



# 4 steps to building the business case for tax transformation

A practical guide to implementing a digital tax solution



# Time for tax transformation

This has been a year of extraordinary change. COVID-19 has affected all aspects of business and put numerous things on hold, including Making Tax Digital (MTD). Phase 2 of MTD was initially slated for April 2020 but then pushed back until 2021 to allow organisations additional time. Although HMRC has extended the deadline for MTD, now is the perfect time to implement a digital tax solution and become fully compliant with the phase 2 mandate.

Many businesses are implementing solutions to ensure they comply with the new rules around VAT. Yet MTD should really just be the starting point for wider tax transformation.

As all industries now recognise, people want a technology experience at work that matches the simplicity of their experience at home – and when they get it, they are far more productive and effective. There's a growing impatience with legacy tools and processes that slow people down. Tax and finance teams included.

## With that in mind:

- How can you get started on that journey to modern, digital, automated tax nirvana?
- How can you convince budget holders that tax is the right area to invest in?
- How can you build a business case that stands out from all the other digital transformation proposals?

**In this guide, we consider how best to help win over your budget holders, so you can get started on your tax transformation journey.**

# Transparency, control, **insight**

Let's quickly recap on what tax transformation means – and the difference that digital technology can bring to your current processes.

## Why would you **KEEP** doing this...

- Extract, review and adjust financial data on spreadsheets
- Spend days and days checking VAT entries for errors
- Worry about accuracy every time you make a submission



## When you **COULD**...

- Teach a machine how to follow your processes
- Free your teams to review, verify and do more strategic tasks
- Get accuracy, visibility and insight on your tax position, at any time



**With technology doing the heavy lifting, your tax function could add more strategic and commercial value to the business.**

## Companies are under increasing business pressure to close the books quicker.

With less time to report at year-end and more requirements to fulfil, tax teams face longer working hours. Unless they can implement technology to help.

So, it's clear why tax people are onboard with the need for tax transformation.

But it can be a challenge to convince key decision makers, who may not see the full value of the tax department and simply view it as a cost centre.

The key is to build a business case that demonstrates real, tangible and sustainable business value.

**Let's see how...**



# STEP 1

## Calculate all the time you spend on tax returns

We surveyed over 400 tax professionals for feedback on their current tax processes. This found that over one third (37%) of companies take 21 days or more to prepare, check and submit their VAT returns.

So, based on an assumption they are doing quarterly returns, that's nearly four months of the year that skilled tax professionals are spending on manual data adjustments. Time that could be spent on more strategic tasks or projects.

In our day-to-day client engagements, we observe a variety of VAT reporting processes – but there are typically some common tasks, like checking invoices over a certain value and those where the VAT rate doesn't match the tax code. These invoice data checks can take a few days and require extra manual process steps, such as posting amendments back to the original source systems.

By adopting suitable tax technology, you can automate these checks. This will not only save time, but also highlight errors that would otherwise have been missed. Tax teams can then focus on a more detailed review of the inconsistencies and errors that the automated process has identified, as well as having more time to spend on value-adding tasks like analytical reviews and trend analysis.

## STEP 2

# Highlight the static nature of your company's tax outlook

Just as an MOT only confirms a vehicle's health at the time of test, **your month end is only truly accurate at the moment of close**. Beyond that, your tax position is unclear.

Having **an accurate and up-to-date view of your tax position would give investors, shareholders, suppliers and customers far more confidence**.

Traditional manual tax processes make this impossible, which is why tax technology is so important. MTD has started to push companies to be more transparent and accountable for VAT discrepancies, but getting **a real-time view would unlock so much more value**.

In fact, this is exactly what MTD is heading to in the longer term. Digital VAT submissions are just the first initiative, as was the case in Spain with their SAF-T tax compliance shake up.

It's likely that in the next 10 years, there won't be a 21-day submission period at all. Companies will be required to push data through a "critical path", doing only a light-touch review and getting it out of the door fast. That's the future we're heading to – **so why not start the journey now?**

# STEP 3

## Show the revenue impact and reputational damage of manual errors

We all know that manual data entry is prone to error. Whether it's pasting data into the wrong cell or keying in the wrong digit, mistakes are easily made – especially when processing huge volumes of data at the month end.

Inaccurate figures can have serious cost implications. Based on our experience we estimate that businesses have a 3% or higher error rate on their VAT returns, depending on the value of their returns this could lead to discrepancies of tens if not hundreds of thousands of pounds – possibly more.

Understating your VAT liability or overclaiming VAT credit **could lead to a fine of up to 100% of the value of the mistake**. Fines like this not only cause financial difficulties but can also cause serious reputational damage for your business as well.

Based on our own research and experiences, we estimate that **manual processing errors occur in 30-50% of cases based on highly repetitive and mundane processes** – which underlines why Making Tax Digital was introduced in the first place.

The driver behind MTD, particularly the introduction of digital links, was to reduce the gap between what HMRC expects to recoup in tax and what it actually recoups. Manual errors are a huge contributing factor to the size of that gap.

So, when you combine the legislative requirements with the potential for revenue fines and reputational damage, you have a compelling case for tax transformation.

# STEP 4

## Talk about more than MTD

If the previous step was partly about the importance of MTD, this one is all about the broader picture. While tax discussions should definitely factor in MTD requirements, **compliance shouldn't be your sole focus**. Because tax technology can do so much more.

For example, our inconsistency checker powered by machine learning can be deployed to check for transaction inconsistencies and flag anomalies – this technology also improves the more it's used to become increasingly accurate.

So as tax teams review discrepancies and fix the data, the algorithm's pattern recognition improves its error detection for next time.

This could **transform your approach to auditing**, as you'll be able to automatically check a much larger volume of transactions, rather than rely on small samples. Plus, you'll have **more time to focus on making savings through relief claims and better forecasting**.

At a time when tax teams want more insight, accuracy and transparency, developments like these could radically improve your working processes – and give you so much more than compliance



## We hope this guide will be helpful for you when building a compelling case for tax transformation.

Our experts are always on hand to provide tailored advice based on your company's specific situation, whether you're taking your first steps to Making Tax Digital or if you're well on the path to full transformation.

ARKK have over 10 years' experience in regulatory and statutory reporting, specialising in technology that automates the processes of the finance function and enables the department to reimagine how they work.

Our flexible, cloud-based Automation Platform is easily configurable to individual needs. It operates seamlessly with existing source systems and has a native UI that mirrors existing workflows, making it quick to master and simple to navigate.

Capable of handling large data volumes, ARKK's Automation Platform can revolutionise your tax compliance process by doing much of your heavy lifting, freeing up valuable team resources to focus on business-critical activities.





## We're here to help

If you would like any further information on how to build a business case for tax transformation within your organisation, please [get in touch](#) and one of our experts will be in contact.