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New rules call for new actions:

Tax authority mandates drive disruptive change

Spotlight on Europe

Tax

New rules call for new actions: Tax authority mandates drive disruptive change in Europe

As European regulators increase SAF-T and e-reporting requirements, companies can find additional value in new technologies, more efficient processes, and better governance and controls

As European tax authorities look for ways to close the tax gap, increase the customer experience, heighten efficiencies, reduce costs, and reduce tax avoidance and corruption, they are increasingly turning to a Standard Audit File for Tax (SAF-T) protocol and other e-reporting requirements.

Initially issued as a template in 2005 by the OECD based mainly on indirect tax information, SAF-T was revised in 2010 to include fixed assets and inventory. SAF-T provides guidance for the exchange of tax data between businesses and tax authorities, including recommendations related to format, content, implementation, and cooperation. It was first adopted by a handful of countries in Europe (including Austria, France, Luxembourg, and Portugal), and is now increasingly being implemented across Europe as tax authorities look to close the tax gap and understand the benefits of expanded and consistent datasets. SAF-T and its equivalents are currently applicable to varying degrees in almost half of all European countries and are part of a broader initiative by tax authorities to digitalize tax.

While many organizations may initially struggle with implementing new processes, technologies, and controls to provide the required information, they are increasingly leveraging technology and datasets to add additional value across the wider business. The new technologies can allow organizations to better understand customers, grow sales, and reduce costs while allowing for higher reporting accuracy and compliance. Employees who were compiling traditional paper-based returns can add more value by analyzing the data being produced rather than spending time transforming the data for tax purposes.

As part of Deloitte's perspectives series on disruptive tax technologies, we are examining the resulting opportunities and challenges relevant to different regions of the world, tax types, and technologies. This perspective takes a deep dive into SAF-T and e-reporting-driven tax technology disruption in Europe.

Let's take a closer look at what taxpayers are facing across Europe—and how clients may leverage technology to drive value while responding to increasing digital demands and regulatory requirements.

From taxpayers' information systems to European authorities' audit software

As in other regions around the world, organizations in Europe have evolved their internal processes and technologies in response to the changing nature of tax compliance requirements. Tax authorities have increasingly moved away from the traditional techniques of manual processing toward automated or semi-automated submission of data. In many cases, tax authorities can now directly audit organizations' financial systems based on their own audit systems and programs.

While many of the countries in the region have introduced some level of SAF-T and/or e-filing requirement, they are at different stages of development and implementation. Some—such as Spain's "Immediate Supply of Information" and the UK's "Making Tax Digital"—are moving toward real-time reporting requirements (although in very different ways), while others continue to look to SAF-T as a basis for their data collection. But overall, as tax authorities increasingly embrace the digitalization of tax, it is critical that organizations across the region become more proactive in implementing financial systems, controls, and processes to be able to comply. Increasingly, as more countries are adopting SAF-T and e-reporting, organizations are looking for solutions that promote global consistency and visibility across territories where these data files are being submitted.

Working with clients across Europe, Deloitte has identified some common themes related to governments' changing requirements and the resulting need for technology solutions to address them:

- **Frequency of data reporting is increasing**. Companies that complete requirements manually may struggle due to the frequency and shorter time between due dates. From a business process perspective, more frequent reporting creates a need for more frequent reconciliations and responses to inquiries to explain variances. A manual approach to this is unlikely to be sustainable as frequencies increase and as more countries come online with these approaches. In addition, real-time reporting in Spain (and soon in Hungary) means that data will need to be submitted within days or even hours rather than the traditional periodic approach.

- **Volume and levels of detail of requested data are rising**. Higher volume and more detail often require more advanced financial systems or third-party tax solutions to produce the required tax reports. As much as possible, it is a leading practice to draw data directly from the core financial system mapped to a third-party solution or localized Enterprise Resource Planning (ERP) system to mitigate against error-prone manual transformation. Increased volume also means increased analysis by tax authorities as they mine a wider dataset across business units, periods, countries, and peer organizations.

