

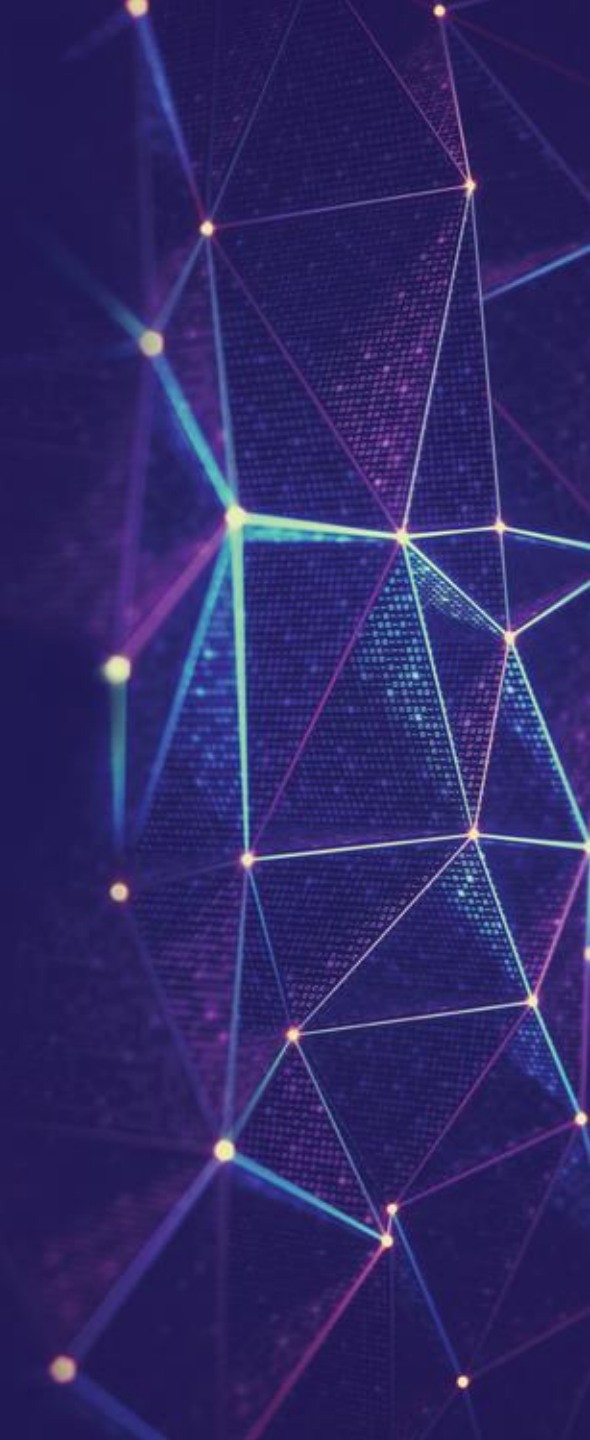


Meijburg & Co  
Tax Lawyers

# Tax Technology Bites

**Tax Process & Controls**

Virtual MS Teams Session  
08 December 2020



# Tax Technology Bites ...



**Please mute your microphone  
and camera**

## **Theme**

Tax Technology Strategy & Roadmap 11 November 2020

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**Tax Process & Controls** **8 December 2020**

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Tax Data Management & Intelligence 7 January 2021

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ERP Tax Sensitization 4 February 2021

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Tax Compliance 4 March 2021

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**Do you have a question?  
Ask it via chat!**

# With you today....



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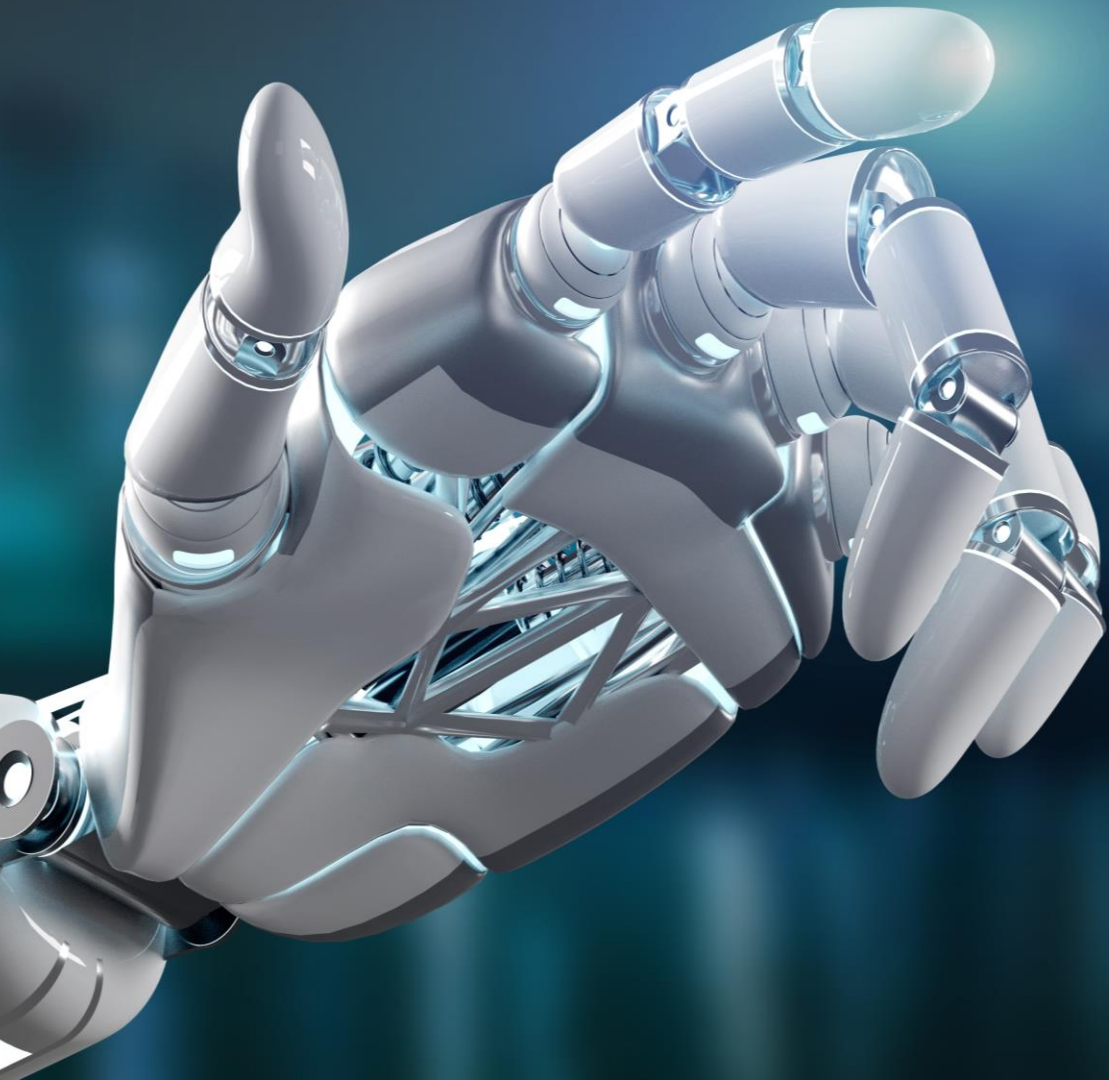
*Technology | Data & Analytics*  
KPMG Netherlands

# Topics for discussion

## Agenda



- 1 **Tax risk management**
- 2 **Tax technology process & controls**
- 3 **Use case indirect taxes**
- 4 **Tax controls tooling**
- 5 **Use case direct taxes**



# Tax risk management

# Tax Process and controls - Introduction



## Tax compliance

- Justified trust, incl. horizontal monitoring
- Tax authorities risk assessment:
  1. Tax governance
  2. Roles & responsibilities
  3. Tax risk assessment
  4. Transparency
  5. Complexity organization
- Supervision Large Business
  - Top 100 Netherlands
  - UK Business Risk Review
  - Germany and many more...



