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- Digital Tax Administration System -

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World is Changing : The need for Digital Transformation

Big Data

90% of the data was created in last three years alone.

Mobile

2 Billion plus smart devices were shipped in 2016 alone.

Social Media

81% of customers depend on social sites for purchasing advice e.g. Face Book, Twitter.

Cloud

62% of total workload will be on cloud by 2017.

Internet of Things

50 Billion devices will be connected to internet by 2020.

API Economy

Global e-Commerce Sales were 85 Billion in 2013 and forecast to rise to an estimated US $ 1 Trillion in 2017-18.

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The Pace of Disruption has increased exponentially

Digital technologies have a huge reach…

For every 100 people in the world there are

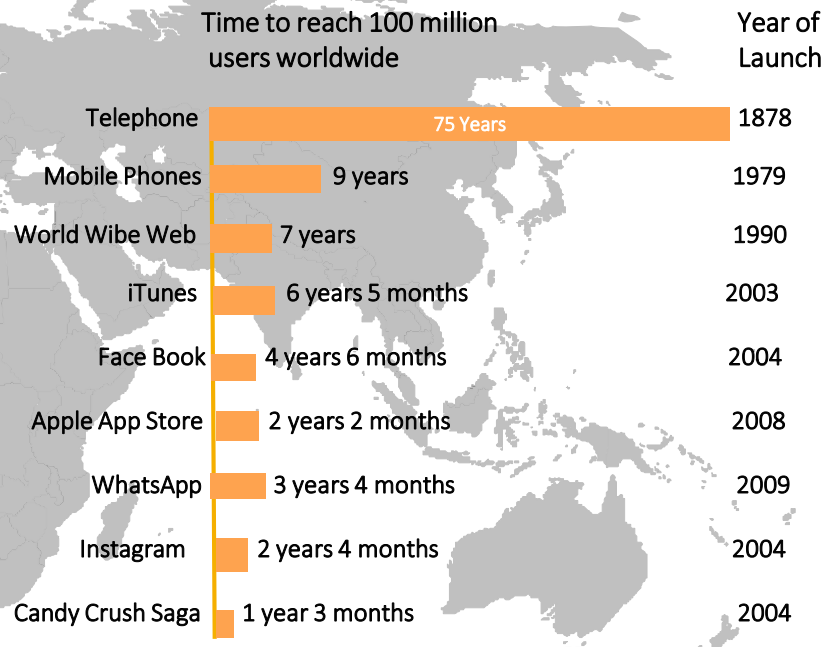
…95 Mobile phone subscriptions

…40 Internet users

…32 active mobile broadband subscriptions

…25 social media users

…and are spreading more and more quickly



Source : BCG

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Levels of Digitalization

E-Registration
Tax Payers & Tax Practitioners are required to register electronically.

E-Filing
Tax Payers are required to submit their tax returns electronically.

E-Accounting
Tax Payers are required to submit accounting data to support their tax returns.

E-Matching
Additional source data is matched with the data available with tax authorities across all tax payers.

E-Audit
Data submitted by the tax payers is analyzed by the tax authorities to prevent tax frauds or unintentional errors.

E-Assessment
Tax Authorities make the assessment of tax payers based on the data submitted.

Integration of digital technologies into the processes involved in tax administration starting from registration to assessment.

