

## Introduction of Corporate Tax in the UAE

### Tax technology readiness

The efficiency of a business's Corporate Tax (CT) compliance function is strongly dependent on the processes in place, the technology system's capabilities, and the finance and tax departments' expertise in CT. The efficient strategy around CT will ensure compliance while lowering risk, cost, and errors.

Following the announcement of the Ministry of Finance (MoF) about the federal Corporate Tax introduction in the United Arab Emirates (UAE) in 2023, businesses should now focus on the practical implications this will have on their systems, processes, and technology. Executive teams must work closely with their technology partners to agree on and deploy the appropriate CT technology architecture.

New tax solutions and features have recently been launched by a number of enterprise software companies which raise the need for businesses to understand all of the solutions and options available to them and assess them against their current business needs. Process automation and technology within a business are frequently overlooked, despite their importance. A deep understanding of current processes and intelligent design of future processes with an emphasis on the capabilities of technology, are critical components of any finance and tax technology transformation.

In this document, we clarify some of the ambiguity and emphasize the important areas where organizations should concentrate their efforts as they work to ensure CT compliance in the UAE.

## Your current operational landscape

When preparing for the transition to CT, UAE businesses must consider the following factors to ensure readiness from a technology perspective.



### Extent of integration of current business processes

UAE organizations, especially the small and medium-sized businesses, have often managed many of their wider financial processes such as deductible and non-deductible expenses, inter-company transactions, and petty cash transactions outside their core transactional finance system. The introduction of CT is likely to encompass these types of transactions and thus businesses may have more than just their main financial accounting system to think about.



### Existing IT architecture

The complexity of a business's existing IT architecture will have a large influence on how straightforward it will be to update for the introduction of CT. Below are typical scenarios:

#### Simple architecture

One mainstream Enterprise Resource Planning (ERP) (e.g., a recent implementation of Oracle/SAP with existing CT capability from another jurisdiction) with minimum customization being used for all the processes impacted by the CT introduction. Updates will be focused on enabling or customizing the existing CT and reporting functionality.

#### Medium complexity architecture

Two or three systems are being used for all the processes impacted by the CT introduction, or the CT capability (calculation and reporting) of the existing systems is limited. Additional system configuration time and effort is required where there is more than one system in use. Care must also be taken to ensure that the CT configuration of each existing system is consistent.

#### High complexity architecture

Multiple systems are being used, including older linked finance systems, and the systems have multiple interfaces with the financial management and accounting systems. Additionally, the CT capability (calculation and reporting) is not standard across the systems and may be limited. Older finance systems may not offer the automated CT functionality required and therefore may need to be updated as part of a systems upgrade project. The use of many ERP systems multiplies the configuration and effort required when establishing the CT system logic. Furthermore, the work required around process flows and the points of data integration will be similarly increased.