## External reporting

- True and fair view tax position
- IFRIC 23 / CIT risks in financials
- Sox framework

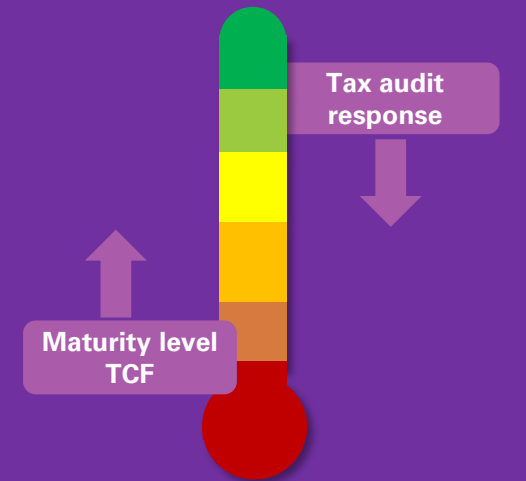


## Covid-19

- Recovery of budget government
  - broadening tax base
  - strict law enforcement



## Tax risk management

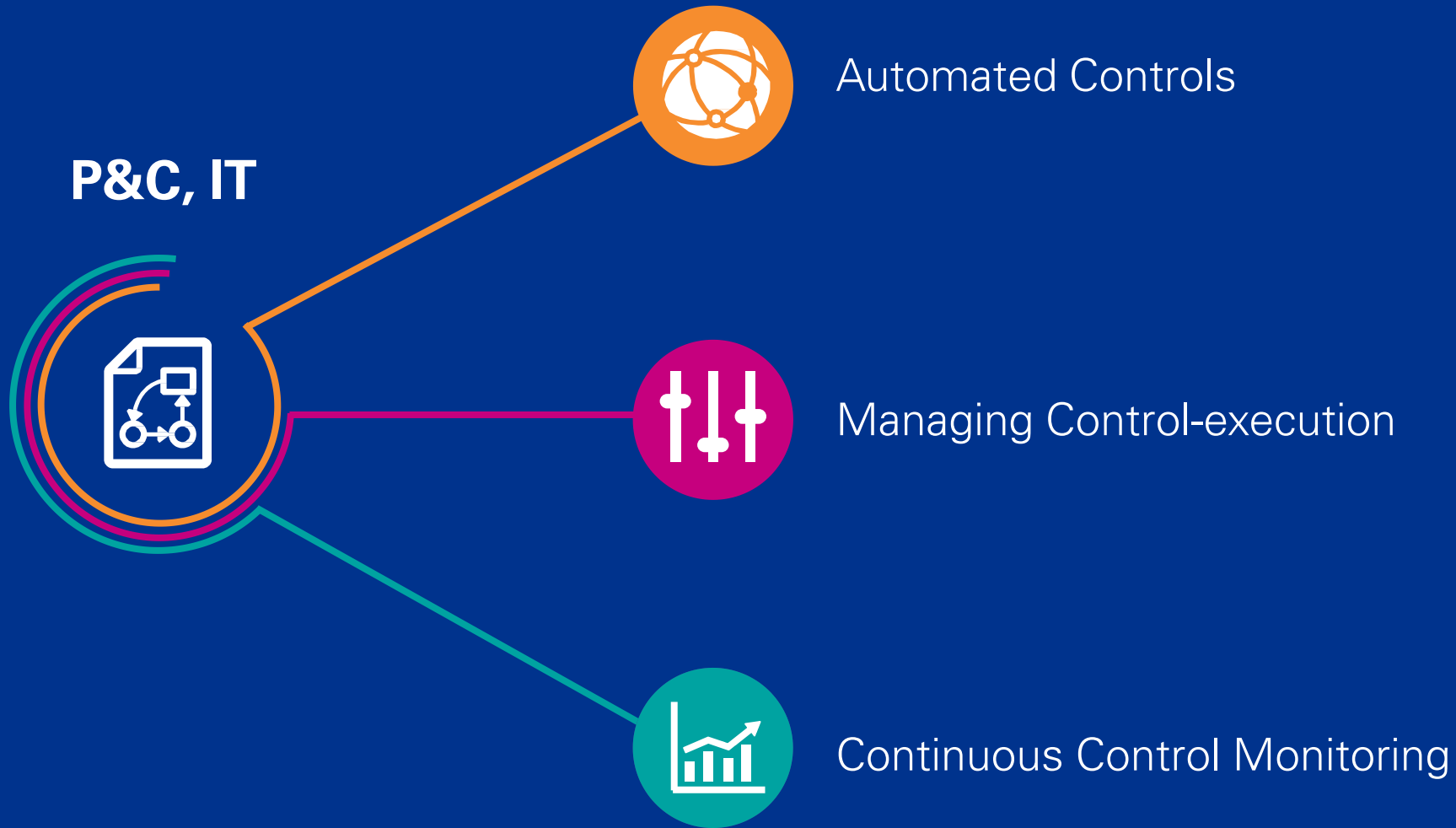


*Switch board  
maturity level TCF*



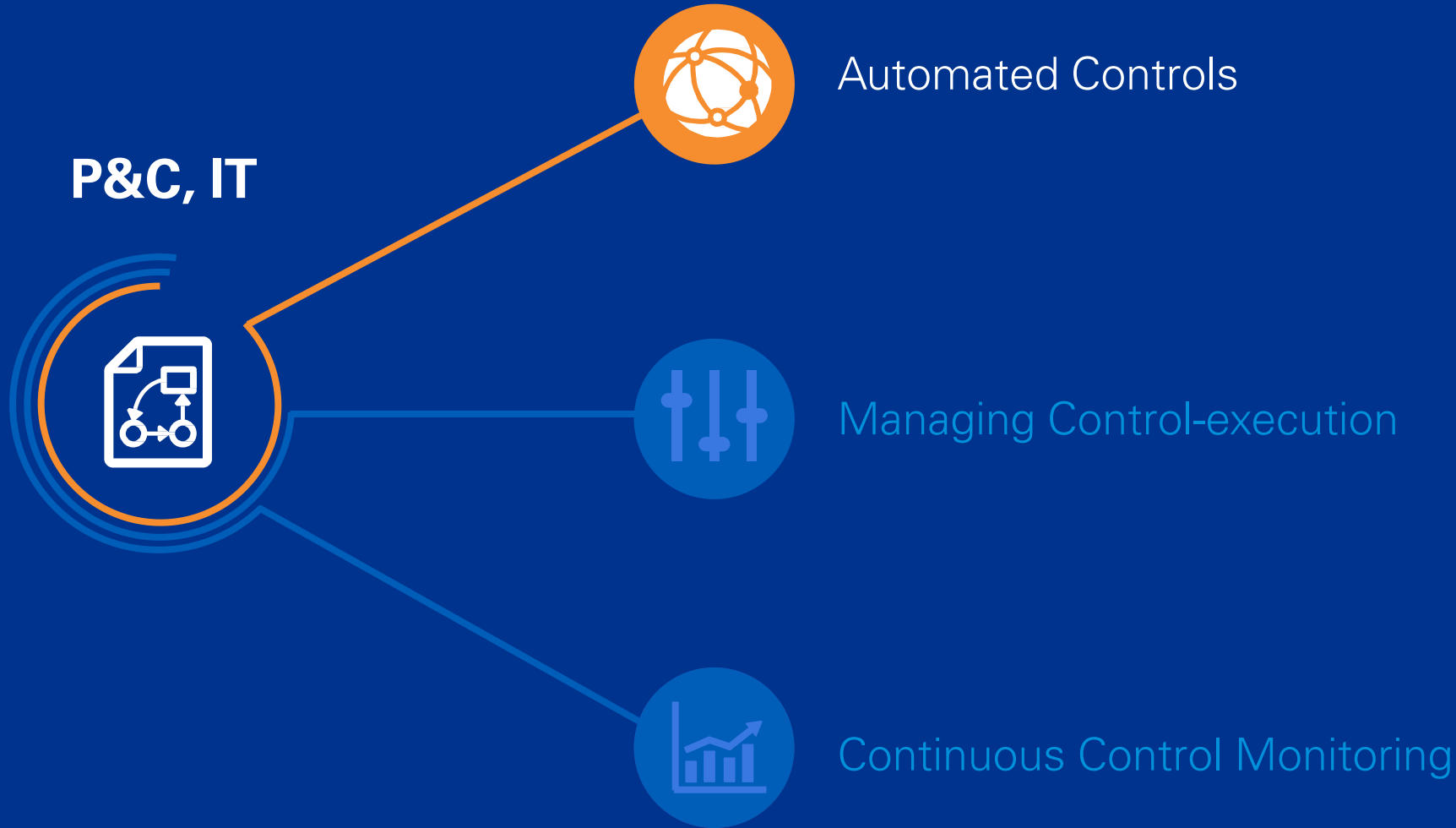
# Tax technology process & controls

# Process & Controls, how does it relate to Technology?





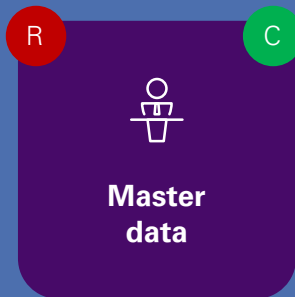
# Process & Controls, how does it relate to Technology?