Source : E & Y

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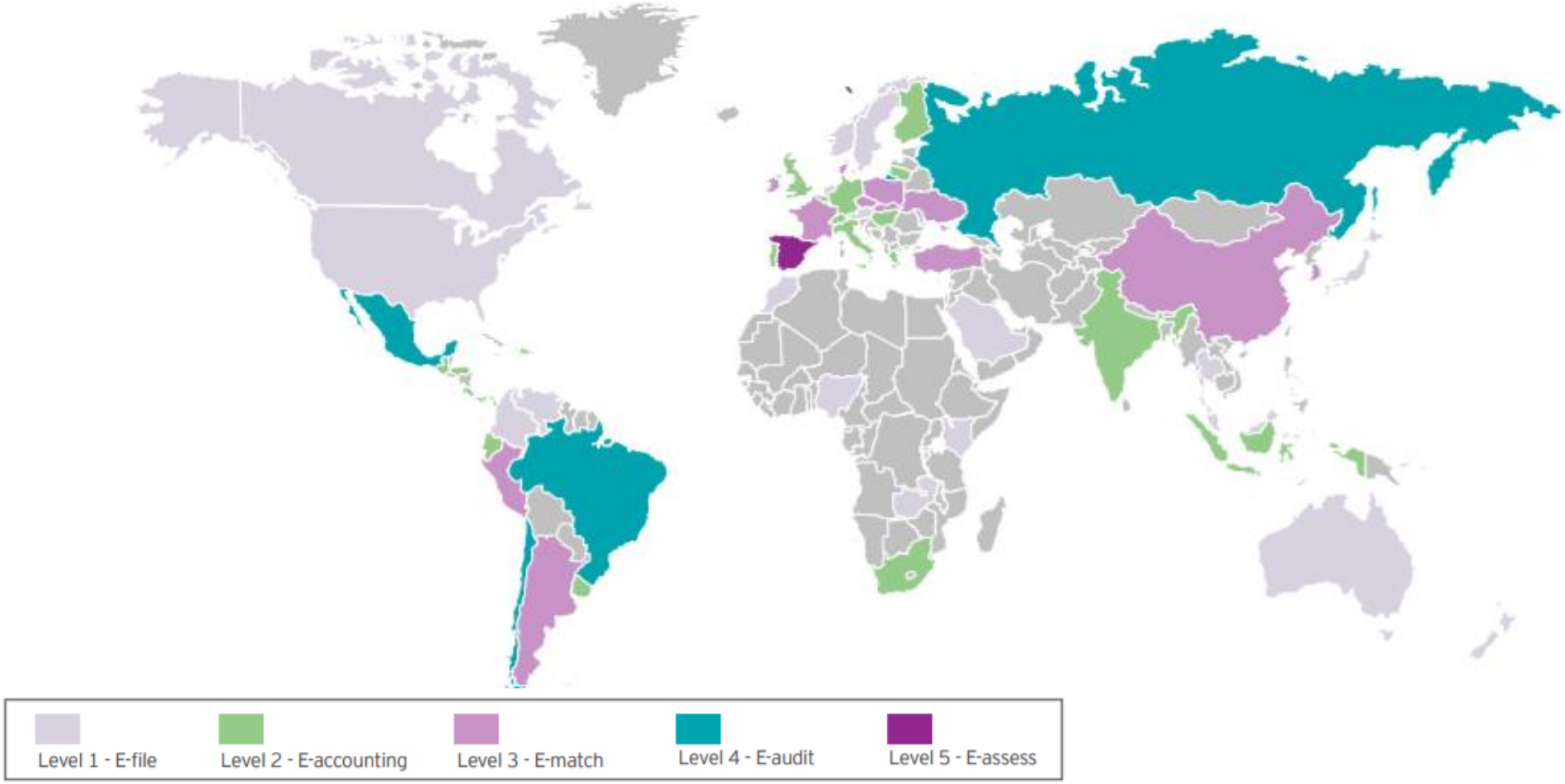
Digitalization : Current State



Source : E & Y

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Digitalization : Future State

2017

- India implemented new GST requirements to submit detailed transaction level data.
- Spain implemented new requirement to submit daily invoice level details.
- Mexico updated layouts for invoice level data (v3.3)
- Brazil updated layouts for (EFD-contribucoes, NFE, ECD and ECF.
- Italy introduced B2B e-Invoicing and updated quarterly VAT obligations with detailed invoice data.
- Costa Rica is scheduled to make e-invoicing mandatory for B2B transactions.

2018

- Norway plans to adopt SAF-T requirements.
- Brazil plans to introduce new obligations for Payroll (e-Social) and EFD-REINF.
- Hungry is in the process of introducing live invoicing reporting requirements from July 1, 2018.

2019

- Malaysia plans to use Analytics for e-Audits on Payroll Tax.
- UK, HMRC, plans to implement 'MTD' reporting for VAT in April 2019.
- Columbia plans on adding e-Invoicing and e-Accounting requirements.

2020

- UK, HMRC, plans to introduced 'MTD' for other taxes besides VAT in 2020.
- Australia's ATO plans to further digitize its tax administration through extensive use of Analytics.
- New Zealand is following suit with Australia in its move to digital tax administration.

Source : E & Y

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Benefits : Tax Authorities

AUTOMATION
All the processes in tax administration will be automated

INSIGHTS FROM BIG DATA
Data Analysis can be done

USE OF ADVANCE DATA ANALYTICS
Advanced data analytics can be used

DATA MATCHING
Data collected from tax payers can be matched with data collected across tax payers

INTELLIGENCE BASED DETERRANCE
Software based controls will work as deterrence to tax frauds & tax evasion

TIMING
Improvement in timely collection of data

TRANSPARENCY
Will bring transparency in tax administration

CONTROL OVER REVENUE LEAKAGE
Software based controls will put a check on revenue leakage

FASTER PROCESSING OF RETURNS
Automation of processes will help faster processing of returns

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Benefits : Tax Payers

DIGITILIZATION OF TAX SYSTEM

Digitalization of tax system can generate big data which can be used by tax payer in many ways that can improve his tax compliance obligations.

