

Podcast transcript

Digitization of tax.

Podcast with Tim Gillis, Global Head of Tax Technology and Innovation

Musical intro

Announcer:

Hello and thank you for downloading our second episode in the new KPMG podcast series for tax leaders. Today we're going to hear from Tim Gillis, Global Head of Tax Technology and Innovation at KPMG International to talk about the digitization of tax and what that really means.

Hi Tim and thanks for joining us on the phone, we wanted to talk to you today about the digitization of tax. It's a huge topic we can cover just about anything in tax so let me start at the very beginning by asking what does digitization mean to you?

Tim:

I think that's a really important and good question because it's used so often today and oftentimes it's used without clarification. The way I think about it is that there are at least three ways of thinking about digitization and they're all different and so when someone mentions it you may want to clarify with them 'what exactly do you mean?'

So the first way I think digitization is important is the way the tax administrations are digitizing their future, the way they are changing their administration function and equipping it with technology and data and analytics that drive the collection of tax and the way they administer their entire tax function. That's an important area, it's an area where they're investing quite a bit of money right now and that will in fact change what digitization looks like for everyone else as well.

But the second way I think we can think about digitization is the way that tax functions themselves within companies are digitizing their function and this is different. A great way to think about it is not as digitization really, but to think of it as automation. You can call it digitization, and it is, but automation is a better way to think about it. And I think in that case, it's everything from using technologies that make the function operate more efficiently, more seamlessly, more accurately and it's also using things like robots and RPA has been a watch word the last year and a half. It is very real, it is the front runner to intelligent automation more broadly but clearly RPA is invoked today.

Sometimes people ask me 'well what do you mean by 'Robotic Process Automation?'' and the way I think you can look at it is, remember how we used to do macros in Excel? Well RPA is really the ability to do macros across multiple types of technologies so in fact you're writing a formula that then can

work across technologies to make more tasks more efficient and frankly to cut out some of the work that is this repetitive type of work.

Announcer:

Ok so we've thought about digitization in the tax administration area and at the tax payer or at the tax function level for example. But what's the third way we can think about digitization?

Tim:

I think the third way is the way that tax policy is changing everything and frankly driving us towards a digital way of looking at tax. Let me give you an example of that, it's only been thirty years since corporate headline rates, that is the maximum rates imposed by countries, it's only been about thirty years since that maximum rate was over forty percent. In less than thirty years that rate has declined by approximately half so today we wake up in a world where the average corporate income tax rate around the world is twenty-two percent or so. And the reason that's important is that you have to think about 'what's it being replaced with?' and it's being replaced with a couple of thinks. One is a broadened income tax base which makes that income tax base look a little bit more like a consumption tax, and if you get to consumption taxes then you're really at transaction level taxes and that's what VAT and GST or that's what trade and customs duties are, there at the transaction level. And once you get to the transaction level that is where the world of tax really does become a data game, that's a digital game at that point And understanding and knowing and having accuracy around data management that becomes absolutely essential because tax policy has moved you in that direction.

Announcer:

And of course these developments are all happening over a long period of time.

Tim:

This happens so slowly it reminds me of a couple of stories, you've probably all heard these before but it's interesting. It's been said that 'how did you find out you had termites?' And the

answer is 'well slowly at first and then all of a sudden when the attic fell in'. Or if you think about someone who you ask 'how did you go bankrupt?' and they'll say 'well slowly at first and then all of a sudden'. That's sort of how it happens right it was a slow burn, it happened from 1985 forward very slowly it seems and the all of a sudden you wake up and the whole world is changed, and that's what we've woken up to today.

So let me just recap that, there are at least three ways of thinking about digitization Those three ways are tax administrations are digitizing themselves by investment in technology, tax functions are digitizing themselves by embracing new technologies to get things more accurate and by embracing RPA to be more efficient and ultimately to embrace intelligent automation as well and then the third way is that tax policy is driving us into a mandatory digital world by focusing on transaction level taxation, whether it's in income tax or in other types of taxes like indirect tax.

Announcer:

So clearly technology has a major role to play in all this change, so who do you think is further ahead, tax administrations of businesses? Are we entering some kind of tax technology arms race?

Tim:

That is a good question too, you know I wouldn't call it a race actually I would just look at it in terms of who has more incentive to invest earlier. And because tax administrations deal with so much data. Their data needs, their data requirements, the data they receive is so voluminous that as technology costs have declined and as big data, the term that was now three or four years old has largely fallen out of use but as big data became the big focus, tax administrations have invested quite a bit of money in that area and that's not going away. So I think that it's easy to look at it one way and say that there are at least some countries that have sprinted ahead of everyone else, I wouldn't say it's the world, but I'd say there's clearly some countries that have sprinted ahead and I think tax functions themselves and companies themselves struggle a little bit with this question and I think it really boils down to; does it make sense for companies to invest at a company level in the types of technology and process automation that will be necessary for this new world, or does it make more sense for them to think about, well maybe we should rent, or borrow or buy some of those services let's use them as managed services. I think many companies at least are going through as analysis right now where they're thinking through 'does it make sense to build, buy or ally in this area?' and as they look at the future what's going to be the easiest way to keep up? And in some cases I think that will be outsourcing and in some cases I think that may be keeping things in-house and finding ways to be as efficient as possible in their investments.

Announcer:

Tim, you mentioned earlier that you thought digitization was starting to shape policy, do you have an example you can share perhaps?

Tim:

Yeah, in fact it was interesting when I was out in Australia last week I picked up the front page of, I think it was the Sydney Morning Herald, and it referenced one of these examples and it was so perfect that I brought it right in to a meeting that I was conducting while we were out in Australia. The example was this, and the area we haven't talked about honestly is the digital economy itself. That is the way that goods and services are now procured via Internet, sometimes delivered through tangible means, sometimes delivered through intangible means by remote sellers who may or may not be located within the taxing jurisdiction and that digital economy taxation is an interesting area. And so when I was out in Sydney, the front page of the paper ran a story on how both the EU and the Australian government separately wanted to begin taxing the advertising revenues of digital economy companies, those companies that we use to get online and to search for things right as just two examples. And in the article that was in the Sydney paper, it even made reference to the fact that well if we do in fact tax you know the digital economy this way, which would be a new form of taxation on the basis of a gross advertising revenues number and not on the net income basis, then what would it permit us to do? And the answer is it would permit us to justify corporate income tax rate reductions. So if you think about that, that's one of those clear examples of this whole digital revolution and evolution even as we speak, and I think that's the type of thought process that policy makers around the globe are thinking through right now.

Announcer:

So Tim, to sum up what do you think all this means to tax leaders around the globe?

Tim:

So if I put myself in the shoes of a head of tax for example, I think I begin to look at my function differently. I begin to think about how do I become a business advisor to my business, how do I sweep all taxes underneath the umbrella of the tax function? Because, in some sense they're all coming together and they're all coming together through a sort of data and digital funnel. And as they do that, I think it's important to think about how best to add value to the organization through data analytics, through supply-chain organization and management, and through new ways and fresh ways of participating directly with the operating units as they fulfill the mission of the enterprise.

Announcer:

Thank you Tim, we will of course cover more on digitization and tax technology in future episodes. Join us next time for a look at ways business models are changing in today's environment. Let us know what you think about this episode and share your ideas for future episodes, by emailing tax@kpmg.com. And remember, you can find our latest publications, articles and other material that address the issues discussed in this ongoing podcast series at kpmg.com/futureoftax Thanks for listening!

Musical exit