

Managing Tax

Balancing current challenge with future promise

Session 5

The Grand Hyatt, Singapore – 16 February 2017



Indirect tax
and
technology

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Overview

Overview

Snapshot of Current Environment

The prominence of indirect tax globally continues to grow, and with recent introductions and expansions in Malaysia and China, to be soon followed by India is becoming a greater regional issue.

Further, as the scope and the rate of these taxes grow not only has the regulatory burden grown but so has overall cost impact to businesses. Similarly, developments in free trade agreements pose similar challenges in relation to import duties

Tax authorities have also not stood still and have increased the focus and veracity of their audit activities – and we have seen the embracing of technology in the conduct of those audits. However, it is not purely limited to audit activities as we have seen authorities have required more data and information from taxpayers

The expectation of greater collaboration and cooperation amongst tax authorities would ensure that greater levels of taxpayer data would be available to assess and enforce compliance

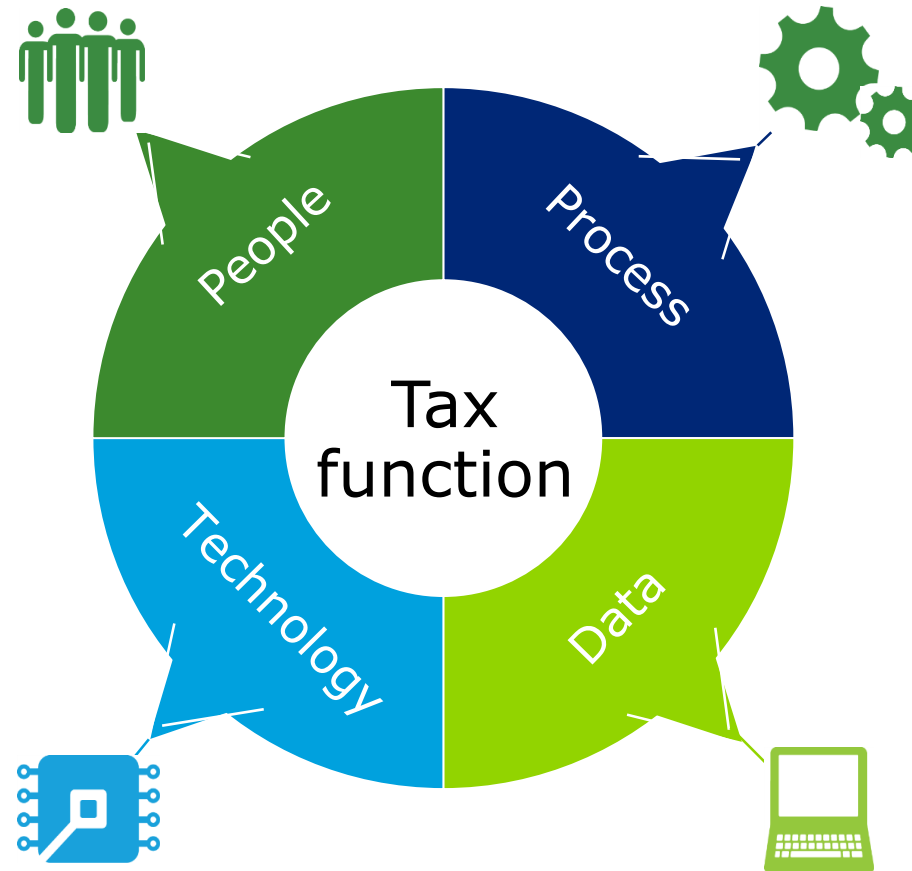
Increased reporting and audits means that quality and control remains a focus for indirect tax. However, the importance of process efficiency and value add will also increase

Technology and the tax function

Tax Function

- Core competencies
- Strategic use of business partners
- Tactical succession plans
- Value focused

- Online global calendar
- Centralized database
- Tax engines
- Reporting tools
- Centralized access rights
- Contingency mitigated

