# CHANGING LEGISLATION AND DIGITALISATION

Investigating the rise of accounting and tax complexity in 2024

Global Business Complexity Index 2024 – sub-report | Accounting and tax

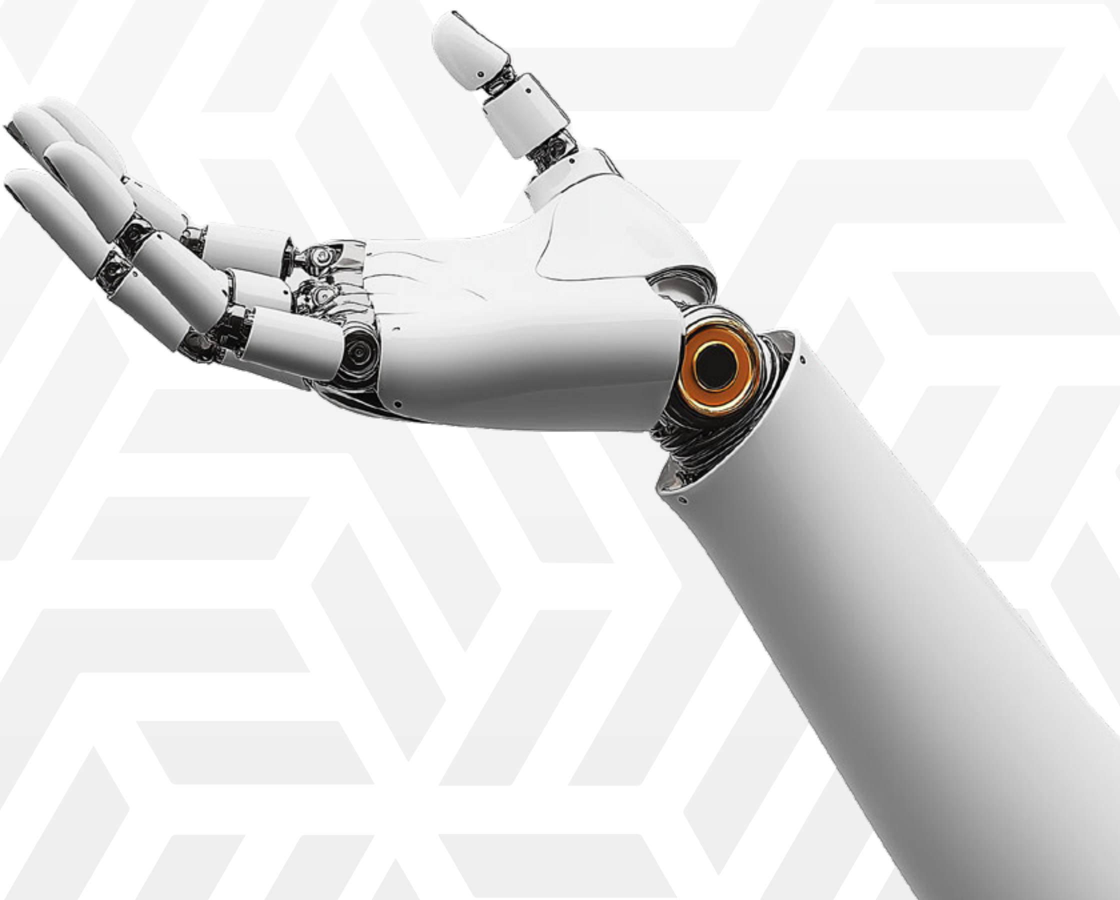
TMF GROUP

# Introduction

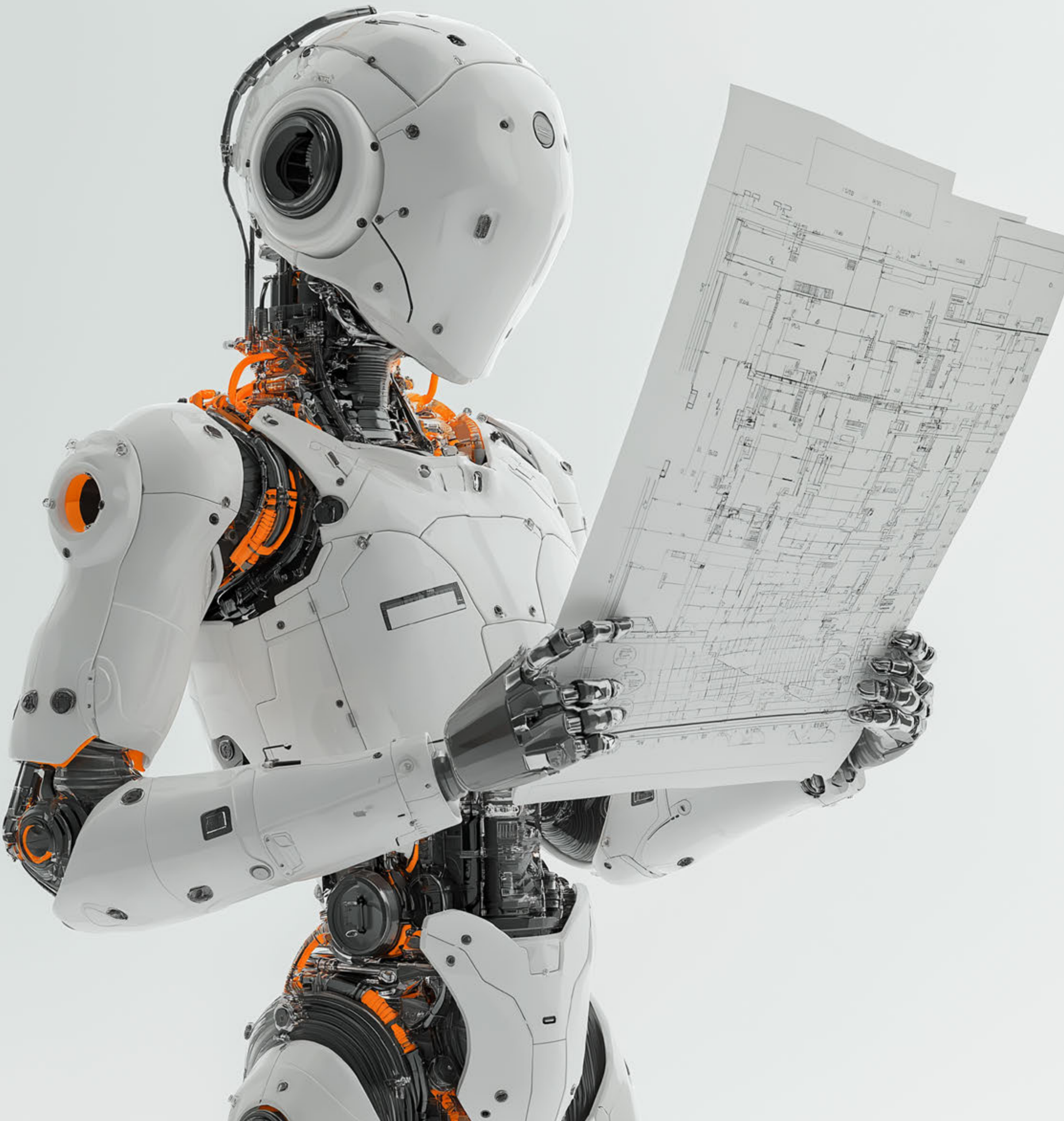
Accounting and tax remains a particularly complex area of business in 2024, with continuously increasing requirements at both global and local levels placing additional pressures on businesses that operate in multiple jurisdictions.

