



**New rules call for new actions:**

Tax authority mandates drive disruptive change

Spotlight on Latin America



# New rules call for new actions: Tax authority mandates drive disruptive change in Latin America

Latin American regulators lead the way in deploying innovative technologies, prompting businesses to follow suit

Looking for ways to enhance revenues, lower costs, accelerate collections, and reduce tax avoidance and corruption, governments around the world are increasingly turning to digital technologies to gather and analyze tax data. In response, businesses are deploying innovative tax technology solutions to comply with the new requirements.

As part of the Deloitte perspectives series on this growing trend, 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 regulatory-driven tax technology disruption in Latin America.

Brazil and Mexico are two countries whose governments are widely considered to be leading transformation through use of technology. Brazil is broadly viewed as a global pioneer in deploying governmental tax technologies, and Mexico is a fast follower, evolving its e-government processes almost overnight.

Let's take a closer look at what taxpayers are facing across Latin America—in Brazil and Mexico, in particular.



## Latin America accelerates its use of tax technologies



More than 20 years ago, Brazil was the first country in Latin America to implement the collection of electronic transaction data. Argentina followed shortly thereafter with a focus on value-added tax (VAT) registrations. Over a decade later, Chile started voluntary electronic filing for VAT registration. Since then, there has been an acceleration of the types of taxes managed electronically, the overall use of technology by taxing authorities, and an increase in the frequency and magnitude of data being collected.

Brazil remains the leader in the region, if not the world, in driving real-time electronic government platforms aligned to strict and enforceable regulations. The public digital bookkeeping system, SPED, was implemented in 2008. SPED requires Brazilian corporate taxpayers to record electronically every tax and accounting operation for filing with the federal, state, and municipal tax authorities. Companies must be careful that no data is omitted or incorrectly transmitted for each transaction that occurs in their business processes, whether the activities are associated with organizations in Brazil or with organizations in other tax jurisdictions. These complex requirements call for an integrated view

of the company's end-to-end processes, physical infrastructure, people, and technology as well as an understanding of the ever-evolving legislation and rules.

Mexico is quickly following Brazil's lead, launching its technology enabled tax administration approach by phasing in e-invoicing between 2010 and 2014. Mexico continues to extend the reach of tax compliance through technology. Other Latin American countries, including Colombia and Peru, have similar programs under way, all of which will have an impact on taxpayers' business processes, technologies, and the skills necessary for timely compliance.

Working with clients in these markets, Deloitte has identified some common themes related to governments' changing requirements and the digitization of tax:

- **Frequency of data reporting.** Many reports are now due monthly rather than annually. Companies who complete these 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 earlier in the process. A manual approach is unlikely to be sustainable.

- **Volume and increased level of detail of the data being requested.** Higher volume and more detail 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 reduce more error-prone manual manipulation.
- **Format of the data being requested.** Complying with new data formats usually requires customization or configuration of ERP systems or customized reports.

## Deloitte makes an impact with clients in Brazil and Mexico as new regulations drive change



Below are a few examples of how Deloitte assists clients in Brazil and Mexico navigate the changing tax technology landscape and position themselves to respond to the new mandates. Across those countries and throughout the region, Deloitte is providing clients a range of services that include:

- Assisting with the localization of systems and providing both the tax technical and tax technology knowledge to support clients and help them efficiently collect and upload accurate data required to meet evolving and demanding compliance reporting deadlines.
- Serving as an outsourcer for client reporting to help clients respond to the frequency and timelines of the required reports, which can be a drain to a client's tax department, or a challenge to meet due to lack of skilled resources.
- Enabling reporting accuracy, enhancing efficiency, and minimizing late filing penalties by deploying tools that perform reconciliations, matching, or exception reporting prior to data submission deadlines.

Read more to see how this range of services have delivered value in four unique client use cases.

# Commercial distributor realizes \$4.8M in reimbursements



## Regulatory driver

Brazil's tax return CAT-17 is required to reimburse value-added tax (VAT) on sales and services, (ICMS-ST), paid by suppliers.



## Deloitte solution

Implement an integrated technology tool to calculate and prepare a CAT-17, using data from the company's enterprise resource planning (ERP) system.



## Value delivered

More than US \$4.8 million in reimbursements per year realized.

The client, a commercial distributor based in Brazil, struggled with the preparation of tax form CAT-17 to receive ICMS-ST reimbursement from the interstate sales of its products. The data required, including tax books of entries, outputs, and goods inventory, are scattered and complex—and need to be submitted in a prescribed electronic format to be considered by tax authorities.

Tax professionals from Deloitte Brazil implemented the firm's integrated TaxScan tool to help. The system prepares an electronic file, sourced with data from the company's ERP system, structured into the format required by law. The system cross-checks the data between tax returns and electronic invoices and confirms compliance with other tax obligations submitted by the client, including SPED, Brazil's public digital bookkeeping system. The benefits to the client included almost US \$5 million in reimbursements as well as lower labor costs and reduced errors in completing the required tax form.



