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For Cloud Professionals, part of the On Cloud Podcast

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Title:	**The last holdout: tax embraces the cloud**
Description:	Applications that serve the corporate tax function sit outside the IT portfolio at many companies, and that outsider status often impedes migration of those applications to the cloud. However, recent trends are driving the tax organization at many companies to embrace the cloud. In this episode, David Linthicum and guests, Deloitte's Stephen Metoyer and David Landers discuss why—despite historical resistance—the corporate tax function is jumping on the cloud bandwagon. In part, it's because data volumes are increasing due to tax authority demands for data and cloud-based ERP adoption. However, the biggest driver of cloud adoption for the tax function is that companies now realize the enormous cloud value proposition: the security they crave, coupled with the computing power they need to gain critical insights to help improve tax management performance.
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Operator:
Welcome to On Cloud, the podcast for cloud professionals, where we break down the state of cloud computing today and how you can unleash the power of cloud for your enterprise. Now here is your host David Linthicum.

David Linthicum:
Hey, guys welcome back to the On Cloud Podcast, your one place to find out how to make cloud computing work for your enterprise. This is an objective discussion with industry thought leaders who provide their own unique perspective around pragmatic use of cloud-based technologies. Today on the show we have our special guests from other groups at Deloitte – what I love to hear about, love learning about what the firm does. First is Stephen Metoyer and also David Landers. And, Stephen, why don't you introduce yourself and what you do at Deloitte and, David, I'll have you go second.

Stephen Metoyer:

Sure. Stephen Metoyer, I'm a principal in our tax management consulting practice here at Deloitte. I run that service line globally for the organization and it focuses on helping our clients deploy technologies specific to the tax organization. Often these things are connected applications to the broader enterprise, and as we're seeing in all of the other areas the migration to cloud, the option of cloud is prevalent in the area of tax software and tax-connected applications. I focus in that area for the organization.

David Linthicum:
Great. And, David, what do you do?

David Landers:
So, I'm a part of the same group, that tax technology group really working to bring advanced technologies to the tax department of our clients. And specifically, I lead our business around our business process management application called myInsight Client Edition that we bring to market and leverage some of the cloud technologies through that platform.

David Linthicum:
That's great. So, I've got a question that everybody's thinking about right now. What the heck are you guys doing on a cloud computing podcast? Stephen, you go first.

Stephen Metoyer:
Well, I think what we're doing is really kind of bringing an awareness to the challenge that many of our tax clients have, which is really having a voice in the cloud conversation. You know, the tax organization acquires, compiles a myriad of disconnected, if you will, tax applications, and they often sit outside of what you might consider that IT portfolio. And they need to be a part of that migration, cloud discussion about the platform and those kinds of things. And because that tax practitioner is often not included in this conversation about how do we get to cloud, how do we harness the power of cloud computing for many of the very complex computations and algorithms that need to be run – it's important that there's an awareness that bringing that computing power, that cloud platform availability, to the tax area. It needs to be part of the discussion.

David Linthicum:
So, David, why do you think you're on this podcast?

David Landers:
Well, the needs that tax has have just grown incredibly, if you look at the landscape of what's happening. So, first off, within the technology space and the ERPs and the move to cloud of the architecture and the infrastructures, and then if you look at what's happening outside into the tax authorities, things that are happening across Europe for real-time, tax is the largest user of data from across an organization just because of all the different different ways it's calculated, reported. And now that's just become even more paramount because of the need for some of the advanced, in real time and, so, when it comes to cloud, there's a big question in the industry that's going on with regards to the ERPs. How much is the new ERP in the cloud going to be able to provide tax from a data standpoint, or will tax need to own its own data store, data repository, and connect to the broader organization? How is that managed? Who owns it? You know, there's a lot of these questions that are still being answered as the tax authority, the tax relations, all of those requirements move, as well as technology enhances. And, so, the ability to have large-scale data that can handle the fast processing needed, et cetera, that cloud provides really gives tax another option that they didn't have before, and whether that be something tax owns, or something that's done out of the finance systems.