INSIGHTS FROM DATA

Tax payers can use insights from data to prepare for answering some of the questions expected from tax authorities.

BRINGING EFFICIENCY & ACCURACY

Robotic Process Automation (RPA) finds scalable use in taxation. Tax payers can implement RPA and realize its benefits.

GOVERNANCE & COMPLIANCE

Reduction in the risk of missing compliance deadlines.

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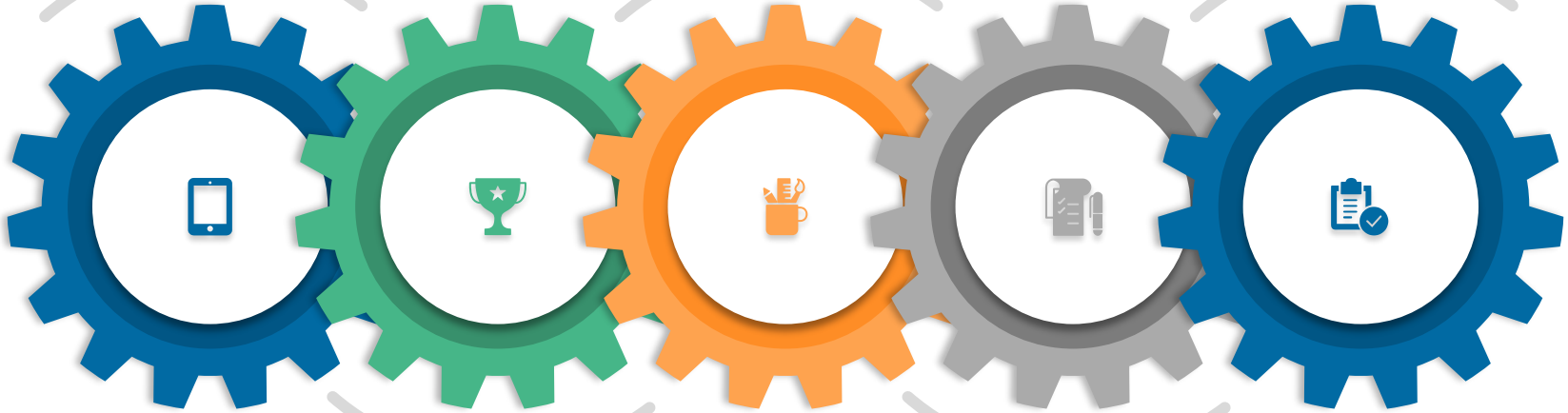
Key Building Blocks

CONSULTATION
Consultation with tax payers, trade associations is beneficial while deciding the standards.

LEGISLATION
Legislation to prepare invoice for every transaction & source data and provide the same to tax authorities.

ENFORCEMENT
Enforcement of compliance of law and penalties for non-compliance.



AWARENESS
Compliance awareness needs to be created among tax payers and public at large.

MONITORING
Monitoring the introduction of new technology, removal of technical glitches.

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Challenges : Implementation

Tax Authorities

Setting-up IT Infrastructure which can support all the processes along the line of tax administration to be online.

Ensuring Internet connectivity for all tax payers.

Tax Payers

Lack of availability of data in the desired format.

Difficulty in submitting the data.

Inefficient processes for transforming the data.

Outdated tax operating models .

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Challenges : Tax Frauds & Tax Evasion

UNDER REPORTING OF INCOME

Electronic sales suppression undertaken through electronic tools that can alter the evidence of transaction whether paid in cash or cards, without leaving a trace of transaction.

LACK OF VISIBILITY OF BUSINESS ACTIVITY

The cash economy and shared economy, while not forms of tax evasion and fraud per se, have features that can facilitate tax fraud.

OVER REPORTING OF DEDUCTIONS

False invoicing seeks to over-report deductions and to falsify invoices to mask non-deductible personal expenses as legitimate business expenditure.

