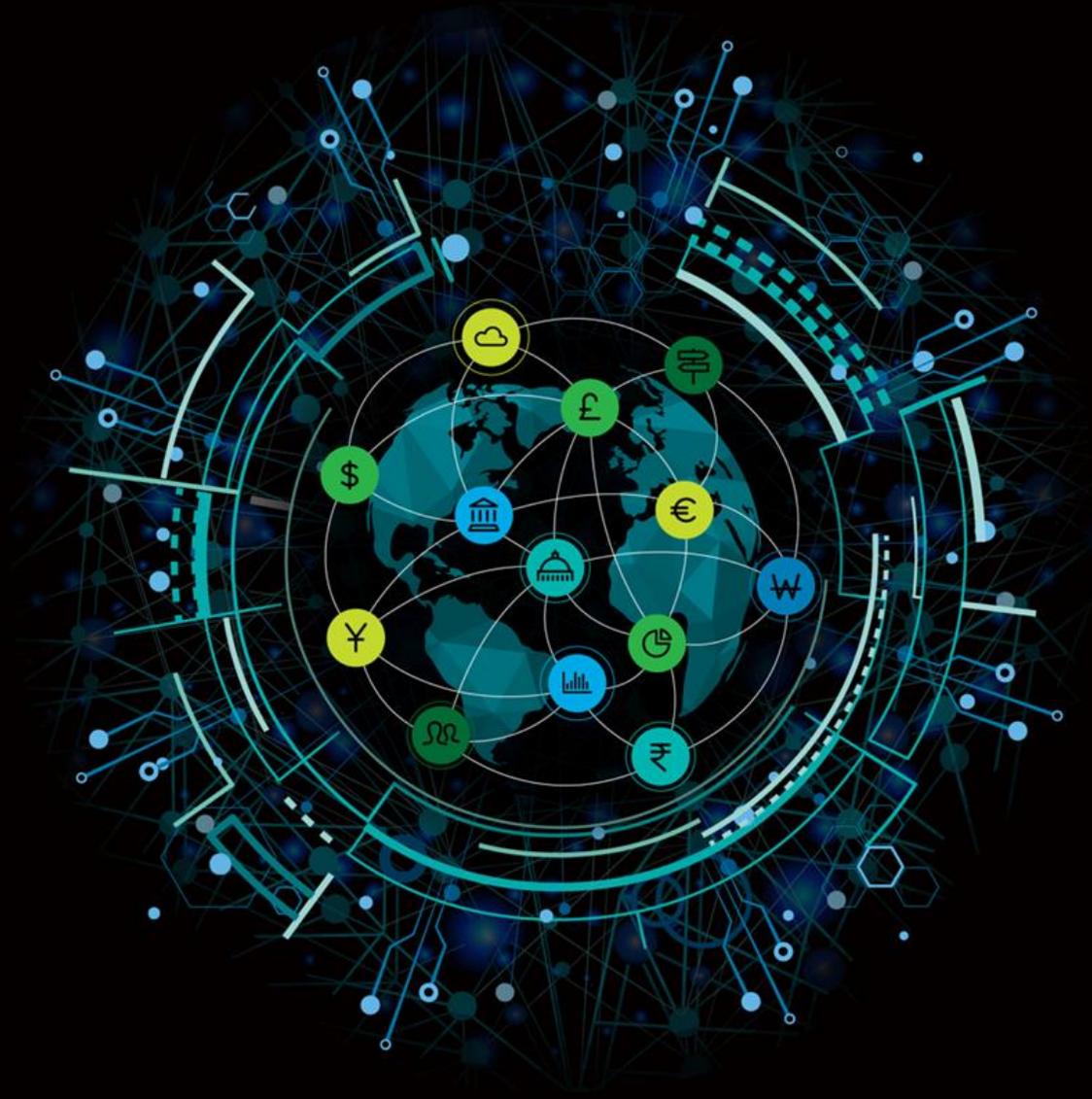


Deloitte.



Digital Finance Series

Tax in a digital world

Think back to your company's last major technology project. When did your finance people get involved in the planning conversation?

How about your tax team?