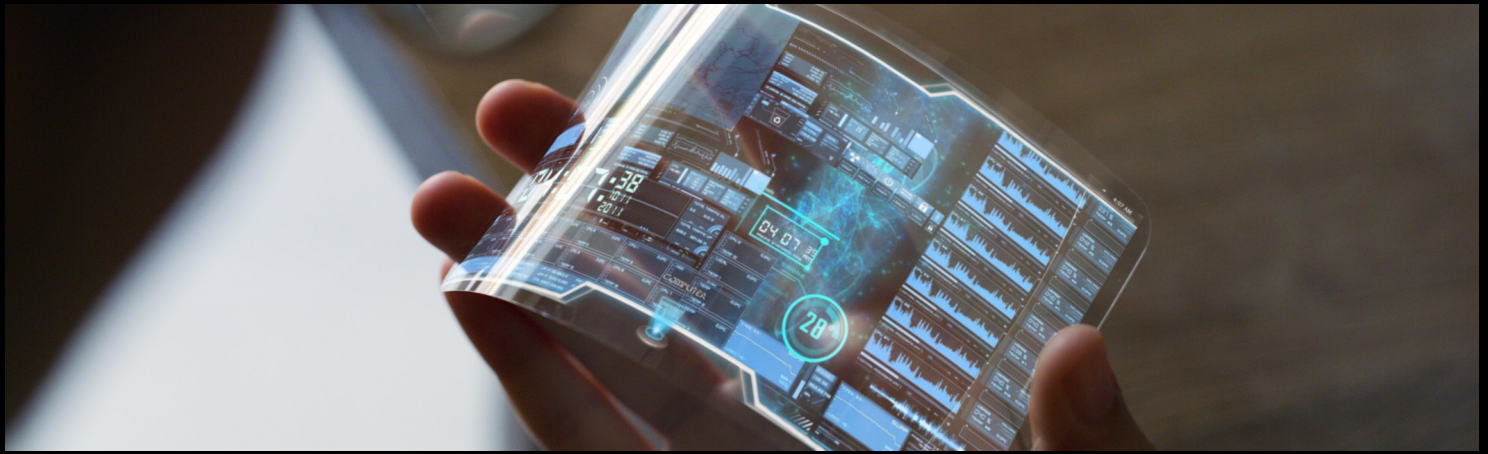
### IT knowledge

The extent of knowledge of existing IT systems within the organization can make a big difference when implementing the functionality critical for CT. Organizations which have highly customized finance solutions are often very dependent on the 'in-house' knowledge or long-term service partner relationships. Therefore, it is important to include the right stakeholders when planning to implement major CT changes that will impact many business processes at the same time.



### Automation of CT processes

It is important to determine the extent of the CT process automation that an organization wants to achieve immediately (at the beginning of the CT mandate) and the level of automation desired over the long term. As an example, an organization may be focused on automating the majority of processes as part of an initial implementation but may defer automation of more complex transactions that demand increased resources until current processes have been fully established.



## Options for technology enablement



### **Invest in existing systems**

The majority of current ERP systems offer automated CT determination and reporting functionality, and we expect that using this native functionality will be the most common approach for companies in the UAE to enable their finance systems to deal effectively with the new CT system.

When enabling CT functionality in existing systems, it is preferable to use the standard, 'out of the box' functionality where possible. The complexity of an organization may mean that some configuration of the finance system is required, but it is important to recognize that customization will increase the maintenance burden compared to a more standard approach.

Older finance systems may offer less inbuilt functionality for an automated direct tax calculation and this should be factored into preparations for change.



### **Take advantage of planned investment or upgrades in finance systems**

Where finance system projects are underway in the business, there is an opportunity to include tax in the work plan such that CT is included alongside the other activities of the business. A project to implement a new financial system or additional system functionality can take advantage of the economies of scale provided when similar activities are taking place in other areas of the business.



### **Balance automated and manual effort**

Successful CT implementations will appropriately balance the automated and manual effort in end-to-end processes. When automating a process, businesses should weigh up the cost of automation against the perceived benefit. In many cases where there are one-off or complex transactions, manual processes may be more beneficial and cost effective than attempting to automate.



### **Make use of tax specific third-party solutions**

Tax software vendors have recently enhanced their product suites by adding tax functionality and reporting capabilities. Enhancements to these tax-specific systems offer a number of ways to automate and decrease spreadsheet-based operations, which are prone to bringing problems into a company's tax accounting, compliance, and reporting. These solutions can provide automation capability beyond that available within typical finance systems. Third-party solutions offer an interesting alternative to investing in existing systems, but careful consideration is recommended to determine whether a third-party solution is suitable and necessary before implementing.



