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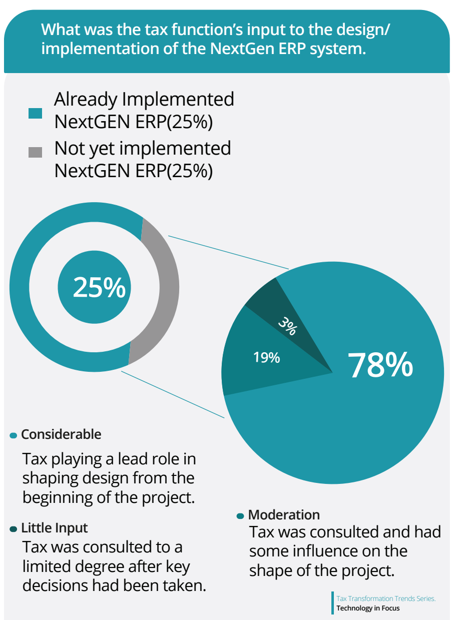
Digital Transformation and Tax.

Are you considering a digital transformation or just an upgrade to your Enterprise Resource Planning (ERP).

Whilst there are many reasons for carrying out an ERP change or upgrade, tax or regulatory issues rarely feature at the top most reasons for the decision to make a change. Such changes or upgrades are usually necessitated by the need to stay competitive via better decision making and improve the user experience. The decision of an ERP upgrade ends up being the Information Technology (IT) manager and the Finance functional head's responsibility. ERP however covers all areas of a business operations, from finance, accounting, procurement, customer sales management, logistics, asset management and supply chain. With the ever-evolving current environment, tax should be part of the foundation of any such discussion surrounding ERP changes or digital transformation in general. Precisely because all the areas covered under ERP have tax implications. From supply chain, (which has withholding tax and customs implications) asset management (withholding taxes, capital allowance computations), human resources (PAYE) to sales (VAT and related levies). It is essential that both the internal tax function and/or the external tax consultants should all play a role from the planning stages of any ERP upgrade to the final testing stages before any new ERP is deployed. This inclusion in the planning stages will avoid penalties and save a business entity from potential compounding interest from non-compliance with the tax laws.

In a recent survey conducted by Deloitte, where a quarter of those surveyed were an ERP system and is up and running, nearly 78% of tax functions/executives played a lead role in shaping the ERP's design. This shows that understanding of the tax impact of any digital transformation is catching on and going forward, tax issues should continue to factor in the mix of reasons to embark on digital transformation.



Any of such upgrades should also aim at addressing current specific tax challenges which will include accounting for the cost of sales and its associated withholding tax and indirect tax implications. It should assist by providing supporting documentation during tax audits conducted by the Ghana Revenue Authority (GRA) in future. This is achieved through digital record keeping which should make it easy to access records such as receipts and legal contracts to support tax positions during tax controversies and dispute resolution processes. Not only should the information be readily available, but the data quality should be such that it gives a business the confidence to support tax positions and necessary justification.

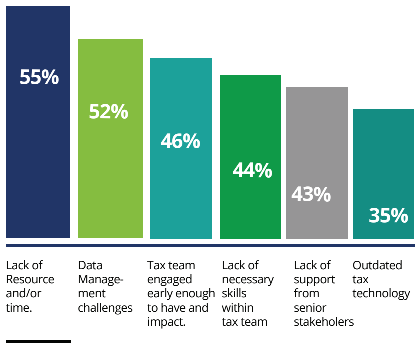
Tax accounting and financial accounting differences

ERP changes or upgrades should not only satisfy financial accounting reporting purposes but assist with tax accounting and its compliance whilst at the same time assist in assessing the tax burden. Frequently there are tax areas in which local tax accounting knowledge can be of benefit in setting up ERP. One of these is that of cash flows and payment of tax liabilities. This is because the timing of cash receipts and payments under the tax law sometimes differ from the accounting rules. A typical example can be found under the Value Added Tax Act,2013 (Act 870), which defines the timing and payment of a supply of goods, which will not always coincide with the financial accounting treatment and disclosure.