- **Formats of requested data are changing**. Complying with new data formats usually requires customization or reconfiguration of ERP systems or development of customized reports. Some of the larger ERP and tax software providers will update their systems for new country requirements. However, sometimes this can be a slow process as it takes time to build new requirements into large ERP systems. In addition, as the OECD guidance does not prescribe a specific data format, jurisdictions may interpret the implementation of SAF-T with respect to their own local rules. As more requirements are issued, organizations are looking for a single, more comprehensive solution that meets their needs across jurisdictions with differing requirements.

Deloitte works with clients in Europe as new regulations drive change

Deloitte helps clients respond to increasing e-audit regulations across different European jurisdictions with country-specific solutions as well as a more strategic, standardized approach. Below is a summary of those solutions, each of which help clients in Europe navigate the changing tax technology landscape and position themselves to take action in response to the new approaches by tax authorities.

Country-by-Country Approach

Regulatory driver
Need to respond to increasing e-audit regulation in different European jurisdictions.

Deloitte solution
Assist clients with the implementation of e-audit requirements within their organization on a country-by-country basis.

Approach
Clients who decide to implement e-audit on a country-by-country basis tend to opt for a more reactive than proactive strategy and typically consider the requirement purely compliance-driven.

To help clients pursuing a country-by-country solution, Deloitte follows a phased approach, which allows tailoring the services provided to each client's need:

- **Phase 1 – System analysis**. During the analysis phase, we discuss with the client the system(s) used in order to identify the different sources from which data needs to be extracted.
- **Phase 2 – Data extraction**. Based on the outcome of the system analysis phase, we provide the client with a precise data instruction request.
- **Phase 3 – Data validation**. We apply a set of validation criteria to the extracted data, based on which the data assembly phase can start. Mainly, we validate that the transactions provided can be reconciled with the local trial balance. Further validations on master data are performed to help verify that master data is complete and accurate.
- **Phase 4 – Data assembly/formatting**. Once the validations are confirmed by the client, we generate an e-audit file per year for the entities in scope in a format which can be handed over to the tax authority.
- **Phase 5 – Testing and reconciliation**. Multiple categories of tests can be performed on the formatted files. The most common are:
  - Tests on format and content
  - Tests on balances
  - Comparison of the e-audit files with the financial statements/VAT return for consistency and accuracy

Over the last six months, we have assisted clients with the production of over 40 e-audit files for 15 different legal entities using a variety of ERP systems (e.g., SAP, Oracle, PeopleSoft, JD Edwards) and integrated CRM systems.

Standardized Data Model

Regulatory driver

Need to respond to increasing e-audit regulation across different European jurisdictions.

Deloitte solution

Assist clients with the development and implementation of a corporate e-audit data model that allows clients to comply with the e-audit requirements across several jurisdictions and maintain a strong level of standardization from extraction of data to validation and data formatting across those jurisdictions.

Approach

Clients adopting a standardized model are generally taking a more proactive approach than a country-specific implementation. They value e-audit—and the outcome of the validations—beyond pure compliance.

Developing and implementing a corporate e-audit data model increases efficiencies for the client by allowing for standardization of the multiple phases in an e-audit process, regardless of the jurisdiction. As we see a trend towards additional jurisdictions adopting e-audit processes, this approach may provide greater flexibility over time.

The recommended process is similar to a country-by-country implementation (see above) but with a heightened focus on the system analysis and data extraction phases to define the appropriate data model and standardized process to put in place.

- **Phase 1 – System analysis**
- **Phase 2 – Data extraction using a standardized data model**
- **Phase 3 – Data validation**
- **Phase 4 – Data assembly/formatting**
- **Phase 5 – Testing and reconciliation**

By taking a standardized approach, clients can apply the same data model on any non-e-audit jurisdiction to test and assess their e-audit readiness. Depending on the client and their eAudit readiness, data analytics can be a natural extension of this project.

Deloitte also helps clients address country-specific issues related to these regulations, such as the following solution for clients responding to new requirements in Spain.

Spanish solution

Regulatory driver
New Immediate Supply of Information on VAT (SII) reporting requirement in Spain that requires companies to report received and issued invoices within four days of their reception/issuance.

Deloitte solution
Standardized automated process that includes data processing, reporting, and reconciliation to the VAT return, as well as error handling.

