

COVID-19 NAVIGATING A TAX FUNCTION THROUGH THE CRISIS

How tax functions can respond to Covid-19



In a special report, **Ronan Ferry** of Deloitte Ireland explores the practical actions that tax functions can adopt as part of an overall strategy to respond to Covid-19, recover from its consequences and thrive in its wake

During this Covid-19 pandemic, we are experiencing mass disruption to supply chains, businesses, and markets. We also find ourselves navigating unprecedented circumstances as our professional and personal lives are severely impacted. Notwithstanding this, tax departments need to continue operating in an efficient, effective, and impactful way so that meeting obligations and bringing value to the business do not suffer. For those working in tax, whether in industry or practice, we were already encountering a period of constant complex change as historic global and local tax measures are being enforced to deal with the new world economy and 'digital' business models.

These challenges come in many forms from the OECD's BEPS initiatives, US tax reform, EU tax directives, unilateral actions, and tax audit activity. While these new measures vary across countries, they all carry one common theme – increased transparency and stricter reporting requirements requiring tax departments to have access to more data, do more with that data and do it faster. Tax functions were beginning to adapt to what they thought was this 'new norm' but, with Covid-19, we now find ourselves asking 'what is the new norm?'

Below are steps which tax functions can adopt now to ensure they respond strategically in the current crisis, but also, as we hopefully begin to revert to normal, whatever that 'norm' may be, to create a platform to recover and build the foundation for a transformational mind-set to thrive in the future.

The foundation

Underpinning the successful operation of any tax function is the continuous focus and adaptation of five foundational pillars – people, data, processes, technology and governance. In the current environment, if even just to manage continuity, it is critical to evaluate each on its own and understand how they are being impacted collectively so as to determine what actions may need to be taken.

These pillars are inherent in the actions outlined below, all of which have the aim of assisting the tax function now, and as we come out of this crisis, to: better understand its tax processes; have a more open mindset as to how technology could be deployed; have an improved relationship with the wider business; have a greater appreciation where tax can bring value; and build a foundation to transform going forward.

Communication and collaboration

Communication and collaboration are not new areas of focus for tax professionals, or

for any professional for that matter, but they are a cornerstone of any successfully operating tax function.

The first realisation of the current crisis is that the working dynamic has changed in the last number of months, with the core tax team, the teams that provide data to tax and the users or stakeholders of tax deliverables, whether internal such as finance and treasury, or external tax authorities, all working remotely.

As a tax function, it is necessary to consider how to communicate and collaborate as a team but also with the providers and users of tax data, fully realising that the approach to each group is likely to be different. It is also a time when more communication is not always better and there is a need to communicate with precision and get to decisions quickly.



It is imperative that tax functions stay apprised of updates to deadlines and payment obligations

It is vital that communication channels with all these groups are ongoing and agreement reached on:

- Establishing new communication norms.
- Agreeing regular check-ins, especially for those tasks or updates that occurred more informally in the workplace setting.
- How to communicate and collaborate as a team and with others virtually – are there software tools available to assist in this, either in use already or maybe which the wider organisation is considering due to Covid-19? These tools could range from video conferencing, tracking, file sharing and real-time group editing tools.

This is no time for working in silos, or for 'hero dependency' – other members of the team should be fully, or at least broadly, aware of what everyone is doing. This will require open and collaborative work practices so there is no over-reliance on one person.

Business partnering

Going beyond communication and collaboration, business partnering for a tax department involves a 360-degree view, particularly since tax has increasingly been woven into the core fabric of all business decisions.

It is clear, in this period of change, that not only do tax departments need to work together effectively but working with other business functions remains vitally important. The tax department will have different, even conflicting, obligations and priorities, but so too will other departments within the business that tax depend upon or which depend on tax.

Best practices to consider include ensuring that the tax function's priority is to continue to meet tax obligations, especially any externally driven obligations.

Secondly, cash is king. The tax function can strive to bring additional value to the business at this time of need in attempting to free up cash. Work with the business to ensure that all government reliefs, like payment deferrals and wage subsidies, are being availed of or at least considered.

Also, review any material business flows or transactions where cash flows can be influenced by tax. Examples could include reviewing inter-company agreements impacting transfer pricing, indirect taxes, withholding taxes or customs duties, or even considering ways to expedite tax refunds.