Stephen Metoyer:
You know, one of the things that David Landers hit on that I think is really important is that the target that we're aiming at is constantly moving in the area of tax. And one of the phenomena that was mentioned just briefly, but is really important, is that we see the taxing authorities moving from what many people think about when they think about taxes, which is a single number in a box on a form, which is, if you will, the old tax world, to the tax authorities wanting to know what are the seven million lines of transactions or the billions of lines of transactions that make up that number on the box, and craving, if you will, that transactional data that makes up the line on the box. And, so, we call this real-time reporting. In Brazil they have this SPED reporting concept. But it is about a significant uptick in the volume of data, and that's being required of the taxing jurisdictions, and our corporate clients having to react to that and being able to provide that, and the computing power that it takes to respond in a near real time at that volume to those jurisdictions.

David Linthicum:
So, why is the data increasing? Why are your clients looking at an increasing exponential rise in data volume – like everybody else in the world, by the way, but why in the tax area specifically?

Stephen Metoyer:
As I said, it's predominantly that the authorities are realizing that the ability for an organization to answer not at a summary level, but at a very detailed level, so that the tax authorities can do incremental analytics and do more of the comparison types of analysis between different reporting taxpayers, especially in a supply chain or a progressive tax that they need to compare the taxation from taxpayer to taxpayer. Those types of things beg, the more they're able to deal with from a data perspective, the more the tax authorities will begin to ask for. And this idea of insight is incredibly important. So, having this insight to the transactions allows tax functions within our clients' organizations to plan and to do better planning around the best right approach for a corporate organization for tax.

David Landers:
Yeah, and I'll just add to that that, you know, in the old world tax was generally at the end of the data chain. Tax got the data it needed; if it wasn't fit for purpose they would reach out to the organization in a very manual way to enhance that data and make it ready for tax to do calculations and filings. The closer the tax authorities are getting to doing – getting to that real-time data, the more partnering is needed between the source of the data, the true transaction that happens at the operations or finance level, and the reporting of that data because some jurisdictions are saying, "We don't want the data that has been changed. We want it exactly as it came out of the ERP system." And, so, there's a much larger need now for tax and the business to partner together (Inaudible) data fit for purpose for tax at the volume levels that are required that cloud can (Inaudible) with.

David Linthicum:

So, what are the questions you're getting from clients these days that you didn't get ten years ago when it comes to cloud? Stephen, I'll go with you first.

Stephen Metoyer:
Well, I think the biggest question is what is it, right? That is the first question that we get from a buyer or a constituent within the tax organization that is either being approached by someone within the organization in a discussion about the organization's movement to cloud, or being approached by external vendors that are trying to move them off of their on-prem environments to a cloud offering. And, so, they have all kinds of paradigms and thoughts about security and cyber and what does that mean, and, really, we're at the ground level really educating a lot of tax practitioners, VPs of tax, et cetera, on what is cloud.

David Landers:
Yeah, so not only what is it but If I hear my organization is moving to cloud, for some of our architecture, is that going to impact us? Or should we think about what should we be doing? And it really does start to then open a discussion of that partnering with the business, being involved in that migration to understand how the tax department to really partner and around what data is needed to satisfy all these requirements we've been thinking about. The other component that I'd say is – I mentioned that question in the industry with regards to will the ERP, the new cloud ERP satisfy all of the data needs for tax or will tax need to own the thing. You know, there's been a lot of attempts in the past of tax data warehouses, et cetera, and they generally were very tough to make successful because there's just such a high entry cost. But the other beauty of cloud now is the entry cost is so much lower. You know, we're not spending months trying to procure an architecture, tax is a very cyclical – well, at least the direct tax side of things, the income tax is very cyclical. So, you're scaling up a size of inventory to handle a peak period, and the that architecture is not used, or infrastructure is not used at that peak time for the whole year. You know, that's the beauty of cloud. We can spin up easily, we can manage the volumes of what we need to do, and then we can spin it down. And, so, tax can really start to get into true data management on the tax side for a much lower cost and effort than it used to take.

