

The business perspective on tax transformation



The tax landscape in the Middle East is changing - and faster than ever before.

The roll out of indirect taxes in most of the GCC countries – perhaps one of the largest indirect tax transformations the world has ever seen – comes at a time when international requirements, notably the OECD's Base Erosion and Profit Shifting (BEPS) project and country-by-country reporting, are placing growing demands on multinational organisations. The implementation of new tax laws and the modernisation of tax systems can give rise to confusion and penalties for non-compliance, and errors can have severe consequences, creating tax risk.

Governments across the Middle East are intent on developing a robust tax regulatory system that's closely aligned with international best practice. Tax authorities here are well-funded and technology-driven, moving the region toward becoming one of the most digitally advanced in the world.

Against this backdrop, there has never been a more important time for us to take a snapshot of how organisations and their tax functions are operating and responding.

The combination of advancing technology, evolving tax regimes and determined enforcement is a potential perfect storm for organisations as taxpayers. As tax functions develop and learn to navigate this increasingly challenging environment, we wanted to better understand where they are now, their strategic influence within organisations, and what they need to do in order to meet the ever-expanding demands placed on them.

This year, for the first time, we conducted a survey of senior tax decision makers from organisations based in 10 countries and operating in 12 jurisdictions across the Middle East. Their responses highlight the concerns that businesses and their tax functions face in three critical areas: the challenges of managing tax risk and disputes; the pressing need to automate rapidly to minimise risk and keep pace with digitally-advanced tax authorities; and the importance of developing productive, collaborative relationships within the business, and externally with regulators.

We would like to thank all respondents who took the time to contribute to this valuable research.

Mohammed Yaghmour

Middle East Tax & Legal Services Leader



The risk factor:

Most organisations in the Middle East say managing risk is their biggest external tax challenge. Almost half have faced a tax challenge or dispute in the past year.

Key findings

02

The technology gap:

Automation and technology is the key to managing tax risk but organisations have a long way to go on their automation journey. Many say they lack the budget to automate.

03

The collaboration advantage:

Tax issues should be at the heart of strategic decision-making, but only a third say the function is fully integrated within the business. Building a positive relationship with the tax authorities should also be a priority.



Approximately 70% say managing risk is their biggest external tax challenge. Almost half of all organisations report being the subject of a government audit or investigation in the past 12 months.

Given the complexities of managing tax in the Middle East and tax authorities' thorough approach to compliance, it's hardly surprising that most respondents - 57% - are determinedly risk-averse when it comes to tax. Audits by tax authorities are prevalent and uncompromising. In such a context, setting a low tolerance for tax risk is an entirely reasonable approach.

The high proportion of respondents who have had direct contact with the authorities in the past year supports the anecdotal view that in the Middle East, rigorous tax challenges will be the norm. Those who haven't already been challenged or audited should expect to be at some point in the future, and prepare for it.

Only 10%

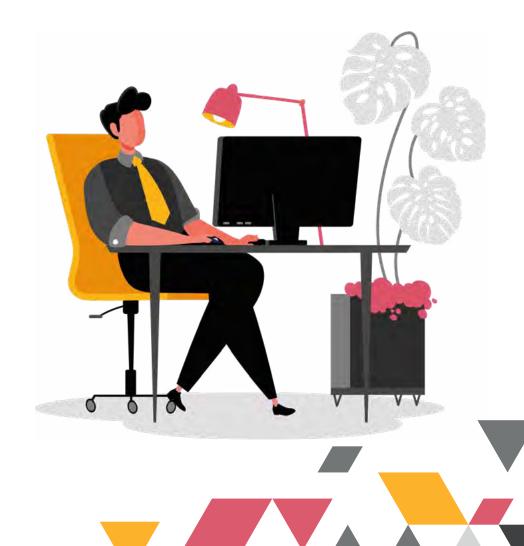
of organisations describe themselves as well prepared to face the tax authorities.

