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Tax transformation:
Increasing tax efficiency,
vision, and impact on
the bottom line

Deloitte Center
for Financial Services



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Tax: The need for change

What if the glass slipper hadn't quite fit Cinderella? Even worse, what if she had not made it to Prince Charming's ball in the first place?

Professionals in the tax function of insurance companies may be forgiven for considering themselves the undesired stepsister, not invited to the great transformation ball thrown by Prince Charming in the "finance" palace. While other finance functions have been transformed with increasing urgency, particularly in light of ever more sophisticated regulatory demands, tax transformation has generally not been treated as a priority.

Transformation has almost become a cliché in the business world for the past two decades, but it remains relevant because transformation efforts in areas as diverse as supply chain management and finance and accounting have typically provided a return that justifies the difficulty in undertaking some transformations, and because the emergence of enterprise resource planning (ERP) systems has enabled a new holistic view of organizations.

Like the move from siloed to enterprise risk management, transformation efforts reflect an acknowledgement of organizations as cohesive, integrated structures, with risks and opportunities sometimes dependent on the interplay among the parts. Tax transformation may be defined as the effective application of organizational design, process improvement, and enabling technology to improve data integrity, tax function efficiency, and performance—while driving value for the business.

Scrubbing the floors and keeping the kitchen or the tax books clean is a necessary and laudable endeavor, but the opportunity cost of failing to optimize available talent also needs to be considered. How much value could be added to the realm if Cinderella—with innovative ideas like transforming her seven-strong mouse workforce into a coachman and six beautiful stallions—were able to likewise transform her stepsisters into an integral part of planning the future of the business?

Similarly, how much value could a tax function add to the business if it were freed from reconciling data to instead providing analysis, projection, and beyond? Planning, analysis, and formulating global tax strategy are among the high-value tasks with which a transformed tax function would be better equipped to engage. Especially in the complex and quickly changing world of global insurance

tax, an effective tax function must be properly positioned to anticipate, analyze, and quickly address potential impacts on tax and the business, whether driven by regulation, merger and acquisition, or business model adjustment.

Insurers, especially in an age of sustained low interest rates, cannot expect operations to, in effect, be subsidized by investment income as might have been the case in the past. Competition, earnings, and regulatory pressures continue to drive finance and the business toward an acceptable level of return on capital despite the economic climate.

That may result in a dual whammy for the tax function. To improve returns, organizations may move to reduce expenses, and thus the tax function likely will face pressure to increase efficiency. On the other side of the ledger, in this economic environment, traditional low-risk investments may no longer provide the desired return for investment officers. That has led investment officers to search for more exotic instruments than the traditional federal or municipal debt offerings. These new instruments have introduced more financial complexity on the asset side of the balance sheet, which has put even more pressure on the tax department to understand the investments and subsequent tax treatment.

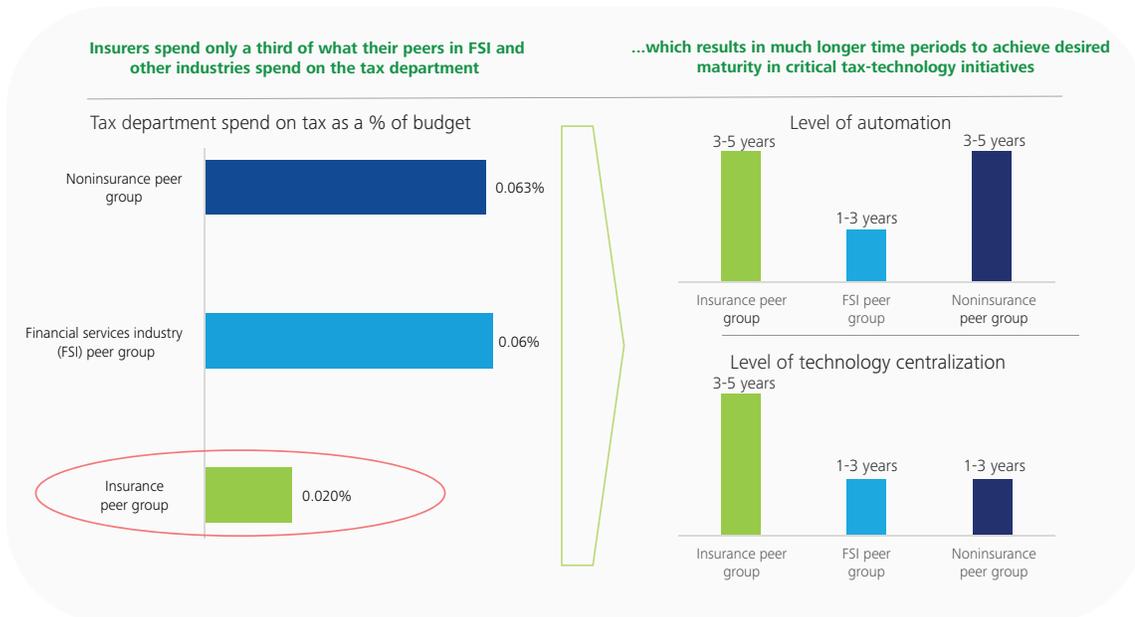
Tax is a crucial lever on the balance sheet, income statement, and cash flow statement, and one with the potential to increase that return.

Concrete examples are not difficult to come by. Data availability and the ability to process large amounts of data as a result of tax transformation may reveal previously unrealized opportunities for savings, such as research and development credits. Companies with a better view of their tax positions may be able to engage in more specific planning, such as:

- Evaluating their position in various partnership investments in order to plan appropriately for capital gains or loss realization
- Better understanding their earnings and profits or their foreign tax credit position so that they are better able to manage cash flows

An effective tax transformation benefits not just the tax function, but finance and the business as a whole, through better planning, enhanced visibility and risk management, and improved return on capital.

