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The Cost of Status Quo in Indirect Tax Reporting

Introduction

When was the last time you assessed your tax administration system? Upgrading your tax software solution may not seem a priority. But a profound and fundamental change to the tax landscape is currently underway.

Unrelenting tax reform, digitalisation of tax administration, and rapid economic growth will impact India's tax landscape significantly. While some proactive organisations have already understood the need for assessment and strategy, others have been slower to act. They believe their tax system will continue to serve them well enough. Challenging the status quo is perceived as a nuisance.

However, it is becoming increasingly apparent that complacency carries an escalating risk of failure. The cost of the status quo may eventually outweigh the cost of investing in an innovative tax software system.

As the tax landscape gets more complicated, business leaders are under pressure to re-examine their organisational scope and digital strategy. Specialist tax software is the way of the future.

Digital transformation

The nature of the COVID-19 pandemic required businesses to think innovatively about their business models, moving them towards digitalisation at a rapid rate. Companies that adapted quickly were better positioned to manage the disruption that followed. Now that we are entering the tail end of the pandemic, it is apparent that digitalisation will continue.

Enterprise resource management (ERP) migration

Organisations who use SAP's enterprise resource planning software (ERP) will be required to migrate to SAP HANA or SAP S/4HANA by 2027. This has prompted many to audit their entire software solution stack, including their existing tax administration systems. Part of their digital transformation process will be to retire systems that are lagging on innovation or unable to cope with the changing tax landscape, while weaving new tax software into the migration journey.

> **"The transformation journey is a great opportunity to evolve away from a business model that's driven by an accuracy focus to emphasise the insights technology can deliver. Tech solutions equip the tax team to use their expertise to be ahead of regulators and help steer the business in the right direction."[1]**

David Fox, Vice President
Corporates, Asia and Emerging Markets at Thomson Reuters.

Listening to the market

Business and consumers alike have discovered the value of cashless transactions, eCommerce, hybrid working arrangements and online meetings, and are continuing to commit to this change.

The rapid growth of eCommerce will continue to push traditional "bricks and mortar" industries into pursuing digital transformation strategies. It is projected to expand by 24% from 2020 to 2025[2] and rapidly become a vital part of the tax base.

Even before the COVID pandemic, the rise of the digital economy and the tax challenges arising from this has been addressed by the Organisation for Economic Co-operation and Development to develop a framework. The Indian government has played its part in this development, and is a signatory to the OECD's Base Erosion and Profit Shifting (BEPS) initiative[3], which aims to resolve tax challenges arising from the digital economy. A two-pillar solution that now includes multinational enterprises over a specific size dramatically contributes to the ongoing efforts to reform international tax rules.

Technology solutions themselves, have become more accessible, and the tools to develop applications are now more user-friendly and configurable. The increased access to sophisticated technology and data presents new opportunities to manage and improve tax and statutory compliance. Internal tax leaders will be able to expand their focus beyond compliance and cost-saving, with a new focus that is geared towards automation, analysis and strategy.

Global tax rules changing the tax landscape for global India multinational corporations (MNCs)

Tax professionals have experienced significant changes in recent years, and tax reform will continue to impact their roles for some time.

In 2014, India began a programme of tax reform to reduce convoluted and outdated tax rules and increase transparency. Cuts to corporate and personal income tax rates have changed tax policy in recent years. Additionally, substantial changes have been applied to Goods and Services Tax. These form part of the government's ambition to reduce red tape and increase transparency.

