



VALIDATION-AS-A-SERVICE

THE ROLE OF AUTOMATION AND AI IN DELIVERING OPTIMIZED VALIDATION WITH BUSINESS VALUE, COMPLIANCE AND TRUST

“Artificial Intelligence, deep learning, machine learning – whatever you’re doing if you don’t understand it, learn it. Because otherwise, you’re going to be a dinosaur within 3 years.”

-Mark Cuban



www.hexaware.com

Tax Compliance

Complying with tax rules is an on-going challenge for businesses. Non-compliance (of direct or indirect taxes) can lead to serious consequences for businesses, including civil and criminal action by tax authorities.

Stringent laws for non-compliance have also been a result of highly controversial tax scandals especially in the 21st century. The International Monetary Fund (IMF) estimates that over \$600bn is lost every year due to tax avoidance, with the US, China and Japan named as the biggest culprits.

Glaring examples of tax scandals include:



The leak of 11.5 million documents from the archives of the Panamanian law firm and corporate service provider Mossack Fonseca. This leak revealed that many shell corporations set up by Mossack Fonseca were used for illegal activities such as tax evasion and bypassing international sanctions.



Several multi-national companies including Google, Apple, and Amazon have been accused in recent years for non-payment of taxes in Europe. In 2016, Apple was ordered to pay \$15.4bn in back taxes to Ireland after it was revealed that it had paid just one percent tax on its European profits in 2003.



In 2014, it was revealed that Amazon had paid just £4.2mn (\$5.6mn) in tax on sales of £4.3bn (\$5.7bn). It had been able to do this by funneling payments made in the EU through a subsidiary based in Luxembourg.



According to documents authored by a former Walmart executive and reviewed by Quartz, Walmart “improperly avoided” up to \$2.6bn in US taxes through an elaborate tax dodge involving a “fictitious” Chinese entity.

Tax evasion and non-compliance have led to the loss of billions of dollars, destroyed companies, dented related industries, and permanently impacted jobs, livelihoods and savings of employees and investors. Consequently, it has also led to a deep mistrust of corporations and their financial declarations. The role of auditors with respect to the financial reporting process of their clients has long been under the scanner. It was alleged that corporations reported falsely in collusion with their auditors. The fact that auditing firms were also earning consulting revenues from the very firms they were auditing drove the final nail of mistrust. **Alleged auditor complicity in client financial deceptions has become the most damning theme of tax and accounting scandals and the integrity of the entire professional services industry has been suspect.**



With a view to restoring confidence, protecting and mobilizing revenues, countries came together to adopt collaborative directives. The OECD G20 Base Erosion and Profit Shifting Project (or BEPS Project) is one of the most visible mandates for the exchange of information between countries to deal with international tax evasions and non-compliance. Tax authorities were mandated to enforce stricter compliance and detect lacunae with greater vigor.

The Changing Dynamics of Administering Tax Compliance

Tax authorities have a two-fold challenge. One, understanding complex legislation of different countries in which MNEs operate, along with different requirements and formats; two, a significant gap between projected tax revenues and actual collections. To address these issues, tax authorities are increasingly relying on technology and digital formats to examine tax liabilities with speed and accuracy.

The rapid adoption of digital technologies by tax authorities presents unique challenges for both businesses as well as Professional Services.



Challenges for Businesses

MNEs operate in several countries that are at different stages of maturity when it comes to technology adoption for tax administration. The difficulty in preparing and reporting data with speed and accuracy has only increased with the OECD G20 Base Erosion and Profit Shifting Project along with increased digital adoption by tax authorities. The risk of their submissions being rejected or the risk of inviting an audit due to non-compliance remains high.

The findings of the December 2018 Bloomberg Tax Department Benchmarking Survey of 337 tax professionals (from public and private corporations across the U.S.), reiterated the challenges of businesses in tax preparation and filing:



The biggest challenges for 2019 were named as (1) Legislative tracking/tax reform/staying up-to-date on changes (2) Overall compliance burden (3) Management of tax data (collection, processing, etc.)



