Deloitte.

Year end
New beginnings

Guide to automating and integrating tax accounting

Boards, investors, auditors, regulators – they're all demanding that the tax reporting process be made faster, cheaper, better controlled and more transparent than ever before.

In this guide we introduce tax reporting software as a potential solution, which can bring benefits to the wider organisation and summarise the dos and don'ts around its selection, implementation and ongoing use.

Contents

Mounting pressure
Why change?

The drivers for change

A number of drivers, both external and internal, have added to the already significant competing pressures on the tax reporting process.

Business analysts and the investor community now demand more transparent disclosure in relation to tax. Meanwhile there is growing demand for the financial results, including tax, to be reported to the market faster than ever.

The rate of change in regulation and accounting standards has generated uncertainty around tax reporting, as well as additional work for tax departments as they attempt to keep abreast of frequent and numerous changes. The most notable example is the OECD's Base Erosion and Profit Shifting (BEPS) project, focusing on international tax reform. Implementation of the reporting recommendations on their proposed action points will have far-reaching implications on the way companies calculate and disclose their tax profile to tax authorities.

Another example is the new accounting standards replacing existing UK GAAP. Changes in accounting standards and transitional measures are intended to provide greater clarity; nonetheless they create additional complexity for companies affected.

Internally, there are pressures on headcount and cost saving. With reporting related demands on the tax department all requiring additional resources, it can be difficult to see how cost savings can be achieved in such an environment – yet cost control remains a key area of scrutiny.

Finally, recent developments in financial systems (e.g. Oracle's Hyperion Tax Provision or HTP) have brought a new level of interest from both tax and finance teams. The opportunity to incorporate tax in the finance system design is significant, but, in practice, tax is still at risk of being left behind as it is often out of scope of finance projects.

Tax needs to make its case clearly and needs to manage a number of internal stakeholders persistently to take full advantage of this opportunity.

Such drivers for change exert pressure on what is already a complex process. Those responsible for tax reporting must also negotiate their way through a series of day-to-day challenges, including:

- **Data sources** – gathering high-quality data from reporting units is critical to success. Data input at the transactional level, however, often does not take into account information that is required for tax purposes. Many organisations have shared service centres that provide the underlying financial data to tax users. The training and quality of personnel in these centres can play an important part in whether or not the data provided is fit for purpose.

- **Local providers** – tax provisioning calculations at the reporting unit level are often prepared by financial controllers who may lack the appropriate local tax or reporting GAAP knowledge to complete an accurate submission.

- **GAAP adjustments and consolidation** – systems are often ill-equipped to deal with late and post-close adjustments and journals proposed by the centre or to deal with the more complex consolidation issues, such as the tax adjustments relating to intra-group transactions or unremitted earnings.

- **Review and reporting** – producing consolidated, group level reports can be an onerous, manual task involving the re-keying of data and production of complex spreadsheets. Furthermore, the review of group consolidated tax results and individual submissions from reporting units can be time-consuming and involve going through each individual pack to identify issues. Managing and monitoring the workflow can also be protracted and difficult.

- **Accounting** – reconciling calculated provisions and account balances can be problematic, particularly as there may be many different data sources.

- **Maintenance** – maintaining and rolling forward existing spreadsheets and formats can be time consuming and high risk, as evidenced by the increasing level of auditor discomfort with spreadsheet-based systems.

> "The numerous challenges of the tax reporting process are driving organisations to ask, 'what's out there that can help me? Is technology the answer?'"

Pippa Booth, Partner

Technology providers
The main players

These significant challenges facing tax departments are driving organisations to consider new technology as a potential solution. There are a number of software products that can help.

The main providers of tax reporting software in Europe are:

1. ***Hyperion Tax Provision*** – An Oracle® provision tool built within Hyperion Financial Management (HFM), which integrates tax provision capabilities into the overall financial reporting process.

2. ***Longview Tax*** – has a legacy in financial consolidation and business analytics and is a competitor of consolidation systems such as Hyperion. It has drawn from its expertise in consolidation to become an established offering for tax provision.