Source : OECD 2017

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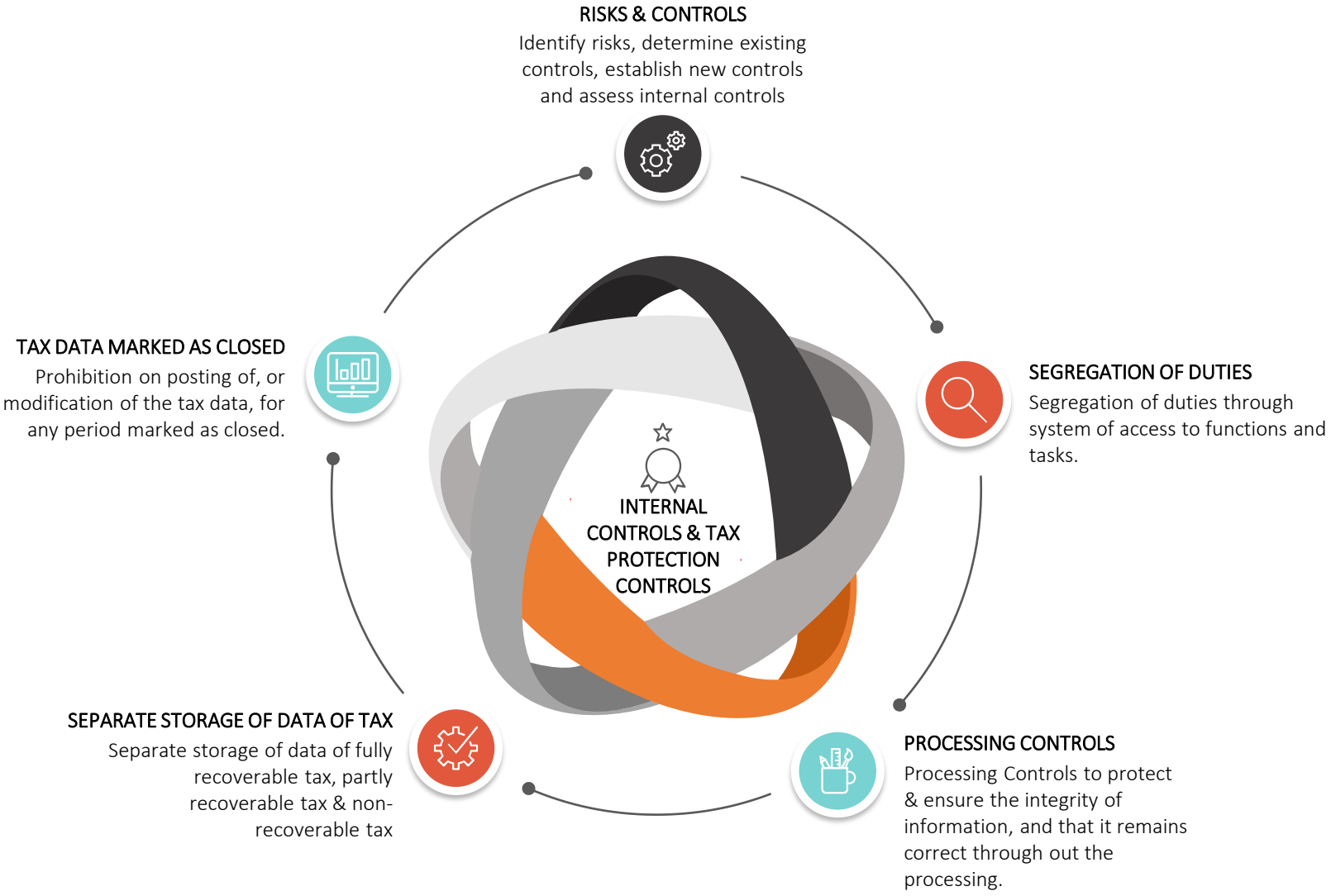
Internal Controls & Tax Protection Controls



Source : OECD 2010

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Artificial Intelligence (AI) in Tax

Artificial Intelligence in Tax System

Artificial Intelligence (AI) will reduce risk, increase value and help drive a cost effective approach to tax administration.

