Today's indirect tax challenges: Two ways to enhance your data

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The frequency, volume, and significance of changes in indirect tax requirements are accelerating rapidly. While organizations may be focused on identifying tax refunds and reducing tax overpayments, realizing refunds and reducing overpayments can be challenging. Automating certain elements of the indirect tax function can help organizations find those opportunities efficiently and save not only money but time and effort as well. But where to start?

Far too often, due to the sheer volume of data, even the most experienced tax organizations may miss chances to avoid overpayment and underpayment—taxes on inventory for sale, or retailers paying taxes on items they plan to give away as part of a promotion, for example.

Because tax functions too often may be focused on processing returns, organizations frequently may miss chances to identify refund opportunities and quantify and address potential overpayments. But tools powered by artificial intelligence (AI) and other leading technologies may help. Investing now in your company's ability to leverage indirect tax technology to automate indirect domestic tax requirements may save your organization headaches and costs in both the short and long term.

What your organization may be facing

Today, four trends are making indirect tax efficiency a complex and urgent challenge.

1. Legislative changes: Some regulators across the globe may be considering changes to tax laws that would mandate real-time access to data and require reporting returns electronically. While real-time reporting requirements are aimed at ultimately reducing burdensome reporting processes, these requirements could prove to be more onerous than current laws.

2. Converging tax types: Historically, many organizations have focused on data from an indirect tax perspective. Those organizations may have been chiefly concerned with issuing a return and making relevant reconciliations. As tax authorities transform reporting requirements, indirect tax data needs to be in line with data for other types of taxes—from transfer pricing to direct tax to digital service taxes. For this reason, it is becoming increasingly important to recognize the correlation between indirect tax and global trade.

3. Tax authorities' shifting strategies: Several trends are setting the stage for a more sophisticated approach to managing indirect taxes. Tax authorities are collecting more detailed data and sharing it across different tax processes and among jurisdictions. They are also using more sophisticated data collection techniques across the wider business. Audits are also becoming more data-based, enabling tax authorities to employ analytics on that data, which in turn helps them decide what types of audit sampling methodologies to engage in.

4. Increasing organizational complexity: Heightened corporate intricacy makes it more challenging to discern where indirect taxes may become an issue. Indeed, finance transformation and business events are escalating complexity across nearly every type of organization, resulting in a massively complicated and elaborate indirect tax landscape.

All of these factors are leading to an increased need for indirect tax technology that can help organizations efficiently and effectively manage indirect tax obligations. Two areas are of particular importance: ETL tools and cognitive learning solutions.

It's all in the data

Indirect tax management depends in large part on getting the data right. To keep pace with this demand for data accuracy, organizations may focus on the following three elements:

1. Data gathering: Multiple enterprise resource planning (ERP) and inconsistent data sources—from spreadsheets and tax software files to emails and PDFs—create challenges in discerning the quality of information. Additionally, different segments of an organization's tax team have different requirements that are constantly changing with new tax laws As a result, organizations should inventory their data sources and close any gaps between what those sources provide and what is essential for compliance, potential audits, and further processing. Organizations often benefit from a common data management template.

2. Data management: A single source of data is infinitely important in meeting challenging tax obligations. A strong "data lineage"—including multiple sources, such as ERP or tax software—is key to creating a "single source of truth." It is critical to have all the information an organization needs to tie back to a tax return. That data may be adjusted—and tracked—so that four or five years later, an audit team can understand its content and source. Efficiency of this process requires not only quality checks and validation, but data completeness.

3. Data governance: Often decentralized, data governance can be challenging because different stakeholders own the data. This process may be challenging as the different stakeholders may not understand procedures or may regularly require more data. Leading practices are most efficient when led by identifying the requirements of tax-related data upfront, providing an organization's tax team with a seat at the table during the initial process. This can help avoid any manual forensics such as retrieving a four-year-old purchase order to glean its tax information

For all of these stakeholders, an organization should have clean and organized data and be able to mine that data for insights—quickly. Let's explore how to make it happen.

