FUTURE OF TAX & ACCOUNTING

MAKING TAX DIGITAL

Overcoming challenges of digital tax reform

'Making Tax Digital' will transform corporate accounting for the majority of small businesses, but the impact of digitalisation on large enterprises in particular presents with some major hurdles

Clare Gascoigne

The future is digital. Whatever issues tax professionals have to wrestle with, digitalisation is here to stay.

Making Tax Digital (MTD), the UK government's initiative to transform the tax system, has been causing headaches for smaller and medium-sized companies throughout Britain. But how does the programme play out for larger organisations? And how are tax jurisdictions other than the UK changing the interaction between company and government?

"The digitalisation of the tax system has been a long time coming and this will be a spur to investment in digitalisation," says Annie Gascoyne, director of economic policy at the Confederation of British Industry. "There are some sound reasons for companies to do that. But this is a legal necessity driven by regulatory change."

Given that no investment in regulatory change will help boost corporate profitability, some companies are being dragged unwillingly into digitalisation. Larger companies with sophisticated systems and more employees may not be suffering in the same way as their smaller counterparts, which are typically having to engage with a whole new process of working.

But systems or staff are not enough to stop the pain when you are working across national borders. "A comment that comes up time and time again is the pace of change, not only in the UK, but around the world," says Ms Gascoyne.

The tax industry is changing faster than ever before. Change is not solely the preserve of the UK; reform has been underway in the United States for some time, while the European Union has declared war on profit-shifting with its anti-tax avoidance directive.

But the change is also driving an increase in complexity; more than two years ago, the combined weight of the Chartered Institute of Taxation (CIOT), the Institute for Government and the Institute for Fiscal Studies called for a commitment to a single principal annual fiscal event in a bid to cut down on the proliferation of UK Budget measures.

"This is a real burden on business," says Anita Monteith, technical lead and senior policy adviser in the tax faculty at the Institute of Chartered Accountants in England and Wales (ICAEW). "It is about changing the way business record-keeping happens. We're not against MTD or digital accounting systems; it's the right way to go. But businesses are already under pressure because of issues such as Brexit; they should be able to choose when the time is right."

The time frame is a key component of the pain felt by larger businesses. Typically a multinational business will plan its IT over a period of, say, five years, but tax jurisdictions are bringing in reforms that demand change within one or two years. Companies are having to adjust within a much shorter cycle, which inevitably affects corporate investment, or asking the tax department to do more, yet with the same resources, at least in the short term. Either way, digitalisation is soaking up a lot of company resources.

But the issue is about more than the filing of tax returns, according to Dee Houchen, senior marketing director at software company Oracle. "That is only a tiny proportion of the liability a company has," she says. "Digitalisation is about having the confidence that the data behind the submission is correct and transparent, and can support the filing you have made. And tax is the function that has the largest data collection behind it."

Of course, in one sense companies are simply having to do what they have always done; coming up with the right numbers is nothing new. But, says Ms Houchen, technology has changed expectations of the speed of the process.

"We are still doing the same thing we have always done, but now electronically. That change in technology creates the expectation that we can do it more quickly or we are being asked to prove it more quickly. A lot of systems haven't caught up with that and companies are realising they don't have the ability or a proper process to prove the numbers," she says.

Moreover, expectations are constantly rising. Ms Houchen points out: "What we thought wasn't possible a few years ago is now possible. We will end up filing more frequently; accounts used to be done with a monthly close, but now work on a continuous close. Why should tax be any different?"

MTD in the UK is currently only compulsory for VAT, but David Westgate of the CIOT says organisations should be preparing for the next hurdle. "Corporate tax is coming in 2021; it's crucial to be investing now in the software and skills you will need," he says.

Unfortunately both can be difficult to find. There is a clear skills shortage in the industry; even technology companies are struggling to find the right people, says Ms Gascoyne. But multinationals trying to stitch together a patchwork of systems across a network of countries, each with different demands, face a heavy burden.

"There's no silver bullet out there," says Jun Miyake, principal in tax technology at Ryan. "There's so much going on it's difficult for the software to keep up and the pace of change is such that it is preventing software companies from finding solutions that work for everyone."

Third-party information suppliers and software vendors are "crucial to building a system that is efficient and provides good value", according to the ICAEW's report *Digitalisation of Tax: International Perspectives*. There are some signs that countries are groping towards a standardisation for the electronic exchange of information.

But even where standards have been developed, such as the international SAF-T or Standard Audit File for Tax, which was defined by the Organisation for Economic Co-operation and Development, they are implemented differently by different countries.

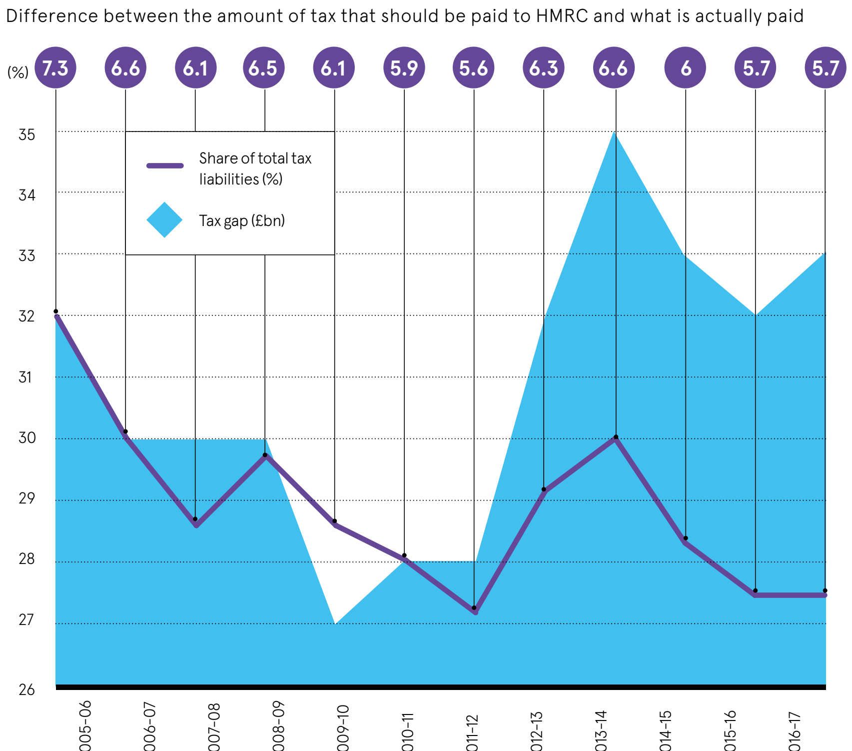
One ray of light, despite the need for country-by-country reporting, is the global push towards digitalisation may bring a new need for centralisation, with shared service centres that can serve multiple jurisdictions and ensure filing is consistent across all parts of the company. Ultimately, companies may be able to centralise the tax function in one location, staffed with a smaller number of high-value employees whose expertise lies as much in data analytics as tax.

For many multinationals, however, such a conclusion is a long way off. "In the longer term, digitalisation will create efficiencies," Mr Westgate concludes. "But there is still short-term pain."

> **In the longer term, digitalisation will create efficiencies. But there is still short-term pain**

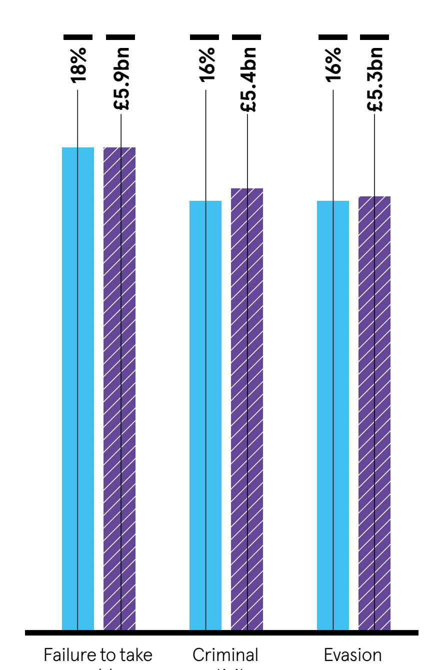
UK TAX GAP HAS STAYED STUBBORNLY HIGH

Difference between the amount of tax that should be paid to HMRC and what is actually paid



TOP REASONS FOR THE TAX GAP

UK taxpayer behaviours behind unpaid tax in 2016-17; value and share of total unpaid tax



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Commercial feature

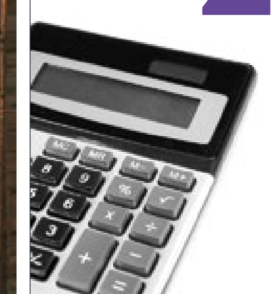
THE EVOLVING TAX TEAM

76%

of senior tax executives have seen an increase in attention on tax compliance and planning at the board level

Thomson Reuters 2018

28%



of tax teams plan to increase spend significantly in the next 12 months

Thomson Reuters 2018

89%

consider tax technology as strategic to the success of their tax function

Thomson Reuters 2018

Maximise your tax opportunities

Higher levels of tax performance in an organisation will deliver an immediate impact that substantially improves profitability, mitigates the risk of regulatory exposure, and defends brand value and integrity in public markets

Now more than ever, executive leadership must leverage the value of the corporate tax function and actively ensure its early participation in all key strategic initiatives.

In a rapidly evolving environment driven by geopolitical uncertainty, global tax reform and technological advances, tax professionals must embrace greater complexity and changing regulations.

At the same time, they must overcome significant challenges in budget and human resource allocation, technology deficiencies related to data management and disparate systems, and most importantly, a lack of strategic alignment with senior finance and executive leadership.

These tax challenges are consistent across all companies and industry sectors. Even the most sophisticated, fully staffed tax functions are struggling to acquire and maintain the resources required to manage the immense details driven by this changing market.

The systems, processes and scarcity of human resources available to meet increasing demands are creating significant risks and missed opportunities to perform in an optimal manner.

As governments are becoming more aggressive in the pursuit of taxes, it creates increased risks for economic penalties and future audits, additional resources to deal with regulators and compliance issues, and ultimately, reduced cash flow and profitability.

To cope with the burden of the increasingly complex environment in which tax operates, there is a need for capital investment to ensure systems and staff are not overstretched to the point of error or the inability to recover costs.

It is critical that tax leadership addresses the compliance trap where high-value activities are giving way to low-value demands, leading to a focus on the urgent rather than the important, and resulting in the misalignment of priorities and resources that deliver the greatest return on investment.

Real-time reporting demands immediate data access and validation. However, data from multiple and different financial systems, and the inability to acquire timely data, create significant issues needing increased attention and resources to stitch together various data sets accurately into the required government reporting format.

> **Executive leadership must reframe the tax function's role, so it aligns with the strategic priorities of the organisation**

With the tax function's performance heavily reliant on complete and accurate data, it's imperative tax executives assess and transform the processes and systems that collect, analyse and manage this information.

They must also conduct internal reviews of the accuracy on a routine basis to ensure a dynamic and efficient technology environment. All too often, highly skilled tax professionals are charged with making the most of bad systems and processes, which paralyse the tax function's performance and ability to deliver real strategic value to the organisation.

Tax executives who effectively build a business case for making the required technology changes and resource allocations with key stakeholders of the organisation will make monumental strides towards breaking the low-value loop that entraps many tax functions.

This is imperative because the regulatory environment is making increasing demands that can only be met through leveraging technology and data analytics to manipulate large volumes of data efficiently.

