

The 13th Annual Americas School of Mines Tax Function Effectiveness*

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Agenda

Tax Function Effectiveness

Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?

Technology and controls considerations

International Financial Reporting Standards (IFRS) implications

Questions

Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?


Why tax accounting process effectiveness?

- Corporate tax functions are experiencing significant operational challenges due to regulatory changes, significant business operational issues (e.g., M&A activity, relocated headquarters) and emerging market trends
- In many cases, these challenges have resulted in internal control deficiencies, financial restatements, resource shortages or in some extreme instances, a general loss of confidence in tax function
- Financial reporting deadlines have frequently been accelerated
- In other instances, CFOs and Tax VPs are expressing interest in new ways to avoid many of the missteps experienced by other companies
- Convergence of these events has led many companies to focus on ways to improve operational effectiveness of their corporate tax accounting function

Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?

Common tax operational impediments

Multiple manual touches of data and lack of integrated technology platform	Extensive reserve analysis and account reconciliation process	Crisis mentality with less time for analytical review
Inefficient processes & excessive use of spreadsheets		Difficulty in accumulating data from international operations
Poor internal collaboration and communication		Struggle with response to regulatory changes
Lack of succession planning & coaching / mentoring		Need to generate information to support tax planning
Top heavy staffing / lack of leverage		"Bottoms up" approach to controls
High overtime / low morale		Market resource shortages
Lack of succession planning		Inconsistent support from IT department
Interim reporting (FIN 18) challenges		Historical "hybrid APB 11" approach

Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?

Today's challenges

Regulatory issues	Market trends
<ul style="list-style-type: none">• Sox 404• FIN 48• IRS access to provision workpapers• IRS focus on contemporaneous documentation• FAS 123R• Reportable transactions• Transfer pricing• Focus on transparency• US Senate Permanent Subcommittee on Investigations	<ul style="list-style-type: none">• Internal control deficiencies• Increase in restatements due to tax accounting• Data quality or access issues• Difficult/lengthy closing process• Historic under-investment in technology and process improvement compared to overall Finance function• Inefficient processes, use of technology• Lack of collaboration with stakeholders• Leadership changes• Outdated compensation models• Resource shortages• Increased questions about off-shoring

Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?

What is tax accounting process effectiveness?

- Reviewing and re-designing existing processes to be more effective
- Looking to leverage the use of existing or additional technology
- “Scrubbing” data to get better inputs into the tax provision cycle to reduce non-value added time spent collecting, validating and manipulating data

Objectives

- To meet a faster close cycle
- Focus resources to perform more technical and analytical reviews
- Increase effectiveness of controls

Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?

