Tax Department Trends

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Grant Thornton's Year End taxGuide Event
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Presenters

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Learning Objectives

Describe the corporate vision for the tax department of the future

Identify tax effectiveness, reporting and strategy trends and leading practices

Define indirect tax automation

Recognize data as a business currency; offering insights and advanced analytics

Explain an overview of robotics process automation
Agenda

1. The Corporate Tax department of the future
2. Tax effectiveness trends and leading practices
3. Indirect tax automation
4. Data, insights and analytics
5. Robotics Process Automation (RPA)
The Corporate Tax department of the future
Traditional view of the Corporate Tax function

• Compliance and regulatory focused only
• Large volume of repetitive tax filings
• Not contributing to organizational growth
• Different from the rest of Finance and in some cases viewed as being isolated
"Transitional" view of the Corporate Tax function into the future state

- Emerge as business partner contributing to overall company growth
- Increase capacity and agility for better decision making
- Expand tax planning and minimization capabilities
- Improve analytics and insight
- Develop an agile and skilled tax workforce
- Mitigate risks and establish controls
Corporate Tax transformation and optimization journey

- Build a case for change
- Doing more with potentially less
- Return on Investment (ROI)
- Key performance indicators
- Target operating model
- Roadmap for transformation and optimization
Lessons learned, challenges and common barriers

- Lack of a clearly defined transformation plan
- No executive level support
- Ineffective change management strategy
- Fail to recognize dependencies
- Missing a clearly defined owner and champion
- Culture resistant towards change
Tax effectiveness trends and leading practices
Common Tax department challenges

• Tax personnel is too busy
• Unfamiliar with optimization techniques
• Manual and labor intensive processes
• Entirely Excel based processes and reporting
• Tools were not implemented sufficiently
• Unfamiliar with the full set of tool capabilities
• Data isn't accurate, granular or timely
• Extensive reconciliations, aggregation and break down
## Tax department effectiveness, optimization and strategies

<table>
<thead>
<tr>
<th>PEOPLE</th>
<th>TECHNOLOGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax professionals deliver value</td>
<td>Implemented with best practices in mind</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROCESSES</th>
<th>DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-aligned business processes</td>
<td>Tax sensitized financial data</td>
</tr>
</tbody>
</table>

- Value to the organization
- Reputation of the tax department
- Time devoted to strategic activities
- Opportunities to streamline
- Better document retention and management

- Hours spent on tax returns
- Reliance on spreadsheets
- Risk of calculation and reporting errors
- Difficulty when senior tax resources retire
- Risk of wasting money on the wrong technology
## Current State Assessment Tool

<table>
<thead>
<tr>
<th>Data</th>
<th>Technology</th>
<th>People</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embedded analytics in data source systems and enterprise tools (automated validations and exception reports)</td>
<td>Rules based workflows</td>
<td>Tax strategy aligned with Board risk management policy</td>
<td>Emphasis on detective analytics</td>
</tr>
<tr>
<td>Centralized access rights to data</td>
<td>Portals integrated with internal and external stakeholders</td>
<td>Business leaders aware of tax matters</td>
<td>Trigger analytics to control tax risk and optimize planning</td>
</tr>
<tr>
<td>Drill down capabilities</td>
<td>Online global centralized data and calendar</td>
<td>Integrated function adapts to change</td>
<td>Integrated controls within workflows</td>
</tr>
</tbody>
</table>

### Finance and Tax Function Integration Level Five

<table>
<thead>
<tr>
<th>Data</th>
<th>Technology</th>
<th>People</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-service reporting from enterprise core data systems</td>
<td>Enterprise level portals</td>
<td>Strategic use of business partners</td>
<td>Work is preemptive and forward thinking</td>
</tr>
<tr>
<td>Use of some data analytics replacing manual analytic work papers and procedures</td>
<td>Automated dashboard feeds</td>
<td>Objective tax performance goals aligned with enterprise goals</td>
<td>Documented processes/approvals</td>
</tr>
<tr>
<td></td>
<td>Some workflow automation</td>
<td>Value focus</td>
<td>Work shifted and scoped to leave time for analytic activities</td>
</tr>
<tr>
<td></td>
<td>Controls are inherent within applications</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Tax Function Operational Excellence Level Four

