Integrated insights with Taxalytics™
Leveraging data analytics to reach peak performance in tax
December 2016
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Introduction

Actionable tax data and insights are critical and meaningful enablers for an effective tax department to deliver valuable business outcomes within the enterprise. Many, though, are falling short. To truly succeed and thrive, tax departments need an intensive overhaul in their data analytics capabilities. By doing so, they will be able to focus more time on decision-making vs. data crunching, reduce the chances for errors and risk, and become a strategic part of the enterprise’s quest to gain insight-driven advantage and contribution to the profitability equation.

The age of spreadsheets and manual data crunching is over. The modern tax professional needs sophisticated visualization tools that breathe life into their critical data assets, showing their reality in living color and interactive pictures. These are not stand-alone tools. They must be integrated into the industry’s most effective and sophisticated analytics toolsets. They must work with an enterprise-class data platform and architecture, determining that the data is perfectly cleaned, factual, and consistent with enterprise resource planning (ERP) and transactional systems.

Analytics for tax departments has a new name: Taxalytics™. Taxalytics brings it all together for tax: analytics strategy, visualization, top-flight analytics tools, data management, integration, and the expertise to make it work successfully. Putting a proper data analytics program together can be challenging, but it is fully attainable and a must-have in this day and age. The leading companies are pursuing it now.
Opportunity and vision: Data analytics elevates tax to a strategic, value-generating function

Tax, at its core, is fundamentally dependent on rich information. Whether it is tracking taxes on billions of individual transactions, understanding complicated codes and rules, or calculating the amount paid or not paid, tax is all a function of having, manipulating, and utilizing the right information. In the tax environment, information is used in many ways including collection, calculation, storing, reporting, transacting, auditing, etc., but its most impactful use is one that is currently least embraced: data analytics.

In simple terms, data analytics is the practice of synthesizing aggregate data to produce insights that help deliver meaningful outcomes. Different from reporting which only describes what has happened in the past, analytics creates the ability to explain why or how something happened, predict something that is going to happen, and create fact-based insights into how future change can be enacted to benefit the tax function and the enterprise at large.

In many companies’ current state, the operations of the tax department have mostly focused on manual data manipulation and reporting, likely done with older bolt-on systems and spreadsheets. The tax practitioner might spend more time collecting and arranging data than using it to make positive change. Too often, the group is in ‘react mode’ where problems are identified after they occur and great amounts of effort are put into solving problems. This hurts performance in multiple ways: the damage of problems (e.g., mis-payments, audits, mistakes) has to be remedied and paid for; the practitioners’ time is spent fixing instead of enhancing; and the net profitability of the company suffers.

In a modern vision of an information-enabled tax department, tax specialists don’t spend time finding data. Instead, they use data strategically to deliver better outcomes. They use data analytics to identify problems before they occur through predictive and prescriptive analytics or real-time monitoring. As successful data analytics requires a high-performing and high-quality data environment, the tax professionals have access to a single and verifiable version. This means the financial reality is not only consistent within the tax department, but also with the finance department and across the enterprise.

As a result, the tax function changes its fundamental nature and gains the insight-driven advantage. Instead of a compulsory function leaders will view the tax function as a strategic player that contributes to the organization’s overall profitability. The ability to use data analytics to anticipate and improve tax performance in incredibly complex transaction environments means that it could reduce taxes and penalties paid while providing proactive guidance as part of the finance team.

Real benefits to adopting effective data analytics capabilities
The potential benefits of high-performing tax data analytics are tangible, measurable, and actionable. By getting ahead of the decision-making process and being armed with a new, factual truth about its operations, the tax department can achieve vastly superior outcomes, including:

- Efficiency gained from streamlining data acquisition/...
processing/analysis and the transfer from non-value-adding activities (e.g., data crunching, manual calculation) into high-value activities (e.g., strategic decision-making, proactive issue resolution).

- Fewer mistakes and mis-payments by identifying them before they happen and reducing the lag between event occurrence and event identification.
- Risk mitigation due to more transparency, faster issue identification, better prediction, and faster resolution.
- More effective audit preparation due to more timely and accurate data and ease of accessing and understanding information.
- Ability to answer questions that were previously impossible to answer due to lack of information and tools.
- Improved coordination in tax planning for future cycles due to better, timelier information and quicker cycles.
- Reduction in latency of discovering trends, issues, and changes, moving from year-end or quarter-end review to real-time.
- Reduced data collection, manipulation and reformatting efforts due to more automation and integration.
- Streamlined provision and compliance processes, and improved ability for regulatory compliance.
- Ability to unify and coordinate the tax function internationally (e.g., think global, act local).
- Enhanced and accurate reporting based off a single, verified version, i.e. version control.
- Efficient planning and budgeting with increased granularity.

The benefits are broad-based, potent, and persuasive. Yet many (perhaps most) tax departments have not yet begun the journey to such a broad-based data analytics program.