How to achieve tax accounting process effectiveness

Steps in redesigning a tax accounting process

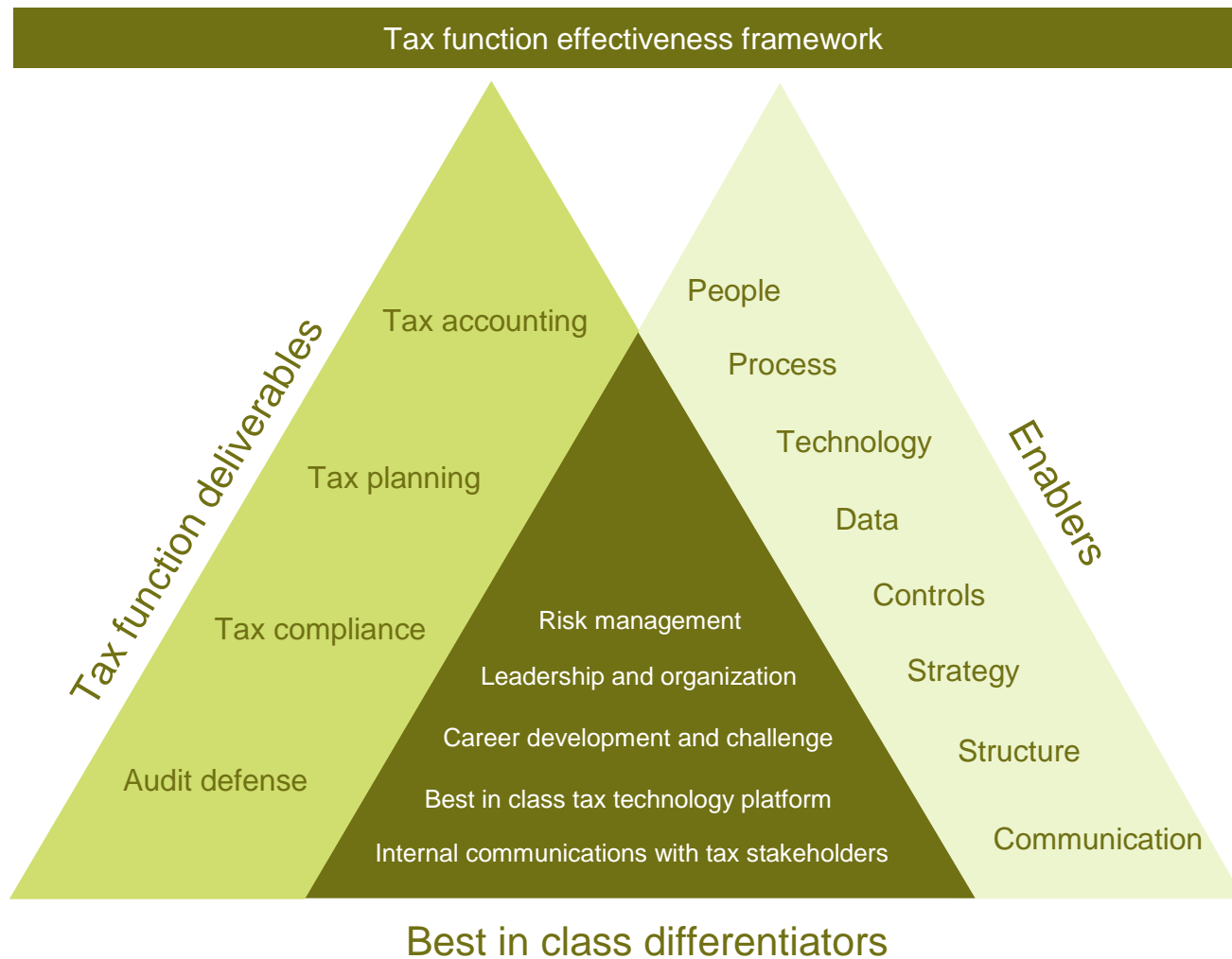


1. Map “as is” process
2. Review of “as is” process
3. Design of new process (consider the implementation of tax technology)
