

DIRECT TAX WHITEPAPER

Rising above the challenges of the modern tax department

Deloitte.



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1. Introduction

In the constantly evolving regulatory landscape there is an increased need for tax functions to access and present data to revenue authorities. This is made more challenging by the fact that compliance requirements differ around the world and continue to evolve. For example, jurisdictions globally are gearing up to legislate on the second pillar (**Pillar 2**) of the Organisation for Economic Co-operation and Development's (**OECD's**) solution to address the tax challenges arising from the digitalisation of the economy. To comply with these rules, tax functions will have to access data from various jurisdictions and ensure there are no unforeseen exposures across the globe.

In an Australian context, the Australian Taxation Office's (**ATO's**) assurance review programmes have required taxpayers to collate and provide a significant amount of information for multiple income years. These requests often coincide with filing deadlines and other priorities. Such regulatory matters require tax functions to think strategically about how relevant data can be accessed and used.

A new era of tax transparency is also upon Australian businesses with the release of the Government's proposed increased disclosures. This release requires:

- Multinational entities to prepare for the public release of certain tax information on a country-by-country basis and a statement on their approach to taxation. The measure will apply to income years commencing from 1 July 2023.
- Australian public companies (listed and unlisted) to disclose information on the number of subsidiaries and their country of tax domicile. The measure will apply for financial years commencing on or after 1 July 2023.

While the growing regulatory burden continues to increase the demands on tax functions, resourcing remains a persistent challenge. 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 under strain due to a lack of resources¹. Whilst facing these resource constraints, tax functions are being called upon to step away from ordinary compliance processes and partner with stakeholders to deliver insights, have a seat at the table in significant transactions, and drive decision making within the organisation. Increasing or implementing tax technology is the number one solution being considered by tax functions to help alleviate resource pressures and elevate themselves from compliance processes. This was also highlighted in a recent survey conducted by Thomson Reuters, where 1 in 3 tax professionals indicated they plan to implement more technology and automation to better overcome the increasing challenges faced by tax functions.²

This paper outlines the key issues and trends in the direct tax landscape, along with the challenges faced by tax functions. It also provides best practice approaches for addressing those factors through leveraging data and technology.

2. Key issues and trends

2.1

Global tax compliance process optimisation

A data-driven approach, enabled by well-chosen direct tax technology solutions, can help optimise the global tax compliance process by providing tax functions with real-time insights into tax data. Using data and insights correctly, tax functions can quickly identify areas of non-compliance and take preventative or corrective action. Such an approach significantly reduces the risk of penalties and reputational damage. This is of particular significance as revenue authorities continue to increase the quantum of penalties, as well as the frequency with which those penalties are levied.

However, for many tax departments who are already under-resourced and under immense pressure, managing global tax compliance processes presents several challenges. So, what can tax functions do to better streamline their compliance processes and mitigate tax risk? In this section, we explore some of the common challenges faced and best practices adopted by tax functions of leading multinational organisations. What is evident from this is that their success is often underpinned by market-leading tax technology that allows them to extract utmost value from their tax data.



Risk of penalties and fines: Tax authorities around the world are increasing the quantum and frequency of penalties imposed for missed filings. For instance, in Australia, the “failure to lodge” penalties have risen to a maximum of AUD 687,500 (effective from 1 January 2023).

To prevent this risk, the best practice of most successful tax functions is to put in place clear processes to ensure there is up-to-date and continuous oversight on the status of their various obligations. This includes the maintenance of dashboards and calendars which allow tax teams to monitor timely and correct submission of tax filings and mitigate the risk of late or missed filings (and the associated penalties).

With Thomson Reuters’ solutions such as ONESOURCE Calendar, tax functions can easily track upcoming tax filings and payments across 95 countries, with real-time dashboards and reports to give tax teams utmost visibility. Further, the creation of forward-looking dashboards and reminders focused on the next 30-60 days reduces the risk of last-minute completion and unnecessary requests for lodgement extension.

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Data management and integration: Handling data from various sources and formats can pose a considerable challenge. The process of cleansing, consolidating, and analysing this data is often a manual exercise for tax functions, consuming valuable time that could be better spent on work that adds more value to the organisation.

