Bloomberg BNA

HOW CONFIDENT ARE YOU IN YOUR CORPORATE TAX STRATEGY?

It May Be Time to Transform the Tax Department

White Paper

Contributors

DAVID LANDERS
Partner, Tax Management Consulting, Deloitte Tax

ANDREW O'BRIEN
Tax Managing Director, KPMG

DEAN SONDEREGGER
Executive Director Product Management, Software Segment, Bloomberg BNA

JAY TURCHIN
Tax Technology Practice Leader for the Northeast, Grant Thornton

Introduction

What keeps corporate tax department executives up at night? How about the risk of signing off on an incorrect tax return? Or worse yet, what about a career-threatening, tax-related restatement? As corporate tax complexity increases, so does the risk of mistakes, penalties, and missed opportunities. For instance, 14 percent of U.S. firms reported material weakness or significant deficiency from financial statement auditors with respect to tax, according to a survey conducted by the Tax Executives Institute.[1]

The operational effectiveness of the tax department is now more critical than ever and today's tax department leaders are looking for ways to minimize risk and provide high-value strategic planning and insight. In fact, Jeff LeSage from KPMG states that with as much as 40 cents of every dollar at stake, better tax management is a competitive necessity for CFOs and tax departments.[2]

However, many tax departments are still working with non-integrated, outdated, or manual tools and processes that put the company at risk, delay getting valuable insight to company executives, and take far too much time and effort to use. One of the top reasons for both material weakness and significant deficiency are data control issues and outdated/underperforming software. Clearly, moving to modern tax automation software should be a major topic in most corporate tax departments.

This white paper discusses the changing landscape of the tax department, the problems with current tax management efforts, and how companies can leverage tax automation software to reduce risk and optimize their tax strategy.

In PwC's 2103 Global CEO Survey, 62 percent of CEOs indicated that they are worried about the tax burden and consider tax the top business threat to growth.[3]

New Pressures On The Tax Department

Every aspect of the corporate tax lifecycle – planning, provision, compliance, and reporting – has been impacted by the growing pressures on today's tax department. Constantly changing regulatory requirements, complex global business models, increased scrutiny and reporting, rapid-fire responses to business questions and planning cycles, and finally, mandates to run the finance department as cost effectively as possible – these are the competing challenges the tax department faces every day.

These pressures are changing the way that tax leaders are thinking about their department's responsibilities and objectives. How can the tax department help the company think and act strategically about the implications of tax while balancing the demands of compliance, accuracy, and efficiency?

To start, the tax department needs the right technology to become more actively involved in high-value planning such as profitability improvement strategies. For instance, tax professionals need the ability to efficiently manipulate vast amounts of data and perform sophisticated analyses with short turnaround times.

1 "2011-2012 Corporate Tax Department Survey," Tax Executives Institute.

2 "KPMG Highlights 12 Key Business Tax Issues for 2014," Jeff LeSage, KPMG, December 11, 2013.

3 "16th Annual Global CEO Survey: A focus on tax," PwC, 2013.

Given today's expectations and challenges, the only way tax leaders and CFOs can feel confident they are helping the company fully capitalize on opportunities for tax optimization is to eliminate the data management, accuracy, and resource challenges within the tax department.

> "The tax department must operate at a higher level of accuracy than the past, with faster reporting times, and with more detailed information for management."
>
> *– Andrew O'Brien, Tax Managing Director, KPMG*

Outdated Tools Increase Risk And Slow Access To Insight

While the corporate tax landscape has changed, many companies are still using the same methods and tools they've used for decades. In the Tax Executives Institute survey, 55 percent of respondents reported their tax department used spreadsheets for tax provision.[4] Companies that rely on spreadsheets and other ad hoc, manual methods face increased risk, a large potential for error, and ever-increasing efforts to use and maintain these systems.

With spreadsheet-based solutions, mistakes become codified and repeated year after year. These mistakes can be hard to uncover; processes become convoluted and difficult to replicate or disentangle. This creates particular problems for audits. The result is that CFOs and their tax departments don't fully know what their tax number is comprised of and what their liabilities are – both current and deferred – because they are relying upon spreadsheet-based approaches to tax.

