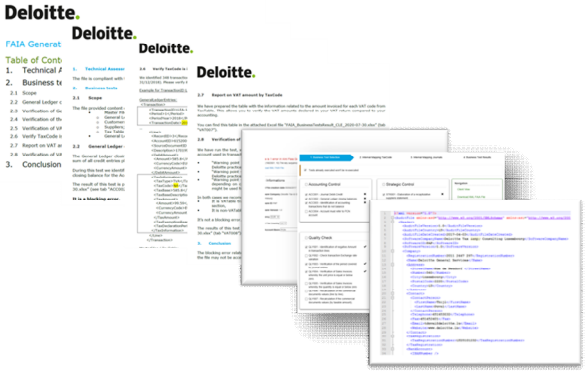
Technology and digital transformation can elevate the roles of tax professionals by **freeing up time that is needed to think, plan, and deliver incremental value to the business**.

Why spreadsheets are no longer fit for purpose ?

Live examples

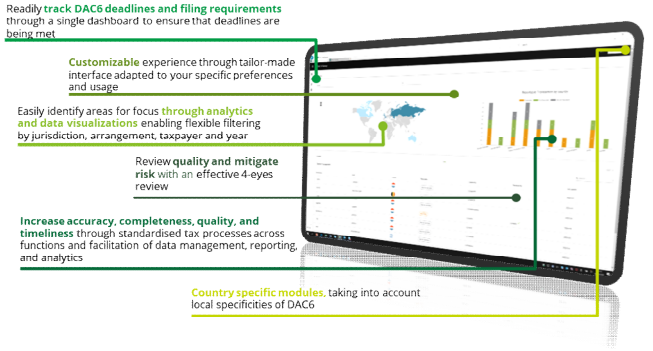
FAIA – Standard Audit File for Tax (SAF-T)

The Luxembourg VAT authorities are applying the OECD-recommended Standard Audit File for Tax (SAF-T). The SAF-T (also referred to as the *Fichier Audit Informatisé* AED or FAIA) is a standard file designed to **export data from the taxpayers' accounting or enterprise resource planning (ERP) system upon request by the VAT authorities**. In addition to static data, the file can include details of transactions from the general ledger, purchase and sales ledgers, fixed assets, and inventory.



DAC6 – Mandatory Disclosure Rules

A new wave of reporting rules became effective in the European Union on 1 July 2020, with retroactive effect to 25 June 2018. It requires intermediaries (and certain taxpayers) to disclose all cross-border arrangements/structures that meet the criteria and hallmarks of DAC 6 to the relevant tax authorities. Tax payers and professionals quickly realized that a multi-jurisdictional, multi-entity, multi-user, multi-language **technology solution was required to address pain points and support the entire DAC6 compliance and reporting process**, from the collection of client information, through the assessment of transactions, to client notifications and tax reporting to jurisdictions.