Figure 1: Tax technology spend benchmark



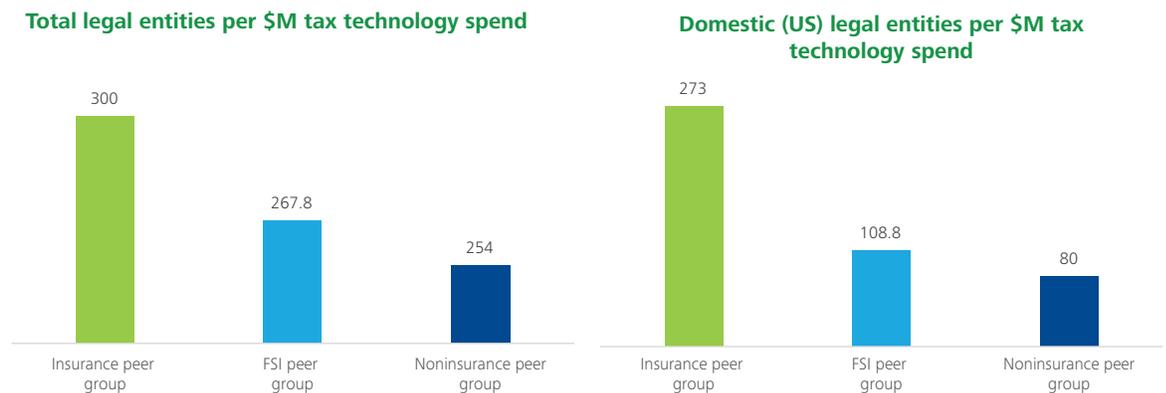
Source: The Tax Technology Spend Benchmark Survey was conducted by Deloitte in 2013. The survey include responses from 18 large US firms representing different industries: insurance (5), banking and securities (5), technology (4), consumer products and distribution (3) and pharmaceuticals (1). The respondent companies are grouped as following for the purpose of analysis in this paper: insurance peer group = insurance companies, FSI peer group = insurance and banking and securities companies, noninsurance peer group = banking and securities, technology, consumer products and distribution and pharmaceutical companies.

Yet conversations with both insurance company CFOs¹ and subject matter specialists² revealed a common theme: Tax transformation is often considered, at best, a secondary part of the finance transformation process, and at worst, so distant a stepsister as to not even be considered for an invitation to the ball. The value of the tax function is often inversely related to its visibility: If we see nothing, there's nothing happening. If there's nothing happening, there's nothing bad happening. If there's nothing bad happening, finance is happy.

The result, as shown in Figures 1 and 2, is unfortunate. As shown above in Figure 1, while technology in and of itself is not synonymous with tax transformation, it is usually a basic component. Yet studies indicate that insurance companies spend about a third on a relative basis of what their peers, in both other financial services industries and non-FSI industries in general, spend on their tax department technology.

Figure 2: Insurance tax organization structures are inherently more complex than that of peers

Significant tax technology resource differences exist



Source: The Tax Technology Spend Benchmark Survey was conducted by Deloitte in 2013. The survey include responses from 18 large US firms representing different industries: insurance (5), banking and securities (5), technology (4), consumer products and distribution (3) and pharmaceuticals (1). The respondent companies are grouped as following for the purpose of analysis in this paper: insurance peer group = insurance companies, FSI peer group = insurance and banking and securities companies, noninsurance peer group = banking and securities, technology, consumer products and distribution and pharmaceutical companies.

The data displayed in Figure 2 may hint at the issues facing insurers in the United States in particular. While the differential between insurance, its FSI peer group, and its non-FSI peer group is significant in terms of the number of legal entities per million dollar tax technology spend, the gap explodes when only US domestic legal entity spend is considered. Insurance department tax functions have more than triple the number of legal entities per million dollar tax spend than their non-FSI peers and more than double that of their FSI peers. That may reflect the fragmented nature of US insurance regulation and could be considered a marker for complexity.

Of course, raw numbers don't always tell the whole story. As Mark Twain observed, "There are lies, damned lies, and statistics." The tax function in an insurance company is probably used to addressing complexity. There may be multiple accounting standards, multiple jurisdictions, multiple requirements, not to mention the data and process issues linked to properly accounting for everything from interpretation of arcane insurance tax law, multiple standard deferred tax inventories, lengthy financial report filing seasons, and jurisdictional-specific insurance concerns. Could one, then, conclude that perhaps tax spending by insurers is lower simply because insurers have more experience, making them more efficient and ahead of the curve?

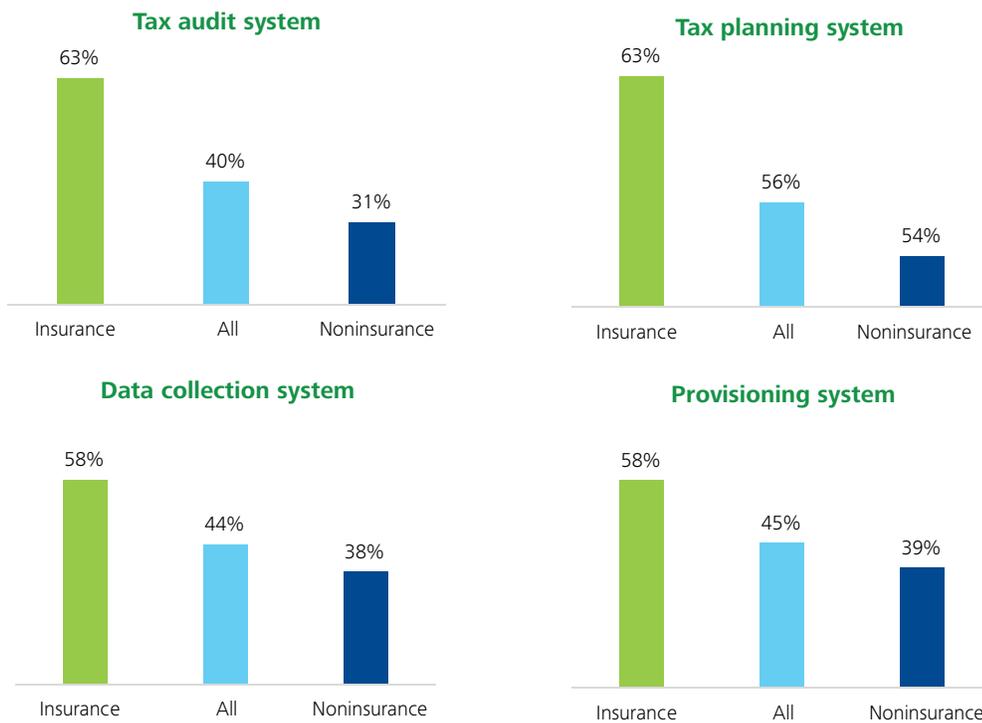
Doing more with less is every manager's aspiration and every budget maker's dream, but sometimes less means no more than less. Looking at the level of automation and the level of technology centralization (Figure 1) where the insurance industry lags its peer group inside and outside of financial services, it would be difficult to conclude that insurers are simply ahead of the curve. A closer look at the data on what insurers actually use may serve to confirm that interpretation.

As shown in Figure 3, insurers' use of Microsoft's Excel® software significantly exceeds that of other parts of the financial services sector and of industry as a whole. Excel® is a software program that has long been used in tax departments for, among other things, data aggregation and reconciliation, and as with any tool, proper use is vital. Such individual spreadsheets may be less effective in certain circumstances than more automated, integrated programs.

For example, Excel® is being used in 63 percent of tax audit systems in insurance, compared to a mere 31 percent in noninsurance financial services companies, and 40 percent overall (Figure 3). Tax audit systems are designed to ensure that a firm's tax compliance is properly aligned with the existing rules and regulations, and any error or misjudgment is captured and flagged in time to avoid or mitigate compliance and financial risks. Many organizations are now adopting automated software-based tax audit systems that continuously audit the financial transactions and accounts to confirm full and timely compliance.

