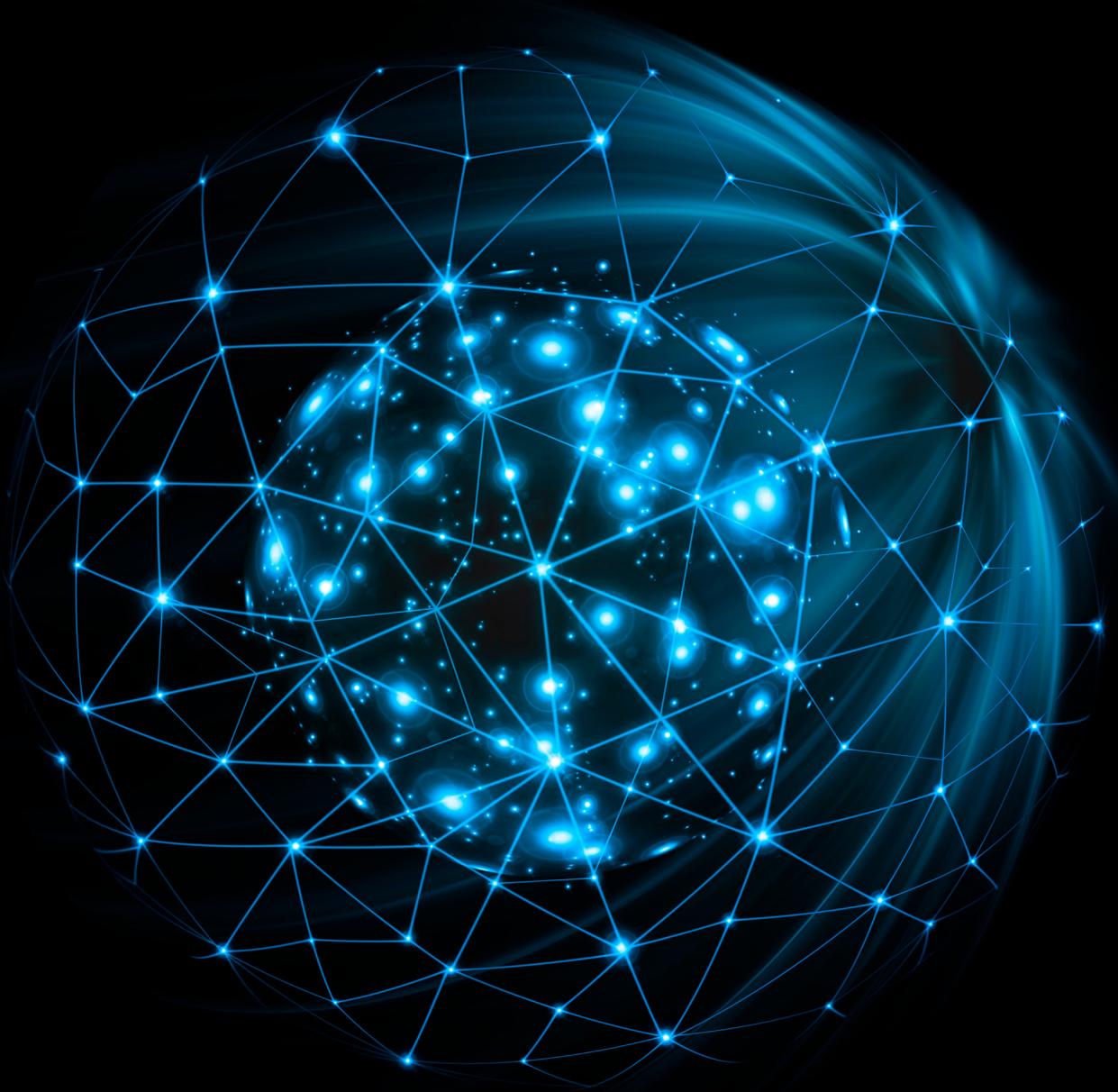


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**Disrupting the norm:  
Reinventing state  
tax compliance with  
technology**

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# Disrupting the norm: Reinventing state tax compliance with technology

**As the realities of managing state tax become more complex and the pressure to “do more with less” becomes more intense, state tax leaders are looking to new technologies to help them transform the way they deliver value to the business. Here’s where they should be looking and how they can get started.**

There has never been a more dynamic time for the state tax function to consider modernization. In part, that is because the business is demanding more value from the state tax function. It may no longer be enough to successfully manage compliance, provisions, and planning; executives want the state tax function to become a better business partner, to provide more insights, and to create more value—all with the same or less budget. These strategic expectations by C-level executives require a fundamental change in how such work is performed.