Digital tax administrations: no longer a distant vision

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Digital tax administrations

No longer a distant vision

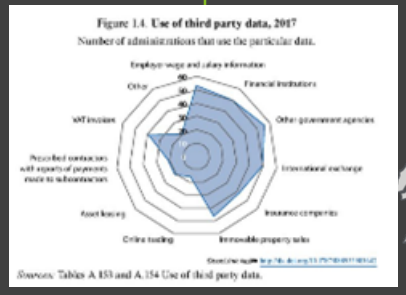
Changing face of tax administrations*

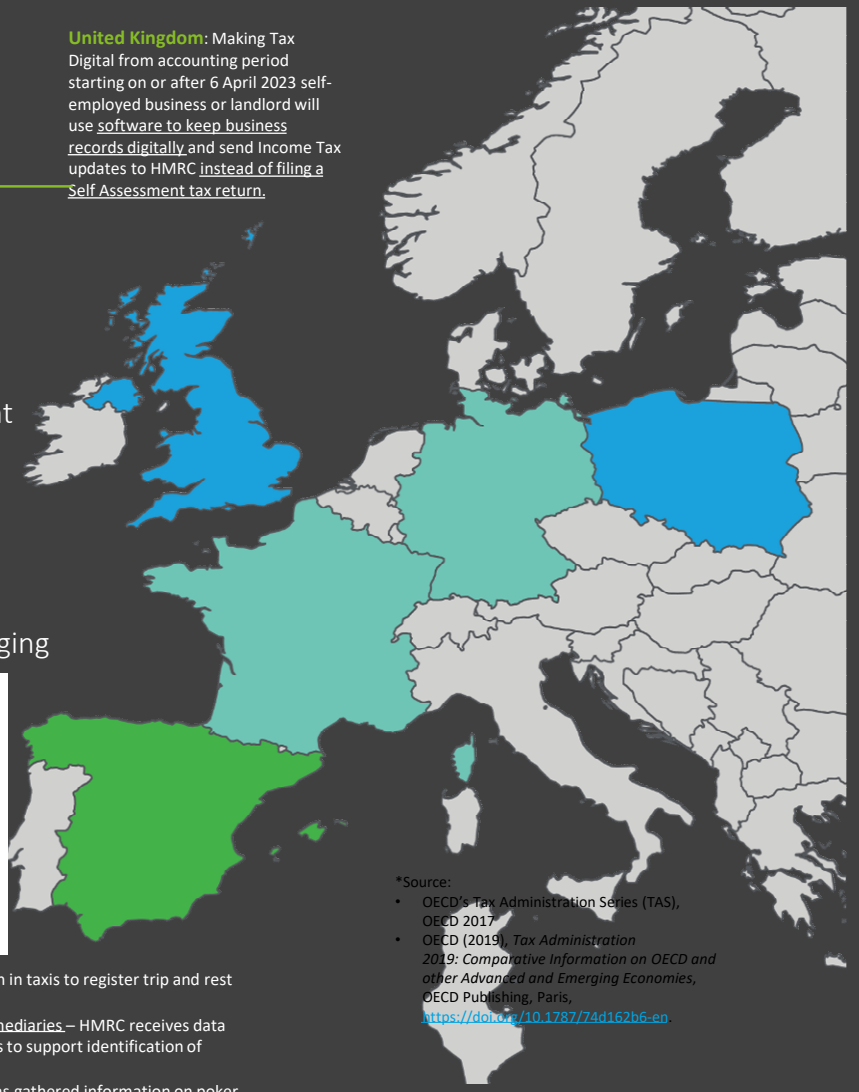
"Tax administrations are:

- Operating in an increasingly globally connected environment
- Looking to enhance their technological capabilities
- Becoming more collaborated and integrated
- Seeking to use data more effectively
- Developing better informed compliance management techniques
- Looking to adapt capabilities of their workforce to the changing environment"

Joined-up services

United Kingdom: Making Tax Digital from accounting period starting on or after 6 April 2023 self-employed business or landlord will use software to keep business records digitally and send Income Tax updates to HMRC instead of filing a Self Assessment tax return.





*Source:
- OECD's Tax Administration Series (TAS), OECD 2017
- OECD (2019), *Tax Administration 2019: Comparative Information on OECD and other Advanced and Emerging Economies*, OECD Publishing, Paris, https://doi.org/10.1787/74d162b6-en.

Luxembourg: MyGuichet.lu interactive secured online platform to access several administrative formalities and procedures and allowing notably submission of tax returns, CbCr,…

France: FranceConnect.gouv.fr service allows users to sign on with one of the four digital accounts allowing to access 700 government web portals.

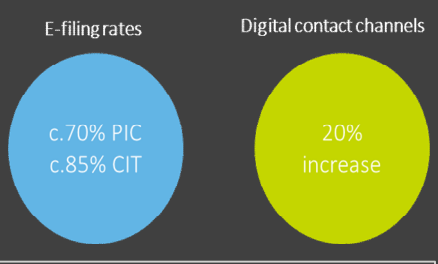
Switzerland: Data from devices – use of tachograph in taxis to register trip and rest periods and assess under-declaration in tax returns

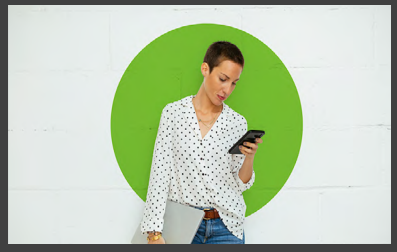
U.K: Data from banks, merchants or payment intermediaries – HMRC receives data from processors of credit and debit card transactions to support identification of suspected evasion

Sweden: Unstructured data from tax payer – STA has gathered information on poker players via online tournaments to identify individuals that have not reported their gains to the agency.

Digital tax administrations
No longer a distant vision

Increasing e-administration: There has been a significant shift towards e-administration with increasing options for online filing of tax returns as well as online payments*.