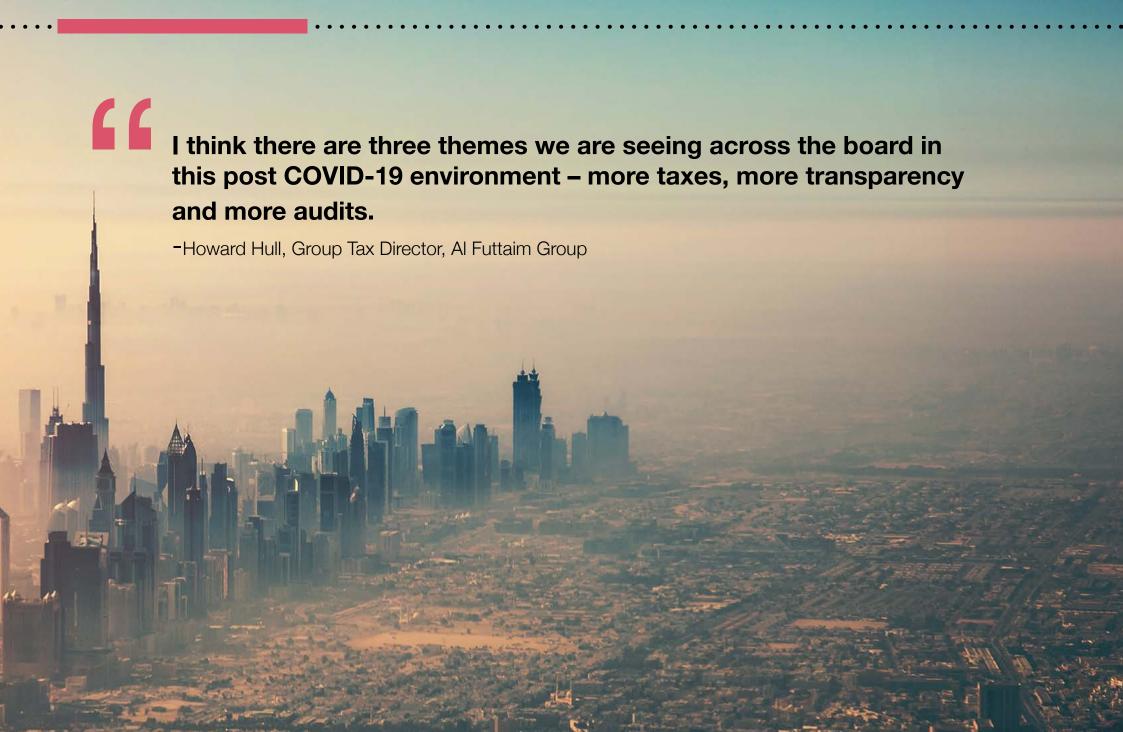
Notably, those that have already dealt with a dispute or challenge are less likely to describe themselves as well prepared, as compared to those who haven't. This is the voice of experience – and it's clear that their preparations were not entirely sufficient.

66

Those who haven't already been challenged or audited should expect to be at some point in the future, and prepare for it.

- Jeanine Daou, PwC Middle East Indirect Tax Leader.





VAT is the main focus for challenges

Respondents are also worried about the risks posed by particular technical tax issues, specifically VAT and other indirect taxes. Fewer, but a notable amount, were also concerned with how BEPS and Transfer Pricing regulations will play out in the near future. The specifics of VAT requirements are identified as a frequent point of discussion during tax audits, with one respondent adding that 'the biggest challenge is the amount of data being asked for, and the time frame'. Others felt that tax authorities don't have a clear grasp of their business or are applying tax laws inconsistently.

The cost of getting tax reporting and compliance wrong is high (filing incorrect information in the Kingdom of Saudi Arabia, for example, could attract a penalty of between 5 and 25 percent of the value of the tax, which should have been declared) – but it is clear that many respondents believe that these risks are being increased by poor data quality and systems issues.

Investment in technology and automation is the key to successfully managing tax risk – but for many organisations, securing the necessary budget for transformation is a major challenge.