The tax function has an urgent need for the highest calibre people, who not only bring traditional core tax skills, but are also ready to work with technology such as artificial intelligence and robotic process automation, build cross-functional relationships with other departments, and manage the necessary projects for change.

In a world where globalisation and digitisation are transforming all aspects of corporate life, leaders cannot afford to devalue their tax functions and view them as nonstrategic. Tax strategy is more than having effective transfer-pricing and income tax processes. Executive leadership must reframe the tax function's role, so it aligns with the strategic priorities of the organisation.

Finance leaders and by extension the rest of the executive group, must move beyond being focused simply on how the tax function can reduce risk, but rather on the opportunities to reduce cost or increase value.

Tax executives in turn should increase their tax function's involvement in more strategic activities that demonstrate a higher return on investment and gain a more prominent, credible voice with executive management.

They must find a way to leverage experience and best practices to transform the tax function into a tax competency centre. They can benefit greatly from a total performance assessment of their current processes relative to their desired objectives and stakeholder expectations.

Through benchmarking current performance, identifying best practices in relation to peer and historical performance, and measuring the delta between reality and the department's potential, tax executives can develop a clear roadmap for transformation.

Armed with this vision, tax executives are poised to develop an effective business case that outlines and justifies financial, technology and human resource needs.

As the largest firm in the world dedicated exclusively to business taxes, successfully elevating the role and importance of the tax function in corporations around the world for almost 30 years, Ryan's clients have recognised billions of pounds in savings going straight to the company's bottom line.

With recent growth in its European offices and European acquisitions, the firm is extending its position as the leading indirect tax practice in North America to serve and support more clients throughout Europe.

Ryan helps companies reduce risk, both to reputation and the balance sheet, and align commercial goals with their tax function to pay the right amount of tax and increase shareholder value by partnering with clients' tax leaders, their teams and their organisation's leadership.

Is your company paying the right amount of tax? How do you know? Ryan helps ensure you are maximising your opportunities and not overpaying, but also mitigating your risks in any jurisdiction in Europe and across the world.

Q&A

Jon Sweet, president of Europe and Asia-Pacific operations at Ryan, shares insights into promoting the status and strategic role of the tax function within an organisation

Q What is the key challenge facing tax leaders?

A The increased scrutiny of tax administration from taxing jurisdictions, shareholders, audit committees and management, combined with the evolving market dynamics, can trap the tax function in a low-value compliance loop as it tries to balance the increased demands of accuracy and risk mitigation against the pressure to run tax as efficiently as possible. Simply focusing on compliance does not meet the expectations of senior finance executives and the business operations. They want the tax function more involved in planning and creating prospective performance and profitability improvement strategies that complement the organisation's plan for growth.

The lack of alignment between the realities of the tax executive's world and the expectations of the chief financial officer often reduces the role of the tax function to mere compliance-related activities at the expense of higher value strategic planning initiatives. As a result, tax often lacks the visibility needed within the organisation to significantly drive the desired change, develop the business case for additional resources and demonstrate the strategic responsibility that can break the cycle of the low-value loop.

Q What is stopping companies from developing a more strategic tax function?

A Increased complexity in compliance, the greatest in history, is colliding with inadequate systems and talent management issues to create a serious challenge for tax leaders seeking to elevate the strategic prominence of tax. Tremendous effort is invested in managing daily activities, which distracts from the more strategic and prospectively focused initiatives.

The tasks associated with managing compliance requirements and resource issues often prevent the tax function from elevating its presence in the organisation. With so much time being spent on necessary, yet less strategic matters, the perception that the tax function is a compliance-oriented, non-strategic member of the corporate finance function is perpetuated, and the cycle of low-value activity is strengthened. The inability of tax and finance executives to appropriately align often results in a preponderance of low-value activities that dominate the resources of the tax function. There's no silver bullet to this problem, but that's where Ryan can help, building an assessment of the current position, outlining a plan for best practices and making a case for change.

Q How does Ryan change this dynamic?

A Ryan evaluates the various factors impacting the present outcomes and provides a multi-dimensional solution, improving cash flow, profitability and shareholder value.

Just as important, we also support the tax function's ability to deliver maximum corporate value, helping it evaluate how it's prepared to succeed in the eyes of stakeholders and modify its behaviours to achieve desired future results. We support the development of a clear strategy for aligning the tax function with the organisation and create a tax competency centre that demonstrates its value as a strategic planning function of the organisation, which elevates its role in planning initiatives related to risk management, capital investments, and overall corporate growth and development.

Q What would you like to see from your clients?

A With tax facing long-standing issues in the face of a rapidly changing environment, it is critical it possesses an openness to change. Tax executives can no longer operate independently in today's environment. It's imperative they seek new ways to solve old problems. Also important is the way tax actively integrates with executive management and business operations to define its success in light of the metrics that drive the success of these stakeholders. Doing so will enhance the ability of tax to build a plan that garners the necessary investment and support.

> **Tax needs to leverage its value as a strategic planning function of the organisation, elevating its role in planning initiatives related to risk management, capital investments, and overall corporate growth and development**

Q What can tax professionals do to demonstrate the need for change to their colleagues?

A What makes my fellow tax professionals indispensable is a hyper-focus on the details, but I guess we all need to lift our heads from the desk occasionally to ensure we have a view of the big picture. Elevating the status and strategic role of the tax function within an organisation requires working with partners that understand the bigger picture. Those that can strike a balance between focusing on the additional detail and accuracy required of their tax functions, while effectively reserving time and reallocating resources to focus on more strategic objectives, will see quantum leaps in the visibility and influence of the tax function across their organisations.

Q What advice would you offer for the future?

A To deliver maximum corporate value, tax needs to align with its key stakeholders to thoroughly understand how it defines success for the tax function and its priorities regarding time and resources. The tax function needs to vigorously evaluate how it is prepared to succeed in the eyes of these stakeholders, modifying today's behaviours to achieve desired future results. A clear strategy for aligning the tax function with the organisation must be defined. Tax needs to leverage its value as a strategic planning function of the organisation, elevating its role in planning initiatives related to risk management, capital investments, and overall corporate growth and development.

For more information please visit www.ryan.com/Europe

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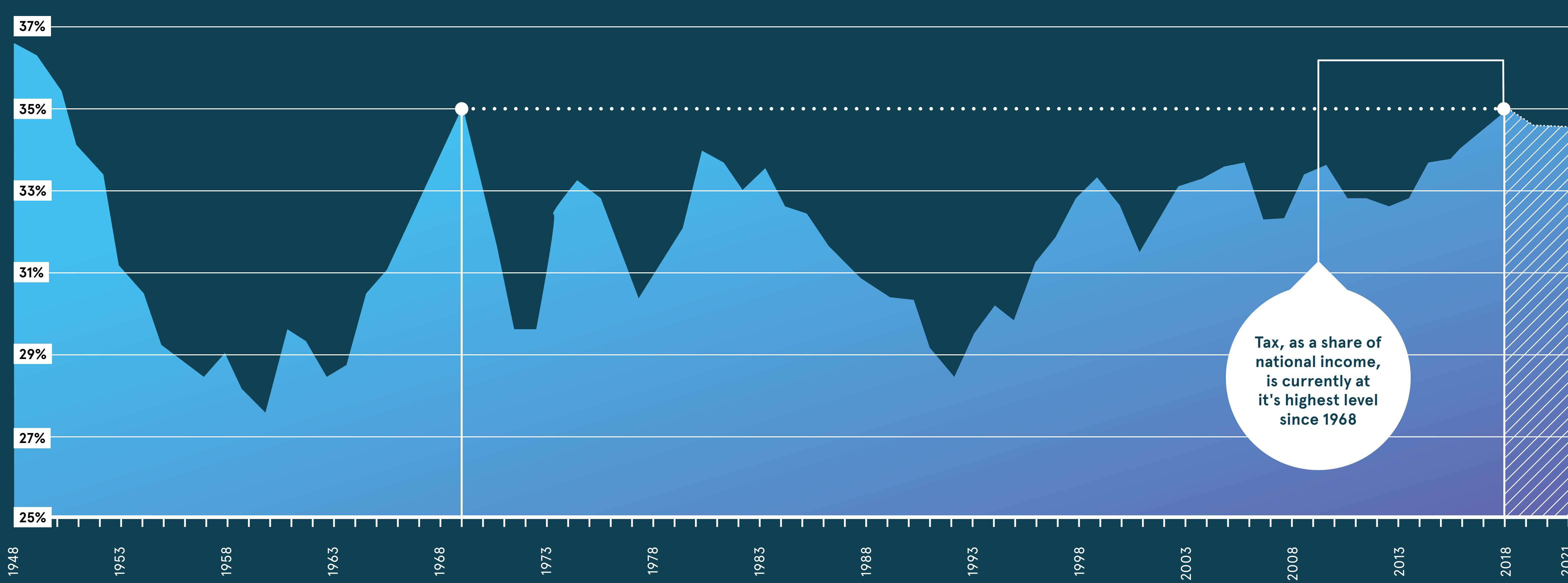
PREPARING FOR A DIGITAL FUTURE

Making Tax Digital (MTD) is vital to simplify the tax system and close the tax gap, but organisations are not fully prepared...

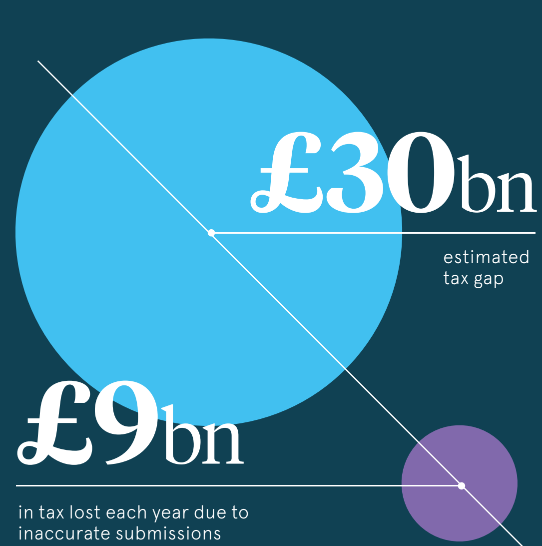
TAX IS AT HISTORICALLY HIGH LEVELS, SO ENSURING COMPANIES ARE PREPARED FOR REPORTING CHANGES IS VITAL

Tax as a share of national income



OBR Data Bank 2019

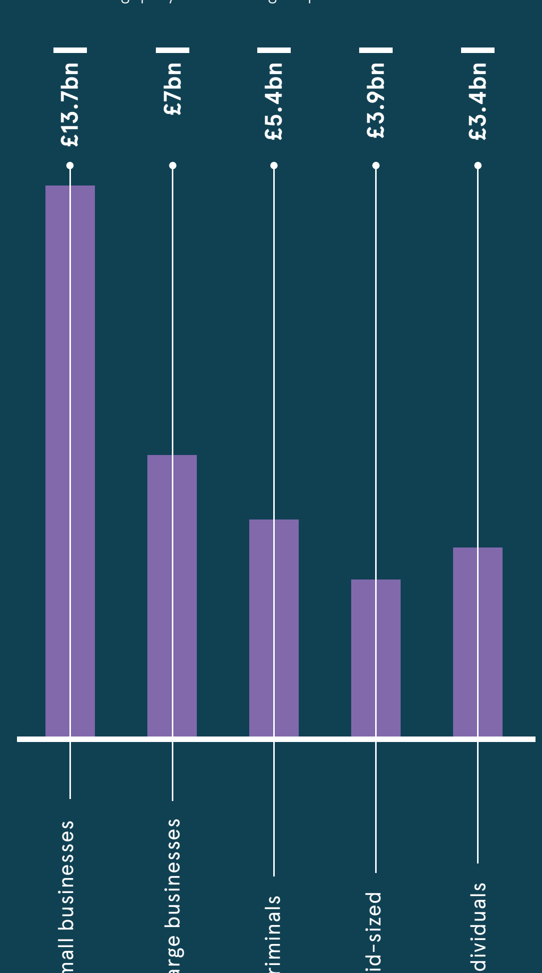
MANY ARE STILL STRUGGLING TO GET THEIR TAX RIGHT