Taking tax seriously

It's common for Finance to have a front-row seat when big new initiatives are underway, including technology spending. But far too often, Tax gets involved after the fact, when the best they can do is make the most of a tough situation. Fortunately, that's beginning to change.

The reason is simple: New data modeling tools make it possible to deliver valuable tax insights about different financial scenarios—in real time. Which means business leaders get the benefits of those insights before they have to make their decisions.

A modernized tax function has the digital tools and talent to churn through scores or even hundreds of scenario models to determine their after-tax financial implications. This kind of data modeling combines your own real-time financial

information with the latest tax laws and regulations to guide you through options for action.

We're talking about a massive amount of data that's growing larger day by day. Modeling is often the only practical way to understand the full tax implications of different business decisions.

But before this can happen, Tax must modernize along with the rest of the enterprise. That should be an easy decision.

He said. She said.

With the recent big changes in US tax laws and rates—and an explosion of new regulations elsewhere in the world—tax departments everywhere are scrambling to make sense of it all. As the upheaval continues, tax leaders and CFOs are beginning some interesting conversations about growing complexity and uncertainty related to global tax. There's a lot on the line.

Tax in a digital world

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We need to talk.

Tax leader

We need to talk.

Tax leader

We're getting close to a breaking point.

Tax leader

I was hoping you'd say that.

That doesn't sound good.

CFO

Uh oh. This must be serious.

Tax is never the squeaky wheel.

CFO



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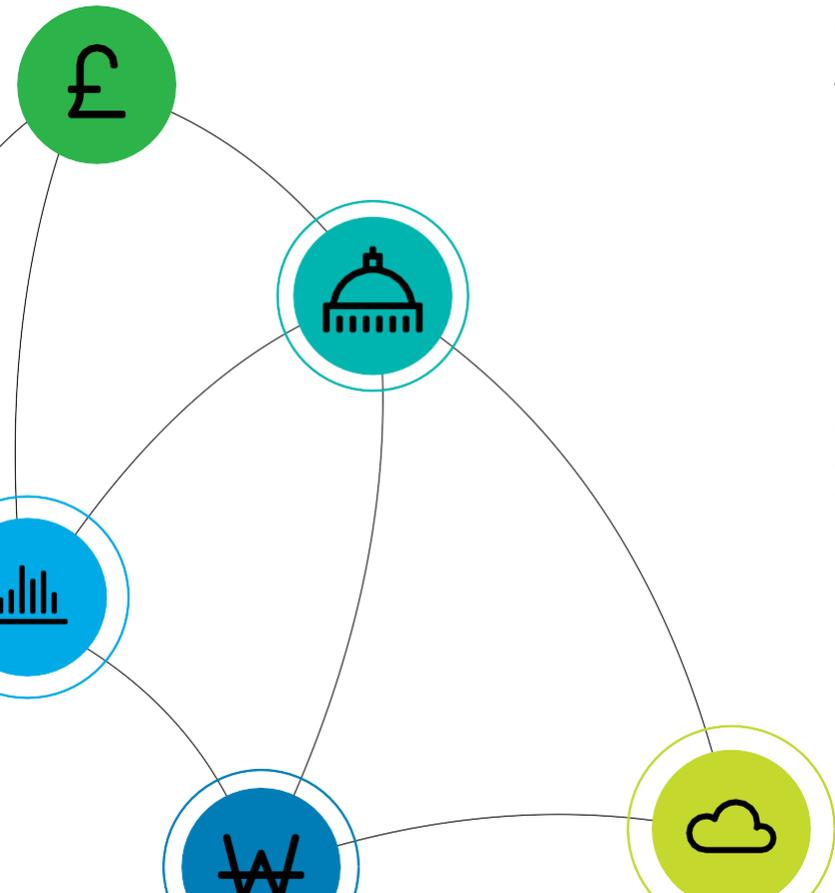
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We need to talk.



Whatever you think about Tax, one thing we know for certain is this: An unprecedented number of regulatory and tax policy changes are underway, both in the US and around the globe.