Figure 3: Tax technology spend benchmark

Insurers widely use Microsoft Excel® for various tax related tasks; the usage is significantly high compared to that of peers.



Source: The Tax Technology Spend Benchmark Survey was conducted by Deloitte in 2013. The survey include responses from 18 large US firms representing different industries: insurance (5), banking and securities (5), technology (4), consumer products and distribution (3) and pharmaceuticals (1). The respondent companies are grouped as following for the purpose of analysis in this paper: insurance peer group = insurance companies, FSI peer group = insurance and banking and securities companies, noninsurance peer group = banking and securities, technology, consumer products and distribution and pharmaceutical companies.

This may indicate a tendency toward data organization and reconciliation as the focus of insurance tax departments. But there are increasing demands on finance in general and tax in particular. This is a result of various drivers including regulatory changes, earnings pressures, the need for increased efficiency, and strategic planning exercises. It may be reasonable to assume that this means “business as usual” should no longer be usual.

Carriers would be better served if tax departments increased tax compliance and reporting efficiency, managed risks more effectively, and became a strategic business partner, including through spending more time on strategic tax planning, as shown in Figure 4. Achieving that state is the goal of tax transformation, and one with which it would be hard to argue. However, the reasonableness of that goal

masks a number of underlying questions that we need to address. Those questions include how to accomplish these goals, what may stand in the way, what structure better addresses the goals, and how should the tax function ideally be situated after a tax transformation.

One desired goal is that CFOs be served by having tax as a partner working to help address balance sheet pressures and optimize shareholder or policyholder return on capital. Tax is an important lever on the financial and cash flow statements. An effective tax transformation may serve as a force multiplier increasing the benefits tax can bring to finance and the business.

What does finance want from tax?

What finance wants from tax is very much what finance wants from finance. Over the past few years, finance transformation has become a buzzword not because finance executives wanted change for change's sake, but because they recognized the new reality in which their businesses operated and needed to change their own operating models to optimize their effectiveness.

One construct Deloitte has developed to illustrate the new role of the CFO after a finance transformation is that of the four faces of the CFO which include steward, operator, catalyst, and strategist.

Of the four, both steward and operator might be considered traditional roles, focused on the organization and its compliance with reporting and control requirements.

The catalyst and strategist roles both carry a broader, more outward looking focus, particularly after a finance transformation. As a catalyst, the CFO serves as a business partner with other decision makers, as well as an agent for change and value alignment throughout not just finance, but the organization as a whole. As a strategist, the CFO must look not only outside the organization, but ahead in time, helping to define the future of the company.

Tax transformation is frequently derivative of, and often dependent on, a finance transformation. It is no surprise then to expect that the CFO—who may frequently be providing the budget and the leadership for a tax transformation—would expect to see the same changes within the tax organization that are being brought to the larger finance function (Figure 5). Yet, according to a Deloitte Dbriefs poll, nearly half of more than 2,600 respondents viewed their tax function as spending a majority of its time in the operator or steward role.³ Like the CFO, the tax executive should be better positioned to focus on the catalyst and strategist roles after a transformation.

Taxes are a crucial lever in driving earnings and cash flows, and the CFO needs a partner in managing this line on the income and cash-flow statements. For the tax function to properly support the CFO as an effective planner and partner in meeting the demands of the CFO's planning role, both the CFO and tax executive need data that is clear, concise, relevant, and timely to make accurate and informed planning decisions.

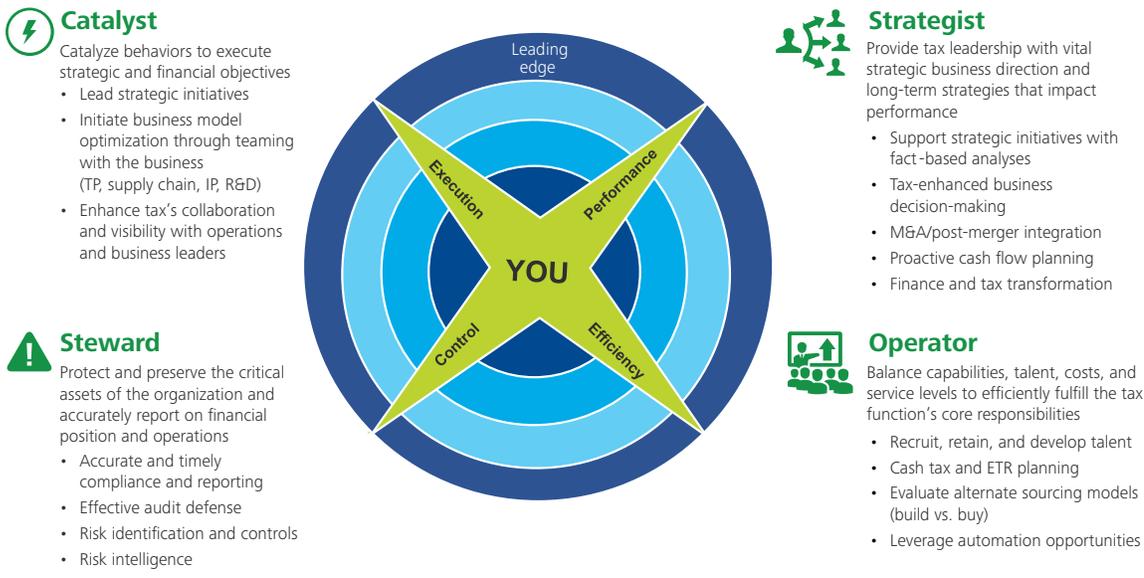
Figure 4: Why should you care?

Creating value for your organization through tax transformation



Figure 5: How does this apply to you?

Each of the four faces of the tax executive (mirroring those of the CFO) can add value. It is the balance between responsibilities and the related allocation of resources based on the vision and strategy of the organization that promotes exceptional results.



A tax transformation can help beyond the obvious. For example, one concern is that tax functions may have trouble articulating to other departments what data they need. What are the true data definitions or requirements needed? To be truly actionable, this data often must be very granular—not just XYZ report, but actual data components. A tax transformation project—especially one facilitated by external advisors with broad knowledge of leading practices and able to see gaps in current practices—by its very nature can help a tax function define and articulate needs that may have previously been unclear.

That such a transformation can be helpful is clear from interviews with various stakeholders, including more than 76 CFOs, conducted in preparation for the Deloitte Tax Executive Transition Labs. There, CFOs expressed concerns about the current performance of tax executives and discussed their added expectations of these executives (Figure 6).

These new expectations can be grouped into two basic functions: optimizing the tax function for greater impact and strategic partnering across the organization. Both

expectations move the tax executive more in the direction of the catalyst and strategist roles.

