



# A TAX FUNCTION LOST IN A DIGITAL WORLD

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## **TAX TECHNOLOGY CLASSICS**

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## **A Tax Function lost in a Digital World (Part I & Part II)**

Introducing Julia Maria Martinez Tapia, an experienced corporate and international tax advisor with a deep fascination for digital transformation and data science. With a remarkable career spanning fourteen years at Deloitte Spain's corporate tax department, Julia has worked with multinational groups from various sectors. Currently serving as a Senior Associate at TPA Global, her expertise and insights shine a light on the challenges and opportunities faced by the tax function in an ever-evolving digital landscape.

In this thought-provoking article, Julia takes us on a captivating journey that explores the profound transformation experienced by the tax function in recent years. As she candidly recounts the bygone era when the tax function thrived as a profit center, confidently navigating local compliance, and engaging in tax planning, we are reminded of a simpler time.

However, the landscape changed dramatically with the emergence of Base Erosion and Profit Shifting (BEPS) regulations and the relentless digitalization efforts of tax administrations worldwide. The tax compliance burden grew exponentially, demanding closer collaboration across previously siloed departments and leaving the pre-digital tax function ill-equipped to adapt.

As Julia guides us through the perils and promises of digital transformation, we discover the imperative for the tax function to become digitally enabled, tech-savvy, and data literate. She emphasizes that technology alone is not the solution but rather a catalyst that, when harnessed with the right people and processes, can empower the tax function to thrive in the digital world.

Drawing upon her vast experience and extensive research, Julia outlines key principles and actionable insights for the tax function's evolution. From nurturing a data-driven mindset and prioritizing data quality to rethinking processes and embracing the synergies between humans and technology, she provides a roadmap for success.

While acknowledging the challenges that lie ahead, Julia's unwavering optimism shines through, as she highlights the transformative potential of a digitally enabled tax function. With newfound control, increased efficiency, and the ability to extract valuable insights, the tax function can not only meet the demands of digitalizing tax authorities and businesses but also provide agile support and drive innovation within the organization.

Join us on this exhilarating journey as Julia María Martínez Tapia offers a compelling vision for the future of the tax function, where embracing digital transformation becomes a catalyst for growth, relevance, and professional fulfillment.

## Part I

### Once upon a time

There was a tax function living in a pre-digital world. It was a happy time compared to how it feels today.

To begin with, it was well regarded by the CFO who considered it a profit centre.

Besides that, it assumed a manageable level of local compliance activities for the group. In most cases, analysing transactions was straightforward, and the tax function even had time to evaluate their tax impact, document them accordingly, and meet regulatory obligations. There was a predictability about tax audits and information requests, which related only to past periods. The inspectors were focused only on local issues.

Furthermore, each country established its own rules and the tax authorities seldom communicated with each other.

On top of that, tax planning was possible...

Yeah ... those were good times for the pre-digital tax function.

### And then life changed

BEPS came.

Suddenly, there were transfer pricing rules, exchange of information between tax authorities, hybrid mismatch rules, and the OECD unified approach ...

... and quite honestly, it all made sense, at least from a tax perspective.

But the tax compliance burden mushroomed and became overwhelming as data submission requirements multiplied exponentially, evolved fast, and continued to vary country by country.

Now, the tax authorities even demand business information – not just the financials – and details relating to other, non-domestic members of the group.

The company data need to be consistent at the global level, something not considered before and certainly not the situation when it was reviewed.

Last, but not least, tax planning in the sense it was once understood is simply not possible anymore.

With this gone, the CFO now sees the tax function as a cost centre, and as such demands greater efficiency, productivity, and costs to be managed downwards.

No additional resources are available, and chunks of responsibility are haphazardly outsourced or offshored.

## Furthermore

The tax administrations are going digital. All around the world they are disrupting themselves and their taxpayers by digitalizing at pace.

By requiring raw data in near real-time and using big data techniques such as pattern recognition, anomaly detection, and integrity checking, they aim to efficiently build up comprehensive, accurate, and verified digital profiles of their taxpayers.

Consequently, companies are increasingly requested to provide details and reconciliations that require close collaboration across previously siloed business, finance, and IT departments to prepare.