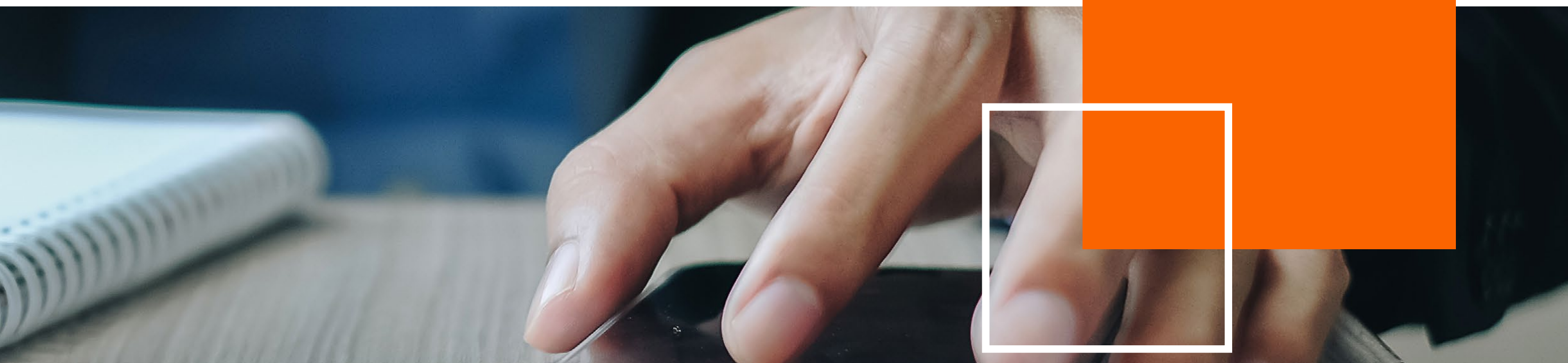
Meanwhile, the global tax environment is undergoing profound change and generating more uncertainty for heads of tax. The OECD has been at the forefront of these changes, pushing for global standards on tax transparency, sharing of information and cooperation between countries, and as a result, pushing tax administration regimes across the globe to digitally transform.

In Europe, the Communication on Business Taxation for the 21st Century, an EU initiative published in 2021, contains a range of proposed actions due to take effect by 2023. Aimed at organisations with an EU presence and global revenue of €750m and over, the actions are designed to improve transparency and diminish the exploitation of shell companies. The initiative also includes a plan to introduce a common tax rulebook for Europe.

The US government also expects to change tax laws soon under the Build Back Better Act (BBBA). The BBBA may trigger an ambitious spending programme and requires the means to pay for it. It proposes a 15% minimum tax on adjusted financial-statement income for organisations with a three-year average global income of over $1 billion.

The BBBA is currently stalled, however, and it is uncertain when it will be passed, either partially or in full. If the legislation is passed, these developments present substantial tax filing changes and will impact multinational organisations with a specific size and global footprint.

With the global tax landscape changing rapidly, India MNCs will need to not just stay up to date with these changes, but also ensure their tax technology systems can handle this whilst allowing them to stay ahead of the regulators.



India's rapid economic growth

Companies with a presence in India have good reason to invest in their tax administration system. Specifically, they need to prepare for a wave of substantial growth and opportunity.

The Indian economy is slated to become one of the foremost markets within a few years. Early results from growth-enhancing policies and increased infrastructure spend is expected to be realised by 2023 and by 2027. The country is likely to host the fastest-growing large economy, potentially outpacing China.[4]

Due to a policy focus on manufacturing, incentives such as lower taxes, and increasing services exports, projected growth during FY2021-22 is 8.3 to 8.8%. This is projected to be followed by 7.5% and 6.5% over the next two fiscal years.[5]

The government has scrutinised policies, including tax reform, in a bid to simplify processes and increase local and foreign investment. According to the World Bank's Ease of Doing Business list, India reached 63 in 2019, a jump of 79 places in five years.[6]

Policy reform also enables individuals to benefit from electronic identities, payments, tax systems and bank accounts. The Indian government is also creating business clusters (including technology and renewable energy) in response to shifting supply chain dynamics.

Further, over the last few years, the Indian government has introduced e-invoicing for B2B invoices with specified thresholds and conditions, designed to provide the Indian tax authorities with access to transaction information in real-time.

Businesses across the country can expect a surge of interest from international and local investors. By modernising and upgrading their tax administration, companies can take advantage of powerful insights extracted from their tax data. Tax insight gleaned from software can support strategic decision making, as well as increase investment readiness and accessibility.

