

## Taxation in digital era

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**Ghea:** Welcome to Deloitte TP Lens, your go-to source for everything related to transfer pricing. Each week, we will explore various transfer pricing fundamentals, strategies, and challenges. Whether you are a tax professional, business leader, or navigating the global tax landscape, we have got you covered, and we will break it all down. My name is Ghea, and I will be your host for this episode. Today, we are diving into a hot and rapidly evolving topic—the digitalisation of transfer pricing, focusing on how technology is transforming proactive defense and automated compliance.

First, we have Daniel Alexander Laoh, Deloitte Southeast Asia's transfer pricing partner in technology, with more than 15 years of experience assisting numerous multinational companies throughout Southeast Asia and Australia. Daniel, welcome to the show!

**Dan:** Thanks, Ghea!

**Ghea:** Joining him is Michael John Nixon, Singapore's transfer pricing and international tax partner, who was a part of the OECD task force drafting parts of BEPS 2.0. He has extensive experience in the EU and APAC markets. Welcome, Michael.

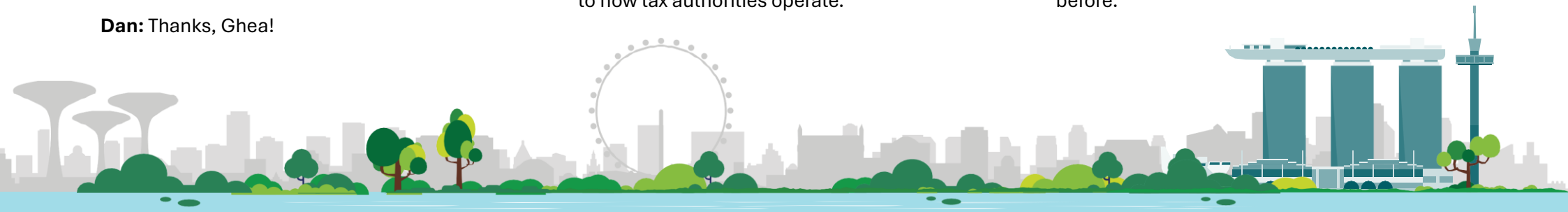
**Mike:** Thank you very much!

**Ghea:** Great. Let's start by stepping back to look at the bigger picture here. The global tax landscape is undergoing a significant transformation. We know this, and we are seeing increased scrutiny involving regulations such as BEPS 2.0, Tax Administration 3.0 (which is the digital transformation of tax administration), and growing expectations around transparency and real-time compliance. So, in this environment, technology is obviously no longer just a support function, right? It's becoming central to how tax authorities operate.

Could maybe both of you walk us through how technology is entering the tax administration space globally?

**Dan:** Sure, sure. There's definitely a global shift in the use of technology for tax policymakers, right? And a lot of this is driven because there's just a much larger volume of data that's available, and that they are combing through to ensure that taxpayers remain compliant and pay the appropriate amount of taxes.

There are just much more complex cross-border transactions that need to be monitored and taken into consideration. I mean, there's an increased expectation for data transparency for taxpayers. I mean, there's an increase in information exchange between revenue authorities. And there's also just a lot more cross-interaction between, you know, different spaces that we didn't typically see before.



For example, you know, issues around tax versus customs and tariffs, international taxation versus transfer pricing. Now, all of these interactions mean there is just a need for technology that sort of binds all of that together, especially because all compliance requirements are so data-heavy these days.

Now, in an effort to address this, tax authorities have really started tightening up compliance and regulatory authority around the input of data for potential analytics purposes. And they have also made sure that there are much tighter timelines for these types of enforcement. Now, I think the best manifestation of this increased aggressiveness and this comprehensiveness of data requirement in the use of technology can probably be seen with the introduction of Pillar Two these days, right? For you to be able to meet Pillar Two requirements, you just need an end-to-end technology that allows you to manage and monitor all of this information that you are providing to tax authorities.

