

**Crunch time 9**

Tax in a digital world

Think back to your company's last major technology project. When did your finance people get involved in the planning conversation?

How about your tax team?

# Taking tax seriously

It's common for Finance to have a front-row seat when big new initiatives are underway, including technology spending. But far too often, Tax gets involved after the fact, when the best they can do is make the most of a tough situation. Fortunately, that's beginning to change.

The reason is simple: New data modeling tools make it possible to deliver valuable tax insights about different financial scenarios—in real time. Which means business leaders get the benefits of those insights before they have to make their decisions.

A modernized tax function has the digital tools and talent to churn through scores or even hundreds of scenario models to determine their after-tax financial implications. This kind of data modeling combines your own real-

time financial information with the latest tax laws and regulations to guide you through options for action.

We're talking about a massive amount of data that's growing larger day by day. Modeling is often the only practical way to understand the full tax implications of different business decisions.

But before this can happen, Tax must modernize along with the rest of the enterprise. That should be an easy decision.

# He said. She said.

With the recent big changes in US tax laws and rates—and an explosion of new regulations elsewhere in the world—tax departments everywhere are scrambling to make sense of it all. As the upheaval continues, tax leaders and CFOs are beginning some interesting conversations about growing complexity and uncertainty related to global tax. There's a lot on the line.

# Tax in a digital world

01	We need to talk.	6	05	You didn't answer my question about cost.	15
02	So you're telling me you'll have to hire?	8	06	What's the risk if we don't invest?	17
03	What do you mean by <i>modernize</i> ?	10	07	It's crunch time.	19
04	So what's your plan?	13			

# We need to talk.

Tax leader

We need to talk.

Tax leader

That doesn't sound good.

CFO

Tax leader

We're getting close to a breaking point.

Uh oh. This must be serious.  
Tax is never the squeaky wheel.

CFO

I was hoping you'd say that.



01

02

03

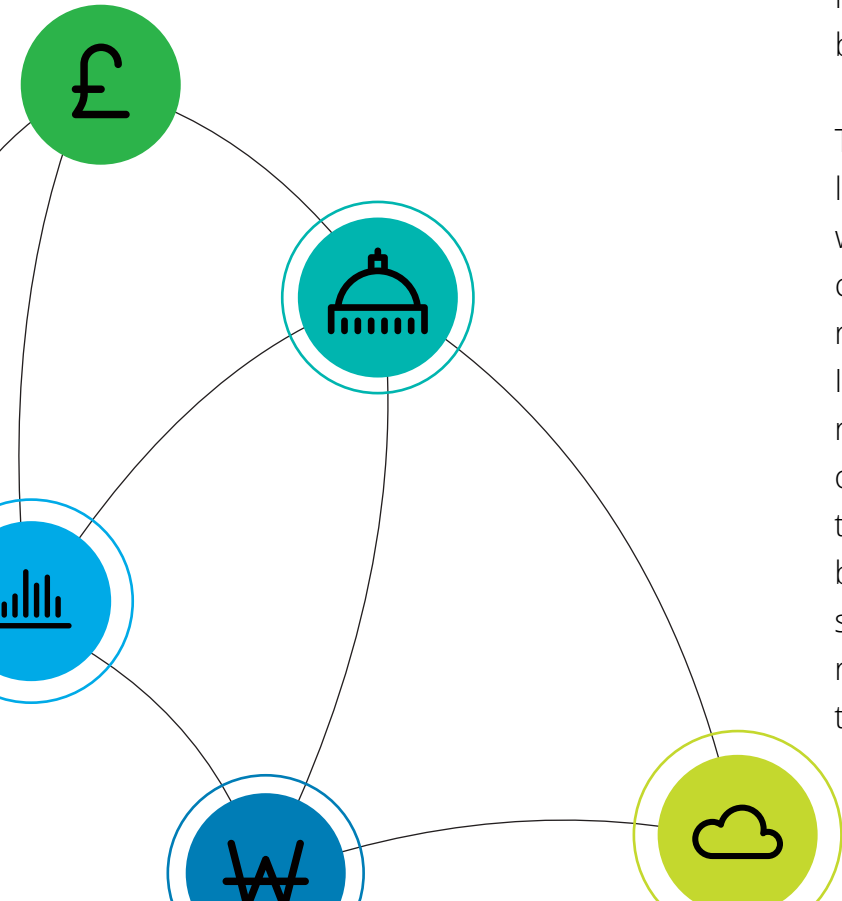
04

05

06

07

# We need to talk.



Whatever you think about Tax, one thing we know for certain is this: An unprecedented number of regulatory and tax policy changes are underway, both in the US and around the globe.

