Connected Tax: a new operating model framework
An answer for the disruption in Tax operations
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Operational disruptors
## Operational disruptors

### What’s driving the connected tax function

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**Explanation**

- **Transparency CONNECTS politics to Tax**
  - The macro economic global environment is not yielding revenue growth most companies or governments need to cover their cost base. Taxing jurisdictions have turned to transparency and tax policy to drive taxation into a more public issue. Companies are being asked to drive cost from the tax operations in the face of increased complexity.

- **Big data fuels CONNECTIVITY**
  - Innovation in customer-facing technology (mobile, RFID, internet) enables exponential growth in the type of transactional data captured. Innovation in database technology enables virtually unlimited data storage. This emerging data environment is fundamentally changing how tax departments and tax authorities acquire, consume and connect the dots to assess the story the data portrays.

- **Workforce dynamics in a CONNECTED world**
  - Robotics process automation (RPA) and the looming impact of artificial intelligence (AI) are transforming the workforce. This coupled with the Gig economy and other forms of just in time workforce solutions, are connecting tasks with available labor options to solve problems in a different way.

- **CONNECTIVITY driving business model change**
  - Technology in the connected economy is disrupting business models in every industry. This business model change is forcing companies to evaluate their tax positions utilizing outdated concepts. The disruption is also causing taxing jurisdictions to evolve new laws to collect revenue under this new paradigm.

- **CONNECTIVITY enabled by technology**
  - Platforms connect diverse participants with one another and enable them to interact and transact, creating entirely new markets. The enterprise is using this to connect people both internally and externally to maximize productivity. This is coupled with “self-service business intelligence” technology that places powerful data management and analytic tools in the hands of users without the need for IT support.

- **Tax Administration direct CONNECTIVITY to tax base**
  - At an increasing pace and expanding scope, taxing jurisdictions are driving laws to require more transparency (BEPS, FATCA, etc.). They’re sharing this data across tax authorities, acquiring raw data sets and analyzing those data sets to assess tax directly, demanding real-time data and even replacing the formal tax return.
The platform
Understanding the value of the platform

Connected Tax platform

Enterprise systems
Connecting with enterprise systems to create efficiencies and trust in the data

Company stakeholders
Connecting with internal stakeholders inside tax and across the enterprise to provide levels of visibility and business information that enables new ways to add value and reduce risk

Service providers
Connecting with external service providers to access innovation and new ways of working together

Taxing authorities
Connecting directly with tax authorities in a well controlled process to minimize risks and controversy costs
Converting data from liability to asset
Converting data from a point of risk to an empowering asset

Each company is unique with respect to the degree in which technology and data management techniques are already deployed.

The maturity model is a powerful diagnostic to better understand the short term and long term needs of an individual company.

In order for a company to shift its tax operational capabilities steadily toward the strategic right, it must become better connected.

- Connected to its business operations
- Connected to its financial reporting systems
- Connected to its advisors

The maturity model moves from the far left – a high risk reporting environment – to the far right – a highly productive, strategic contributor to the overall business strategy.

The challenges experienced by many companies who trend toward high reporting risk can be traced to a disconnected technology and data environment, resulting from a steady stream of IT investment made by the company but excluding the interests of the tax function.
Converting data from a liability to an asset

Internal digital connectedness

The digitally disconnected Tax function

- **Data volume**: Exponential growth in data volume is bursting the capability of typical spreadsheets.
- **Data controls**: The proliferation of information with deficient access control drives continuous reconciliation costs – no “single source of the truth.”
- **Digitally integrated systems**: Financial reporting systems are disconnected tracing back to ineffective M&A integration programs.
- **Data opportunity cost**: Staff spend 50%+ of their time to collect and validate data, resulting in an overweight effort to validate data as opposed to gaining insights through analysis of the data.
- **Digital data dependency**: Tax is heavily dependent on diverse population of systems in which it doesn’t have control or influence.
- **Underinvested**: It’s common for tax functions to under-invest in systems, tools, analytics and data management compared to the broader enterprise. Eventually, tax reaches a tipping point, whereby they struggle to keep pace while maintaining quality in output.