Now, technologies that are being used allow tax authorities to also maximise their capability to do risk assessments, right? It also allows them to enforce compliance requirements in a centralised data pool. It enhances efficiencies, it reduces manual interventions, it identifies risks faster, right?

And all of this means that there needs to be a much more proactive strategy for taxpayers. Taxpayers need to have equal amounts of technology that they can use to anticipate potential issues being raised by tax authorities. This is something that's also being enforced by the OECD. We see Tax Administration 3.0, for example, which pushes regulatory authorities to, I guess, reform their technology approach for compliance in a more uniform manner, so we are seeing this all throughout the globe.

**Ghea:** That's so interesting. And I think you have already kind of iterated some of the points about the shift, you know, of these tax administrations applying from traditional audit methods or their approaches to assessing these transactions to more data-driven and automated approaches. And you mentioned including, you know, some sort of data analytics, some sort of use of technology to detect some sort of anomalies in these transactions. Can you again maybe highlight, Mike, about how do you think that tax authorities are beginning to use these technologies in practice?

**Mike:** Thank you. So I guess I will begin by highlighting that this is the continuation of an existing trend. Tax administrations for many years have been using digital platforms and technologies to facilitate regulatory

compliance, including through just general administration or through the use of digital technologies to conduct audits, whether it be for transfer pricing purposes or for other tax issues or intercompany transactions, for example. In tandem with that, as Daniel had just mentioned, that the regulatory and political landscape in global tax has gotten a lot more complex, both politically and technically. And that necessitates a push between the use of technologies and the use of other tax administration resources to really help the tax administration conduct their assessment and their administration activity.

With that, the development of the technology has been really helpful, and so many administrations through the globe and through Southeast Asia have really then been pushing to see how technologies can help them and better conduct their tax administration activity, whether it be just general administration and compliance or audit.



taxpayers to review their compliance filings, to review taxpayers' information, to get information relevant to a taxpayer's particular issues from the broader world, in order for it to better understand that taxpayer, and to better conduct audit activities. And particularly if we look at, for example, the transfer pricing world, whereby much more of the value of companies is inherently based in intangible assets, that we see more winner-take-all industries, more unique business models. It gets very difficult for tax administrations to manually review each of these businesses' facts and circumstances without the use of technology. It's quite an onerous thing for them to do. So there is a push and there is a pull from their perspective.

**Ghea:** Thank you so much, Mike. I think that was a, you know, really comprehensive explanation about, you know, how these tax authorities in certain jurisdictions are using technology in their tax administration and audits, and also kind of how this trend is developing, including in Southeast Asia. Dan, do you have any comments on that that you would like to add?

Now, as I mentioned, Australia—the Australian Tax Office—has really been a leader, a market leader, when it comes to the use of data analytics and just technology to enforce compliance requirements. Back when, you know, the three-tier documentation for transfer pricing, for example, the country-by-country report local file was introduced, the ATO actually diverged from the traditional model of preparation of local files to prepare this very comprehensive disclosure that would allow them to conduct analytics for most of their largest taxpayers.

What they have done is they have used this extensive disclosure to identify, you know, potential risk areas that they can then hone in a bit more for potential audits, right?

A jurisdiction like Indonesia, which I think is one of the major markets in Southeast Asia, was greatly inspired by this approach. And what they have done more recently is they have introduced this framework—they call it CRM, the Compliance Risk Map Team—which is a centralised team by the DGT that would actually go through all of the taxpayers' data to analyse potential risk areas very similar on how the ATO had done it, right? The most recent implementation of the core tax system, which is essentially an end-to-end tax technology platform that would gather a lot of this taxpayer compliance data, is an attempt to digitalise all of the information that is currently used offline so that the risk analytics that they can do will become much more effective right? The implementation of CoreTax will allow the tax office to access taxpayers' data on a much more real-time basis.

Other jurisdictions, like say, for example, Malaysia, they are mandating e-invoicing, similar to the Philippines as well. I think the hope of this is that, with everything now being digitalised, there is going to be much more information that they can use to reconcile individual transactions, for example, that

taxpayers are entering into with their annual tax reporting requirements. Other Southeast Asia countries are also accelerating their tech adoption using all of the tools that Mike had mentioned earlier.

