Managing GST with data analytics

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Agenda

- Indirect tax function of the future (and predictions)
- Data and technology in the indirect tax functions (and predictions)
- Indirect tax governance roadmap
- GST/VAT compliance cycle
- Australian experience
- Summary
**Indirect tax function of the future**

Some predictions

- Legislative/regulatory requirements
- People/the indirect tax professional
- Governance and risk
- Controls and process
- Data and technology
**Legislative/regulatory**

- Global tax information reporting requirements (e.g. BEPS and similar transparency initiatives) will grow exponentially and will have a material impact on the operations and related budget allocations of tax functions.

- Global markets will demand complete transparency and information sharing among stakeholders and taxing jurisdictions, resulting in an increase in overall tax liabilities.

- The majority of taxing jurisdictions, in both developed and emerging markets, will have systems and data-mining capabilities to conduct global audits which will reconcile income and expense across jurisdictions.
A successful tax professional of the future will be highly proficient in data analysis, statistics, and technology, as well as process improvement and change management.

Tax functions will employ dedicated tax IT, data and project management specialists who will develop, champion, and execute the tax technology and transformation strategies.
Many jurisdictions will legislatively require the adoption of a tax control framework which follows guidelines similar to Sarbanes-Oxley and COSO (Committee of Sponsoring Organisations of the Treadway Commission).

Enhanced stakeholder scrutiny and reputational risk will force companies to continuously re-evaluate their tax decisions.

Strategic focus on jurisdictional reporting and documentation of business activities, including transfer pricing, will be critical to managing the increased tax controversy resulting from transparency initiatives.
Controls and process

- Most global tax preparatory compliance and reporting activities, including data collection and reconciliations, will be performed within the company’s shared service center or will be co-sourced with a third party.
- A ‘risk based approach’ to tax compliance preparation and review activity will be commonly used.
- Controls based testing of tax processes will be the norm (beyond GST/VAT).
- Tax functions will use real-time collaboration tools to automate their workflow, document management, calendaring, and internal controls.
- Data analytics will be used ‘real time’ to detect and correct risks in accordance with pre-defined benchmarks / rules / parameters (includes notification).
Key factors influencing tax function and need to harness technology

• Governments around the world are protecting their tax bases vigorously
  - Greater tax authority collaboration (globally and information exchange at the highest level)
  - Growing disclosure and transparency requirements
  - Aggressive and focussed enforcement
• More expected from the tax function with less resources
• Increased focus on finance transformation with cost reduction and process improvement
• Managing risk is even more important especially within the context of tax
• Increasing focus on use of data analytics to support business activities (very relevant for Indirect Tax function)
Data and technology
Current trends – four focus areas

Tax technology projects companies are executing today

1. **Data Management**
   - Extract, Transform, Load (ETL)
   - Business Intelligence
   - Data Mart(s) / Data Warehouse

2. **Tax ERP**
   - Chart of Accounts
   - Indirect Tax GST / VAT
   - Capture transaction detail

3. **Tax Operations Management**
4. **Workflow/Process Management**
5. **Document & Info Management**

6. **Collaboration Space**

7. **Tax technology strategy**

8. **Tax Computation Systems**
   - Tax Provision
   - Transfer Pricing
   - Statutory accounts (Multiple GAAP)
   - Tax Returns (Direct, Indirect, ET)
The future state ecosystem
The importance of technology

- Tax functions need to do more with less
- Increased centralisation of activities
- More and better data is required, more frequently and on a real time basis
- Requirement to drive value from tax data
- Maximise return on investment in finance function transformation
- Exponentially increasing reporting requirements
- Use of co-operative compliance models and focus on risk based approach by tax authorities
- Critical to tax transformation

All of this requires greater automation

- NB: Globally, Tax Authorities relying more heavily on technology and they are aggressively competing for key talent in the Data/Technology space
**Data: our predictions**

- The majority of Tax functions will receive all information in a ‘tax-ready format’ from either their enterprise-wide financial systems or a dedicated tax data hub.

- Dedicated tax data hubs will become mainstream and be developed internally, licensed from a third-party vendor, and/or accessed through an accounting firm as part of a co-sourcing arrangement.

- Data security will be high on the agenda of Tax functions due to concerns over confidential information being inadvertently released or shared publicly.
Technology: our predictions

- More companies will use their enterprise-wide financial systems to prepare tax calculations (e.g., income tax accounting and indirect taxes), thereby replacing spreadsheets and/or traditional tax technology solutions.