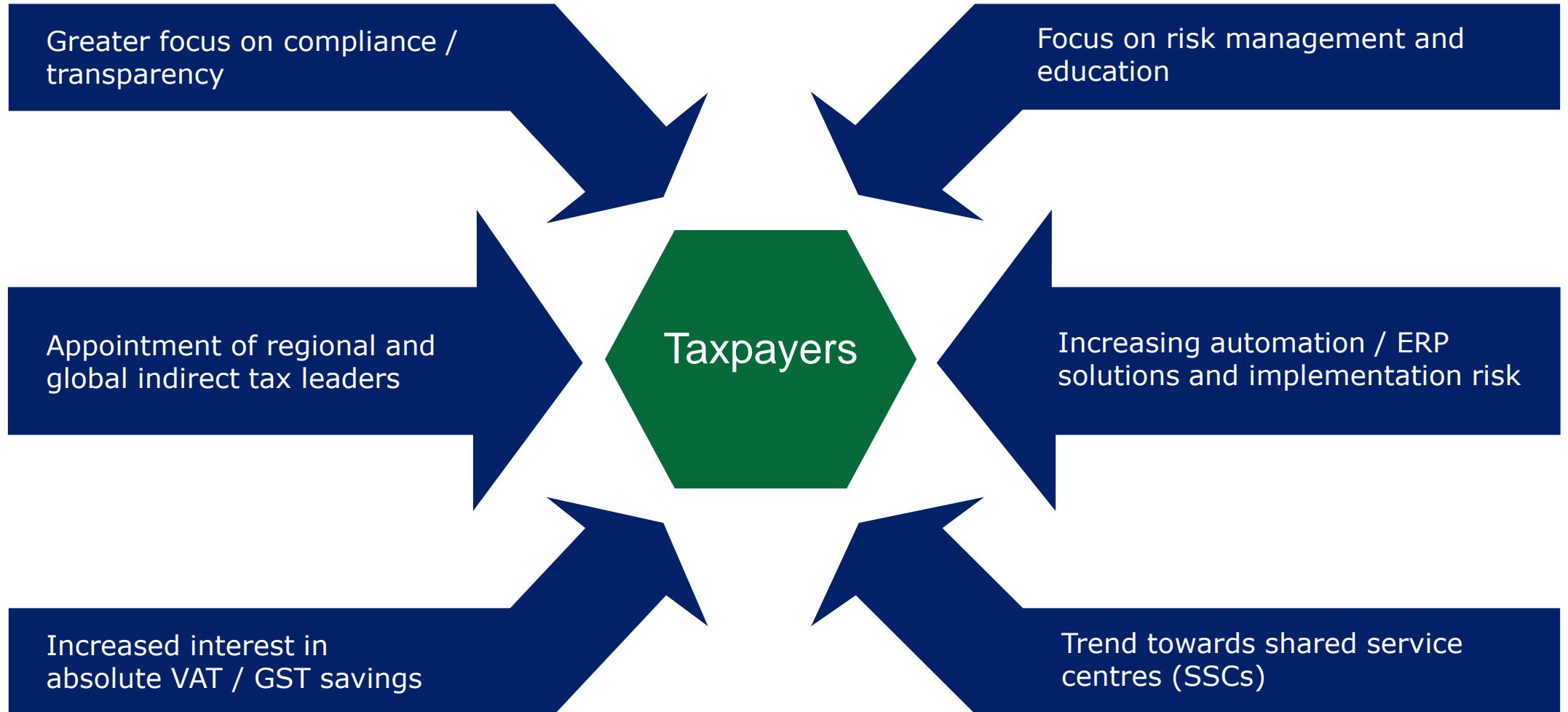


- Integrated workflow tools
- Integrated management
- Embedded performance measurement
- Online training
- Real time monitoring and reporting

- Central tax repository
- Automated validations, exception reports
- Online journal entry issue resolution
- Detailed data drill down features
- Audit and planning online data warehouse

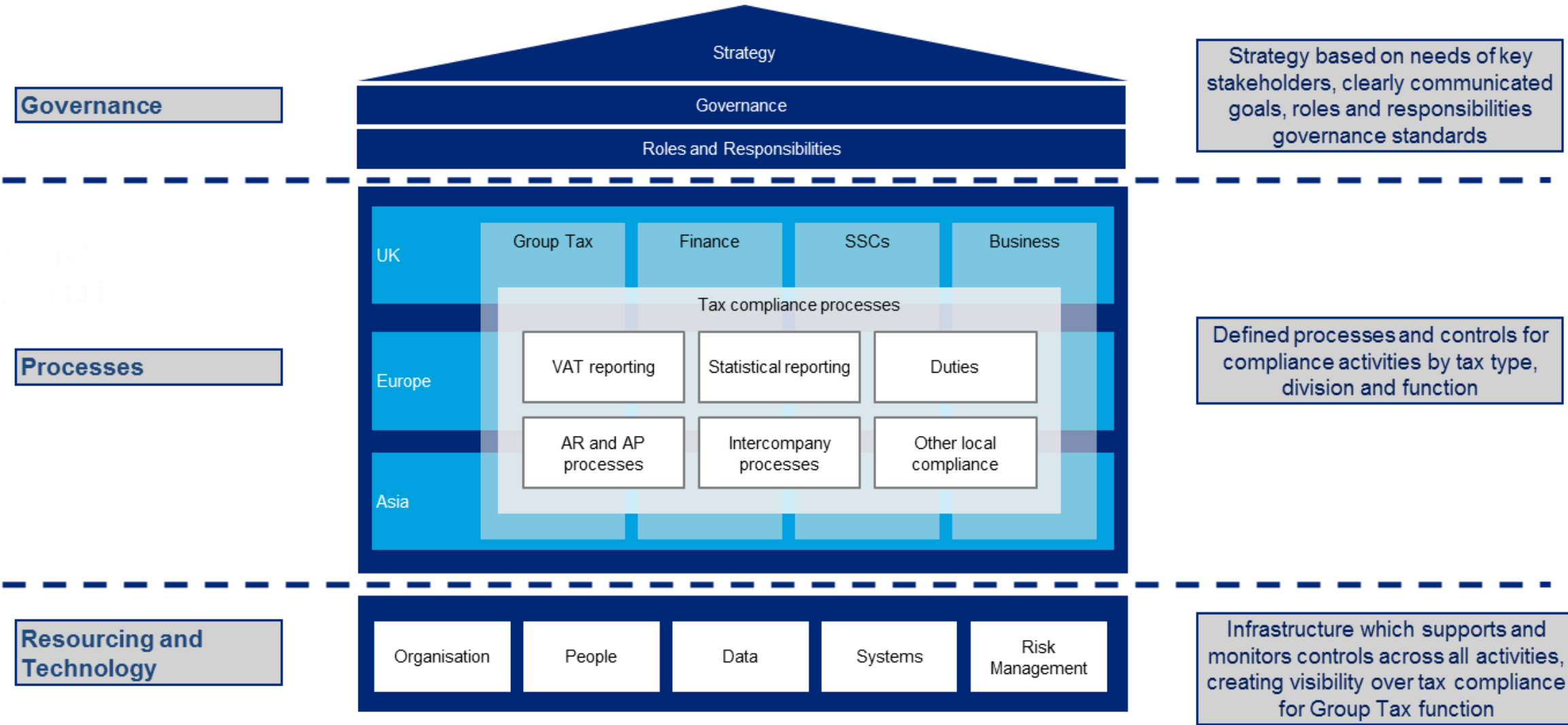
Today's indirect tax management environment