**Most tax departments have historic and current challenges in achieving analytics**

In general, tax departments are far behind the state of the art in data analytics, especially as compared to the leading practices of today. Historically, most of the enterprise transformations that have occurred, such as financial transformations or ERP transformations, have not wholly considered tax processes as part of these transformations. Tax has arguably been underserved in terms of IT strategy and investment over the years, even when largely comprehensive financial transformation has moved forward with stronger, more modern data and analytics strategies.

This has often propagated a culture of manual processes and one-off workarounds. At many organizations, the data preparation effort is approximately three times higher than the effort that was put towards analyzing the data. The majority of tax business analysts operate as “data preparers,” spending most of their time identifying data sources, then validating and organizing the data. This data preparation process can result in several hundred—or sometimes even thousand—spreadsheets being generated and manually managed, which necessitates time, uses additional resources, and increases the risk of human error. Tax professionals are often forced to work with what they “have” versus what they “need.” Too often, the activities to get to the data are so onerous that analysts lose a proper business context and may even forget the question they were originally trying to answer.

The current environment can also be massively complex with data coming from everywhere. Having a lot of rich and diverse data can be a blessing when utilized correctly, but can also be a daunting and prohibitive roadblock to change. Most organizations may have dozens of systems, each with tax-relevant implications or data points.
A new vision: Taxalytics™—the new dialogue on business intelligence

CIOs are beginning to recognize the impactful tax technology opportunity
CIOs are anxious to accelerate tax technology transformation across the enterprise. They see that the cost for catching up with the learning curve at the enterprise level later is far greater than adopting the new technology now. Following the CIO’s demand, major technology vendors are moving into the tax space. Most of the large technology vendors and many niche tax technology vendors, have geared up and are aggressively adopting recent technology advancements like mobility and cloud in their platforms. Recognizing the shift in the focus of CIOs in the tax area, these vendors are partnering together to develop new technology solutions. Their focus is developing a solution to fill gaps where tax processes are automated by accessing the data from ERP systems to ensure tax data is based on the same consistent finance and operational data (i.e., ensuring version control).

The time is now for leading, forward-thinking tax departments to be part of this initiative and start the new dialogue. Deloitte has recognized this phenomenon and has eagerly and aggressively invested in making the leading data analytics in tax a reality.

We call this Taxalytics™
Taxalytics is a unique, tested approach to enabling a complete and powerful visualization and data analytics solution for tax departments seeking to super-charge their insights and performance using state-of-the-art IT. The objective is to create trusted data—at the right time and in the right place—to deliver an experience that is useful, empowering, intuitive, and transformative. It is the framework for tax, supported by an innovative integrated technology technique for data analytics, that brings harmony to data—from data generation to data presentation and visualization—to establish better business intelligence capabilities. Some of the goals and benefits include:

- Reducing the use of managing data in spreadsheets
- Automating data feeds for data use and limiting the effort required for data preparation
- Using intuitive visualization techniques without needing to understand or use the underlying technology
- Limiting siloed analytics and enabling business users to conduct data analytics at one place, with version control in place
- Enabling business users to drive data analytics based on what they want from their data, as opposed to analytics based on what they have

Data is everywhere
Data-wise, integrating this environment can be an immensely complicated endeavor. At the same time, the richness of data is a tremendous asset that can and should be used for the benefit of the tax department and the enterprise. Given the complexity of the environment and burden of manual spreadsheet reporting, a significant need arises for automation and integration to empower tax business users to make the right decisions at the right time to best deliver outcomes to the enterprise.
Taxalytics covers three major areas of a broad-based data and analytics capability:

- **Data visualization:** Effective, intuitive tools that visually display data into bright, energetic graphics without the need for complex coding, querying or integration, providing quick and useful explorations and insight with tremendous ease and speed. Deloitte has developed several visualization accelerators such as TaxPOV (Point of View) to help tax departments speed their adoption of analytics by visualizing tax return data, tax attributes and key performance indicators. Deloitte’s TaxPOV may be considered as an entry point, since it offers standard visualizations of federal and state tax items. For tax users new to the analytics space the TaxPOV tool can be leveraged as an accelerator for Taxalytics.

- **Data analytics:** Tools to explore, analyze, report, identify trends, make predictions and gain insights from large, aggregate snap-shots of operational and tax data using analytics application suites.

- **Data management:** The ongoing capability to extract, transform, clean, augment, and update high-quality data across source systems so data is complete, accurate, analytically useful, and delivered at the right times/speed across the data analytics environment.