Value delivered
Enhancements to Deloitte's Indirect Tax Compliance application (an automated tool offering indirect tax compliance capabilities across Europe) and the DSII communication platform (a Deloitte solution that centralizes all communication with Spain's tax agency) enable the automation of many of the processes related to SII compliance. This reduces the burden of manual labor for the client and simplifies reconciliations to the client's VAT return.

Once the client's VAT data is uploaded to the Indirect Tax Compliance tool, the application validates the data and applies pre-agreed adjustments (PAAs). The PAAs will complement some of the SII data fields or will trigger the conversion of client data to SII-accepted data values.

The SII-specific data quality checks, combined with the default Indirect Tax Compliance tool data quality checks, will test the data prior to submission and will flag VAT entries for client review.

After the data tests, the Indirect Tax Compliance tool will produce the SII files and transmit them to the DSII communication platform, which will automatically handle the submission to the tax authorities and gather their feedback on the invoices submitted.

For more information on these solutions, contact Pieter Van Dyck, Senior Manager, Tax Management Consulting, Deloitte Belgium, pivandyck@deloitte.com.

The time for tax technology and innovation in Europe is now

Businesses across Europe are learning firsthand that non-compliance with governments' evolving digital tax requirements is not an option in many countries. Tax compliance and reporting is moving from a periodic activity to a day-to-day process that needs to be integrated with the company's financial systems and reporting. It is no longer just an infrequent tax reporting matter, but a critical broader financial and reporting need.

Addressing this transition goes beyond technology. The necessary changes require a deep understanding of business processes, local data requirements, and resource capabilities in addition to technology readiness. Deloitte works with organizations to assess their ability to respond nimbly to regulators' requests for increasing levels of detailed data and tax information. We can assist with tax master data management, process improvements, governance, and controls for process and data, as well as improving the efficiency and effectiveness of tax reporting overall.

Deloitte helps clients map their digital tax transformation by providing skilled teams of professionals to develop a solution that is right for each company. Specifically, we bring:

- **Deep knowledge and experience in Europe**. Deloitte's Tax professionals understand local laws and have relationships that bring insights on government developments. In addition, we have tax and systems subject matter specialists who can bridge the gap between Finance, Tax, and IT to understand the requirements quickly and identify an appropriate solution. Our teams in Europe work closely with Deloitte professionals and clients across the world to deliver seamless global solutions.
- **Broad sets of skills**. In addition to strong tax backgrounds, we add technology and process skills that allow us to bring thoughtful business solutions for clients navigating the expanding digital tax environment.
- **Alliances with third-party vendors**. Deloitte's close relationships with third-party technology providers and significant experience in implementing their solutions allow us to align to a client's needs and operating environment.
- **A large pool of skilled professionals**. Across Europe, our Tax and Business Process Solutions (BPS) teams are well equipped to support the complexities that today's tax departments face. Technology alone isn't enough—we bring skilled people who know how to review the data, use the solutions, manage the filings, and embed Tax into the organization's business processes to help companies meet the digital demands governments impose.
- **An understanding of tax authority requirements**. In many countries we are trusted to work closely with tax authorities to share client concerns directly and help them shape their future strategies.

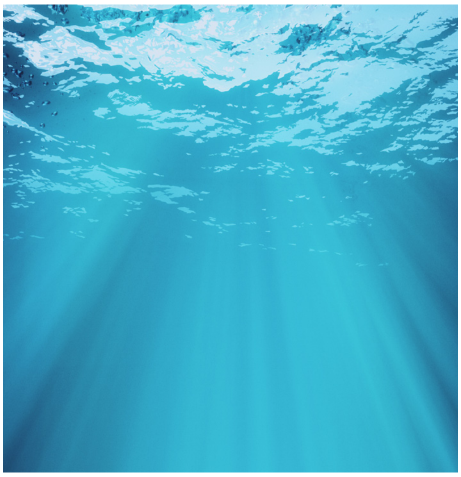
For information on related topics, see the following articles:

- Tax Technology Drives Disruption, 2017

  Links: English | Portuguese | Spanish
- Tax authority mandates drive disruptive change in Latin America, 2017

  Links: English | Portuguese | Spanish

Learn more about how Deloitte can help your organization navigate the changing tax environment in Europe:



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