How businesses are responding to the wider customer tax reporting net (PART 2)

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Building a better working world

Organizations need to transform their people, processes and technology to meet fast-changing obligations and mitigate risk

(CONTINUED FROM PREVIOUS EDITION)

The "people" challenges include training, expertise and a very real skills gap. Part of the problem here is that the CTR landscape is constantly evolving as the US, OECD and other jurisdictions adjust their regulations to close newly discovered tax loopholes. To remain compliant in this fluid environment, companies must continually train their people and so that their knowledge is up to date.

This people challenge is also exacerbated by the fact that CRS and FATCA expertise is in short supply right across the industry, and the natural turnover of employees results in a loss of institutional knowledge, making it difficult for organizations to maintain high-quality CTR programs.

The process challenge is about implementation and visibility – while processes may exist on paper, great care should be taken to put them into action in a seamless fashion across the organization, and the Responsible Officer needs to have full visibility of the challenges encountered before he or she signs on the dotted line.

Meanwhile, the technology challenge centers on the fact that CTR compliance is primarily a data issue, and CTR data is all-pervasive. Data capture begins with onboarding and must continue the full length of the customer journey. This includes document collection and validation, monitoring for change of circumstance, withholding and reporting, and every stage in between.

Taking an organization-wide approach to CTR compliance

To achieve an effective, seamless, end-to-end flow of customer data between functions, organizations should have a technology solution that is flexible, scalable, and future-proofed, so it can overcome both internal silos and disconnected legacy systems and also cope with the ever-spreading CTR net.

Paul Ho, EY Asia-Pacific CTORS Leader, believes that teams must be interdependent if an organization is to overcome these challenges and achieve an end-to-end CTR model.

"There's not a single function within an organization that isn't impacted by customer tax reporting," he explains. "HR is impacted because teams must be trained. IT is impacted because systems need to be built. Finance is involved because they provide financial information for the purpose of reporting. Compliance is key because they need to ensure there are robust controls. Last, but not least, operations is impacted because they need to ensure customers are correctly onboarded and their data collected accurately from the outset."

But who owns responsibility for this complex end-to-end process? Most companies place Operations in charge, but some organizations give the responsibility to Compliance or Tax.

Ultimately, however, everyone has a role to play. If one function fails to play its part, every stage in the process can fall like dominoes.

Large, complex organizations know the challenges associated with facilitating end-to-end data quality and CTR compliance better than most. A large multinational corporation can spend millions of dollars trying to build a company-wide CTR solution, but if that solution is siloed, different departments are likely to have contradictory data and that can cause real problems.

Justin O'Brien, EY Americas Tax Technology and Transformation CTORS Leader, says that FATCA and CRS demand that data points from different documents — for example tax reports and KYC forms — are aligned. "This involves different databases, using different technology, talking to each other — and that continues to be a major challenge for financial institutions," he says.

A flexible adviser can reduce the pain points

When problems arise it is still common for companies to hire large numbers of staff to manually review and fix data. A more effective approach, however, is to dissect this data, find exceptions, and automate solutions. Only when the remaining exceptions can't be automated should businesses move to a manual solution.

There is a real appetite among some organizations to address CTR pain points in this way. They may be happy with their in-house talent and processes, but they also want to increase speed and accuracy.

Some organizations achieve this by cherry-picking specific processes and streamlining them using third-party solutions- for example automating form validation. Other organizations start by automating/ outsourcing one business unit, with a view to expanding to other units in future. While other organizations are looking to outsource the entire end-to-end CTR process as a managed service — from onboarding to reporting — using external tools, processes and people. All of these organizations, however, appreciate the benefits of joining forces with an international adviser that can manage the CTR process globally.

This kind of outsourcing can reduce risk and limit customer disruption, while economies of scale and an abundance of expertise mean compliance can be achieved faster, more accurately and in a more cost-effective manner. Market-leading solutions also give managers and responsible officers the process and data oversight they are required to have by law.

Conclusion

While there is no need to panic, organizations that find themselves covered by the growing CTR net should closely consider whether their operating model is fit for purpose and futureproofed.

Failure to explore the cost-saving opportunities of collaborating with an external provider, which offers a suite of solutions, could lead to compliance functions becoming more expensive and increasingly less agile.

Handled correctly, however, organizations can not only achieve compliance and survive the proliferation of customer CTR demands, they can transform the challenge into an opportunity to thrive by delivering market-leading customer experience that differentiates them from their competitors.

Summary

CTR requirements are growing as tax authorities look to bridge the tax gap and the "digital art of the possible" has increased. Tax authorities across the globe have powerful new data tools at their disposal, and the need to balance the books post-pandemic is a compelling reason to use them. In this fast-evolving environment, it's critical that all organizations, including non-financial sector digital disruptors, that fall under the CTR net can access future-proofed solutions that manage the increased demand, and ensure compliance is complete, accurate and cost-effective.■