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Digital Tax Transformation

Digitisation in Tax Technology

Digital transformation in an organisation involves converting manual tasks into a technologically enabled task function. It cannot be done overnight, without thoughtful planning, or by simply investing in the latest technology solutions. It requires strategic planning, behavioural change, development of capabilities, and risk management to benefit in terms of time and cost savings, efficiency gains, and help to move the tax function up the value chain within the organisation.

Current problems and areas of opportunities

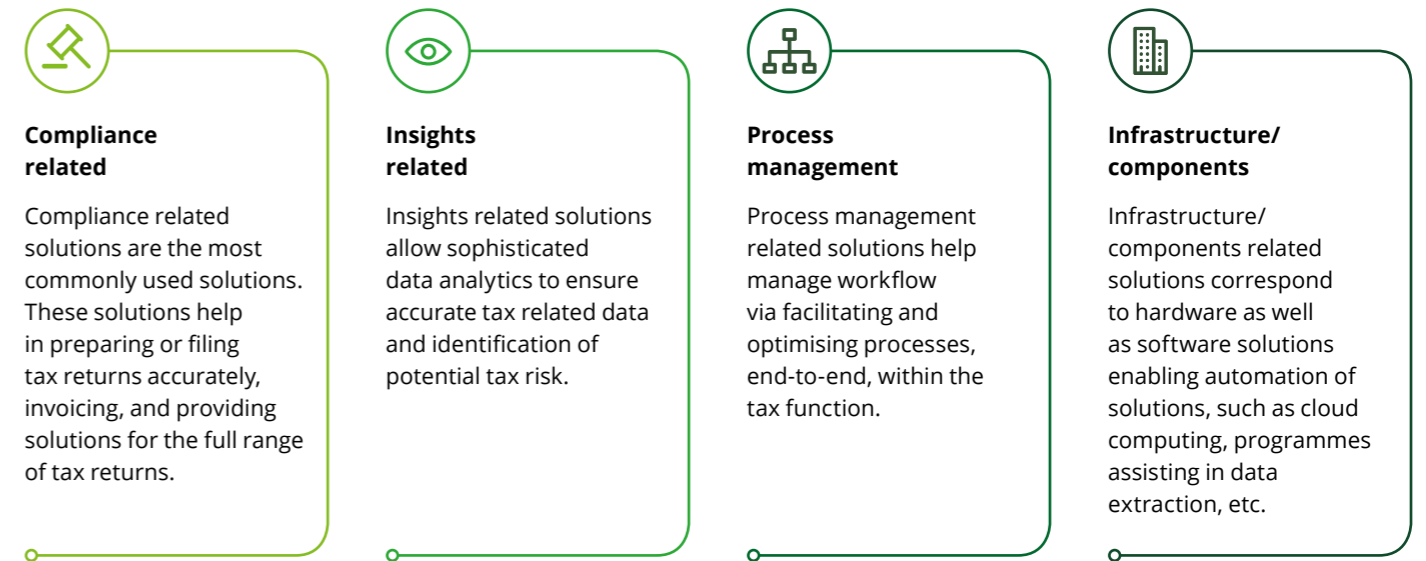| Reducing time taken for manual tasks to support tax compliance process | Obtaining data from varied sources required for tax filing | Accuracy during reconciliation of data for tax returns | Curbing tax problems from transactions carried out | Insufficient budget to increase workforce or invest in technology |

Available tax technology

Today, the solutions available for tax technology relate to the following: compliance, insights, process management, or infrastructure/accessories. Further, these can be explained as below.
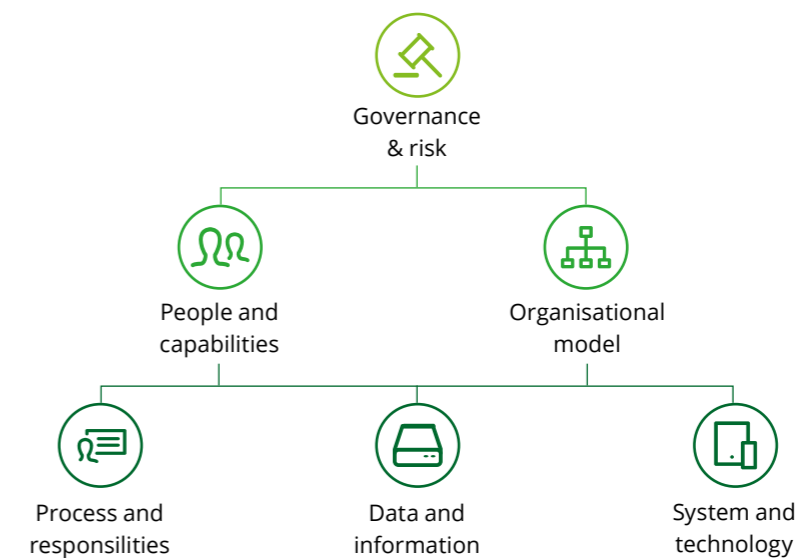
Figure 1: Available tax technology

Compliance related

Compliance related solutions are the most commonly used solutions. These solutions help in preparing or filing tax returns accurately, invoicing, and providing solutions for the full range of tax returns.