Drivers for taxpayers

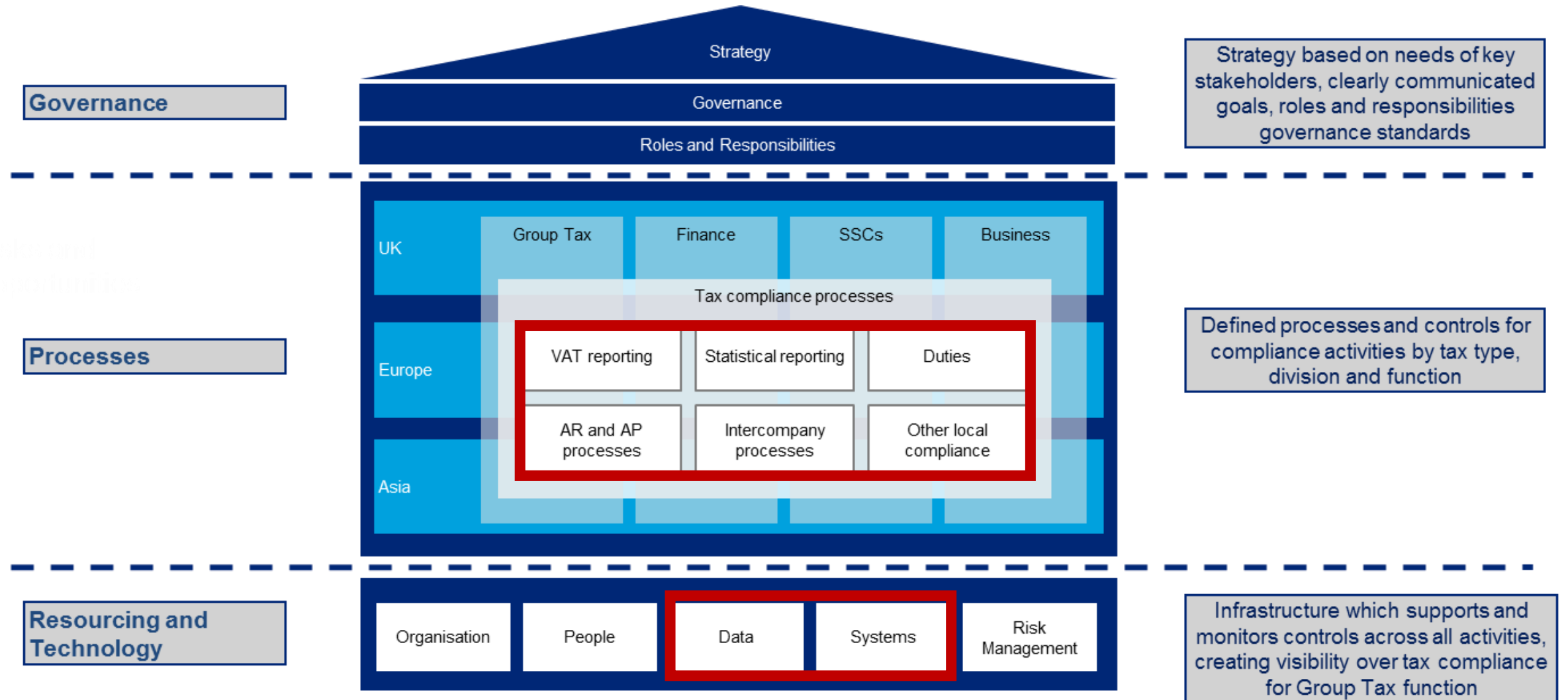


Operating model for VAT

The goal



Focus on systems and processes



Challenges for the indirect tax function

Although many taxpayers recognise the needs for operational efficiency and the benefits that technology can bring, many are unclear on the path to take.