<table>
<thead>
<tr>
<th>Data</th>
<th>Technology</th>
<th>People</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP, GL, forecasting or consolidation tools are “tax aware” for all stages of tax cycles</td>
<td>Automated information delivery</td>
<td>Formalized alignment of tax, finance and business units</td>
<td>Preventative controls</td>
</tr>
<tr>
<td>“Single version of the truth” data used across tax functions</td>
<td>Tax data warehouse integrated w/ enterprise systems</td>
<td>Quality people in key roles</td>
<td>Detective controls with granularity sufficient to evidence and test</td>
</tr>
<tr>
<td>Ad hoc data retrieval</td>
<td>Spreadsheet and system integration</td>
<td>Succession / turnover planning in place</td>
<td></td>
</tr>
</tbody>
</table>

### Enterprise Data and Knowledge Level Three

<table>
<thead>
<tr>
<th>Data</th>
<th>Technology</th>
<th>People</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax database or warehouse has automated feeds but is separate from accounting / finance</td>
<td>Tax accesses some GL, consolidation, or planning tools</td>
<td>Tax operates in a silo, lacking enterprise data, systems and knowledge</td>
<td>Controls focused on detective “reviews”</td>
</tr>
<tr>
<td>Data bases differ between tax areas</td>
<td></td>
<td>Defined tax roles</td>
<td>Manual document management procedures for version control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qualify focus</td>
<td></td>
</tr>
</tbody>
</table>

### Silo Tax Data and Knowledge Level Two

<table>
<thead>
<tr>
<th>Data</th>
<th>Technology</th>
<th>People</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of spreadsheets to gather, manipulate, store and retrieve data</td>
<td>Significant manual processes</td>
<td>Independent tax groups (e.g. Compliance, planning, etc.)</td>
<td>Lack of automated and standardized workflow;</td>
</tr>
<tr>
<td>Use of email to collect data and documents and oversee status</td>
<td>Standalone tax functional technology solutions</td>
<td>Work is reactive and compliance focused</td>
<td>Lack of access controls and segregation of duties</td>
</tr>
<tr>
<td></td>
<td>Manual reporting</td>
<td></td>
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</table>

### Isolated Tax Organization Level One

<table>
<thead>
<tr>
<th>Data</th>
<th>Technology</th>
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## Solutions, trends and leading practices

<table>
<thead>
<tr>
<th>Common challenges</th>
<th>Potential strategies and solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People</strong></td>
<td></td>
</tr>
<tr>
<td>1. Tax personnel is too busy</td>
<td>1. Consider sourcing options</td>
</tr>
<tr>
<td>2. Unfamiliar with optimization techniques</td>
<td>2. Engage an internal / external SME</td>
</tr>
<tr>
<td><strong>Process</strong></td>
<td></td>
</tr>
<tr>
<td>4. Entirely Excel based processes and reporting</td>
<td>4. Embrace and streamline, assess risk / controls</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
</tr>
<tr>
<td>5. Tools were not implemented sufficiently</td>
<td>5. Reconfigure or upgrade options</td>
</tr>
<tr>
<td>6. Unfamiliar with the full set of tool capabilities</td>
<td>6. Conduct additional training</td>
</tr>
<tr>
<td><strong>Data</strong></td>
<td></td>
</tr>
<tr>
<td>7. Data isn't accurate, granular or timely</td>
<td>7. Conduct data sourcing assessment</td>
</tr>
<tr>
<td>8. Extensive reconciliations, aggregation and break</td>
<td>8. Develop tax specific reporting view / &quot;cube&quot;</td>
</tr>
<tr>
<td>down</td>
<td></td>
</tr>
</tbody>
</table>
Indirect tax automation
How Can Tax Create Value?