Other companies may attempt to use their enterprise resource planning (ERP) system for tax. However, ERPs have not traditionally been designed for this purpose; hence deploying them on a standalone basis for all tax needs is not particularly efficient or cost-effective. Furthermore, some major vendors don't offer fixed asset tax depreciation within their ERP products.

According to Jay Turchin, tax technology practice leader for the Northeast at Grant Thornton, "One of the triggers for the acquisition of new tax technology is a new ERP system. This event gives tax the ability to have a seat at the table and identify a third-party solution, simply because the data is not available on the ERP. Tax has to find another way to shrink those onerous tax data collection schedules and minimize risk."

Without the technology the tax department needs to be able to quickly manipulate data, conduct analysis, and perform compliance-related tasks, the company faces higher than necessary risk and potential costs, including:

- Overpayment of estimated taxes
- Underpayment of estimated taxes and risk of penalty
- Having to borrow money to make quarterly payments
- Mistakes leading to restating income
- Delayed information for strategic business decisions and planning

4 Tax Executives Institute, op. cit.

What Today's Tax Departments Need

Given the critical importance of tax, the good news is that advances in tax software now allow companies to surmount today's tax-related challenges. Tax technology can collect data at the most granular level and provide corporate executives with results they can use with confidence as well as the insights they need to make better decisions.

Automation gives tax departments greater visibility, improves their planning prowess, and increases their overall value to the corporation. And critically, tax automation can mitigate the job-ending risk of financial restatements. With the right tools and automation, tax departments can deliver:

- A higher level of accuracy in tax planning, compliance, and reporting
- Faster insight and more granular information for strategic business decisions
- Sophisticated analyses, calculations, and modeling to support planning
- Up-to-date, automated tax compliance validation

One critical capability of tax technology today is the ability to automate data transfer between different systems of record for the company. "You can take the leading fixed asset software, the ERP system, and the leading tax provision/compliance products, to create processes with new capabilities and efficiencies," says Andrew O'Brien, tax managing director at KPMG.

"Tax technology offers corporations the ability to collect and analyze large amounts of data, and by automating that process, enables smarter work."

– Dean Sonderegger, Executive Director Product Management, Software Segment, Bloomberg BNA

Justifying New Tax Technology

Traditional cost-benefit analysis for installation of automated tax systems usually revolves around labor hours saved, with CFOs and treasurers assessing how much labor could be reduced by using an automated system. For tax technology, however, a narrow cost-benefit analysis focused on wage and consulting savings is unlikely to result in a strong business case for automation.

That's why industry consultants and experts recommend focusing on the broader tax compliance accuracy and reporting benefits as well as the advantages of better informed, more timely strategic planning input. Tax automation software can reduce exposure to audit risk, eliminate overpayments, free up cash flow, and reduce the risk of penalties. When you consider the sheer size of estimated tax payments for a large company, being off by only a few percentage points can mean significant underpayment or overpayment. Freeing up this cash can easily dwarf the cost of implementing an automated tax system that would have prevented the overpayments.

The larger challenge is that CFOs and other stakeholders may not fully value their tax department beyond its ability to fulfill government regulations, file returns, and meet other compliance-related obligations. These are all very time-consuming activities. The rest of the organization may not be entirely aware of the tax department's potential for forward-planning analysis or the ability of the department to provide major cost savings through more precise and accurate tax information.

Tax departments therefore need to demonstrate their value-add, either in terms of minimizing the cash tax number or being able to provide additional planning analysis around tax, or both. These value-added activities can be most easily accomplished via tax technology. Automation frees up tax professionals' time for deeper analysis, review, and planning. At the same time, it provides for more accurate information.

"The functionality available in today's tax software is becoming more like the tools available to finance departments."

– David Landers, Partner, Tax Management Consulting, Deloitte Tax

A Roadmap To Improving Tax Management

Automation of tax processes requires a stepwise approach, especially when moving from a primarily spreadsheet/manual set of processes to an integrated and automated approach. One hurdle is that the process will involve acknowledging the weaknesses of current approaches, and may even uncover errors. But for all stakeholders interested in better outcomes, including cost savings, it is a process well worth undertaking.

