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UK Indirect Tax Conference 2015

Automating Indirect Tax Compliance

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What we will cover today

Setting the scene

Step 1 – Understanding the problem

Step 2 - Outline current indirect tax compliance trends

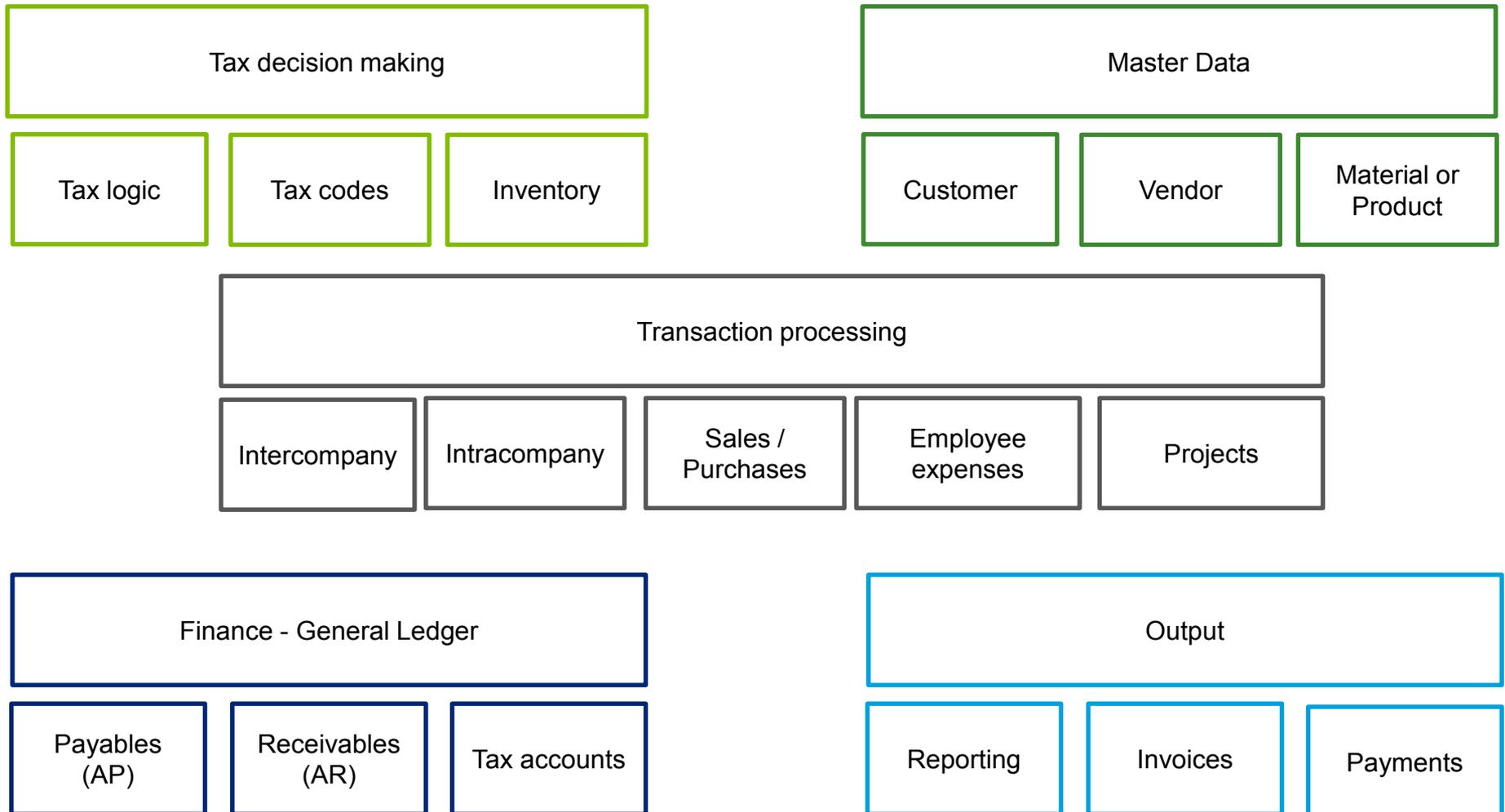
Step 3 – High level review of available systems to automate and produce return

