PwC Luxembourg "Compliance is going digital" 2019 survey

Key findings

2nd edition

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Content

Introduction

The compliance world is evolving. Digital technologies are altering business and operating models, the number of regulatory requirements is increasing and countries are moving toward digitalising their tax administration that implies greater transparency and real-time reporting.

This digital disruption wave is forcing companies keep abreast of new rules, understand their impact, cope with the speed of change and explore new paths to achieve regulatory compliance in a cost efficient and timely manner by implementing digital solutions.

This survey was designed to improve our understanding of the challenges facing businesses, their abilities and objectives regarding digital transformation.

Why did we conduct the survey?

We are always looking for ways to anticipate our clients' needs. Digitalisation is clearly a relevant topic, as it already touches many aspects of our daily work and will reach still further.

The first edition of this survey was conducted in 2018 to sample the state of the Luxembourg compliance landscape. We wished to investigate the drivers, costs and pain points related to going digital. By doing so, we were able to report on the current and expected impact of digitalisation on our clients' business in general and on compliance in particular.

How did we conduct the survey?

We put together a survey of 13 questions and sent it out to CEOs, CFOs, Heads of Tax and Heads of Accounting of financial institutions and operational companies in Luxembourg. The questions were identical in 2018 and 2019, allowing for comparisons and trend analysis. The 2018 survey report can be found here.

Overview of the compliance landscape in Luxembourg

Understanding the drivers, costs and pain points of going digital

Assessing the current and expected impact of going digital on compliance and on businesses

Here are the questions we asked.

01

The Future

Do you think tax/VAT returns will still exist in 3-6 years' time?

02

Changes and Challenges

In what direction do you think your business model for the tax compliance/accounting function will change?

Besides financial functions such as tax and accounting, do you expect any other corporate functions to benefit from digitalisation?

What are the main features that technology should bring to the tax/accounting function?

What are the most important challenges regarding data?

What are the main challenges in producing information for electronic tax/VAT returns electronically?

03

Tools and Systems

Do you use the same information system software in all jurisdictions in which you carry out reporting?

What are the main disadvantages of the tools you have seen for accounting/tax purposes?

Have you already started to review internal processes to take advantage of technology?

04

Budgets

What budget do you foresee for technology costs associated with digitalisation?

05

Costs and Savings

Do you expect your business to incur additional costs because of digitalisation? If yes, what?

Do you expect your business to benefit from significant cost reductions because of digitalisation?
If yes, what?

06

Hiring and Training

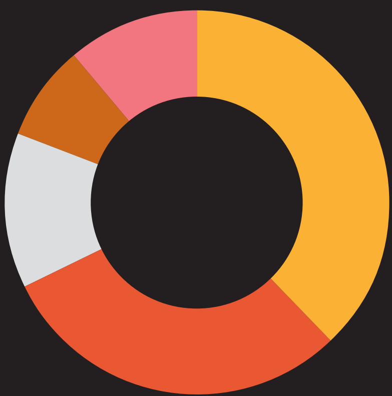
Does digitalisation impact on training programmes and the type of profiles you will hire for accounting and tax functions (technology or new profiles)?

This report, along with the first edition from 2018, provide the most significant findings on the digitalisation of compliance in Luxembourg.

Who responded? Respondent's company profile

79

respondents
mainly CEOs, CFOs and Heads of Tax and Compliance based in Luxembourg



Industry representation of respondents

- Asset & Wealth Management 38%
- Operational companies 30%
- Banks 13%
- Insurance 8%
- Alternative investments 11%

Two thirds of all respondents were from the Asset and Wealth Management industry and operational companies, with a further 13% from banks and 8% from insurers. These results are similar to the 2018 survey. In addition, 28% of respondents reported that they also participated in the 2018 survey.

The responses indicate a general interest in tax digitalisation across all Luxembourg industry sectors. The highest interest is among the Asset & Wealth Management industry, banks and operational companies, who seem to be more aware of the implications of digitalisation. They are doing more related work in-house and feel more exposed by digital technologies and transformation than other sectors. This is clearly a hot topic. They see digitalisation as a necessity to keep costs low and ensure efficient processes.

All corporate functions will be impacted.

