A CIO'S GUIDE TO THE
EMERGING THREAT OF GOVERNMENT
DIGITAL TRANSFORMATION IN TAX

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Much of the current digital transformation focus is on its multiple impacts to a company's digital experience. Nearly all articles, books, speaking events, and consulting programs focus on the impact of digital experience to a company's product and customer experience. Yet little attention is given to the significant changes coming as a result of government digital transformation and its subsequent and significant impacts on business. Estimating the total tax footprint of a $1 billion company conservatively puts the total tax liability starting around $250 million. At potentially 25% of your revenue, is the tax department a key part of your digital transformation strategy? Governments around the world know the key to reliable and fraud-proof tax revenue requires their own digital transformation. Being at the intersection of technology and business process, where governments squarely aim to drive increased tax compliance with greater access to data, CIOs are uniquely positioned to reduce their global tax compliance risk.
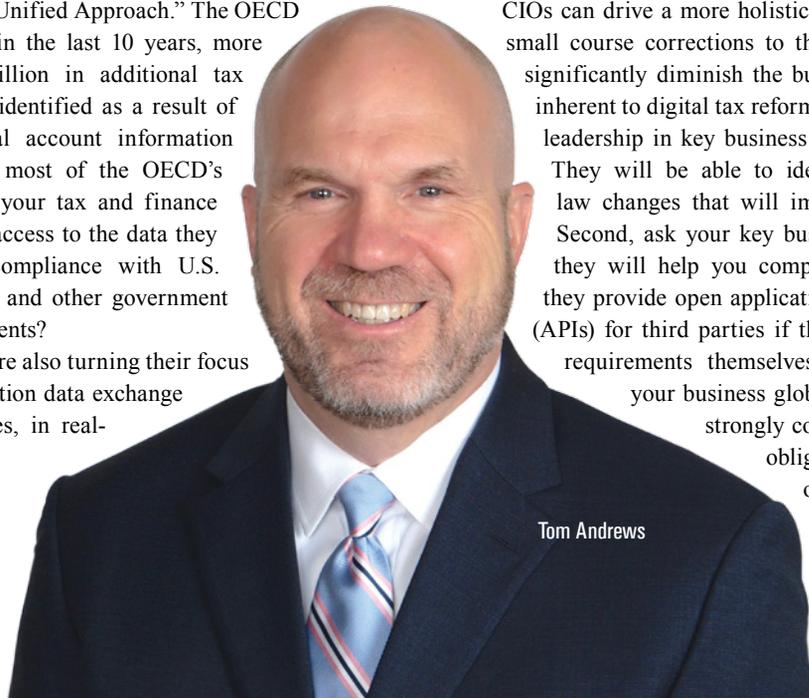
Over the last few years, the world has seen quite a few "digital" changes impacting tax operations with even more to come. In the United States, tax reform has impacted data requirements for global tax compliance. The Organization for Economic Cooperation and Development (OECD) has been driving more transparency with initiatives like Standard Audit File for Tax (SAF-T), Base Erosion Profit Shifting (BEPS), and most recently, its "Unified Approach." The OECD reported that within the last 10 years, more than EUR 100 billion in additional tax revenue had been identified as a result of automatic financial account information exchanges among most of the OECD's global forum. Do your tax and finance teams have ready access to the data they need to ensure compliance with U.S. tax reform, BEPS, and other government reporting requirements?

Governments are also turning their focus to business transaction data exchange and, in many cases, in real-time transactional reporting. The concept of a "pre-cleared" tax invoice began in Brazil with its eNota Fiscal. Similar processes made their way through Latin America and have now jumped to continental Europe. In 2019, Italy and Hungary began requiring companies to send copies of their transaction data in near real-time to the government. India announced it would require the same for medium to large companies beginning in 2020. We will continue to see more and more governments follow Brazil's lead and require invoices be recorded and cleared by the government before a company can bill its customers. What is your technology strategy for integrating with external government systems? Will you be able to respond to new disruptive government reporting requirements easily?

As the market experiences digital transformation, governments are not only transforming reporting requirements but also who and what they can tax. France is leading the charge with its recently enacted Digital Services Tax. The objective? A bigger piece of the digital economic pie. With the U.S. Supreme Court ruling in favor of South Dakota v. Wayfair in 2018, companies doing business in the U.S. are now required to collect sales tax in many states, even if they do not have a physical presence but have sufficient economic activity. This ruling was aimed squarely at taxing the thriving e-commerce market. How involved is the tax department in your digital transformation to help proactively mitigate these types of issues?

CIOs can drive a more holistic digital transformation with small course corrections to their existing plans that can significantly diminish the business disruption and risks inherent to digital tax reform. First, incorporate your tax leadership in key business systems strategy meetings. They will be able to identify upcoming disruptive law changes that will impact technology decisions. Second, ask your key business system partners how they will help you comply with new tax laws. Do they provide open application programming interfaces (APIs) for third parties if they cannot timely meet tax requirements themselves? Finally, as you expand your business globally by planting new flags, strongly consider local tax compliance obligations in this new era of government digital transformation in tax. **CR**

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