Multinational companies must find new ways to adapt to the growing frequency of legislative changes, making compliance with regulations an ongoing challenge. The global shift towards digitalisation is a contributing factor to the administrative burden and rising costs that companies must shoulder, as the transitional period brings new and unfamiliar processes that place a strain on existing resources. As penalties for non-compliance become more severe, companies face the risk of fines or closure and cannot afford any errors.

Despite this rapid rise in complexity, there are several proactive strategies companies can employ to simplify their accounting and tax processes. Building on insights from the latest edition of TMF Group's Global Business Complexity Index (GBCI), this sub-report explores not only the intricacies of today's A&T environment but also how jurisdictions are adapting and finding ways to thrive.



# The evolving landscape of regulation



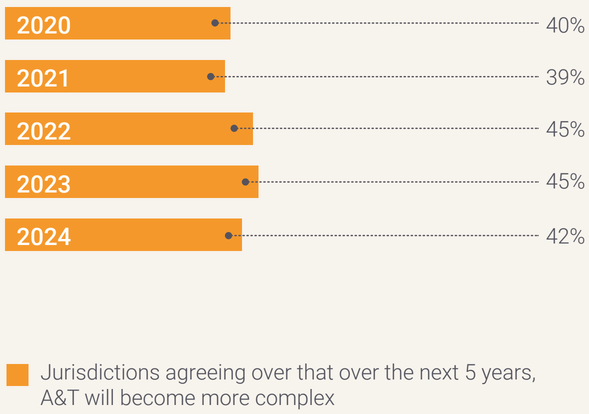
## Complexity in accounting and tax is set to continue

In the 2024 GBCI report, 42% of the jurisdictions surveyed predict that A&T will become more complex in the next five years. As outlined by an A&T expert from TMF Group, the number of upcoming changes to tax legislation is likely to be "mind-blowing."

Over half of the jurisdictions (57%) link this increased complexity to changing tax frameworks, while nearly a quarter (24%) believe it is linked to an increasingly complex regulatory environment. Changing A&T frameworks can make it difficult for global players looking to invest in new markets. It is crucial that companies stay informed about regular changes to legislation so they can reach operational readiness quickly and ensure compliance.

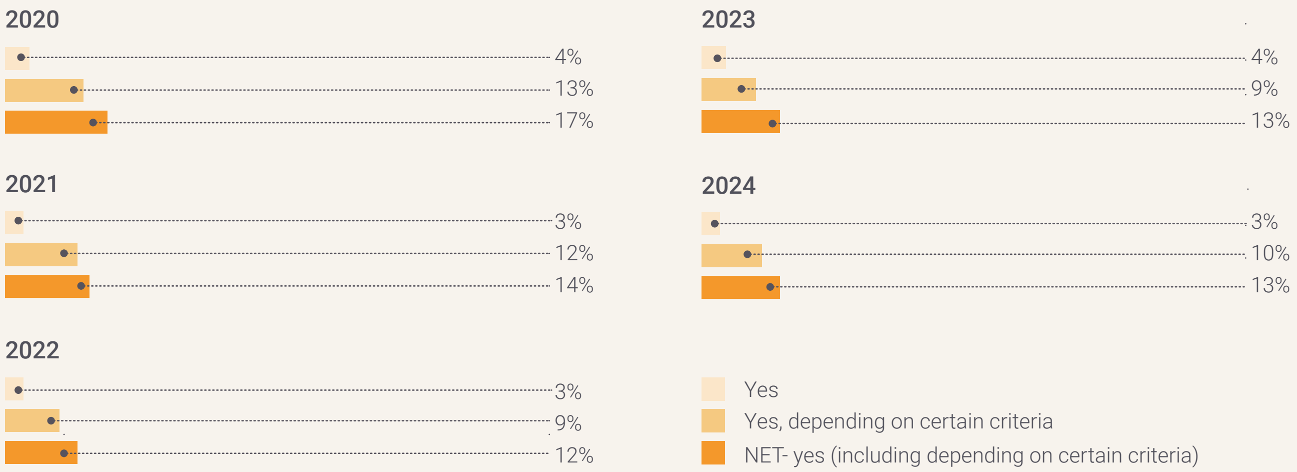
> *Greece should be considered a complex place to do business. We have many direct and indirect taxes with different deadlines for each obligation. There are over 100 platforms to submit returns or applications, which all require different credentials. Furthermore, the alignment between Greek accounting requirements and global accounting requirements is almost impossible.*
>
> *TMF Group Greece Expert*

**Agreement that over the next five years A&T will be more complex**



## Legislation continues to be tough and inflexible

**Ability to do business without being registered with relevant tax authorities**



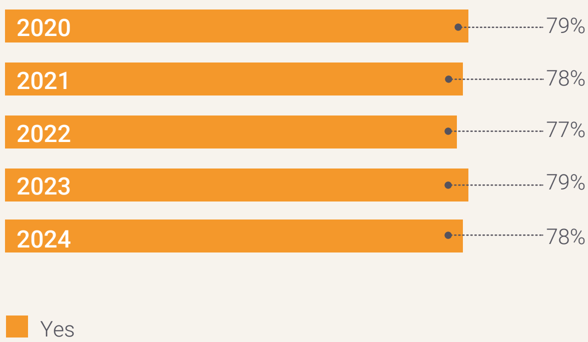

For a significant majority (87%) of the jurisdictions, a key part of becoming operationally ready is ensuring that businesses are registered with the relevant tax authorities. The percentage of jurisdictions where companies can operate without being registered remains considerably low at 13%.

Additionally, in most of the jurisdictions surveyed, tax registration is separate from entity incorporation, which lengthens the registration process for new companies.