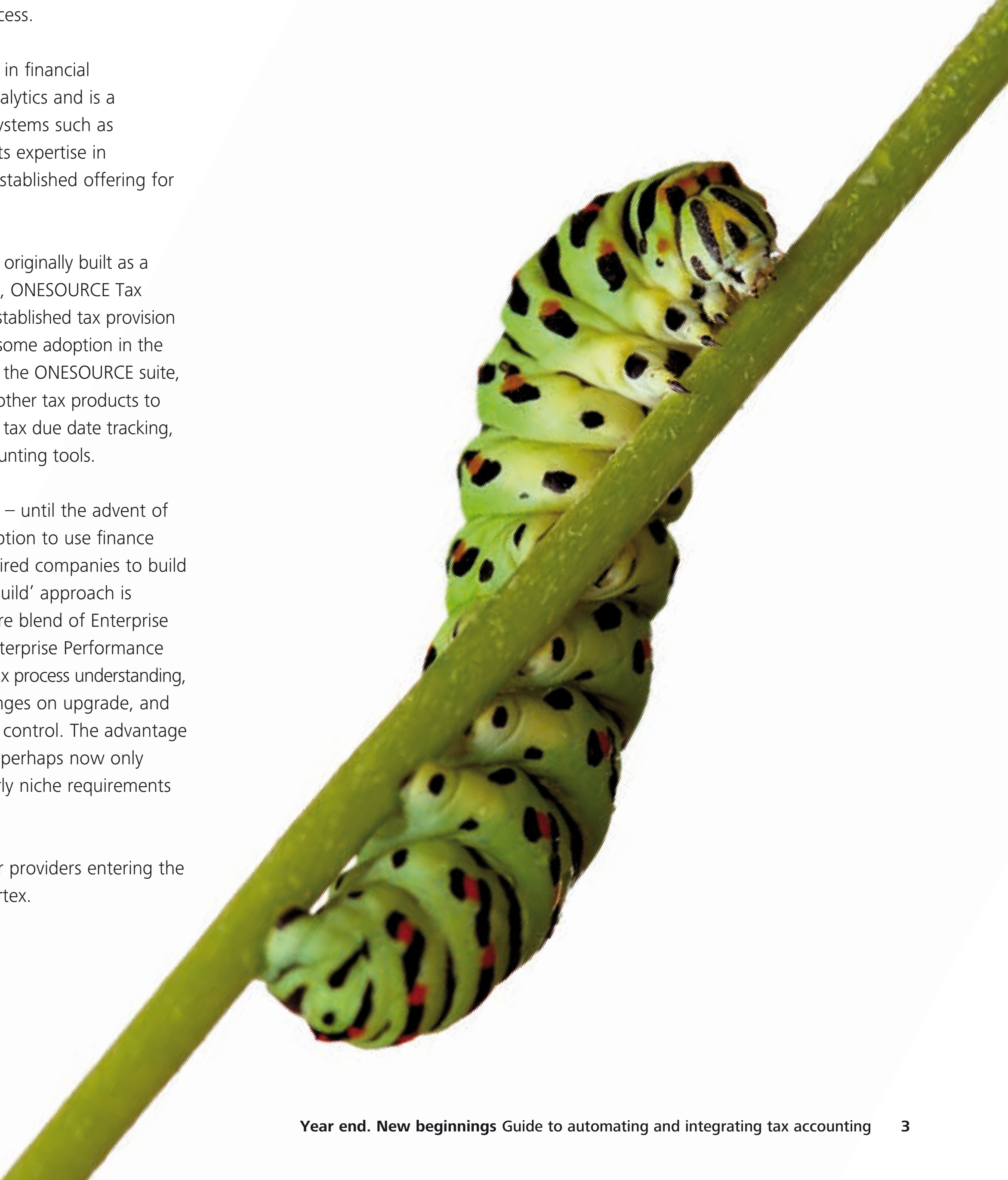
3. ***ONESOURCE Tax Provision*** – originally built as a tool to track deferred balances, ONESOURCE Tax Provision has been the most established tax provision tool in the United States with some adoption in the UK and elsewhere. It is part of the ONESOURCE suite, which brings a wide range of other tax products to a common platform, including tax due date tracking, indirect tax and statutory accounting tools.

4. ***Self built in finance systems*** – until the advent of Hyperion Tax Provision, the option to use finance systems for tax provision required companies to build their own solution. The 'self build' approach is resource heavy, requiring a rare blend of Enterprise Resource Planning (ERP) or Enterprise Performance Management (EPM) skills and tax process understanding, a willingness to accept challenges on upgrade, and a reliance on finance being in control. The advantage is a fully customised solution, perhaps now only suited to those with particularly niche requirements and deep pockets.

