Building trust through tax technology

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With tax part of a general decline in public trust in business, new technology has a role to play in recovering it, by helping to enhance processes, unearth insights and inform decisive leadership.

The subject of tax has been prominent in the rapid decline of public trust in Australian organisations over the past 5 years. Base erosion and profit-shifting, debate over the corporate tax rate, findings in the Financial Services Royal Commission, and high profile disputes over claims have all contributed to positioning tax at the heart of public discourse on trust in business.

The Edelman Annual Trust Barometer highlights that trust in business globally has declined for the past 5 years, with trust in Australian business declining below the 2017 mark to 48%, sitting well below the global average of 52%[1].

Meanwhile, regulator calls for tax transparency have shone a light on corporate taxpayer behaviour with respect to governance and performance. A 2018 corporate tax transparency report by the ATO has revealed that 'one in four of Australia's largest companies paid no tax last year[2]'. In addition, political campaigns for corporate tax cuts and high profile tax disputes have elevated the debate on tax justice, and raised questions on both the legal and ethical dimensions of tax.

Amid these complexities, tax leaders are increasingly expected to inform and advise on business strategy and commercial decisions, which requires an open dialogue with a range of business units. Tax leaders need to focus on building trust with both internal and external stakeholders to deliver on the rapidly evolving regulator, public and business expectations of the function.

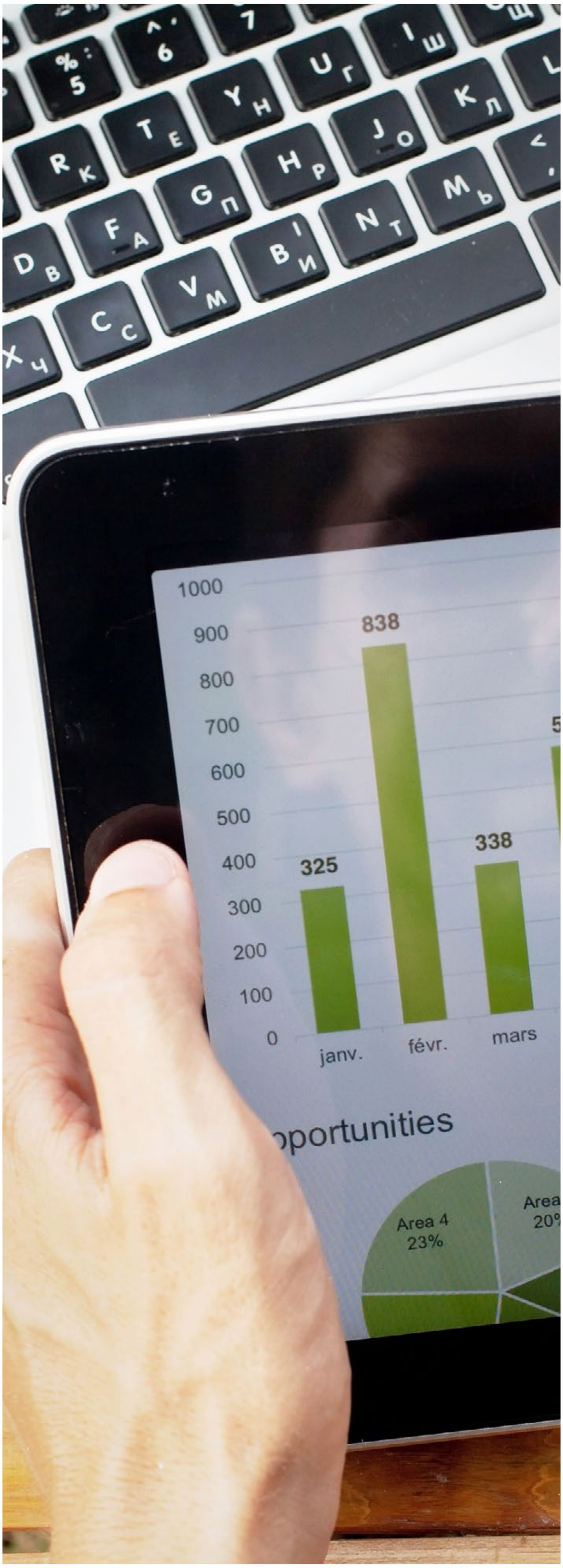
Like every business unit, tax needs to have a sense of purpose that extends beyond compliance and cost saving. To build trust, this purpose needs to reflect stakeholder interests both in terms of business strategy and social license to operate. Tax leaders need to be able to communicate this through stronger narratives that help stakeholders make sense of tax decisions. This requires specialist capabilities and meaningful exposure to the business to best advocate the benefits of the tax strategy.