Predictive Analysis

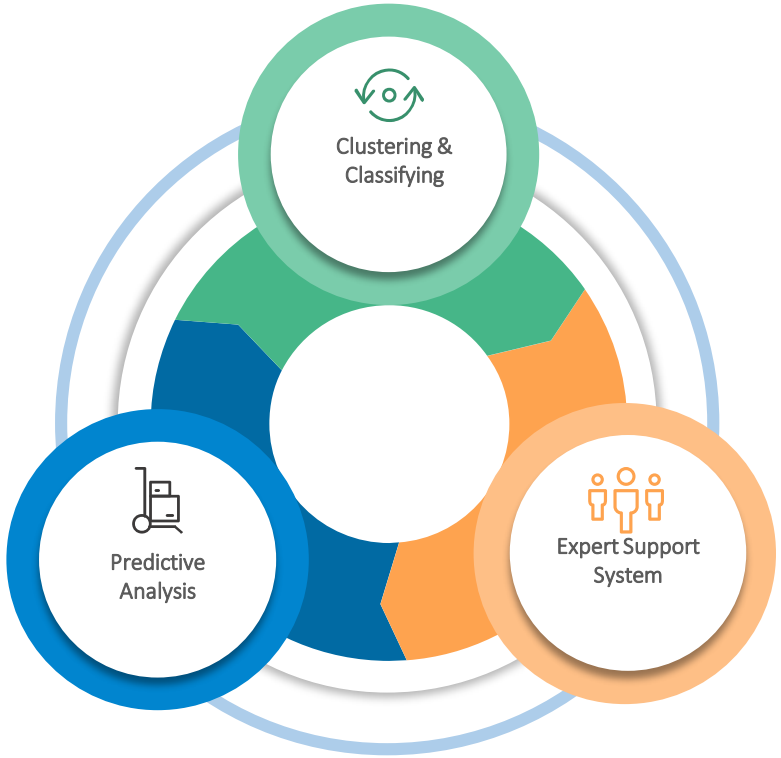
Basic : Regression, rolling average, exponential average
Advanced : Trend analysis

Clustering & Classifying

AI & machine learning functionality can identify cluster of data points faster with higher accuracy, on vaster quantity of data and with a higher number of variables.

Expert Support System

In certain AI systems decision rules are encoded and later queried for accurate response.



Source : PWC

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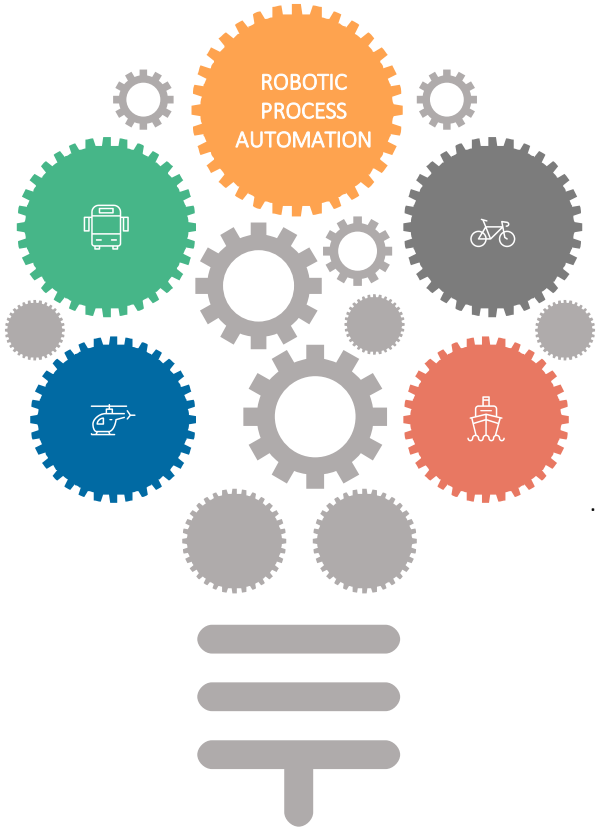
Robotic Process Automation (RPA) in Tax

01 Migration of Registrations, New Registration, Change of schemes .

02 Digital Tax Receipts for Filing of Returns, Automated levy of late fee or Penalty for non-compliance

03 Data validation, Data matching across tax payers, Data Mismatch Reports.

04 Assessment to tax based on the returns filed.



"Robots can free humans from **D**ull, **D**irty, **D**angerous, and **D**ear Jobs."

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Digital Disruption

The Digital Disruption has already happened…

- World's largest taxi company owns no taxi ……(Uber)
- Largest accommodation provider owns no real estate ……(Air BNB)
- Largest phone companies own no telco infrastructure ……(Skype, WeChat & WhatsApp)
- World's most valuable retailer has no inventory ……(Alibaba)
- Most popular media owner creates no content ……(Face Book)
- Fastest growing banks have no actual money ……(Society One)
- World's largest movie house owns no cinemas……(Netflix)
- Largest software vendors don't write the apps ……(Apple & Google)

Digital disruption is the change that occurs when new digital technologies and business models affect the value proposition of existing goods and services.

