ARTICLE

Reviewing the Current State of your Tax Technology

Tax technology is more important today than it has ever been before, so now is the right time for tax departments to perform a current state review. An understanding of tax technology and the role it should play within your tax department is one key element; the other is a proven methodology.

88%

of survey respondents said that organisations should review their tax technology in the next 12 months

50%

said reviewing was either Very Important or Extremely Important

Source: FTI Consulting survey of attendees of the 'Reviewing the current state of your tax technology' webinar on 7 May 2020.

What is tax technology?

FTI Consulting defines tax technology as the intersection between tax, process and technology.

Tax technology first emerged as a discipline at the beginning of the 1980s with the birth of personal computers and spreadsheets, and has expanded exponentially ever since. It is no longer a new discipline but an integral part of how professionals perform their daily tasks. Almost everything a tax department does from day to day uses tax technology.

Our core data comes from ERP and GL systems and is accessed via laptops, tablets or even smart watches. There are specialist solutions for CIT, VAT, PAYE, tax depreciation, transfer pricing, customs, MTD, SAF-T, iXBRL and so on. We also have generic tools for data manipulation, robotic process automation (RPA), machine learning (ML) and data analytics (DA), not forgetting of course databases and the tax practitioner's ever-present friend, the spreadsheet.

Tax technology is what you do and how you do it.

What role should tax technology be playing?

Tax technology has the potential to provide three major benefits: saving time, improving quality and adding value.

Time saving has often been promised by tax technology solutions but is not always easy to measure, as any time saved is frequently reallocated to new tasks that tax departments did not previously have capacity for.

Technology is effective at applying rules consistently and tirelessly, which makes **improving quality** seem like an easy win. However, the way in which technology has worked historically is quite thoughtless. The same attributes that can improve quality can also create equally big mistakes.

Tax technology **adds value** by doing things that humans cannot by checking more data, more rapidly, and carrying out more tests for example, or by applying machine learning, or 'thinking' in a completely different way to humans. This can be very beneficial but it is essential that professionals are still able and encouraged to think critically. Otherwise, the potential danger remains of mistakes occurring down the line without humans being able to mitigate them.

Why should organisations change their tax technology?

Many organisations have already implemented some tax technologies, but those initiatives may have fallen short of expectations. Perhaps the organisation chose only to address a subset of its issues for tactical or financial reasons, or maybe the solutions just did not live up to their claims. That may leave the organisation with a big reality gap.

Equally there may be hardware or software solutions now with capabilities that go beyond those that were previously available. However, as solutions get better and cheaper, there is a shift in cost benefit calculations that favours adopting these new capabilities.

THE WORLD OF TAX TECHNOLOGY IS EVOLVING

REALITY GAP

It is highly likely that there is a gap between what tax technology should be doing for an organisation and what it is doing. A review can highlight opportunities for improvement.

NEW CAPABILITIES

Solutions have transformed beyond recognition since the early days of tax technology. Every business can benefit from the tax technology solutions that are now available.

TAX AUTHORITY DIGITALISATION

The ever-increasing obligation to provide tax authorities with electronic filings poses challenges to most organisations. Tax technology can help with everything from core data quality to in-depth understanding of information and reconciliation across taxes.

CHANGING EXPECTATIONS

The profession is embracing new ways of working and expects technology to keep up. As tax activity starts to happen in real time, tax technology is evolving to provide instant access to information.

The previous table shows four major factors influencing the world of tax technology today. While the **reality gap** and **new capabilities** provide a 'carrot', **tax authority digitalisation** may also act as a considerable 'stick'. There is a constant flow of new data submissions and formats with ever-decreasing time periods in which to comply. This is forcing organisations to invest in a variety of software tools and solutions, both to comply with new filing requirements and to improve internal processes and data due to the significant increase in scrutiny.

Another consideration is that of **changing expectations**, and not only from business stakeholders. Technology has changed how we live our lives, and all of us now have higher expectations around availability, speed and quality of information. Tax is not immune to these new expectations whether from the board, shareholders, tax authorities or the general public.

The other factor influencing tax technology is, of course, money. Anyone selling tax technology is quick to point out that it will reduce the organisation's costs, though this generally refers to internal time savings. However, there are situations where actual money can be saved by implementing tax technology solutions.