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# Manufacturer streamlines processes, saves up to 20% of import duties



## Regulatory driver

The Free Trade Agreements that Mexico has executed with more than 50 countries require a certificate of origin to access preferential duty rates in destination markets.



## Deloitte solution

Evaluate and support the implementation of an automated system for origin eligibility processes.



## Value delivered

Savings of up to 20 percent of import duties when goods are imported into destination markets, without which it would have resulted in raised end-consumer costs and reduced competitiveness.

A foreign-headquartered manufacturer with plants in Mexico exports 80 percent of its product under 11 Free Trade Agreements signed by Mexico, to allow preferential duty rates when goods are imported into destination countries. The client faced a challenge complying with the different rules of origin when exporting its Mexico-manufactured products. Its processes were manual, time-consuming, and labor-intensive. Certificates of origin were difficult to produce and error-prone, and the company struggled to respond promptly and correctly when undergoing an origin verification audit by a foreign country.

The solution included streamlining the clients' origin eligibility processes, from the sourcing of materials, parts, and components to the issuance of the certificate of origin for the destination market. The team also evaluated alternative third-party technology solutions and supported the implementation, which resulted in customs compliance, costs savings, and supply chain optimization.



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# Manufacturer achieves regulatory compliance, averts \$70K in penalties



## Regulatory driver

Mexico's 2014 rule change requires taxpayers to maintain electronic accounting records and to electronically file accounting information on a monthly basis.



## Deloitte solution

Align processes and implement the Oracle E-Business Solution (EBS) in the client's multiple entities in Mexico.



## Value delivered

Compliance with tax authorities' requirements, approximately US \$70,000 in annual penalties averted.

The Mexican subsidiary of one of the largest North American manufacturers of industrial products needed to unify its electronic accounting system across its several entities, to comply with tax authorities' monthly electronic reporting requirements.

Tax and consulting professionals from Deloitte Mexico worked with the client to structure the accounting processes to align with the tax authorities' mandate, and implemented an Oracle EBS general ledger system to interface with the client's existing ERP system.

In addition to achieving compliance with the government's electronic accounting regulations—which results in approximately US \$70,000 per year of averted penalties—the client improved its data integrity and reduced its risk exposure.



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In addition to achieving compliance with the Mexican government's electronic accounting regulations, the client improved its data integrity and reduced its risk exposure.

# Global manufacturer realizes labor savings, reduces potential reporting errors



## Regulatory driver

Complexity of changing local tax reporting requirements which were not being met through the company's ERP system.



## Deloitte solution

Implement a third-party indirect tax solution to determine taxability and required tax treatment, and to prepare indirect tax returns for countries in the Americas region using data from the company's ERP system. Deloitte is a certified implementer of a number of third-party tax solutions and has teaming and formal alliances with many of the top vendors.



## Value delivered

Labor savings of approximately three Full Time Equivalents (tax, service center, and IT), reduction in potential reporting errors, automatic and centralized updating of indirect tax rules and rates, and the ability to access data across multiple jurisdictions.

The client, a global manufacturer with operations in Argentina, Brazil, Canada, Mexico, and the US, was implementing a global ERP system and needed to integrate third-party tax solutions to address the complex electronic data and filing requirements for the relevant tax authorities in the Americas region.

Tax professionals from Deloitte member firms in Argentina, Brazil, Canada, Mexico, and the US worked as a regional team to identify local requirements and configure the third-party solutions in collaboration with the client, software vendor, and system integrator. The Deloitte teams also assisted with testing scenarios and developing tax-specific training for client personnel. The regional approach aligned with that of the client and allowed for synergies and efficiencies throughout the project. Tax technologists worked with local tax technical specialists to capture the relevant requirements. The joint team then participated in validating the testing results, supplementing the client's local tax staff during the process which allowed them to attend to their recurring tax responsibilities. The third-party tax solutions will provide updated tax content for these jurisdictions, and the client's IT team will not have to update the ERP system each time a tax change occurs. The solution will pull data directly from the ERP system, which will minimize manual efforts and potential errors.



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The client's IT team will not have to update the ERP system each time a tax change occurs—data will be pulled directly from the ERP system which will minimize manual efforts and potential errors.

## The time for tax technology and innovation in Latin America is now. Deloitte can help.

Businesses in Brazil and Mexico—and increasingly across Latin America and around the world—are learning firsthand that non-compliance with governments' evolving digital tax requirements is not an option. Tax compliance and reporting has moved from an end-of-year 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 annual tax reporting matter, but a critical broader financial and reporting need.

The answer 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 then help weave tax

into the foundational structure of clients' platforms to meet the progressing e-filing requirements.

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

- **Deep knowledge and experience in Latin America.** Deloitte's tax practices in Latin America are ranked #1 or #2 in the market. Our tax professionals understand local laws and have relationships that bring insights on government developments.
- **Broad sets of skills.** In addition to strong tax backgrounds, we add technology and process skills that allow us to bring full business solutions for clients navigating the expanding digital tax environment.
- **Alliances with third-party vendors.** Our 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 Latin America, our Tax and 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.



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

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