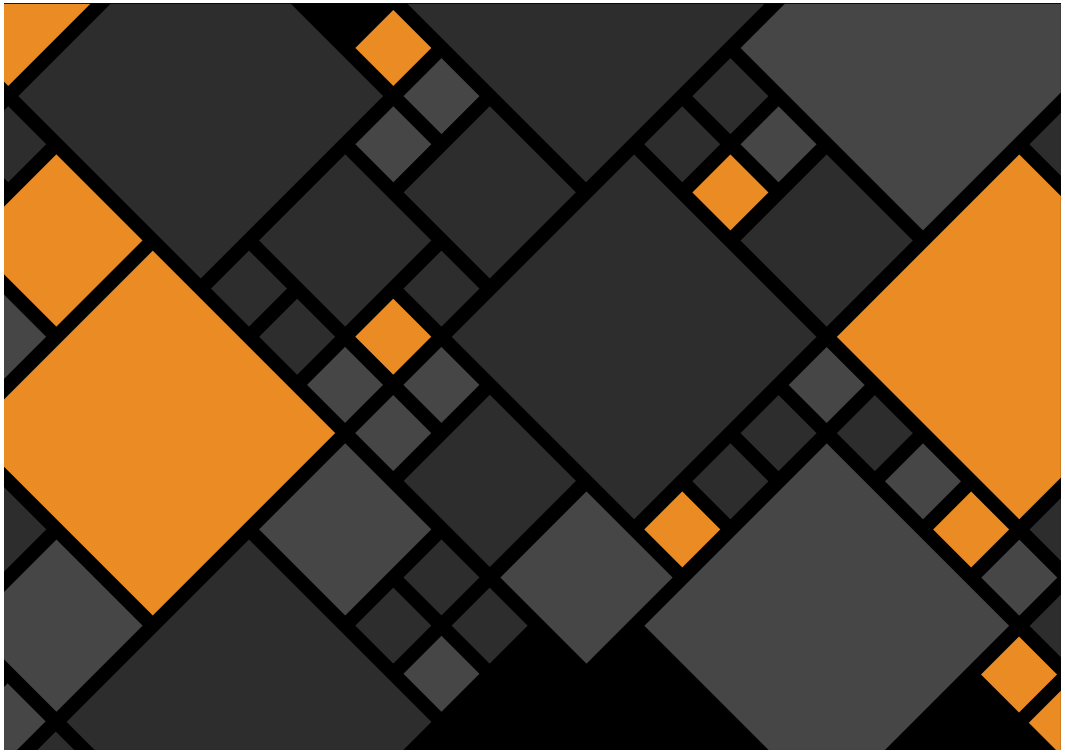
The Tax Director series

Change is happening – as responsible taxpayers, organisations need to level up to be fit for the future.

2019



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Foreword

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The tax landscape is constantly changing. Regulatory requirements are increasing, business and finance transformation is commonplace, and tax authorities and boards are demanding that tax risks are effectively managed. In this fast changing world, we're helping clients build a sustainable tax strategy for the future.

Responsible tax functions are...

- Value-focused – demonstrating strong returns in short time frames, using next-generation tools
- Looking ahead to the future of work – embracing a new way of working and accompanying opportunities
- Taking a big-picture perspective – developing creative solutions and experimenting.

To remain relevant to the business, tax functions must chart a course for continuous transformation that is immediate, holistic and practical. Successful change will require the re-engineering of 'end-to-end' processes and not just of the final outputs. This should involve an assessment of the current capabilities of the tax function against a tax maturity model, followed by the development of a clear vision of the desired future state. Companies can then develop a road map for successful change, using the central building blocks of governance, data, technology, process and people within the context of the global regulatory and legislative landscape.

A successful transformation will make the tax function a strategic business asset that adds value on a companywide basis.

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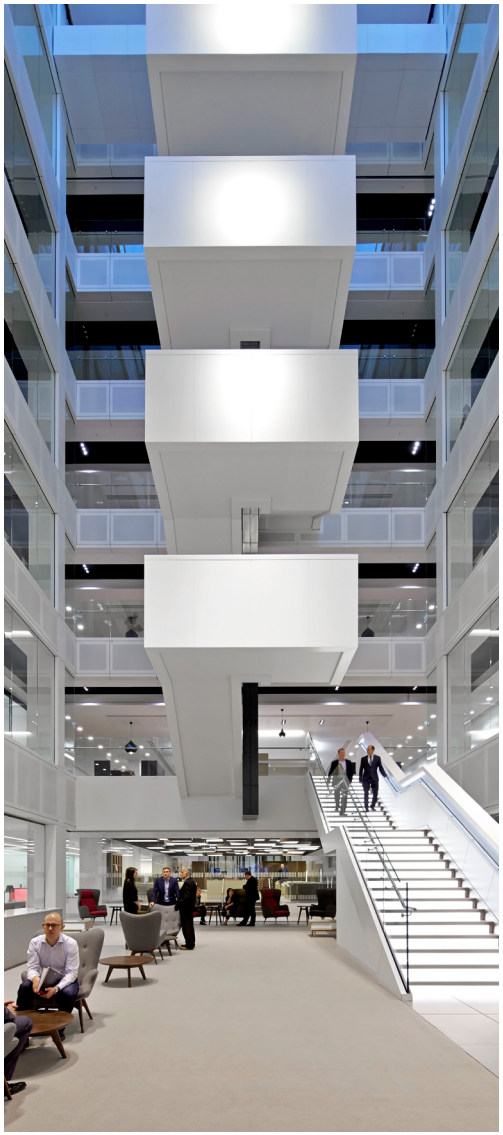
Align tax with the business strategy



Many organisations are required to disclose their tax strategy. In doing so, they need to ensure that they can confidently talk about tax to a range of stakeholders in the knowledge that what they say externally aligns to internal practice.

A responsible and transparent tax strategy is one of the fundamental concepts and corporate citizenship considerations put forward in King IV™. It reinforces the notion that good corporate governance is a holistic and interrelated set of arrangements, to be understood and implemented in an integrated manner – good governance, including tax governance, is not a tick box or compliance exercise. Rather, it is a lever for value creation.

Determining your tax strategy requires the mindful application of the King IV Code™ and its recommended practices. It should be interpreted and applied in a way that is appropriate for the organisation and the sector in which it operates. Mindful application harnesses the benefits of corporate governance in the interests of the organisation.

Although King IV™ is a set of voluntary principles and good practices, it is binding for entities with a primary listing on the JSE Limited Securities Exchange.

Beyond legal requirements, an organisation's tax strategy must be intrinsically linked to the commercial and overall strategic objectives of the business and then implemented effectively, ensuring tax is at the heart of the enterprise-wide framework for risk and opportunity management.

Put your organisation's tax strategy at the forefront of the executive agenda. Prioritising your tax strategy allows the tax function to make the big choices that shape its future. It is sometimes a challenge to make the connection between your tax strategy and the things your organisation does every day. Yet poor tax management and lack of governance can have a negative commercial and reputational impact on the business.
To achieve a tax strategy that aligns to your wider commercial aims and objectives, it is essential to engage in a collaborative exercise with internal and external stakeholders to define your strategic objectives on tax in a structured way.

Can you articulate the three to six strategic objectives that will enable your organisation's tax function to deliver on its value proposition? Have you defined the capabilities to execute your tax strategy? Are your strategic tax objectives reinforced by your performance management system, KPIs and practices? Are all internal role-players in your organisation familiar with your tax strategy, and do they understand how your tax strategy is distinctive?

Each organisation's tax strategy will be different. There is a clear spectrum of approaches. The most common objectives include the organisation's approach to risk management and governance; its attitude towards tax planning; the level of risk that it is prepared to accept; and its approach towards its dealings with the tax authorities.

Prominent words used include authorities, management, compliance, reporting, board, audit committee, planning and transactions. Specific frameworks and the review of controls, although referred to less frequently, provide the comfort that the strategy is supported by operational practice and strong systems of internal governance and control.

Certain organisations are also talking about stakeholders, value and responsibility. Acknowledging different stakeholder interests in tax is key to determining your strategic response to tax transparency – 'transparency to whom and for what purpose?' Some companies are clearly going beyond a statement of compliance with tax legislation by discussing tax in the context of wider functions within the business or as a corporate responsibility issue.

Consideration should be given to how the organisation communicates its tax strategy in a manner that adds value to all stakeholders. It should be noted that King IV™ asks organisations to be transparent in the application of their corporate governance practices, including how their tax strategy fits into their organisation's efforts towards good corporate citizenship.

To remain relevant to the business while at the same time being a responsible taxpayer, tax functions should chart a course for continuous transformation that is immediate, holistic and practical.
A fit-for-purpose tax function addresses the challenges of the changing tax environment and recognise that the tax operating model must be modernised.

The common threads which run through any well-managed tax operating model are:

- Strong tax governance with an agreed tax strategy that is in line with the wider business objectives, reflecting clearly the expectations of customers, clients, staff and other stakeholders;
- An in-depth understanding of where the key tax risks lie within the business;
- Effective and efficient tax controls in place to mitigate identified risks;
- A clearly defined and transparent communication strategy that sets out the approach to managing tax both internally and externally; and
- Ongoing monitoring activities in relation to the above.

If an organisation has clarity around its tax management, its tax strategy will be aligned to its business strategy.
This will help reduce reputational risk and tax disputes.

Reduce the cost of delivery – manage costs for sustainable success

A Fit for Growth*[1] approach is a proven methodology for helping companies build differentiating capabilities, manage their cost in a more strategic way, and realign the organisation towards growth. The focus is on reducing costs and growing stronger at the same time. The key is to assess the organisation's strategy and determine the few differentiating capabilities it needs to thrive. This is institutionalised through a more strategic approach to cost management by shifting investment to 'good' costs and away from 'bad', redirecting spending to the areas that lay the groundwork for sustainable, long-term growth.

The tax function is under constant pressure to deliver more with less. Internal cost pressures and the demand for greater business insights against the backdrop of meeting increasing tax compliance demands in shorter time frames is resulting in the need for the tax function to also chart a course of continuous improvement and determine the differentiating capabilities it needs to be fit for the future.

With the focus global tax authorities are placing on organisations to manage tax risk in a world where various stakeholders are asking for measurable areas of cost savings, it is essential to ensure a balance between operating and tax models and deliver efficiencies, while ensuring the overall control environment is effective.

An organisation looking to build a transformation business case in tax should consider its overall tax strategy and behaviours and its alignment with the organisation's overall corporate strategy.[2] In addition, it should identify key measures of its future performance, understand the choices it faces to transform from where it is now to where it needs to be, and effectively communicate an overall roadmap that takes a holistic approach in defining the transformation.

The questions are whether strategies to reduce overall tax operational cost are being implemented in the most effective way and what the measurable areas of cost savings are that some companies have successfully implemented.

1 Fit for Growth is a registered service mark of PwC Strategy& LLC in the United States.

2 Refer to Article 1 in the Tax Director series in the January 2019 edition of Synopsis 'Align tax with the business strategy'.

Understanding key success factors for tax

Historically, the ability to manage taxes while identifying tax savings opportunities has been a goal of many organisations. However, politicians, citizens and the media are increasingly linking tax and corporate responsibility to the extent that it has become essential for governing bodies to understand their business's tax decisions and how these decisions impact the company's financial results and stakeholders. Most organisations confirm their commitment to full compliance with the tax law, but beyond that, the following should be considered:

- What is the right balance in managing tax costs and risks?
- If the objective is to reduce taxes, how much risk is the organisation prepared to take in doing so?
- What degree of confidence will it seek from external advisers?
- Will it always litigate disputes?
- What is its tolerance for negative publicity?
- How will it behave with respect to choices in the law, or where there are grey areas or other ambiguities?
- Are there specific tax concerns driven by jurisdiction or industry?

These considerations will flow into the setting of responsible KPIs and identifying the key factors that will be measured in determining success. Tax risk management, efficiencies, effectiveness and sustainability have become more important than reducing or optimising the tax burden. Without a high-level view of what is important – key success factors – it is difficult for tax functions to establish the right objectives to achieve and to convey value within the organisation.

Enhanced processes, controls and oversight could ultimately result in more certainty with respect to tax positions, reduced audit or investigation risk, leading to decreased risk of penalties

A critical aspect of the tax function's ability to operate effectively is its ability to streamline and strategically manage the end-to-end core processes underlying all tax activities with a keen focus on managing risk. Tax functions need to manage risk by integrating greater process and controls to meet new and more stringent reporting requirements and increased regulatory demands and audit activity. It is important for tax functions to define and document processes within all functional areas, including tax compliance, reporting, transfer pricing, controversy, and tax planning.

Documentation of processes facilitates consistency of execution and a smoother internal and external financial/tax audit process. Some companies wait until audits and disputes are underway before developing documentation. That approach generally consumes significant resources and time. Often the requested information is not readily available. In some cases, local country income tax filings are completed in an ad hoc fashion, using 'best available' information that may not be fully reconciled to source information or other reports. Instead, companies should take a holistic view of how audits and controversies could impact the tax function and its ability to contain additional costs.

Pre-emptive measures are necessary to help companies avoid surprises which can impact the bottom line such as:

- Enhancing processes or implementing technology tools that can track audits so tax function management can have full visibility of the number, status, and depth of inquiries globally.
- Re-evaluating global audit and controversy roles, responsibilities, and information flows within the company to manage tax positions more consistently, efficiently share data and document audit responses, and assess potential impacts on earnings.
- A one-stop global portal can connect individuals across core functions and business teams while employing proper security and access measures. The adoption of these tools by companies is increasingly growing and plays a significant role in reducing additional or unexpected cash outflows.

Elimination of hours to perform certain compliance requirements and increased capacity by staff to perform more analytics and partner with business in providing a comprehensive review

Tax must achieve its objectives and deliver its strategy in an efficient and effective manner. Its KPIs should assess whether its people, processes, and systems are working well together, effectively consuming the appropriate amount of resources.

Tax functions face significant challenges in gathering high-quality and timely data, hindering their ability to contribute more strategically to enterprise-wide decisions. These challenges require robust, technology-enabled solutions to collect, verify, and report tax information.

For the tax function to improve efficiency and effectiveness, thereby reducing cost, the information it receives must be as

tax-ready as possible, without the need for significant data manipulation and interpretation. Integrating finance and tax data from multiple systems, applications, and spreadsheets into a common information and reporting platform can:

- significantly reduce the time and effort spent on manual data gathering, business and legal entity reconciliation, and tax reporting;
- change the focus from spreadsheet-driven manipulation to system- or database-driven analysis and forecasting;
- enable the tax function to devote more time to prospective analysis and planning in order to provide quicker responses to questions from executives and auditors; and
- facilitate the effective use of alternative resource models.

New resource models such as shared services, outsourcing or co-sourcing and lowering staff cost to perform preparatory tasks

Tax needs to revisit the way it operates. Finance and other enterprise functions are embracing the shift toward shared services, centres of excellence (CoEs), and managed services. These operating models, as well as co-sourcing or outsourcing of compliance, have the potential to streamline operations and reduce overall cost.

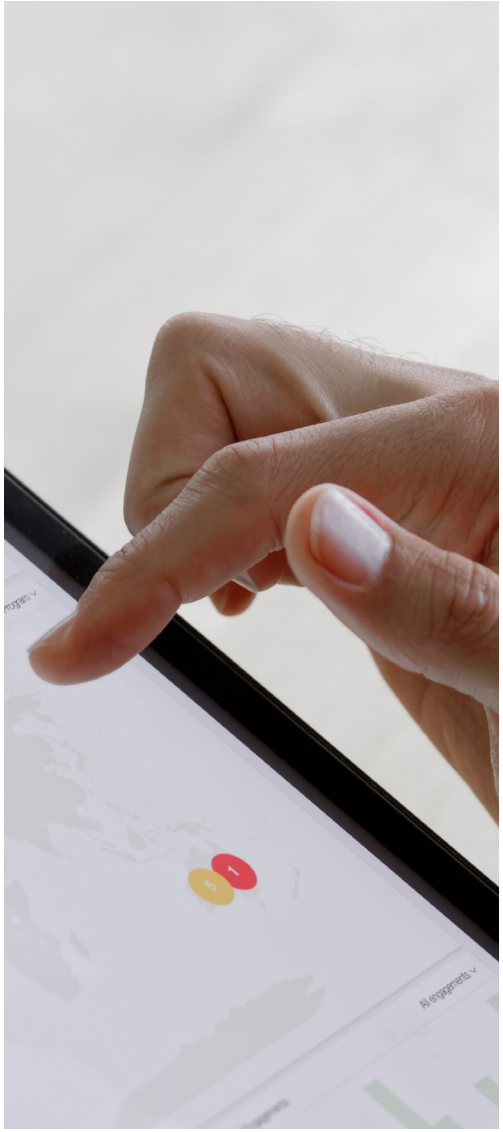
A related consideration is whether higher-paid employees are properly matched with higher-valued activities. Are higher-risk activities aligned to higher compensation cost? Is the tax function working effectively with other enterprise functions in other areas – sharing information, demonstrating value, and leveraging technology and resources?

The tax function has the ability to influence and impact positive change across the organisation. For example, how often and in what format is tax reaching out to the business – educating, supporting, presenting its initiatives, and collaborating with leadership across functions? Collaboration with the enterprise while leveraging an effective operating model could lead to overall organisational efficiencies. In addition, organisations that are performing efficiently are more likely to be agile and ready to handle change.

Pause and reconsider what success means for your tax function. The potential benefits will not only reduce above- and below-the-line costs, but will improve company-wide risk management and tax governance, resource management, recruitment processes and many other areas. Through continuous transformation, the tax function will be viewed not only as a critical and efficient compliance function, but also as an even more valuable strategic organisational asset.[3]

3 For more information view our Tax Function of the Future series at: https://www.pwc.com/gx/en/services/tax/publications/tax-function-of-the-future.html

Manage tax risk and implement robust tax governance to increase transparency and trust



In the February edition of our Tax Director series we focused on the principal success factors for a "Fit for Growth*[1] tax function in its quest to reduce the cost of delivery and manage overall costs for sustainable success. A crucial aspect of this journey is to recognise the importance of a robust tax governance framework and the fact that its components of risk identification, controls, policies, communication and monitoring are key areas that must be modernised.

