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Digital transformation of the tax function

FW moderates a discussion on the digital transformation of the tax function between Jen Deutsch, Luiz Fernando Rezende Gomes, Holly Hamby and Emily VanVleet at Deloitte.



Q&A:

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THE PANELLISTS



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During her 25-year career, which has included industry work as well as 18 years with Deloitte, Jen Deutsch has built strong client relationships while also driving business priorities through a broad range of firm leadership roles. Since returning from a two-year global assignment in Germany in 2013, she has been primarily focused on growing the tax management consulting footprint in the West, and serving many high profile, leading companies.



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Rezende Gomes started his career in 1997, carrying out various works in the areas of taxation and corporate law, focusing on the area of review procedures related to indirect taxes, revisions of the tax burden, due diligence, participation in several studies of corporate restructuring and tax planning. His experience includes tax advisory services and financial areas of direct and indirect taxes, customs law, international taxation, tax and corporate consulting and tax planning, among others.



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Holly Hamby specialises in automating tax systems and processes to enhance ERP systems and tax footprints. She has over 20 years of experience in tax and finance. Through change management, education and technology, Ms Hamby has assisted companies in designing, developing and improving systems and processes. She champions key projects and initiatives for tax, finance and IT departments to enable them to reduce risk, increase efficiency, and drive value for tax and the overall organisation.



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As a partner in Deloitte's tax management consulting practice and the leader of the firm's robotics and intelligent automation team, Emily VanVleet thrives on anticipating what might be next and boldly embarks on the path to get there. This approach to her work and her life has afforded her the opportunity to support her clients in driving incremental value and staying ahead of market trends. She has over 20 years of experience in tax consulting, strategic process design and practical approaches to tax transformation.

FW: Are you seeing an increased appetite among companies to apply digital transformation to their tax functions? What factors are behind this trend?

Deutsch: Companies are desperate to find the added ‘edge’ that facilitates sustained growth, both within their marketplace and in their internal operations. The digitalisation of tax can be that edge – an edge ideally aligned with the broader organisation’s efforts around digitalisation, whether it is to a new enterprise reporting platform or the creation of a robotics centre of excellence. Three primary factors of that trend are the global expansion of operations, the continuously increasing level of regulatory requirements, and the advent of easier to implement and operate technologies.

Rezende: From a tax and regulatory standpoint, the digital trend is mainly driven by changes made by taxing authorities requiring digital reporting, e-invoicing and e-filing, creating the need for increased efficiency in the tax function. With the additional demand for tax specific and broader financial data at more frequent intervals, both by tax authorities and internally, the tax function’s opportunity for adding value is increasingly dependent on its ability to gather, process and reconcile a massive amount of information quickly. Given the combination of increased volume and shorter time frames, many tax functions are focused on leveraging technology, with a view toward decreasing the tax cost and mitigating risk for their organisation. Considering changing tax laws and rates around the world, combined with the need to interact with a tax authority with more information and processing capacity, there is a driving need for the tax function to apply technology to achieve the same goals of the past with fewer resources.

VanVleet: Digital transformation is impacting many companies broadly through finance and supply chain transformation initiatives. These enterprise-wide initiatives may be driven by the enterprise resource planning (ERP) vendors

releasing cloud platforms with enhanced functionality. Cloud ERP migrations and other enterprise-wide transformations create both risks and opportunities for a tax function. Tax teams must align with these initiatives, pushing the organisation further toward digital tax transformation.

FW: How is the regulatory landscape impacting the way organisations manage their tax affairs? Is the rising demand for transparency affecting how organisations prepare and report tax data?

Hamby: Regulatory changes are impacting organisations both in the US and globally, with some responding proactively and some reactively. If an organisation is tech savvy, regulations become a timely opportunity and support the business case for change in the tax function. If an organisation is more rigid and reluctant to change, new regulatory requirements are forcing process and technology modernisation, as well as a reconsideration of tax operating models.

Rezende: The regulatory impact is more profound in certain countries and regions. As real-time reporting requirements for major Latin American countries, such as Brazil, have been in place for some time now, many companies facing those requirements have already adjusted to the initial impacts, mainly starting with the acknowledgement that most of the data that is to be provided to tax authorities must actually originate in the day-to-day

activities across all areas of a company. This has generated the need for streamlined processes and increased controls and accuracy – not only in tax processes, but in core areas of the company, such as logistics, customer and supplier relationship management and so on. The demands of greater transparency are driving change in three primary areas: process, data and communication. Greater transparency is pushing companies to implement processes that are less flexible and more standardised. In terms of the preparation and reporting of data, many organisations are now looking for tools, such as analytics and dashboards, that function as data validation tests prior to submitting reports to the government, which can mitigate risks such as increased audits, penalties and over or under payment. From a communication standpoint, companies facing these requirements are also increasing the involvement of tax professionals to address exceptions or concerns, often before, though sometimes after, a transaction has been finalised.

