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Transforming tax: one byte at a time

*Data analytics and tax
transformation*

June 2017



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What do we mean by tax transformation? In today's terms, tax transformation could be described as the design and implementation of a technology-enabled tax function which supports the business in actively managing tax risk whilst maximising the opportunities to drive value and build profitability.

In the first publication we touched on the increasing accessibility of analytical tools in business and the impact thereof on managing tax risk. This article examines more closely how the tax function is evolving in its use of technology, in response to stakeholders and markets demanding more efficient and complete solutions to increasingly complex problems.

Traditionally, our profession has been adept at legal analysis, advocacy and tax computations. We're often still characterised as 'nerds' occupying the deepest, darkest basement of the organisation and only called upon when trouble is on the horizon. But today the profession is no longer on the periphery of the business – indeed, the management of tax risk plays an important and often critical role in the growth and sustainability of the business.

That said, increasing access to large amounts of information means tax professionals face new questions:

- Do I have access to the right data?
- Do I have the right skills to interpret the data?
- How do I use this data to make better tax and business decisions?



- How do I remediate the issues highlighted by the data?

These challenges should be viewed in the context of the increased recognition by economic stakeholders that efficient taxation policy and administration is a prerequisite for economic growth and the fair distribution of domestic and international taxes.

These developments impact directly on the business and, as a consequence, the tax function.

Typical scenario in Africa

Picture this: a major multinational operating in 15 African countries must comply with direct, indirect, withholding, dividend, payroll and transfer pricing taxes; domestic excise duties; employment levies, etc. The timeframes for compiling and submitting returns and responding to queries from the tax authorities are tight, and access to skilled and knowledgeable tax and accounting staff is limited.

The finance function working with the tax team will compile reports and basic financial data such as trial balances, sales and expenses reports and general ledger account detail to enable the preparation of returns. If there is a tax technical query, the legal and marketing teams might also become involved.

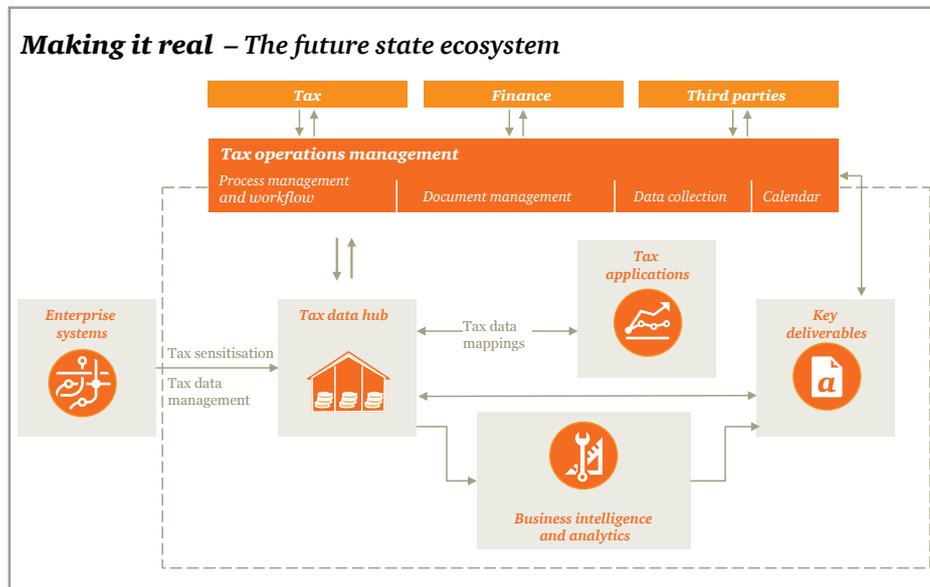
More often than not the tax team is centralised and relies completely on the information provided by its colleagues and that collected from third-party sources. Up until now this reliance has been unavoidable, but it can place a heavy burden on the tax and finance teams, especially in light of the significant increase in scrutiny from tax and financial regulators.

There are just too many transactions, tax types, jurisdictions and submission deadlines to manage without building a substantial tax team. And if tax is not your business, this investment can be difficult to justify and makes little commercial sense.

Accessing and harnessing data

The emerging trend is to use technology to address the workload by centralising and automating the majority of the reporting and reviewing and, in some cases, the submission of returns. By aggregating tax-specific data and empowering local tax and accounting personnel to access and analyse this data, it is possible to actively address tax risk.

