Driving connected tax compliance through technology

Businesses worldwide are facing unprecedented challenges while navigating the ever-evolving tax compliance landscape. This article explores solutions which can streamline tax compliance processes.

Companies the world over face a growing tax compliance burden. While compliance can drive better synergies and strengthen the tax quotient, compliance budgets remain tight, and tax teams are stretched beyond their bandwidth. In a recent global PwC survey, more than half of the companies said that even as regulatory demands continue to rise, their budgets were unlikely to increase in the near future.[1]

PwC's survey,[2] Future of the Tax Function, revealed that 57% of organisations surveyed expect challenges to become multi-dimensional over the next two to three years. According to the survey, the top five challenges they faced are:

- regulatory changes
- compliance burden
- implementing new technologies
- resource constraints
- cost reduction programmes.

To accelerate their ability to respond, tax leaders, CFOs and CIOs will need to adopt innovative approaches to compliance, collaboration and sourcing of skills and technology. As there is no 'one way' to succeed, they would need to tap opportunities for automation and consider a convergence of processes, data, people and technology across the tax landscape, aligned to the purpose.

1 PwC, Future of the tax function

2 Ibid.

In the past, many organisations had adopted a regional or decentralised approach to finance and tax aligned with their overall organisational structure and work culture. However, with the disruptions in the tax landscape, the approach would need a paradigm shift, because of the imperative to look at the data combined with technology deployment through a common lens, and in a connected manner. This is essentially what connected compliance entails.

Before proceeding further, it is worth considering some of the developments closer home. Over the years, the Indian Government has prioritised the adoption of cutting-edge technology to streamline tax administration, reduce evasion, and ensure a more transparent and efficient tax compliance ecosystem. These initiatives are evidently yielding results as Indian tax authorities now have access to a wealth of data.

Some significant developments include:

- With an outlay of USD 156 million, Project Insight[3] is an integrated data warehousing and business intelligence platform developed by the Indian Income Tax Department to improve tax compliance. The new platform is being used to identify high risk non-filers, select cases for scrutiny, and process information received under the Automatic Exchange of Information (AEOI) and FATCA. Project Insight can reportedly read social media posts to identify potential tax evasion, if need be.
- Several mechanisms are in place to facilitate the international sharing of financial data for tax purposes between countries, aiming to enhance transparency.
- The tax department has also been signing memorandum of understanding (MoUs) for data sharing with various regulators and ministries.
- In addition to regular information sharing, the MoUs enable – on request and on a suo moto basis – an exchange of any information available in their respective databases for the purpose of carrying out scrutiny, inspection, investigation and prosecution.

Similar to India, global tax information reporting requirements (for example, Country by country reporting (CbCR) and similar transparency initiatives) are growing exponentially.

Regulators are demanding transparency around global taxation. Public stakeholders have been increasingly demanding a clear and thoughtful communication on tax contributions from the businesses. Furthermore, there is a growing expectation from businesses to report in shorter cycles and tax authorities are increasingly becoming intolerant of inaccuracies or incompleteness.

Newer regulations are adding yet another dimension for the tax function to be future ready. A case in point is Pillar Two, the first global tax of its type. It involves a global tax regime with a 15% minimum tax rate applying to companies with greater than EUR 750 million annual group revenue. As many as 36 jurisdictions have or will enact these rules in 2024, dozens of others are to follow.[4]

This development highlights that what may have worked till now would not be effective in the future. Thus arises the need for an imminent shift and the imperative to redesign the tax compliance processes through 'connected technologies, data and teams'.