### **Consider leveraging adviser relationships**

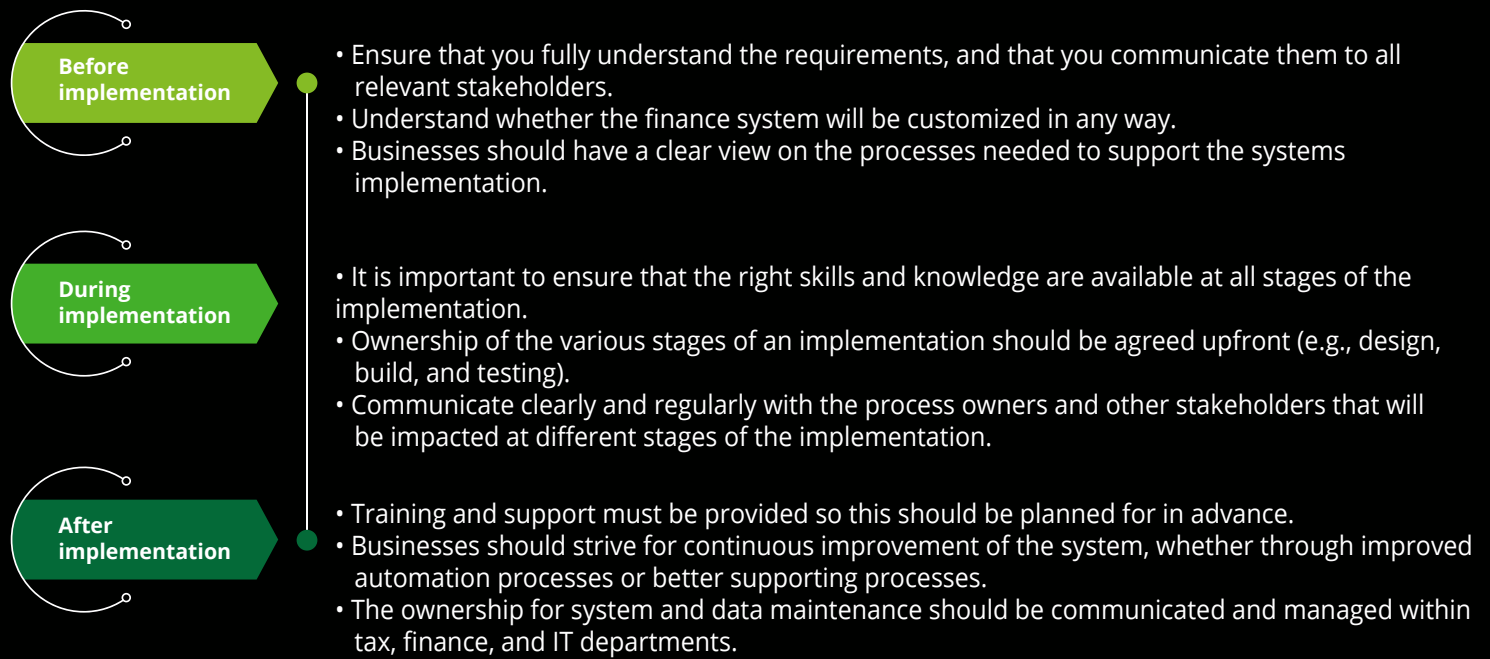
Outsource providers typically have standard methodologies and technologies for consolidation, processing, and reporting of CT information. Businesses can choose to leverage this approach as an alternative to investing internally in compliance and reporting solutions.

Businesses will still need to provide the source transactional data to an outsource provider and ensure that sensible tax decisions have been made, so it is still likely that CT businesses will need to invest in existing systems.

Do not underestimate the overall CT reporting process, i.e., the time taken to consolidate, test, and get comfortable with the figures extracted from finance systems that will be submitted to tax authorities.

## Managing an effective CT implementation

An effective implementation for CT in the UAE relies on a number of factors. The relative importance of these will vary depending on how far the implementation has progressed but, based on our experience, all these factors consistently in a successful implementation.



## Conclusion

As technological alternatives evolve both inside and outside tax departments, the role of technology in the tax and finance activities continues to grow. Businesses in the UAE should think about what success looks like for them before they proceed with any system implementation for CT. Organizations that have implemented or are considering implementing an ERP or consolidation system sometimes neglect the tax-related capabilities currently included into these systems, as well as the influence these systems have on the tax department.

There is likely to be a subtle distinction between the view of success immediately after a system goes live on day one of CT being set up and the view of success after the new CT processes have been embedded within the business as you are looking for further efficiencies; both should be given weight when decisions regarding the implementation are taken. The development of strong processes and controls alongside a new finance system will help businesses in the UAE, ensuring both views of success are achieved.

## Contact us

We have a dedicated CT team based in the UAE who have in-depth experience and can support you throughout your readiness journey.

If you require assistance at any stage during the CT implementation, please get in touch with one of our tax experts listed on the following [page](#).

You can also contact us and submit all your queries on this email [cituae@deloitte.com](mailto:cituae@deloitte.com).

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