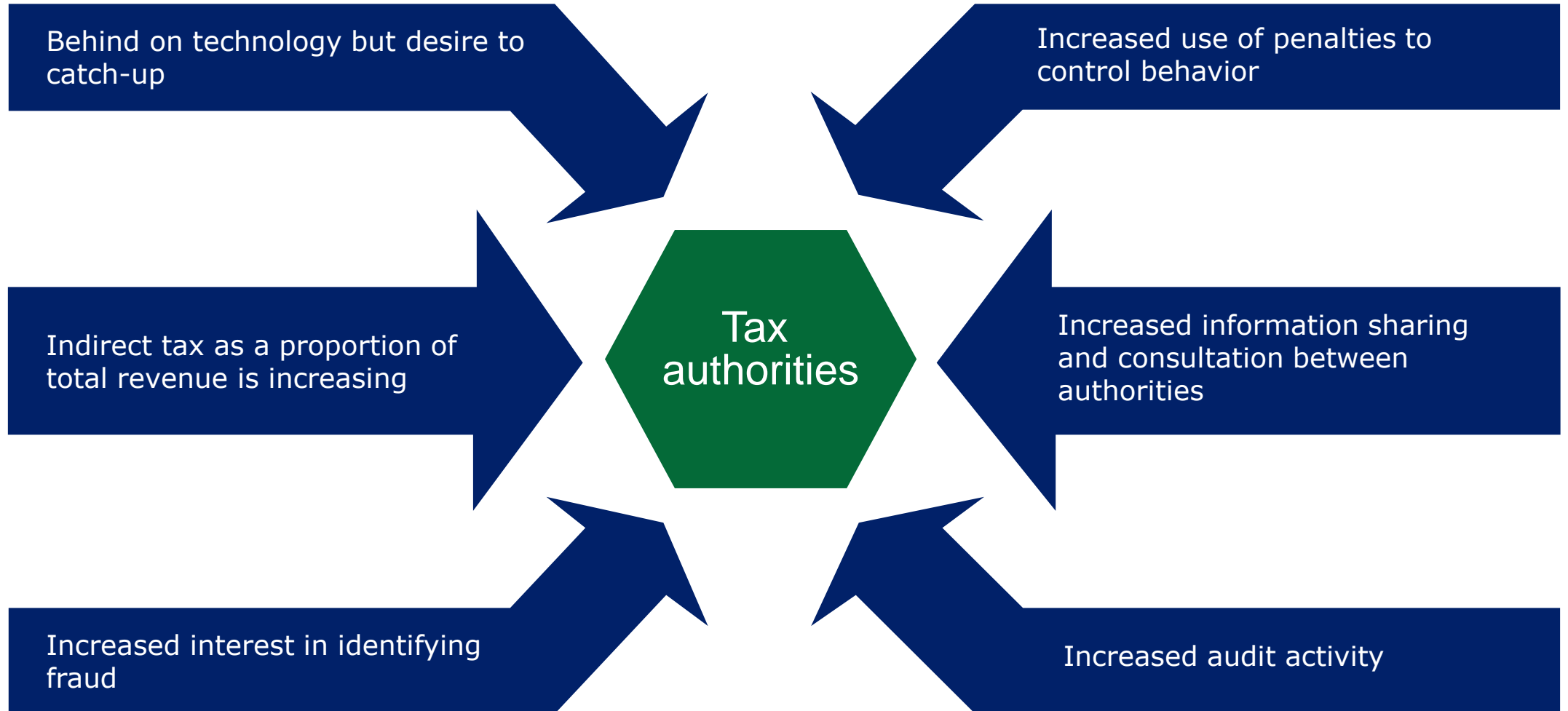
Some of the key concerns facing tax functions include:

- The timeframe to implement such projects
- Lack of adequate resources required to implement
- Lack of tax technical knowledge within the business to make appropriate decisions about the technology to implement
- Concerns about securing sufficient budget to invest in the right type of technologies

Technology and regulators

Today's indirect tax management environment

Drivers for tax authorities



How authorities have embraced technology

Australia

- Data analytics has always been an aspect of how the Australian Taxation Office (ATO) undertakes audits – in particular analysis of periodic return data
- Systems audits have been in place for some time

China

- Golden Tax System which aims at early prevention and data matching
- Possibility of audits to commence

Malaysia

- Data analytics is used in regular return reviews
- GST Audit File to lead to future e-Audits
- “dongle” for Retailers to capture real-time transaction data

India

- Invoice matching – sign of things to come elsewhere?

Tax Functions will need to evolve to keep up with regulators and to ensure that the indirect tax risk is adequately managed

Managing a systems implementation

Key considerations

Before

- What are the requirements? Have these been understood and communicated?
- Architecture - where are VAT decisions going to be made on sales, purchases, expenses, etc?
- Customisation vs. standard functionality vs. 3rd party tools
- What processes are needed to support the system?

