Grant Thornton

An instinct for growth™

Indirect tax automation

A suite of technology options to improve GST/VAT compliance

2016

The context: indirect tax environment

Global footprint and international supply chain requiring multiple GST/VAT registrations

Changes to reporting requirements

Regulatory pressures to demonstrate controls

Increased administrative requirements eg e-filing of returns

New or amended GST/VAT regimes e.g. Chine, India, Japan, Oman, U.A.E. and Malaysia

New invoicing requirements e.g. EU Invoicing Directive 2013

Frequency of tax rate changes e.g. US sales tax

Penalty regimes focused on behaviour, systems and controls

Standard audit file requirements eg France

Increased co-operation between tax authorities

Increased accountability of directors and officers e.g. SAO requirements UK

More sophisticated audits using data interrogation

The challenge: existing systems

ERP systems generally have limited functionality in relation to GST/VAT including:

- limited number of tax codes and tax tables
- limited exception reporting
- limited controls, allowing manual overrides
- struggles with cross-border requirements
- costly to change pre-set requirements

- manual and lengthy process to update rates and rules
- inability to provide summary data for reporting in relevant format
- difficulty in running reports and queries
- detailed localisation of ERP required
- limited function to handle multiple country requirements.

The above challenges are exacerbated where there are multiple or legacy systems.

The challenge: symptoms and pressure points

Limitations within existing systems can lead to the following symptoms and pressure points for a business:

- too many spreadsheets (and an overreliance)

- increased manual intervention leading to human error

- regular errors in tax liability

- deficiencies and delays in reporting

- increased voluntary disclosures and penalties

- delays in input tax recovery

- invalid tax invoices

- lack of visibility over global compliance

- difficulty in demonstrating controls

- difficulty in cash flow planning

- time consuming manual changes in systems by the IT department for every change in liability and rate.
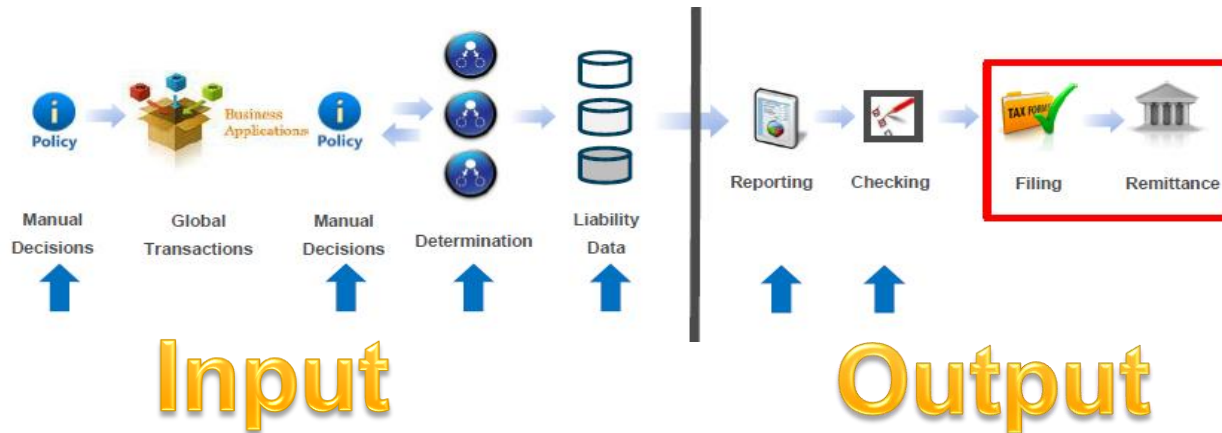
The above pressure points often result in the tax team spending more time on compliance coupled with an increased reliance and spend on advisers and consultants.
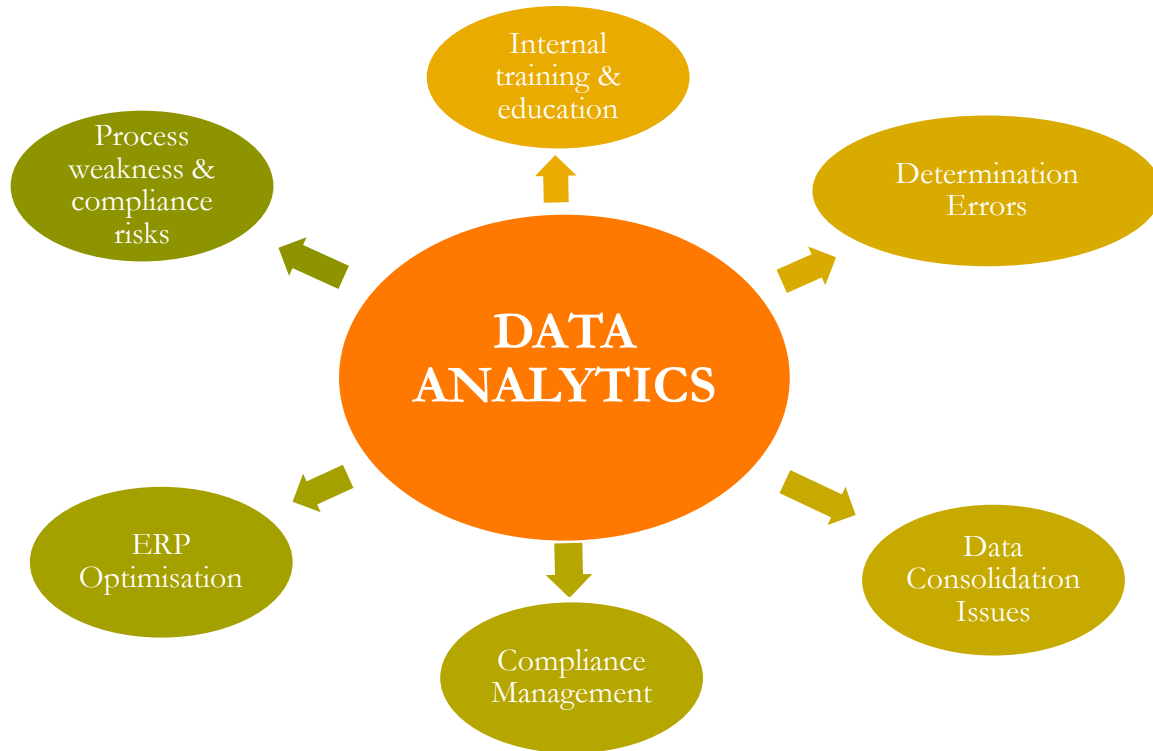
Conducting a Reverse Audit To Assess Compliance Risks