Step 1. ETL tools

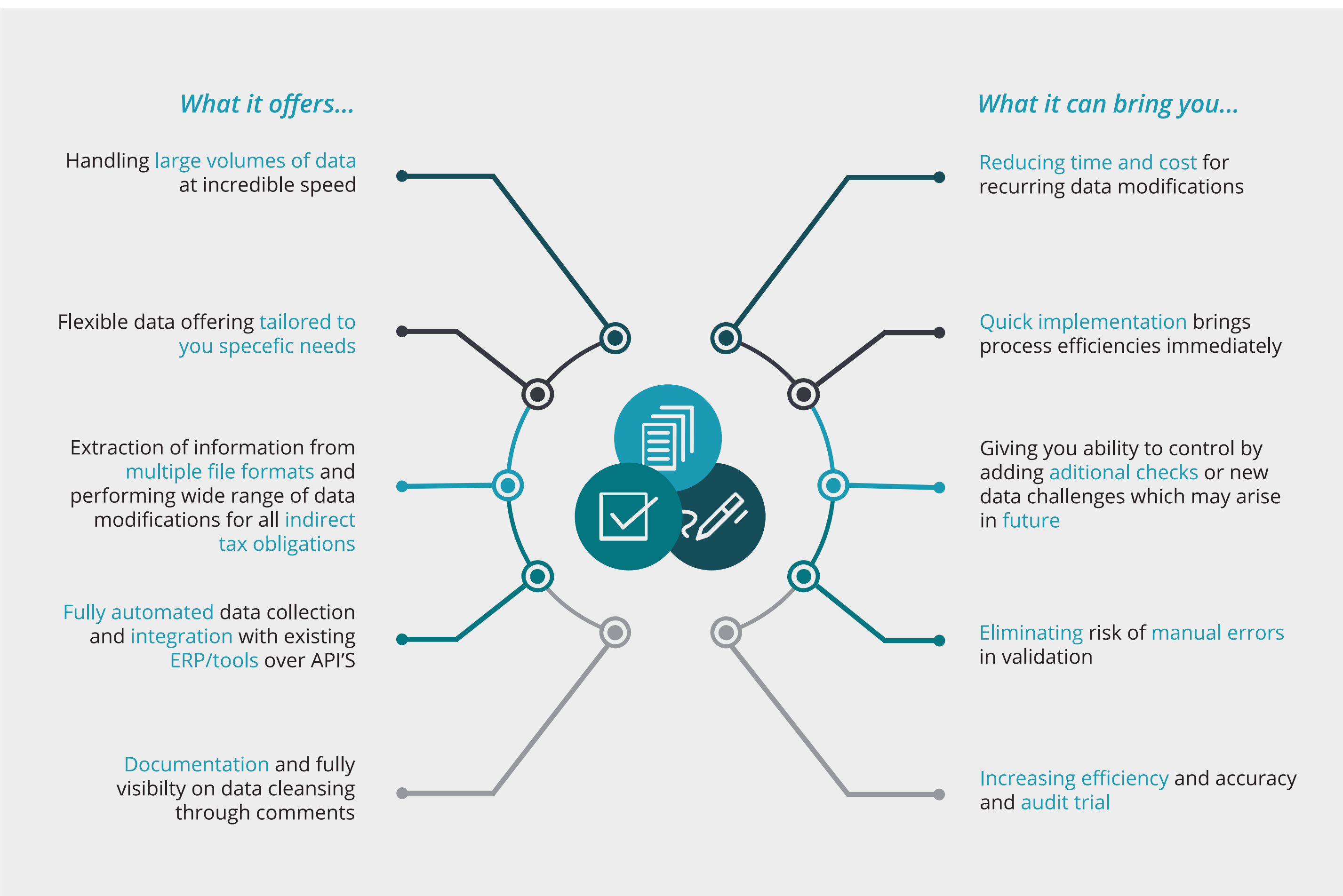
Data-wrangling tools can help automate the data extraction process. This involves a system comprising three critical steps—extracting, transforming, and loading (ETL)—which are key to setting up a data pool. ETL software helps establish a secure agent that can connect directly to the underlying ERP tables. The tools comprising an ETL solution can help organizations pull and consolidate data, perform reconciliations, and execute quality checks using an automated, repeatable, and well-documented approach that leaves a clear audit trail.