Increased global compliance requirements combined with inefficient processes will increase risk and drain already strained resources. The potential for unexpected costs can be high. These can occur both 'above the line' due to resource needs and 'below the line' due to increased tax, interest and penalties for incorrect or incomplete tax return filings. Reputational impact can also occur due to unforeseen or misunderstood data arising from global regulatory transparency initiatives.

Most tax functions will need to make significant changes to avoid potential financial statement and statutory compliance errors, unnecessary controversy proceedings, delayed financial statements and return submissions, and increased recruitment and retention costs. It is imperative that they maintain appropriate controls over their tax reporting, including the visibility of underlying calculations and documentation. Successful change will require the re-engineering of 'end-to-end' processes and not just the final outputs.

Greater stakeholder scrutiny and reputational risk will force companies to continuously re-evaluate their tax decisions. A strategic focus on open and transparent reporting will be critical to managing tax controversy and the increased need for building relationships based on mutual trust. Companies need to respond in a clear and thoughtful way to a much wider base of stakeholders than ever before.

Forward-thinking tax departments are designing more efficient and effective tax governance processes and implementing technology-enabled solutions to address these challenges. They are also looking to reduce complexity and time-consuming elements of tax reporting to allow sufficient time to address exposure items and mitigate risk.

1 Fit for Growth is a registered service mark of PwC Strategy& An in-depth understanding of where the key risks lie LLC in the United States.

Tax governance and its role in value creation

The management of tax risk can be defined as the process of identifying and analysing tax risk from an integrated, company-wide perspective. A structured and disciplined approach should be adopted in aligning tax strategy, tax processes, tax professionals, data, technology and in-depth tax knowledge with the purpose of evaluating and managing the tax uncertainties that the organisation faces as it creates value. It is key for the tax function to shift its tax risk management efforts from being primarily defensive to becoming increasingly strategic in nature.

Essential building blocks for managing tax risk

The establishment of governance

Strong tax governance should be established, with an agreed tax strategy[2] that is in line with wider business objectives, owned by the senior management of the organisation, i.e. at governing board level, and a robust tax risk policy that ensures transactions and events are compared with the expected norms and that potential risks of non-compliance are identified and managed.

2 Refer to Article 1 in the Tax Director series in the January 2019 edition of Synopsis, "Align tax with the business strategy"

An in-depth understanding of where the key tax risks lie

In its efforts to enhance stakeholder value, the tax function should be able to identify and mitigate tax risk effectively. This includes ensuring that every important decision of the organisation is made with a full understanding of the associated tax risks. The tax function should:

- Inform strategic decisions;
- Identify and support decision-making processes that have a material impact on the tax risk profile of the business, without becoming a roadblock to the smooth operation of the front line's day-to-day activities and authority; and
- Ensure that the focus of tax risk management at an operational level is robust and that the implications of business decisions at an operational level are clearly linked to an understanding of the underlying tax risk drivers.

Enhanced processes

It is critical for tax functions to define and document processes within all functional areas, including tax compliance, reporting, transfer pricing, controversy, and tax planning. A continued focus on the documentation of processes and controls can help identify gaps, reduce missed or overdue tasks, and improve communication, coordination and control. The documentation of processes facilitates consistency of execution and a smoother internal and external financial and tax audit process. Each documented process should clarify which roles have responsibility for the performance and reviewing of specific tax activities and deliverables.

Robust controls

The ability to operate efficiently, with proper controls in place, is of the utmost importance to tax functions where significant amounts of data are gathered from multiple sources.

Comprehensive application

All transactions entered into by an enterprise can affect its tax position in one way or another. This means that the tax function should have a clear lens and be able to govern the tax risk originating from the full range of the organisation's activities. Ideally, it should be embedded in the decision-making processes that apply to the day-to-day management of business operations.

Assignment of responsibility

The board of an enterprise is accountable for the design, implementation and effectiveness of the tax governance of the organisation. The role of the organisation's tax function and its responsibility for robust tax governance should be clearly recognised, key performance indicators should be in place and the tax function should be properly resourced. Successful tax professionals of the future will be highly proficient in data analysis, statistics and technology as well as project management, process improvement and change management. Going forward, tax professionals will also require strategic risk management skills. The ability to assess tax risk has historically been a core skill, but this skill will need to evolve to include how tax risk is being managed across the business and how that aligns with the overall goals of the organisation.

Documentation of governance

There needs to be a system of rules and reporting that ensures transactions and events are compared with the expected norms and that potential risks of non-compliance are identified and managed. This governance process should be explicitly documented and sufficient resources should be deployed to implement the tax control framework and review its effectiveness periodically.

Testing and assurance

Compliance with the policies and controls embodied in the governance framework should be the subject of regular monitoring, testing and maintenance. The governance framework should be capable of providing assurance to stakeholders, including external stakeholders such as tax administration functions, that tax risks are subject to proper control and that outputs such as tax returns can be relied upon.

Utilisation of a unified technology platform

Advancements in enterprise technology enable tax functions to build operational interfaces that allow for integrated, secure access to information sources, documents, workflow and analytics across multiple computing devices. Integrated solutions provide an end-to-end approach to workflow, document management and collaboration. There is a reduced need for disparate solutions that may cause inefficiency and increase risk. With the careful planning of assigned tasks by geography and the deployment of workflow, document management and collaboration tools, activities can be performed with more efficiency and less risk.

A clearly defined and transparent communications strategy setting out the approach to managing tax internally and externally

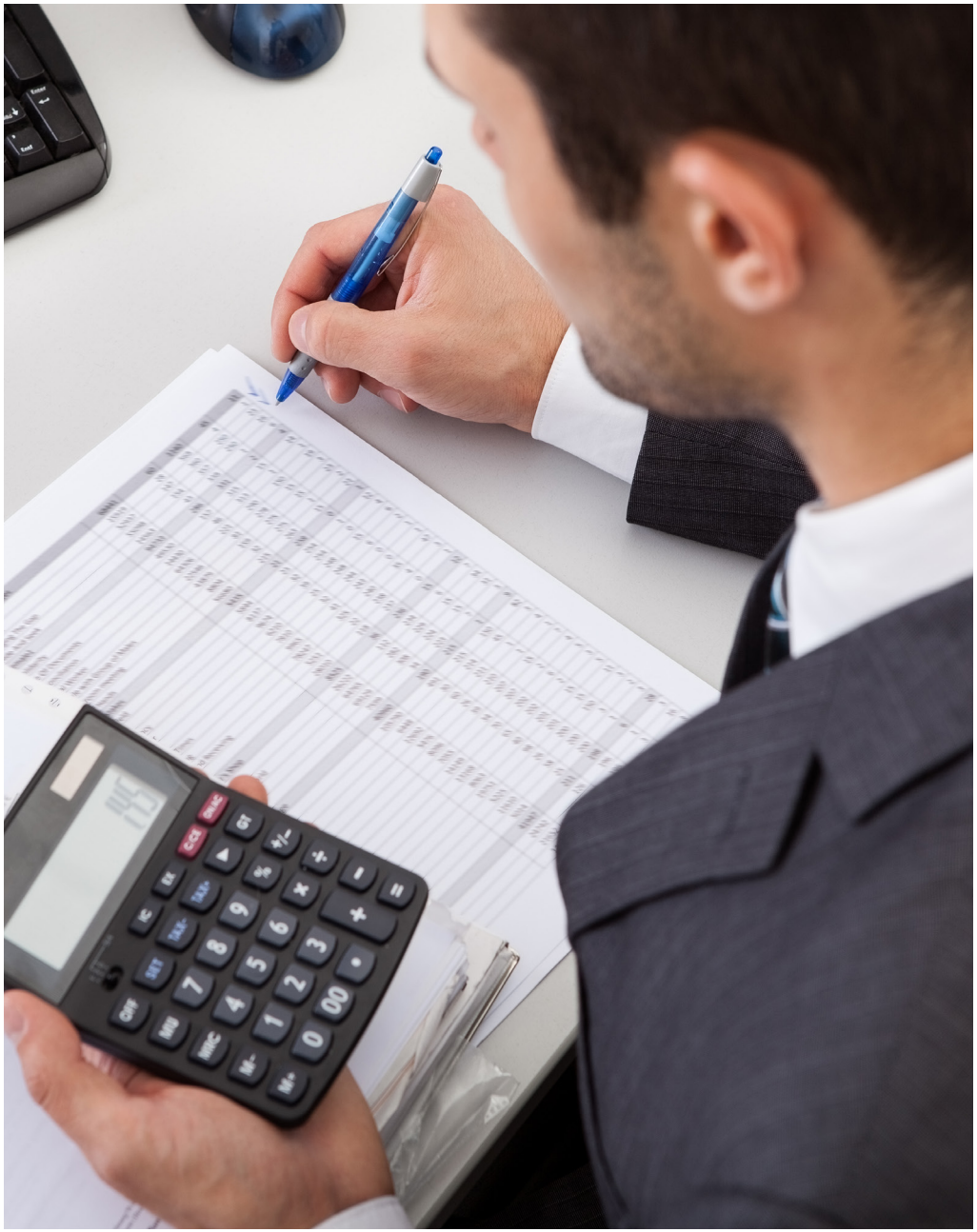
The C-suite as well as investor relations and finance teams need to be aware that there is a growing public perception that organisations are not paying their fair share of taxes, especially in developing countries. For this reason, it is imperative to establish and maintain a formalised approach and strategy with regard to tax transparency and communication that defines key messages to achieve consistency in messaging, participants, roles, channels, format and frequency.

The value of high-impact tax governance that improves effectiveness and efficiencies in the tax function is significant and broad, and includes:

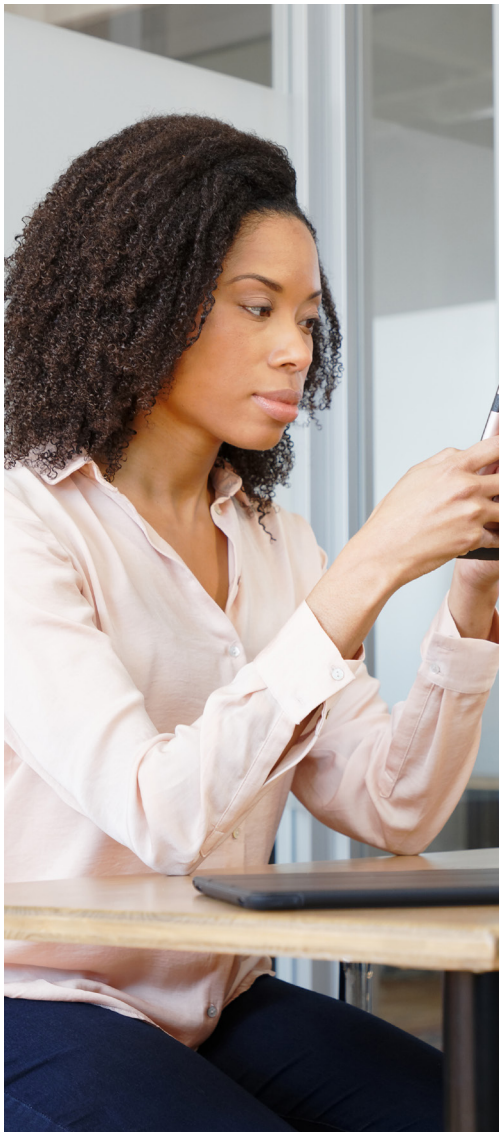
- Improved financial performance through the shifting of risk taking from a compliance-driven process to a value-focused orientation;
- More efficient allocation of resources to those activities with the greatest tax risk-adjusted returns;
- A broader understanding and appreciation of tax risk throughout the organisation, up to board level;
- The incorporation of risk into strategic decision-making (e.g., M&A, financing and new business development); and
- Greater alignment of stakeholder expectations with the organisation's tax risk profile and appetite.

Tax functions need to radically reinvent themselves to prepare for a faster-moving and unpredictable future. Well-targeted investments in tax governance can quickly pay for themselves. Aside from the obvious gains – reducing the risk of costly tax errors and lowering the organisation's effective tax rate (ETR) – an up-to-date and in-control tax function can improve cash management, strengthen legal entity reporting and management, keep its own costs down, and offer strategic input into business planning, new product or service development, and M&A transactions.

For more information, view our Tax *Function of the Future* series here.



Understand and be prepared for changes in the fiscal policy and requirements of tax administrations and regulators



According to the recent *Economic Report on Africa 2019* released by the United Nations Economic Commission for Africa, the continent continues to search for policy mixes to help accelerate the achievement of the development agendas set by the 2030 Sustainable Development Goals (SDGs), which aim to leave no one behind as countries develop, and the African Union's Agenda 2063, which sets out a blueprint for the 'Africa we want' targets. The report flags financing as the biggest bottleneck, with implementing capacity a close second. It is estimated that to meet the SDGs, Africa will need to raise an estimated 11% of GDP per year for the next ten years to close the financing gap. Today, Africa's average tax revenue to GDP is below 16%. The report recommends that efficient and effective domestic resource mobilisation can address a substantial portion of this financing shortfall. African governments could increase fiscal space, particularly through increased government revenues by 12–20% of GDP annually by implementing fiscal reforms in six key areas. These areas include: adopting the right fiscal policy stance, reviewing and updating tax policy, expanding and deepening the tax base, improving tax administration, tackling tax avoidance, enhancing non-tax revenue collection and improving natural resources governance to combat tax evasion.[1]

1 United Nations Economic Commission for Africa. (2019) 'Economic Report on Africa 2019: Fiscal policy for financing sustainable development in Africa'.

We are in an era where governments are increasingly imposing additional or increased taxes on both corporates and their customers. This may pose a risk to the growth of the organisation's ability to contribute to the economy and to provide services and goods to citizens, limiting the social and economic benefits. In addition, new tax legislation and complexity reflect a growing trend towards transparency and the need for more detailed financial information. Collection and sharing of Country-by-Country Reporting (CBCR) has begun, although not yet by all countries, and soon tax authorities will have an overview of each organisation as a whole, including a list of all its affiliates and data on its assets, income, revenues, tax paid and employees in each country.

A key challenge for organisations is to consider how best to respond to a landscape that is continuing to evolve. As tax administrations continue to structure laws and regulations to address the changing global business environment, there should be a direct correlation to the corporate and tax strategies discussed at Board level, as these changes will undoubtedly impact how the organisation operates in the global economy.

What are the challenges?

A critical first step is to assess the organisation's specific burdens – what pain points does it anticipate? How does it lessen the compliance burdens, save cost, and expand its capabilities to adapt to these changes?

- Is the organisation actively participating in public consultation processes to influence tax policy and provide an outlook on how best to balance the need for government revenues through fiscal reform against the need to ensure sustainable investment?
- Complexity also tops the list: A high-level robust technical understanding of tax legislation and each policy change as well as the impact on the business is required.
- Tax functions may need to 're-work' historical compliance processes, as tax reform frequently leads to additional compliance coordination to prepare calculations and disclosures.
- Higher risks relating to reporting accuracy: Many organisations use high-level estimates for their tax provisions that may not provide a sufficient level of detail needed for tax returns. Taxpayers should anticipate increased focus on and scrutiny of their processes, higher risk for penalties, and more time-consuming audits.
- Compressed time frames: Companies are pressed for time to address these many compliance challenges – e.g., data collection, preparation of calculations, review processes, filing requirements and deadlines.

Aligning the organisation's tax strategy, goals and objectives, amid changes in the fiscal policy and requirements of tax administrations and regulators

Tax reform is one of the reasons organisations continually evaluate their strategic objectives and key performance indicators against the expectations of their stakeholders, in a bid to create value for the organisation. To deliver a tax strategy an organisation needs to have an effective and efficient way of working, referred to as its tax operating model. This operating model will broadly determine how different areas of activity interact with each other and with the business, the location of activities and the functions that will support these activities.[2]

Governance

Governance promotes accountability, responsibility, efficiency, and transparency. It is critical to the success of the tax function to establish a tax governance model that is sustainable and agile. Strong tax governance should be established, with an agreed tax strategy that is in line with wider business objectives, owned by the senior management of the organisation, i.e. at governing board level, and a robust tax risk policy that ensures that transactions and events are compared with the expected norms and that potential risks of non-compliance are identified and managed.

Process and controls

It is critical for tax functions to define and document processes and controls to ensure that tax policy changes are identified timeously and that the impact on the business is analysed in detail and communicated effectively. It is also essential to participate in the tax reform process and consider whether the lobbying activities of the organisation in relation to tax reform are formalised, and whether the organisation is a member of any representative association or committee that participates in public policy advocacy.

People

Upskilling the organisation's workforce is mission critical to attract, develop, and retain employees. A focus on both tax technical and digital skills is essential. Tax policy changes can raise concerns about whether:

- The right numbers of people are working on the most relevant issues and associated computations.
- People are strategically located in jurisdictions to enable tax efficiency and operational execution.
- The tax resources have the right skills and capabilities to manage compliance, planning and controversy in a new regulatory environment.
- The tax function design (insourced, shared service, co- or outsourced) best supports the organisational goals and measures of success.

Technology

As governments push the burden of compliance onto taxpayers, organisations need to consider:

- How could technology address new tax reform requirements?
- Should technology be built in-house, purchased outright or acquired through some blend of co-sourcing or outsourcing?
- Tax authorities are gearing up to develop appropriate skills and resources to be able to analyse the huge amount of data provided to them. How does the taxpayer increase the digital capabilities of its tax function?
- The adoption of 'smart' technology solutions, such as robotics and artificial intelligence (AI), does not diminish the tax professional's 'tax-technical' expertise. Instead, emerging technologies provide opportunities to enhance strategic value. Tax needs the ability to quickly assess the impact of legislative changes, using data analytics and modelling solutions.

Organisations should recognise that no one 'tool' or 'solution' will do everything – rather, it is important for companies to consider the spectrum of choices so they can tailor their own specific approach.