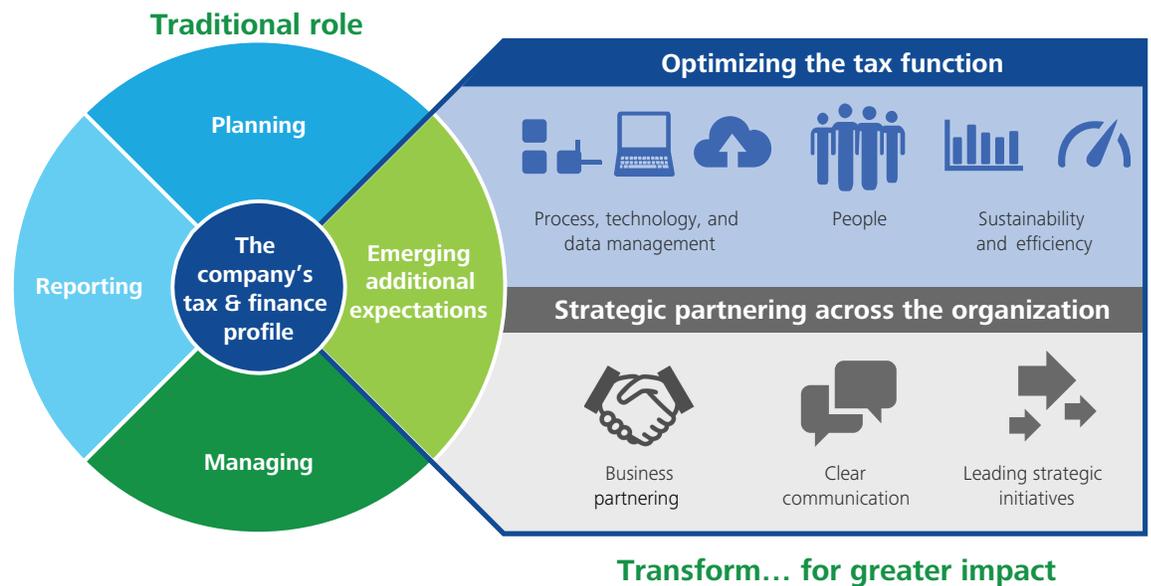
In interviews, stakeholders expressed a series of concerns that tax executives need to address through transformation.⁴

To optimize the tax function for greater impact, stakeholders suggested there needed to be:

- An increased level of communication—awareness within finance of how tax resources are deployed
- Better succession planning—which stakeholders now consider to be nonexistent, at least compared with the rest of the finance organization
- Better use of process and technology—as tax has not always leveraged existing technology and utilized available data
- Cost awareness—tax needs to constantly work to drive down the total cost of ownership
- Regulatory awareness—including interfacing with the regulatory environment to interpret the business relevance of various current developments

Figure 6: What is the transformation?

The job of the tax executive is changing: CFOs have new expectations



Source: Derived from Deloitte stakeholder interviews, including over 80 CFOs, in preparation for Deloitte Tax Executive Transition Labs™.

To increase strategic partnering across the organization, stakeholders felt there needed to be:

- Better risk understanding—Many stakeholders felt there was a minimal understanding of the inventory of tax risks and how they were measured and managed.
- Stronger relationships—Tax needs to strengthen relationships across the organization and expand its partnerships with other business functions.
- Better communication outside tax and finance—Tax needs to be adept at developing and communicating a long-term strategy and clearly articulating tax concepts to a nontax audience. It also needs to understand the business, and to be willing to state the tax case without alienating key business partners. Stakeholders felt that when tax minimization or risk management were important success factors, the tax executive was well positioned to lead.

These various concerns argue for a transformation of the tax function on many levels. Regulatory, statutory, and economic challenges have had many tax departments busy jumping around like cats on a hot tin roof, managing competing priorities, with barely enough personnel or resources to focus on what they need to do to comply with today's expectations. Though the underlying data, process, and willingness of stakeholders to support a tax transformation are the enablers of success in that transformation, perhaps the most critical catalyst may be proper technology and proper use of that technology. Proper technology use may also help relieve tax executives' dissatisfaction with the technology they currently use.

Getting a transformation started

Tax transformation can help tax functions stay ahead of the curve in a world of rapidly increasing demands. Staying ahead of the curve requires continuous improvement, which is why tax transformation is an ongoing process, not a fixed block with a beginning and an end. Transformation happens in phases, and as shown in Figure 7, is more of a perpetual feedback loop. The first three phases may be considered part of planning. Implementation follows, but to have the optimal effect, it must be followed by ongoing support and updates as needed, with the information gained feeding into new planning as circumstances change.

Change is hard and rarely welcome. So what factors usually trigger the start of a tax transformation, and what factors aid or hinder the success of these transformations? Our observations, based on a broad array of tax transformation efforts across industries, form the basis for this discussion.⁵

External forces or significant leadership changes seem to be among the major triggers. The finding of a significant deficiency or material weakness by auditors, for example, may serve as a driver for an overall tax transformation. A new CEO, CFO, or tax executive who has been in, or exposed to, an environment where technology was more

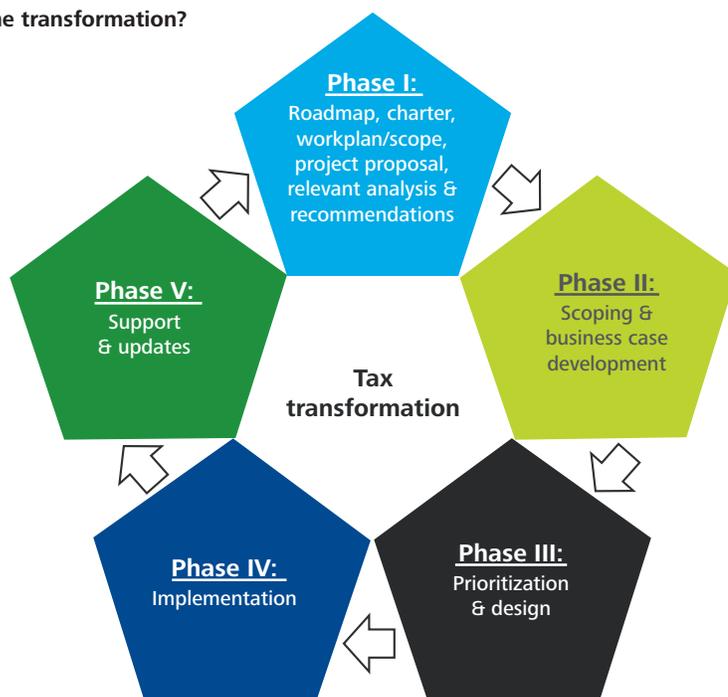
effectively used can often serve as a catalyst for a tax transformation, as could a board member or members who may have seen the effectiveness of such a transformation in other organizations.