The US federal tax code has nearly tripled in length over the last 30 years. In 2017 alone, there were more than 600 revisions, all requiring new compliance measures.¹ And then there's the rest of the world. Over the past several years, India has imposed far-reaching changes that are reshaping one of the most complex tax regimes on earth. In Brazil, hardly a week goes by without the announcement of new tax policies that must be addressed immediately. And in Europe, we're seeing new developments related to real-time reporting and standard audit filings, which have to be done electronically.

But government policy is just one area where complexity is increasing. The new digital economy is unleashing new competition and new business models, both of which can create significant tax planning opportunities. If the world is a chess board, tax considerations often influence the winning moves.

Many tax professionals tell us their companies are simply not set up for this new reality. Finance leaders have been responding in predictable ways. Hiring more people, getting temporary help, adding point technology solutions, outsourcing parts of the process. It's worked in the past. So stay the course, right?



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So you're telling me you'll have to hire?

CFO

So you're telling me you'll have to hire?

CFO

Actually, we'll probably need fewer people.

CFO

What's the catch?

We have to modernize.

CFO

You sound like a consultant.

Well...I am.

Tax leader

Tax leader

Tax leader



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So you're telling me you'll have to hire?



With 50 percent fewer tax accounting graduates and a big chunk of the tax workforce nearing retirement, there aren't nearly enough experienced tax people in the market today. Add in hundreds of tax jurisdictions, each with unique rules and regulations, and complexity goes through the roof. Bottom line? Companies need machines, cognitive tools, bots and other technologies (or service providers deploying those solutions) to do more of their work. And that requires investment.

It's ironic that businesses plow millions into upgrading their ERP systems, but when it comes to Tax, not a lot changes. Many tax departments have all but missed out on technology modernization.

The specific problem is easy to identify: few companies have taken steps to fully integrate the tax function with their accounting and finance systems. ERP sits over there, tax sits over here, and human beings go back and forth. The result is a hodgepodge of point solutions, with tax teams often scrambling just to gather basic information.

We find that tax departments typically spend less than half the time on data analysis than they spend on data gathering and data prep. That's problematic.

Fortunately, the opportunities for improvement are real, and companies are beginning to embrace them.



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What do you mean by *modernize*?

CFO

What do you mean by modernize?
Specifics please.

Two things. First, create our tax data backbone. Second, automate our planning and reporting processes.

Tax leader

CFO

Data backbone?

Yep, backbone. Tax is like no other business function. We use all of our company's data. Every single transaction.

Tax leader

CFO

Which means mountains of information.



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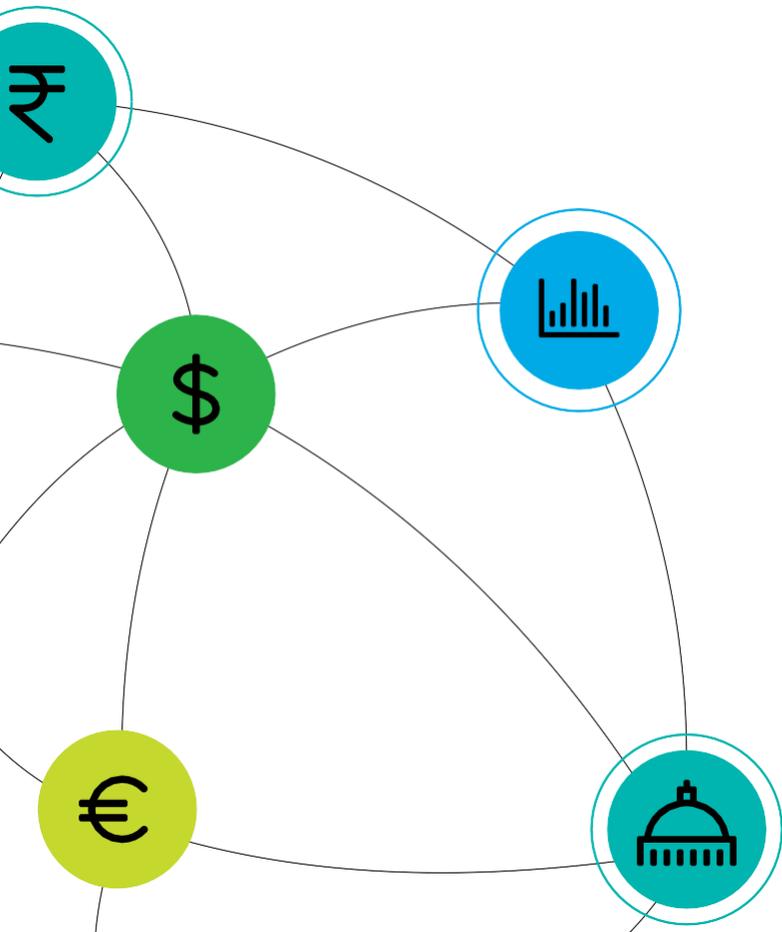
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What do you mean by *modernize*?



