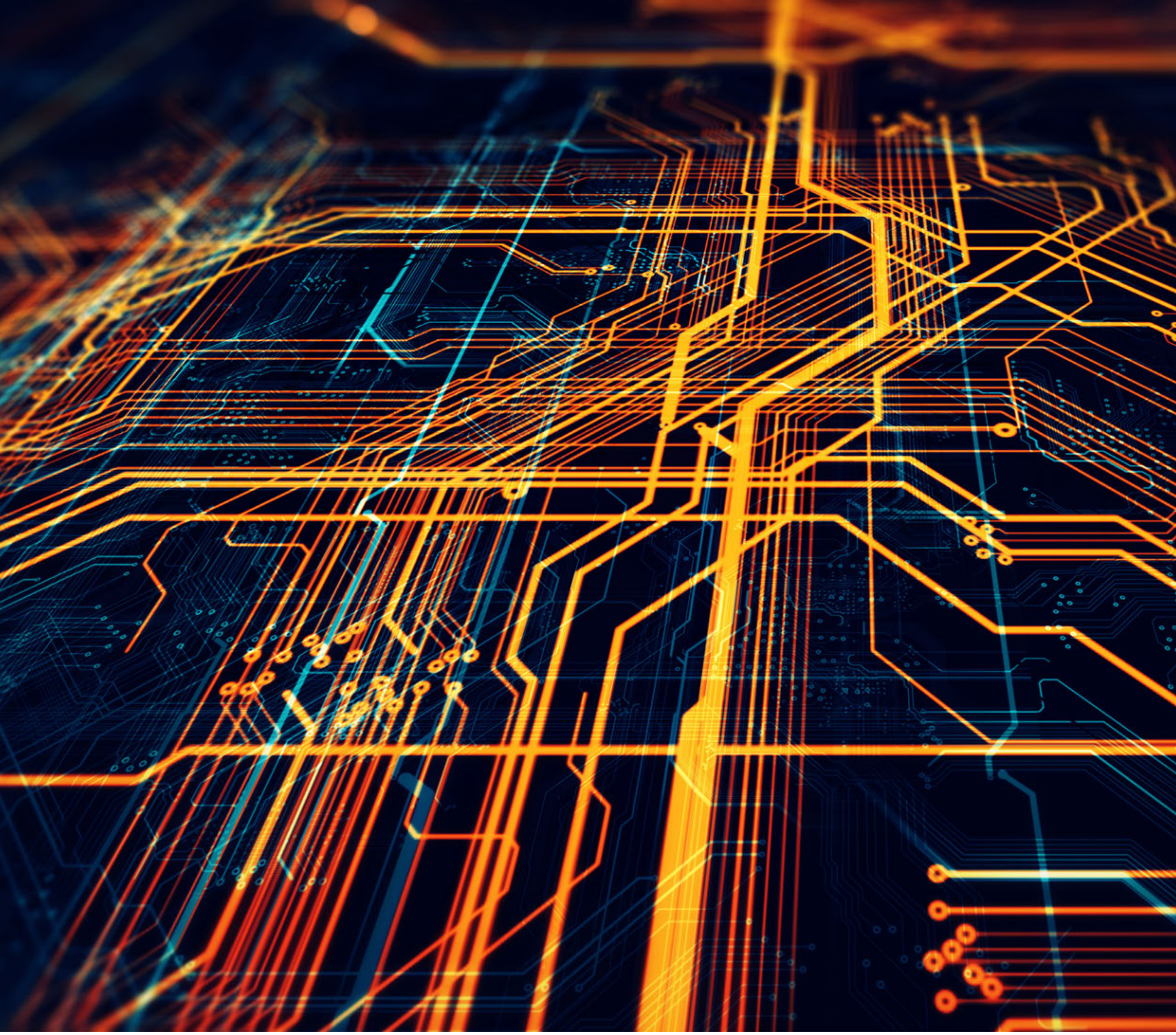

2018 European Tax Technology Survey

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Executive summary

Tax functions are feeling the strain. The Thomson Reuters 2018 European Tax Technology Survey reveals this critical department under pressure like never before, and on the cusp of a further wave of external pressure that will need to be addressed by a coordinated approach to resourcing and technology.

The main forces driving this change are:

- Keeping on top of increased regulation
- A digital tax world coming to pass
- A requirement to analyse and report varied data sets that is hard to achieve in traditional silos
- Increased frequency of reporting and a move towards real-time reporting

These four factors are forcing a tax department to evolve quickly, and the trajectory over the next few years is for this to continue — mainly through the adoption of tax technology.

Organisations are responding at different rates, and in ways that meet their specific needs or culture.

But, with an increased level of IT security being mandated through General Data Protection Regulation (GDPR), and with greater access to a granular transaction level to satisfy new regulations, it is hard to see how the tax department of the near future will continue to operate effectively without either significantly increasing headcount, or moving away from spreadsheets and manual processes to adopt more sophisticated tax technology.

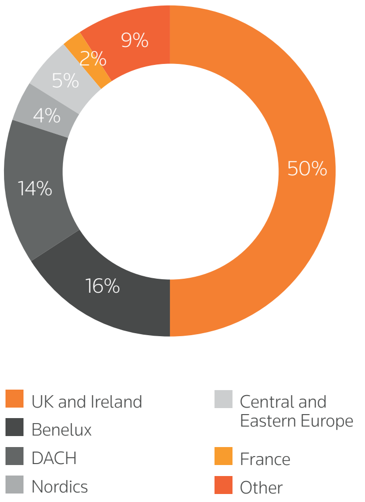
With this level of complexity to contend with, the report also reveals that technology adoption is not just sitting within the remit of the tax department. It can be positively impacted through inclusion of IT, working with an external partner, and through having an identifiable internal tax technology specialist.

What is clear is that doing nothing is no longer an option, and with the majority of organisations citing tax technology being of strategic importance, the signposts indicate a broader shift in how large organisations will choose to meet the changing circumstances they find themselves moving towards.

