Tax compliance in a digital world
Tax compliance and automation: Adapting to the digital era

In an era where amazing advances in technology seemingly emerge on a weekly, if not daily basis, companies across the industry spectrum are reimagining the way they do business. Digital transformation is happening at many levels. For example, most ERP vendors are migrating their applications to the cloud, thus giving their customers the opportunity to consolidate and centralize instances of those applications and, importantly, the data that supports them. Business processes, such as loan applications and underwriting, are being digitized from end to end. Entire business models are being disrupted by emerging digital competitors, such as peer-to-peer lenders.

In the midst of these transformative changes, some back-office functions, such as finance, accounting, and human resources, are playing catch-up. Yet perhaps nowhere is the need to change greater than in tax. Since virtually every decision or transaction undertaken in a business has a tax implication, and since the digital transformation is leading to entirely new business models such as centralization of certain functions into regional or global shared services centers, tax needs to adapt—quickly—to align with and be relevant to the increasingly digital and automated enterprise.
Why there should be urgency in corporate tax departments

Tax professionals traditionally have spent a significant amount of time on tax compliance obligations. Recent conversations with executives from multinational companies (multinationals) revealed that tax compliance consumes on average 54 percent of a tax department’s time. The majority of executives interviewed said the proportion of time spent on compliance has increased compared to last year.

Specific factors driving this increase include:

- A lack of legal-entity-specific data in financial systems.
- An increasingly complex international tax environment, including changes in tax legislation around the world influenced by Base Erosion and Profit Shifting (BEPS) guidance issued by the OECD in November 2015.
- External (media and general public) attention on multinationals and an increasing perception that multinationals avoid paying “their fair share” of taxes.
- Increasing scrutiny and enforcement by tax authorities.
- Natural consequences of increased business activity, such as mergers, acquisitions, and expansion into new markets around the world.

In the past, companies often overcame these issues (especially poor-quality tax data) through brute force. They assigned more people to address the problem. Yet with increasing globalization, more revenue being generated overseas, business models changing, and tax rules getting more complex, such a brute force approach is unsustainable. Companies and their tax departments struggle to keep pace. So the urgency of adopting new technologies to gain efficiency in tax compliance, reporting, and analysis grows.

How are multinationals responding?

Given the dynamics of digital transformation (e.g., greater availability and affordability of technology, the increasing interconnectedness/integration of tax into ERP solutions), as well as the converging forces of increasing globalization, expanding regulatory scrutiny and enforcement, and generational changes taking place in the workforce, many companies are considering ways to reconfigure their tax compliance delivery model. Visionary organizations are reconfiguring the sourcing and technology pieces of the tax operations puzzle into a new operating model design. This includes redesigning their processes to create seamless handoffs between machines and humans.

At the same time, they are expanding their pool of available manpower to include resources outside the traditional tax department, such as finance and tax personnel in shared services centers and global business services organizations. In this way, they are not just lifting out pieces of an existing process and automating it, they are reassessing who should do what and viewing machines as part of their sourcing options.

Others are less open to change. As such, tax departments can typically be placed along a spectrum of willingness or ability to undertake digital transformation (Figure 1).

Figure 1. Spectrum of digital transformation adoption in tax departments
Transformation opportunities

Data
Centralization requires a tax department to improve data governance, management, and quality. As a result, it is vitally important to assess and remediate gaps and quality issues in current data sources, as well as to build an effective data strategy going forward. The strategy should cover multiple ledgers, multiple systems, legal-entity data, and retention policy. A business case should be built to show the return on investment in the strategy and how that aligns with broader enterprise goals. One important element of the strategy and business case is how high-quality data forms the foundation for real-time analytics that enable the tax department to be a more informative and active partner to the broader enterprise, as well as providing operational insights that can help reduce the costs of compliance and address tax compliance risks. Absent these elements, advancements in technology or business models are likely to sputter or fail entirely.

Automation and A.I.
Tax compliance is an area that is ripe for analytics and, ultimately, A.I. because it is such a data-driven process. That data has the potential to reveal many insights that can lead to improvements in tax operations, planning, and reporting. Automation is the first step in the journey toward effective use of A.I. Tax compliance processes are suitable candidates for automation because of automation’s rule-based and data-driven nature. However, the prerequisite for both automation and A.I. is high-quality data, as described previously.

In recent discussions, the majority of executives indicated they believe full (or significantly more) automation of the tax function is a long way off. They recognize the benefits of automation, such as long-term cost savings, but are realistic about the upfront investment, time, and planning required. Accordingly, many tax departments have started a pragmatic approach to their automation journey.

Robotic Process Automation (RPA) is an emerging software capability that could address some cost concerns. RPA is technology that captures and interprets data from other existing software applications for the purpose of transaction processing, data manipulation, and communication across multiple IT systems. Through the smart process improvements it enables, RPA is moving the tax department conversation from efficiency gains to transformation of the overall process. RPA implementation requires small upfront investment and can be implemented with existing IT infrastructure.

Moreover, many rule-based, data-centric, repetitive processes may soon be enabled by other A.I. technologies, such as machine learning (software’s ability to improve performance by exposure to data without the need to follow programmed instruction code) and computer vision (software’s ability to identify objects, scenes, and activities in images/forms).

A.I. is already part of many consumers’ lives when they use automated attendants on their smartphones and in their cars and homes. The technology augments human intelligence for scheduling, searching, driving, and recommending. As such, it has tremendous potential to support the digital transformation of tax by facilitating access to and interpretation of data, as well as potentially serving as an interface with tax automation solutions.

“I think the role changes; you become a gatekeeper for the work that’s in the service centre. So, [the role becomes] review, rather than getting involved in the nitty-gritty. The scope of your role changes; before you were doing compliance, [but now] you can trust that’s being dealt with and concentrate on other areas of the business, to add value there.”