57 percent said that keeping up with changes in the form of tax reform and legislative tracking is one of the biggest challenges their tax department will face in 2019



45 percent said that implementing new technology or making better use of existing technology was one of their biggest challenges



49 percent said they relied on spreadsheets or were challenged by gaps in technologies to automate tax provision calculations; over four in ten said they lacked timely access to data for calculations



Most respondents felt that automation, including artificial intelligence, will play either an important (36%) or contributing role (39%) in their company's plans to improve tax effectiveness over the next two years

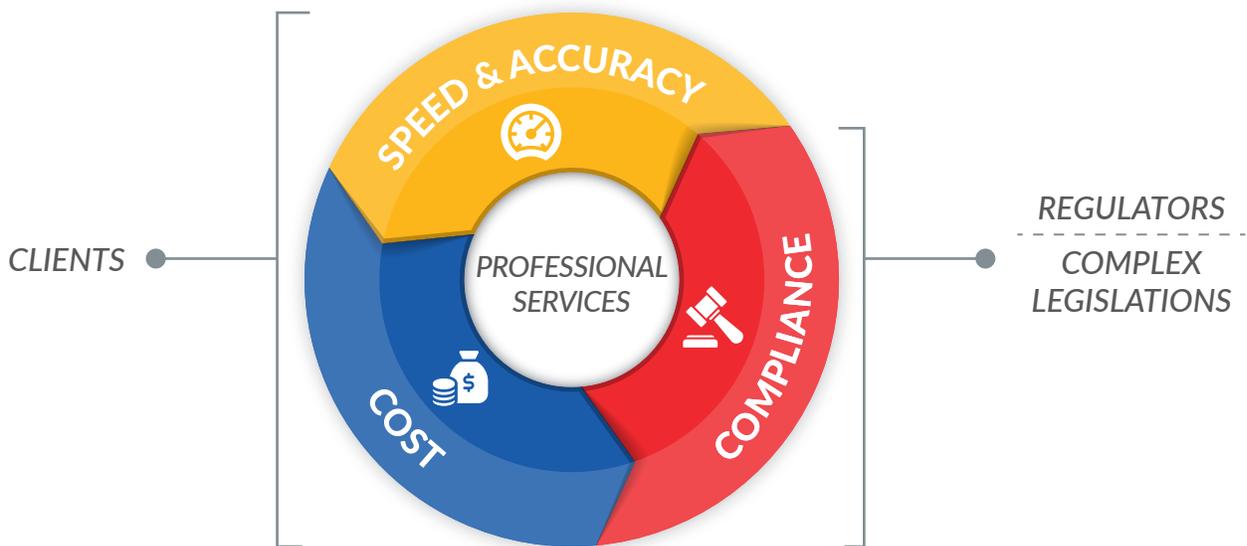


Challenges of Tax Compliance for Professional Services

The Professional Services industry is one of the largest in terms of employment and technology spend, with market size of \$1.7 trillion and an annual technology spend north of \$30bn. The US tax preparation industry was \$11bn in 2018-2019 and more than 310,000 people are employed for this across 130,000 companies. Despite the failures and scandals, the Big Four companies continue to dominate the tax and auditing market.

In the evolving scenario of tax compliance, Professional Services are under massive pressure to help businesses manage complexities, identify risks and reduce vulnerability with high accuracy and speed. They have to grapple with as many as 30-40 different types of reporting formats for their MNE clients. The pressure takes a new dimension because tax regulators are themselves empowered with technologies like Automation and AI. Hiring patterns by tax authorities have also evolved to ensure that digital technologies are implemented by specialists like automation and AI engineers, analysts, and statisticians.

Professional Services now need to match the agility of regulators, while continuing to serve multiple clients and their entities with high efficiency. The expectation from clients on one side and tax authorities on the other, coupled with increasing cost and resources make the challenge multi-dimensional for practitioners.



Moreover, the work involved in tax filing is mostly manual and therefore highly cumbersome, repetitive and time-consuming.

-  Inefficient processes

-  Over-reliance on spreadsheets

-  Highly manual process for data collection and entry, making it error-prone

-  Repetitive and time-consuming

-  Large numbers of staff required to handle tax compliance and filing

-  Reactive process for completed tax transactions

-  Increased global compliance requirements: The dynamic regulatory environment gives businesses very little time to respond to regulatory changes and businesses struggle to understand and meet each regulatory expectation

-  A paucity of time to grow client relationships & suggest value-adds



The manual process also leaves the scope wide open for manipulation of data. Given the size and scale of the tax preparation industry, the resulting trust deficit can have severe financial implications, something that the future global economy cannot afford anymore.

By leveraging technology, the tax filing industry has a real opportunity to achieve compliance and restore Trust for its clients.