The US federal tax code has nearly tripled in length over the last 30 years. In 2017 alone, there were more than 600 revisions, all requiring new compliance measures.<sup>1</sup> And then there's the rest of the world. Over the past several years, India has imposed far-reaching changes that are reshaping one of the most complex tax regimes on earth. In Brazil, hardly a week goes by without the announcement of new tax policies that must be addressed immediately. And in Europe, we're seeing new developments related to real-time reporting and standard audit filings, which have to be done electronically.

But government policy is just one area where complexity is increasing. The new digital economy is unleashing new competition and new business models, both of which can create significant tax planning opportunities. If the world is a chess board, tax considerations often influence the winning moves.

Many tax professionals tell us their companies are simply not set up for this new reality. Finance leaders have been responding in predictable ways. Hiring more people, getting temporary help, adding point technology solutions, outsourcing parts of the process. It's worked in the past. So stay the course, right?



01

02

03

04

05

06

07

# So you're telling me you'll have to hire?



01

02

03

04

05

06

07

CFO

So you're telling me you'll have to hire?

CFO

Actually, we'll probably need fewer people.

CFO

What's the catch?

We have to modernize.

You sound like a consultant.

Well...I am.

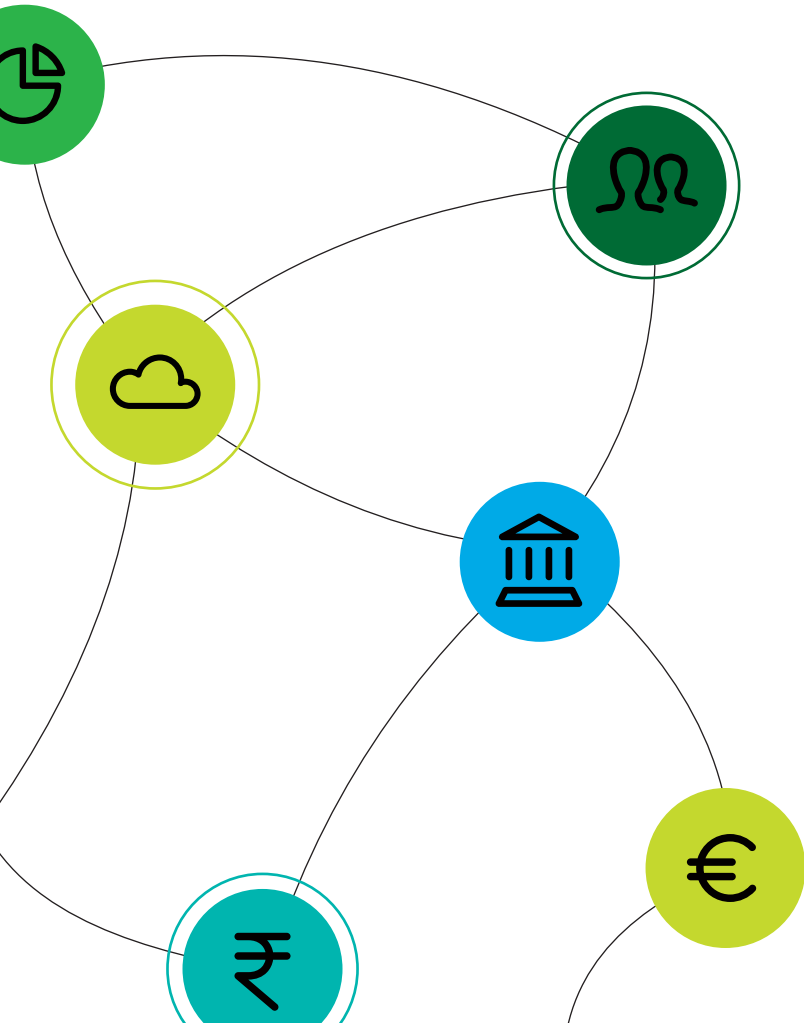
Tax leader

Tax leader

Tax leader



# So you're telling me you'll have to hire?



With 50 percent fewer tax accounting graduates and a big chunk of the tax workforce nearing retirement, there aren't nearly enough experienced tax people in the market today. Add in hundreds of tax jurisdictions, each with unique rules and regulations, and complexity goes through the roof. Bottom line? Companies need machines, cognitive tools, bots and other technologies (or service providers deploying those solutions) to do more of their work. And that requires investment.

It's ironic that businesses plow millions into upgrading their ERP systems, but when it comes to Tax, not a lot changes. Many tax departments have all but missed out on technology modernization.

The specific problem is easy to identify: few companies have taken steps to fully integrate the tax function with their accounting and finance systems. ERP sits over there, tax sits over here, and human beings go back and forth. The result is a hodgepodge of point solutions, with tax teams often scrambling just to gather basic information.

We find that tax departments typically spend less than half the time on data analysis than they spend on data gathering and data prep. That's problematic.

Fortunately, the opportunities for improvement are real, and companies are beginning to embrace them.



01

02

03

04

05

06

07

# What do you mean by *modernize*?

CFO

What do you mean by *modernize*?  
Specifics please.

Two things. First, create our tax data backbone. Second, automate our planning and reporting processes.

Tax leader

CFO

Data backbone?

Yep, backbone. Tax is like no other business function. We use all of our company's data. Every single transaction.

Tax leader

CFO

Which means mountains of information.