Source : IBM

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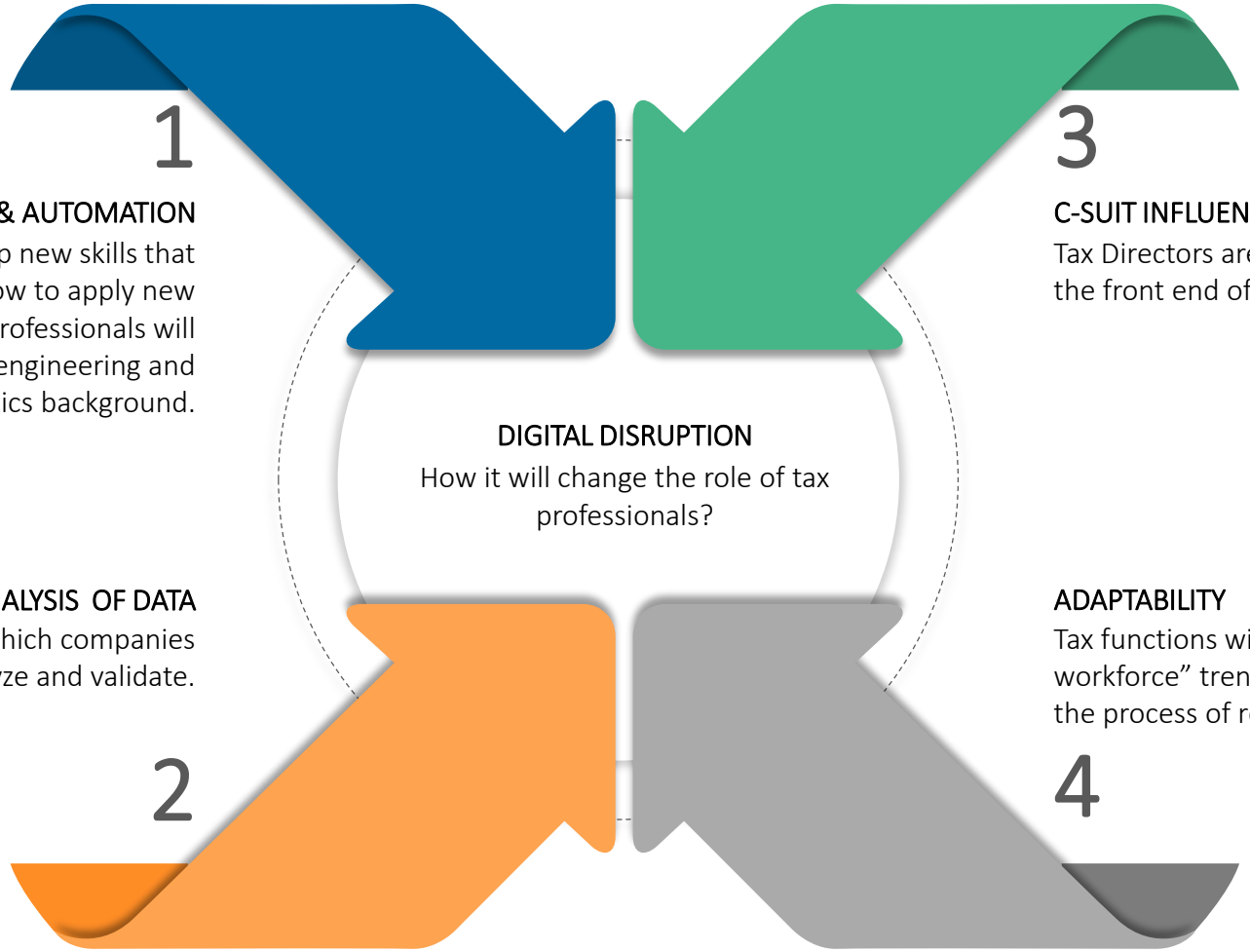
Key Competencies of Tax Professionals in Future



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ROBOTICS, AI & AUTOMATION

Tax professionals will need to develop new skills that require an understanding of how to apply new technologies. Next generation of tax professionals will come from science, technology, engineering and mathematics background.

3

C-SUIT INFLUENCER

Tax Directors are increasingly becoming key players at the front end of business strategy.

REAL TIME ANALYSIS OF DATA

The changes create real time data, which companies need to extract, analyze and validate.

ADAPTABILITY

Tax functions will need to adept to emerging "gig workforce" trend. Tax functions will need to optimize the process of recruitment.