Insights related

Insights related solutions allow sophisticated data analytics to ensure accurate tax related data and identification of potential tax risk.

Process management

Process management related solutions help manage workflow via facilitating and optimising processes, end-to-end, within the tax function.

Infrastructure/ components

Infrastructure/ components related solutions correspond to hardware as well as software solutions enabling automation of solutions, such as cloud computing, programmes assisting in data extraction, etc.

Despite the available technology, one click cannot complete processes. It will require complete data in enterprise resource planning (ERP) system with no option for manual adjustments, which is unrealistic. In reality, while the organisations maintain multiple data sources, the data maintained in the ERP systems contain several errors. The initially built ERP systems did not account tax function as a major utility. Hence, the adoption of digitisation in the tax industry is a journey and cannot be completed overnight.

It is important to understand why digital transformation is required in the tax function, followed by who should do what and how to adopt digitisation.

Figure 2: Implementation of tax technology

Governance & risk

People and capabilities

Organisational model

Process and responsibilities

Data and information

System and technology

Need of digital transformation in tax function

The tax technology solutions discussed earlier will have positive outcomes with digital transformation, from increasing efficiency and accuracy than the existing manual process to optimising the tax returns. Investment in tax technology can help obtain better insights to manage tax risk in an organisation.

For example, European Union (EU) established Electronic Tax Management System (ETMS) for e-filing of taxes, by simplifying it with auto-filled returns and a standard e-invoicing format for Value Added Tax (VAT)/Goods and Services Tax (GST) returns. In 2014, a standard e-invoicing format for VAT/GST filing was passed. It has implemented System of Exchange of Excise Data (SEED) and VAT Information Exchange System (VIES) for providing a consolidated view of tax payable across the EU. Electronic Identification and Trust Services (eIDAS) regulation was issued to simplify the authentication process to ease public and private services' online access.
By 2020, an upgraded IT collaboration tool is envisioned to ensure information transparency amongst the EU member nations as well as improved tax compliance through blockchain technology.

Despite the urgent need for digital transformation, organisations can hold back because of apathy, poor data quality, and fear to bring change.
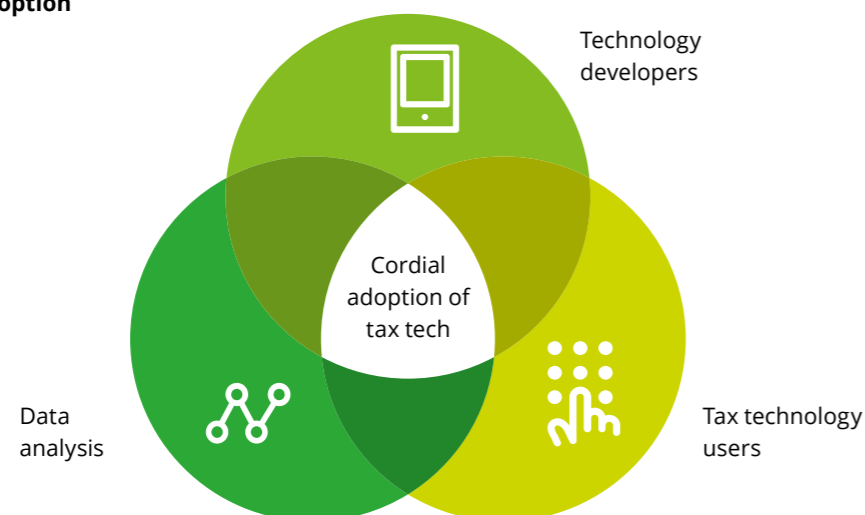
Implementation of digitisation

To implement digitisation, four solutions have to be brought in:

- Tax compliance solutions will help in generating accurate tax returns through leveraging data collected as part of core business functions.

- Insights related solutions can transform data into insights to deliver value to the organisation. They can highlight the accuracy of indirect tax calculations, margins on intercompany transactions, or anomalies in codes.

