

# Mind the data gap

automating indirect  
tax processes



THOMSON REUTERS

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# Tax and opportunity

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The constantly evolving automated tax environment presents numerous challenges to businesses, demanding the innovative and effective use of technology. However, it also presents opportunities.

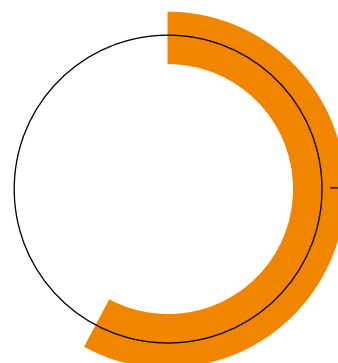
# 01

In recent years, governments around the world have made increasing use of indirect taxation. Technology is increasing the ability of tax authorities to capture huge volumes of data, improve their processes and address tax evasion. All of this adds more complexity to the already complex tax arena. To meet these challenges, businesses are required to think long term, investing in technology and qualified people.

# Meeting the data challenge

The agenda for business leadership is changing. Technological advances, coupled with immense global political and socio-economic changes, present a paradigm shift in society and taxation. Globalisation is now questioned, and the role of government and taxation is growing significantly. In these circumstances, tax evasion, fraud and noncompliance represent a huge threat to government revenue streams.

Transactional taxes such as Value Added Tax (VAT), Goods and Services Tax and Sales Tax have existed for a number of decades. The creation of a European VAT regime triggered a series of indirect taxes that have given government more economic levers. Indirect taxation is becoming more prominent and demanding as tax authorities begin to see its huge potential as a source of revenue and



# 58%

of corporate tax professionals say that their approach to tax compliance is chaotic or reactive

Thomson Reuters 2020

# €137.5<sub>BN</sub>

The total amount of VAT lost across the EU in 2017

European Commission 2019



cashflow. It is also one of the hidden taxes that are crystallised when a transaction is triggered and can only be avoided if a sale or purchase does not materialise.

Tax authorities are closing the tax gap, demanding stricter reporting requirements and increasing transparency in the taxation system. This is driving investment and innovation in technology.

This radical transformation of the tax agenda is creating a new, digitalised tax environment that all businesses need to navigate. Management must have line of sight across the whole business and maintain agile tax automation processes. The problem is that tax compliance is often seen as a cost for business operations, with the tax department traditionally viewed as a necessary cost centre. It has been managed on a strategic level with a view to avoiding penalties, late interest payments, getting caught up in time-consuming audits, or obstacles to timely tax refunds.

The external tax agenda is driven by government policies. The trend toward digitalisation of taxes has created an ever increasing burden on businesses, which must invest in the technology needed to keep up. However, there is an opportunity for businesses to enhance data and revenue collection across their operations, turning this cost centre into a strategic and profitable function. It is also an opportunity to transform the way business operates. This data can give insights into the business from a different perspective and can also be valuable for internal stakeholders such as cashflow forecast, volume of business processes and profitability per country.

# Changing the dynamics

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The time for automation is now. Businesses can move away from repetitive, high volume, time-consuming tasks, freeing up time to complete more strategic activities and add more value to the business. The key is to have the right conversations involving appropriate stakeholders in the business.

# 02



While business planning has become more complex, particularly in light of the Covid-19 pandemic, obligations to file tax returns and comply with internal and external responsibilities remain unchanged. Businesses know they need to steer clear of penalties and interest charges, but in today's environment they also need to avoid reputational risks due to missed, late, or incorrect filings. Digitalised tax management makes it easier to meet these obligations.

A global business collects complex data, as mandated by tax authorities to support tax payment or tax refund figures. There are additional management challenges: tax authorities do not replicate each other's frameworks in how they request information. The quality of master data maintained by a

