How Governments in Asia are Approaching **Indirect Tax**

What does this mean for organisations and the role of tax technologies?

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Indirect tax is a main source of revenue for governments and their respective tax authorities around the globe, and the use of indirect tax is on the rise, particularly in Asia where value-added tax (VAT), goods and services tax (GST) and consumption tax are used. Governments are either increasing them or introducing them for the first time as pressure mounts to reduce direct taxes, such as corporate tax rates. China is the exception to this rule, after reducing their 16% VAT rate to 13%, and the 10% rate to 9% in April 2019.

To collect indirect taxes faster and more accurately, tax authorities around the globe are realizing the advantages of investing in data analytics and other capabilities. Governments in Asia have rolled out e-invoicing systems through their administrative portals and offer real-time reporting, as seen in China and Singapore. And because organisations who submit false tax assessments may be penalized for it, they need to ensure that the data they supply their governments is accurate.

Considering the expectations organisations now have from governments and tax authorities, many are accelerating their adoption of tax technologies and low-cost resourcing models that can fast-track indirect tax returns.

Shift for tax leaders to strategic role

Amid the rapid and inevitable automation of the traditional tax processes, the role of tax leaders in multinational organisations is shifting. The move from an operational function into one as a strategic adviser will require tax leaders to delegate administrative burdens to technology. Alongside an increasing preference for digital transformation, budget constraints and headcount reduction can impinge on the ability for tax functions to secure funding. One of the solutions to meet these budgetary pressures, is for tax leaders to build a business case for it.

Such business cases are reaping rewards. Survey findings from the 2021 State of the Corporate Tax Department Report[1] by Thomson Reuters indicate that the main measure businesses are implementing to address resource gaps is introducing technology and automation (43%). But those preparing one should position their stance strategically – 54% cited direct cost savings as an important argument for making the business case for technology.

Furthermore, a survey by KPMG in 2019 on tax departments in the Asia-Pacific region has shown that compliance software is the most commonly used tax software among tax departments, with 12% of organizations using it. Meanwhile, a further 24% plan to acquire compliance software in the next five years. The survey also shows that the top two software expected to grow in popularity are country-by-country reporting and transfer pricing.

Tax leaders are also aiming at simplifying data management as a fundamental aspect of the future tax model in their firm. This would mean that the skill set of tax professionals is expected to shift towards not only professionals with tax specialist knowledge but those with data analytics, technology transformation and process re-design skills.

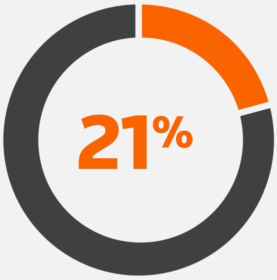
[1] https://www.thomsonreuters.com.hk/en/products-services/c/state-of-corporate-tax-2021-report/form.html

Push and pull for technology adoption

If we look at indirect tax closer, according to KPMG's report "Transforming the tax function through technology", many organizations still prepare their VAT returns by collecting data manually and inputting them into spreadsheets. It is important to note that the tax function sources data into spreadsheets not from its own department (tax) but from the corporate finance department's system or from an enterprise resource planning (ERP) type system. A solution to this issue is data management or consolidation into a single location. Asia-Pacific is an emerging ERP market expected to achieve a compound annual growth rate (CAGR) of 13.2% through 2026, according to Allied Market Research in 2021[2].

A potential hurdle that CEOs or CFOs may encounter when it comes to introducing technology or automation is the perceived cost and time that it would take to install new systems or processes. However, this may not always be the case, as it will depend on other factors. COVID-19 could also slow tax technology investment, as budgets of firms have been diverted into other departments to support business continuity. A survey of more than 300 tax departments conducted by Thomson Reuters in 2021 found that 57% are anticipating significant government change in terms of digital filing or real-time reporting.

[2] Asia-Pacific ERP Software Market Outlook - 2026
https://www.alliedmarketresearch.com/asia-pacific-erp-software-market



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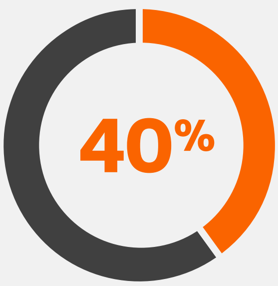

Nearly 40% of tax teams lack the time, resources, and necessary skills to effectively deploy technology

Automation the number one strategy to overcome skill gaps

According to the Thomson Reuters' global survey, 2021 State of the Corporate Tax Department Report, many tax departments expect to face serious challenges around people, processes, and technology to comply with emerging rules. Over 30% of respondents plan to recruit qualified tax professionals; however, just as many respondents plan to rely more heavily on the existing team. Only 13% plan to recruit analysts and tech support – a surprising finding when we consider the reported skills gaps among existing teams and new hires.

