

Driving value through tax reporting

Redesign, redefine and redeploy tax to be a strategic business asset



Introduction

Why the Tax function must anticipate, embrace, and leverage change has been the focus of our Tax Function of the Future thought leadership series. Previous publications presented our predictions and insights regarding new legislative and regulatory challenges facing Tax functions, the resulting implications for risk management, the need to shift resources from information gathering to data analytics, and the importance of Tax playing an integral role in broader Finance transformation efforts.

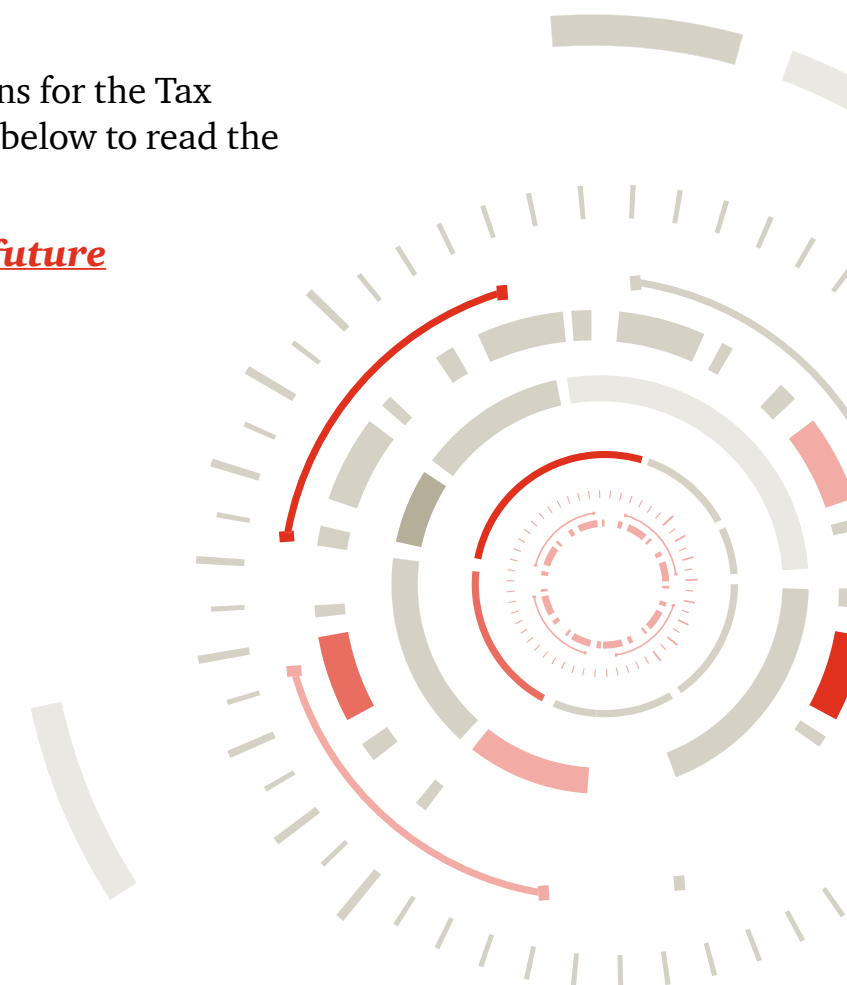
We now turn our attention to enhancing the financial statement tax provision and tax return compliance processes (collectively, 'tax reporting' processes). We discuss why these core processes must improve, the benefits of these improvements, and recommendations for how to develop and execute a comprehensive strategy for enhancing tax reporting processes.

The global predictions we present in this series cover six main topic areas:

1. [Global legislative and regulatory landscape](#)
2. [Tax function's role in risk management and governance](#)
3. [Data flow into the tax function](#)
4. [Technology automation for tax function analytical tasks](#)
5. [Tax function roles and processes](#)
6. [The tax professional of the future.](#)

For more information on our predictions for the Tax Function of the Future, follow the link below to read the previous publications in our series.

www.pwc.com/taxfunctionofthefuture



Executive summary

Tax reporting has always been a core competency within the Tax function. Previous efforts to enhance tax reporting processes by moving beyond spreadsheets and isolated solutions have resulted in noticeable improvements. But the current environment requires further action to bolster the efficiency and functionality of these processes to increase value and improve readiness.

Why is now the time to act?

Multinational organisations are encountering unprecedented challenges in the global tax environment. Implementation of the Organisation for Economic Co-operation and Development's (OECD's) base erosion and profit shifting (BEPS) project, in particular its country-by-country (CbC) reporting initiative, is driving the demands for increased transparency and expanded cross-border information reporting. Global taxpayers face more burdensome worldwide tax compliance requirements, more sophisticated tax enforcement measures, as well as a rise in aggressive tax audits.

Tax functions are also challenged to produce accurate reporting in more compressed timeframes, while confronting rising pressure to add value to the overall organisation by assisting strategic decision making. Increased global tax compliance requirements combined with outdated, inefficient, manual processes consume valuable resources and increase risk.

Can you imagine a Tax function like this?

Automated and integrated tax provision and compliance processes, as well as data source systems, have replaced spreadsheets to generate real-time, tax-ready information with greater efficiency. Optimised resources drastically reduce the time needed to complete tax reporting processes. Tax professionals spend a majority of their time reviewing system-generated analytics and addressing business priorities rather than performing inefficient tax reporting tasks. Enhanced analytics provide Tax executives with strategic intelligence to share with their CFOs.

Tax and Finance functions that look beyond their daily tasks to re-imagine a strategic vision for tax reporting processes can better serve themselves and the business as a whole.

The bottom line?

Tax reporting processes must incorporate increased automation, better integrated data and processes, more analytic capabilities, technology-savvy tax professionals, and solid internal controls. These improvements will enable the Tax function to deliver better quality output in less time, creating capacity to contribute more strategically to organisational decision-making.

Let's dig deeper: What challenges are driving the need for change in tax reporting processes?

Operational obstacles are mounting while cycle times are decreasing

Generating a tax provision for financial statement reporting purposes is challenging given the interplay of complex accounting rules with technical tax calculations, the vast amount of data needed to produce the results, and tight deadlines. Pressure to close the books in shorter timeframes requires Tax functions to produce accurate tax provisions more quickly. The tax provision calculation comes at the end of the financial statement close cycle, leaving Tax functions with little time, sometimes less than 24 hours, to provide final numbers... and to do it again when pre-tax book income changes. The Finance function may not appreciate the complexity of the calculation and may point to the Tax function's outdated and inefficient processes as the reason that it may take considerable time for Tax to complete this process.

Tax functions must also coordinate with business units around the world to gather the information needed to satisfy global consolidated tax reporting requirements. The necessary data comes from multiple sources across many geographies e.g. home and foreign Finance personnel, various systems, and business units. The information is needed in a tax-ready format and on a legal-entity basis, but often is received in less useful forms, with inadequate levels of detail.

Tax functions spend significant time manually collecting, reviewing, reconciling, and organising this data, but these operations do not enhance data quality. This gathering process often relies on the emailing of 'tax packages' for requesting and receiving the required information. Business unit personnel responding to these requests may not have a tax background, often have other significant responsibilities in the close process, and may not fully appreciate the purpose behind certain requests due to limited direction or training by the home office.

This inefficient process results in business unit personnel struggling to produce the specific information initially requested and communicating 'back and forth' with the home office to gather and provide the proper information. The home office, lacking understanding of and visibility into the foreign tax provision process, must overcome these hurdles to produce a timely consolidated tax provision.