The other variations to e-administration are:

- e-accounting: "electronic enablement" of lawful accounting and traceable accounting processes which were traditionally manual and paper-based. E-accounting used to support tax filings
- e-matching: governments accessing additional accounting or external data (e.g. invoices, bank statements) in order to match in real time the data across taxpayers, jurisdictions and tax characterizations
- e-auditing: enhanced data (e.g. credit card transactions, market trades) analyzed by tax authorities and cross-checked to filings in real time resulting in electronic audit assessments.
- e-assessments or real-time ledger reporting: relies on XML files ensuring structured, standardised and harmonised reporting. Taxpayers deliver important amounts of standardised data. Thanks to the use of appropriate IT tools (including AI, data analytics, big data) major automation of government-calculated tax and tax audit is possible; taxpayers allowed a limited time to audit government-calculated tax.

Progressively **tax authorities are getting access to tax payers data** in Enterprise Resource Planning (ERP) software, data lake environments or third party sources.

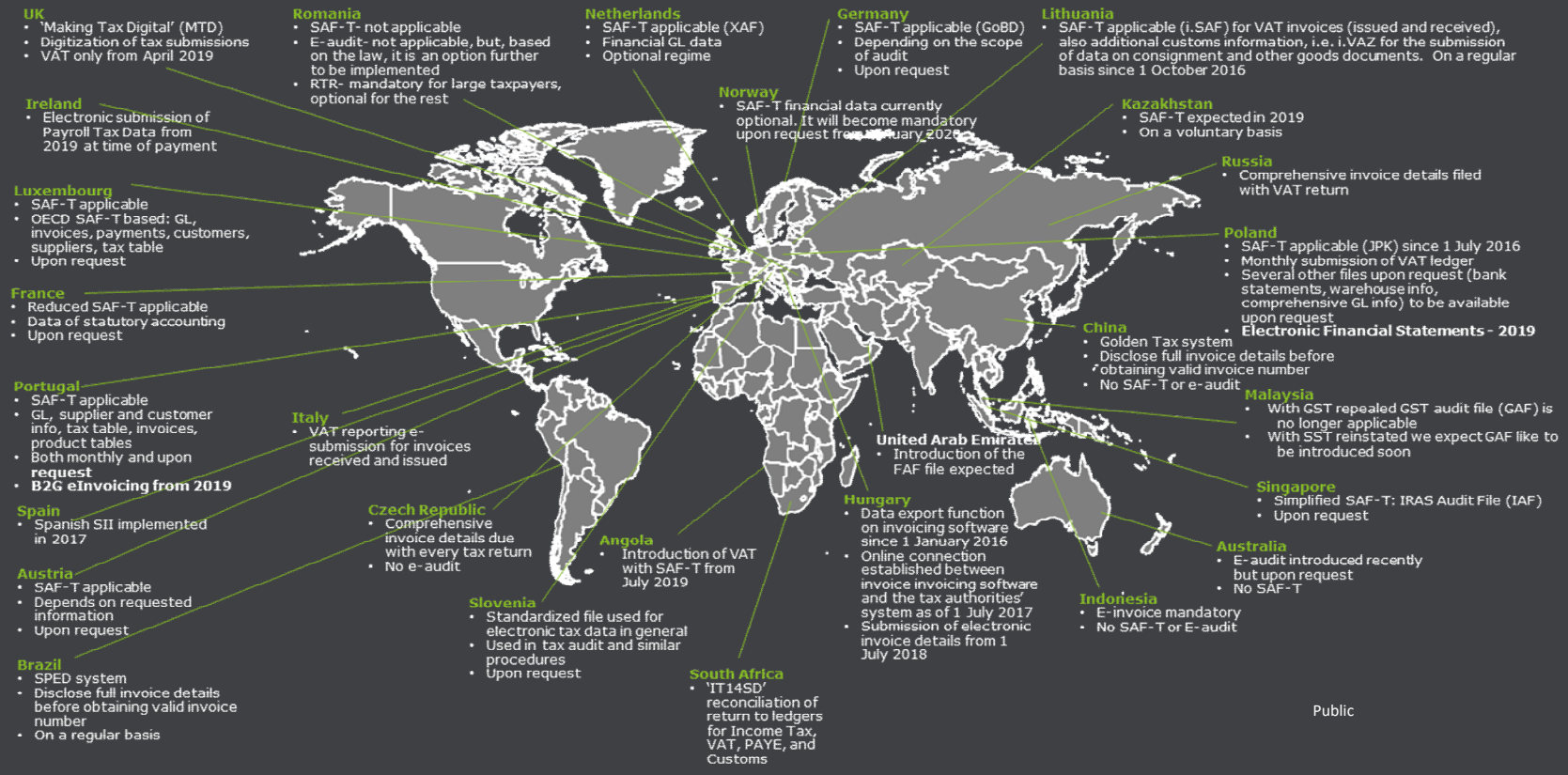
Digital audits on data are likely to progressively replace self-assessment tax filings.

