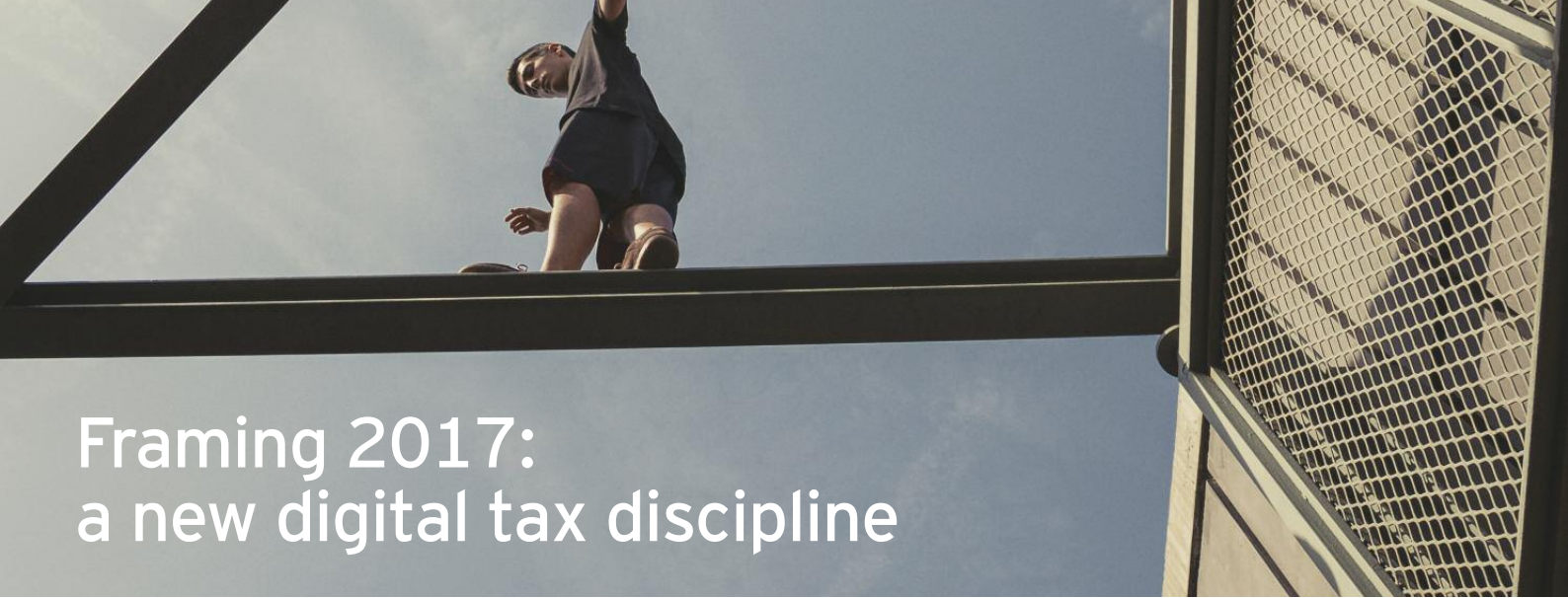


At the intersection of international
tax and digital transformation

Framing 2017: a new digital tax discipline



Framing 2017: a new digital tax discipline

Tax risk reached new heights in 2016, particularly for companies in full-throttle global digital transformation. From within, multinational enterprises in all industries were digitally disrupting their own business-as-usual by using rapidly evolving technologies. From outside, sweeping changes in national and international tax rules – also driven by digital dynamics – gained momentum, spiked (more than once) and gave every sign of continuing to do well into the new year. Amid all the resulting uncertainty, tax and finance professionals began steeling themselves with a new digital tax discipline for 2017 and beyond.

2016 in brief

To give a sense of the sea change in 2016, let's start at year-end. Long-standing barriers to US tax reform suddenly seemed to fall in November, as the Trump presidency approached, including measures that raised both hopes (lower corporate tax rate) and fears (a tweeted proposal for a 35% tax on business offshoring). Time will tell how the US environment will develop, but tax news was also mixed around the world.

On the plus side, for example, Israel in December finalized a new innovation box regime with reduced tax rates that came into effect on 1 January 2017 – one of a string of such incentives touted around the world last year by countries competing to lure business. More challenging have been year-end anti-tax-avoidance proposals in India and Germany, following tough measures in Australia and the UK.

These and other changes came amid the global roll-out of (potentially misaligned) national rules that nominally adhere to new multilateral tax guidelines under the Organisation for Economic Co-operation and Development's (OECD) ambitious base erosion and profit shifting (BEPS) initiative. And they are unfolding in a new environment of tax transparency, in which tax administrations are digitizing their operations, collecting more corporate data and exchanging it with each other as a matter of standard operating procedure.