- **Optimize & Gain efficiencies** – *tax departments tend to be the largest consumers of financial data*

- **Manage risk** – *regulatory complexity and increased scrutiny add pressure to global compliance and reporting burdens*

- **Boost EPS** – *as a rule, taxes represent the single largest expense on P&L after cost of sales*
## Integrated ERP/Tax Services

<table>
<thead>
<tr>
<th>Type of tax</th>
<th>Directly enabled benefits</th>
<th>Directly related benefits</th>
</tr>
</thead>
</table>
| Direct Tax          | • Streamline income tax compliance  
• Enhance / enable entity structure for tax planning  
• Reduce state or province tax liability  
• Facilitate tracking and utilizing tax credits, incentives, etc.  
• Automate transfer pricing methodology, related party transactions, etc.  
• Comply with IRS record retention and tax audit requirements.  
• Fully leverage tax software (e.g., Corptax, Vertex, etc.) | • Tax treatment of IT project costs  
• Tax depreciation review analysis  
• Training / job creation related grants and/or credits  
• Ownership / location of ERP operations and related IP |
| Direct Tax          | • Transaction tax (Sales/Use/VAT/etc)  
• Excise tax  
• Property taxes                                                                                                                                                                                                      |                                                                                                                                             |
| Direct Tax          | • Fully automate US sales and use, Canadian GST/PST, global VAT calculations and reporting  
• Streamline property tax compliance  
• Automate global customs/excise tax compliance  
• Enable tax efficient global supply chain transformation | • Procurement tax planning strategies  
• Taxability of ERP and related software licenses  
• Fixed asset review for property tax savings |

### Tax Risk Management: ASC 740, FIN48, Reportable Transactions, Electronic Record Retention, etc.

### Grant Thornton's ERP Methodology – Tax Integration Thread

<table>
<thead>
<tr>
<th>Vision and Plan phases</th>
<th>Design</th>
<th>Build</th>
<th>Deliver</th>
<th>Operate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax integration points</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax preparation</strong> 1/2</td>
<td>Tax blueprint 3</td>
<td>Tax realization 4</td>
<td>Tax final prep 5</td>
<td>Tax support 6</td>
</tr>
</tbody>
</table>
| • Define/document management goals and vision for compliance, planning, and audit support processes | • Identify tax data requirements  
• Design/integrate tax requirements into critical business processes  
• Capture tax-specific project documentation | • Document specific requirements  
• Confirm proper configuration  
• Develop test plans  
• Master data conversion | • Conduct user training  
• Perform final system testing  
• Cutover  
• Realize training benefits  
• Procurement strategy | • Validate process outputs  
• Confirm user acceptance and proficiency  
• Knowledge transfer  
• Ongoing IP, supply chain benefits |
Benefits of Integrating ERP with an Indirect Tax Engine

- **Minimize Maintenance**
  - Vendor maintains tax rules and tax rates

- **Consolidated Audit Report**
  - Provides ability to record all transaction and tax details

- **Single Source of Records**
  - All transaction tax liabilities enables efficient monthly filings, reporting, analysis and audit support

- **Enhanced Reporting**
  - Transaction level detail availability

- **Reduced IT Dependence**
  - Business units can maintain and configure system

- **Business Unit Finance Function**

- **Consistent Accuracy**
  - All tax policies, rates, rules & logic are enforced by a single tax application

- **Enables to operate as a Lean Organization**
  - Business changes or new acquisitions. Supports scalability and nimble to changes
ERP Order to Cash overview

Order to Cash (O2C) Cycle

1. Inquiry
2. Quotation
3. Sales Order
4. Delivery
5. Picking/Packing
6. Post Goods Issue
7. Billing & Posting
8. Payment