Data

There is a need to move faster and smarter. Reliable, tax-ready data is critical for tax reform calculations, but tax functions are having difficulty efficiently collecting what they need. New types of data must be gathered, along with increased granularity. Sought-after information is typically maintained in disparate systems or schedules.

- Companies should develop a process to create a 'single source of truth' in terms of data for all compliance activities.
- Data needs for tax reform calculations should be identified early to avoid delays and additional risk.
- Automation of source data pulls can help streamline the requirements of new complex calculations.

2 Refer to Article 1 in the January 2019 edition of Synopsis 'Align tax with the business strategy' and Article 3 in the March 2019 edition of Synopsis 'Manage tax risk and implement robust tax governance to increase transparency and trust'.

- Broader coordination with data suppliers and non-tax stakeholders is also critical.
- Tactical, quick solutions likely will be a critical catalyst to successfully navigate tax reform. Small automation allows companies to respond, but in a more measured and controlled manner, looking at processes within the tax function, for fast implementation of flexible and adaptable technologies not easily accomplished by enterprise systems. The critical benefit here is that tax functions, with less incremental budget, time, and IT reliance than per historical enterprise automation initiatives, can generate targeted quick 'wins' that in series can transform the function and bring to scale the automation discussion for larger enterprise-wide consumption and buy-in.

Advocate the need for change

In the current tax environment, how can an organisation future-proof itself against change?

Many tax functions may be asked to address tax reform compliance with existing resources and budgets. But if the tax function does not invest in improvements, will it have sufficient functionality to promptly deliver key insights to the business on the changing tax profile, and is the organisation willing to accept a higher risk profile?[3]

Agility is key to managing the complexity of incorporating these new rules. Enabling tax professionals to work smarter and faster by aligning leading practices and emerging technologies – freeing capacity to focus on insights, armed with the right information at the right time – tax functions can move from being task-focused to value-added business partners that facilitate a proactive planning and analysis environment.

For more information view our Tax Function of the Future series here.

3 Refer to Article 2 in the February 2019 edition of Synopsis 'Reduce the cost of delivery – manage costs for sustainable success'

Accelerate the impact of technology in delivering on my tax needs

The pace of global technological change and digital advancement across industries and governments is affecting how the tax function operates internally and in relation to external stakeholders. The dramatic effects thereof and the pressure to remain digitally relevant and competitive are being felt across the enterprise, including in the tax functions. Emerging solutions such as artificial intelligence, machine learning, robotics and blockchain are being increasingly implemented by other enterprise functions and tax jurisdictions, causing pressure for tax to reconsider its existing processes in order to keep up. Additionally, new tax legislation and increasing tax complexity reflect a growing trend towards transparency and the need for more detailed financial information.

A digital mindset

A digital mindset means being open to discovering digital technologies. You want to avoid quick judgments without a clear understanding of what it is that you need and want. In addition to openness, a digital mindset requires the willingness to test, fail and test again until you get to know the technology that best suits your business needs. Digitalisation calls on the board to update its processes as a management body and to rethink its role as an enabler of change. For a business to go digital, the board's involvement is not only desired but required. Having an overview of how data is manipulated, stored and issued is a key responsibility of the board[1].

Truth breeds trust

Tax functions are also being drawn into this new 'connected' era as more data is needed by both internal and external stakeholders. Advances in technology will improve the quality of information available for both preparers and users of tax disclosure, while digital technology eases access to information and the disclosure thereof. Information that is accurate, timely and secure strengthens how much internal and external stakeholders trust the business. The ideal environment is one that contains value-driven, validated and reliable tax processes characterised by transparency and truth. Where justified trust is attained, it leads to a decrease in compliance costs through less intense engagements and an avoidance of future reviews and audits.

Value creation through technology

Since their role as responsible taxpayers will impact their present and future business models, forward-thinking organisations are integrating reliable tax operating models into their business strategies to mitigate tax risks. Whether through the improvement of data quality or the automation of processes, technology is crucial for tax operating model optimisation. Through increased tax automation, better integrated data and more analytical capabilities, tax functions are transformed into modern, efficient business enablers that are able to create value for their organisations through a reduction in the cost of delivery and sustained bottom line improvements, while simultaneously reducing tax risk to the organisation.

The modern tax function will have a defined technology strategy which will be aligned, as far as possible, with related parts of the business. Defining and implementing an automation governance framework is pivotal to achieving returns over the long term. Processes must be supported and monitored – for example, leading organisations are creating cross-functional automation centres of excellence or technology committees.

1 https://blog.pwc.lu/five-reasons-management-board-digital-mindset/

Regulatory requirements must be considered, as must the documentation relating to new processes, IT security and access controls.

You will need to think about:

- Understanding the IT strategy of the business, specifically that of the wider finance function;
- Understanding the existing tools used in finance; and
- The current tax-specific technology offerings available externally.

The tax function can then integrate technology into its overall tax strategy, with a clear roadmap for delivery through either implementing new technology or leveraging existing technology.

While companies largely understand the importance of creating strategies around tax technology and pursuing related initiatives, most have yet to make appropriate investments in these areas. These investments play an integral role in transforming tax into a strategic business partner within the organisation. They allow the organisation to expand its perspective with trusted and actionable data-driven insights and to consider how it can best use digitisation in tax to set itself on the right path. As such, tax leadership should engage with the board and commit to the next steps in the evolution of the tax function.

The digital tax workforce

People are at the core of any digital transformation. Reskilling the tax workforce with its valuable tax and institutional knowledge is an important step; however, without a shift in mindsets and the nurturing of a culture that embraces and adapts to constant technological change, tax will not realise the full benefits that new solutions can afford.

Experienced 'tech-savvy' tax professionals with tax-technical knowledge and project management skills are hard to find, and this impacts the tax workforce as follows:

- Roles are being redefined to include technology aspects.
- Tax professionals are expected to navigate new smart self-service technologies for fast, small-scale automation.
- Streamlined processes create capacity for enhanced analytics and more strategic activities.
- Technology can facilitate collaboration across geographies easily, allowing for flexibility in strategic and operational location decisions.
- The ability to navigate robotics, digital labour and analytics tools could advance the careers of tax professionals, creating new opportunities for them across enterprise functions.

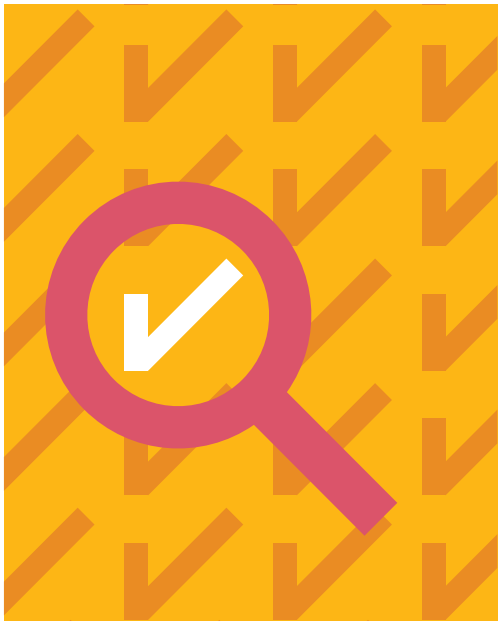
The ROI of technology in tax

While developing the business case for change and for purposes of subsequently measuring the success thereof, stakeholders will undoubtedly want to have a clearly articulated value proposition for investing in automation. Stakeholders need to know that automation drives benefits that resonate with larger enterprise-wide goals. As you consider your own tax automation journey and how to scale the impact beyond the tax function, what is top of mind for the C-suite should be built into the proposition for automation now. You should also consider all angles when developing the value proposition, going beyond the obvious financial metrics to include benefits which address critical aspects of operating in today's dynamic global business environment. Consider important benefits such as improved quality, better-managed risk and a higher level of employee engagement and retention, all of which have a trickle-down effect on the financial metrics of the organisation.

It is also important to note that the ROI in automation will change as you progress on your automation journey. It will most likely not be the same at the time of implementation as it will be once scaling occurs. As advances in automation begin to take effect your organisation, related variables will adjust accordingly.

- The time and cost associated with training employees will decrease as initial users develop the necessary skills.
- Costs to execute small automation projects decrease as internal capabilities expand, streamlined implementation methodologies and best practices are refined, and synergies across projects are developed.
- Risks with implementation will decrease as you develop best practices and a vetted governance structure to rely on for future implementation and scaling.
- Quality of work will increase.
- Strategic decision-making will be better supported as the time required to manipulate data decreases.
- Up-skilling will automatically increase, as employees will be able to dedicate more time to more strategic tasks (over performing routine reporting tasks).

For more information, view our *Tax Function of the Future* series here.



Tax as a priority in every finance transformation

New competitors are transforming entire industries within brief periods of time. New services are taking the place of long-established business and market models. Innovative technological developments are displacing entire ranges of products – a trend not restricted to any one industry or sector. As part of this change, the finance functions and CFOs of companies are gaining a huge amount of importance in both strategic and operational terms. They are becoming the main navigators for this emerging transformation. At the same time, operational business is placing ever-higher requirements on the finance function, requiring more accurate forecasting and more consistent information in order to respond appropriately to changes in the market.

Key to a high-performing finance function is its ability to balance the three competing objectives of control, efficiency and insight. Recently the focus has been on control and efficiency with a streamlining of back-office models. The focus now has shifted to insight. The requisite of CEOs and CFOs alike is for the finance function to be smarter and faster – however, each organisation is unique and so there is no 'one size fits all'. There are, however, leading practices that successful finance organisations continue to drive as they are forced to do more with less in an increasingly complicated regulatory and competitive environment.

While the C-suite may be primarily invested in growth, it is the finance function that provides the institutional baseline understanding of financial capability and infrastructure that enables the selection of the right business strategy as well as its successful execution.

Finance transformations represent risk and opportunities for tax functions. The term finance transformation is a broad term used to describe any change programme focused on the finance function. There are broadly two types: organisational change and finance system change. Either of these generic change programmes will impact on the tax function's ability to continue to remain tax compliant, as inevitably the data, systems and processes which tax relies on to deliver tax compliance and reporting will be impacted.

Why is tax involvement critical for success?

It is imperative that the tax function is fully engaged in the finance transformation. The tax function must participate both to ensure its continued ability to meet its own global compliance obligations, using high-quality data, and also to help enhance the overall operational effectiveness of finance. Transformation initiatives without tax can conflict with basic tax function requirements, with adverse consequences for the organisation as a whole.

To provide further context, tax relies on data provided by finance functions, systems maintained by finance and processes established by finance. Evolution in tax policy has been felt around the world, and business leaders need to quickly understand how these new or proposed rules help (or challenge) structural aspects of the organisation.

Agility is key to managing the complexity of incorporating new rules associated with tax policy changes. Now, more than ever, you will need to be able to quickly access data for decision-making and planning for potentially complex and overlapping rules. It is clear then that tax, and the wider organisation, can no longer deliver its legislative commitments effectively if it accepts data from finance that is not suited to its requirements, or where the finance processes inadequately support the tax function.

A finance transformation project is the opportunity for tax to communicate and imbed its requirements in the finance systems and processes. If tax is able to position itself as a primary customer of the finance transformation the benefits and opportunities can be tremendous.

Automation for better decision-making

Successful transformation activities typically enhance the quality of data gathered from business operations for finance purposes. With strong collaboration, tax functions can achieve a higher degree of efficiency through less time devoted to the manual manipulation of source information. Further, risk is most effectively managed by obtaining data integrity at its source when generated, as opposed to in downstream processes where it is consumed.

Integrating finance and tax data from multiple systems, applications, and spreadsheets into a common information and reporting platform can significantly reduce the time and effort spent on manual data gathering, business and legal entity reconciliation, and tax reporting. The focus is changed from spreadsheet-driven manipulation to system or database-driven analysis and forecasting. Most importantly, the tax function is enabled to devote more time to prospective analysis and planning in order to provide quicker responses to questions from executives and auditors, and facilitate the effective use of alternative resource models.

Companies are re-evaluating their data sources to determine their ability to supply decision-makers with real-time access to key performance information and are designing standardised data structures and calculations for core business drivers. Specifically with respect to tax, most companies are beginning to use professional data analysis tools to help identify risk areas for audit and perform projections or scenario planning.

Finance transformation typically includes boosting enterprise resource planning (ERP) and process functionality through automation to eliminate waste and better meet functional requirements. Time-consuming and error-prone manual tasks are becoming automated. Successful ERP projects can increase the effectiveness of compliance processes and controls and accelerate cycle times, while also facilitating high performance.

In addition to the traditional IT-driven technology, which forms part of finance transformation, tax can also benefit from small automation as an opportunity to accelerate the drive towards end-to-end automation, which fills the many gaps left unaddressed by large-scale technology development. It also delivers quick wins when used as part of your overall tax technology strategy. What is the key to small automation success? When orchestrating multiple technologies, including new and emerging technology, tax should be leading from the front seat and playing a key role in driving the change needed, including governance and internal controls around financial data and processes.

Looking towards the future, it is necessary to recognise that artificial intelligence (AI), including machine learning, has taken a foothold in tax and finance transformation. Many organisations are using emerging technology in their core business operations; however, in the broader tax and finance functions, many have not yet considered how these new solutions could be useful or practical. We expect these models to have a direct impact on all functional areas, with some quick wins available in compliance, mergers and acquisitions (M&A) due diligence, controversy, and document management. Another hurdle for the tax professional is determining how these emerging technologies can solve existing challenges. It's important to understand the power of these new tools and how they can deliver a good return on investment.

Based on PwC's 2019 AI Predictions survey, 58% of finance executives will implement continual learning initiatives in 2019 that include AI, so employees can integrate the learnings into the way they work. For digital upskilling, here are

three ways to begin to bring new digital competency to life within your finance and tax function:

- Implement 'fingers on the keyboard' practical training for all.
- Look to gamify your digital upskilling approach to make it more interesting.
- Incorporate and lead with digital upskilling as a core element of your talent framework.

Aligning strategy with business priorities, focusing on people, process and risk

Aligning the tax service delivery model with stakeholder needs and organisational strategy is a growing trend. This includes challenging the traditional tax function operating structure – is it a core competency to have an in-house tax function? Is insourcing, co-sourcing or outsourcing an alternative? The strategy could include migrating repeatable tasks to shared service centres and centres of excellence. Alternatively, the business may have a strategic priority to expand into new markets, which may require incorporating a flexible operating model that can streamline efforts during expansion and growth. Or, if lowering financial risk is a core goal, bolstering resources and processes may be in order.

Successful transformation activities reflect the organisation's tolerance for risk. In particular, senior management increasingly focuses on how tax risk is being managed and how that aligns with the overall goals of the organisation. Risk can no longer be considered in isolation from the wider business due to the potential for unexpected errors, exposures, or reputational damage. Specifically, an organisation's tax control framework must now include strong governance, which clearly reflects the expectations of stakeholders, an in-depth understanding of where key risks lie, effective and efficient controls, internal and external communication strategies, and ongoing monitoring for all these areas.

Effective transformation initiatives evaluate resource allocation with a fresh eye, with no hesitation to redesign or redeploy responsibilities. The tax function will need to be highly proficient in technology as well as project management in order to address many issues that can arise during finance transformation initiatives. Upskilling your workforce is mission critical to attract, develop, and retain employees – focus on both tax technical and digital skills is essential.

Benefits to the organisation if tax does participate in finance transformation planning:

- Reduced risk of errors in financial statement and tax filings.
- Diminished risk of 'regulatory' entanglements and improved ability to address tax audits.
- Stronger tax control framework, equating to lower financial tax risks.
- New analytical capabilities, adding to the organisation's ability to plan, forecast and collaborate on new business opportunities.
- A more empowered, strategically placed workforce, enabling quicker change.
- Improved communication and workflows between finance and tax personnel can boost efficiency, paving the way for greater cohesiveness going forward.

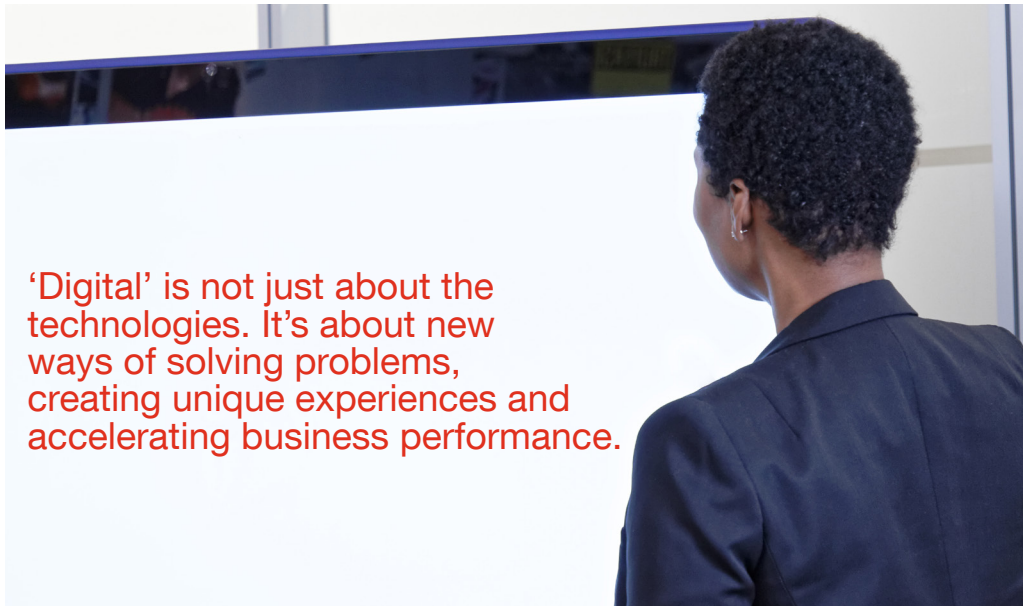
Adverse consequences that may occur if tax does not participate in finance transformation planning:

- Increased compliance costs due to, for example, headcount needed to complete intensive manual processes within tax.
- Financial statement errors (resulting in financial statement internal control deficiencies and restatements), e.g. due to reduced quality of data received by tax.
- Delays in the financial statement closing process, e.g. due to the delay in receiving tax-ready data.
- Risk of higher tax liabilities upon audit, e.g. due to the need for significant manual process intervention that may increase errors.
- Lack of time for tax planning, which can help reduce a company's effective tax rate and cash taxes paid.
- Less time for business support, resulting in business changes that do not appropriately consider tax ramifications.