Thirdly, businesses are feeling the pressure to continually update models to their budgets, forecasts, and results. Tax needs to stay close to this modelling and scenario-planning, ensuring that all tax aspects are considered and incorporated. Even more importantly, tax needs to identify and stay close to any task groups within the business ensuring that no quick decisions on moving assets, cash or other restructurings at this time are executed without tax input.

Lastly, partnering and collaborating with IT should not need much explanation, as we all settle into working remotely and adopting to collaboration and conferencing tools. However, also consider IT while planning workflows and processes to meet obligations. IT, with its overall view of the organisation's digital capabilities, could be the key catalyst for tax to deploy automation, analytic or collaboration tools to get through this period. Furthermore, as we come out of this crisis, do not underestimate the investment companies are likely to prioritise in technology and transformation to be better equipped in the future, tax needs to be involved in these discussions with IT and finance.

Right: **Ronan Ferry** of Deloitte Ireland



Managing tax obligations

While the pause button may have been pressed on some of the larger projects within businesses, tax departments continue to have the same obligations to file tax returns and meet other external and internal obligations. The last thing any company needs now are penalties, interest charges, or reputational risks due to missed, late, or incorrect reporting or filings.

It is imperative that tax functions stay apprised of updates to deadlines and payment obligations, thus allowing the opportunity to prioritise between cash flow management, those obligations that continue to stand and those that have been extended.

This is no easy task; on an almost daily basis tax authorities across the globe are releasing updates for all tax heads from VAT, to employment taxes to corporate income taxes. So, how best to implement a plan?

- Designate one person to lead the initiative, using the communication channels agreed above to keep everyone up to date.
- Decide on the sources, ensuring they are reliable and up to date. Examples would be Deloitte's Signal Topic Alerts and Atlas or the OECD's tax toolkit.
- As a team, and collaborating with other departments like finance and treasury, agree and prioritise obligations, both externally and internally, in the short to medium term. But be flexible, allowing for change as updates continue to stream in from tax authorities.
- Finally, consider any tracking tools that could be used, if not deployed already, as a collaboration method to ensure everyone is aware of the status.

Workflows

In the past number of years, some tax departments have begun to shift the paradigm in how they approach and execute their workflows to meet obligations, becoming more formalised and strategic in how they deploy the five pillars. For those that have, they would have gone through an exercise of acutely understanding and documenting their processes, data sources, team roles and adoption of technology.

Many tax departments are still on this journey and at the early stages of transformation, so dealing with this immense change may be proving difficult. This is not the time to undertake

a root and branch review of the overall tax operating model to transform, but it is certainly a time to gain a quick understanding of those processes and workflows of critical obligations and that bring value to the business.

The tax function is in an unusual position compared to most, in that it derives anything up to 80 per cent of its data from outside tax. It then needs to spend anything between 40 per cent and 60 per cent of its time manipulating that data to be fit for tax purpose.

A quick and easy way to understand key workflows and time requirements to meet obligations would be to undertake a simple SIPOC (Supplier, Input, Process, Output, and Customer) exercise. For each identified priority obligation, get an understanding of who the supplier of the data is: what are the data inputs, processes and outputs required, and what then is provided to the customer?

This should provide tax personnel with a quick mechanism to fully understand key efforts that are needed. This step is in addition to creating a source of contingency documentation should anyone need to step in. Critically, ensure that this exercise is done in collaboration with the suppliers and customers of tax data outside of tax and communicate the results to the same groups, so they fully understand their roles.

Finally, consider if it is advisable to introduce tactical technologies or tools now to help in these tax processes, from analytic to small automation tools.

Risk, controls and governance

Through all this change, it is imperative that tax functions do not overlook the established governance framework. Irrespective of the crisis it is still important to get it right. All deliverables, whether internal or external, still require the requisite level of review and sign-off. Every tax department should consider and document the following:

- Review all current risk and control policies and assess any necessary changes required from the current crisis. This may need involvement from the wider business as views on materiality or business practices could change. Even the very concept of working remotely needs consideration for review and sign-off procedures.
- Consider any new obligations, workflows or consequences arising from the crisis, whether external reporting, tax audit activity or internal to the business. Do these fit within the current framework or are further risk and control assessments and actions necessary?

In conclusion, moving quickly to address immediate needs is critical, but tax departments must also think strategically to design a more agile tax operating model that will allow them to flex and scale, given the level of uncertainty they face now and in the future.

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