Desired results are varied but commonly include risk management and increased efficiencies. While cost-reduction could sometimes be a factor, the real end-goal of increased efficiency is often the desire to free up tax to better manage risks, add value, and be more of a strategic partner.

The factors contributing to success are also varied, but related. To begin with, there should be a vision as to what is desired and possible, around which both leadership and participants could coalesce. High-level leadership involvement, generally outside of tax, is pivotal. That involvement and public support may be critical to the success of a tax transformation, especially given that such a transformation must, of necessity, transcend tax and include finance, IT, accounting, and business operations, for example.

With the decision made, the investment must follow, and initial planning is the beginning of that investment.

Figure 7: What is the transformation?



In an effective transformation, planning is part of an ongoing feedback loop that allows for self-correction as the process unfolds. But the importance of the initial planning process is such that in many successful transformations, one third of the time is spent there.

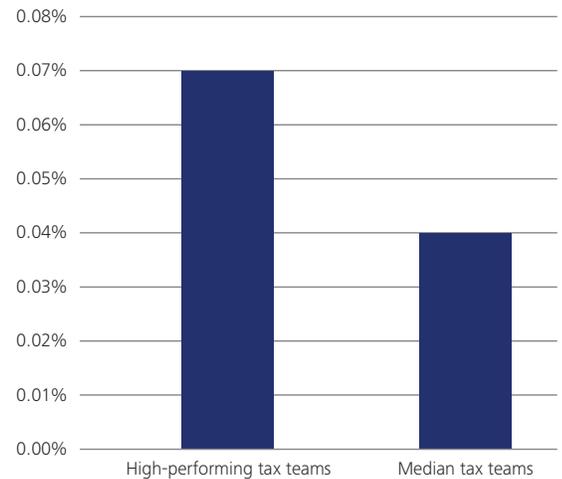
Planning includes change management. Any transformation needs to be embraced by more than just its sponsor in order to be successful, and any transformation could run up against resistance by those who perceive success within the current structure.

While it might seem obvious, the importance of proper planning cannot be overstated. Especially in a tax transformation, which may have trailed by some time the finance transformation process, there could be an all-too-human tendency to want to catch up in a hurry, and begin implementing the transformation to pursue the potential benefits quickly.

Though understandable, that could be a critical mistake. Tax transformation is not just new software; it is a reengineering of an entire process. It is a change for people as well as the processes and data needed to support them, much of which may need to be examined in detail and rethought or reordered. It is the equivalent of juggling numerous moving parts while still keeping the enterprise running just as before. It requires forethought.

To reiterate, planning is crucial to the success of a tax transformation, with change management a necessary core component. While giving planning one-third of the entire time allocated to tax transformation may seem wasteful given the urgency of the need, it is far more efficient than having to make corrections later.

Figure 8: Tax spend per billion of revenue



Source: Corporate Executive Board analysis

CASE STUDY: MULTINATIONAL LIFE AND RETIREMENT PROVIDER AND ASSET MANAGER

The company was assessed with a material weakness in its financial reporting for income taxes. It was using a patchwork of Microsoft Excel® spreadsheets to receive data, calculate complex book-to-tax adjustments, accept international reporting packages, track basis, and consolidate taxable income. To mitigate the deficiency, the company selected a tax provision system, engaging the vendor and an outside advisor to implement the system.

Issues arose, in the company's view, because tax was being driven to conform to the requirements of the new system, as opposed to the system conforming to the company's requirements. These issues were aggravated by the company's difficulty in defining its requirements.

The company shifted course and brought in a new external partner. The company's requirements were defined, a manageable work plan was drafted, and roles and responsibilities were assigned. Once the build phase of the

provision solution was completed, a significant amount of time was spent on testing and user knowledge. The result was a successful implementation of the company's domestic tax provision technology.

Flexibility and adaptability are hallmarks of the new system. The domestic implementation laid the groundwork for an international rollout that is measured, defined, and strategic. The manner in which the software was eventually implemented also allows for future architecture to be available. This includes workpaper optimization, tax adjustment automation, entity maintenance, and tax life-cycle alignment.

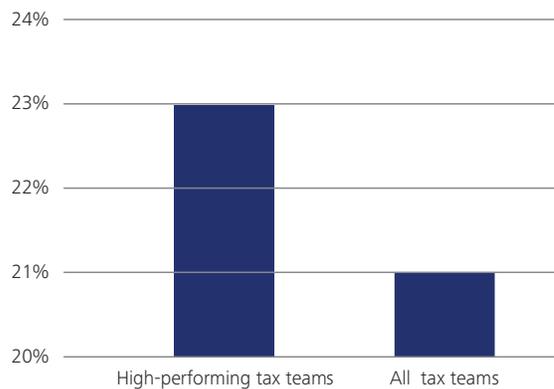
Next steps include aligning the tax department with the overall finance transformation that the enterprise has embarked, automation of a tax-basis balance sheet, and developing a tax target-operating model that will serve as a roadmap for future data, process, people, and technology projects.

To be most successful, full buy-in by finance and other involved non-tax functions is optimal. Moreover, the need for tax buy-in is clear, as that is where the institutional knowledge lies. And just as important as the institutional knowledge needed to accomplish anything truly transformative, is adding experience that encompasses transformations outside the firm—experience and perspective often provided by an outside advisor.

With all that in place, at least one more resource is needed: budget. If the appropriate budget is not available, the best laid plans may go awry. As with much else, performance in the tax function does reflect spending to a large extent. A recent study by Corporate Executive Board benchmarking high-performing tax teams (Figure 8), with tax performance defined using the extent to which companies maintain effective tax rate (ETR) relative to peers and the extent to which tax has been effective at minimizing the number of tax-related compliance errors, found both a higher relative budget per billion in revenue and fulltime equivalents (FTEs) per billion in revenue as compared to their peers.⁶

But the payoff was that these teams spent roughly 10% more time on tax planning, and 10% less time on accounting than did their peers (Figure 9). Tax planning means alignment of the tax current, deferred, and total tax expense or benefit with an overall goal of finance. One might reasonably infer that the higher relative cost leads to a larger value add.

Figure 9: Tax time spent on planning



Source: Corporate Executive Board analysis

TAX EXECUTIVES: IN THEIR OWN WORDS

(This is excerpted from an interview with a tax executive leading a tax transformation at a major personal lines insurer.)

We were using Excel[®] for tax provision and (another platform) for tax compliance. We have (numerous) companies in our group, we were really linked, but we started to get a little nervous. We liked our spreadsheets, but there was a lot of redundancy in entering in the same information, looking in the same workpapers. With the redundancy came the possibility of introducing errors.

It made us think we really, really would like an out-of-the-box solution. We knew what we wanted and what we liked about the Excel[®] process, and we knew what we wanted to change going forward.

