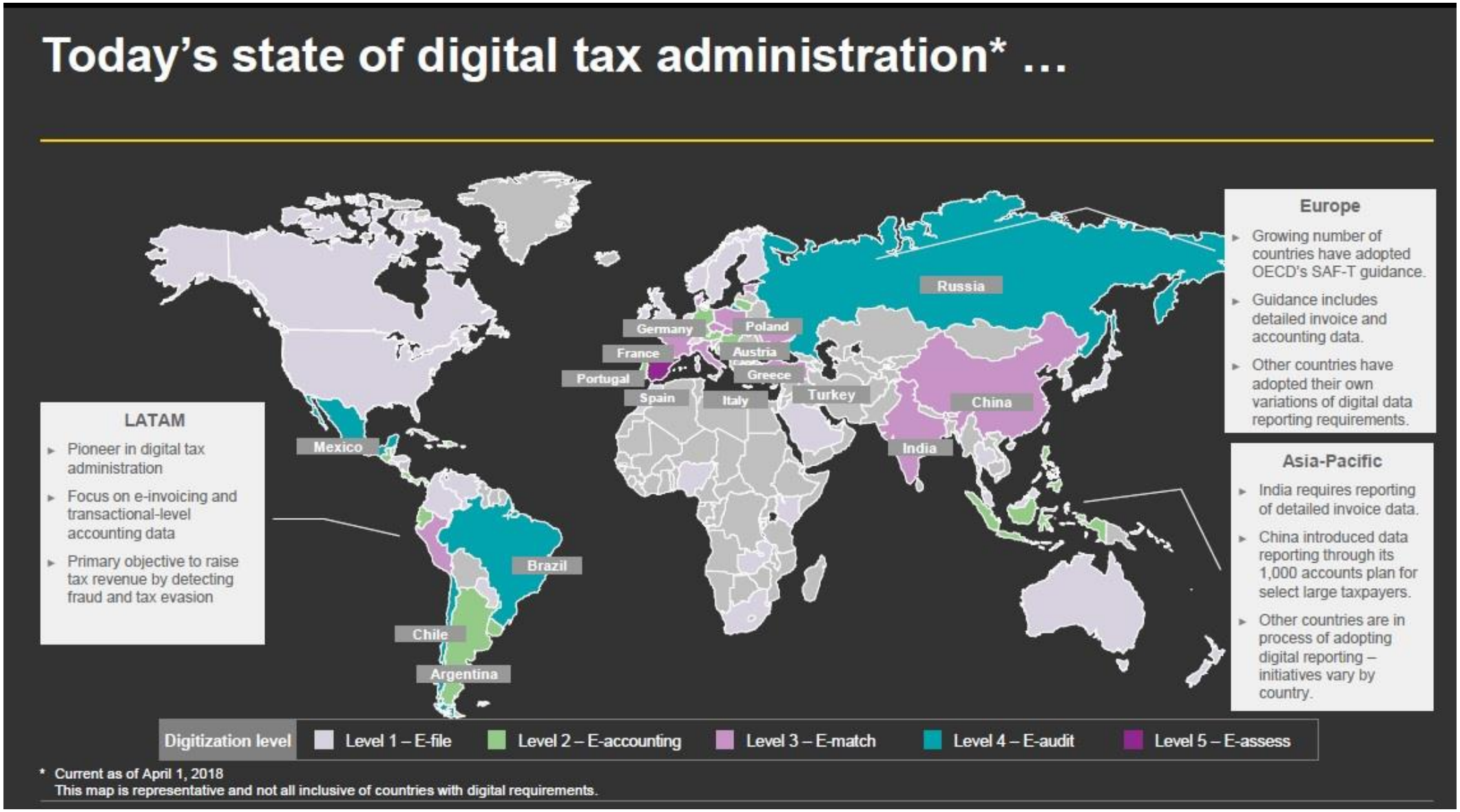
Digital Tax Administration

March 2019

Digital Tax Administration (DTA)