Now, the outcome of this is, of course, there is going to be much more audit accuracy. There is going to be greater capacity for tax authorities to identify risks earlier on before a formal audit is actually conducted, right? And of course, there is going to be a much stronger shift towards tax and transfer pricing governance framework. You probably are familiar with the old saying, “garbage in, garbage out,” right? These tax authorities might have the best technology in the world, but if the input taxpayer data is rubbish, there are going to be limitations on what type of analytics can be done. So I think the next step in the region is probably to enforce all of the data that is coming in to the tax authorities to make sure that any analytics that they do is going to be more efficient.

And how do they do that? They are going to be enforcing tax and transfer pricing governance framework. They are going to make sure that taxpayers have a robust way of preparing all of this information, have a robust, you know, sign-off system to make sure that the data that they are feeding into the tax office is all robust, and they are going to make taxpayers much

more accountable to all of the information they are going to be submitting to regulators, right? So that is probably something that we will need to observe in the region as the years go by.

**Mike:** Yeah. And I think we can clearly see that the clients throughout the region have shifted gears and have started automating parts of their tax, their transfer pricing reporting, given these shifts to more challenging compliance mandates, greater complexity, but also the tooling up of the tax administrations themselves are doing. So taxpayers really can't be caught behind when it comes to deploying these types of technologies and systems in managing these types of issues. And it also becomes more costly if they don't do these things proactively.



Because having to scramble to address some of these compliance challenges and address queries from tax administrations that are using real-time data, it becomes almost impossible to do, and the timelines required if you haven't already invested in these types of systems proactively.

So we see clients doing this very proactively rather than trying to react to things later, which isn't really possible given the time it takes to set up and deploy these systems effectively in-house. So some kind of use cases might be for scenario planning in the event that you might try and implement any business change, financial forecasting and price monitoring in the operational transfer pricing perspective, looking at harmonised customs valuation and transfer pricing issues, or very calculated reporting type issues like country-by-country reporting or globe information returns for Pillar Two reporting, as well as even the preparation of tax returns and the preparation of TP documentation. And these are just a few examples, but there are many more of these types of use cases as well.

And so these things are done for various reasons. There is quite obviously quite a strong push for real-time visibility of workflows and traceability of decisions and processes over time, independent of the people that implement these processes in organisations. The process needs to be there independent of that because a tax administration may look at what that process is at any time into the future. So having that robust process put in place is quite an important thing. And then from there, the application of data analytics in benchmarks can flag issues, can flag outliers early, enabling businesses to make much more real-time decision making in changing things before these types of issues occur, thus really preventing audits more than they have to respond to audits, which is a really critical value add that clients seek.

So outside of the better audit management, the traceability of decisions across various processes, the management of complexity in an efficient way, these things also conspire together to reduce costs to taxpayers as well when they have implemented these systems, whether that be in their time and their resources or in their spend in having to address these issues, so quite a number of use cases we see. Each client is different, each client has different issues and different priorities, but we find this generally applicable to each client's facts and circumstances.

**Ghea:** Thank you so much, Mike. That is really interesting and very practical—a lot of these insights that were given. So what we have discussed about so far about digitalisation, automation, and this evolving tax environment, you have also highlighted some concrete steps that these taxpayers should be taking right now. If the listeners who are tuning in right now would like to explore more of the potential of using technology, and how to automate their finances and tax matters, especially in preparation for this evolving tax administration expertise, who should they contact, and what should they do?

**Dan:** Let's see. I mean, a few things. I mean, all of this when you hear at face value, seems really like a big undertaking. The best thing for you to do is probably break it into manageable parts. In my mind, identify areas in your current tax and transfer pricing process which may be very manual. Assess bottlenecks in the way that you are doing things, both from an operational and from a maybe data preparation perspective, and then really just focus on that, right?

