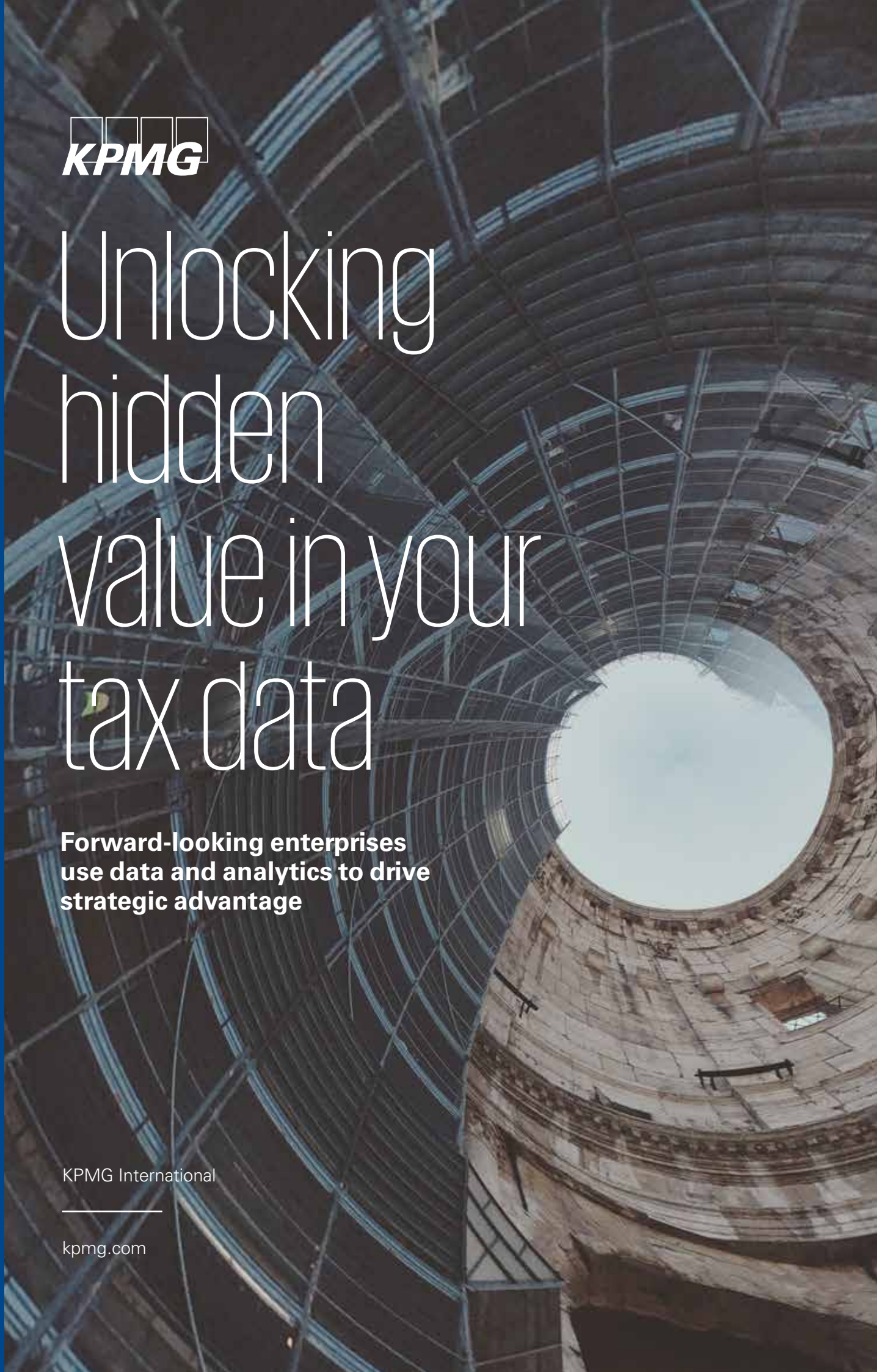

KPMG

Unlocking hidden value in your tax data

Forward-looking enterprises use data and analytics to drive strategic advantage

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Introduction

What if your company's tax department could move beyond its compliance and regulatory functions to create new kinds of value? What if you could use tax data and analytics (D&A) to optimize cash flow, reduce costs and gain a competitive advantage in your industry? Data is a core asset of the 21st century enterprise, and tax data is a valuable yet often untapped resource.

Tax departments that capitalize on D&A advances are increasingly adding strategic value across their organizations. Tax data creates a platform of knowledge for chief information officers, chief financial officers, purchasing departments and other stakeholders to make better decisions. Insights from tax data can help companies increase revenue, enhance operating margin, optimize the supply chain and more.