No less important, the corporate tax profile needs to be addressed to avoid high levels of reputational risk.

All the above are leading to a dramatic information asymmetry between the tax authorities and the pre-digital tax function, which has yet to adopt effective data management and analytics techniques, never mind have access to other taxpayer's data.

## If all the above were not enough to despair...

These same technologies the tax authorities are adopting have changed the rules of the game for businesses, which are (painfully) immersed in digital transformation in various forms in order to adapt, or die.

This means dealing with digitally-enabled clients, new rules of competition, data as a strategic asset, new approaches to innovation, and finally, the need for the business to constantly update its value proposition to the changing demands of increasingly digitally-adept customers.

In this landscape, the business has new expectations of the pre-digital tax function, including providing valuable insights and supporting data-driven decision-making processes in a manner flexible and responsive enough to meet changing circumstances.

So, the poor pre-digital tax function has landed itself **two very demanding clients** in this regard:

- Digitalising and globalising tax authorities, and
- Businesses in the process of digital transformation.

In addition, satisfying such clients requires more and more resources that are increasingly hard to obtain.

## **What has it done so far?**

So, the pre-digital tax function must focus on technology, right!?

Much time and money has been devoted to mechanizing existing (and probably messy) human-based processes in an effort to improve efficiencies, control, visibility through data, and scalability.

Yet somehow, this has not worked as expected.

In the worst case, millions were spent on big bang technology projects that returned little or no apparent benefit.

Consequently, resistance to change arose. Trust in data declined at a time when confidence in it is needed more than ever.

## **And now...what?**

Clearly the pre-digital tax function needs to evolve. It must become a digitally-enabled, tech-savvy, and data literate tax function.

This means some form of digital transformation is the only option. Fortunately, accepting that the world must change is the hardest part. After that, the rest can be worked through.

## **Part II**

### **Once upon a time**

There was a pre-digital tax function that understood that it needed to (truly) transform to survive in the digital world.

Preliminary investigations revealed this could be complex and tricky. Time, resilience and substantial investments will be required. No magical formula or silver bullet was available.

Fortunately, the transformation will make life better again...as it will allow the tax function to be in control in the digital world.

At first glance, a digitally enabled tax function could be fully compliant. Deal with tax requirements and audits in a far more efficient, and less stressful, way. Extract valuable insights from the data and gain relevance before business.

And last, but not least, gain time to focus on the interesting part of the work, instead of spending hours (and more hours) reviewing Excels and reconciling figures...

## **So, how will this be achieved?**

After a period of reflection, meditation, reading, a multitude of LinkedIn webinars, and maybe even some online courses, our pre-digital tax function came up with some guiding principles:

- **Start. Do not delay it further.**
- **If you want to truly transform, do not start implementing some technology!**

It seems that the transformation also requires working with people and rethinking processes to manage data as needed in the digital world.

In fact, using technology properly is mostly about people. Therefore, your people's fears and resistances must be firstly allayed.

This might seem obvious, but still difficult to avoid.

### **The true starting point: take care of your people.**

What are your people thinking about? Most of them, something like this:

*I do not want to change the way we work... can I avoid this mess somehow? If not, what is it going to happen to me? Will I be able to keep up to date with all this new technology? Am I going to lose my job? If not, will I be relegated in some manner?*

At the end... will I remain relevant within a digitally enabled tax function?

All of them legitimate concerns, which will obstacle your transformation to a digitally enabled tax function.

How can you overcome them? Find some ideas below:

✓ **Focus on the benefits of the transformation.**

✓ **Do not try to convince everyone at once.**

Better begin with those who are already interested in digital transformation, data or technology, and involve them to push the transformation forward.

✓ **Ensure that you get the resources you need.**

The transformation should be orchestrated by the right leadership with the right knowledge about how a transformed tax function works. Think about contacting a taxologist.

You will also probably need to cover some new technological roles in your team, so be prepared to search for assistance outside if necessary.

✓ **Train your people to be data and technology aware.**

Provide them with continuous training on digital technologies and project management skills

In particular, training should include fundamentals of computer science as well as basics notions of programming and new technologies as machine learning or blockchain. More detailed training should be given on data analytics, data management tools and agile methodologies.