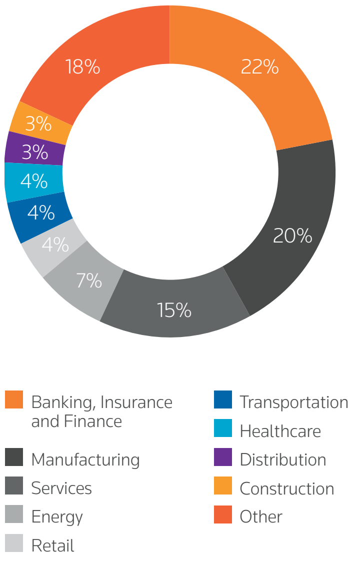
Survey respondents

The survey was conducted by Thomson Reuters in Autumn 2017 across Europe with a total of 329 completed surveys.

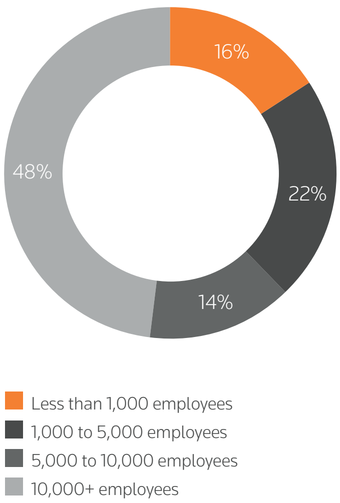
Location of respondents



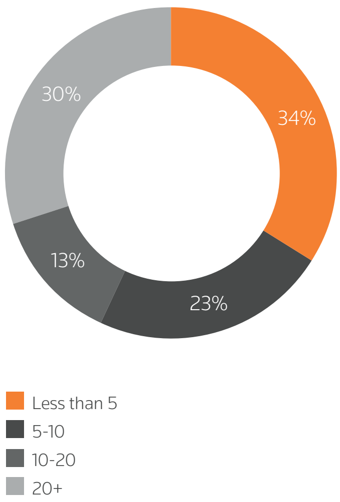
Industries



Size of company

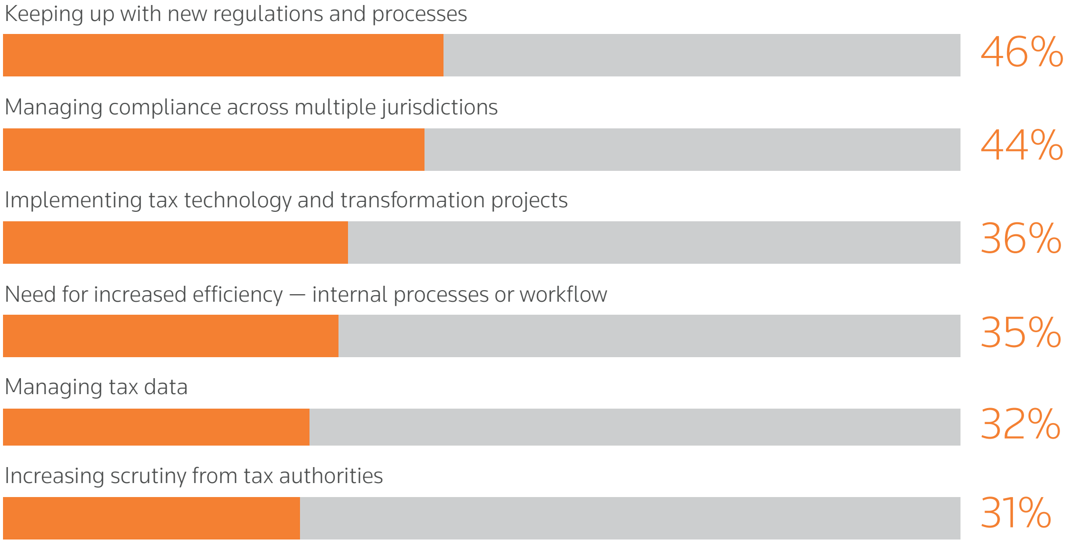


Size of tax department

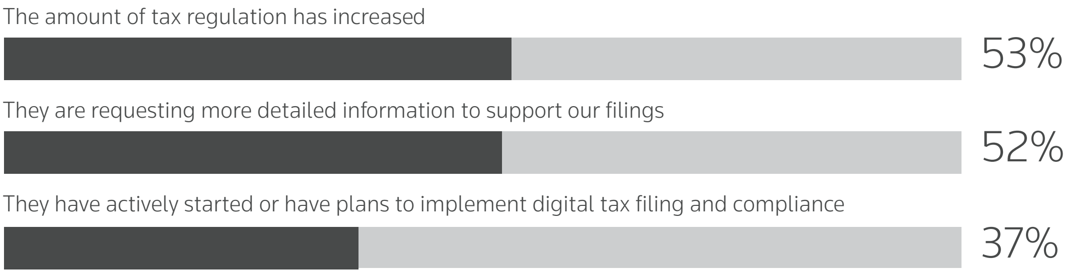


Today's challenges

What are the key challenges facing your tax department?



How would you describe your relationship with the tax authority(ies) that you deal with?



Increased regulation, real-time insight, and the rise of technology

Technology and transformation projects are a priority for over a third of those surveyed. This is driven by the need to keep up with the demands of an increasingly complex regulatory environment, further complicated by managing compliance requirements across multiple jurisdictions.

Over half of our respondents cite the increased level of detail being requested by tax authorities — a trend we expect to see continue over coming years. Driving the trend are such factors as BEPS and Country-by-Country Reporting (CBCR) that validate returns through access to source and transaction data.

If the trend towards the digitalisation of tax as reported by 37% continues, then the need to have granular access to data could see the number of organisations engaging in new technology programmes increase over the coming years.

