WHITE PAPER

A GUIDE TO OUTSOURCING CORPORATE TAX FUNCTIONS

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Tax Management Solutions

A GUIDE TO OUTSOURCING CORPORATE TAX FUNCTIONS

INTRODUCTION

Recently, 6,000 CFOs and other senior financial leaders around the country were surveyed in the 7th Annual CFO Sentiment Study. As part of the study, the CFOs identified the top five things that keep them up at night. At the top of the list, is "too much to do, in too little time." A close second and third were "not having the skills we need for growth" and "our organization lacks strategic focus".[1] Finance leaders are looking for innovative approaches to talent and technology for growth potential. Their goal is to be more operationally agile -- by aligning the right resources to achieve their company's strategic mission. Leaders can make this goal possible by finding ways to optimize the time and skill sets of their in-house functional teams to be more strategic, while looking outward to acquire alternative resources to provide stability and technical acumen for day-to-day functions. In this paper, we explore how the right blend of resources and systems can improve a tax department's overall function and add value to an organization.

WHAT ARE THE RIGHT ENVIRONMENTS FOR OUTSOURCING?

- Large corporations with additional capacity needs in Compliance and Provision
- Items outside of the typical volume of tax department functions, such as, RAR Projects, acquisition driven volume, segment or special subsidiary reporting.
- Companies who are actively engaged in M&A activity or other business combination transitions
- Companies with limited resources or no internal tax department
- Companies that don't have specialized tax function resources in-house (i.e. sales and use tax compliance)
- Foreign-owned companies entering the EMEA market

Figure 1: What are the right environments for outsourcing

MAKING THE DECISION TO OUTSOURCE

Tax executives strive to achieve the right balance between running an efficient and cost-effective tax department while performing tax functions that add strategic value to the overall organization. Depending on the size of the company and its global footprint, the complexity of tax issues will vary. In the end, companies who find the right people, process, and technology will strike the balance between addressing operational tax functions and reducing overall tax liabilities for their organization.

The potential benefits will vary depending on the company's current scenario, but for most companies, outsourcing all or part of the tax operations will minimize risk and cost, specifically in these areas:

- Reduced tax liability and audit risk
- Return deadlines monitored and met
- Tightened internal controls

[1] The CFO Alliance (2017, Sept). 2017 CFO Sentiment Study Report- Executive Summary. Retrieved from https://thecfoalliance.org/reports/

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• Increased tax return accuracy

• Reduction in overall internal costs (technology, FTEs)

How do companies decide if outsourcing is the right fit? There are various outsourcing options, each of which may be tailored to companies' individual needs. A tax outsourcing engagement is one where an outside vendor controls the tax process, either for the whole tax department (in the case of full outsourcing), or one or more tax functions (such as an outsourced compliance or provision engagement). The decision to outsource should not only be based on the company's immediate needs, but focused on the prospective benefits and how it promotes shareholder value and long-term growth. To simplify the decision-making process, the following three areas of focus should be considered: people, process and technology.

The right mix of people and skills to address changing priorities are a critical element to everyday operations of the tax department. The process needs to be driven by innovation, so that it changes the way tax functions are operating, both in day to-day reporting and long-term strategic planning. The correct level of technology solutions will bring automation, efficiency, and accuracy to a streamlined process. The Outsourcing Considerations Checklist provided on the next page walks you through a series of questions designed to help determine if outsourcing is the right answer based on the current state of your tax department's people, process, and technology.

Figure 2: Outsourcing Considerations Checklist

OUTSOURCING CONSIDERATION CHECKLIST	YES/	NO
People		
Do you have the right mix of expertise aligned to your specific tax function?	----	----
Are business executives and the CFO on board with alternative sourcing options?	----	----
Are your tax professionals focused on creating strategic value or performing everyday tax operations?	----	----
Process		
Are tax reporting processes automated?	----	----
Is data accessible and integrated into processes?	----	----
Are processes driven by historic and analytical data?	----	----
Do you follow a standard for workpapers?	----	----
Do you have solid controls and visibility into funds management of tax?	----	----
Technology		
Can you easily store and access data and returns?	----	----
Do your technologies streamline processes and promote collaboration?	----	----
Is your platform scalable to ensure ease of transition and future agility?	----	----
Response Tally		
If you answered "need" more than "have" to these questions – you will have a strong signal that outsourcing some, or all the tax function should be considered.	----	----

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COST BENEFIT ANALYSIS AND RISK FACTORS WHEN OUTSOURCING

A company should consider outsourcing when it doesn't have specific tax technical people, process, and technology solutions to do the job effectively in-house, or when the costs to have a fully-staffed tax function outweigh the benefits. Here are some added reasons to consider outsourcing:

Using Specialists on Call

The lack of specialized tax expertise is a driving factor when considering outsourcing. A company that has an evolving tax landscape may find that the tax resources it needs today may not be sufficient to meet future requirements as the business footprint expands. When outsourcing, each tax project can be staffed with the right technical resources utilizing federal, international, state, sales & use, and tax automation specialists. Having the ability to use specialists in every aspect of the department's function creates the ideal tax department, allowing companies to manage cash taxes and effective tax rate while successfully accomplishing all tax reporting requirements.

Outsourced providers maintain the responsibility of training, so your outsourced tax team comes prepared to your engagement versed in the ever-changing tax law and latest tax technology.