However, the quality of a company's tax-related decisions is only as good as the quality of the data. That's why enterprises need to ensure the accuracy, reliability and timeliness of their tax data throughout the business. While many companies have processes for collecting tax data, some struggle to transform that data into actionable, predictive insights on tax obligations, process improvements, pricing and other factors.

> "Studies show that companies that use data and analytics effectively are lean and mean. They grow effectively and are operationally efficient. They cut costs in ways that make them industry leaders. They grow their businesses and take market share."

Tim Gillis
Head of Global Tax Technology and Data & Analytics
KPMG LLP (US)

To unlock the greatest value from tax data, organizations need to extract the right information from their systems, combine it with other sources, establish consistent data policies throughout the enterprise and leverage user-friendly analytics to reveal opportunities.

Tax authorities:
It's no longer business as usual

Tax authorities increasingly require businesses to provide transaction-based data as part of the tax reporting process. Brazil, for example, requires companies to submit invoices to the government before sending them to clients. That means the government could see the order-to-cash data even before the business does.

In the UK, meanwhile, tax authorities are eliminating the cumbersome process of filing tax returns. Instead, they have set up accounts for taxpayers, and they're reconciling those accounts with other entities to determine tax liabilities. In this new system, which will replace digital tax accounts for millions of individuals and businesses, taxpayers will simply check their tax information online to determine how much they owe.

Similarly, China's Golden Tax System provides tax authorities with a monthly data download of transaction-level data.

In short, tax authorities are increasingly collecting tax-related data in real time, ensuring that corporate taxpayers uphold their obligations. That makes it critical for companies to know what's in their data — and how it will impact their tax liabilities.

Preparing for regulatory changes

The need for high-quality data and analytics is all the more important amid changes by tax authorities. Increasingly, agencies are investing in new technology to proactively collect financial data in real time, in hopes of reducing errors, preventing fraud and ensuring that corporate taxpayers uphold their obligations.

New D&A technology enables tax authorities to quickly sort through millions of records to identify issues, develop risk profiles among taxpayers and reduce the time required to conduct an audit. Moreover, authorities are beginning to demand more data from corporate taxpayers, often within shorter timeframes. These kinds of trends will only increase as the Organisation for Economic Cooperation and Development (OECD) moves forward with its action plan on base erosion and profit shifting (BEPS), which will require more transparency in corporate tax reporting.

As tax authorities make rapid changes to their policies, it's never been more important for companies to understand the implications of their tax data, while ensuring accuracy and consistency. Those enterprises with a data-driven approach to tax will be well positioned to meet the needs of tax authorities, prevent costly errors and drive smarter decisions throughout the business.

The tax authority agenda

Tax authorities around the world are under pressure to:

1. close the tax gap caused by errors, fraud and abuse
2. collect and share information across borders
3. increase operational efficiency within their own administrations.

Creating a data-focused culture — and turning tax data into value

Just as government agencies are investing in D&A people and technology to improve their operations, corporate taxpayers are wise to do the same, helping them comply with regulatory changes while unlocking new value from tax data.

Tax departments are increasingly using D&A to predict the impact of new governmental or corporate policies. For example, it is often said that every change in a supply chain has a tax impact. While tax departments have long simulated the impact of change, they now have new technology and access to better data — coming from suppliers, customers, logistics providers, distributors and manufacturers — to make more accurate, meaningful predictions. These simulations can significantly affect decisions on transaction procedures, acquisitions, cross-border pricing and more.

In addition, as the OECD pursues country-by-country reporting requirements for BEPS, D&A advances will help multinationals plan for different scenarios. How will companies comply with the new reporting standards? What will be the impact on their debt-financing strategies? Using tax D&A, companies can efficiently model various scenarios and determine new ways to structure their businesses.

The move toward centralization

To get more value from their data, leading tax departments are exploring ways to centralize their D&A activities. This approach will give them a better picture of their global financial landscape, so they can scale improvements across the organization.

For example, enterprises that centralize all transaction-level data in one system can create a unified view of compliance across multiple markets. They can see how the decisions of a single country or department — on factors such as transfer pricing or cross-border transactions — affect other parts of the organization. Moreover, centralized tax D&A is virtually eliminating the need for statistical sampling. With the help of process automation, all of a company's tax data — versus a mere sampling — may now be analyzed quickly and accurately for new insights.