*Source: OECD (2019), *Tax Administration 2019: Comparative Information on OECD and other Advanced and Emerging Economies*, OECD Publishing, Paris, https://doi.org/10.1787/74d162b6-en.

Digital tax administrations

No longer a distant vision

While not exhaustive, the following map highlights key country requirements for SAF-T, e-audit and real-time reporting requirements, particularly within Europe. New legislation is coming out frequently which reflects the dynamic nature of this area.



Public

Tax Administration 3.0*

The Digital Transformation of Tax Administration

Intention is to break **with the current approach which relies on active, and sometimes burdensome voluntary compliance by taxpayers and on resource-intensive investigations and audits to address noncompliance.**

Tax Administration 1.0

Current tax administration is generally carried out through a set of broadly sequential processes. At a high level, these are the identification of the taxable person or entity, required reporting of transactions and incomes, the application of tax rules and calculation of tax due, the payment of tax, audits, and enforcement and appeals processes

Registration → Assessment → Verification → Collection → Dispute

- Forms driven (electronic & paper)
- Periodic, historical, aggregated data
- Manual, slow & costly
- Retrospective risk treatment
- Disconnected ecosystems

*OECD (2020), Tax Administration 3.0: The Digital Transformation of Tax Administration, OECD, Paris. http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.htm

Tax Administration 2.0

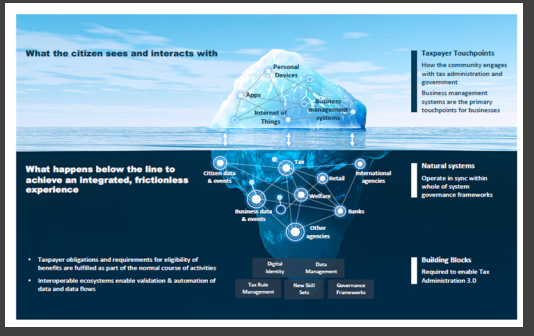
(nowadays)

Tax administration is still carried out through a set of broadly sequential processes but increased digitalization and the development of new analytical tools has significantly increased the efficiency and effectiveness of tax administration and has helped to reduce burdens to a greater or lesser extent for different taxpayer segments (cf. prior slides).

- adoption of more reliable reporting systems (SAF-T, ERP,…)
- improved detection of possible non-compliance (use of data from banks, payment intermediaries, devices,…)
- improvements in services for taxpayers (e-filings, joined up services platforms…)

Tax Administration 3.0

Tax Administration 3.0 - has the **potential** to **build-in compliance** in an increasing number of areas, to **move taxation closer to taxable events** and to significantly **reduce the burdens that can arise from using different processes** for taxation to those used in **taxpayers**' daily lives and **businesses.**



- Data driven
- Event based, detailed & real-time data
- Enables validation & automation
- Enables assured data
- Interoperable ecosystems
- Enables international co-operation

Tax Administration 3.0

The Digital Transformation of Tax Administration

Tax Administration 3.0 requires the development of a new infrastructure underpinning future tax administration. Joining-up with other parts of government, with the private sector and across borders will be key to achieve the desired state.