We wanted everybody on our staff to be able to prepare a GAAP provision, prepare a STAT provision, prepare a STAT to GAAP analysis, prepare a return, and kind of pull the pieces full circle. Our initial idea was wouldn't it be great if one person could see their company from start to finish.

We wanted the system to do some things for us... we purposely built the system to do things that way. We already had a pretty good process in place, so we just piggybacked on the process we had in place and made it even better, made it more

automatic.

We've started to roll that out to various individuals. It's been great. They're spending their time now on analytics rather than on inputting, especially new preparers, starting to ask questions—why does this workpaper have this on it (or why not)—partly because they have more time.

One of the biggest (success) factors was that we took the time to do it right. That gave us a lot of confidence, to really think through how we wanted to link our general ledger to the provision to the platform, and examine alternatives.

Another thing that helped us is we tried to do most of the work ourselves, so a lot of people were invested in "We want to make this work so it really helps us in our job." We allocated time for everybody to get in there and work with it and help us. You do want to partner with the consultants who are helping you... we're not technology people.

One lesson: It always takes longer than you think. It's helpful to do more parallel testing as you go along. It does help to have at least one person who's really excited about it to drive it a little bit. And it does help if you have somebody who has some computer background helping with the project.

Complicating factors

Nobody ever thinks their process is faulty. That is a complicating factor in any tax transformation, and especially in an industry such as insurance where longevity, more often than not, is a rule for employees.

Tax stakeholders, used to working with multiple Excel® spreadsheets, may not necessarily see the advantage in changing. A certain level of tenure reflects a certain success, and a transformation may well be seen as threatening to that success.

That is where leadership and communication are of prime importance. Initial resistance to transformation within a tax function may be softened if leadership, both inside and outside the function, share a unified vision and communicate that vision to the workforce.

Incorporating all the constituents of the tax operations, extending beyond the tax department, is one way to increase the level of acceptance and thus the ultimate success of the tax transformation. Getting input or participation from everyone touching on the process, even if that is just asking for pain points, allows all stakeholders to share the investment in the success of the tax transformation process.

Obtaining input may be one of the most valuable parts of the planning process. Stakeholder input, properly organized and assessed through an organized solicitation process that aids in timeliness, may reveal previously unknown gaps, but in any case, helps create a feedback loop that may make the planning process more effective. A consistent forum for feedback needs to be available, with stakeholders given time to process and respond. Here, the use of external advisors may be an effective tool in facilitating useful and unvarnished feedback.

“What’s in it for me” should be recognized as a rational question and answered as such.

But stakeholder response is not the only possible complicating factor. In a tax transformation, data rules all. Business complexity is often reflected in data complexity, and data details and integrity are crucial.

CASE STUDY: DOMESTIC MUTUAL INSURANCE COMPANY

The company recently put in place a new finance team, including a new tax director. As the team sought to prove out the carrier’s tax balances on its financials from a statutory perspective, they discovered the balance sheet had inconsistencies with respect to the current and deferred tax amounts. As the proof of balances progressed, they quickly discovered that the inaccuracies were within the attribute, investment, and loss reserve areas. To complicate matters, the company had historically made a special estimated tax election which was not being tracked accurately in the current or deferred tax accounts.

Ultimately the special estimated tax was resolved with the IRS after comparison to the IRS’s control card and a confirmation of attributes arising from being taxed under the alternative regime. Tracing of the deferred tax inventory components was undertaken to balance sheet general ledger accounts, and a completeness exercise was undertaken. Once the tax balances were proved, finance management decided to begin a tax transformation project in an effort to gain efficiencies, manage risks, and reduce costs.

The first stream in the tax transformation program will be to identify all of the data sources throughout the annual tax life cycle that are depended on outside of the tax department. In addition to identifying the tax department’s data dependencies, the dependent departments that rely on the tax department and information will be identified. Throughout this program, there will be identification and implementation of leading practices for individual book-to-tax calculations and deferred tax balance proofs. The transformation program will also include the introduction of tax specific technology applications.

As efficient and sustainable processes are introduced throughout the program, time and other resources in the finance and tax department will be redeployed into value add tasks. Some of these value add tasks include but are not limited to: tax planning, expanding the role of the tax function to be more collaborative throughout the business, increasing and precisely communicating the value of the tax department, and leading strategic initiatives. This vision was laid out in an overall roadmap and is anticipated to produce a tax department that is dynamic, forward thinking, and integrated throughout the fiber of the company.

Data and process

Multiple jurisdictions, more regulators than letters than in the alphabet, generally accepted accounting principles (GAAP) to Statutory (STAT) adjustments, interpretation of arcane insurance tax law, multiple standard deferred tax inventories, lengthy financial report filing seasons, jurisdictional specific insurance concerns—all represent just a day in the life of an insurance tax executive.

One unfortunate side effect of a multiple accounting-standard environment, such as insurance, is the potential for a deterioration of the data to be magnified. So a major area of focus must be data integrity and systems.

Understanding the data sources and mapping out the tax data requirements is foundational. Creating that blueprint includes following the data, finding out where they come from, and inventorying the data sources.

The tax-data blueprint is the fundamental starting point. In order to improve, there has to be an understanding of what data are needed, which are available today, and where they originate.

As mentioned earlier, data, and especially their sources and granularity, can be a concern. Tax blueprinting will enable the function to communicate to dependent source departments what data are needed, and at what level. As opposed to simply identifying the source as a general ledger account or report from a sub ledger or other system, for example, a tax department would move to being able to articulate what the data requirements are to the dependent departments so the proper reports are designed and used. This will help tax departments to move from a reconciliation function to a more powerful, flexible position as an end user of the data.

This would begin with mapping out current data sources and analyzing which need human intervention before making it to tax as opposed to those that are general ledger driven. Second would be surveying those items that do come from a source system straight to tax—what are the events that do happen or could happen before the data came from the source system (e.g., coming from a point-of-sale (POS) terminal as opposed to a general ledger), where did the data actually come from, and where should they have come from to capture them at the true source of the transaction.

In insurance, certain specific questions will need to be asked. These would include:

- How many ERP systems are involved?
- Which is leading—ledger, STAT, or GAAP?
- Do they book on GAAP, make an adjustment to STAT, or vice versa—or run in parallel and independently reconcile later on?
- For consolidated GAAP reporting, how is it all pulled together?

Even the Mississippi cannot flow uphill, and good data need to be properly channeled to be useful. Analyzing the current tax-related processes is another basic step.

Mapping out the existing processes and flowcharting them is useful in creating the business case. However, one concern may be the accuracy of current descriptions of current processes. While documentation may exist, that documentation may not accurately reflect processes that may have evolved over time. It may be necessary to go through a workshop to determine the true current steps and see how they match up to the documentation.