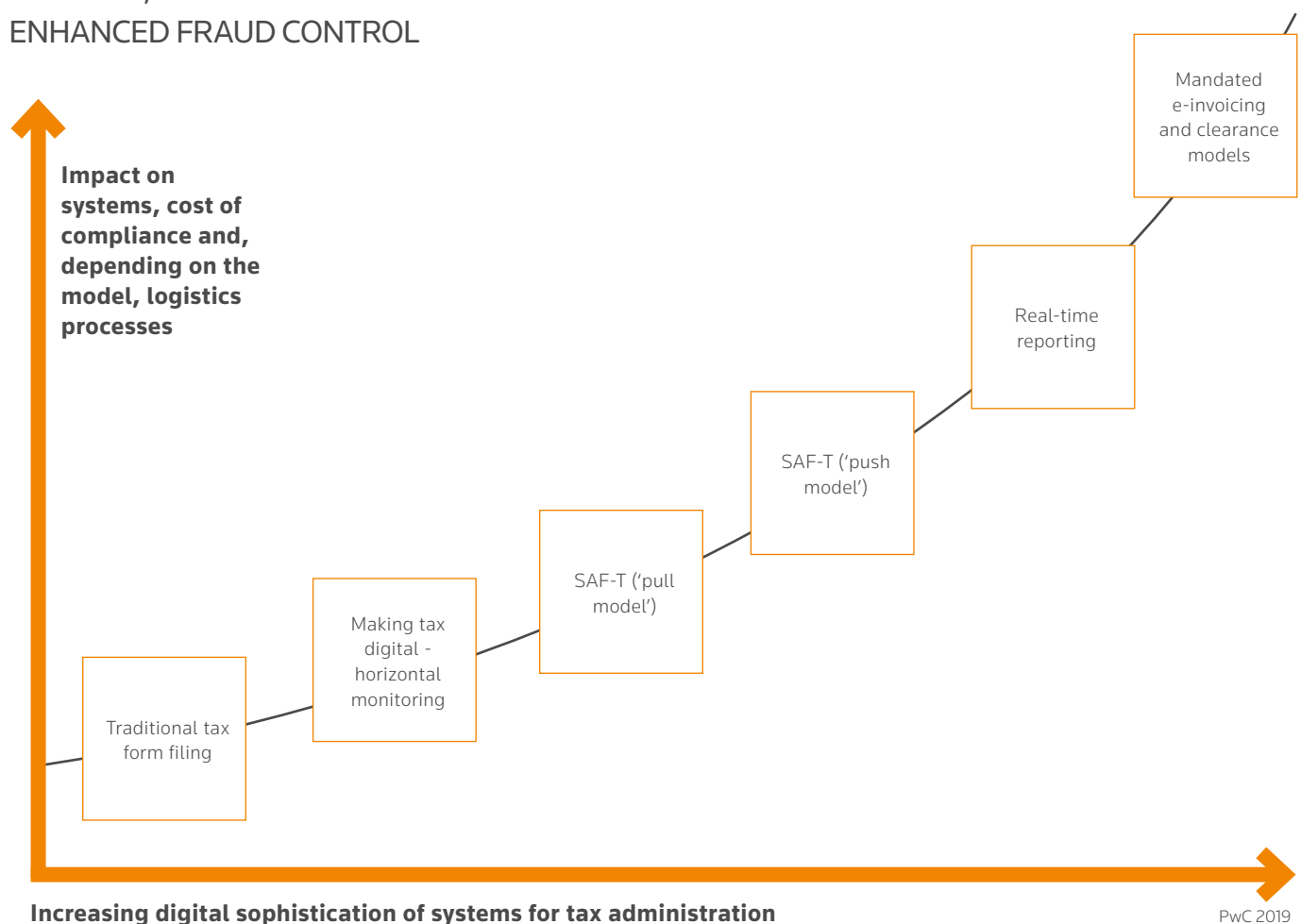
business, therefore, will drive the accuracy of data reported to multiple tax authorities.

Aspirational businesses are constantly evaluating how to seamlessly extract from their source systems the data required to prepare their tax filings. Tax technology can automate such processes and drive efficiencies. However, achieving a seamless process can still pose challenges.

These pressures are intensified by frequent developments in regulations, with limited time between details being provided and implementation dates. For example, 320 legislative changes (both direct and indirect) were introduced across 126 countries in response to the Covid-19 pandemic, emphasising the need for tax teams to be agile in their approach.

