

# *Tax technology:* Creating a strategic asset

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## Introduction

When it comes to strategies for using technology in the tax function, how are leading companies positioned? Where do major organizations stand in terms of adopting and enabling tax technology initiatives?

In an effort to identify leading practices, baseline technology use, and challenges in tax, PwC and the Manufacturers Alliance for Productivity and Innovation (MAPI) recently collaborated on a survey of more than 100 companies.

The survey, an outgrowth of discussions at MAPI, asked participants to assess their tax technology strategy, roadmap or plan; identify any software used within the tax department; and evaluate their satisfaction with the technology products they have been using.

The companies, representing industrial, consumer, technology, and pharma manufacturing as well as automotive industries, largely said they view technology as a key to enhancing quality and increasing efficiencies. Nearly 85 percent said that improved technology and integration are among their top strategies for increasing tax effectiveness.

Nevertheless, many have yet to make adequate investments in technology or are not capitalizing on the technologies and support that could be leveraged within their existing IT departments. The large majority of respondents – 77 percent – said they do not have a tax technology strategy in place, and more than three-fourths said they do not have a dedicated tax technology role within their organization.

What accounts for the apparent disconnect? Why have so many companies failed to move forward with tax technology initiatives?

## Set the direction with a tax technology strategy

A tax technology strategy outlines a company's plans for implementing and utilizing technology to enable tax operations; it is coupled with a roadmap taking into account near-, mid-, and long-term horizons. The strategy also takes into account the processes, department organization, and technologies used by the tax function, as well as tax's business priorities and related dependencies.

Tax departments are beginning to realize they need a prioritized plan to help their tax function accomplish its goals and move forward. Nearly 85 percent of survey respondents gave a ranking of 7 or above, on a scale of 1 to 10, to the proposition that better technology and integration would improve their tax effectiveness.

### Benefits of having a tax technology strategy

- A tax technology strategy will allow tax professionals to better focus their resources on analyzing data and creating strategies to generate revenue and cut costs, rather than spending valuable time gathering data.
- A tax technology strategy enables the tax function to more effectively evaluate current tax processes, identify areas for improvement, and leverage the most supportive technologies at the right time.
- A strategy can help a company spread out costs associated with investments in licensing and implementation of technology.
- Having a technology strategy in place can drive better and more efficient technology support for the tax function by deploying the company's resources more effectively.

**77%** of companies surveyed do not have a tax technology strategy, and the majority of those have no plans to develop one.

*Most survey respondents are not happy with their current tax technology applications, and more than half of respondents are not supported by an IT department.*

## What's the commitment?

As with most initiatives, establishing a tax technology strategy depends on a dedication of resources.

- Stakeholders, including members of the tax department, finance/accounting, and IT, must participate and allocate the hours necessary for the task, based on the size and complexity of the organization. They also must understand the current processes and the existing and available technologies required to chart the path forward.
- The tax organization should include a dedicated tax technology role to facilitate and manage its data, reporting, and technology needs, and to be the liaison with the finance/accounting and IT organizations.
- An internal sponsor should also be assigned with ownership and responsibility to communicate the strategy, obtain executive support, and implement the resulting tax technology strategy.

The commitment requires attention to the basic logistics of bringing stakeholders together and, on the technical side, the knowledge of available technologies that could be useful to tax. The tools to be considered include dedicated tax technologies as well as cross-functional technologies, data warehousing and reporting technologies, and a company's ERP system.

Finally, once input has been obtained and a strategy has been developed, a proposal for the initially agreed-upon project(s) must be approved by the appropriate individuals, often including an organization's CFO and CIO. This is another juncture where the involvement of stakeholders outside of tax, in addition to their endorsement, is invaluable.

**75%** of respondents do not currently have a dedicated tax technology role within their organization.

## Top 5 technologies that most positively impact the tax function

One-fifth of respondents indicated that in the last three years they have experienced either a significant deficiency or a material weakness related to tax. In turn, the majority of respondents said that enhanced technology or data would have helped them avoid a significant deficiency.