There are also a number of other providers entering the market, chief among these is Vertex.

Naturally, each of these solutions has been developed in response to market need, but each has also evolved from a different background. As time progresses and solutions are continually updated, such differences are inevitably reducing. However, some differences remain that make it important for organisations to fully assess which software solution fits their organisation best.

Before looking at technology in detail it is important to consider the end-to-end process within which the technology sits.



Process improvement
Get it right first time

In working to manage all the demands made on the tax department in respect of reporting, companies should first consider their existing processes. Automation and the use of technology evidently have the ability to make processes faster and more efficient; but if the process itself is flawed then automation is likely to be of limited benefit. There are many approaches that can be taken to improve the reporting process – the appropriateness and relevance of different methods will depend on the unique circumstances of individual organisations. We consider various process improvement options below:

Understand the end-to-end tax reporting process

This is key to redesigning the process effectively. In large and complex organisations, it is possible to lose sight of the nature and purpose behind required outputs; in many cases reports are being produced that are of limited value to the business, or are being duplicated by different information providers.

Significant time can be saved by simply identifying the consumers of the information and redefining the necessary outputs. The more involved step is to understand where all the information comes from and how it needs to be processed, manipulated or analysed to design the most efficient and appropriate process from source data to final disclosures.

Make it right-sized

'Right-sizing' is the principle of applying the appropriate rigour to a particular reporting unit, jurisdiction, transaction or process based on its size, effect and complexity. Although there is clearly merit in standardisation of approach, it is not necessarily appropriate or efficient to apply the same process to an immaterial or otherwise low-risk company as would apply to the main trading entity in a group. Decisions may focus on whether or not a full provision calculation, including tax basis balance sheets, a high-level effective tax rate calculation or something in between, is most appropriate.

Go for an early close

Where high-speed reporting is of primary concern, an early close (maybe in month 10 or 11 of the financial year) could be considered, with detailed workings carried out at that point and merely updated at the year-end for the final information. In groups in which the month 11 data and forecast information is a close approximation to the final year-end numbers, this can be a very efficient method. The reverse is true where companies experience large swings in results in the final period and where forecasting cannot be relied on as a good estimate.

Report regularly – quarterly and/or monthly

Along similar lines to the early close approach, regular reporting may serve to improve the overall efficiency of reporting. Where the process is carried out more regularly, the personnel involved became more familiar with it and transactions are considered from a tax perspective at an earlier stage. Some organisations use quarterly reporting to bring forward some parts of the year-end reporting, for example; carrying out all return to accrual adjustment calculations at the second quarter reporting date.

Train your staff

There are two main areas where staff training is critical. First, the staff must have the required knowledge of tax and tax accounting to fulfil their duties. Second, all parties involved must have a proper understanding of the process and their role within it, including the use of any technology.

Who's accountable?

As the reporting process has grown in importance and complexity, particularly since the introduction of IFRS, there has been a change in roles within the tax department. Often accountability for the tax elements in the financial statements is given to a specialist Head of Tax Reporting or a Tax Reporting Manager, rather than being an additional role of the original tax department. With the increased adoption of shared service centres for part of the tax process, and the emergence of finance systems like HTP for tax provision, responsibility for tax is also increasingly under the remit of a Head of Financial Planning and Reporting.

Choosing your sourcing option – offshoring, outsourcing and/or co-sourcing

Many companies are exploring the possibility of resourcing the reporting processes differently. In our experience, a significant proportion of multinational companies already co-source some or all of their group tax provision and many more would consider a move to a co-source arrangement. This raises questions concerning where the work should be carried out: in a centre of excellence, a shared service centre (particularly when combined with right-sizing, tax reporting software and automation of parts in the process), or a jurisdiction where costs may be more managable? Or, should external suppliers be engaged to carry out some or all of the work?

Obtain the right information, first time

In many cases, the greatest strain on the reporting process is obtaining the right information. Production of the final tax numbers can be an iterative process as a result of numerous or late updates to the financial information. There are various methods of improving data accuracy, such as: tax sensitising the chart of accounts, adapting the ERP system structure to collect additional tax-specific information, and retraining the personnel who input the data.

