



Survey on income-tax digitalisation in India

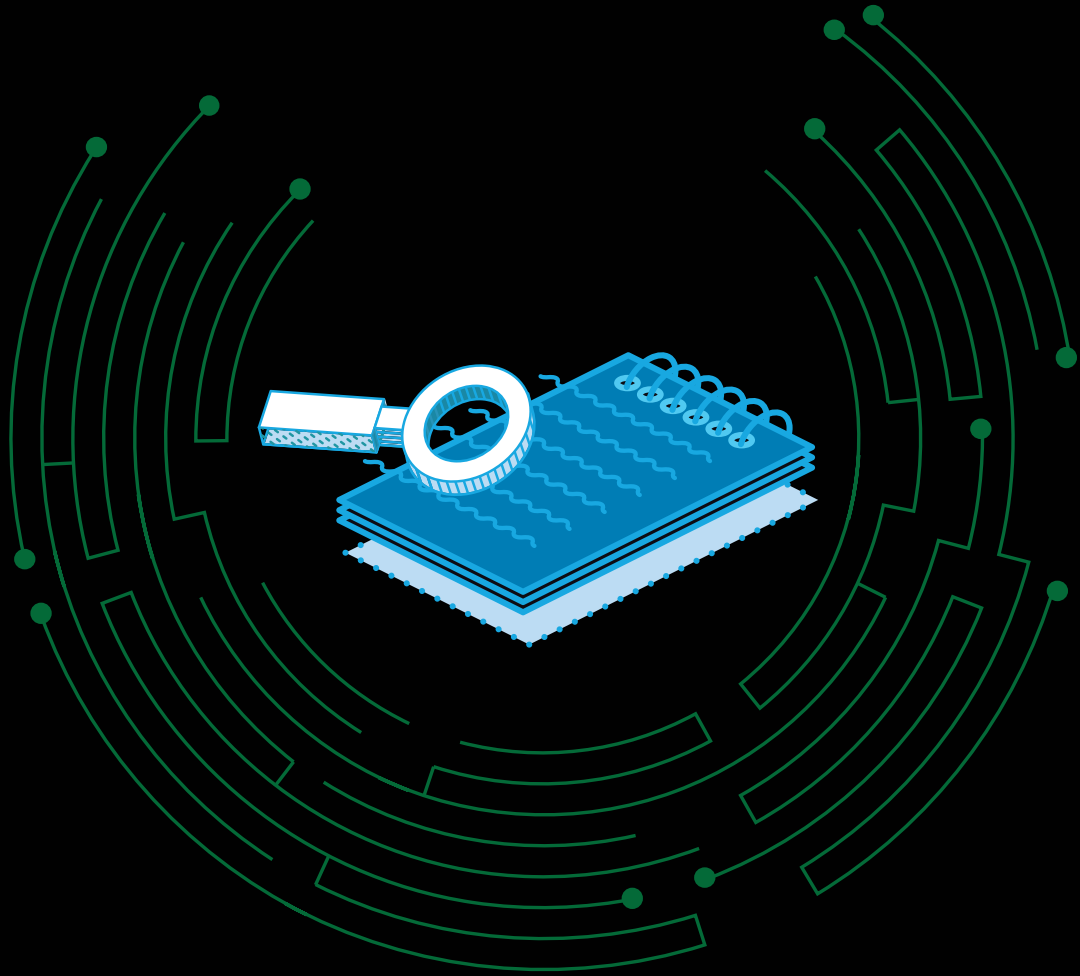


Table of contents

Foreword	04
Introduction	05
Executive summary	06
Survey findings and Deloitte's perspective	07
Income-tax digital administration	08
Assessing the impact of digitalisation	12
Tax compliance and technology use	16
Future of technology in tax	24
Connect with us	30



Foreword

The income-tax administration in India has been a pioneer in introducing technology/automation in tax. The journey started with the electronic filing of withholding tax and income tax returns and has since, progressed rapidly. Communication with taxpayers has been streamlined with paperless correspondence, faceless assessments and appeals, and a structured income-tax portal. Digitalisation has redesigned the way information is collected and acted upon by tax administrators and this is evident from new tax policies, TDS/TCS provisions, methods of conducting audits/investigations, and the increase in tax collections and registered taxpayers. The tax administration is now advancing with its next major initiative, Project Insight, an integrated data warehousing and business intelligence platform.

The focus of the tax administration on technology has greatly helped businesses, especially in data management and ease of compliance. It has also encouraged taxpayers to adopt automation and technology in tax and modernise operations at a faster pace. The taxpayers' journey started with simple tools for meeting compliance obligations, which gradually progressed to customised automation, Enterprise resource planning (ERP) integration, automated reconciliation tools and BOTs. More recently, taxpayers are focusing on sophisticated prediction and data analytics. Organisations are journeying steadily towards the transformation of their tax functions.

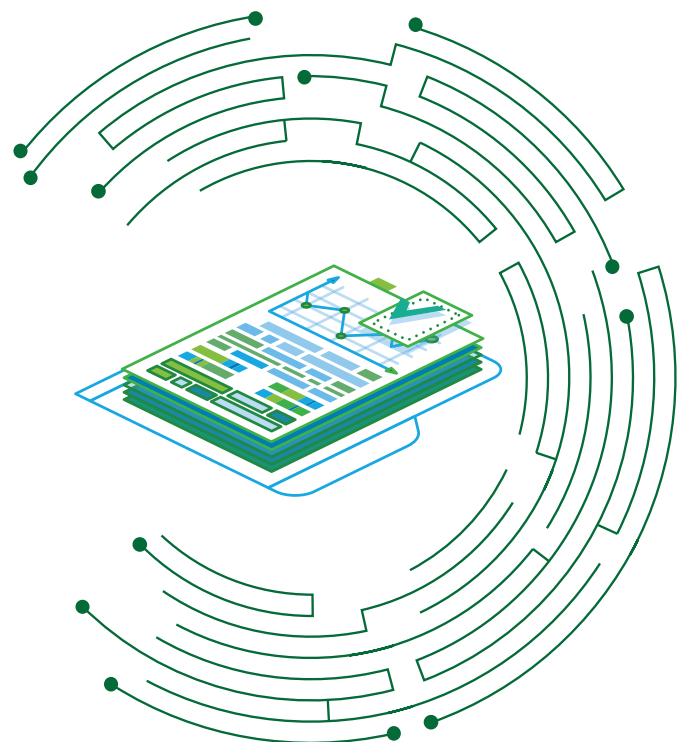
With technology and automation, companies are spending less time on data extraction, reconciliation and tax compliance, and focussing more on value-added activities such as supporting business on strategic decision-making, risk management, and tax cash optimisation. Large organisations have been spinning off processes into Tax Centres of Excellence (CoEs), which has led to an increasing demand for tax technology specialists, who understand both tax processes and technology. Organisational

mindsets are undergoing a change and are fast accepting that it is now "man with machine" instead of "man versus machine".

These are interesting times for the tax world. With Chat GPT and similar AI solutions taking the world by storm, tax automation will also benefit from the use of artificial intelligence (AI) and machine learning (ML). The functioning of the tax administration and taxpayers is undergoing a paradigm shift with these trends, and this is just the beginning. While sophisticated ERPs and automation tools are freely available for global financial reporting, there are limited solutions for income-tax reporting. The road ahead is long, and the potential for value addition through tax transformation is significant.



Rohinton Sidhwa
Partner
Deloitte India



Introduction

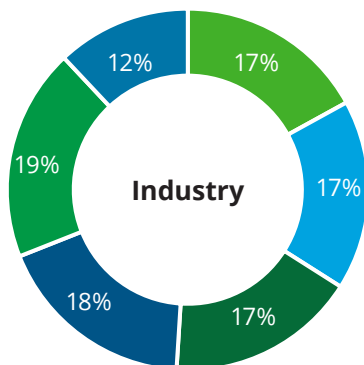
Objectives of the study

- Understand industry outlook on various technology initiatives of the Central Board of Direct Taxes/Income Tax Department
- Assess impact, challenges and preparedness of organisations for digital tax administration
- Identify areas where organisations believe technology/automation in tax would be useful
- Define vision for tax

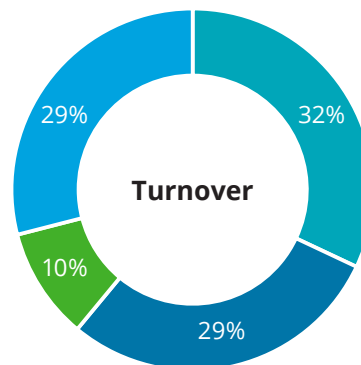
Methodology

- Primary research involving online survey of 129 professionals; aim was to understand technology use in tax functions across industries, including:
- C-suite executives, directors, and presidents from finance function
 - General managers (Finance), and vice presidents (Finance)
 - Finance and taxation managers

Respondent profile



- Consumer
- Technology, Media, and Telecommunications
- Energy, Resources, and Industrials
- Financial Services
- Life Sciences and Health Care
- Government and Public Services



- Less than INR 500 crores
- INR 500-3,000 crores
- INR 3,000 crores-6,400 crores
- INR 6,400 crores and above



Executive summary

The tax administration has been ahead of taxpayers in using and implementing technology in tax. This is reflected in taxpayers' responses, who accept that a digital-friendly tax administration has acted as a catalyst for technology uptake in tax. India Inc. has been proactively adopting digital/automated tools in their tax functions. The next step in such transformation would be data extraction with automation, which can encompass unified solutions in reconciliations and computations, ultimately leading to tax filings. **The following are some key themes from the survey:**



Tax administration takes the lead: Numerous transformational initiatives have been introduced to streamline tax compliance and for better data tracking and availability for taxpayers and administrators. These efforts have been appreciated by the taxpayer community, which has resulted in reduced time spent on compliance.