David Linthicum:
I've got a pretty deep question for either one of you. Where should the compliance exist? Because, when I set up cloud-based systems, we have to deal with compliance-based governance and deal with governance around compliance, PII information in terms of the HIPAA standard. And you get Sarbanes-Oxley, and then also all the international stuff that's out there that we have to kind of keep tabs on in how we handle the information, how it's locked down and how it's set up. How does tax typically fit into that? I really have to say I don't have any experience in people asking me to bring compliance-based governance down into certain data stores around the notion of tax. It's always compliance with larger – you know, larger legal issues, you know, Sarbanes-Oxley being the one I run into most, but when it's getting into processing I know some of that data logging in processing is for tax. So, where to meet the tax requirements in kind of figuring out the governance notions around that? When does it become more of a platform issue versus more of a fine-grain business issue?

Stephen Metoyer:
You know, David, if I'm understanding the question right I think that this convergence is incredibly important, because if there is a single piece of the organization that is world-famous for ETL, so extracting some data, putting it someplace else, transforming it, and then reloading it into some other tax software that will render tax returns, the tax department is it. They are a poster child for this. It brings about a lot of questions about governance of data, about security and PII, and all these questions that maybe weren't as trolled historically, especially in the area of tax, that do need, if you will, this kind of set of compliance standards put over it. And, so, I think that what we've seen is that some of the things David talked about around historical tax data warehouses, I think all of this led to a discussion about, you know, how does this tax data process become much more mainstream than it has been historically.

David Landers:
And from my perspective, being a product owner within Deloitte's (Inaudible) architecture here and really having dealt with some of this, you know, the cloud vendors provide their level of certification. But there's the whole side of it when you're managing an infrastructure and managing an application on that infrastructure. You've got the level of controls that (Inaudible) on your side. Cybersecurity and controls in the cloud is really a partnership, a partnership between the cloud vendor and then the operator of the environment itself. And, so, that's where, if I understood where you might be going with the question – where this plays in is when – in the earlier discussion where I said that it's kind of optionality these days: where is the tax data store going to be? Is it going to be in the ERP, or is it going to be in something tax owned? Tax needs to pay attention and recognize the challenges and needs from a cybersecurity standpoint in managing a data store and the – and can connect to the various pieces within the organization as well as connect to the various tax software vendors themselves that do the calculations. All of that has to be done in a secure nature so when you have PII or PHI it's very protected from the standpoint of the whole security realm.

David Linthicum:
So, I think moving forward as we're doing these large cloud engagements and, you know, doing migrations and setting up these target cloud architectures, you know, part of the business analytics or business analysis that has to occur is, is someone to inventory the tax needs, and being able to understand what's the existing as-is state in terms of tax tracking, and tax intelligence, and the ability to support the tax systems in the cloud, but do so in a more enhanced way, getting to information that they probably don't have access to now, or need to, or are going to be out of compliance if they don't. So, this becomes kind of a bigger deal than I think most of us in the cloud world kind of think of it as, and the fact of the matter is it needs to drive accounting, accountability, needs to track information. By the way, we have to track it for other reasons other than tax, but we have to have an inventory or a view of information that maybe is more important to the tax angle and making sure we're tracking it, along with sales order entry and business intelligence and all the other things we go. This is basically another set of optics that we have to put on the data that we probably haven't been thinking as much about.

David Landers:
Yeah – no, I would agree with that, and, so, just as an example. There – I can't remember the exact number – Metoyer, you might remember, but there are tens of thousands of taxing jurisdictions in the US alone, and each one of them has their own rule (Inaudible) of, you know, if a product goes through your supply chain and it's used in a certain way or used – consumed in one location – purchased in one location, shipped to one location, and then consumed in a different location, the taxability rules could be different. And, so, that level of data granularity that needs to exist and be in a controlled manner and fit for purpose to actually have that correct tax calculation becomes ever more important but ever more possible now with the ability of what cloud can provide tax.

David Linthicum:
Stephen, what are your thoughts on that?