However, the right technology setup improves access to tax data across the organisation, along with interconnectivity between systems. Thomson Reuters' market-leading ONESOURCE Direct Tax solutions can help simplify international data collection, automatically flowing data into the tax provision database to enable real-time reporting in local currencies. Pre-built ONESOURCE connectors and open APIs allow for easy integration with existing business systems, reducing manual data upload/download risks and enhancing reporting and analysis. Additionally, maintaining clear tax data lineage can be achieved with features like seamless trial balance imports, audit trails, and the ability to drill down to the lowest level in two clicks.

This is particularly important so tax functions can easily and readily demonstrate the source of each data element that contributes to their tax calculation, as well as where and how that data is transformed on its journey from record to report.

This approach allows tax functions to articulate where the data they are relying on to file an obligation comes from.



Diverse business practices and processes: Operating in multiple jurisdictions often involves dealing with diverse business practices, processes, languages, and cultures, which can create communication and coordination challenges for tax functions. Therefore, defining clear roles and responsibilities for team members to ensure comprehensive coverage across all relevant geographies is crucial for establishing an effective global tax compliance process.

Technology can smooth out these issues and better streamline the collection of international data for tax provision purposes, regardless of what jurisdiction your tax teams are located in. With a solution like the Global Access module for ONESOURCE Tax Provision, for example, overseas colleagues can enter information into the central tax provision database using their local language and currency, and the technology will automatically translate these values. This helps remove the communication barriers, simplify processes, and support real-time reporting.

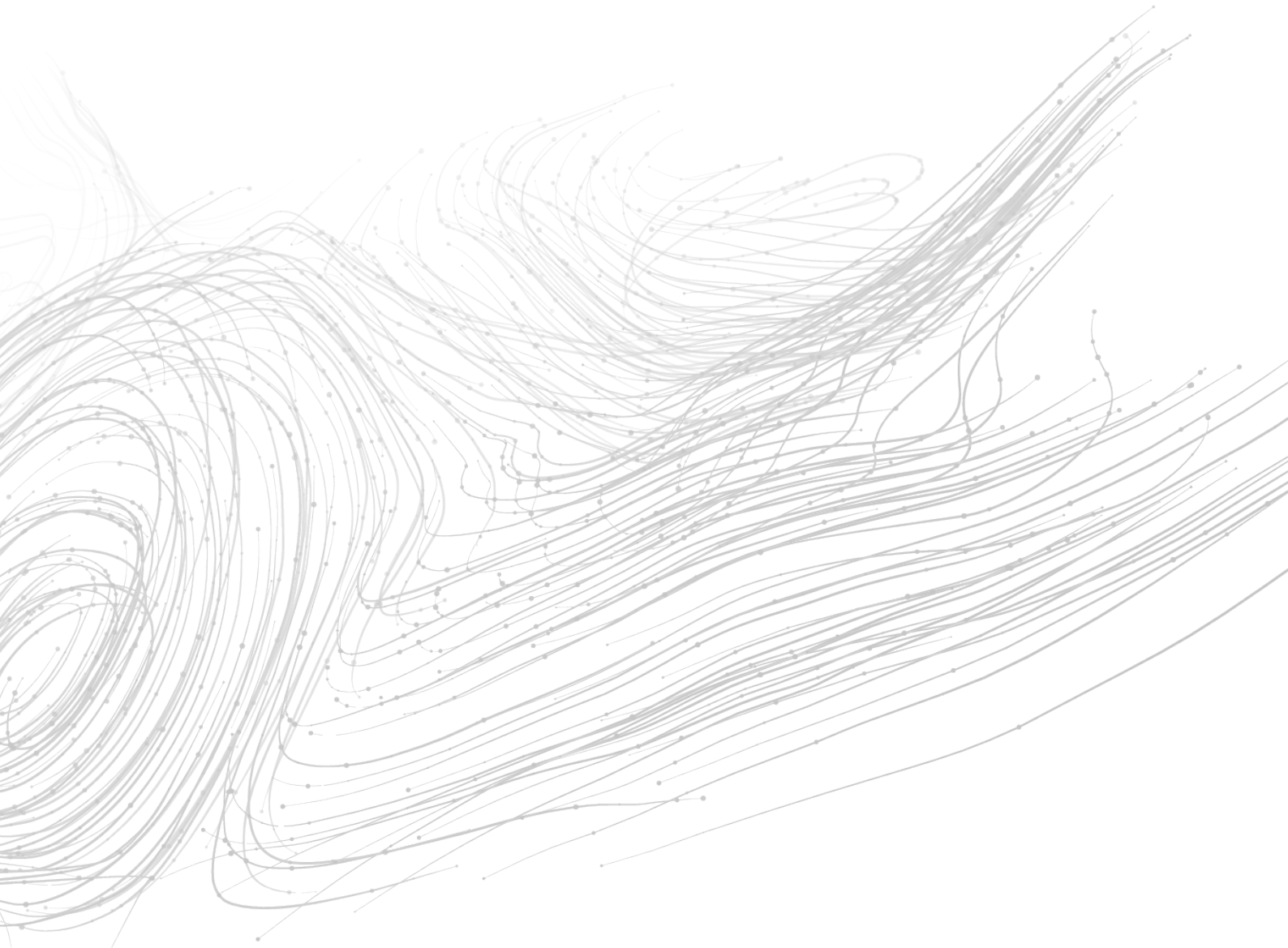
Furthermore, to help provide visibility and improve collaboration across multiple jurisdictions, Australia's Orica Group implemented a Thomson Reuters ONESOURCE technology suite to standardise and streamline tax processes across their global operations. User-friendly dashboards provided a comprehensive view of all tax provision results, allowing tax leaders to appraise them and view the flow from calculated values to the entries that drive them.