One size doesn't fit all: Asks from taxpayers differ depending on the size of the organisation. While the asks of large organisations are for the tax administration to use filings made under other regulations and thus, simplify tax reporting, small ones seek to streamline TDS/TCS compliance. Large companies have evidently moved up the chain in technology adoption in tax compliance.



Digital tax tools are here to stay: About 86 percent respondents have reported active adoption of digital/automated tools within their tax functions by automating transactional taxes and annual compliance, including data reconciliations.



Tax-savvy platforms: The importance of tax-sensitised ERPs is going up significantly and tax functions will have a key role to play in any finance transformation, especially in ERP implementation or modernisation projects.



Need for custom-built technology: According to most respondents, tax teams spend at least half, if not more, of their time on compliance. Despite technology adoption, tax functions appear to spend a disproportionate amount of time on tax compliance. This underscores the need to carefully select technology tools and customise them based on specific needs.

It is pertinent to note that the tax technology trends discussed above are broadly consistent across industries tech-enabled and transformed tax functions are no longer "good to have" but a "must-have" attribute for all organisations.

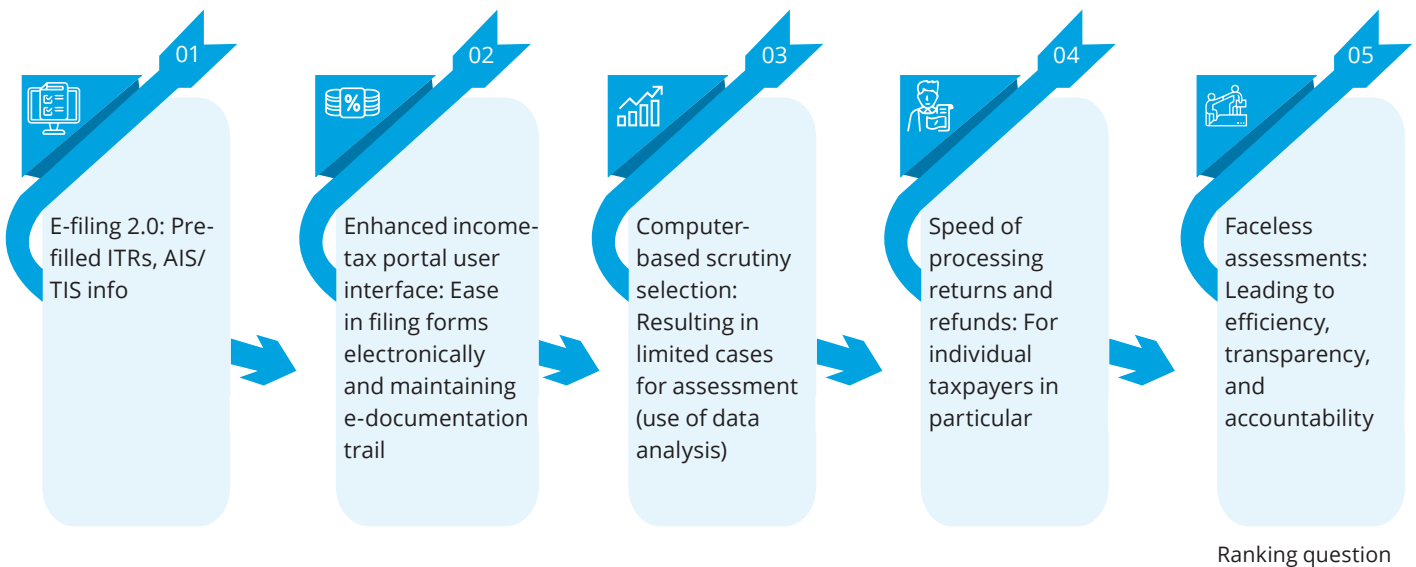
Survey findings and Deloitte's perspective



Income-tax digital administration

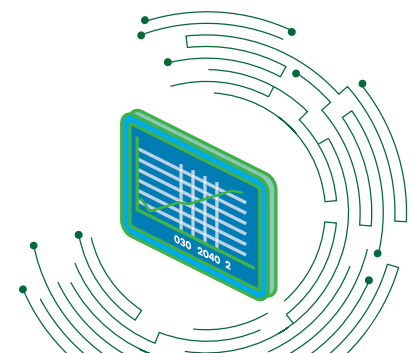
Industry perspective of key transformation initiatives undertaken by the tax administration

E-filing 2.0 most appreciated amongst digitisation initiatives



- **E-filing 2.0** has been well received by respondents across the board as pre-filled ITRs and AIS/TIS information have reduced the time spent in data collation and in errors.
- Respondents are appreciative of the improved **income-tax portal** for its user-friendly interface and e-documentation trail maintenance; the portal received the highest ranking (1 or 2) across companies.
- Respondents from companies with a turnover of INR 500-3,000 crore appreciated **computer-based scrutiny selection** the most; while also welcoming the **speedy processing of returns and refunds**.
- **Faceless assessments** have been appreciated the most by respondents from companies with a turnover of INR 3,000-6,400 crore.

Question: Please rank the following digital tax administration initiatives related to income tax on a scale of 1 to 5, with 1 being the most helpful and 5 the least helpful



The Deloitte perspective

01

Prefilled tax filings for corporates: With the move to a common ITR Form as part of e-filing 2.0, taxpayers' expectation is to spend less time and effort on completing ITR Forms for corporate and non-corporate taxpayers. For example, pre-filled ITRs can be introduced for corporate taxpayers, which would include details such as the taxes paid (advance tax, TDS), financial statements information (profit and loss statement, balance sheet), directors' details, holding and subsidiary companies, etc. Data included in the ITR Forms can then be validated and updated by corporate taxpayers.

02

Data validation: The scope of AIS/TIS information may be enhanced so that data available with administrators is shared with taxpayers to sharpen the compliance process. For instance, if the tax department possesses data obtained from third-party sources (e.g., details of remittances outside India received from the Reserve Bank of India), they can include the data on the reporting portal for confirmation, updation, and reconciliation by taxpayers, rather than issuing notices to seek clarifications, analysing responses, and taking action or closing the case. The administration would then have qualitative data for analysis and action, and save time.

03

Enhanced user experience for the income-tax portal: The teething issues have been overcome. User experience can be further enhanced with informative dashboards on the landing page and through APIs. For example, taxpayers may miss out on notices/orders uploaded on the income-tax portal, leading to non-compliance. If the tax administrators allow taxpayer information to be downloaded, including notices, orders, and AIS, it will ensure taxpayers have on-time compliance, in turn, benefitting tax administrators.

04

Use of data analytics for targeted reach: Neutral rankings to computer-based scrutiny selection process suggests that administrators may consider improving the system to target specific taxpayers/issues. If there is a mismatch (refund claimed without income being offered for tax), the information may be presented to taxpayers and their inputs sought and analysed, before issuing assessment notices. Tax administrators may consider data analytics to evaluate whether objectives for the computer-based scrutiny system have been met, or whether this process is increasing taxpayer base and enhancing collections (post appeals), etc.