Manual processes, a proliferation of spreadsheets, and time-consuming 'bridging' of information to various locations place tremendous pressure on Tax function resources involved in tax provision calculations.

Let's dig deeper: What challenges are driving the need for change in tax reporting processes?

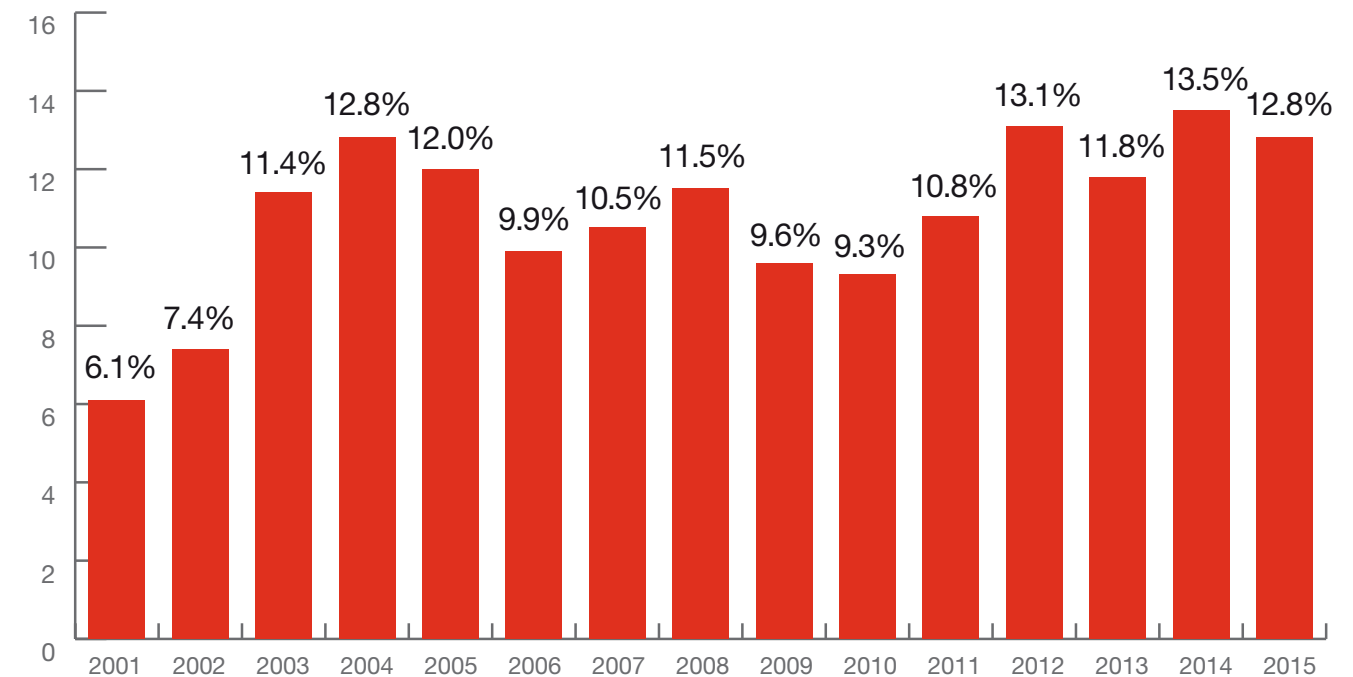
Risk of financial statement errors continues to confound Tax functions

The C-suite, Board of Directors, shareholders, lenders, regulators, industry, and even competitors scrutinise companies' effective tax rates, putting pressure on the Tax function to 'get it right' when it comes to the tax provision process. An incorrect assumption, bad data, or a spreadsheet formula error in a Tax function's provision calculation can result in material weaknesses in internal controls, sometimes causing restatements in the financial statements.

This graphic demonstrates that tax-related financial statement errors continue on a fairly consistent basis in the United States (even in a post-Sarbanes-Oxley environment). No measurable improvement has occurred over the last decade, and it appears that current tax provision processes are not evolving to improve these statistics. As shown in the chart, the highest percentages of restatements relating

Restatement issue analysis

Tax/Expense/Benefit/Deferral as % of all restatements



Source: Audit Analytics

to errors or irregularities in approach, understanding, or calculation associated with various forms of tax obligations or benefits occurred in 2012 (13.1%)

and 2014 (13.5%). The next highest percentage of restatements related to tax obligations or benefits occurred in 2004 and 2015 (12.8%).

Let's dig deeper: What challenges are driving the need for change in tax reporting processes?

Divergent global tax laws and regulations add complexity

Expanded transparency and reporting requirements are expected to result in increased global controversy. Tax reporting personnel need to be aware of the status of unresolved audit issues for accrual and disclosure purposes, while personnel supporting the audit and interacting with tax administrators will require ready access to the data used to produce the tax returns.

Home office Tax functions may not have a clear view, on a jurisdictional basis, of what is needed by foreign affiliates or other entities in terms of local country tax rules and documentation requirements. Many local countries require foreign offices to translate their headquarter's Generally Accepted Accounting Principles (HQ GAAP), typically US GAAP or International Financial Reporting Standards (IFRS), into local country statutory financial statements. These statutory financials



generally are prepared at the legal entity level and form the basis for local country income tax returns, while HQ GAAP may be maintained at a country or business segment level. These differences make identifying and accounting for risks on a timely basis extremely difficult.



Actively monitoring the connections between group accounting, local country statutory accounting, and tax reporting requirements can help organisations avoid unnecessary foreign audit adjustments, assessments, and penalties.

Tip

Reconciling home office and local country statutory accounting will become easier as countries continue to adopt IFRS, but its adoption around the world is taking longer than expected. Data management solutions are available to automate this reconciliation process until then.

Let's dig deeper: What challenges are driving the need for change in tax reporting processes?

Another complication involving foreign entities and the multiple bases of accounting on which they must report, is the inclusion of top-side adjustments in consolidated financial statements, such as purchase accounting relating to foreign acquisitions. Confusion, over whether the home or foreign office is responsible for tracking such adjustments and for maintaining the necessary documentation, may result in relevant adjustments not being reflected properly. HQ GAAP amounts included in consolidated tax provisions may be calculated using offline spreadsheets, requiring significant time and effort to reconcile local statutory books to HQ GAAP financial statements.

Unclear roles and responsibilities, few formal control mechanisms, and communication gaps between the home and foreign offices can result in a risky lack of coordination, preventable errors, and unnecessary barriers to properly completing tax reporting tasks.



Local country statutory financial statements and corresponding tax filings are increasingly subject to greater scrutiny, as governments, tax authorities, and the public focus on multinationals paying their 'fair share' of tax. Countries seeking more transparency at the local level are requiring separate books and records to be maintained in the local currency and separate accountings to be filed with government agencies. Some jurisdictions (e.g. Brazil and Spain) are requiring real-

time transactional level reporting, as well as the electronic submission of source data in an agreed format to the tax authorities. Some jurisdictions recently began imposing restrictions on where data can be originated and stored. Organisations need to recognise the importance of these constantly evolving requirements and comply by modifying their baseline accounting systems, to avoid facing the potential financial and reputational risks of non-compliance.

Let's dig deeper: What challenges are driving the need for change in tax reporting processes?