Industry experts recommend the following approach:

- **Test existing calculations:** Says KPMG's Andrew O'Brien, "It is difficult for a company to justify implementing a system without having quantified its current exposure, pain points, and benefits. One approach is to test existing, significant computations; for example, you could test high-dollar amounts, high-technical risk calculations, low quality data, or embedded estimates. This analysis may reveal issues and opportunities inherent in the current process. Unfortunately, this is sometimes a painful exercise but is a necessary step towards building a business case for change."
- **Build a tax technology roadmap:** This exercise maps out the current state of your company's tax technology, the opportunities as well as costs in making a change, and the steps involved. Typically change occurs in discrete phases. For example, Phase 1 might consist of an assessment; Phase 2 is design and implementation; Phase 3 is maintenance once the project is done, and includes the scope for more advanced planning and analysis, as well as measurement of tax savings.
- **Educate, educate, educate:** Tax executives should educate their staff about why they need to make a case to the rest of the company for automation, as well as how they can best articulate this need. Education can also mean performing a risk-rewards analysis for the CFO. Remember that the rest of the organization is often unaware of the value-add that the tax department can bring and the potential positive impact on the bottom line Educate the company on the value of an efficient, automated approach to tax management.

"By automating tax you are changing the ongoing behavior of the entire organization. You can plan for mergers and acquisitions, divestiture of assets, and the tax impact on continuing business operations. In another words, planning ahead rather than reacting will be the norm."

– Dean Sonderegger, Executive Director Product Management, Software Segment, Bloomberg BNA

Conclusion

Poor tax systems and processes often trap the tax department in the high-effort cycle of manual data management, compliance, and reporting, with little time or opportunity to deliver real business value to the organization. It's time to break the cycle and give the department the tools it needs to become more involved in strategic decision making and planning.

New tax automation software can transform the role of the tax department into a highly valued function within the company. With the right tools, the tax department, CFO, and the entire organization can work together more collaboratively, while dramatically improving the tax department's ability to more accurately manage and optimize the company's tax position.

About BNA Fixed Assets

With **BNA Fixed Assets**™ from Bloomberg BNA, it's easy and cost effective to manage the complete fixed assets lifecycle, from construction and purchase through retirement. BNA Fixed Assets eliminates the discrepancies, manual effort, and lack of control that commonly occur when fixed assets management is handled through nonintegrated accounting and tax systems or spreadsheets.

BNA Fixed Assets enables tax and accounting professionals to gain a solid foundation for all fixed assets and depreciation management. Processes are automated, compliance with frequently changing GAAP and tax regulations such as tangible property is automatically enforced, management is streamlined, and comprehensive reporting delivers the insight you need to make informed management decisions.

Seamless integration with general ledger, enterprise resource planning, and tax compliance systems removes the need for manual data entry and manipulation to keep your fixed assets data synchronized, up to date, and accurate for all companies and entities.

About Bloomberg BNA's Software Products

Bloomberg BNA offers expert software products for tax and accounting professionals. With category-leading software and top-rated technical support, we are the solution of choice for professional firms and corporations of every size. More than 70,000 customers, including the IRS, depend upon Bloomberg BNA's software products for the highest degree of tax, regulatory, and compliance expertise available in the market.

About Bloomberg BNA

Bloomberg BNA, a wholly owned subsidiary of Bloomberg, is a leading source of legal, regulatory, and business information for professionals. Its network of more than 2,500 reporters, correspondents, and leading practitioners delivers expert analysis, news, practice tools, and guidance – the information that matters most to professionals. Bloomberg BNA's authoritative coverage spans the full range of legal practice areas, including tax & accounting, labor & employment, intellectual property, banking & securities, employee benefits, health care, privacy & data security, human resources, and environment, health & safety.

For more information call 800.424.2938 (select option 3) or visit www.bnasoftware.com.

1801 South Bell Street, Arlington, VA, 22202

FA002-WH1-2014
0314rc