The first thing to know about modernization is that it creates a different mindset. Modernized Tax moves from being mostly a compliance function to a high-value planning and reporting function. For example, consider the international tax provisions of the Tax Cuts and Jobs Act. Given the complexity of these new rules, in most cases the modeling required for effective tax planning simply can't happen without automation and advanced analytics.

One vice president/controller we work with was involved in a finance transformation project that wasn't designed to address Tax. He stopped the project cold, insisting it be rescoped to include tax modernization. This executive was certain the business case for modernizing Tax was compelling and wanted the same digital technologies available to them that were going to be made available to the rest of Finance.

If your company's leadership hasn't embraced tax modernization, there's a good chance you're leaving real value on the table.



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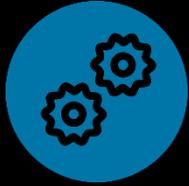
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The digital evolution

What does work actually look like in a modernized tax department?

Here are three things you'll be able to see:



Reimagined processes

Automatic tax reconciliation

- Reconciliations are automated and managed on an exceptions basis
- Tax analyzes and evaluates the discrepancies while optimizing the reconciliation of source data to the general ledger

Automated transaction processing

- Indirect tax determination is managed on an exceptions basis
- AP clerks no longer have to key in tax codes manually or make tax determinations on the fly



Redefined talent

- Tax managers generate targeted business insights rather than generic ones
- Tax staff are freed up to focus on tax planning and other high value-add activities

- Tax staff monitor data quality as a key performance indicator



Technology enablers

- Touchless automation removes manual reconciliation
- Integrating automation tools with data lakes or data hubs empowers tax analysts to perform advanced analytics and predictive what-if scenarios

- Real-time layers of data proactively identify rule exceptions, improving reliability with machine learning
- Visualization and analytics from an integrated tax data warehouse enhance the indirect tax process



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So what's your plan?

CFO

So what's your plan?

Tax leader

Same as your plan.

CFO

Really?

Tax leader

Yep. We're talking cloud, automation, analytics, visualization, real-time reporting. All stuff we're already doing in Finance.

CFO

What's the cost?

Tax leader

That depends on how far we go.

CFO

How far do you recommend?

Tax leader

All the way.



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So what's your plan?



If you've ever worked through finance transformation, you understand there's no such thing as finished. Between new regulations and new markets, the people, processes, and technologies needed to run Finance effectively are always evolving. That's true for Tax, too.

Figuring out how to stay ahead—without spending too much—is the name of the game.

A lot of what's required for tax modernization happens in ERP implementations, but not everything. You still have to integrate with other technologies like business intelligence and visualization software to see the "art of the possible."

Pain points

One place where tax modernization can have immediate impact is in intercompany accounting. Modernization lets you plan and monitor the potential tax consequences of different inventory and supply chain choices, improving your ability to get transfer pricing and intercompany transactions right in real time.

Another place modernization can help is in closing the books, where companies gather and report all transactions. When you get the tax data model right, everything else starts to fall naturally into place and can bring significant efficiencies to the close process.



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You didn't answer my question about cost.

CFO

You didn't answer my question about cost.

Experience says we'll need 5-10 percent of the total finance transformation project cost.

CFO

Ten percent? What does that get us?

Better insights and tax planning.
Lower risk. Greater efficiency.