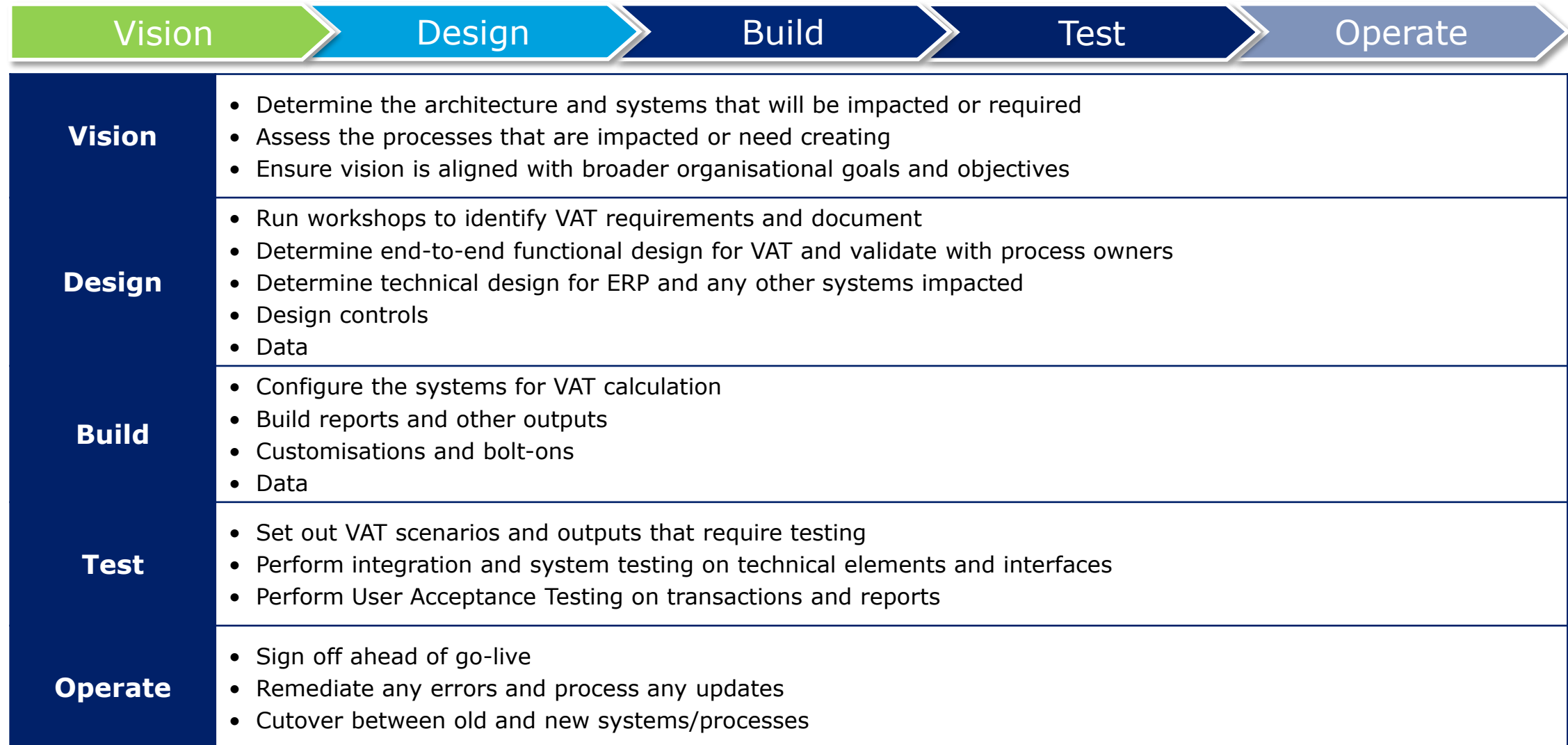
During

- Who owns VAT during design, build, testing and go-live?
- What skills and knowledge are required at each stage?
- What scenarios and reports need to be tested before go-live?
- Communication with process owners and other stakeholders is key

After

- What training and support do the team need?
- Are the supporting processes efficient and well-controlled?
- Maintenance / housekeeping requirements – extent and ownership
- Continuous improvement

What is the VAT implementation process



ERP system impact

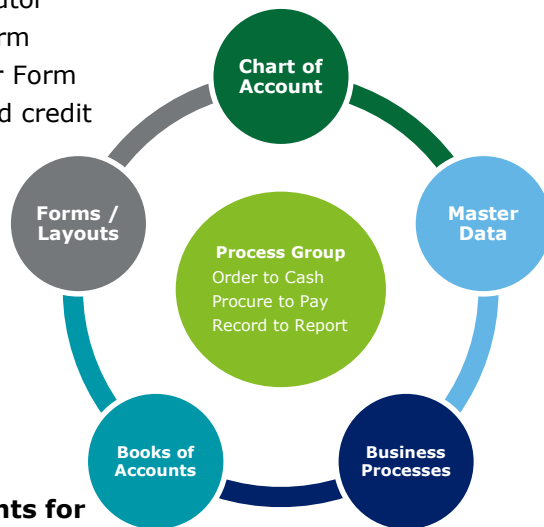
Multiple aspects will be affected by the VAT regime

Forms / Layouts

- Tax Invoice
- Bill of Supply
- Invoice by Input Service Distributor
- Sales Order Form
- Purchase Order Form
- Debit Notes and credit notes

Chart of Accounts

- New G/L codes
- Account determination



Master Data

- Registration details and place of business
- Tax categories, Tax codes
- Access Sequences

Books of Accounts for each place of business

- Production or manufacture of goods
- Inward supply of goods / services
- Outward supply of goods / services
- Stock statements
- Details of input tax credit
- Details of output tax payable

Business Processes Impacted

- Registrations
- Sales and purchases of goods and services, Stock transfers, Debit notes, credit notes, reverse charge, input service distribution etc.
- Tax payments, Filing of e-returns
- Processes handled in peripheral systems (CRM, SRM, Dealers Management etc.)

