KPMG

Transforming the in-house tax function in China through technology

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A practical guide to 2020

Part B

Now let's begin our journey

Starting on a journey to embrace technology, even on an incremental basis, is necessary to keep up, and also maintain or even enhance the value of the tax function to the organisation it serves.

So by now we have hopefully helped you to understand some of the problems within your organisation which tax technology may help you to fix; we have shared with you a framework through which to consider how most tax technology solutions fit; we've discussed the need to consider incremental change, and acknowledged the need for realism (and patience).

Now we move into the really important aspects of tax technology, and given our emphasis on keeping this simple, we've broken down the issues into their most fundamental building blocks. Specifically:

1   *Why* would you do it? In other words, why do you wish to transform your in-house tax function to be ready to embrace technological change?

2   *What* should you do? That is, what types of tax technology do you need in your organisation?

3   *Who* should help you to do it? What people will you need?

4   *How* should you do it? That is, how should you prioritise between different types of technology solutions, and how should you build a business case to do this?

5   *Does* it work in China? These are specific issues to troubleshoot before deploying any tax technology solution to serve your business needs in China.

In the following sections we explore each of these questions in turn.

Section 3

Who should help you to do it?

The short answer if you spend too much time reading sensationalist media reports, is that you don't need people, instead you just need robots. You can happily make your staff redundant and replace them with robots – machines that don't take coffee breaks, don't need to get paid overtime, and don't take sick leave or require annual leave – the perfect employee!

Thankfully the above paragraph is nothing more than a work of fiction.

An Australian journalist recently pulled apart some of the sensationalist reporting which had suggested that 40 percent of jobs would be automated within the next 10-15 years.[10] The journalist referred to more reasoned studies by organisations such as the McKinsey Global Institute, which suggest something much more balanced:

The McKinsey Global Institute, for instance, estimates that only 5 per cent of occupations will be able to be fully automised by 2065. But it reckons that about half of the activities within occupations will be automatable. So, 95 per cent of occupations will remain but the work within will change. Over the next half-century. You can see why this study didn't get as much publicity as the apocalyptic ones - jobs will change over the next 50 years, nothing too shocking, not many hurt.

The same journalist portrayed the future as follows:

But the most important counter to the panic is the evidence of the past three centuries. As each wave of technological change has hit, from the agricultural revolution to the industrial to the digital, many job categories have indeed been wiped out. But many more have been created. So that there has been a net gain every time. The simple fact is that we can always see jobs disappearing but we can never imagine the jobs that will arise in their place.

The significance of these quotes is twofold. First, the vast majority of jobs will not disappear, and will not be *replaced* by robots, at least over the next 50 years. Rather, the nature of the tasks and responsibilities in most jobs will *change*. Second, while some jobs may disappear (and obviously there is not a consistent view from the experts on the percentage affected), new jobs will emerge in their place. In other words, it's an evolution not a revolution!

So the true answer to the question – what people will I need to help me to do that? By and large, you will still need your current people. However, the nature of their roles will need to change, and you need to start them on that transformational journey now, albeit by taking baby steps.

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[10]   'How to ensure Australia thrives when the robots come', Peter Hartcher, Sydney Morning Herald, 30 September 2017, http://www.smh.com.au/comment/how-to-ensure-australia-thrives-when-the-robots-come-20170929-gyrgr9.html

Let's consider how best to do that. Set out below we provide a framework of the skillsets you will need within a technology centred tax function:
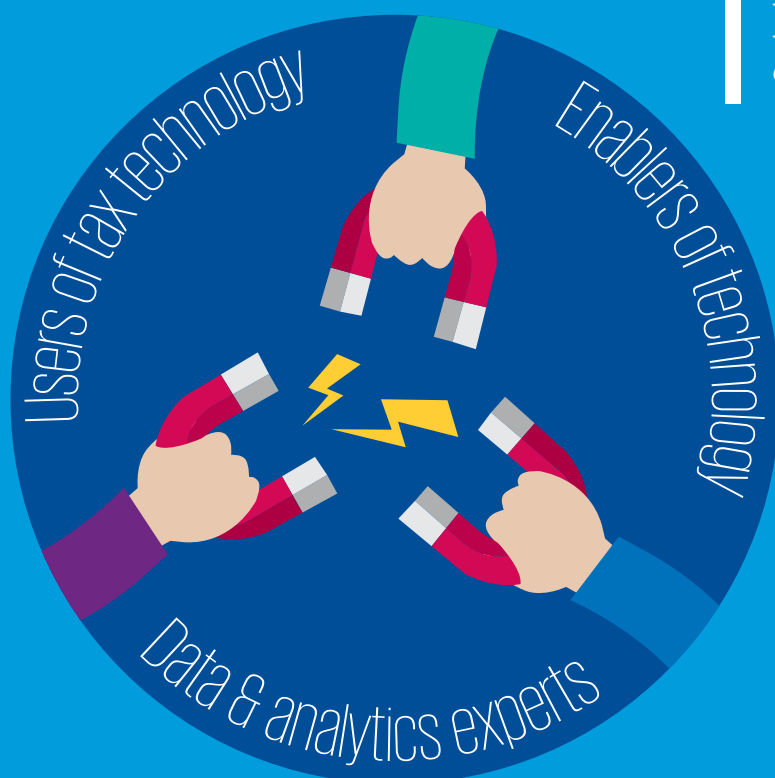
Users of tax technology

these will typically be the people in your tax team, whether they are in advisory, compliance or planning

Enablers of technology

these will typically be people with IT capabilities, able to evaluate and deploy technology, train users and carry out day-to-day troubleshooting

Data & analytics experts

People who can identify tax technology needs in your organisation, or process improvements and efficiencies

The very simple proposition is to recognise is that if your tax function uses technology to carry out much of its work, then you will need people within your organisation with Tax skills and IT skills. However, critical to the success of your technology enabled tax function is these skillsets need to meet in the middle – in other words, you will need your IT people to develop some tax skills, and your Tax people to develop some IT skills. Let's explore this a little further.