HMRC 2019

TOP CONTRIBUTORS TO THE CURRENT TAX GAP ARE LARGE ENTERPRISES AND SMALL BUSINESSES

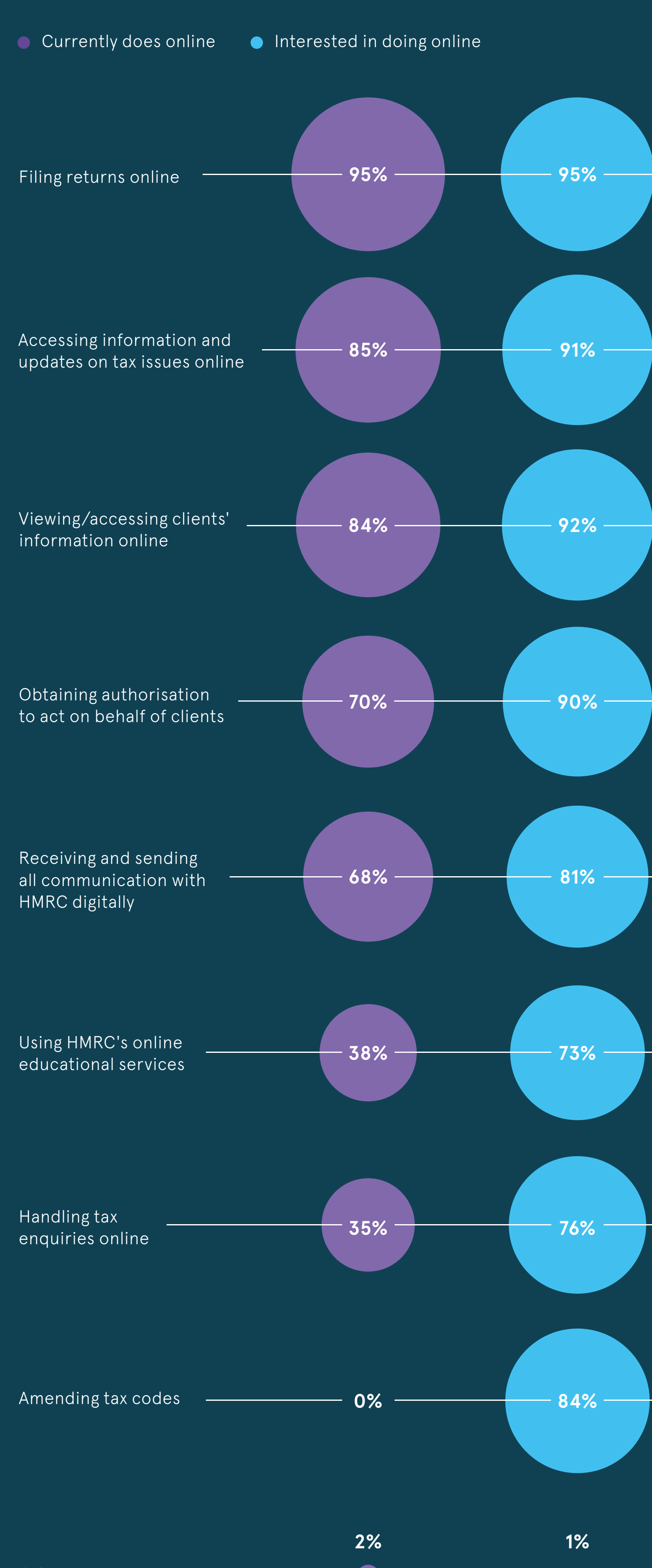
Value of tax gap by customer group



HMRC 2019

DIGITALISATION CAN HELP ALLEVIATE THE BURDEN, BUT INTEREST CURRENTLY OUTWEIGHS ACTION

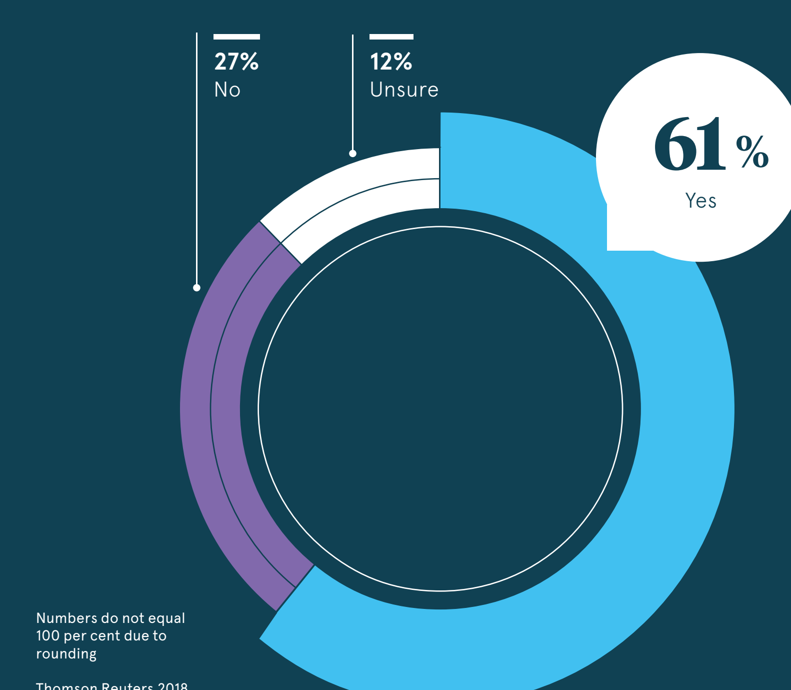
Current use and future interest in dealing with tax affairs online



HMRC 2019

THERE IS STRONG AGREEMENT THAT THE MOVE TO DIGITISE TAX IS THE RIGHT ONE

Agreement that digitising tax systems is the right approach

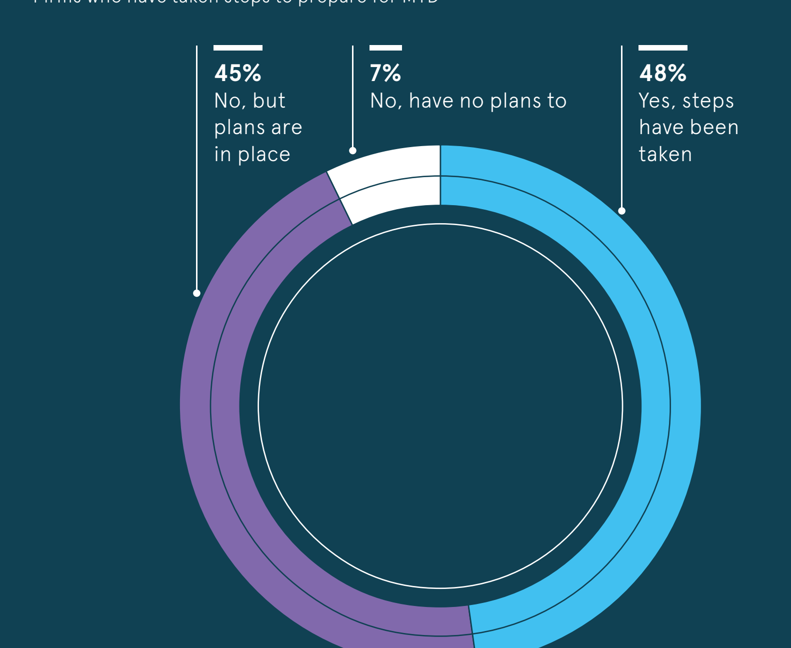


Numbers do not equal 100 per cent due to rounding

Thomson Reuters 2018

...BUT ADEQUATE PREPARATIONS ARE STILL LACKING

Firms who have taken steps to prepare for MTD



Thomson Reuters 2018

36% of accountants say they'll take between six months and a year to have the right systems in place

96% of accountants will need to integrate new skills and capabilities into their role over the next ten years

Thomson Reuters 2018

NurPhoto / Getty Images

01

TAX RETURNS

How Italy is tackling VAT fraud

A new VAT system in Italy means the government sees every invoice issued. Spain, Poland and others are now doing the same

Charles Orton-Jones

Tax evasion is every Italian's moral right. Is that the view of the Mafia? The crime lords of Napoli? In fact, this bizarre ethical take came from former prime minister Silvio Berlusconi, expressed in an address to the Guardia di Finanza, the finance police, in 2004.

"If [the state] asks you for more, or a lot more, then you are being overwhelmed by the state and so you set about inventing systems of avoidance or even evasion that you feel are in accordance with your private sense of morality and which do not make you feel guilty," he said.

Just in case there was any doubt, Mr Berlusconi later clarified: "If taxes are too high, it is thus justified to practise avoidance or evasion."

This sums up a mindset among many in Italy, where evading taxes can be seen as *furbo*: crafty. It has led to Italians being declared among the biggest tax dodgers in the European Union. A 2018 study by the European Commission found the VAT gap – the difference between expected revenue and collections – in Italy was 25.9 per cent in 2016. By comparison, the gap in Sweden was 1.1 per cent.

The results are visible in Italian cities. In Rome, it is common for buses to catch fire as the city cannot pay for repairs; 22 burst into flames last year. Wild boar roam the Roman streets. Even the Pope lamented the *degrado* or decay of the city.

But Italy is fighting back. A radical new VAT system is making evasion and avoidance almost impossible.

It works like this. Every invoice must be submitted in electronic format to an online tax hub called the SDI (*sistema di interscambio*). The authorities check the invoice is correct and, if approved, the invoice is passed on to its intended recipient.

Sending VAT invoices direct to clients is now illegal. Every invoice goes through the government hub.

"The leap in Italian VAT revenues was in the order of 20 per cent," says Richard Asquith, vice president of indirect tax at Avalara, a tax software company. "SDI has been a real success."

The SDI system puts Italy streets ahead of the UK. "It's much more invasive than [the HMRC's] Making Tax Digital," says Mr Asquith. "The tax authorities are getting in at the transaction level in real time. If they wait for three months and only see aggregated numbers, there's no detail and it's not fast enough. Fraudsters can commit an offence and move on."