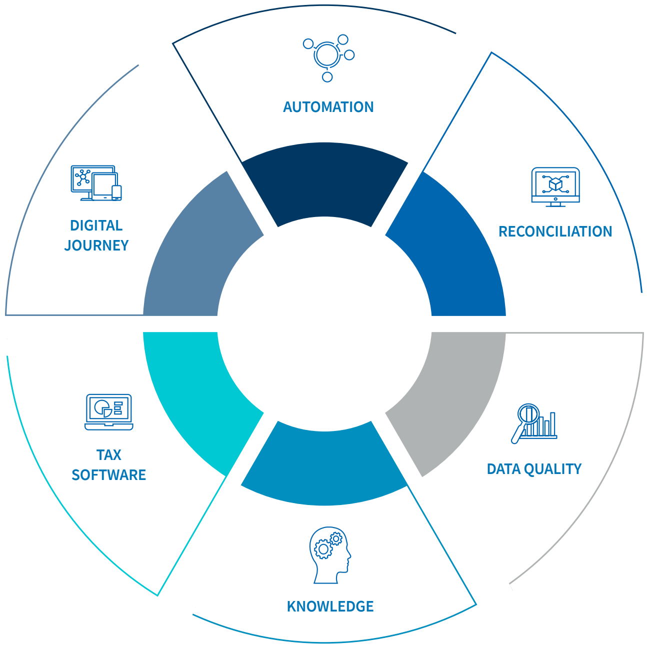
Claims that were previously uneconomic to pursue become viable when the cost of claiming can be reduced. Cash flow advantages can be realised because the time taken to perform an analysis can be reduced, for instance in reviewing all bad debts and not just the largest balances. Claims and allowable expenses can be brought forward or increased if data quality is improved sufficiently so that spend can be correctly categorised.

Finally, it is important to remember that real money can also be saved by avoiding fines, penalties and interest. Technology that improves data quality therefore directly cuts costs by ensuring the organisation's filings are accurate and correct.

What methodology can companies use to review their tax technology?

FTI Consulting has developed a methodology that helps us work with organisations to efficiently identify and prioritise opportunities to improve their use of tax technology. We have defined six **Tax Technology Themes** which are applicable to in-house tax departments. This approach allows us to work with each client to identify areas of tax technology that could be improved in their current circumstances.

THE TAX TECHNOLOGY THEMES



Digital journey is linking data between systems and processes.

Automation is the removal of manual processing.

Reconciliation is checking that different views of data or information agree.

Data quality is ensuring that the information the organisation relies on is correct.

Knowledge is the skills and abilities of staff, and the processes that enable the tax department to function optimally.

Lastly, *tax software* represents any tool, product or platform (including spreadsheets) that applies tax rules to data.

We have also defined **Measures of Importance** for assessing the relative importance of areas for improvement. We make these measurements along six different axes, reflecting six different reasons why an improvement may be important.

1. An improvement can be either strategic or tactical, or both. Organisations need to decide how this aspect should affect their prioritisation.
2. Locus of control explores the extent to which the tax department can control the need to make changes.
3. Regulatory pressure can be an overriding factor in prioritising changes, certainly to a specific timeline. While it can help bring about some changes, it can also distort previously agreed plans.

4. Sequencing has to be kept in mind. Sometimes an improvement that is relatively unimportant in itself is needed for another, more important, improvement
5. Cost-benefit is the easiest measure to understand, but that can mean it is given undue importance.
6. Risk management cannot be ignored either. Much as risk is talked about, does it sometimes gets de-prioritised within a business.

A third key element of our methodology is the **Prioritisation Levels**, which help all stakeholders to understand the relative priorities of identified items for improvement.

— MUST: The items evaluated as crucial from a risk or regulatory point of view plus certain significant cost-benefit items.

— SHOULD: The remaining very important items.

— COULD: All other items.

How is a review run?

The review process will be broken down into three phases. Firstly, there is a requirement to analyse and record all tax processes and tax data within the tax department.

Typically, this is achieved by interviewing tax, finance and other relevant staff, mapping out tax systems and processes, reviewing files and reading issue and risk logs.

Having generated the primary materials, it is then necessary to review and assess them. This means categorising them into the tax technology themes, assigning them within the Measures of Importance and then allocating them into the Prioritisation Levels.

Lastly comes the ‘plan and execute’ stage. For this, the prioritisations and sequencing information will be used to build the initial implementation plan.

However, it is important to note that this plan cannot be drawn up in isolation because of issues around the locus of control. Engagement of all stakeholders gives the execution plan the best chance of success, and the opportunity to build this out into a wider tax technology vision.

Review the current state of your tax technology

Tax technology should be saving your organisation time, improving the quality of work, and adding value to departments that would otherwise be lost.

Reviewing the current state of your tax technology allows you to identify the gap between what it should be doing and what it actually is doing, and make the necessary improvements.

KEY BENEFITS OF TAX TECHNOLOGY

SAVING TIME

— Automating repetitive tasks
— Integrating data between systems
— Access to information, knowledge and skills

IMPROVING QUALITY

— Validation of tax data
— Consistency of processes, tasks and application of rules
— Diagnostic checks and parallel verification

ADDING VALUE

— Performing tasks that a person could not
— Enabling unclaimed reliefs to be made
— Preventing reputational damage from mis-declarations

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