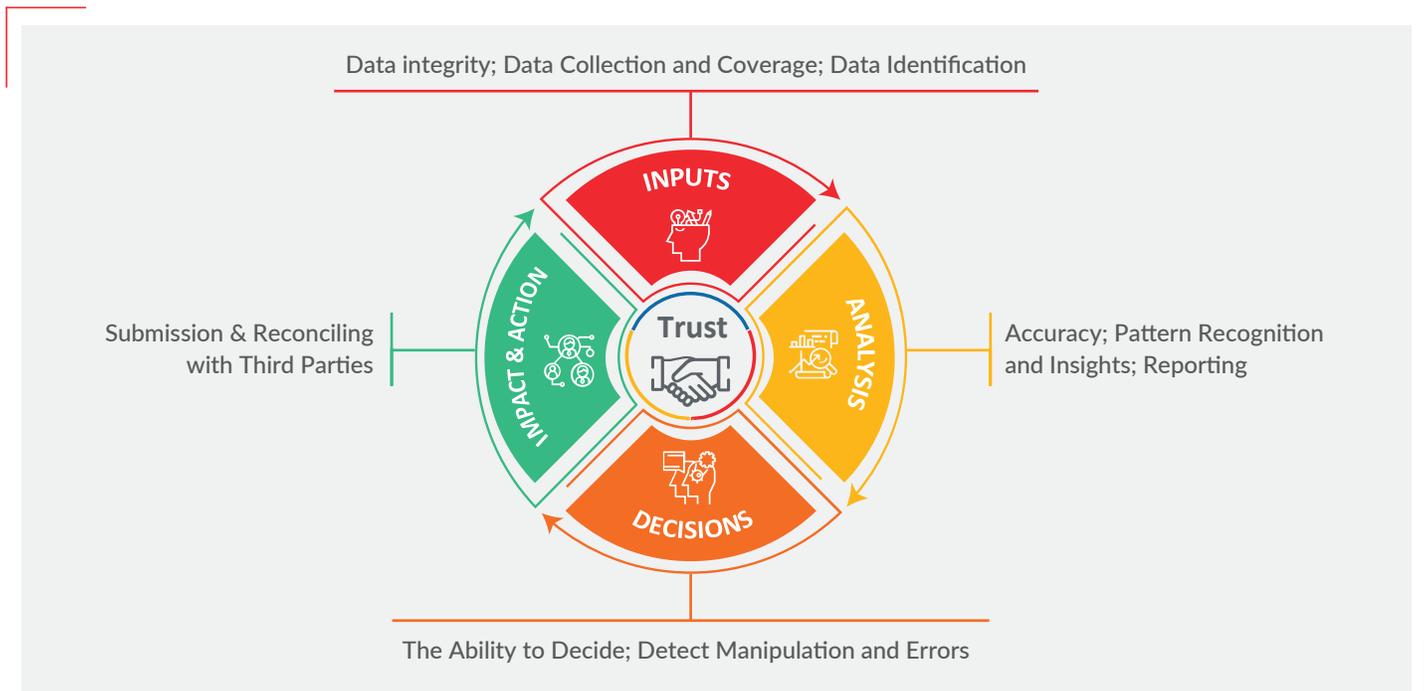
Can technology and digitalization address these challenges to enable compliance and drive trust? Let's examine.

The Trust Cycle for Professional Services

Let us understand where and how Trust gets established or compromised in Professional Services.

The Professional Services industry encompasses firms across accounting, auditing, advisory & consulting, tax, legal, compliance and research services. It records, extracts & verifies the data/information and provides an independent view to third parties on the analysis and findings. Trust gets established when this cyclical process is delivered with speed, accuracy, security, and with robust processes, while adhering to the expectations of third parties like regulators.