CFO

Okay. I get it, but I have one more question. Who's the sponsor?

Ummm. That would be you.

Tax leader

Tax leader

Tax leader



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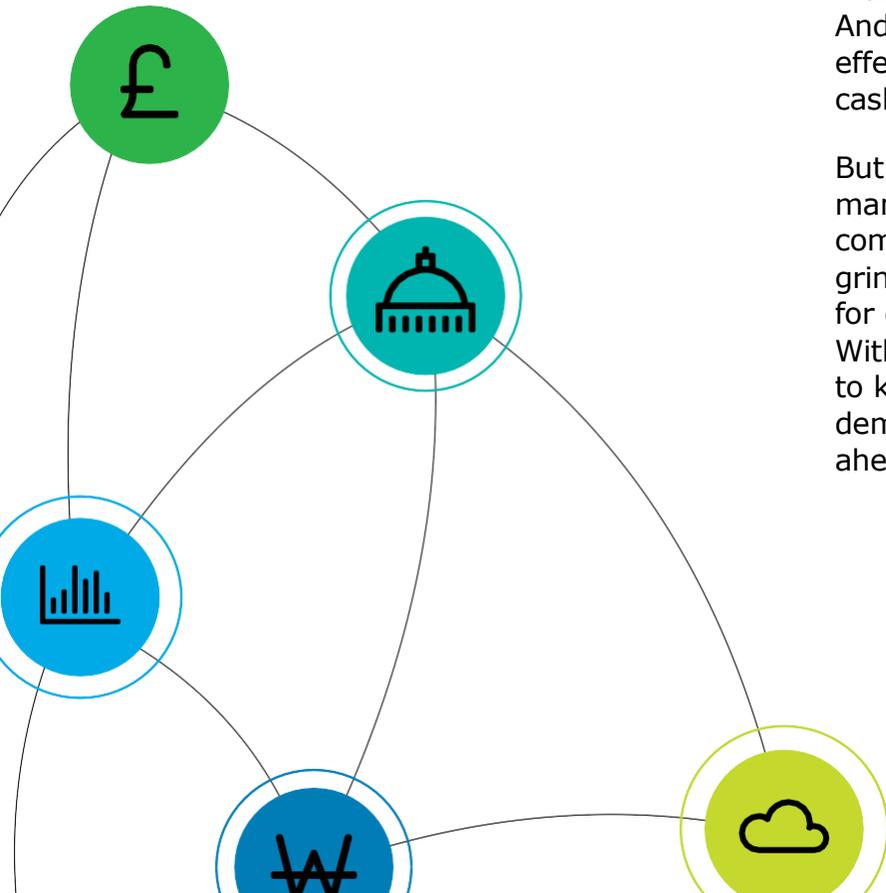
You didn't answer my question about cost.

The business case for tax modernization is easy to make for almost any global enterprise. Done right, tax modernization enables better management of the global effective tax rate. And with automation, you may be able to more effectively apply for tax rebates and reduce cash leakage, such as VAT overpayments.

But tax modernization is also about risk management. In the face of growing complexity, tax teams need a way to efficiently grind through the data and scenarios required for effective tax planning and reporting. Without modernization, you'll be challenged to keep up with the onslaught of new demands—and have little chance of getting ahead of the curve.

Yet even with a clear business case, your tax department may not push for needed investment as aggressively as other functions might. Tax departments are busier than ever, and many are falling behind, with little bandwidth to consider these improvements.

If you're the CFO, nudge Tax along. Even when there's a great tax leader in place, CFOs need to champion modernization.



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What's the risk if we don't invest?

CFO

What's the risk if we don't invest?

CFO

For one thing, we could make mistakes.

CFO

That can happen no matter what.

CFO

Me neither.

CFO

Anything else?