Misperceptions can hinder process improvement

Finance and other functions within the organisation may not recognise the potential value of the Tax function over and above its traditional tax reporting role; instead, Tax may be viewed as a non-strategic cost centre. The ability of Tax to capture underlying information and perform analytics around transactions and business opportunities often is overlooked.

These misperceptions can hinder the ability of Tax functions to make a compelling business case for investment dollars to improve their tax reporting processes and systems and hence contribute more strategically to enterprise-wide business decisions. Tax may unintentionally perpetuate these misperceptions by focusing on being responsive rather than proactive.

“When we evaluate an investment in the Tax function, I try to get my CFO to stop being an accountant and looking at the cost for the investment that we will incur. I want him to be a CFO and focus on the current and future savings that we will enjoy, since that is the significant benefit to the business.”

— Tax Director, global audio technology company

Needed skill sets are evolving, creating a talent gap

Tax functions need personnel with both specific tax and accounting knowledge and experience and also sufficient technology capabilities to develop and maintain complex spreadsheets and software solutions. Tax personnel should also have a working knowledge of the company's enterprise resource planning (ERP) system and be able to produce self-service reports. Tax functions must continue to keep up with the pace of change by bridging the communication gap between Tax and the information technology (IT) function. The skills to do so are in short supply.

Future generations of tax professionals will expect their employers to utilise technology to provide stimulating growth opportunities and a quality work-life balance. Getting this right will be a differentiator for Tax functions looking to recruit talent.

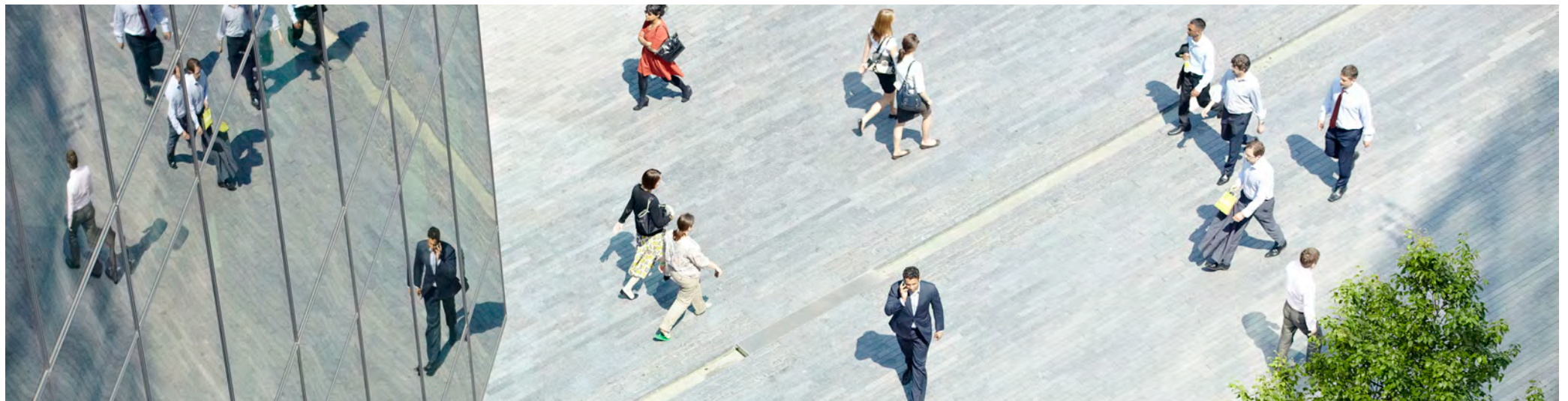
Let's dig deeper: How are Tax functions addressing these challenges?

Tax functions are embedding tailored solutions into their reporting framework that involve new technologies, better data management, enhanced analytics, and improved processes. They are evaluating fresh approaches to talent and controls, as well as utilising alternative resource models, such as leveraging Finance shared service centres or establishing Tax centres of excellence. They are also strengthening their collaboration with the broader Finance function, business units, and other key stakeholders outside of Tax.



“We recognised that enterprise-wide change can be successful only if there is universal buy-in and input from all stakeholders at the onset. By strategically investing time and resources in communicating the value and benefits of our project to all parties, we were able to create an environment of process improvement throughout the Tax function. Our mantra of “easier, faster, better, cheaper” described not only our process and technology improvement initiative, but became the approach for our entire Tax function. Forward-thinking Tax executives also should place added emphasis on the process improvement aspects of a tax technology and process improvement strategy. By identifying the tax areas and processes in need of efficiencies at the start, the team is better able to determine what tax technology solution is the best fit.”

— Dennis Gupta, Executive Director – Tax Operations, Time Warner, Inc.



Let's dig deeper: How are Tax functions addressing these challenges?

