



Emerging trends: Moving to SaaS and XaaS Tax insights and actions

To adapt in the face of changing supply chain models and uncertain demand, businesses and end consumers alike are looking to obtain software, goods, and services using a subscription model rather than making individual purchases of specific products. Changing from an identified individual sales model to fulfillment through subscription presents new challenges in tracking and categorizing transactions for direct and indirect tax purposes.

5 insights you should know

Pay as you go. Many companies are looking for flexible consumption, which is increasing demand for cloud services and subscription-based provision models.

Defining assets. Traditional tax regimes are generally based on the taxation of tangible good movement, so guidance is not always clear in application to non-tangible goods-based contracts.

Classifying revenue. Many companies are faced with challenges in classifying types of revenue streams, whether services, royalties, licenses, or goods. Each type of revenue may be treated differently for financial accounting, indirect tax, and direct tax (including withholding taxes) purposes.

Data imperatives. The location and classification (e.g., business, end-consumer, tax-exempt) of the buyer and seller, the location where benefit is derived, and contemporaneous documentation of contract specifics, are all important data points in determining the required compliance and appropriate taxation of transactions.

Updating key tools. Many ERP (enterprise resource planning) systems are not set up to capture, track, and report the granular information necessary to determine appropriate taxation and apply it to contracts in an automated and systematic fashion.

5 actions to take now

1

Substance and form. Taxpayers should make sure contracts and external communication regarding goods and services describe transactions clearly both in terms of delivery method, timing, and nature of item.

2

Understand relevant jurisdictions. Taxpayers should evaluate customer activity to identify jurisdictions whose tax regimes may apply. This could change from the historical footprint based on change in business model.

3

Analyze guidance. Once new business models/transactions are identified, taxpayers should analyze the guidance in each relevant jurisdiction to determine taxability.

4

Identify and remediate ERP system gaps. Taxpayers should identify data and reporting requirements for appropriate tax computations and compliance. Once requirements are understood, enterprises should evaluate gaps in data and remediate the ERP system data needs. This is one of the most important steps in planning any business model change, given changes to ERP systems after implementation can be extremely costly.

5

Model tax considerations and planning to account for business changes. There can be significant changes in tax results with any change in transactions. Taxpayers should model the indirect and direct tax consequences prior to implementation of any business model change to incorporate tax results into the decision-making process. Documentation will be vital to support conclusions for audits, reporting and potential future due diligence.

TMT + Tax series

Tax planning for emerging trends



Digital trends are impacting every industry. Regardless of vertical, every company is now a tech company. Whether you're modernizing IT, moving to the cloud, exploring blockchain, or expanding into the metaverse, technology creates exciting opportunities, and raises critical questions. Technological advances are outpacing guidance from regulators and tax authorities, and challenge even the most advanced companies. Deloitte's TMT + Tax series applies a tax lens to emerging trends to help you identify potential benefits as technologies evolve, while preparing for tax and regulatory developments.

Emerging trends

- ❖ SaaS and XaaS
- ❖ Digital Platform Companies (DPCs)
- ❖ Metaverse and shoppable media
- ❖ Semiconductor and digital infrastructure
- ❖ Blockchain and digital assets

Business imperatives

- ❖ Anticipate marketplace and supply chain shifts
- ❖ Know your products
- ❖ Know your customers
- ❖ Keep up with evolving guidance and compliance requirements
- ❖ Document the right data elements at the right level of granularity

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