Building discipline

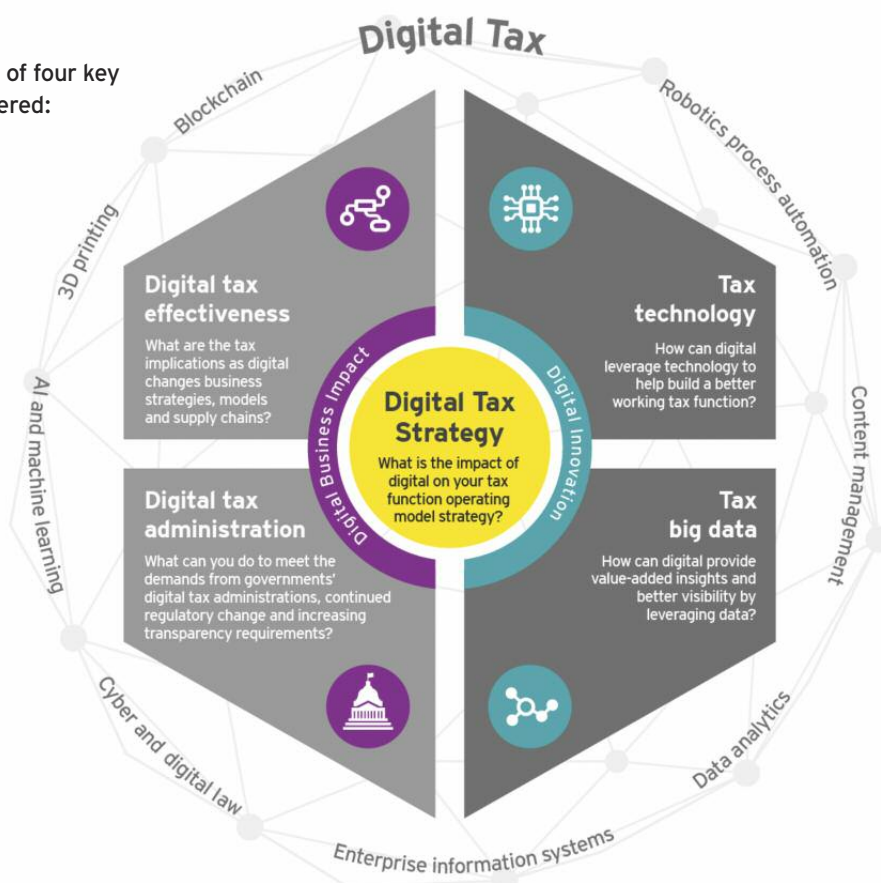
Digital transformation can be a flash point for tax risk, both in unintended tax costs to business and in the attention it draws from tax administrators.

Governments are looking to digital transactions as new sources of tax revenue. For their part, companies should craft their digital tax strategy early, as an integral part of any business change, with the flexibility to adjust to further business developments and the ongoing evolution of tax rules.

Keep in mind that any digital tax strategy should cover emerging as well as existing and evolving technologies. For example, we already have enterprise information tools that can make internal tax processes more efficient and compliance more seamless. These are getting better every day. Meanwhile, new technologies such as blockchain¹ are coming on strong. How can this open ledger system be used to make tax easier?

In time, emerging technologies could actually make tax an entirely different discipline. Right now, tax departments are made up mostly of tax specialists, accountants and lawyers. The tax function of the future will include experts in software robotics, artificial intelligence and programming, as well.

An overarching framework of four key disciplines should be mastered:



¹ Blockchain reaction: Tech companies plan for critical, EY, © EYGM Limited.

The takeaway

Rapid change and sudden shifts in tax rules and administration will not abate in 2017. Nor will there be a slowdown in the pace of digital innovation.

Big data analytics, robotics, automation and enterprise information systems will both disrupt traditional business and create opportunities for process improvement, supply chain re-alignment and full-scale enterprise-wide transformation.

So ask yourself, as the year begins:

- ▶ Are you aware of how digital your business and your tax interaction need to be?
- ▶ Do you understand the change that's coming – up to and including the same-time nature of tax compliance and payment?
- ▶ And are you hiring the right people to really prepare you for what's likely to be here in two, three, five years?

This is the future:

Companies will report and pay their taxes faster and they will resolve their controversies faster. The technologies to do this are emerging onto the scene in finance globally. They're touching every industry. They're driving a new discipline in the tax function, which will become far more sophisticated even as 2017 draws to a close.

About the author



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