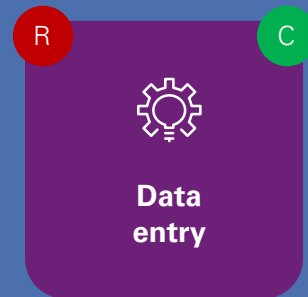
# Tax Control from origination to reporting

Instead of End-to-End from origination to reporting

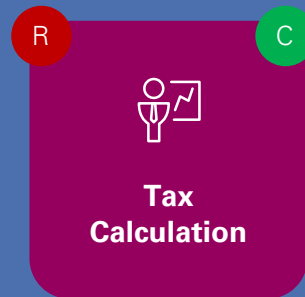
## Primary Business Processes



- Supplier
- Customer
- Employees
- Items
- Item groups
- Ledger Accounts
- Tax-Codes
- (EU)-countries

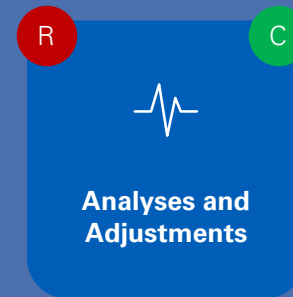


- Sales Order
- Purchase Order
- Production Order
- Goods receipt
- Shipment
- Invoice Issuance
- Invoice receipt
- (Salary) payment



- Tax code determination
- Condition Logic
- Access Sequence
- Tax-rate
- Determination of Transfer-price

## Tax Compliance Process






- Reconciliations to VAT amounts
- Reconciliation to Cost and Revenue
- Unmapped tax-codes
- Illogical patterns
- Adjustments



- Preparation of Tax reports
- Issuance of Tax reports

# Examples of Business Process Tax Controls

		Risks	Controls	
	<b>Customer master data</b>	No VAT number attached to the Customer → zero rate for EU supply may not be applied	VAT number is a mandatory field for Customer master data file	Automated/Preventive → Configuration
	<b>Data entry</b>	No Tax-code is derived by the system → transactions not reported in return	System is configured such that transactions without a taxcode are blocked for further processing	Automated/Preventive → Configuration
	<b>Tax calculation</b>	The system does not arrive at the right transfer price for certain transactions → transactions not compliant with arms-length's requirement	Only knowledgeable staff is authorized to make changes to the transfer pricing calculation setup	Automated/Preventive → Authorization

# Controls paradox

When?

← PREFERRED →

**Preventive**

Control applied to avoid undesired situation from happening

**Detective**

Control applied to detect mishaps

**Automated**

Once setup properly, applied correctly continuously

1

2

*Control is a program*

**Manual**

Quality depends on who the control executes

3

4

*Control is a human activity*

*Control is part of the normal process flow, no repair required*

*Detected mishaps require (human) follow-up*

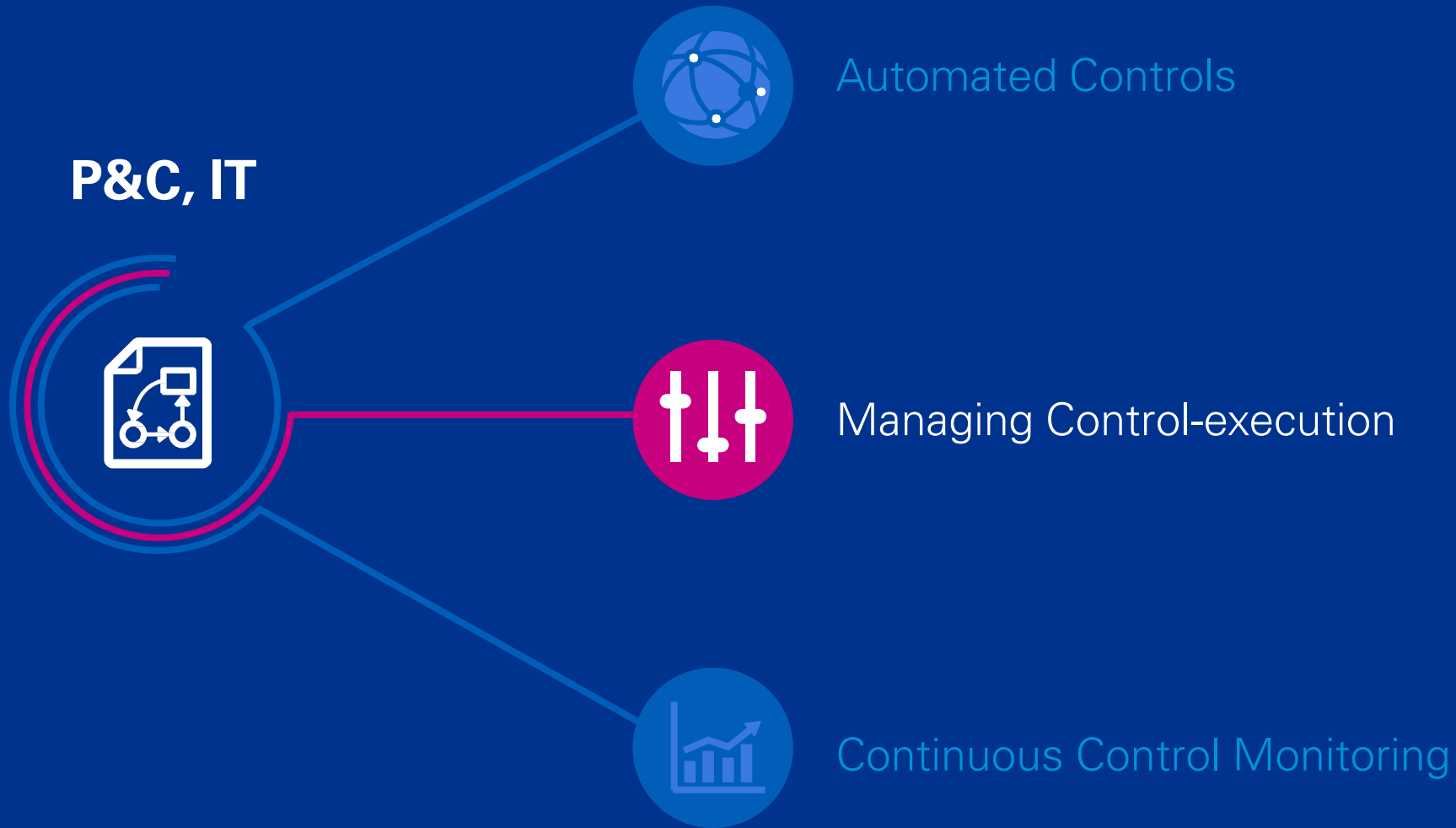
Who?

↑ PREFERRED ↓

## Additional remarks

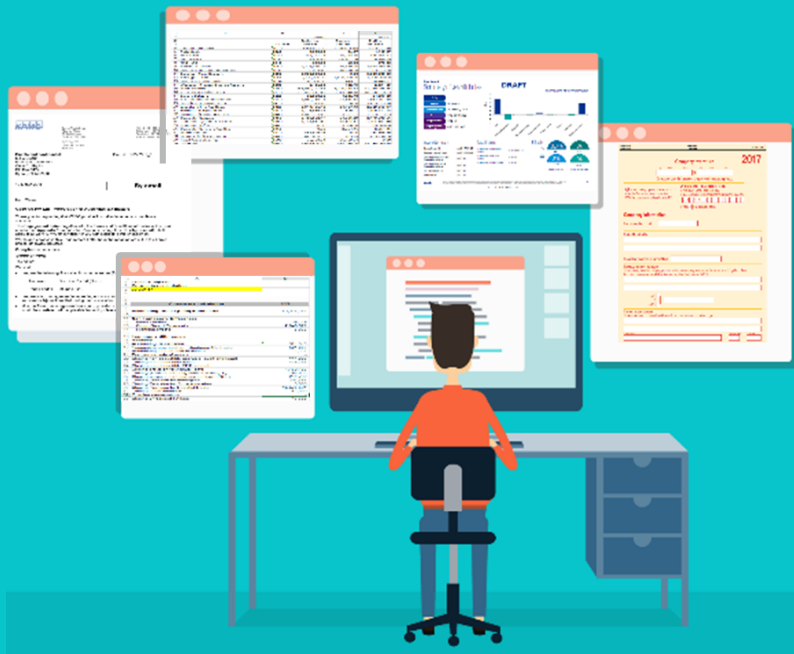
- In isolation 1 is stronger than 2, 2 stronger than 3 and 3 stronger than 4
- **Paradox:** Manual Controls are more often part of a Tax Control Framework,
- Depending on risk-level, risk mitigation for the same risk may be a combination of preventive and detective controls (detective as a safety net for failing preventive control)

