KEY CONCEPTS IN THE FUTURE OF TAX

(Part I, II & III)
Geoff Peck

TAX TECHNOLOGY CLASSICS

Embark on a transformative exploration of the Tax Technology world with the launch of our TT Classics. Each publication is meticulously curated to provide invaluable insights and cutting-edge knowledge to professionals within the Tax Technology community.

TT Classics series aims to establish a legacy of "highly recommended readings." These articles will delve into the realms of tax automation, digital transformation, regulatory compliance, and more, serving as an indispensable resource for industry enthusiasts.

Key Concepts in the Future of Tax - A five-part series
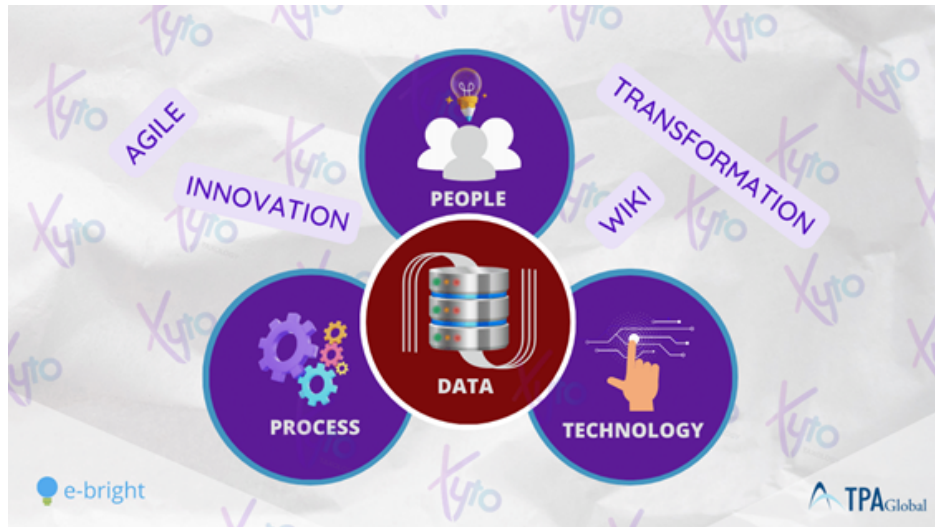
Cliché Busting: The Substance Behind the Sound Bites

In one sense, taxology is about excellent delivery of tax technology with built-in digital future-proofing. Xyto and partners are all about realizing both for the price of one, such that...

Their combined value is far greater than the sum (cost) of their parts.

But how? ... Well, it's no big mystery and we've nothing to hide.

We simply run journeys that unshackle the most powerful concepts already available today! The associated sound bites are not new and many in tax have heard of them, yet they remain curiously out of reach.

This 5-part series looks at the truth behind five critical keywords that tip the balance towards success when tax embraces digitalization.

Geoff Peck

Founder & Chief Taxologist, Xyto Taxology

With 20+ years experience, Geoff excels as thought leader and practitioner in the planning, architecture and governance of end-to-end corporate tax systems. Geoff is the principal author behind the unique Tax Technology Insight Series and a regular blogger, speaker and adviser to major corporations.

Geoff founded Xyto Technology, helping Tax Professionals at major corporations to become digitally aware, tech savvy, data literate & future-proof their careers as tax digitally transforms.

Part 1: Why Agile Matters

The Essence of Agile

The Agile movement, which began 20 years ago with the goal of building better software, has grown to be applicable in nearly every field. Yet, its core principles, that are central to its value proposition, are easily side-stepped.

One key Agile theme states that, "*good digital solutions must be 'discovered' through collaboration and iteration, rather than predefined upfront*". This applies because **digital technologies change the rules of the game in ways impossible to fully grasp in advance**.

Yet, many organizations hesitate to adopt true Agile because it lacks predictability. But by doing so, they suppress the **learning, exploring, and innovating so vital for digital success**. Instead, they opt for the illusion of control at all costs, even as those costs reach debilitating levels, especially for tax.

Therefore, to break through this impasse, we must bust some taboos and listen to what Agile is *really* telling us. Here are three vital pillars that few dare speak:

1. In the digital world, the users do not know their requirements;
2. Even if they did, IT could not deliver it for them; and
3. Business and technology are <u>not</u> independent of each other.