Thankfully, the timing is also right from a data and technology perspective. The past decade has seen an explosion of enterprise data at increasingly granular levels. At the same time, technology tools have matured to a point where many non-IT professionals can effectively use these tools to access and work with large data sets in practical and meaningful ways.

We are seeing great value being created by data analytics tools, robotic process automation (RPA) bots, data-wrangling technologies, and optical character recognition (OCR) tools. Artificial intelligence (AI) is being adopted to help automate certain tax decisions. Additionally, the traditional compliance software suites are evolving rapidly to deliver more functionality, insights, and automation.



# Seeing the opportunities

Technology can unlock significant value across the state tax compliance process. In many cases, the value created stems from the automation of resource-intensive, manual processes. For example, our work with state tax functions suggests that most teams spend more than half their total time spent on tax compliance working with data: collecting it, manipulating it, analyzing it, and making it ready for downstream process use. Once you factor in the additional time spent producing state tax workpaper packages and working within compliance software, very little time is available for other value-generating activities like planning and analysis.

So where could the use of technology and the automation of data and analytics processes bring improved efficiency, quality, and value to the state tax compliance cycle? Consider the following key areas for high impact:



**Data collection:** The collection and management of data is a good place for a “quick win” from technology. Many stakeholders (both inside and outside of the tax department) already leverage high-tech enterprise resource planning (ERP) tools to generate their data. However, it is still very common for state tax functions to be heavily reliant on individuals in other departments to provide required data for tax compliance needs. Furthermore, this data collection effort is often managed through multiple rounds of email.



**Data preparation:** This is perhaps where most tax teams spend the majority of their time and effort and have the greatest risk of error. It is also an area where state tax teams may see the greatest impact from technology. Data-wrangling tools are helping to dramatically reduce the time spent manipulating data, particularly in data-intensive areas with repeatable rules-based processes such as state apportionment, modifications, and workpaper preparation. Leading state tax functions are using data-wrangling tools to put in place repeatable, well-documented data transformation processes, resulting in improved accuracy and speed and a substantial reduction of the burden, effort, and risk involved with the data preparation process.



**Tax calculations:** Yet another area where state tax teams spend significant time is in the underlying complex computations necessary to determine state tax liability across all applicable jurisdictions for each entity and filing group. These computations involve a long list of calculations and rule sets (from apportionment and depreciation to state modifications, federal tax reform adjustments, net operating losses (NOLs) utilization, and more) that must be managed simultaneously. State tax functions could continue to maintain these computations in internal spreadsheets, which often introduce time, cost, and risk. Or they could leverage third-party technology tools that could assist with these items. While there is no one-size-fits-all answer, leading tax functions are carefully weighing the value technology could deliver here.



**Return review process:** Technologies are also being adopted to help make the return review process faster, better, and more effective. Process automation tools can be applied to compare workpapers to the final draft of a tax return (often in PDF format) to identify any differences or levered to ensure the e-filing XML packages are consistent with the returns you reviewed. Leading state tax functions are using technologies to reduce the risk, complexity, and resource requirements of the return review process.

# Reimagining the technology-enabled compliance process

At Deloitte, we have spent significant time, resources, and intellectual capacity reimagining each step of the state tax compliance process and inserting technology tools to supplement the human effort, replacing manual input with automation and allowing tax professionals to spend their time on high-value areas of the compliance process.

