Transformation of compliance

The changing tides in tax and statutory compliance — and how multinationals are responding

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From base erosion and profit shifting (BEPS) to the Common Reporting Standard (CRS) and everything in between, multinationals are facing more compliance burdens than ever before.

And more burdens mean the potential for more financial and reputational risk — especially when obligations vary from one country to the next.

Tax authorities around the world are also getting more proactive in assessing and collecting tax as they invest in technology to prevent fraud and reduce errors.

Can you confidently tell your senior leadership that compliance is under control in every market where you do business? Are you certain that your numbers are accurate, you're paying the right tax at the right time and you're averting costly penalties? Are you succeeding in the court of public opinion, preventing consumer allegations of tax avoidance?

In today's environment of increased scrutiny, many multinationals are transforming their approach to compliance — so they can answer yes to these kinds of questions.

They're also asking a few more. Should they focus mainly on tax compliance — or other compliance areas as well? Should they outsource, co-source or keep it in-house? As finance and accounting become increasingly centralized, should compliance have a cross-functional center of excellence? What is the role of digitization and machine learning in compliance, and how will tax authorities deploy them?

All these factors will change the look of global compliance in the next few years. Where do you stand?

A fast-changing regulatory landscape

The compliance environment is growing more complex and onerous as tax authorities, legislators and even non-governmental organizations (NGOs) put multinationals under the microscope. Based on general economic conditions, most tax authorities are focused on collecting the right amount of tax as efficiently as possible, which is why they're sharpening their approach to taxpayer compliance. For example, the BEPS action plan from the Organization for Economic Cooperation and Development (OECD) — along with regimes such as FATCA in the US and the OECD's CRS — are significantly increasing companies' compliance burden.

Tax authorities around the world are also getting more proactive in assessing and collecting tax as they invest in technology to prevent fraud and reduce errors. In Brazil, for example, companies are required to submit transaction data ahead of invoicing to obtain the correct authorization. This provides the tax authority with a wealth of data for auditing the taxpayer's activity, while changing the way that companies think about the risks in preparing tax returns. More and more countries are requiring the submission of detailed transactional data, and this trend is expected to continue amid the increase in indirect and other transactional taxes.

Other new statutory rules, relating to format and taxonomy, present yet another compliance burden. For instance, the Australian Tax Office is creating an online and mobile infrastructure to engage more directly with corporate taxpayers and other agencies, while creating new standards for information exchange. In Germany, similarly, companies are required to file an electronic balance sheet and must follow an agreed taxonomy. And in the UK, companies are not only required to file tax returns electronically, but they must also present corporate tax returns and accompanying statutory accounts in the Inline eXtensible Business Reporting Language (iXBRL) format.

In addition to improving administrative efficiency, these kinds of policies aim to enable tax authorities to run automated analyses on companies' data, providing more insight into taxpayers' activities and the risks to accurate compliance. Therefore, increasingly, companies need to maintain much greater visibility on the accuracy of their accounting and tax data around the world, while monitoring the audit trail from accounting system to tax return. Their tax risk and reputation depend on it.

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Using data and analytics to get more value from compliance

In addition to re-evaluating their compliance models, leading multinationals and service providers are responding to changing regulation by investing in new systems for data and analytics (D&A).

Indeed, as finance activities become more centralized, tax departments can use D&A systems to centralize their data from around the world, better understand what's in it and help ensure the accuracy.

But tax departments are also using D&A to create more enterprise value as they transform their compliance activities to gain easier access to more tax and accounting data. How, for example, can they get real-time visibility of relevant data and help their organizations make better, more informed decisions?

Leading tax organizations are using D&A to:

- **model different scenarios on the impact of BEPS and other tax policies**
- **optimize working capital, by analyzing VAT data and the timing of monthly payments**
- **offer predictive insights based on the analysis of supply chain data**
- **create a global view of compliance across all countries — along with insights on how decisions in one country can affect other parts of the Group**
- **conduct automated analysis of all tax data — instead of a mere sampling — to prevent or fix errors related to tax codes and other factors.**

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Will authorities use their access to transactional data to make their own calculations of the tax due — which the taxpayer will then, effectively, have to audit if they wish to challenge it?

Government agencies aren't the only ones increasing their scrutiny of multinationals. NGOs and consumers, more vigilant and vocal than ever, are also questioning how and where multinationals earn their profits — and whether they're paying their fair share of tax. Meanwhile, many nations are legislating Country by Country Reporting requirements — and other transparency initiatives — to create much greater visibility on how a corporation manages its tax profile globally. Given these trends the head of tax can no longer simply leave local compliance to the local business.