This is a hammer blow to some, almost too much to take, even if in their hearts they felt it was true all along. **Nowhere is this more true than in tax**, which has now **irreversibly gone digital**. The tax profession is still figuring out what that means, both for day-to-day and the big picture.

However, the only way forward is to boost their own digital journeys. Each person must discover it for themselves, and the first step is to **jettison any notion of already knowing what the destination must look like!**

Xyto and its partners make that happen in a way that today's organizations can get behind.

By adopting Agile methods and working hand-in-hand with our customers, **we are collapsing the gap between tax and technology such that each is altered fundamentally** (some might call it *transformation*). The results are extraordinary.

Overall, in the context of *people, process & technology*, Agile is key to the "process" part. It's so critical that **meaningful digital journeys cannot happen without it**.

Therefore, it's vital that *real* Agile is core to every tax function's digital ambitions.

Source: https://www.pawpawtaxology.com/taxology-part-1-why-agile-matters/

Part 2: Why Transformation Matters

The Essence of Transformation

Of the five concepts under review, perhaps *transformation* **is the most high profile, but also misfires the most**. That's a shame because it's vital to avoiding disruption and succeeding in the digital world.

Almost every tax technology effort, or systems project with a tax component, is either named "transformation" or has transformation as a stated objective. But once the rubber hits the road, they rarely stay on track.

Instead, they kick off as automation initiatives or application integration projects (such as an ERP rollout), where the work typically lands with IT or an external partner. The trouble is that **this does not deliver transformation**.

To understand why, let's start with a definition of transformation.

A transformed state exists only *when the end state bears little or no resemblance to the start state*, for example, as in nature when a caterpillar becomes a butterfly. **In the same way with** *digital transformation*, **it only occurs once all four of its main components – *people*, *process*, *technology* and 'data' – are fundamentally altered.**

Traditional technology, IT and automation projects fall short because they leave two critical components behind without meaningful change:

1. <u>People</u> – who after the project, typically go back to the work they did before; and,
2. <u>Data</u> – remains undefined, undervalued, poorly governed, and subservient to *process*.

As always, people will argue differently. For example, when challenged they will say, "but we trained our people in new software", or "we've put data quality measures in place", but when you scratching below the surface, these paintjobs are more likely to actively suppress real change than cause it.

That's because true digital transformation has an entirely different quality about it. For starters, **transformation is strategic, while traditional technology, IT and automation are tactical**. It's also unfamiliar to most (even in IT!), and yet it's the only way to truly unleash the towering value proposition of digital capability and make the tax profession comfortable with itself again.

So, what are the key features? Firstly, *data* outranks *automation* as a source of value. Secondly, automation is no longer about replacing humans with machines – instead, **the main purpose of automation is to support the data model**, especially for knowledge based industries like tax.

This leads to a place where **technology** *complements* **upskilled humans,** who no longer fear being disrupted by it. In fact, they learn to accept their jobs cannot be done without it and start to fully embrace it. Ultimately, they become fundamentally recalibrated and redefine themselves by their close relationship with technological tools and the rich data platforms they support.

As we said, like caterpillar to butterfly, **transformation impacts everything**. Nothing escapes. For example, HR must now recruit, retain, and motivate an entirely different kind of person; and the legal department can forget scouring software license agreements for liabilities and risk, because technology that complements humans is better suited to the simpler subscription model.

But herein lies the issue. Full digital transformation is so different that it's just too much for most people and corporate cultures to swallow. It intuitively feels wrong even when it's not, and quite frankly, can be terrifying. So, **our recommendation is to not even try**! Let me elaborate on that.

Basically, **transformation is not a project**, and it will fail if you try and run it that way. Instead, it's the product of a series of specific actions taken over time that cannot be forced. Here's the formula:

Vision + Strategy + Skills + ∑(innovation / time) => Transformation

Read as, "*Vision plus Strategy plus Skills plus the sum of innovation efforts over time will lead to a transformed state, where Transformation is not a destination but the way of being at the end of a journey.*"

Transformation cannot be done all at once because, as stated in Part 1, the outcome cannot be known in advance. Partly for this reason, we at Xyto avoid mentioning "transformation" except to leaders and visionaries. Managers and pragmatists still want transformation, but can't understand why it's not a normal project. *Hint: this is where the proper use of Agile comes in*.