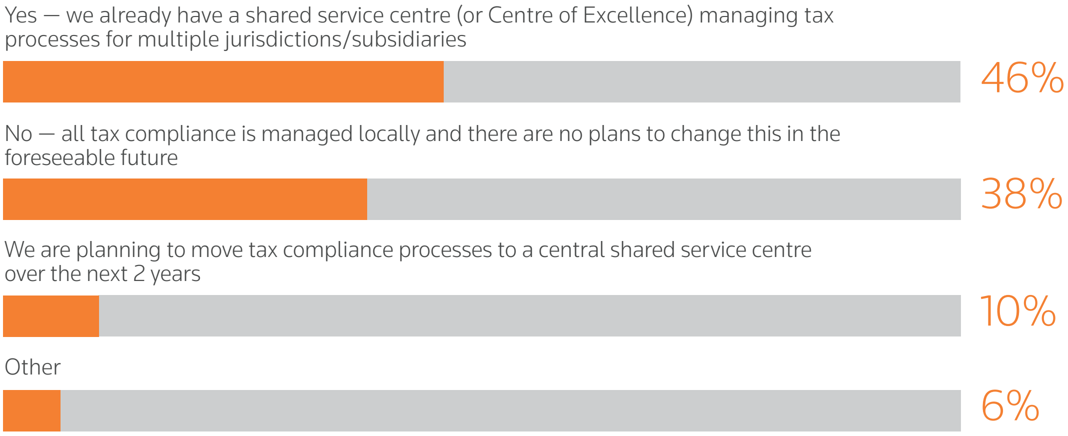
However, the question remains: Just how equipped are tax departments to deal with that change?

"Tax professionals are not IT professionals, so lack the skills needed for the new IT-driven world both internal to the organisation and externally, for tax professionals by tax authorities".

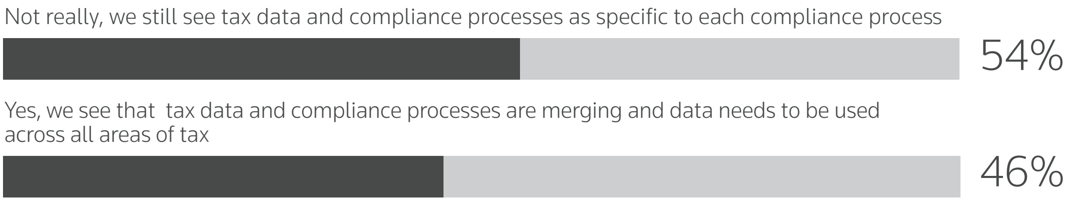
— Survey Respondent

The internationalisation of tax and data silos

Is your organisation managing tax compliance across multiple jurisdictions?



Are you seeing traditional tax data and process silos (Direct Tax, Indirect Tax, Transfer Pricing etc) being broken down?



Centralisation is accelerating, and at current rates will see just over half of organisations operate from a shared services centre or similar model over the next two years.

The trend towards more regulation, and authorities requiring a greater level of access to transactions, would seem to be an added motivation for having data in one place or system. However, managing tax at a local level, or at least having the line of sight and decision making in their control, remains the reality or desired outcome for many.

Whichever the preferred route, the challenge will remain around whether the traditional silos of tax data and process can be broken down or not.

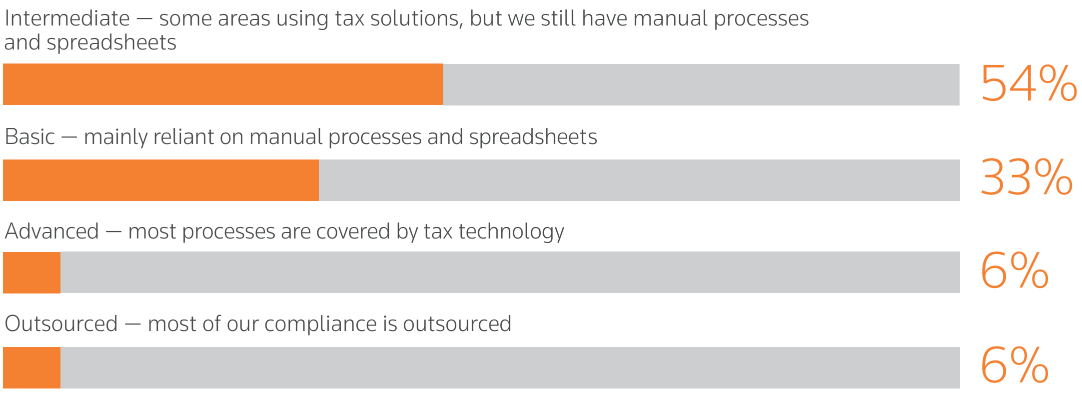
As new regulations like Country-by-Country Reporting and Standard Audit File for Tax (SAF-T) are introduced, these silos will come under increased strain. Real efficiencies and better sharing of data will be needed to avoid increasing headcount just to accommodate the extra work required.

"You either need manpower or technology. We opted for technology. Switching from traditional spreadsheets and labour-intensive methods to dedicated tax technology enabled Veritas to meet the challenges of increased transparency and Country-by-Country Reporting in the post-BEPS environment".