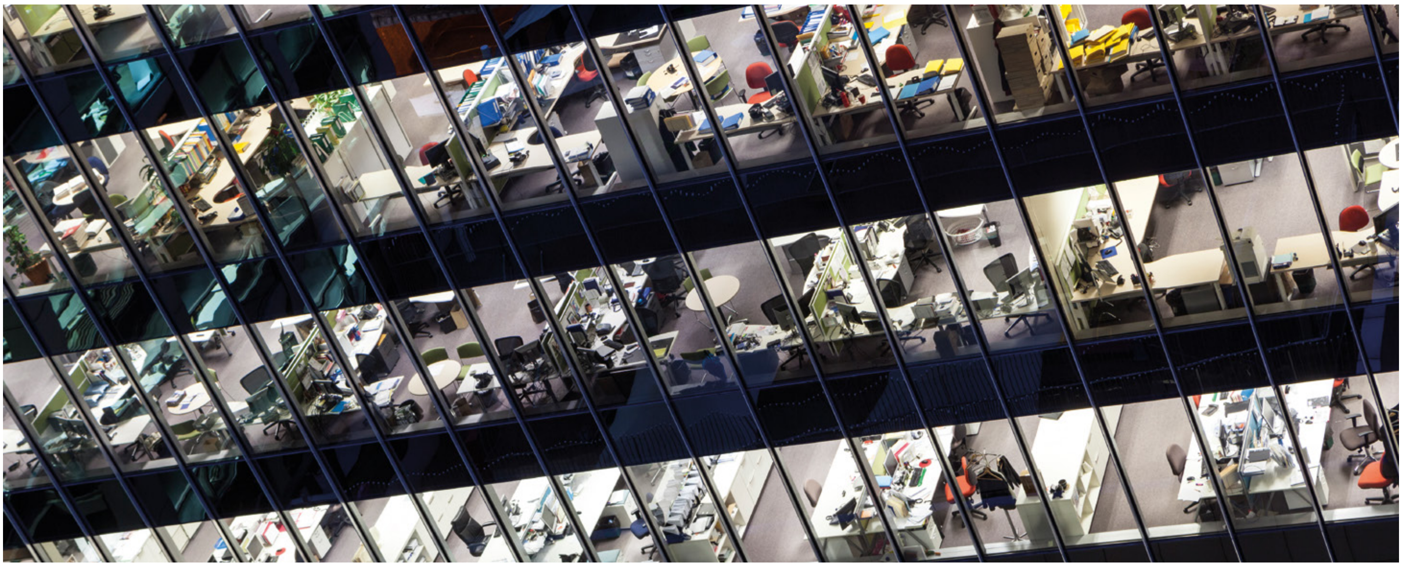
Revisiting the model for multinational compliance

As global compliance gets tougher, costlier and riskier, many multinationals are taking a close look at their compliance delivery models, ensuring they get the best return on their huge investment in compliance and can address new reporting requirements proactively. And as finance departments become more centralized, tax departments are also considering whether their local-country compliance activity should be more centralized as well.

For example, those companies that adopt shared services for finance and accounting (F&A) have often had to reduce their in-country F&A headcount as a result. This is a real challenge for the tax function, as the people they relied upon for the local work are no longer available. Consequently, the organization must take a fresh look at how they manage their local tax compliance. In addition, these organizations are also finding challenges in managing other local compliance, such as statutory accounting requirements, company secretarial requirements, payroll and so on.

However, for most companies today, tax compliance sits in the tax function and accounting compliance sits in the accounting function. Notwithstanding this, all tax returns depend on accounting data and often t it is therefore the tax function that has the greatest interest in the local statutory accounts because of the interdependency. In addition, many of the new compliance requirements, such as Country by Country Reporting, are going to require greater reporting of accounting data, so many multinationals are now taking a broader view. They're considering how to transform the management of compliance holistically to cover all areas of local statutory compliance in a single, integrated approach.

What if there were a compliance organization that reaches across both the tax and accounting functions? Some companies are starting to explore a center-of-excellence approach that governs this kind of cross-functional delivery model. Such a group, with the explicit remit to transform the management of compliance, would create a focused, effective and efficient approach for adopting new resources, processes and technology. It would also determine how to collaborate with F&A shared services, identify ways to reduce costs and drive continuous improvement around the world.



The value of centralization

When it comes to centralizing compliance, the great debate is how to balance the desire for cost reduction with the need to maintain quality and manage risk.

Our view: You don't have to take one benefit at the expense of another.

In terms of quality and risk management, centralization can actually give you a stronger focus on your compliance processes. Instead of having numerous people around the world doing compliance activities in different ways, you can centralize your efforts with a global team of statutory specialists who use common processes and technology to improve both efficiency and effectiveness.

And thanks to advancements in cognitive automation, service providers expect to be able to continue reducing costs, improving quality and managing risks in compliance. With natural language processing, machine learning, data analytics and probabilistic reasoning, emerging cognitive systems are expected to help employees make better decisions, improve speed to proficiency and reduce error — all of which bodes well for global compliance management.

The key is to identify those compliance processes that provide sufficient volume to justify the investment in centralization.

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At the moment, this kind of approach is rare. But for those multinationals that do have a huge, costly compliance burden — and are simultaneously trying to optimize their F&A shared services — a cross-functional approach may be a strategy for the near horizon.