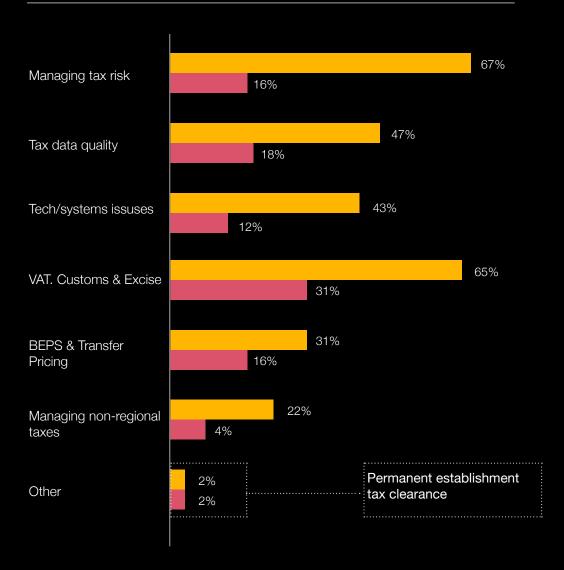
Securing this budget should be an organisational priority, not least because tax authorities across the region are well-funded and technologically advanced.

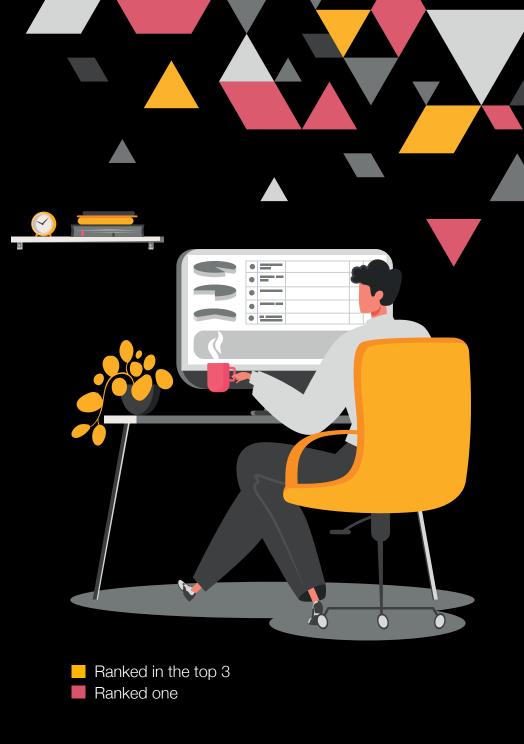




Question: Which of the following would you describe as your organisation's greatest external tax challenges?

Figure 1





Less than 10% report having a mature tax technology system and almost 50% report serious issues with tax data quality. Yet most see a resistance to investing in tax technology: 39% say they do not have (or have not been allocated) an adequate budget, and 30% report major system integration issues.

From our experience of working with organisations around the world to integrate tax technology, we know that digital tax solutions are the key to managing tax risk efficiently and effectively – and provide the security and rigour that's essential when dealing with sensitive and/or large quantities of tax data.

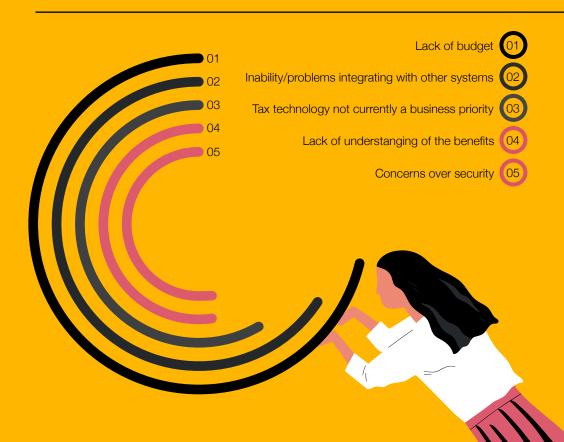
Organisations in the Middle East, however, are still in the very early stages of their transformation journeys. Two thirds are either relying on existing ERP systems and more often on manual processes, or are still thinking about how best to use automation. It is also noteworthy that organisations are slightly further ahead in terms of digitisation when it comes to VAT, but only by a small margin – a perhaps surprising result given the focus on VAT in the GCC over the past few years.

The intention, though, quite clearly, is to automate – and rapidly. 63% say digital enablement is a strategic priority for the next one to three years, half plan to be automated within two years and another 40% say they will be automated within five years. Achieving this ambition will be challenging, particularly since four out of 10 say that they lack the budget to do it.