Step 4 – Benchmarking

Step 5 – Concluding thoughts and Q/A

The building blocks

All accounting systems have the same fundamental parts within one system



Why they matter for indirect tax

All the parts are important for indirect tax compliance and reporting:

General Ledger

The book of record – source of VAT and statistical returns

Receivables (AR)

Output tax liability and invoice production

Payables (AP)

Input tax liability and invoice retention

Intercompany

VAT groups, domestic and cross-border inter group transactions

Inventory

Goods movements, classification of goods/products

Projects

Supply of services, contracts, continuous supplies

Employee expenses

Liability of expenses, categories of expense

Tax codes

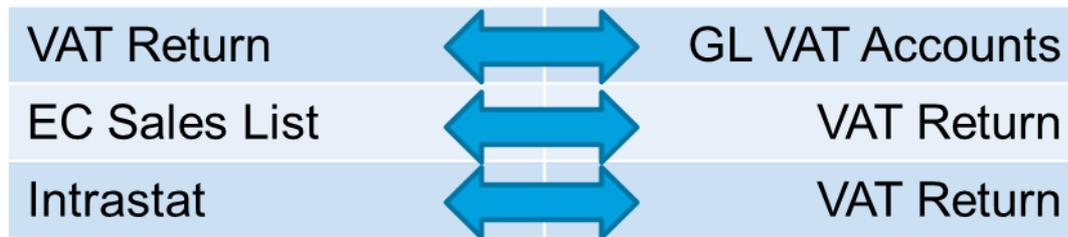
VAT rates, countries, date ranges, recoverability

Master data

VRNs, entities, addresses, liability of customers/suppliers

Setting the scene

- Reconciling indirect tax submissions is considered the **most important control** by both auditors and tax authorities
- Core reconciliations are:



- Lots of other additional local reporting requirements and therefore reconciliations to consider (eg Spesometro in Italy)
- < 5% of businesses have fully automated reconciliations
- **There is no silver bullet** – successful automation is based on understanding and improving the data sources and processes

The importance of getting it right

Are your reconciliations fit for purpose?



UK authority expectations (SAO):

- Utilise the “right people, processes and systems to manage taxes against policy/obligations”
- Work with wider finance and internal audits to ensure the process is being reviewed and tested
- HMRC challenging businesses on whether they have taken ‘reasonable steps’



Other tax authorities:

- Turnover reconciliations are becoming standard practice during VAT audits
- Tax authorities requesting source ERP data
- Authorities seek to use data mining software (IDEA, ACL, SAS) to automate much of the process

Our experience of moving towards automation

3 step approach

Step 1 – Understand the problem

- Which individual parts of the technology or processes are causing issues?
- Review the process



Step 2 - Identify a fix or solution for each item

- ERP and data fixes
- Workpaper fixes
- Process fixes



Step 3 – Implement the changes



Step 1 – understand the problem

“Our existing system doesn’t give us what we need”

A very common challenge from clients – the systems they have in place do not deliver the granularity, accuracy and reporting required.

VAT reporting

Reports are incomplete, inaccurate, or clunky to run

ECSL/Intrastat

Data is incomplete, reports are poor/unavailable

Automation

VAT liability decision is not automated and creates risk

Data quality

Data is missing or poor quality – VRNs, addresses

Reconciliations

Inability to reconcile GL to VAT return

Irrecoverable VAT

Problems identifying recoverable vs. irrecoverable VAT

Complex transactions

Triangulation, movement of own goods, etc

“Our organisation is changing and we need the system to keep up”

Our clients organisations often change and move much faster than the system can deal with. Here are some typical ‘events’ to look out for that impact tax the most:

New countries

Tax codes, accounting, and reporting changes likely

Acquisitions

New lines of business and reporting footprint?

