

ACHIEVING EFFICIENCY & EFFECTIVENESS IN TAX MANAGEMENT WITH TECHNOLOGY



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In an interview with Global Accountancy magazine, Sam Reeves, director of client services (Tax & Accounting), discussed the risks and opportunities facing tax departments today, and how technology can be a driver for business advantage.

With China's indirect tax system undergoing reform, Sam also shared the practical implications of the reform, the challenges and opportunities it presents, and a suggested course of actions to help companies prepare for the full transition from Business Tax (BT) to VAT.

Benjamin Franklin said "In this world, only death and tax are unavoidable." How to pay tax sensibly and legally is a key concern for all taxpayers, especially for enterprises. In your opinion, what are the key concerns for corporate tax in the world today?

The primary concern is the risk of getting it wrong: Incorrectly calculating and disclosing your tax liability. Although the tax authority may not lose sleep over companies overpaying their tax, an error in a tax calculation resulting in an overpayment will affect profitability. Conversely, an error may result in an underpayment of tax, and may go unnoticed. However, trends show that governments are working much harder to ensure companies are compliant. If the error is picked up by the tax authority, in addition to potential penalties and interest charges, it may result in negative publicity and an impaired relationship with the tax authority.

The secondary concern is how a company can mitigate the chances of error. Committing sufficient resources to tax compliance and embedding appropriate control checks and reviews is crucial, however, it may not be as straightforward as it sounds: A survey taken among 500 of our Tax & Accounting clients at Thomson Reuters revealed that budget cuts and staff retention was the biggest challenge they expected in 2012.

The third concern is that tax departments need to ensure they are up to date with the latest rules and regulations. This is important not just for compliance but to ensure tax related opportunities are being taken advantage of.

Compared to Europe's tax system, China's tax system is not well established, so can you share the experience of how Thomson Reuters formulates the tax business accordingly under China's tax condition. And how it works?

Companies and professional service firms in other countries with more mature tax systems have been able to take advantage of technology to increase their compliance at the same time as reducing their compliance costs. The Tax & Accounting division of Thomson Reuters has built a successful business in a number of these countries with its portfolio of software solutions.

Although the application and approach to taxation may differ between countries, the underlying principles and challenges remain. Therefore, solutions that businesses rely upon in other countries should in principal also benefit businesses in China. Of course a key part of introducing tax solutions to new countries is to ensure they are appropriately tailored for the local market. This means reflecting the local tax rules and rates and also accommodating local language requirements.

China's tax condition is complicated because of its historical reason which brought unnecessary problems for the enterprise, what do you think of it? What is the challenge to the company operating in China and what's their concern in tax? How do they avoid problems in tax?

Over the past three decades China's tax system has undergone significant reform, and this has generally made it easier for foreign companies to enter the market. However, the level of attention given to China would indicate that is by no means an easy place to do business, or to pay taxes.

The ongoing changes to the tax reform, in part in response to the changing domestic and international economy, mean that companies have had to work hard to ensure they are compliant. The current VAT reform is a good example of such change.

With its huge population and low staff costs, companies in China have been able to dedicate large amounts of staff resources to managing taxes. However, globalization and increasing staff costs could eventually force companies to consider cheaper alternatives. In response, we may see a much greater use of technology to replace current manual processes.

China is under VAT reform to modify the whole tax system and improve its efficiency. This reform has brought a huge influence and impact for the transportation and service industries. What do you think of this reform?

The VAT reform will be welcomed by some as it will result in a reduced tax liability by removing double taxation caused by VAT and business taxes. Furthermore, the change may also simplify administration and help stimulate the economy. However, not all companies will benefit from the VAT reform. In fact, certain companies will likely end up paying more tax.

Whether the change is beneficial or not, from the initial announcement, the pilot in Shanghai has been implemented extremely quickly. And if the roll-out continues at the current pace, companies should take smart actions now to assess the impact to their business and embark on a course of action to ensure they are prepared.

What are the challenges to address with VAT reform?

There are a number of challenges that companies need to consider with the VAT reform. These include: Understanding the transitional rules; considering tax planning opportunities; reviewing supplier relationships; assessing the commercial impact of the changes; updating tax compliance processes; and the impact on IT systems.

Thomson Reuters and Deloitte have [co-published a whitepaper](#) providing further details around these changes and lessons that can be learned from the VAT pilot in Shanghai.

How can companies better manage the challenges brought about by VAT reform?

The key to managing these challenges is in the planning.

Companies can embark on a readiness program, with or without the assistance of their advisors, to ensure that they are clear on the implications of the VAT reform and well positioned to respond. This should start with an impact assessment to understand the effect on their business, taking into account the implications mentioned earlier.

Ultimately, the aim is not only to ensure a high level of compliance with minimal disruption to the business, but to ensure that any opportunities identified during the impact assessment are taken advantage of, one question being how technology can be used to introduce benefits.

FOR MORE INFORMATION OR ADVICE ON THE ABOVE SUBJECT, PLEASE CONTACT:

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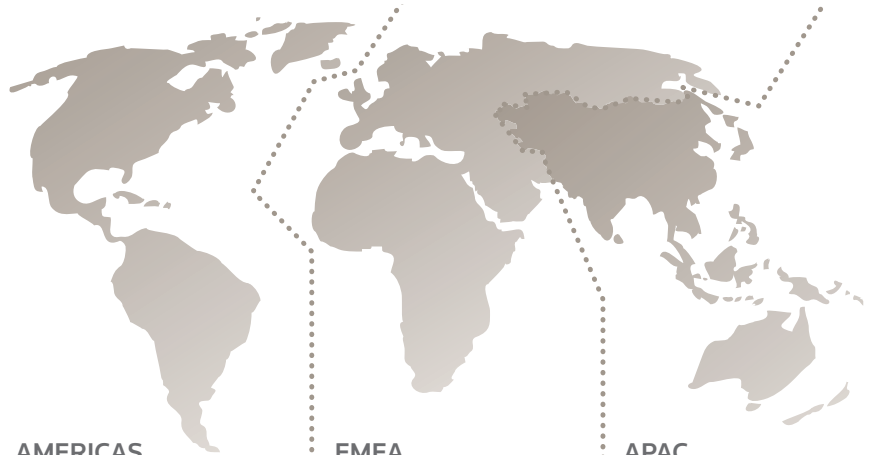
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