05

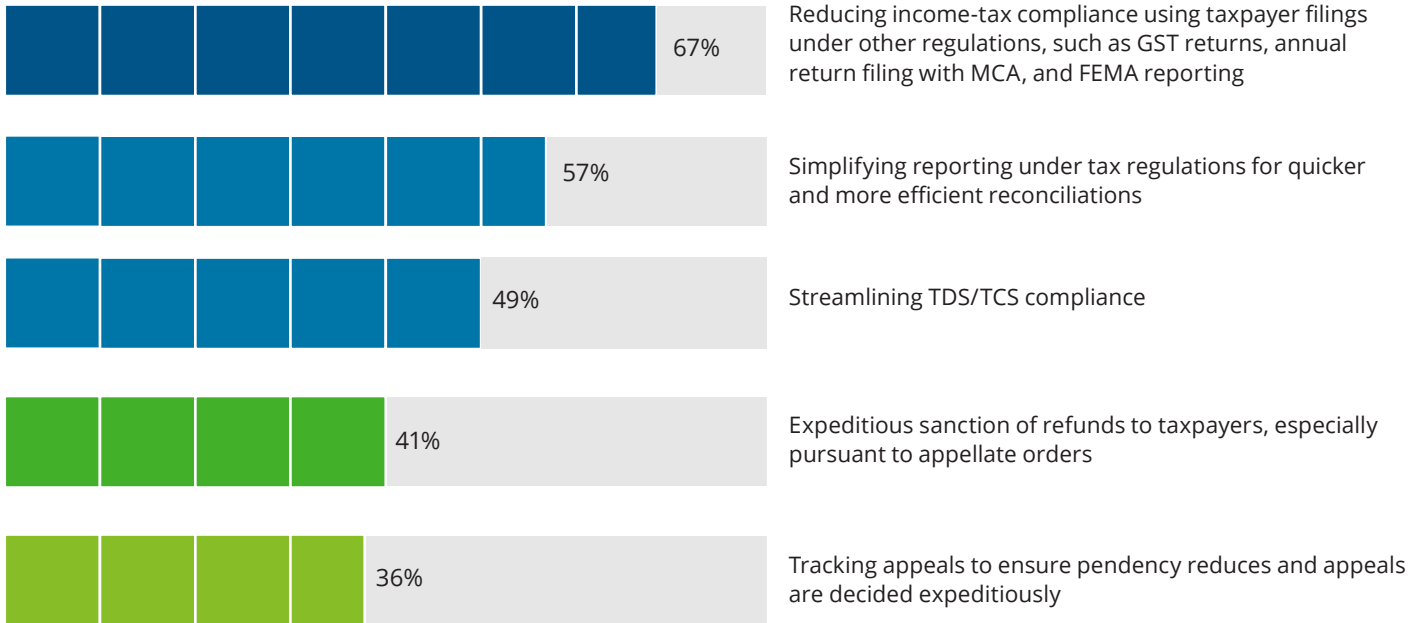
Speedy refunds for corporates: While the speed at which individual tax returns are processed and refunds issued have transformed, its benefits have however not reached corporate taxpayers. Tax administrators may use technology to monitor the issuance of pending refunds to corporate taxpayers.

06

Revamping faceless assessments: As faceless assessments and appeals have been ranked the lowest digital initiative, implementation may require a review based on inputs from taxpayers, tax officers, appellate authorities, and tax advisors. A revamp of the process based on the on-ground experience gained over the past few years may be helpful for both, tax administration and taxpayers.

Potential areas of using technology in tax administration

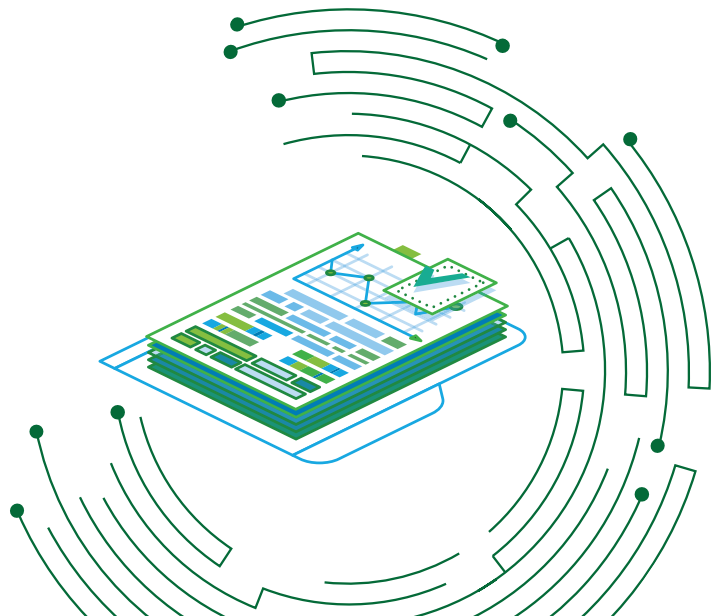
Two-thirds of respondents suggest use of filings under other regulations to reduce income tax compliance



Multiple select

- **Two-thirds of the** respondents and **84 percent** respondents from companies with a turnover of more than INR 6,400 crore, highlighted that reduction in the number of income-tax **compliance by utilising filings made by taxpayers under other regulations**, including GST returns, annual return filing with MCA, and FEMA reporting, can drive tax digitalisation.
- **Simplifying reporting under tax regulations**, such that reconciliations are quicker and more efficient, was another key ask from respondents, especially from larger companies.
- **Sixty-four percent of** respondents from companies with a turnover of less than INR 500 crore, suggested **streamlining TDS/TCS compliance** with the help of technology.

Question: What are the key areas where the government can potentially leverage on technology to create more efficient tax administration?



The Deloitte perspective

01

One size doesn't fit all: Where larger companies are interested in utilising filings under other regulations and simplifying reporting, relatively smaller companies are streamlining TDS/TCS compliance. This indicates that larger companies have moved up the chain in adopting technology in tax. The administration needs to be mindful of this variance in technology adoption levels amongst companies and address the asks of small as well as large taxpayers.

02

Standard Audit File for Tax (SAF-T): The administration may consider introducing SAF-T, which is a global OECD standard and has been adopted by many European countries. This will take tax digitalisation to the next level and significantly reduce the time and effort of tax administration and taxpayers. SAF-T encompasses the production of a data file containing business accounting transactions in a standardised format. This benefits taxpayers as the process of data submission to tax authorities can be automated; from the tax administration perspective, a SAF-T file could significantly enhance and automate the tax audit process. This would bring efficiency to the system and the turnaround time would reduce significantly.

03

Leveraging filings under other regulations can reduce multiple reporting and reconciliation of same/similar data; some examples include: (1) financial data (balance sheet and profit and loss statement) can be sourced directly from filings under company law; (2) GST data in clause 44 of Form 3CD (Tax Audit Report) can be sourced from GST returns. In the long term, information required by tax and regulatory authorities could be centralised and relevant data from the complete data pack shared by taxpayers can be pulled out. The SAF-T file discussed above could be a good starting point for centralising tax requirements (income-tax as well as indirect taxes).

04

Simplifying data reporting: The reporting requirements for taxpayers have become onerous and significant time is spent on reconciliations. The ask from taxpayers is for the reporting process to be rationalised without compromising the objectives of the administration. For example, taxpayers spend a significant amount of time and effort on reconciling Form 26AS/AIS with books of accounts, as there is no common identifier between the two data sets. If the invoice data is captured in the TDS returns, and consequently in Form 26AS/AIS, the same could help taxpayers track TDS credits, which they are claiming in the income-tax return. This would significantly benefit taxpayers and reduce the time spent on reconciliation substantially.

05

Consistency rather than frequent changes in laws/reporting: In every Union Budget there are changes announced in the TDS/TCS provisions, and taxpayers need to modify their accounting systems/ERPs to implement these changes involving significant cost, time, and effort. The tax administration may consider giving at least 6-8 months for taxpayers to put suitable processes in place to deal with the TDS/TCS changes. Consistency in law is a must for technology to thrive in tax.

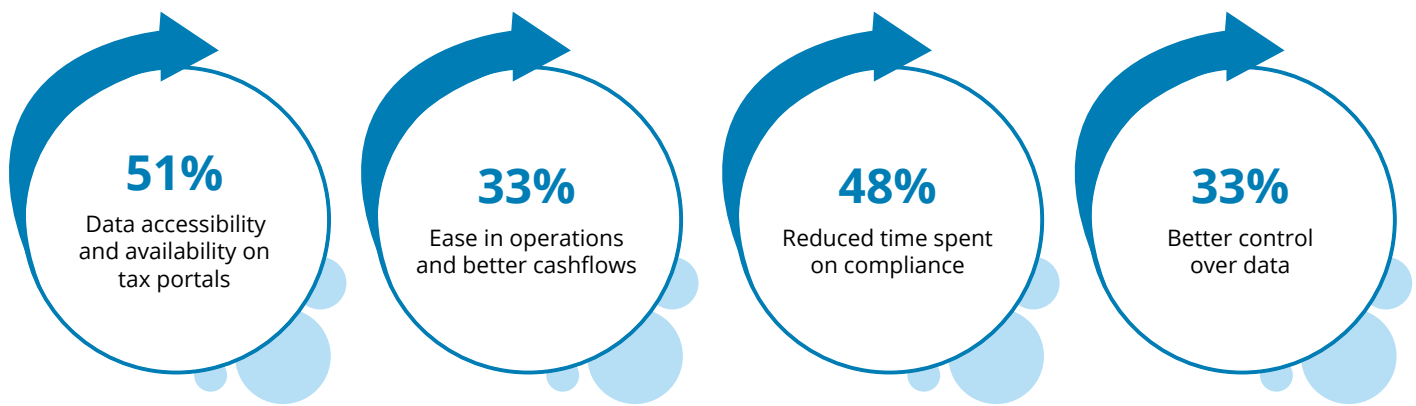
06

Digital tracking of litigation and refund disposal: The administration may consider using technology to track the processing of refunds, appeal disposals, giving effect to appellate orders, etc., as corporate taxpayers continue to struggle to get appeals disposed of/get refunds after succeeding in appeal.

