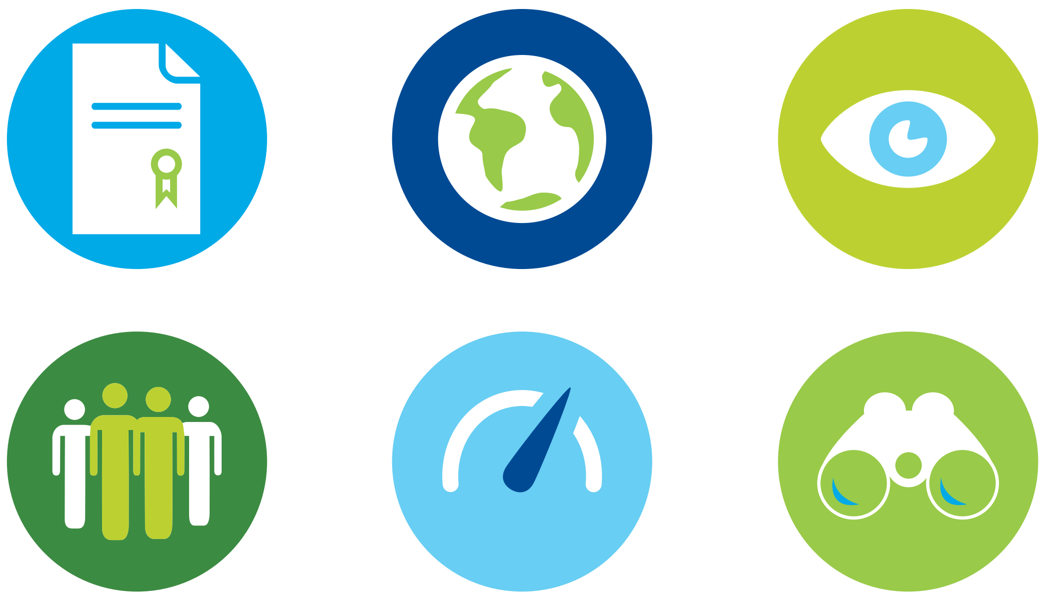
# The Transformation of Tax

## Something Big is Happening Here



Expectations of the tax function are evolving

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It’s the tax department’s turn

**In recent interviews with chief financial officers, two notable and recurring themes have emerged:**

- **CFOs have new and very specific expectations of the tax executives and tax operations within their organization.**
- **Those finance leaders share a sense of urgency to transform the tax function – to elevate its capabilities to match those of the finance function and other areas of the business that have already undergone transformation.**[1]

Why is tax rising to the top of CFOs' priority list? What are they asking for? And what is this new emphasis likely to mean for tax executives, tax departments, and tax advisers? To begin finding answers to these questions, it's important to understand changing expectations of the tax function driven by three global trends. Those trends and the changes they are driving have implications for specific stakeholders, and CFOs and tax executives who respond early and strategically can be leaders in transforming tax and elevating its role in the business.

[1] Deloitte interviews with CFOs from across industries in preparation for Tax Transition Lab sessions, 2013-2014

# Expectations of the tax function are evolving

**The need for tax departments to elevate and expand their role in the business isn't new, but the demands being placed on them *are*, both in type and intensity. Mandates from CFOs and other important stakeholders across the business that are driving this shift include:**

### Become a stronger partner to the broader business

Companies are continually refining their business structures and CFOs often lead the associated transformation initiatives. Tax executives are well positioned to work with CFOs and business unit leaders in their decision-making processes by clearly articulating why tax matters and identifying areas where potentially significant value can be gained by taking a tax-aligned approach.

### Do what you've been doing . . . better

As business model transformations are undertaken, refinements to the operating models typically follow – i.e., roles, responsibilities, processes, technology, data, and sourcing strategies across the organization. CFOs indicate that they expect the tax organization to continue performing its traditional tax planning, compliance, and risk management duties, but do so in a more sustainable and efficient manner. To accomplish this, CFOs expect tax executives to use processes and technology more effectively to better leverage their people and data.

## Expand your thinking and role

The current environment requires tax professionals to learn about the broader business and how tax considerations integrate into its decision making and approach to risk management. The tax organization can help lead strategic initiatives in which tax cost is a major decision factor.