# Process & Controls, how does it relate to Technology?



# A Tech/Data enabled Tax Control Framework

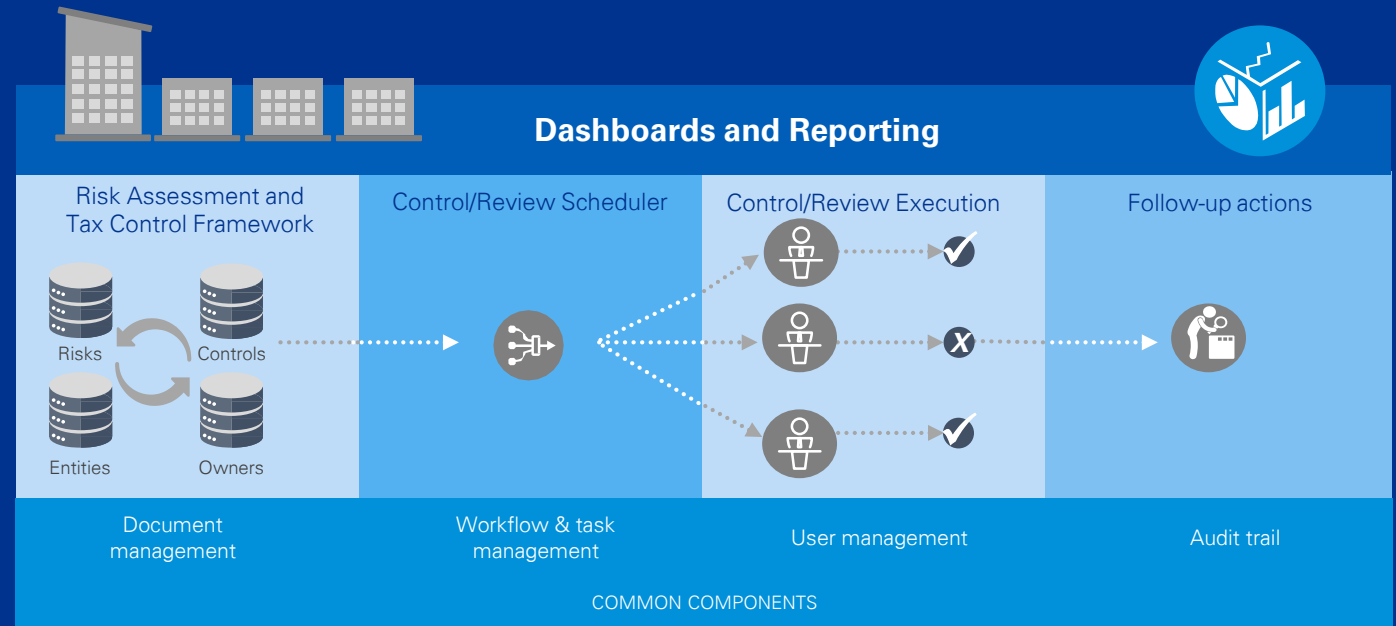
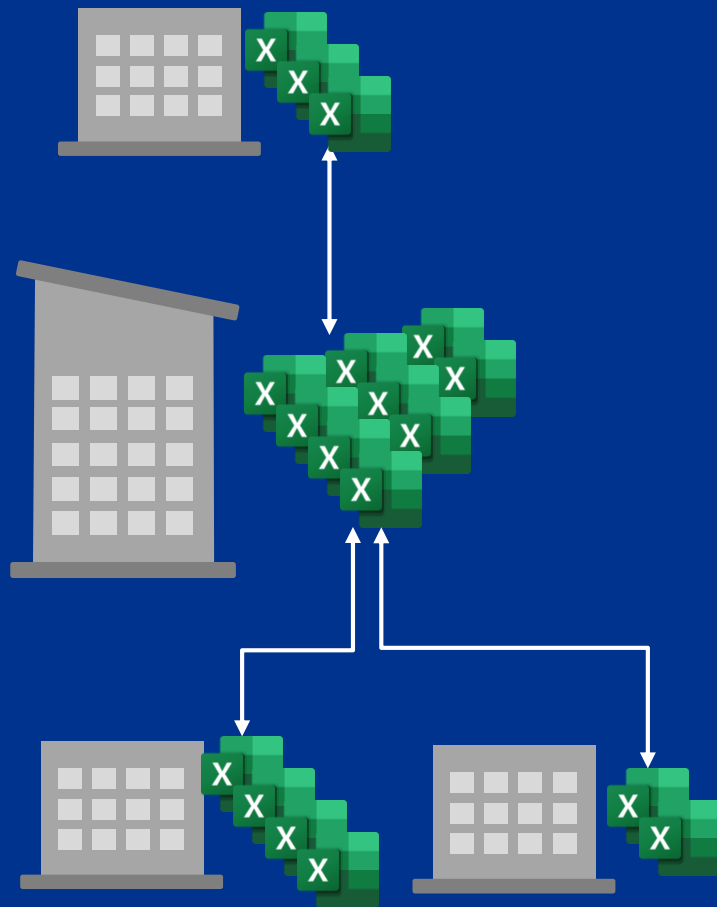
## Traditional Tax Control Framework