Source : E & Y

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SWOT ANALYSIS

STRENGHTS

Control on revenue leakage
Faster processing of returns
Transparency in tax administration.

WEAKNESSES

Entirely Dependent on Internet.

OPPORTUNITIES

Design & development of tools
Preparation & filing of returns
Data analysis.

THREATS

Tax Payers : System can make assessment without tax payer filing return
Tax Practitioners : Basic Practice goes away.

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Implementation in India

The GST System Project being implemented by India is a unique and a complex IT initiative. It is unique as it seeks for the first time to establish a unique interface for the tax payer and a common and a shared IT Infrastructure for the center and the states. It will be “Digital Tax Administration System” where data will be exchanged between tax payer and GST Network on a near real time basis. There will be no hard copy of returns filed at GST Network.

Use of Income Tax Registration No (PAN) as the basis of registration under Goods & Services Act.

Collection of data of purchase & sale from tax payers & matching thereof between the Supplier & Recipient.

Use of Big Data Analytics to match information from other Govt. Departments, Social Media Sites to deduce mismatches between spending pattern and declared income.

The new tax administration system is under implementation & once fully implemented will not only help in checking of revenue leakage but will also bring transparency in tax administration.

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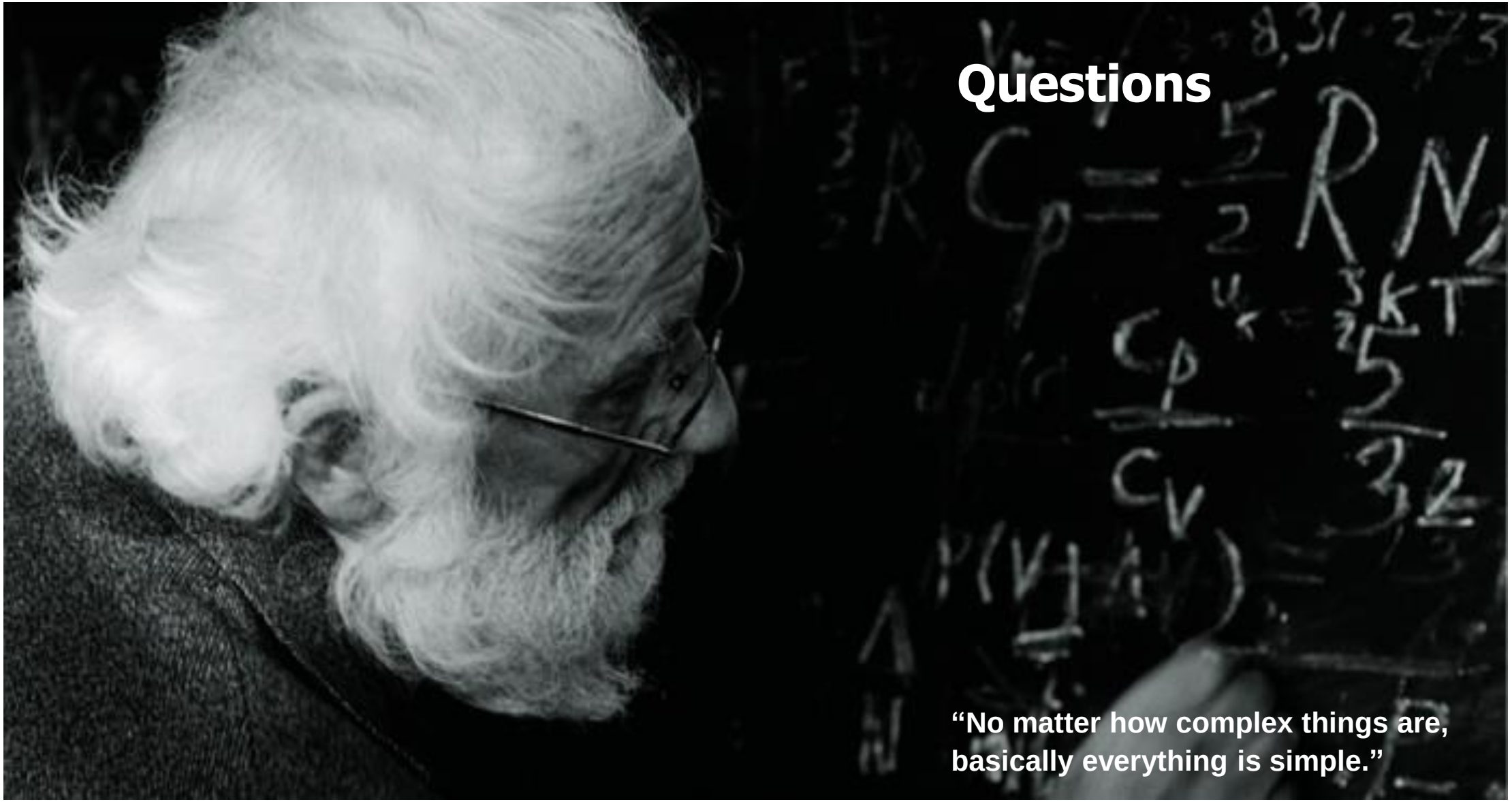

