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New rules call for new actions: Tax authority mandates drive disruptive change

March 2017

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New rules call for new actions: Tax authority mandates drive disruptive change

Businesses comply—and find value—by deploying innovative tax technologies

A day in the life of regulatory-driven disruption

Today in Australia, the owner of a local coffee shop electronically sends a required report to the government tax agency by clicking "prepare" and "submit" on her mobile phone's business tax app.

In The Netherlands, the cloud-based system of a multinational bank prepares transaction-level digital records that are directly uploaded to the tax authority, instantly reflecting the tax rules and rates of multiple jurisdictions.

And in Brazil, the tax administration analyzes the data of a local automotive supplier, calculates the tax they determined it owes, and sends the company a notice of the payment due.

Businesses of the world, take note. If you're not already experiencing developments like those described in the blue box, you will soon.

As governments look for ways to enhance revenues, speed up both data and monetary collections, lower costs, and reduce tax avoidance and corruption, they are turning to innovative technologies that involve the digital collection and analysis of tax data. The levels of sophistication vary greatly by country, but the trend is clear. Governments are going digital at a rapid pace. Companies have no choice but to match this pace of change and comply—or face stiff penalties.

While driven to respond, businesses are also finding substantial benefits can accrue as they deploy new tax technologies, including lower costs, reduced risk, and enhanced data integrity. In many respects these developments are allowing tax departments to get out of the data collection business and focus on what the data *means*. Indeed, technology enables better insights and strengthens the link between tax and the rest of the organization, allowing the tax function to make a strategic contribution to the business.

With innovative technologies being more accessible—and more affordable—than ever, governments find technology solutions a cost-effective way to do more with less and are enacting mandates that require changes well beyond simple e-filing. Businesses, forced to keep pace, are also finding a growing confidence to change as they discover new opportunities while migrating to the digital world.

Is your company ready?

Tax gets tech-savvy

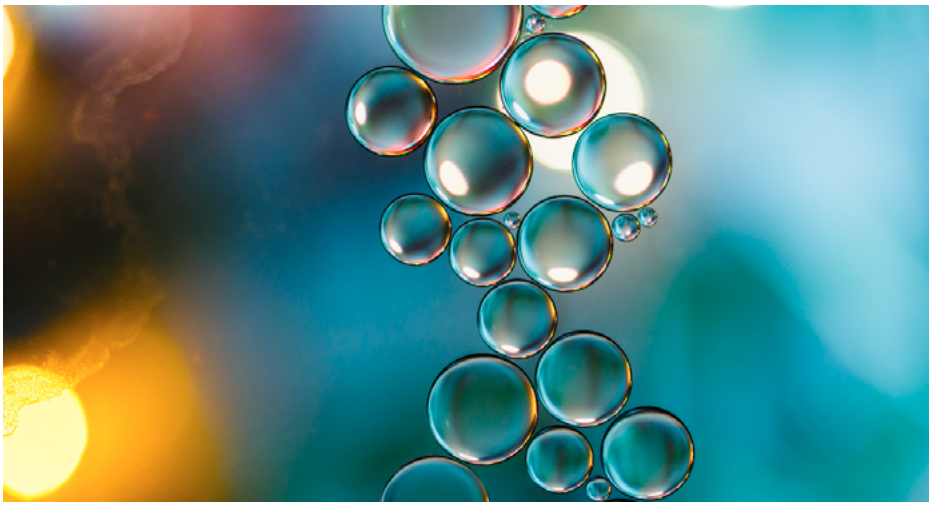
Many companies have traditionally prioritized investments in customer-facing or product-based technologies over those that support back-end processes like tax compliance and reporting. As a result, many corporate tax departments have not had the funding to explore and deploy leading-edge technologies.

