

Digitalising governance of tax compliance and litigation within the tax and finance function

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Key takeaways:

- *Starting the digital tax journey is imperative for finance functions*
- *Digitalising tax compliance and litigation governance as well as digitising documents into a digital tax repository could bring significant efficiency.*

Technology is becoming all pervasive within the tax function, especially because of the need to deal with voluminous tax data and documents. On the one hand, tax authorities are digitalising tax administration [including sharing and reconciling of data between Income tax, Goods and Services Tax (GST) and Customs] and increasing scrutiny at a transactional data level, while on the other hand, there is pressure to reduce costs by building efficiency within the tax function.

Need for digitalisation of governance in tax function

In India, in addition to the various tax compliances, an enterprise could have a multitude of tax litigation and tax proceeding hearings, which need to be tracked on a regular basis. With the introduction of faceless assessments and appeals, the availability of tax data and documents in real time is an absolute necessity, especially in the current environment of remote working.

Hence, the need for digitising tax data and digitalising governance of tax compliances and litigation becomes critical.

Value drivers for digital tax governance

Leading organisations are now implementing technologies, such as the digital repository and tax compliance and litigation management tracker. Such technologies play a vital role in digitalising the governance of the tax function by providing a bird's eye view of the tax activities to CFOs and tax leaders, thereby enhancing controls and quick actions.

The value drivers for implementing such technology are:

1. **Efficiency** - A digital tax repository assists in managing the enterprise's tax information, documents and data more efficiently by making it more process oriented than individual person dependent
2. **Proactive assessment readiness** – Tax teams can proactively get ready for any adjudication/ assessment queries by tax authorities by maintaining underlying documents, such as

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computations, related workings, agreements, information required based on past notices, etc. in the year of occurrence itself

3. **Minimising risk of non-compliance** – Status of tax compliances and litigation/tax proceedings can be governed digitally through smart deadline alerts
4. **Control over tax areas, which affect cash and bottom line** – CFOs and tax heads can have better visibility of status of tax refunds and adequacy of tax provisions through dashboards
5. **Remote working** – Work from home by tax and finance professionals is now a reality and digital access to underlying data, documents and tax status can easily be made possible by such technologies
6. **Multi-entity and country tracking** – Compliance and proceeding tracking becomes even more important for multiple entity / country operations to avoid hefty penalties for non-compliance in foreign jurisdictions.

Deciding factors for implementing technology for higher tax visibility and control

While deciding on the digital tracker and repository for tax, it is important to review whether the specialised needs of tax are met as opposed to other non-tax compliances, for example: detailed tax refund tracker, tax provision related insights, tax opinions repository, tax user intuitiveness, etc.

Another important factor is the cost of implementing such technology. While there could be an upfront cost of onboarding the historical data and documents, the annual cost of usage (i.e. maintenance) can be minimised by adopting a SaaS model (Software as a Service) on the service provider's server/cloud.

Also, if the enterprise has several group companies, a central level implementation can help the group leverage the cost-benefit over wider number of entities.

In summary

As finance functions go digital, given the statutory nature of taxes, it is critical to include tax within the digital transformation initiatives. Digital tax governance could be the first step in digitalising the tax function and should clearly be a part of the finance and tax function KPIs (Key Performance Indicators) going forward.

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