01

02

03

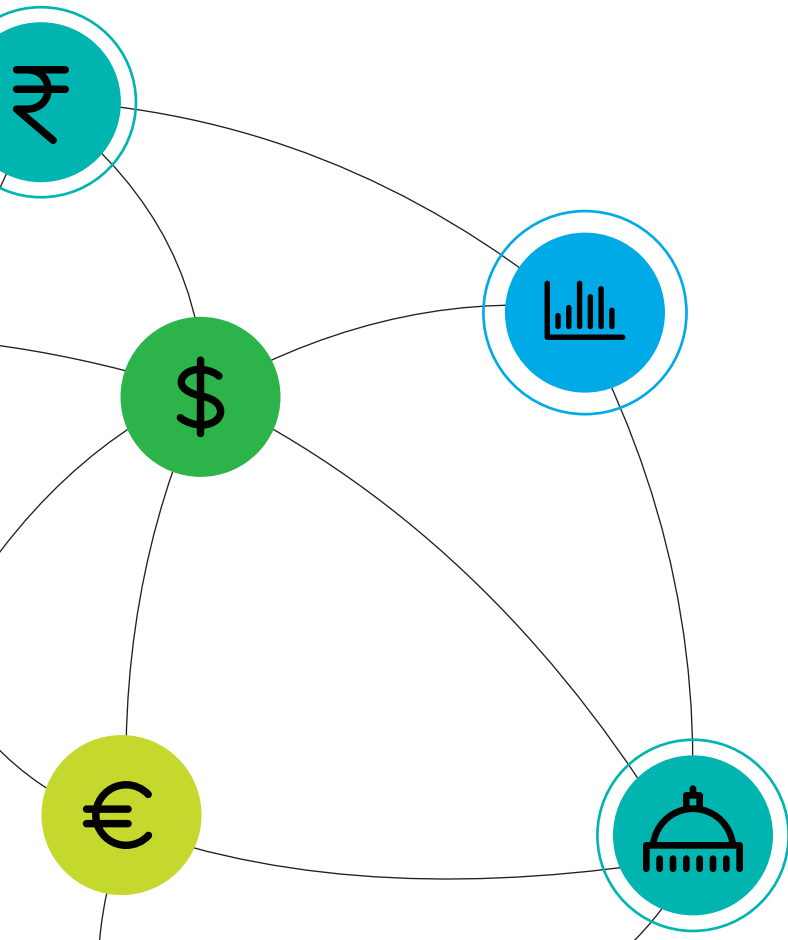
04

05

06

07

# What do you mean by *modernize*?



The first thing to know about modernization is that it creates a different mindset. Modernized Tax moves from being mostly a compliance function to a high-value planning and reporting function. For example, consider the international tax provisions of the Tax Cuts and Jobs Act. Given the complexity of these new rules, in most cases the modeling required for effective tax planning simply can't happen without automation and advanced analytics.

One vice president/controller we work with was involved in a finance transformation project that wasn't designed to address Tax. He stopped the project cold, insisting it be rescoped to include tax modernization. This executive was certain the business case for modernizing Tax was compelling and wanted the same digital technologies available to them that were going to be made available to the rest of Finance.

If your company's leadership hasn't embraced tax modernization, there's a good chance you're leaving real value on the table.



01

02

03

04

05

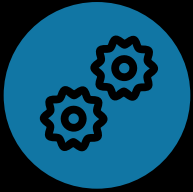
06

07

# The digital evolution

What does work actually look like in a modernized tax department?

Here are three things you'll be able to see:



## Reimagined processes

### Automatic tax reconciliation

- Reconciliations are automated and managed on an exceptions basis
- Tax analyzes and evaluates the discrepancies while optimizing the reconciliation of source data to the general ledger

### Automated transaction processing

- Indirect tax determination is managed on an exceptions basis
- AP clerks no longer have to key in tax codes manually or make tax determinations on the fly



## Redefined talent

- Tax managers generate targeted business insights rather than generic ones
- Tax staff are freed up to focus on tax planning and other high value-add activities

- Tax staff monitor data quality as a key performance indicator



## Technology enablers

- Touchless automation removes manual reconciliation
- Integrating automation tools with data lakes or data hubs empowers tax analysts to perform advanced analytics and predictive what-if scenarios

- Real-time layers of data proactively identify rule exceptions, improving reliability with machine learning
- Visualization and analytics from an integrated tax data warehouse enhance the indirect tax process



01

02

03

04

05

06

07

# So what's your plan?

CFO

So what's your plan?

CFO

Really?

CFO

What's the cost?

CFO

How far do you recommend?

The same as your plan.

Yep. We're talking cloud, automation, analytics, visualization, real-time reporting. All stuff we're already doing in Finance.

That depends on how far we go.

All the way.