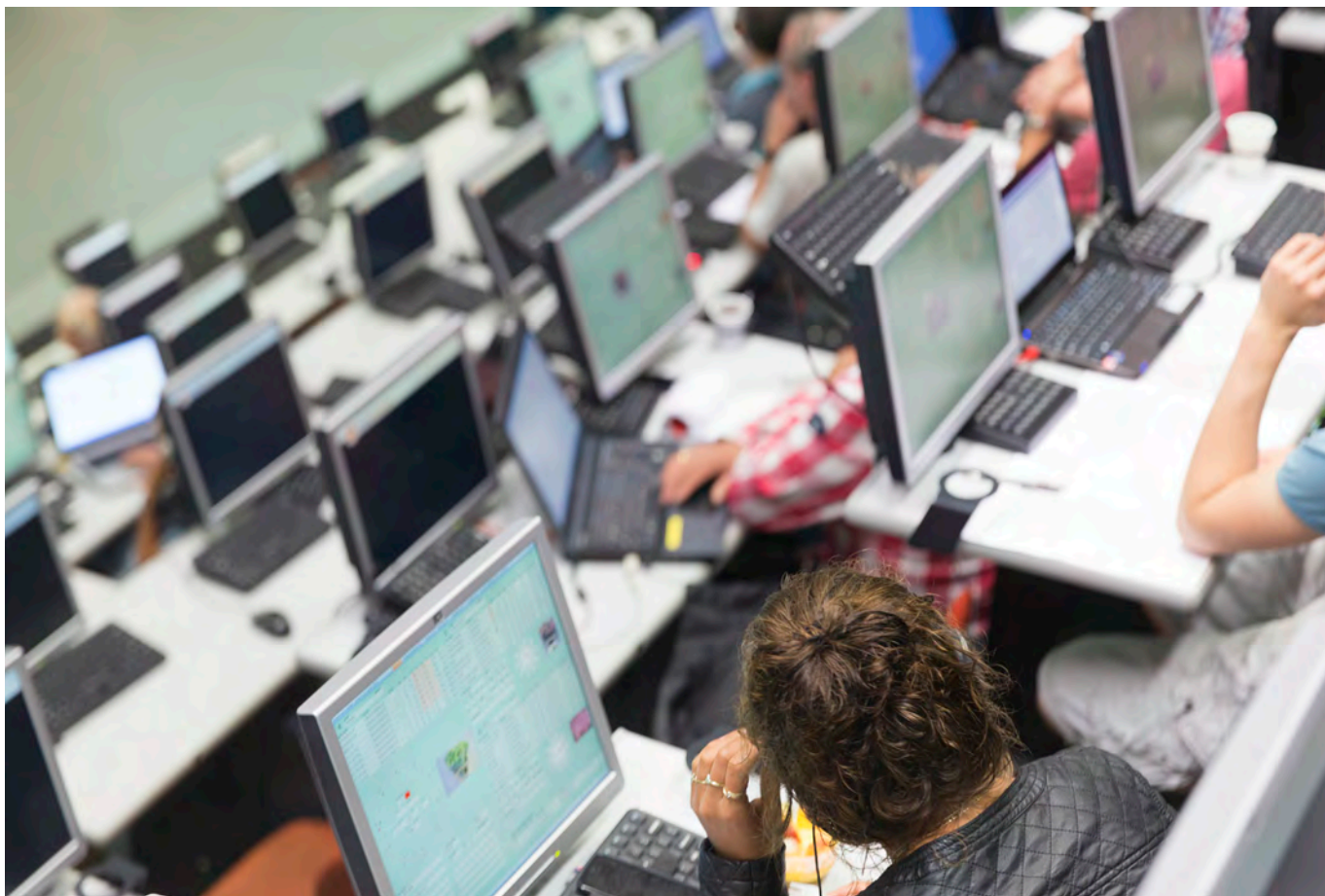
Using automation to shoulder the burden

Leveraging enterprise-wide financial systems or dedicated tax data hubs

Prediction

The majority of tax functions will receive all information in a 'tax-ready format' from either their enterprise-wide financial systems or a dedicated tax data hub.

Tax-sensitising an organisation's ERP system by incorporating tax requirements (e.g. tax-sensitised chart of accounts and legal entity reporting) aims at completely and accurately capturing the data that the Tax function needs. Increased tax sensitisation of data can be undertaken as part of establishing a Finance shared service centre, ERP implementation or upgrade, or through continuous improvement initiatives. A tax-sensitised ERP system or tax data hub provides Tax with timely, tax-ready data for reporting, analysis, and management insight. It also facilitates planning across the Tax and Finance functions.



Companies are re-evaluating the income, deduction, and credit areas of their tax reporting processes that involve not only the most potential financial benefit, but that require a high level of detailed data gathering and analysis. One example, in the US, is the research tax credit, which has a dollar-for-dollar impact on the bottom-line income tax

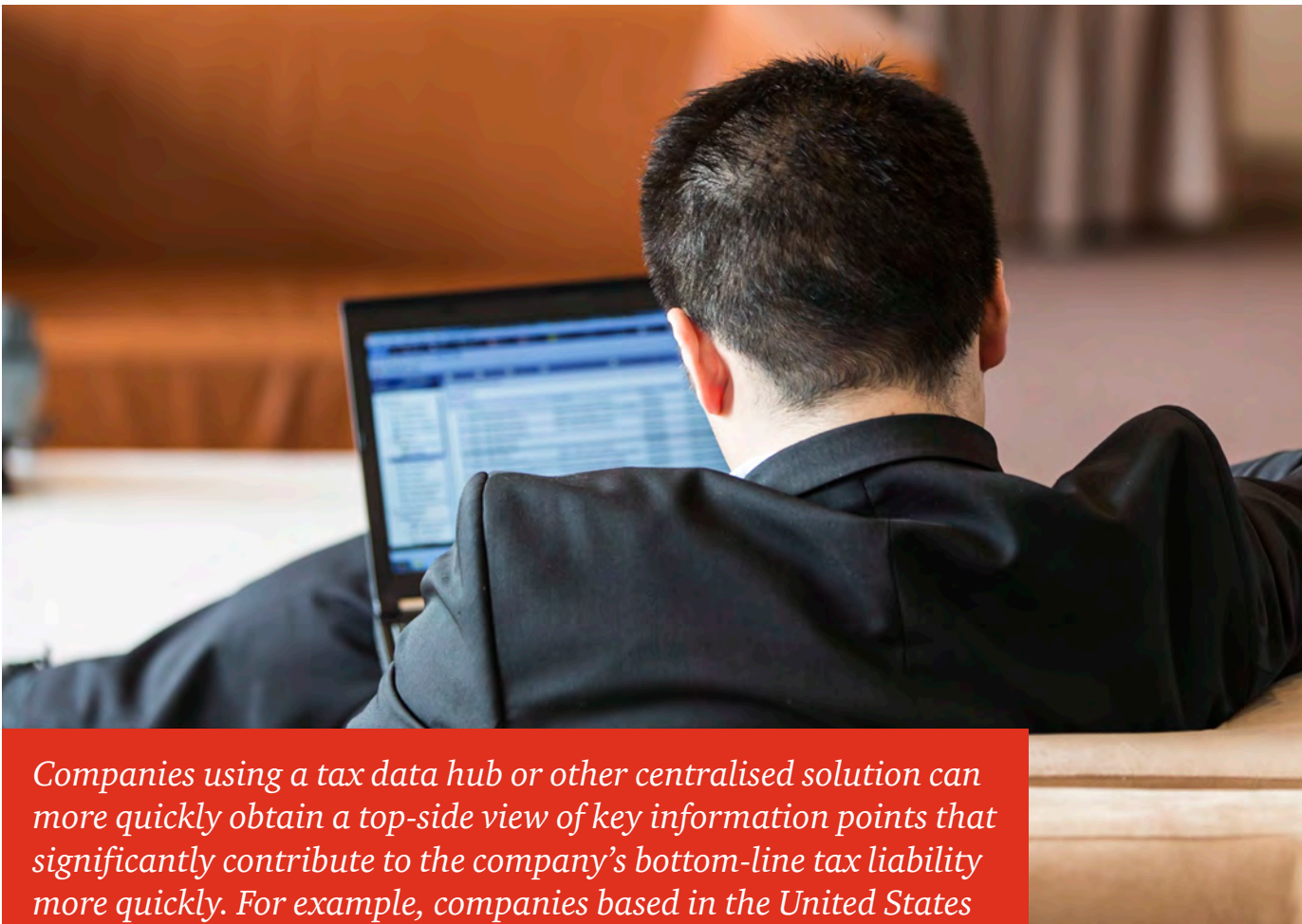
liability. Implementing a methodology to automatically gather information at the account level requires significant time upfront to make ERP system changes and train Finance personnel, but the resource savings further down the road can be well worth the investment.

Let's dig deeper: How are Tax functions addressing these challenges?

Prediction

Dedicated tax data hubs will become mainstream and be developed internally, licensed from a third-party vendor, and/or accessed through an accounting firm as part of a co-sourcing arrangement.

Industry surveys indicate that tax data hubs are in use or development by fewer than one-third of Tax functions, but have become much more prevalent in recent years. These powerful tools aggregate data from various subsystems, applications, consolidation tools, ERP systems, and data files into a standard, tax-ready format for use in other tax applications. Because this data is used multiple times for various purposes, including reporting, forecasting, and analytics, Tax functions that utilise tax hubs effectively can be more efficient.



Companies using a tax data hub or other centralised solution can more quickly obtain a top-side view of key information points that significantly contribute to the company's bottom-line tax liability more quickly. For example, companies based in the United States may want to track on a more real-time basis which business units are generating, and historically have generated, foreign source income for purposes of the US foreign tax credit.



Tip

There are other creative ways to obtain more usable data if the Tax function is unable to effectively leverage its enterprise-wide data systems. To do this, Tax should start by engaging IT to understand what data management tools are already being licensed and used, utilising those as a starting point to get more functionality for Tax.

Let's dig deeper: How are Tax functions addressing these challenges?