Step forward or stay put

Corporate tax departments that stick to the same processes and technology systems that have serviced their tax compliance obligations for years may continue to meet deadlines and tax payment due dates. Tax departments that use the same technology may even get past any tax authority audit. While these are vital, tax departments are being asked to do more, by either external regulatory forces, or internally, by their Boards, to provide better insight and more strategic input to help with the growth of the business. The use of innovation, and technology can elevate today's corporate tax department to do more than just "keeping the lights on", and truly enhance its value proposition.

Sophisticated automation improves the workflow, reducing silos, errors, and processes. Fewer manual tasks allow tax executives more time to analyse valuable insights extracted from incredibly rich tax data sets.

Some wait for the right time to upgrade their systems, but as any good strategic advisor will tell you, delaying the inevitable can be costly. It takes only one major tax breach or non-compliant activity to wreak havoc. The risk of doing nothing may leave your finance function at a disadvantage.

Supercharged tax solution

Heads of tax should note that the environment is likely to remain dynamic and complex for some time. In these conditions, decision-making can be difficult, yet tough decisions need to be made.

Global enterprises are moving away from managing tax compliance with a cookie cutter approach. Instead, those who are innovating with digital solutions are becoming increasingly sophisticated. This is likely to accelerate as regulatory and competitive pressure grows.

Tax executives are increasingly employing solutions that:

- Offer an end-to-end automated service
- Improve accuracy, reduce errors
- Provide an ability to manage global indirect tax exposure
- Calculate sales, use, and excise tax, GST, and VAT with ease
- Streamline processes and break down silos
- Improve communication across the organisation, including upward to the Board
- Provide analysis and intelligence

Solutions that reflect multiple tax jurisdictions streamline operations and reduce the workload of the tax function. Specialist tax technology can provide tax leaders with valuable insights to support critical decision making.

For some, this may seem unnecessarily advanced and too large a departure from their existing systems. It may be tempting to remain with a solution that has functioned within the organisation for years. Technology, however, is rapidly becoming more sophisticated, accessible, and user-friendly. Solutions that extend tax filing systems beyond their traditional function are adding value.

Wouldn't you rather reduce the risk of errors, financial penalties, and non-compliance in a more sophisticated manner?

What to look for in a tax solution

Proactive organisations in India require contemporary tax solutions. Ideally, the right software should be cloud-based, use automation to increase accuracy and streamline processes, and make workstreams efficient. The inclusion of a content feature that the service provider regularly updates is also favourable.

Tax solutions help experts manage evolving tax regulations with accurate global tax rates, tracking of exception certificates, and calculating taxes. They also boost collaboration between departments and ensure a seamless and superior tax and intelligence exercise.

Tax departments should look for a comprehensive solution to navigate all elements of the sales process. Opting for purpose-built software to manage indirect tax and compliance is more favourable than non-specialist software options.

Why disrupt the status quo, now?

The combined forces of global tax reform, economic growth and digital transformation are having a profound impact on India-based organisations. Tax leaders will need to assess the trajectory of their organisation's growth and the structure of their tax administration. Doing so will enable them to identify changes required for future fitness. They will also need detailed tax intelligence to navigate the uncertainty of the present.

Tax departments that settle for the status quo will manage deadlines audits well enough. However, while deadlines and audits are obviously vital, technology has moved on considerably and is now supercharging the tax function.

Sophisticated automation can improve the workflow significantly, reducing silos, errors, and processes. Improved accuracy and a reduction in repetitive tasks allow tax executives to spend more time on high-end, beneficial activities. Valuable insights extracted from incredibly rich tax data sets enhance the tax function.

No longer a purely compliance driven function, the corporate tax department of today is now a business-facing, augmented, progressive exercise. More and more, it is becoming a given that corporate tax departments meet tax obligations and fulfil reporting requirements. They need to do much more in contributing to tax insights and company growth strategy.

Your current system of today may be filing your taxes, but if it is not doing anything else, it may be jeopardising the opportunities of tomorrow and future growth. There are few organisations that can afford the status quo in today's environment. Can yours?

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