Increasingly complex tax laws and greater expectations from revenue

authorities: Staying up to date with legislative changes is crucial for tax functions, but it can be complex for companies with a presence in multiple jurisdictions. One way to simplify compliance and reduce risk in this context is with powerful direct tax technology that offers inbuilt, expert tax content that is kept automatically up to date. This approach helps support full compliance with local tax laws, providing inbuilt controls and validations to ensure accuracy at every step. Furthermore, the appointment of trusted advisors / subject matter experts across all relevant geographies provides a backstop for any new or upcoming regulatory matters and compliance requirements.

The integration of the above activities into tax governance processes further minimises the risk of incorrect or missing tax filings and the associated penalties. Tax technology can support these activities by providing sophisticated data and workflow management capabilities, giving tax teams greater oversight of obligations, a clear picture of their tax data origins, and the ability to set clear team roles and responsibilities to ensure global compliance.



2.2

Pillar 2 and related measures

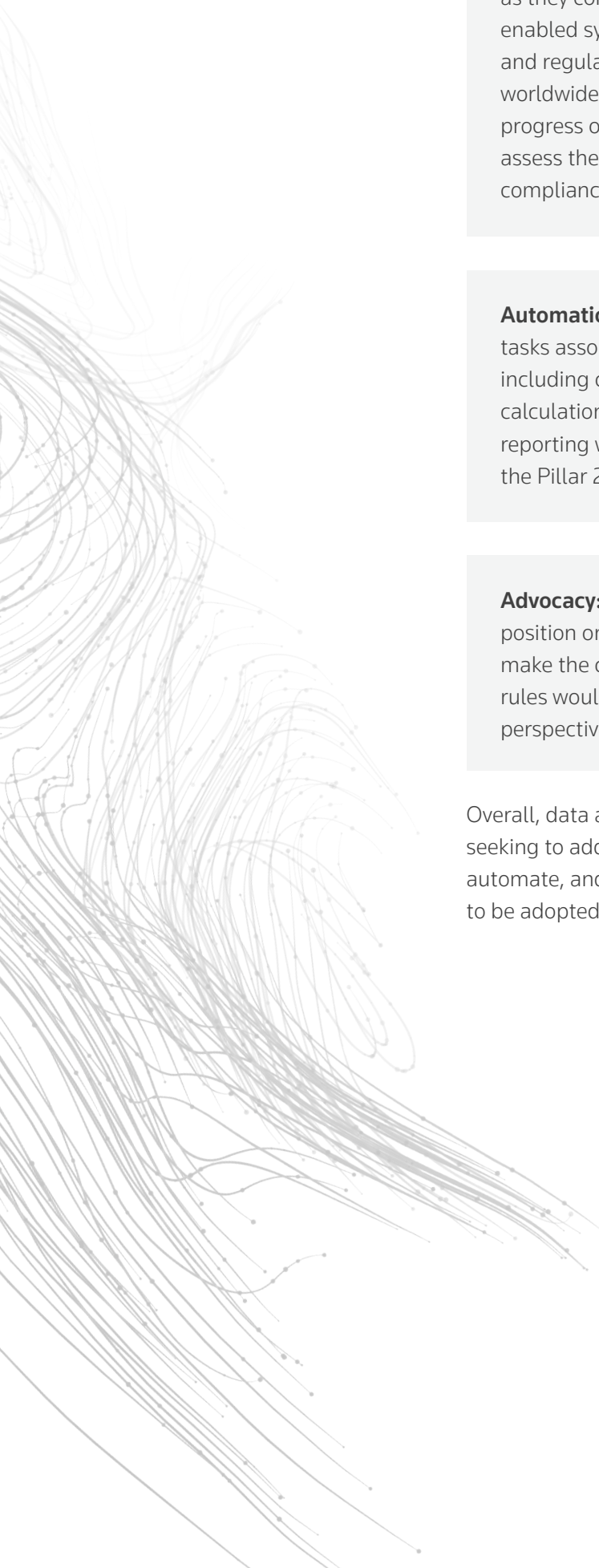
The OECD's Base Erosion and Profit Shifting (**BEPS**) Action Plan consists of 15 pillars aimed at addressing international tax avoidance by multinational entities. Pillar 2 focuses on setting a global minimum tax rate to ensure that entities pay a minimum level of tax regardless of where they operate.

As the Pillar 2 measures take shape and countries begin legislating their version of the OECD framework, what is clear to organisations and their advisors is that compliance with the measures will be intensive on data and technical expertise. A data-driven approach is expected to help organisations prepare for the measures. By collecting and analysing financial data using trusted tax software, organisations can assess their risk of non-compliance with the new rules and develop strategies to ensure compliance.