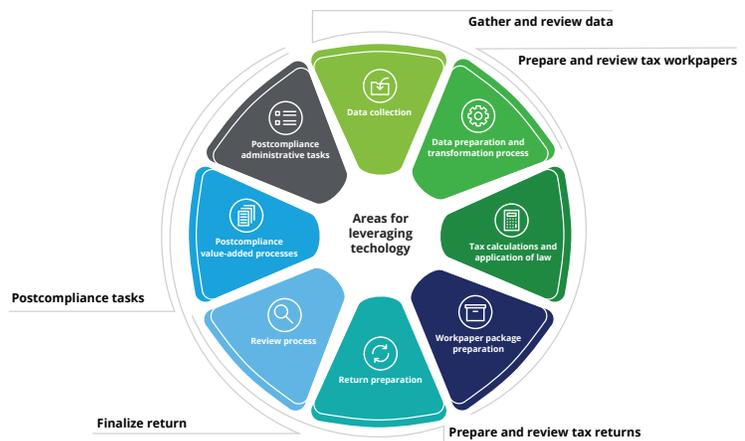
It starts with data flowing directly into the state tax function through feeds from the ERP system’s supplemental reporting engines across the enterprise. Process automation tools work to instantaneously pull or push data, in the format needed, when needed. Data-wrangling technologies are leveraged to speed up the data manipulation and transformation process.

Tax calculations and analysis are conducted, leveraging new or enhanced features within the existing tax compliance software, augmented by tools that integrate rules, calculation, and reporting functionality to speed up the analysis around areas such as apportionment, net operating loss tracking, state modifications, and tax reform calculations.

Rather than manually building the documentation and workpapers required to support your returns, process automation tools go to work on your behalf, assembling workpapers in real time by state and entity.

Diagnostic tools, OCR technologies, and process automation tools are combined

Figure 1. A technology-enabled state tax compliance process

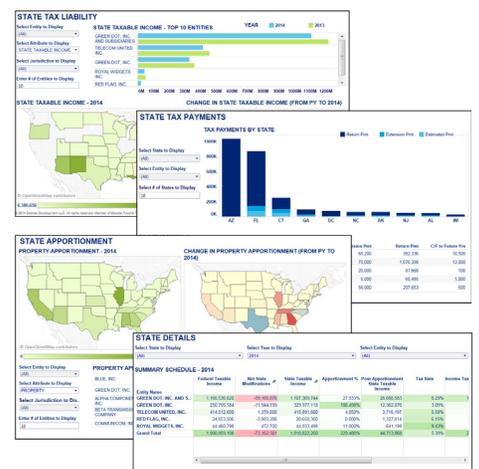


in the review process to pinpoint any discrepancies or differences in the data in your tax returns as compared with your workpapers—where the controls allow it, process automation tools can even correct the differences. Similar tools can be used to quickly and efficiently review e-filing packages against the finalized return and flag areas for review.

Throughout the process, sophisticated data analytics are creating visualizations that allow you to look at your data, identify anomalies, and uncover new insights more efficiently and effectively. You may use these visualizations to better understand your data (for instance, by comparing year-over-year values or by focusing on materiality), or you may use them to drive valuable conversations with executives through heat maps, interactive charts, and dynamic tables.

This is not a vision of the future; it is the “here and now.” Companies of all sizes and across all industries are now implementing a technology road map that progresses their state tax functions along this journey. And for many companies, it is becoming a reality and a significant value driver for the state tax function and the business.