Reducing the need for spreadsheets and manual processes

Prediction

More companies will use their enterprise-wide financial systems to prepare tax calculations (e.g. income tax accounting and indirect taxes), thereby replacing spreadsheets and/or traditional tax technology solutions.

The drive to improve the efficiency and functionality of the tax reporting process is a global trend. Both large and small multinational companies are demanding

advanced, technology-powered solutions that can provide insights and real-time information.

Tax functions can streamline their tax reporting processes by integrating data from multiple systems, applications, and spreadsheets into a common information and reporting platform. Robust tax reporting applications can bring Tax and Finance closer together by integrating tax and related financial reporting processes, enabling greater coordination and stronger controls. A centralised framework can complement existing financial system capabilities to drive efficiency by reducing the use of spreadsheets and manual processes.



Tip

Organisations that have not automated or integrated their technology should examine available technology every 12 to 18 months as vendors continue to sharpen their focus on how data is managed and fits into the computation process lifecycle (i.e. from interim provision, to year-end provision, to compliance, to subsequent-year interim provision). Even organisations that have integrated their technologies should stay on top of improvements vendors continue to make in functionality so they can experience greater efficiencies going forward.



“As tax reporting requirements continue to evolve, tax professionals need forward-looking technology that can keep pace with the rapid rate of change. The right tax reporting solution should handle every step of the process – collecting, processing, and reporting data in real-time and across global entities – so tax leaders can spend more time interpreting data to make informed business decisions.”

— Marc Mehlman, Head of ONESOURCE Direct Tax, for the Tax & Accounting business of Thomson Reuters

Let's dig deeper: How are Tax functions addressing these challenges?

Which systems should be integrated to provide the greatest benefit?

Integrating the tax provision and compliance processes with financial source systems is a productive way to drive efficiency and reduce costs for the Tax function. Such integration enables the Tax function to retrieve data once, apply it to serve both the provision and compliance processes, position itself to defend against audits, and apply analytics before feeding tax return information back into the provision process.

Technology vendors are currently focused on the development of

sophisticated software that integrates tax and financial data. Many solutions have historically focused on a single integrated technology platform for calculating the tax provision and preparing the tax returns. Bridging data between systems has improved in cases where integration through a single platform is not an option to efficiently achieve the same synergies associated with a single platform. It is now possible, with a formal data strategy, to incorporate financial data directly into the tax provision calculation engine, allowing companies to choose the software that best fits both their tax provision and compliance needs.

“As the use of technology within the tax department evolves, tax leaders are recognising the value of having powerful reporting and analytical capabilities connected to their information. Solutions that focus on automating the preparation of tax provisions under both US GAAP and IFRS (while also accommodating local/statutory reporting) are including dynamic reporting engines to improve analysis options and drive better insights from the data.”

—Brad Hearn, Vice President, Tax Product Management, Longview Solutions



“The tax function of the future will have one truly integrated platform supporting the entire tax function, addressing all tax types and all requirements for technology within Tax. In the interim, there will continue to be a multitude of point solutions addressing discrete aspects of the tax compliance and reporting process (e.g. provision, statutory accounts, tax return, audit, transfer pricing).”

—Jim Edwards, Director - CCH Integrator, Wolters Kluwer

Let's dig deeper: How are Tax functions addressing these challenges?

Will automation serve as a complete solution?

Unlikely. Companies should have a realistic understanding that enhancing tax reporting processes using automation may not eliminate all manual and time-intensive tasks. New software solutions provide significant benefits by getting tax data to the point of technical judgment more quickly and cheaply, but there are still many problem areas that automation cannot resolve (e.g. underlying quality of accounting data and top-side adjustments). Automation may not be a complete solution, but it can yield time savings and create opportunities to shift responsibilities within the Tax function to benefit the entire team.

Case study

A global leasing company with significant manual tax procedures and reliance on spreadsheets was experiencing substantial inefficiencies in its tax reporting processes. The Tax function won buy-in from the CFO and support from the accounting and IT functions to automate its tax reporting processes. This automation provided the Tax function with more time at year-end to calculate and review the tax provision, efficiently collect data from multiple locations, and mitigate risk as a result of improved controls. The Tax function has automated about 75% of its book-tax differences, reduced by two-thirds the time that it takes to run entries through the system and update schedules, and shaved about a month and a half off its tax compliance season. Limited reliance on manual processes and spreadsheets has provided Tax with the opportunity to spend less time working on tax reporting and more time on creating value through tax structure modelling and scenario planning. Efficiencies achieved also have provided the company's tax personnel with time to pursue tax planning initiatives and capitalise on new opportunities.



“Traditionally, the need to collect, manage, report on, and analyse global and local legal, financial, and other business information has been somewhat unique to the tax function. However, reporting requirements under BEPS illustrate the reality that activities managed in the tax process are becoming more important in the overall legal, finance, risk management, and corporate secretary functions as well. Tax will increasingly be relied upon to address enterprise-wide risk management activities and is in a position to become a centre for data management and reporting to address enterprise-wide needs.”

— Dave Shea, President, Corptax

Let's dig deeper: How are Tax functions addressing these challenges?

Utilising automated tools to enhance analytical capabilities

Prediction

The vast majority of tax functions will rely on professional data analysis tools to assist in the decision-making process in areas such as detection of risk, opportunity identification, projections and scenario planning, and overall business support.

Technology vendors are focusing on incorporating analytics into their tax reporting solutions. The goal is to enable Tax functions to leverage data housed in tax-sensitised ERP systems or tax data hubs to conduct risk-based scenarios, convert budgeted data into forecasting intelligence, and identify anomalies

and risk areas through trend analysis. Examples of how these tools can make valuable information more accessible include maintaining an inventory of tax attributes by subsidiary, using real-time information to run multiple tax provision calculations, and generating global consolidating reports.

In addition to income tax, indirect tax compliance can benefit from automation solutions with embedded analytics. Indirect tax liabilities can be material even in situations where direct tax liabilities are not. Tax professionals responsible for indirect tax compliance analyse very large amounts of data. The use of data visualisation helps these professionals to analyse this information and see in real-time how data manipulation impacts their analysis. These capabilities enhance the Tax function's decision-making process around indirect taxes and provide

insight into their potential impact on the organisation as a whole.

Enhanced analytical capabilities help Tax functions manage and respond to increasing stakeholder inquiries and engage in informed discussions with Finance and other corporate executives regarding how Tax can better contribute to the overall business more effectively. More prospective rather than retrospective analysis enhances strategic collaboration with Finance and other functions within the organisation.

The ability to use historic tax data modelling and analytics to predict future trends is still in its infancy but has demonstrated the potential to improve tax reporting processes.



More robust forecasting capabilities provide earlier insights into drivers of a company's effective tax rate. Automation enables companies to run provision analysis on a more frequent basis, providing greater real-time information about how Tax is impacting the bottom line.

Tip

Let's dig deeper: How are Tax functions addressing these challenges?

Re-inventing resource models and task allocation

Leveraging Finance shared service centres, Tax centres of excellence, and co-sourcing arrangements

Prediction

Most global tax preparatory compliance and reporting activities, including data collection and reconciliations, will be performed within the company's shared service centre or will be co-sourced with a third party.

Many Tax functions are looking to leverage alternative resource models, such as Finance shared service centres, Tax centres of excellence, and co-sourcing arrangements, to perform tax reporting tasks. Each model can yield significant benefits depending upon the specific organisation and assuming proper change management and training.