Tax leader

Tax leader

Tax leader

Tax leader



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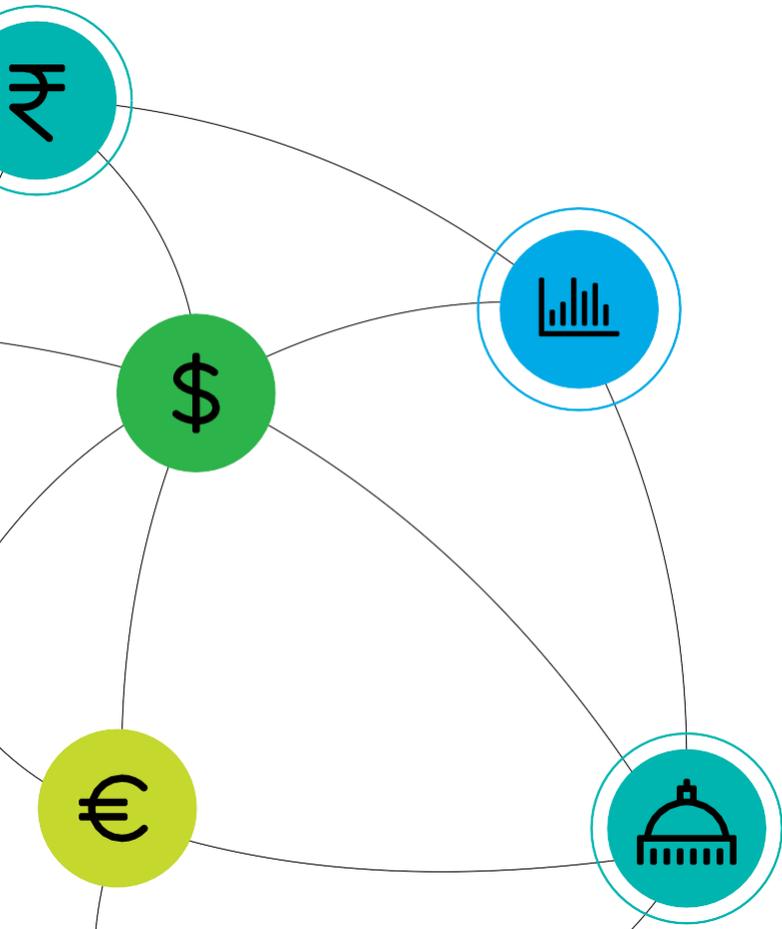
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What's the risk if we don't invest?



We've said this already, but it bears repeating: the number of new regulations companies have to comply with is truly mind-boggling. Every country or jurisdiction has its own unique requirements, and global companies feel the brunt of new rules every day. It's impossible for anyone to have a handle on all the issues—so risks can multiply.

Another risk involves talent. The pool of available tax talent is shrinking, with companies finding it harder to keep the best people on board. New recruits are looking for companies with modernized tax operations. Make sure yours is one of them.

No business can prepare completely for the uncertain future, but it's possible to get ready for the most-likely scenarios. More automation. More use of cognitive tools. More artificial intelligence. More advanced algorithms for scenario modeling. These are all part of tax modernization.



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It's crunch time.

Tax reform in the US has lowered the corporate statutory tax rate. On the global stage, tax legislation is increasing, along with calls for more reporting transparency and regulation. This means more tax reforms, more complexity, and potentially more change for your tax function.

Companies that received tax benefits from tax reform should consider investing in tax modernization, rather than taking those current tax savings to the bank. They should also be rethinking the role Tax plays in their business decision-making processes.

By taking a fresh look at new technology capabilities and related operating models, CFOs may find that they can have it all: a high-performing, efficient tax department that's tightly integrated with Finance and the rest of the organization.



Talking Tax

The next time you see one of your tax people in the break room, take a minute to swap war stories. And be sure to ask them how Tax and Finance could be working more effectively together. Don't be surprised if you unleash a wave of new ideas.



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Contacts

Bhaves Morar
Partner, Consulting
Deloitte Consulting
Email: Bhamorar@deloitte.com

Paul King
Partner, Consulting
Deloitte Consulting
Email: Paulsking@Deloitte.com

Javed Iqbal
Partner, Consulting
Deloitte Consulting
Email: jaiqbal@deloitte.com

Faisal Darras
Partner, Consulting
Deloitte Consulting
Email: fdarras@deloitte.com



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Endnotes

1. Representatives Office of the Law Revision Counsel, 2017

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