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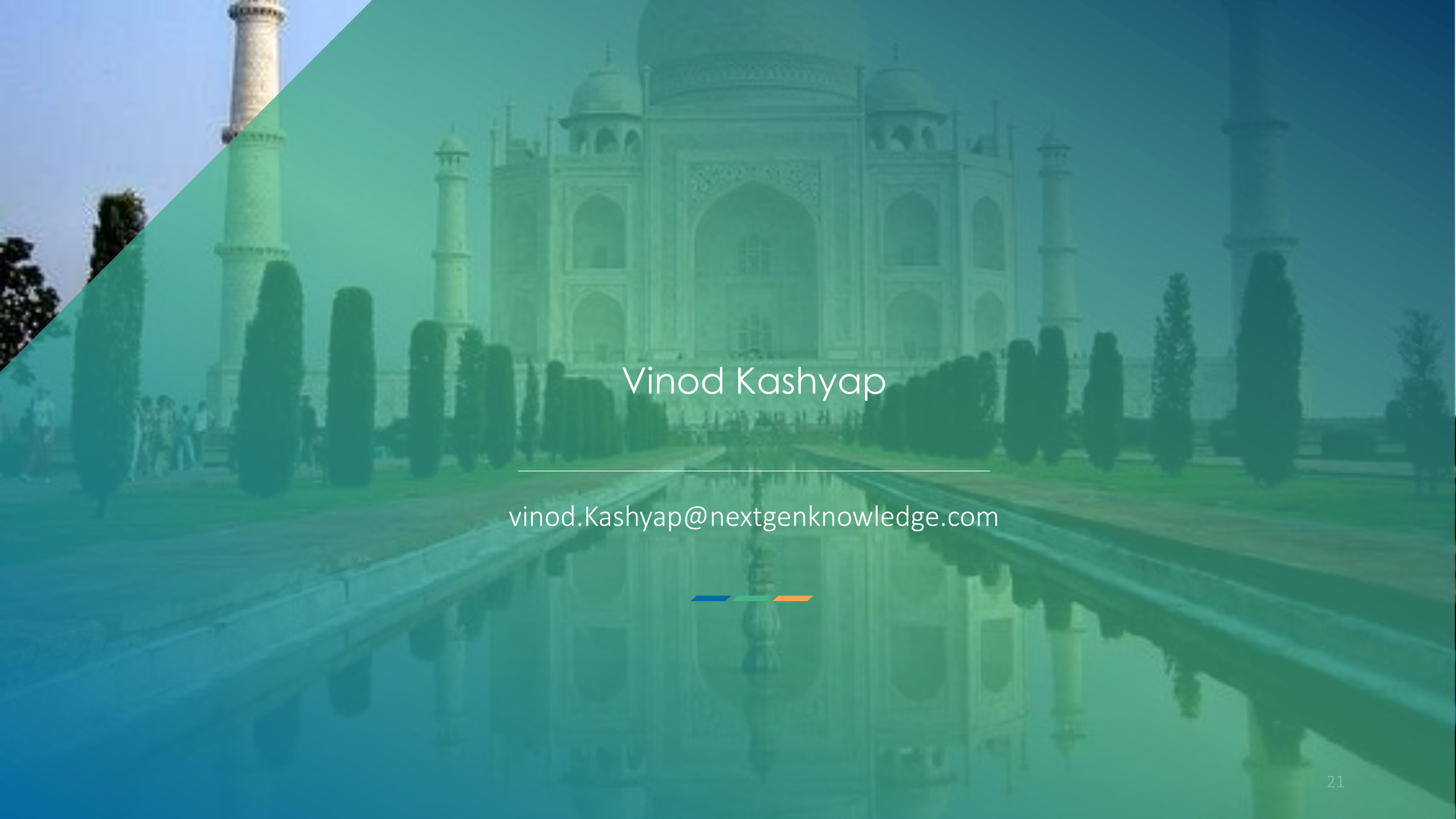

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