4. Test run/pilot new process and system
5. Implementation
6. Monitor and review

Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?

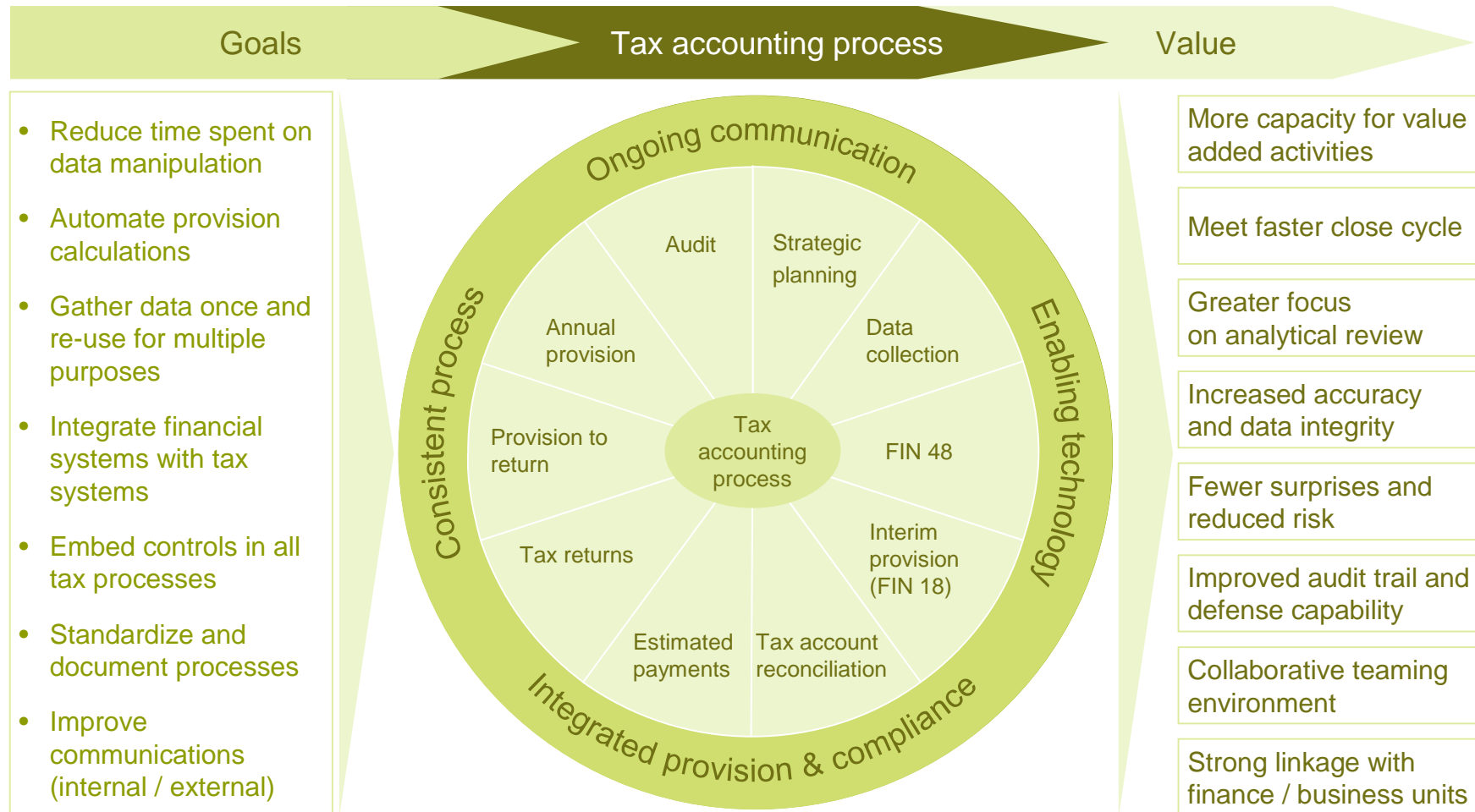
How does the tax accounting process effectiveness approach fit into the tax function effectiveness framework?