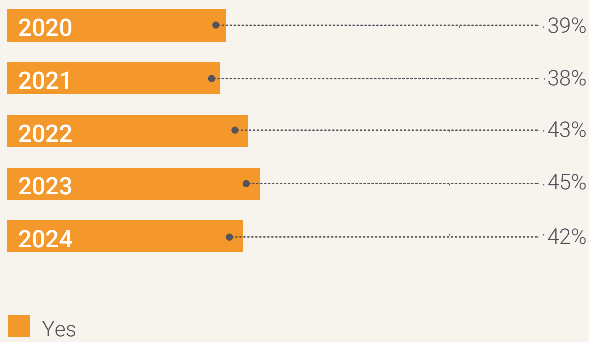
Just over two-fifths (42%) of the jurisdictions require that registered companies employ a certified accountant to prepare or sign their annual financial statements. This figure is significantly higher in South America, where an accountant is required in 70% of the jurisdictions surveyed.

Companies looking to expand into a new jurisdiction must complete the tax registration process correctly during incorporation and ensure that all documents are properly prepared. Failing to do so will affect how quickly they can reach operational readiness.

**Tax registration (VAT, CIT) ran as a separate process from the entity incorporation**




**Annual financial statements prepared / signed by a certified accountant**



# Drivers of change

## What drives A&T complexity

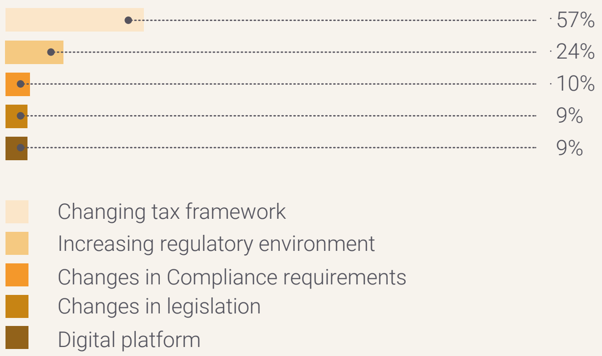
Complexity in accounting and tax is increasing due to technological advancements, local requirements and changing government priorities. There are three key drivers behind this increased complexity.

1. **Digitalisation of processes:** the digitalisation of A&T processes should improve efficiency in the long run, but in the short-term, it requires businesses to adapt to new ways of working, which in turn increases the administrative burden.
2. **Local requirements:** many jurisdictions have introduced local requirements on top of global reporting standards, creating additional processes for companies to manage.
3. **Changing government policy:** in some jurisdictions, updates to A&T policies are made frequently, resulting in new processes that are often implemented at short notice.

## Digitalisation in accounting and tax creates short-term complexity

1 in 10 jurisdictions identified the process of switching to digital platforms as a key driver of A&T complexity for foreign companies. Digitalisation is a rising trend across the world, with over half (53%) of the jurisdictions in this year's GBCI requiring at least some companies to issue electronic tax invoices. This shows a considerable escalation in the last five years from 38% in 2020. Within the last year alone, there has been an increase of 3% in jurisdictions where it is compulsory for all companies to issue electronic tax invoices. According to the OECD in its policy paper "Vision of Tax Administration 3.0", the digitalisation trend is here to stay.

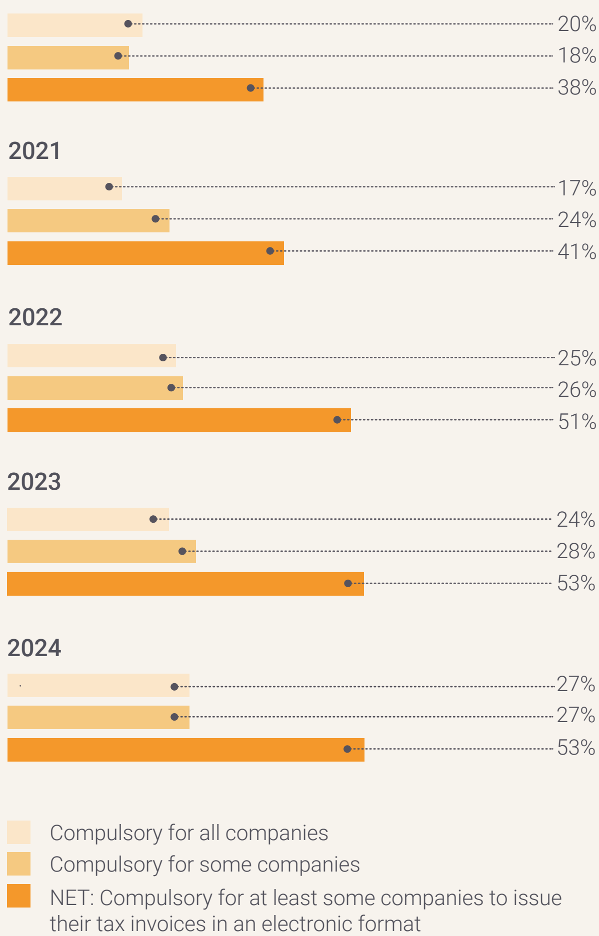
**Top five reasons, laws or trends for A&T that create complexity for foreign businesses (i.e., changes in legislation, new regulations or other trends).**



TMF Group experts view the process of digitalisation as a double-edged sword. While it is set to speed up tax registration and submission in the long term, in the short term, businesses already operating in a jurisdiction must invest time and money to adapt their systems, including a review of the technology landscape and reassessment of the operating model. They have identified the trend of digitalisation in tax as one that is also threaded through global entity management, where businesses must stay informed about system updates and the corresponding compliance requirements.

> *The French Tax Administration is working hard on process simplification and the improvement of digital services. Even though electronic billing currently represents a challenge, it will eventually simplify accounting and tax processes.*
>
> *TMF Group France expert*

**Compulsory for tax invoices to be issued in an electronic format**

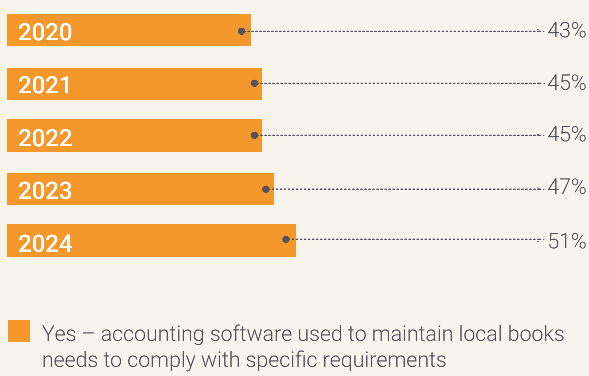



## Local digitalisation causes increased complexity

According to this year's GBCI, over half of the jurisdictions (51%) require companies to use accounting software that complies with their specific local requirements, an increase of 4% in 2023 and 8% since 2020. This makes it difficult for global investors to keep up with digital requirements across multiple jurisdictions, as the platform type and functionality can vary considerably from one jurisdiction to the next.