Assessing the impact of digitalisation

Assessing the impact of digitalisation initiatives by tax administrators

Around half the respondents appreciated improved data accessibility, and availability on tax portals and the reduced time spent on compliance



- More than half of the overall respondents expressed that **data availability and accessibility on the income-tax portal** had a positive impact on their businesses. The score increased with the size of the company; **65** percent respondents from companies with an annual turnover of above INR 6,400 crore, attest to the benefits of data accessibility on tax portals.
- Contrasting to the above, where the benefits were felt more by relatively larger companies, the benefits of **reduced time spent on compliance was** recognised by companies, irrespective of their size.

Question: How have digital tax administration initiatives (select up to 2) impacted your business positively?

The Deloitte perspective

Insights from tax portals: The tax administration introduced numerous transformational initiatives to streamline the tax compliance landscape and track data availability for taxpayers as well tax administrators. These efforts have resulted in positive outcomes and taxpayers particularly appreciated data accessibility and availability on tax portals and the reduced time spent on compliance. For example, pursuant to electronic filings, all correspondence with tax authorities, including responses filed by taxpayers, are accessible by taxpayers. This acts as a repository of information for taxpayers, which they can utilise. Another noteworthy initiative is the mobile app, which makes relevant information readily available for taxpayers.

- This experience can be further enhanced by providing meaningful insights from taxpayer data, such as an estimated advance notice of tax installments for taxpayers, TDS credits appearing in Form 26AS but not claimed, and upcoming filings.

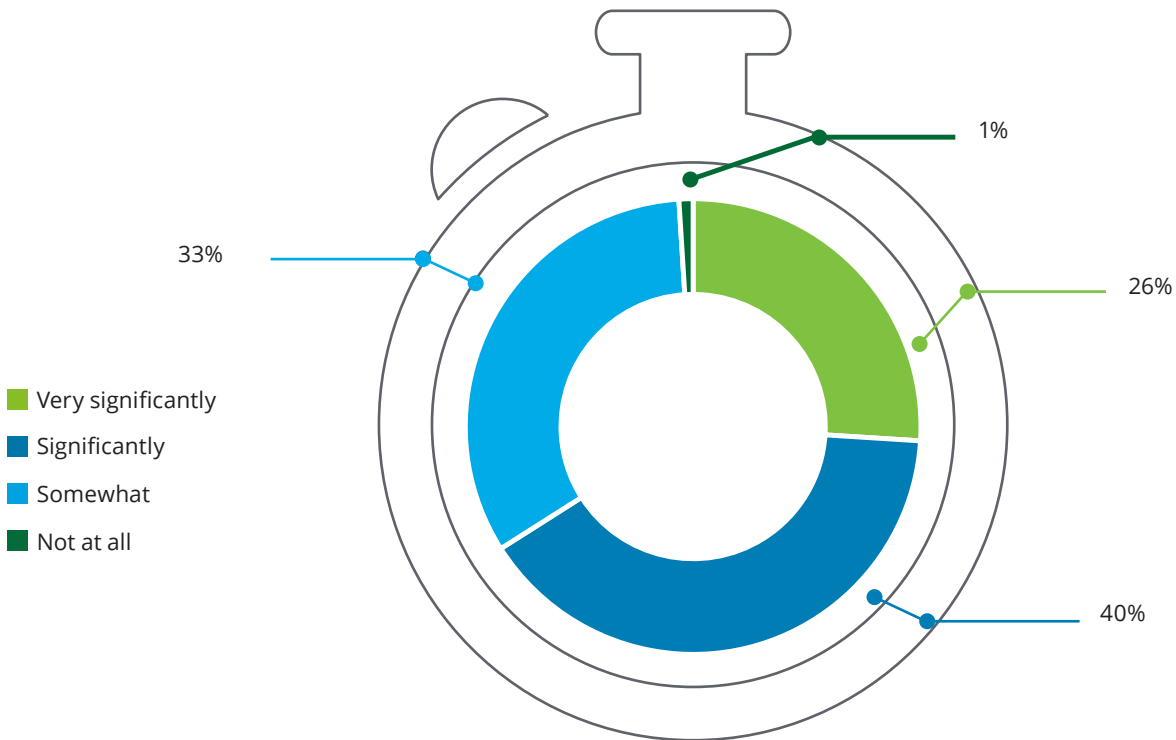
Better use of data for investigations: Mismatches detected by the administration pursuant to triangulation of data could be presented to taxpayers as part of AIS/TIS information for reconciliation (instead of asking taxpayers to submit the same/ similar data to multiple authorities or reconciling the data). It is understood that income-tax and GST information is shared between direct and indirect tax administrators (for example, GST return filings are presented to taxpayers in AIS). Going forward, the income-tax administration may compare GST return data with income-tax data and reconcile the data at its end. To the extent there is a mismatch, the mismatched data may be presented to taxpayers for analysis and reconciliation (instead of asking taxpayers to reconcile income-tax and GST data, by virtue of clause 44 of Form 3CD).



Digital tax administration fuelling operational transformation

Two-third of respondents believe that digital tax administration led to a marked increase in tax technology use

Increased use of tax technology



01

All companies indicated that digital tax administration has led to **some increased use of tax technology**.

02

Twenty-six percent respondents believe that the increased use of tax technology is **very significant**, and **40 percent** believe it is **significant**.

03

Use of tax technology significantly/very significantly increased among **92 percent** companies with a **turnover of INR 6,400 crore and above**, and **84 percent** companies with a **turnover of INR 3,000-6,400 crore**.

Question: Has digital tax administration led to increased usage of tax technology in your organisation?

The Deloitte perspective

01

Tax administrators are ahead in the use of tax technology: It is well-accepted that the tax administration has been ahead of taxpayers in using and implementing technology in tax, and taxpayers have generally been reactive, as reflected in the responses. Digital tax administration has acted as a catalyst for increasing the use of technology in tax for organisations.

02

Lifecycle of tax technology: The lifecycle of technology adoption in tax typically has four phases:

- **Phase 1:** The first phase is reactive, and the adoption is for compliance with regulatory requirements. Typical examples of this are use of TDS and GST compliance tools.
- **Phase 2:** Once organisations realise that technology can support their tax function, they adopt a plug-n-play software/ off-the-shelf automation for streamlining internal processes. An example of this is a litigation management tool, that tracks the status of assessments and litigation year-wise.
- **Phase 3:** On the technology path, organisations figure out that they have their unique set of issues and challenges, and they go with specific and customised solutions addressing their pain points. Examples of this could be solutions around data (extraction, reconciliation, wrangling) or BOTs/RPA solutions for repetitive processes.
- **Phase 4:** Once the tax function is technology-enabled, the next phase is the transformation of the tax function, wherein tax teams focus less on compliance and more on strategy and implementation and partnering with businesses.

03

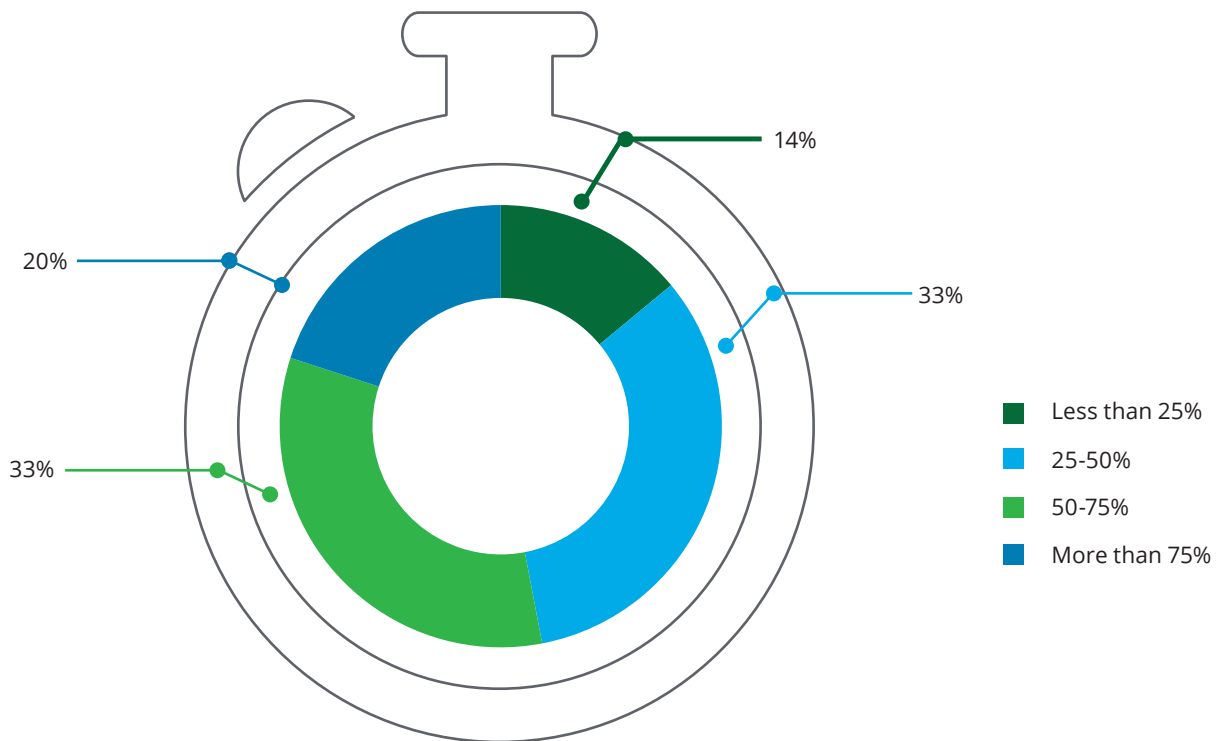
Use of new-age technologies in tax As the tax administration accelerates and adopts new-age technologies such as AI/ML, businesses will be compelled to significantly enhance their use of technology in tax to transform their tax function. This would include cutting-edge data analytics across all data submitted to tax administrators and regulatory authorities to identify red flags and risks, as well as the adoption of AI/ML in routine processes and compliance obligations such as TDS. The administration should take note of the variance in tech adoption across organisations and look at focussing their energies on transformational initiatives. This will lead to the next stage of technology adoption in tax by taxpayers and benefit both, administrators and taxpayers.