Get it 'right first time' and your numbers won't need estimating. This will free you up to focus on more value-add activities, rather than numerous manual re-checks when the tax return is prepared.

Tax reporting software
What it can and can't do

Once an appropriate tax reporting process is in place, it is easier to assess the advantages of adopting tax reporting software. It is, however, important to understand both the benefits and the limitations of such software.

What tax reporting software *can* do

- **Automatic data collection**
  In many cases, it is the collection of the underlying data that is the most time-consuming part of the process. Tax reporting software can be used to automate data extraction from the various sources, for example, ERP systems or tax return software, where required.

- **Manual data collection**
  Sometimes, there is certain information that is not held electronically in company systems so the software solutions also allow for the manual entry of data. To achieve maximum efficiency from the software, manual entry should be kept to a minimum.

- **Reconciliation to other systems**
  Tax reporting software can assist with reconciling the various data and calculations from other systems. Automation of data flows between systems can help keep data consistent between the systems. For example, if profit is updated in the ERP system this would automatically transfer into the tax provisioning and tax return calculations without the need for manual intervention.

- **Calculations and journals**
  Software solutions facilitate the calculation of the tax provisions, both for current and deferred tax. Opening balances are automatically rolled forward and prior-period comparatives are readily available. Standard adjusting items can be specified to assist with consolidation of disclosures. Software solutions can be configured to draw the accounting information from the organisation's general ledger or consolidation system, they can also be capable of generating the journals required to post the tax balances as calculated for the current period.

- **Prior year adjustment**
  In addition to the current-year provision, tax reporting software can assist with the calculation of the prior year adjustment or return to accrual adjustment. The calculation of the tax provision as disclosed in the prior period accounts is already held in the system. It is simply a case of entering the final tax return information, which can be automated directly from the tax return preparation software. Any further fine tuning adjustments that are required can then be made manually.

- **Consolidation**
  As the information will have been entered in a consistent format, the tax reporting solution can consolidate the group data automatically. The reporting solution may also be configured to replicate the organisation's corporate structure and produce sub-consolidations, for example, by country or business divisions, as required.

- **Review**
  Reports can be generated from the software to aid review on an exceptions reporting basis, for example, a report of all unrecognised deferred tax assets. It is also possible to drill down from the consolidated results to underlying entries to identify the source of reconciling items or significant balances. Submissions from the reporting units can include comments, attachments to support calculations and judgments, and any changes or review comments can be logged to provide an audit trail.

- **Disclosures and reports**
  As well as consolidating the data, it is possible to generate reports for the required disclosures and formats for direct inclusion in the financial statements. The often manual exercise of re-keying the final information into disclosures and then into the actual financial statements document may, therefore, be replaced by automated reports direct from the tax reporting solution.

- **Workflow and sign-off**
  Throughout the process, tax reporting software provides a control framework to track status and record an audit trail, giving transparency and accountability.

What tax reporting software *cannot* do

- **Local country tax rules**
  Although tax reporting software can be used to carry out the current and deferred tax calculations, it does not necessarily apply a country's tax rules. It is possible to customise the solutions to apply a particular treatment to identified account codes, but this needs to be maintained by the organisation rather than the software provider. Often this issue is resolved by creating an interface directly between the reporting software and the tax return preparation software; the idea being that there is only one source of data feeding both.

- **Update customised reports**
  Similarly, the software does not maintain or update reporting GAAP disclosures for customised reports. Where there are fundamental changes to accounting standards, the software suppliers update the systems, so that it is possible to comply with the new standards; but any custom-designed templates for disclosures and reports are not automatically updated.

- **Improve source data**
  A common misconception regarding tax reporting software is that its use guarantees an improvement in the quality of the information provided. Where the implementation of software has included a review of the process from source data to final output, naturally there should be an improvement in data quality. However, if the main issue with the process is the quality of the source data, and this is not addressed with the implementation of reporting software, there may be limited improvement in the quality of the final output. Any inadequacies in the data may, however, be more transparent to the reviewer and, therefore, more easily identifiable.

Once it is fully understood what an organisation is hoping to achieve from implementing tax reporting software, it is time to consider which solution is the best fit.