1. **Digital Identity:** supporting secure and unique identification of taxpayers and citizens in a joined-up way, helping to reduce burdens and helping to move processing into the background, connecting taxpayers' natural systems.
2. **Taxpayer touchpoints:** facilitating the engagement of taxpayers with tax administration processes as and when necessary (for example through access to real-time support), increasingly looking for opportunities to put such touchpoints into taxpayers' natural systems, including in more automated ways.
3. **Data management and standards:** creating the framework for how the administration manages data most effectively to maximize compliance and minimise burdens. In particular, this concerns the choices around where data is processed for different tax functions (within the administration, within the taxpayers' natural systems or both), and the requirements for quality, availability and reporting of tax relevant data as well as metadata on the operation of taxpayers' systems.
4. **Tax rule management and application:** creating and distributing tax laws in administrable and verifiable formats to allow stakeholders to integrate tax rules within their own preferred systems, including as they evolve, while providing robust and increasingly remote reassurance to the administration.
5. **New skill sets:** planning for the new skills that will be required for the development and operation of digitally transformed tax administration, with human intervention taking place less frequently and with increasing support from artificial intelligence processes.
6. **Governance frameworks:** guiding the development, implementation and connectivity of the other building blocks both within the tax administration and in co-operation with other actors, both domestically and internationally.

Perspectives of tax departments

Perspective of tax departments

Challenges and concerns

"We have extensive manual processes that bog operations down and hurt our ability to comply."

- Manual spreadsheet processes must now be automated.
- Duplicated efforts, missed filings, and incurred penalties must be avoided.
- Data must now be tax codified correctly in source systems and provided in real time.

"Our department is expected to do more for the business, with fewer resources and in less time."

- Long work hours at year-end.
- Audits require time to gather data.
- In-house tax preparation costs time and resources.

"The data we need is buried across different systems, and it's expanding rapidly, making it difficult to see, connect, and apply it."

- Employees are no longer tied to one place, subjecting them to changing tax and immigration regulations.
- Tax functions are subjected to ever-changing laws and transparency rules.
- Tax professionals spend too much time wrangling data, rather than making data-led decisions.
- Manual data gathering process required by systems like Excel is slow, costly, and risky from a governance perspective.
- Spreadsheets make visualizing impacts and running what-if scenarios difficult. Excel's point solutions for modeling and calculating are failing to do the job well.

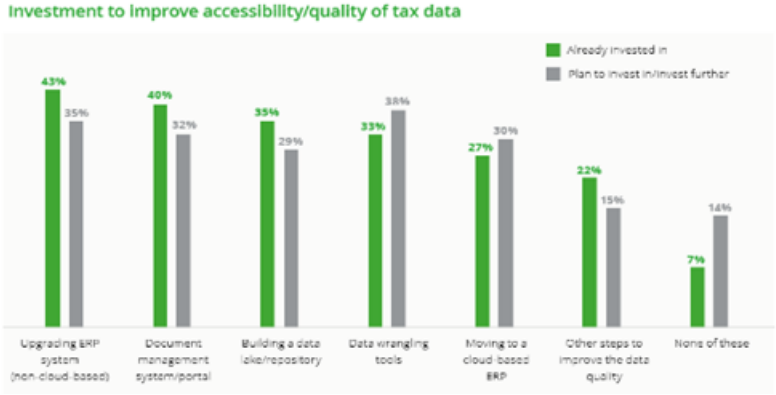
Perspective of tax departments
Challenges and concerns

According to a recent survey* commissioned by Deloitte, tax departments are starting to make progress by finding **new ways to structure their organizations, embrace technology**, and deliver value to the business.

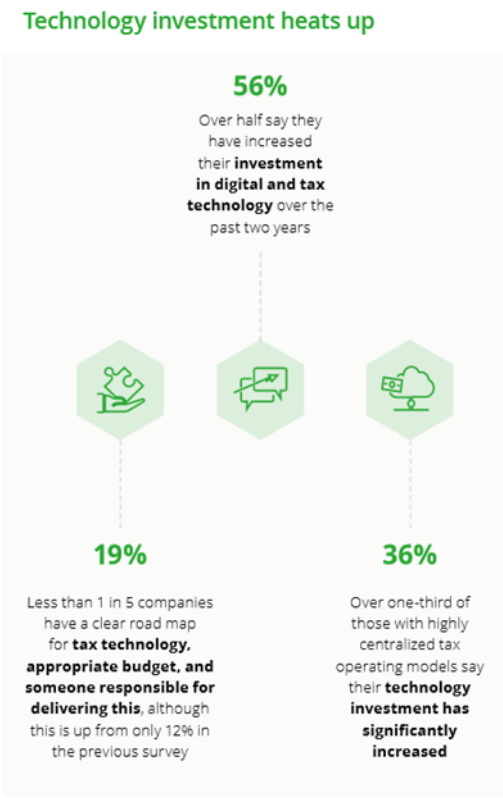
*Source: 2019, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-deloitte-global-research-management-of-tax2019.pdf

Quality and control are seen as essential factors for the effective management of compliance and reporting globally.

