Tax Analytics: Why is Mastery of Tax Data More Important Than Ownership?

Insight-driven Advantage

Where historically countries might have used tax policy as a means to competitive advantage, today, international tax collaboration is the new order. As more data is shared and publicised, who owns it, and who has the right to see it?

The global tax environment has undergone transformational change. The introduction of Country-by-Country Reporting (CbCR), the European Commission's anti-avoidance package, the open government agenda, and public "tax shaming" campaigns herald unprecedented change for companies and tax departments. Tax authorities and corporates have access to more information than ever before. They are under pressure to release data to inform the debate, and address public concerns that the largest multinationals are gaming the rules. In this context, the concept of taxpayer confidentiality—on the grounds that to reveal sensitive commercial data would give others an unfair competitive advantage—is under assault. Other countries may soon follow the example already set by some, where corporate tax assessments are available on-line.

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Is ownership or control more relevant?

In this environment, the question as to who owns the data seems largely irrelevant. Governments are legislating for the release of corporate tax data as part of a package of measures to increase tax transparency regardless of ownership. Whistle-blowers on more than one occasion, and on their own initiative, have released information about individual and corporate taxpayers as being "in the public interest". With an increasing expectation that it is appropriate to reveal information which has hitherto been regarded as private, the complaint "you can't do that, it's mine" is at best fruitless, and is more likely to provoke the question "what are you trying to hide?"

In an atmosphere where who has access to data appears to be paramount, the sensible question is not who owns it, but who controls it? Since the beginning of 2016, large companies' tax-related data is subject to the CbCR provisions of the Base Erosion and Profit Shifting (BEPS) initiative. In due course, data which those companies currently "own", will be provided to the relevant tax authorities who will use it for a variety of purposes including risk assessment and trend spotting. Some of the large corporations will have questions to answer in relation to their CbCR either from the tax authorities or potentially, if the whistle-blowers get their hands on the information, from the general public. At the point when such questions start to be asked, the most relevant question is not about data control, but data mastery, which carries with it the ability to set the narrative.

Tax data can only be mastered with analytics

Given the data volumes involved, traditional approaches to analysis are no longer fit for purpose, especially if the objective is data mastery. Data analytics is the key to unlocking the power of tax data and managing it to best effect either as a tax authority or a taxpayer. Some large companies have already been using tax data analytics for dry runs on their CbCR for the purposes of quality assurance, problem spotting and root cause analysis. By mastering their data before they are required to report it, the tax function is able to anticipate the questions, prepare its response and if necessary, deal with what needs fixing.

In addition to the unprecedented volumes of data being reported to the tax authorities as a result of BEPS and other measures including the Common Reporting Standard and FATCA, is the automatic exchange of information (AEI) between tax authorities. AEI is not new, but is increasing in this era of Global Tax Reset. Reflecting this are the OECD's leadership of a common transmission system for exchange of data (which could otherwise be overwhelming) and the establishment of an advanced analytics group to advise tax administrations on how to get the best out of the opportunities that analytics offer. The OECD paper "Advanced Analytics for Better Tax Administration" published in May 2016 with the subtitle "Putting Data to Work", is a clear indication of the aspirations shared by the global community of tax authorities.

The extent of this collaboration—including a commitment to capacity-building in less developed jurisdictions—adds another dimension to tax data mastery for companies who must understand the data at the individual country level, between countries where the corporate has intra-group transaction flows, and at a group-wide level. Multiple forces, including regulatory requirements and the culture of "tax shaming", are fast making mastery of the data essential, and analytics is
the key.

What then for companies?

The first step in this process is to understand where the data resides and how to get it into a form in which analytics can be run. Extract, transform and load (ETL) is a simple description of what can be a challenging process in multinational groups with data collected and stored across a variety of systems. And the data which is useful to the tax function both for reporting and analytical purposes resides across a variety of domains such as finance, supply chain, and workforce. In addition to locating data internally and transforming it into a format that can be used for analytics, there is the external unstructured data in the form of legislation and other regulations. Mastery of this type of data is also critical.

Historically regulations have been developed at an individual country level, with mismatches between countries creating exposure to double taxation or the opportunity for international groups to pay no tax at all. Recent steps to counter such mismatches taken by the international community and supra-national bodies such as the EU and the OECD have included recognition that situs of intellectual property and intangible assets has often been influenced by tax motives rather than to match the assets with the value they are creating. Within BEPS this is being address as one of the minimum standards, and understanding such new requirements using technical expertise or—as soon will be the case—artificial intelligence, will vastly contribute to mastery of the data. At the same time, tax authorities are taking advantage of web-scraping technology to identify in which countries multinational corporations are active and establish the validity of assertions as to nexus between intangibles and revenue generation.

Data mastery yields strategic value

Tax data analytics offers a vision of a future in which companies will be able to take advantage of prescriptive techniques which direct tax-sensitive decisions for the optimum result, but this is some way off. Today, most companies performing tax data analytics are using descriptive analytics for hindsight—to better understand what past data is telling them. This is a very good starting point for establishing mastery over the data for CbCR purposes. By understanding what has happened, you can—if necessary—take steps to make sure it doesn't happen again in future, and be prepared to answer questions in an informed way about the picture which the data provides to the tax authorities or other interested parties.

The next step – call it "tax data analytics 2.0"—is predictive analytics, which will enable tax functions to use scenario planning to establish an appropriate way forward from both commercial and compliance perspectives. Such levels of insight help make the tax function a partner to the rest of the business as data-enabled decision-making enhances productivity and working capital optimization, and supports management of the group's compliance risk and cost.

To achieve this degree of mastery, the tax function will need to secure access to the right combination of tax technical and analytical talent, business knowledge and communication skills. Knowing what, how and how much to communicate is essential, both in contributing as a strategic business partner, and in developing an appropriate narrative to explain what the tax data reveals at a level which satisfies tax authority questions and assuages any public interest.

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