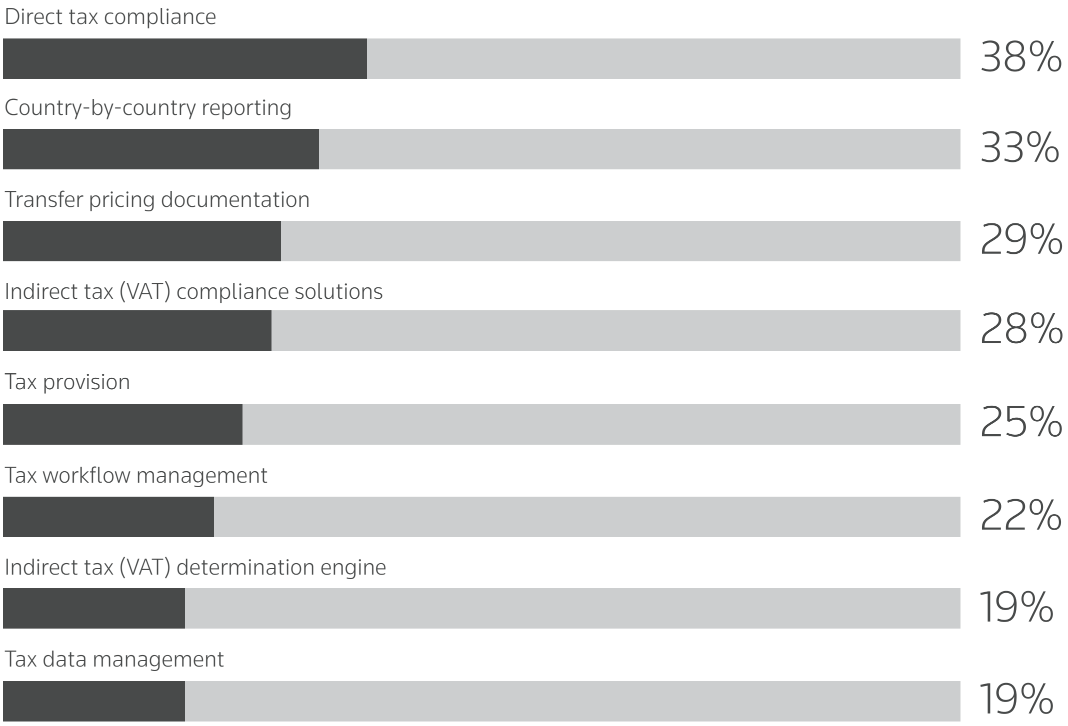
— Michal Chelpinski
Senior Manager of Global Transfer Pricing, Veritas

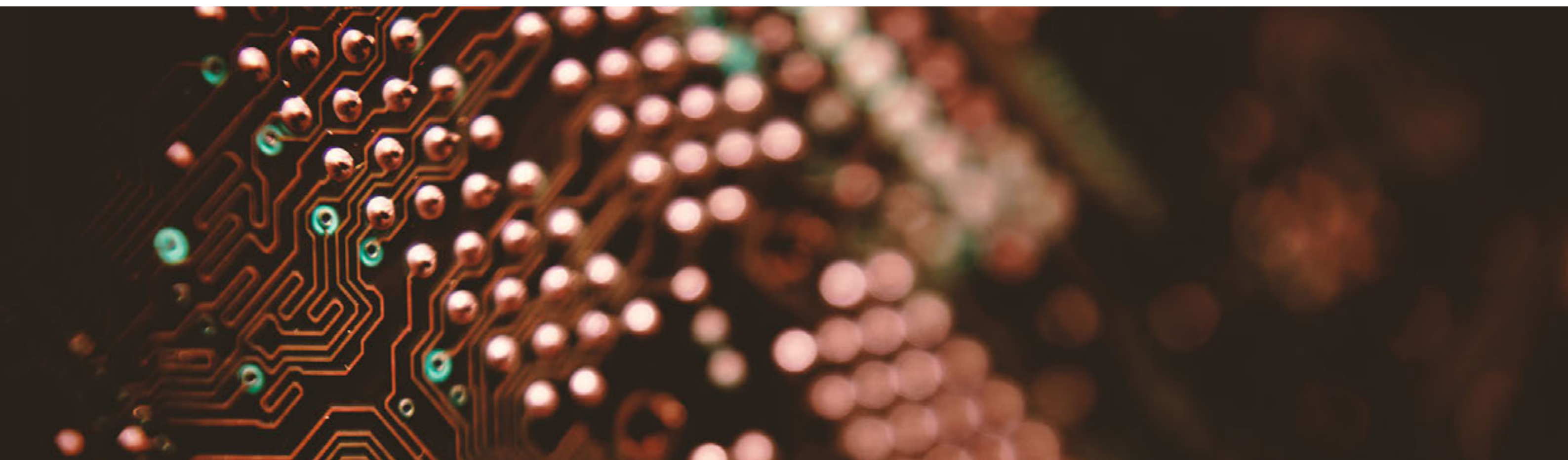
The role of technology

How would you describe your current adoption of tax technology?

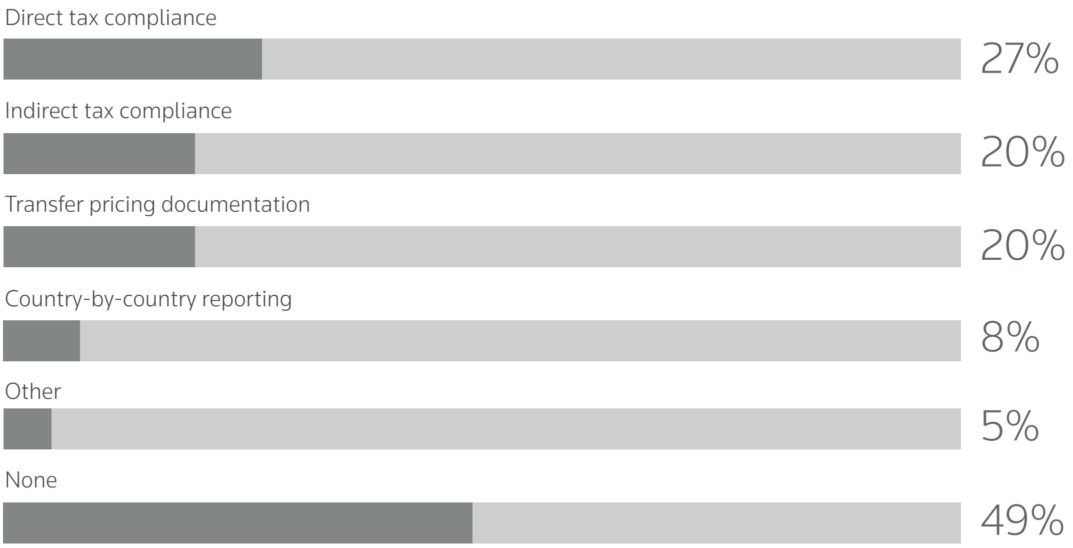


Which of the following tax technology solutions have you implemented?





Are any of these compliance processes currently outsourced?