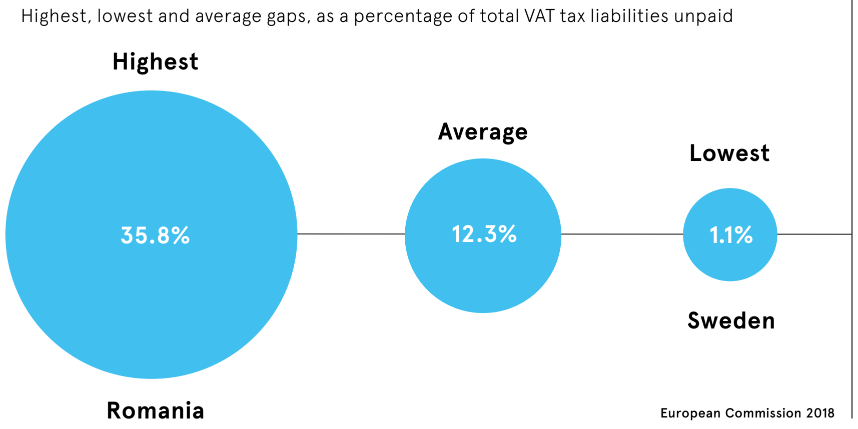
It's not just Italy. Spain has launched a similar system called SII (*suministro inmediato de información*). All invoices must be submitted to the SII hub for inspection and approval. And Poland, Greece and Hungary have implemented their own electronic VAT reporting systems.

"Unfortunately, each European country is implementing electronic invoicing in its own way," says Marco Da Veiga, compliance manager at Ryan VAT Systems, a tax consultancy firm. "There are a lot of similarities between the different systems, as they are based on the same principles and thinking, but each has its nuances."

The template was developed by the Organisation for Economic Co-operation and Development (OECD). The Standard Audit File for Tax, or SAF-T, sets out the way electronic data should be treated, but the interpretation is left open for each nation.

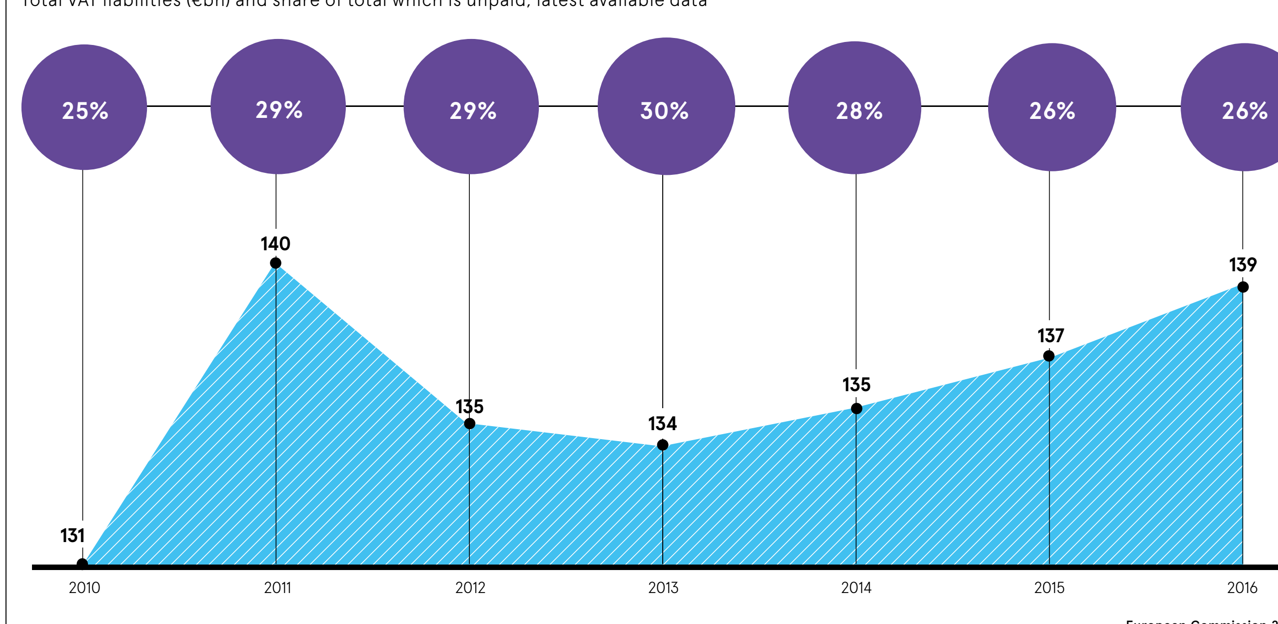
VAT TAX GAPS IN THE EU

Highest, lowest and average gaps, as a percentage of total VAT tax liabilities unpaid



ITALIAN VAT TAX GAP HAS DRIFTED LOWER IN RECENT YEARS, BUT REMAINS HIGH

Total VAT liabilities (€bn) and share of total which is unpaid; latest available data



What all these new electronic VAT systems have in common is the ability of tax authorities to see every transaction, rather than aggregated data. Tax inspectors can also compare the data of counter-parties, to make sure the transactions match. Errors and unexplained tax "discounts" can be spotted immediately. In Finland, the authorities are looking at individual payment transactions, to identify vendors who sell in Finland, but are not registered for VAT.

There is an additional pay-off. Since the VAT data is reported in near real time, national macro-economic statistics are more accurate. The days of waiting months for GDP quarterly data to be corrected should be over.

"Digitisation means governments will be able to see reliable, real-time economic data that will never be materially altered," says Mr Asquith. "It will be easier to track import and export data more accurately."

Electronic invoicing via Italy's SDI, Spain's SII or similar systems means significant changes for companies.

Fortunately, software vendors will help with the transition. And the underlying technology at the invoice level, called XML, has been a staple in financial reporting for years. Finance officers ought to be familiar with all the concepts involved.

"The main challenge is the data," says Steven Smith, director of product management at Thomson Reuters, maker of a leading tax reporting platform. "Every corporation has data in a multitude of different systems. Pulling that data together, making sure it is complete and refactoring it into the right format for different tax authorities is a challenge. And while the OECD says there is best practice, every country applies it in a different way. There is no global standard."

More countries are set to adopt VAT e-invoicing in the near future. The complexity of complying will increase as it is unlikely OECD nations will agree on a universal standard. Even EU nations seem set to retain their unique approach to VAT collection. "Countries are protective about their taxation rights," says Mr Asquith of Avalara. "They don't want the EU to be the standard setter as they are worried where that will end up. They see it as the thin end of the wedge."

There are of course benefits for companies too. Mr Smith argues that companies will be able to see their tax situation in richer detail. "Tax is becoming more prevalent in strategy planning. It will be possible to see the variations, month by month. When you run predictive analytics, you can see warning signs and find ways to address tax with your business operations. It allows businesses to be more financially tuned," he says.

Elimination of manual and paper processes will ensure companies are slick digital organisations. And tax will become a level playing field as avoidance and evasion are curtailed.

Even buying *un caffè* in Rome will change. "From July, if you go to a store, the cash register must be connected to the tax authority," says Ryan's Mr Da Veiga. "The shop cannot avoid giving a receipt." Evaders will need to be a whole lot craftier to avoid paying their dues.

22 buses caught fire in Rome last year, with funding to maintain public services tight

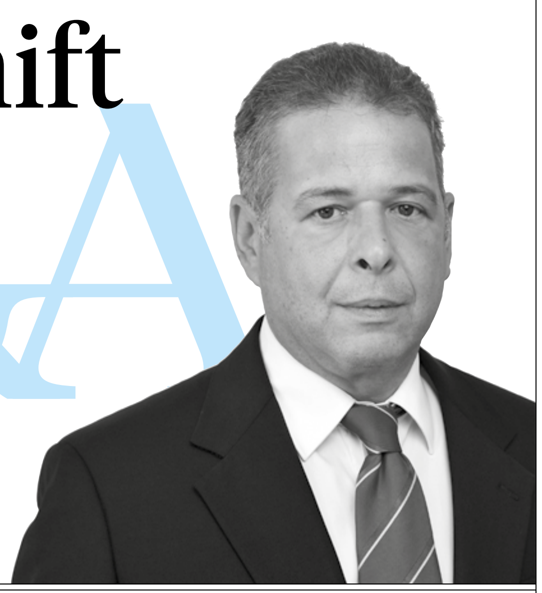
02

Tiziana Fabi / Getty Images

E-INVOICING

Making the shift to real-time reporting

Q&A with **Andreas Kozanitis**, chief executive of Ryan VAT systems



Charles Orton-Jones

Q Real-time reporting is new, but how ground-breaking is the concept?

AK Many of the requirements have been around for ages. It's just that the information needs to be prepared and presented in a specific way, in XML format, and submitted electronically. In France, for example, there has been for many years a requirement to store accounting data in an electronic format ready for inspection with a few days' notice, so companies trading there will already know how to comply with a lot of the demands. So although the systems such as SDI in Italy and SII in Spain are new, the concepts are well established.

Q How hard is it to comply with real-time reporting in the EU?

AK In technical terms, it is not too complicated. The big enterprise resource planning vendors have their own solutions for clients to use. And specialist tax consultancies will have their solutions. At Ryan VAT Systems, we have an IT department developing our own solutions for all new real-time reporting requirements throughout Europe. The challenge is that each European country has its own unique system. That can make it hard to master for multinationals trading in multiple countries. But electronic VAT invoicing is a new challenge for companies. There are deadlines to work to and compliance involves multiple departments, from IT to finance, that would rather focus on things they think are more important. Overall, companies will find, with the right advice, they can comply without too much difficulty.

Q What do companies tend to get wrong?

AK Normally the problems stem from the language used by the tax authorities. There can be issues with understanding the precise requirements. Some of the terms can be ambiguous. It's also true that the requirements are in the language of the relevant tax authority. If you're dealing with Poland, the advice from the Polish tax authority is in Polish. That may not be easy for a UK company. It's also true that each European country has its own regime. Companies may partner with a different consultancy in each country, leading to a patchwork. So, if you deal with four countries, you may end up talking to four providers, each with their own methods, formats and types of reporting. This can be chaotic. It is better, in my opinion, to work with a single partner with the geographic reach to provide a unified service across the European Union and beyond.

Q Does Brexit present an additional challenge?

AK It could. Right now, the UK is a member of the EU, so doing business is comparatively easy. But when the UK leaves, new obligations will appear. UK companies trading in Spain, for example, will need what is known as a fiscal representative. This party may be jointly liable for the VAT owed by the business. That is quite a big risk for the party undertaking this. As a result, many companies offer tax compliance services, but not fiscal representation services. It is something UK companies will need to consider.

Q What can we expect in the future?

AK This is just the beginning. We will see a continued march towards automated digital reporting in real time. Robotics and artificial intelligence will play a role, ensuring the information is correct. Invoices will be automatically generated and exchanged. So electronic tax filing is not just an end to paper processes, but an end to manual processes. The nature of accountancy as a job will change from processing to strategy. I think that's an incredibly exciting future.

GLOBAL TAX

Five countries shaking up tax reporting

Much has been made of the Making Tax Digital initiative in the UK, but some countries are taking regulation one step further. Here are five nations reaping the benefits of completely transforming the tax return process

Charles Orton-Jones

Poland

As one of the first countries to adopt compulsory state-sanctioned real-time reporting, Poland is an innovator in tax. Since January 2016, it's been compulsory for large VAT-registered companies in Poland to file an electronic invoice and in 2018 the requirement was extended to all companies, irrespective of turnover or staff numbers.

The Polish system is closely based on the Organisation for Economic Co-operation and Development's standard developed for real-time reporting, called Standard Audit File for Tax, or SAF-T.

The file uses the regular XML format to mark up the relevant tax information. Files are submitted to the Polish tax authority monthly.

In case of a tax inspection, the authority can request the presentation of six additional SAF-T files related to accounting records, bank statements, warehousing information, sales invoices, tax register of invoices and expenses, and evidence of revenue. So it is a more complete picture than other European systems.