## Communicate effectively

The C-Suite, the board of directors, and the audit committee can all benefit from clearly presented insights into tax issues – in language those stakeholders understand and in the context of business issues to which they can relate. How is the tax function generating value for the business? What are tax executives doing to build sustainable tax processes around compliance and reporting? How are tax personnel leveraging technologies used by the rest of the finance function? What is the succession plan for critical tax professionals? The ability to answer questions like these with confidence can show stakeholders that you are effectively evaluating, managing, and communicating tax issues.

**When asked in a Deloitte Dbriefs webcast how closely integrated tax and finance are within their organizations,** nearly half (48%) of the more than 1,800 non-Deloitte participants responded that the two functions have only a minimal or moderate level of collaboration.[2]

[2] Polling results, "Tax and Finance Convergence: The Trend and Its Impact," Deloitte Dbriefs, March 20, 2014.

# Three factors driving the transformation imperative

**Transformation has been a pervasive theme in the business world for much of the past two decades, parallel to and enabled by the emergence of enterprise resource planning (ERP) systems. Successful initiatives in areas such as manufacturing and supply chain, human resources, sales and marketing, customer relationship management, and, of course, finance and accounting underscore how the effective application of organizational design, process improvement, and enabling technology can improve efficiency and performance while driving value for the business.**

While these functions undertook the massive, at times painful, path to transformation, the tax function was often relegated to the sidelines or completely overlooked as a "black box" of arcane rules and requirements. Recently, three factors have driven the tax function into the forefront of transformation opportunities, with profound implications for tax executives and departments, and even their tax advisers:

## Three factors driving the transformation imperative

### Accelerating globalization

Companies are increasingly looking for opportunities to grow beyond their traditional markets. Entry into new markets requires companies to account for, report on, and plan for taxes under different and potentially unfamiliar regimes. Tax considerations can be pivotal in strategic decisions regarding expansion and adaptation of business structures and operating models. As a result, businesses increasingly are transforming their global tax-related processes from a decentralized approach to a standard global approach, often integrating tax operations into shared services centers, standardizing technology platforms, and integrating with globally standard financial processes.

### Growing regulation and business complexity

Increasing regulation is a familiar challenge for businesses in virtually every industry. The continuing introduction of new requirements in a company’s traditional markets, as well as the rules applicable in new markets, both tax specific and more broadly, are creating new levels of complexity and concern for tax departments. The country-by-country interpretation of the Organisation for Economic Co-operation and Development’s (OECD’s) Base Erosion and Profit Shifting (BEPS) initiative and guidance is one recent and prominent example. Legislators and tax authorities in jurisdictions around the world are passing new laws and boosting enforcement efforts to combat perceived actions by businesses to avoid income taxes. In this context, business complexity grows. As businesses look for new ways to create shareholder value, the complexity of *where* (new markets), *what* (new businesses), and *how* (built or bought) new business is conducted increases. Tax executives need to be at the table informing business choices about potential tax costs and insights about possible tax risks.

### The evolution of commercial tax applications

One of the most important developments accelerating transformation of the tax function is the expansion of tax-specific modules for ERP and enterprise performance management (EPM) systems, as well as indirect tax applications. Having converted businesses to these systems over the past couple of decades, ERP vendors are now heavily focused on integrating functionality passed over in initial implementations, tax in particular. In the past few years, vendors have begun acquiring providers of tax provision, compliance, and risk management software and integrating this functionality into their systems, or developing it themselves. They also have expanded the scope of system functionality from a local focus to a global focus to address the global tax requirements of multinationals. These new technology approaches enable wholesale process change and, in turn, become a catalyst for re-engineering tax department professionals’ roles and responsibilities.

# Implications of transformation for four central stakeholders

**Transforming the tax function places new demands on everyone involved in planning for and fulfilling the many tax obligations companies have today:**

## The CFO

The need for tax transformation has profound implications for CFOs. The CFO will often need to serve as the chief champion of transformation, laying the groundwork for change, both in the tax function and across the business. Throughout the transformation journey, the people involved may look to the CFO to clearly communicate evolving expectations. Perhaps most important, the CFO will likely take the lead in assembling the financial resources, talent, capabilities, and political support needed throughout the business to make transformation a success.

## Tax Executives

The role of the tax executive can be viewed as having four faces: an operator, who balances tax department costs and service levels to fulfill compliance and planning responsibilities; a steward, who is charged with protecting and preserving organizational assets; a strategist, who provides specific tax direction and aligns tax department activities with broader business strategies; and a catalyst, a driver of action across the business to support financial goals. In a Deloitte Dbriefs poll on organizational transformation, nearly half of the more than 2,600 non-Deloitte respondents viewed their tax function as spending the majority of its time as an operator or steward of the business. Less than one-third regarded the tax executive as a catalyst or strategist for organizational change and growth.[3] Transformation offers tax executives the opportunity to expand their skills in these two vital and challenging roles and increase their value to the organization.