With as few as 6% of respondents saying that most processes are covered by tax technology, the picture for nearly everyone else is a complex one of adopting software in specific areas and outsourcing.

Given that many also choose to run processes manually and with spreadsheets, it highlights just how far organisations have to go to catch up with the leaders in the field (who are already starting to embrace automation and new systems).

It is also worth considering how these manual systems will perform under increased pressure from real-time and enhanced reporting requirements.

Unsurprisingly, direct tax compliance is the most widely used tax technology, supporting the generally held view that companies prefer to manage this process in house with tools that have been available for some time.

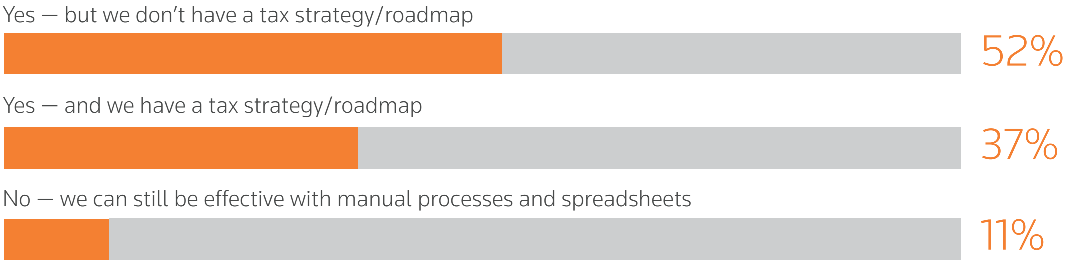
However, Country-by-Country Reporting software is also popular. Given the fact that it is a fairly new regulation (the first reports starting this year), it shows how quickly tax technology can help respond to changing regulations, and also the potential for tax departments to adapt to meet rising challenges of complexity.

"Tax technology enables us to focus on the value-added activities, as it successfully and accurately manages the compliance processes. This allows us to remain adaptable to the ever-changing commercial and strategic needs of the business, effortlessly and collaboratively".

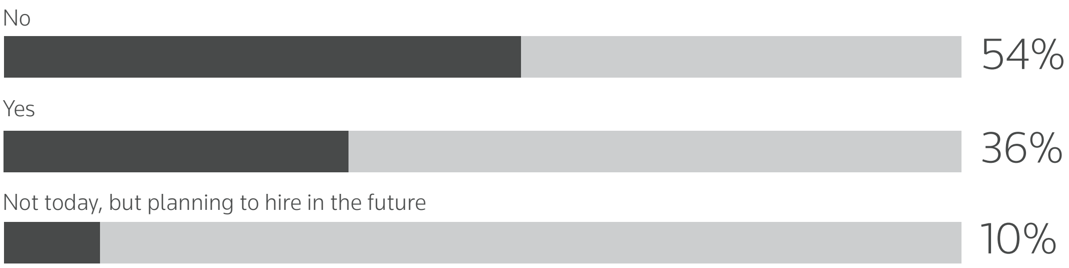
— Kellie Hyland, International Tax Manager, Renewable Energy Systems

Technology and tax — a strategic alliance

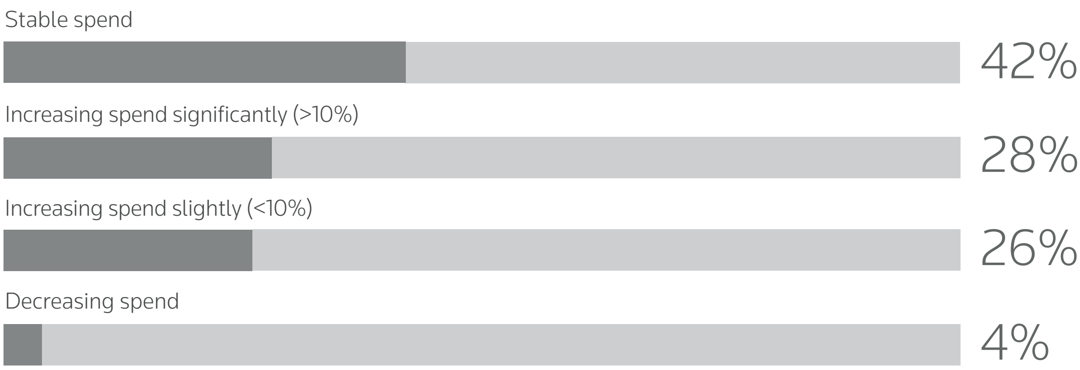
Do you see tax technology as strategic to your success as a tax department?



Do you have a tax technology specialist in your organisation?



Over the next 12 months, what are your plans to invest in tax technology?



Although there is overwhelming recognition that tax technology is of strategic importance, less than half have a clear roadmap or plan in place. Furthermore, only 35% have a recognised internal tax technology specialist (taxologist) on whom to call, making the task that much more difficult.

Deeper analysis reveals that those with a tax technology specialist are also:

- More likely to have a defined strategy (60% with, compared to 25% without)
- Have a higher correlation to describing the organisation as intermediate or advanced adopters
- Twice as likely to be investigating new technologies (e.g. RPA, big data, blockchain)

