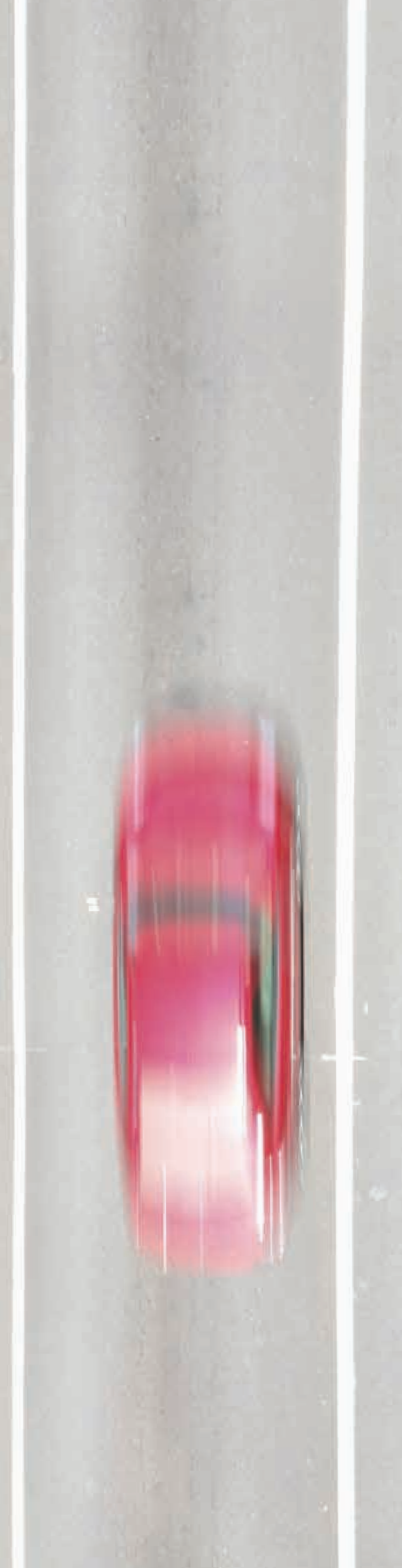
Technology revs up regulatory complexity and drives deeper data demands



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For large international companies, compliance means a lot more than preparing tax forms and meeting filing obligations. Compliance with complex tax and accounting regulations is now a reputational issue. As businesses expand globally, their tax practices are increasingly scrutinized by governments, the media, and other stakeholders — putting even more strain on the volume and accuracy of tax filings.

At the same time, advancing technology is fueling regulatory demand for ever more data, more rapidly and in ever more detail. As the need to produce higher-quality, real-time information accelerates and compliance draws more attention from internal and external stakeholders, finance and tax teams face growing complexity, along with mounting pressure on their stretched resources to get compliance right. While meeting these challenges, finance and tax leaders are expected to go beyond compliance to derive insights from the data and deliver strategic advice that adds value.

To meet these increasing demands and competing priorities, you need an end-to-end strategy for data and technology that covers all the bases — from initial journaling to regulatory filing and audit defense and everything in between, including governance — that results in visibility over all relevant data, a transparent audit trail and control over data collection and processing.

Leading organizations are embracing digital transformation of tax and accounting functions by implementing the right technology platforms to ensure that today's compliance is performed more efficiently and tomorrow's compliance can be met. Beyond compliance, these organizations are also employing advanced technology tools that unlock insights from data needed to create value and reduce risk organization-wide.

Governance and controls in focus

For international companies, keeping up with changes to tax rules in all countries of operation, including changing administrative positions and new court precedents, is already difficult. In the coming years, compliance will get even harder. For example:

— Governments are imposing country-by-country tax reporting and transfer pricing local file/master file documentation requirements.

— The Common Reporting Standard and the multilateral instrument is amending the terms of bilateral tax treaties, with effect in different countries on different dates.

— Changes to the compliance process will be needed to accommodate new taxes, such as the new value added taxes (VAT) being introduced in India and the Gulf Cooperation Council states.

Beyond tax, companies need to meet other complex regulatory reporting requirements, such as Europe's Capital Requirements Directive IV for financial institutions and Solvency II for insurers.