Migration to the new regime and changed system calls for a careful strategy

The transition to VAT will be complex, and changes in IT systems together with data volume involved cannot be underestimated. Key elements of migration are listed below:

Master Data having migration impact

- VAT registration details
 - Suppliers
 - Customers
 - Legal entity
 - Plants
 - Depots
- Item master
- Business partners
- Tax codes and condition records for taxes and pricing

Transactions having migration impacts

- Open purchase transactions
- Migration of long term contracts, service and maintenance contracts
- Open sales transactions and contracts, open customer quotations
- Debit notes and credit notes

Lessons learned from our experience

Consider the end-to-end solution

- Systems and data
- Processes and controls

Get the right balance of automation and flexibility

- Automate where possible, but 100% automation is rarely the right answer
- Keep it simple and flexible

Don't underestimate the timescales and skillsets required

- Large systems and process implementations are complex and take time
- Having the right people and skills is essential – this is not just an IT problem

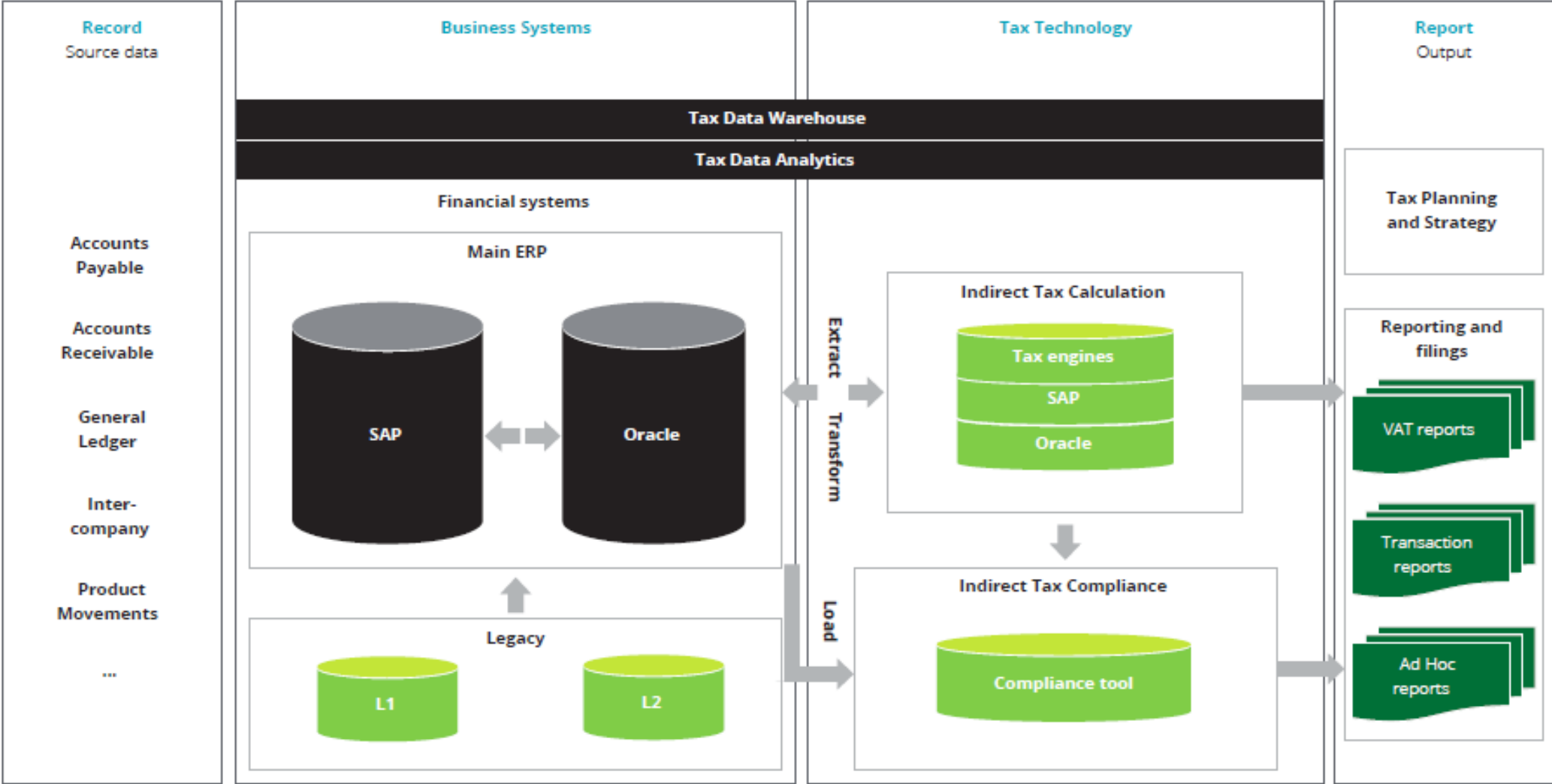
Communication, training, and change management are key