Finance shared service centres support tax reporting processes from collection of data from centralised financial systems and providing that data to tax preparers to the drafting of tax provision calculations and returns, with Tax personnel reviewing and finalising the calculations and returns. This model helps reduce compliance and headcount costs by centralising more repetitive tasks that may not require significant judgment or in-depth knowledge of tax law. It also can improve risk management and internal controls by concentrating risk and control within a smaller personnel group.



Tax centres of excellence support tax reporting processes by performing end-to-end compliance tasks with a centralised team of well-trained professionals. This model helps concentrate risks and facilitate the use of more formal control mechanisms.

Centres of controllership where certain tax, accounting, and data skills are centralised are becoming more prevalent to ensure that local country statutory accounting and related tax return responsibilities are properly satisfied. With an anticipated proliferation of tax audits in a post-BEPS world, these centres may also be the hubs and first lines of defense for tax controversy and provide critical personnel mass, which is often difficult to achieve in jurisdictional controllership and accounting functions.



Co-sourcing arrangements with third-party providers support tax reporting processes that require specialised jurisdictional knowledge—to mitigate the risk of not having in-house skills to comply with local country accounting and tax requirements—or to provide a lower-cost entry point to leverage the investment in technology made by the co-sourcing partner. These arrangements typically provide organisations with better controls and visibility into managing global regulatory obligations where rules are continually changing and becoming more complex; front-end project planning and key indicator reviews typically are used. These arrangements also can provide greater standardisation of data, global files, and processes, setting the stage for greater efficiency going forward. And, much needed agility and scalability can be achieved as Tax requirements change with business expansion.

Let's dig deeper: How are Tax functions addressing these challenges?

These alternative resource models are changing the role of the home office Tax function to one of policy setter, reviewer, and risk manager. Transparent collaboration with its Finance shared service centre, Tax centre of excellence, or co-source provider enables the Tax function to focus on more value-added and strategic activities, such as tax planning and analysis, without giving up control over or visibility into the process. These alternative models also could enable a reallocation of resources

that focuses on tax audit readiness i.e. strategic risk analysis to anticipate and prepare for, instead of reacting to, tax audits around the world. Furthermore, the use of alternative resource models creates additional capacity during a transition period. For example, a company integrating a significant acquisition can leverage a co-source provider in the near term until the Tax function can staff up and integrate technologies to absorb the additional workload.

Case study

A major public, financial services company was using legacy systems and outdated technology to manage its complex tax reporting processes. The company decided to enter into a co-sourcing arrangement to reduce costs and simplify the tax reporting process by eliminating non-value added procedures, standardising workpapers to provide improved transparency, and establishing a technology platform to drive automation and consistency. The company was able to reduce compliance hours by 75%, significantly reduce the quarterly close cycle time, and establish a technology platform to drive significant automation and improve internal controls.



Tip

It is critical for Tax functions to recognise the limitations of these alternative resource models. For example, if foreign tax compliance has been co-sourced, the Tax function should continue to be involved to ensure the underlying data is timely and at the right level of detail. Moreover, extraordinary transactions, such as an acquisition generating top-side adjustments, may be outside the expertise of a Finance shared service centre, requiring Tax personnel involvement.



“Co-sourcing historically tax-related activities is not an all or nothing decision. Forward-thinking Tax executives can partner with Shared Services to pick and choose specific compliance (such as tax depreciation) or tax accounting activities (data preparation) to free up resources for more value-added activities while still allowing the Tax function to maintain top-level control over the process and information.”

— Patrick Callahan, Sr.
Director – International Tax,
Kimberly-Clark

Let's dig deeper: How are Tax functions addressing these challenges?

Applying a risk-based approach to streamline resource allocation

Tax functions gain significant efficiencies, including shortened timelines and reduced compliance-focused workloads, without sacrificing quality output by incorporating a risk-based approach into their tax reporting framework. This methodology can be applied across a spectrum of areas, such as book-to-tax adjustments, legal entities, states, or other underlying calculations.

Taking a risk-based approach for temporary book/tax differences involves identifying low-risk, consistent adjustments. Calculations for these adjustments can be generated through an analytics-based approach (e.g. year-by-year review) without incurring the time and expense required for precise, comprehensive calculations.

Whether and how to adopt such a methodology involves decisions unique to each organisation. This approach should not be adopted without consideration of the enterprise's overall risk tolerance and how such a methodology fits into the organisation's control framework. Tax functions considering such an approach should, together with the Finance function, consult with other stakeholders within the organisation and seek counsel from the organisation's external auditor.

These conversations should occur early in the audit planning process to ensure an agreed-upon methodology is in place before implementation, preventing unwelcome surprises during an already tight close period. The organisation's senior Tax executives should confirm, communicate, and document relevant thresholds and the overall process for such an approach.



Tip

Take a risk-based approach for those areas without a material financial impact, such as timing differences under a certain threshold. Such an approach also could be relevant for related controversy issues e.g. determining whether to pay a low-cost tax assessment rather than expending the resources to address the issue with the tax authorities.

Let's dig deeper: Driving value through stronger tax control frameworks

Prediction

Many jurisdictions will legislatively require the adoption of a tax control framework which follows guidelines similar to Sarbanes-Oxley and COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The emphasis on tax control frameworks to help companies manage tax risk is gaining momentum, with more companies outside the United States reviewing their internal controls relating to key tax reporting processes, including compliance and planning. As a result of increased real-time engagement between taxpayers and tax authorities, organisations should establish robust tax control frameworks that allow tax authorities to analyse and confirm upfront a company's competency with respect to risk management and compliance.



Tax functions may think that new technology can solve all their risk management and control problems, but these solutions are only as good as the processes around them. Tax functions need to consider the broader impact of the use of technology, assess where they have risk, and ensure they have adequate controls to manage that risk.

Let's dig deeper: Driving value through stronger tax control frameworks

A Tax function's tax control framework should include:

- strong governance,
- a clear reflection of stakeholder expectations,
- an in-depth understanding of key risks,
- efficient and effective controls,
- internal and external communication strategies, and
- ongoing monitoring of all these areas.

Organisations updating their control frameworks should first match controls and allocate resources in proportion to the level of financial risks. Formalising the 'handing-off' process between functional units, i.e. clarifying roles and responsibilities, is a key area of concern, specifically with respect to tax reporting processes.

For a deeper discussion of how global transparency initiatives are impacting the Tax function and their tax control frameworks, please see our previously published paper, [Global tax transparency and risk management](#).



Tip

The need to better manage and reduce risk is a strong catalyst to justify technology investments for both small and large businesses. Many companies are using the tax authorities' increased focus on tax control frameworks and similar requirements (e.g. Sarbanes-Oxley in the United States and Large Business Compliance efforts in the UK) as the impetus for implementing more automated tax reporting solutions.

Case study

A US-based public company, with thousands of employees on five continents, was grappling with very complex foreign operations and found itself with a material weakness in its Tax function. The company implemented a number of workstreams in an effort to understand its present tax reporting processes, identify its key weaknesses and greatest risks, and identify opportunities for improvement. At the conclusion of the project, the Tax function was able to demonstrate that it no longer had a material weakness with its tax reporting processes and regained credibility in this area.

Let's dig deeper: Seeking talent with new and expanded skill sets

Prediction

A successful tax professional of the future will be highly proficient in data analysis, statistics, and technology, as well as process improvement and change management.