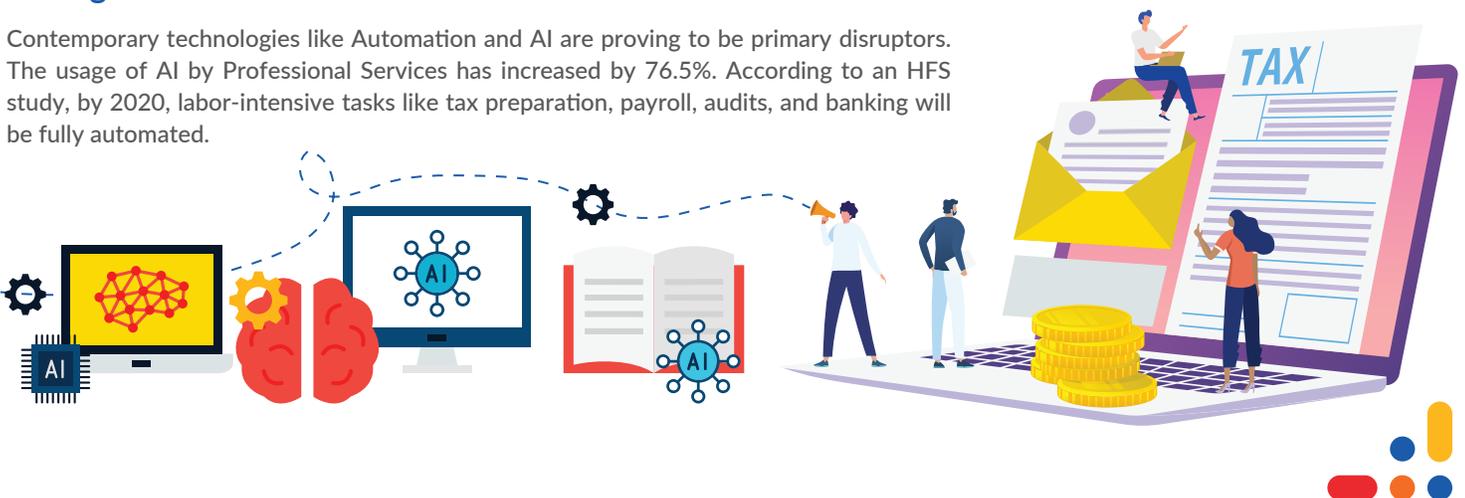
We identify four stages for the process of delivering Professional Services – Inputs, Analysis, Decision/Impact & Action. Each stage requires a set of best practices to contribute to the integrity of the entire process. Here, we look at the adherence parameters for the Tax and Audit industry as pre-requisites for delivering professional services.



Tax practitioners cannot afford inconsistencies at any of these stages. Integrity has to be maintained at every step of recording, extracting, reviewing, modifying, verifying and providing an independent view on the analysis and findings. In this mammoth exercise, Professional Services are left grappling with increasing resources and costs.

Seizing the Power of Automation and AI

Contemporary technologies like Automation and AI are proving to be primary disruptors. The usage of AI by Professional Services has increased by 76.5%. According to an HFS study, by 2020, labor-intensive tasks like tax preparation, payroll, audits, and banking will be fully automated.



Drivers for the rapid adoption of Automation and AI:



Tax authorities have embraced digital technologies by moving towards e-filing, e-Match, e-Audit, and e-Assess. Practitioners, therefore, have no option but to support the compliance process. So, adoption is gaining momentum from both authorities as well as practitioners



Clients are asking for more efficient services to benefit from economies of scale by using the same technology for multiple customers



Practitioners want to move away from mundane, repetitive tasks like the validation of forms and focus on delivering greater strategic value to their clients



Technology adoption also demonstrates a dual advantage – increasing financial gains while decreasing the cost of technology



Extreme digitization has led to a very high volume and availability of data that requires careful analysis and interpretation with speed and accuracy



Validation-as-a-Service to Mitigate Risk in the Compliance Process

Compliance and adherence to reporting standards set by regulatory bodies (like IFRS, IRS, HMRC) based on the industry, sector, jurisdiction, country, and the region are the most important functions for professional services organizations. Businesses need to fill up innumerable forms and tax practitioners then have to verify these. At both ends, the work is manually done, not only making it tedious but also error-prone, leading to rework and delays.

The Form 990 tax filing process for CSR organizations in the US is a typical example of how cumbersome the process is. The process has 106 forms that need to be filled. Professional Services spend an average of 30 hours on one entity alone and typically most clients have ten entities, which makes it 300 hours of manual effort per client.

Validation-as-a-Service (VaaS) for optimized validation addresses these issues by offering a compliance automation platform that works across the whole cycle by introducing AI in the process. With automation and AI, practitioners are witnessing the tax filing process as a truly transformative experience.