Having an ETL process provides flexibility in connecting to various source systems, including ERP, e commerce and order management, tax software, and flat files, among others. This flexibility enables users to pull in data regardless of format with agility to meet future requirements.

Adopting an ETL system substantially reduces the need to build reports and manually manipulate data. Indirect taxes in particular require massive volumes of data—in many cases, millions of records per month. ETL systems can help process those large data sets in minutes, even seconds. ETL tools enable data consolidation and verification from multiple sources to streamline the reconciliation process. This time-saving feature can help save resources and costs, and it builds greater efficiencies.

ETL tools also allow for enhanced documentation of processes. Organizations can clearly see what is actually being done with the data, enabling a clear link and audit trail from the data back to the ERP and other reporting systems. Being able to see how that data was used may be particularly valuable during audits three to four years after the transaction occurred.

A key part of aligning technology to indirect tax data is using analytics to gain insights and see important elements in real time. Analytics allows organizations to flag issues as anomalies immediately rather than in the future when they likely will be compounded. Additionally, analytics enables organizations to look at data more granularly to better analyze its validity.



Step 2. Cognitive learning solutions

Once ETL solutions are in place to help gather and manage an organization's indirect tax data, cognitive learning tools can turn that clean and formatted data into insights for an organization's stakeholders, which can lead to savings.

For example, cognitive learning solutions can apply indirect tax decisions related to a small population of data to a broader population, allowing tax teams to quickly determine whether vendors correctly charged sales taxes or whether organizations appropriately accrued use taxes. This process enables the tax team to import raw transaction-level details that may date back years and consolidate and map those details with other supporting information, such as contracts and purchase orders.

This process helps select representative transactions by business unit, jurisdiction, or other differentiator, allowing teams to review a small group of transactions from a tax technical perspective. Cognitive learning then applies what the team learned from those transactions to the broader population, providing iterative and predictive insights. In other words, cognitive learning enables the tax team to rapidly classify all transactions via machine learning with targeted validation from specialists. These analytics help team members understand the organization's tax profile and address common issues. These benefits can be extremely valuable from a stakeholder, reporting, and management perspective.

Whose buy-in matters

To make the tax function more visible as a business partner, it is important to build clear communication among stakeholders. A strong communication strategy runs across three types of stakeholders:

1. Company leadership: C-suites may want tax teams to spend less time on compliance and more time on driving business value. These tools can provide leaders with insight into tax and/or cash positions, quantify the risks and costs of inefficiencies, and create a clear business case for additional investment.

2. Business process owners: Bridging the gap between tax and IT creates the flexibility, governance and controls, and data lineage from source to end state to make sure tax data processes are seamlessly aligned to business processes where transactions are recorded.

3. Oversight bodies: Internal control teams, auditors, and state tax authorities may at some point have questions about an organization's indirect tax data. An organization needs to able to provide them with access to the right data in a streamlined way to address those questions or to clarify—or even rebut—their findings.

Time to make the business case

Indirect tax is more complex than ever. Structural and policy changes are moving at a rapid pace. These swift legislative maneuvers vary by region and jurisdiction, making it more challenging for tax professionals to navigate.

Overcoming the data and stakeholder challenges tax teams face requires technology that can not only keep up with the evolving regulations and business needs but free up human resources for strategic, value-add work.

The business case for implementing the technology and cultural changes to address the challenges is clear. Articulating the business case may be challenging, but successfully doing so can help put an organization on a path to stay ahead of the curve.