We discussed previously that Tax functions of the future are likely to use different resource models, such as Finance shared service centres, Tax centres of excellence, and co-sourcing arrangements, to perform tax reporting processes. That model, however, will require Tax professionals to manage these resources, conduct planning and analysis, interact with tax authorities on audits and inquiries, and collaborate with other functions within the organisation. Tax also will need the right talent to integrate automation into its tax reporting processes.

Tax professionals of the future will need to possess skills beyond those of technical tax and reporting issues, including a baseline technology acumen that is



“The Mendoza College of Business and the Department of Accountancy at the University of Notre Dame are addressing the need for better analytical skills in several ways. As an example, Accounting majors are required to take a course taught by Management professors that uses Excel and Access to analyse alternatives, solve business optimisation problems, and introduce students to database concepts and structure. Accountancy professors provide additional depth in a required junior level course that addresses data mining, simulation model building, and risk analysis within accounting contexts. We expect data analytics offerings to increase and evolve as we understand better what topics and techniques are most relevant.”

—Fred Mittelstaedt, University of Notre Dame Department of Accountancy Chair

much higher than what may be expected today. Their data skills will be less about gathering and organising and more about analysing the data from a broader vantage point and using technology as a baseline to make valuable contributions to decision-making. Tax professionals of the future will need to possess strategic project and risk management skills to assess how risk is being managed across the organisation and how that aligns with enterprise-wide business and reputational goals.

So-called ‘hybrid’ Tax professionals who can bridge the gap between tax technical requirements and technology-based solutions already are in high demand.



Tip

Take a fresh look at the breadth of skills needed to reach the goals of the Tax function and pursue creative approaches to embed these skills in your processes, including cross-training and seconding talent from other functions.

Bringing it all together

Getting started by imagining the possibilities

Enhancing tax reporting processes begins with the development of a comprehensive roadmap that aligns with corporate business priorities, Tax function objectives, and existing enterprise technology investments. Tax executives should form a vision for change by discarding outdated notions that may have prevented improvements in the past.

“Tax functions struggle to create the steps needed to improve their tax provision and compliance processes because it's not likely to be one action or item (e.g. one type of software) needed. Rather, a detailed roadmap that lays out an end-to-end journey in segmented stages is a must to ensure the Tax function's continuing cycle of responsibilities is not disturbed.”

— Jeff Young, Vice President and Chief Tax Officer, GATX

Consider the following statements on how modern technology and approaches are addressing the challenges facing the Tax function:

Historic misconceptions	Renewed vision—enabled by cutting-edge technology, know-how, and approaches
Tax compliance provides little benefit other than ‘checking the box’ that the task is done and ensuring that an accurate return is filed.	The process to prepare tax returns provides valuable information for tax planning and analytics throughout the year, having a measurable impact on the bottom line.
Reviewing foreign tax returns is simply a ‘tick and tie’ exercise with no other value.	Centralising the foreign tax return process not only lends transparency to status but provides an opportunity to capture key data that can be leveraged globally for strategic planning.
Changing the tax provision process is too complex and risky.	Strategic planning is critical to ensure a smooth transition (i.e. so that change initiatives do not disrupt the flow of current processes); the temporary disruption is worth the added efficiency and capabilities that result. The greatest risk the Tax function faces is not making infrastructure improvements in response to the frantic pace of change it is experiencing.
Calculating the tax provision within a spreadsheet allows complete control over the process, preventing major errors.	Short of treating provision spreadsheets with the same rigor and controls of custom software, utilising integrated provision software best reduces the risk of errors while enabling efficiency. The ability to have an ERP system perform the provision calculations directly further enhances these benefits.
Tax staff who quickly specialise in an area of tax become the most efficient ones to get the job done year on year.	Today's tax professional requires not only a diverse experience to stay engaged, but demands efficient technology and data so as to focus on professional development and delivering value.

Bringing it all together

Taking a critical look at current processes with a sharpened lens

As an example, an informal poll of PwC clients demonstrated that there was no clear consensus as to what area presents the most significant challenge with respect to their income tax provision process needed for financial reporting purposes. Clients were split on whether legal entity forecasting or having limited time to book entries is a more significant challenge, while a smaller number of clients noted that data collection from sources outside corporate is their most significant pain point.

Are companies sharing the same pain points when it comes to tax reporting processes? Likely yes, but companies differ as to which challenges are the most formidable, underscoring the need for each company to closely analyse its current specific processes, weaknesses, and strengths.



Bringing it all together

Where does your company fall on the maturity curve?

Does your organisation set the industry standard or lag behind it, potentially placing the organisation at a competitive disadvantage? Consider the following general benchmarking analysis:

Differentiator	Informal	Managed	Optimised
What is the broader Finance function's perception about Tax's contribution to financial reporting?	Tax reporting tasks are completed, but there is a risk of not meeting the deadline; Finance teams sense Tax's struggle to meet deadlines	Tax reporting tasks are always completed on time, but never early	Tax reporting tasks are always completed on time, even with accelerated deadlines year on year; Tax also contributes by forecasting information outside regular reporting cycles
How much time do the majority of staff within the Tax function spend on manual data collection for tax reporting as compared to analytical tasks?	75% or more	Between 30% and 75%	30% or less
How often does the Tax function analyse whether automation solutions should be implemented for specific tax reporting areas or processes?	Every 7 to 8 years	Every 3 years, a high-level evaluation is conducted	The Tax function has a multi-year plan that includes an annual evaluation of available technology solutions
When the senior tax executive briefs the CFO/Board about Tax function activities, does the agenda involve specific process improvement projects?	Rarely	Typically yes, but it is usually a more minor agenda item	Process improvement is high on the priority list along with an analysis of the specific benefits to the organisation (e.g. people hours saved and what that time was used for)
Is the Tax function using contemporaneous audit programs offered by the tax authorities because it is confident in the efficiency and integrity of its tax reporting processes? For example, cooperative compliance arrangements or more real-time engagement.	Rarely	Depends on the specific tax reporting process at issue	Tax function proactively seeks these arrangements with confidence in order to achieve the benefits offered (e.g. greater upfront certainty as to tax liability, a more favorable risk rating from the tax authorities; the benefit of no longer having to submit actual tax returns).

* The naming of the different levels refers to an internationally accepted Risk Management model COBIT and is descriptive only. The Maturity Levels are general guidelines for information purposes only. No conclusions or warranties may be derived from a name of a Maturity Level. 'Optimised' does not refer to a perfect or error free situation.

Bringing it all together

Documenting your roadmap... ensuring a smooth transition

The Tax function should create a multi-year (three to five-year) roadmap that articulates and prioritises initiatives for transforming tax reporting processes. Consider the following elements:

How do we define success?

A roadmap for implementing enhanced tax reporting processes should include a clear value statement and business case to present to stakeholders and internal sponsors regarding how the improvements and investments will benefit the organisation. For example, will the new processes reduce the time required for the process or facilitate the filing of the return by one month or more? How will that saved time be utilised to drive value for Tax and the larger organisation? Can it create opportunities for Tax professionals to expand their responsibilities, promoting greater employee loyalty? Or put the organisation in a better place to defend itself against challenge?



Tax functions creating such a roadmap may consider the following broader organisational goals:

- Aligning costs with the company's overall business strategy and priorities,
- Managing risk through modernised technologies and processes,
- Creating unique customer experiences,
- Facilitating competitive advantages,
- Stimulating innovation, and strengthening trust and transparency.