Tax calculation involved
Procurement cycle
# Taxability drivers

<table>
<thead>
<tr>
<th>TAXIBILITY DRIVERS</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Code</td>
<td>Z001, AO00, BO00, CO00 etc.</td>
</tr>
<tr>
<td>Customer Tax Group</td>
<td>RSL, DPP, XXX, MFM etc.</td>
</tr>
<tr>
<td>Customer number (Customer Code)</td>
<td>132123 etc.</td>
</tr>
<tr>
<td>Material number (Material code)</td>
<td>ANEXP-350-9 - Gloves; ESA17234 – MIL187567 - TANK FUEL etc.</td>
</tr>
<tr>
<td>Material Tax Group (Product class)</td>
<td>HI93- Safety Gloves; HJ97 H1X5 – Welding Equip</td>
</tr>
<tr>
<td>Inco terms</td>
<td>XCP – Customer pick-up; XAT – ABCgas Truck; XAR – ABCgas Truck Rush</td>
</tr>
<tr>
<td>Payment terms</td>
<td>PT1 – Cash/Check/Credit card</td>
</tr>
<tr>
<td>State</td>
<td>140310230 (14 – State= IL); 310171070 (31 – New Jersey)</td>
</tr>
<tr>
<td>Usage class</td>
<td>XIV - Intercompany STO</td>
</tr>
<tr>
<td>Jurisdictions</td>
<td>Ship-To; Ship-From</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
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<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Code</td>
<td>Z001, AO00, BO00, CO00 etc.</td>
</tr>
<tr>
<td>Material Tax Group (Purchase class)</td>
<td>HO12 – Admin; G125 - Hydrocarbon</td>
</tr>
<tr>
<td>Material number (Material code)</td>
<td>PURPPE10.5 – Computer Servers, MT CPBTL - Methanol 3RD Ven c/o, etc.</td>
</tr>
<tr>
<td>Cost center category</td>
<td>P - Fill Plant; N - Non Production; O - Admin</td>
</tr>
<tr>
<td>Vendor number (Vendor company)</td>
<td>ABGCO00</td>
</tr>
<tr>
<td>State</td>
<td>140310230 (14 – State= IL)</td>
</tr>
<tr>
<td>General Ledger Account</td>
<td>0000106123 (advertising), 0000360123 (Freight I/C), 0000502321 (Office supplies)</td>
</tr>
<tr>
<td>Plant</td>
<td>BO01, CO05</td>
</tr>
<tr>
<td>Tax code – product code (purchase class)</td>
<td>U3 - PCARD</td>
</tr>
<tr>
<td>Jurisdictions</td>
<td>Ship-To; Ship-From</td>
</tr>
</tbody>
</table>
When to automate?

Native ERP Tax Functionality
- Limited Taxable Sales
- Limited nexus footprint (tax filing jurisdictions within the US)
- Limited Mergers/Acquisitions
- Limited Plants/Sites

Tax Bolt-On Functionality
- Significant Taxable Sales and Purchases
- Nexus covers several jurisdictions within the US
- Complex Tax Rules (MFG, Services etc.)
- Multiple Legal Entities
- Multiple Filing Responsibilities
- Multiple ERP/Billing/Financial Systems
- Past Audit Assessments
- Multiple Locations/Warehouses/MFG Sites
- Paperless/Automated Environment
- Avoid Manual Processes
- Change in Business Operations
- New ERP System/Functionality
Data, insights and analytics
Data analytics for tax

- Benchmarking
- Trend Analysis
- Predictive / "What If" Modeling
- Data Mining
- Complex Credit / Refund Analyses
Why the advancement?

- Expanding technology advances in programming and capability of computers/machines
- All perceptive capabilities have improved
- Prior implementation of systems that could do more leave us wanting even more
- Sheer volume of data
- Better business models
- Increased competition for dollars, worldwide
How is the Tax department impacted?

- Quicker turnaround times
- Increased planning opportunity involved in all levels of the organization
- Efficiency
- Accuracy
- Expand function beyond compliance and tax accounting
- Increased responsibility for organizational decisions
- Automated returns and calculations including decision making –the EASY button!
- Faster model development and comparison for quick decisions
How does this affect the company?

• Increased reliance on tax department
• more control over the outcome
• Predictive analytics, working toward an outcome
• Better decision making considering all aspect
• time and cost savings with the integration of systems
• More reliable data and results
• Increased supervision of data input required
Robotics Process Automation (RPA)
Robotics Process Automation for Tax

What we are seeing
• New found momentum - typical topic of discussion
• Some level of confusion – What is it? How do we start?

Is it right for us?
• Review processes that entail:
  • High volume
  • Standardized process
  • Highly manual
  • High error rates (errors in both execution and/or adherence to the protocol)
  • Frequent changes in underlying data (rekeying, recalculating)
Your Next Steps

Grant Thornton's tax data, analytics and visualization roadmap

- **Explore and Define**
  - Explore current state and define objectives for success

- **Collect, Prepare and Transform Data**
  - Connect to data sources and cleanse the data

- **Model / Evaluate Data and Analytics**
  - Concisely store data and automate analytics to allow management by exception

- **Realize Value, Consume and Generate Insights**
  - Creatively visualize important metrics that allow for smart, quick decisions

- **Continuous Improvement**
  - Constantly refine as systems, organizational needs, and tax regulations change
Questions?
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