Investments have been made in several areas to improve the accessibility and quality of data, including enterprise resource planning **(ERP) systems, data repositories, and data wrangling tools**

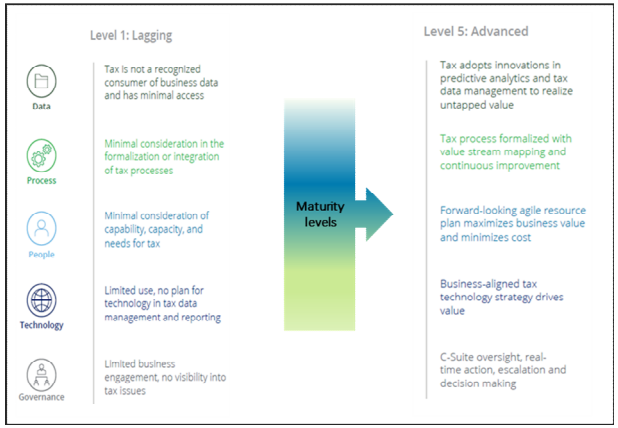


Perspective of tax departments
Challenges and concerns



There are multiple drivers to invest in technology—process efficiency and data are naturally significant—but there is evidence that **external pressure from increasingly digital tax authorities is having a real impact.**

Before engaging resources and investments tax departments shall take the time to run **an assessment of the maturity of their service delivery.**



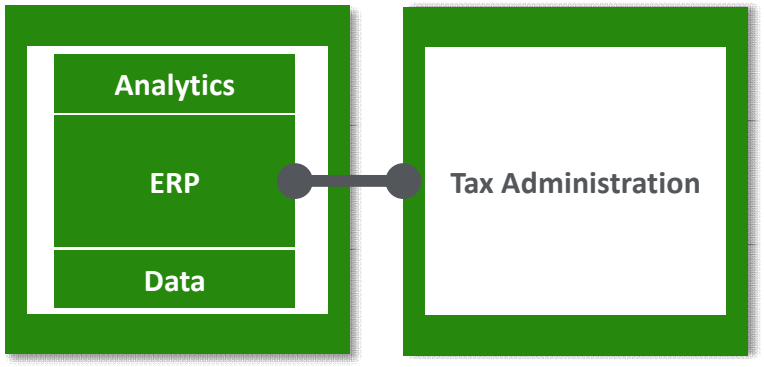
Perspective of tax departments

Impacts of Tax Administration 3.0.

Technology Impact

Tax Administration 3.0 – if implemented will require massive investment on technology on several domains:

- Data management trough ERP System & processes
- Automation trough machine learning and RPA
- CyberSecurity
- Real time analytics reports
- Secured API to exchange with tax administration



Skills & Learning

Tax functions will need to acquire digital skills and adapt their processes trough :

- Data/Digital specialist hiring to build new systems
- Digital learning to upskill their workforce
- Digital Tax Strategist to build a coherent digital/IT strategy

Tax Functions IT Budget

The direct consequence will be an increase of their IT Budget on :

- Operations to support more complex systems
- building new IT compliance Solution ensure
- And value creation

Tax data management and analytics: the building blocks of tax compliance, planning and tax audit support 2.0

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Tax data management and analytics

The building blocks of tax compliance, planning and tax audit support 2.0

One of the biggest challenges for tax departments today is **maintaining and being able to quickly retrieve critical, tax-relevant data** and documents for tax authorities and stakeholders.

Financials (source data)

- Tax department as **large consumer of data,**
- Data required for tax **not easy to access/use**,
- **Time consuming manual keying exercise** by tax personnel to stage and reconcile financial data into a format that can be used for tax reporting purposes.