TMF Group experts also believe that the trend of digitalisation is still in its infancy. They anticipate an eventual shift towards real-time reporting and invoicing; more complex processes that will require in-depth updates to infrastructure to ensure accuracy and the capacity to handle reporting demands.

**Does the accounting software used to maintain local books of accounts need to comply with specific requirements (whether in terms of functionality or in terms of accounting platform) prescribed by local authorities?**



## Multinational businesses must adopt local A&T processes

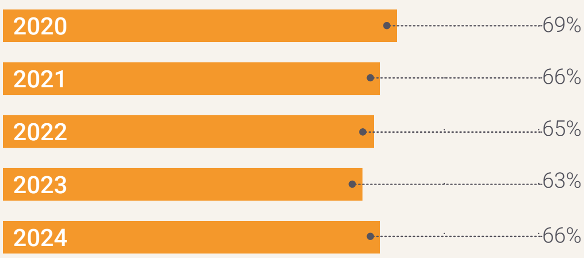
Many jurisdictions have local requirements, such as producing accounts in the local language, making tax payments from local bank accounts and having a local citizen as a representative.

Among the jurisdictions surveyed, two-thirds (66%) require that business accounts be produced in the local language. This is an increase from 63% in 2023. In 47% of the jurisdictions, businesses may not make tax payments from a foreign bank account, an increase from 44% in 2023.

*The French language is still predominant in most areas with formal administrative processes. Companies looking to invest should seek assistance from a local partner who can help with administrative tasks so they can concentrate on their core business.*

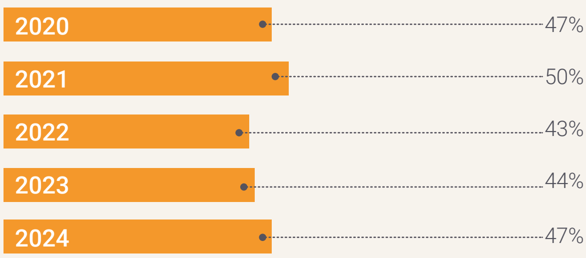
*TMF Group France expert*

**Is it compulsory to maintain the local accounts (TB and GL) in local language?**




Yes- it is compulsory to maintain the local accounts (TB and GL) in local language

**Are businesses allowed to make tax payments from a foreign bank account?**




No – businesses are not allowed to make tax payments from a foreign bank account

Nearly a third of the jurisdictions (32%) require companies to employ a tax or legal representative who is a local citizen. This percentage is the same as in 2023 and shows an 11% increase compared with 2020.

These additional local requirements create a need for local knowledge and presence before a company can be operationally ready. As these are ongoing requirements, companies must consider how to maintain them on a long-term basis, resulting in the need to plan for adequate resources.

TMF Group experts explain that practical enterprise resource planning is the best way for companies to consolidate and simplify their A&T processes.

*One challenge for businesses operating in Brazil is the complexity of the Brazilian tax system. Brazil has intricate tax regulations, including federal, state and municipal taxes, which can be challenging for companies to navigate. This complexity often requires companies to invest significant time and resources to ensure accurate tax reporting.*

*TMF Group Brazil expert*

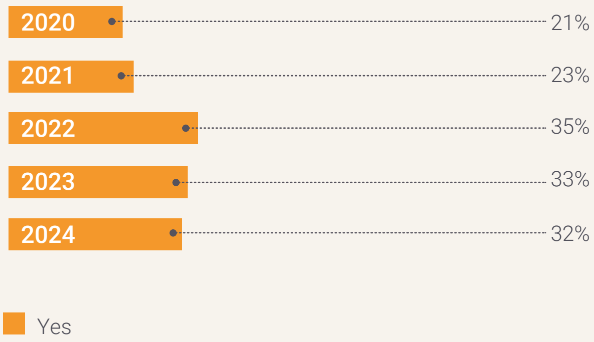
## Local reporting requirements add complexity

Many jurisdictions in this year's survey have implemented OECD BEPS regulations (81%) and require country-by-country reporting (83%). The percentage for OECD BEPS reporting remains the same as in 2023, but there is a marginal increase of 1% for country-by-country reporting.

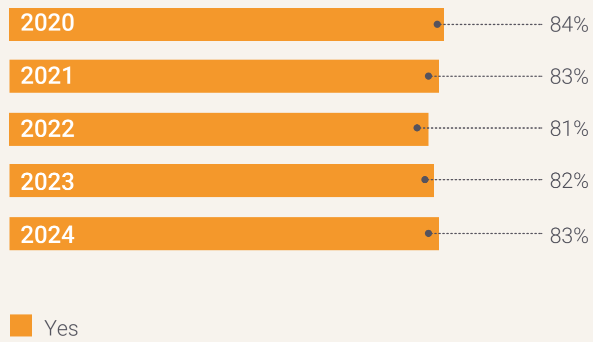
For jurisdictions in the APAC and EMEA regions, it is common to see requirements for country-specific reporting in addition to the global standard, such as OECD BEPS and SAF-T. 85% of the jurisdictions in APAC require country-by-country reporting and 86% have implemented OECD BEPS, while in EMEA it is 98% and 90% respectively. This is often a local variation to the global standard rather than completely separate reporting. While this helps prevent unnecessary duplications, it means companies must stay up to date with the local requirements in each country.

Digitalisation also complicates reporting requirements. According to TMF Group experts, reporting is an area of business that is especially affected by digitalisation, as entities operating in multiple jurisdictions must ensure their systems and reporting structures are compliant in each location.