It's time for Tax Directors and CFOs to make the strongest possible business case for upgrading and automating the tax function. This investment will be one of the most critical that organisations in the Middle East will make in the coming months and years – an investment that has the potential to deliver valuable returns in terms of managing financial and reputational risk.

Question: Which, if any, barriers do you face in adopting tax technology tools in your organisation?

Figure 2



A race with tax authority superpowers

No-one should underestimate the technical sophistication of tax authorities and the advantage that they can gain from using innovations, such as artificial intelligence and other disruptive technologies. As an example, outside the region, some countries are already using drones to validate information provided on tax returns, surveying activities such as olive farming in Spain and to count the number of passengers on tourist boats in Greece, which come with traditionally hard-to-verify numbers.

GCC governments have watched nations around the globe move towards the digitisation of tax reporting, collection and compliance. They have seen that technology delivers greater transparency of data and the potential to maximise tax revenues, and have embraced the concept wholeheartedly. As a result, Middle East tax authorities are arguably amongst the most advanced in the world in terms of digitisation, already using electronic payments and online portals. The next step is e-invoicing, which is already being rolled out across the region.

It's almost certain that in the near future, tax authorities will have real-time access to taxpayer data, leaving no room for error and increasing the risk of penalties still further. This is a no-mistakes environment, and organisations must make the best use of available technology in order to protect themselves. Without significant investment in technology, organisations are riding a bicycle in a Formula 1 race.





This is a no-mistakes environment, and organisations must make the best use of available technology in order to protect themselves.

- Jay Riche, PwC Middle East Tax Digital Solutions Leader.

Although we use tax technology, we have the ongoing overlay of new regulations such as e-invoicing rules coming out in many markets, meaning we now have to build upon this technology in order to align to these new, digitally-advanced ways of working.

-Ali Yaseen, Head, Tax, Middle East and North Africa & Global Tax Lead, Islamic Banking, Standard Chartered



Managing integration

A significant barrier around automation is integrating new solutions with legacy systems, which is an enduring problem in most tax regions. Given more than half of the organisations in the Middle East are still in a very early stage of automation, our data suggests that organisations should indeed focus on this issue and anticipate it, as they move toward adopting and increasing the use of tax technology.

This is often where an external adviser can add value by assisting organisations to select and design solutions that are best suited to their needs and facilitating implementation. Over 90% of respondents are already supported by external advisers and 43% say they expect to lean more heavily on external advice in the future; implementation will be one of the most important areas of support in the coming months and years.



Question: Please indicate which of the following best describes your organisation's approach to implementation of tax technology for direct and indirect taxes?

Figure 3





Basic ERP set-up, reliant on Excel, dependent on manual review and calculations, considering how to streamline and automate



Beginning

ERP functionality is properly utilised, less manual work required, conversations with IT department on potential solutions



Transitioning

Aware of available technologies, tax data is centralised and accessible for the tax team, dashboards are used to gain insights



Maturing

Processes underpinned by technologies aligned to business functions, transactions are reviewed in real time, data is robust and used to contribute to business development.



3%

Leading

Emerging technologies are used for tax, data can be used for planning and budgeting purposes (forecasting), tax compliance process is automated end-to-end



Only 33% say the tax function is fully integrated with the business and, strikingly, just 12% say they have a strong relationship with the tax authorities

A strategically valuable tax function doesn't operate in a vacuum; its success depends on the relationship it builds both internally within the business and externally with the tax authorities. Our survey shows that there is work to be done on both counts.

Tax functions are currently small – 76% have fewer than five people – and are centralised but are expecting to expand rapidly, in terms of size and remit, in the coming years. Three-quarters are largely insourced at present. It is perhaps unclear whether this group is content in this position, or may be looking to explore outsourcing in the future.¹



¹January 2021: A poll conducted by PwC's Middle East Tax & Legal Managed Services practice suggests that many will choose to move to outsourcing models in the near future. 90% of organisations polled at 'The Middle East Tax & Legal compliance landscape: Compliance Reimaged' webcast indicated that they were already outsourcing, or were planning to outsource, some or all of their tax and legal compliance obligations.

Tax at the top table

Strategic decisions can have tax consequences and in the Middle East, organisations have limited time to react and prepare when they face a challenge from the tax authorities. This is a compelling argument – if one was needed – for tax to be involved from the outset in strategic decision-making across the business.

