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Considerations for a Tax Determination Solution

White Paper

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Given the extensive indirect tax revenue gap, it is hardly a surprise that many EU tax authorities have chosen VAT as the starting point for the digitalisation of tax before addressing other tax and accounting treatments.

The European Union recently reported that in 2018 the VAT gap was €140 billion, equating to a total revenue loss of 11% across the region. The countries experiencing the greatest gaps in unpaid VAT were Italy (€35.4 billion), the United Kingdom (€23.5 billion) and Germany (€22 billion). You may be surprised to read that an 11% loss is a marked improvement, compared to the all-time high in 2014 of 14.3%! Whether these VAT losses are down to human error, accounting mistakes or companies pro-actively avoiding VAT payments, it has been apparent for some time that tax authorities across Europe are determined to address the problem.

Given the extensive indirect tax revenue gap, it is hardly a surprise that many EU tax authorities have chosen VAT as the starting point for the digitalisation of tax before addressing other tax and accounting treatments. **With the anticipated VAT loss for 2020 expected to reach €164 billion, tax authorities will only become tougher on business non-compliance with VAT legislation.**

Tax – the complex conundrum

Although there is a collective movement to digitalisation across the EU, most tax authorities are focusing on their own digital tax reporting standards and the timeline for transition. For example, HMRC in the UK has introduced Making Tax Digital (MTD), whereas Luxembourg, Portugal, Norway, Poland, Lithuania and Austria have introduced SAF-T along with other regulations. Many other countries have implemented different standards and deadlines suited to their economies. The challenge for all businesses is that they need to navigate this so they comply across all territories in which they operate. For large multinationals, this presents a particularly acute operational risk.

This can seem daunting, but the benefits of digitalising tax for businesses outweigh the work involved in going digital when it comes to Indirect Tax. With the right tax technology platform, a business can not only streamline getting the tax calculations right for all the jurisdictions that it needs to report in but also gain a return beyond the tax department. For example, cash flow and its negative impacts can be forecasted and addressed appropriately, insights can be gained that lead to tax efficiencies, and staff previously focused on firefighting audits can instead focus on more engaging proactive tasks that deliver higher value to the business. These might seem like small gains, but applied across all the regions of a multi-jurisdiction operation, they will quickly add up to considerable savings and benefits.

The tide has changed

The technology and practices that have been introduced, will benefit all parties by speeding up the process of filing and providing required granularity of data.

As businesses embark on the next stage of indirect tax transformation, it's worth remembering how requirements have evolved. Previously, organisations had worked to a post-audit model, summarising self-assessed tax filings. The limitations from a technical point of view were plenty and compounded by the manual filing process. As authorities and businesses move towards digitalisation with the adoption of e-invoicing and SAF-T, semi-automation in ERP systems has been seen as a partial solution. But there is still a need for greater accuracy and efficiency across the entire indirect tax process, not simply filing, and in many cases, it is a regulatory requirement.

Businesses are facing increasing pressure from tax authorities concerning complex due diligence, but there is a silver lining. The technology and practices that have been introduced, will benefit all parties by speeding up the process of filing and providing required granularity of data.

Tax technology can and should be at the very foundation of a business' operations. When utilised throughout your processes, from the point where transactions take place to invoices being created, the right technology can be transformational. It can equip tax teams with the ability to share key information with the wider organisation and tax authorities in real-time as and when transactions occur, or on-demand.

Meeting the requirements of Indirect Tax

	Past	Current	Fast Approaching Future
Journey towards digitalisation	Post Audit Model: Summary Self-Assessed Tax Filings	Increasing Adoption of SAF-T and E-Invoicing	Clearance Model: Mandated Real-Time Reporting and E-Invoicing
Compounding issues	Technical limitations of systems for tax	Migration of system to cloud and rigidity (lockdown)	Agile business requirements
Solution requirements	Manual & Excel	Semi-automated: Conditional logic in ERPs & tools	Intelligence and dynamic decisions

Source: Synergy 2020

Adapting to increased regulatory changes caused by macro, geo-political and unprecedented events such as COVID-19, means that companies will become more dynamic and make informed decisions about where, how, and with whom they do business. Being able to make more intelligent and dynamic decisions is not as far off as you think. As accounting and IT teams work together to migrate systems to the cloud and try to address the increasing rigidity and complexity of authorities demands in a remote world, they will discover that there are many benefits to agile working.

For tax professionals to do their jobs effectively, they must have an almost encyclopaedic knowledge of the tax codes for every country in which they do business. However, business taxes are not static, they are a continuously shifting framework of rules and regulations, which makes it difficult to stay up to date. The more fluid and complex the tax codes become, the greater the chance of making a mistake, and mistakes cost money – money that tax professionals are paid to protect.

