# THE 2022 INDIRECT TAX PATHFINDER

Challenges, trends, and guiding principles for the modern tax department.

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# 1. Introduction

With an evolving regulatory landscape and continued drive to digitalisation, revenue authorities want to know how, when and where tax is paid, and in many cases this information is called for in real-time. For example, tax authorities globally are increasing their use of e-reporting and e-invoicing, which in turn demands taxpayers embrace technology solutions and think strategically about the data they share.

To meet the ever-changing landscape, tax departments must evolve and move at a more rapid pace beyond compliance, transforming into valued strategic partners to meet the rise in demand for business partnership from their stakeholders. Revenue authorities are increasingly requiring companies adopt a more digitised tax administration approach to share tax information with them.

In June 2022, Deloitte published the results of its year-long study on tax transformation trends. This study revealed that nearly half of all respondents felt their tax department was strained due to a lack of resources[1]. Budgeting concerns, changing tax laws, and acceleration of digital tax administration transforming the way companies share tax information with revenue authorities has resulted in enormous pressure on tax professionals. The number one solution being considered to help alleviate this pressure is increasing or implementing tax technology.

Consequently, tax leaders are rethinking how their functions work. Tax departments are increasingly embracing the use of best-in-class content driven technology solutions to automate indirect tax calculations and compliance as an essential step to modernise and to transform into a valued strategic partner.

# 2. The Australian context

## 2.1 Overview

The Australian Taxation Office's (**ATO's**) assurance programs are continuing to evolve as part of its justified trust framework. The ATO's decision to overhaul the Goods and Service Tax (**GST**) component of its Combined Assurance Review (**CAR**) in early 2022 reflects the ATO's learnings from conducting GST assurance activities to date, and a willingness to respond to the feedback and concerns from Top 1,000 taxpayers who have already been reviewed.

Top 1000 taxpayers who have not yet had a GST assurance engagement with the ATO should be considering their readiness for a CAR in the event of being selected, and their level of confidence about obtaining an outcome that would not involve ATO-focused Next Actions. This is a timely point for those taxpayers to be identifying what pre-CAR preparatory work would be appropriate in their circumstances.

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1  See Deloitte Touche Tohmatsu Limited's (Deloitte's) June 22 "Tax transformation trends survey" report available on Deloitte's website https://www2.deloitte.com/global/en/pages/tax/articles/tax-technology.html

While GST data testing or e-audit activity does not form part of every GST assurance review in the Top 1000 space, it remains a critical component of taxpayers demonstrating the operational effectiveness of their GST data controls as well as evidencing good tax governance by them. This data testing can help obtain a higher level of assurance.

The data selected for testing needs to be detailed, correct, and complete, and generally comes from multiple accounting systems and source systems. The ATO's GST Governance, Data Testing and Transaction Testing Guide[2] (**Guide**) sets out the mandatory minimum reports (and required fields) to be included in the data set for all taxpayers.

The ATO itself notes the above and, in the Guide, makes the following statement:

> *"...The way in which your business systems create, capture, collate and report GST impacted transactions is fundamental to the correct reporting of your GST obligations..."*

In assessing the correct reporting of taxpayer GST obligations, the ATO expects that taxpayers undertake systemic and periodic assurance and verification procedures that underpin the tax governance framework that is expected of the Top 1000 taxpayer group. The ATO considers data and transaction testing to be a critical aspect and will look favourably on well-designed systems that have controls in place to bring rigour to this process. ONESOURCE Indirect Tax Compliance has built in exception reporting that allows real time checks on accuracy of data, integrating these types of assurances into day-to-day operations.

## 2.2 GST and justified trust

While tax governance, and data and transaction testing are important components of the ATO's assurance reviews, there is other work done in a GST assurance review.

In a tax technology environment, that other work typically revolves around a "deep-dive" on Managerial Level Control 4 (**MLC4**), a specific management control test, that goes to the heart of the way GST is managed through a finance system. Specifically, MLC4 tests the effectiveness of the controls in place for data in a taxpayer's business systems, including all subsystems, platforms, and other systems used to process business transactions.

The ATO has stated that when applying the justified trust methodology, MLC4 is fundamental, because the design of this control (as well as BLC4 and MLC6)[3] directly influences how GST is calculated, allocated, recorded, and reported. Critically, MLC4 is important to review in the native finance environment, whether through an Enterprise Resource Planning (**ERP**) system or stand-alone tax engine such as ONESOURCE.

Technology like ONESOURCE can help taxpayers improve governance and control over their data.

