

# What's Next for Tax?

## Understanding the Trends on the Path Towards Digitization

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WHITE PAPER



The dawn of the OECD's Base Erosion and Profit Shifting (BEPS) initiative ushered in a new era of governments around the world sharing data with each other and multinational enterprises (MNEs) reporting holistically on a country-by-country (CbC) basis. Once an implausible idea, global tax authorities appear to be buying into the fact that transparency and fairness should reign supreme—and that's a big deal.

While the urgency around BEPS has quieted a bit as tax departments now recognize it as an integral piece of their standard reporting practices, many of us are left wondering: What lurks around the corner for tax? What does this all mean? If we look further down the road, what lies ahead?

If there is one thing we know, it's that the intent of these transparency-driven initiatives is three-fold: 1. to reduce fraud and increase revenue, 2. to lower the cost of auditing and raise the success of audits, and 3. to create a transparent system that establishes fairness. That's assuming their best intentions, of course.

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The trend is clearly moving towards real-time interaction and on-demand data access by tax authorities. If we look further out, there are predictions that technology like Blockchain will mature and replace the current infrastructure for real-time taxation while doing more to eliminate fraud and improve collaborative compliance. There are theories, especially on the indirect tax side, that the tax return as we know it may go away altogether. While this certainly won't happen tomorrow, it's important to understand the potential because the needle may move from the improbable side towards more-likely-than-not faster than we think.

Looking at 2018 and beyond, let's take a look at three pieces of practical advice that can help tax professionals understand the patterns in evolving tax legislation and emerging technology, as well as how tax departments can take a big picture view on what it all means.

## 1. Understand Trends in Technology — and How They Relate to Tax

All around us we see clear and compelling evidence that big changes in technology continue to come our way. Tax, as always, will be impacted. If you couple the following technology trends with the digital initiatives of governments around the world, it's evident that tax departments must prepare for a dramatic change in the way technology is used and how they interact with tax authorities.

### Robotic Process Automation

Robotic Process Automation (RPA) is, essentially, software robots that mimic human tasks across applications in a non-invasive way. They basically imitate you. If you can document a process for someone else to follow, especially if it's a potentially error-prone process, high-risk or manually-intensive, or done so frequently that it's just not a good use of time, you probably have a good candidate for Robotic Process Automation. Any of your tax processes fit the bill?

### Machine Learning and Artificial Intelligence

These concepts are related and often used interchangeably. Machine learning generally describes algorithms used by machines to teach themselves. Artificial Intelligence is used more broadly to describe the ways in which machines can perform tasks intelligently. Nuances aside, we see this all around us in our personal lives when we rate things online and, in doing so, change the way things are recommended, presented, or grouped. Behind the scenes, it's about taking a big population of data, learning patterns about that data, and then revising and training algorithms automatically to get better over time.

Machine learning doesn't have to be as sophisticated as self-driving cars. Think about how Amazon, Google, and Facebook use machine learning algorithms to improve recommendations, suggestions, and news feeds. Some of those capabilities are being applied to finance and tax today, particularly in areas where accurately categorizing, grouping, or classifying large volumes of data frequently is part of the process. Ingesting data from a dozen different ERP systems and getting it lined up for tax compliance and reporting is a fairly obvious example.

## Data Analytics

The latest advancements in data analytics are giving taxing authorities the upper hand when it comes to analyzing data submitted through CbC reports and digital reporting standards like SAF-T. We all know that analyzing and comparing ratios, like return on sales or assets, can help organizations gain critical insights on performance. They can also aid tax authorities in determining potential tax avoidance by comparing ratios to other companies in your industry or region — and efficiently identify potential anomalies.

When identifying specific arrangements that pose a BEPS risk, tax authorities can scan CbC reports for similar profiles. Taxpayers exhibiting those profiles will inevitably be selected for further scrutiny.

## Blockchain and Bitcoin

While many think that Blockchain is far into the future, it's barreling at us faster than most predict. There's a growing belief that Blockchain is going to radically change the way in which value is exchanged and items are tracked and traded in our society. Banking, insurance, voting, land registries, real estate, and stock trading are all examples of areas and industries that Blockchain is likely to impact. And while much of the publicity on Bitcoin is related to hackers and the cryptocurrency bubble, much of the actual activity we see is centered on the distributed ledger itself and the ways in which it's going to disrupt middle men, or intermediaries, by connecting the transacting parties directly. This will speed up transactions and reduce cost while reducing fraud and increasing transparency.