Why now is the time to evolve

There is no better time to address the role tax technology plays in your tax department and wider business.

There is no better time to address the role tax technology plays in your tax department and wider business. Not only has technology reached a point where it is more advanced, and arguably more cost-effective than ever before, but the mindset of the workforce has shifted. The need to work from home is encouraging businesses to identify areas where they need to invest in the right technology and tools to help their employees become more agile and productive.

Whilst many companies are already moving core systems into the cloud, the additional benefit of tax technology is that it can support distributed tax teams and employees, as well as keeping the system updated to support changes in legislation and tax treatments centrally.

Meeting digital tax requirements doesn't just impact your accounting and tax teams - indirect tax reaches across the entire organisation, its processes, transactions and supply chains. To be successful with the digitalisation of tax, the whole business needs to be engaged and take a considered approach. After all, today's tax function has a critical role to play in addressing broader challenges, such as driving increased efficiencies and reducing costs.

Key considerations for the digitalisation of tax

Ringfencing time and controlling costs are always going to be crucial to the success of the project, and teams must be increasingly mindful of the need to manage people and the project remotely.

When digitalising indirect tax processes, any organisation will face challenges. Ringfencing time and controlling costs are always going to be crucial to the success of the project, and teams must be increasingly mindful of the need to manage people and the project remotely. Beyond these standard project management and communications considerations, several other factors can contribute to a successful large-scale tax digitalisation project, including:

- **Thinking beyond tax** – to successfully transform the tax function across regional tax departments you will need to reach out and align with colleagues outside your department such as IT and sales, addressing their requirements as well as your own. It is also worth noting that digitalising tax is not just a job for the finance or IT department. It needs a team with senior sponsorship that represents and supports the end-to-end lifecycle of transactional reporting through the business.
- **Identify key steps** – it's important to map out the process so that you can identify each requirement, never losing sight of the big picture. Have a clear strategy of how the tax technology platform will be deployed, with short-term and long-term gains. Think about where to start, and the easy wins that can deliver value to the business quickly. Part of the beauty of cloud-based tax technology platforms is that you can switch on different features and components at different times, confident that they will integrate seamlessly.

- **Share the benefits** – ensure to communicate the benefits of a tax technology platform with colleagues and key stakeholders across the business. Examples include:
  - Staying abreast of tax rates and rules regardless of jurisdiction.
  - Minimal tax logic configuration and maintenance of tax logic.
    - Tax determination acts as a central hub meaning that all IT systems that integrate with it will not need individual configuration or maintenance when the next tax logic change is due.
  - Better management of tax, risk and compliance.
    - Ensuring a 'tax control framework' is in one place will enable you to adhere to company policy.
- **What will work best for your business?** – when assessing your requirements, you need to have a clear idea of what your tax technology partner should provide. You need to consider:
  - Ongoing support and maintenance of the software
  - Ability to provide integration for all your finance and ERP systems
  - Professional services experienced in delivering successful projects
  - Certified tax content and guidance from experts in their profession.
- **Measuring success** – you must consider what success looks like from the outset. There are many examples of businesses that have successfully adopted a tax engine as part of their long-term strategy, and it's worthwhile exploring their successes and challenges, so that you can learn from their experience and adapt your strategy appropriately. Setting rigorous KPIs will help you to track and report back on the return on investment.

There is no doubt that today's tax function is being drawn into helping address the broader concerns of modern businesses – driving increased efficiencies and reducing costs. Adopting a technology-enabled approach to handle constantly evolving tax requirements has proven to be a huge advantage for tax departments, allowing them to work quickly, efficiently, and accurately.

The tax engine

Companies now can dynamically support their business operations, and meet complex tax compliance rules and regulations by deploying a tax engine as part of their tax technology journey

Fortunately, companies now can dynamically support their business operations and meet complex tax compliance rules and regulations by deploying a tax engine as part of their tax technology journey – something that's especially critical for multi-national organisations. A tax engine essentially helps calculate your tax on sales and purchases. This seemingly mystical, intelligent black box can ensure your calculations are correct by applying tax content and logic to the information it is presented with, just like a tax professional would. You pass the relevant information through to the tax engine via your IT systems and it determines in real-time exactly what rate of taxes should be applied and returns the appropriate values to accompany your transaction's financial posting.