Tax leader

Tax leader

Tax leader

Tax leader



01

02

03

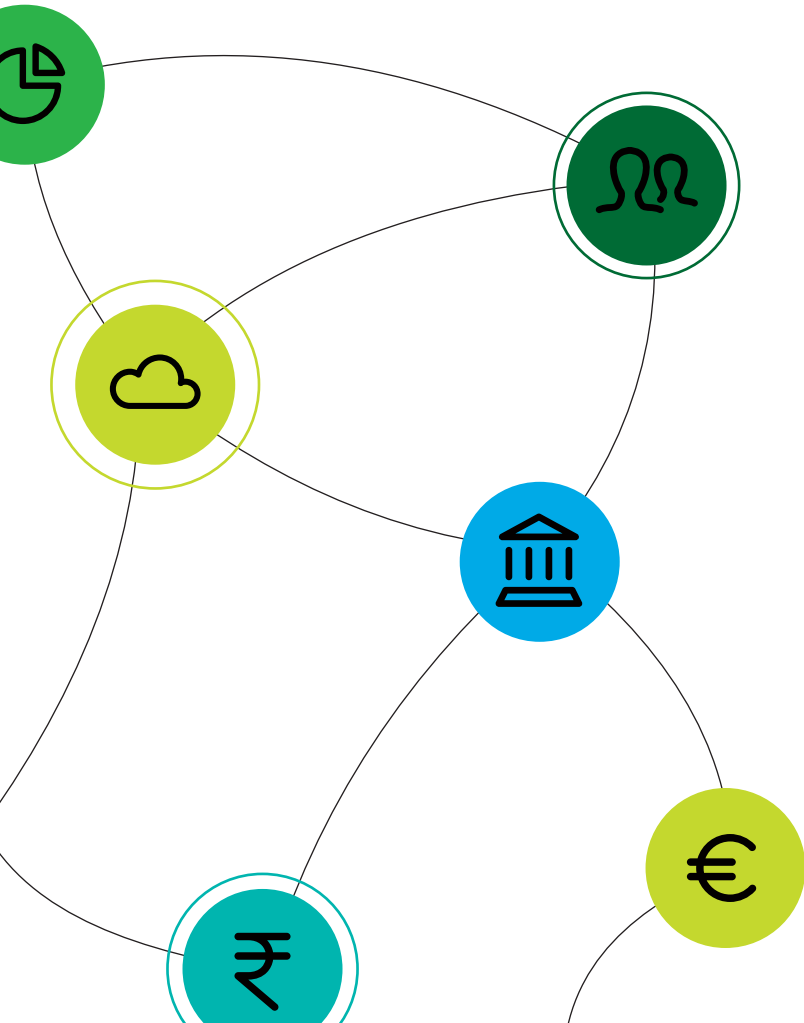
04

05

06

07

# So what's your plan?



If you've ever worked through finance transformation, you understand there's no such thing as finished. Between new regulations and new markets, the people, processes, and technologies needed to run Finance effectively are always evolving. That's true for Tax, too. Figuring out how to stay ahead—without spending too much—is the name of the game.

A lot of what's required for tax modernization happens in ERP implementations, but not everything. You still have to integrate with other technologies like business intelligence and visualization software to see the "art of the possible."

## Pain points

One place where tax modernization can have immediate impact is in intercompany accounting. Modernization lets you plan and monitor the potential tax consequences of different inventory and supply chain choices, improving your ability to get transfer pricing and intercompany transactions right in real time.

Another place modernization can help is in closing the books, where companies gather and report all transactions. When you get the tax data model right, everything else starts to fall naturally into place and can bring significant efficiencies to the close process.



01

02

03

04

05

06

07

# You didn't answer my question about cost.

CFO

You didn't answer my question about cost.

Experience says we'll need 5–10 percent of the total finance transformation project cost.

CFO

Ten percent? What does that get us?

Better insights and tax planning.  
Lower risk. Greater efficiency.

CFO

Okay. I get it, but I have one more question. Who's the sponsor?

Ummm. That would be you.