Demonstrating how this plan aligns with broader corporate strategic initiatives is key. For example, the C-suite may be more willing to make investments to

improve foreign tax knowledge if that intelligence has an immediate impact on new business development.

Bringing it all together

How are we going to get there?

The roadmap should involve focused resources from Tax, Finance, IT, and other functions within the organisation and should include:

- An evaluation of how existing enterprise technology investments can be leveraged to reduce investment costs. It is critical to understand the current technology ecosystem and consider integration or alignment with existing systems. The existing technology infrastructure is often a significant reason for choosing a particular software solution for tax reporting processes, such as financial statement provision software.

Tax should also engage IT and Finance to determine where technology-related projects fit into planned infrastructure projects and the overall IT vision. Tax should be aware of any current Finance transformation projects and understand how Tax processes may be impacted and whether there are any potential synergies across Tax/Finance processes to consider.

- Identification of all tax reporting requirements before participating in vendor demonstrations to ensure the tools being considered meet those demands. Once an initial solution is selected, Tax should monitor the design and configuration to ensure

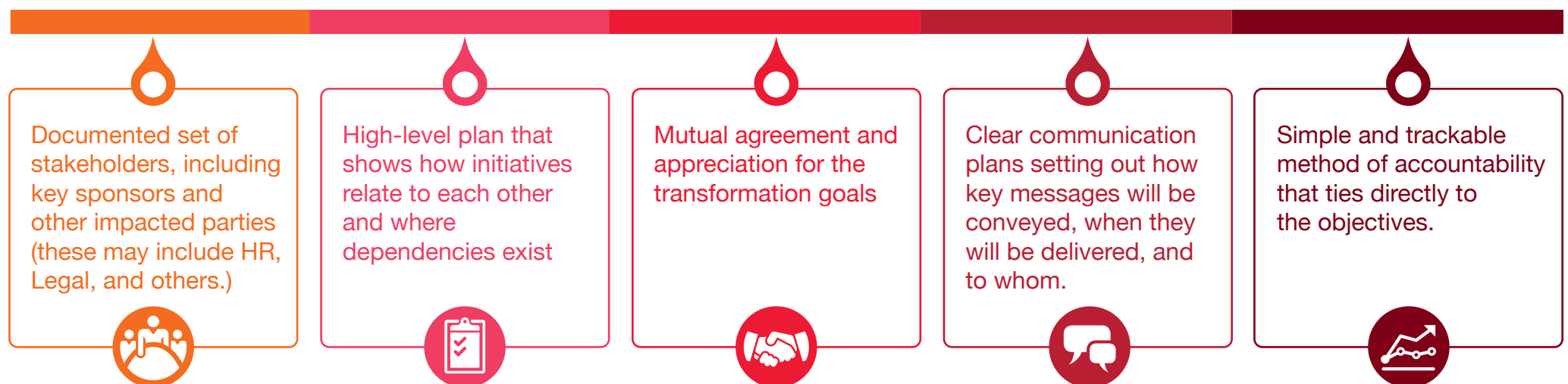


Tip

Companies conducting a software implementation should consider involving a skilled project manager with a tax reporting background to lead the project and promote process enhancements - this helps ensure a smooth transition given that person's knowledge about the attributes and obstacles within the current process.

that identified requirements are met, including the ability to provide data beyond reporting needs. For example, how can effective tax rate drivers be captured and used for modeling and to identify trends?

Successful roadmaps tend to include some common elements, such as a:



Bringing it all together

Any roadmap for transformation should consider the change management and governance infrastructure needed to support it.

- Quantification of all related costs, including the cost of the license, scope and cost of implementation, and cost allocations for resources required for both implementation and ongoing use.
- A step-by-step transition to the new processes, ensuring that on-going tax reporting obligations are satisfied. For example, companies may consider

running both processes simultaneously during the transition period, in order to evaluate whether the new process is properly performing. When implementing tax provision software, for example, the company can compare results from both processes to gauge accuracy.

- A methodology on how change initiatives can develop a culture for continuous improvement, given that undergoing incremental change is generally much easier than sudden change. Depending on the Tax function's historic appetite for change, should the Tax function begin with

a smaller, less disruptive process improvement before embarking on a more significant initiative? What opportunities can the Tax function offer to staff to incentivise their commitment and willingness to provide ideas?

- A plan for ongoing maintenance, updating, and regular assessment to adjust for shifting priorities. The roadmap also could include regular communication to stakeholders, such as the C-suite, which will help participants to meet their planned timelines.

Can your Tax function's current tax provision and compliance processes support the organisation's next phase of growth and maturity?

Answer this question for yourself, not just in terms of meeting financial statement and filing deadlines, but by providing the insights that yield a competitive advantage through more informed, real-time decision-making. Tax executives should consider new tools and ideas to achieve this next level of advanced functionality, while also envisioning themselves as a more strategic partner for the organisation. Those that embark on this journey will reap the benefits for years to come and leave a change-mindset legacy for the next generation.

Predictions

The global predictions we present in this thought leadership series include the following. We hope they inspire Tax executives and team members to forge a new future vision for their Tax function.

Global legislative and regulatory landscape

- Global tax information reporting requirements (e.g. CbC and similar transparency initiatives) will grow exponentially and will have a material impact on the operations and related budget allocations within the tax function.
- Regulators will demand transparency regarding global taxation, necessitating clear and thoughtful communications with public stakeholders about corporate contributions to the communities in which they do business.
- Information sharing will be commonplace among taxing jurisdictions, and taxing authorities will have the capability to mine data and conduct global audits, resulting in increased disputes.

Tax function's role in risk management and governance

- Many jurisdictions will legislatively require the adoption of a tax control framework which follows guidelines similar to Sarbanes-Oxley and COSO (Committee of Sponsoring Organisations of the Treadway Commission).
- Enhanced stakeholder scrutiny and reputational risk will force companies to continuously re-evaluate their tax decisions.

- Strategic focus on jurisdictional reporting and documentation of business activities, including transfer pricing, will be critical to managing the increased tax controversy resulting from transparency initiatives.

Data flow into the tax function

- The majority of tax functions will receive all information in a 'tax-ready format' from either their enterprise-wide financial systems or a dedicated tax data hub.
- Dedicated tax data hubs will become mainstream and be developed internally, licensed from a third-party vendor, and/or accessed through an accounting firm as part of a co-sourcing arrangement.
- Data security will be high on the agenda of tax functions due to concerns over confidential information being inadvertently released or shared publicly.

Technology automation for tax function analytical tasks

- More companies will use their enterprise-wide financial systems to prepare tax calculations (e.g. income tax accounting and indirect taxes), thereby replacing spreadsheets and/or traditional tax technology solutions.

- The vast majority of tax functions will rely on professional data analysis tools to assist in the decision-making process in areas such as detection of risk, opportunity identification, projections and scenario planning, and overall business support.

Tax function roles and processes

- Most global tax preparatory compliance and reporting activities, including data collection and reconciliations, will be performed within the company's shared service centre or will be co-sourced with a third party.
- Tax functions will use real-time collaboration tools to automate their workflow, document management, calendaring, and internal controls.

The tax professional of the future

- A successful tax professional of the future will be highly proficient in data analysis, statistics, and technology, as well as process improvement and change management.
- Tax functions will employ dedicated tax IT, data and project management specialists who will develop, champion, and execute the tax technology and transformation strategies.

Let's talk

Look for future publications exploring the Tax Function of the Future

To have a deeper conversation about how these issues and predictions may affect you and your business, please contact:

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