3 https://pib.gov.in/PressReleasePage.aspx?PRID=1577774

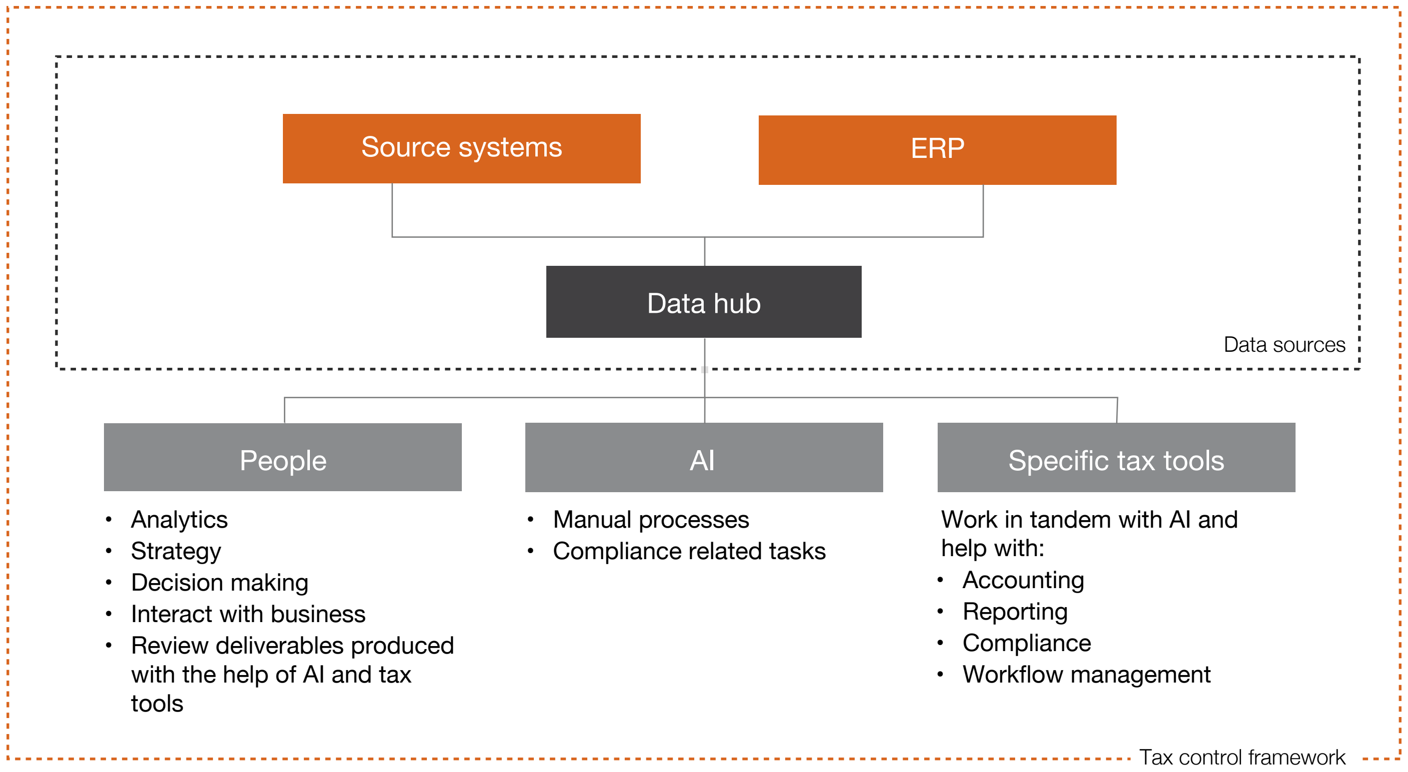
4 PwC, Is Pillar Two a reason to rethink your decentralised finance and tax model

Strengthening connections

The creation of a more dynamic connection between people, the data they create and the technology used to process the data is the need of the hour. This includes stronger collaboration between jurisdictions/regions, and between taxes themselves so that data and tools can be shared irrespective of the issue – be it related to direct or indirect taxation, transfer pricing or any other type of taxes. The right tax technology framework needs to be built with data, people and technology as its touchstones.

Given below is an illustration of the tax technology framework of the future:

Figure 1: Tax technology framework of the future



Source: PwC analysis

With the increasing access of tax authorities to a company's systems, and business models becoming more complex, tax controls need to move upwards in data sources and work in real time. Or else, managing future assessments or meeting requirements of businesses to provide speedy insights could become a challenge. An effective tax control framework should be able to generate insights to improve the tax processes and support the business.

The key aspects of this tax technology architecture will be centred around the right data culture and redefining the role of people and technology:

Data: Tax teams depend heavily on data, which is generated upstream from various sources and often the owners do not have the KPIs to have it reconciled or made tax fit. 48% of the respondents to PwC's survey highlighted their inability to access high quality data quickly.[5] Making appropriate corrections to the data-generating infrastructure would therefore be the primary step. This would bring down the current time spent on analysing and reworking the data. With tax authorities increasingly looking to access source systems, ERP, data hubs and data flows, real-time accurate data would be a prerequisite for building an efficient tax compliance model.