Motivation, as in other European Union members, is to cut down on evasion, which constitutes a major white-collar crime. VAT revenue makes up 40 per cent of the Polish budget. Progress so far has been impressive as the VAT gap has fallen from 24 per cent in 2015 to between 7 and 12 per cent in 2018, according to Visegrad Insight.

Italy

When it comes to VAT evasion no one suffers like the Italians. The black economy is vast and therefore the Italian government is incentivised like nowhere else to crack down on malpractice. The heart of the new Italian regime is the *sistema di interscambio* (system of exchange), or SDI.

It's an interface for receiving, processing and then transmitting invoices to the intended recipient. It also, under certain circumstances, takes care of the storage of invoices for ten years. The invoices must be prepared in XML format and submitted to the SDI within ten days of the month following the date of issuance. E-invoicing is not optional and invoices not submitted through the SDI system are subject to penalties of between 90 per cent and 180 per cent of the VAT due.

The Italian tax authorities are aware the move to electronic invoices is a big leap for smaller companies, so has provided free advice services and a smartphone app, which enables small and medium-sized enterprises to create and transmit e-invoices. The hope is that digital VAT will make fraud all but impossible, leading to improved revenues and therefore better public services. As the EU reports: "The biggest challenge for Italy is to make stakeholders understand that implementing e-invoicing is not only a legal obligation, but also an opportunity that will be beneficial to all taxpayers."

Spain

On July 1, 2017, the Spanish tax authority introduced a new obligation called *suministro inmediato de información del IVA* (immediate supply of VAT information), known as SII. It's similar to SDI in Italy, but with a few notable variations. Filing invoices to SII is mandatory to all taxpayers who have the obligation to submit monthly VAT returns in Spain, but it is available to any taxpayer who wants to apply for it.

SII files must be prepared in a specific XML format that contains information about sales and purchases invoices. There are four types of SII files required: register of invoices issued, register of invoice received, register of certain intra-community operations and register of investment goods.

The files must be directly transmitted through the Spanish tax authority portal. In the case of sales invoices, they should be transmitted within four working days after the date the invoice was issued. For purchase invoices, the deadline for transmission is four working days after the date the invoice was recorded for accounting purposes.

Taxpayers under the SII obligation benefit from an extended deadline of ten days to submit their monthly VAT return. Additionally, they are exempt from submitting the annual summary VAT return, VAT ledgers return, and annual sales and purchase listings.

In the event of failure to transmit the XML file within the established deadline, or in the case of incomplete or incorrect data, a penalty of 0.5 per cent of the amounts omitted can be applied, with a minimum of €300 and maximum of €6,000 per quarter.

Hungary

In 2018 the Hungarian tax authority introduced real-time invoice reporting, or RTIR. It is mandatory for all taxpayers registered in Hungary for VAT purposes and must contain information about invoices issued to companies with a VAT amount equal or higher than HUF100,000 (£280).

RTIR replaces the former local sales list, which was submitted on a monthly basis alongside a VAT return.

The information in the invoices issued must be declared electronically using a specific XML-file format. The report should be performed at the same time that the invoice is issued and should be reported to the National Tax and Customs Administration (NAV). The submission process must be fully automated over the internet from accounting, enterprise resource planning or billing systems, without manual intervention. The NAV performs a validation of each document and returns a message to the sender with the status of each invoice submitted.

RTIR enables the Hungarian tax authority to acquire more detailed information about taxpayers' operations. As a result, the authority can conduct cross-checks and audits more effectively.

Failure to report invoices in real time is subject to penalties up to HUF500,000 (£1,400) per invoice.

India

An emerging economy, India is moving fast towards electronic invoicing with pre-approval for goods and services tax, or GST. The Indian authority behind the project has proposed mandating an entirely electronic system of filing to the state for approval as soon as September 1, for business-to-business transactions. If successful, the scheme could be extended to business-to-consumer transactions too.

Sales invoices would be sent in real time to an online hub for analysis and approval. The previous model of sending direct to business customers would no longer be possible. GST itself is still new in India. Introduced in the summer of 2017 to replace a complex patchwork of consumption taxes, it has an unusual complexity in treating transactions between the 29 Indian states as IGST (integrated GST), which also applies to imports.

The situation is moving fast. Currently the team overseeing the transition is recommending setting the initial threshold at a high level, to catch only 1 per cent of the largest companies. The fear is that the technology transition may challenge smaller companies.

According to finance minister Nirmala Sitharaman, fighting tax avoidance and evasion is a priority. Speaking at a recent G20 global forum, she asked fellow finance ministers to improve global co-ordination on tax, including information exchanges such as the automatic exchange of financial account information, which launched in almost 90 jurisdictions in 2018.

Introduction of an e-invoicing system would be a major upgrade for India's tax inspection regime. Confidence in far-reaching schemes is high, boosted in part by the success of another digital scheme, the biometric ID programme for citizens, known as *Aadhaar*. More than 99 per cent of adults have been enrolled, helping to end identify confusion for banking, tax and other government services.

BREXIT

Firms await new EU tax regime as Brexit looms

Prolonged uncertainty over Brexit has thrown UK businesses into turmoil over future corporate tax arrangements, notably VAT refunds from European Union trading partners

Fiona Bond & Joe McGrath

Three years on from the historic vote to leave the European Union, British businesses continue to operate in a state of ambiguity as the debate around whether the UK will exit with a deal rages on.

This has significant implications for businesses carrying out cross-border transactions, which must prepare for a revised EU VAT refund regime and new corporate tax requirements amid the ongoing uncertainty.

Currently, the UK enjoys access to a single EU VAT refund system, which operates across all 28 member states, allowing companies to file an electronic claim.

However, the current system is unlikely to be available post-Brexit, especially if the UK leaves with no deal. Instead, businesses will have to deal with EU countries individually and revert to a paper-based process for each claim.

While the current EU VAT refund system has taken much of the drudgery out of the process with standardised deadlines, forms and claim periods, going forward businesses will need to familiarise themselves with a host of different requirements for each of the member states.

According to Nigel Roberts, VAT director at Johnston Carmichael, tax departments should be preparing for the changes now to ease potential administrative and cash-flow burdens.

"The current EU VAT refund system is relatively straightforward and makes cross-border claims within the EU pretty painless. Post-Brexit claims, particularly if the UK leaves with no deal, could be much more difficult to make," he explains.

"The whole process could be more cumbersome and expensive because separate claims will need to be made, and repayments may be slower outside the EU framework."

According to the Chartered Institute of Taxation, businesses may be required to show a stricter level of evidence to support their VAT return and time limits for payments may vary considerably between different EU countries. Furthermore, claims will need to be submitted in the local language and some countries will require applicants to appoint a fiscal representative. The institute warns that this could result in delays in businesses getting their tax back.

Jayne Simpson, the institute's VAT and indirect taxes technical officer, notes: "The first year will undoubtedly be the hardest for UK businesses as they seek to make the transition. They may incur additional costs to assist with language or choose to pay outside recovery specialists or overseas agents to aid them through the new paper-based process."

There is also a big question mark over reciprocity. Given the UK's generous international refund position, it is assumed EU member states will repay UK businesses, but negotiating agreements could take time.

In the event that the UK exits the EU at the end of October with no deal, companies will forego the transitional period and will be expected to submit their final claims via the online EU VAT refund system by October 30, thereafter switching straight to the international process.

Ms Simpson says: "The larger companies are making preparations, but we are seeing a big chunk of businesses taking a wait-and-see approach. We would advise all businesses to review their tax position now."

In light of the more stringent and time-consuming requirements, it may be more prudent for some companies to forego claims altogether.

Lisa Dowling, senior VAT manager at Taxback International, explains: "A no-deal Brexit will certainly be a step backwards for the foreign VAT recovery process with UK businesses being hit hardest in administrative burden, missed VAT reclaim opportunity and overall cost to comply with the application process.

"This added burden to the reclaim process will see a fall-off in the amount of EU VAT claimed by UK businesses as they simply won't have the resources to dedicate to the paper-based, manual process."

> You're going to tend to plan for the worst-case scenario and the worst-case scenario is a no-deal

It is a view shared by Mr Roberts. "For some businesses, overseas VAT will just be written off. For those that make substantial claims, contingency planning needs to start now," he says. "Whichever route is taken, the cost of making cross-border VAT claims will inevitably increase if a no-deal Brexit happens and for some will no longer make financial sense."

Meanwhile, as the new October 31 Brexit deadline approaches amid continued uncertainty, businesses can only try to second guess potential corporate tax implications.

Some have already, or are actively considering, opening EU-based offices to ease possible future trade barriers between the UK and EU, and need to know the tax implications.

"If we leave the EU without a deal, the taxation of payment flows within groups with UK entities would be a particular issue, due to complexities surrounding VAT and customs," explains Arun Birla, tax partner at law firm Paul Hastings.

"There is also a potential for businesses to experience 'double taxation', as remaining EU countries may seek to take advantage of the UK's separation from the eurozone, leading to the spectre of double or multiple taxation with respect to the same profits or activities."

Abigail Agopian, principal tax adviser at the Confederation of British Industry, says while customs issues often dominate headlines, Brexit could have a significant impact across other taxes businesses pay.

"One common issue, if the UK leaves without a deal, is that it loses access to EU directives overnight. This could mean some firms that aren't currently required to withhold tax on payments of dividends, interest and royalties, suddenly have to do so as a result of the UK's new status," says Ms Agopian.

"The net result of losing access to EU directives could be an increased tax burden for UK businesses that are heavily involved in investment and transaction flows within the EU. At best this could impact cash flow, at worst it could mean significant cost increases for those unable to obtain a full tax credit for the tax withheld."

The frustrations that stem from Brexit tax planning may be even more acute for small and medium-sized enterprises as many smaller companies lack in-house tax specialists with the breadth of experience and know-how to support Brexit planning.

Andy Murray, managing director of tax consulting within the compliance and regulatory consulting practice at Duff & Phelps, says businesses may be tempted to hold off making any contingency plans around taxes. There are very limited tools currently available for businesses to help them plan for Brexit, apart from the use of advisers, according to Mr Murray.

Nevertheless, Mr Birla says there must be some element of planning to make sure businesses are as prepared as possible for when there is a clearer outcome.

For Tim Sarson, tax partner at KPMG, there is no point in a business planning for five possible outcomes.

"In the absence of clear information and guidance on what's going to happen, you're going to tend to plan for the worst-case scenario and the worst-case scenario is a no-deal," he says.

Mike Hodges, partner at Saffery Champness, says as part of Brexit planning, many businesses will be considering how best to safeguard their supply chains, including establishing a physical presence in the EU once the UK leaves.

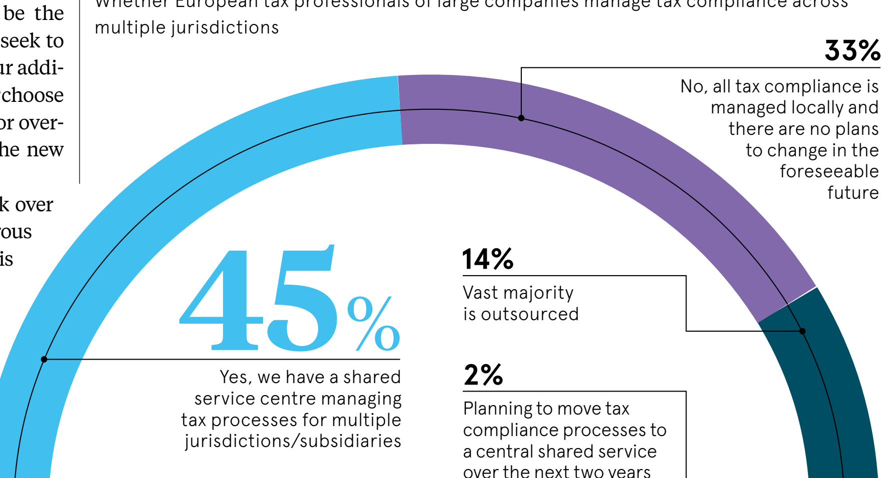
"There will clearly be tax implications for those that do choose to expand into the EU and this is likely to result in a level of complexity many won't have faced before," he cautions.