Tax compliance and technology use

Time spent on compliance by direct tax teams

Most respondents indicated their tax teams spend 50 percent or more of their time on compliance

Time spent on tax compliance



01

Eighty-six percent respondents from companies with a **turnover of more than INR 6,400 crore** indicated that tax teams spend **more than 50 percent of their time on compliance**; **43 percent** of them indicated spending **more than 75 percent** of their time.

02

The trend reverses for companies with a **turnover of less than INR 3,000 crore**. Nearly **2/3rd** of respondents from these companies indicated they spend **less than 50 percent** of their time **on compliance**; **more than 20 percent** indicated that **time spent** is **less than 25 percent**.

Question: How much time is your direct tax/ Income tax team spending on tax compliance?

The Deloitte perspective



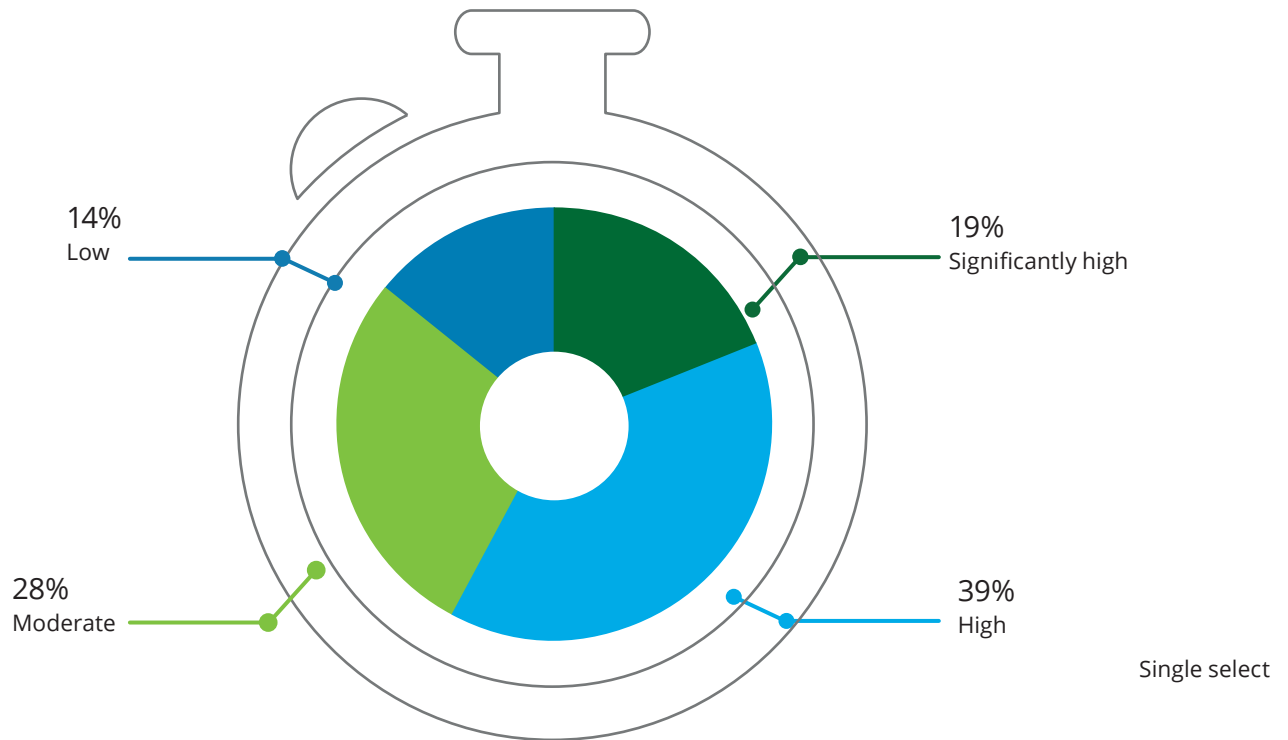
Large organisations spend more time on compliance: The results indicate there is a direct relationship between the size of companies and the time that tax teams spend on compliance; relatively smaller organisations typically spend less time. Tax teams in large, complex organisations, despite their enhanced use of technology in tax, still spend a high proportion (around 70 percent on average) on tax compliance. For example, a big challenge faced by large organisations is TDS compliance. Given the significant amount of data involved, the reconciliation of TDS data and processing/re-processing of data requires large teams to focus full-time only on TDS compliance; in light of the fact that more transactions are coming within the purview of TDS, the problem is growing in complexity. On the flip side, i.e., where organisations are receiving income and TDS is deducted from such income, given the volumes involved and the revisions of TDS returns by payers, larger organisations deploy large teams on a full-time basis, specifically for the reconciliation of 26AS data.



Organisations are looking for reduced compliance and simplified reporting: The disproportionate amount of time spent by tax teams on tax compliance, more so in larger organisations, is an area of concern and needs to be addressed by way of discussion between the tax administration and taxpayers. For example, as discussed above, TDS compliance is a pain point for larger organisations, while there are clear benefits of a robust TDS system. The tax administration may have to consider relooking at the process and implementation of TDS compliance to make it more user-friendly for taxpayers. This ties in with the earlier response from taxpayers around “potential areas for using technology to create more efficient tax administration”. Taxpayers are seeking a reduction in the number of compliance, as well as simplifying reporting to reduce the burden around compliance. From an organisation’s perspective, tax-sensitised ERPs could possibly resolve quite a few of the challenges around data collation and reconciliation and enable efficient compliance.

Use of technology and automation in the tax function

Eighty-six percent respondents are proactively adopting digital/automated tools within their tax function



01

Overall, **six out of ten respondents** believe that their tax functions **highly operate on technology solutions**.

02

Eighty-five percent organisations with a **turnover of INR 3,000 crore and above** reported **high or significantly high** use of technology in their tax functions.

03

Meanwhile, **14 percent** respondents have **low technology use within their tax function**, signalling that the adoption of technology in the tax function is still not universal, especially amongst **relatively smaller companies**.

Question: How would you rate the use of technology and automation in your tax function?

The Deloitte perspective

01

Large organisations report greater use of technology: Respondents from larger companies reported very high use of technology in their tax function, whereas the adoption of technology in smaller companies was comparatively lower. As discussed earlier, while smaller companies are in Phase 1 or Phase 2 of their tax technology journey and are using TDS compliance tools and, possibly, a litigation management system, larger organisations have moved beyond and are in Phase 3 (very few are in Phase 4) where they are exploring customised solutions to address their needs in the tax function.

02

Income-tax automation is yet to be explored in depth: Unlike GST, corporate income-tax automation is at a relatively nascent stage and is yet to reach its full potential. This will happen with a bit of a push from the tax administration and some pull from companies that see the benefits in automation and the use of technology. For example, organisations today are focussing on tax-sensitised ERPs to ensure their compliance requirements around the preparation of Form 3CD, assessment responses, TDS compliance, etc., are automated, and less time and effort is spent in these areas. Another avenue that large Indian-headquartered groups are looking at is the use of global tools for managing compliance across countries—one such example is the implementation of tools for global tax provisioning.