If you've got issues in preparing data for potential audits, focus on that. If you've got issues monitoring your transfer pricing policy in real time, maybe go there. If maybe the issue is reconciliation between tax, transfer pricing, and customs, then start there, right? Make





sure that any initiative that you introduce is going to be manageable, right? Identify those areas that are low-cost for you to change, but result in the maximum benefit.

Now, the other thing is, don't think for a second that all of these initiatives primarily need to be technology-driven, right? There are other areas as well that you can probably focus on. If you have problems with managing your current audits, go the proactive approach, right? Identify the risk areas, your high-risk transactions, and prepare supporting documents for these types of transactions. Make sure that you have got defense memos in place so that once audits are ongoing, you don't need to be reactive. You know what positions, what arguments you need to put forward, that you need to submit during an audit, right? Consult with your tax advisors in terms of how to ring-fence your high-risk arrangements.

The other thing is probably start building up on your digital foundation. And what do we mean by that? I think most of the time when we have discussions with clients, one thing we notice is they say, oh all of their systems are all over the place right now. We are using different ERP systems. We've got different data sets that are being kept by all these different teams. I think one of the first steps you need to start doing is to create a single data pool, make sure there is

a single source of truth, a single system that a taxpayer is using for their financial reporting, for their tax reporting, for their transfer pricing reporting, right?

You do that as a first step, and all of your automation, all of your technology initiatives going forward will be much easier to conduct, right? If you do end up going through all of these routes that I was mentioning earlier, your task will become so much more manageable, right? You have to identify all of your stakeholders, you break it down to bite-sized pieces, and you just take it slow. Do it on a piecemeal basis. But just remember that you need an overall broad strategy to make sure that everything that you are doing on a piecemeal basis becomes a very comprehensive framework going forward.



**Ghea:** Thank you. And Michael, did you want to add to that?

**Mike:** I think in terms of practical steps that businesses can take, there is quite a lot to invest, but just to kind of add some brief points here, I would emphasise the need to plan ahead with a lens to having the idea that you will need to defend the positions that you take, and then identify what processes you have now, and then what you can do from there to improve those processes, both from a traceability perspective, both from a workflow and process perspective, that can stand the test of time, be as efficient as they possibly can be, and proactively be able to support you moving forward in terms of what decisions the business may need to take.

So then, when a tax administration will come to you, whether it is with a compliance obligation that you have to satisfy like Pillar Two, or to query a subjective position that you have taken, like the transfer pricing policies you implement, then you have not just the outcomes there to show in terms of your Pillar Two return and your transfer pricing documentation and so on, but you also have the process and workflows in place so that you can really demonstrate best efforts to comply, that you can demonstrate easily the decisions that you have taken through this process, and that you have done so in a manner that's as

accurate and as efficient as possible. Comfort, having comfort and safety in the fact that your automated processes have been fully reviewed and that they are not subject to costly human errors. So adopting that integrated technological-driven approach between your human workforce and automated workflows and processes, together with appropriate digital platforms and foundations on which those technologies can be deployed, can be a great value add for businesses when having proactive audit defense. So I think I would like to emphasise that in particular.

I would also like to emphasise the need for human governance over the technologies too. It is very important to understand, for example, from a process and governance perspective, who is in control of who manages and who maintains these automated workflows and processes over time. That's a big part of the large-scale technological deployment projects that we do for our clients, not just in terms of having the automated process there, but making sure that the humans also manage that process too. And that everyone is appropriately in the loop and that the process is fully defined, including the human involvement in that.

**Ghea:** So a question that we keep getting from clients is that they would like to better understand the benefits in making the investment in these technology initiatives so that they can justify the budget. Can you maybe explain a little bit about that, Dan and Michael?