Tax compliance and management systems

- Complexity of **tax record retention requirements** per jurisdiction
- Significant **time spent looking for documents or re-create documents** (e.g. structure charts) when they need to be circulated to different stakeholders
- Complexity **sourcing tax calculation engines** in a fast-changing tax environment

Reporting and Filings

- Complexity of dealing with multiple languages tax forms
- Various e-filing environments and security protocols
- Low level of harmonization of reporting obligations, periods

Record-to-report process

- **ERP systems**
- **BPM applications**
- **Access to third-party systems**

Extract, Transform, Load

ETL

- **Data and Document Repository**
- **Tax calculation engines**

Export

- **Tax forms**
- **Ad hoc tax reports**

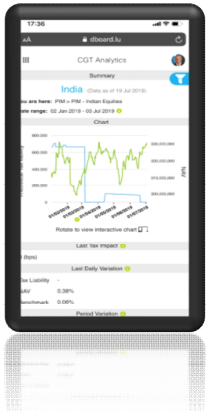
- **Source data** needs **tax-sensitization** and structuring by e.g. legal entity or tax jurisdiction.
- Tax departments need to have a say about replacing or **upgrading the ERP, so tax needs are addressed**.

- Tax departments need to implement and develop **reconciliation methodology** and extraction policy (schedules, retention periods,…)
- **Process to identify statutory changes**, new documents requirements and impact on production should be part of the tax data management plan.

- The record to report process should **identify responsible parties** for export and filings (who is pushy the button?), **identify filings protocols** (e.g. passwords, tokens required?) and back-ups
- Tax departments shall **access Dashboards** to handle filing deadlines etc…

Tax data management and analytics

The building blocks of tax compliance, planning and tax audit support 2.0



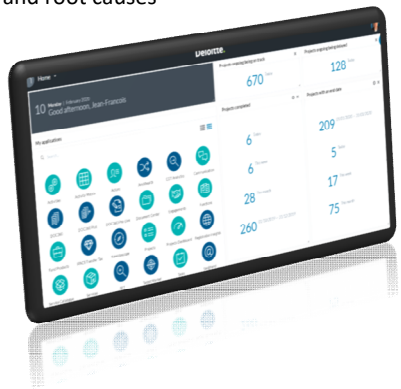
Like other business functions, tax departments face increasing demand to **operate more efficiently**. At the same time. There is also a growing expectation for tax executives to provide **real time tax data and strategic viewpoints**

What are the hurdles to tax data analytics ?

- Most tax software is compliance oriented (main use case)
- Very often tax data is unstructured, split over different ERP systems, jurisdictions
- Existence of data protection legislations rendering complex the creation of an holistic view
- Frontier when it comes to data ownership is blurred.

What benefits tax departments could get from overcoming the hurdles ?

- Analytics and can help move tax toward **insight and foresight**
- Visualization tools can help users to understand data, **identifying trends and highlight anomalies**
- **Predicting ETRs**, analyzing pockets of tax expenses and root causes



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Live examples

Country by Country Reporting

The Organization for Economic Co-operation and Development (OECD) has released guidance on the information companies need to include in the CbC report. Tax authorities require CbC data to be converted into XML based on local specifications which may include message and document referencing for audit purposes, header messaging containing meta data relating to the Reporting Entity, data conversion into filing specific codes, and submission encryption.

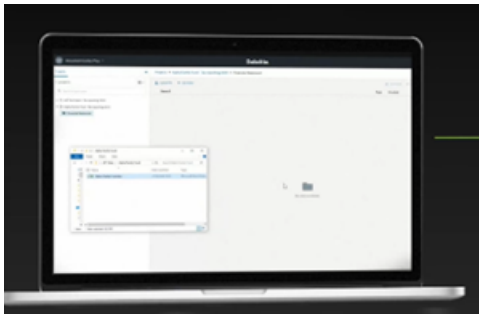
Technology solutions have been developed to:

- help users **visualize the CbC data** (ETR, # of employees, 3rd party revenues, profit before tax) that may need to be reported for their organization under the OECD model, and

- help companies to **collect, evaluate and generate data for Country-by-Country report filings**, as required in relevant jurisdictions.

AIF Investor Tax Reporting

A successful cross-border distribution of Luxembourg-based funds requires a thorough understanding of multiple tax compliance requirements across various countries and jurisdictions. In some of these countries, investors must comply with investor tax reporting rules to fulfill their tax obligations. In addition, **most jurisdictions require that AIFs prepare statements for each investor under the tax principles of the investor jurisdiction** (for example the so-called separate and uniform tax declarations or K-1 statements).



Some of these countries legally require a tax representative to file these statements. With the **requirements of investors to disclose all tax information in their home countries increasing**, cross-border investment tax reporting for AIF funds is more important than ever.

Here as well technology can help addressing the pain points associated with investor tax reporting i.e. **data gathering (character recognition), to data processing (automated calculation) to reporting (population of forms)**.