Why **TAX PROCESS DIGITALIZATION** should be your key priority in 2023

Cygnet TaxTech

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Evolution of taxation

Taxation has been around for centuries and has evolved with socio-cultural and demographic changes. What has changed in matters of taxation is the nature and magnitude of taxes. Taxes have increased in volume and have been given different names to accommodate administrative practices. Understanding the evolution of taxation is important because it is key to understanding how society has evolved and how governments have changed.

The tax ecosystem traditionally consists of three major components - the taxpayer, the tax authority, and other stakeholders. The interaction between these components has been crucial for the success of any tax ecosystem. There have been several technological advancements due to emerging needs for increased levels of reciprocity between these stakeholders and across countries with different languages, regulatory bodies, or cultural backgrounds.

The tax process today

The IT landscape globally has been evolving to address the challenges in finance, accounting, and tax operations since the time enterprise resource planning (ERP) systems first appeared. The tax process today is no more restricted to determining tax liabilities, filing tax returns, payment of taxes, and receiving tax refunds. As the systems are becoming integrated more than ever before and processes are becoming overlapping, the traditional tax process is transforming into a unified business process.

These processes for any industry can be complex, but there are ways to make them easier. One of the ways the organizations are making it easier is by implementing tech solutions to address the evolving tax issues.

The common tax process-related challenges faced by organizations today include:

1. Taxation is not intuitive
2. Tax process is complicated and time-consuming
3. Taxes are unevenly distributed

Trends in the tax ecosystem

The tax operations across the organizations are transforming from being a compliance function to influencing the business structure and decisions. The emerging technologies are showing the potential to improve operating efficiency and uncover insights that can drive fact-based decision-making and change the value tax brings to the company's bottom line.

For the tax authorities, the scope of data acquisition has expanded to collecting non-tax data, which if linked appropriately with tax data, enables a broader understanding of the business operations of taxpayers, audit, analysis, and stimulate the data.

From stipulating mandatory usage of e-invoicing to artificial intelligence (AI) deployment, governments constantly find new ways to efficiently gather accurate tax data, optimize tax collection processes, and keep their economies growing.

On the other side, technology is helping corporate tax teams to cope with increased demands for data and transparency from regulators. Historically, taxpayers had been reacting to the changes brought by the tax administration, but now, aided by the technologies, corporate tax teams have started taking a more proactive approach to use data for predictive and prescriptive analysis, tax modeling, and decision making to optimize tax across the breadth of their operations and speed up planning, reporting and compliance processes.

Why tax process digitalization should be your key priority in 2023?

Digital Transformation—Assumption: Enterprises and governments around the world have shifted to a major strategic focus on "digital transformation" (DX) in recent years, which has helped to drive a great focus on the adoption and implementation of new technologies and related services. Digital transformation represents an embodiment of the greater strategic prioritization attached to the perceived benefits in productivity and efficiency, which are now broadly attached to ICT spending, marking a significant shift from the "IT doesn't matter" or "good-enough computing" era of a decade ago. Commercial organizations continue to indicate in surveys that they attach continued credibility to the benefits of DX-related investment and use cases, even when overall budgets are pressured by short-term economic factors.

Impact—Digital transformation represents a high level of prioritization that is currently attached to technology investments by businesses, and this helps underpin stability in tech spending even when budgets are pressured by macro headwinds. The strength of the DX wave survived the COVID–19 pandemic and remains a prominent feature of business planning for both the short-term and the longer-term outlook.

Digitalisation—the only way ahead

Tax technology can impact many aspects of a company's operations. The goal of digitalization is to make the tax process more efficient, accessible, and user-friendly for both taxpayers and tax authorities. It can also help to reduce errors and improve compliance.

Some potential benefits of digitalization include faster processing times, increased accuracy and transparency, and reduced administrative burden.

Big Data, analytics, artificial intelligence (AI), machine learning, the Internet of Things (IoT), mobility, and cloud computing are all in play. The organizations are moving from standalone to connected tax systems with technologies like RPA, blockchain, integration, and hyper-automation using the data warehousing approach which is eventually the future of tax. It is only a matter of time before we see these emerging technologies start supporting the tax function in making strategic decisions. In tomorrow's tax world, analytics would be a sine qua non, digital twins will complement manpower in the tax function, and artificial intelligence/machine learning and blockchain would become the new normal.

On the horizon are even more fascinating uses of cognitive tools, such as applying their predictive capabilities to move away from backward-looking reviews of indirect tax-related transactions to a future where the technology can anticipate and remediate errors even before they occur.

Journey of the tax process—from push to pull

The process of VAT data collection and exchange is undergoing a fundamental shift. Not only are companies increasingly obliged to report transactional data digitally, but in many countries, they must now do it in 'real time' (e-invoicing and live e-reporting). While the nature and extent of this shift vary between countries, there are repeating trends and patterns.

