Financial services
digital tax
considerations

#FutureOfTax
With you today

Carol Newham
Partner, FS Tax

Peter Dylewski
Director, FS Tax
Agenda

01 Digital future of financial services

02 Digitalisation of regulation

03 Digitalisation of the back office

04 Panel discussion
We asked 30 industry leaders – insiders, outsiders and challengers – to predict what the FS industry might look like in 2030. Whilst their views varied, they had very clear visions of the future, which span the six pillars we envisage dramatic change to.

**The future of financial services: 30 voices on 2030**

- A different kind of FS CEO in 2030
- Business models predictions for 2030
- The future financial services customer
- Data is the new currency
- Financial services regulation and trust
- How FS functions will operate
Fintech disruption has driven seismic change across all markets:

**Insurance**
Disruptive forces:
- Digital labour
- Claims efficiencies
- Underwriting tools
- Big data

**Capital markets**
Disruptive forces:
- Peer to peer lending
- Blockchain
- RegTech

**Banking + Payments**
Disruptive forces:
- Open banking
- Blockchain
- Fraud prevention

**Asset management**
Disruptive forces:
- Data and analytics
- AI
- Machine learning
The changing world

As we exploit the potential of data and innovation, regulation will need to adapt.

Colin Bell
Group Head of Financial Crime Risk HSBC

#KPMG30Voices
Digitalisation of regulation
A sector under pressure

Several signals show how complicated and costly it is for a bank to be fully compliant with the regulatory framework

### High level compliance concerns

<table>
<thead>
<tr>
<th>$300b</th>
<th>$270b</th>
<th>10-15%</th>
<th>7000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fines paid by banks since 2008</td>
<td>Financial institutions annual compliance spending</td>
<td>Of financial institutions staff working on governance, risk and compliance</td>
<td>Compliance staff employed by a global bank – four times more than the financial crisis</td>
</tr>
</tbody>
</table>

### Use of RegTech

<table>
<thead>
<tr>
<th>$1.37b</th>
<th>$76b</th>
<th>34%</th>
<th>4697</th>
</tr>
</thead>
<tbody>
<tr>
<td>RegTech investment in the first half of 2018 – more than all of 2017</td>
<td>Forecast RegTech spending by 2022</td>
<td>RegTech’s predicted share of all regulatory spending by 2022</td>
<td>Total FinTech patents owned by banks – vs 23,864 owned by the biggest tech company</td>
</tr>
</tbody>
</table>

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.
Regulators are trying to push the current environment to a more standardised one, where topics such as Machine Learning and Data Analytics are required to manage new and complex issues arising in data management.

<table>
<thead>
<tr>
<th>The CEP recommends a full-time national secure data service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission on Evidence-based Policymaking</td>
</tr>
</tbody>
</table>

| The CIA has 137 AI related pilot projects                   |
| Central Intelligence Agency                                 |

| The SEC is taking a “machine learning” approach to behavioral prediction |
| Securities and Exchange Commission                           |

| OCC innovation office builds FinTech dialog                 |
| Central Intelligence Agency                                 |

| CFTC sets up lab to connect with FinTech firms              |
| LabCFTC                                                     |

| CFPB exploring alternative                                  |
| Dir. Cordray says                                            |
| Consumer Financial Protection Bureau                         |
Changing face of regulation

"There’s a huge shift from a large enterprise regulation to activity-based regulation"

Sopendra Mohanty
Chief FinTech Officer
Monetary Authority of Singapore
Overview of RegTech categories

Key regulatory themes have emerged from the sheer volume of regulations that have been implemented over the past years. Each theme comprises of a set of similar and related regulatory global requirements.

1. Market conduct
2. Information protection
3. Compliance management
4. Regulatory reporting
5. Financial crime
6. Consumer protection
7. Tax
8. Risk and capital management
9. Liquidity

7. — Online platforms for tax filings
   — Online tax eligibility determination engines and withholding calculators
   — Tax engines and compliance tools
Digitalisation of tax

Data analytics and the death of the tax return
- Real-time reporting
- Transparency
- Data sharing

The battle for taxing rights
- BEPS
- Digital Nexus

The battle to combat fraud
- ESS, split-payments, Joint and Several Liability
- Generalised Reverse Charge Mechanism
- Increasing customer tax burden
Making it personal

Making tax digital for individuals

Critical success factors (a):

- Accurate withholdings at source
- Compatible legislative framework
- Automated and minimal interactions with taxpayers
- Large scale information processing
- High degree of automation among information suppliers
- High integrity taxpayer identifiers

Note: (a) OECD - Using Third Party Information Reports to Assist Taxpayers Meet their Return Filing Obligations—Country Experiences With the Use of Pre-populated Personal Tax Returns – March 2006
Digitalisation of the back office
Digitalisation of the back office

Customer experience transformation

- New platforms/re-platforming
- Outsourced/co-sourced models
- Enhanced customer journey
- Robo advisers
- Paper to digital
Digitalisation of the back office (cont.)

Financial transformation
Heads of Tax and VAT need to be ready to adapt their processes and systems AND their teams!

Implications

- Shift away from multiple ERP and local team compliance
- Ensuring information is entered correctly first time
- Use of tax engines and increased automation
- Review and correction in real-time
- Shift to data analytics and AI throughout
- Team with mix of data science and tax technical skills
- Embed tax data capture into processes
- Robots doing tax returns?
Digital - tax predictions for the future

Five predictions

- Less ‘bespoke’ sector-specific tax legislation
- Real time customer tax reporting and withholding
- Death or boom of innovation tax relief regimes?
- Taxing robots?
- Move away from place of residence taxation to consumption
Panel discussion

Carol Newham
Partner, FS Tax

Peter Dylewski
Director, FS Tax

Elizabeth Armstrong
Head of Tax,
Royal London Group

Michael Barnard
Head of Indirect Tax,
BlackRock
Thank you
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | CREATE: CRT100522