What is required for tax to be an integral part of finance transformation initiatives from the outset?

- Comfort with the language of finance transformation.
- A commitment to working with and influencing finance leadership and relevant experts, and a clear recognition of the importance of success.
- Tax functions should seek support to improve their literacy with finance transformation project terminology, to define data and business requirements in this context, and to understand the fundamentals of how such programmes run.
- Tax can establish itself in an integrated role in the programme governance, ensure authority to sign off and review project stages and obtain appropriate resources to ensure tax requirements gathering, design and testing are adequately covered for tax.
- In many cases work may be required to define the business case for tax's involvement and to bridge the comfort gap experienced between both traditional tax practitioners, and traditional finance and IT practitioners.

Transform* tax through automation (Part 1)



Digital trust

The business trust equation has a new variable: digital trust. Governing boards are called upon to update the organisation's processes, and to rethink its role as an enabler of change. Digital technology eases the access to information. Information that's accurate, timely and secure strengthens how much internal and external stakeholders trust the business. A serious commitment to data governance makes board members true guardians of data. It's clear that 'digital' is having a dramatic impact on all businesses today. The trend is only going to accelerate as companies look for efficiencies and different channels to reach the tech-enabled generation.[1]

In this connected era, tax needs to consider innovative ways to become a digital leader in collecting and processing financial data. It needs to move away from manual manipulation and reconciliation to more forward-thinking analytics and real-time decision-making by finding innovative ways to collect and analyse data.

Core processes and routine activities can have a significant and lasting impact on the tax function. As tax laws and accounting standards continue to evolve, tax is challenged to look closely at how data and related documents are received, processed, and ultimately retained, while continuing to add value through strategic decision-making, planning, forecasting, increased efficiency, improved processes, risk management and transparent reporting.

While companies largely understand the importance of creating strategies around technology and pursuing related initiatives aimed at increased automation, better-integrated data and more analytic capabilities, most have yet to make appropriate investments in these areas. These investments play an integral role in transforming tax into a strategic business partner within the organisation and often lead to a reduction in the cost of delivery and sustained bottom-line improvements, while simultaneously reducing tax risk to the organisation. As such, tax leadership should engage with company leadership and commit to the next steps in the evolution of its tax function.

Scrutiny over tax positions taken will only increase. Are you comfortable that data related to your business's position on tax, tax numbers, key performance indicators, and economic contributions to the governments, per jurisdiction, is not just accessible, but reliable and understandable?

A tax technology strategy enables alignment with the organisation's business objectives, tax strategy, and enterprise technology investments and should focus on five dimensions of data:

- Breath of information;
- Depth of information;
- Integration of data;
- Tax management practices; and
- Quality of data.

PwC's five key automation success factors:

1. Understanding the business process and pain points
2. Putting people and culture at the heart of the strategy
3. Ensuring sustainability through robust governance
4. Evolving the technology ecosystem to meet goals
5. Measuring business returns beyond financial return on investment (ROI)

1 PwC, Five reasons the management board needs a digital mindset (2019)

Achieving success by going smart, fast, and small

In part one of 'Transform* tax through automation' we discussed how small automation[2] (that is in addition to 'big enterprise automation') can help tax become a better strategic partner within the wider organisation.

Why should your company invest in small automation now?

Small automation allows organisations to respond to the demand for quality data and technology-enabled processes, but in a more measured and controlled manner. Looking at processes within the tax function, it achieves this via fast implementation of flexible and adaptable technologies not easily accomplished by enterprise systems. The critical benefit here is that tax functions, with relatively small consulting budgets, time restrictions, and limited IT support, can generate targeted quick 'wins' that in series can transform the function and bring to scale the automation discussion for larger enterprise-wide consumption and buy-in.

Successful deployment of new self-service tools can support a more flexible and directional technology roadmap to move towards a strategic, long-term vision for the tax function. We have seen tax functions methodically deploy these new tools to automate processes end-to-end in a matter of weeks. A governance model is established to manage the automation programme from implementation to scale-out, and adoption then continues to manage maintenance.

While other emerging technologies, such as advanced machine learning and natural language processing, are being applied to tax functions in expanded-use cases, there are three types of self-service automation solutions driving small automation in tax today:

- Extract, transform, and load (ETL) – used to integrate, manipulate and perform simple to very complex transformation of data from disparate sources;
- Robotics – coded software to perform rule-based processes which mimic the interactions of users; and
- Analytics and data visualisation (e.g., dynamic/interactive dashboard displays).

These tools require minimal technology to develop code (i.e., low or no code) and allow for flexibility and autonomy for the end tax users to maintain. The functionality provided by these tools in combination allows for end-to-end automation of many disparate tax processes. Understanding the integration of these tools and how they connect various tax processes is key to success.

There is more than one bottom line for small automation

When developing the business case for change, and subsequently measuring success, stakeholders will undoubtedly want to have a clearly articulated value proposition for investing in automation. Stakeholders need to know that automation drives benefits that resonate with larger enterprise-wide goals.
As you consider your own small automation journey and scaling the impact beyond the tax function, what is top of mind for the C-suite should be built into the proposition for automation now. You should also consider all angles when developing the value proposition beyond obvious financial metrics to include benefits which address critical aspects of operating in today's dynamic global business environment. Consider important benefits such as improved quality, better-managed risk, and a higher level of employee engagement and retention, that have a trickledown effect on the financial metrics of the organisation.

Initial deployment of small automation

Upon introduction of small automation, teams will be trained on the use of the automation tools. Teams gain hands-on experience with the application and identify ways to automate their day-to-day tasks. Initial use cases are implemented, and quick wins are achieved with select stakeholder participants, and often leverage external support to augment internal capabilities.

Scaling of small automation

More teams become on-boarded to the automation tools as initial success stories are recognised. Internal capabilities develop and automation deployment starts to become more efficient. Applications are shared in server/cloud for scaling and coordination.

Establishment of centre of excellence (COE)

A governance model is formalised and managed by cross-functional COE. The COE defines process intake methodology and workflow priority, documentation protocols, and supports planning and deployment of automation projects. Internal capabilities allow companies to execute with limited external support. The COE continues to explore and innovate with new emerging technologies.

2 Automation for tax – You can have your cake and eat it too! PwC (2018)

Measuring the elusive 'ROI' question

It is also important to note that ROI for automation will change as you progress on your automation journey. It likely will not be the same at implementation as it will be at scaling, as advances in automation begin to take hold in your organisation. Related variables will adjust.

- Time and cost associated with training employees will decrease as initial users develop necessary skills.
- Costs to execute small automation projects decrease as internal capabilities expand, streamlined implementation methodologies and best practices are refined, and synergies across projects are developed.
- Risks with implementation will decrease as you develop best practices and a vetted governance structure to rely on for future implementation/scaling.
- Quality of work will increase.
- Strategic decision-making will be better supported, as the time to manipulate data will decrease.
- Up-skilling naturally will increase, as employees will be able to dedicate more time to more strategic tasks (over routine reporting tasks).

For more information view our Tax Function of the Future series here.

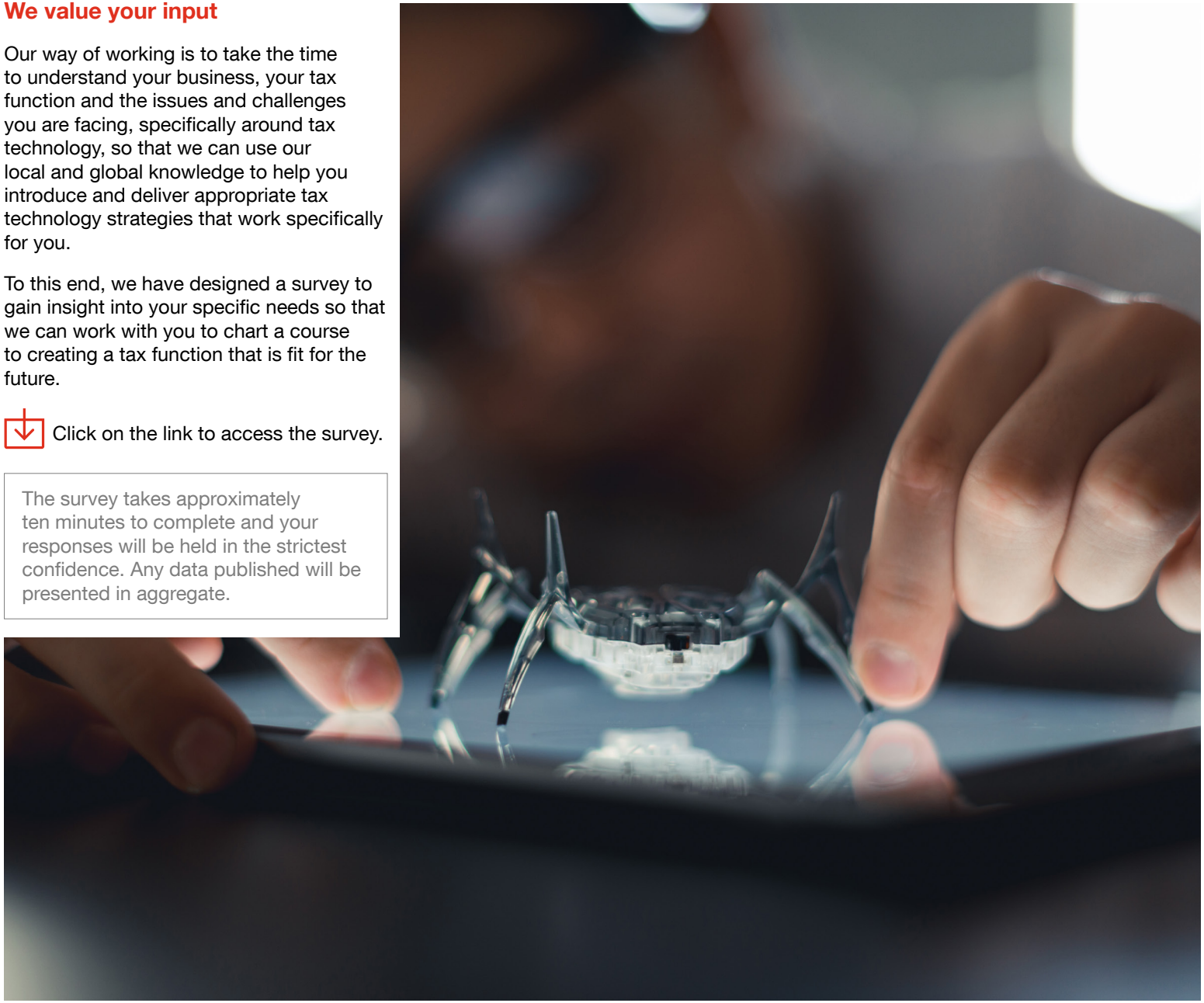
We value your input

Our way of working is to take the time to understand your business, your tax function and the issues and challenges you are facing, specifically around tax technology, so that we can use our local and global knowledge to help you introduce and deliver appropriate tax technology strategies that work specifically for you.

To this end, we have designed a survey to gain insight into your specific needs so that we can work with you to chart a course to creating a tax function that is fit for the future.

Click on the link to access the survey.

The survey takes approximately ten minutes to complete and your responses will be held in the strictest confidence. Any data published will be presented in aggregate.



Transform* tax through automation (Part 2)

'Digital' does not necessarily mean that the tax function needs to change everything. Its core purpose of supporting the business to achieve its strategy hasn't changed. AI, robotics and machine learning help the tax function operate more quickly and efficiently. But, for these technologies to work their magic, the workforce must understand and accept them and the cultural changes they bring, and this starts at the top with the Head of Tax and CFO.

Prior articles in this series presented insights on aligning tax with business strategy, reducing the cost of delivery in the tax function, establishing robust tax governance, new legislative and regulatory challenges and the resulting impact on risk management. We discussed the need for tax to focus on playing an integral role in broader finance transformation initiatives in order to accelerate the impact of technology in delivering tax needs.

Most recently, we focused on a critical and rapidly emerging trend – Transform* tax through automation and achieving success by going smart, fast, and small. This entails strategies to help tax become a better strategic partner within the wider organisation.

40% of effort could be realigned to more value-driven activities through the use of automation.[1]

62% of executives are making significant investments in AI over the next three years.[2]

46% amount of time that automation can save in completing key data-gathering processes.[3]

80% improvement in productivity of individual processes as a result of small automation.[4]

40% of employees' time is spent gathering rather than analysing data due to inefficient processes.[5]

In this edition the spotlight is on emerging small automation trends such as robotic process automation (RPA) and artificial intelligence (AI) and their impact on the tax function.

1 PwC Finance Effectiveness Benchmark Study 2017
2 PwC's 2017 Global Digital IQ Survey
3 PwC Finance Effectiveness Benchmark Study 2017
4 Strategy+business, 2018
5 PwC Finance Effectiveness Benchmark Study 2017

Decreasing the error rate – increasing the quality

RPA is the use of computer-coded smart software to efficiently carry out manual, repeatable and time-consuming tasks that are normally performed by people. It differs from traditional software by working at the user interface level, replicating the exact actions of a human user and in essence creating a digital workforce. RPA is the efficient design of business models, strategy, process, data, humans and robots in a way that unifies them.

It's not just about making the tax function less costly; it's also about allowing it to be more valuable to the business.

RPA enables employees to focus more on tasks that genuinely require human cognitive abilities or intervention, resulting in cost-reduction benefits to business. RPA thus executes processes that take up valuable resource time (extraction and manipulation), with much more efficiency and at a much lower cost, 24/7. The error rate decreases, and the process quality increases.

Configuring a robot is generally fairly easy and affordable, requiring only basic algorithmic knowledge. It can be enhanced with more complex AI and machine-learning capabilities to achieve the automation of complex processes, including decision-making. This will allow the robot to take decisions and adapt to certain changes in the process.

Key features of RPA

Technology agnostic

- Works across all functions, legacy ERPs, mainframes, custom applications, desktop applications, and any other types of IT platforms. Any technology platform that can be used by a human can also be navigated by an RPA robot.
- Uses a central repository for easy management of automation scripts and processes.
- Improves accuracy due to increased visibility into accounts.

Non-invasive, non-intrusive

- Leverages other application software through the existing application's interface; therefore, it is not technically integrated.
- Since complex integration is not required, RPA programs can be launched in a matter of weeks, resulting in low cost of implementation and high return on investment.

Scalable

- Staff can be trained to maintain, program and deploy bots.
- Bots are subject to full audit with visibility and traceability to security access and modifications.

Mimics user interactions

- Records and automates user interactions with one or more software application.
- Interacts with the user interface of existing applications in the same way that an everyday user would.

Automates repetitive, rule-based processes

- Mimics the interaction of users.
- Builds workflows with dynamic decision/ branch points and loops for scaling.
- Able to break down processes into smaller components.

How can RPA add value in tax?

Too often the tax function is tied up carrying out repetitive tasks, often without following a consistently optimised process. In fact, it's quite common to find people working in the same department, on the same tasks, but following completely different methods to get the job done. Prior to introducing RPA in a tax process it is key to assess your current processes and work out the most efficient approach to achieve your business objectives, because there is no benefit in applying robotics to a process that is broken.

The technology is an enabler, but not a comprehensive solution in itself. RPA is one of many tools that can be used to achieve operational excellence; therefore the tax function needs to define the appropriate processes and efficiency gains required.

Once you have achieved a standardised, control-based process you are able to begin integrating RPA and in some cases enhancing RPA with AI to further improve operational effectiveness and decision support. Process robotics can be applied in every area of the tax function where manual, repeatable, and time-consuming processes are still in effect, even if tax has already implemented technology solutions for direct and indirect tax compliance and reporting. This takes tax one step closer to creating high-performing teams that add real value.

Opportunities for quick wins (high automation potential): RPA tax opportunities

Data collection

- Extract book trial balance and key balances such as accruals, fixed assets, or other tax-sensitive accounts
- Extract data for specific disclosure e.g. cash taxes paid, country-by-country reporting (CbCR)
- Export industry- or company-specific data

Review and convert data for tax

- Review accounts to ensure consistency with prior year and note changes
- Organise data by legal entity versus management reporting
- Analyse account changes (accrual book/tax adjustments)
- Flag significant account differences for follow-up investigation

Reconciliations

- Clean up and reconcile accounts (e.g. intercompany)
- Identify unreconciled items and send alerts
- Checking and reconciliation of various tax balances to identify exception items for review
- Reconciliation of balance and transactions in the finance system

Prepare calculations

- Formatting, cutting, pasting to get info ready to be entered into the tax computation system
- Validating information by referring to a checklist of items to ensure that the checklist is complete

Account for taxes

- Book current tax entries
- Calculate deferred taxes
- Book deferred tax accounting entries

Prepare corporate tax returns

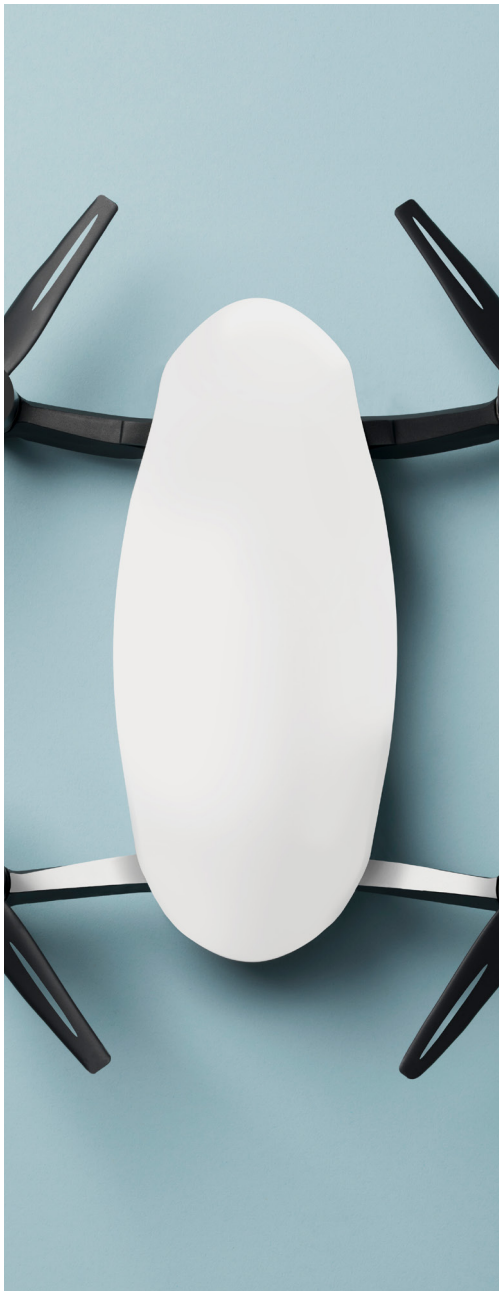
- Populate tax returns with financial data
- Automated import of financial tax workbook into tax return forms (using tax return software)
- Complete non-financial tax return line items and information fields
- Execute work-flow processes for tax returns and initiate electronic estimated payments

VAT process

- Interact with bolt-on indirect tax solutions and financial systems to complete high volumes of tax returns
- Auto-coding of invoices for tax
- Checking and reconciliation of various VAT balances to identify exception items for review
- Execute work-flow processes for VAT returns and initiate electronic payments
- Gather transactional details and supporting invoices in response to multiple jurisdictions' audit request

Other tax processes

- Execute work-flow processes to prepare CbCR computation
- Upload tax return data onto e-filing profile.