Mergers

Normally one business moves on to the other’s ERP

Changing rules

Updates to tax rates and rules

New regimes

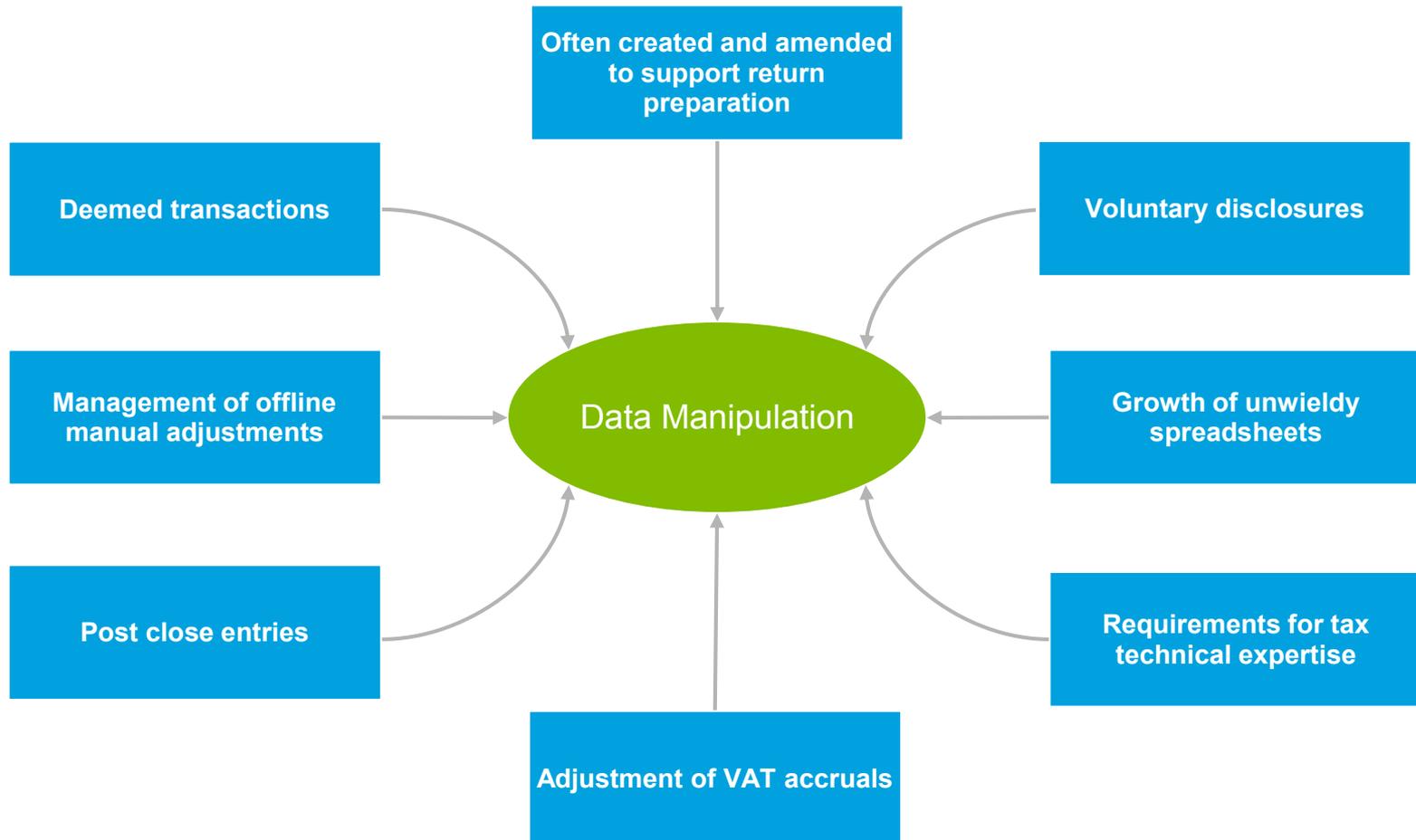
Completely new set up needed, eg India GST

