



Income Tax Classifier

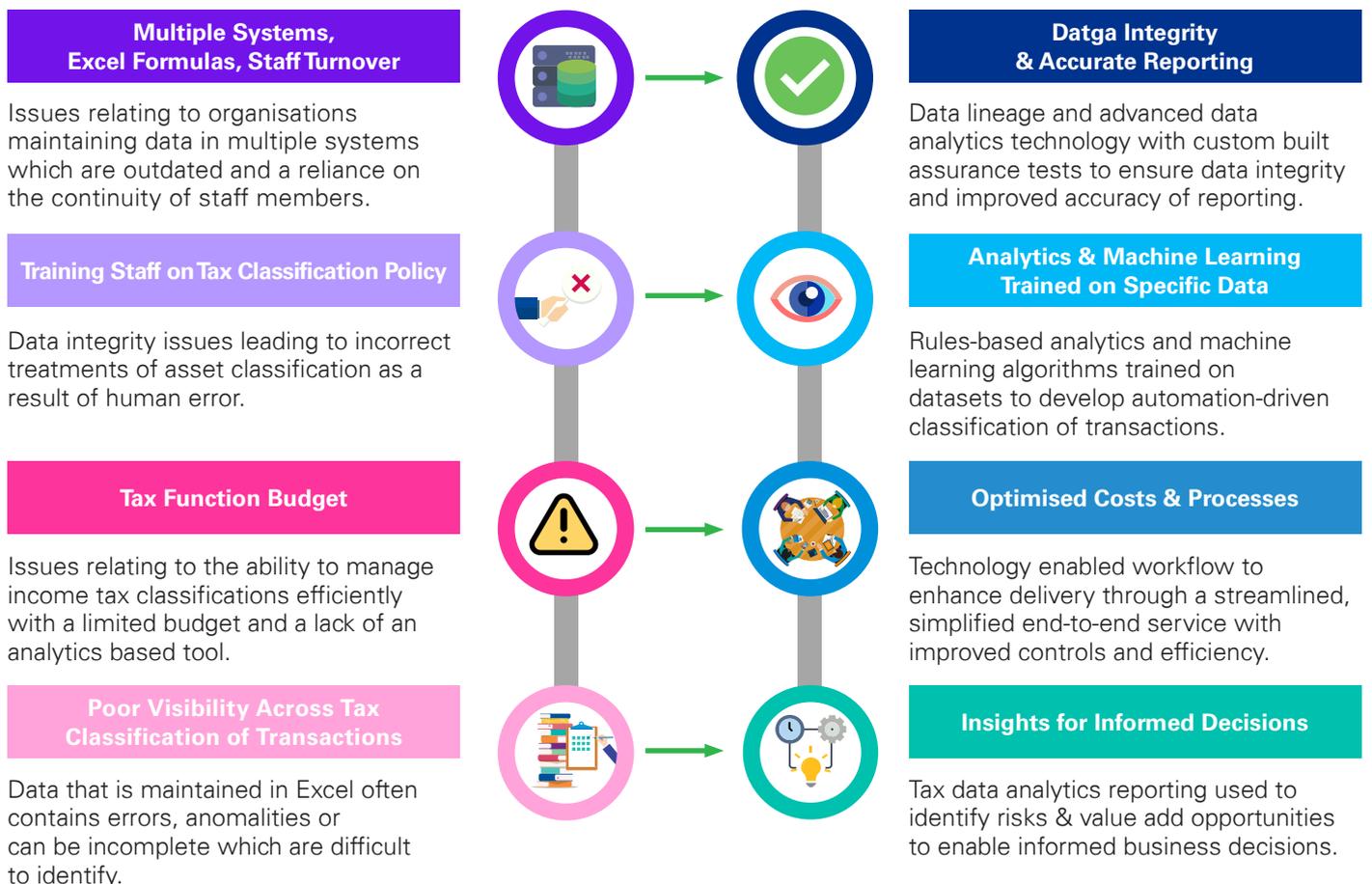
Data Analytics and Machine Learning
– A new way to review income tax
classifications of transactions