- The process management solutions will help in preparing VAT and Corporate Income Tax (CIT) returns, tax invoicing handling and global mobility tracking, thereby increasing transparency and accountability.

- Components/infrastructure related solutions, i.e., the key enablers of tax technology must be implemented to ensure that the required process has right computing and processing capacity.

Digitisation has to be harmoniously adapted through joint effort of software technology enablers, users of tax technology as well as data analytics experts, who will set up a robust system with their expertise.

The software technology enablers need to have sophisticated IT capability to troubleshoot errors with just optimum level of tax systems' information. It enables them to understand a way to fix the problem. On the other hand, users of tax technology must enhance their IT skills.

Figure 3: Tax digitisation adoption

For full-proof implementation, it is important to align benefits from deploying the tax technology solution with an organisation's overall strategy and objectives. It should be a smart investment decision, with a clear understanding of what value it will add to the organisation. A persuasive business case must support any investment in tax technology solutions. The business case may require alignment with your broader organisational objectives in serving the business better (for example, to manage risk), through efficiency gains (in terms of headcount reduction spent on compliance), in the realisation of real cash savings, or to mirror technology developments made by the tax authorities.

Future of tax technology

The businesses have started realising the importance of state-of-art technology (e.g., machine learning, big data, artificial intelligence, etc.), which were initially limited to research projects only. Their implementation in the tax function will simplify the process as well as significantly enhance accuracy and efficiency.

Figure 4: Value provided by technology
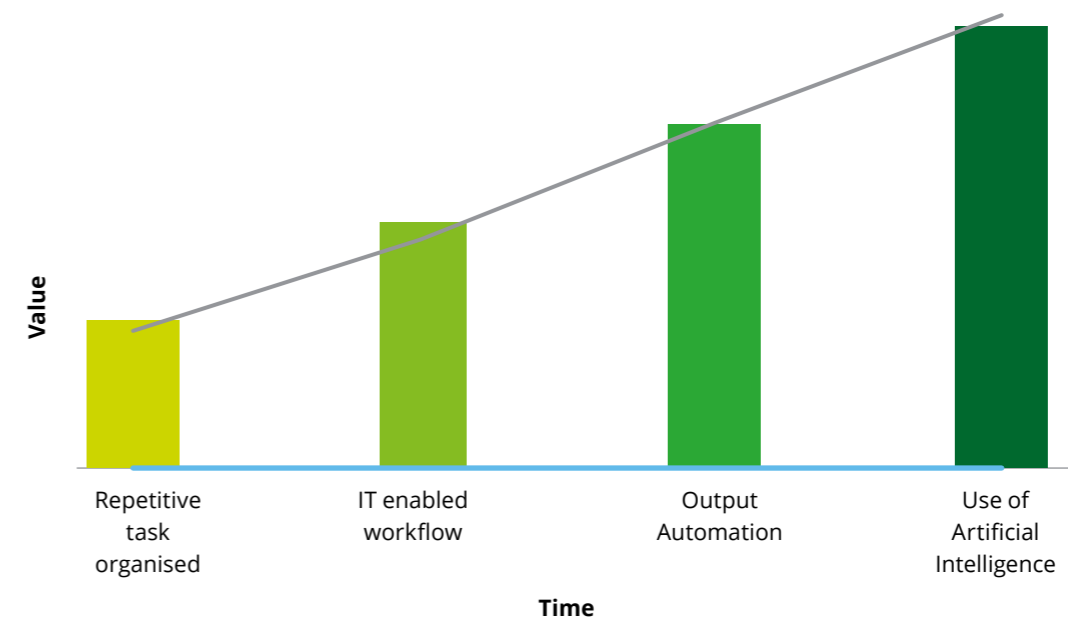
The automation process can become sophisticated as time progresses and skills of the involved personnel evolve. The automation can be driven from basic process (involving robotic automation for re-formating data, leveraging workflow, etc.,) to cognitive automation that has the ability to ingest massive amounts of data to formulate meaningful hypotheses. Further, blockchain technology can be used for distributed database, with all participants having a right to see the data. However, these participants cannot modify it single-handedly, and this inability increases transparency in the system.

Summary

Transforming a tax function relies on technology as an integral component of any transformation strategy in an organisation. Any investment in digitisation of tax technology solutions should assess the feasibility and utility of such solutions. Upon adoption of tax technology, the organisation might face challenges of integrity of data being fed. However, the joined efforts of various teams related to IT technology, tax function, and analytics can overcome such limitations.

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