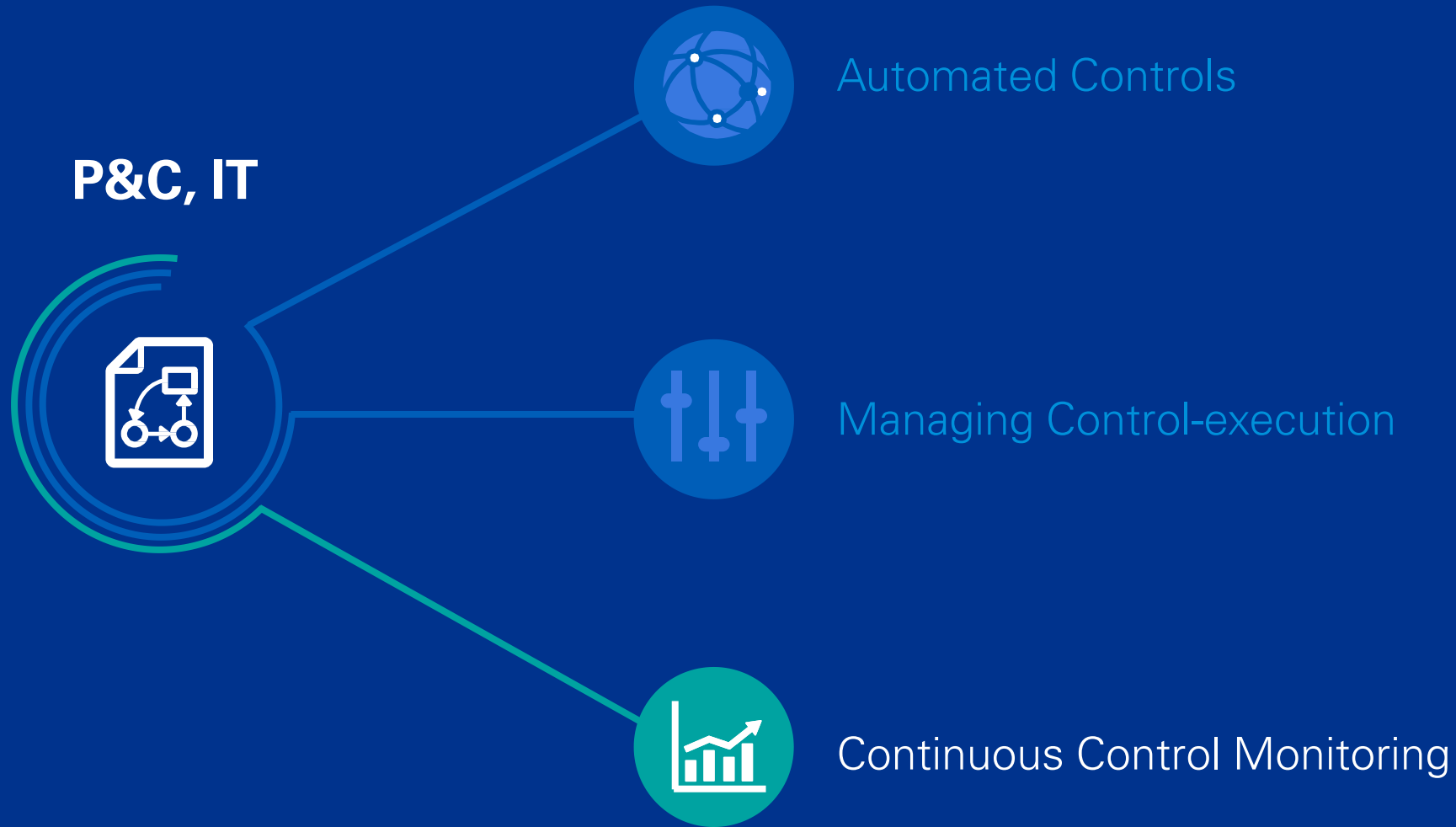
## TCF of the Future



# From Excel management to GRC solution

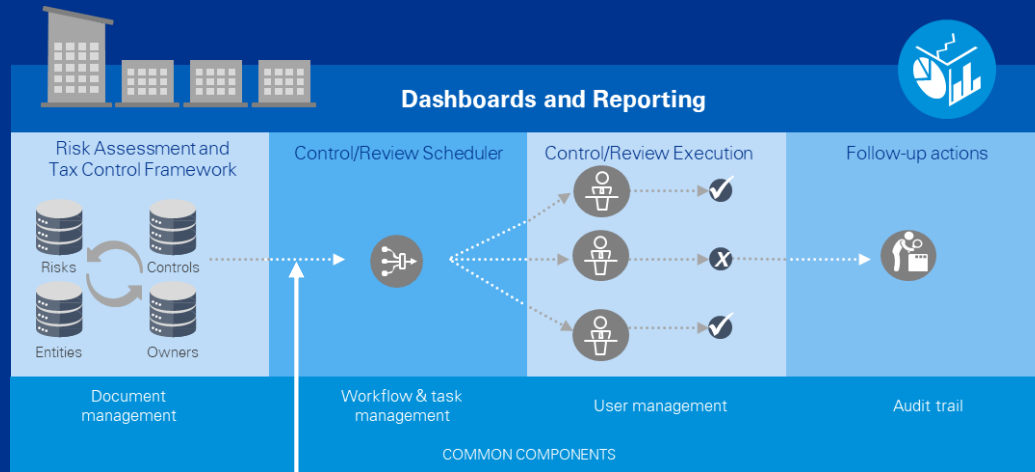


# Process & Controls, how does it relate to Technology?

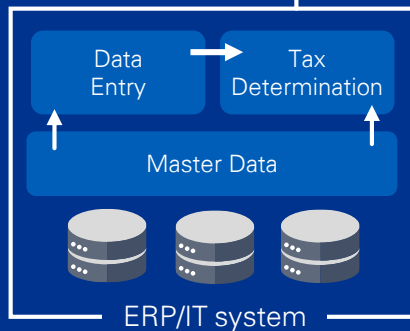




# Controls connected with D&A enables continuous monitoring



## Defined triggers/ anomalies



Control	Scheduler trigger	Execution
<b>Automated/Preventive</b> The VAT-nr is a Mandatory field in the customer master data file	<b>Review Frequency</b> Annual	<b>Human control review</b> The tax assistant determines that the VAT-nr field for the customer master data file is set as 'mandatory'
<b>Automated/Preventive</b> The VAT-nr is a Mandatory field in the customer master data file	<b>Occurrence of anomaly</b> VAT-nr is set to NOT mandatory for customer master data file	<b>Human review of anomaly</b> Customer Masterdata setting has changed to VAT number NOT mandatory, indirect tax manager determines whether this is due to an approved change

# Key takeaways



Look at the process end2end, prevention is better than detection



Data-driven controls monitoring is next level for control effectiveness and efficiency



Apply automated controls where possible



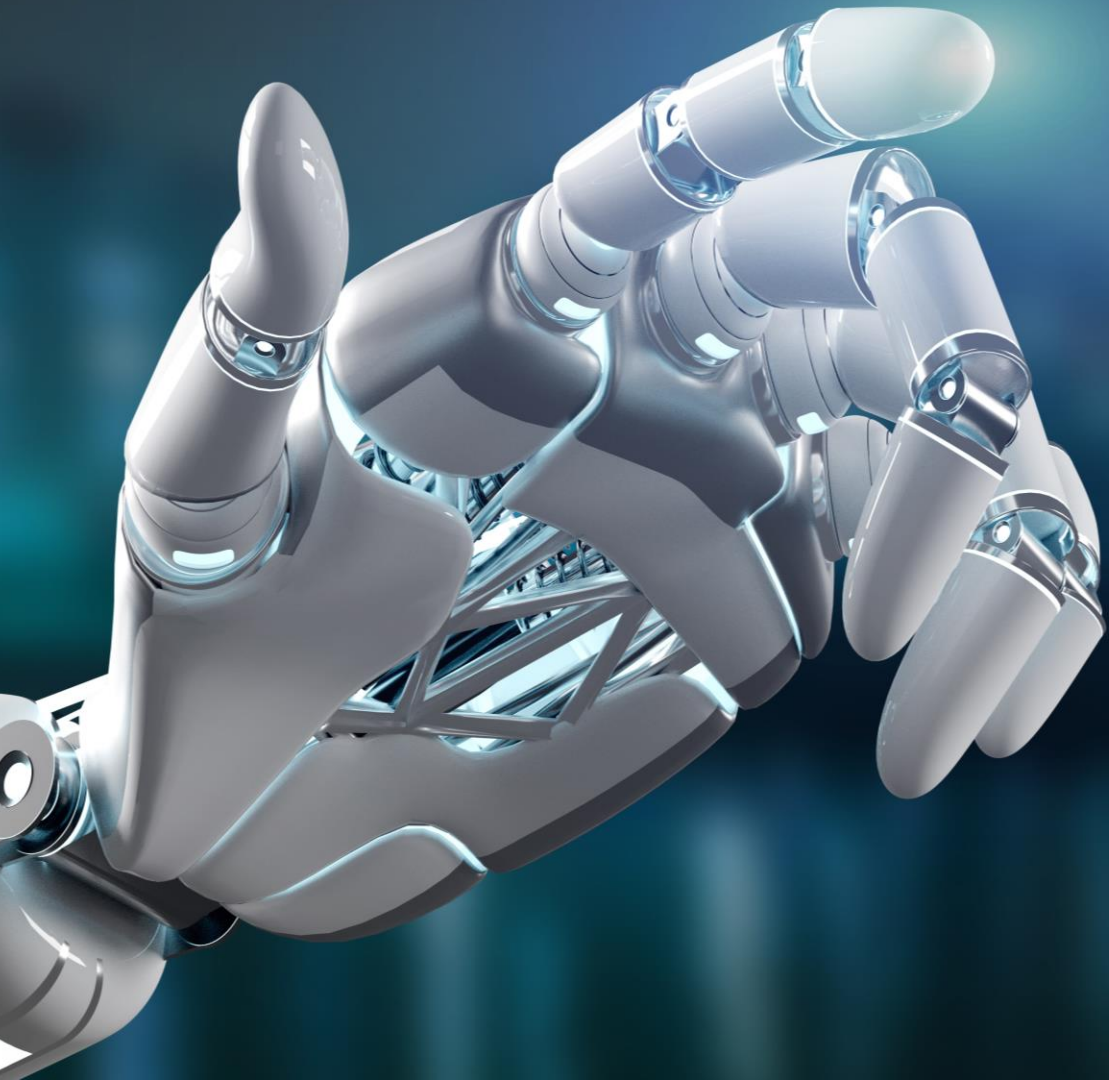
This requires a data-driven organization with leverage of technology investments