At its core, Blockchain's a distributed ledger that records transactions — and many of those transactions will be taxable events. That's why it matters to tax. The details around Blockchain get complicated quickly, but suffice to say there's a reason so many governments and industries are actively experimenting with Blockchain projects.

From a tax point of view, it's likely that Blockchain will impact the tax department via governments and tax authorities pursuing digital strategies around e-government and that technology used by tax to stay compliant will have to adapt to this evolution.

## 2. Use Technology to Keep Pace With Evolving Tax Legislation

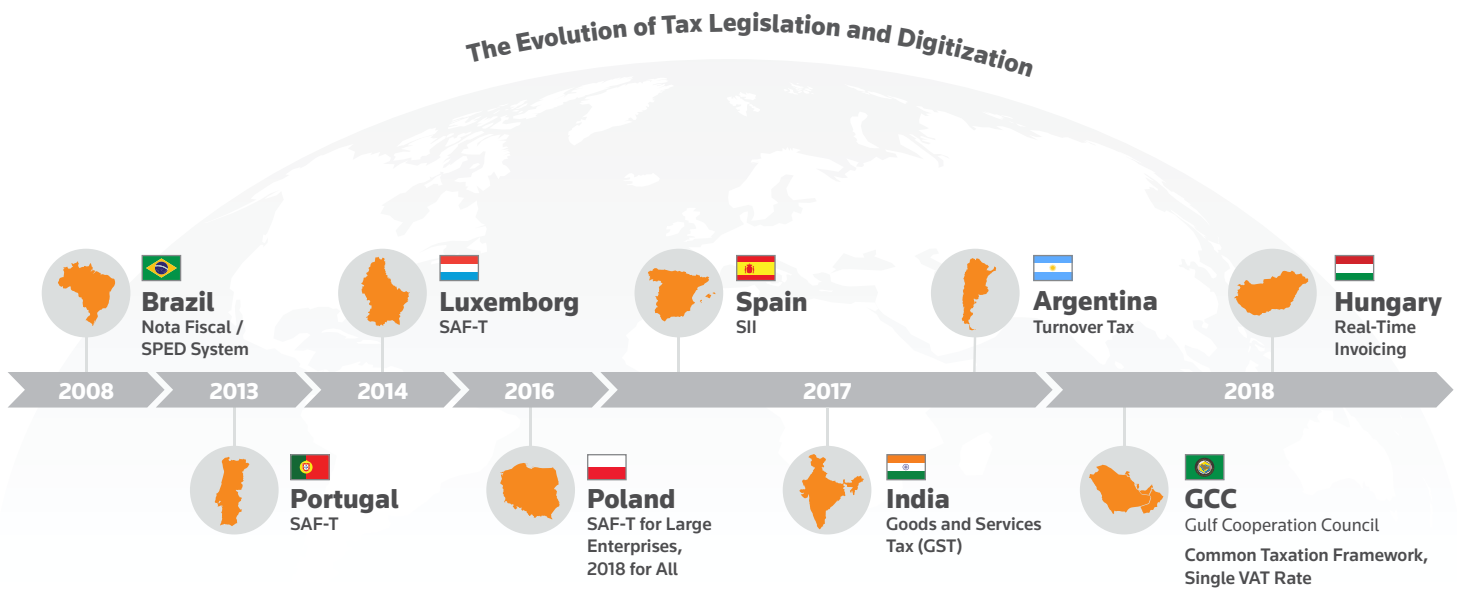
If one thing is certain, it's that tax legislation is ever-changing — and 2018 is no exception. From U.S. tax reform to SAF-T, a global wave of legislative initiatives proves that the tax department's adoption of technology is not optional, it's key to thriving globally.

### U.S. Tax Reform

With tax reform now a reality in the U.S., corporate tax professionals of all levels have an opportunity to elevate the value of their tax department. The investment that corporations will need to make to comply with the new rules will be significant, but taking advantage of technology that adjusts to changes to the U.S. tax code in real-time and offers modeling and scenario planning can help identify opportunities and avoid potential missteps.



