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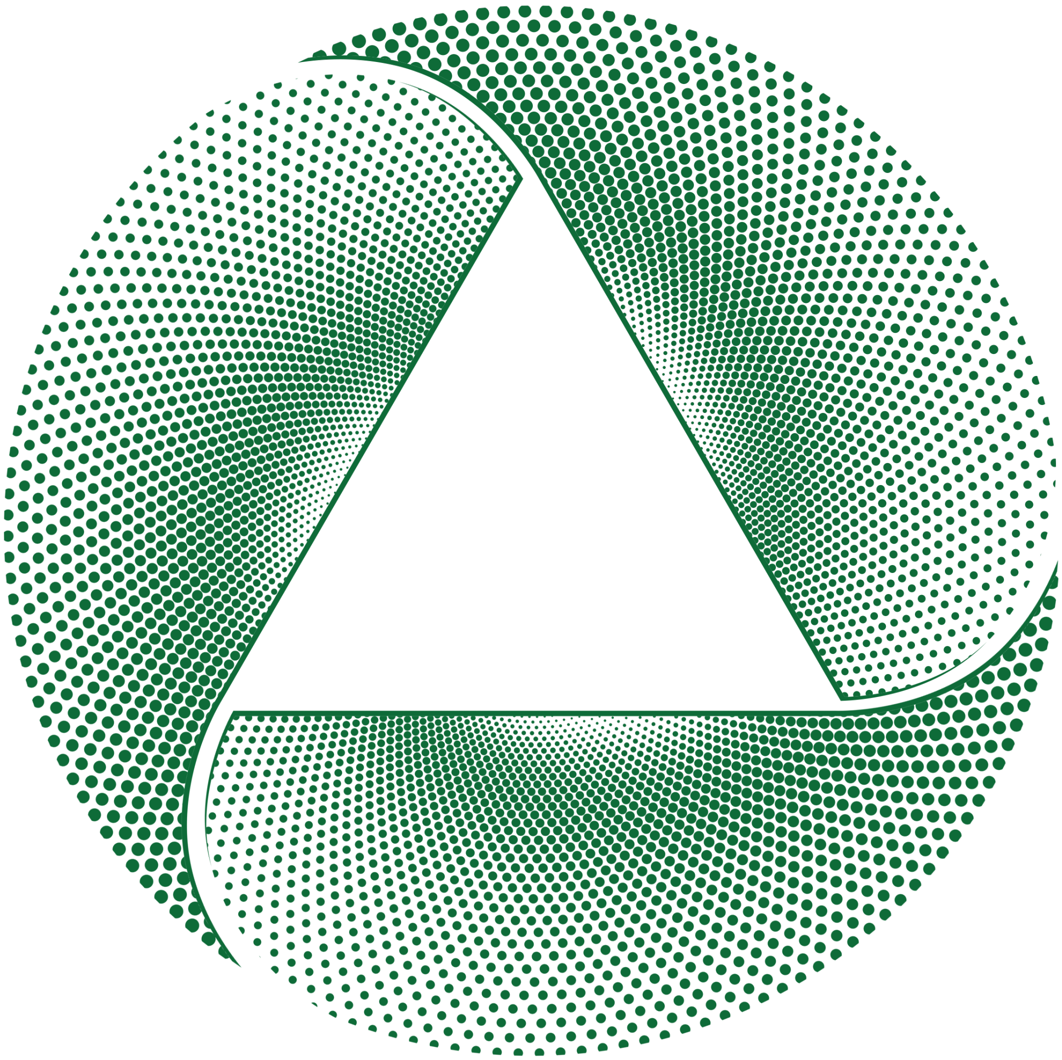

Tax operating model transformations

Identifying and mitigating transition risks

Phil

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Several years ago, as head of tax for the asset management division of a large organization, I was faced with challenges that are familiar to most tax leaders. The operating model that had served our department well for many years was increasingly out of sync with more digitally enabled business operations, and our executive team was focused on how our processes and technology could be made more scalable and sustainable. At the same time, perennial pressures to contain costs and operate more efficiently were compounded by growing expectations for our tax team to contribute more strategic value to our organization.