But governments' rapidly-evolving digital mandates are now putting pressure on historic tax processes and serve as a call to action to drive innovative technologies through tax. Companies will need to be able to respond swiftly to new requirements that will include:

- Automated collection of tax returns and information
- Direct access to company source data
- Transaction-level data submitted in real time or almost real time
- Matching data between vendors and customers
- More timely and frequent tax authority examinations which will leverage technology and digital data to gain greater insight into business processes and overall compliance levels across the organization
- Ancillary obligations and information requirements beyond tax

In this new world, data integrity will be more critical than ever. Companies will need to accurately record the tax component of every transaction for government reporting, throughout the production, distribution, and consumption chain. Capturing and reporting that data quickly and correctly will be key to compliance. This will also provide authorities with significantly more data about the overall business operations that may ultimately be used for other purposes or as a further check against the consistency and accuracy of the organization's reporting in other areas.

Before exploring how companies can heed the call to transform—and start to realize the resulting benefits of accessing and digitizing facts and figures that were previously buried deep in their information systems—let's take a look at what's driving tax authorities and related trends around the world.



The point of no return

Pun intended. Tax authorities have traditionally captured data after the fact in prescribed sets of tax forms that were mailed or, now, e-filed. Businesses spend significant amounts of time retrieving and reconciling data to complete and submit the forms. But tax authorities are increasingly leveraging more affordable and accessible technologies in a scalable and fresh way—and as they do so are enjoying the benefits of more frequent reporting intervals and more accurate revenue collection. There is no turning back this trend.

The global focus on tax transparency is also a major development driving authorities' and businesses' move to digitize. In response to recent initiatives of the Organization for Economic Cooperation and Development (OECD), multinational companies have already "opened their books" and increased their level of reporting to global tax authorities. The OECD's Country-by-Country Reporting recommendations, which require multinational enterprises to provide an annual report detailing key elements of their financial statements by jurisdiction, not only increase a company's transparency, but encourage greater cooperation between country tax authorities around the world. This cross-country data sharing will help tax authorities improve audits and investigations. Similar data trends have driven the US Foreign Account Tax Compliance Act (FATCA) reporting and the OECD's Standard Audit File for Tax (SAF-T) which provide tax authorities further access to global business data.

When it comes to embracing and enforcing the use of new technologies, country tax authorities are at different stages, with some, like Brazil and Russia, out front, and essentially preparing corporate tax returns themselves by directly accessing company data. Some developing countries, such as Estonia and Kenya, are deploying innovative tax technologies leapfrogging larger and longer established authorities. In much the same way as they bypassed landline networks and jumped directly to mobile telecommunications, they are implementing tax requirements that are digital from the start.

Thriving in the digital regulatory environment

Working with clients around the world, Deloitte has identified some common themes related to governments' changing requirements and the digitization of tax:

- **Frequency of data reporting**. Many reports are now due monthly rather than annually. Companies that complete these manually will struggle due to the frequency and shorter time between due dates. From a business process perspective, more frequent reporting creates a need for more frequent reconciliations and responses to inquiries to explain variances earlier in the process. A manual approach to this is unlikely to be sustainable.
- **Volume and increased level of detail of the data being requested.** Higher volume and more detail require more advanced financial systems or third-party tax solutions to produce the required tax reports. As much as possible, it is best to draw data directly from the core financial system mapped to a third-party solution or localized enterprise resource planning (ERP) system to reduce more error-prone manual manipulation.
- **Format of the data being requested.** Complying with new data formats usually requires customization or configuration of ERP systems or customized reports.

Just as countries are at different stages of development in their use of technologies, so, too, are the tax departments of companies. While start-ups and smaller organizations tend to have more flexibility to build tax technology solutions to meet new or emerging requirements, more established companies often face significant change management issues as they must amend large legacy systems to align to new digital tax realities.