Only a third of respondents describe their tax function as fully integrated and at the heart of strategic decision making. In our view, many organisations should really take note of this; tax must have a seat at the table and be involved from the outset in strategic decisions or businesses risk expending time, energy and money on firefighting tax-related problems that could have been predicted from the outset.

The good news is that the intention to improve on this is clear – 59% say that their tax function will have to become more strategic and less reactive in their approach to business planning in the future.







Relationship with tax authorities

Given the potential frequency of tax audits and challenges, building a positive relationship with tax authorities should be a priority for tax functions; anecdotally, any encounter between the tax authorities and an organisation where there is already a personal relationship tends to be a smoother experience with a more positive outcome.

Yet only

12%

of organisations say they are in close and regular contact with their tax authority and

29%

describe their relationship as distant

which generally means that most contact is only through an external adviser.

Reassuringly, many understand that this needs to improve, with 57% saying managing tax authority relationships will be a strategic priority in the next one to three years.



The good news is that the intention to improve on this is clear, with most telling us that their tax function will have to become more strategic and less reactive in their approach to business planning in the future.

- Mohammed Yaghmour, PwC Middle East Clients & Markets Leader | Zakat and Tax Leader - Saudi Arabia.



We have a good relationship with the tax authorities. GAZT Relationship Managers and team are very supportive and cooperative. They are keen to support and fix issues and clear all ambiguities.

Alaa Abdulaziz Kattouah - Head of Central Accounting, The Saudi National Bank, KSA.





Next steps

This research highlights the risks and complexities around the tax environment in the Middle East and the work that needs to be done if tax functions are not only to protect the organisation from the impact of exposure, but contribute positively to strategic direction. With the right investment and support from the top, the tax function can be a positive, proactive force at the centre of a successful organisation. Building that tax function of the future needs strong, decisive action now:

1 Ensure tax has a seat at the top table.

Tax should be an essential element of strategic decision-making across the business.

O3 Automate & digitise.

The tax authorities have the latest technology available and real-time reporting and compliance is moving closer. Organisations must commit to an investment in digital technology that will allow their tax function to keep pace.

02 Secure the budget.

Make a clear business case for the budget to grow and upgrade the tax function ready to deal with the expected rise in legislation and complexity.

04 Transform & upskill.

The tax function of the future is technology-driven and strategically-focused – and that means that inhouse tax skills need to evolve with it.

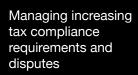
05 Build relationships with the tax authorities.

A personal relationship and regular contact with tax authorities will help to smooth inevitable encounters in the future.

Question: Which, if any, of the following factors are the strategic priorities for your organisation's tax function during the next 1-3 years?

Figure 4







Digital enablement



Tax authority relationship management

More likely to be selected by companies who have had a challenge or dispute with the authorities.

About the survey

PwC surveyed companies headquartered in 16 different countries and operating across 12 territories in the Middle East. The purpose of the survey was to gain insights into the region's developing tax functions, to better understand where they are now, their strategic influence within organisations, and what they need to do in order to meet the ever-increasing demands placed on them.



Middle East headcount

Organisations

1,000	1,000	5,000	
33%	33	%	35%
Tax team 0-5 76%	6 - 20 16%	More than 21	We do not have a ME tax function

Industry sectors represented

10%	10%	4%	2%	14%
Banking and Capital Markets	Energy, Utilities and Resources	Healthcare	Real Estate	Industrials
20%	20%	12%	6%	
Retail and Consumer Markets	Financial Services	Other (please specify)	Transportation and Logistics	1
Wands		•		

Contact us:



Mohammed Yaghmour

Middle East Tax & Legal Services Leader

mohammed.yaghmour@pwc.com



Jay Riche

PwC Middle East Tax Digital

Solutions Leader

jay.riche@pwc.com



Jeanine Daou

PwC Middle East Indirect Tax

Leade

• jeanine.daou@pwc.com

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

Established in the Middle East for 40 years, PwC has 22 offices across 12 countries in the region with around 6,000 people. (www.pwc.com/me).

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

© 2021 PwC. All rights reserved