Critical to the success of a tax technology-enabled tax function is that you will need IT people to develop some tax skills and Tax people to develop some IT skills.

Starting with your IT people, they may currently sit within your IT function, and your role is to provide them with only a very high level of education about your tax systems and processes. They need just enough knowledge to be able to help you to 'fix' the problems you encounter. Spend some time with them so that they know what you do, and how you do it. They don't need to understand tax technical issues – rather, they need you to walk through things like the compliance process – show them how you progress from the data in your systems to the completion of tax filings. Also show them the problems you are currently experiencing – say, for example, you don't receive the data in the format you need it, or you don't have visibility over certain data.

Importantly, for those with IT related skills, as mentioned you can typically access these people within your existing IT function. However, it may be important that you get a specific allocation of those people. Put simply, you do not want a situation where you are calling a virtual help line every time there is a problem and encountering someone different without any background knowledge in the technology solution. Otherwise, they won't be able to meet you in the middle.

You want them to develop an affinity with your business; you want them to develop experience so that they get to see the same issues over and over and learn from them; you want them to have formed working relationships with you, so that they are accountable to, and feel invested in, the outcomes from your tax function. And if you don't have these people available to you within your organisation already, then you will either need to hire them, or you need to ensure that full and consistent access is provided to you as part of any outsourcing arrangement. In other words, if your organisation will not allow you to invest in IT expertise in-house, consider whether you can access that expertise under an arrangement with your technology provider.

For the Tax people in your organisation, you need them to develop some IT related expertise. This does not mean they need to learn how to program, nor do they need to become IT geeks! Rather, you want your tax team to possess skills in areas such as data and analytics – that is, the ability to identify anomalies or discrepancies in data, or to see patterns in data. They may need to be able to see how solutions can be built through computer programming, though they need not have the skills to do the programming themselves. They need to understand the processes within your organisation – for example, in how to get from data entry through to the completion of a tax return. These people will often have a background in areas such as mathematics, science, computer science, or even people who write Excel spreadsheets at the moment and are adept at thinking of tax problems in terms of formulas, or tax compliance in terms of a series of processes.

To use a footballing analogy, the whole aim of this exercise is to develop people who can 'kick with both feet', meaning they can speak intelligently or proficiently to both Tax and IT matters, whilst not necessarily being an expert in both. Think of these people as akin to 'translators' – they need to be able to speak sufficiently the language of Tax and of IT that they can build a bridge in communication between your Tax and IT teams.

The most important aspect to recognise is that this is a skill which can be learned, rather than necessarily acquired. A tax person who is adept with numbers, at problem solving can develop the IT capability by working hand-in-hand with their IT counterparts, and in generally taking an active interest in technology developments, and what the market is needing. Likewise, an IT person who invests sufficient time understanding your tax function, being co-located with your team, and learning the processes and systems you use will quickly develop the capability to serve as the 'bridge' for your organisation.

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Critically, the tax technology solutions your organisation is either acquiring or developing serve to 'enable' the tax function – they do not serve to 'replace' decision-making within the tax function. This means, for example, that workflow solutions should serve to facilitate processes within your organisation, but in each step of the process, it may not necessarily act as a substitute for your tax knowledge or ability. Often times we see tax people becoming bogged down in trying to design processes to deal with the 1 percent of situations, whereas a process which automates the 99 percent of situations with the ability to override for the 1 percent, would suffice.

Let's take a simple case study to illustrate how this comes to life.

Case Study

An R&D claims process

Assume your organisation currently makes claims for various tax concessions applicable to research and development expenditure in China. Those R&D claims are currently prepared and lodged by a member of your tax team. That tax team member complains, on a regular basis, that the challenge they have in preparing the R&D claims is in accessing the data which helps to quantify the eligible R&D expenditure. That is because the expenditure is not coded into your ERP system each month as "R&D expenditure". Instead, it may be buried amongst employee labour costs, in specific equipment or parts purchases, or in hiring third parties to provide expert support. Let's assume that your staff member who prepares the R&D claims also complains that he or she has difficulty assessing whether the R&D which your company carries out sufficiently contributes new knowledge, or whether it makes substantial improvements in technologies, in products or processes.

The 'old' way of doing this would be for your tax team member to regularly engage in discussions with those staff who are principally responsible for the development of the R&D, and through a process of discussions and consultations, to then work backwards and search expenditure records to try to reconstruct what was actually done. The outcome usually was an underclaiming of R&D expenditure because the eligible expenditure records were not readily identifiable.

A Tax person with some IT capability may see this as an opportunity for improvement – an example of where a technology solution could be used to solve the time intensive and frequently inaccurate problems of the past. So the Tax team member sits down with your IT team and the engineers in your organisation (because they usually carry out the R&D) and they each start by asking the engineers to outline the processes they follow.

From this process, the Tax and IT team will start to get a clear picture of the end to end process from the decision-making which surrounds potential exploration of R&D, right through to its realisation (whether successful or not). The whole secret in bringing everyone together is by seeing the process as leaving a series of 'data points' or digital footprints. For example, if the engineers are required to follow some sort of process in which investment in R&D is considered, approved, developed, tested, and then brought to an outcome, each step of that process will ordinarily leave some form (or more likely multiple forms) of digital footprint. You now have the components necessary to apply a technology solution.

The Tax and IT team can then explore the tax technology solutions which may be available in the market to assist companies in managing their R&D claims. And in doing so, they will be looking to deploy a technology solution which leverages those 'digital footprints'.

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