# “Tax authorities do not replicate each other’s frameworks in how they request information”

THE MORE SOPHISTICATED YOUR TAX TECHNOLOGY, THE GREATER THE BENEFITS, INCLUDING GREATER CONTROL OVER TAXPAYER DATA AND ENHANCED FRAUD CONTROL





# Forging best practice

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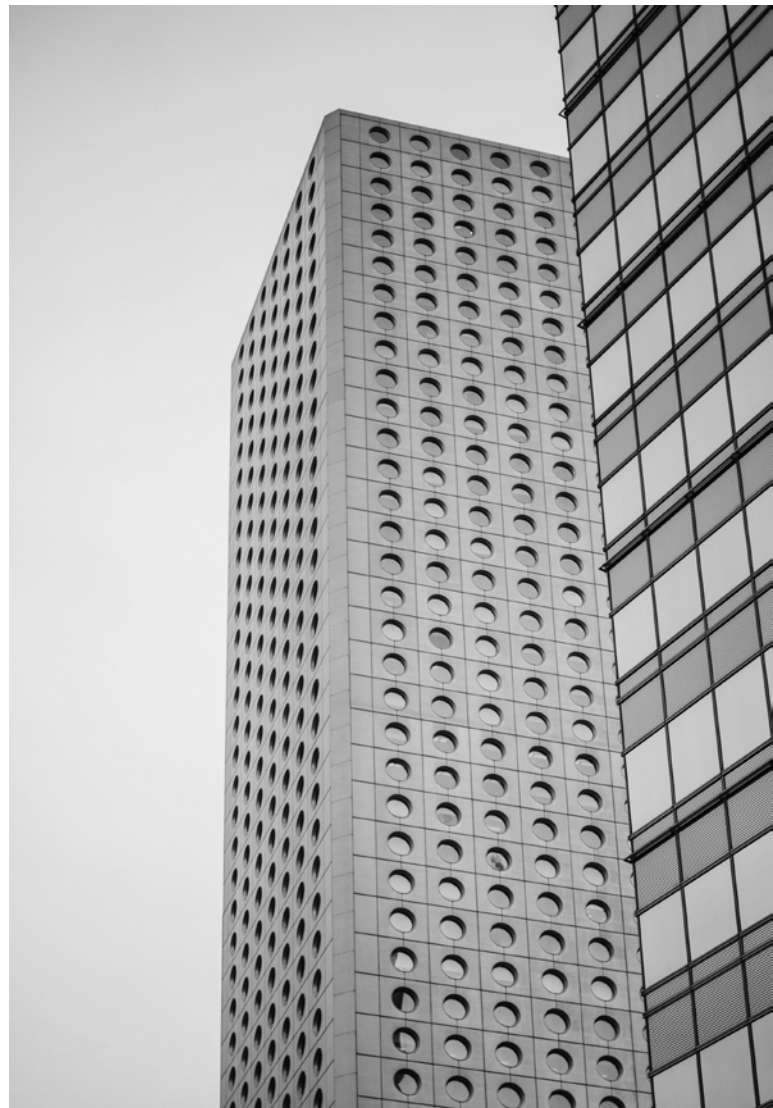
The timescale for implementing change differs due to jurisdictional variations in data transmission. For example, Spanish authorities demand real-time reporting within four days of a transaction. Conversely, Norway requires taxpayers to be prepared to provide detailed information on demand to the tax authorities.

# 03

The faster the requirement for data transmission to tax authorities - and the more requirements from a regulatory perspective - the more challenging it is for businesses. Businesses must also consider automating routine activities to enable tax teams to spend time on strategic activities.

**Awareness:** Tax departments require visibility of the wider business, but there are internal challenges in gathering the necessary data. Awareness at leadership levels has increased significantly in recent years as tax authorities have sought to collect more sensitive data. This impacts all departments within a business and requires adherence by all business units.

**Reputation:** Tax liabilities and audit results reflect on the whole business. There are significant reputational risks of indirect tax noncompliance. Tax should be integrated into every business decision and should no longer be an afterthought.



“These best practices form a vision for unified compliance processes, where the required data is provided in the desired format”

**Supply chain:** Mapping supply chains and having clean data enables management to fill data gaps and standardise tax compliance processes. Indirect tax has rapidly moved up the agenda for businesses, as it should be determined in advance of each transaction. An efficient compliance process can be seamless. However, an inefficient process can hamper supply chains, processes and eventually the business as a whole.