In anticipation of the rules coming into force, tax functions should start thinking about the following from a data and technology perspective:

Data availability: Pillar 2 introduces several new concepts, and therefore may require new data that the finance function and tax function do not currently store. An assessment of the data likely to be required by an organisation under the OECD Model Rules may be prudent to provide an early warning on remediation work that may be necessary on upstream accounting or product systems to make this data available. This should be considered from a data source and quality perspective, and the results ranked to enable identification and prioritisation of the most critical data elements. We note that while there are in excess of 150 data elements referred to in the OECD Model Rules, not all of them are required by all organisations.

Impact assessment: Companies can use data to assess the potential impact of upcoming legislation on their operations, tax liability and profitability. This involves analysing financial data to determine the amount of tax that would be payable under the new rules, as well as considering the impact on supply chains and transfer pricing arrangements. Thomson Reuters, in partnership with leading international tax company Orbitax, have a cloud-based technology solution that is designed to perform a high-level risk assessment to identify entities, transactions, and other business operations impacted by the Pillar 2 rules. These solutions also allow for multi-year impact calculations and analysis of different scenarios, such as effective date assumptions, restructuring holding companies, and the movement of employees and assets.



Compliance and risk assessment: Data can be used to help multinational entities ensure that they are complying with rules as they come into effect. This could involve setting up technology-enabled systems to monitor and analyse changes in tax laws and regulations across all relevant jurisdictions, as well as track worldwide Global Minimum Tax due dates and monitor the progress of submissions. Data and technology can also be used to assess the risks associated with Pillar 2, such as the risk of non-compliance and reputational damage.