Mr Sarson says HM Revenue & Customs has already been actively assisting UK businesses with their tax planning ahead of the new Brexit deadline by issuing detailed guidance on customs duty and customs compliance, for example.

But as Nick Farmer, tax partner at accountancy firm Menzies, says: "If no deal is likely, at the very least businesses would like a reasonable window of time to plan for this."

MANAGING INTERNATIONAL TAX

Whether European tax professionals of large companies manage tax compliance across multiple jurisdictions



TRANSFER-PRICING

Why modern business makes transfer pricing so complex

Two tax experts debate whether the so-called 'arm's-length principle' used in transfer pricing is still applicable to the digital economy

Tim Cooper

Pros

Nigel Dolman
Director
Baker McKenzie

The arm's-length principle (ALP) for pricing internal company transactions is likely to remain.

A very high proportion of global trade is done within companies, for example, between internal supply chains in multinationals. Companies need a consistent and effective measure for pricing these transactions.

In 1963, the Organisation for Economic Co-operation and Development (OECD) established ALP for doing this. Under this principle, a transaction between two related parties, such as subsidiaries within a multinational, should be priced as it would be on the open market.

The OECD deemed this was the fairest measure as it allowed different countries to compete fairly for the trade.

However, in recent years, business models have become more digitised, and supply chains more global and complex. This has made it harder to establish what is a fair market price under ALP.

Increased digitisation has also made it easier for companies to allocate profits to low or no-tax jurisdictions, even ones where none of the economic activity involved has taken place.

In response, politicians and the media have put pressure on tax authorities to move towards something that is, in their view, simpler, clearer and fairer.

International authorities and individual countries have responded by proposing to tax transactions based on other criteria, such as the number of employees in a location. Some countries have also proposed or implemented digital taxes, which generally aim to charge tax in the location of the purchaser.

But all these new rules or proposals are in some way artificial. ALP is simply a test for a transaction between related parties to show what the price would be if they were acting independently. As such, it is still the fairest way to measure transfer-pricing.

Finding an alternative to ALP is complicated. The authorities won't be able to find a consensus easily. There is even still confusion about how to define the digital economy. Does it just relate to social media and technology companies or to any company that uses a digital model, even if it is not their main business? It will be hard to agree.

> I have seen a fair amount of media commentary about transfer-pricing over the last few years, and I think it has been negative and biased

But at some point the international community will define new guidelines on taxing the digital economy.

I anticipate one issue will be that the new rules are likely to have so many exceptions they will become unmanageable. Because of this, I suspect the rules will be sufficiently vague and generic that they will allow some override back to ALP if this generates a better and fairer outcome.

Much of what the authorities are doing is a reaction to political and public pressure. But despite the amount of material they are putting out and the momentum this seems to be building behind it, ALP will remain.

Some companies always try and stretch the rules, and it will happen with any new regulations that come in just as much as it has with the current transfer-pricing regime.

Countries will always want to use incentives such as lower tax rates to compete for business. It's natural for companies to want to take advantage of lower rates. Until this stops, these issues will always arise.

Some have also suggested refocusing tax on the individual rather than on corporations. But in this case, you would still have competition for residency, different individual tax rates in different countries and questions around where that person is doing the work.

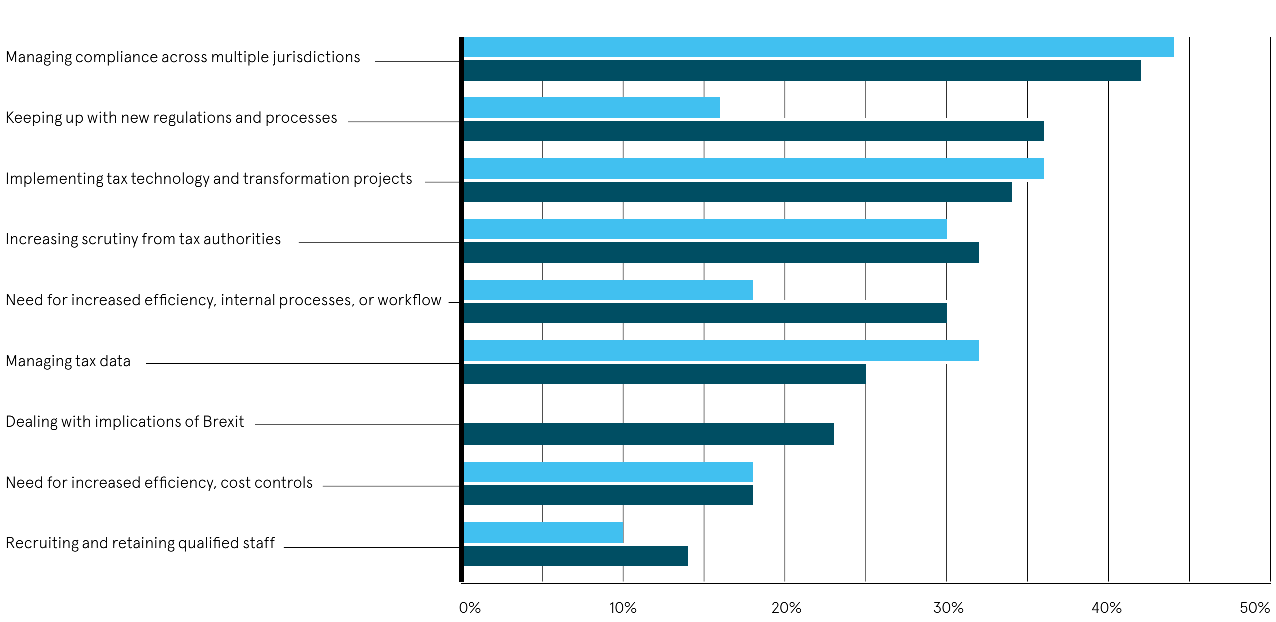
Another problem is the international community's search for alternatives to ALP is likely to create more uncertainty for businesses. This has happened with its other recent initiatives in this area, such as the base erosion and profit sharing (BEPS) regime.

BEPS aimed to provide greater simplicity and clarity over how multinationals are taxed. But there has been much less clarity since it was introduced. More guidelines and rules create more interpretations that tax authorities can and are making.

I have seen a fair amount of media commentary about transfer-pricing over the last few years, and I think it has been negative and biased. Companies could not trade if they didn't have rules and regulations. This is what ALP is there for and it is the best option available.

BIGGEST CHALLENGES FACING TAX DEPARTMENTS

Survey of European tax professionals from large companies



Thomson Reuters 2019

Cons

Eric Toder
Co-director
Urban-Brookings Tax Policy Center, Urban Institute

There is growing consensus in the international community that ALP is not fit for purpose in the digitised economy.

Since the 1920s, the international tax system has treated country affiliates in multinational enterprises as separate entities.

To ensure they charge each other fairly for internal transactions, authorities developed ALP, which states that such transactions should be priced at the market value, the same as they would be if the trade were between independent entities.

But in the last few decades, the source of value in companies has come increasingly from intangibles such as patents and data. This creates a problem for ALP because transactions in intangible assets often have no established market value or are hard to value due to lack of comparable market data.

Digitisation has made it easier for companies to locate intangible assets in low or no-tax countries.

Many companies have reported profits that were not taxable anywhere or which paid low tax rates to countries where none or little of the economic activity took place. Indeed, there has been a rush to lower tax rates because income has become so easy to shift.

As a result, the international system of taxing corporations now works very poorly and is breaking down. The level of co-operation between countries is declining because taxable revenues have become more elusive and everybody is fighting for a piece of them.

Some argue that ALP will remain because it is the only fair way of valuing transactions. But the difficulty in valuing intangible assets using ALP, and therefore companies' ability to manipulate it in a way that is difficult to contest, means the principle is not effective in stopping companies from shifting profits to lower tax jurisdictions artificially.

For example, a US company sells its technology rights to its Irish entity for a low price to take advantage of lower tax rates in Ireland. The Irish affiliate reaps all the profits, but the tax authorities in America have no way to value that transaction, so it is difficult for them to contest the move.

Those who support ALP say more evidence will emerge to help price intangibles according market rates. But I'm not sure we will ever know what a new technology is worth, particularly before it deploys.

> The level of co-operation between countries is declining because taxable revenues have become more elusive and everybody is fighting for a piece of them

The international community has proposed alternatives to ALP for intangible items. One is so-called unitary taxation, which raises revenue on income generated in the country where the economic activity, such as use of capital and labour, takes place. This applies rules that companies can no longer manipulate. But it also shifts the problem elsewhere by encouraging companies to move labour and capital to low-tax countries.

Several countries are also moving towards destination-based tax, which focuses on where a product or service is sold. An example is value added tax. But that ignores profits so can also miss much of the potential tax base.

Some countries have proposed taxes on digital activity. But that is not desirable as it does not capture profits; it's just an excise tax on the consumption of goods.

Another proposal is to introduce a minimum tax level internationally. If countries can agree that, it could help solve the tax haven problem.

My suggestion is to shift taxation of economic activity away from companies towards individual taxpayers.

Corporate locations can be moved easily, but the cost and difficulty of shifting individual residence is higher. It is harder for individuals to hide their money in other jurisdictions. And many people do not want to change their residence and give up living in a major country.

Source-based taxation no longer makes sense in the digitised economy. Instead individuals, perhaps with a focus on the shareholders of companies, should bear the tax burden.

Until the international community finds a viable alternative, small tax havens will continue exploiting the situation and essentially raiding the treasuries of the developed countries.

Piecemeal efforts to address the problem will be inevitable unless something is done to fix the whole system.

Given the increase in income inequality, the demands of ageing populations and the costly effects of climate change on society, there will be increasing concern about the extent of corporate profit-shifting. Pressure to find systems that solve the problem will continue.

Regulators struggle to come up with a solution

International policymakers are planning the biggest corporate tax shake-up in a century.

Plans, announced by the Organisation for Economic Co-operation and Development (OECD) in May, aim to stop multinational companies shifting income to low-tax countries. The changes will have major repercussions for the way businesses allocate profits.

One of the biggest challenges is that most profits in the digital economy now come from intangibles such as intellectual property and data.

This has cast doubt on the continued relevance of the arm's-length principle (ALP) for transfer-pricing, under which companies transfer products between departments for the market rate as if they were not related, because the market rate for intangibles is often difficult to establish.

Many argue that the difficulty in valuing intangibles using ALP enables companies to manipulate it in a way that is difficult to contest. This means the principle is not effective in stopping companies from shifting profits to lower tax jurisdictions.

Pascal Saint-Amans, director of OECD's Centre for Tax Policy and Administration, says that despite many efforts to combat profit-shifting, countries remain dissatisfied with how easy it is for companies to locate profits in low-tax jurisdictions, even though none of the associated economic activity happens there.