Tax leader

Tax leader

Tax leader



01

02

03

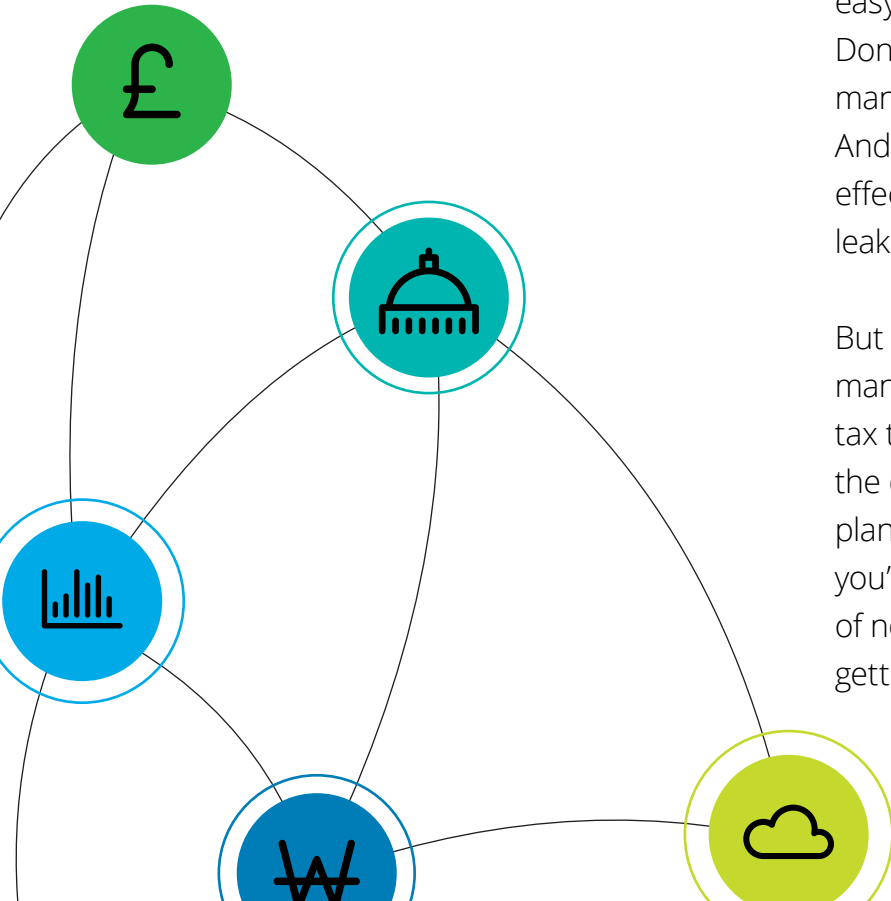
04

05

06

07

# You didn't answer my question about cost.



The business case for tax modernization is easy to make for almost any global enterprise. Done right, tax modernization enables better management of the global effective tax rate. And with automation, you may be able to more effectively apply for tax rebates and reduce cash leakage, such as VAT overpayments.

But tax modernization is also about risk management. In the face of growing complexity, tax teams need a way to efficiently grind through the data and scenarios required for effective tax planning and reporting. Without modernization, you'll be challenged to keep up with the onslaught of new demands—and have little chance of getting ahead of the curve.

Yet even with a clear business case, your tax department may not push for needed investment as aggressively as other functions might. Tax departments are busier than ever, and many are falling behind, with little bandwidth to consider these improvements.

If you're the CFO, nudge Tax along. Even when there's a great tax leader in place, CFOs need to champion modernization.



01

02

03

04

**05**

06

07



# What's the risk if we don't invest?

CFO

What's the risk if we don't invest?

CFO

For one thing, we could make mistakes.

That can happen no matter what.

CFO

Maybe. I just don't want Tax on the front page.

Me neither.

CFO

That's why we're talking.

Anything else?

Yep. Without modernization we'll have a hard time keeping our people.