In a similar vein, and as a more common first step for centralizing compliance activities, some tax departments are looking more closely at ways to leverage their organization's investment in shared services. One way is by moving the day-to-day responsibility for tax compliance work into shared services while retaining overall sponsorship and accountability in line with their tax remit.

Transformation through outsourcing

However, one of the biggest challenges with greater centralization is the cost of the required country-specific expertise, processes and technologies to comply with regulations that vary by market. Most companies simply don't have the business case to make this investment across the board. Instead they may focus on their very largest countries, where the compliance burden is heaviest. Or they may focus on their highest-volume processes, such as VAT reporting, where there is sufficient commonality across country requirements.

What's the best way to manage compliance for the majority of countries where centralization is not an immediate or practical option? Many companies are choosing to wrap up all their local-country compliance requirements in a global contract with a single service provider. Such contracts have tax compliance at their core, but they increasingly include other compliance areas as well. With such a global contract, companies can access a service provider's specialists, standardized processes and technology — in a scalable way — instead of investing in their own. These contracts can help provide companies with assurance that they're compliant in all jurisdictions around the world.

Some platforms also offer global workflow management, enabling management to see progress on worldwide compliance activities, quickly identify and escalate issues, and ensure that filings are made on time.

Leading compliance service providers offer advantages such as:

- **Global data management.** As it is now, some multinationals, especially those that have been slower to embrace shared services, have data buried in various systems in different countries, which can be hard to find when it's needed. Leading service providers, on the other hand, have web-based platforms that enable local teams around the world to correctly input data — despite differences in language, business systems and work cultures — which then can be managed by a central compliance team. Management, meanwhile, can view all the data in one place, using dashboards to get a global view of their compliance position and easily share information with stakeholders.

  Similarly, these platforms also offer a global web-based document repository. So if management wants to review work papers or returns for a certain business in a certain country, they can find these documents in one centralized place versus hunting them down in a local system. Some platforms also offer global workflow management, enabling management to see progress on worldwide compliance activities, quickly identify and escalate issues, and ensure that filings are made on time.
- **Statutory expertise.** Since most companies don't have sufficient compliance volume in most of their countries to justify the hiring of employees with country-specific knowledge, it usually makes more business sense to buy these statutory skills from a service provider. As such, companies can effectively address the challenge of hiring, training and retaining the required people. This approach is equally effective in companies' mature territories or when they need rapid-response support to help ensure compliance as they move into new markets. Further, when companies use an external provider, they can access its wider network of tax specialists to help ensure an efficient and effective tax profile.
- **Centralized compliance delivery models.** Global service providers usually have the volume of work across their client base to support investment in standardized, centralized delivery models and associated technologies that is not open to most businesses.
- **Compliance technology.** In addition, the best service providers offer access to compliance technologies that might be hard for any one company to justify building on its own. This technology can include software for complying with tax reporting standards, XBRL reporting requirements, statutory accounting, data extraction and analysis, and many other areas.

Of course, some of these benefits will be available to larger multinationals, which are making similar internal investments where they have the volume of compliance activity to support the business case.

Considerations in sourcing location

As companies consider new models for global compliance — including outsourcing, shared services and combinations of the two — they're also considering the location of services. Should they go offshore? Nearshore? Onshore?

Companies continue to look to India for low-cost, educated and English-speaking labor, while also using centers in Malaysia, the Philippines, Costa Rica and other countries. But as labor arbitrage becomes challenging to sustain, today's conversation is going beyond cost alone. Companies are also considering how to access specialized skills, standardized processes and new technology — with some cost savings along the way.

As a result, some companies are putting shared services in near-shore locations such as Poland or Hungary, which offer a broader range of language skills, time-zone advantages and a stronger cultural fit with operations in Europe. Others are keeping services onshore for more technical, judgment-intensive areas of compliance, such as corporate tax returns, but they're centralizing these services to get the benefits of standardization, automation and lower-cost locations within their own countries.

As more finance organizations move toward centralization, new models such as cross-functional compliance and compliance centers of excellence will find favor with more and more organizations.

In the next few years, these sourcing trends are expected to continue. That is, the companies with a high volume of compliance activities in a few countries may find a way to house compliance in their F&A shared services centers, while the vast majority of multinationals will continue to outsource or co-source compliance for most of their countries. And, increasingly, these companies will outsource their tax and statutory compliance to a single service provider — as a way to centralize compliance with leading talent, process and technology, while creating a global view of their compliance status.

Multinationals will also increasingly consider other aspects of compliance transformation — including, critically, the role of digitization and automation — as they face more taxes, more compliance burdens and more scrutiny in general. How will they continue to effectively and efficiently manage their compliance around the world when the risks of non-compliance — both financial and reputational — have perhaps never been higher?

As more finance organizations move toward centralization, new models such as cross-functional compliance and compliance centers of excellence will find favor with more and more organizations. And one thing's for sure: the global compliance environment is ever changing and that requires the same of multinational companies. They must continue evolving to adapt to new requirements, meet their obligations and find new opportunities for value.

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