A technology-enabled tax ecosystem could look like this:



Detailed data management, analysis and reporting works well in a large multinational/multilocal business with established ERP and product systems using sales, expenses and general ledger modules. Provided the data architecture of the various systems is understood, generating bespoke reports and dashboards is achievable using tax applications that extract, automate and visualise data.

Despite access to sophisticated applications, though, the quality and consistency of the data being used remain key. Is the data sufficient for the needs of the tax team? Are the right tax decisions being made as the product data is input? Are the input and interface controls adequate? In the case of transaction taxes, are all the relevant details being captured and posted to the correct accounts?

Increasingly, the tax team is being asked to take full ownership of its data needs and to actively question the quality of the information provided to perform tax computations. Teams are expected to understand complex accounting systems to ensure there are no gaps in the tax accounting and to 'go behind' the numbers to understand

the nature of the transactions and whether the systems have produced credible information.

Tax teams need to motivate greater involvement in how business systems are configured and how data that is important for the tax function is collected and collated. Further, regardless of how tax data is managed, the tax team must also 'look after' the data, i.e. ensure it is regularly checked for accuracy and completeness and that it is kept safe and secure. This is a daunting list of responsibilities.

Do we have the right skills?

Certainly, the tax technical capacity of tax professionals will always be a prerequisite for managing tax risk. However, now the tax team must also be capable of analysing in detail large, complex data sets and interpreting the results in a way that adds value to the business.

More detailed trend analysis, cash-flow analysis and variation analysis is expected. Impact studies in terms of rate changes, tax mix and tax contribution have become part of the



tax professional's duties, on top of dealing with revenue queries. Adding value by, for instance, identifying process and control risks, failures and gaps; optimising process efficiency; improving cash flow; securing cash savings; and avoiding tax liabilities is now expected, as is the ability to visualise the results of analyses, using dashboard reporting.

Acquiring professionals that can speak the same language as their IT colleagues is crucial, and adding data analyst skills to the tax team has become a serious consideration for the modern tax function. If detailed data analysis is required, a clearly defined process with unambiguous communication will be needed – and in part, this is the role of a data scientist.

Our experience over recent years has shown that we do not speak the same language as our IT colleagues. To avoid misunderstandings and to save time and money, some translation is necessary. The tax team needs someone who can communicate effectively with the custodians of data in the business. Typically, a well-trained data scientist with some accounting skills is needed to ensure the data we request is the data we receive.

The use of qualified data scientists brings a strong sense of how to manage data and how to analyse it in very sophisticated ways. For example, predictive, extrapolative analysis is used daily in industries such as medicine and engineering. Why not tax?

Making better tax and business decisions

With the increase in process efficiency, tax professionals will have spare capacity. This time should be used to think and act strategically to the benefit of the organisation. This need not only be from a tax point of view. Analysis will almost certainly reveal business opportunities that the business can capitalise on, and result in executives raising questions that haven't been considered before. As more data becomes available, more questions will arise.

With the role of the tax professional becoming less computational and more strategic, quick insight and proper articulation are key attributes required in supporting better data-driven decisions.

Are tax professionals prepared for this change? Are we ready to apply our knowledge to support business improvement? Are we ready to become adept negotiators and broad policy advocates?

The element of change management should not be underestimated. Migrating skills from the preparation of tax opinions, reports and returns to sophisticated data analysis, data-driven decision-making and strategic support is potentially a daunting prospect. Business will have to plan appropriately to manage the change from a human capital perspective.

Remediating findings highlighted by data analysis

Remediation can be one of the more frustrating aspects of the tax professional's job, especially in large, complex organisations.

Gaining the attention and support of the right stakeholders, building relationships with custodians of the business and having the tenacity to follow through are all critical components of executing remediation. Those tax professionals that possess these skills will now be able to add detailed and conclusive evidence to support remediation recommendations. From our experience, once a data analysis has been done, the initial list of issues identified that require attention is substantial. It can encompass, among other things, master data verification, process implementation or improvement, and control implementation or improvement.

Practitioners must also have the capacity to monitor the effects of any remedial action by using analytics rather than waiting for the finance team or the technology team to provide feedback. This would save time and improve efficiency in identifying and attending to the related tax risk.