Tax leader

Tax leader

Tax leader

Tax leader



01

02

03

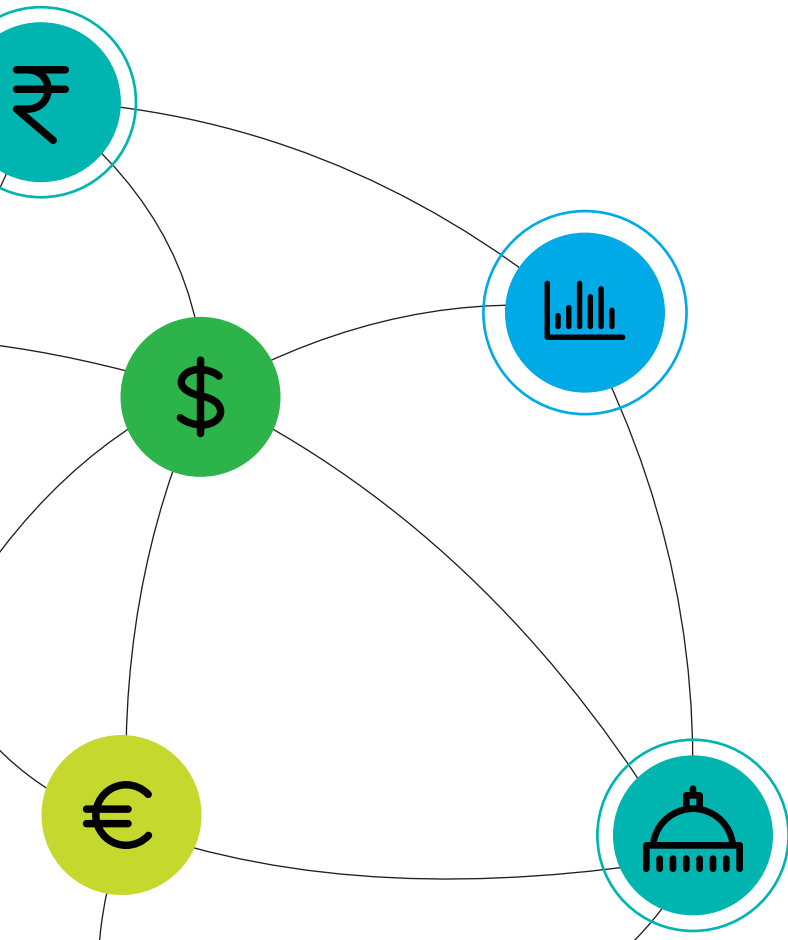
04

05

06

07

# What's the risk if we don't invest?



We've said this already, but it bears repeating: the number of new regulations companies have to comply with is truly mind-boggling. Every country or jurisdiction has its own unique requirements, and global companies feel the brunt of new rules every day. It's impossible for anyone to have a handle on all the issues—so risks can multiply.

Another risk involves talent. The pool of available tax talent is shrinking, with companies finding it harder to keep the best people on board. New recruits are looking for companies with modernized tax operations. Make sure yours is one of them.

No business can prepare completely for the uncertain future, but it's possible to get ready for the most-likely scenarios. More automation. More use of cognitive tools. More artificial intelligence. More advanced algorithms for scenario modeling. These are all part of tax modernization.



01

02

03

04

05

**06**

07

# It's crunch time.

Tax reform in the US has lowered the corporate statutory tax rate. On the global stage, tax legislation is increasing, along with calls for more reporting transparency and regulation. This means more tax reforms, more complexity, and potentially more change for your tax function.

Companies that received tax benefits from tax reform should consider investing in tax modernization, rather than taking those current tax savings to the bank. They should also be rethinking the role Tax plays in their business decision-making processes.

By taking a fresh look at new technology capabilities and related operating models, CFOs may find that they can have it all: a high-performing, efficient tax department that's tightly integrated with Finance and the rest of the organization.



## Talking Tax

The next time you see one of your tax people in the break room, take a minute to swap war stories. And be sure to ask them how Tax and Finance could be working more effectively together. Don't be surprised if you unleash a wave of new ideas.