Key findings

There is a growing expectation that tax returns will cease to exist, based on the responses compared to last year. New regulatory reporting, e.g. FAIA, has raised businesses' awareness of the growing need of tax authorities for easier access to company data. Digitalisation and emerging technologies have opened the doors to new opportunities, not just for businesses but also for tax administrators. Digital methods will help tax authorities demand near real-time data reporting, drive better enforcement, reduce fraud and facilitate taxpayer compliance. This will rapidly change the manner and quality of audits.

Digitalisation is coming to Luxembourg soon. It will bring benefits such as efficiency and transparency, but implementation will consume human and financial resources. However, all businesses must prepare for the transformation and many are already doing so.

Implementation will be gradual. For most organisations, the incorporation of technology solutions into the tax function will be achieved incrementally, not radically. Automation will be part of the digitalisation process and all corporate functions will be affected. However, some procedures will still have to be performed manually.

53%

+6% compared to 2018

of respondents think that tax/ VAT returns will no longer exist in 3-6 years - an increase of 6 percentage points compared to 2018.

They predict that taxes will be filed via a mix of channels and sent to authorities by several different private sector entities.

58%

-33% compared to 2018

of respondents have already started to review or expect to review internal processes to take advantage of available technology in the next 12-18 months.

Partial digitalisation will occur, but will not cover the full scope of activities and sectors.

The 3 top challenges regarding data:
Data quality
Integrating multiple systems
Data storage & security

The main features that technology should bring to the tax/accounting function:

01 Automatic report generation/higher quality reporting

02 Operational efficiency to retrieve data to prepare tax/VAT returns

03 Monitoring (24/7 live visibility of the Luxembourg accounting/corporate tax/VAT situation)

04 Risk management

05 Data analytics and scenario analysis (intelligence)

The respondents expect digitalisation to provide automatic report generation, operational efficiencies, real-time monitoring, risk management and data analytics. These are essentially the same expectations and challenges that were reported in last year's survey.

Besides these challenges, 71% of respondents are using different software over different jurisdictions, citing difficulties in bringing data from disparate systems into a single process. However, some respondents are aligning to a single information system.

Digitalisation in Luxembourg is complex and there are several levels of complexity. Luxembourg deals with various countries that require strong monitoring and extensive follow-up, both of which make coordination more difficult. In addition, there are challenges such as quality of data, integration of multiple systems, embedded requirements of local jurisdictions and security.

As organisations broaden their digital transformation with connected devices and other emerging technologies, their risk profiles change, both through more points of potential vulnerability and increased threats. Furthermore, a lack of continuity and consistency in security initiatives can make these exposures worse.