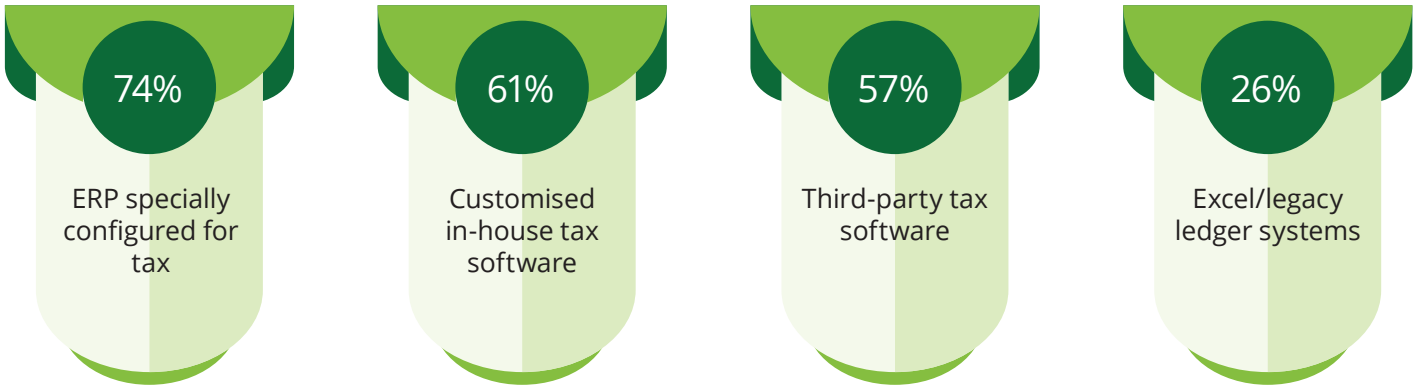
03

Use of technology beyond compliance: With companies realising the benefits of automation and technology, the importance of technology in tax is spiralling and organisations are looking to use technology in tax beyond mere compliance. The next phase would see companies adopting cutting-edge data analytics and using AI/ML in tax to drive strategic insights for businesses.

Tax technology in use

All companies with turnover in excess of INR 3,000 crore rely on ERPs as primary systems for tax compliance

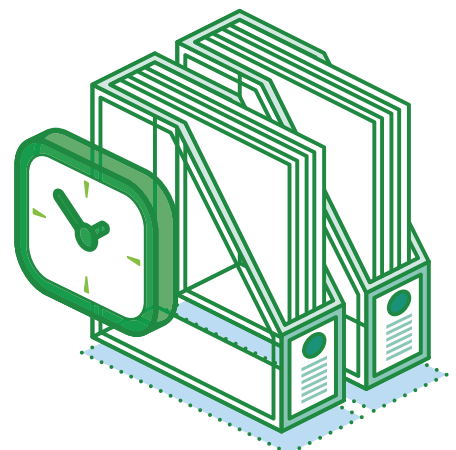
Different systems for tax compliance



Multiple select

- 01** **Three-fourth of all respondents** are utilising **pecially configured ERPs** for tax compliance; interestingly, **every company** with a **turnover over INR 3,000 crore** uses **ERP** as one of the primary systems for tax compliance.
- 02** **Tax software, either customised or third party,** figures **very high on the list of systems used for tax compliance.** Tax software is **effectively used by all organisations** across the board for tax compliance.
- 03** The importance of **Excel and other systems is relatively low;** only 26 percent respondents indicated their usage for tax compliance.

Question: What systems are in place that you use for tax compliance?



The Deloitte perspective

01

Increased use of tax-sensitised ERPs: Companies are employing specially configured ERPs as one of their primary systems for tax compliance. The importance of tax-sensitised ERPs is going up significantly, and tax functions will have a key role to play in ERP implementation or modernisation projects going forward. Some examples where tax-sensitised ERPs are being used include the preparation of Form 3CD, assessment responses, and TDS compliance.

02

ERP configurations: Indian-headquartered groups have more flexibility in configuring ERPs based on Indian tax rules, as against groups headquartered outside India, as they sometimes implement global instances, do not have India patches, etc. Indian entities of overseas multinational groups take far longer to implement changes, such as new TDS rules in their ERPs. This ties in with the suggestions indicated earlier that the administration may provide at least 6-8 months to organisations to implement suitable processes for better compliance with TDS/TCS changes.

03

Move from the tax software to ERP: With evolving tax laws and frequent changes in the compliance/ reporting forms and processes, making ongoing changes to the ERP system may become cumbersome for relatively smaller organisations. Hence, smaller organisations primarily rely on third-party tax software for managing tax compliance. This is however likely to change in the next 3-5 years when organisations start realising the potential of tax-sensitised ERPs.

04

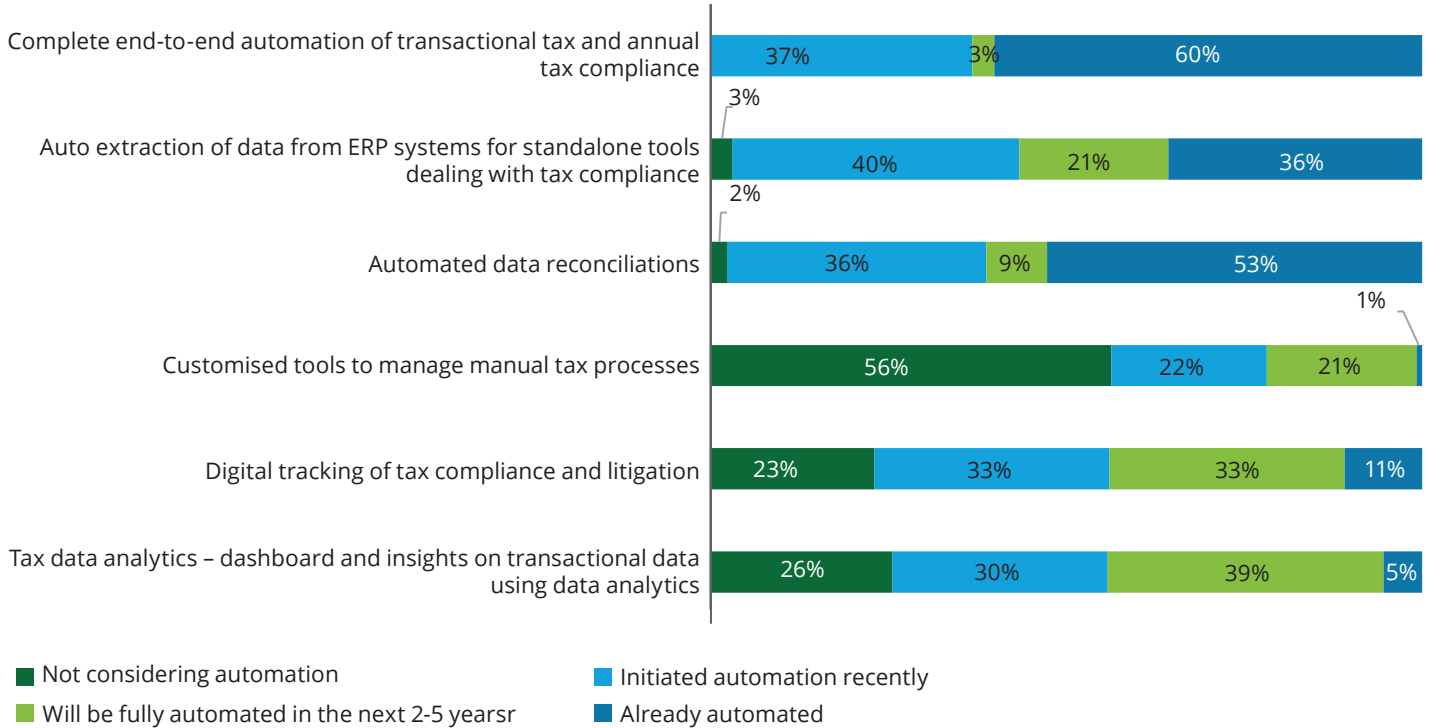
Evolution from spreadsheets to technology tools: It is evident that reliance on spreadsheets (the cornerstone of tax compliance for decades) is on the decline; only 1/4th of the respondents are still using spreadsheets for tax compliance.

05

A new era for tax technology: To sum up, use of technology in tax has graduated from spreadsheets to basic TDS and income-tax return tools and has since, evolved to a stage where various solutions, such as tools for litigation management, tax compliance trackers, TDS data reconciliations, data extractions from ERP, tax provisioning tools, tax audit report tools, are available. Coupled with the trend of solutions being available in the market, organisations are also taking up specific and customised automation, including implementing tax-sensitised ERPs—this is just the beginning of the journey of technology in tax.

Status of automation in specific areas

Most companies have automated transactional tax, annual tax compliance, as well as data reconciliations



01 It is heartening to note that **60 percent** companies have **completed the automation for transaction tax and annual tax compliance**, and the **rest** are in the **process of doing so**.

02 Similarly, **53 percent** companies have **automated data reconciliations**, whereas **45 percent** are on the **path of automation**.

03 **Data extraction from ERPs** is another **key area that has been picked up for automation** by organisations.

04 **Digital tracking of compliance and litigation** and **tax data analytics** has received a mixed response overall, wherein **larger companies are more keen than relatively smaller companies**.

05 **Customised tools for tax processes** do not appear to be **high up** on the overall agenda for organisations; however, **larger organisations are gearing up for it**.

Question: Please mention the status of automation in the following areas in your company.

The Deloitte perspective

01

Different facets of automation: While organisations have automated transactional taxes, annual compliance, and data reconciliations, and are progressing towards data extraction, the next level of automation and use of technology will be where these areas combine as a unified solution involving data extraction, data reconciliation, the wrangling of data and computations, ultimately leading to real-time tax filings.

02

Customised solutions for data: Once organisations realise the benefits of using technology in tax compliance, they are more likely to explore customised and intelligent solutions to address their specific challenges and pain points. Such customised solutions primarily centre around data as the data for each organisation is unique.