"Our plans therefore contain three proposals that would represent a departure from ALP," he says. "These proposals look to determine where tax should be paid, on what basis and what portion of profits should be taxed in the jurisdictions where clients or users are located."

In 2015, OECD estimated that moving profits to low or no-tax jurisdictions causes annual tax losses of up to $240 billion, which is 10 per cent of global corporate tax revenues.

Fighting this practice is complex, but momentum has been gathering and, in May, 129 countries agreed a roadmap for resolving the issues by the end of 2020.

Ross Robertson, international corporate tax partner at accountant and business adviser BDO, says the international tax framework was developed a century ago and is not fit for the digital age.

"The system is based on taxation by physical presence," says Mr Robertson. "But today businesses can take part in a jurisdiction without any physical presence there.

"[The OECD's changes] will redefine the system. A crucial misconception among many businesses is that the changes target only technology businesses. But they target all companies, across all sectors."

However, he says the OECD's 2020 deadline is ambitious, although the organisation is well resourced and has shown before that it can reach consensus and deliver outcomes.

"It will take a huge amount of work," says Mr Robertson. "But there seems to be a political imperative to move quickly to stop individual territories acting alone, for example, by introducing their own digital taxes."

Martin Phelan, head of tax at William Fry, says: "The OECD's approach is a positive step to address the broken model for tax systems in a digital and globalised age. However, some individual countries have introduced interim measures, highlighting the problem of international double taxation. Policymakers need to ensure clear mechanisms so all countries can implement the rules."

While some experts have predicted the demise of ALP in this environment, the OECD proposals only signal a departure from the principle, not its abolition.

"The OECD's emergent solution will probably sit alongside ALP," says Mr Robertson. "However, it is likely to apply only to more routine, physical activities. It will probably no longer apply to most profits, including those associated with intangibles."

The three OECD proposals for departing from ALP are labelled "user value creation", "market intangibles" and "significant economic presence".

Mr Robertson says: "I anticipate a solution somewhere between the latter two. The user value creation proposal looks to restrict change to highly digitised businesses. But the consensus is this is too narrow.

"The US is pushing market intangibles, which proposes more tax on intangible profits in main market jurisdictions, so that is likely to have weight. But significant economic presence is more practical in that it uses formulas, such as around staff headcount, user base, revenue or profit.

"Whatever the outcome, this will be a major reallocation of group profits, so companies need to prepare by understanding their value chain and drivers of value today and in the future. Without that, it will be difficult to make decisions and react appropriately to these changes when they come."

REPUTATION

Treading the fine line between rules and reputation

The reputational risk for companies minimising tax liabilities as much as legally possible is greater than ever. So how should companies respond?

Ian Fraser

Not too long ago, the heads of tax at large multinational companies saw their jobs as bit of a game. Before the global financial crisis of 2008, they used to compete with each other to see who could slash their firm's effective tax rates (ETR) the most.

There was a climate in which they could game the international tax system, making use of an arsenal of jurisdiction shopping, tax arbitrage, gaps and loopholes, without much fear of reputational risk. The names given to some of the most favoured tax-avoidance strategies, Double Irish, Dutch Sandwich and Single Malt, were perhaps a giveaway.

> **Tax is part of a company's governance structure and duty to society**

At the time, there was a herd-like, race-to-the-bottom mindset among some tax professionals. "The big four accountancy firms would be saying 'Do you know about this scheme? Your rival is doing it and it's enabled them to get their ETR down to such and such a level'," says Jason Collins head of tax, litigation and regulatory at law firm Pinsent Masons.

"If a firm got its ETR down into the single digits, then it was in a very rare club altogether. Most would have been aiming for the teens."

Richard Murphy, professor of practice in international political economy at City, University of London, says: "It was a free for all. There was no international co-operation between tax authorities and no organised challenge to tax havens.

"If you want to single out a point when everything changed, it was when Dame Margaret Hodge [Labour MP and then-chair of the Commons Public Accounts Committee] shredded the senior UK executives of Amazon, Google and Starbucks over their tax strategies in November 2012. After that, fear of reputational risk wasn't what was driving change, it was fear of being in that chair in front of Margaret Hodge."

While US President George W. Bush sought to defend tax havens, both President Barack Obama and UK Prime Minister David Cameron recognised the need for change, and pushed for reform. Mr Cameron, for example, championed country-by-country reporting at the G8 in 2013.

"The world has changed. Before the global financial crisis it was 'We can minimise the tax bill'. Now it's 'We can guarantee your compliance'," says Professor Murphy. "And tax justice campaigners ought to be jumping up and down with joy.

"Country-by-country reporting means that if companies want to try to shift profits, they've got to be pretty smart to be able to get away with it."

Graham Poole, senior director of economics and transfer pricing at law firm Hogan Lovells, adds: "Reputational risk has become a much more significant factor, causing the boards of directors, especially at consumer-facing businesses, to pay much more attention to tax."

The diverted profits tax, also known as the Google Tax, introduced by chancellor George Osborne in 2015, has also been a game-changer. "Before that, HM Revenue & Customs were constantly having long drawn-out discussions with international businesses about transfer pricing, and these were using phenomenal amounts of resources both at HMRC and at the companies themselves," says Ross Robertson, international corporate tax partner at BDO. "Diverted profits tax fundamentally reset the negotiation dynamic."

The base erosion and profits shifting (BEPS) action plan, by the Organisation for Economic Co-operation and Development (OECD), which closed loopholes in the international tax system from 2017, has been a bigger driver of change. "BEPS established a system where profits have to be clearly aligned to where the substance of the business is," says Mr Robertson, essentially making brass plaques with zero staff in tax havens less viable.

The OECD's next step, its inclusive framework, goes further. Expected to be implemented by 2023, it is a blueprint for a global minimum tax and new rules for allocating a company's profits among countries, and has been described as bringing a seismic shift in how corporations are taxed around the world. It has generally been welcomed by tax professionals, but it has to be signed off by 129 countries, some with radically different views on tax, so getting it agreed will be a bumpy ride.

BDO's Mr Robertson says: "We have a tax framework that is over 100 years old and was designed for a fundamentally different world. At that time, it wasn't possible for a business to trade in a territory without having a physical presence there, but with technology that's completely changed, leaving the existing tax framework frayed at the edges."

The rise of environmental social governance (ESG) investment has further driven change in the tax sphere. "ESG analysts regard tax as part of company's governance structure and duty to society," says Professor Murphy.

But has the pendulum swung too far, with fear of public shame forcing large corporates to overpay their corporation taxes? Mr Robertson does not believe so. "I cannot think of any situation in which a business has paid more tax than it was due for fear of loss of reputation," he says.

Professor Murphy concurs: "There's no evidence of that. Almost every company is still paying less than headline rates of tax. Indeed, the International Monetary Fund estimate of the cost of corporate tax avoidance is at present $600 billion a year."

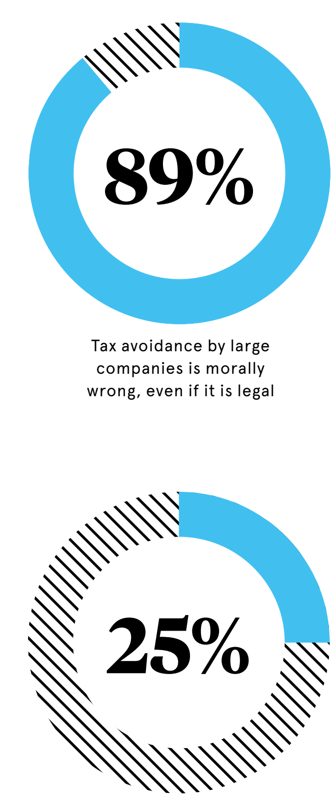
George Russell, director of recently founded think tank TaxWatch UK, says it's almost laughable to suggest the pendulum has swung too far. He points out that, in January, when HMRC gave corporates the chance to comply voluntarily with diverted profits tax, it discovered firms had been making "misleading statements" to minimise their obligations.

Mr Russell adds that, while some multinationals have changed their structures in response to the public outcry over tax avoidance: "The changes have been cosmetic and have had little real impact on the amount of tax paid." He cites Facebook which, he claims, still only pays a UK ETR of just 1 per cent.

But Pinsent Masons' Mr Collins argues that the pendulum has indeed swung too far. The reputational risk of getting into a fight with HMRC, even when the company is clearly in the right, is now thought to be so great that many firms are preferring to roll over and give up on their positions in the event of a dispute. He concludes: "If it goes to litigation, you'll have to go to court and, even if you're right, your dirty washing will be aired for all to see."

PUBLIC OPINION OF CORPORATE TAX STRATEGIES

Percentage of consumers who agree with the following statements

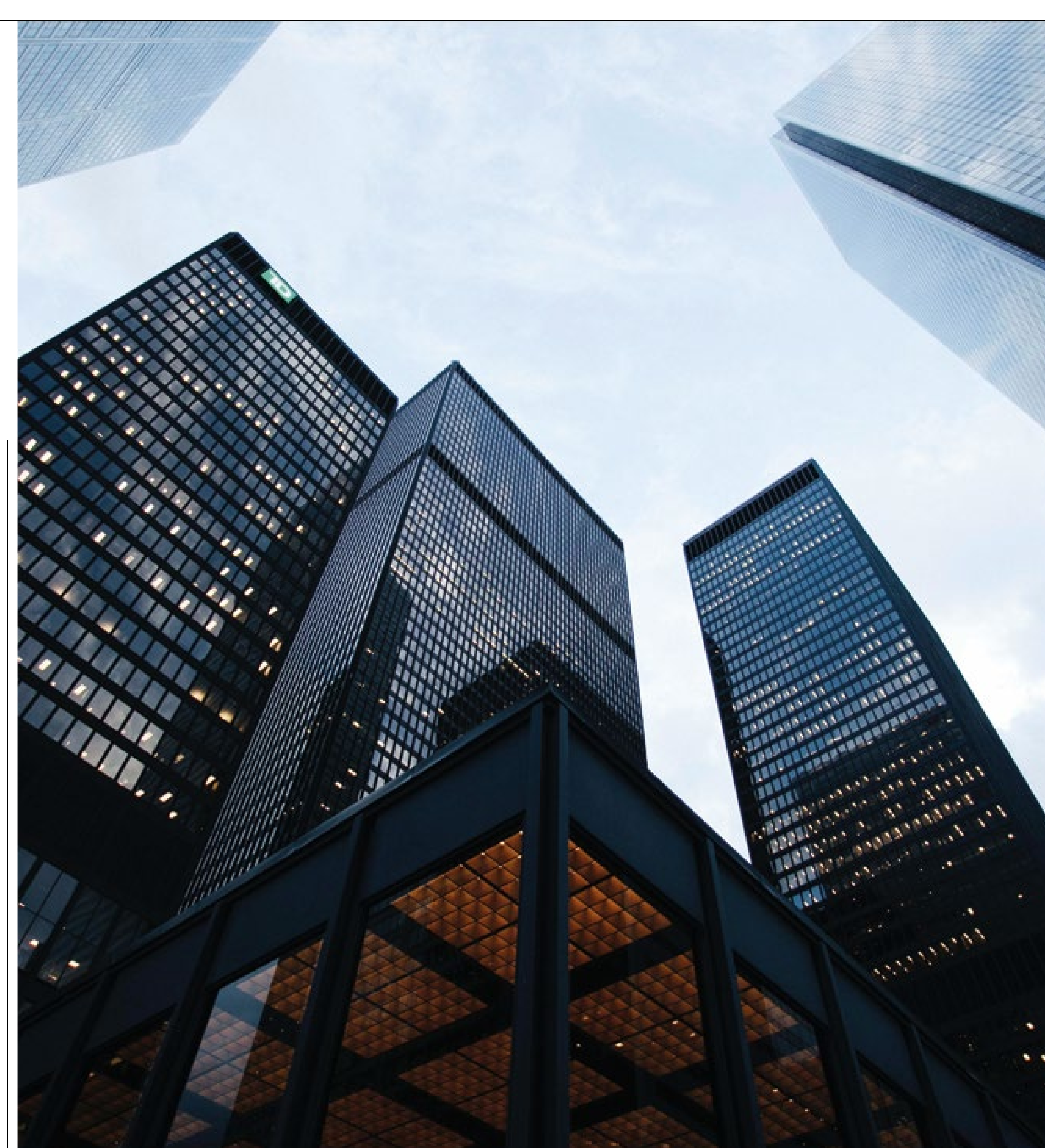


ComRes/Christian Aid 2017

Commercial feature

Q&A

Bespoke is the best approach



Ian Boccaccio, principal and global income tax practice leader at Ryan, explores the challenges facing tax executives in an international market

Q What are the tax policy considerations for multinational enterprises in the digital economy?