These and other survey findings, as well as PwC's experience in tax and tax technology, point to five technologies that would most positively impact tax's work:



# 1

## Data integration and enterprise resource planning (ERP)

Tax departments spend a significant amount of time gathering data to perform tax-specific functions. Why? Because of disjointed and siloed solutions, spreadsheets being used as significant data storage and reporting tools, finance data not being tax-sensitized for compliance and provision needs, and significant manual data gathering and reporting.

Eighty-five percent of respondents said they leverage an ERP solution, although it is frequently not being leveraged to the fullest extent for tax. A majority of responses indicate that improving “tax-sensitive” data would improve the efficiency and effectiveness of the tax provision and compliance software.

As a result, data integration and tax sensitizing data are viewed as the areas that can make the greatest positive impact on tax. Successfully tax sensitizing and integrating data from multiple systems, applications, or spreadsheets into a common solution for the tax function can help reduce significant time and effort, enabling it to refocus its efforts on analysis, forecasting, and other high-priority activities.

Dedicated tax technology tools are the dominant provision and compliance tools. However, more than 62 percent of respondents continue to use spreadsheets as their provision tool. And eighty-five percent of respondents said that better data and solution integration would improve provision and compliance efficiency. This finding further supports PwC’s experience that automating the data feed into a provision or compliance tool from a common data platform significantly reduces the data load process and related variances and errors.

**85%** of survey respondents leverage an ERP solution; however, it’s frequently not leveraged to the fullest extent for tax.

**62%** of surveyed tax departments continue to use spreadsheets as a provision tool.

# 2

## Document management

Centralized document management solutions used to store and manage critical tax documents, including work papers and deliverables, are fundamental to developing efficient and effective tax personnel and processes.

- **Improved quality of information** – Faster access and increased consistency result in improved quality of the data underlying tax work products.
- **Increased retention of institutional knowledge** – Document management systems become knowledge repositories for critical institutional knowledge.
- **Increased knowledge sharing** – Keeping information in a common location and using standardized formats can enable efficient sharing of data and information.
- **More efficient use of staff** – Efficiency gains can result from reduction in collection and manipulation efforts and can free staff to perform higher value tax-specific tasks.

Shared drives and email account for an overwhelming majority – more than 90 percent – of the survey respondents’ approach to document management. Most agree that implementing a document management system is a high priority in the tax roadmap, and more than half of respondents have a tax portal or plan to implement one that could be leveraged in a document management solution.

*An overwhelming majority of respondents (more than **90%**) rely on shared drives and email as the primary documentation management approach.*

## 3

### Workflow

Effective process management focuses on the automation of tax processes with flexible workflows, notifications, electronic signoffs, and status tracking. Documenting tax processes, identifying all parties required to participate in each task, and instituting a standard, centralized approach to triggering and managing the handoffs is integral to effectively executing tax activities. The benefits include:

- Improved internal controls
- Clear definition of how to perform critical tax processes
- Management of dependencies on non-tax stakeholders including accounting and third-party tax providers
- Minimized rework every tax period
- Increased collaboration and sharing of tax documents across tax and finance

While more than 25 percent said they have workflow tools, only 9 percent use those tools. As a result, substantial opportunity exists for tax departments to improve their process and workflow management and potentially shorten process execution time.

Integrating workflow and document management solutions can provide even more efficiencies, connecting standardized processes with a common access point for the tax work papers and documentation needed to perform each process.

*More than **25%** of survey respondents have workflow tools; however, only 9% actively use these tools.*

## 4

### Reporting and forecasting tools

Tax reporting and forecasting capabilities let actionable dashboards and reports provide important insight to tax management, including identification of critical trends and cycles that may trigger a change in business process and result in substantial tax savings. In other words, tax data becomes a strategic information asset.

To use tax data strategically, tax departments must have the time to analyze that data; however, only a small minority of survey respondents spent any significant time on data analysis. The survey results suggest that this is due to respondents spending the majority of their time gathering the data, leaving little time to evaluate how to use it strategically.