Managing controls execution requires fit for purpose IT solutions



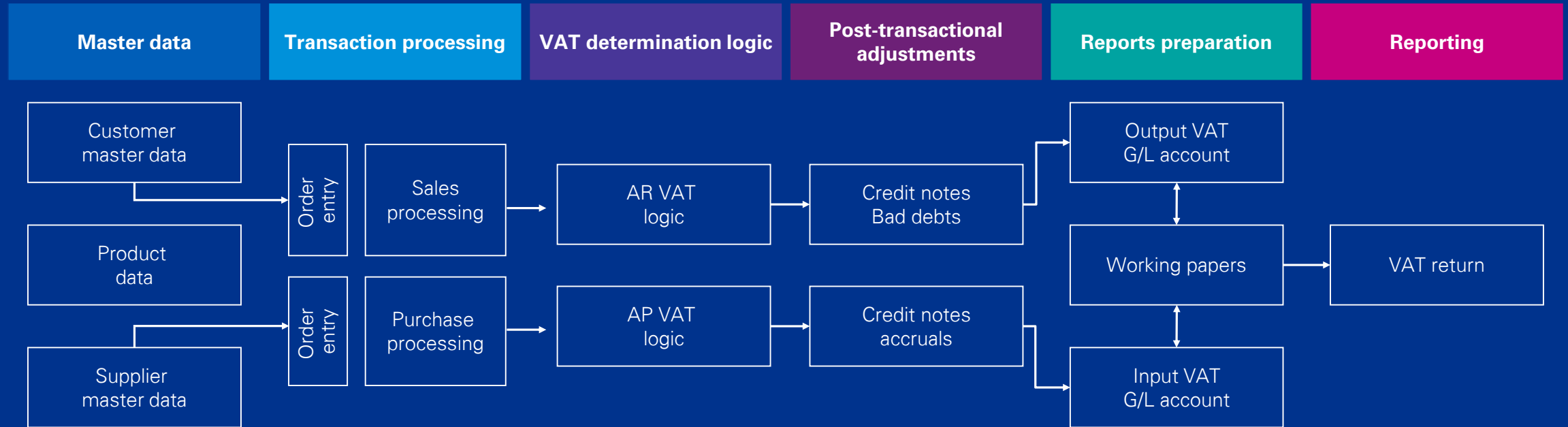
Solutions may already be available in your company without knowing



# Use case

## **Indirect taxes**

# Identify the key risks



**What are the key risks?**

# Which controls?



Key operational risk

Control area

Control objective

Mitigating controls

Control category

Control type







- Master data
- Transaction processing
- Determination
- Adjustments
- Compliance

- C: configuration
- A: authorisation
- R: reporting
- P: procedure
- Preventative
- Detective

## Controls repository KPMG

Risk #	Key operational risk	Control Area	Control Objective	Control Objective	Control ID	Control Description	Control Category	Control Type
1	Incomplete or incorrect master data	1. Master data	1.1	For all suppliers the VAT/GST tax number data is complete and correct	1.1.1	The tax manager periodically reviews all VAT/GST tax numbers and identifies relevant master data and incorrect master data	Reporting	Detective
2	Incomplete or incorrect customer master data		1.2	For all customers the VAT/GST tax number data is complete and correct	1.1.2	The ERP system ensures that VAT/GST tax numbers are mandatory when entering a new supplier master data record	Configuration	Preventative
3	Incomplete or incorrect material/product master data		1.3	For all products the VAT/GST tax number data is complete and correct	1.1.3	Procurement personnel follow a checklist to ensure that VAT/GST tax numbers are correctly entered into the supplier master data (part of SOP)	Procedure	Detective
4	Incomplete or incorrect tax code setup	2. System configuration	2.1	All required tax codes are set up correctly	1.1.4	The ERP system ensures that VAT/GST tax numbers are mandatory when entering a new customer master data record	Configuration	Preventative
5	Incomplete or incorrect tax (control) account		2.2	For all business transactions there is a clear tax code mapping	1.1.5	Similar personnel follow a checklist to ensure that VAT/GST tax numbers are correctly entered into the supplier master data (part of SOP)	Reporting	Detective
6	Incomplete VAT/GST determination (DD) parameter and goods estimate invoice		2.3	General ledger (tax) accounts have been set up correctly	1.1.6	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
7	Incomplete or incorrect tax code for manual invoice (BPMF)	3. Order Invoice processing	3.1	Purchase invoice (Form 0) are part of the correct tax code	1.1.7	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
8	Partial compliance invoice (AP), not meeting tax invoice requirements		3.2	Manual invoice (Form 0) are part of the correct tax code	1.1.8	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
9	Missing or incorrect supporting documents		3.3	Purchase invoice meet the tax invoice requirements	1.1.9	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
10	Missing or incorrect supporting documents		3.4	Sufficient evidence is available for all relevant supporting documents	1.1.10	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
11	Missing or incorrect supporting documents		3.5	Invoice is correct and complete	1.1.11	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
12	Incomplete or incorrect compliance data	4. Indirect Tax Return	4.1	Completeness and accuracy of compliance certificate data	1.1.12	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
13	Incomplete or incorrect compliance data		4.2	Transaction are validated and potential errors are corrected	1.1.13	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
14	Manual adjustment VAT/GST return source VAT/GST accounts		4.3	Reconciliation of final VAT/GST return figures to source accounting data	1.1.14	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
15	Error resolution		4.4	High quality error resolution on declining customer improvement	1.1.15	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
16	Insufficient controls for compliance for the preparation VAT/GST return		4.5	High quality of execution and discipline making by tax preparer	1.1.16	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
17	Errors in the VAT/GST return which are not recorded in the compliance error		4.6	High quality VAT/GST return	1.1.17	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
18	Errors in the VAT/GST return which are not recorded in the compliance error		4.7	Timely submission and payment	1.1.18	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective
19	Non meeting document retention requirements		4.8	Archiving in accordance with retention document retention term and final disposal	1.1.19	The tax manager periodically reviews the setup of tax codes to ensure that the correct tax code is used	Reporting	Detective

# Controls assessment

	Risk mitigation		Control maturity	
Rating	Sufficient controls in place to mitigate the key operational risks in the control area		Best practice process and control activity being performed; limited improvements identified.	
	Sufficient though not all key controls in place but material operational risks are mitigated.		Good processes and controls but some improvements identified	
	Key operational risks exist in control area due to missing operational controls		Significant process and control improvements recommended	
Materiality	High	Medium	Low	

# How to document?



## Master data

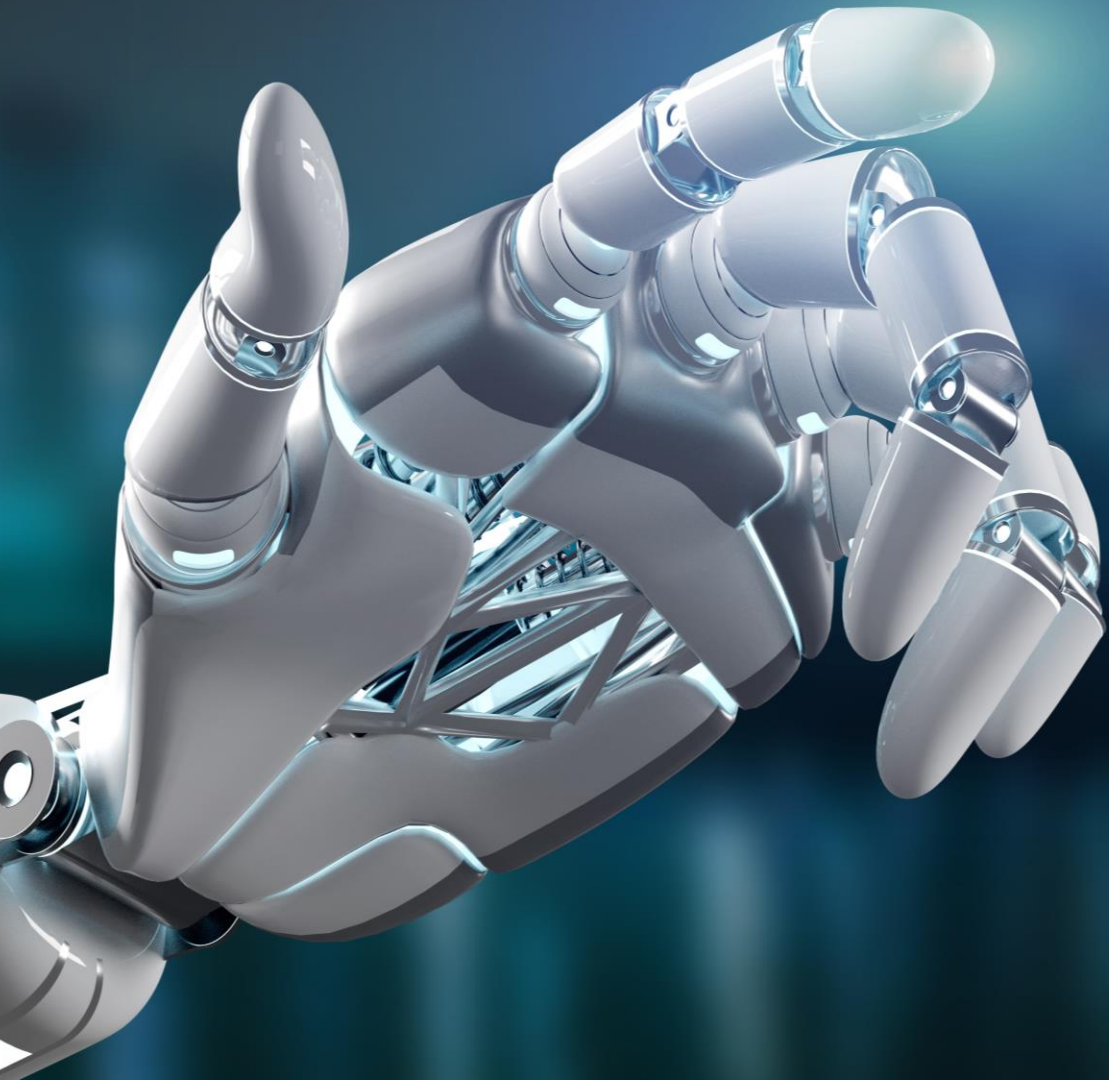
		Risk mitigation	Control maturity
<b>Key operational risk</b>	E.g. incorrect tax relevant <b>customer</b> master data		
<b>Control objective</b>	E.g. VAT/GST sensitive master data is complete and correct for all customers		