A The global transformation to digitised models has led to debate and tensions in the international tax system about where profits should be taxed. The permanent establishment (PE) requirements in many countries' tax laws require a physical presence and do not recognise digital participation in many countries. Also, the legal entity concept does not match the "borderless value creation" that mobile intangible assets create.

Many jurisdictions, including the European Union (EU), have implemented or proposed digital taxes on top-line revenue and introduced the concept of virtual permanent establishment.

Q Profit allocation is based on the arm's-length principle (ALP) in international tax rules. Is the ALP still fit for purpose in the digital economy?

A Some believe the ALP will disappear, but it hasn't because of the lack of consensus on an alternative.

We believe the ALP will prevail, but the industry must move to a standard based on market evidence. Many companies are not prepared for this, given the way they currently handle transfer pricing.

The ALP states that the amount one related party charges to another must be the same as if the parties were not related. Therefore, the arm's-length price is what one would observe on the open market.

As companies become digital, using the ALP to allocate profits for tax purposes between parts of a multinational has become more controversial because the market price is more difficult to establish for intangibles such as data. Pricing intercompany transactions has also become harder as data becomes more valuable, and companies grapple with its rapidly moving size, speed, and complexity.

Pricing intangibles is different because it focuses on industry economics and market evidence. It can't be easily characterised into a broadly defined range, so it requires a customised analysis.

The challenge is that few market transactions are publicly available to help price data. Often, there hasn't been enough evidence in controversial transfer pricing cases. But in that case, the company usually wins against the tax authority in negotiations or if it goes to court.

Q What are the practical considerations in performing value chain analyses?

A Value chain analysis (VCA) is tied to transfer pricing because it identifies where profits are created. Some consultants will try to "boil the ocean" with extensive fact finding and functional analysis. For example, VCAs do not generally need a hyperdetailed analysis of development, enhancement, maintenance, protection, and exploitation (DEMPE) nor a microanalysis of risks and controls.

Our approach cuts to the chase, while still running key issues to the ground. It looks at the most important things in the value chain, such as where capital has been employed, and uses transactional evidence to support ALP pricing. Utilizing market evidence is absolutely a best practice.

What is Ryan's competitive edge?

Q A Clients throughout Europe and the rest of the world call on Ryan for our unique approach, expertise, and success in handling transfer pricing and valuation. They appreciate our "inverse pyramid" model, in which seasoned veterans in economic theory work every client engagement directly, versus the common practice of staffing engagements with junior associates who fit most fact patterns into a broadly defined range. A bespoke analysis based on market data is the best approach.

Ryan pioneered the use of market evidence over the widely employed, but often-challenged, profits-based methods. Ryan's approach offers the most robust defence of intercompany transactions, providing successful outcomes in tax controversy litigation around the world.

We have market-leading expertise on intangible property valuation and integration of transfer pricing and tax valuation. Our record is unmatched in negotiating audit settlements, advance pricing agreements, and defending sensitive intercompany transactions.

Clients appreciate our bespoke, restructuring-related valuation and economic analyses in transfer pricing design and controversy, which proves especially valuable in bankruptcy settings. Our market evidence-based approach fosters the most robust defence of intercompany transactions, providing successful outcomes in tax controversy litigation.

Ryan also has extensive negotiating expertise with tax authorities, including insights into how tax authorities behave globally and how to counter these positions.

AUTOMATION

Automation is more than just a buzzword

Automation promises to remove many of the manual processes associated with accounting, but will it live up to the hype?

Jetta Productions Inc / Getty Images

Sam Shaw

The mention of artificial intelligence and automation in finance and accounting might lead many to envisage teams of metal creatures scurrying around an office, rapidly shifting paper from one pile to another. But while such images from science fiction are a million miles from reality, they may be responsible for some of the hype surrounding the concept.

Often when corporate buzz finds its way into everyday parlance, it piques broader consumer interest, but also tends to be simplified, helping to gain resonance with people outside the sector. Typically, this means things get interpreted, or misinterpreted, so buzzwords and phrases are bandied about in a somewhat virtuous circle of hype.

Robotics and automation in finance, for instance, refer to pretty much the same thing, don't they? Surely, both can take over processes that would benefit people working in the finance department.

But Andromeda Wood, senior director of data modelling at US-based Workiva, says: "Many use the terms 'robotics' and 'automation' interchangeably; when I talk about the two, I think of two different things.

"Robotics is something that's a very through process, very rigid and rules based that doesn't really involve the people using it. Whereas we see ourselves sitting more in the automation space, which although very similar, hence why so many mix up the terms, refers to a far more interoperable, customisable process."

Workiva, a global cloud provider of connected data, reporting and compliance solutions, includes the finance departments of many of the world's leading banks, pharmaceutical companies, technology, data and media companies, among its clients.

Ms Wood explains that robotics and automation both use computer technology to do rules-based, repetitive tasks, but automation in finance, or any other sector, involves a closer partnership with the workforce.

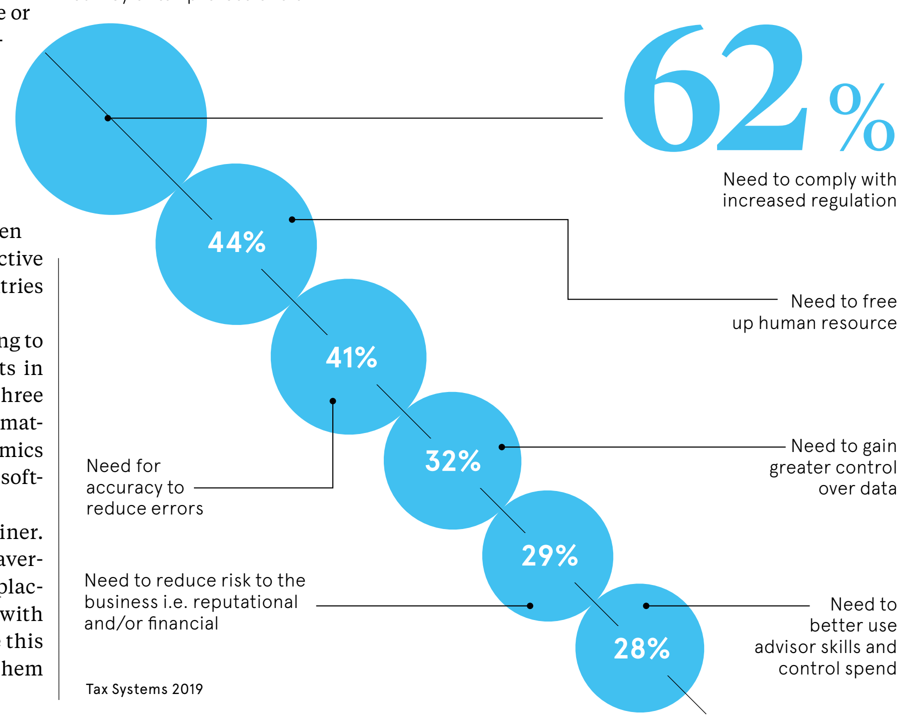
"The terminology can make it more difficult for people to understand which bits of technology they need; what they are worried about and where to start," she says.

So, where should the heads of finance or IT start? Initially, outsourcing of repetitive tasks was done mainly in developing countries; actions were itemised, ordered and flow charts followed.

Offshore outsourcing still has its place. But for many, the bots embedded in accounting software, rather than physical entities, have overtaken the armies of exceptional and cost-effective back-office support staff found in countries such as India.

The business case is robust. According to the Institute of Chartered Accountants in England and Wales, if you can replace three full-time equivalent (FTE) staff by automating one end-to-end process, the economics for robotic process automation (RPA) software will stack up.

On cost alone, it's looks like a no-brainer. For example, you can bring down the average cost per FTE by two-thirds by replacing a staff member based onshore with someone offshore, and you can reduce this cost by two-thirds again by replacing them with RPA.



But, despite increasing efficiencies as RPA software further develops, the human touch in business should not be underestimated.

Abigail Burton, director at Burton Varley, an accounting and business advisory firm whose 700 clients are predominantly small businesses, has decided to outsource some of her back-office administration and adopted cloud-based software programmes so she can access her clients, wherever she is the world, on an almost 24/7 basis.

She believes there are certain aspects of her role that could never be replaced by an automated process or software robot. "I could invest £10 million in a robot, but it will never be able to replace the comfort my clients get from knowing they can contact me and have an actual conversation," she says.

The cloud systems are quicker and more efficient, she acknowledges, but far less personal. "I know my clients; I know where they are in their personal lives, or when a suggestion may be more or less welcomed. I know what their cash flow is like and I'm aware of their situation at any given time. Would a robot? I'm not sure," says Ms Burton.

Lara Brennan, senior manager in financial outsourcing at international accountancy and advisory firm Mazars, recognises how robotics, artificial intelligence (AI) and machine-learning have transformed the software available to the accounting market.

Ms Brennan, who is responsible for helping clients digitise their finance functions, is also a key member of the team that developed Mazars' cloud-based accounting platform elev8. This is built around three core apps: Receipt Bank, which uses RPA for data capture; Xero accounting software; and Fluidly for AI-based credit control.

> The terminology can make it more difficult for people to understand which bits of technology they need; what they are worried about and where to start

"Receipt Bank pushes the data straight into Xero, removing the manual entry point," she explains. "A supplier then emails the specified email address, the bot sweeps your inbox to obtain it as a PDF. A recently added function, called Fetch, is for data collection, which goes and gets the invoice for you from more than 2,000 suppliers, drawing on AI and machine-learning, providing the system contains the credentials it is looking for."

For a more complex business model, a more complex ecosystem would be required. "As soon as you move into a complex industry vertical, you'd look outside those basic applications," Ms Brennan concedes.

However, as simple or as complex the required ecosystem, one thing is clear: the trajectory of automation in finance and accounting will free accountants from mundane, repetitive tasks and transform them into managers of bot-based systems. Reskilling, therefore, seems inevitable.

72%

of tax professionals believe they will automate tax processes by 2024

Tax Systems 2019