FW: What opportunities does technology offer to enhance the tax function? What kinds of platforms and solutions are available?

Deutsch: Technology offers both efficiency and effectiveness related enhancements. Cloud-based ERP platforms offer organisations both of those at the source – transaction recording – which

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HOLLY HAMBY
Deloitte

“ IN ALL TRANSFORMATIONS, CHANGE MANAGEMENT IS IMPORTANT, BUT IN A DIGITAL TRANSFORMATION, DEALING WITH THE IMPACT ON INDIVIDUAL PEOPLE BECOMES A MATTER OF PARAMOUNT IMPORTANCE.

LUIZ FERNANDO REZENDE GOMES
Deloitte

is critical for both indirect tax and direct or income-based taxes. Moving into the tax function, both point solutions related to the actual filing of returns, income tax provision engines, indirect determination engines and transfer pricing (TP) tools, as well as ‘white space’ tools such as data wrangling tools and analytics and visualisation platforms, are constantly evolving and adding functionality, aimed at giving end users control over the output. In the highly dynamic technology environment we now face, there are also many ‘challenger’ solutions or vendors appearing. For instance, the UK corporate tax compliance software market is seeing new entrants arising from adjacent accounting software providers or new technology companies focused on compliance and regulatory solutions.

Rezende: Tax functions are certainly not limited to tax solutions. Solutions that may be in use in the broader organisation, such as robotic process automation (RPA), data wrangling tools and machine learning (ML), can also have great applicability in tax processes. In Brazil, for instance, since some of the leading ERP platforms are not yet able to fully cope with Brazil tax compliance requirements, tax departments reporting in Brazil have adopted several different tools to address their needs. RPA is being adapted to resolve the needs of the tax function. Data wrangling and analytics tools are also being adopted, ranging from simple spreadsheet-based macros to third-party data wrangling tools to semi-custom tax analytics tools that can run reconciliations and other reports. Optimal technology solutions depend on the specific demand and the technological environment

of a certain company. ML is being applied in areas such as indirect tax review and recovery and analysis of tax jurisdiction regulations and court cases. In some situations, we have seen such solutions demonstrate potential cash tax savings, for instance by increasing data and reporting quality, audits have been reduced, resulting in quicker tax recovery.

FW: Drilling down, how can digital transformation help tax functions to meet their reporting requirements, generate supporting documentation, mitigate risk of errors, and add greater value?

Hamby: Tax departments are looking for a single source of truth. Many tax departments spend countless hours combining, transforming and reconciling data sets for compliance and audit. Many times, months are spent reconciling back to the returns that were filed in prior periods in order to prepare for an audit. Digital transformation for tax starts with the data and understanding how to build out the proper data set or schema so all reporting, support and adjustments are maintained within one ecosystem.

Rezende: Automation of some activities – either by applying RPA or by implementing specific solutions – can help generate more accurate reports for tax compliance and internal reporting. The possibility of having more data processed indicates the opportunity to apply data analytics to the tax and transactional information, providing more insights into trends, risks and potential opportunities. Looking at historical statistics, the tax function can anticipate the key risks in the future and develop mitigation strategies. Also, considering the massive amount of data generated due to tax requirements, together with the possibility of using ML, predictive analysis and automated reconciliations of data across all filings, the tax function can significantly increase the value generated, not only on tax-related issues, but potentially on operational issues as well.

“ IT IS IMPORTANT TO HAVE A CLEAR PLAN AND VISION OF THE ENDGAME, CONSIDERING THAT DIGITAL TRANSFORMATION IS AN EVOLUTIONARY PROCESS RATHER THAN A ONE-TIME MODIFICATION.

EMILY VANVLEET
Deloitte

FW: What key steps should companies take when pursuing a digital

transformation process for their tax function? What factors do they need to consider, to increase the likelihood of success?