**The tax data journey:** Data is key to getting tax right the first time, every time. Depending on how a business is structured, data is impacted throughout its journey to tax authority submission. Once the origin of the data has been established, best practices include several key steps:

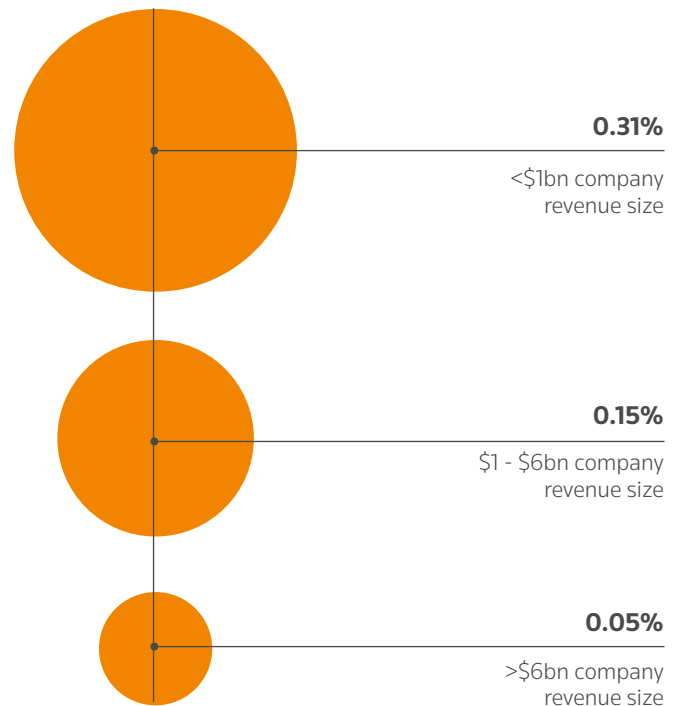
- Centralised collation of data
- Standardisation of data
- Management of data to assist with reporting
- Automation of data access for compliance processes
- Identifying trends and anomalies in the data

Businesses are increasingly automating the extraction of data from their source systems, generating significant time savings as transactions flow through the process.

These best practices form a vision for unified compliance processes, whereby an intuitive and logically powerful system could provide the required data in the desired format. This is the power of automation, which can support a business in meeting its varied tax obligations.

## ECONOMIES OF SCALE EVIDENT FOR TAX COSTS

Total spend on tax (external and internal) as a proportion of revenue declines with size



Thomson Reuters 2020



## Opinion

# Having the right conversation



**Gunjan Tripathi**

Senior Proposition Manager -  
Indirect Tax, Europe at  
Thomson Reuters

Having the right conversation about the many positive impacts of tax compliance is how the tide begins to change within a business.

In large, multinational businesses, conversations with the finance and accounting teams are imperative. They are intrinsically linked with the impact of tax reporting. Indirect taxes are relatively real-time in nature and impact monthly closings and profit and loss statements, meaning there is pressure to process accurate data as soon as possible.

A separate conversation should be had with the legal teams. For example, tax experts can work closely with legal teams on contract negotiation to better integrate any tax implications and benefit from tax opportunities. Supply chain management is another key area for businesses engaged in cross-border trade, where indirect taxes can result in significant administrative burden.

In parallel, implementation of an automated system would identify anomalies and data gaps in the transactional data flows. This can feed back to the source systems to help a business decide the best course of action. Large businesses aspire and work towards having such automated processes, but it requires a high degree of configuration, multi-talented teams from different disciplines, business knowledge, the ability to capture local requirements and data science.

When such processes are embedded into a business, then business intelligence starts to emerge. Indirect tax experts nurturing internal relationships and intelligence, with the ability to communicate and influence all departments, are able to achieve eureka moments for businesses.

# The tax story

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Only a limited resource pool truly understands and has the capability and experience to deal with indirect tax issues. Many businesses have an even smaller support team for their indirect tax experts. This becomes a significant internal resource constraint in terms of advocacy and progressing the internal business case.