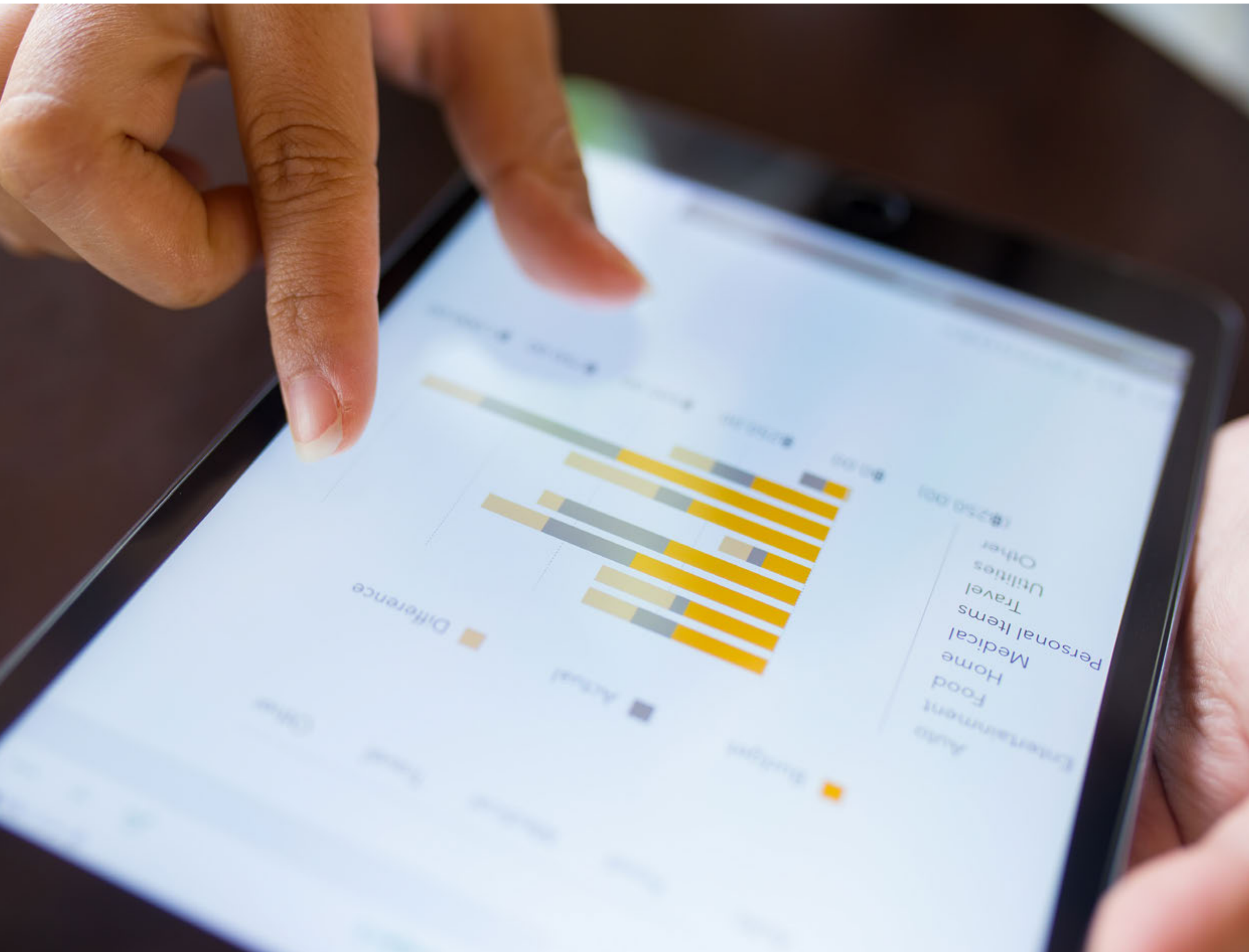
For the 52% who see the strategic importance of technology but do not have a roadmap, creating a plan with either a trusted technology partner or independent external advisor would seem like a good step — not least in assessing the impact on current systems by the challenges outlined in the previous sections of this report.

"Using tax technology minimises the time spent on compliance and leaves more time to focus on strategy and a positive experience".

*— Clive Mountford
UK Tax Manager, Arjo Wiggins*

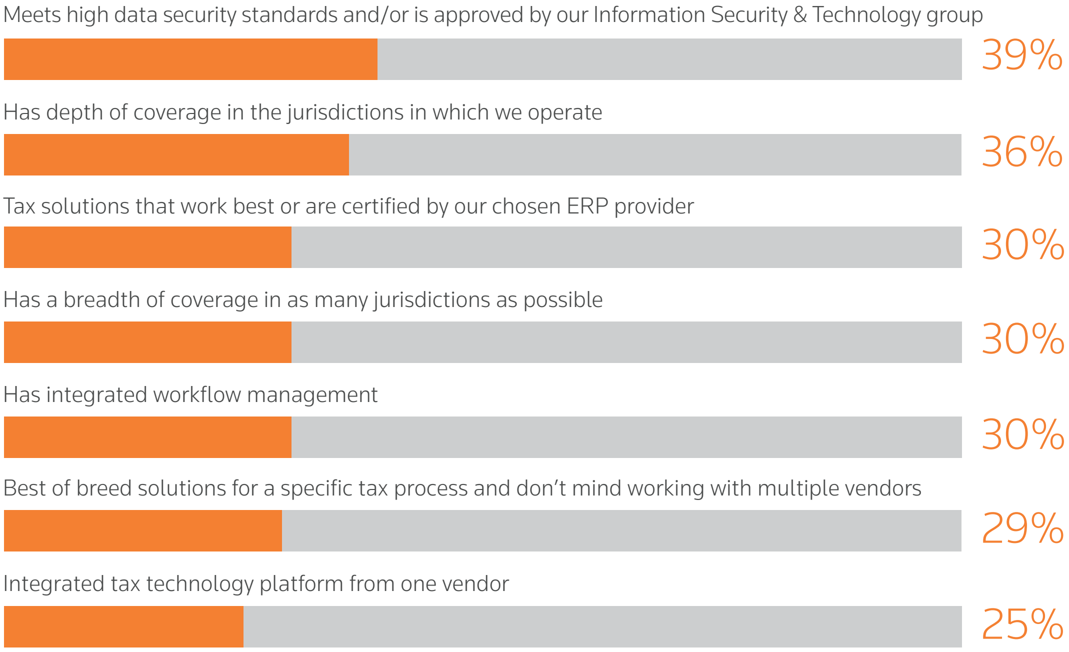
Taxologist:

Noun [taks-ol-uh-jist]
A tax professional who excels in the use of technology to maximise tax function effectiveness.



Investing in tomorrow: security and relevancy

When looking to invest in new tax technology, which criteria are important?



Security is of primary importance, and reflects a growing awareness of data and privacy issues, regulatory requirements such as GDPR, cyber crimes, and the negative PR that is created by an information breach.