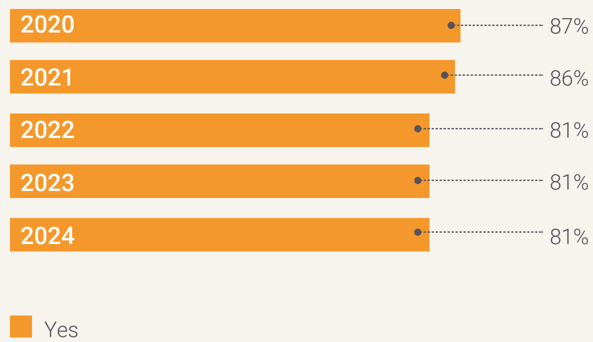
**Does the tax / legal representative of an entity need to be a local citizen?**




**Is the Country-by-Country reporting requirement implemented in this jurisdiction? - Accounting standards and tax statements 1**




**Have OECD BEPS regulations been implemented in this jurisdiction? - Accounting standards and tax statements 1**

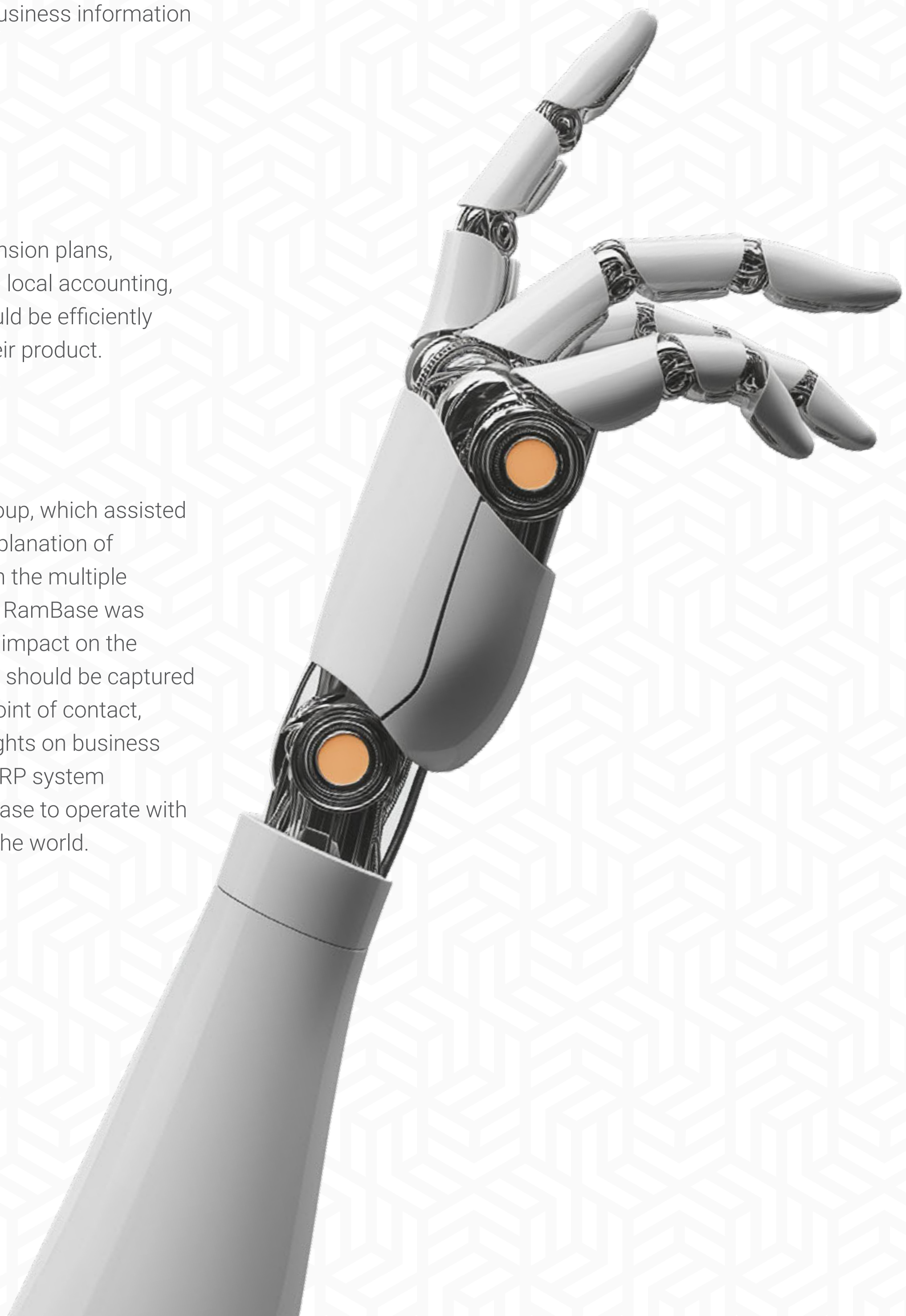


# Case Study: RamBase

## About RamBase

RamBase is one of company Hatteland's four key brands, a complete cloud-based ERP solution targeted at the manufacturing and wholesale industries. It helps businesses improve profitability, quality, traceability and documentation by integrating critical business information and best processes into one system.

RAMBASE



### The challenge

To support their international expansion plans, RamBase needed to ensure that all local accounting, tax and reporting requirements could be efficiently supported for companies using their product.

### The solution

RameBase partnered with TMF Group, which assisted them with the identification and explanation of accounting and tax requirements in the multiple jurisdictions in which they operate. RamBase was given guidance on local rules, their impact on the functionality of ERPs and how they should be captured in the systems. Through a single point of contact, TMF Group's experts provided insights on business requirements, best practices and ERP system industry standards, allowing RamBase to operate with compliance and efficiency across the world.

## Government economic goals drive complexity

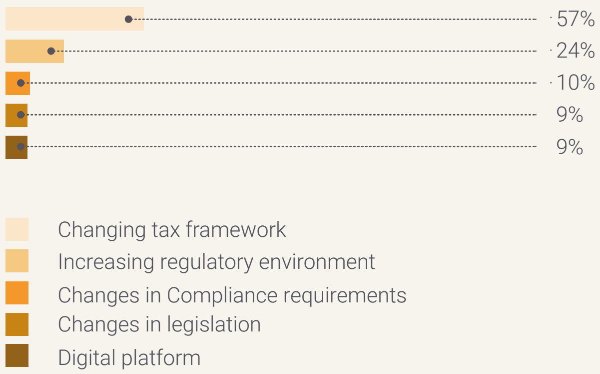
Changing tax frameworks are a source of ongoing complexity within accounting and tax. TMF Group experts explain that these unexpected reforms occur during a change of government or when an existing government wants to make a big impact, and they are often implemented without advance notice. For example, there were two significant changes to VAT during and after the COVID-19 pandemic in multiple countries when the VAT rate switched from 20% to 17% and back again to 20%. This created an administrative burden for companies that had to update budgets and prices several times in quick succession.

*Changes in tax rates and imposed tariffs on a wide range of imported goods were introduced during the Trump administration a few years back. This caused complexity for companies needing to keep up to date.*

*TMF Group USA Expert*

Tax reforms and implementation requirements place significant stress on a company's administrative resources. Businesses must act quickly to update their internal policies and remain compliant, meaning they need to invest upfront in agile and efficient processes to keep pace. Organisations frequently employ external partners to provide them with local updates so they can focus on their core business functions.  An example is Metsä Group which partnered with TMF Group to help mitigate the challenges of keeping pace with local A&T rules in various markets.