Advanced technology is the single biggest skills gap for tax teams today, with 21% citing it as a top concern. However, despite a significant technology skills gap, new technology and automation is the #1 strategy to address resource gaps in 2021. Respondents from every region see the value in introducing technology to reduce human error and allow existing team members to focus on higher-value tasks. And yet nearly 40% of tax teams lack the time, resources, and necessary skills to effectively deploy technology.

Several tax authorities around the world have developed e-invoicing and other electronic reporting systems which are used, among other reporting systems, to capture VAT data. The implementation of these technological systems by the tax authorities will not only reduce fraud and non-compliance but also accelerate VAT refunds for taxpayers.

The indirect tax landscape in Asia

Several tax authorities around the world have developed e-invoicing and other electronic reporting systems which are used, among other reporting systems, to capture indirect tax data. The implementation of these systems may not only reduce fraud and non-compliance but also accelerate indirect tax refunds for taxpayers.

The following explores how governments in Asia have implemented or will implement e-invoicing systems, along with insight on the organisations based in these countries reacting to these changes.

China

COVID-19 has pushed the Chinese tax authorities to digitise their systems and reduce physical contact between the taxpayer and tax authorities. Post-pandemic, tax authorities in China have introduced tax incentives and 'non-contact' taxpayer services. These include online processing, and appointment-only services where in-person engagement is required, to minimise crowding and ensure the safety of taxpayers. In January 2021, China also permitted authorities to issue 'special' indirect tax e-invoices. This will enable further reduction in the usage of paper and the physical contact with the tax authorities.

The Chinese government has software systems in place which applies indirect tax to the financial services sector and on certain consumer-to-consumer transactions in the country's real estate sector. This is due to the highly regulated government invoicing system (known as the Golden Tax System, which was launched in 2016). What is meant here is not an issue of an invoice or transaction through a company's ERP system, but that a tax invoice is issued through the government's software or hardware.

This regulation has increased compliance costs on companies, since companies who do not use or have not implemented systems that are integrated with the Chinese government's system will need to invest in software implementation and train their staff to use these systems as well.

China has also announced that it will introduce blockchain technology in its invoicing system. The Chinese government incorporated blockchain into their invoicing systems in Shenzhen in 2019, while Beijing announced last year that it will follow suit and introduce blockchain to their systems as well.

Did you know?

Some countries in Asia such as Indonesia, Korea, and India require taxpayers to issue invoices through government certified software, too. The risk for companies who may have operations in these countries, is that they may not be able to centralize compliance requirements, as each of these countries will have different government systems. Therefore, companies are required to adapt to the countries they pay tax in.

Japan

In 2019, Japan's National Tax Agency reported that indirect taxes in Japan made up more than 40% of tax revenues (consumption tax comprised of 31% of total tax revenues). This would make sense as consumption tax has more than tripled since 1989. In 1989, consumption tax in Japan was introduced for the first time at 3%. In 1997, consumption tax was increased to 5%, then to 8% in 2014, and finally the current consumption tax rate of 10% was implemented in 2019. The Japanese tax authorities, known as the National Tax Agency (NTA) was late to adopt technology in comparison to other countries in the Asia-Pacific region. The reliance on physical documentation burdens tax functions in Japanese organisations, as they collect paper and physical invoices, then collate the data primarily in spreadsheets.

Japanese organisations' ERP systems are also not compatible with tax processing, end-to-end, as they are for accounting purposes only. In Japan, tax is a manual process after the accounting data is given to the tax department within the respective organisation or outsourced to an external tax agent.

The NTA outlined their vision of digitising the tax system in Japan in 2017. Since 2017, there have been no major changes to the tax system to date, other than the "Mynaportal" which is an initiative aimed at ensuring social insurance and tax related procedures are carried out by employers. The procedures relate to life determining events, such as hiring and retirement of employees that used to require submission of documents to each administrative organisation, in an online and one-stop, manner.