03

Increased focus on tax analytics: With the administration gaining insights through data analytics and triangulations, we are witnessing organisations starting to focus on tax analytics. This will increase significantly in the coming years. Tax analytics will evolve from simple dashboarding to predictive and prescriptive analytics. For example, based on historical trends and outcomes of litigation, organisations may be able to optimise their advance tax payments and will neither overpay (resulting in returns) nor underpay (leading to high-interest costs, which may not be tax deductible).

04

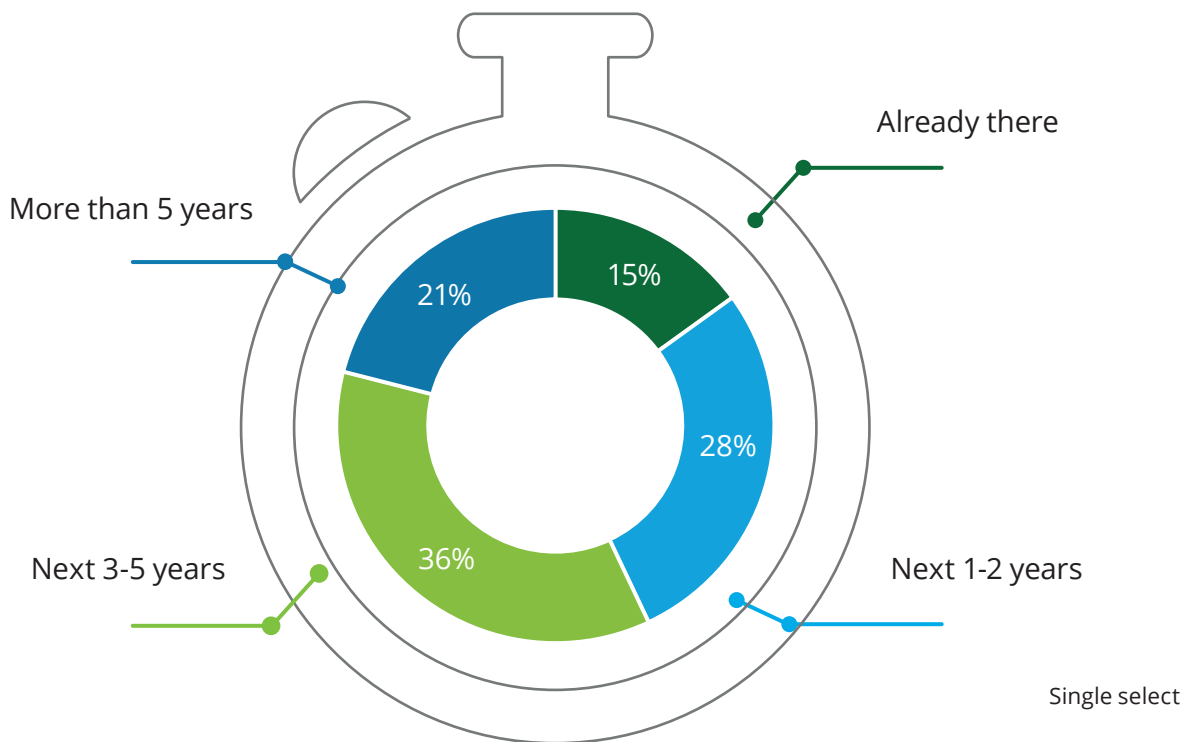
Growing user base of third-party tax technology software: Larger companies are relying significantly on third-party software for managing and tracking compliance and litigation; it is a matter of time before relatively smaller companies follow suit. In the longrun, having control over data is going to be critical. At the click of a button, taxpayers will be able to know the amount locked in litigation, where the bottleneck is in getting their cases heard, the demand payable to or refund due from, the tax department, etc.

Future of technology in tax

Transforming into a technology-driven tax function

Over next five years, ~4/5th of the companies surveyed, expected to transform tax function into a technology-driven function

Transition time to become a technology-driven tax function



01

Seventy-nine percent companies believe that their internal tax functions will be **technology-driven in the next five years**.

02

Thirty percent respondents from companies with a **turnover in excess of INR 3,000 crore** believe that their **tax function is already technology-driven**, and another **42 percent** believe that they will achieve this in the **next 1-2 years**.

03

Only twenty-one percent companies believe that it will take **more than five years** for their **tax functions to be technology driven**.

Question: Within what time do you see your internal tax function transforming into a technology-driven tax function?

The Deloitte perspective

01

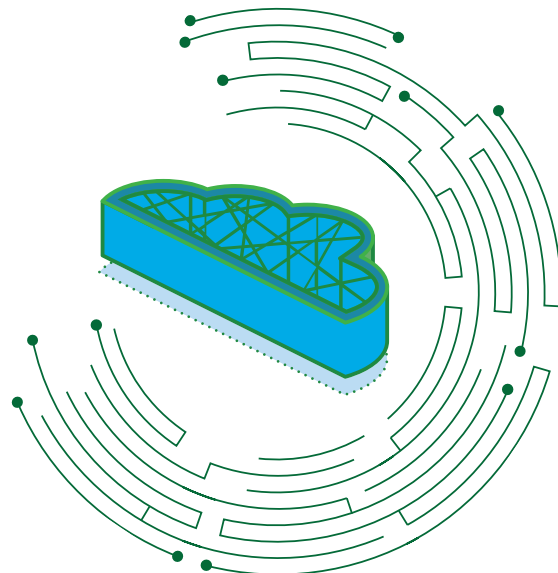
Technology-driven tax function: There is a direct correlation between the size of the company and its tax technology journey. Relatively larger companies are already or will be technology-driven, quicker than smaller companies. While this is an expected outcome, it is interesting to note that 64 percent of all tax functions in companies (large and small) are intending to be technology-driven in the next five years. Taxpayers are increasingly recognising the importance of technology in tax, with 15 percent of tax functions of organisations already being technology-driven. The next five years are going to be a game-changer for technology in tax.

02

Emerging talent in tax technology: An interesting outcome of technology adoption in tax is that a new niche category of “tax technology professionals” is emerging. Larger organisations have “tax technology” roles within their tax function, while smaller ones are ensuring that their teams spend some portion of their time on tax technology. This is an evolving phenomenon, but in the long run, tax technology professionals will have a significant role to play in the tax function of any organisation.