VAT Act provides that a supply has been made if the goods have been transported and delivered from seller A's business premises to buyer B (even though seller A, is yet to receive cash payment from buyer B). Therefore, at the end of the subsequent month, seller A would have to report and pay the VAT amount, all things being equal. Whilst for accounting and cash flow purposes, the payment terms might mean seller A would be paid in 90 days.

Tax supports strategic decision making

In another survey carried out by Deloitte, tax leaders said not having the right data at their fingertips (52%) and outdated ERP systems (35%) are the biggest barrier to delivering strategic value to a business beyond the tax compliance obligation.Tax has moved from being a mere compliance issue to supporting strategic decision making. There should be readily available data to assist a business in making the right decision as every business decision and pricing will have a tax impact. An important feature to bear in mind when carrying out a system change, or upgrade is the ability of this new system to support decision making and modelling impacts of future changes in the tax law on the current business model. What will be the impact on the business of new tax proposals announced in the government budget? This is a question the board of directors and chief financial officers will usually ask. If tax is considered at the planning stages of the upgrade, the answer should be easily provided to aid in business decision making.



A future proof requirement of any such upgrades will be to make it easier for tax rate changes to be easily effected in the system within a short time frame of a law being passed. If Parliament effects a change in the VAT rate for example, is it going to take more than a month before the ERP system is amended? If the law becomes effective before the system is amended, you run the risk of incurring penalties and interest for charging the wrong rates and paying the wrong amounts of taxes until the ERP is updated with the rate change. Hence it is advisable if this is factored in the planning stages to include the ability to make such changes with the right internal controls.

Transfer Pricing Requirements

The new TP Regulations,2020 (LI 2412) has added to the information disclosures to be provided by a taxpayer with related party transactions. The new information requirement includes Country-by-Country reporting which requires multinational entities to disclose financial information of specific related party entities within the group. The information disclosures include revenue from related and non-related parties, income tax paid on cash basis as against that paid on an accrual basis and tangible assets other than cash and cash equivalents. Sometimes this information may not be readily available unless through some sort of consolidation, and may need to be done manually. A strong ERP will not require this new information to be generated outside the system, but rather should be readily available with the click of a mouse.

Future proofing ERP upgrades to take advantage of Artificial Intelligence (AI) and Machine Learning (ML)

With the increased availability of data and technology, coupled with ML, decision making can be further enhanced by taking advantage of artificial intelligence and machine learning capabilities to improve and assist with tax processes and making decisions.

Identification of tax risk, planning for cash flow and aid in tax modelling around various scenarios from inflation rate adjustments to changes in the tax environment are some of the areas that a future proof ERP software can assist with. Specific tax areas such as indirect taxes and other transactional taxes have been found to be well suited for ML purposes management, whereas corporate income taxes are not so suitable to take advantage of ML (currently). This notwithstanding, any new ERP should consider making use of these advanced technologies to improve internal processes such as tax accounting and planning and to overall improve the competitive advantage of a business.

Data Retention

Finally, what happens to the old system and documents you are leaving behind? Ensure that data on the old system is secure and available for any future tax audits. The Revenue Administration Act, 2016, (Act 915) requires documents to be retained for a period of at least six years from the end of the year of assessment or end of accounting period for which the document is relevant. In some instances, such as where a tax audit is ongoing, the document may be required to be kept for a longer period. This has been further confirmed by the High Court in the case of **Taylor and Taylor Limited vs The Commissioner-General.** If it is not possible to maintain the documents due to the ERP upgrade or change, you will need a notice in writing from the Commissioner-General of the Ghana Revenue Authority to relieve you of this 6-year document retention period.

In conclusion, as the tax and general compliance landscape keeps evolving, being compliant with tax laws and complex financial reporting rules may seem challenging. With the right structures from planning to implementation, it should lead to an efficient system to meet the compliance burden and at the same time for the tax reporting system to assist in business decision making. Digitization being one of the mega trends changing all aspects of life, now provides a platform to align data and technology for better regulatory compliance and beyond.align data and technology for better regulatory compliance and beyond.

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