Automation is also helping tax departments quickly fix or prevent mistakes, which will be critical in the emerging "data culture" as accuracy and transparency take center stage. For example, automation software can be used to determine the proper tax codes and product classifications for an invoice, which otherwise are prone to human error, while also detecting problematic invoices. In addition to reducing time-intensive manual effort and managing the risk of incorrect data, automation can free up employees to focus on more strategic tasks.

Optimizing working capital

Some companies are using centralized data analysis to free up working capital. Analytics might show, for instance, that working capital is tied up in monthly value-added tax (VAT) payments, which are being sent to tax authorities further in advance than required. Companies can then determine alternate payment schedules for settling accounts and improving cash management.

> "If you centralize the acquisition of the data, then you can centralize the analytics — and get a greater return on the investment."

Chris Scott
Head of Global Compliance Management Services, KPMG in the UK

A world of new insights for competitive advantage

Example: unlocking new value in trade and customs transactions

When tax departments bring discipline to data collection and analytics, they have tremendous opportunity to create new value — in the form of smarter decisions throughout the organization.

Consider the insights that could be hiding in a typical import declaration:

- **Customs reporting for cost reduction.** With analytics on global imports, companies can determine how much they spend on customs duties by geography, business unit, product and supplier. This insight can help key decision-makers identify ways to reduce import costs, while understanding the risk of noncompliance.
- **Indirect tax reporting for better sourcing decisions.** The right analytics can create visibility on indirect taxes paid upon import — and the speed of their recovery. With this insight, for example, companies can potentially improve cash flow by sourcing materials from countries where they have a lower duty spend and a quicker process for refund.
- **Supply chain reporting for optimizing services.** By capturing and analyzing trade data, companies can get new visibility on supply chain partners' performance related to tax compliance and other factors. With these insights, the tax department can work with the logistics department to develop key performance indicators for freight forwarders, customs brokers and others in the supply chain.

The centralization of data is breaking down information silos, contributing to a culture of cooperative intradepartmental relationships. And as data comes into an organization in real time, forward-looking companies will call on all departments to take responsibility for data accuracy and understand the impact of their decisions. Higher levels of data transparency will also promote better relationships with customers, vendors and tax authorities.

Uncovering new insights in global mobility

Another opportunity to turn data into value lies in companies' management of their global workforce.

For example, what is the total spend on international assignments for a given program, including tax, compensation, administration and other factors? What is the root cause of rising workforce costs in a particular region or business unit? Why do employees of certain nationalities have high rates of attrition when they're assigned to certain countries?

Many companies struggle to answer these kinds of questions, often because they aren't managing their global mobility programs strategically. But the lifecycle of international assignments is rich with data, and leading companies are working to harness it. They're using D&A to uncover new insights about their global workforce and make strategic, evidence-based decisions.

In so doing, these global mobility organizations are aligning their programs to the enterprise strategy, while driving greater confidence in their initiatives, developing closer relationships with human resources and other business units, and elevating the strategic value of the function.

The right data and analytics

As in other parts of the business, the quality of insights depends on the quality of the data — and the organization's ability to access meaningful analytics. That's why some global mobility organizations are looking to the D&A technology of third-party service providers, which can help them gather, centralize and analyze their employee data from around the world.

These tools can pull data from a variety of sources to create dashboards for managing regulatory and tax compliance for global employees. They can also be used to build hypotheses and predict outcomes related to such factors as mandatory cultural training, career mobility, retention after repatriation, time required to start an international assignment, and more.

Conclusion

As tax departments hone their ability to collect the right data and analyze it for insights, they have an opportunity to improve the business — both inside and outside of the tax function. To keep pace with regulatory trends and the growing corporate mandate for D&A, tax directors will need to invest in new technology, talent and protocols to ensure tax compliance while tapping new value.

This value can include above-the-line savings for indirect tax, transfer pricing, trade and customs — plus improved cash flow, a reduction in audits, optimized supply chains and more. Using D&A, tax departments can also see where they have overspent or under-planned — and how they can better contribute to corporate strategy.

Moreover, as tax departments use D&A to become more proactive and less reactive, finance will need to work more closely with information technology to develop the right tools for data collection, analysis and sharing. And as they build their D&A competency, tax departments may need to seek new talent, such as data scientists and technology experts, while continuing to hire tax professionals with strong knowledge of tax authorities. This new talent may also come from shared services organizations or business process outsourcing providers.

Ultimately, when it comes to making companies smarter and more compliant on tax, it's all about the data. Tax has always been a data-driven business, but in today's landscape of fast-changing regulations and instantaneous information sharing, it has never been more important to ensure the quality of that data and unlock insights that drive big, bold decisions. The companies that capitalize on this opportunity will put themselves in position not only for improved compliance — but also strategic advantage.

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