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2    ATO's GST Governance, Data Testing and Transaction Testing guide, available at https://www.ato.gov.au/law/view/document?DocID=JTR/GST-Governance&PiT=99991231235958

3    Board Level Control 4 (BLC4) - The internal tax controls testing contained in the periodic testing plan must include the testing of data controls in place to process sales and purchases including manual adjustments to ensure the GST treatment is correct; and Managerial Level Control 6 (MLC6) - The tax/finance function reviews the amounts reported in the BAS for each BAS period. Where errors are identified in the amounts reported in the BAS labels, it is important to understand the root cause of these issues. This process may uncover fundamental control gaps that are directly attributable to data integrity issues that specifically relate back to MLC4.

# 3. Digitisation and emerging trends

## 3.1 Digitising the paper trail

As businesses consider investment in new technologies, they are increasingly looking for those technologies to be able to solve for multiple uses. More specifically, tax departments are looking to technology to not only deliver resourcing, efficiency and operational benefits, but also deeper insight and analyses through improved use of the data that the business generates upstream.

The inefficiency of manual indirect tax processes impacts both taxpayers and tax authorities. As transaction volumes increase, tax authorities globally are requesting more information to perform advanced data analytics. E-information requests by tax authorities globally are becoming increasingly regular and complex. Already, large volumes of data must be submitted electronically to tax authorities more frequently, and in many jurisdictions real time reporting and payment requirements have been implemented.

## 3.2 How ONESOURCE tax technology can help

Tax technology has helped tax departments around the globe stay on top of changing tax requirements. For many businesses that expand into new jurisdictions, tax technology has contributed to ensure those businesses stay compliant with unfamiliar tax regulations. Implementing tax technology, has been shown to reduce the time and human capital needed to meet tax requirements, from initial discovery to calculating and filing returns. This in turn allows tax professionals to focus on strategic growth areas of the business and ultimately add value.

### 3.2.1 Reduces requirement for manual maintenance

ONESOURCE is a tax engine that integrates with existing ERPs and helps to determine and calculate indirect tax. The software is continually automatically updated by a team of researchers tasked with identifying changing laws including rates, due dates, and implementations of new taxes when applicable, reducing the need for manual maintenance by tax departments.

### 3.2.2 Enables better utilisation of tax professionals' expertise

Since ONESOURCE automates tax determination and calculation, companies can more strategically utilise their tax professionals' time by using them in advisory roles, rather than strictly focusing on compliance. Their time and expertise can be better spent in planning and strategising growth, helping the company make sound choices in expansion and benefitting the bottom line.

### 3.2.3 Promotes accuracy and timeliness

Utilising tax technology also promotes accuracy. ONESOURCE integrates seamlessly with existing ERP, CRM, e-commerce, or POS platforms, ensuring that manual data entry is reduced or may be removed altogether. This integration allows data to flow directly from the ERP to ONESOURCE and onto tax forms, reducing the opportunity for human error and facilitating timely, accurate filing of returns.

### 3.2.4 Facilitates audit preparedness

Audits are a historically stressful time for businesses, but native ONESOURCE audit trails and managerial signoffs of any manual changes should help companies be audit ready. The company's data is easily accessible, with a wide range of reports and compliance modules available to run. The tax software is up to date with the company's latest sales and figures, and there's no delay in accessing current information.

### 3.2.5 Protects tax records

While a manual process can limit access to information, tax technology software stores information in the cloud. The benefits of using cloud storage are two-fold.

First, all the company's tax information is stored where employees can access it, no matter where they're physically working. They have access to the same information, can perform the same tasks, and can continue their productivity from anywhere in the world.

Second, storing the company's tax information in the cloud keeps the information safe. Whether it's a global pandemic, an environmental disaster, or other unplanned circumstances, the tax information remains intact and secure regardless of whatever else might be happening in the world.

# 4. Addressing the challenges of implementing tax technology and ERP

Tax runs through the heart of every business process and should have a seat at the table when discussing any move by the business to a new ERP. Many businesses are going through a period of digital transformation and updating their legacy ERP systems, often to new ERP systems hosted in the cloud. Historically, tax has been thought of as a downstream compliance process. However with tax transparency, governance and sustainability now becoming a Board-level issue and a key plank in a business's agenda, it is important that Tax is factored into the design in the early stages.

Once a new ERP system has been implemented, often the decision faced by businesses is whether to use the tax compliance solution built into the ERP, or alternatively implement specific, tax content rich solutions such as ONESOURCE. Whilst the native ERP tax solution is an easier route, often this decision misses out on the key benefits and the return on investment seen in implementing specific tax technology. For businesses that have a presence globally, the benefits stretch beyond just compliance forms, with specific tax technology becoming an end-to-end solution for the business.

## 4.1 Five guiding principles to successfully implementing technology

Often one of the key impediments to implementing technology solutions or undertaking a transformation project, is managing change. From defining the organisational risks to successful project implementation to providing support for stakeholders, change management is critical, and consulting firms such as Deloitte have tailored and fine tuned their approach to effectively manage change projects.