[3] Polling results, "Organizational Transformation: Value Creation through Alignment between Tax Planning and Operations," Deloitte Dbriefs, November 11, 2013.

### Tax Personnel

As tax leaders assume more expansive roles, they will look to their tax personnel to carry out traditional responsibilities more efficiently while developing new skills to support activities relating to those four faces. In a shift similar to that experienced by finance, sales, and other functions, ERP integration will provide tax personnel with greater access to data, workflow applications, and analysis tools. These tools will help tax personnel to free up time that can be deployed toward more value-added activities or to fulfill new requirements. Certainly tax personnel will need to refine processes used in their traditional roles.

### Tax Advisers

To help get the most from their people and data, tax executives will look to tax advisers for help in ramping up new processes and technologies, aligning the tax function with business strategy and operations, and deploying talent. Advisers can also play an important role in addressing the change management implications of transformation, as well as filling skill and resource gaps until the new organizational structure and processes are stable.

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## Real transformation requires a diverse team

**As many organizations have discovered in change initiatives, transformation is often complex, and it's almost always difficult. From a technology standpoint alone, challenges can arise in implementing tax functionality akin to those that plagued ERP implementations, such as unclear requirements, unrealistic expectations, user adoption issues, and hidden costs and delays.**

Finance and tax leaders could encounter a belief within their organizations, and perhaps their own minds, that tax technology is a "silver bullet" that will solve many issues. But realizing the benefits of transformation will most likely require process and organizational redesign, as well as technology implementation and even culture change.

These diverse elements will demand more than tax or technology experience alone to translate new requirements into defined roles, responsibilities, processes, workflow, and governance and controls. A tax transformation team will need to possess a combination of skills:


- Industry and business-specific knowledge so tax transformation aligns with broader finance function and enterprise objectives.
- Tax technical expertise to devise new ways of gathering, analyzing, and using tax information.
- ERP and tax technology experience for tying together the other elements through the underlying data and systems.
- Change management skills to encourage adoption of changes resulting from the transformation, guide and support necessary training to support adoption, and effectively communicate throughout the transition period.

**A team with this combination of skills**

In the context of this type of cross-functional team, technologists certainly will be instrumental in configuring systems, developing interfaces, and connecting tax applications to the broader enterprise systems. But tax-technical specialists will be vital for verifying that relevant, accurate tax information is being collected and used appropriately across the dimensions of tax planning, compliance, reporting, and analytics.

# The importance of cross-functional skills

A Fortune 100 global technology company discovered the benefits of the cross-functional approach as it sought to centralize its international tax data collection process, migrating from more than 700 spreadsheet packages globally to OneSource Workflow Manager (OWM). The objectives of the initiative were to improve the quality of information used inside and around the company's tax compliance process and to streamline tasks completed by its corporate tax department.

An integrated team of international tax specialists and tax technologists worked together to redesign the international tax package for each of the company's foreign legal entities, including branches. The team developed and assisted in the implementation of a technology solution that bridged tax information from OWM to the company's overarching compliance system; created an Internet-based data collection tool; supported integration of different software packages; and enabled extraction of tax data from OWM.

The project produced tangible impacts for the technology company, including:

- Reducing the amount of time that package preparers and business units spend gaining access to the tax packages.
- Allowing for business units to monitor progress in real time.
- Reducing the use of email.
- Increasing visibility into the status of each package.
- Enabling online access to interested authorized parties, even those outside of the tax department.
- Streamlining the movement of data from tax packages to consolidated reports and the company's chosen compliance system.

# Next steps for CFOs and tax executives

**Transformation will place significant demands on finance and tax leaders. Taking a structured approach to the transformation process can help smooth the transition, identify issues as they arise, and capitalize on opportunities along the way. Important elements of such an approach include:**

## Planning

*Align tax department and business objectives.*
Understand the goals of the business and what it will look like in five years. Identify how the tax department can help the business achieve its objectives and set goals and direction accordingly. This will put the tax department in lock step with the broader business and help make the business case for investment and change.

*Envision the future-state tax department.*
With business and tax goals in view, strategically consider the people, process, and technology components that the tax department will need, including: information and analysis the business should have; the likely scope of the regulatory landscape that will need to be addressed, both in the United States and globally; and the skills and experience tax department professionals will need to address regulatory and business requirements. If your business goals are transformative, your tax department's evolution will need to be as well.