Instead, we've devised a combination of education, methods, coaching, upskilling, messaging, influencing, leadership and partnering capabilities to engineer effective innovation journeys with the right trajectory that fit in with existing tasks and projects. **Meaningful, intentional, and balanced action every day is the key**.

Source: https://www.pawpawtaxology.com/taxology-part-2-why-transformationmatters/?utm_source=sendinblue&utm_campaign=Part%203%20of%205&utm_medium=email

Part 3: Why 'Data' Matters

The third concept under review, namely 'data', is without doubt **the most impactful to the future of tax**. As a paradigm-shifting medium for tax information, digitalized 'data' is firmly in the process of redefining the industry, and it is **the focal point around which all tax transformation revolves**.

This sentiment is expressed in two powerful statements which we like to share widely and often:

"*As oil was to the energy industry in the 20th century, so data is to the tax industry in the 21st century.*"

...and as tax authorities turn ever more towards transaction level e-regulation:

"*Your tax position is no longer what you say it is, it's what your data says it is.*"

While the impact of this on tax advisors remains muted for now, **for in-house tax professionals** acting as full business partners to the rest of the organization, **it's turning their world upside down**.

Gone are the days when tax preparers sit at the edges of the system and data wrangle ERP downloads in Excel before submitting to authorities. As data reaches jurisdictions at speeds and in quantities greater than ever before, the tax function is left with one option and one option only that makes sense:

"*Get tax data right first time at source.*"

But before digging deeper on that, let's first take a step back and ask an important question – *Why all the fuss*? **What is so important about 'data'?** (Note: we use single quotes when referring to 'data' in concept rather than the data itself).

It's hard to avoid the default view that 'data' is little more than paper documents held in digital form. **Excel does little to dispel that myth** because it's only one small step up from paper, albeit using a digital medium. The same is true of e-filing.

However, corporate-wide data & tax data held on **powerful database platforms using sophisticated business data models** and supported by ever-improving enterprise applications and query tools, is **an entirely different prospect altogether**.

If handled correctly, **this data platform acts as a window onto your entire company** – a digital twin, if you like, a mirror on the whole organization, instantly available and constantly updated. It offers in-house tax professionals complete access to their domain at speeds and levels of granularity previously unimaginable. *Like giving eyes to a person born blind, it's an utter game-changer.*

And make no mistake, this is exactly what the tax authorities are after as well. They're scrambling to **build up sophisticated digital profiles on their taxpayers** and gain holistic visibility and control over their hinterlands in same way that in-house tax professionals should be looking for in their own organizations.

However, there's a problem or two:

1. *Bad data* and *garbage in, garbage out* **are pandemic in today's corporate databases**, and;
2. **Lack of enterprise data skills and 'data'-literacy** means few, if any, know how to improve this (even CDOs – chief data officers – have a poor track record).

As a result, **data is frequently a risk-laden, corporate liability instead of the highly prized asset** – *or even THE most valued asset* – it should be.

The data industry and data sciences don't help much either. They typically focus on managing vast data reservoirs and gleaning golden nuggets from its depths. Only a relatively small part of the industry deals with **pinpoint preciseness and the uber-accurate reflection of the entire organization in data** that tax desires.

As such, "*getting tax data right first time at source*" seems like a forlorn hope, as does trust in data. But as tax authorities lift their approach to data from *plumbing* to *meaning*, this is an escalating risk. **The last thing in-house tax managers want is for the authorities to know more about their companies than they do**. There's no value in that for their stakeholders.

So, what's the way forward? Well, in our opinion, it starts with a **manageable, meaningful, and realistic approach to 'data' that does not cost the earth**.

Our starting point at Xyto and partners is the business stories that data, a.k.a. the *digital twin,* tells you, or should tell you. For example, any VAT manager will tell you how B2B VAT numbers work in the EU, but is this correctly reflected in data and the systems?

To answer that question is a simple exercise in data modelling that anyone can do if shown how. **Completing this exercise for 10-15 key business data objects is all it takes to turn the corner**, and start treating 'data' as the bedrock of the tax function.

Source: *https://www.pawpawtaxology.com/taxology-part-3-why-data-matters/*

CLASSICS·E-BRIGHT'S ESSENTIAL GUIDE·TAX TECHNOLOGY