In relation to indirect tax, and more specifically the Japanese consumption tax (JCT), the NTA will roll-out a new national invoice system on 1 October 2023 (based on the European Peppol standards), which will have a new qualified invoice regime for taxpayers. Taxpayers will only be able to claim input JCT credits if they use the new, qualified invoices. Sellers will also be required to issue qualified invoices. As Japanese organisations have not been incentivised to digitise their systems, as paper is widely used, this initiative by the NTA will require taxpayers to update or introduce ERP systems and be adapted to the invoice system. Furthermore, the implementation of e-storage of invoices and other documents will be crucial.

Southeast Asia

Here is a snapshot of the indirect tax landscape in Southeast Asia, which also comprises the following countries not included here: Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Thailand and Vietnam.

Taiwan / Hong Kong

Taiwan's Ministry of Finance introduced its own e-invoicing system in 2006 (known as the eGUI system) to reduce the amount of paper invoices printed.

Taxpayers are required to apply for a uniform invoice purchase certificate with the tax authority. If they are involved in the selling of goods or services, invoices are issued and transmitted to the e-invoice platform of Taiwan's Ministry of Finance. Organisations must comply and issue government invoices, as non-compliance equates to contravening indirect tax collection laws in Taiwan.

Due to Taiwan's regulations, foreign businesses and suppliers cannot integrate their systems with the Ministry of Finance system, and integration of their systems can only be done through an intermediary company based in Taiwan. This is a challenge for tax departments within MNCs who have operations in Taiwan, as they may not be able to integrate their global systems together.

In Hong Kong, more than 50% of organizations have utilized e-invoices in their B2B transactions. This figure could increase if Hong Kong makes the use of e-invoices mandatory[3].

Singapore

Singapore was one of the first countries in Asia to implement an e-invoicing system, which launched in 2003. It was mainly applied to business-to-government (B2G) transactions. Since 2017, all Singaporean companies have been submitting their VAT returns electronically.

Philippines

The Philippines has implemented its own invoicing system - modelled after South Korea's e-invoicing system - where taxpayers who are engaged in the export of goods and services, and e-commerce are required to issue electronic invoices and receipts and report their sales data to the authorities on or before 1 January 2023.

Organisations in the Philippines have not utilised e-invoicing systems locally, even though their headquarters or other foreign subsidiaries within the same group did utilize such systems. This trend is like other countries such as Japan where state laws requiring firms to digitise or comply. Also similar to Japan, the Philippines has historically relied on physical records of invoices and in the case of indirect tax refunds, the Philippines Bureau of Internal Revenue would stamp invoices as proof of the claims for refunds.

Overall, this movement by the Philippines to implement technology and the COVID-19 pandemic is anticipated to become the catalyst for taxpayers implementing their e-invoicing systems within ERP systems.

[3] https://www.sapeinvoice.com/en/hong-kong-and-e-invoice/

E-invoicing: Asia-based organisations follow their government's lead

As indirect tax is usually paid when a transaction occurs, and therefore an invoice is issued, tax authorities in Asia with e-invoicing systems on offer have an impact on organisations without ERP systems. Therefore, this has prompted many organisations to introduce ERP systems.

As explored in this whitepaper, some countries have implemented e-invoicing systems to collect or report indirect taxes. China, Singapore, and Taiwan are examples of these, while other countries such as Japan and the Philippines have recently planned to introduce them.

On the other hand, it seems that organisations in Asia have been following their government's lead on the technology adoption front, and not the other way around (where the private sector high use of technology forces governments to catch-up and introduce similar systems). However, what is definite, is that all countries and companies are moving in the same direction of tax automation, paving the way for an increasingly digitised future.

At Thomson Reuters, we believe that the invoice is at the centre of business and is a crucial tool for getting indirect tax right. If the wrong tax is calculated from the invoice, large negative effects can follow — everything from your customer experience to the growth of your company and business efficiency.

Thomson Reuters ONESOURCE Determination will streamline the entire sales, use, and value-added tax process with a cloud-based solution that integrates with leading ERP and financial systems. It will also automate transaction tax decisions without the headache of managing and maintaining an in-house tax engine or reporting system. ONESOURCE Determination will calculate correct tax amounts in milliseconds and easily handle millions of transactions daily for your complete global footprint.

If you would like to learn how Thomson Reuters can support you with indirect tax implementation, get in touch:

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