Tax structures will become simpler and more useful in making business decisions.
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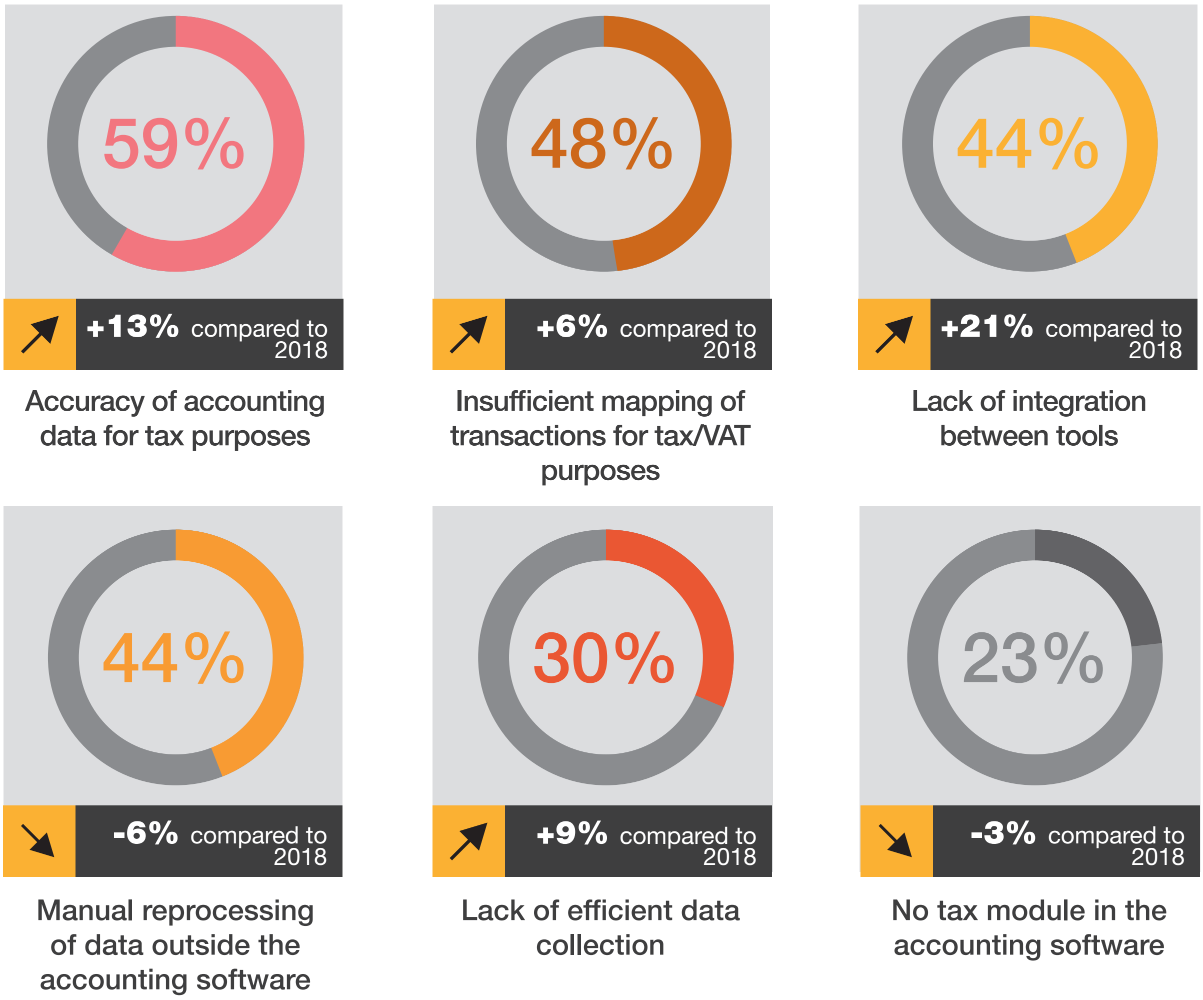
“Data is spread in the system; each company has its own ERP = lack of uniformity.

Main challenges in producing information for the preparation of tax/VAT returns



This year, the main challenges are the accuracy of accounting data, insufficient mapping, lack of integration between tools and the manual reprocessing of data outside own accounting software.

In 2018, these rankings were somewhat different: the three main challenges were manual reprocessing of data outside the accounting software (50%), accuracy of accounting data for tax purposes (46%) and a lack of integration between tools (46%).

57%

= **Similar** to 2018

of respondents think that the greatest disadvantage of the tools that they have seen for accounting/ tax purposes is that they are not tailored to their needs/ characteristics.

67%

+4% compared to 2018

of respondents would change their business models into a more co-sourcing (mixed approach working with a service provider).

The respondents thought that the greatest disadvantage of existing accounting/tax tools is that they are not tailored to their needs/ characteristics. In general, the majority of respondents expect they would have to do more tax work with service providers using a co-sourcing approach.

These responses are similar to the results of the 2018 survey.

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External tools represent a dependency and are not providing the required flexibility to react quickly and in time for regulatory changes.

Two thirds of respondents expect to spend up to 5% of their Gross Revenue on technology costs associated with digitalisation. Furthermore, 77% of respondents expect their business to incur additional ongoing costs due to digitalisation. These costs will likely relate to integrated tools, data security and additional support from IT consultants and other specialised staff.

If digitalisation should result in saving money, it will likely be due to lower staff and external provider costs. Respondents also cited savings in time and the removal of confusion.

Improved efficiency, quality and control of processes automated through digital strategies can result in cost savings. The benefits associated with technologies are amplified when combined with transforming processes and organisation to be more efficient and closer aligned with leading practices.