Digital Tax Administration (DTA)

- Data is the new Oil

- The digitalisation of the Tax Administration is a reality.
  - Its progress is inexorable;
  - Its presence is omniscient;
  - **Live with it !**

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- How did we get there?
  - Increasingly complex business models
  - Globalisation
  - Budget deficits
  - Inefficiencies in existing methodologies
  - Staffing challenges

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- Other reasons how we got there:
  - Sudden shifts in tax policy
  - Uncoordinated implementation by national governments of BEPS
  - Trade agreements and tax treaties that could be subject to renegotiation amid growing nationalism and protectionism around the world
  - intense global competition among nations and among multinational businesses — all seeking growth in a low-growth world

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- What did they do?
  - Tax administrations invested in technology that would provide a clear, accurate view of business transactions, financials and compliance, in real or near-real time.

- How did it help them?
  - Meet budget demands through efficient tax revenue collections
  - Streamline their processes to review, compare & analyse tax payer data
  - Improve targeted audit selection

- Offered efficiency and accuracy that some countries have never seen.

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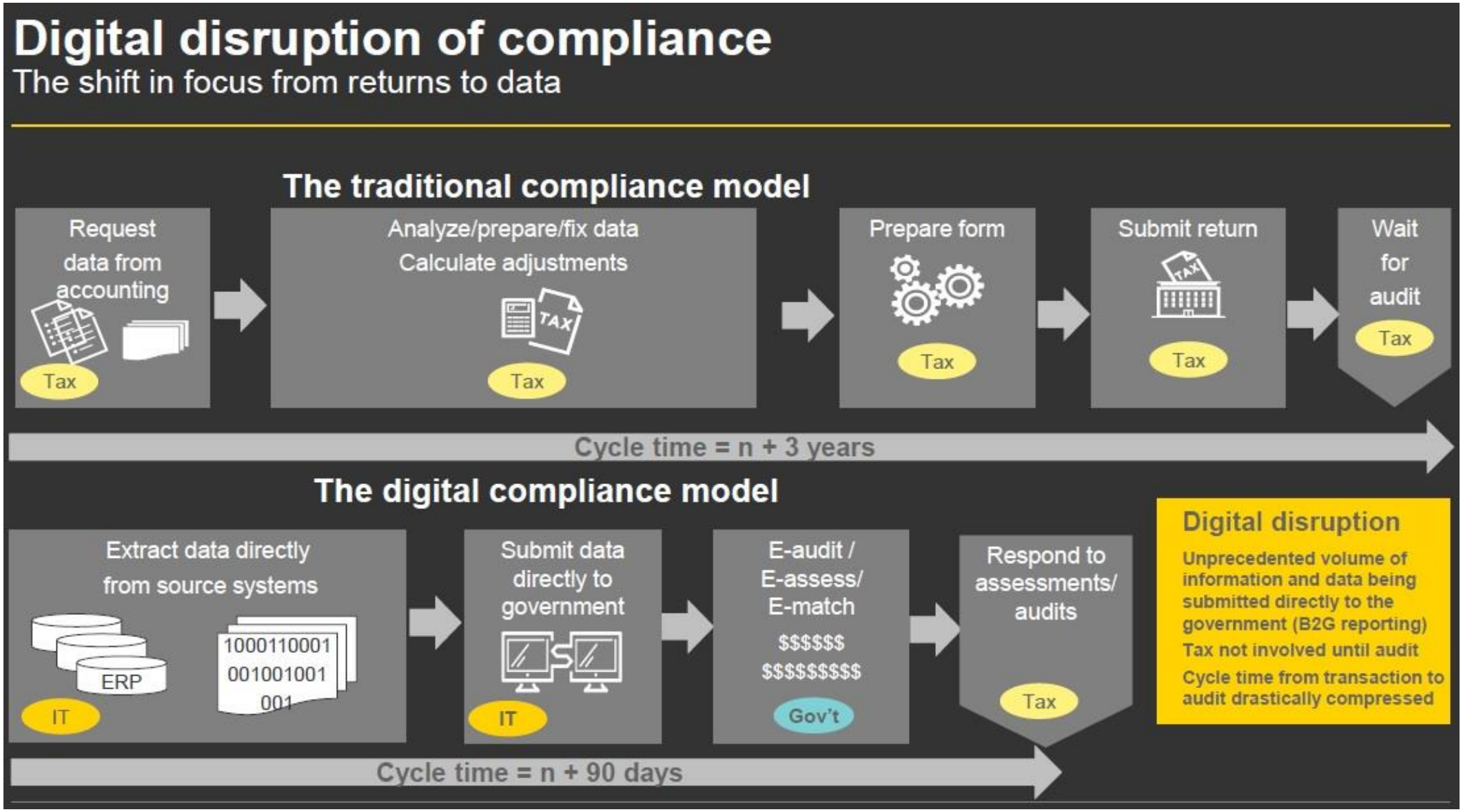