AI in the tax value-creation journey

Artificial intelligence includes a set of technologies like machine learning that sense and analyse data, learn from it, and perform actions based on it. AI can attribute meaning to data – including unstructured data such as contracts or email text – to make intelligent recommendations or actions. This capability translates into helping people perform tasks faster and better, and automating certain decisions along the way. AI, especially machine learning, is rapidly finding a role across a variety of enterprise functions and is also reinventing the world of tax functions.[6]

Automate routine decisions and reporting

One of AI's simplest – yet most useful – applications involves the automation of routine tasks, the kind of time-consuming work that can fill a professional's workday. This work involves using machine-learning algorithms. For example, these intelligent algorithms can be put to work to categorise sales into the proper jurisdiction for managing VAT calculations. Or they can scan and analyse employee expense reports to determine which deductions are available based on the type and amount of each expense. While using machine-learning algorithms requires some level of thought, they are not overwhelmingly complex, and, in fact, some of these tools can be installed and managed fairly easy.

Monitoring through dashboards

Since the rise of the cloud computing era, the dashboard, which can provide suggested actions based on learning algorithms, has become one of the most indispensable business tools available. While a simple dashboard may give a tax professional an overview of certain criteria, a dashboard informed by AI is more dynamic, allowing a tax professional to use the system not only to evaluate the past, but also to anticipate the future, giving the tax function an understanding of issues at a glance, aiding decision-making.

Improve forecasting

AI can make forecasting more accurate and faster, by applying tactics that can detect trends on an annual, quarterly, monthly, or even more frequent basis.

Adaptive learning based on operations

At the highest level of AI function, machine learning will be put to task to make (or aid) complex decisions in the absence of any real structured data at all. For example, instead of your legal team spending hours poring over a 500-page sales contract, an AI tool will be able to do the same job in a matter of seconds, determining whether the document contains any thorny legal problems or taxation risks.

6 PwC Five ways artificial intelligence is changing tax

The automated future

Small automation projects that use RPA and basic AI might require only a few weeks to automate discrete processes for quick wins. These small-scale projects put these technologies into action quickly, generating immediate benefits across a range of activities, from error detection and compliance reviews to planning and analysis. Other benefits include:

- Cost reduction: RPA and AI bring immediate reductions in operational cost and generate a rapid return on investment.
- Value-focused resources: The priorities of the employee workforce will shift to innovation, strategy and other business development activities.
- Quality and compliance: The automated nature of RPA and AI reduces errors and leaves a digital audit trail that increases accuracy and regulatory compliance, enabling programmable controls.
- Speed to value: RPA and AI accelerate the time to delivery and avoid invasive traditional system integration – weeks or months instead of years.

What actions should tax functions take now?

- Assess needs/investigate qualifying processes (consider time and resources currently consumed).
- Evaluate whether RPA and AI are already deployed by other functions.
- As needed, collaborate across functions to evaluate vendor solutions (proof of concept, proof of value).
- Develop a tax roadmap for RPA and AI working with finance, IT, HR, supply chain, and other impacted functions.

For more information view our Tax Function of the Future series here.

We value your input

Our way of working is to take the time to understand your business, your tax function and the issues and challenges you are facing, specifically around tax technology, so that we can use our local and global knowledge to help you introduce and deliver appropriate tax technology strategies that work specifically for you.

To this end, we have designed a survey to gain insight into your specific needs so that we can work with you to chart a course to creating a tax function that is fit for the future.

Click on the link to access the survey:

The survey takes approximately ten minutes to complete and your responses will be held in the strictest confidence. Any data published will be presented in aggregate.

Transform* tax through automation (Part 3)

Most CFOs and heads of tax know that automation of tax processes has the power to change almost everything about the way they manage tax in the business – and could contribute significant to bottom-line savings. But what many leaders don't know is how to deploy automation in tax, not just in a pilot here or there, but throughout the organisation, where it can create maximum value. The 'why', 'what' and 'how' are the sticking point with any technology implementation.

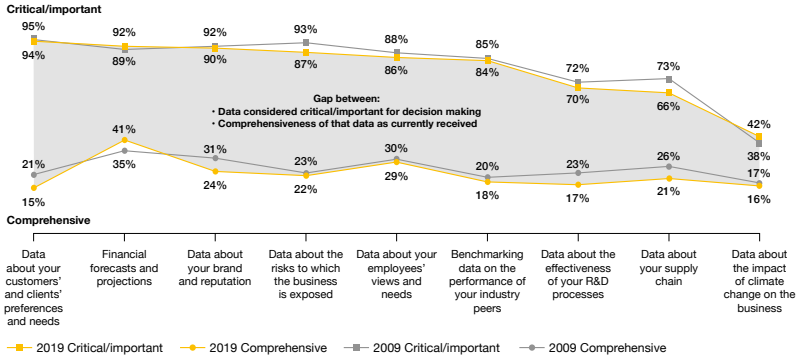
Since our July 2019 Edition of Synopsis our focal point in the Tax Director series has been to examine Transform* tax through automation. We explored the opportunities of achieving success by going smart, fast, and small, to help tax become a better strategic partner within the wider organisation. We also put the spotlight on emerging small automation trends such as robotic process automation (RPA) and artificial intelligence (AI) and their impact on the tax function.

In this month's edition we summarise the 'why', 'what' and 'how' of a responsible tax automation roadmap and find innovative ways to collect and process financial data, moving away from manual manipulation and reconciliation to more forward-thinking analytics for real-time decision-making.

Why?

As organisations turn to what they can control inside the organisation they confront shortcomings in their own capabilities, especially information and skills. Financial information (including tax information) is rated as the second most critical factor for long-term success. However, it seems that in the last ten years the gap between what information is required to make business decisions and the information actually received remained the same.[1]

Data used to make decisions about the long-term success and durability of the business

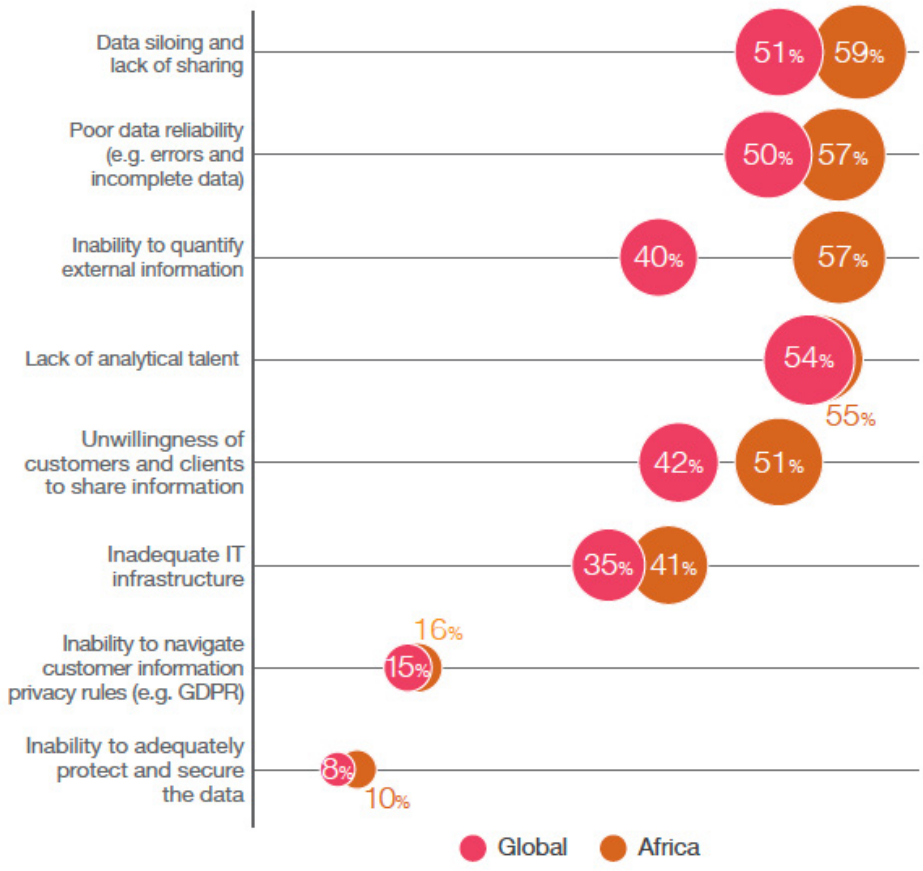


Source: *PwC, 22nd Annual Global CEO Survey*

1 PwC. (2019). Africa business agenda

It seems that organisations are struggling to convert data into usable and actionable intelligence, the main reasons being data-siloing and poor data reliability. Lack of analytical talent is also one of the main reasons.

Primary reasons why data received is not adequate



Source: *PwC, 22nd Annual Global CEO Survey*

Business leaders are leaning on finance and tax functions to assume more responsibility, by delivering more meaningful consultative 'partnerships' within their organisations, being visionary by organising themselves for the modern way of working and being available 24/7. This means that these functions require advanced skills and capabilities. What does this mean for the tax function?

Being a value partner:

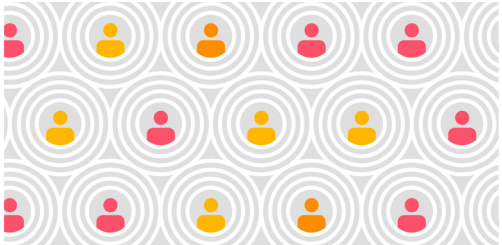
- Turning insights into action
- Working beyond the traditional compliance and accounting mindset
- Adding value all day, every day
- Focus beyond driving efficiency to creating agility
- Being their own activist for change and transformation

A visionary:

- Being agile, adaptable and willing to change
- Aligning tax with organisation's adoption of emerging technologies
- Relying on RPA, AI and machine learning to do the heavy lifting and number crunching … better data, faster
- Top talent – focused on effective predictive and analytical models

Available 24/7:

- Real-time management dashboards
- Single version of the truth and real-time tax numbers
- Self-service capability
- Harnessing insights



The World Economic Forum estimates that 15 to 20 million young people will join the African workforce every year for the next two decades. By 2030, Africa will be home to more than a quarter of the world's population under 25, who will make up 60% of the continent's total population. By then, 15% of the world's working-age population will be in Africa, and the continent's urbanised population will exceed 700 million (more than 50%). To make these initiatives pay off, organisations need to define their current and future workforce needs, considering the impact of emerging technologies across their value chain, from strategy to execution, and preparing their workers to be fit for purpose.[2]

2 World Economic Forum. (2019). Why the skills gap remains wider in Africa

What?

In part 1 (July 2018) and 2 (August 2019) we discussed the return on investment of a tax technology strategy, which should focus on five dimensions of data:

- Breath of information;
- Depth of information;
- Integration of data;
- Tax management practices; and
- Quality of data.

We explored how small automation allows organisations to respond to the demand for quality data and technology-enabled processes, but in a more measured and controlled manner. While AI such as advanced machine learning and natural language processing are being applied to tax functions in advanced tax technology strategies, there are also certain self-service automation solutions that are reasonably easy to incorporate in tax processes and within the larger organisational technology ecosystem:

- Extract, transform, and load tools which are used to integrate, manipulate and perform simple to very complex transformation of data from disparate sources.
- RPA-coded software to perform rule-based processes which mimics the interactions of user; and
- Advanced analytics and data visualisation (e.g. dynamic/interactive dashboard displays).

Projects to put these technologies into action are generally not complicated and generate immediate benefits.

How?

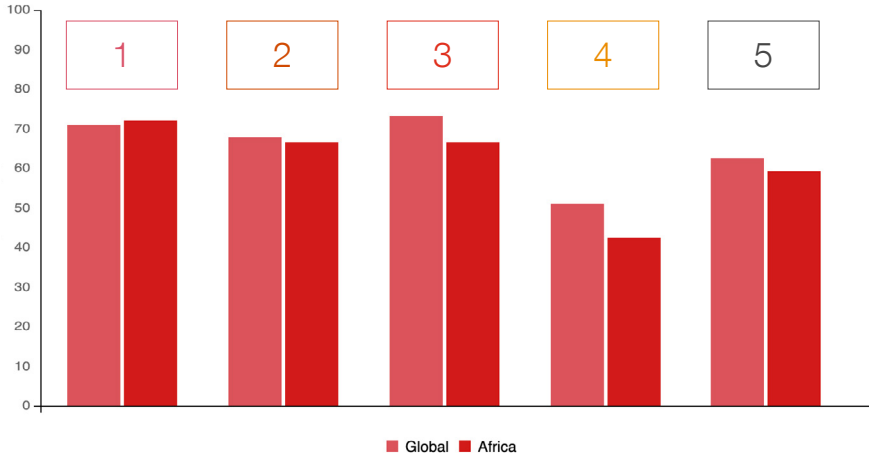
Unlocking the value of data and tech-enabled business processes cannot be done without substantial investment in talent. Executives know they cannot hire their way out of the need for upskilled employees. Workers are keenly focused on organisations that will invest in their development and help secure their future in a digital, data-driven economy.

Upskilling can be a key enabler for driving the data, digital, and technology agenda, while also helping employees secure their own personal future and relevance. While employees must opt in to their own digital upskilling, and invest the time and effort required to acquire knowledge and new skills, leaders also need to commit to not leaving anyone behind and to making investments that support the lifelong learning that's essential for the 21st century. Digital upskilling is fundamentally about culture and people experience – and bringing to life a shared growth mindset among individuals and teams, and across the entire organisation.[3]

In 2019 PwC compiled a report identifying the most important organisational capabilities that businesses need to consider when preparing for tomorrow's work, workers and workplace. Over 1,200 organisations in 79 countries were surveyed to find out how they are getting ready for the future and the key areas of risk they face. In the graph below (1–5) the importance of brand and bots in collaboration for the future of the organisation is indicated:

1. 72% of African respondents (Global 71%) indicated that decisions on the automation of tasks and jobs are primarily based on how best to deliver corporate purpose.
2. 67% of African respondents (Global 68%) indicated that areas of repeatable activity and options to automate it are mapped.
3. 67% of African respondents (Global 73%) indicated that they are identifying and building future skills created by the impact of technology.
4. 43% of African respondents (Global 51%) indicated that they are exploring how AI and RPA can enable the entire redesign of human work in the organisation.
5. 59% of African respondents (Global 63%) indicated that their HR teams have an in-depth understanding of and insight into the technology landscape to help determine the demand for skill and talent.

The importance of brains and bots in collaboration for the future of an organisation



Source: PwC. (2019). Preparing for tomorrow's workforce, today.

