

Moving tax forward through technology

Part of the move tax forward series



The impact of technology across business organisations has made major improvements to the execution of many functions. Today, companies operate with one integrated global financial system, providing real-time reports, analysis, forecasting and business intelligence at the touch of a button.

The time is now

In contrast, tax groups make use of numerous different technology systems. Now it is time for tax to make a leap and deploy technology to transform tax reporting. Tax should improve processes, standardise and automate, using a technology platform that can radically improve its performance and respond to the growing demands of stakeholders within and beyond the business.

As stakeholder demands grow, so do the opportunities of tax technology. eXtensible Markup Language (XML) has revolutionised machine-to-machine communication. In most companies, tax technology is acquired incrementally. This is why tax departments use a variety of software applications that do not communicate with each other. For example, to prepare the tax return, you may interrogate accounting systems to extract raw data and export this to spreadsheets for analysis and manipulation prior to transfer into a tax return engine. You may then have to update a process management or deadline-tracking tool to ensure that all relevant claims and elections are considered. To reach the goal of a fully automated process we need all of these software solutions to talk the same language – which is enabled by the adoption of XML.

Architectural models such as Service Oriented Architecture (SOA) have made it possible to link disparate systems in a seamless fashion to create a modular enterprise tax system.

SOA presents a particularly relevant opportunity for tax groups that stretch over multiple jurisdictions: whereas in the past, a company that had a presence in ten different countries would have had to build ten different tax systems, all in one go, SOA enables a phased, standardised approach over a period of time. There are ease of use and cost benefits associated with this approach.

Some tax groups have made significant strides in rapidly accelerating the year end reporting cycle. We have worked with one client who – through automation – has reduced the time to report tax numbers from five weeks to five hours. Others have largely automated and integrated their VAT compliance processes across multiple jurisdictions. By and large, Corporate Income Tax compliance has lagged behind though. So what does Corporate tax need to do to catch up?

Enterprise tax system

Tax needs to engage with finance and IT to create a better understanding of how they can work together to build on existing investments in financial systems and integrate tax processes and requirements effectively within them.

Aligning tax and financial systems can deliver standardised tax processes on a global basis. This will mean data is managed to globally consistent standards, providing 'one version of the truth' to which all processes – tax and financial – operate. Not only does this help manage the risks created through inconsistency from multiple, parallel tax systems, but it also means that tax professionals will be able to spend less time searching for data (or making repeated requests for it from finance) and more time on addressing other, more value-adding areas of tax work.

Moving tax forward through technology

An opportunity for transformation lies in the ability to create a global platform that works with the existing financial system. We see the following as key elements of such a platform:

- A central repository of tax relevant data providing consistent, up-to date global information drawn from a variety of sources.
- Workflow tracking to provide clarity of roles and responsibilities within the organisation, allied to regulatory reporting requirements.
- Tax provision calculation tools that track changes on a global basis and greatly improve the accuracy and transparency of the provision process.
- Tax compliance calculation that integrates information for every jurisdiction, kept fully up to date to reflect local tax rules.
- Reporting and querying tools to generate standard and ad-hoc reports in line with changing user requirements.
- A tax 'desktop' that provides a unified view to enable each user to navigate between related tasks.

Tax takes a leading role

To achieve capabilities like these, tax needs to take a lead role in explaining to IT what it needs, rather than accepting what it receives. IT generally has a very low awareness of what tax requirements are – principally because tax does not engage with IT to the same extent as other areas of the business. That needs to change so that tax becomes a proactive shaper and buyer of IT.

Tax needs to understand and articulate the business case for implementing technology solutions that help them deliver a better service. Tax should strive to become a co-sponsor of the finance system and not simply one of the areas of the business that consumes its output. It needs to lead the agenda of tax-enabled financial systems and work to ensure that tax is embedded in all finance system changes from the start.

The current trend in finance moving towards one single enterprise-wide ERP system has further emphasised the need for tax to play a more involved role in IT design and implementation. Implementation carried out by IT professionals with low tax knowledge will result in tax being underscoped or oversimplified. The tax-sensitisation of an ERP system usually adds another cost to the budget of the project, and it is important that this is factored in at an early stage. Forward-thinking tax groups have a responsibility to promote their agenda by pro-actively reaching out to their colleagues in finance and IT, agreeing five to ten year business plans and activities for tax that are aligned with overall business strategy.

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The importance of getting systems right for tax will be given a boost as the profile of global tax technology providers such as Sabrix, Vertex and Taxstream rises and the appetite for consolidation grows. While there are currently many, localised players, we believe the stage is set for a much smaller number of internationally known leaders.

The opportunities of bringing technology to tax

Automation, together with the use of business intelligence systems, makes it far easier to check for any errors or inconsistencies in tax treatments. The ubiquity of XML and its financial reporting counterpart eXtensible Business Reporting Language (XBRL) means that tax will have access to tax sensitised data for reporting and data mining. Controls and exception routines can be built into automated processes to reduce the chances of errors going unnoticed. For example, indirect tax systems can include controls for spotting duplicate transactions or the use of a non-standard tax rate.

Data warehouses can store information relating to past years' tax liabilities and those of other group companies, enabling comparative reports to be generated automatically. Cross checks can, for example, compare the entertainment expenses identified for indirect and direct tax purposes. It would also be possible to assess the impact of potential changes to tax rules, or of adopting new policies internally.

Tax authorities want to use technology to reduce the cost and increase the fidelity of their communication with taxpayers. For example, HMRC has been investigating the use of shared workspaces as a means of conducting enquiries more efficiently. Information can be posted up into a secure environment, accessible by HMRC, the company and its tax advisers. HMRC is also keen to receive tax data in electronic form. Its corporation tax online filing service is already able to accept computational data in XBRL format.

Questions to ask

If you want to pursue technology within tax, these questions will help as a starting point:

- Where and how are tax technology investment decisions made today? How can tax influence the agenda? How does tax engage with IT?
- What are the barriers preventing greater use by tax of the existing financial systems?
- How aware is tax of how the finance systems operate and what tax information is already embedded within them?
- How can tax leverage the investment that has already been made in financial systems?
- How are the tax rules in existing tax systems maintained?
- What is the business case for improvement?