Traditionally, many organisations devote valuable resources to manually reviewing transactional data, which forms the basis of their tax compliance workpapers. Tax personnel use varying methods to perform such reviews and typically, this line-by-line analysis involves the use of heavily customised and complex Excel documents, random sampling, and application of high materiality thresholds. Given the volume of work required to prepare and validate tax returns, the ability to review and gain comfort over the veracity and integrity of the underlying transaction data is often limited by time and resource capacity constraints. Today, tax functions are increasingly seeking ways to automate their recurring tax return review processes and free up valuable resources to focus on business strategy and key value-adding tasks.

KPMG Income Tax Classifier combines data analytics, machine learning and automation capabilities with tax technical expertise to automate the income tax classifications of your corporate transactions.

KPMG Income Tax Classifier automates the manual task of line-by-line reviews of General Ledger (“GL”) transactions, purchase orders and invoice text and can support the classification of transaction items into Capital vs Non-Capital, Deductible vs Non-Deductible, Assessable vs Non-Assessable, Incurred vs Not Incurred, Derived vs Not Derived, as well as other classifications such as Fringe Benefits Tax (FBT). This enables your tax team to accurately and efficiently create tax-sensitised GL accounts to map into the tax calculations.

Meeting the challenges in reviewing transactions for tax purposes



Further considerations:

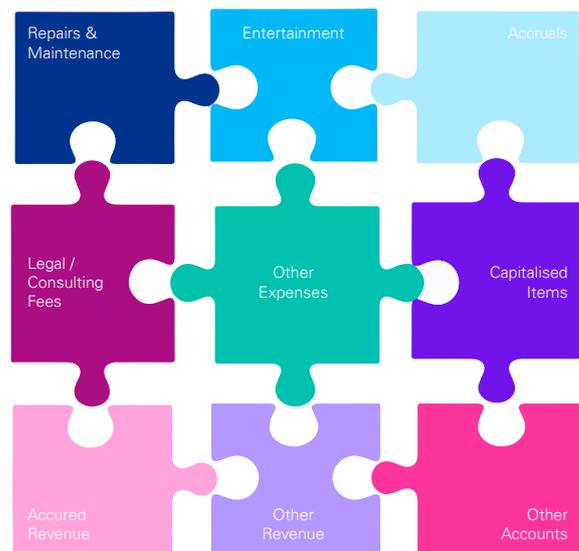
- The Australian Tax Office (ATO) are increasingly reviewing companies under the Justified Trust initiative, applying data analytical approaches in their review. Given that the responsibility for income tax classifications and tax return disclosures resides with the tax function, it is critical that such functions have confidence in the integrity of the underlying transactional data. With KPMG Income Tax Classifier supports tax functions gain confidence in their data and their tax return disclosures.
- KPMG Income Tax Classifier's rules-based analytics and machine learning algorithms can be customised and trained on each businesses unique data, improving over time for automated income tax classifications of transactions to support tax sensitised accounts. Additional testing can be included over time to meet newly identified risks or changing Tax Authority expectations.
- KPMG Income Tax Classifier is a scalable solution that can grow as transactional volume grows. It can also incorporate additional data sets from different sub system.

How It Works: a module approach to Tax Classification problems

Income Tax Classifier is applied to analyse transactions in GL accounts and sub systems such as:

- Repair & Maintenance
- Entertainment
- Legal / Consulting Fees
- Accrued Expenses
- Accrued Revenue
- Capitalised Items
- Prepayments
- Other accounts which require tax classifications at the transaction level.

Granular level transactional data and other source data can be combined as part of Income Tax Classifier.



1 KPMG's data specialists work with your team to extract data from business systems.



2 KPMG's data specialists cleanse, reconcile and load the data using KPMG's proprietary data analytics and machine learning tools.



3 Produce data visualisation report and income tax classification output for validation in order to allocate exceptions to tax-sensitised GL accounts for mapping into the tax calculation.