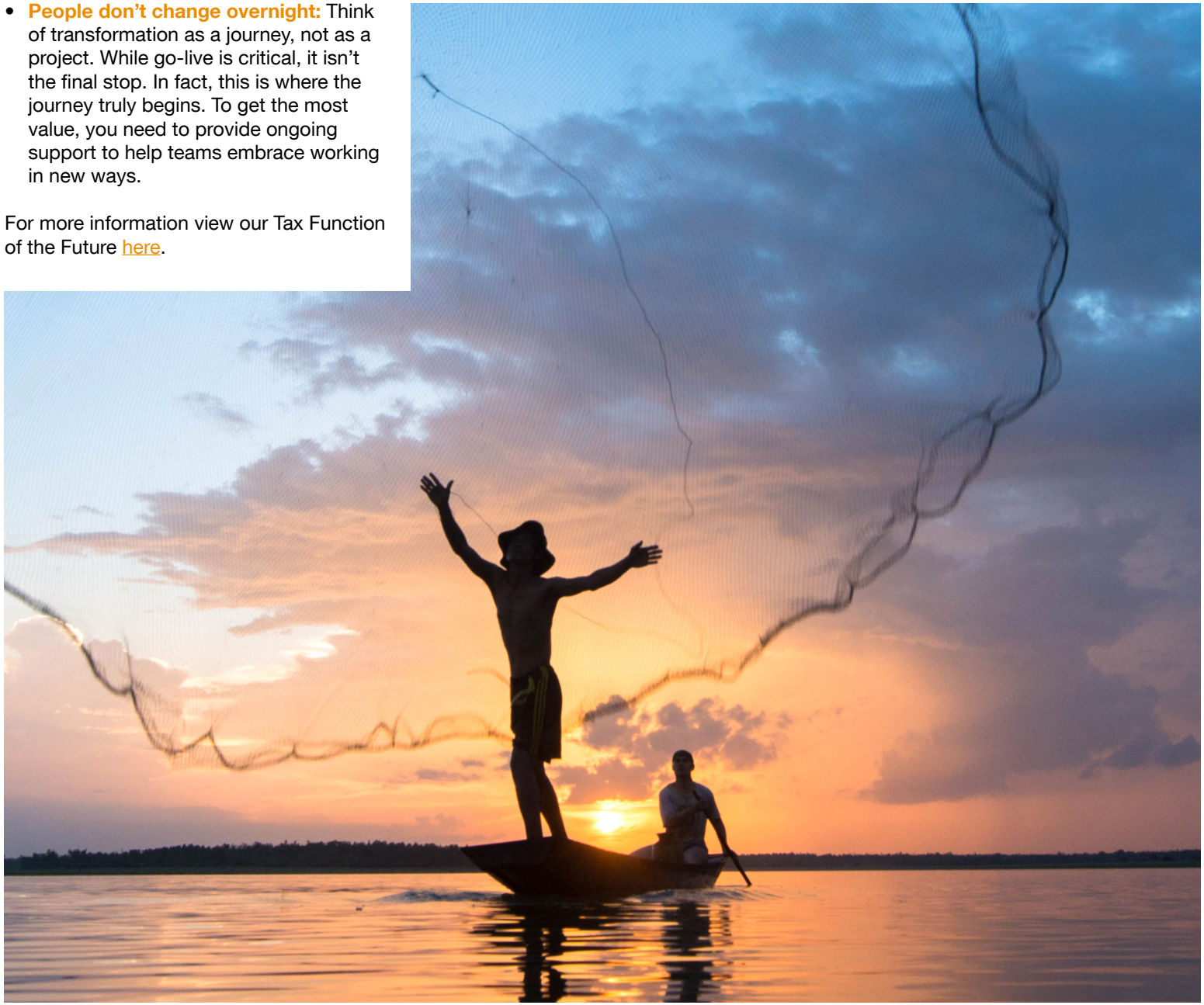
3 Harvard Business Review. (2019). How We Teach Digital Skills at PwC

Establishing a digitally fit tax function involves so much more than just learning new skills on new technology. It requires a shift in mindset, pushing teams and leaders to look at solving problems in a totally new way. Looking at old processes in new ways empowers people to innovate, test new operating models and adjust to a new way of working.

We identified five critical truths to guide a people strategy for a digitally fit tax function:

- **People are different:** Everyone has different digital skills and levels of adaptability. You need to design your strategy to address different needs so teams have what they need to succeed.
- **People expect technology to be easy to use:** There's too much focus on functionality and features during implementations. Instead, focus on people first. Design tools that deliver the user experience and ease-of-use that they want.
- **People follow leaders:** People want their leaders to both 'say and do'. Leaders need to both communicate change and model target behaviours.
- **People get bored:** People easily lose interest. Past experience with failed transformations means they may not easily buy in to new objectives. Look for fresh ways to make the transformation personal, fun and engaging for everyone.
- **People don't change overnight:** Think of transformation as a journey, not as a project. While go-live is critical, it isn't the final stop. In fact, this is where the journey truly begins. To get the most value, you need to provide ongoing support to help teams embrace working in new ways.

For more information view our Tax Function of the Future here.



The responsible taxpayer through a new lens of transparency: Corporates as a visible and valuable part of society

Stand up and speak

Given the decline in optimism about global economic growth, the 2019 PwC Annual Global CEO Survey indicates that CEOs are less anxious about broad existential threats like climate change and terrorism and are more concerned about the factors that impact the ease of doing business in the markets where they operate, and those that impact their overall confidence and willingness to invest and/or take risk. CEOs in Africa recognise the opportunity to build their own brands, but as social, political and economic events hit the boardroom, they also recognise the need to step forward to make a meaningful contribution and rebuild business confidence for the long term. Businesses cannot succeed in isolation, and one of the critical steps that we have identified that a business can undertake together with government and civil society is to 'Stand up and speak'. Businesses and governments need to communicate clearly and often to one another and to the public the intended outcome of their actions, as they have an essential role to play in building and fostering trust in society and CEOs should embrace the responsibilities and opportunities this brings.[1]

Corporates are evaluated through a new lens and it is clear that 'business cannot succeed in a society that fails'. This implies that business success is not possible if the societies in which businesses are situated are not functioning. Successful business leaders recognise the need to focus on sustained value creation. Now more than ever, this requires a broader view of growth than just increased output and short-term financial returns, as significant mega-trends are putting the resilience, sustainability and impact of organisations' strategies and business models to the test. Corporates are a visible part of society and as such have a responsibility to contribute to it.[2]

According to Forbes,[3] if a business is genuinely transparent and open about its commitment to behaving responsibly, and making information accessible, this significantly affects stakeholders' behaviour, as business has a strong and positive role to play in society. The purpose of a company extends beyond creating value for shareholders. It includes the company's role in society, and the contribution it makes to the economy and to the lives of employees, customers and communities where it is located.

Establishing transparency, being responsive and providing vital information enables corporates to promote themselves as a trusted brand. This means taking steps to go further than regular communication to stakeholders. It also requires corporates to reconsider whether their corporate reporting is effective, as it is fundamental to building trust through transparency and accountability.

As Judge Professor Mervyn King noted in his address to the International Integrated Reporting Council,[4] good corporate citizenry demands that a board should develop a strategy on how the company will enhance the positive impacts on the three critical dimensions of sustainable development, namely the economy, society and the environment, and also eradicate or ameliorate the negative impacts on them. In this way, the company will be creating holistic value for society. Boards have to think in a sustained way about how they demonstrate being good corporate citizens; they also need to recognise that they can no longer operate on the basis of attempting to maximise profit while having a negative impact on society and the environment, even if this is within the bounds of the law. That is poor corporate citizenry and committing wrongs against humanity.

1 PwC – The Africa Business Agenda 2019

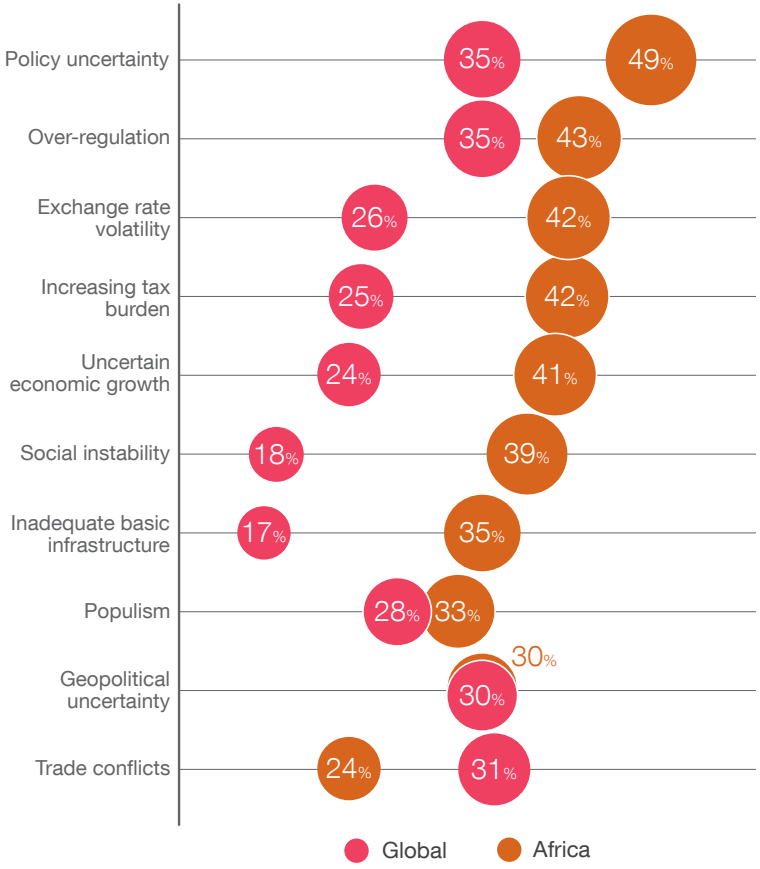
2 Mammatt, J (2016) Better performance through understanding risks and impacts

3 Lin, U., Eisingerich, A. (2018) 'Can You Handle the Truth? How Transparent Companies Become Role Models to Consumerism', www.forbes.com

4 http://integratedreporting.org/news/2018-address-by-judge-professor-mervyn-king-chairman-of-the-council-iirc/

Integrating tax

In the 2019 PwC CEO survey it was noted that CEOs in Africa are particularly concerned about the regulatory and fiscal environment.



Source: PwC, Annual Global CEO Survey, 2019

One of the reasons is that even if a corporate is operating within the law, public perception of its tax policies could erode trust.[5] Although media articles and reports from NGOs do not necessarily indicate any wrong or illegal practice on the part of the taxpayer, the impact on a company's reputation can be significant. Taxation plays a fundamental role in effectively raising and allocating domestic resources for governments to deliver essential public services and achieve broader development goals.

Politicians, citizens and the media are increasingly linking tax and corporate responsibility to the extent that it has become essential not only for governing bodies but also for corporate sustainability officers to understand their business's tax decisions and how these decisions impact the company's financial results and stakeholders. So when corporates are evaluated through a new lens, senior executives and governing bodies should be able to explain to investors how their company's global tax strategies align with their sustainability commitments.

The C-suite, as well as investor relation and finance teams, need to be aware that there is a growing public perception that multinational companies are not paying their fair share of taxes, especially in developing countries. For this reason, it is imperative to establish and maintain a formalised approach and strategy to tax transparency and communication that defines key messages, consistent messaging and participants, roles, channels, format and frequency.

The King IV Report on Corporate Governance (King IV) has brought substance to the requirements of being a responsible taxpayer in South Africa. It views aggressive tax strategies as unacceptable. King IV applies to listed companies in South Africa and requires of their governing boards to demonstrate corporate citizenship by being responsible taxpayers. Considerations should include inter alia responsible tax policies, and King IV suggests disclosure on e.g. a board's tax strategy and tax governance structure. King IV also suggests that the organisation's board and audit committee should be responsible for a tax strategy and policy that are compliant but also congruent with corporate citizenship and wider stakeholder considerations and take account of reputational repercussions.

The OECD Observer published an article by PwC[6] in which it was stated that being a responsible taxpayer and corporate citizen means a corporate is able to demonstrate how its business adds value, now and in the future, for shareholders, but also for other stakeholders, including employees, customers, government and the wider community. Paying tax is clearly part of the economic dimension, and how companies contribute to the creation of prosperity and to stability. Taxes provide essential public revenues for governments to meet economic and social objectives. Other aspects of the economic

5 Andy Ruggles, Mark Schofield, and Michael Shehab (2017) 'The Marriage of Tax and Strategy', Strategy & Business, Issue 89

6 http://oecdobserver.org/news/archivestory.php/aid/3132/Corporate_responsibility_and_paying_tax.html

dimension include creating jobs and employment and generating business for suppliers.

There is no doubt that disclosures around tax strategies, tax governance and tax risk management and open and honest information on the economic contributions in each jurisdiction will become increasingly important going forward, as companies look to build trust in their tax affairs.

We are also seeing a significant move towards requirements for transparency of a taxpayer's position on tax, tax strategy, tax numbers, key performance numbers, and economic contributions (taxes and other regulatory levies payable to the government, investment in infrastructure, employment opportunities and social upliftment) per jurisdiction. Explanations of internal governance processes are recognised as evidence of tax oversight at board or audit committee level.

The opportunity for change: Creating strategic value and being future ready

The world is changing, and the role of the tax function is changing. Scrutiny over tax positions taken will only increase.

Are you comfortable that:

- There is clarity in your business on how tax fits into its approach and strategy on corporate responsibility?
- Your business is ready to take up the challenge of greater tax transparency and how better to communicate its tax affairs?
- Internal stakeholders understand that corporate decisions around taxation are financially material and therefore relevant for creating long-term value?
- Data related to your business's position on tax, tax strategy, tax numbers, key performance numbers, and economic contributions (taxes and other regulatory levies payable to the government, investment in infrastructure, employment opportunities and social upliftment) per jurisdiction is not just accessible for disclosure but relevant and understandable?
- Your business has a clearly defined tax stakeholder engagement plan to build stronger relationships and effectively communicate tax-related information to governments, regulators, investors, and the public?
- Key performance indicators and management reports relating to the tax transparency issue are in place?

In order to address the changing tax world our aim is to enable our clients to be future aware and future ready. In this process you will be able to create value through tax transparency, as it:

- demonstrates responsible citizenry, builds trust, enhances reputation
- improves your relationship with revenue authorities
- helps investors understand the effect of taxes on the bottom line
- pre-empts media scrutiny
- helps stakeholders better understand the benefits provided by business
- demonstrates the link between tax and economic development
- indicates accountability.

We suggest that companies should develop a strategic response: Transparency to whom and for what purpose? Who are your stakeholders and what do they want to know? What are you required to disclose? What additional information would be useful to help with that understanding?

We're not suggesting that companies should disclose more, but a strategic response will identify where additional disclosures are needed, can create value and can be helpful in the turbulent tax landscape of today.

The responsible taxpayer through a new lens of transparency: Working towards a common purpose

In the October 2019 edition of Synopsis we brought out our first article looking at the responsible taxpayer through a new lens of transparency. We considered how organisations could consider becoming a more visible part of society, with senior executives and governing bodies explaining to investors how their companies' global tax strategies align with their sustainability commitments.

In this article we explore further how organisations and their stakeholders can work towards a common purpose and build trust through enhanced transparency. Trust is crucial to productive relationships with stakeholders. We demonstrate the value of integrating a tax transparency communication strategy and reporting on sustainability and economic impact, to responsibly demonstrate value creation for all stakeholders on a sustainable basis.

A cohesive front

Companies are urged to place sustainability at the heart of their operations as a key driver for competitiveness. This includes sustainable value chain approaches, transparency in communications and reporting, as well as inclusive economic growth and improvement.[1] Stakeholders increasingly want to understand an organisation's long-term value-creation plans through credible, standardised information. Many organisations are responding by incorporating environmental, social and governance information in their messaging. However, the organisations are only just beginning to consider their messaging on the positive contribution to society they make through the taxes they pay.

Stakeholders compare organisations based on their contribution to public revenue. However, the type of information that is considered important may differ from one stakeholder to the next. In bringing transparency, it is therefore key to determine whom to be transparent to and for what purpose. Who are your stakeholders and what do they want to know? What are you required to disclose and what additional information would be useful to help build trust?

Companies that are getting their tax messaging right have identified material tax-related communications and embedded these into their long-term value-creation story. Since their role as a responsible taxpayer will impact their present and future business model, their tax messaging is incorporated into their organisation's responsibility efforts. It is aligned with their company's strategy and purpose statement and presented as a cohesive front.

It is important that the board identify where the company is on the spectrum of tax transparency-related communications and tax stakeholder engagement. Is it a front runner with cohesive identification, integration and communication of its tax transparency strategy? Is it in the middle tier – strong on understanding the level of information required, but weak on communication? Or is it in the initial stage, with little or no consideration for communications around tax issues?

1 ICC Business Charter for Sustainable Development 2015

Stakeholder communication is in part about the company's public disclosure. Companies can use their sustainability and integrated reports or their website to talk about their tax transparency agenda. However, passive public disclosure is not enough. Standalone reports offer useful information but may go unnoticed. By integrating tax transparency into everyday corporate messaging and stakeholder engagement, and by showing how it is entrenched in the company strategy as a whole, companies can really demonstrate their commitment to values and build trust in societies in which they operate.

How a company's impact measurements go beyond compliance, leading to better developent outcomes

Communities

Improving community relations through informed and effective communication

Partnerships
Leveraging resourcesnto optimise impact wiith new stakeholders

Employees

Attracting and retaining employees and improving their loyalty and enthusiasm to increase productivity

Risk management

Anticipating changing societal conditions and needs

Governments and regulators
Improving relations to protect operating licences and creating platforms for discussion

New business opportunities
Innovating product, service and supply chain, and exploring new markets

Market share

Engaging broadly to build brand and consumer loyalty

International business is complex, shaped by globalisation and rapid socio-economic and political change. A deeper understanding of how global individual companies and sectors is required, in the search for more inclusive business solutions and better alignment between solutions and business strategies. Ultimately, long-term measures can be used to target sustainable profitability.

Source: PwC Analysis based on WBCSD, Measuring impact beyond the bottom line

Tax transparency – an integral part of an organisation's sustainable development commitments

As demonstrated in the PwC SDG Reporting Challenge 2018, environmental and social responsibility will play an increasingly important role in the future of all organisations. Acting responsibly is no longer a choice. It is a business imperative that will impact how companies power their operations, source raw materials, innovate new products and protect their supply chains against extreme weather and natural disasters. It will affect the wellbeing of their employees and their decision about whom to work for.

Perhaps most importantly, companies' approach to how they run and build their business will be judged by a new generation of consumers who expect sustainable and ethical behaviour. There is an increasing global awareness of the importance of efficient tax systems and the role taxes play in promoting sustainable and inclusive economic growth.

> "Effective taxation is essential to promote a more inclusive and sustainable growth. It is fundamental to making globalisation work for all. It is crucial for achieving the Sustainable Development Goals.[2]

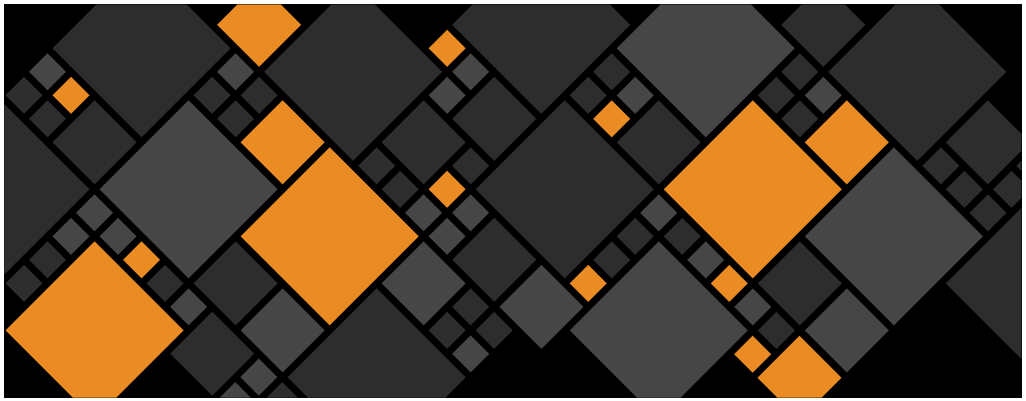
2 Ángel Gurría – Secretary-General of the OECD.