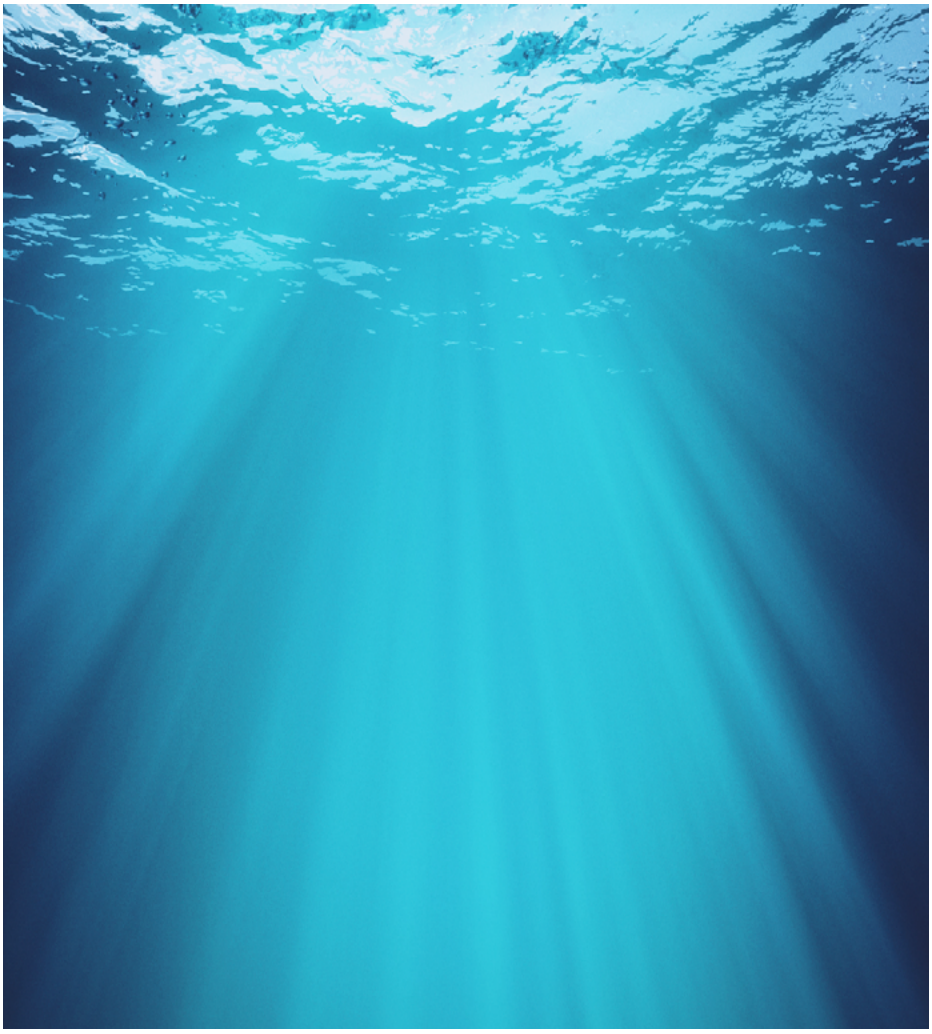
We also see that the answer often goes beyond technology. The necessary changes require a deep understanding of business processes, local data requirements, and resource capabilities in addition to technology readiness. It is important for organizations to assess their ability to nimbly respond to regulators' requests for increasing levels of detailed data and tax information, and then weave tax into the foundational structure of their platforms to meet the evolving business and regulatory requirements. In order to do this, organizations will need new skillsets in technology, process, data analysis, and risk management.

The time for tax technology and innovation is now. Deloitte can help.

Deloitte helps clients address their digital tax transformation by aligning skilled teams of tax, technology, and tax technology professionals to develop a solution that is right for each company. Deloitte has knowledge and experience, a global presence, and alliances with third-party vendors and can help embed tax technologies into an organization's business processes to meet governments' digital demands—and deliver value. We take a holistic approach supported by detailed insights into implications by country/region, type of tax, and leading-edge tools and technologies.

Deloitte is also producing a series of perspectives to supplement this overview that will offer insights into the trends, opportunities, and challenges of disruptive technologies. We will examine topics as they relate to different regions of the world, tax types, and technologies. Planned first is a deep dive into regulatory-driven tax technology disruption in Latin America, as well as specific developments related to indirect tax and tax issues related to global talent deployment.

To learn more about how Deloitte can help your organization navigate the changing tax environment, view the suite of tax technology disruption perspectives on www.deloitte.com/tax.



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