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Transforming the in-house tax function in China through technology

A practical guide to 2020

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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 4

How should you do it?

In the previous sections of this publication we have considered why you should develop your tax technology capabilities, what you should do to develop a technology centred tax function, and who should help you to do it. The last question is "how" should you do it?

In our experience, even where the tax managers in an organisation may want to implement a technology centred tax function, they still need to overcome one of the biggest inhibitors to any change, and that is the need to have a valid business case to support any investment decision.

In this section of our publication, we examine some of the key aspects to building a **successful business case** for change. And the process for building any business case for change is really no different from any normal budgetary process. The numbers need to add up.

Consider the following two examples:

The Tax Manager at Organisation A learns about a new tax technology solution being provided by a third party software provider. He examines the costs and submits a request to buy the technology solution at a total cost of RMB 1 million. The Tax Manager says it will make his job more efficient and will help him in preparing tax compliance returns. The Tax Manager puts this proposition to the CFO but is rejected.

Now consider the position of Tax Manager at Organisation B, who learns about the same tax technology solution. He examines the costs in some detail, understands the different 'purchase' options available – from an outright purchase, to a periodic licence, to full outsourcing of the tax compliance process. He concludes from his assessment that a 3 year licence period most likely represents the effective life of the solution. He assesses the extent of man hours that the solution will save and the consequential flow on impact to costs. He then approaches the CFO with a proposition around deploying the tax technology solution in exchange for a reduction in headcount in the compliance function (to be achieved through natural attrition). The outcome of the proposition is a net cost saving, and this is even before factoring in the benefits of greater accuracy. To help to manage any unexpected problems or risks in deploying the solution, the Tax Manager also negotiates an obligation-free trial period for deploying the tax technology solution. Not surprisingly, the CFO accepts the proposition. Please see an example business case to deploy a tax data insights solution in the breakout box.

Case Study

Example business case to deploy a data insights solution

An organization wants to implement a data insights solution to identify opportunities and risks sitting in the indirect tax (VAT) process in 4 countries (incl. China). The strategy is to build in-house capabilities to work with a data insights solution from an end-user perspective. From a development perspective they are looking to existing solutions and preferably deploy them on an on-premises basis in order manage IT data security risks.

The tax manager has decided to run a "proof-of-concept" (PoC) with a tax D&A solution, delivered by an external tax technology service provider, with a relatively small fee <RMB100,000..

By analysing a 6-month period of transactions for only one country, they found an amount worth RMB 180,000 of unclaimed VAT. Furthermore the PoC showed invoices totalling to RMB 355,000 which were not reported in the VAT return because the ERP system did not flag them as relevant for VAT. Potentially this has led to an underpayment of VAT which might result in the imposition of penalties and fines from the tax authorities if the organization is subject to audit or review by the tax authorities.

Based on the PoC results, the tax manager has presented the a high-level business case to the CFO to deploy the tax D&A solution based on an on premises implementation for a 3 year usage period. The high level business case highlights:

– The potential VAT savings over a 3 year period across 4 countries, assuming a comparable level of unclaimed VAT is detected;

– The potential savings to the business in terms of mitigation of audit costs, fines, penalties;

– The costs of implementing the technology solution for the 3 year period, covering one-off costs, maintenance costs, and some minor new IT components needed to implement the tax D&A solution.

The business case looked like this:

Benefits		**3 Years (RMB)**
Direct (one-off) VAT/GST cash savings (unclaimed VAT/GST)	4 countries for 3 years @ RMB180,000 per ½ year per country	4,320,000
Risk mitigation of potential fines/penalties	For 4 countries, high level assessment of likely interest/penalties	500,000
Reduction of manual work to perform monthly VAT return checking	0,5 FTE per year per country	1,040,000
Total benefits (3 years)		**5,860,000**
Costs		
One-off implementation costs (incl. PoC)	Consultancy fees to deploy the solution (incl. training)	750,000
One-off investment in IT components	Fees for IT services (e.g. hardware)	150,000
Tax D&A solution usage fee, incl. maintenance (recurring)	License fees over 3 years	450,000
Total costs (3 years)		**1,350,000**
Total net benefit (3 years)		**4,510,000**

What these examples highlight is that the same tax technology solution, when proposed in two different ways but for the same purpose, may give rise to two very different outcomes. The outcome of any proposal is very much a function of how it is positioned within the business, and the ability to present a business case in a persuasive way to stakeholders.