**Dan:** Sure. I think one of the approaches we recommend to clients is that the investments you initially make in year 1 of any sort of technology transformation might seem high from a price tag perspective, but I think the benefits you see from that in year 2, year 3, year 4, would be substantial right? I will give you an example. These days, one of the things that we always get requested from clients is, “How do I automate my transfer pricing documentation preparation?” for example, right? In year 1, there might be a slightly higher investment that you will need to do there, but then in years 2, 3, and 4, there would be a lot of cost savings because your whole process essentially gets automated. And that really frees up a lot of manpower time for you to focus on the more value-adding functions that you might do, i.e., identifying these potential risks, exploring maybe potential planning or restructuring opportunities to align with tax office expectations. And all of this additional time creates a lot of benefit for the company as a whole.

By making sure that your framework ends up becoming more robust, that means any potential disputes that you might have, adjustments, corrections from unfavourable audits will end up becoming minimised. All of this, in my mind, seems like a very good return on your investment. So that's probably some things that clients would need to think about. What do you say to that, Mike?

**Mike:** Yeah, 100% agree. I mean, I'm an economist by background, so I can look at this from a net present value perspective. And whilst your initial upfront costs may increase because you have to build, deploy a technological solution and need to train people in using that solution, that doesn't necessarily imply that the investment required over, let's say, a three-year life cycle of doing TP documentation is greater than the status quo. In fact, most of our clients generate real cost savings from making such investments over time. Then we have the fact that there are very clear, tangible cost savings that you can have through deploying technology in this way.

But like Daniel just mentioned, there is also a lot of intangible benefits. If through the greater improvement of process and through the greater deployment of technology in your business, you can prevent audits from occurring or better justify your position. And that saves both tax payable, it saves penalties,



it saves paying consultants to help you with audit management when though you are trying to scramble to get data, to get information to justify a position, that could have been much more easily facilitated if you had the technological tools in place to do that more readily.

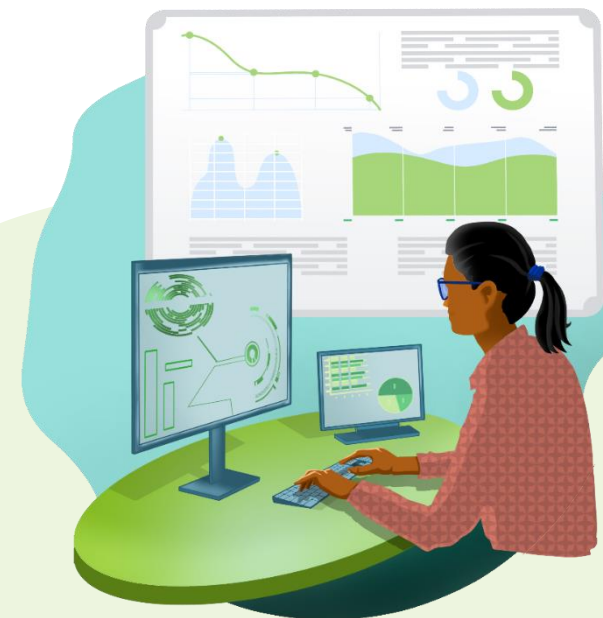
And so we generally recommend that, also there are different ways to deploy technology and to engage with advisors to help you deploy that technology. It doesn't always have to be, let's say, a custom build for you, which requires more investment and deployment. It could also be through a managed service, through standardised technology that the advisors provide, or through direct licensing arrangements. And we very methodically evaluate clients' current technological architecture, their technological landscape, to work out what systems and processes are really best for that client based on their risk profile, their technological profile, their specific needs, and what benefits they seek to see.

**Ghea:** Fantastic. Thank you so much, Daniel and Michael. That wraps up our discussion today on technology and automation in tax and transfer pricing. We have covered a lot of ground, especially with practical steps and a lot of valuable insights. So thank you so much to our experts for sharing all of these very, very valuable insights, and our guests for tuning in.

If you found this episode enjoyable, helpful, be sure to subscribe, comment, and share. Stay tuned for more discussions on other transfer pricing topics. This is Ghea signing off from Deloitte TP Lens. See you on our next episode. Thank you, everybody. Thank you, Michael. Thank you, Daniel.

**Dan:** Thanks Ghea, thanks Mike.

**Mike:** Thank you.





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