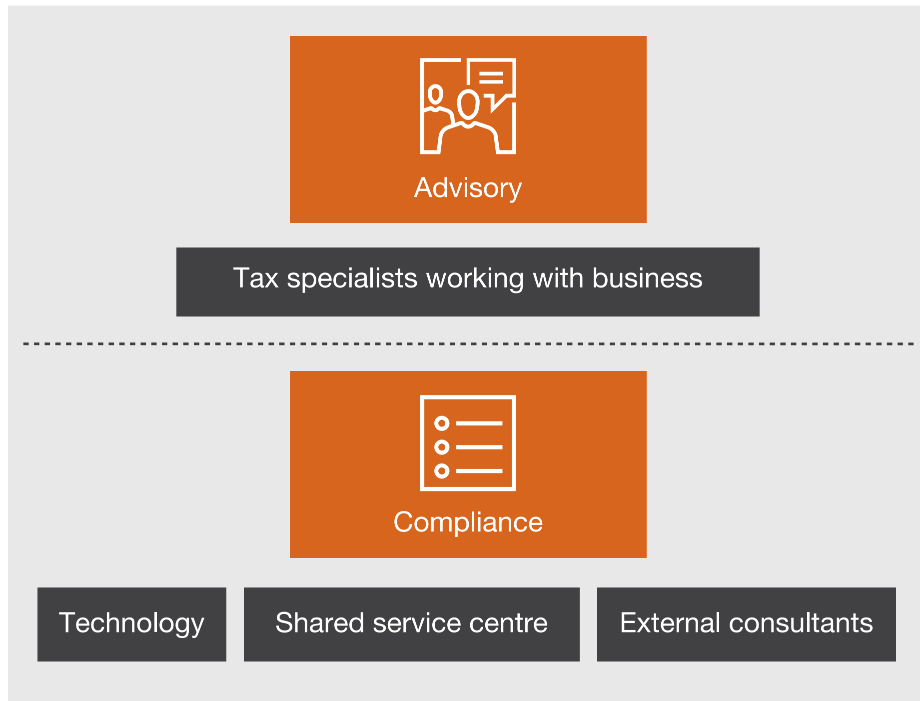
Technology: 69% of organisations surveyed stated that they plan to increase the use of technology to respond to increased responsibilities arising from regulatory changes.[6] Given the pace of change in the global tax landscape, it is unlikely that companies will be able to manage complexities arising from Pillar 2, CbCR disclosures, European sustainability reporting and local tax reforms without equipping themselves with technology to transform. Provided that the data is accurate from the start at the source system level, organisations would need to combine bots/AI and various other tools to help with tax processes, especially compliance. Repetitive tasks and a majority of tax reporting and compliance processes can also be managed efficiently this way. Enabling modern day ERP systems to make them tax sensitive to the extent that they are able to generate reports that can be used for varied purpose is also on the radar.

People: The entire tax transformation journey will be incomplete without human intervention. Tax teams will continue to play a pivotal role, especially when there is a need for strategy, planning, decision making, people will perforce take centre stage. Maintaining and strengthening relationships will also continue to remain within the purview of people – be it with stakeholders in the business, tax authorities and others in the ecosystem.

The road ahead

The slew of changes impacting the tax world demands revisiting the entire operating model in favour of one that is flexible, scalable and modular. As described earlier, combining data and technology with a robust people strategy will go a long way in enabling businesses to navigate the increasing complexities of tax compliances in an effective and efficient manner. This exercise should also include a review of the broader operating model itself. Following is a high level, future-ready tax operating model.

Figure 2: Future-ready tax operating model



Source: PwC analysis

5. PwC, Future of the tax function

6 Ibid

It is important that tax specialists continue to provide on-ground support to businesses. Compliance, on the other hand, is where the operating model's revamp comes into play. Increasingly, a balance is being created between technology adoption, an in-sourced or outsourced tax centre of excellence and the services of external consultants, who can assist businesses wherever internal capabilities fall short. In the medium to long term, strategically located tax centres of excellence could be the driving engines for tax compliance for any organisation with a global footprint, riding on technology and the support of external consultants.

In the long run, improving data infrastructure, making the data fit for purpose, available and accessible as and when required are critical. Technology can be an enabler in enhancing the efficiency in the entire tax reporting and compliance process. Combining the knowledge of the tax teams with intelligent insights, planning and strategy, organisations could use the opportunity to review operating models and implement further strategic changes to shape the way the tax function of the future will operate.

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