



Client case: Tax in Business Process Outsourcing

Outsourcing of Procurement and Finance processes, while managing Tax Risk and other exposures

Business issues

Our client, SEC-listed Company in the Financial Services Industry, wanted to increase the ability to support global initiatives by using local expertise and create a collaboration model named One Procurement and Finance Team.

The model change is a key enabler to capture both substantial P&L savings and realize procurement and finance costs benefits in addition to a long history of optimizing and outsourcing operational Finance processes.

To support these goals multiple Procurement and Finance processes such as Accounts Payable and Travel & Expenses were outsourced to a BPO provider.

Mainly Indirect Tax risks needed to be managed throughout the transition in order to be resilient for underperformance after transition and have solid contract with the BPO provider.

Solution and approach

Before Deloitte's involvement the company Procurement and Finance department already explored inbound Shared Service Centre options. Based on unfulfilling results in the past, the company determined to outsource to a BPO provider.

Due to the current fragmented and complex company system landscape and processes, the company preferred a 'Lift and Shift' transition approach.

Pre-study & scoping

In order to select a BPO provider, all local tax regulatory and process requirements needed to be mapped to make sure the correct scope and conditions were determined. For this purpose Deloitte investigated these requirements for all in scope countries. This was included in an all-round bid package.

BPO selection & contracting

Key tax capabilities required to perform in scope Procurement and Finance processes were mapped in order to test two selected potential BPO providers. Furthermore investment requirements were mapped and willingness of the BPO's to accommodate were tested in order to get a sound judgement on preferences from the tax department. These results were merged in the overall BPO measurement exercise.

After final selection of the BPO provider, Deloitte designed the required contract clauses and KPI's to mitigate all potential tax risks arising from activities to be performed by the BPO provider (e.g. underperformance of the BPO provider, incorrect VAT coding). A number of these requirements were merged in generic contract clauses and a number of requirements were designated in a separate tax paragraph.

For the client we made use of tried and tested sourcing tools, templates, and multiple checklists throughout all the steps of proposed process

Due diligence

In the course of selecting a suitable BPO provider, we learned that none

of the BPO providers could provide adequate tax assurance. In order for the company tax department to sign-off on the transition it was agreed a due diligence would be performed to determine which risks are inadequately managed and what the company was required to do in order to mitigate these risks. Based on the due diligence, Deloitte reported results in a Tax Remediation plan.

Tax Remediation

Based on the performed due diligence a number of key requirements and 'nice-to-haves' were determined. The key requirements were solved through implementation of VAT coding software and a massive clean-up of vendor master data and its process. Other 'nice-to-haves' were planned for later care.

Transition

Following contracting, our Tax Management Consulting team was asked to continue our ongoing support for the required transition, consisting of determination of the governance model, blueprinting all processes (review), knowledge transfer to the BPO, training, ramp-up and go-live.

Phase	Activity
Phase I	Pre-study & scoping
Phase II	BPO selection
Phase III	Contracting
Phase IV	Due Diligence
Phase V	Tax Remediation
Phase VI	Transition

Benefits and value

Our integrated approach led to the selection of BPO provider best fit for the company. Additionally, our efforts in negotiations, contracting and remediation ensured that the company's standards are maintained, outsourcing risks are minimized and the BPO provider committing to significant

investments in their tax knowledge and capabilities.

The main elements of our added value are:

- Tested templates, run books and other standardized project documentation.
- Broad network for tax requirements study.
- Deep knowledge of potential outsourcing risks and required controls.

Due to the ongoing support and recognition of our added value by the client's tax department, we are still actively involved in the BPO outsourcing.

Project metrics

Scope tax types:

- **All Taxes**

Country scope:

- **Phase I – III
6 countries**
- **Phase IV –VI
1 country**

Revenue:

- **EURO 1.050.000**

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