From a tax point of view, Blockchain is more likely to come from governments and tax authorities as they pursue digital strategies around e-government.



As tax legislation around the world evolves in accordance with BEPS, the technology used by tax authorities and governments is evolving as well, changing the ways in which taxpayers must comply.

- **2008:** Tax authorities in Brazil enact and gradually introduce the Nota Fiscal / SPED system as their standard for the electronic exchange of accounting data. This move to a more granular audit enables tax authorities to look into transaction level data, which has prompted organizations to enhance their technology and documentation to comply, while managing the potential risk of audit.
- **2013:** Portugal mandates monthly provision of sales invoices using the SAF-T.
- **2014:** Luxembourg mandates use of SAF-T based reporting and, in principle, could request data in the format back to the 2011 tax year.
- **2016:** Poland introduced SAF-T for large enterprises, and, as of 2018, for all. Uniquely, they were the first country to mandate part of the filing (SAF-T JPK) to be made alongside the regular monthly VAT returns, rather than on demand. This provides the tax authority with invoice by invoice detail for reconciling to the return boxes on the monthly filings.
- **2017:** Spain enacts a system called SII, taking aspects of SAF-T for invoice reporting, and requiring near real time reporting of invoice details to the tax authority. This was mandated in July 2017. Expect to see similar actions in other European countries as they move away from scheduled reporting and towards real-time surveillance of taxable transactions.
- **2017:** To increase revenue, enhance transparency, and reduce fraud, tax authorities in India have introduced a centralized, singular Goods and Services Tax (GST) effective July 1, 2017, which replaces their historically complex taxing regime.
- **2017:** Argentina implements a "turnover tax," which is an indirect provincial tax imposed by tax authorities in each of the country's 24 jurisdictions.
- **2018:** The Gulf Cooperation Council (GCC) countries, which include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, introduced a common taxation framework that includes a single VAT rate applicable for all countries. Saudi Arabia and the United Arab Emirates are the first to go live on January 1, 2018, with other states following. This resource-rich group of countries has not had a system of taxation in the past.
- **2018:** Taxpayers in Hungary must supply real-time invoicing information to the country's tax authority as it relates to domestic sales invoices, effective July 1, 2018. Invoices issued from a pre-printed block of invoices must be reported through a website operated by the Hungarian Tax Authority.

In brief: expect more tax legislation complexity of this sort. Strictly in the realm of tax, it's starting to look like governments may be using technology more effectively than many large companies do. That's why it's important to keep pace with trends because, as they say, what you don't know could hurt you. To best prepare, adopt a comprehensive tax technology solution that enables real-time tax guidance, as well as planning, analysis and compliance support.



It's foresight and agility that will enable success for corporate tax departments in 2018 and beyond.

### 3. Think Big Picture

Sometimes, to get a clear view of the entire picture, you have to zoom out.

In 2018, tax leaders at multinational companies should focus on spotting and incorporating trends instead of just putting out fires when the next major tax initiative comes along. It's about being proactive and developing processes that are nimble enough to adjust to change. This ability is rooted in technology.

Tax should, in large part, focus on what it can control, like the preparedness of systems and the scalability of processes, in order to adapt to the next change. Today, keeping pace with specific rate changes and regulatory modifications is largely a function of tax technology platforms. The latest software can keep tabs on day-to-day changes so that tax professionals can focus on thinking strategically about tax matters.

As part of this strategic thinking, tax leaders should make sure to understand the long-term intent of regulators, the technical capabilities of the tools they're using, and the technology trends that impact tax. It's this foresight and agility that will enable success for corporate tax departments in 2018 and beyond.

### Bringing It All Together for the Better

There are clear patterns in the way in which tax regimes, legislation, and government systems are evolving. This shift towards real-time interaction is not slowing down anytime soon. This impacts the tax department's need for technology. As emerging trends change the way government systems are deployed and the technology they use, multinational organizations still need to comply at the speed of business. There's never been a more obvious time to implement solutions that enable and empower your tax department.

**In understanding and implementing technology, you can create opportunities not only in terms of compliance, but in helping your organization thrive in an increasingly challenging global environment.**



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