Taxalytics is not a stand-alone or bolt-on application. It is a broad-based integration of visualization on top of leading analytics tools, drawing data from the same finance and ERP systems on which the enterprise runs. Data visualization and data analytics aren’t two separate capabilities that are either separate or overlap. The two technologies are complementary: they work together to form a single, unified, and elegant data analytics solution.
Taxalytics™ provides insights across the tax landscape

Taxalytics integrates with the needs as well as the tax-specific software modules in the environment. Below are these areas and examples of analyses made possible in the system:
<table>
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<tr>
<th><strong>Tax focus area/activity</strong></th>
<th><strong>Sample questions tax data analytics can help answer</strong></th>
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<tbody>
<tr>
<td><strong>Planning (federal, state, international)</strong></td>
<td>How can we improve effectiveness by reducing the number of assumptions in our tax plans? How can we track the correlation of our intercompany product pricing to our VAT implications?</td>
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<tr>
<td><strong>Transfer pricing</strong></td>
<td>How can we tell if profit margins in specific countries are following our transfer pricing policies on a more real-time basis? Which specific product lines have unusually high or low profit margins?</td>
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<td><strong>Income tax compliance</strong></td>
<td>Are the cash taxes paid in each jurisdiction appropriate relative to the projected taxable income and statutory tax rates? Are major book-to-tax adjustments by jurisdiction trending in the appropriate direction given the overall business strategy?</td>
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<tr>
<td><strong>Controversy (audit management)</strong></td>
<td>How is employee international travel affecting our permanent establishment exposure? How can we extract transaction-level data from our ERP to run mock audits by jurisdiction to evaluate potential exposure areas?</td>
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<tr>
<td><strong>Tax provision</strong></td>
<td>Which monthly trends in book income, cash taxes, and effective tax rates can we identify to help us avoid surprises? Do the jurisdictional trends in book profits mirror the trends in effective tax rates?</td>
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<tr>
<td><strong>Indirect tax</strong></td>
<td>Can we test every single transaction to determine if an appropriate level of transactions is classified as exempt from sales and use tax? How can we verify on a country-by-country, transaction-by-transaction basis if we are applying for our VAT credits on a timely basis?</td>
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The journey to data analytics success

Every transformation has a starting point and its own journey. The unfortunate news for most tax departments is that transformations often start off with very little in terms of broad-based IT. The upside? It can be a good problem to have, since there are no existing sunk costs or legacy IT systems to replace. It's often a blank slate, which means adopting a leading-practice vanilla solution can be relatively quick with few customizations and integration points from an unwieldy legacy solution.

Transformation can also be made in various situations. For some organizations, stand-alone improvements that are local to the tax department make the most sense. Other organizations may find themselves already updating or changing their broader ERP systems and may include tax components as a “tax-enabled ERP” initiative. Others may be planning or in the midst of a larger finance transformation and can bundle the new tax data analytics vision within the larger effort.

Like all serious organizational change, most groups won’t be able to jump from the starting point to a fully mature, leading-class analytics operation in one fell swoop. There will likely be steps across the various functions that may move at different speeds based on their value and investment requirements. Below is a typical progression from basic data and technology capabilities to a leading-class level with the supporting activities, analysis, and tools characterized by their state.

### Data process and technology maturity

In all situations, organizations should take a serious and thoughtful look inward to see where current operations are in terms of maturity, functionality, and business value. Then, they should look outward to what leading-class capabilities they strive to achieve. The difference between the two can form the basis for a strategy and implementation plan.

As always, we believe in using a formal methodology for this type of assessment, strategy, and planning. Deloitte offers the Change to Taxalytics Data Health Check (TDHC) to conduct a formal but quick assessment of the current state of data analytics and suggest a vision for moving forward. The Data Health Check is a review of the usage of data across the tax department to identify areas for improved business value by recommending solutions to improve efficiency, drive cost reduction, and increase value delivered by the tax department. The findings establish a benchmark, or a starting point, which the department can use to develop a roadmap to leverage data analytics to reach peak performance in tax.
Conclusion

For most, it may be difficult to envision the day-to-day and year-to-year life of a tax practitioner with Taxalytics simply by reading about it. The true value comes from experiencing a completely new work day—where data crunching is replaced with analysis and reporting on the past that is replaced with value-generating predictions for the future. Beyond the tax department, finance and the whole enterprise can benefit, as tax turns from a reactive department into a proactive, outcome-delivering part of the enterprise’s strategic equation.

The time to act is now: the opportunity is bright and the costs are too high not to. Those who embrace this exciting vision for new insight, performance, and value may find themselves operating on a whole new level.

Contacts

Mahesh Marepalli, PhD
Tax Managing Director
Deloitte Tax LLP
Email: mmarepalli@deloitte.com
Tel: +1 571 766 7557

Steve Losavio
Tax Partner
Deloitte Tax LLP
Email: slosavio@deloitte.com
Tel: +1 212 436 2212

David Landers
Tax Partner
Deloitte Tax LLP
Email: dlanders@deloitte.com
Tel: +1 980 312 3725

For more information, visit www.deloitte.com/us/movetaxforward.