While this example may be overly simplistic, in the real world there may be other more complex factors which can be used to support any business case for change. Fundamentally though, the task is always the same – it is around aligning the benefits from deploying the tax technology solution with your organisation's overall strategy and objectives, and this may mean pitching any solution as fulfilling objectives such as:

- **providing stronger governance and controls**, which is especially important in organisations which may have recently been subject to adverse audit outcomes, or self-reporting of unexpected liabilities;
- **providing cost savings or efficiency gains** to the organisation, through reductions in head count, overcoming manual processes, or freeing up resources to focus on high value added activities;
- **meeting new compliance challenges**, which may be as diverse as country-by-country reporting, new R&D incentives, or even an organisation's internal audit requirements to enhance controls;
- **moves to adopt greater real-time reporting**, which may necessitate investments in insights-based solutions to monitor data reporting; or
- **measurement of tax function performance** (or even individual performance) through Key Performance Indicators (KPIs) which are aligned with the successful deployment of value creating tax technology solutions.

In addition to aligning tax technology investment decisions with overall business strategies and objectives, consider a few tips which may help to get investment decisions 'over the line', such as:

- **Do you really need to buy it?** For many organisations, large capital investments may be subject to greater oversight and control, as compared with periodic expenditure. Software-as-a-Service (SaaS) based solutions may help to bridge that gap;
- **Do you really know the cost or value to the organisation?** In the above example, the savvy Tax Manager was able to successfully deploy the tax technology solution initially on a trial basis first, which can help to validate and quantify the potential benefits to the organisation before committing to a longer-term investment decision;
- **Whose budget should the investment come from?** While the cost of tax compliance solutions would logically fall within the Tax budget, solutions which provide insights to particular aspects of your business operations such as an R&D technology solution, may reasonably have its costs met by other parts of the business. Likewise, infrastructure, accessories or components may serve many parts of the organisation and therefore their costs allocated accordingly;

- **Can you get some quick 'wins'** - tax technology solutions such as certain data and analytics solutions can initially be deployed to find tax savings, which in turn justify the costs of deploying the technology solution.

The flipside is to recognise potential 'traps' or hazards along the way. For example, consider how to manage key risks in deploying tax technology solutions such as:

- **The risk of premature redundancy** – that is, the risk that the technology solution or even the tax problem which the technology is seeking to solve may become redundant earlier than anticipated. Access to regular updates as part of a solution package should be seriously considered;
- **The need for maintenance and repairs** – all technology solutions require regular repairs and maintenance and this should be packaged in to any budget request;
- **The risk of cost overruns or delays in deployment** – the tendency for many IT related projects to be subject to cost overruns or delays is very real, and the same is true with tax technology deployment. Project managing this is critical, and so too is the need for input and 'ownership' by your IT specialists.

While all of these aligning features, tips and traps should form part of your business case for investment in tax technology, it is worthwhile to quickly summarise the key components of any business case. They are:

(1) What is the specific request you are making, and the context in which you are making it;

(2) What are the objectives in deploying this tax technology solution, how do they align with both your broader tax function goals as well as your organisation's overall objectives;

(3) What value or benefits will this deliver for the organisation – consider short-term versus long-term, financial versus non-financial benefits;

(4) How will the tax technology be deployed, the timeline including key milestones, allocation of responsibilities, what are the key risks, the dependencies etc;

(5) What other alternatives are available to deploying this technology solution, and how do they stack up on a comparative basis;

(6) What other similar organisations are deploying this technology and what has been their experience;

(7) How will success be measured, and are there ways to mitigate investment risks.

Finally, and perhaps most fundamentally, any investment in tax technology solutions needs to be aligned with the objectives of the business, and it must serve the business. For example, consider how the deployment of any tax technology solution aligns with your organisation's broader risk tolerance, or how it aligns with your organisation's governance procedures.

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