**Accounting and tax: thinking across TMF Group's service lines, please describe at least one reason, law or trend for each that currently causes operating in JURISDICTION to be complex for foreign businesses (i.e., changes in legislation, new regulation or other trends).**




*Changes in tax rates can often be introduced with immediate effect. For example, a new VAT rate could be announced Friday night and by Monday, all the new rates are applicable. Therefore, not only is it the changing rules that are difficult, but also the need to implement them quickly that makes things increasingly complex.*

*TMF Group Turkey Expert*

# Case Study: Metsä Group

## About Metsä Group

Metsä Group is a Finnish forest industry group that operates in more than 30 markets internationally.

## The challenge

Metsä Group had centralised their processes and ways of working and were looking for a partner to further streamline their operations. The partner had to be a single service provider with the flexibility to integrate with the way that Metsä Group operated around the world. They also wanted a provider with considerable local knowledge to handle their reporting needs.

*Compliance, accuracy and reliability are attributes that we value in our business partners, and we can count on all three with TMF Group.*

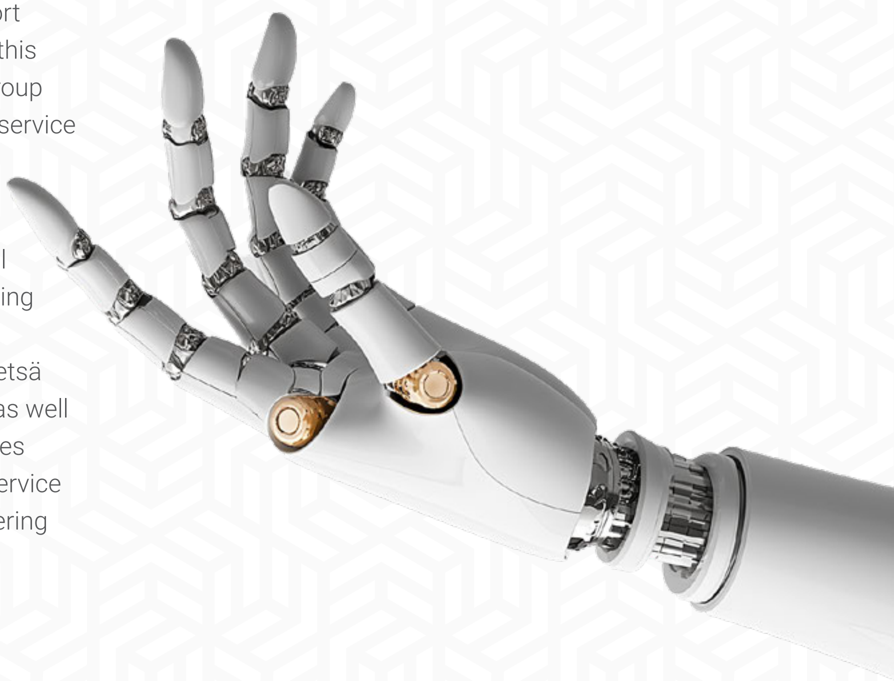
\-

*Henri Sederholm,*
SVP Group Finance,
Metsä Group

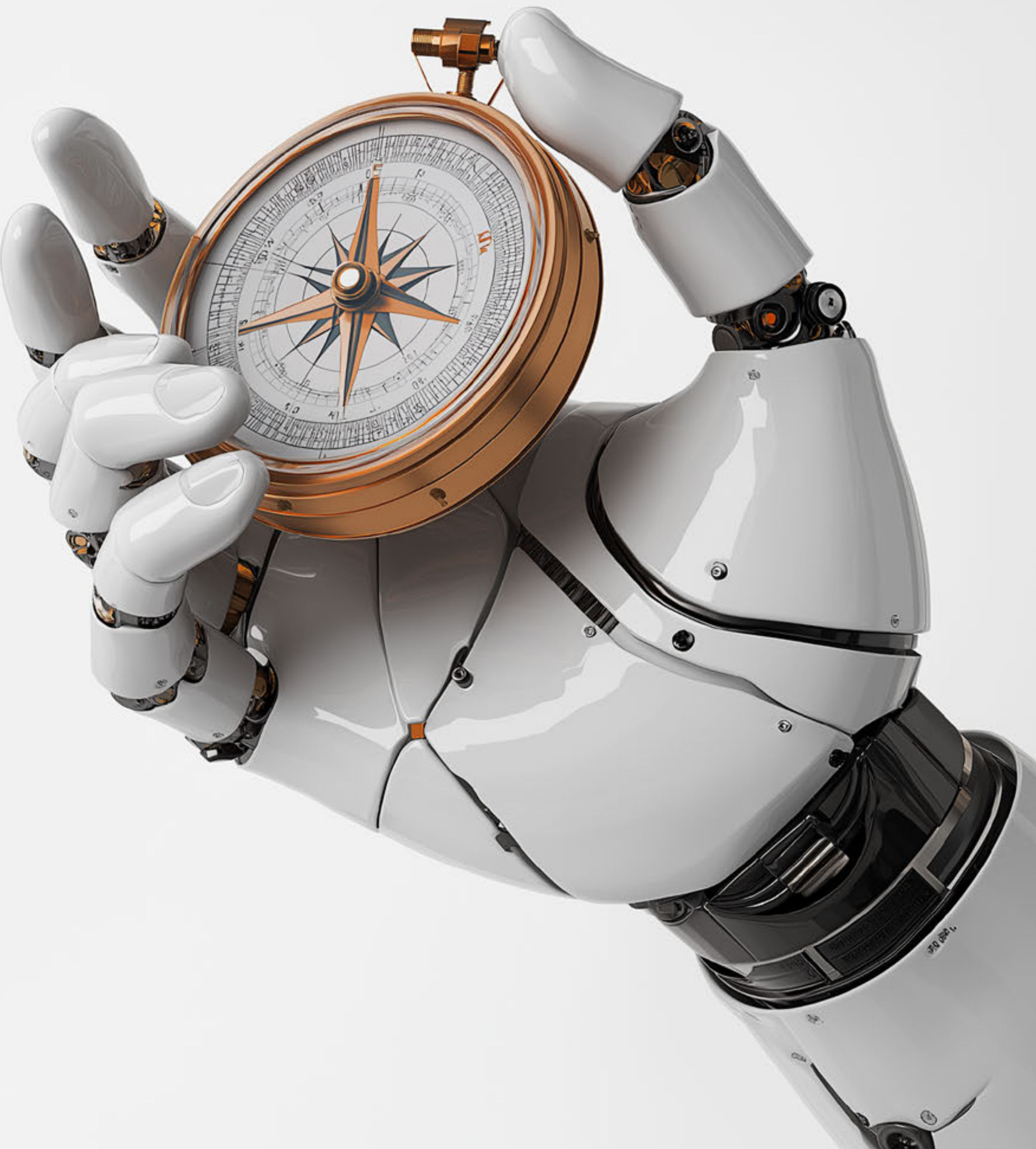
## The solution

Metsä Group had previously worked with TMF Group in the Middle East and Southern Europe and so decided to build on that relationship for wider support across all their European and Middle Eastern markets. With their existing knowledge of Metsä Group's business and requirements, TMF Group was able to support the transition into these new markets. Based on this success and TMF Group's global remit, Metsä Group can add any future new entities into the existing service support framework created by TMF Group.

