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Embracing Digital Tax Transformation

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Global tax changes, shifting regulatory requirements spark action

Digital Transformation for corporate Tax functions is anchored in clean, complete, relevant, and timely business data from enterprise resource planning (ERP) systems. Benefits to a Tax function from a properly planned digital transformation cover the spectrum of real-time reporting, improved tax transparency, confidence in the data for planning purposes, efficient compliance, and ultimately, tax reporting, which is an important component of financial reporting. Tax reporting of the future is now driven by transactional data, so transformation within the ERP also starts further up-the-chain in critical business processes designed and built for the business, along with tax data needs embedded.

Globally, tax regimes continue to add complexity, while global economic opportunities entice expansion. These complexities multiply the stress of meeting the statutory requirements on already overburdened Tax functions to expend more hours to meet compliance, reporting, and controversy needs. Increasingly, we are seeing tax authorities inserting themselves between enterprises and their customers, vendors, etc. Data sharing between sovereign jurisdictions is rising, leading to additional complications when the enterprise has difficulty in attributing transactions to the proper jurisdictions. Adding to this heightened complexity is the advent of the OECD Pillar Two – Global Minimum Tax, which will potentially create the need to identify and capture new data elements for calculating the Global Minimum Tax as adopted by jurisdictions affected. This presents a novel challenge for the Tax function and its capability and capacity to manage tax relevant data working with business and information technology.

Tax Data Management in such a rapidly evolving environment

Tax data management is less art and more science because of the tangible requirements that jurisdictions impose on companies. Therefore, an evolving Tax Function should have all the elements that are necessary to manage tax data required for compliance, reporting, planning, and managing controversy.

For any Tax function, it starts with capturing many data elements and then creating attribution tags for tax type, jurisdiction, account classification, etc. at the time when business transactions are recorded in an ERP system. In most instances, though, there's a limit to how many elements and attributes can be captured and realized during an implementation as a result of multiple constraints that can range from scope, budget, resources, integration with other systems, or even timeline. So, what's a Tax function to do in those instances?

That's where the science of tax data management can provide additional data using technology and tools that assist the Tax function to fulfill its global obligations.

For successful tax data management, the Tax function needs to identify and understand the business drivers that create tax data across the enterprise's systems landscape. These business drivers range from new markets and products, new jurisdictions, changes in supply chain, new regulations, and new business models. For example, an enterprise that previously licensed services might shift to a subscription service model that requires the capability to capture data minute by minute and then aggregate that data while tagging for geo-sourcing to recognize revenue in the proper jurisdictions. A subscription-based model creates more granular data and significant increase in data volume relative to a pure licensing business model. Adding to this complexity and volume are developments related to OECD's Pillar Two – global minimum tax as noted above. The Tax function needs to understand these types of challenges, analyze its needs relative to the change, and determine how to manage such data for the purpose of compliance, reporting, and managing future controversy.

Data management strategies

As tax authorities become more sophisticated, they're requiring more data, more frequently, from tax departments. New requirements such as those imposed by U.S. tax reform and Pillar Two require more intricate levels of transaction detail and create additional complexity. As a result, many traditional manual tax processes may not meet the data needs of modern tax departments.

Analytics, data-wrangling, and scenario planning tools are instrumental in helping tax professionals leverage vast amounts of data to anticipate future changes. In turn allowing for the development of business processes that are agile enough to accommodate today's environment of constant change. Combine that with the use of a data lake and an application programming interface ('API') and the tax function will become more nimble and better prepared to respond to the rapidly evolving tax environment.

Data-wrangling tools can be used to extract and format the data required to comply with multiple jurisdictional rules. ERP solutions in the cloud can integrate tax technologies with other finance and business applications. Many of these technologies— and solutions—are already being actively deployed and can be part of the solution in responding to future legal requirements such as those imposed by Pillar Two.

Aside from data wrangling and ERP solutions, data lakes assist in increasing convenience and ease for data storage. A data lake is a centralized repository that holds a large amount of structured and unstructured data until it is needed. A unique identifier and metadata tags are assigned for each data set in the data lake, allowing for faster and more convenient

access to data. Unlike most data warehouses and databases, data lakes can handle all types of data (including unstructured and semi-structured data such as images, video, and audio) that are required for automation use cases.