*Create a roadmap.*
Understand current tax department capabilities, areas of underperformance, and tendency to focus on activities that are not strategic to the function and overall organization to determine what it will take to reach the new vision. The transformation could take three to five years, so prioritize the initiatives and use early improvements in efficiency to fund or make the business case for future investment.

## Execution

*Enhance and streamline tax processes.*
Create greater efficiency through technology-enabled processes – a key element of transformation is to free up tax professionals' time so they can address emerging needs and provide strategic value to the business. Early opportunities for process improvement should be those that involve multiple handoffs, long cycle times, support from multiple tools, and quality or risk issues.

*Evaluate enabling tools and technologies.*
No one-size-fits-all technology solutions exist, so consider tools that are compatible with existing ERP platforms and other vital business systems to facilitate integration with minimal enhancement. Analyzing data will be just as important as reporting on it, so look for systems and tools that provide broad analytics capabilities, from identifying data anomalies to modeling various planning scenarios.

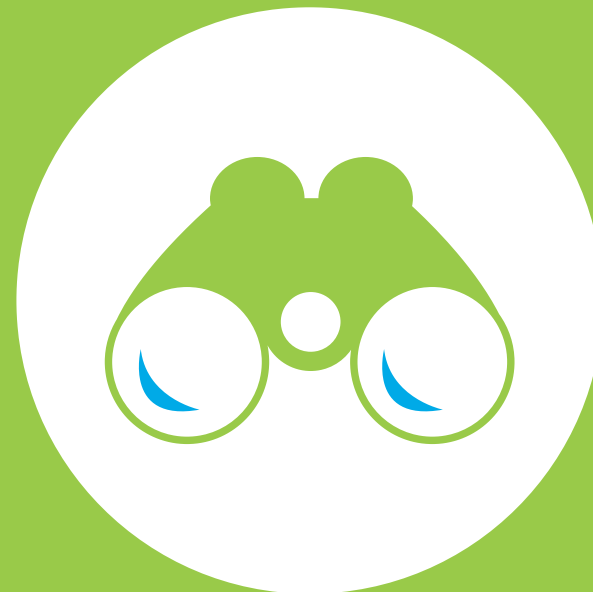
*Design new organizational models.*
Take the opportunity to white-board roles, responsibilities, and skills the tax department might need to support the vision. Besides tax and accounting backgrounds, consider other types of experience that can support business collaboration and teaming, including project management, technologists, mathematics (e.g., decision sciences), and finance. This exercise can help with development of a training program for existing tax personnel who might take on new roles, as well as a recruiting effort to locate external resources, if needed.

## Communication

*Measure results.*
Formalize the strategy by developing an effective set of key performance indicators. It takes time and resources to track progress; and measure and communicate results…but it is an important step. Helping the C-Suite understand your transformation journey and the real impact it is having will create better transparency and leadership alignment; and build continued support and confidence.

*Support the change.*
The changes implemented will not only be new to your tax department, but the rest of the business. Dedicate time to creating a plan that generates awareness inside and outside the tax department of the vision and new capabilities the department can offer.  Within the tax department, set clear expectations and align performance management systems as needed.

# It’s the tax department’s turn



**For years, tax departments remained in the shadows as transformation swept across other business functions. Now, it's the tax department's turn to step into the spotlight. With a clear view of how the tax function's role can evolve and expand, and the commitment of the CFO and tax executives, something big can indeed happen. The tax function can enhance operational efficiency at a global level and contribute significantly to decision-making across the business.** Its operations can become more transparent to CFOs and other senior executives, from performance and risk management perspectives, in much the same way other business functions have become in the past decade or two. And, importantly, tax executives and other tax specialists – especially those willing to develop a broader understanding of the business and play leadership roles in the transformation – should be able to build eminence within the business and lay the foundation for career growth in the future as the business reaps the rewards of the transformation.

# Out front, leading our clients through change

For nearly a decade, Deloitte has observed the growing momentum to transform the tax function. During that time and in anticipation of the types of tax transformation businesses are now undertaking, we have been evolving our own organizational structure, building our resources, preparing our people, and strengthening our alliances. We are intent on leading our clients through whatever change they're dealing with, helping them pursue their business objectives with the highest quality and integrity. Our tax-technical, technology, and management consulting specialists find innovative ways to help tax departments uncover insights and solutions for navigating an increasingly complex global environment. In this way, we are helping tax departments have a greater impact within their organizations.