Audits

Requirement to find data and disclose system configuration

Understanding the problem

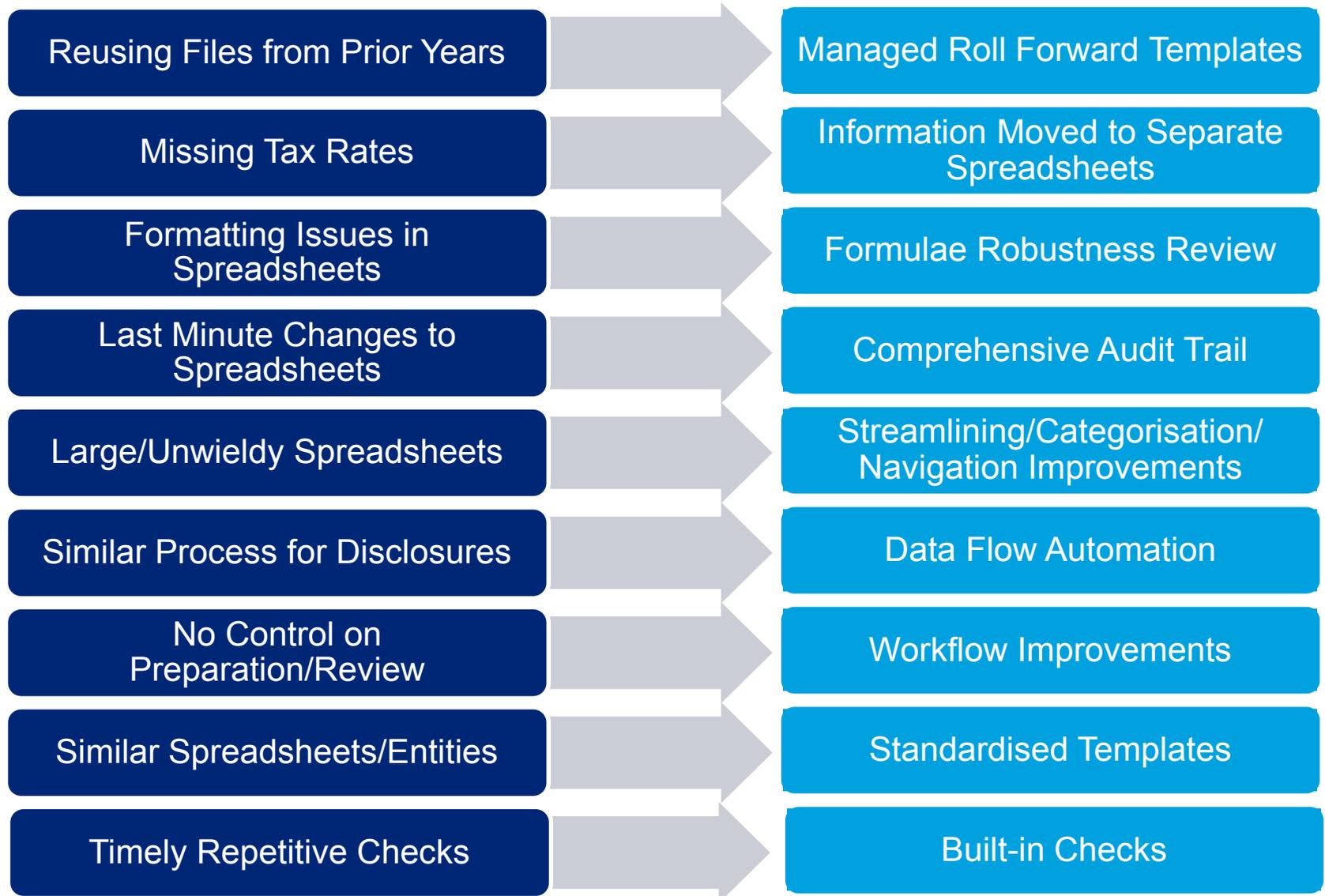
Many problems are caused by off-system processes:



Step 2 – Outline current indirect tax compliance trends

Identifying the fixes

Workpaper functionality



Indirect Tax Reporting

Direct from ERP - What is achievable from your ERP system(s)?

Using existing ERP functionality to drive indirect tax reporting by configuring SAP/Oracle/JDEdwards to deliver accurate VAT and statistical reports directly from the source ledgers – allows a 'single version of the truth' without the need for 3rd party technologies or manual process steps.