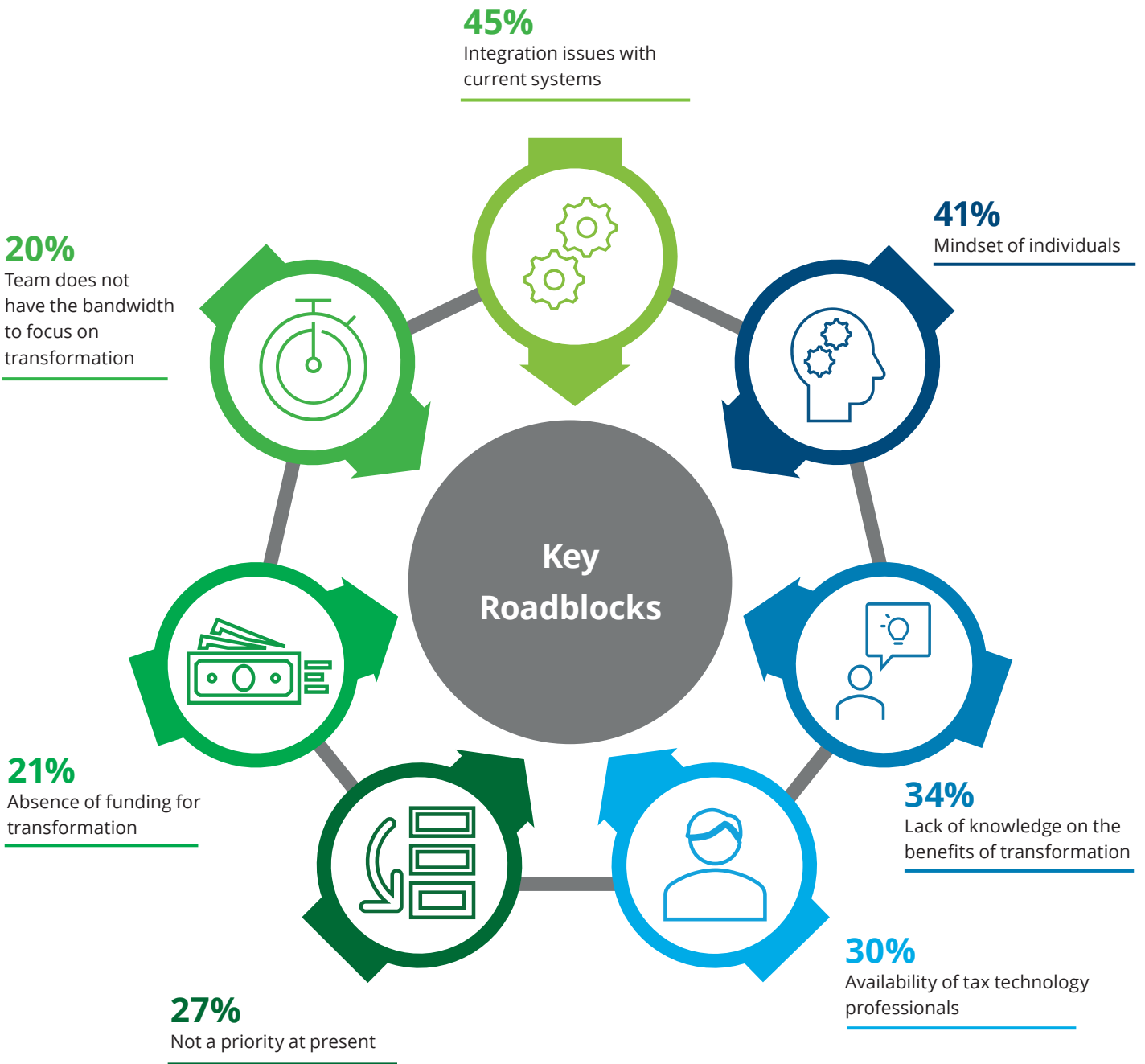
03

Future of tax function must be tech-enabled: The use of new-age technologies, including AI/ML and blockchain are at a nascent stage. Their use is likely to increase dramatically over 3-5 years. As mentioned, this will be the catalyst for technology in tax to be used beyond compliance. Tech-enabled and transformed tax functions are no longer “good to have” but a “must have” attribute for organisations.



Key roadblocks to transformation

Integration issues with current systems, mindset of individuals are major impediments to transformation



Question: What are the key roadblocks (select up to 4) in the transformation of your tax function?

The Deloitte perspective

01

Accelerating change: Changing mindsets of individuals is one of the top two roadblocks identified by all companies, regardless of size—change management is the need of the hour; this is a global phenomenon and not restricted to India. Respondents from companies with turnover exceeding INR 6,400 crore, identified lack of knowledge on benefits of the transformation as a major roadblock (in addition to mindset change). Both roadblocks are “people” issues and not “technology” issues. Organisations should run a change management programme for technology adoption in tax.

02

Integrating technology: The largest impediment to technology adoption is integration with current systems. The need is seamless connectivity between source systems (ERP), middleware (tax software), and tax portals for filing. The link between source systems and tax software needs to be resolved by tax technology specialists. The end-to-end integration will only happen if government portals are more “open”, and it is possible to connect with them using APIs.

03

Building tax budgets: In addition to changing mindsets and on integration issues, absence of funding for transformation is also a roadblock identified by relatively smaller companies, which are just beginning with their tax technology journey. Once the benefits of technology are realised, such roadblocks may also be taken care of.

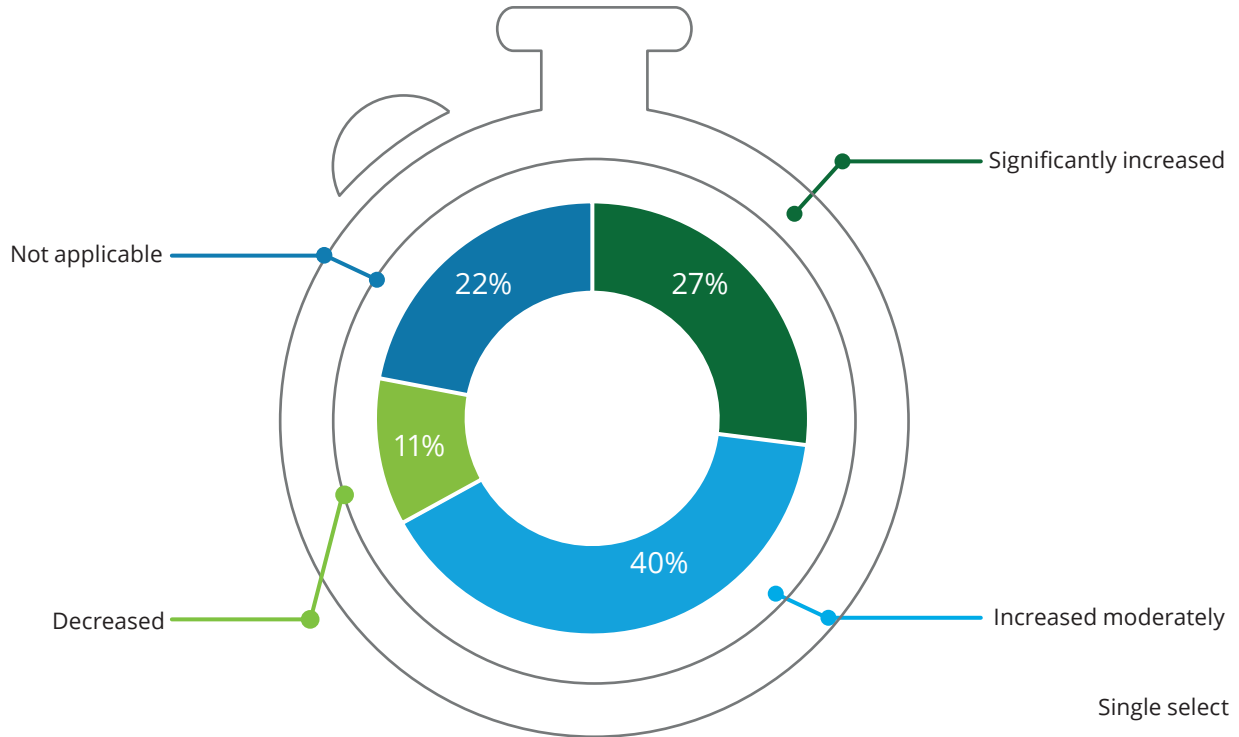
04

Developing skill and talent: Overall, the lack of team bandwidth to focus on transformation, the absence of funding for transformation, and the lack of priority are perceived to be smaller roadblocks to tax function transformation. Once the people issues (especially around mindset change) and technology integration issues are resolved, the adoption of technology in tax will be exponential.

Budget for tax transformation and automation in FY23

More than 2/3rd respondents indicated increase in budget for tax transformation and automation

Change in budget



01

Fifty-two percent respondents from companies with a **turnover in excess of INR 3,000 crore** reported a **significant increase in budget for tax transformation and automation.**

02

Sixty-seven percent of respondents reported an increase in the budget for tax transformation and automation.

03

Nearly half of the respondents from organisations with a turnover up to INR 3,000 crore mentioned that their budget for tax transformation increased moderately.

Question: How has your budget for tax transformation and automation opportunities for FY23 changed, in comparison to FY22?

The Deloitte perspective

01

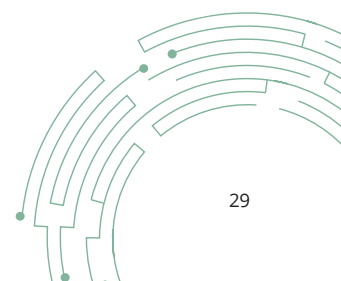
Increased budgets for tax transformation: Relatively larger companies are leading the way with 82 percent companies with a turnover of INR 3,000 crore or more, reporting increased budgets for tax transformation and automation. Relatively smaller companies are also increasing their spending on tax transformation and automation, with 57 percent respondents from companies with a turnover less than INR 3,000 crores indicating an increase. Overall, the sentiment is upbeat around tax technology.

02

The initial period of transformation requires higher investments for setting up technology systems in tax (which is being witnessed today). Once the technology solutions stabilise, it is expected that the overall costs may go down, as only operational and enhancement costs would arise (without any significant capital investment). Setting the base for a technology-enabled tax function is where maximum investments need to be made.

03

IT functions are aiding tax functions on tax transformation projects: Traditionally, the budgets for the tax function within an organisation primarily resided with the Chief Financial Officer. With the tax function adopting technology, Information Technology departments are also becoming key stakeholders in the digitisation initiatives of the function. Interestingly, in many organisations, the budgets for all technology projects lie with the Chief Technology Officer. CTOs are therefore playing an important role in the funding and budgets for tax transformation and automation.



Connect with us

Rohinton Sidhwa

Partner
Deloitte India
rsidhwa@deloitte.com

Pritin Kumar

Partner
Deloitte India
pkumar@deloitte.com

Contributors

Dilip Sutar





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

This material is prepared by Deloitte Touche Tohmatsu India LLP (DTTILLP). This material (including any information contained in it) is intended to provide general information on a particular subject(s) and is not an exhaustive treatment of such subject(s) or a substitute to obtaining professional services or advice. This material may contain information sourced from publicly available information or other third party sources. DTTILLP does not independently verify any such sources and is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such sources. None of DTTILLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this material, rendering any kind of investment, legal or other professional advice or services. You should seek specific advice of the relevant professional(s) for these kind of services. This material or information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person or entity by reason of access to, use of or reliance on, this material. By using this material or any information contained in it, the user accepts this entire notice and terms of use.

© 2023 Deloitte Touche Tohmatsu India LLP. Member of Deloitte Touche Tohmatsu Limited