Control	Control category	Control type	Existence control	Control maturity	Observations
Periodic review of VAT/GST sensitive customer master data	R	Detective	Y / N	H/M/L	[...]
ERP system enforces entering of VAT/GST sensitive data for new customers	C	Preventative	Y / N	H/M/L	[...]
[...]					

# Overview

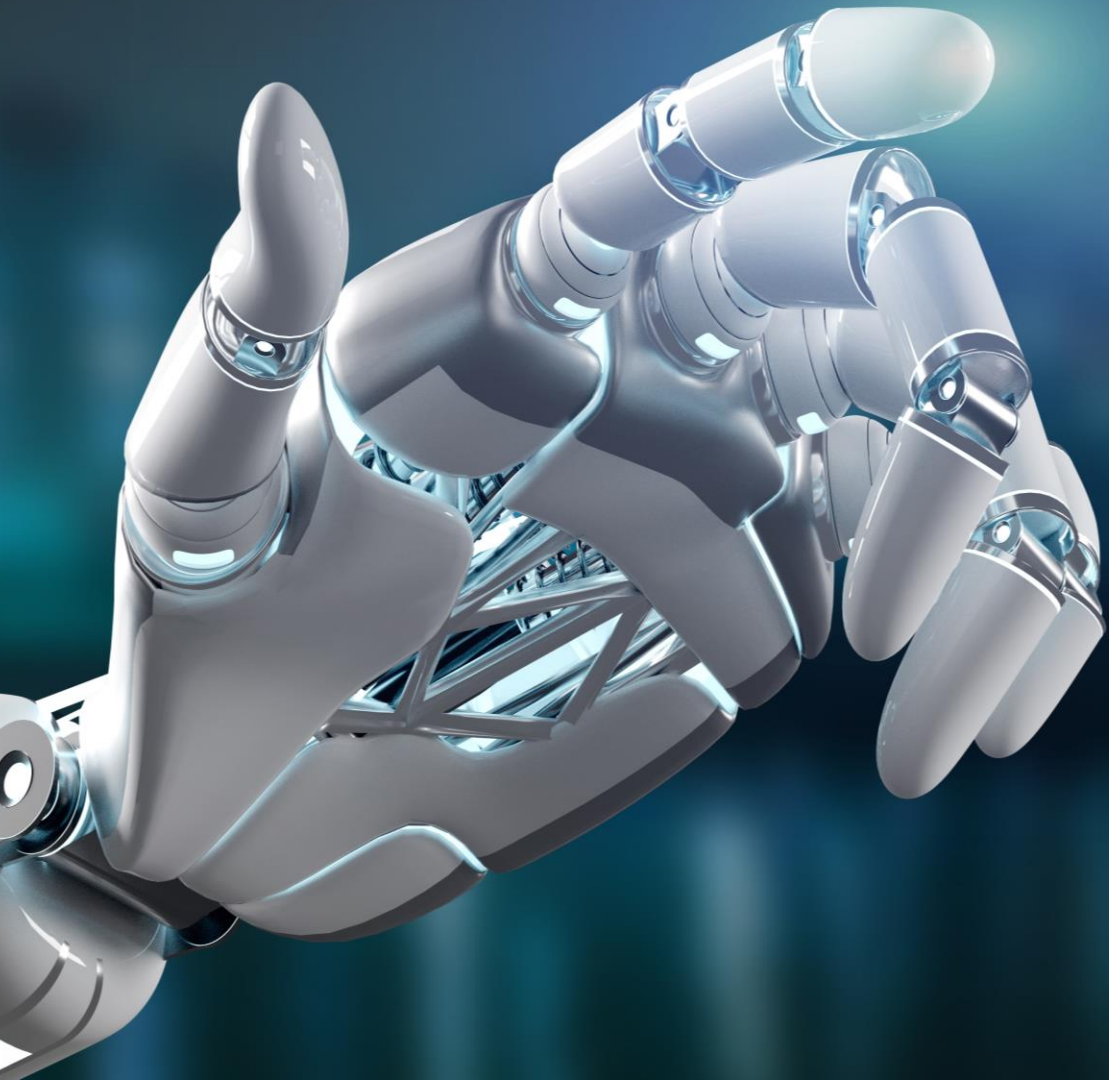






# Tax controls tooling

**Demo**



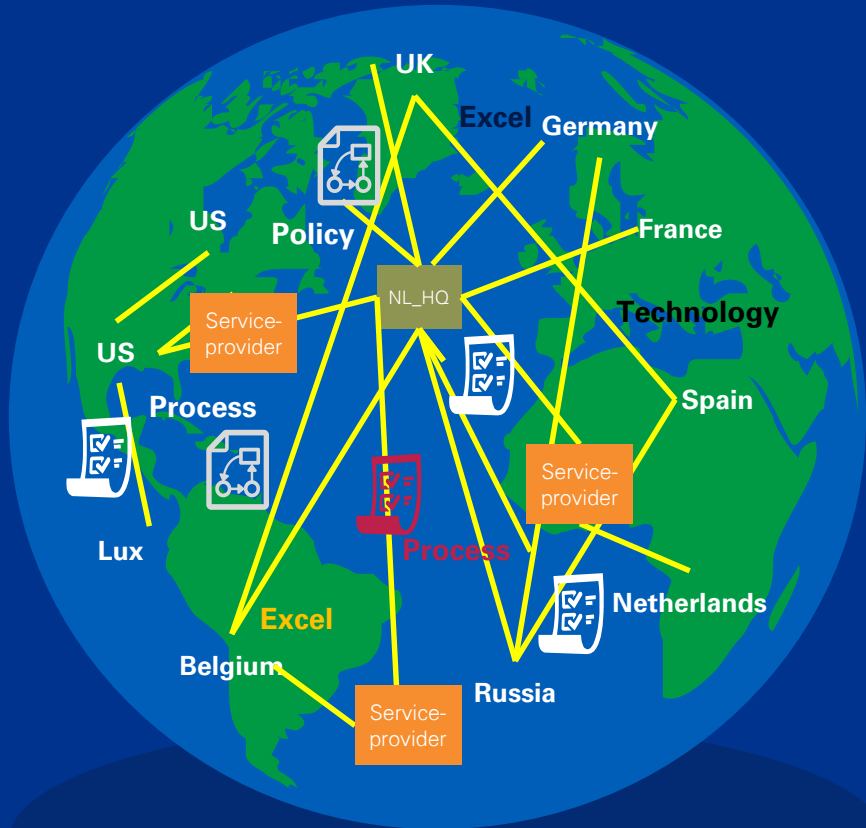
# Use case

## Direct taxes

Current state

Improve direct tax process

Improve risk management



# Improve tax accounting

## Phase 1 - Standardize tax accounting & compliance process

### End 2-end tax accounting process

#### Financial data

Journal: Vision Operations (USA) - Test 20-MAR-2017 13:46:18

Journal Description: Vision Operations (USA) - Test

Period: Dec-12

Effective Date: 31-DEC-2012

Category: Adjustment

Method: Standard

Control Total: 100.0000

Line	Account	Debit (STAT)	Credit (STAT)	UOM	City	Description
1	01-210-9210-0000-000	20.0000				
2	01-220-9210-0000-000	20.0000				
3	01-230-9210-0000-000		60.0000			

1. ERP/EPM

Manual and auto data feed

#### Tax adjustments

**Tax accounting & compliance checklist**

1	Name Companies	Activity	Country	Currency	Reporting Code
a					
b					
c					
d					

1.2 Is the company part of a tax group/fiscal unity (Corporate Income Tax or VAT/Other Tax)?  
If yes, please state the name of the parent or majority of the tax group / fiscal unity.

