The age of big data: challenges and opportunities for indirect tax strategies

The exponential growth of digital data profoundly affects indirect taxes. Companies can harness big data to improve the effectiveness and efficiency of their indirect tax practice. A solid indirect tax management framework is essential. It will help companies to integrate compliance, operations and strategy, to reduce digitalization’s risks and to grasp its opportunities.
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Our world is increasingly a digital world. We produce, transform and analyze huge amounts of electronic data at a dazzling speed. According to some sources, the data that now floods the internet every second are equivalent to the data stored on the entire internet 20 years ago. The volume, velocity and variety of the production of digital data are almost beyond human imagination.

This “age of big data” has a profound influence on the way companies deal with indirect taxes, reshaping both challenges and opportunities. Sophisticated analytical programs allow tax agencies to “make sense” of companies’ ever-growing volume of tax-related data and to detect errors. This increases indirect tax compliance risks. At the same time, companies can harness big data to improve the effectiveness and efficiency of their own indirect tax practice, not just in the area of compliance, but also in the areas of operations and strategy.

Big data: discovering valuable relationships
What is more, a judicious collection, processing and analysis of indirect tax data can help forge an indirect tax management framework that brings these three aspects of compliance, operations and strategy together. Securing, storing and tracking huge quantities of data in the domain of indirect taxes present an important challenge for international companies. But companies that do so effectively stand to uncover valuable relationships between seemingly unrelated data.

In our recent report Managing indirect tax data: gaining insight and control in the digital age we look at these indirect tax issues. As the report is based on many interviews between EY professionals and clients and tax agencies, we offer valuable examples of best practices by leading multinational enterprises.

This transformation in the world of indirect taxes by big data comes at a time when companies’ tax practices are under thorough scrutiny by not only tax agencies, but also investors, regulators and – last but not least – public opinion. In recent years, tax issues have made front page news around the world. Although much of the public focus is on direct taxes, tax agencies and opinion leaders are increasingly focusing on indirect taxes as well. For this reason, transparency of indirect taxes is becoming the norm. Companies must make tax data visible within the organization and to external stakeholders, including tax agencies. In the age of big data, dealing with data correctly is the key to such tax transparency.
The stakes are high

For companies’ indirect tax professionals, the stakes are high. Inside and outside the world of business, there is a growing awareness of the importance of their work. Governments are increasingly relying on indirect taxes such as value-added tax (VAT) and goods and services tax (GST) for their income. VAT rates have increased worldwide in recent years and new indirect taxes are being introduced. In the EU, for example, the average standard VAT rate increased from 19.5% in 2008 to over 21% in 2013.

Tax and customs administrations are increasingly focusing on full compliance. To this end, they request additional information from tax subjects; some data is supposed to flow from the taxpayer to the tax authority on a monthly basis, almost real-time. Tax agencies also share more information with one another and use ever more sophisticated tools to analyze companies’ data. In the EU, moreover, companies have to cope with the sometimes contradictory tendencies of EU-wide harmonization on the one hand, and an increase of detailed national information requirements on the other.

In addition to this demanding external background, companies’ indirect tax professionals are faced with increased internal expectations. Not only are many tax departments asked by corporate management to ensure compliance and reduce risks with limited resources, they are also asked to go beyond compliance, by actively providing financial and non-financial impact analyses in strategic decision-making processes or by contributing to companies’ financial performance through cost reductions and cash flow improvements. At the same time, many multinational enterprises are rationalizing and centralizing structures, standardizing processes and consolidating technology platforms as well as reporting systems. Very often, this makes perfect sense. However, in a world where there is still little harmonization regarding the content and formats of information required by indirect tax authorities, cross-border centralization and standardization is not without its drawbacks for the tax function.

An indirect tax management framework is key

The increased internal and external focus on indirect taxes, as well as the incessant digitalization of our world, makes it more important than ever to use an indirect tax management framework as the basis for effective and efficient management of indirect taxes. All too often, the three main aspects of indirect taxes – compliance, operational and strategic – are still managed in isolation. A solid indirect tax management framework looks at the connections between these three aspects.

Within this framework, the effective collection, processing and analysis of indirect tax data will help management to bridge the gap between compliance, operations and strategy, and to gain control, visibility and valuable insights into the process.