Enhancements – How can current processes be improved without major changes to systems?

Enhancements to Excel spreadsheets in order to minimise errors in data consolidation, and application of advantages such as VAT accruals.

Bolt-ons – Using 3rd party tools to automate indirect tax reporting and increase efficiency.

Automates the population of VAT/GST returns, creates an audit trail of data from system report to VAT return, and minimise the use of spreadsheets and reliance on manual processes. Tools also have analytics capability that can test transactions during the return process.

Potential solutions for existing systems

Standard reporting

- Usually a wealth of standard reports available. Many can be easily tweaked to produce reports in a better format for filing or transfer to Excel. Standard reports can be copied and changed also, which may help. Sometimes difficult to get ERP support for making changes.

Exception reporting

- Exception reporting can be preventative or detective. Usually the Tax function is too busy to monitor all transactions. Examples of exception reporting include checking new master data creation, domestic VAT charged on cross border transactions, changes in tax codes, etc.

Business Intelligence

- BI reporting can come from ERP, BI specific solutions (BW, Cognos) or specific indirect tax reporting (ONESOURCE, Vertex). In addition, advances in technology mean that we are seeing more uses of visualisation engines to quickly identify irregularities in data, e.g. Tableau, QlikView.

Excel solutions

- The majority of businesses rely on Excel for both analysis and VAT return preparation. Can be enhanced to provide better/more robust controls. Relies on source data from the ERP so need to consider end to end process. Considered a risky solution, but easy and flexible to use.

Data analytics

- Increased emphasis on analytics to interrogate data to provide key info to relevant stakeholders. This comes from within businesses, but also with HMRC and tax authorities around the world. Sampling is being replaced by more sophisticated and holistic methods of interrogation.

Compliance software

- Can consolidate and file returns, providing a wealth of standard tests. These are purpose built and so do the job well. However, they are an additional step in the process and so data coming in and going out needs to be tightly controlled and any adjustments should be reconciled back to source.

Master data standardisation

- Key to being able to produce accurate reporting, whether this is stored in one instance or across multiple ERPs. By reviewing, cleaning up and taking a standard approach to your Master data, this can lead to more accurate reporting capabilities. Are you using enough fields for tax granularity?

Determination software

- Can be used to give tax control over the tax logic and tax coding. Recent enhancements in the capabilities of tax engines mean they are more applicable for European VAT. They also allow organisations to address limitations within the ERP and provide legislative monthly updates etc.

Business / Tax integration

- One of the key reasons for errors in VAT is a lack of understanding of the supply chain on VAT. We find that where tax teams and the wider business is well integrated there is a clearer understanding of VAT and also changes in the business are identified at an earlier opportunity.

Step 3 – High level review of available systems to automate and produce return

Leading indirect tax systems

ERP capabilities

SAP

- Transaction tax calculation tightly integrated within SAP functional modules
- Country-based tax procedures
- Each tax procedure contains different condition types to define variables in tax calculations
- Built-in tax tools to handle internal solutions
- Established component to communicate with external tax systems

Oracle e-business tax

- Indirect tax determination is integrated with other Oracle E-Business suite modules through a single interface
- Reporting buckets — regime, tax, jurisdiction and status
- Available taxes — tax zone and tax rate
- Tax rules — tax condition sets
- Tax determinations data — party, process, product and place
- Rules processes — synthesize data to calculate taxes

Pros and cons — indirect tax capabilities of ERP systems

Cons

- Insufficient capability for handling more complicated taxability decisions
- Often require integrated tax software (Tax Engines) in countries with complex tax regimes

Pros

- Native ERP tax functionality limits external tax system software licensing costs
- Overall system architecture less complex

Tax engines

Components

Tax rates and rules

- Vendors maintain databases of current sales and use, VAT, GST, and HST rates and rules
- Vendors provide monthly content updates allowing tax departments to shift their focuses to strategic planning