Vendor selection – the right fit

Choosing the right vendor is important. There are a number of ways in which to achieve this; from identifying requirements, to a formal procurement-led process. A very useful part of the exercise is to gain insights into the practical differences from those with experience in using and implementing the software.

The appropriateness of each software solution would usually be assessed by considering the following areas:

- **Functional fit** – a measure of the system capabilities as determined by weightings against the key business requirements.

- **Technical fit** – a measure of key technical aspects; including the technology platform, integration architecture, security and/or privacy, application architecture, Active Server Pages services, and data warehouse and/or business intelligence capabilities.

- **Vendor service** – a measure of the vendor's ability to support implementation and maintenance of their solution; including assessment of historical success, typical timing to implement, and methods and tools to configure, convert and deliver the solution.

- **Vendor viability** – a measure of the vendor's stability, market position and experience of meeting the requirements of similar organisations.

- **Cost** – a projection of cost based on the information available.

Implementation
Countdown to Go-Live

Figure 1. Full implementation

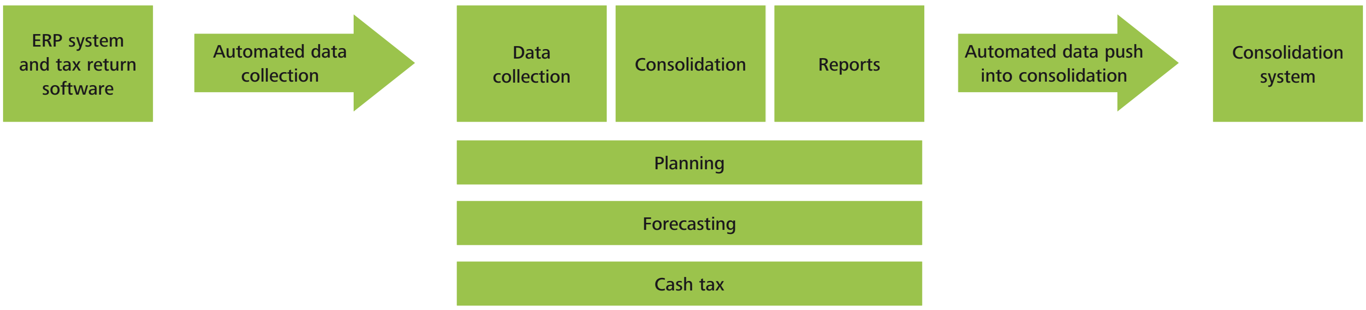
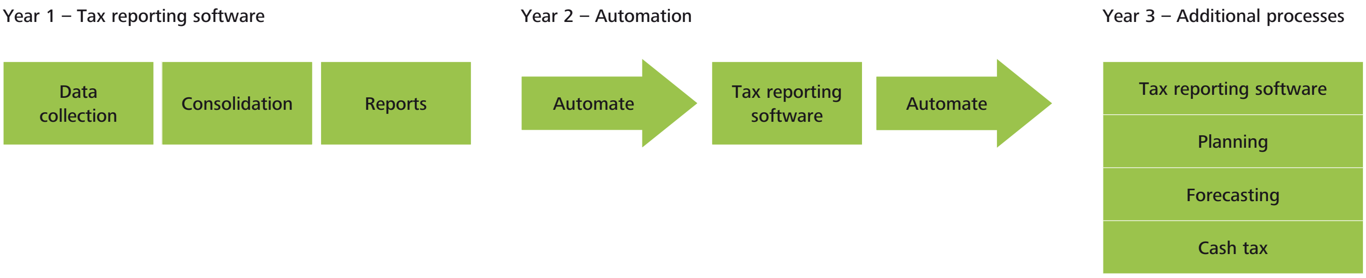


Figure 2. Phased implementation



Understanding the objectives behind the adoption of tax reporting software is crucial to the success of any implementation and correct scoping is an important part of this.

Phased vs full

There is usually no clear answer as to whether a phased implementation or a full implementation is more effective (see Figures 1 and 2). A full implementation can certainly be the best answer when there is sufficient time to carry out testing and where an organisation's internal systems are consistent, for example, where it employs one global accounting system. Another critical factor in deciding whether or not to have a phased implementation is the organisational structure and degree of decentralisation, as the buy-in and training of staff is very important.