Data lakes have become one of the most popular repositories for large amounts of data. A recent study by Gartner[1] showed that 57% of data and analytics leaders are investing in data warehouses, 46% are using data hubs and 39% are now using data lakes.

Application Programming Interface (API) is yet another tool that allows for increased efficiency. API is a software interface that allows two applications to interact with each other without any user intervention. API is a collection of software functions and procedures. In simple terms, API means a software code that can be accessed or executed. API is defined as a code that helps two different softwares to communicate and exchange data with each other. It offers products or services to communicate with other products and services without having to know how they're implemented. Software needs to change over time, and APIs help to anticipate changes.

[1] Laurence Goasduff, *"The Best Ways to Organize Your Data Structures,"* Gartner, June 17, 2020.

Taking tax digital

The COVID-19 pandemic brought to light the value of cloud-based, digitized, and automated systems and processes. Given the need to work remotely (often suddenly), many tax leaders found themselves struggling to ensure their tax professionals had access to the right systems, tools, documents, and data to maintain compliance and deliver strategic advice to the business. And in an era where a certain level of remote work may continue using virtualized tax processes and cloud-based data, tax departments can no longer get by with manual processes and inaccessible data.

Today's Tax function and the Tax function of tomorrow —requires tax professionals to have access to real-time, transaction-level data. And they need to be able to trust its accuracy. This will be no different as clients prepare to respond to Pillar Two and need to collect information globally in a very short time frame.

For multinationals with large global footprints and tax exposures, the journey offers even greater value, since each of the aforementioned drivers is magnified. Tied together by a common system, standardized data formats, and reduced manual workloads, a move to the cloud can allow group-level tax leaders and head office executives unprecedented insight into the company's global tax positions, risks, and opportunities.

Most tax leaders already understand the direction of travel for tax authorities. They see the expansion of digital frameworks such as SAF-T and the recent roll out of the OECD Pillar Two model rules and they are starting to realize what it will require to ensure they remain compliant as various tax authorities move toward their own digital futures and global minimum tax regimes take effect. In an age of virtual working, continuous compliance, real-time reporting, and tax authority automation, in which every piece of data and calculation can be analyzed, errors that were once easily remedied once identified can quickly become mistakes. Transitioning to cloud-based applications better supports risk management through consistent software updates in order to address future regulations and provide greater visibility into the data, while also providing an accessible digital audit trail.

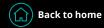# Develop your digital tax road map

Many tax organizations have already made great strides in responding to the demands of complex regulatory requirements; voluminous, scattered data; and business and infrastructure transformation, while others are in more of an exploratory phase. Despite the organization's standing, tax leaders are increasingly turning to technology for answers—and finding new ways to add value to the business. With the right information, leaders can draft a road map to guide their journey.

It is vital for tax leaders to understand that technology is not purely related to compliance and reporting. In fact, it extends beyond the corporate Tax function and its own budget. To realize value by effectively using technology, tax leaders need to engage with the IT, business, and finance functions. Especially when it comes to ERP, data management systems, and analytics.

Additionally, tax leaders must work to understand how to plan their approach - a big picture approach involving the consideration of a technology architecture, that will fit with the wider business infrastructure and that of external providers as needed. By combining this approach and aligning with organizational goals, they will be on their way to uncovering and delivering new value—and realizing ROI— through technology.

Furthermore, it is necessary for tax leaders to move beyond the traditional imperatives of ensuring quality and maintaining control in the management of global tax—such priorities are table stakes today. To become a strategic member of the executive team, tax leaders need to add more value in line with their CFO's priorities by engaging across traditional organizational boundaries. This will likely include risk mitigation, cost reduction, and an ability to anticipate what's ahead. Clearly defining value and finding the best mix of approaches to deliver it are a new call to action for tax leaders and can be accomplished through the appropriate technology and infrastructure.

Tax leaders and business executives should ensure the concerns of the Tax function are represented when considering their organization's wide data strategy and digital transformation journey. This will be imperative in ensuring the organization is equipped to meet current and future business requirements imposed by both external and internal stakeholders.

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