Tax Function Effectiveness

What is tax accounting process effectiveness and why is it important in today's business environment?

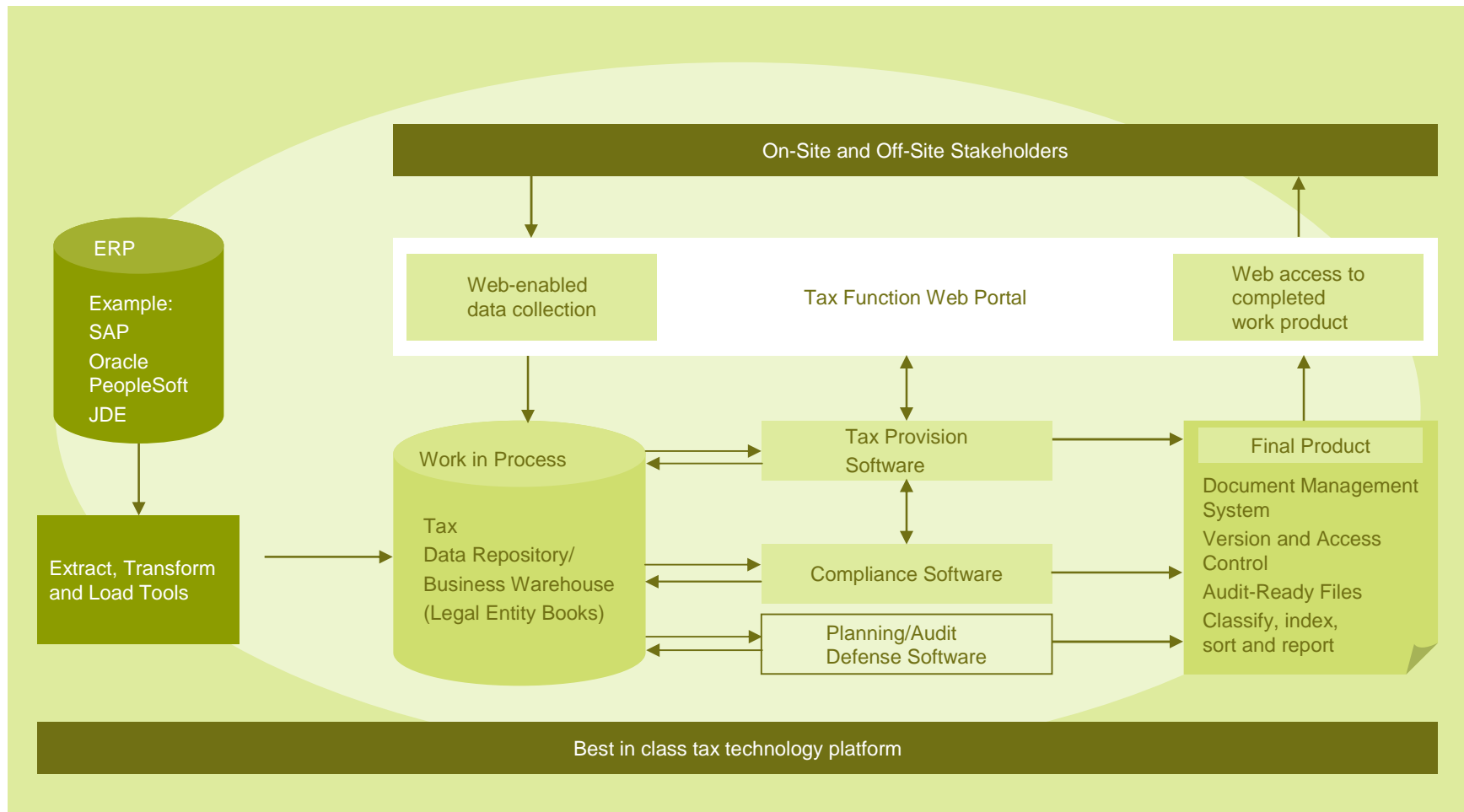
Tax accounting process



Tax Function Effectiveness

Technology and controls considerations

Technology environment and data flow in the tax function



Tax Function Effectiveness

Technology and controls considerations

How implementing tax accounting software can improve the process

- Enables a faster close cycle
- Permits increased focus on tax analytics during the close process
- Automation of provision calculations and consolidation
- Import/export large quantities of data or a limited set of tax sensitive accounts; and directly link to general ledger (in some instances)
- Reduces calculation and consolidation time for last minute changes leading to a more nimble and flexible process
- Provides access control and closed system calculations
- Reduces volume and linkage of spreadsheets
- Leverages provision data and results for multiple purposes, including planning and forecasting
- Integration with other technology solutions, such as FIN48 and FAS123R
- Enhanced presentation of both IAS12 and FAS109 deferred tax accounts and provision calculations
- Streamlined and robust management reporting in both IAS12 and FAS109

Tax Function Effectiveness

Technology and controls considerations

Considerations in technology implementations

Selecting a new tax accounting software

- Develop vendor selection criteria by defining and prioritizing the requirements
- Arrange vendor demonstrations of tax accounting software and rank technology solutions against prioritized requirements
- Consider factors beyond functionality requirements, such as cost, timing of implementation, etc.

Identifying areas of improvement

- Review and document existing provision process
- Identify areas of critical importance in the process and opportunities for integration and improvement
- Consider potential changes in methodology (e.g. blended state or state-by-state)
- Design solutions for areas not addressed by software

Implementing a technology solution

- Develop extensive strategy on incorporating the tax accounting software to the redesigned process
- Make use of the functionality within the software
- Integrate off-line calculations outside the tax accounting software
- Coordinate expectations with external auditors throughout implementation

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Technology and controls considerations

Pitfalls to avoid with technology implementations

- Failing to involve IT, finance, and other internal “customers” in vendor selection process sufficiently early to make sure technology meets all needs
- Belief that tax technology will fix existing faulty processes and inadequate data feeds
 - “Garbage-in, Garbage-out” theory applies
 - Simply adding technology without addressing underlying gaps will not solve problems
- Inadequate time spent determining true functionality needed and trying to match those needs with tax reporting and system requirements
- Inadequate time spent planning for implementation
 - Too often companies jump to implementation without developing a worldwide plan for deployment
 - As a rule of thumb, plan to spend as much time in planning phase as implementation phase

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Technology and controls considerations

Pitfalls to avoid with technology implementations

- Not using a phased-approach to implementation
 - Consideration needs to be given to short-term solutions that will address reporting requirements until implementation is complete
- Lack of up-front coordination with external auditors regarding expectations and reporting
- Inadequate training for internal staff, no internal champion to contact and inability to access the expertise needed during critical periods
- Unwillingness to let go of “home-grown” models and continuing to run parallel calculations beyond a normal test-period phase

