Trend five

Data makes the difference

By Rhea Wessel

Key messages

- As companies struggle to collect and analyze data from different business units and in a variety of reporting formats, tax authorities continue to use unprecedented amounts of data and advanced analytics to conduct audits on a global scale.
- Companies with best-practice tax functions are defining strategies and building up their own big data and analytics capabilities to take a more proactive tax stance. The goal is to monitor tax positions on a real-time, transactional basis via tax dashboards.
- Such monitoring makes voluntary disclosures easier and keeps companies prepared to respond to tax inquiries from the public or authorities.

As the media and governments continue to "name and shame" companies for allegedly failing to pay their fair share of tax, companies are considering how they can use the power of data analytics to move from a reactive stance on tax to one that is more proactive and predictive.

Such measures often require a big shift in the mindset of corporations as they adopt a data and analytics strategy that considers the compliance and reporting needs of the tax function at every level of business operations.

In many cases, the first step is to consolidate data already on hand so companies can better defend their compliance processes and tax positions and make voluntary disclosure easier, for instance.

Yet many companies still struggle to collect, consolidate and analyze different data sets from all areas of the enterprise, with data quality often being a significant issue. Assuming control and being accountable for such data in a global organization is a challenge, and centralization – which is often a must – is not easy to achieve. Gaining tax insight from that data can be even harder.

In many cases, this situation can be traced back to chronic underinvestment in the tax function and a lack of cooperation between the tax department and IT. As a result, tax departments may not have use of dashboard-level monitoring of key indicators like their colleagues in finance down the hall. Indeed, surveys show that more than 50% of Fortune 1000 companies use Microsoft Excel workbooks for tax-related monitoring.

"Tax departments are playing a game of catch-up with their technology," says Adrian Hextall, Director of Tax Performance Advisory at EY.

Advantage with the authorities

Companies are preparing for a day when tax authorities audit raw data sets from organizations and use their own analytics capabilities — and the massive amounts of data they have legislated for and otherwise acquire — to uncover trends and discrepancies that may even be unknown to a company.

In the end, tax authorities will have an advantage in detecting trends, since the amount of data available to a single multinational would be "small" compared with what governments can access.

Already, tax authorities are meeting at international conferences to discuss best practices for advanced analytics in tax administrations; and they are making it easier to share data among themselves and compare it across a company's legal entities or across industries. In some countries, for instance, data sets are required to be submitted in the eXtensible Business Reporting Language (XBRL), a standard format for business data that makes it easier to compare. The OECD work on base erosion and profit shifting, and the associated Action Plan, also demonstrates this more coordinated approach to data exchange.

Duncan Cleary, a senior statistician at Revenue — Irish Tax & Customs, said many tax authorities around the world already analyze large sets of data against custom-defined rules to determine which taxpayers they consider to be at risk of non-compliance.

Looking forward, tax authorities are likely to focus on making the use of existing analytics techniques the norm in everyday operations and combining and integrating techniques, such as rule-based monitoring, modeling and outlier detection, Cleary said.

Data strategies for the tax function

Likewise, companies increasingly want to make the use of analytics for the tax function more sophisticated by not only consolidating data, but better managing data warehouses and creating the ability to perform high-speed exception reporting.

Hans van der Kroon
Managing Director of Group Tax at Randstad.

Credit: Marc Wetli

EY is helping companies develop data strategies, evaluate potential hardware and software vendors and move to the point where data is sliced and diced in a way that useful indicators can be visualized on a dashboard. These include indicators for transfer pricing and direct and indirect tax, and screens for monitoring the management of controversy, compliance and various legal entities.

The Netherlands-based global human resource services company Randstad already uses its large data sets to look for possible deviations and, therefore, tax problems; for instance, in the amount of payroll taxes calculated. Hans van der Kroon, the Managing Director of Group Tax at Randstad, sees these data sets as a place to do more checks and assert more control for tax compliance.

"We look for logical or illogical correlations between salary components, corporate allowance payments, kilometer allowances and these kinds of things. That's the power of a lot of data. Instead of being in one spot and having a limited view, we are able to have lots of data and a broad overview. We can do many analyses remotely from Amsterdam," said van der Kroon.

User expectations

The way users want to receive such tax data points is shaped by the user experience on everyday websites: users want information to be tailored for desired indicators, mobile, visually driven and super-high speed.

"People expect reports that pull millions or billions of records and previously required two days of number crunching to be available in 10 seconds on a remote laptop, with a pleasing design," said Hextall.

Such user requirements are a tall order given the disarray inherent in many companies' data, as well as the data ownership and data privacy considerations in various jurisdictions, says Hextall. "But it's not impossible."

In the end, companies that combine powerful technology solutions with niche advice on fraud, investigations and litigation will be best prepared to use big data and the power of analytics to respond to and prevent litigation and regulatory inquiries, says Hextall. ■