01

02

03

04

05

06

07

# Acknowledgements

## Authors

### **Mark Lazzaro**

#### **Partner, Tax**

Deloitte Tax LLP

Tel: +1 404 220 1230

Email: mlazzaro@deloitte.com

### **Emily VanVleet**

#### **Partner, Tax**

Deloitte Tax LLP

Tel: +1 404 631 2715

Email: evanvleet@deloitte.com

### **Michelle Chaung**

#### **Senior Manager,**

#### **Finance & Enterprise Performance**

Deloitte Consulting LLP

Tel: +1 713 982 3167

Email: micchuang@deloitte.com

## Contributors

### **Steven Ehrenhalt**

United States

### **Rosemary Sereti**

United States

### **Bob Stack**

United States

### **Kathryn Karlman**

United States

### **Katy Hollister**

United States

### **Nathan Andrews**

United States

### **Jason Sawyer**

United States

### **John Steele**

United States

### **Conrad Young**

United Kingdom

### **Jason Dess**

Canada

### **Igor Ivanov**

Brazil

## Endnotes

1. House of Representatives Office of the Law Revision Counsel, 2017



01

02

03

04

05

06

07

# Contacts

## Steven Ehrenhalt

**Principal, US and Global Finance Transformation Leader**

**Deloitte Consulting LLP**

Tel: +1 212 618 4200

Email: hehrenhalt@deloitte.com

## Nnamdi Lowrie

**Principal, US Finance and Enterprise Performance Leader**

Deloitte Consulting LLP

Tel: +1 213 996 4991

Email: nlowrie@deloitte.com

## Anton Sher

**Principal, US Finance and Enterprise Performance – Finance in a Digital World™ Leader**

Deloitte Consulting LLP

Tel: +1 213 553 1073

Email: ansher@deloitte.com

## Jean White

**Principal, US Finance and Enterprise Performance – Global Business Services & Operating Models Leader**

Deloitte Consulting LLP

Tel: +1 214 840 7384

Email: jwhite@deloitte.com

## Darin Buelow

**Principal, US Finance and Enterprise Performance – Location Strategy Leader**

Deloitte Consulting LLP

Tel: +1 773 294 4547

Email: dbuelow@deloitte.com

## Matt Soderberg

**Principal, US Finance and Enterprise Performance – Finance Operations Excellence Leader**

Deloitte Consulting LLP

Tel: +1 214 840 7726

Email: msoderberg@deloitte.com

## Tadd Morganti

**Managing Director, US Finance and Enterprise Performance – Business Finance & Analytics Leader**

Deloitte Consulting LLP

Tel: +1 704 887 1793

Email: tmorganti@deloitte.com

## Adrian Tay

**Managing Director, Finance Analytics and Insights Leader**

Deloitte Consulting LLP

Tel: +1 213 688 3212

Email: adtay@deloitte.com

## Robert Dicks

**Principal, Human Capital CFO Services Leader**

Deloitte Consulting LLP