Companies that align themselves with the Sustainability Development Goals (SDGs) and can communicate clearly how their business assists governments to achieve the SDGs are likely able to gain trust from consumers, consolidate a strong licence to operate and differentiate themselves from competitors.[3] The growth of socially responsible activism is driving a rethink of an organisation's responsibilities and values. This requires increasing coordination between legal, risk, economic, sustainability, finance, tax and investor relations teams. For leading companies, 'organisation responsibility' is simply about how their business adds value, now and in the future, for shareholders, but also for other stakeholders, including employees, customers, government and the wider community.[4]

Mistrust exists between the society and tax world, which leads to a repressive, secretive and onerous environment. Expectations are high for tax leaders of the future. They will need to focus on developing skills in areas that traditionally were not deemed important for tax. Skills such as the ability to build relationships, whether it is with governments, NGOs, academia, investors, consumers, clients, government agencies, regulators, the press, campaign groups, policy makers and revenue authorities, to influence decisions in which the participants share a common interest relating to tax. By participating in an inclusive discussion, demonstrating mutual transparency, a better understanding of taxpayer businesses and risk profile, all stakeholders can contribute to responsible global tax behaviour and a 'trust-based truth' tax environment in African countries.[5]

Taxes and payments to governments are a key mechanism through which organisations contribute to the economies of the countries in which they operate. If they seek to minimise the amount of taxes they pay, this can impinge upon governments' ability to finance vital public infrastructure and services, especially in developing countries. Greater disclosure of tax payments will allow for a more informed public debate, creating an environment for better policy development and investment decisions. At the same time, improved transparency can promote trust and credibility in the tax system by discouraging organisations from engaging in aggressive tax-avoidance practices.[6] Unless there are fewer stories about tax avoidance and greater transparency of how most organisations manage their tax risk, then the political incentive for change is not going to go away.[7] Transparency always seems to pay off, regardless of how it is perceived on the social responsibility scale. True organisation transparency isn't just a 'nice to have' anymore, it's essential. Increased transparency will give those organisations that embrace it an advantage, not only as effective suppliers or wealth creators, but also as positive contributors to society.[8]

3 https://www.wbcsd.org
4 Organisation responsibility and paying tax. Thomas Scheiwiller and Susan Symons, PricewaterhouseCoopers.
5 Placing behavioral insights at the centre of taxation: Building a 'trust based truth' tax environment in African countries Kuralay Baisalbayeva, Eelco van der Enden, J.B. Hillman and Michael Roytman, ATRN working paper 19, September 2017.
6 GRI draft Standard on Tax and Payments to Governments.
7 The GP surgery: Transparency is on the rise – but nobody has told the public. International tax review.
8 Can You Handle The Truth? How Transparent Companies Become Role Models to Consumers Yuting Lin and Professor Andreas B. Eisingerich.



Strengthening global partnerships and cooperation is essential for achieving the SDGs. Corporates and governments are encouraged to engage and develop partnerships to achieve these common goals. They also need to work on strengthening domestic resource mobilisation.[9] While governments have the ultimate responsibility to determine policy at domestic level, collaborative and meaningful action by business is fundamental to achieving the SDGs.

Stakeholder engagement in Africa

Economic overview

Economic growth in Sub-Saharan Africa remains below the estimated population growth. Public debt levels and financing costs are two fundamental challenges that impact sustainable economic growth and social development in Africa. Another challenge in Africa is the relative size of some informal (shadow) economies. The International Labour Organisation (ILO) estimates that the average size of the informal economy in Sub-Saharan Africa as a percentage of Gross Domestic Product (GDP) is 41%.[10]

According to a recent study undertaken by the International Monetary Fund (IMF), the size of informal economies ranges from below 30% in South Africa to more than 50% in Nigeria, Tanzania and Zimbabwe.[11] Although there are many benefits to an informal economy (such as employment and cheaper consumer goods for lower income groups), there is a substantial loss to the fiscus in terms of taxes.

9 https://sustainabledevelopment.un.org/sdg17
10 Quartz Africa, Don't underestimate the power of Africa's informal sector in a global economy, January 2016, https://qz.com/africa/599483/dont-underestimate-the- power-of-africas-informal-sector-in-a-global-economy/
11 IMF Working Paper, Shadow economies around the world, January 2018 (WP/18/17).

The positive impact of the private sector and formal taxpayers in African countries should be acknowledged and communicated in a transparent manner. In many African countries there is a perception that large multinational companies take advantage of natural and human resources without sufficiently compensating the communities in which they operate. For this reason, multinational companies across various sectors are beginning to investigate the broader impact they have on African countries. A holistic impact generally consists of a socio-economic and environmental impact assessment. More recently multinational companies are also focusing on the total tax contribution they have in the African countries where they operate. This includes their direct, indirect and induced tax contribution to government revenue. This information can be used in various stakeholder engagements and interactions with regulators.

Regulatory overview

The efficient regulation of taxation that causes the least amount of distortion on economic growth is an ongoing debate and one that is gaining prominence. Jurisdictions are increasingly evaluating the regulatory framework pertaining to the levying and administration of taxes to ensure that sufficient revenue is collected in a fair manner while ensuring that the tax rules do not impose an undue regulatory burden on taxpayers and do not have any negative unintended consequences.[12] When a tax system is inefficient, the time it takes to comply with tax rules is relatively high and the amount of revenue collected is relatively low. A burdensome and overly complex tax system adds to businesses' costs and may discourage investment, especially in low-margin industries.[13] According to a recent OECD study, 'both investment and the productivity of that investment are lower in countries where the regulatory burden is greater'.[14]

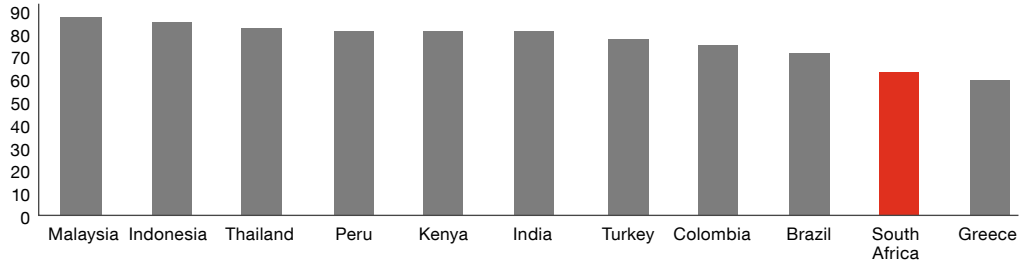
In broad terms, an inefficient tax framework presents the following potentially negative outcomes:[15]

- High regulatory uncertainty and risk, making it hard for organisations to make long-term decisions involving investment and
- Distorting competition by increasing the cost of organisations to enter or exit the market

It is also important to ensure that the tax burden imposed on a country is not too high by keeping the size of the state in check and ensuring fiscal discipline.[16] Some other policy options for efficient tax regulation include broadening the tax base by ensuring that new organisations can enter the market, simplifying tax structures to increase the ability of new organisations to compete and improving tax administration at all levels.[17]

According to the Heritage Foundation's 2019 Index of Economic Freedom, the tax burden score for South Africa is 62.10, meaning that from a tax burden perspective, South Africa is less free and more burdensome than comparable countries.

Tax burden index out of 100 indicates least burdensome

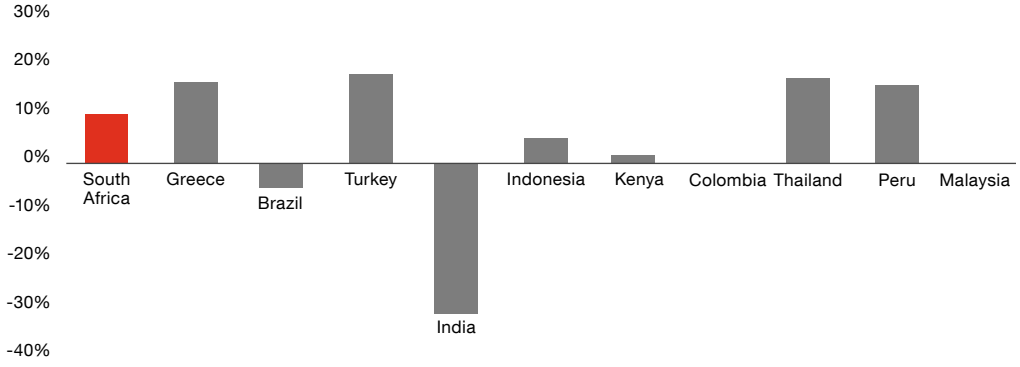


Source: Heritage Foundation 2019 Index of Economic Freedom, PwC analysis

12 OECD work on taxation report, 2018/19.
13 OECD Policy Framework for Investment: A review of good practices, 2006.
14 Mareuse, O. (2011). Fostering Long-term Investment and Economic Growth. OECD Journal: Financial Market Trends, 2011(1), 83-86.
15 World Development Report, 2005.
16 Ibid at 110.
17 Ibid.

According to the OECD, South Africa's Marginal Effective Tax Rate is 9%, meaning that taxation increases the cost of capital post investment by 9%.

Marginal effective tax rate



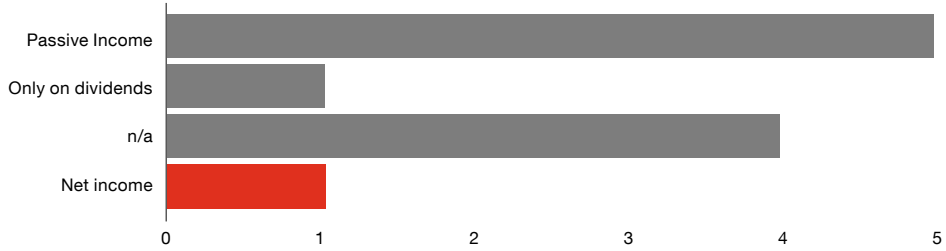
Source: OCED Corporate Income Tax statistics, PwC analysis

Although this is not particularly bad, it can be better – especially given the need in South Africa for a climate more conducive to investment.

Among other areas of South Africa's tax system that are considered problematic is its Controlled Foreign Company (CFC) tax regime. Compared to structurally similar countries, South Africa is the only one that levies CFC tax on net income.

Other countries restrict CFC application to passive income or specific aspects, such as dividends.

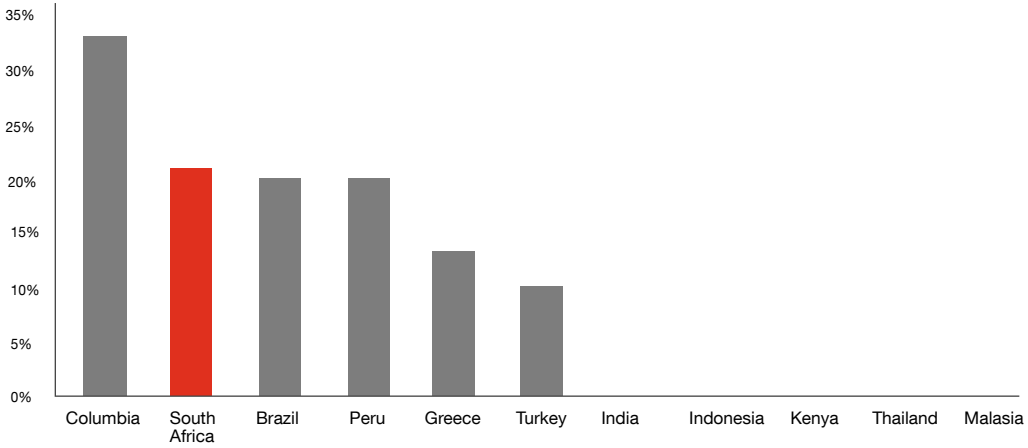
Number of countries levying CFC on different aspects of income



Source: PwC research and calculations

South Africa also has a relatively high 'high-tax exemption', meaning that multinationals must consider more jurisdictions when calculating CFC-related tax obligations.

High-tax exemption (%)



Source: PwC research and calculations

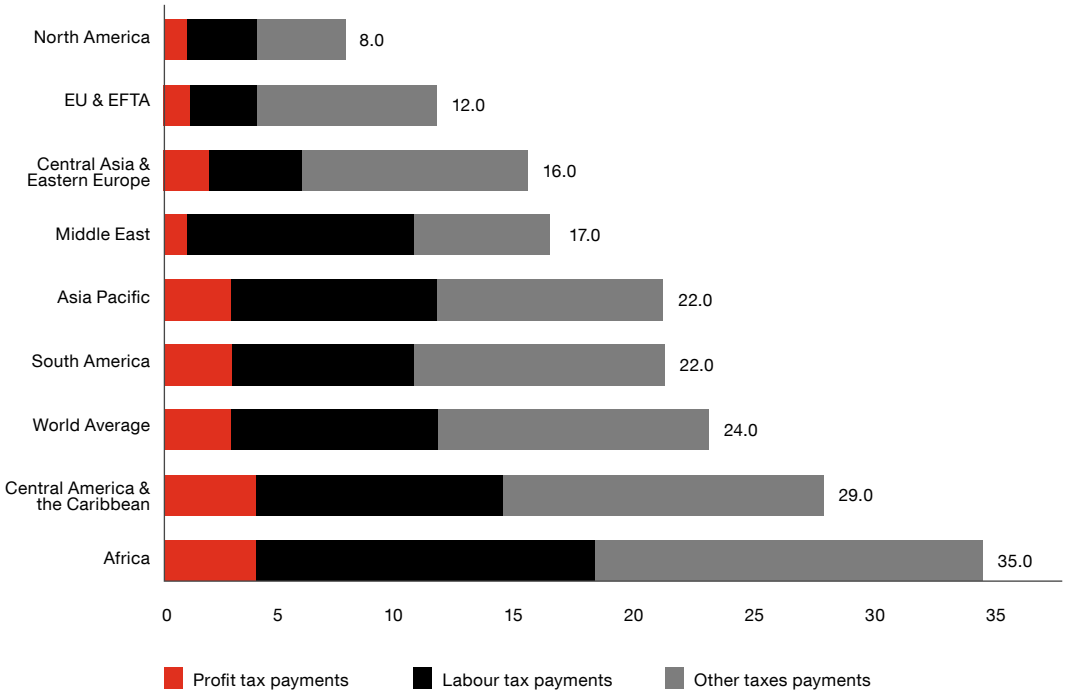
Unduly onerous CFC rules have the added disadvantage that they impede South African multinational companies' ability to compete internationally. The additional administrative burden means that fewer resources are available to invest in efficiency gains, to grow, and to create jobs.

Paying taxes in Africa

According to the Paying Taxes survey conducted annually by PwC and the World Bank, which measures the ease of paying taxes in over 198 economies, Africa as a region has by far the highest number of tax payments and contributions to make, reaching a total of 36 payments per year for a medium-sized business. This is far greater than the world average of 24 payments. The other regions vary between eight payments (North America) and 29 (Central America and the Caribbean). As shown in the graph below, companies doing business in Africa face a particularly high compliance burden.

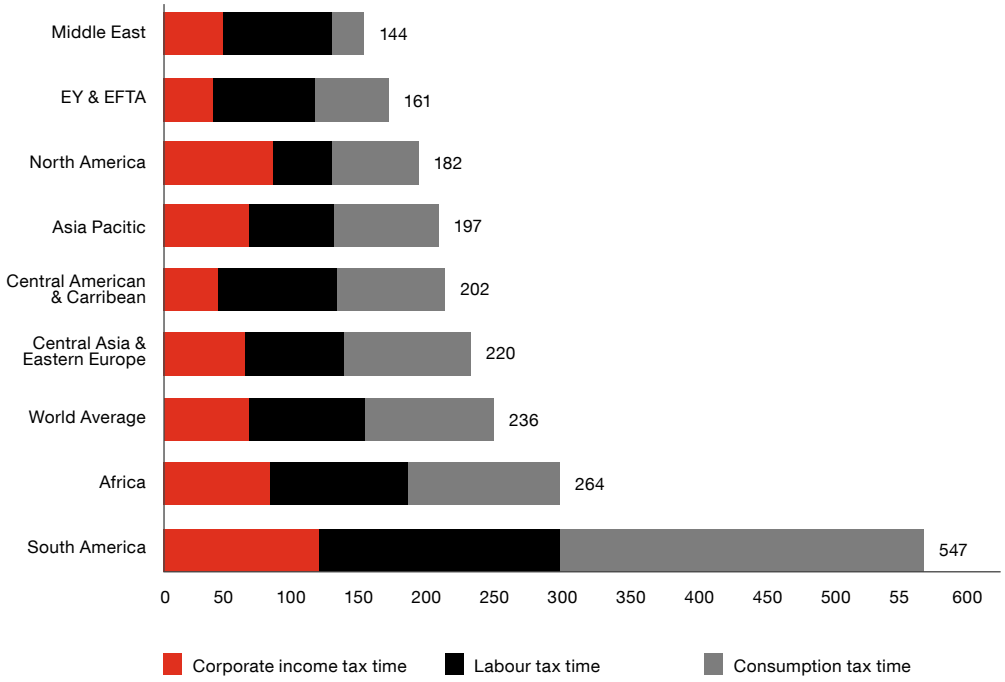
The 'number of payments' indicator further illustrates that in Africa there are more 'tax types' than in other regions, which indicates a very high compliance burden. Having various tax types adds to the complexity of the tax system without necessarily bringing in more revenue.