Automation: Technology can be used to automate many of the tasks associated with complying with Pillar 2-related legislation, including collating relevant data and preparing required calculations. Automation processes can also assist in ongoing reporting which may be required as part of countries' adoption of the Pillar 2 framework.

Advocacy: Data can also be leveraged to advocate for a particular position on Pillar 2. For example, companies could use data to make the case that a particular country's adoption of the Pillar 2 rules would create unintended consequences from a broader policy perspective.

Overall, data and technology can be valuable tools for tax functions seeking to address the challenges of Pillar 2, helping them to manage, automate, and optimise processes to prepare for and comply with the rules to be adopted across multiple jurisdictions.

2.3

Tax governance and risk management

A robust and effective tax governance and risk management framework ensures that entities are compliant with all relevant tax laws and regulations, protects their reputations, and ensures tax risks are identified and addressed. Establishing such a framework has a variety of additional benefits, such as improving financial performance and fostering stakeholder trust.

Adopting a data-driven approach through the use of technology can improve processes and controls in a variety of ways, including providing real-time insights into how effectively the processes are working and assisting with the testing of relevant controls. This helps organisations identify potential risks and take corrective action before issues arise.

Thomson Reuters offers a range of ONESOURCE tax technology solutions to help manage these risks effectively as part of a best practice corporate governance framework. With the aid of cloud-based technology, these solutions facilitate efficient data collection, processing and review, and provide a secure repository for tax data, enabling tax professionals to create repeatable and traceable processes.

Further, by automating tax-related processes, these solutions help entities guard against human error and identify risks related to non-compliance with tax laws and regulations. In addition, the solutions feature comprehensive audit trails, inbuilt checks and validations, as well as tight access control, security settings, user management, and segregation of duties to minimise errors and increase accountability.

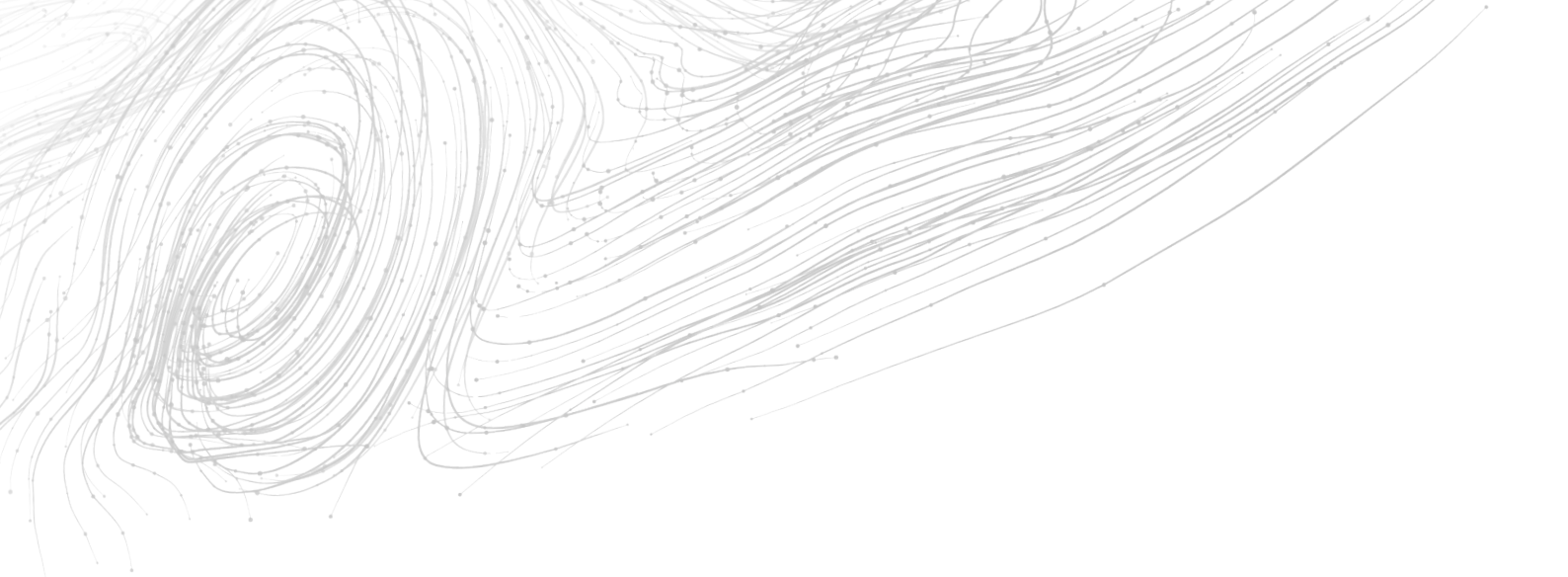
Increasing expectations from the ATO and other authorities