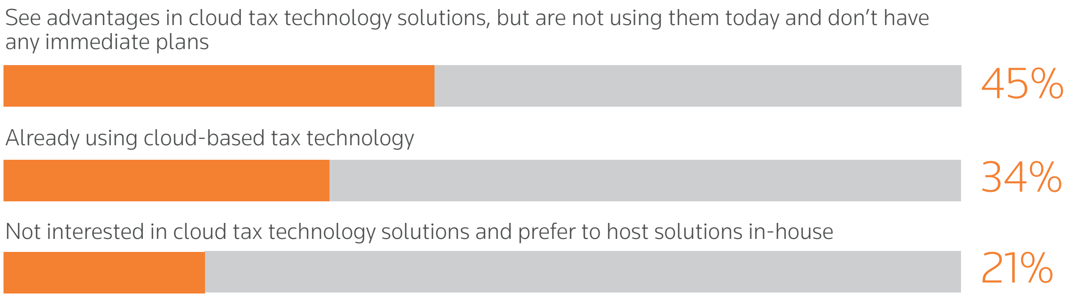
Given the desire for tight control on who has access to sensitive financial and tax data, the wide use of spreadsheets comes under further scrutiny. And although close to 30% are happy to work with multiple vendors, care needs to be taken around compatibility and creating further security risks in the transfer of data from one system to another, or in effect creating new silos.

Unsurprisingly, tax technologies that are highly compatible with a chosen ERP provider features prominently; with the desired outcome being to provide more source data to meet new requirements (e.g. SAF-T), by creating a real-time central resource.

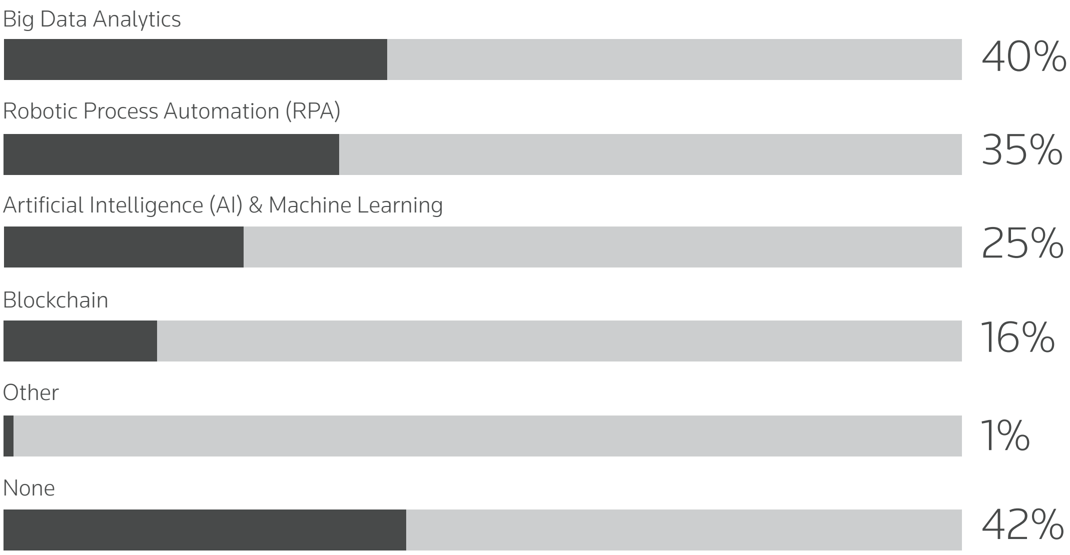
The growing requirement for tax teams to work across borders is also further reflected here, and demonstrates that technology can be a vital tool in assisting in this complex area. Emphasis on systems which can provide pre-built content to enhance local expertise, and reduce risk, are likely to be of distinct advantage.

Future technologies, future role of tax

What is your organisation's approach to cloud-based tax technology solutions?



Has your organisation investigated the adoption of new technologies listed below?



Tax teams, while currently cautious in their approach to cloud deployment, are not afraid of exploring the potential of cutting-edge technology, which signposts a potential long-term shift in the dynamics and roles within the department.

Big data, for example, highlights the opportunity to provide analysis which adds tangible value to the decision-making process of the business. Robotic Process Automation (RPA) could eliminate many of the manual tasks associated with data collection and collation. These tasks, which are absolutely essential, do not add specific value in themselves.

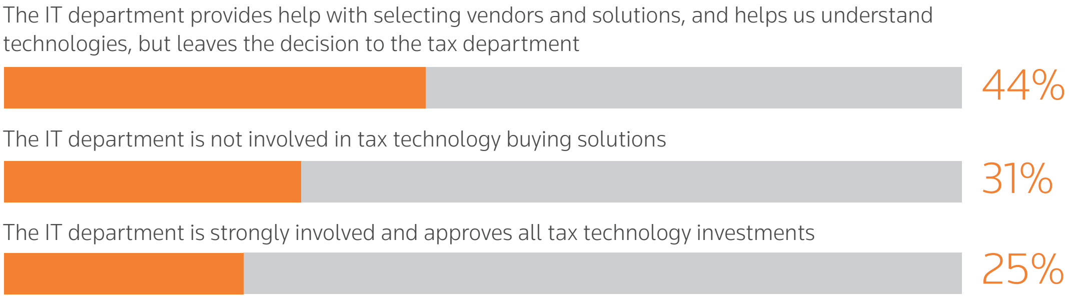
Combined, these two technologies would free experienced staff to spend more time on utilising their expertise rather than on mundane tasks. It points towards a broadening of the roles that will follow, and a change in the skill sets that might be needed to make it a reality.

The final part of this jigsaw is access to real-time information, across a broad base of the organisation. Looking at tax platforms that can facilitate this will be a clear advantage, and in time possibly available only through quicker and more integrated cloud-based options.