Reverse Audit: Elaborate examination of your existing tax functions and quality of master data within the ERP system using data interrogation, mining techniques, trend analysis and exceptions testing.

Results are evaluated against current GST/VAT reporting and filing preparation efforts to identify the exact pressure points that lead to your organisation's increased time on tax compliance.

GST/VAT Reverse Audit:
An "Input and Output Assessment"

DATA ANALYTICS

- Internal training & education
- Determination Errors
- Process weakness & compliance risks
- Data Consolidation Issues
- ERP Optimisation
- Compliance Management

Suite of solutions

There is no 'one size fits all' automated indirect tax solution.

Instead, there is suite of solutions available (from different software solution providers and consultants) which are each designed to relieve specific pressure points in the GST/VAT compliance process. This is designed to set out the pressure points at each stage of the GST/VAT compliance cycle and the various options at a high level to help facilitate an impartial commercial discussion around tax automation and technology solutions.

| Tax engines | Workflow management tools | ROI Analysis | GST/VAT return compliance tools | ERP optimisation | Outsourcing |

ERP Optimisation

Pressure point

Limitations in GST/VAT functionality within an ERP solution due to:

- limited IT budget made available for tax design and set-up

- complexity of GST/VAT requirements are challenging for IT consultants to understand without specialist tax support

- incorrect conditions and rules set-up

- Scanners and Optical Character Recognition (OCR) software used in day-to-day operations not regularly checked for errors in amounts reported.

- insufficient reporting capabilities

- limited localisation for country specific requirements.

Solution:

ERP optimisation – ensuring the GST/ VAT functionality of the ERP system is set up correctly and optimised. This may include adding additional tax codes. ERP optimisation would also include localisation of the ERP system, ensuring the system is correctly set up to meet local country compliance requirements.

Ahead of any optimisation project, businesses may wish to carry out an audit of their system from an indirect tax perspective, reviewing the GST/VAT set-up, such as logic, naming conventions, entity set-up etc.

Common ERP systems that can be optimised include SAP, Oracle and NetSuite.

Rule and rate determination

Pressure point

Difficulty in determining and charging the correct rate of GST/VAT to charge due to:

- multiple GST/VAT registrations
- large and varied product file/SKUs
- global customer base
- complex place of supply rules
- mixture of B2B and B2C supplies
- complex transactions due to supply chain or business model
- limited tax codes within ERP
- frequent GST/VAT rate changes.

Solution

Tax engine – a third party solution which bolts onto the ERP, billing systems or middleware that will, based on the information sent to it (registrations, business status, customer status, nexus etc), determine the relevant GST/VAT rate and instruct the system to charge that rate (along with any required detail e.g. GST/VAT number/invoice narrative).