Around the world, countries are at different stages of e-invoicing and live reporting obligations. While the requirement to issue an e-invoice to customers is generally limited to domestic transactions, tax authorities are also introducing a parallel e-reporting requirement of invoice data for cross-border transactions, both invoices issued and received.

As tax collection systems in different countries become more sophisticated, develop constantly, and vary from country to country, corporations will need to double down on solutions that allow them to comply with different legal obligations in different countries and make it possible to report VAT in real time where requested.

Adopting the right technology and deploying sustainable e-invoicing and tax-reporting systems will enable businesses to reduce the risks of unnecessary audits and help ensure tax and e-invoicing compliance.

Risk mitigation

Companies don't always get in trouble because they managed taxes wrong, but because they can't produce the evidence that proves they're doing it correctly. This needs to change. A fundamental transformation like this inevitably involves risk. Thus, careful planning, clear vision, and effective implementation are essential. Organizations need to take care of the pitfalls to ensure the overall transformation does not fail.

1. **Lack of overall digital strategy:** Transformation initiatives are sometimes implemented piecemeal where a lack of overall strategy results in systems that are not interconnected to each other, low user adoption rates, insufficient data to support data analytics, etc.

2. **Workforce engagement:** Successful transformation initiatives must be implemented with the workforce, operating model, capability, and innovative and sustainable design. These are all important building blocks when developing a digital strategy.

3. **Data exchange:** An important goal of digital transformation is to enable the flow of data between the systems to ensure a single source of truth.

4. **Change management and enabling processes:** Without a proper change management process, digital transformation is unlikely to have full internal support.

Ways to stay clear of notices and penalties

Tax agencies across the world consider the trade-off between the cost of audit and scrutiny and the expected tax recoveries. With the limited resources, the tax agencies focus on medium and large corporations as they are fewer than smaller businesses and handle huge transactions. Because of the level of maturity in their tax processes, they have detailed reporting systems and are easier to audit. However, an oversight in compliance can also lead to audits that can be painful, time-consuming, and potentially expensive for your business.

Here's some friendly advice:

» **Get the basics right:** One of the basic errors is how the tax is calculated and reported. Once the auditor starts identifying it, it would signal them to probe further and that can change the audit process dramatically.

» **Find the exposures before the tax authorities do:** Conducting regular internal audits through manual review or automated solutions lets you find and correct the errors. Either way, it is worth the effort and can pay off in reduced future penalties.

» **Be consistent, every time:** Inconsistent tax practices give auditors reasons to investigate further.

» **Reduce manual processes:** Automating your compliance functions eliminates much of the manual task and it can help improve the tax process efficiency.

Measuring ROI on implementing a fully digitalized solution

Tech doesn't mean expensive. The digitalization decisions for any business are normally rooted in the savings and the benefits that come along with it. Although the tax function is often seen as a compliance burden, tax process digitalization can brings direct benefits to your business. The calculation of the benefits should also include the impact of increased data quality and accuracy.

Here are some examples to get you started:

- **Streamlined workflows** across the accounts and tax functions
- Minimal exposure to tax and penalties due to a **single source of truth** being used for all tax compliances
- **Reduced turnaround time** while responding to queries from various stakeholders and government authorities

With the right kind of tax digitalization, your business can not just reap the business benefits we saw above but also have a competitive edge with public perception by their corporate citizenship being perceived as tax compliant and meeting ECG goals.

Key takeaways for tax process digitalization

Tax digitalization is increasingly becoming a necessity for ensuring tax compliance, but have you ever considered the benefits of digitalization for your businesses or maybe wondered what it takes for a solution to deliver more than just your compliance needs? The right service provider will ensure that the tax digitalization journey gives you a competitive edge and that you have access to all markets.

Let's look at factors to keep in mind should you decide to go ahead to digitalize your tax processes:

Local roots and a global reach

Tax authorities in more and more countries are adopting real-time reporting but with their standards and requirements. Choosing a service provider who can keep up with these mandates everywhere you do business can play a big role in implementation success.

Navigating the local regulatory requirements

Tax regulations remain highly localized even as the world becomes more and more connected. Choose the service provider that can help in navigating the regulatory landscape and comply with local regulations across the countries.

Open network

An e-invoicing service provider with an open network, such as Peppol members can facilitate interoperability between businesses on separate networks. As a result, businesses choosing open networks can connect to government platforms and other standardized frameworks for secure cross-border exchange of electronic business documents, leaving room for scalability.

ERP integration

A service provider with ERP integration capabilities and an understanding of the financial system can help in minimizing the system and format changes.

Roadmap to the world of the tax technology

The future of tax digitalization would involve reimagining the way current processes work.

We imagine the business, finance, and tax systems to be connected more than ever before wherein these systems will interact in real-time to streamline the overlapping functions and maintain a single source of truth. As the systems become more and more integrated, the data from various source systems can be correlated and used to generate actionable insights for taking critical business decisions.

Let's get you started with the digital tax journey!

TALK TO OUR EXPERTS

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