The digitally connected tax function

- **Connected data strategy**: Able to rely on a centralized, well governed and simplified tax data environment built on a platform encompassing most of its requirements (e.g., data lakes, data warehouse, data mart, operational data store).
- **Tightly integrated reporting ecosystem**: Encompassing G/Ls, dedicated data environment(s), tax engine systems, custom reporting/analytics tools as spreadsheet upgrades and robust, locked down data archives.
- **Workforce**: Leverages a reporting and analytics-savvy workforce including an up-skilled human workforce, digital workforce and contingent workforce able to affect reporting analytics productivity.
- **Best-in-Cost/Best-in-Class**: A high degree of change agility results from the Connected Tax function focusing its efforts on activities core to its tax operations, relying on cost-effective service providers for non-core deliverables.
- **Data as an asset**: Tax data is utilized to move at the pace of business to anticipate, forecast, model and project tax implications associated with regulatory changes, geopolitical trends, mergers, acquisitions, new products/services and supply chain innovation. Tax analytics become the precursor to execution of strategy rather than keeping score of what was accomplished.
- **Data to manage risk**: Tax data can be staged and assessed in advance of external parties applying data science to be able to clean up and predict areas of exposure before audit cycles.
Connected apps for tax
Connectivity enabled by technology
Connected Apps for Tax: rapid solution delivery vs. historic transformation approach

Historic Transformation Approach
- High investment threshold
- End-to-end thinking
- Significant IT expertise
- Inertia to change

Rapid Solution Delivery – Connected Apps/Integrated point solutions
- Low investment threshold
- Solutions focused, within a strategic vision
- Lower IT expertise
- Nimble, refine plan over time for emerging needs
- Faster value realization
Best in class vs. best in cost
Separating core activities from non-core activities
Best in class vs. best in cost

Best in cost objectives
Tasks deemed lower value should be performed at minimal cost through centralization, sourcing from lower cost locations or low cost third parties.

Typical tax functions with lower cost/efficiency objectives:
- Completion of tax returns and other routine reports
- Controversy and notice management
- Data collection
- Document storage, file creation
- Reconciliations
- Business support in low risk jurisdictions
- Compute and manage compliance related support

Best in class objectives
Higher-value activities should be performed at optimal effectiveness and addressed through hiring or outsourcing/managed service with higher-level skills.

Typical functions with best in class and quality objectives:
- Tax planning and strategies
- Tax risk and controls management
- Tax policies
- Communications/relationships with stakeholders
- Significant issues management
- Tax modeling and forecasting
- Business support in high risk jurisdictions
EY Interact Portal

Tax Enablement Platform
Workflow, Document Management, Communication & Collaboration

Bi-directional Data Access

Intelligent Process Automation

Cost optimization and operating model
What connected tax looks like
On your way to Connected Tax

Disruptors driving the Connected Tax function

1. Transparency connects politics to Tax
2. Big data fuels connectivity
3. Workforce dynamics in a connected world
4. Connectivity enabled by technology
5. Connectivity driving business model change
6. Tax Administration direct connectivity to tax base

Aligning the components of Connected Tax

Tax Technology and Transformation

New ways of working
- Best in class vs. best in cost
- Build, buy or lease
- Virtual workforce and location strategy
- Vendor strategy in cloud environment
- Delivering sustainable tax processes in new ecosystems

Digitalized tax function
- Data architecture, data quality
- Data analytics and visualization
- Automation and RPA
- Emerging technologies
- Dashboards and workflow management
- Harnessing cloud and APIs

Operational risk landscape
- Understanding the business’s emerging tax profile
- Target operating model
- Skill requirements
- Utilizing technology for tax risk
- Assessment of Digital Tax Administration journey
- Governance, KPIs and risk appetite
- Real-time risk management

New operating model blueprint

Connected Tax
Introduction to design thinking

Design thinking is …

A human centered approach to innovation that draws from the designers toolkit to integrate the needs of people, the possibilities of technology and the requirements for business success

Tim Brown, President and CEO, IDEO
What is a designers mindset?

- **Human Centered**: Understand needs and emotions
- **Mindful of Process**: Embrace ambiguity and the unknown
- **Culture of Prototyping**: Boldly adopt experimentation
- **Contextual**: Consider each unique set of circumstances
- **Bias Towards Action**: Think with a focus on doing
- **Radical Collaboration**: Bring together diverse teams
- **Show Don’t Tell**: Talk less, show more
Different workshops for different audiences

‘FutureBack’
Accelerated visioning workshop for the Client’s Tax leadership

‘Art of the Possible’
powered by EYTax.Tech™ Lab
Technology innovation lab for the Client’s Tax team

‘Client Connect’
powered by EYTax.Tech™ Lab
Multi-client technology large event showcase
Thank you!
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