Data extraction could follow—pulling source data out and loading them into the tax technology platform. Next would be connecting the current and deferred processes together instead of into separate workbooks, a more efficient operation. Provisioning would be connected to the tax compliance process, with the introduction of standard calculations at both points in the tax life cycle. Again, connecting these instead of using separate workbooks leads to a more efficient operation.

A successful tax transformation initiative should mean less data manipulation and greater automatic validation. Data-gathering, reliance on spreadsheets, and management reporting should be reduced or made more efficient with steps inside the process eliminated.

Technology

Each tax department may define tax transformation slightly differently. For example, many tax managers are dissatisfied with current technology (Figure 10) and see tax transformation as a means to address that issue. Some may choose to focus on just the end-user reporting tool—how well is it implemented, automated, etc. Other times, there may be concerns with the data, and data will need to be cleansed, as well as timeliness and accuracy improved.

In between, especially in insurance companies, is the use of Excel®. A significant opportunity for tax transformation may be to use work-flow tools that could eliminate or reduce the use of the spreadsheets. One goal of transformation should be how many spreadsheets a carrier may remove, and which specific spreadsheets are no longer needed. In the most effective tax transformations, this should actually be defined—there should be a simplification of the number of workbooks or tabs that will be used.

Tax is the last piece of the process of closing the general ledger to produce the financial statements, and efficiency should be a leading driver in its transformation. If the provision can be completed in a week, why should it take

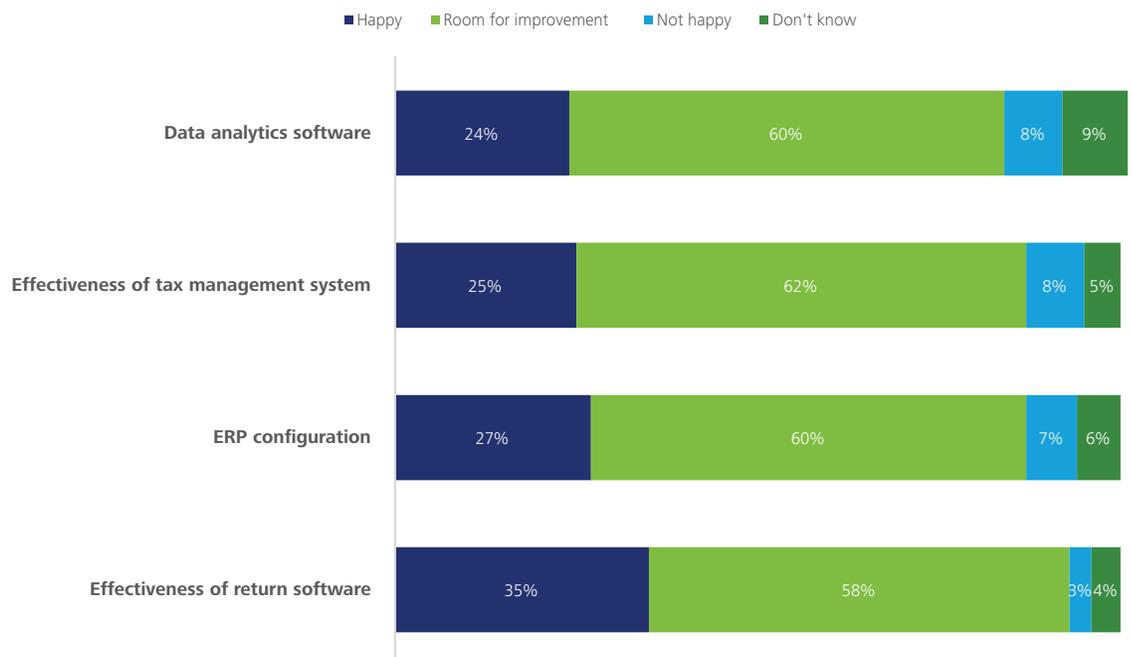
nine months to complete the related tax returns? With the proper use of technology, that is a question that may never again arise.

However, increased efficiency is not the only marker of success. One repeated outcome of successful transformations is that tax can now increase high-level analytics—not being buried in the trees, but using products that enable it to produce actionable information in a timely manner.

There are questions that are often raised—many during the planning process—that may have different answers depending on the insurer’s organizational structure. One obvious question is, should a more rigid or more customizable system architecture be used in insurance? While many may lean toward a more customizable architecture, there is an inherent increased risk associated with more configurability.

Many, though not all, lean toward the implementation of a single-system architecture. This may help remedy the tendency of some tax functions to treat GAAP and STAT provisions as two separate processes when, in the end, there is only one set of transactions reported differently

Figure 10: Global tax managers’ satisfaction with current technology



Source: The Management of Tax: Global Research Bulletin—Deloitte Touche Tohmatsu LTD., London, January 2015

under different reporting standards. Regardless of starting point, the architecture should drive tax to the same approach, and the foundational pillars should be the same regardless of later differences.

But these are issues that are to be discussed and resolved during the planning phase. Regardless of the explicit approach chosen, the end vision should be consistent.

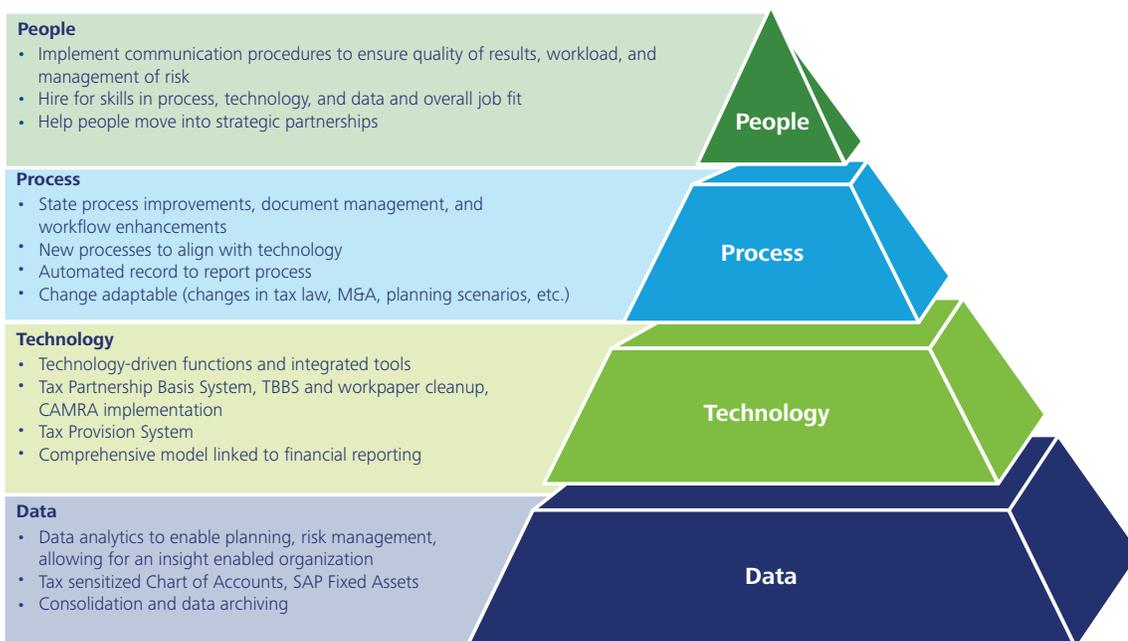
After the successful implementation of the technology segment of a tax transformation, the bigger shift should be from a computation focus to an analysis focus. The major advantage of technology may not be the reduction in the possibility of errors or a simple increase in efficiency, but the empowering of human capital. People who previously spent the majority of their time in data aggregation and computation to build schedules would now be able to review and analyze data instead.