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- What is our challenge?
  - Assessees need to understand what tax authorities know and how they are using the information.
  - Assessees are left with a responsibility to develop comparable analytics capabilities and become as digitally savvy as the new digital tax authorities.

- How are we likely to benefit?
  - Build access and analytics capabilities that would collect, manage and transmit the tax-related data that the government required
  - Maybe provide visibility into what is being done with the data.

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- What do we need?
  - **Crave certainty**
    - controversy-proofing our business
    - fundamental rethink of the tax strategy to achieve more certainty.
    - matter of establishing better internal controls
    - manage relations with tax authorities

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- Are tax authorities better at analytics than you?
  - Answer : YES !
  - Tax authorities across the globe are ramping up their technology and analytics capabilities quickly, and simply put, companies don't have the same visibility or understanding of their data as the government does.
  - Assessees need to know what information tax authorities are requesting and how they are using, analyzing and leveraging this data.
  - It's crucial for assessees to make the most of the wealth of insights gleaned from data analytics

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- What should we do?
  - Acknowledge the presence of the following 4 points:
    - storm of available data
    - volatile (maybe, hostile) risk environment
    - increased regulatory scrutiny
    - broader set of internal and external stakeholder demands
  - Adopt a data-driven approach - allow assessees to plan, address, prevent and react from a more knowledgeable position; this could result in:
    - Elimination of tax overpayments and penalties
    - Avoidance of blindside data requests, litigious situations

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- What should we do?
  - Looking beyond tax compliance
    - Ignoring disruption and simply using a traditional tax-compliance response model leaves assessees reacting to mitigate risks.
    - We opens ourselves up to fines, increased exposure and higher operating costs for compliance.
    - And adding to this, future exponential data demands that assessees will face as tax administration go digital

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- What should we do?
  - Transform awareness into action -
    - Recognize the gap between where we are (in terms of data analytics) and where we need to be:
      - **Assess**: What types of data are you sending and to which governments?
      - **Manage**: How is your data submitted? By whom? Areas as sales, supply chain and HR.
      - **Analyze**: Identify and address potential risk areas that would be flagged by tax authorities? Look at your data through a similar lens as that used by tax authorities.
      - **Implement**: Put systems in place that can streamline and automate steps 1 to 3.
      - **Expand**: Use insights gained from data analytics to better optimize systems and make more strategic business decisions.

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- Risks of being left behind
  - **Tangible impacts** can include additional taxes, interest, penalties, legal fees for appeals, share price erosion triggered by financial statement adjustments and the need to reserve cash in case of liability
  - **Intangible costs** can include a drain on senior management focus and business confidence, as well as reputational damage in the eyes of consumers and other stakeholders.
  - Another effect could be a company's designation to tax authorities' **"high-risk" category**, perpetually subject to closer scrutiny and repeat audits.