As mentioned by one of the respondents, there should be mid-term expectations. The first need is to go through the investment and set-up phases. These will involve significant investments, but the mid- or long-term vision is that they will be recovered and even produce profit.

Even so, almost 40% of this year's respondents remain sceptical about the benefits of digitalisation. This is still a new concept and they are wary of the promises of advantages that it could bring in the near future.

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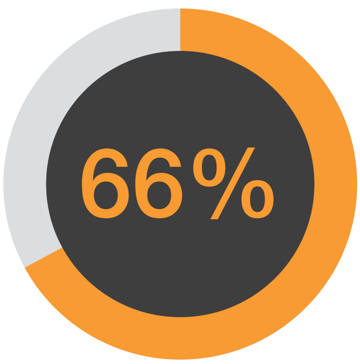
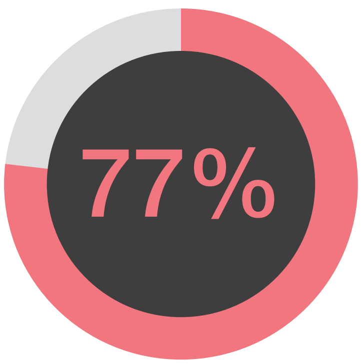
Digitalisation should reduce costs in the medium term.



-11% compared to 2018

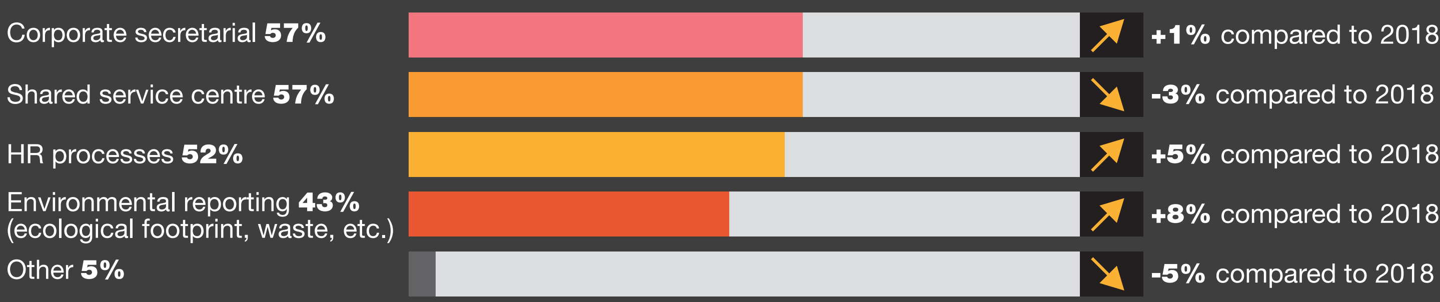
of respondents foresee a budget of less than 5% of gross revenue for technology costs due to digitalisation.



+8% compared to 2018

of respondents expect their business to incur additional ongoing costs due to digitalisation.

Other corporate functions that could benefit from digitalisation



The respondents expected that corporate secretarial, shared service centres, HR processes and environmental reporting could all benefit from digitalisation.

The majority of respondents also expect to take digitalisation into account when hiring and training. More specifically, over half of respondents are already taking technology or new capabilities into consideration, while a further 40% expect these to become increasingly critical in the next 12-18 months. These results are similar to the responses from last year's survey.