Furthermore, encourage your team to think about potential applications to the tax function and, specifically, their day-to-day work. Promote personal research and innovation initiatives on data or technology.

And... give them the time and resources they need to learn. If transformation is a strategic issue (which it is), treat it this way.

✓ **Promote a business-driven mindset in your team.**

That will be needed to extract valuable insights from the data and provide the business with the agile support it needs. The tax function cannot remain apart from the business as it was before.

**Move on to a data-driven mindset.**

To survive in the digital world, you must be the equal of the authorities in terms of understanding the data you are reporting. Only then you can be in control and defend yourself during digital or e-audits.

Such understanding will also allow you to give support to the business in the flexible and responsive manner it needs.

However, this requires switching to a data-driven mindset as opposed to the process-driven mindset that prevails today.

Some ideas to do this:

✓ **Firstly, understand how you are getting your data.**

You need to understand where do the data you manage come from exactly. Where are the data stored? Which path do they follow since they are collected until reported to the tax authorities or the group?

✓ **Try a new “data first” approach.**

Think about data as a strategic asset in its own right, rather than something to be minimally gathered from a source of questionable quality to support a particular process.



✓ **Prioritise the quality of your data at source.**

Are you aware of the quality of your data at source? Have you measured the hours of manual work does your data require to fulfill tax compliance and reporting obligations?

It is paramount that good quality source data be prioritised...

... not least because today's data quality is universally below par. Missing transactions, duplicated items, contradictory data, errors, arbitrary differences in formatting, etc., not to mention unstructured data as free text or images.

A digitally enabled tax function accepts that the source tax data is its responsibility.

**Rethink your processes.**

Adopting the data first approach will lead you to rethink your processes.

As an asset in its own right, the data should be separated from the processes they support, promoting generic usage instead.

Get your data right first by understanding that little piece of the real world that it is representing, and then look at your processes as secondary. You will find that the data platform you have created will support many processes and be future-proofed, something that is not possible when process-driven.

Some suggestions:

✓ **Restructure your tax processes.**

Instead of a single end-to-end process for tax, split the tax processes in two distinct components: one for managing tax data from a generic perspective and another for the particular uses of that data, such as VAT compliance or corporate tax reporting.

✓ **Invest in data gathering and generic preparation.**

Data quality should be emphasized and dealt with before considering its uses.

The extra resources needed to address data quality will be rewarded by an increased efficiency and accuracy of downstream processes as tax compliance, reporting or analytics.

✓ **Assume that humans – tech-savvy and data literate humans – and technology need to work together.**

Tax processes must be based on people and technology working together. They complement each other strengths, while compensating for each other weaknesses.



✓ **Make your tax processes more flexible and open to innovation.**

There must be place for accommodation of changing technologies and new roles over time.

**Understand what technology can, and cannot, do.**

Without technology, the tax function will be hardly able to meet the demands of digitalizing tax authorities and businesses.

But do not go to the other extreme, either. Do not expect machines to entirely replace humans and manage our human-based processes, from beginning to end, without resulting in all kinds of issues.

Let technology do what it does best, and humans do what they do best. If you get them to work together then the effectiveness will far outweigh the sum of its parts. This is the only way to meet the cost/benefit and efficiency goals expected of tax functions these days.

Some ideas to approach technology:

✓ **Begin to think about technology as core for the tax function.**

Assume that tax technology is not IT responsibility. It is an essential part of day-by-day tax work.

✓ **Use the technology training to gain perspective.**

Do not limit yourself to learn the applications of the specific technology the market is currently selling for tax. You can deepen on this later.

Start with getting an understanding of how technology works and what can, and cannot, do. You will need such an understanding to be able to integrate the appropriate technology, to the extent necessary and the way it adds the most value.

✓ **Promote continuous involvement with technology.**

Foster that people with more technological profiles and roles within the tax function work closely to the other professionals on day-by-day basis.

In the end, people involved in the tax function must feel as comfortable with technology and data as they are with technical tax rules today.

For the pre-digital tax function is clear that transformation is a long-term effort, and a never-ending one actually...

**Nevertheless, at this point, it is secretly thrilled by the outlook of such an adventure!**