Deloitte project management methodologies and the learnings obtained from multiple implementations can be distilled to five guiding principles:

### 4.1.1 Find your "North Star"

An agreed and shared understanding of where the business is headed is critical for success. During a project, decisions will need to be made which impact the outcome. The "North Star" principle can be useful to help guide decisions during the project to align these to the desired outcome and provide the team with some guidelines or 'rules of the road' to keep the project on track and delivering to time and budget.

### 4.1.2 Use the 80/20 rule

Intending to automate entire tax processes? Commonly, Deloitte finds that 80% of the process is manual effort. Automating that process can deliver significant wins and return on investment, freeing up tax professionals to partner with the business and deliver higher value work.

When looking to automate the most complex, last mile processes (the 20% remaining), consider a minimum viable product approach to create something initially useful. Plan to then improve it or build additional functionality as time permits.

### 4.1.3 Prepare for the impact on people

People are at the heart of any technology change. Having a clear understanding of the effort required from those involved in the project is important, as well as ensuring the business can continue to run standard operations during the project. Tax professionals will increasingly play larger roles in transforming organisations. The skills they may build by participating in these programs of work should enable them to tackle more complex challenges and innovate the way tax work is 'done' in the organisation.

For larger projects, recognising the value that an experienced project manager can bring to the table is essential for success. Whilst there is an element of project management in everything we do, a seasoned project manager can help identify and navigate risks and issues, as well as chart a course for success, keeping the organisation on the right path.

### 4.1.4 Manage the people side of change

Adopting any new technology can make people uneasy, but they may be more inclined to adopt change if they have a clear vision of what it means for their future. Proactively involve the tax team at the start of the change process and provide messaging around what it means for their future careers in the organisation. The tax team will also have pivotal roles in the project, including testing and user acceptance, which can alleviate their concerns and enable them as agents of change.

Designing future state processes around the user experience and embedding comprehensive training is an essential ingredient of success. Training can be integrated as part of testing to deliver an accelerated timetable for implementing the technology.

Regular communications should go out to the tax team and stakeholders providing updates about the progress made, challenges identified and overcome, and the value being delivered to the business. In the case of larger transformations, consider leveraging internal communications and change teams to be embedded as part of the project.

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### 4.1.5 Keep looking forward

Tax is a consumer of a wide range of organisational data and the new software should be collecting and calculating tax information using this data. Considering how data is stored and how it can be leveraged in the future is essential. For example, developments with Artificial Intelligence and Machine Learning have underscored the importance of the data itself, offering new ways to harness insights and analytics. Finding new ways to leverage data is crucial as this may enable the company to not only deliver on what's important today, but to be ready for tomorrow.
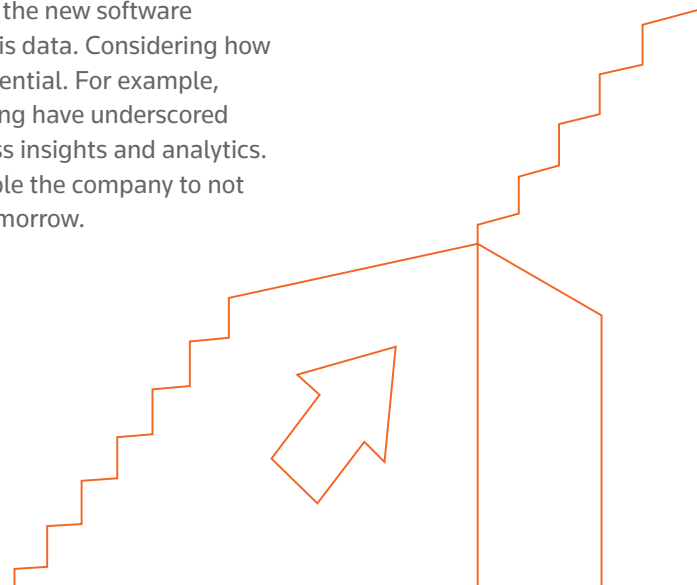
# 5. Direct Benefits of Tax Technology to People

Tax technology benefits not only the company at large but also individual team members. Individuals want to know their work is high value, where risk is mitigated, and unnecessary work hours are avoided. These can be achieved through tax technology with team members able to achieve the following benefits:

1. Reduction of time spent on manual compliance tasks

2. Ability to work from home securely with less stress connecting to company servers

3. Less difficulty covering for absent employees

4. More flexibility when planning around busy tax seasons

5. The opportunity to utilise the time saved on tax preparation to expand their expertise and take on new responsibilities within the company and focus on where to add value rather than performing manual repetitive processes.

These benefits may differ in quantum depending on roles, responsibilities, and the structure of the business. However, with employees at the core of every organisation, it is vital that businesses recognise their contribution by finding new and innovative ways to keep their most important asset engaged.