Meanwhile, the environment in which finance and tax functions operate is changing dramatically. A broader range of stakeholders takes an interest in how companies' compliance activities are governed and managed, and today's companies are expected to improve their governance, accountability and transparency in all areas, especially tax. Governments and the public are debating tax morality and demanding that companies pay some 'fair share' of tax where they earn their profits. In addition to country-by-country reporting, for example, the UK is requiring companies to publish their tax strategies annually, and other countries may soon follow suit. Finance and tax directors need to be able to meet this kind of scrutiny with ready explanations about the business reasons for their tax structures and the strength of their compliance processes and controls.

Authorities embrace Tax Control Frameworks

The Organisation for Economic Co-operation and Development's (OECD) Forum on Tax Administration is promoting a compliance approach that would see tax authorities and large businesses collaborating with more transparency and trust to reduce risk and improve compliance. An OECD paper[1] says Tax Control Frameworks for ensuring the accuracy and completeness of tax returns and disclosures are one of the keys to enabling cooperative compliance programs. The key elements of a Tax Control Framework include a documented tax strategy that is the responsibility of senior management, controls applied across all the enterprise's day-to-day activities, and clear governance processes.

The strength of a company's Tax Control Framework would influence the extent of the tax authorities' level of trust in the company's tax disclosures, allowing for reduced reviews and tax audit coverage accordingly.

[1] OECD, Co-operative Tax Compliance: Building Better Tax Control Frameworks (OECD Publishing, Paris 2016).

Digitalization opens access to more financial data

As tax authorities take more interest in examining companies' tax governance and risk management, they are also working to increase the digitalization of their tax systems to open direct access to companies' financial data. For example:

— In the UK, HM Revenue & Customs is consulting on its plan to require most UK businesses to track their tax affairs digitally and report to the HMRC quarterly via digital tax accounts.

— Finland is introducing an electronic system for contacting taxpayers, receiving tax data and processing tax issues in real-time for income tax and VAT purposes.

— Singapore's 'no-filing service' has eliminated the need for many taxpayers to file personal tax returns.

— Brazil has implemented a centralized electronic system for the e-invoicing of transactions, requiring sellers of goods and services to issue electronically tagged invoices that are immediately validated and filed with the taxpayers.

As compliance becomes more automated and financial data becomes digitalized, finance and tax functions will be challenged to maintain the same view over the data as regulators. Tax authorities will have direct access to the full scope of a company's accounts, allowing them to sweep through all of a company's data, not just the general ledger (GL). Many of them are already employing increasingly sophisticated data analytics to probe mountains of data, find patterns and root out non-compliance. For example, the US Internal Revenue Service's STEALTH system — Simulating Tax Evasion and Law Through Heuristics — analyzes tax returns against all the provisions of the federal tax code to seek out tax evasion based on combinations of transactions that raise red flags.

With this scope and level of financial detail at the authorities' fingertips and powerful artificial intelligence programs to analyze it, finance and tax directors need a detailed picture of their company's finances so they can identify and mitigate any risk exposures, confirm the integrity of their data and cover their compliance needs. This means implementing process controls and enabling technology at the initial recording of transactions and other data into financial systems. It also means tax and finance teams need to move away from their traditional work in compiling and packaging data for accounting and tax reporting toward more analytic roles in understanding data flows and managing transactional data to support regulatory compliance and tax audits.

Transforming your compliance technology platform:

Five building blocks

Implementing an end-to-end strategy does not necessarily mean wholesale replacement of your company's existing technology platform and systems. Existing systems can be transformed to drive visibility and control by standardizing processes and employing tools for extracting, managing and packaging data for reporting and compliance.

However, for those companies that are embarking on broader finance transformation projects, data needs for financial reporting and tax compliance should all be considered as part of the transformation. Finance, tax, risk management and other teams should be involved at the project's outset to make sure new systems are put in place that deliver the right data in the right format, without manual intervention.

The five building blocks of an ideal-state compliance technology platform encompass **data integrity**, **collection**, **conversion** and **reporting,** all underpinned by robust **data analytics** across the company's data set.

1 Data integrity

To design and support an efficient and effective tax compliance process, the first step is to ensure that the tax function has the data it needs at the level of detail required. Getting it right at the initial entry is key. Ideally, the tax function leaders would be at the table when finance and business decisions are made to ensure:

— controls are in place to govern posting to tax-sensitive accounts in the GL

— the design of the chart of accounts is tax sensitized and at the right level of detail

— systems have the capacity to produce the required standard and ad-hoc reporting.

For information that comes from external sources, proper governance calls for clear roles and responsibilities for receiving, analyzing and ultimately incorporating that information into the compliance workflow and the data hub.