Often, the decision whether or not to go ahead with a full or phased implementation comes down to cost. Although a full implementation may be cheaper in the long run, budget restrictions may mean a phased approach is the only option.

From our experience, a straightforward software implementation takes between two and six months, whereas complex implementations for large groups involving a high level of automation may take up to two years. This does not include the vendor selection process, which, depending on an organisation's procurement processes, can take between a few weeks to several months. In general terms, the most important and time-consuming areas of an implementation are the defining of the specifications and testing of the initial software set up.

In some circumstances, we have seen organisations consider a 'proof of concept' of the tax reporting software before proceeding with the full implementation. This can be a useful exercise where there are specific areas of uncertainty regarding how the software will function in practice, but, in many cases, we see it as unnecessary based on our practical experience. Various software solutions already available in the market have proven capabilities, and organisations generally focus more on ensuring that there is sufficient time to implement the software before a reporting deadline.

Keep your stakeholders involved

With the implementation of tax reporting software, it is likely that there will be a change to the overall reporting process and, as such, there may be a knock-on effect on the organisational structure of the tax and finance personnel. In particular, there must be a thorough knowledge transfer between the software provider, implementation partner and the organisation's tax team. The tax department must be sufficiently involved, so that its members fully understand the process and technology implemented and can use and maintain it going forward. The provider carries out fundamental software maintenance, but the tax department is entrusted with general system housekeeping.

Get the timing right

An important factor in planning an implementation is how long it will take. Obviously, it is essential that an organisation does not find itself between systems at a critical reporting date. The time spent on the implementation depends on a number of factors, including:

- the complexity of the organisational structure;
- the complexity of the process;
- the degree of automation of information flow from an organisation's existing systems;
- the level of customisation or branding changes required;
- the number of languages required for input;
- the quantity of different reporting outputs required, for example, reporting under IFRS, US GAAP and other local GAAPs; and
- the extent to which the process will include other tax management functions, such as planning, forecasting and cash tax calculations.

The time spent by the organisation defining, documenting and streamlining the existing and desired reporting process is important in assisting with the efficient implementation of a software solution.

Bring your inhouse team on board

During an implementation there is an important balance to be struck between the time spent by advisers and the in-house team.

It is critical that the in-house team is bought into the process and participates fully in the design of the new process and the specifications for the software. Companies are often unfamiliar with the software solutions and so rely on advisers for assistance in understanding how their requirements translate into software specifications and, therefore, which software solution is the most appropriate. Advisers can bring an independent view, tax and accounting technical expertise and process consulting experience beyond that available from the vendors.

Implementation
What to look out for

As many organisations have now implemented tax reporting software solutions (particularly in the United States), numerous lessons have been learned through arduous experience. Implementation, now that these systems are more embedded and understood, should nowadays be considerably more straightforward as long as some key lessons are taken into account.

The different options in an implementation can require very different levels of effort depending on the complexity and the automation that is possible. In particular, including tax logic in the system substantially increases the complexity of the implementation and of ongoing maintenance. For example, a high level of automation, with regard to a tax chart of accounts, also requires significant additional effort at the implementation stage and therefore a full cost benefit analysis should be undertaken.

Right-size the system

A robust tax reporting system can enable different approaches for particular markets, geographies or business segments, without increasing risk. For example, a single system should cater for the 'right-sizing' approach discussed on page 4 where detailed calculations are performed for material entities and operations, while less work is performed for immaterial entities where appropriate.

Engage your stakeholders

Managing change in an organisation is a vital component of a successful implementation. Parallel and/or dry runs of existing and new processes prove the system and manage and mitigate risk exposure. Leadership sponsorship from tax and finance is also vital to ensure a smooth transition to the new process. The in-house team must, therefore, be embedded in the planning and implementation to ensure the best results and also the ongoing success of the solution.

Working with others

Although at face value the implementation of tax reporting software is an Information Technology (IT) project, it is primarily about configuring the software to meet the needs of the tax reporting process in the organisation. As such, the tax department must have a major role in the implementation and it should, as a minimum, be jointly led by the tax and IT departments.

If advisers are being used to assist in the process (which is generally the case), they must also have a suitable mix of tax and technology expertise; enabling them to act as a bridge between tax and IT. It is important to ensure that there is appropriate knowledge transfer to a sufficient number of people to allow the organisation to use and administer the software once the advisers depart. Significant additional costs may arise if, during the running of an actual year end process, the organisation is forced to rely on advisers to troubleshoot any initial teething problems.