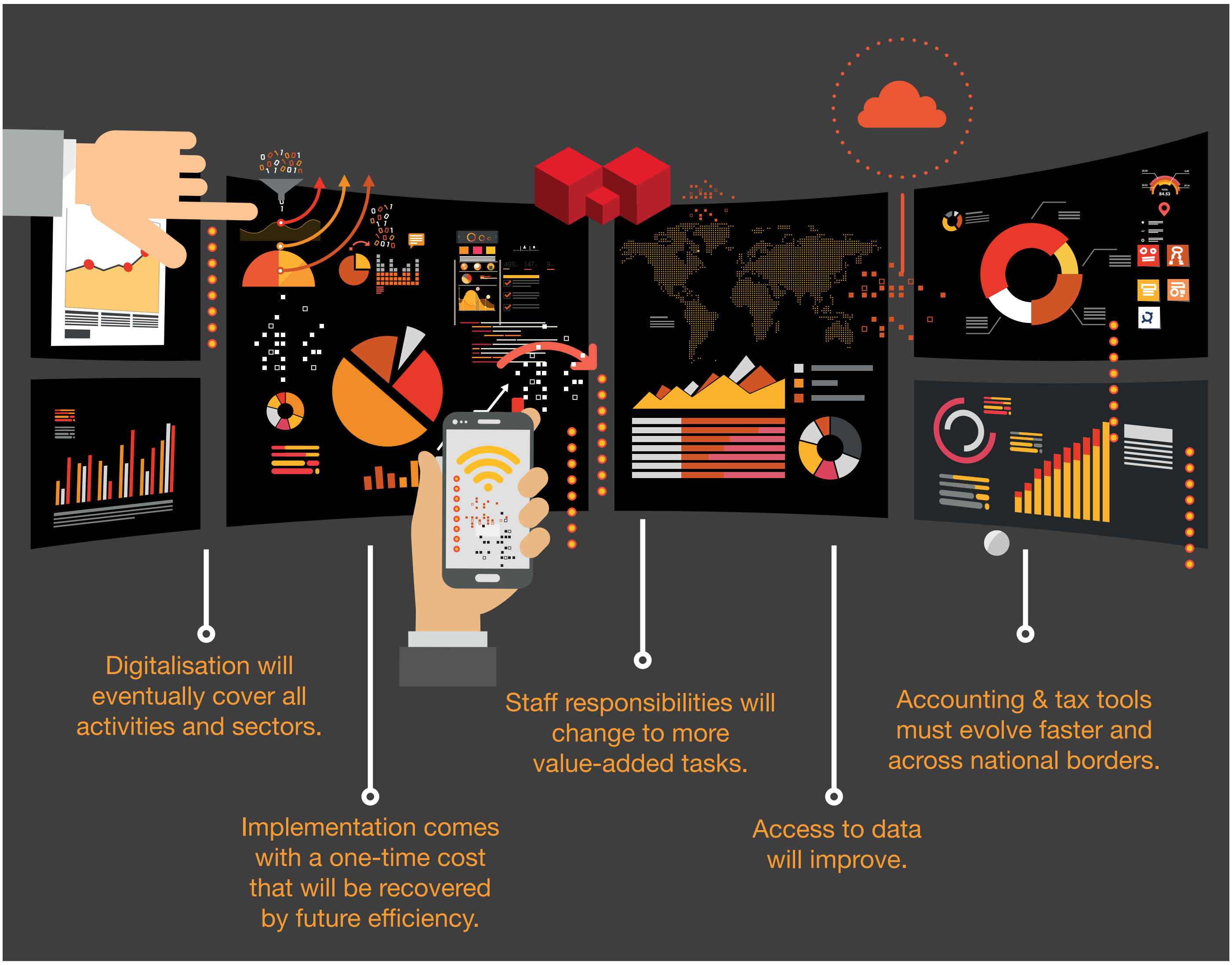
Digital technologies are changing the skills and capabilities of organisations, ultimately redefining existing roles and creating new emerging roles. These roles will also represent different "personas" with distinct competency attributes that create unique opportunities for growth.

> "Staff responsibilities will change to more value-added tasks.

Conclusion - What does this all mean?

The digital economy has come of age through mobile technology, cloud computing, business intelligence and real-time reporting.

We have summarised the replies and comments of our respondents below:



The emergence of technological innovations, the digitalisation of governments and working methods, the increased number of regulatory requirements and the related costs are all forcing organisations to explore new paths. They must respond to this changing landscape and harness the opportunity to make the tax function more strategic and more responsive to business needs in a cost efficient manner. Any lack of preparation, visibility or analytic capability across data sources can expose companies to the risks of real-time audits, increased tax penalties, refund delays and reputational risk.

While tax technology is a necessity for organisations to thrive in the new digital world, it can also become an opportunity for early movers who embrace technology into their tax functions to add more value to business and make informed decisions for the future.

For most tax functions, the challenge today is determining their requirements, tax technology strategy and resources to execute an overall strategy.

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