As part of these services, TMF Group handles the company's VAT, tax declarations and financial statements and supports Metsä Group by providing regular updates on changes in local rules and regulations and how they affect the business. Metsä Group is planning to expand further into Europe as well as America and Asia. As they establish new offices globally, they can include them in TMF Group's service scope as well as broaden the current service offering being provided to their existing offices.



# Why compliance matters

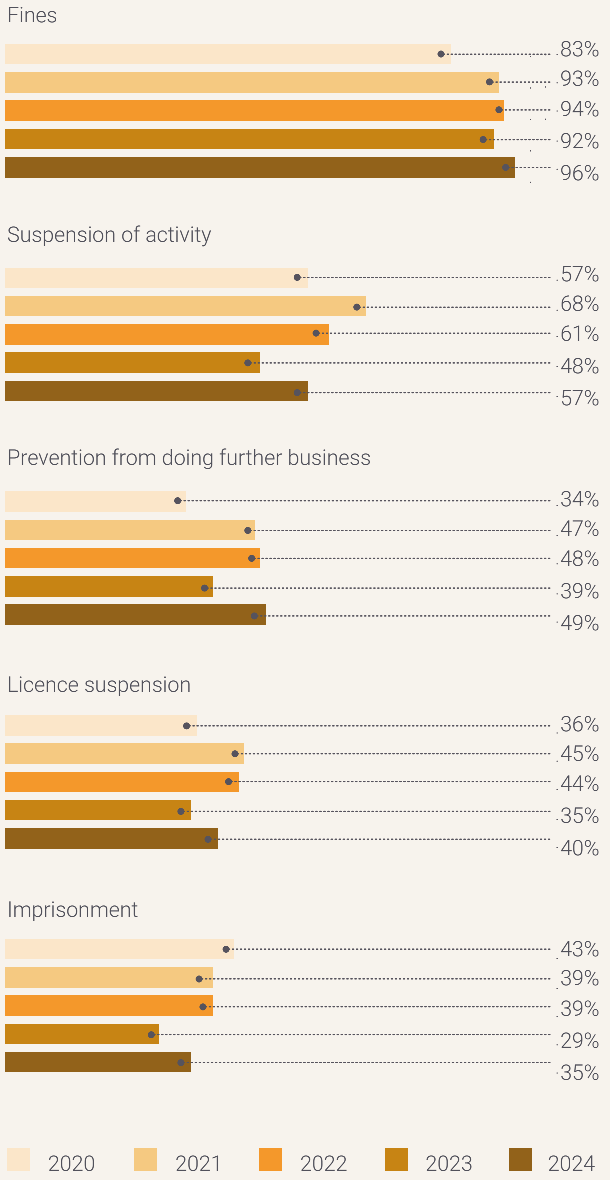


## Non-compliance can result in severe penalties

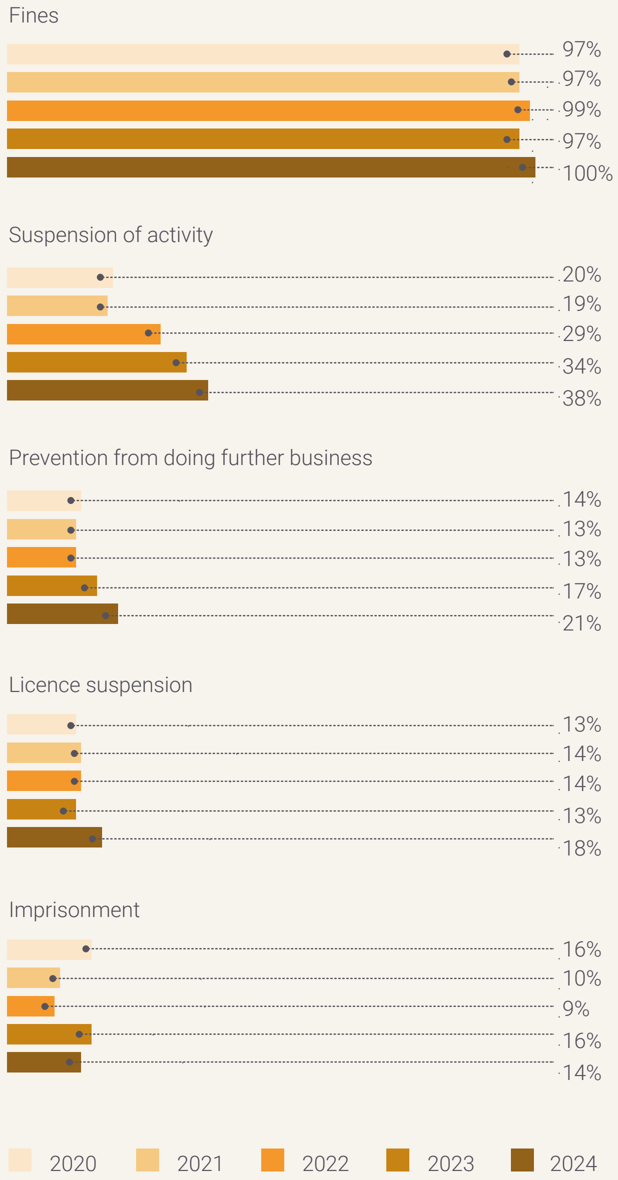
According to the 2024 GBCI report, the percentage of jurisdictions implementing penalties for doing business without registration and for missing tax filing deadlines has increased across the board. The most common penalty for both infractions is fines, with 96% of the jurisdictions issuing fines for not registering and 100% for missing tax deadlines.

Suspension of business activities and preventing a company from continuing operations are also commonly applied penalties. Over half (57%) of the jurisdictions will suspend a company for operating without registering, while 38% (up from 34% in 2023) will issue a suspension for missing tax deadlines Similarly, 49% of the jurisdictions will prevent businesses from continuing to operate if they did not register and 21% if they missed tax deadlines.