Tel: +1 917 721 2843

Email: rdicks@deloitte.com

## Jessica L. Bier

**Managing Director, US Human Capital Finance Transformation Leader**

Deloitte Consulting LLP

Tel: +1 415 783 5863

Email: jbier@deloitte.com

## Matt Schwenderman

**Principal, Emerging ERP Solutions Finance Transformation Leader**

Deloitte Consulting LLP

Tel: +1 215 246 2380

Email: mschwenderman@deloitte.com

## Girija Krishnamurthy

**Principal, US Oracle Finance Transformation Leader**

Deloitte Consulting LLP

Tel: +1 714 241 5161

Email: gkrishnamurthy@deloitte.com

## Chris Holland

**Principal, US SAP Finance Transformation Leader**

Deloitte Consulting LLP

Tel: +1 312 486 0701

Email: cholland@deloitte.com

## Kelly Herod

**Principal, US SAP Finance Transformation Leader**

Deloitte Consulting LLP

Tel: +1 214 840 1911

Email: keherod@deloitte.com

## Paul Sforza

**Managing Director, US Finance & Enterprise Performance – Government & Public Service**

Deloitte Consulting LLP

Tel: +1 618 222 3801

Email: psforza@deloitte.com



**Anthony Waelter**

**Partner, Risk and Financial Advisory**

Deloitte & Touche LLP

Tel: +1 312 486 5519

Email: awaelter@deloitte.com

**David Stahler**

**Partner, Risk and Financial Advisory**

Deloitte & Touche LLP

Tel: +1 216 589 1406

Email: dstahler@deloitte.com

**Chris Ruggeri**

**Principal, Risk and Financial Advisory**

Deloitte & Touche LLP

Tel: +1 718 753 4857

Email: cruggeri@deloitte.com

**Niklas Bergentoft**

**Principal, Risk and Financial Advisory**

Deloitte & Touche LLP

Tel: +1 347 371 1604

Email: nbergentoft@deloitte.com

**Jason Barnes**

**Partner, Risk and Financial Advisory**

Deloitte & Touche LLP

Tel: +1 859 512 3631

Email: jabarnes@deloitte.com

**Kyle Cheney**

**Partner, Risk and Financial Advisory**

Deloitte & Touche LLP

Tel: +1 330 819 0665

Email: kcheney@deloitte.com

**Will Bible**

**Partner, Audit and Assurance**

Deloitte & Touche LLP

Tel: +1 973 602 6111

Email: wilbible@deloitte.com

**Scott Szalony**

**Partner, Audit and Assurance**

Deloitte & Touche LLP

Tel: +1 248 345 7963

Email: sshalony@deloitte.com



01

02

03

04

05

06

07



To find out more, please visit [www.deloitte.com/us/crunchtime](http://www.deloitte.com/us/crunchtime).

#### **About Deloitte**

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of DTTL and its member firms. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

Copyright © 2019 Deloitte Development LLC. All rights reserved.