Stephen Metoyer:
The added point is the (Inaudible) with which I need to have this data available, right? Tax jurisdictions are moving to this real-time reporting and audit, there's a whole lot of amongst those thousands of jurisdictions who are still doing audits many years in arrears. And, so, being able to not only have that data (Inaudible) that I use to calculate it on that supply chain transaction, I have audit periods that could be extended for many years beyond what the rest of the business might be interested in keeping that detailed transactional event. There's also the storage component of being able to access that data fairly quickly years and years after the initial transaction.

David Linthicum:
So, what happened in the last 10 years, maybe the last 15 years? A personal story is like when I used to be the cloud dude and I was a CTO of a cloud computing company, I would have these discussions with the finance and tax group. They weren't having cloud. And, you know, even as long as ten years ago it really wasn't on the radar screen, even a consideration. Now here we are ten years later – 180 degree turn. Not only do they want cloud but they're using it to enhance their capabilities, and it looks like you guys are the leading edge in making that happen. And by the way, this is everybody. It's in every aspect of business, but more so in finance, because people were very protective of the information and now not as much – they're still protective of the information, but they're a little bit more accepting of cloud-based computing.

David Landers:
Yeah, I have definitely lived that experience, from being at a client and only one room could be accessed by plugging into the wall to where now that client is moving to cloud. And, so, what's happened over time – I was at actually at a vendor conference probably six years ago, and there was a (Inaudible) cloud in the room, and someone from an organization's IT department was in the presentation and actually made this statement to the tax folks, that your data is likely safer in the cloud because the security talent is scarce and it's hard for an organization on their own to hire enough security talent to keep up with the talent that the cloud vendors can do. You know, that's their business. The cloud vendor is in the business of providing a secure platform of which – or architecture which then we can leverage, where an organization has to do that on their own. So, clients have really bought into that and started to adopt the cloud for those reasons and felt safer in the cloud because of that.

David Linthicum:
Stephen, what do you think?

Stephen Metoyer:
I think David hit the nail on the head. I think it's about a couple of things. It's the maturity of the cloud. It's the realization that what I thought was most secure on my laptop years ago is the revelation that that might be the least secure place to be. And tax, as I said earlier, is very famous for extracting large amounts of data, and then working offline in various different applications, and now kind of getting the realization that there's a better data governance model and a better way to do this.

David Linthicum:
So, putting one or both of you on the spot, you're in an elevator and you're in with the CFO of a major global 2000 company. You're going up 33 floors and that man or woman asks you, "How are things going to change over the next five years as related to cloud computing and tax?" What do you tell that person?

David Landers:
So, a lot of things come to mind, but the first thing is the real time report data to a tax authority, and then if I think out that many years, the potential for the tax authorities to have access to – or desire access to your cloud, because at this point they're already at a point where we're transmitting to some jurisdictions data near real time, within minutes of a transaction being recorded in the ERP. You know, that's just – the cloud makes that even easier because it makes it to where there's a lot less hoops to jump through. And, so, being ready for that from a tax perspective, knowing that it's coming is really something that I'd say a CFO would need to focus on and partner with the tax group to be ready for that and be in advance of it, because tax is somewhat of a cat and mouse game, right? You know, there's tax paying, there's tax regulation, there's closing of loopholes – it's just the way tax industry works. And, so, in order to stay ahead both of your competition and (Inaudible) of how the tax law works, you've got to be ready for it. And you can't wait for it to happen to you; you have to kind of bleed the leading edge and take advantage of what the cloud provides to be ahead of the whole moving industry.

David Linthicum:
Let's leave it there. That was a great conversation. I learned a ton, because I knew very little about this space, but I will guarantee you I will increase my knowledge exponentially over the next few months. So, if you enjoyed this podcast make sure to like or subscribe on iTunes or wherever you get podcasts. Also check out our past episodes including On Cloud Podcast hosted by Mike Kavis, my good friend, and his show Architecting the Cloud also is a book by the same name. Make sure you check that out. So, if you'd like to learn more about Deloitte's cloud capabilities, check out DeloitteCloudPodcast.com, all one word. And if you would like to contact me directly you can reach me at DLinthicum@Deloitte.com. That's L-I-N-T-H-I-C-U-M, first name starts with D. Until next time, best of luck with your cloud projects. We'll talk again soon, guys. You take good care.

Operator:
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