What’s next for tax reporting technology?

Do you need to change your process?

As discussed in the Process Improvement section on page 4, the general tax reporting process should be reviewed and if necessary improved before the implementation of software. To get the best out of the software, it should not be applied to a process that is not currently fit for purpose. Where projects have failed to deliver expected benefits, this has often been because the process surrounding the software has not allowed the software to be used to its maximum potential.

Business critical vs ‘nice to have’

Where there is a very high level of customisation of the solution, either in terms of branding, tax or accounting technical functionality, it can create a large future maintenance burden. In many cases, these customisations are ‘nice to haves’ rather than business-critical features and could have been removed from the process if the full implications had been understood up-front.

Agree your scope

During the scoping phase of an implementation, it is critical that parameters are defined as far as possible and that changes to the desired functionality are kept to an absolute minimum once the implementation is in progress. Changes to scoping along the way may also mean that initial work performed is no longer appropriate – leading to it being re-performed with the associated impact on timelines and cost.

Keep up to date

It is important that the software solution is reviewed and refreshed regularly to ensure that there are no areas that have become out of date, are no longer functioning as originally envisaged, or new requirements arise that are not currently included.

What’s next for tax reporting technology?
Tax reporting is no longer a forgotten part of the financial close, but an exercise with strategic importance in managing the reputation of the business. The number of stakeholders scouring financial statements and seeking to understand the company’s position on tax has boomed. The resultant drive to improve transparency and increase confidence in the auditability of the tax numbers seems likely to continue.

The entrance to the tax provision market by Oracle has generated many more conversations among finance professionals seeking to integrate processes and data between tax and finance, and by IT professionals keen to leverage existing vendor relationships and software architecture.

The advent of tax reporting software is an important step towards the end vision of enabling one source for all data relevant to tax reporting, tax management and tax compliance where information, calculations and reports are available at the ‘touch of a button’. This is often known as tax data ‘warehousing’ and would intend to bring together tax rules from tax compliance software, tax accounting rules from tax reporting software and tax workflow rules around deadlines for tax compliance obligations, and would also link with statutory reporting processes, ERP systems and consolidation systems. This could be further extended in order to converge direct and indirect tax processes and data.

Meanwhile, many of the benefits discussed above can already be achieved with existing technology on the market, which can later be built on to obtain further business benefits.

Accreditations

Our technology accreditations

We are proud of our accreditation with the leading tax reporting software providers. This reflects our technical knowledge and ability to deliver across tax accounting, tax process, project management and system configuration. Further information on our accreditation can be found below:

Oracle's Hyperion Tax Provision

The Deloitte Oracle team has access to more than 12,000 Oracle-focussed practitioners globally, and has been recognised consistently by analysts as the leader in Oracle Implementation related services. Deloitte was the design partner to Oracle during the product development phase of Hyperion Tax Provision, and we were appointed to implement the system for Oracle's own tax function.

Longview Tax – Gold Certified Service Provider

Deloitte became the first tax partner to be awarded Gold Certified Service Provider status of Longview Solutions. The Longview Tax certification program recognises individuals and firms who invest the time and resources to obtain an advanced degree of proficiency with the Longview Tax software application.

ONESOURCE Tax Provision

Deloitte is a Thomson Reuters Certified ONESOURCE Implementer. This certification provides Deloitte with access to implementation training, enterprise, and new product features not available to those not certified.

Contact us

If you would like to discuss any issues arising from this report and how Deloitte can help you, please do not hesitate to get in touch.

Albert Fleming
Partner
020 7303 0467
afleming@deloitte.co.uk

Pippa Booth
Partner
020 7007 3505
pbooth@deloitte.co.uk

Alan MacPherson
Partner
020 7007 0707
acmacpherson@deloitte.co.uk

Richard Scammell
Director
020 7303 3678
rscammell@deloitte.co.uk

Simon Cowan
Director
020 7007 9414
scowan@deloitte.co.uk

David Wright
Director
020 7303 4641
davidcwright@deloitte.co.uk

Designed and produced by The Creative Studio at Deloitte, London. 40864A