- Automation facilitates form pre-filing & document validation, conversion of a physical document into validated artefacts and end-to-end automation across functions
- AI facilitates a learn-on-the-go model to continuously improve the validation engine accuracy. The absence of manual intervention brings down the error probability to an ABSOLUTE ZERO
- Auto validation with ML facilitates continuous learning, leading to efficient reporting & easier compliance with regulatory demands
- The cloud adoption model ensures cloud-based APIs & apps to support the service with easy integration. It is a platform agnostic and scalable solution and is also versatile for use in any form-filing process in industries like banking, insurance, and law firms



The Tax Filing Process – With and Without Automation & AI



WITHOUT AUTOMATION & AI

Manual and prone to human errors

Time-consuming

Data collection (current and previous year)

Form filling (multiple forms in multiple formats, depending on the type of compliance) by the clients

Data review (by tax practitioners) requires time to verify the data; identify gaps and errors; ask clarifications

Data modification (by tax practitioners) - making corrections and explaining changes to clients is resource and time-intensive

Approval and submission using e-filing



VALIDATION OPTIMIZATION WITH AUTOMATION & AI

Automated and error-free

Time and cost saving

Data collection only for the current year

Pre-filled form from a repository of historical data

Simultaneous data reviews and modification with 3 layers of auto-validation based on a rules-engine defined by tax practitioners. The auto-validation process flags out errors and suggests corrective action in real-time

Approval and submission using e-filing

Reduced number of tax consultants

Pay-as-you-go-model

Move from CAPEX to OPEX

Save on time and cost*

Free up time to offer strategic guidance to clients

Build integrity of process at every stage to earn and deliver Trust

* Hexaware delivered a 60% reduction in Tax verification and a 60% reduction in cost by implementing VaaS and a fully automated compliance process for a Big Four accounting firm.

Conclusion

Professional Services organizations require colossal reserves of time, effort and money in delivering Compliance Enablement as a service. In exploring Validation-as-a-Service (VaaS) to address these challenges, businesses should ask technology partners to demonstrate benefits in clear, tangible terms. A POC by technology partners to show how the number of hours, resources and costs can be brought down, while increasing accuracy, will help in quicker adoption by clients. **Write to us at marketing@hexaware.com for a VaaS POC for your organization's Tax Filing function.**

Beyond the critical business values of time, cost and accuracy is the factor of Trust. The alarming number of tax evasions, misconducts and bankruptcies by MNEs has resulted in a renewed focus on compliance. Compliance requires integrity at all levels and stages - data, analysis, and reporting. The Professional Services industry has a big opportunity to harness the power of contemporary technologies like Automation and AI to gain business value with integrity and Trust. After all, Trust is the bedrock of the Professional Services industry.



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The Trust Cycle

The #ReImagine Trust Series of White papers by Hexaware explore the role of technology in Trust and specifically the role of emerging technologies in Professional Services.

Hexaware White Paper: Trust, Technology and Professional Services: Their Dynamic Interplay retrieved from

<https://hexaware.com/resource/trust-technology-professional-services-their-dynamic-interplay/>

Hexaware White Paper: Trust Cycle and the Role of Emerging Technologies In Professional Services retrieved from

<https://hexaware.com/resource/trust-cycle-and-the-role-of-emerging-technologies-in-professional-services/>

About Hexaware

We are a global technology and business process services company empowering enterprises worldwide to realize digital transformation at scale and speed. Our platform-enabled strategy – featuring Amaze® for full cloud enablement, Mobiquity™ for digital product engineering, and Tensai® for extreme automation – drives human-machine collaboration to create immersive customer experiences and solve complex business problems. We believe technology is a magical thing, and our purpose is to create smiles through great people and technology.

With corporate headquarters in Mumbai and regional headquarters in New Jersey for North America, London for Europe, and Sydney for APAC, we service customers in over one hundred languages from every major time and regulatory zone. We serve customers in banking, financial services, capital markets, healthcare, insurance, manufacturing, retail, education, telecom, hi-tech & professional services, travel, transportation, and logistics. We deliver highly evolved services in rapid application prototyping, development, and deployment; build, migrate, and run cloud solutions; automation-based application support; enterprise solutions for digitizing the back-office; digital product engineering; business intelligence & analytics; digital assurance; infrastructure management services; and business process services.

Learn more about Hexaware at <https://www.hexaware.com>

NA Headquarters

101 Wood Avenue South
Suite 600
Iselin, New Jersey 08830
Tel: +001-609-409-6950
Fax: +001-609-409-6910

India Headquarters

152, Sector - 3
Millennium Business Park
'A' Block, TTC Industrial Area
Mahape, Navi Mumbai - 400 710
Tel: +91-22-67919595
Fax: +91-22-67919500

EU Headquarters

Level 19
40 Bank Street
Canary Wharf, London E14 5NR
Tel: +44-020-77154100
Fax: +44-020-77154101

APAC Headquarters

Level 3
80 Mount Street
North Sydney, NSW 2060
Tel: +61 2 9089 8959
Fax: +61 2 9089 8989