The IT and tax manager will offer very different perspectives when justifying the purchase of a tax engine. From an IT perspective, the tax engine applies conditions and logic that enable it to translate tax rules within the parameters of a transaction, providing you with the right answer every time. The tax engine is the equivalent of a huge, automated, cloud-based decision tree. Your team and sales systems across the globe can throw any combination of territories, goods, services, catalogues, rules and regulations at it and be sure to get the correct result back.

The reason it can cope with such vast quantities of information is that it is designed to be an agnostic piece of software that integrates easily with other systems. A tax engine is so robust that it can cope with varied business systems which are especially important for multinational organisations, which may have multiple ERP systems or solutions. For example, if you have 10 different systems that need to adhere to one tax rate change, then the tax engine can handle this across all systems, understand how each needs to send or receive information and keep

your business compliant. This approach removes the extremely labour intensive process of tax determination and is not just a considerable relief for tax teams, but also their colleagues across the IT, security and infrastructure departments.

From the other perspective, that of a tax manager or legal professional, a tax engine maybe implemented to address the burning issue of tax compliance, yet it resolves problems for many across the business. A tax engine has product schemas for various regions around the world, meaning that products sold or bought can be mapped accordingly and therefore taxed accurately.

Application of this powerful logic and intelligence can prove incredibly helpful for businesses grappling with the number of changes that may be required following Brexit. In such a situation where a tax engine has been deployed, this complicated change from a tax and legislative point of view would be translated and applied within the tax engine. For new rules and regulations introduced, businesses will be able to trust their chosen tax engine – that the provider and the content team supporting the system will ensure centrally for the changes to be mapped.

Changes such as those mentioned above can be a seamless experience for businesses as tax engines are cloud-based solutions, ensuring no downtime is experienced by users either. Furthermore, the tax engine also provides tax and legal teams with the legislative, mandatory wording required for their invoices. For example, if goods are provided cross border, then the tax engine applies the appropriate logic and provides the relevant legislative reference to highlight on the final invoice that the goods are subject to zero-rating or exempt from VAT. This is a giant leap in comparison to how changes to legal policies were previously made. This completely removes the headache of remaining compliant despite the significant change to how businesses will operate post supply chain impacting events such as Brexit.

In summary, the benefits of tax engine deployment include:

- Multiple integrated systems.
  - A single place of maintenance for business rules that govern how those systems work together, rather than in each system.
- The ability to process endless volumes of transactions from any of your operations around the globe, dynamically and automatically applying tax rules, while ensuring regulatory compliance.
  - This benefits both your IT and tax teams by reducing complexity, improving efficiency and reducing the need for manual adjustments.

- The opportunity for tax teams to save time and resources needed to stay abreast of regulatory tax changes and apply them across finance systems.
  - A tax engine provider will do this work for you as part of their contract, freeing up the tax team's time. It is also great news for the IT team, who may traditionally undertake this task and lack the tax regulatory knowledge to be sure they have interpreted changes correctly.

A tax engine gives your business an intelligent, dynamic and automated way to make tax decisions and meet legislative changes, whilst giving time back to your IT and tax teams, so they can focus on more strategic activities.

The tax complexities across multiple jurisdictions are why most companies use some form of indirect tax automation software, to help track and calculate their organisation's tax obligations.

If you are experiencing any of the challenges below, then now is the time to think about a tax engine for your organisation:

- Significant cost and effort of staying on top of tax for tax and IT teams.
- Your IT strategy already involves a technology change that will impact finance and tax departments in the future – such as a new ERP system.
- Finding it hard to stay up to date with changing tax rates, treatments and legislation across your international operations.
- You already have identified a need for an automated tax determination process.

The tax complexities across multiple jurisdictions are why most companies use some form of indirect tax automation software, to help track and calculate their organisation's tax obligations. But such packages are only as accurate as the programming and support behind them. In practice, a team of tax research and technology experts must work 24/7 to keep a comprehensive tax system fully updated. **That's why, after calculating the true costs of global tax compliance, more companies are turning to third-party vendors who specialise in software dedicated to tax compliance.** A dynamic, efficient, accurate solution will provide frictionless support, freeing up time, resources, and energy that can be dedicated to ensuring the organisation's future, rather than grappling with mistakes made in the past.

ONESOURCE Determination provides a comprehensive global solution for the efficient and accurate calculation of your indirect taxes. It is a secure cloud-based solution which integrates with leading IT systems as well as homegrown systems. Our global tax research team monitors more than 19,000 global tax jurisdictions in 190 plus countries and territories covering global Indirect Taxes— all of which get automatically integrated with your business systems. As a result, our solution enables you to effortlessly navigate the ever-changing tax landscape without the burden of having to configure your IT landscape as a result of legislative changes or changes to the way you do business.

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