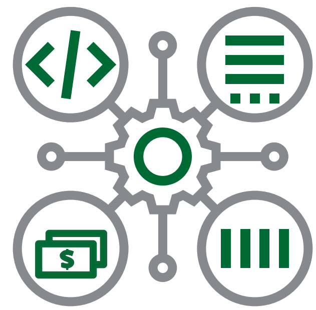
Change was inevitable, and continuing to operate the same way wasn't a viable long-term option, but figuring out where to start was daunting, particularly considering the risks. While we were open to the idea of revisiting our tax operating model, we didn't want to upset the apple cart with thousands of filings and many stakeholders to consider, including tax authorities, investors, clients, our business team partners, our C-suite, and my tax team.

Our organization opted to outsource much of our tax function to Deloitte, solving some of my most intractable long-term challenges (particularly leveraging technology and providing training and attractive career paths for my team), all while achieving significant cost savings. *However, these benefits were dependent on first carefully identifying, then effectively mitigating transition risks.* I'm pleased to report success: Those thousands of filings are still completed in a timely manner (many earlier than before), accurately, and with the same high level of quality achieved under the previous operating model, and the tax function now has the bandwidth to contribute more substantively to business strategy.

My experiences leading a major tax outsourcing transformation as a Deloitte client and the experiences of my Deloitte colleagues can be instructive for tax organizations looking to understand transition risks and specific mitigation strategies.

Transforming tax operations: One size does not fit all

While COVID-19 has accelerated the trend, tax organizations of all sizes were already considering or actively engaged in adapting their existing operating models, according to *Deloitte's 2019 global tax management survey*: 81% of respondents were operating some type of centralized global tax delivery model, and 34% were outsourcing to a third party.

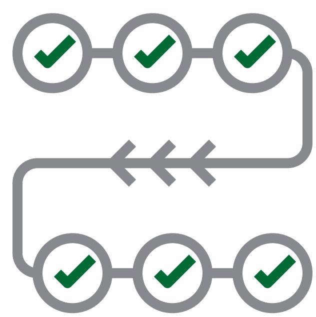


Tax organizations are adopting new operating models primarily to gain efficiencies and cost savings through digital automation and to shift the focus of tax professionals to a more strategic advisory role. Organizations today have many options for fulfilling tax responsibilities: outsourcing full operations; cosourcing or outsourcing specific tax services while keeping tax leaders within the organization; and a variety of insourcing models supplemented with consulting services, shared services, and process automation.

Understanding the potential risks and mitigation strategies for these different options is a crucial first step in making staffing and process changes to achieve your organization's goals. *The following are some key areas of focus and specific considerations for limiting the types of risk you might encounter during a transition. The steps and scale below will vary depending on various factors, including the size of your organization, the number of people involved, and the type of operating model selected.*

Scope, process, and timing: Get granular

Like any transition, tax operations transformation should have a clearly defined scope and understanding of the process and timing. Starting with current- and future-state process mapping, planning should be very granular at this stage to limit the risk of tasks falling through the cracks.



After meeting with all affected teams to document processes and responsibilities, you'll want to categorize what people do on a day-to-day basis and create a comprehensive, itemized *list of roles and responsibilities*. It is also critical that your *tax filing calendar and your tax policy and procedures manual* are up-to-date, comprehensive, and thoroughly documented. These tools will inform your decision process in determining what responsibilities could or should be met within your organization and what tasks could be outsourced.

For roles you decide to outsource, you can mitigate the challenges of knowledge transfer by *"rebadging" people*—moving your team members to the service provider while preserving institutional knowledge and familiarity with systems and culture.

Once you select your future operating model, many outsourcing firms can also provide *contract personnel* or *shadowing resources* who can work within your organization. These individuals can provide reinforcements during the transition period while gaining meaningful experience with your issues and systems that can be leveraged post-transaction. Similarly, *running pilot* or *test calculations* on higher-risk process areas can help mitigate risk at the time of actual delivery.