A shift from data gathering to data analysis is central to helping tax departments evolve. Using reporting and forecasting tools in a common, integrated tax data environment enables:

- **Improved analytics and KPI analysis** – As staff is redeployed, there is an increase in the breadth and impact of analytics activities – such as the ability to measure specific tax items for filing and for comparison purposes – quarter over quarter and year over year.
- **Increased ability to measure the cross-functional value of the tax function** – With access to more integrated information, tax can evaluate and demonstrate the value the tax function is driving for the organization. That can be accomplished by leveraging more advanced analytics, such as demonstrating the cost saved by using an optimized transfer pricing strategy rather than maintaining the status quo.
- **Improved forecasting capability** – With better access to information and less time spent collecting and manipulating that information, an enterprise will be able to improve its forecasting accuracy and usefulness.
- **Staff retention** – With less time and effort spent on data collection and manipulation, and more on adding visible value to the enterprise, staff satisfaction can increase.

*Only **7%** of survey respondents' tax departments spend more than 50% of their time analyzing data.*

## Data warehouse/data mart applications

Tax departments use data from multiple finance teams and systems, as evidenced by the fact that the majority of respondents spend more than 20 percent of their time – and in some cases more than 50 percent of their time – gathering data. Implementing a tax data warehouse/data mart solution simplifies the data gathering process by centralizing data. It also further extends the concept of data integration and leveraging ERP applications and facilitates improved reporting and forecasting.

Almost half of the respondents indicated they think tax data is not integrated with other company data, or is done so only minimally. As a result, almost 75 percent think better use and integration of technologies and data would improve their team's effectiveness.

Tax-specific data warehouse/mart solutions integrate all data required by tax in a standard, tax-sensitized platform, which is then accessible via a common centralized portal and/or reporting environment. This is essential to providing an integrated tax performance management environment, where:

- tax data becomes a more valuable strategic information asset, and then actionable insight;

- data from multiple sources is integrated to support provision and compliance processes and software;
- mapping into tax provision and compliance software is automated; and
- spreadsheet tracking and reporting is remediated.

The unfortunate reality is that only 7 percent of respondents said they leverage a data warehouse or mart solution. And nearly 70 percent of respondents said they use spreadsheets to perform ongoing legal entity reconciliations. Substantial opportunity exists for tax departments to benefit from an integrated data environment to facilitate data gathering, increase value-add and reporting capabilities, and automate a significant portion of data and legal entity reconciliations.

**21%** of respondents spend more than 50% of their time gathering data; only 7% leverage a data warehouse/mart solution.

## Key success factors

Survey respondents reported significant barriers to moving ahead with tax strategy initiatives. The following are the critical success factors tax leadership should consider to enable the successful definition and implementation of a tax technology strategy.

- Engage the IT department and determine process and organizational changes required to obtain IT's support for the tax organization.
- Be committed to completing and implementing the tax technology strategy, and continue to evaluate and revise it on a quarterly or annual basis as tax priorities change.
- Include a tax technology role within the tax organization:
  - Key role in defining the tax technology strategy, and projects thereafter
  - Key tax liaison, critical to engaging with finance/accounting and IT departments
- Consider and leverage technologies currently owned and used within the company to meet tax's technology requirements to minimize additional hardware, software, and licensing costs.

## Conclusion

When it comes to planning for and implementing tax technologies for tax processes, organizations can face obstacles – but the risks can be mitigated. Increasingly, tax departments are beginning to understand the value of leveraging technology, as evidenced by the fact that the vast majority of respondents in this survey:

- said that the enhancement or adoption of tax technology is key to driving greater efficiency; and
- ranked improving tax processes and improving the use of technology within tax as equally important in evolving the tax function.

Companies largely understand the importance of creating strategies around tax technology and pursuing related initiatives, but they have yet to make appropriate investments in these areas. These investments play an integral role in transforming tax into a strategic business partner within the organization. As such, tax leadership should engage with company leadership and commit to the next steps in the evolution of its tax function.

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