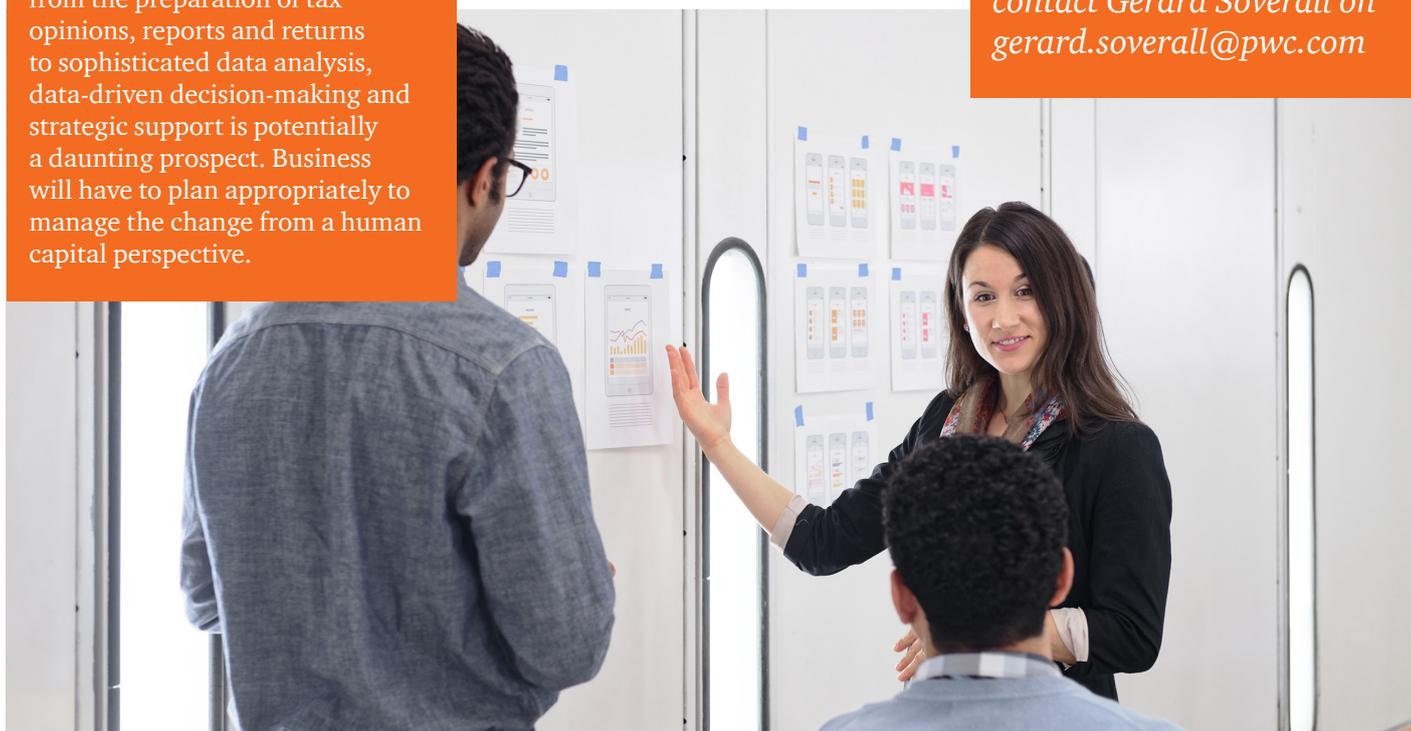
Where these skills have not yet had the chance to develop, there is an opportunity for professionals to grow project management and delivery skills to the advantage of the team and the business.

The element of change management should be recognised and addressed as part of the process of data-driven remediation.

The advent of accessible, relatively user-friendly technology is forcing tax functions to consider the mix of skills and competencies needed to establish an effective tax team. Tax technical, legal and accounting skills are no longer enough. Data enablement of the tax team is becoming a minimum requirement. Indeed, the rate of adopting technology in tax management is accelerating. Tax administrators and businesses are already implementing solutions that use very advanced technological techniques to improve governance and risk management. The use of robotics, machine learning and artificial intelligence is gaining traction. It seems that the machines are coming – but what does it mean for the tax profession?

This question will be addressed in more detail in the next publication.

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