- Users need to the right knowledge to operate the systems and processes – not just Tax!
- Effective communication and change management underpin the best implementation

Effective indirect tax compliance

The components of effective VAT compliance

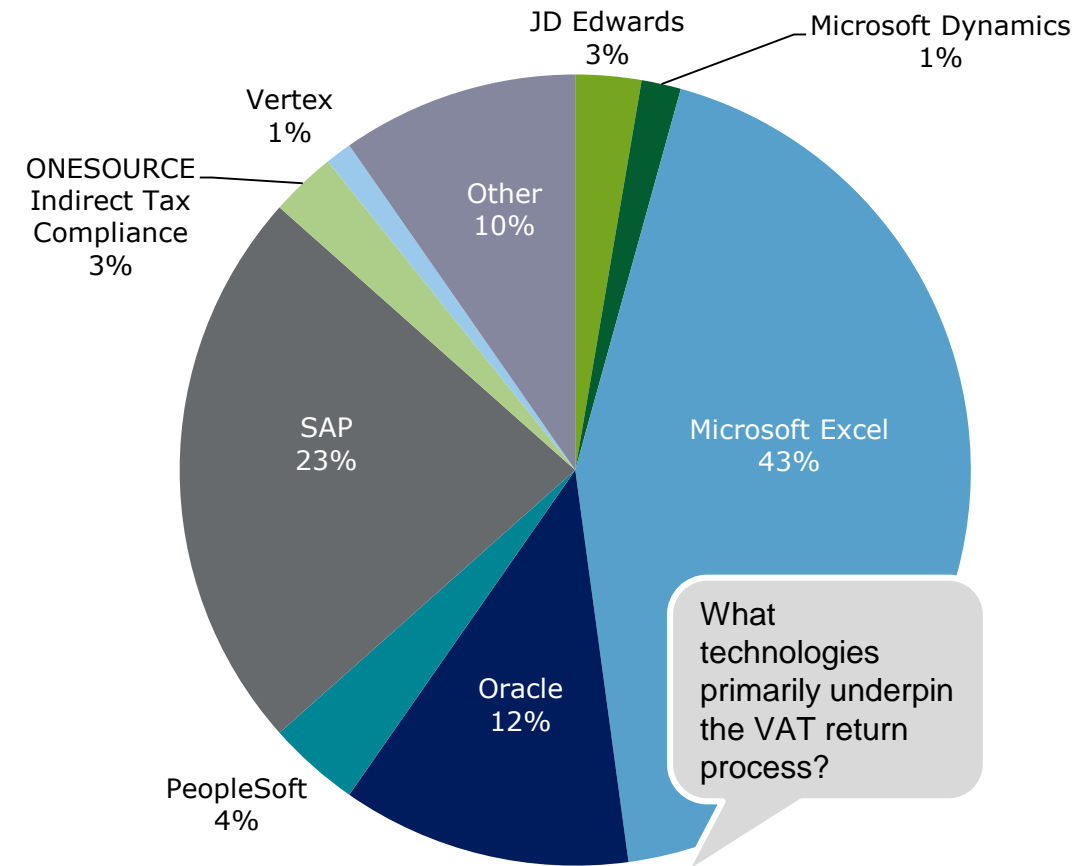
The 'end to end' Indirect Tax Technology Landscape



VAT compliance technology

VAT compliance technology market still evolving:

- A few more 'international players', although plenty of room for more!
- Differing views on how much integration with the source financial systems is needed
- Still a lot of excel automation being offered in the market
- No solution does it all... yet
- The systems for managing the tax process, KPI data and document management are becoming 'standard' in many Tax functions, but adoption and approach vary from group to group.
- Businesses are likely to approach VAT compliance in one of three ways:
 - Utilize tools already available to them
 - Invest in third party solutions
 - Outsource the process rather than handle internally