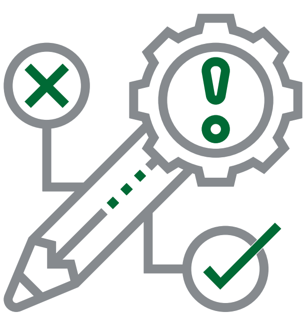
PMO resources: Keeping everyone on schedule

Once scope and timing are well established and documented, an effective *project management office (PMO)* is essential for conducting a smooth and successful transition with limited risk.

The PMO can be part of your organization's team or an external resource, but they should be very familiar with your priorities and capable of helping identify, create, and implement key transition workstreams. Talent, technology, and technical tax analysis are common workstreams that will likely benefit from PMO oversight in the form of setting due dates, assigning responsibilities, and scheduling check-ins to make sure tasks are on track, problems are identified and addressed early, and the overall transition is progressing as expected.

In particular, broader transformation (outsourcing tax operations completely to another provider, for example) may require coordination with peer teams at the service provider on a wide range of legal, independence, technology, and HR-related transition issues. The PMO plays a critical role in ensuring effective collaboration between the respective teams: For example, HR teams are working with their counterparts to coordinate talent transfers, legal teams are jointly focusing on contracts, and facilities teams are coordinating physical moves.

Governance: Oversight, escalation, and issue resolution builds trust



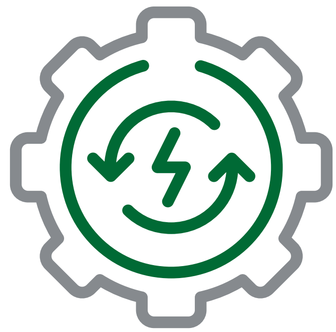
In addition to frequent team meetings, a robust governance structure is crucial to mitigating transition risk by promoting effective communication, transparency, and responsibility.

The structure and meeting cadence of governance is especially important; committees should be staffed with increasingly senior levels of your personnel and that of the service provider who meet regularly to discuss a range of items, including issue escalation and resolution, scheduling and completion concerns, changes in engagement scope, access to technology and data flows, and tax law changes. Governance will require (and help ensure) that the right people are engaged and informed and communication is fluid, from planning to go-live to smooth operations in the new model.

Investing in and reaping the rewards of an effective governance model may increase the trust between you and your service provider, a critical factor in a successful long-term engagement.

Technology: Leverage the power

As part of the operating model transformation, your classic "build it or buy it" technology options include using the technology of your service provider.



When organizations move tax department staff to Deloitte, for example, they have immediate access to a tax technology platform with the power of automation, digital tools, and data analytics to reduce manual work, increase efficiencies, and offer tax professionals the insights and time to think more strategically about their work. For many tax teams, this may be a more viable option than building out these digital capabilities and managing them in-house. Outsourcing your tax technology platform mitigates significant risks, but you'll want to ensure that certain safeguards are in place; for example:

- Complete a deep dive at the outset to fully understand the existing technology pain points, as different industries, subledgers, and business combinations all present unique challenges that need to be addressed.
- Ensure that you still have the ability to manage data flows and maintain continuous access and availability of data, including data from functions outside of tax and any third parties you might work with.
- Thoroughly analyze and document all cybersecurity and confidentiality risks between your IT department and the service provider's team.
- Discuss dashboard reporting functionality that provides you with a quick, easy view into your outsourced operations, including the status of returns, hours, and flexible reporting options.

Talent considerations: Getting the people aspect right

With all the elements of transition risk, *successfully addressing talent* is a critical mitigant. The tax professionals with the technical and practical knowledge of and experience with your business and stakeholders will play a major role in determining the outcome of your transition.

You'll want to keep them together by ensuring they are motivated, well-trained, and on a rewarding career path, regardless of whether they are rebadged or remain in-house. Our next article on talent and culture considerations focuses in more detail on these people aspects of tax operations transformation.

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