Tax technology is a key way for tax teams to overcome both the public decline in trust, and to gain the right insights to serve as a trusted partner in the business.

[1] Source: 2019 Eldelman Trust Barometer

[2] Sydney Morning Herald and ATO

Four key ways to build trust through tax technology



While tax technology is nothing new as a means to streamline processes and analyse data, today's tools are much more powerful than the software and systems of even the recent past. The tools have the potential to help tax leaders build public trust and earn a seat at the leadership table. After all, tax has a pulse on information and indicators that can help to model future outcomes, minimise risk and inform business strategy.

In fact, technology is now critical for tax leaders to navigate the interconnected trends transforming tax today – not just the digitisation of tax, but also geopolitical currents, evolving business models and reimagined tax functions. As a result, tax leaders will need to leverage technological advances to rethink the role of tax in the broader context of developing organisational trust.

Here are four ways that tax technology can play a key role:

1. Technology to build trust with the ATO

- The Australian Taxation Office (ATO) is undergoing significant digital transformation, leading the way for Australian organisations to step-up when it comes to tax technology. This was designed not only to simplify the administration and audit of tax, but to drive education on increasingly complex regulatory requirements and enhance service delivery – building trust between the regulator and taxpayer.
- Increasingly, tax policy will be shaped by the ease in which a tax can be administered through technology. Tax leaders will need to respond in kind to the developing technology capability of the ATO in order to prepare for greater scrutiny in these areas.
- Tax laws are regularly changing and the burden of proof has shifted from the ATO identifying risks to taxpayers demonstrating governance and transparency. Technology can play a key part in efficiently and effectively ensuring compliance with tax laws.
- Tax overpayments can influence both increasingly aggressive tax positions, while underpayments can result in significant reputational damage for an organisation. Technology can help to identify and pre-empt these issues.
- As technology enables regulators to more easily review taxpayer strategy and claims in real time, greyness around ethical barriers that diminish trust will be reduced. In turn, organisations can use technology to illustrate how they are paying a 'fair share', to build public trust.

2. Technology to inform business strategy

- Tax effect accounting is understood by few and can be seen as a 'black box' to others in an organisation. Although technology won't solve this, it will give others greater confidence through responsiveness to queries, process transparency, audit-readiness and a collaborative approach to tax strategy.
- Tax managers need to proactively address problems that can go unnoticed by internal audit and finance departments due to a lack of specialist tax knowledge. Technology tools that offer access to real-time data can enable this insight.
- The ATO is seeking context on the business strategy and commercial decisions that are informing tax planning. This requires dialogue with other functions required to enable access to the information they need as regulator expectations evolve, and technology tools can create this transparency.
- Other business units require tax sign-off on a range of decisions, yet tax often doesn't see the broader strategic role it can play for other business units. With the right technology tools, tax leaders can develop trust in the quality of their data and its potential to deliver insights to the broader business.
- Country-by-country reporting represents one example of a new regulation that requires organisations to leverage technology to analyse data differently, at pace. Beyond just reporting on pricing across jurisdictions, technology empowers tax leaders to explore the business rationale behind pricing.

3. Technology for effective leadership

- Tax leaders need technology tools to identify indirect risk across the organisation, in order to protect the business from unnecessary issues, maintain a constant state of audit-readiness and identify ways to reduce costs across a range of different areas.
- Tax leaders can embrace technology tools to respond quicker and more accurately with confidence to requests for information and audits, as a risk-averse leader holding a single line of sight into data across the organisation.
- As technology tools streamline processes, leaders need to develop communication and systems expertise as they work to simplify complex processes with the help of centralised data and automation.

4. Emerging technology building trust in tax

- The increasing centralisation of tax data across organisations is paving the way for the automation of tax processes and cross-functional department activity to build trust through collaboration and drive business transformation.
- There is increasing demand from other business units for support from tax in forecasting through data modelling, providing a channel through which tax can build trust by broadening its influence on the strategic decision making of the organisation.
- Data visualisation tools can reveal macro trends not evident in day-to-day practice. This can enable the communication of tax strategy and benchmarking to build trust in tax strategy through market comparisons.
- Artificial Intelligence such as natural language processing and machine learning can increase the accuracy and efficiency of the review of tax classifications of transactions for a range of taxes, enabling continuous improvement via tax technical validation.
- Blockchain has the potential to securely manage transactions information over invoices, streamline customs administration with pre-populated documentation, and automate tax collection through smart contracts, building trust through more efficient processes.

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