# Digital tax administration: Impact on indirect tax

## Service and administration of VAT in digital times

For the BRITACOM Virtual Conference Discussion

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Building a better working world

# Agenda

1. Digital tax administration
2. The indirect tax digital tax administration landscape
3. Conclusions

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# Digital tax administration: data

- Submission of **digital data file(s)** to a tax authority, providing detailed transactional, accounting or operational data to support tax filings
  - Can be **complementary to traditional tax administration** whereby tax authorities require submission of digital files in addition to (and often in support of) the tax returns submitted
  - Can replace and improve existing manual processes
- Processes are data-centric with no specific calculations being performed, and therefore no additional tax payment obligations exists
- Financial, operational and in some cases criminal penalties associated with non-compliance or erroneous submissions

| Tax types included within digital tax administration | |
|---|---|
| • Transaction taxes (VAT and GST)<br>• Income tax | • Transfer pricing |

| Digital tax administration formats | |
|---|---|
| • Standard audit file for tax (SAF-T)<br>• Hungarian live invoice data report | • SII (Spanish suministro inmediato de información)<br>• E-invoices |

# Impact of digital tax administration on the compliance model

- Digital tax administration is having a significant impact on the compliance model: the process is becoming quicker, more efficient and more streamlined.

## The traditional compliance model

Request data from accounting → Prepare, fix and analyze data → Prepare form → Submit return → Wait for audit

## The digital compliance model

Extract data directly from source systems → Submit data directly to authority → E-audit; E-assess; E-match → Respond to assessment or audit

- The pace of regulatory change and the digitalization of tax authorities, demands for transparency, technological advances and new skills; together with the explosion of data are just a few of the forces redefining how tax functions must operate.

# Overview of the indirect tax digital tax administration landscape

| Countries | Details |
|---|---|
| **Bolivia** | ▸ E-invoicing \| Bolivia is in the process of implementing an Electronic Billing System. Implementation is expected to begin in June 2020 according to the schedule published by the National Tax Service (SIN). |
| **Chile** | ▸ E-invoicing \| For several years, the authority has required mandatory electronic invoicing using either software provided on the authority's web site or commercial software from local providers. |
| **China** | ▸ E-invoicing \| Pilot project from March 2020, with e-invoicing of special VAT invoices available to a limited group of taxpayers; By now e-invoicing of general VAT invoices has been implemented nationwide.<br>▸ VAT returns \| Transactional level invoicing data are stored and maintained in the tax authorities' cloud - Golden Tax System ("GTS"). No transactional data are required in VAT return in general (except for certain special reportable items). |
| **Indonesia** | ▸ E-invoicing \| Electronic tax invoices ("eFaktur") for VAT have been compulsory since 1 July 2015.<br>▸ VAT compliance \| Piloting "Import declaration ("PIB") validation" and "prepopulated local Input VAT" for selected VAT entrepreneurs. |
| **Philippines** | ▸ E-invoicing \| E-invoicing will be compulsory for selected taxpayer groups in the near future.<br>▸ VAT returns \| Two platforms for online filing of returns: Electronic Filing and Payment System (EFPS) and eBIRFOrms Online. Certain taxpayers/types of taxpayers are required to file via EFPS; certain non-EFPS taxpayers may also be required to use eBIRFOrms. |
| **Poland** | ▸ Indirect tax compliance \| SAF-T implemented, increasing digitized reporting especially around VAT, moving to e-invoicing November 2018. |
| **Singapore** | ▸ E-invoicing \| Introduction of e-invoicing from January 2019: a government-driven initiative to help companies speed-up business transactions while minimizing disputes, errors and operating costs. |
| **Turkey** | ▸ Indirect tax compliance \| Digitalized end-to-end indirect tax cycle including e-invoice, e-dispatch advice, e-ledger, e-archive invoice, e-file, e-producer receipt, e-self-employment voucher, e-Note of Expense, e-Insurance Policy, e-Foreign Exchange Purchase/Sell Receipt, e-Bank Receipt, etc.<br>▸ Data analytics \| Using the detailed data, Turkey is able to monitor tax filings, manage payments and refunds and perform analytical tests to issue e-audits and assessments. |
| **Russia** | ▸ Indirect tax compliance \| Fully digitized indirect compliance including invoicing, digitized property taxes, increasing digitization on direct tax compliance.<br>▸ Data analytics \| The Federal Tax Service (FTS) actively carries out cross-checks of data provided by different parties of transactions. Moreover, it actively matches data from various reporting types. In particular, the FTS currently processes real-time cross-checks between VAT and customs reporting in order to line up payment and supply chains from importers to final consumers. |
| **Vietnam** | ▸ E-invoicing \| E-invoicing intended to be compulsory from 1 Nov 2020 (now delayed); until then paper copy still allowed and e-invoicing is recommended.<br>▸ Digital submission \| VAT returns are submitted online. Transaction level details are not required to be submitted, but should be filed at company's premises. |