Rates, rules and other information e.g. invoicing narrative or jurisdictions, are maintained by the third party provider in the engine database and regularly updated (automatically if cloud hosted or through accepting regular updates if hosted locally).

Tax engine solutions include ONESOURCE indirect tax determination and vertex O-Series.

Invoice Posting Delays

Pressure point

Invoices held by a business and not yet entered in the accounting system at the end of a tax period due to any or all of the following:

- decentralised invoice approval process
- diverse business systems
- geographic spread
- queries and disputes with customers and suppliers
- use of invoice payment as recognition point for input tax credits.

Solution:

GST/VAT Acceleration– Many businesses will hold tax invoices that have not been entered into accounting systems at the end of the tax period, thus omitting available input tax credits that will reduce their GST/VAT liability.

Grant Thornton employs the use of approved data analytics programs and methodologies to determine the value of unprocessed tax invoices each period. Our tool will review 100% of purchase transactions for a given period in order to establish the historical pattern of amount of input tax credits claimed late. A report will then be provided to your business which highlights the amount of GST/VAT that remains unclaimed and that can be recovered on your next tax return as well as supporting information for sustaining the calculation and audit trail of the methodology for the tax authorities.

GST/VAT return compliance: in-house

Pressure point

Difficulty in preparing and submitting GST/VAT returns due to:

- multiple GST/VAT registrations
- reliance on too many spreadsheets
- manual process with multiple adjustments
- exchange rate calculations required
- multiple ERP/billing systems
- key transaction data held in different systems
- lack of audit trail or transparent processes
- multiple source reports needed for return prep
- standard GST/VAT return file to be submitted.
- cost of compliance.

Solution:

Third Party GST/VAT Compliance Software – Providers of such software include Thomson Reuters, Vertex, and CCH.

GST/VAT Return Compliance Tool – Grant Thornton developed software tool which allows users to import multiple, disparate data files from different systems into a central middleware. Automated validation is performed on source files to confirm data is received as expected.   Data is consolidated for GST/VAT return reporting. Amounts required for boxes of a GST/VAT return are summarized so user can sign-off on GST/VAT amounts and perform checks as needed. Once amounts are approved by a client, a sample GST/VAT return is provided so that users can copy amounts onto the final return.

The solution can provide additional functionality such as GST/VAT number validation and exception reporting, identifying possible errors before a GST/VAT return is finalised and filed. The solution provides additional transparency and controls by limiting human intervention. Businesses that currently outsource their GST/VAT compliance may wish to carry out a cost-benefit analysis of bringing compliance back in-house using compliance tools.

Global compliance management

Pressure point

Difficulty in maintaining visibility of global indirect tax compliance due to:

- multiple GST/VAT registrations across globe
- mixture of in-house, outsourced and co-sourced compliance
- multiple teams across different locations
- non-tax people handling tax matters
- lack of interface between the business and the tax team
- manual review and escalation process
- work papers held locally
- no single report for GST/VAT cash flow planning
- lack of single tax filing calendar.

Solution:

Workflow management tool – a third party solution that allows a user to define different workflows for tax and accounting processes, therefore automating the processes. A workflow management tool can provide a dashboard, showing a tax calendar and traffic light status of required filings. Review and escalation processes are automated, whereby email notifications can be automatically generated when each task is completed or delegated. A dashboard allows a high level view of the global compliance picture, allowing a head of tax or indirect tax director to view upcoming deadlines, real-time status updates and GST/VAT payable or receivable by jurisdiction or registration.

Workflow management tools include ONESOURCE workflow manager, and Quickr.

How Grant Thornton can help

We can assist our clients with:

- impartial discussion of possible solutions
- business case development
- vendor selection
- facilitation of introduction to solution providers
- arranging demonstration of solutions.

We can also assist with every stage of the implementation process, including:

- project management
- tax research and requirements
- design
- system realisation
- testing
- training and preparation
- go-live.

Why Grant Thornton?

Grant Thornton has helped a variety of clients define their GST/VAT policies both within their ERP systems, as well as in a third party tax engine like ONESOURCE and Vertex (both of which we have received specialist training on and are certified implementers of their indirect tax solutions).

However, we provide impartiality and are product agnostic, focusing on providing a solution to the relevant pressure point – enabling a genuine commercial discussion about pressure points and solutions.

Grant Thornton's international network of member firms brings both the technical skillsets as well as the GST/VAT technical experience to a single project team. Our technical experience is critical in understanding the systems and their functionality and to design a comprehensive interface for each solution which minimises redesign and changes for future country rollouts. Our GST/VAT and technical skillsets are essential for understanding our clients' requirements and configuring the solution to ensure indirect tax compliance across the various countries in which the business operates.

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