- The vast majority of Tax functions will rely on professional data analysis tools to assist in the decision-making process in areas such as detection of risk, opportunity identification, projections and scenario planning, and overall business support.
## Indirect tax governance – roadmap

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<thead>
<tr>
<th></th>
<th>Tax technical</th>
<th>Systems and processes</th>
<th>Tax function governance</th>
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<tbody>
<tr>
<td><strong>Explore</strong></td>
<td>Is there a policy that advice is sought from expert advisors or the GST/VAT Authorities for complex, contentious or unique situations?</td>
<td></td>
<td>Is there a defined and documented process for the specific purpose of identifying and reviewing tax risk that clearly states the organisations risk appetite? Does senior management receive a regular update on GST/VAT matters that impact on compliance? Does senior management sign off on the adequacy of internal controls that govern GST/VAT compliance?</td>
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<tr>
<td><strong>Calibrate</strong></td>
<td>Is there a reporting process in place to recognise complex and non-standard transactions to ensure the correct tax treatment is applied? Do you include shared services providers in your GST/VAT training and technical discussions?</td>
<td>Are there regularly updated process maps to support GST/ VAT procedures and manuals? Are accounting systems and the return preparation processes automated to ensure the integrity of data and minimise risk of error by manual data entry? Does the system generate detailed and complete reporting audit trails that are reconciled to accounting records and cleared at the end of each reporting cycle? Are exception reports generated and independently reviewed? Are reporting trends monitored?</td>
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<td>Harness</td>
<td>Do all staff involved in initiation, recording, processing, reporting and review of GST/VAT impacted transactions receive GST/VAT training and updates?</td>
<td>Are systems used to process and store data regularly tested? Are all systems set up to reduce system or processing errors?</td>
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**GST/VAT compliance cycle**

<table>
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<tr>
<th>System set up and configuration</th>
<th>Master data entry and maintenance</th>
<th>Transaction processing &amp; tax determination</th>
<th>Data extraction and reporting</th>
<th>Date formatting and mapping</th>
<th>Analysis, testing and reconciliation</th>
<th>Adjustments and corrections</th>
<th>Return generation and submission</th>
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<tr>
<td>• SAP configuration review</td>
<td>• Master data review</td>
<td>• Review determination logic</td>
<td>• SAP configuration review</td>
<td>• Standard report configuration</td>
<td>• Excel</td>
<td>• Excel</td>
<td>• Excel</td>
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<td>• Customs SAP reporting (ABAP)</td>
<td>• Custom reporting on master data (ABAP)</td>
<td>• Tax engine implementation</td>
<td>• Custom SAP reporting (ABAP)</td>
<td>• Excel with automation</td>
<td>• Excel with automation</td>
<td>• 3rd party products</td>
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<td>• Electronic invoicing</td>
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<td>• Electronic Invoicing</td>
<td>• 3rd party products</td>
<td>• Outsourcing</td>
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**Integrated BI solutions**

**Integrated Business Intelligence Solutions – Installed Technology**

**Data extract Tools**

**Data Extract Tools**

**Web based process, risk and document management system**

**Outsource service or technology**

**Consolidation and e-filing**

Global Tax Symposium — Asia 2015
PwC
**Australian experience**
Where do GST errors arise?

- **BAS preparation errors**: 39%
- **System related issues**: 22%
- **Unsure of supply status**: 1%
- **Technical understanding and interpretation**: 12%
- **Change of business structure**: 4%
- **Related entities miscommunication**: 16%
- **One-off supply of assets**: 5%
- **Staff turnover and controls**: 1%
- **Related entities miscommunication**: 16%
- **BAS preparation errors**: 39%
- **System related issues**: 22%
Australian experience

- GST is a window into business – indirect tax function more integrated into broader business focus (DATA)
- Comment by ATO office – ‘sunshine is a great disinfectant’
- Integrity of Business Systems (IBS) – the ATO risk and data integrity focus
- Multiplier effect of incorrect transactions can lead to significant revenue risk
- Businesses going through change are especially at risk (staff changes, organisational restructures, etc.).
- New accounting software or significant upgrades – a risk and a window of opportunity
- Regional/global GST/VAT reporting requirements
- Self Assurance Model is coming/ ‘Light touch’ / 3 year moratoriums – big ATO focus
- Practical, ongoing, real-time risk mitigation is the new norm
Summary
**Key takeaway**

- Assess the effectiveness of your indirect tax corporate governance framework:
  - Conduct an operational risk assessment for indirect tax

- Create a roadmap and action plan to improve any deficiencies:
  - Policy review
  - End to end process (including controls and key reports)
  - Indirect tax technology strategy and plan/use of data analytics to integrate the Indirect tax function into the broader business.

- Implement changes that mitigate key risks through policy, people, process and technology

- Be aware of global tax authorities expectations/commitments on ‘best in class’ indirect tax function.