Head of Direct Tax, Retail, Europe

“The recent conversations with executives from multinationals highlighted a few common barriers to change, all arguably self-imposed:

- Inertia, not seeing any need for change
- A perception that the business and its tax department isn’t of an appropriate size or sophistication to warrant digital transformation in the form of centralized tax databases, tax portals, and tax workflow tools
- Perceived complexity—the preparation required to scope and specify tasks

Tax departments that are moving ahead with digital transformation are focused on a several key opportunities, including:

Centralization
Centralization, either in physical locations (shared service, global business services) or virtual centers of excellence (CoEs), will be critical for tax departments. Centralization enables the harmonization of tax compliance processes and protocols to help address tax risks, increase quality, enhance value, and lower costs. Harmonization, in turn, creates the opportunity for increased transparency globally, which can aid in addressing global effective tax rates, managing cash taxes (including tax refunds), supporting tax examinations, and developing transfer pricing documentation and reporting.

More management and communication skills [will be required], rather than technical. A tax person who’s super technical, at home with legislation, can do clever stuff but can’t interact and can’t communicate… that’s no use to anyone any more. We’ve got business software to do that.”

Tax Director, Manufacturing, Asia Pacific
Tax compliance in a digital world

Job taskification and talent cloud
In the digital world, traditional knowledge worker roles can be “taskified” into smaller fragments or gigs. Specialized talent, sourced in a variety of ways, whether internally or externally and at differing cost depending on how specialized, can then be applied to those smaller fragments. Tax is a ripe environment for this approach. Various skills necessary for components of the tax compliance process, such as data extraction, calculation, review, research, and filing, can be acquired through different sourcing options (the talent cloud), including corporate employees, shared service centers, freelancers, robots/software, or third-party outsourcers. In this way, tax departments can choose very specific skills sets—e.g., tax-technical vs. technological vs. analytical vs. broader business advisory—to address very specific issues or opportunities across tax operations.

Both trends—taskification and the talent cloud—are supported by today’s growing Millennial workforce who, due to their desire for more flexible working conditions, are looking for more elastic arrangements. This is vastly different from the days when employees would remain in one job for many years. The on-demand talent economy offers companies the ability to tap into extensive networks of innovators, technical experts, robots, and seasoned professionals. These arrangements allow companies to have a flexible workforce structure while keeping their fixed labor cost low.

Companies are already leveraging this trend, whether they be virtual recruiters or freelance taxicabs. Their platforms help individuals find resources in a bigger pool of resources who are ready to fill a need at a lower cost than similar traditional resources. For businesses, crowdsourcing platforms allow freelance technologists, marketers, administrative professionals, writers and other personnel to find and bid on “tasks.”

Collectively, these trends have the potential to transform the way tax compliance is delivered. Imagine a future where a tax department can source non-strategic work through a shared services center, power certain repetitive functions through automation, and harness data to respond to tax authority audits and provide predictive analysis to internal stakeholders. Imagine using A.I. to search and recommend correct tax codes and identify exceptions, and to leverage crowd-sourcing platforms to source services such as report writing, administrative support, and other functions. That future is just around the corner.

“It (automation) would allow more people to move from a compliance role to a planning role. Meaning rather than thinking about how to get the tax return filed properly, they can spend their time thinking about how to save the company tax dollars going forward, by looking at doing things differently. We’ve made some progress on that but we still have a significant way to go overall.”

Tax Director, Manufacturing, North America
A way forward for tax departments

So how can tax departments prepare for a more automated digital environment where costs and compliance turnaround time will be reduced by new sourcing models and advanced technologies?

Consider a START framework:

1. **Identifying Scalable processes**—To have a positive and substantial impact, tax departments should identify processes to be re-imagined and transformed using technologies previously described. They should be processes that are scalable, have the highest productivity potential, and can influence multiple outcomes with minimal incremental cost. Transforming the data extraction process is one example.

2. **Prioritizing Transactional tasks**—Automating transactional tasks, such as indirect taxes and certain aspects of tax information reporting, can free up time for professionals to focus on more strategic tasks.

3. **Aligning with broader digital transformation initiatives**—Any digital transformation activity in tax should support broader corporate goals and objectives, such as finance transformation or corporate restructurings.

4. **Communicating the expected Return on Investment (ROI)**—Quantitative and qualitative ROI will be key parameters for the business to prioritize transformation investments. Hours saved, data quality improved, impact of analytics are examples.

5. **Re-skilling existing Talent**—To thrive in the more automated digital world, some professionals will need new skills, such as technology-related capabilities, project management, strategic analysis, and more specialized tax technical knowledge.

This age of hyper-innovation and automation is changing the way companies operate, manage technology and data, and source talent, supported by the growing pool of the connected global knowledge workers. These trends will enable tax departments to move away from transactional tasks and enable tax professionals to spend more time on strategic activities, including tax planning, advising other areas of the business about the tax implications of their decisions, and, importantly, the analysis of cross-border data in anticipation of tax authority scrutiny—tax authorities who themselves are likely to use robotics and A.I. to collect and analyze companies’ tax data.

The timing could not be better. In the face of increasing compliance requirements, automation, and A.I. technologies, tax departments have the opportunity to centralize data, consolidate technology platforms, and transform how certain tax compliance activities are accomplished, in alignment with similar digital transformation efforts likely already underway elsewhere in the enterprise.

Yet it is important for tax executives to help stakeholders understand that there is no one size that fits all. By having those conversations, implementing new digital capabilities a step at a time, and demonstrating the positive outcomes of emerging innovations, tax departments can look to the future with optimism.