2 Data collection

Data for statutory compliance reporting is often housed in multiple locations, including ERP platforms, databases, collaboration work spaces and offline work papers. Adding more complexity, the owners of this data are scattered throughout the organization in local or centrally located functions. Migrating all data needs to a one ERP environment can be achieved through advances in technology and cloud-based solutions. But for many organizations, the costs, risks and priorities of a wholesale ERP transformation to improve statutory compliance often makes this prohibitive, especially where the goal is to speed the delivery of group reporting data to internal and external stakeholders.

The second building block of a compliance technology platform entails systems for the centralized collection of data from multiple ERPs and accounting systems, including structured data from the trial balance and GL and unstructured data and information from non-ERP sources. Automated processes can be put in place for extracting data from multiple sources, transforming it in standardized formats and loading it into a central data repository. This may involve setting up data hubs to collect key data needed to meet specific requirements (e.g. statutory accounts, country-by-country tax reporting) and developing bespoke data collection reports and templates for multiple statutory compliance needs to drive greater efficiency.

3 Data conversion

The third building block involves converting and standardizing data collected to meet local GAAP reporting needs. This includes mapping to mandatory charts of accounts, incorporating local adjustments and maintaining reconciliations needed in each jurisdiction. Centralizing and standardizing this activity ensures multiple country compliance processes start with 'one version of the truth' available to finance and tax teams, external auditors, regulators and other stakeholders. Finance and tax teams devote an average of 50–60 percent of their time collecting and converting data for statutory compliance purposes. Using consistent data across jurisdictions brings opportunities for more efficiencies, greater synergies and better risk management.

4 Reporting

Local tax returns, statutory accounts and other obligations need to comply with local formats and submission requirements set out by local regulatory authorities. Greater harmonization across accounting standards and country requirements has presented opportunities to use common platforms and solutions for multi-country filings and reporting. Increasingly, local compliance filing needs are being met with global solutions, such as GAAP-agnostic accounts production tools, global transfer pricing documentation packages, indirect tax engines and reporting tools, and automation solutions for the completion of tax returns. Solutions like these, together with standardized data collection and conversion processes, open the door to more complete end-to-end automation, richer analytics and improved process control.

5 Data analytics

A well-configured end-to-end compliance solution that incorporates centralized, standardized data allows companies to deploy data analytics on a broader data set, offering more insight on key progress, risks and opportunities. Data interrogation to enable 'smart' reviews increases comfort in underlying data and by identifying patterns, enhancing the quality of filings.

Such advances in technology are freeing finance and tax teams to move beyond compliance and gain more strategic value, as new software developed in Germany shows (see sidebar). Just as tax authorities are using data analytics to spot patterns and connections that point to non-compliance, companies are exploring ways to transform data into actionable, predictive insights on tax obligations, process improvements, pricing and other factors. These insights can help companies improve data quality, increase revenue, enhance operating margins and optimize supply chains.

Beyond compliance — using data analytics to extract value

The German software developer, Signavio, has developed a system that eliminates the difficulty and expenses of determining what German tax regulations would apply to a transaction, including unusual or 'one-off' transactions, such as special events or purchases and sales of products. Based on the type of transaction, the amount involved and where the transaction took place, the system reports which tax provisions would apply and what tax withholding, reporting and payment obligations would result. For example, the system can read the terms of a contract and determine all of the laws that would apply and their compliance impact.

This system streamlines compliance, reduces errors and helps eliminate manual interventions. It also provides a powerful tool for decision making. For example, the system could be used to compare scenarios and determine the most tax-efficient legal route to move funds from one location to another using intercompany loans.

Transparency, efficiency and value — end-to-end

In summary, the five building blocks together can form an ideal state compliance technology platform that delivers:

- robust processes that allow companies to demonstrate a clear, consistent approach to data
- automated, flexible reporting capabilities to allow finance and tax teams to efficiently meet reporting requirements at the push of a button
- automation of resource-intensive, manual processes
- smart technology that can understand, learn and respond to regulatory developments.

As tax authorities exchange more tax information and invest more heavily in data analytics, it's imperative for companies to have a data and technology strategy that provides full transparency and instant access to data across the organization. With an end-to-end strategy in place, finance and tax teams can boost confidence in their ability to meet their compliance obligations, free their time to focus on more value-added activity in supporting the business, and set the foundation for building a model for responding to greater tax digitization on the horizon.

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Designed by Evalueserve.
Publication name: Technology revs up regulatory complexity and drives deeper data demands
Publication number: 134460-G
Publication date: June 2017