# 04

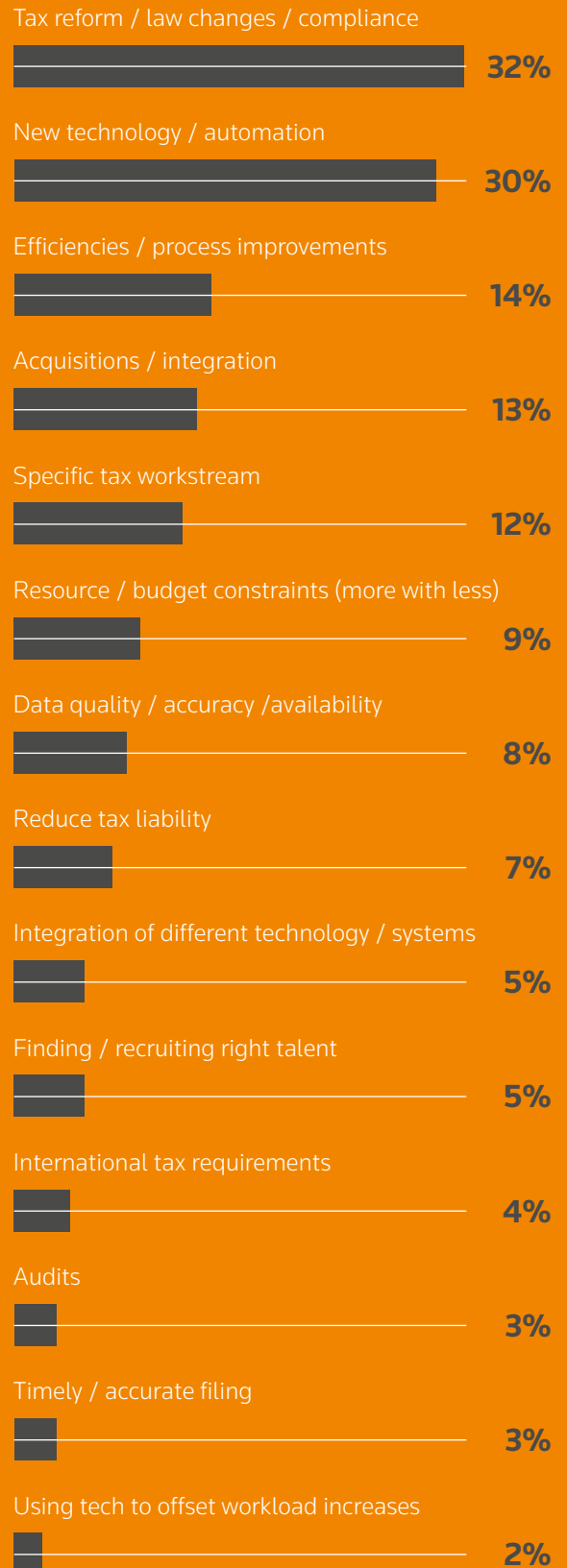
Tax authorities have ramped up their efforts and businesses have been playing catch up, meaning everyone is now aware of the issues. Rather than being on the margins of the business, digitalisation of tax processes has to be at the forefront of thinking and planning. The risks of failing to act are significant, ranging from damaging reputational risk through avoiding tax penalties to personal and criminal liability.

Progressively, businesses are becoming aware of the impact of efficient tax management on their revenue and reputation. They are also observing the impact on other businesses which fall foul of the regulations. Tax authorities are focusing on addressing the tax gap and allocating resources to do so, which is bringing tax to the top of the agenda for business stakeholders.

Tax departments need to be vocal about the far-reaching impacts of tax issues and demonstrate a well-researched business case prior to obtaining stakeholder approvals. A typical business case should address the following:

- Identification of significant pain points for the business
- Utilising tax technology to save time and money
- Efficient indirect tax management to improve cash flow
- Informed decision-making by businesses using tax data

