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Tax technology strategy: transformation and enhancement

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Q&A:
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THE RESPONDENT

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FW: To what extent are corporate tax functions leveraging technology to drive greater efficiency, improve tax processes and manage risk? Have you seen this trend accelerate in recent years?

Tiffon: Managing tax affairs on a global basis requires a greater reliance on technology for several reasons. Over the past few years, there has been an increase in the number of tax legislations with cross-jurisdiction implications. If we look at Pillar Two of the Organisation for Economic Co-operation and Development's (OECD's) base erosion and profit shifting (BEPS) project, it requires not only an analysis of how the tax system of each constituent entity works, but also, where required, factoring any deficiency for Pillar Two purposes at the level of the ultimate parent entity (UPE). We have seen many multinational enterprises (MNEs) investing a substantial amount of time and money in developing tools to extract data sets at constituent level to produce a Pillar Two mapping for the UPE. While not directly related to Pillar Two, this drive to greater technology in the tax space enables the analysis of large sets of data that can help multinational groups to better manage their tax affairs by not necessarily only improving their tax position but also by identifying where tax risks may lie. This trend has accelerated in the past few years due to the increasingly complex and intertwined tax legislation, but also thanks to recent technological progress.

FW: What risks face those companies that are yet to make meaningful investment into enhancing their tax technology?

Tiffon: There are many risks that can stem from companies not making the right investment into enhancing their

tax technology, which are all likely to translate into a single overarching one: loss of competitive edge. Tax compliance is clearly an area where companies can gain efficiencies. Automating the tax compliance process can reduce costs, increase preparation time to accommodate the ever-increasing pressure from tax authorities to deliver returns on time, show consistency across operating countries and reduce mistakes. Tax compliance automation is a stream that is generally considered to be a low added value commodity, but it has the potential to be transformed into a potentially value adding decision metric. Tax technology can therefore facilitate the management and analysis of large data sets that have an impact on the global strategy of a group. Finally, looking forward, managing tax affairs may become the new environmental, social and governance (ESG), in that companies will become more accountable to stakeholders for how they manage their tax affairs. The latest Business in Europe: Framework for Income Taxation (BEFIT) and country-by-country reporting (CbCR) are a testament to this trend. Given the sheer quantity of tax data that a multinational group may sit on, suitable tax technology solutions may provide a highly reliable source for preparing tax reports which address this dynamic.

FW: How can technology such as automation help the tax function to navigate an ever-changing regulatory environment?

Tiffon: The benefits of technology in the tax space are twofold: it allows companies to track compliance with applicable laws and to adapt where needed. Regarding the tracking element, a well-designed technology environment can act as a repository for applicable laws where the group operates, which serves as a basis for ensuring that tax filings are made in accordance with those laws. Consequently, this leads to more accurate compliance and a lower risk profile. Regarding the adaptation element, on the back of the repository function, where the tax technology is well designed, it will be capable of morphing to factor in legislative changes without impacting the data set. This is where we are seeing a tremendous shift from systems that required almost a complete overhaul of data pipelines whenever there was a legislative change, to systems that now require very limited adjustments. This also leads to lower transitional risks whenever there are changes to the regulatory landscape.

FW: How important is tax data management and analytics in assisting companies with their high-level decision-making processes and driving value?

Tiffon: Tax data management and analytics have a dual impact, both internally for the company and externally for the company's stakeholders. Internally, tax data management and analytics assist companies to define their overall strategy, including their tax strategy. For example, this may help companies to identify opportunities, M&A transactions or internal corporate reorganisations to maximise profitability. This can also help model different strategic scenarios and facilitate performance benchmarking. Externally, tax data management and analytics will be the foundation of risk mitigation. Recent complex legislations such as Pillar Two are expected to create new tax risk areas which will require proper management and handling of tax data, in much the same way as transfer pricing. There will therefore be a need for senior executives to understand what their tax risk profile is in each country where they operate, thus pressing for a consolidated and near instantaneous data set environment that can be retained and extracted on demand. Finally, good tax governance is increasingly a must-have, on the back of an expected surge of tax audits globally. To sustain this good tax governance, reliable tax and financial data will be required. There will, therefore, be a focus by taxpayers on improving the granularity of the tax data they have, its accuracy and its readiness for disclosure. This increased scrutiny of taxpayers will also be driven by the digitalisation of tax authorities and their ability to reallocate resources from a review function to an audit one.

FW: What factors do companies need to consider when choosing tax technologies that are the best fit to meet their business needs? How can companies ensure that their desired tax technologies can be

smoothly integrated and are compatible with existing systems?

Tiffon: Tax technology is a nascent concept and is expected to be heavily influenced and driven by rapidly evolving technology. One point that companies should consider when designing their tax technology strategies is to preserve some flexibility and allow for scalability. This is even more relevant as it will allow them to address changing regulatory landscapes in the future. Each company has a specific setup and need in terms of data output, so the flexibility should be understood as providing a high degree of customisation. Data protection and security are also key factors to consider due to the highly sensitive nature of tax data. One way for companies to ensure a smooth integration and anticipate scalability is to ensure that the tax technology solutions that are onboarded provide for a communication bridge or application programme interface (API). This essentially allows systems to share data input and output, while minimising manual input. This should also help to minimise the multiplication of similar data sets that may otherwise end up conflicting with one another. The likely next challenge for companies that enhance their technology support will be to ensure that they have the tools to properly structure and organise data sets with a view to creating a single source of truth outcome.

FW: To make the most of innovative tax technology, how vital is it to have staff with the requisite knowledge to unlock the benefits? Has it become more challenging for companies to recruit and retain such staff in the current environment?

Tiffon: Looking ahead, one may believe that technology will self-correct and adjust to changing regulatory updates. However, this is far from being the case at present. Technology is still heavily reliant on human intervention, or at least as a first trigger push. Having well-trained staff handle the technological and technical aspects of tax technology will be a key driver. In other words, having staff who understand what benefits technology can bring in terms of efficiency and competitive edge will allow them to spend more valuable time assessing market changes and how these changes are influenced by the regulatory landscape leading them to shape the future development of the tax technology they have onboarded or will eventually onboard. The challenge is not necessarily to recruit and retain such staff in the current environment but rather to find people with the right skill set who are able to propose strong technical knowledge and how this may be translated or supported by adequate technological solutions.

FW: What essential advice would you offer to tax teams on formulating an appropriate strategy to set out their tax technology plans? What should this process entail?

Tiffon: There is no 'one size fits all' approach. Each company, irrespective of size, industry and geography, has special needs that technology may help to address, but how that technology will operate will end up being company-specific, albeit potentially relying on some core foundational bricks. When it comes to tax technology, the current strategy should be focused on two main themes. First, technology will massively leverage the transaction execution phase, where being able to prepare documentation contemporaneously to deal closing would bring significant value. Second, technology should also be considered in the post-execution phase. For instance, the tax compliance automation process should probably be considered a strong focal point because while this is generally seen as lower added value work, it is nevertheless being increasingly scrutinised by tax authorities. This, therefore, means that companies must be in a position where they can easily and instantaneously retrieve information supporting these transactions. In terms of how that process should be rolled out, this should first necessitate an assessment of existing processes, understanding where negative and non-efficient processes are and how, to the extent achievable, they can be fixed by technological solutions. The risk that we can see is for companies not running that self-assessment and deploying a fully blown tax technology solution that may not end up being commensurate with the actual needs of that specific company. ■

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