With growing expectations from revenue authorities in relation to tax governance and risk management procedures, properly designed policies which are periodically tested for effectiveness are key to ensuring greater levels of assurance from those authorities. For example, the ATO's "Tax Risk Management and Governance Review Guide"³ sets out a comprehensive set of management and board level controls which entities are expected to adhere to. The ATO reviews adherence to this guide through products such as Combined Assurance Reviews.

Generally speaking, organisations with higher levels of assurance avoid more granular levels of review and have less intensive / frequent reviews. Such organisations are also less likely to be levied with fines and penalties for missed or incorrect filings.

The role of tax governance and risk management has also been further elevated through the rising prominence of Environmental Social and Governance (ESG) factors and associated reporting requirements.

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Examples of tax governance best practice

- **Exception testing:** The ATO from time to time provide guidance of analysis they expect of taxpayers to ensure the data they rely on to report is of sufficient quality. For example, the ATO have set out in excess of 40 exception tests related to Goods and Services Tax they expect tax functions to be considering or completing as detective controls, and which operate as exception tests reviewing the entire data set, rather than outmoded sampling techniques. This approach can be applied broadly across internal and third-party data as a baseline test for data quality.
- **Trend analysis:** Longitudinal analysis to consider the variance or movement of ratios and KPIs over time may provide early warning of areas for attention and may form part of the governance and risk management framework.

With ONESOURCE Direct Tax technology, tax functions can better embed these practices as part of their processes and risk framework. Inbuilt data extraction and reporting capabilities allow tax functions to swiftly extract historical data for further trend analysis. With easy access to all their historical tax information in a central place, tax teams are better placed to be more proactive when it comes to identifying key drivers and strategic areas of focus.

- **Third party data:** Enriching in-house tax data with external sources can yield surprisingly effective and low-cost results. For example, enriching Vendor Master data from Accounts Payable with real time data from the Australian Business Register may provide comfort regarding the correctness of the classification of vendors in relation to Payroll Tax, Fringe Benefits Tax, or GST.

By streamlining data collection and integration and providing real-time data access, technology allows tax teams to effortlessly enrich their data to validate their work and uncover new insights.

3. Conclusion

The challenges and complexities facing today's tax functions are significant and multifaceted, including the need to understand an ever-changing regulatory landscape, manage diverse requirements across multiple jurisdictions, and operate within the constraints of limited resources. A data-driven approach enabled by well-designed tax technology can help alleviate these pressures by providing tax functions with the time, tools, and insights to mitigate tax risk and meet escalating demands.

In the context of the OECD's Pillar 2 measures, this approach will be particularly crucial in helping organisations assess the potential impact of upcoming legislation on their operations and prepare strategies to ensure compliance. Moreover, this approach supports a robust and effective tax governance and risk management framework, which is essential for ensuring that entities are compliant with all relevant tax laws and regulations to protect their reputations and ensure all tax risks are effectively identified and addressed.

Overall, embracing data and technology as strategic assets will help tax functions rise to the challenges of the current and future tax landscape, while successfully delivering value to their organisations and stakeholders.

¹See 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>

²See Thomson Reuters "The 2022 State of the Corporate Tax Department" report available on Thomson Reuters' website <https://insight.thomsonreuters.com.au/business/resources/resource/the-2022-state-of-the-corporate-tax-department-report>

³ See the ATO's "Tax Management and Review Guide available on the ATO's website www.ato.gov.au/Business/Large-business/In-detail/Key-products-and-resources/Tax-risk-management-and-governance-review-guide/