1.3 Did you receive any tax advice (not limited to Corporate Income Tax, VAT or Payroll Tax) on any issue from an external advisor during the past full year?  
If yes, please state topic, name of the advisory firm and advisor.

2. Group / Finance Structure Changes

2.1 Has the legal or fiscal structure been changed?  
If yes, please list the changes (new entity or branch, merger, liquidation).

2.2 Have internal reorganizations taken place, e.g. asset transactions, merger?

2. Tax computation

#### Tax Assumption Schedule

- GAAP-TAX temp.diff
- GAAP-TAX perm.diff

Manual and auto data feed

#### Reporting & Control

Meijburg & Co Tax Lawyers

Reporting period: Mar-2012

Reporting entity: 5791-23726

Local currency: EUR

Temporary differences - National tax	Book basis	Tax basis	Temporary difference	FB amount
Assets				
- depreciable assets				
- investments in subsidiaries				
- investments in associates and joint ventures				
- financial assets				
- other non-financial assets (non-current)				
- related tax assets				
Liabilities				
- tax non-financial assets				
- current income tax assets				
- trade and other receivables				
- other financial assets (current)				
- cash and cash equivalents				
- current liabilities (held for sale)				
- liabilities				
- financial liabilities (non-current)				
- provisions (non-current)				
- other non-financial liabilities (non-current)				
- current tax liabilities				
- trade and other payables				
- other non-financial liabilities (current)				
- provisions (current)				
- liabilities associated with assets held for sale				
- tax on interest payable				
- equity				
- financial liabilities (current)				
- current income tax payable				
- adjustments to (Other temporary differences)				
- expenses from Schedule 21				
- other adjustments (from Schedule 2)				
Total Temporary differences and tax attributes				

Measures in temporary differences

Measure	Temporary differences	FB amount	Other	Book basis	Tax basis	Temporary difference
1. General information						
2. Tax Carryforwards LC						
2. Tax Carryforwards RC						
3. Temporary diff LC						
3. Temporary diff RC						

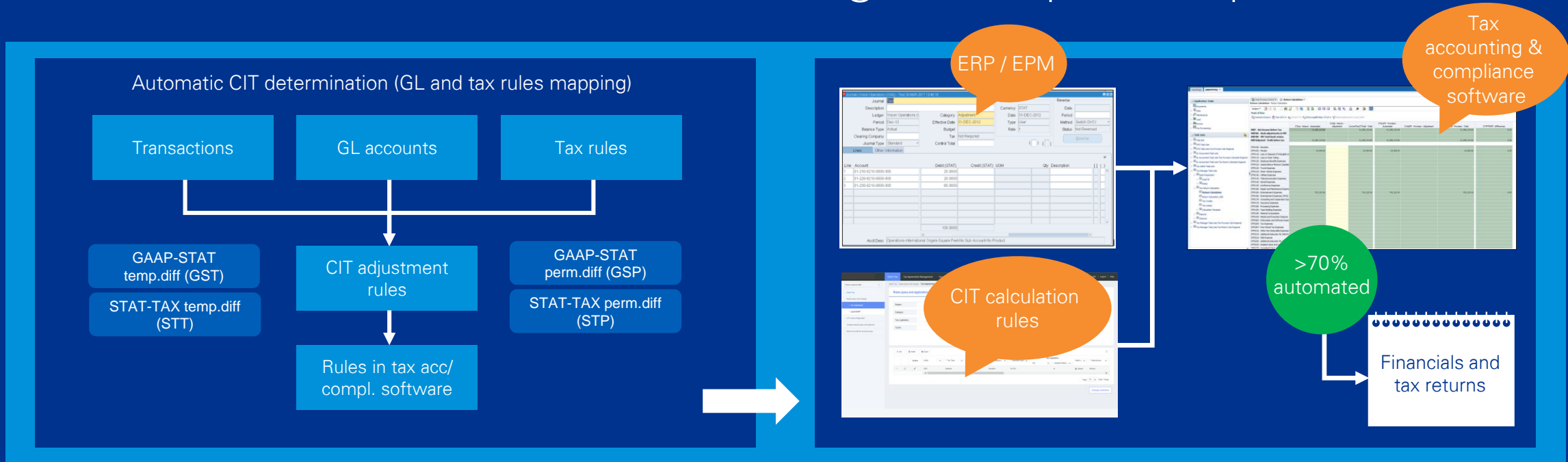
3. Tax reporting packages

Financial statements tax position

CIT return

# Improve tax accounting

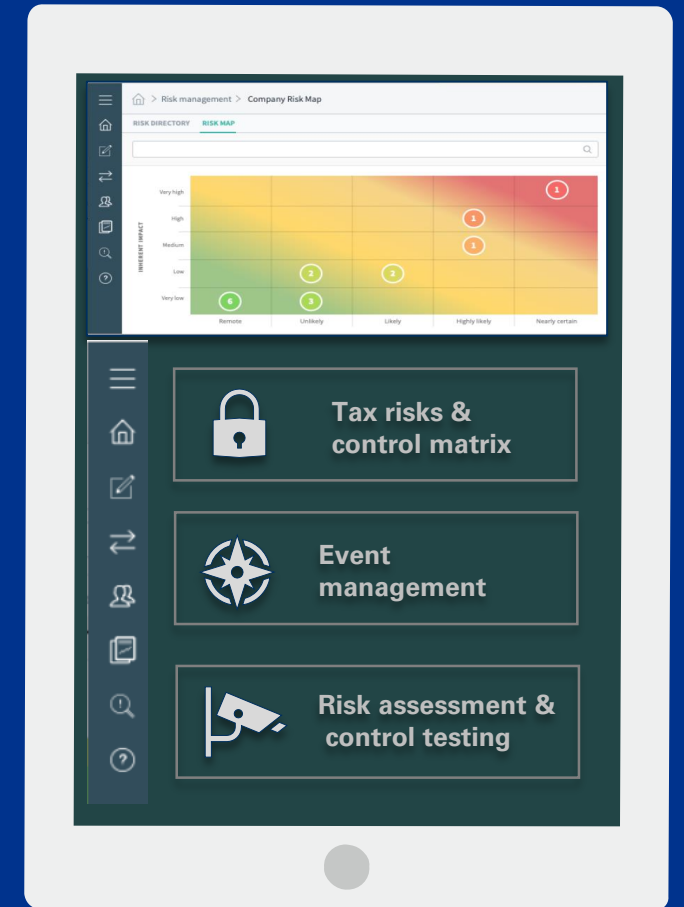
## Phase 2 - Automate tax accounting & compliance process



Scenario	BSM description	COA	Tax = GAAP	Tax rule - TRQ	Local practice	Data capture	Perm / Temp	Logic
Salaries & employee benefits	Hotel expenses [country maintenance] staff	5824400	No	Employee benefit expenses can only be deductible for CIT when the benefit is subject to salary tax.	<b>Accounting:</b> expenses are recorded on monthly basis when invoice received <b>Tax:</b> Adjustment is performed as no salary tax withheld	P&L	Permanent	100%_Pull
Marketing & business incentives	CBG gives FOC mobile devices to customer for promotional and ...	N/A	Yes	Goods supplied to customer FOC are considered promotional activities. Sound business ...	Accounting: no revenue is booked; purchase price devices are deducted as COGS   Tax: no adjustment is ...	P&L	N/A	N/A

# Improve tax risk management

## Timely identify, assess and manage direct tax (accounting) risks



# Tax Technology Bites Webinar Series

## Theme

Tax Technology Strategy & Roadmap	11 November 2020
Tax Process & Controls	8 December 2020
<b>Tax Data Management &amp; Intelligence</b>	<b>7 January 2021</b>
ERP Tax Sensitization	4 February 2021
Tax Compliance	4 March 2021





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