Figure 2. State tax analytics



# Getting started

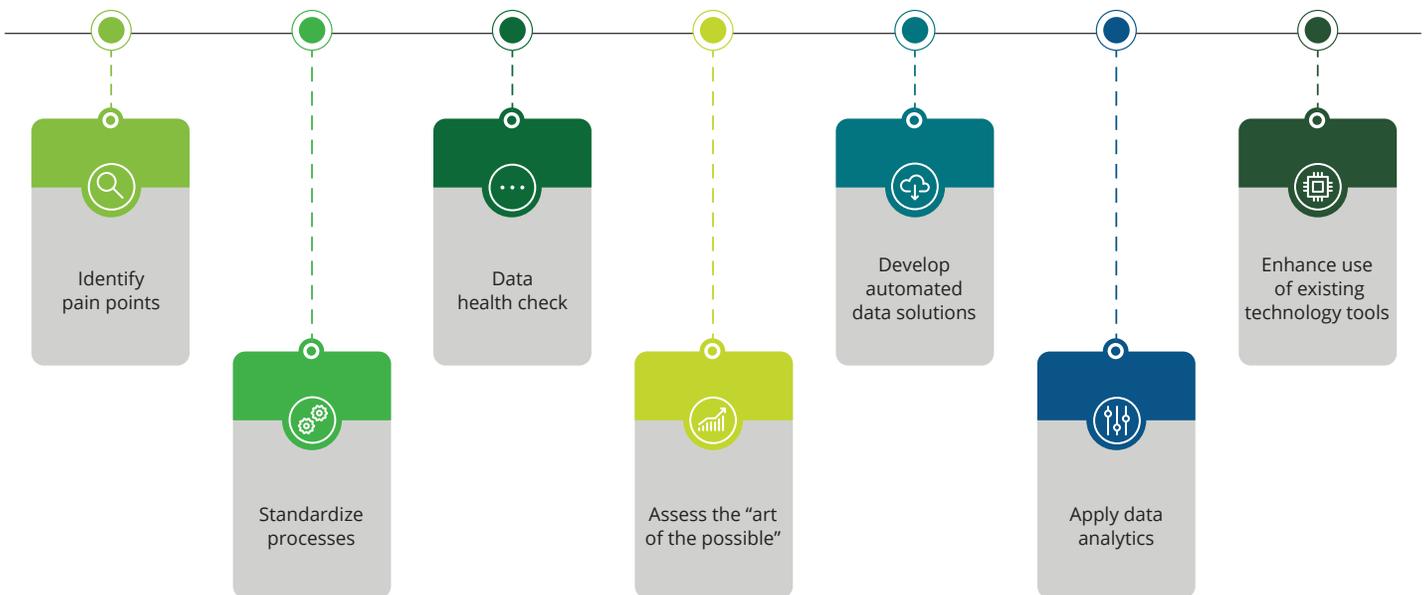
So where do you start? Certainly not with the technology; this is about creating a technology-enabled transformation, not a technology-led one. In other words, the transformation must start with the business pain point in mind. For some companies, that will be in the tax provision process or in addressing the tax return process. Others will be looking at automating their more data-intensive processes, such as state apportionment or indirect tax. Some may be in the midst of a merger or corporate reorganization, where disparate systems must be aligned without increasing headcount.

Before any technology is purchased, you should also consider how value can be created through improvements to current data feeds, processes and software solutions. Look for processes that can be standardized. Do a data “health check” to see if there are ways to enhance and cleanse your data before automation solutions are applied. Explore the full functionality of your existing tax compliance software to see where enhancements can be achieved.

As you start to develop your technology transformation road map, consider the “art of the possible.” Talk to peers,

technology leaders, and advisers to understand how organizations are leveraging technology in other areas of the business. And as you build your systems and technologies, think about what data you could use to improve your processes in the future.

Figure 3. Leveraging the power of data and technology



# Make it part of a larger transformation

While there are clear opportunities to drive meaningful value by applying technology across the state tax compliance process, the greatest value may be created when these projects are connected as part of a larger transformation, thereby allowing the organization to realize a greater ROI from its investments in technology and leverage change management efforts already underway as part of the transformation initiative.

Ultimately, the adoption of new technologies could mean that experienced tax professionals are released from their manual tasks to instead focus on more strategic, technical, or value-added areas. State tax leaders have the opportunity to consider how they reallocate activities, retrain to develop new capabilities, and engage tax professionals as they evolve and transform the operating model. Additionally, technology investments made in that state tax function can bring similar value to other areas within the broader tax function, thereby bringing the potential to increase the overall ROI from these investments.

Our view is that there has never been a better time for state tax functions to consider modernization. And our experience helping organizations across the country to design, deliver, and operate the reimagined state tax

compliance function tells us value is achievable, either by taking small steps or engaging in a larger transformation.

It's time to disrupt the norm in state tax compliance.

**To learn more about the ideas and technologies discussed in this paper, we encourage you to view the replay of our recent webcast on this topic.**

Video on demand



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