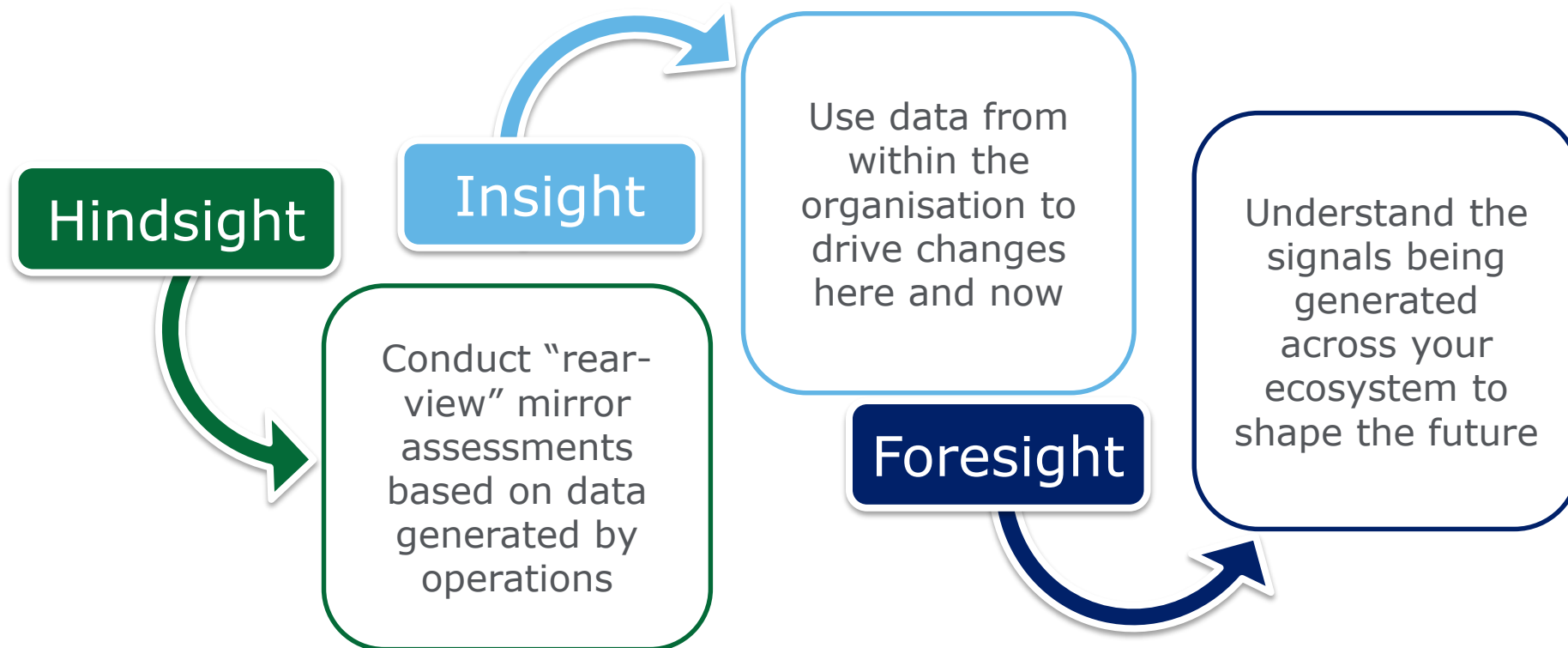


Data analytics in indirect tax

Data analytics – definition

Standard definition:

“Analytics is using data to generate insights to make smarter decisions that improve performance of businesses and drive strategy to outlast the competition.”



Indirect tax data analytics

Indirect Tax Data Analytics benefits businesses seeking to:

- Enhance insight into their indirect tax position
- Establish performance predictors and benchmarks to support a Tax Control Framework and associated fact based tax approach
- Identify and analyze opportunities to manage tax liabilities
- Manage risk through automation of analysis and enhanced cash flow management

Indirect tax data analytics

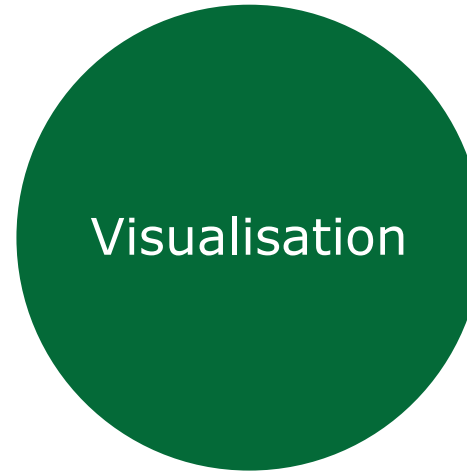
Data Analytics can help businesses:

- Automate analysis and tracking of global indirect tax at a transactional level
- Detect patterns and reveal insights from key data through interactive visualizations and dashboards
- Detect risks and opportunities and help identify ways to manage cash flow
- Perform tax benchmarking between entities or VAT registrations to gain deeper insights into tax processes and profiles

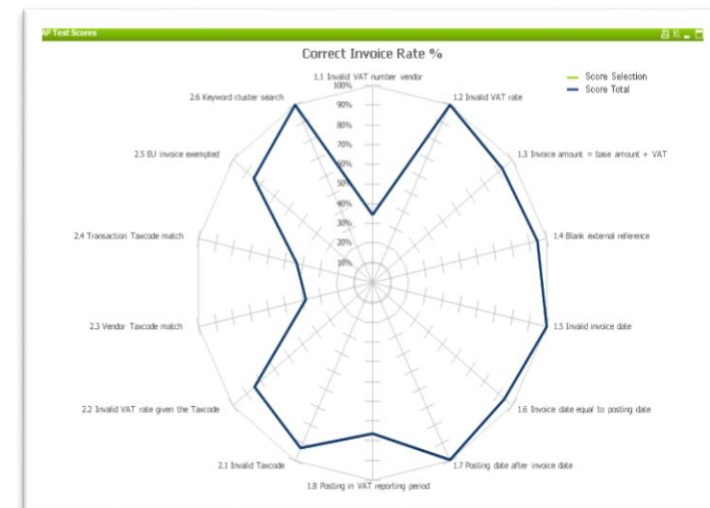
Data analytics visualization



Data



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Panel discussion



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