Jurisdiction identification

- Address validation functionality
- Increased precision

Taxability

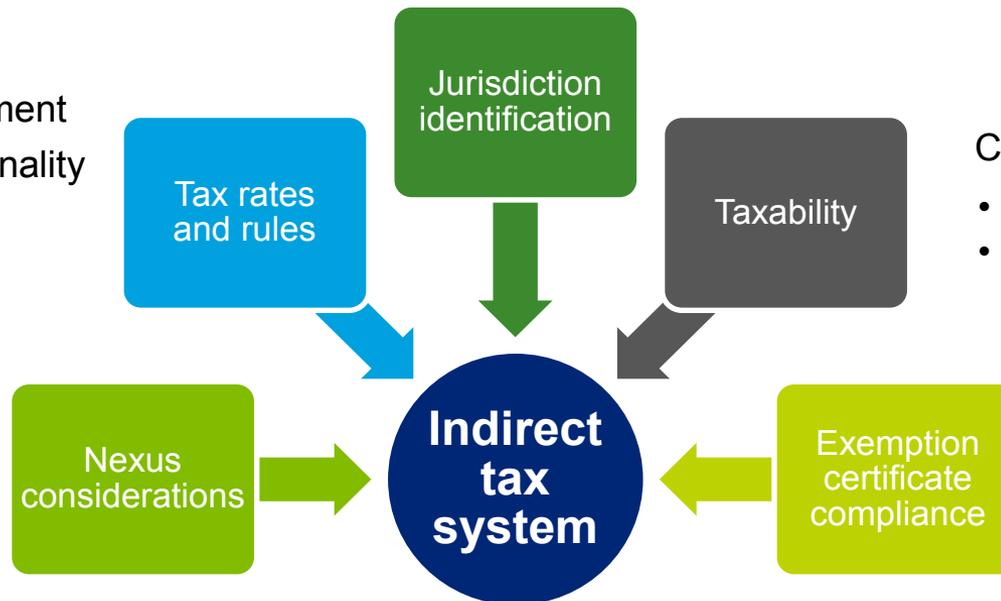
Allows tax departments to set up unique taxability rules, dates, exemptions

Nexus management

Provides functionality allowing tax departments to manage tax “footprint”

Certificate management

- Digital image solution
- Automates validation and application of customer exemptions



Available automation systems

All the parts are important for indirect tax compliance and reporting:

- **Tax engines and compliance tools** – bolt on tools aimed at enhancing ERPs



- **Peripheral systems** – other applications that link to the ERP which have an indirect tax impact, eg billing systems, trading platforms, ‘point-of-sale’ systems, and logistics systems
- **Cloud computing** – a major trend in ERP which is opening up the market for SMEs and smaller organisations, eg SAP HANA and Oracle Fusion
- **Data warehouses** – use of solutions to make the most of huge volumes of data available via ERPs

Benefits of Integration with a Global Tax Engine



ONESOURCE®



Automatic updates for legislative changes

Globally managed rates and rules content (product/service taxability)

Scalability and flexibility to manage changes in business model

Tax department managed application (decreased dependency on IT)

Increased consistency via automation of tax decisions

Central tax warehouse repository to support compliance reporting, data analysis and VAT audit defense