Managing data within this framework is key to aligning indirect taxes to the strategic goals of the business. In the age of big data, by harnessing the power of the information they hold, companies can dig deeper into their indirect tax profile and uncover hidden costs, risks and opportunities.
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Key questions

Operational

How do our systems process indirect taxes at the level of individual transactions? What is the accounting treatment applied to individual transactions? How is individual data aggregated into accounts in the financial statements? What procedures and internal controls are in place to ensure accurate processing of transactions and data?

Compliance

What sources are used to gather relevant data? Who prepares the relevant indirect tax declarations and returns, and how? Are we using the correct data and procedures for calculating and reporting tax payable?

Strategic

Who is responsible for the indirect tax function? How can we ensure continuous improvements to systems, processes and controls? How do we use technology to discover risks, identify opportunities and streamline procedures? How do we ensure that indirect taxes are viewed and managed as an important, strategic part of business?
Data is both the beginning and the end of every tax task. Tax authorities know this all too well. They are becoming smart, fast and efficient in their use of data analytical tools. This allows them to focus on risk-based audits and to obtain, analyze and assess underpaid tax and duty amounts. Nowadays, in-depth reviews by tax agencies that used to take months or even years are performed in a matter of weeks.

From “nice to have” to “need to have”

Obviously, tax subjects cannot stay behind. Tax professionals need to have access to the same type of data analysis software used by tax auditors to identify errors and opportunities. In the digital age, as tax authorities continue to increase their use of data analytical tools, companies must do the same. Some data analytical tools that were, until recently, seen as nice to have by large companies’ management are rapidly becoming need to have. In countries such as Australia, Luxemburg, Netherlands and the United Kingdom, tax authorities make it increasingly clear that they expect large companies to use modern data analytical tools in their management of indirect taxes.

What is more, a sophisticated indirect tax management framework and up-to-date data analytical tools offer companies other opportunities. They are often a precondition for tax agencies to enter into a more constructive and trusting relationship with the taxpayer. No wonder, then, that tax professionals interviewed by us agreed that improving the technology base of the tax function is an essential task.
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The digitalization of filing indirect tax returns is an ongoing process. A late-2013 survey among EY tax professionals in 86 countries showed that:

► In 66 of these 86 countries, tax subjects are allowed or obliged to submit their VAT or GST returns electronically, through e-filing.
► VAT and GST payers can pay VAT and GST balances electronically in 75 out of 86 countries.
► In 69 out of 86 countries, tax authorities use data extracted electronically from the tax subject’s systems to carry out VAT or GST audits.

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Big data and global trade: beyond compliance with taxes and duties

Complying with tax and duty obligations is critical for large multinational companies whose business depends on the international flow of products and services. In this respect, a complicating factor for tax departments is that customs and trade compliance is often outside the direct scope of the tax department and often managed by third parties. The “trade function” within these companies – wherever it is located – is responsible for key trade master data such as tariff classification and country of origin.

Nowadays, the importance of the trade function is rightly seen as going well beyond tax and duties compliance. The trade functions of best-in-class companies add significant value through improved efficiency and reduction of operating costs. They actively look for new ways to use big data for financial and non-financial gains: cost reductions, but also improved international trade processes and increased flexibility and speed-of-response with regard to new logistical, technical or legal opportunities. Thus, through timely collection and meaningful analysis of data, the trade function can move away from a typical reactive support role to become a proactive business partner within the company, a valued participant in strategic decision-making.
Enterprise intelligence tools
For proactive companies, there are many ways to harness technology in their endeavor to improve indirect tax management. Increasingly, indirect tax returns are managed and filed using technology tools. These tools increase accuracy, reduce processing times and costs, and boost visibility of the underlying transactions.

Better data management can be achieved quickly through simple enterprise intelligence (EI) tools. EI is how companies manage and exploit large quantities of data. A great variety of mobile EI applications are now easily available.

State-of-the-art mobile dashboarding technology can help companies cope with complicated real-time tax reporting obligations. They enable “at a glance” updates on KPIs across the whole spectrum of tax management. Visualization tools, smart navigation capabilities and drill-down functions can improve the value of these dashboards.

Seizing the opportunity
The age of big data is rapidly transforming our societies and the world of business. Indirect taxes are no exception. Dealing appropriately with the digital revolution will allow leading companies to reduce risks and improve performance in indirect tax management. The new reality is here. The tools are here. Now, it is up to companies to seize the opportunity! 

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