

Investing in Tax Operations: Making the Case

By: Russell Fincher, Director, Tax Function Effectiveness Practice, PricewaterhouseCoopers

This article first appeared in the June 2008 edition of Liquid Engines' newsletter

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Today's corporate tax function faces enormous challenges, among them lower risk tolerance, shortages of tax talent, shorter financial close cycles, higher expectations for transparency, and increased regulatory burdens. For many companies, the inability to meet these challenges has resulted in internal control deficiencies, financial restatements, and in some extreme instances, a general loss of confidence in the tax function. To remediate or avoid these outcomes, many tax organizations are taking a fresh look at their operating strategies and seeking innovative solutions to transform their tax operations to meet or surpass the expectations of their stakeholders. This search for solutions has led many tax professionals to realize that technology can significantly aid in the effort to maintain or improve their effectiveness.

However, many tax executives have encountered significant resistance when they request budgets for tax technology investments sufficient to make a meaningful impact on tax function effectiveness. This article examines the nature of this resistance and how to overcome it by making a business case for investment in tax operations and technology.

Tax vs. Finance: Different Perceptions, Different Priorities

There is a significant disconnect between finance and tax with respect to an understanding of the pressures on today's tax function. A 2006 survey by CFO Research Services and Hudson Financial Solutions asked tax and finance executives how much certain events had affected their company's tax department over the last two years. Fifty-five percent of tax respondents reported the Sarbanes-Oxley Act as having a "great impact" on the tax department, compared to only twenty percent of finance respondents—a 35 percent variance. Likewise, 50 percent of tax respondents reported that time, budget or resource constraints had a great impact on the tax department, compared to only 27 percent of finance respondents,

The same disconnect was apparent from another question in the survey that asked, looking forward over the next two years, how respondents would rate various initiatives within the tax function. Over 74 percent of tax respondents reported that improving processes for income tax accounting and contingencies was a high priority, compared to only 26 percent for finance respondents, a staggering 48 percent difference in priorities.

This disconnect presents a major challenge for tax executives and indicates that a greater effort may be necessary to educate finance with respect to the value of tax technology initiatives and the positive impact of those initiatives on time, budget, and resource constraints.

Making the Business Case—A Focus on Risk

How can tax executives help CFOs and CEOs to understand the value of tax technology and process improvement initiatives?

One approach is to focus on the effect that inadequate tax processes have on the company's business risk—and the consequences of not making the investment. Consider this: the shareholder advisory firm Glass, Lewis & Co. LLC wrote to an SEC advisory committee that companies who reported material weaknesses in tax accounting lose an average of 6.8 percent in their stock price within 60 days of the announcement.

Tax executives need to point out that tax risk is inseparable from business risk—and that tax risk management needs to be part of the overall risk management policy of the business. Step one in making the business case for technology and process investments is pointing out the value that such investments have in reducing business risk.

Making the Business Case: Defining the Tax Technology Value Proposition

A framework based on value can also support the case for increased investment in technology. The tax technology value proposition (TVP) can be expressed as follows:

- Greater efficiencies + lower risk of error – cost to implement = return on investment

What are the value proposition components of tax technology investments? The use of tax technology can, for example:

- **Free up staff.** Efficiency gains via technology can reduce the hours required to complete tasks by 10-20 percent. Most tax functions are redeploying that newly created capacity to high value tasks such as risk management, planning, financial reporting, and controls.
- **Improve quality of information.** Using technology enables a higher level of accuracy and faster access to book data directly from source systems worldwide.
- **Increase analytics.** Having more time available to perform analytics rather than data collection provides significant value to the business.
- **Connect tax personnel globally.** Many material weaknesses attributed to the tax function relate to matters emanating from outside the home country. Technology is becoming increasingly important to close the gap.
- **Strengthen internal controls.** When done correctly, implementing new technology includes the design and implementation of new processes. The result can be a much improved control environment evidenced by new processes supported by enabling technology.
- **Improve forecasting capability.** Accurate forecasts of the effective tax rate and cash taxes are critical to the effective management of tax. The emergence of more advanced tax accounting software, as well as sophisticated modelling and analytic software now makes it much easier to report on, model, and forecast ETR. In addition, closing the gap between the tax accounting system and the ERP to collect the most current data is another critical technology element enabling better tax forecasting.

Some other value components include lower staff turnover, retention of institutional knowledge, and simplified response to audits.

The Business Case Framework

Effectively making the business case for technology and process improvements to finance executives involves a full explanation of the following elements:

- **Executive summary**
- **Project background**—including current processes and stakeholders
- **Scope and requirements**—including the project objectives and a visual presentation of the future system, data, and process
- **Alternative options**—including all viable options and the pros and cons of each
- **Project risk assessment**—including possible risks associated with the development and implementation of the project along with strategies to mitigate the identified risks
- **Cost**—including all direct and indirect costs, initial and ongoing costs, and the time period for each
- **Benefits**—including, for direct benefits, an estimation of the cost savings and for intangible and for strategic benefits, a description of how they help to avoid undesirable events
- **Project plan**—including a detailed description of all phases (e.g., analysis, design, testing), task dependencies, dates, and resource allocations

Bridging the Gap

The opportunity to use technology and process improvements to generate significant value in the tax function has never been greater than it is today. The challenge is to overcome the resistance of finance executives who do not adequately understand the business benefits of such investments. Bridging the gap is more likely to occur when tax can point out the ability of tax technology to lower the business risk of tax material errors and then make a full business case for the investment.

About PricewaterhouseCoopers Tax Function Effectiveness Practice

The PricewaterhouseCoopers Tax Function Effectiveness (TFE) practice is dedicated to optimizing the operational effectiveness of your tax department. Our TFE practitioners seek to maximize the effectiveness of your personnel, organization, processes and technology that support your tax reporting, planning, risk management, and audit defense responsibilities. PwC's TFE professionals have developed market leading insight into Best Practices in corporate tax management via our interaction with senior tax executives, tax technology vendors, tax executive trade organizations and our client engagements, enabling us to bring innovative and thought leading recommendations to address the operational effectiveness of your tax function.