Multiple ERPs can be managed from a single platform

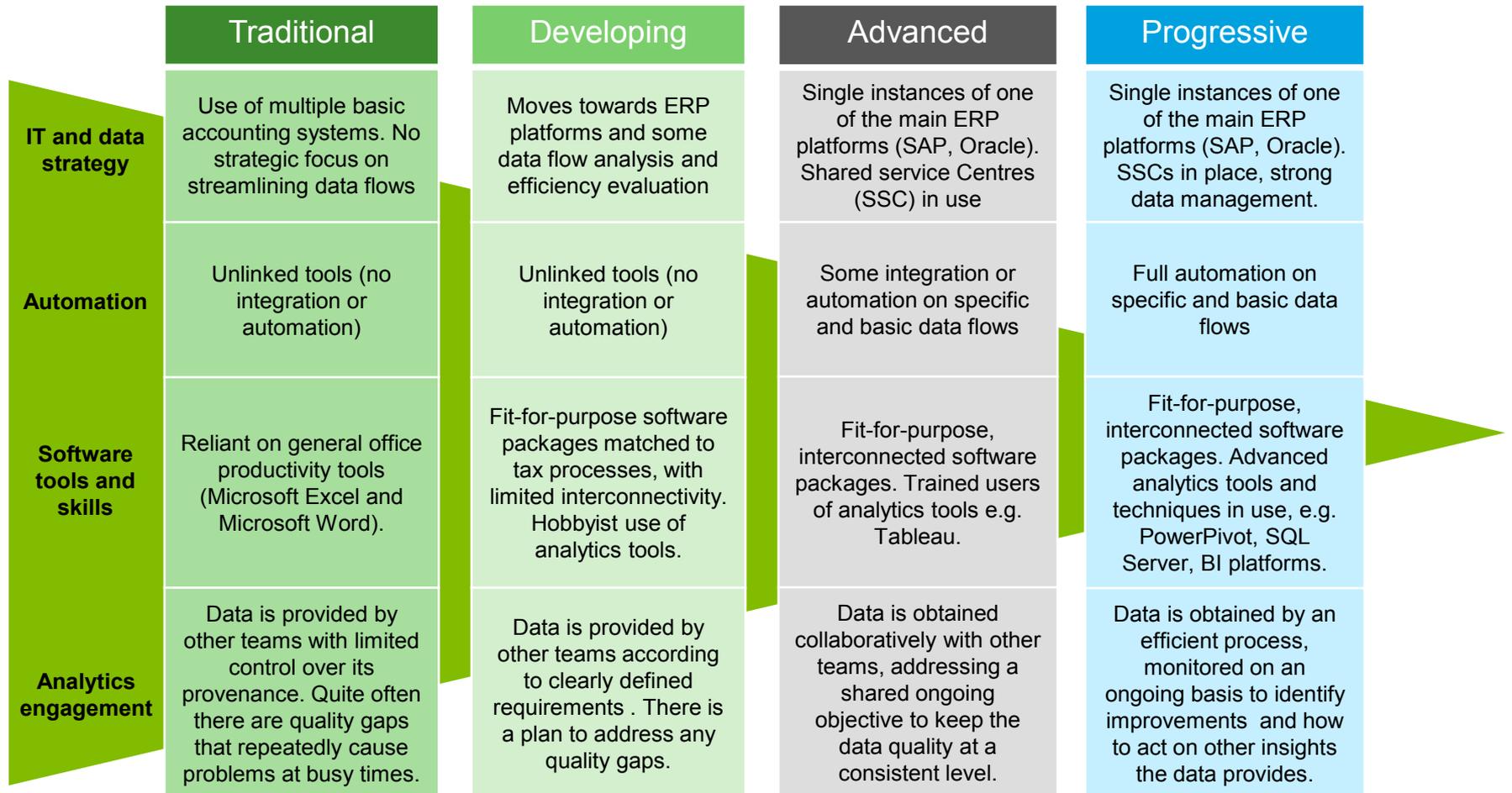
Decoupling of tax codes and rates

Streamlining complex supply chain transactions

Increased control, transparency, and scalability

Step 4 – Benchmarking

Tax Technology maturity model



market majority

continuum of
sophistication

market leaders

Step 5 – Concluding thoughts

Tips for success

- Try to break it down into small projects
 - Workpaper improvements
 - Tactical ERP and data improvement
 - Analytics
- For larger projects timing can be key - initiatives such as Finance Transformations create an opportunity to implement changes
- Do you need a business case?
- Who are the stakeholders?
- Testing and training is key to avoid disruption to business as usual

Identifying the fixes

Outsource to transform?

- Is the 'as-is' fit for purpose?
- Broader finance outsourcing projects can offer a route to improve technology and processes
- Ensure outsourcer understands the reconciliation process
- Agree the deliverable
- Establish roles and responsibilities

Key points

- Most businesses struggle with this. There is no ‘silver bullet’ to address the entire reconciliation approach
- Increasing automation requires:
 - Understanding the pinch points
 - Tactical fixes to address them
 - Implementing changes at the right time
- Tackling issues one by one will offer a greater chance of overall success
- Simple changes to the reconciliation process can still make a significant difference – it doesn’t have to be a big project.

Questions?



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