*Updated as of August 2020*

# Key trends on digital tax administration for indirect tax

### 1. E-invoicing

Mandatory e-invoicing is implemented to collect transactional data for downstream compliance automation and data analytics

### 2. Digitalization of indirect tax compliance

Tax authority is collecting digital data from e-invoice, e-ledger or e-cash register, and automating indirect tax filing and reconciliation processes

### 3. Use of big data and advanced data analytics

Tax authority is building up near real-time validation of the data allowing e-audit to replace manual tax audits

# How taxpayers respond to digital tax administration

Tax functions dealing with digital tax administration feel a noticeable impact and are taking clear action.

**98%** of companies surveyed, with global headquarters in countries with digital tax administrations, are organizing their response in a centralized and globally consistent manner.

Companies have become more aware of the difficulty in monitoring these requirements and asserting proper governance for government submissions.

**40%** of companies surveyed are using a tax reporting package, consolidations ledger or disconnected spreadsheets as their primary source for tax data.

**60%**
ERP systems or Finance / Tax data warehouse

**40%**
Spreadsheets, data collection package, consolidations ledger

**40%**
efficiency gains
are realized by companies surveyed with multiple ERPs that build a tax data warehouse as their primary data source to reduce collection, cleansing and manipulation time.

Clean data is required for all tax activities. Data quality is dependent on the information accessible by tax, whether it's accurate and sufficient to answer the most relevant questions or just the basis for estimates.

The majority of companies surveyed still spend **40%-70%** of their time on data cleansing.

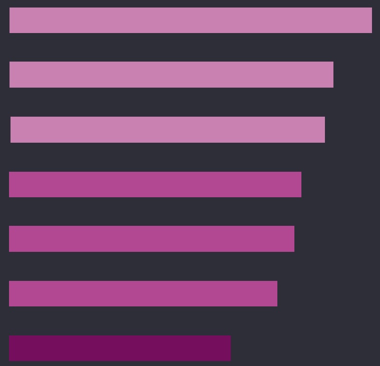
## What exactly is consuming all that time?

Data cleansing can broadly represent a wide variety of activities, most of which are symptoms of people, process and technology gaps that exist prior to tax receiving the data.

Seven of the most common activities:

1 | Splitting accounts, cost centers or profit centers
2 | Making group-to-local GAAP adjustments
3 | Splitting data into correct locations or jurisdictions
4 | Splitting data into correct legal entities
5 | Reclassifying transactions
6 | Mapping
7 | Splitting or assigning correct trading partners

Time spent



Source: a group of 100 of the largest multinational companies from the EY 2020 Global Tax Technology and Transformation Survey.

# Conclusions

## 1 Impact on tax administrations

- Tax administrations are now interacting with taxpayers in real time at a transaction level
- E-tax services help tax administrations be more effective (by increasing revenue, delivering better services to taxpayers, and maximizing the utilization of scarce resources)
- IT implementation can be appropriate and customized
- Digital tax transformation has been most successful under a long-term strategy

## 2 Impact on business

- Technology is changing the way in which data is collected and managed
- The ability to implement new technology and systems depends critically on the current ecosystem within the company
- Some systems can overlay and draw information from complex IT environments
- Company system upgrade timetables rarely align with tax administration requirements
- Businesses prefer consistent information requirements

## 3 Principles for reform

- Maintain and improve existing good practices
- Progress iteratively with feedback and off-ramp opportunities
- Focus on data security and safety
- Work with taxpayers on systems design and information requirements
- Approach transformation as whole – technology, people and processes
- Keep it simple and practical
- Strike a balance between taxpayers' rights, compliance costs and the public interest
- Ensure the legal system is consistent

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