Tax Function Effectiveness

Technology and controls considerations

Leading practices in designing controls around critical enablers

People	<ul style="list-style-type: none">• Train controllers in international locations on tax accounting issues• Increase internal tax collaboration, as well as collaboration with finance• Ownership by Finance for controls over legal entity forecasts
Process	<ul style="list-style-type: none">• “Top down” rather than “bottom up” approach to internal controls• Workload shifted to interim to increase time for analytics• Formalize alignment of tax and finance through an established communication process• Develop a formal system for documentation within tax processes (e.g., historical positions)• Establish process documentation requirements• Increase focus on contemporaneous documentation
Technology	<ul style="list-style-type: none">• Controls inherent in supporting tax technologies (e.g., spreadsheets, tax applications)• Leverage emerging technologies to facilitate accuracy of tax information• Ensure appropriate access is granted and appropriate segregation of duties is established

Tax Function Effectiveness

Technology and controls considerations

Leading practices in designing controls around critical enablers

Data	<ul style="list-style-type: none">• Reduce volume of spreadsheets for tax accounting calculations and minimize manual interaction• Improve consistency of data identifiers and collection to drive data quality• Recycle data for multiple tax purposes (e.g., tax accounting, compliance)
Strategy	<ul style="list-style-type: none">• Adopt leading practices in audit defense to shorten cycles (e.g., develop formal audit trails)• Increase management and controls over global compliance• Increase utilization of internal audit• Develop a strategy to maintain tax planning structures
Structure	<ul style="list-style-type: none">• Assign finance professionals to align with tax• Eliminate tax accounting silo through integration• Standardize tax accounting policies and procedures across entities• Align tax function people with processes, supporting technologies and goals of organization

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International Financial Reporting Standards (IFRS) implications

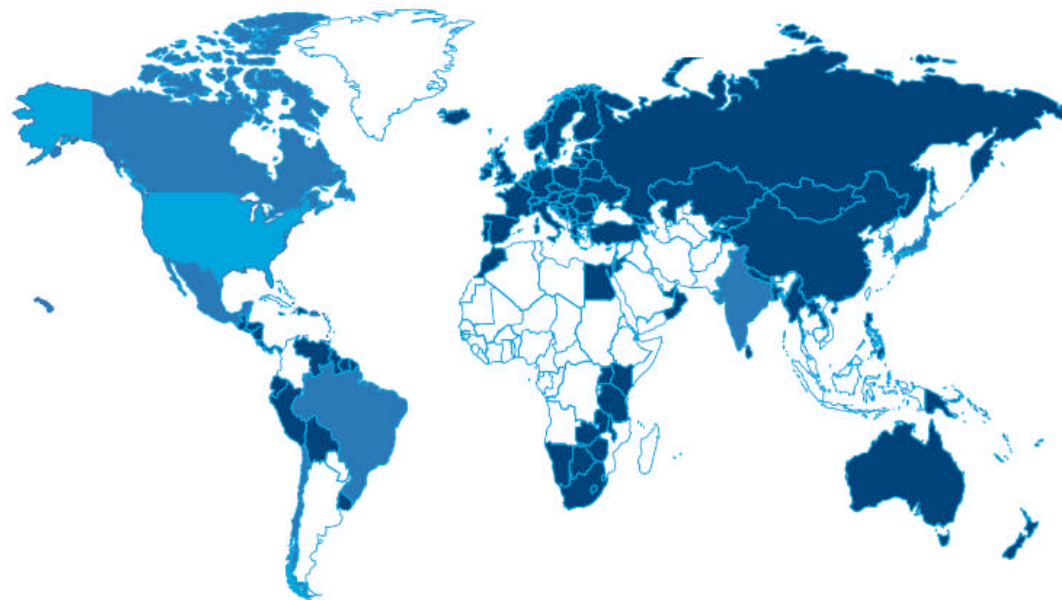
International Financial Reporting Standards (IFRS) implications

- IFRS is not simply a financial reporting issue – it is pervasive change across the entire business
 - People
 - Process
 - Technology
- Conversion to IFRS may take 18 to 30 months of preparation before first financial statements are filed
- Subsidiaries in various foreign jurisdictions may be converting to IFRS now
 - Adoption of methodologies
 - Consistency

IFRS across the world

More than 100 countries require, permit, or are converging to IFRS.

All major capital markets changing... even the US?



- Countries converging to IFRSs with the goal of adoption
- Countries that require or permit IFRSs
- Countries pursuing convergence with IFRSs, but with no plan to adopt

Top 10 Global Capital Markets	
US	US GAAP
Japan	Converging to IFRS
UK	IFRS
France	IFRS
Canada	Converging to IFRS
Germany	IFRS
Hong Kong	IFRS
Spain	IFRS
Switzerland	IFRS or US GAAP
Australia	IFRS

Questions?

Thank you

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