**Penalties in the case of doing business without being tax registered**




**Penalties in the case of missed deadlines for tax filings**



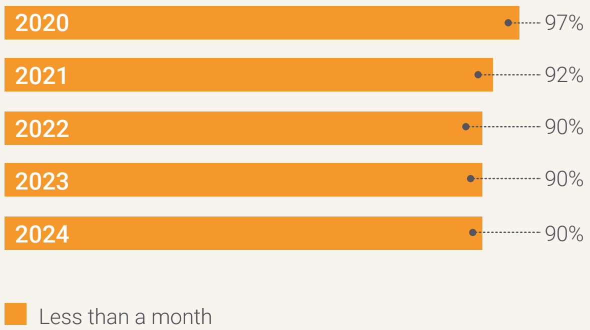
In addition to these financial and operational risks, companies that are not compliant also face reputational damage as certain tax authorities around the globe have started to make non-compliance findings public.

These are high-stakes penalties for non-compliance. It is therefore vital that investors follow the processes correctly from the beginning and continue to abide by them to avoid unnecessary costs or business closure.

## Limited notice periods for tax audits remain common

The risk of non-compliance is intensified by the fact that notice periods for tax audits continue to be less than a month in 90% of the jurisdictions surveyed. This number includes the 18% of jurisdictions that have no notice period at all. With the possibility of an audit requested at any moment, it is essential for companies to consistently keep abreast of legislative changes and ensure their processes are compliant. This is likely to necessitate ongoing investment in compliance processes and resources.

Notice period for tax audit




## Legislation updates increase administrative costs

The administrative costs associated with a changing A&T landscape are mainly driven by three key factors.

1. **Unclear instruction:** changes to accounting & tax regulations or software are often accompanied by insufficient instruction or support, requiring significant investment to understand and implement new processes during the transition period.

2. **Checks and audits:** many jurisdictions carry out more frequent checks and audits during a transitional period to ensure compliance. This can create an administrative burden for businesses that must ensure they are constantly ready for inspection.

3. **New software:** navigating new government software and portals can cause delays, confusion and interruptions to operations. Some businesses may need to invest money to bring their systems and processes up to date to align with new government software.

**Additional evidence:** new processes may require new supporting documents which can be time-consuming to collate.

*Making Tax Digital (MTD) in the UK, present since April 2022, means that companies cannot submit VAT returns by themselves unless the companies have a suitable software solution which is linked to HMRC's portal. Companies' VAT compliance costs are therefore increasing as they must ensure they have suitable software in place or engage an agent to prepare the VAT return and submit it on their behalf.*

*TMF Group UK Expert*

# Developing proactive strategies

## Staying up to date with evolving regulations

To reduce the tax and administrative burdens, businesses are investing in ways to stay informed about evolving regulations.

TMF Group experts say that finding efficiencies through technology will save time and money, particularly as tax is all too often playing catch-up with other finance and accounting functions.

These are some of the methods that companies are employing.

1. Using local experts

Companies are increasingly looking to local experts to help them stay on top of changing legislation, often by outsourcing key processes. This helps to ensure that the intricacies of the required systems, relevant processes and legislation are fully understood, and it can be particularly advantageous in identifying new local tax benefits.

> *The regularity of changes to tax codes and thresholds, minimum wage, employer annual returns and various other submissions can create complexity. The challenge is to maintain current knowledge to ensure that the data provided to HMRC and employees is accurate. These changes all have auto-enrolment provision and administrative burdens associated with them.*
>
> *TMF Group UK Expert*

2. Designating a project lead

A project lead will not only create a project plan and monitor activities for local compliance, but they can also connect accounting and tax functions with other stakeholders, including IT and compliance service providers. A&T is therefore prioritised during the set-up phase, reducing the risk of non-compliance later on.

3. Harnessing official support

In some jurisdictions, tax authorities are showing an increased willingness to offer their guidance and support to navigate regulatory changes. In China, for example, there is a campaign targeted at companies needing to update their processes and offering support and advice. Local experts can also be beneficial here as they will know which official channels are approachable.

# Conclusion

The sheer number and scale of changes in accounting and tax legislation are the key drivers of complexity for businesses looking to set up or expand into new global markets. From registration and reporting to the tax rates and thresholds themselves, the volatility of tax frameworks presents an enormous challenge in the majority of jurisdictions around the world.

Flux in legislation is further complicated by a considerable push towards digitalisation within the accounting and tax sphere. Adapting to new digital infrastructures is difficult, compounded by the common lack of clear instruction and support. While this is challenging in the short term, it is expected that A&T will be simplified in the long term as businesses grow accustomed to the systems and processes are refined.

The penalties for non-compliance are becoming increasingly severe and auditing requirements do not favour companies that are lax in keeping on top of changing legislation. However, while hardline compliance requirements are on the rise, so too is a partnership approach, where local authorities are working with businesses to correctly apply tax regulations. From a cost perspective, it is cheaper to help taxpayers comply than to check filings and identify errors later. This is aligned with the global objective of most jurisdictions to attract international investment by creating more business-friendly environments.

In summary, while accounting and tax is set to become more complex in the next five years, there are processes in place that should help to ease this complexity in the long run. The digitalisation of accounting and tax systems and processes poses some challenges during the transitional phase but will ultimately diminish the need for a local presence in certain markets. As companies learn to navigate the complexities of their local A&T environments, global processes should continue to adapt in ways that allow them to grow.

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We offer a variety of statutory accounting and tax compliance services, including local statutory and tax services, global statutory and tax services and insurance premium tax services.

We help you navigate the complexities of multi-jurisdictional A&T environments by providing support at both local and global levels.

We can support you in the following areas:

- Transactional accountancy services
- Statutory accounting and tax support
- Accounting and tax consultancy services
- Insurance premium tax (IPT)

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# We make a **complex** world **simple**

TMF Group is a leading provider of critical administrative services, helping clients invest and operate safely around the world.

With over 11,000 colleagues in more than 125 offices across 87 jurisdictions, all working to the same high standards of service and security, we provide our clients with local expertise where it is needed most. Our locations cover 92% of world GDP and 95% of FDI inflow.

We are a key part of our clients' governance, providing the accounting, tax, payroll, fund administration and legal entity management services essential to their success. We make sure rules are followed, reputations protected and operational compliance maintained.

Our global service model and technology platform put our clients in control of their portfolio of entities and global locations. The data insights we deliver keep them on top of emerging regulation, the status of their own activity and any points of risk.

We serve corporates, financial institutions, asset managers, private equity and real estate investors, and family offices. Our clients include the majority of the Fortune Global 500, FTSE 100 and top 300 private equity firms.

TMF Group is a trusted and reliable partner, in strong financial health and focused on providing flawless service to our clients.

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