Rezende: Digital transformation is not a path that the tax function can successfully tackle by itself. Instead, tax must be aligned with the digital transformation of the entire company. Even when the tax function plans to carry out its own digital transformation detached from an enterprise-wide effort, similar tools and approaches to the enterprise strategy should be adopted, otherwise there is an increased likelihood of incurring unwarranted additional costs. After aligning with the company's digital transformation process, another important point relates to people. In all transformations, change management is important, but in a digital transformation, dealing with the impact on individual people becomes a matter of paramount importance. The proposed change in such a transformation can enhance individuals' natural resistance to any modification of the status quo, but also creates a fear of being overwhelmed by technology and losing their importance and, ultimately, their jobs. As a result, providing individuals with the opportunities and tools to transform themselves is key for digital transformation success. In addition, the focus cannot be solely on technology and tools, but rather the company should review current tax and adjacent business processes, adjusting processes to leverage both the new functionality of appropriate tools and considering how the transformation impacts the necessary skillset of tax resources.

VanVleet: It is important to have a clear plan and vision of the endgame, considering that digital transformation is an evolutionary process rather than a one-time modification. This will help avoid the pitfalls of trying to achieve state-of-the-art processes with cutting-edge technology in a single leap. For this type of step change, it may also be important to start with a good business case and to develop support from various groups within the company. If tax teams can speak with stakeholders



about positive impact to the monthly close process, resource time savings or the ability to help increase margin by having access to data, that support may be easier to develop. Think beyond the impact to the tax function and seek positive impacts for the broader organisation – ideally those stakeholders will then become advocates for tax transformation initiatives.

Deutsch: The biggest challenge for most organisations is not the availability of a tool, but rather how to parse the types of activities that can be automated and the human capital value added activities to ensure optimal integration. In that regard, key success factors include the inclusion of the team on the journey, a vision of the future process with integrated components for both the technology and human capital value, training and a willingness to 'fail fast', by introducing small steps like proof of concepts or pilots aimed at both trying the technology and also engaging the workforce.

FW: Based on your experience, are there any common pitfalls that companies

encounter, which can derail or undermine the process? How can these be avoided?

Rezende: Common pitfalls include trying to perform a digital transformation by considering the tax function solely, rather than the larger enterprise picture, underestimating the impact that transformation will have on people, expecting to solve all problems simply by applying cutting-edge technology, rather than also considering process change, and taking on too much change at once. Instead, tax should consider the following steps to mitigate these pitfalls. First, prioritise active tax participation in the company's overall digital transformation, integrating the tax function's needs with the broader programme. Second, include change management as a key element of the transformation. Third, create a well-defined transformation roadmap, with decision gateways and service level agreements to support and monitor both short- and long-term results. Finally, maintain a focus on people, process and technology throughout the programme.

FW: Looking ahead, what innovations and improvements are set to reshape tax processes? What are the potential consequences for companies that fail to undergo digital transformation and take advantage of these solutions?

Rezende: From a regulatory standpoint, potential exists for tax authorities to explore obtaining tax-related information straight from the source, without having to receive files processed in a company’s ERP or adjacent systems – a ‘pull’ rather than a ‘push’ approach. While examples of this approach are extremely limited, this type of interaction with the ultimate source data would potentially provide tax authorities a real-time view of the economic activity of the company. Such an extent of digital transformation on the part of tax authorities would force underlying indirect and direct tax processes to change, to ensure that data is accurate on the front-end, since no opportunity for back-end corrections would exist. Such developments would also generate the need for the tax function to work with predictive analysis, suggesting changes in the company’s operations to manage a tax burden and specific risks, before operational changes materialise.

Deutsch: Innovation for tax departments that we are truly at the start of include artificial intelligence (AI) and ML. That

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JEN DEUTSCH
 Deloitte

said, many companies are still working to maximise their use of more mainstream innovation and tools, and there is a lot more ground to cover before we see widespread adoption of such cognitive tools. Competition for talent, regulatory compliance and sustainable support for their organisations may all be at risk if the tax function does not embrace the potential of digital transformation.

VanVleet: From an innovation standpoint, we expect to see ML and other AI applications grow and expand across tax processes – driven in some cases by the need to keep pace with tax authorities, and in others by opportunities created by

the increasing volume of data combined with the processing capacity provided by cloud platforms. Overall, we see tremendous potential for individual and collective growth and development as tax professionals learn and adapt to new ways of working with a broader range of technologies. We refer to this as the ‘power of with’ – the exponential power of humans working with machines to driver greater value – and it provides exciting opportunities for the digital tax department. ■

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