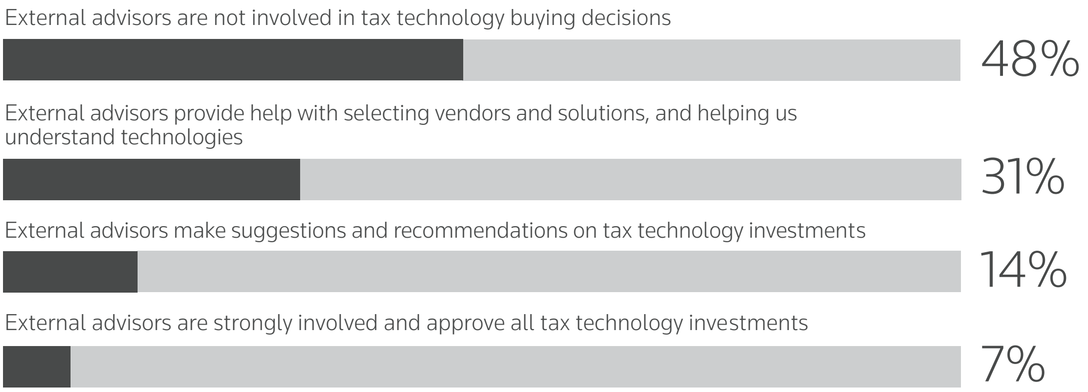
As tax technology becomes more widely adopted, there are clear-cut opportunities for new roles to evolve. Business intelligence and analysis are obvious areas, as are those that can add competitive advantage by looking at commercial pricing, cost controls, and supply chain.

Enabling technology change

How does the tax team work with your IT departments in buying and managing tax technology?



How does the tax team work with external advisors (e.g. KPMG, PWC, Deloitte, EY) in selecting tax technology?



IT departments are playing an ever more visible and influential role in tax technology selections — with even 25% suggesting significant involvement. With ERP and security integration very much on the agenda, this is to be expected.

Tax teams will need to be working closely with IT and a broad range of internal stakeholders in 2018 and beyond, to consider issues such as integrations, emerging technologies, and a clear identification of the role the data has to play in strategic business analysis.

In this context it is no surprise to see the level of involvement by external advisors, with over 50% saying that trusted partners play a role in guiding, evaluating, and in some cases even approving all investment decisions.

Given the potential complexity of tax transformation projects, being able to draw together internal and external expertise will greatly enhance the potential for project success, and overall effectiveness of the tax department.

Managing tax technology in the digital world

Commentary by Laurence Kiddle, Managing Director — Europe, Thomson Reuters

Tax departments are used to working under pressure. But the perfect storm of technology change, increased regulation, and resource constraints mean that they are under increasing pressure to improve efficiency. This is driving them to systematize and automate processes, and adopt best-in-class solutions.

The burden of new international regulations like SAF-T, CRS, and BEPS Action Plan 13 and the further digitalisation by tax authorities is driving the need for technology innovation and adoption.

Automation is no longer an option. It is a prerequisite for survival.

Continued ...

But where do you start?

From our survey, we can see that many tax departments want to invest in tax technology and view it as strategic to their success, but need help. Tax teams are not traditionally tech-savvy and undergoing a tax transformation project can be challenging, so here are 10 ideas to help you get started.

1. **Build a tax technology strategy.** As Yogi Berra said, "If you don't know where you are going, you might end up someplace else". So start to plan your journey — document your end goal and set milestones and objectives along the journey that everyone can buy into.
2. **Understand what the tax authorities are planning.** Regulatory bodies are moving fast to leverage new technology — can you risk them understanding more about your tax position than you do? Gone are the days of a simple annual compliance report; authorities are starting to expect real-time, transaction-level detail. As you contemplate tax technology solutions for your organisation, make sure they are keeping up with the new digital requirements — make sure you are future-proof.
3. **Join together the "Islands of Automation".** Tax departments are prone to using point solutions to manage specific areas of compliance. But with new regulations such as Country-by-Country Reporting, these silos of data and process are being broken down. Modern tax technology solutions help integrate processes and share data to reduce errors and improve efficiency.
4. **Hire a taxologist!** Tax technology specialists embedded in your team can help you navigate the complexity of new systems and be a focal point to help implement change.
5. **Work with your IT teams.** Don't work in isolation, work closely with IT groups to understand corporate standards and requirements and how tax technology can work with central ERP systems.
6. **Understand data security issues.** Our survey suggests security is the most important consideration in implementing new technology and as GDPR becomes a reality in May 2018, make sure you understand how it will impact your tax function.
7. **Educate yourself on new technologies.** Technology is moving forward faster than ever, so make sure you understand how cloud-based solutions, RPA, AI, and blockchain can help.
8. **Work with your colleagues in other countries.** Tax is now international and your fellow tax teams in other countries probably face similar challenges. By collaborating, you can leverage systems that can be used across jurisdictions to save money, ease integration requirements, and be more consistent.
9. **Think about centralisation.** You don't have to manage the whole compliance process from a shared service centre, but some pieces of the process (for example source data management) that are time-consuming and resource intensive are ripe for centralisation.
10. **Are you getting value from outsourcing?** Outsourcing can play a role in the compliance process, but modern tax technology can enable the tax departments to be more self-sufficient and manage this work internally. You could save money and gain more control by insourcing.

Or to reduce this even further — ask, challenge, learn, plan, implement. And *repeat*. Simple words that can lead to a tax revolution!

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Thomson Reuters ONESOURCE™ is an end-to-end platform that drives global tax compliance and accounting decision making with the industry's most powerful portfolio of corporate technology solutions. Using technology to make tax and accounting easier, faster, cheaper, and more forward-focused is our mandate. Our strategy is to enable you to be agile by delivering solutions that meet the evolving needs of tax and accounting departments. We provide a complete platform that accounts for every step of tax, so tax professionals across the globe have the trusted information and resources they need to find answers and positively impact the bottom line.

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AMERICAS

+1 888 885 0206
taxaccounting.onesourcesales@tr.com

EMEA

+44 (0)207 375 6869
onesourceuk@tr.com

AUSTRALIA/NEW ZEALAND

1800 074 333 (Australia)
0800 785 483 (New Zealand)
info.anz@tr.com

ASIA PACIFIC

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