# 6. Key Takeaways

It can be hard to predict the future. However, what is certain is the pace of change seen in the tax landscape. Businesses are responding to regulatory demands, expecting more of their tax teams, which is driving innovation. This is bringing many businesses closer to a desired state of end-to-end connectivity and visibility. In turn, it places more pressure on those businesses who have yet to innovate as tax teams are still expected to keep up with regulatory demands with a low error rate without necessarily an increase in FTE. The automation of manual processes, coupled with reliable up-to-date content that's relevant to local jurisdictions, is critical to respond to trends in demands from global tax authorities long-term.

Progress in many tax teams is being made as they step up to the demands being made of them, using technology and enhanced data review to deliver tax knowledge and remove the burden of laborious, repetitive manual tasks. The real challenge, however, is combining different technologies across the end-to-end GST reporting process to allow intelligent, interactive, and real-time insight. This provides sustainable practices that can provide long term cost savings, flexibility and responsiveness to change.

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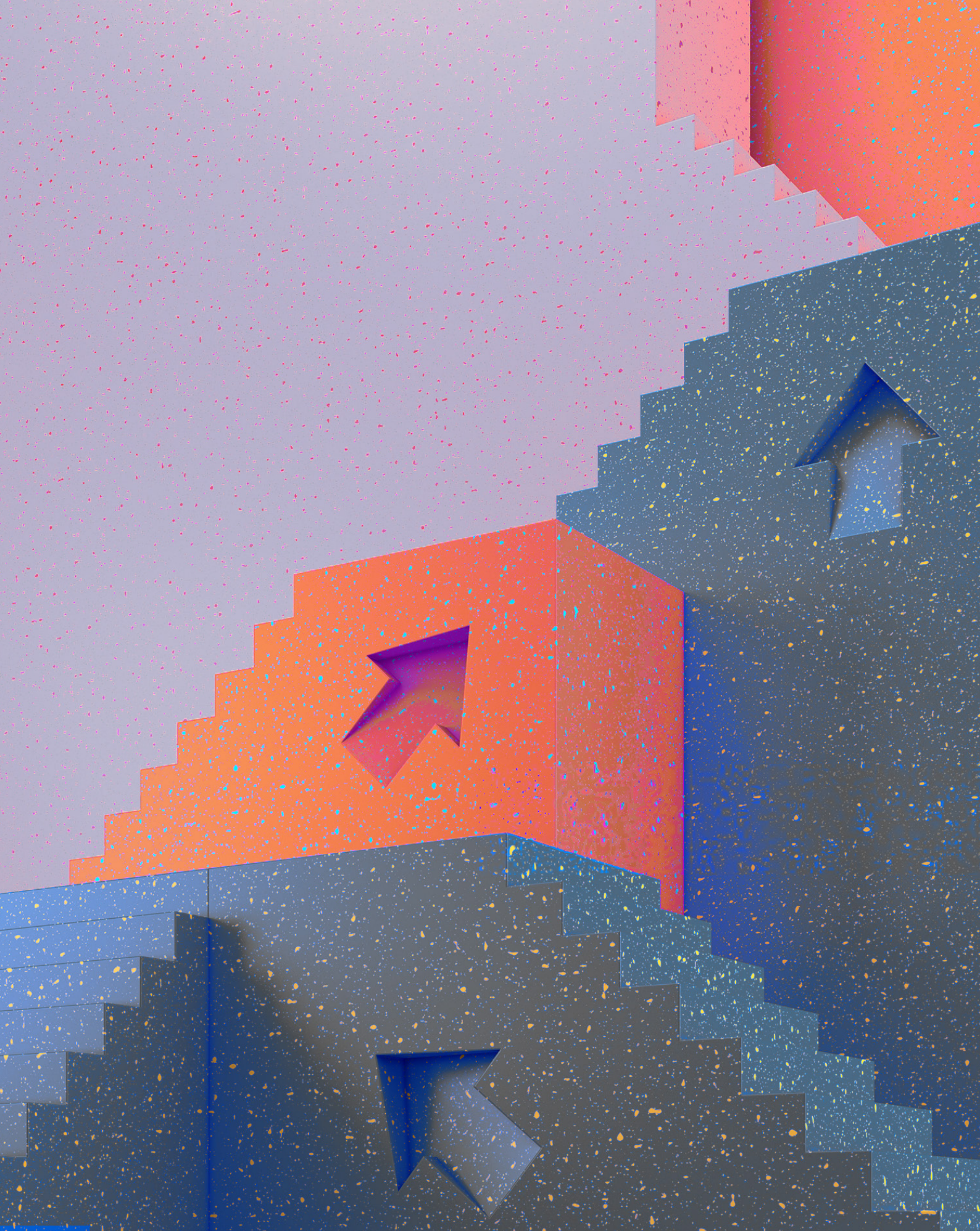dbeves@deloitte.com.au

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