The next step would be going beyond the current data. Efficiencies and the timely, relevant, actionable data resulting from a tax transformation can allow the people in the tax function to not just move past being computers, but move into being strategists. Last year's data may be great, but newly empowered members of the tax function may now choose to focus on thinking critically in ways that may include what better data may be available, how to get them, and how to use them more effectively and for more purposes.

After the transformation, planning and adding value should move to the forefront, with continuous improvement being the goal. Insurers in this volatile regulatory and economic environment may have much to contend with, such as acquisitions to foster growth or jurisdictional changes to address complexity. Tax transformation can help provide the function with the scale to handle new challenges, and help the organization stay ahead of the curve.

Figure 11: Key components of tax transformation

Achieving the objectives of the vision requires a global framework to tie tax provision, compliance, audit management, and planning together in a common approach, a data set and a globally common set of tools and processes to gain faster and more effective information upon which to base business decisions. The global framework and tool set must be designed to integrate tax business processes and tax-sensitive data throughout the tax life cycle.



Conclusion

Insurance tax structures are inherently complex compared to other industries, making the business case for optimizing available resources through a tax transformation process compelling. Insurance tax functions contend with significant investment portfolios, reconciling different accounting and jurisdictional standards, lengthy reporting processes, measuring results across numerous entities and lines of business, accounting for deductions for reserves before they are paid, and so much more. But despite all that, through tax transformation, insurance tax functions have the capacity to grow.

Better data may make it possible to better model and assess alternatives. Better planning is a reasonable result to expect. This includes being able to better identify opportunities to reduce the global tax burden, and in general, planning to identify potential permanent savings, manage cash flow, and enhance tax efficiencies.

Technology is a necessary facilitator for the tax transformation process, but it should not be confused with the process itself. Technology should not be considered in a silo without the underlying process and data considerations and support staff component. As shown in Figure 11, it is one component that allows the tax department to operate more efficiently and become more forward-looking. It can help transform tax from a service to a business partner and position the tax executive as a strategic asset to the organization.

The insights gained during the tax transformation process can also strengthen the strategic partnership between tax and the rest of the enterprise. As we mentioned earlier, one concern of CFOs is that tax is a black box that is not well understood by the rest of finance.⁷ Sharing the roadmap guiding the tax transformation process and the information gained during its implementation will help demystify this black box. If one thinks of tax as simply another accounting standard, there is no reason tax should be a mystery to anyone in finance.

Tax transformation may also help the tax function in its search for talent. A generation that has not grown up working on Excel® spreadsheets may be attracted by the ability to do more strategic and possibly more fulfilling work. One recent survey of tax professionals⁸ showed that 65% of respondents were willing to entertain alternative career opportunities, based primarily on three factors: poor leadership, lack of training, and lack of career development or mentoring.

Tax transformations normally take one to three years. After a tax transformation is initially complete, other questions will be raised. What will be the effect on human capital? Will needs and numbers change? Are new skill sets needed?

With a forward-focused tax function that can effectively deploy talent and offer opportunities for growth, the ability to attract desirable talent with the required skill sets may increase. Those already in the tax function may see opportunities for growth as data aggregation gives way to analysis.

For the organization, effective tax planning and risk management is one of many positive outcomes of a successful tax transformation. As the regulatory and economic pressures on the finance function and on tax continue to increase, transformation offers a path to progress, and to a better balance sheet.

CASE STUDY: US MULTINATIONAL P&C AND LIFE INSURANCE COMPANY

Until 10–15 years ago, the company had grown significantly throughout its existence, both organically and through acquisition, with little focus placed on enhancement of its financial reporting function or integration of its acquired units into the financial reporting function. In the mid-2000s, the company began allocating significant resources to enhancing its financial reporting functions through finance transformation, and for the first time in its history, began allocating some resources to the corporate tax function and its related financial reporting responsibilities. Corporate tax built its reporting processes through a series of related Excel® templates and workbooks and tried to keep pace with the various finance transformation initiatives, but based on resource and source data limitations, continued to struggle through manual and time-consuming close processes.

Approximately five years ago, the company began to allocate increased resources to aligning its tax department with finance through tax transformation. The company partnered with a service provider and technology vendor to design future state tax processes and implement a technology solution. However, based on resource, data and process constraints, inadequate planning, lack of collaboration with the end-user-tax technical resources, and an overall hurried implementation, the technology platform has not yielded the originally anticipated process efficiencies.

Approximately two years ago, the company turned to a different service provider to help analyze the current state of its data, process, and technology capabilities to assist with the design of a future state solution and the technology configuration and implementation. This service provider has led the collaboration between the tax department, the technology resources, and the selected technology vendor to design revised future state tax department processes centered on a

technology solution. This process has included the following key components:

- Assistance with developing a well-thought-out program work plan, integrating the roles, responsibilities, dependencies, and milestones of the various stakeholders involved with the tax transformation initiative
- Collaboration with the company's various tax technical specialists and process owners to understand and document business requirements
- Collaboration with the technology vendor to understand the future system capabilities and design the future state tax processes to align requirements and system capabilities
- Configuration of the system to execute a 'pilot' retro-close to replicate the prior year-end-close process within the system
- Evaluation of continued system release iterations to modify future state design as applicable, and advise the company appropriately on next steps
- Leadership of the integration process between the various stakeholders involved with, and dependent upon, the success of the engagement

In comparison to the prior implementation, the recent transformation initiative has seen more success due to its increased focus on addressing data and process issues with the end users, as well as its attention to adequate program planning. Working with its service provider, the company continues to implement data, process, and technology changes en route to its desired future state.

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The Deloitte Center for Financial Services offers actionable insights to assist senior-level executives in the industry to make impactful business decisions.

¹ Deloitte Insurance CFO Peer Exchange, Pre-meeting interviews, March 2015.

² Deloitte Tax SME interviews, March–April 2015.

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⁸ Anthony Santiago, “2015 Global Tax Market Assessment,” TaxTalent, Inc., 2015.

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