## KEY CHALLENGES

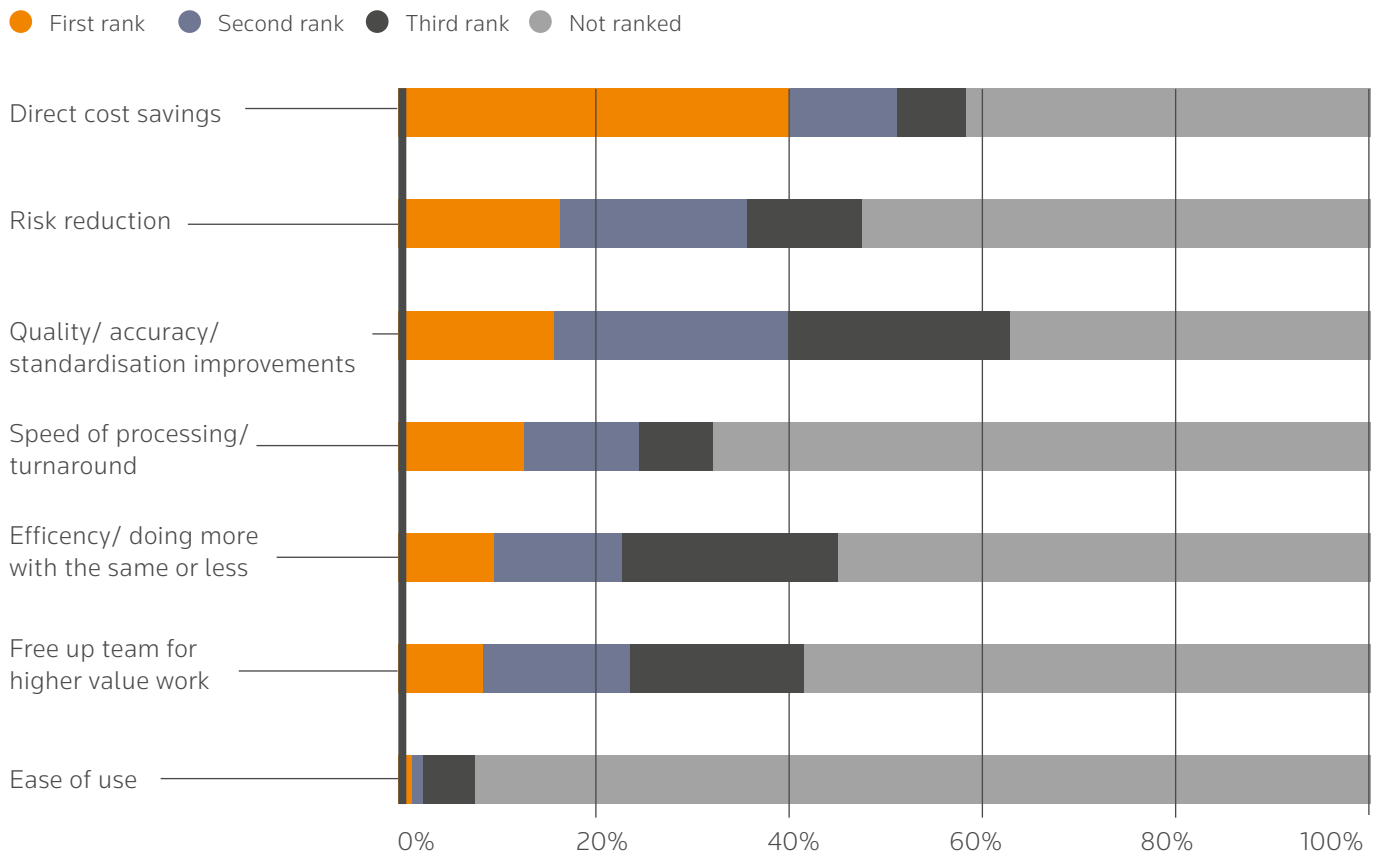


With the right technology, tax teams have an opportunity to play a strategic role in their business, providing intelligence and valuable insights for a variety of stakeholders. They can also become a profit centre. The tax teams not only save money and time through the management of compliance processes, but they can create a single source of truth to present to the tax authorities.

The time for automation is now. This will enable the resources dedicated to tax within the business to move away from routine activities, freeing up time and resources to do more strategic and value-add work for the business. Consequently, businesses will be able to optimise their operating models and increase their revenue.



### ARGUMENTS IN FAVOUR OF ADOPTING NEW TAX TECHNOLOGY



# How can Thomson Reuters help your business navigate the ever-changing tax environment?

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Regardless of where you are and the tools that you are currently using, we can get you connected to what's happening today and prepare you for whatever happens in the future. With our powerful combination of deep tax expertise and cutting edge technology, you can thrive in a world of pace and change. Be the engine that powers efficient and informed decision-making.

Thomson Reuters ONESOURCE platform ensures end-to-end accuracy, from the tax calculation in source transactions through to automating the reporting process.

ONESOURCE Indirect Determination automates the tax calculation process, ensuring your business stays on top of regulatory changes and avoids costly mistakes. It empowers your business to be agile with expansions into new markets or supply chain restructuring, while at the same time gives confidence that you're keeping up with constantly changing requirements. Targeted deployments allow your business to approach automation with agility, with efficiencies and improved accuracy delivered quickly.

ONESOURCE Indirect Compliance is a single, centralised solution that removes the need for complex, country-specific spreadsheets and provides updated rules and rates, and fully automated support tailored to your specific indirect tax compliance needs. Avoid costly errors, reduce workarounds and manual interventions.

Deliver quality, accuracy and rigorous reliability. Get real-time with your data and reporting. Join the dots within your business and to what's happening around the world.

Learn more here and book a free consultation:

<https://tax.thomsonreuters.co.uk/onesource/indirect-tax/>



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