Number of payments 2017



The effect of the high 'number of payments' indicator can also be seen in the 'time to comply' indicator. The average time it takes for a medium-sized company in Africa to pay its taxes and fulfil its compliance duties is 284 hours. This is higher than the world average of 236 hours, an average that includes South America, which is an outlier. The 'number of payments' and 'time to comply' indicator paints a picture of strain when it comes to paying taxes. Business and government should address these challenges together, to create an environment that is conducive to the growth of businesses, and to the government collecting revenue and in turn growing the economy.

Time to comply 2017



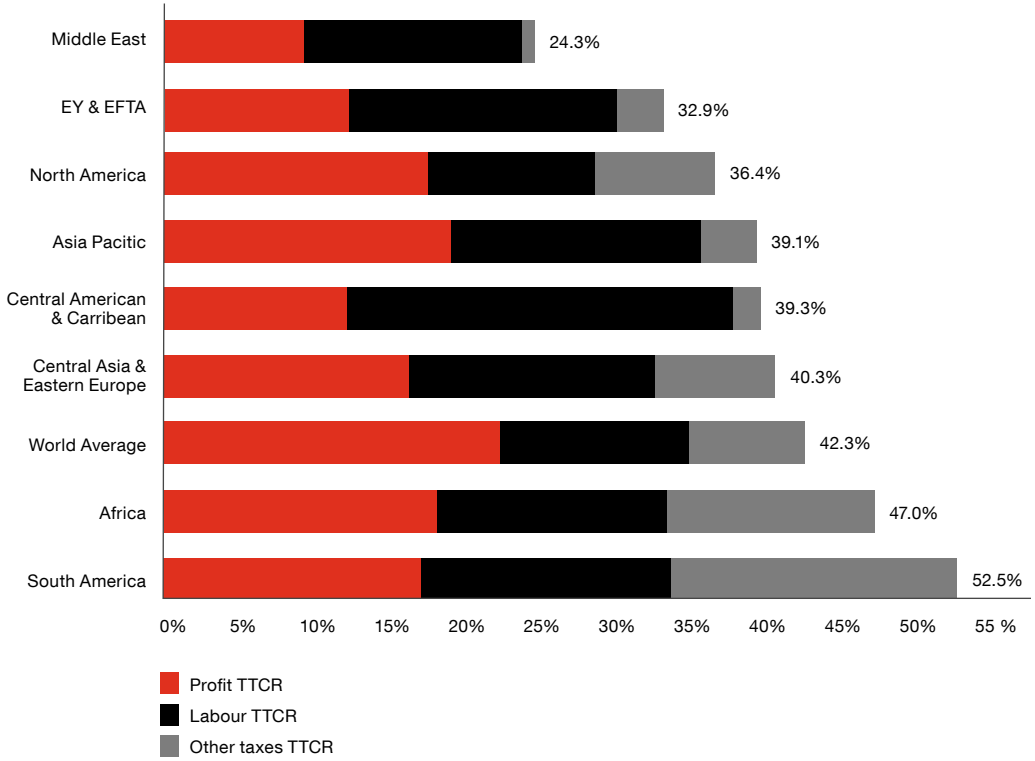
The high 'number of payments' is perhaps also indicative of developing countries with a small tax base that are in dire need of additional revenue to sustain their people.

However, in a region where economic growth is desperately needed, raising taxes alone will not be enough, if an effective tax administration system is not in place.[18] Effective and transparent tax systems will assist in mobilising domestic taxation and unlocking opportunities to engage in world trade.

They are therefore also a key development goal for the United Nations.

The high 'number of payments' presents a challenge when doing business in Africa, and companies would need to have a strong and capable tax team to ensure that they are compliant with all the necessary payments.

Total Tax & Contribution Rate 2017



18 Africa's tax system: A survey. [Online]. www.oecdobserver.org

Africa has the second-highest total tax and contribution rate ('TTCR'), which is the percentage of taxes borne. The following taxes are included in this measurement: profit taxes, social contributions, mandatory labour contributions, property taxes, turnover taxes and other taxes (e.g. such as municipal fees and vehicle taxes). It excludes taxes that are collected by the company on behalf of the revenue authority.

Africa's TTCR sits at 47%. The world average is 40.3%. A high TTCR compounded by a high number of tax payments may affect larger taxpayers' financial ability to invest, while tax complexity and uncertainty may also affect future investment incentives and ease of doing business in the region.

The role of stakeholder engagement

In Sub-Saharan Africa, where there is an over-reliance on volatile natural resources as a source of revenue, governments are increasingly looking at tax as a stable revenue source.[19] Given the low tax-to-GDP ratio in most African countries, governments have seen this as an untapped revenue source that can contribute to much- needed government spending on public services and infrastructure.

Raising more taxes may sound like a good solution, but how does this affect business and what is the impact on the attitude of investors and the economy? In the *2018 PwC CEO Survey* it was noted that the increasing tax burden is the second-biggest threat for corporate entities operating in Africa, confirming the fact that Africa's tax landscape is not inviting to investors and is a point of concern for businesses. On top of the existing concerns, companies in developing economies should also consider how technology disruption will affect their tax collections, according to the *PwC Paying Taxes 2018* report.

Governments often increase taxes to reach revenue-raising goals; however, this is more often than not a short-term approach and the long-term effect is often detrimental to the economy. An example is Kenya, where more taxes were introduced, only to see a decline in the tax-to-GDP ratio.[20]

Countries which are focused on increasing tax collection often target specific industries that are deemed to be more lucrative than others and easy to tax. An example of this is the telecommunications industry, which governments often seek to impose additional taxes on. While it may bring revenue gains in the short run, higher communication costs can negatively affect the productivity of numerous businesses, burden households, and hamper growth of the economy as a whole in the long run. Adebe Selasi, the IMF's top official for Africa, cautions that taxes must not be introduced in a way that stifles innovation and curtails activity in the sector, and that striking a balance is very important.[21]

19 Africa turns to tax reform. [Online]. www.accaglobal.com
20 New and emerging taxes in Africa and beyond. [Online]. www.roedl.com.
21 Tax byte: Africans fear trend of levies and data, services. [Online] www.ewn.co.za

Where more taxes are introduced in countries where the number of payments and the total tax contribution rate is already high, there is a danger that it could have a negative impact on the economy. Governments should try to avoid taxing people into poverty and rather focus on encouraging a stable economic environment.[22]

Organisations' tax practices are of interest to various stakeholders. Stakeholder engagement in a region that will seek to improve its tax-to-GDP ratio is key to building trust and achieving more effective policy decisions. On the other hand, governments need to understand how policy decisions affect stakeholders and different parts of society.

Furthermore, society needs to understand the impact that businesses have on the economy and how they are contributing to the financial security and development of the country. In a world where the ethics of companies are being scrutinised, society needs to be engaged so that it can understand and be assured that business profits are not being shifted to other jurisdictions.

Besides raising tax rates or introducing additional taxes, further strategies can assist in raising revenue. Firstly, simplifying the tax system and making it easier to comply with can translate into revenue gains. A successful tax system is easy to understand and easy to administer. Secondly, improving the perception of the tax system as fair and proportionate can also enhance compliance and translate into revenue gains. It can also break down barriers for business to move from the informal to the formal sector, which would in turn broaden the tax base. Tax administration systems that are too complex, not transparent or deemed unfair are less likely to be adhered to, especially in countries where basic needs (such as water and roads) are not sufficiently fulfilled.

According to the Global Reporting Initiative, the approach an organisation takes to engaging with stakeholders has the potential to influence its reputation and position of trust. This includes how the organisation engages with tax authorities in the development of tax systems, legislation, and administration. Stakeholder engagement can enable the organisation to understand evolving expectations in relation to tax and payments to governments. It can give the organisation insight into potential future regulatory changes and enable the organisation to better manage its financial and reputational risks.

Stakeholder engagement with the revenue authorities and specifically those who establish tax policy would be key to building trust and to forming part of policy-making decisions that could assist in making tax administration systems simple and transparent and add value to raising revenue and contributing to the economy.

Corporates can take a proactive approach to stakeholder engagement that goes beyond a meeting with the minister of finance and other policymakers of a country. This includes proactively demonstrating transparency in their tax affairs, understanding and communicating their impact on wider society, and becoming part of the policy debate.[23]

22 The highest income tax rates in the world – including South Africa. [online] www.cbn.co.za
23 What companies hoping to influence tax policy in Africa need to know. [Online] www.moneyweb.co.za

Case study: Tax stakeholder engagement in the telecommunication sector

The challenge:

Mobile is the main gateway to the internet for consumers in many parts of the world today, particularly in developing countries. According to the IMF,[24] governments have conflicting objectives regarding the tax treatment of the telecoms sector. On the one hand, they know that telecom services are an important input into productivity and growth. They therefore want telecom companies to provide services as widely and cheaply as possible and to rapidly introduce new technologies. On the other hand, governments also regard telecoms as a good source of tax revenue, given their formal sector status and large and growing turnover. They are among the most important taxpayers in many low- and middle-income countries.

The GSMA noted that in Sub-Saharan Africa, the mobile ecosystem contributed an estimated 7.7% to the region's GDP and supported 3.5 million jobs in 2016.[25] The positive contribution of telecoms to the economy is well recognised. However, the tax treatment of the sector is not always aligned with best-practice principles. In 2015 telecoms paid on average 35% of their revenue in the form of taxes, regulatory fees and other charges in Sub-Saharan African countries. Tax worsens the business environment and reduces operators' ability to invest in network and coverage. Taxation levied on mobile, especially over and above standard rates, exacerbates affordability and coverage barriers for the underserved.

Some examples[26] of governments supplementing revenue or profit taxes with separate levies on voice airtime, SMS and mobile money in 2018 include Ivory Coast imposing a 0.5% tax on transfers via mobile money services. Kenya increased its tax on mobile money transfer fees from 10 to 12%. Benin introduced a tax of five CFA francs ($0.01) per megabyte consumed on social media usage. Zambia has proposed a daily levy on consumers who use the internet to make phone calls. In Uganda, a tax on mobile money transactions and a daily levy on social media usage, with apps and websites blocked until a user pays the fee, was introduced. In the case of Uganda, the social media tax proved to be detrimental to both its internet and mobile money sectors.

In the three months following the introduction of the levy in July 2018, there was a noted decline in the number of internet users, total revenue collected, as well as mobile money transactions.

24 IMF Working Paper: Taxing Telecommunications in Developing Countries 2017.
25 GSMA The Mobile Economy: Sub-Saharan Africa 2017.
26 Reuters: Tax byte: Africans fear trend towards levies on data, services 2018.

The role of stakeholder engagement

For the telecom industry, stakeholder engagement on the impact of industry-specific taxes is proving to be a priority. Such engagement is conducted through industry forums, public participation and high-level dialogue with key policymakers. To enable such engagements, relevant and impactful information is required. Some organisations perform economic impact assessments to reveal the importance of their operations in the growing economies in which they operate. This type of assessment estimates the holistic impact of their business across the value chain and how it contributes to economic growth, job creation, tax revenue and poverty alleviation. It enables the organisation to understand its economic and social footprint across the countries in which it operates and to engage with stakeholders, potential investors, the various governments and regulators. This type of data also proves to be beneficial when compiling its corporate messaging in integrated and sustainability reports.

Case study: Tax stakeholder engagement in the mining industry

The challenge

It is interesting to note that the *PwC Global Mine Publication 2018* identifies 'regulation' and 'public perception' as part of the top 10 risks experienced in the industry. Both these risks have a strong relation to how a company governs its tax positions, builds relationships based on trust and transparency with tax stakeholders and mitigates potential reputational tax risk.

Mining companies frequently come under scrutiny for their tax positions, and certain governments in Africa may use tax to get the industry to the negotiating table, to re-balance the share of economic resources from operations by claiming under-declaration of revenue or export duties. While these claims are considered unsubstantiated, attention must be given to the trend these developments represent and how companies engage with governments in the future in the areas of taxes, royalties and the overall sharing of economic benefits.

The role of stakeholder engagement

An economic impact assessment was performed by a mining company in Tanzania to determine its local operation's contribution to the Tanzanian economy. This impact assessment quantified its own operations and the economic activity it supports in the wider economy via operational activities and employment. In addition, the direct, indirect and induced contribution of taxes was analysed, enabling management to further engage with stakeholders in their understanding of the economic value that the organisation brings to society and the community in which it operates.

The bottom line: Change is required to focus economies on their original purpose – to deliver social progress

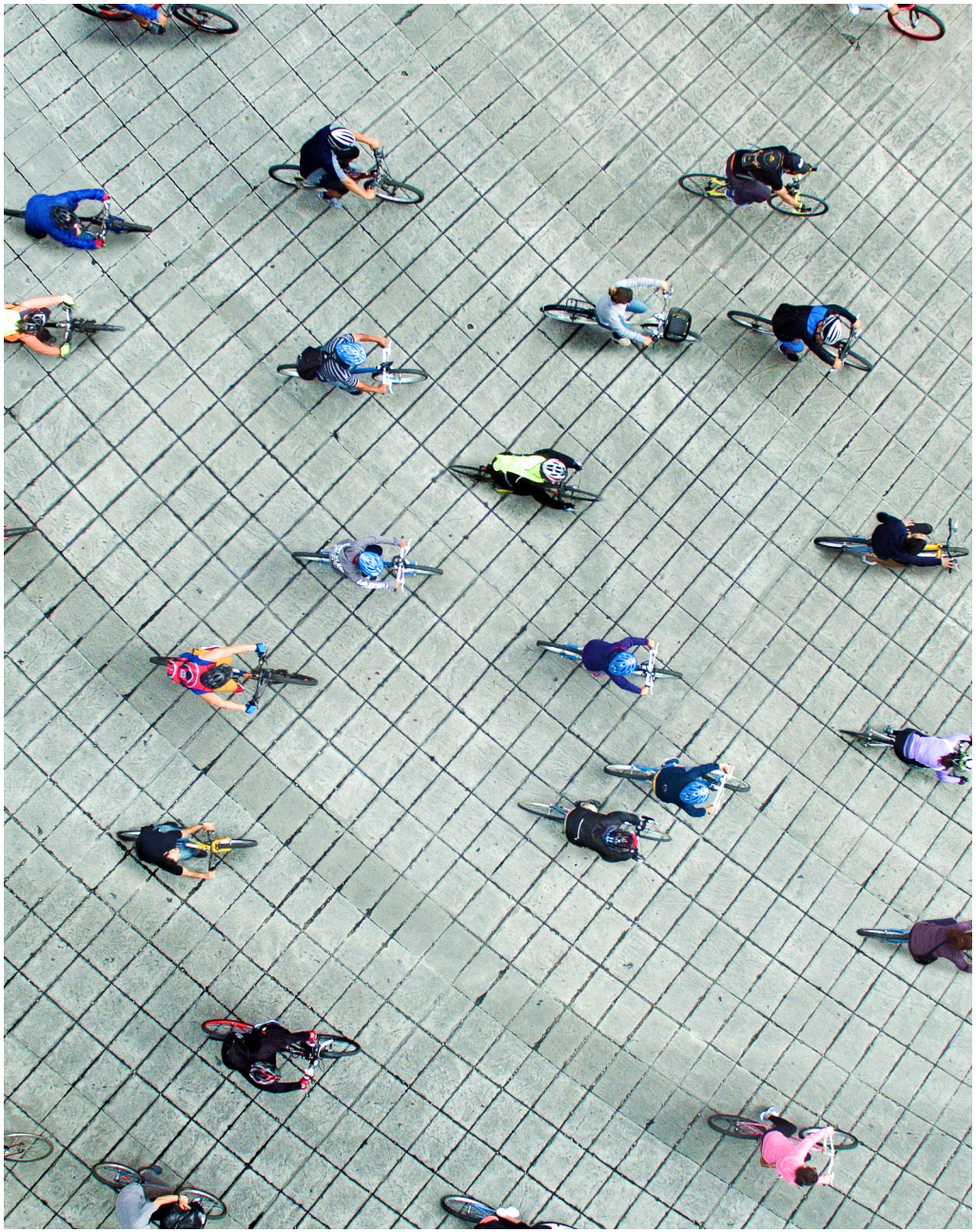
Although these case studies demonstrate the value of tax stakeholder engagement in specific industries, the application is relevant in any industry where there is a need for collaboration to build trust and work together towards sustainable development that takes into account social and environmental needs. Some organisations may want to engage to demonstrate the impact of the industry-specific tax burden, others may gain benefit from engagement to support their messaging as responsible corporate citizens, to contribute to their reputation as responsible taxpayers or to increase their social credentials.

It is essential for an organisation to develop a clearly defined stakeholder engagement plan on tax. In addition, in order to ensure that the various role-players within a business are aligned around the need to be more transparent about a company's approach to tax, it is critical that those involved seek internal alignment with, and ensure the support of, all relevant functions involved in managing or communicating tax within the organisation. This will include, but may not be limited to, the tax department, investor relations, legal, sustainability or corporate responsibility, media communications, and the finance functions. In addition, the organisation's risk and audit committee, executive committee and board need to be aligned with the decision to publish detailed information on a company's tax position, particularly when this is done at a country-by-country level. Collaboration between the departments mentioned above will be critical in ensuring that the narrative developed is clear, credible, provides useful context and clarifications, and offers specific insight into the organisation's approach to tax. Organisations need to align their external communication on tax principles with their overall business vision and mission, values and principles on corporate social responsibility and sustainability objectives.[27]

The bottom line is that responsible and tax-transparent companies are key to rebuilding social trust and addressing growing expectations from the public and policymakers alike. Economies – and the businesses operating within them – must evolve to better deliver for society so that society can better deliver for people. A common purpose is needed to realign business, economies and society.

Each business must define, deliver on and constantly update an explicit purpose that governs all its decisions and informs its corporate culture. This purpose must be clear on the social need that the organisation fulfils as well as its financial objectives and outcomes. In defining its purpose, an organisation needs to clarify and be able to communicate its contribution to society.

27 A Blueprint for Responsible and Transparent Tax Behaviour, PwC and CSR Europe. (If you are interested in a further discussion on tax transparency, tax as a sustainability matter and stakeholder engagement please click here.)



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