Mitigating Risk

When a tax team is over-burdened, there is a larger margin for error which can result in inaccurate calculations or tax filings. Outsourcing reduces risk by providing access to a pool of technical tax specialists, well-versed in federal, international, state and local, and indirect tax. The outsourcing provider comes equipped with tax technology that powers the tax provision and compliance processes and transforms data into useful formats without manual intervention. Capacity issues are easily solved with the addition of team members at peak times.

Constraining Costs

Outsourcing is a good option when a department has issues that are complicated in nature, but the size of your company is preventing you from performing them at a consistent and reasonable cost. With a set monthly budget, a company can have the best of both worlds, a core dependable team with the flexibility to bring in additional specialists when needed. Outsourcing will also save you the cost of having to procure tax software licenses and the investment in training in-house personnel on its use.

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MAINTAINING AGILITY IN THE TAX DEPARTMENT DURING MERGERS & ACQUISITIONS

Business restructuring (through mergers and acquisitions) has been a hot topic in boardrooms across the globe. Growth through acquisition is a critical component to gain efficiencies and promote long-term competitive advantage. When an acquisition or business combination is part of a company's growth strategy, tax implications should be considered as they relate to due diligence, tax planning/structuring opportunities, risk mitigation (liabilities and controversies), data management, cash flow, and personnel. Adopting a plan to maintain a stable tax function while supporting M&A activity becomes very important.

The outsourcing alliance between GE and PwC sets a new trend that many Fortune 500 companies are now considering, especially those who operate in multiple states and numerous countries. The alliance between these two giants has made business leaders further consider their strategy around their tax function. "The deal reflects a broader trend of companies relying more heavily on accounting, consulting and advisory firms, where the cost of the fee is less cumbersome than hiring the staff in-house". [2]Outsourcing equips a company with the right tax technical and tax technology expertise in a cost-effective manner. Balancing the right skillsets and resources helps companies navigate the stages of M&A activity with precision and agility.

Transaction activity inevitably puts a strain on tax department resources within the acquiring company. In some cases, redundancy between two merging organizations requires an overall reduction in personnel. Remaining tax personnel are left to deal with an added volume of tax work minus the institutional knowledge to make the process go smoothly. Spin-offs may only have tax resources from the originating company for a limited time and thus have to build a tax department from the ground up while still expected to meet reporting and filing timelines without missing a beat. In these cases, outsourcing all or a portion of operational tax functions (such as income tax compliance) isn't just a consideration, it's often a necessity. The latter portion of this paper provides tips to prepare for a smooth transition to outsourcing.

[2] The CFO Alliance (2017, Sept). 2017 CFO Sentiment Study Report- Executive Summary. Retrieved from https://thecfoalliance.org/reports/

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READY TO OUTSOURCE?

CREATE AN OUTSOURCE MODEL AND EXECUTE AGAINST IT

As with any project, a proper work plan should be developed to determine your execution strategy. Outsourcing is no different. Your outsourcing provider should work with you to develop the plan using the steps below, then execute, assessing milestones along the way.

Analyze: To ensure that the functions being outsourced meet all existing requirements in the best possible manner, the outsourcing provider, along with management, should first perform a review of the current process. The review will help identify key stakeholders and departments, to understand information flow, and the IT systems involved. This phase should also include the identification of relevant requirements that the organization must meet.

Design: Based on the results of the analyze phase, the outsourcing provider should develop a customized outsource model to fully meet internal and external requirements. The custom-designed model may include recommended changes to process, data flow/management, or technology solutions. This phase yields the creation of an implementation plan, which the company will need to review and approve prior to any implementation activities.

Implement: The implementation phase sets the approved outsource model and plan into action. This phase should include regular communication with stakeholders to ensure transparency. You can use any project management or monitoring tool to monitor and communicate your progress.

Evaluate: During each phase, analyze progress and challenges. This enables you to identify areas of improvement in each step of the process to ensure the final product meets your exact needs and specifications. Staying close to the development of the outsource model will allow you to have control and visibility into the overall operations, this will assist in any situation, including the going forward and continuity strategy.

The outsource model can be used for large scale process improvement or small one-off efficiencies to an existing process, such as journal entry automation or current tax payable reconciliation.

Outsource for the Latest Technology

Advances in technology are changing the way tax departments approach everyday tax functions like provision and compliance. While provision preparation was formerly heavily excel based, most large corporations are now using tax software to minimize risk. Outsourcing provision and compliance functions of a tax department brings resources that are trained on the latest versions of tax software, and are process-focused on your organization.

The current trend in outsourcing is to have more transparency using web-based secure portals that give management access to critical information, direct oversight, and more control over their tax function. Besides secured data sharing, portals may provide companies with the ability to approve tax returns online, clarity into the tax authority correspondence, tax calendars, and access to comprehensive reconciliation reports and business intelligence tools.

Relationships Matter

When seeking a partner for outsourcing, consider soft skills as well as technical acumen. Interview at least two to three outsourcing providers, and rely heavily upon relationships and contacts within the tax community to help identify individuals and firms with the specific subject-matter expertise needed. The relationship with the outsourcing provider, like any good relationship, needs strong communication, personalities that complement one another, and similar organizational values.

Remember, no matter what vendor is chosen, they will be an extension of the tax team, representing your company as a tax liaison to external auditors, and responding to tax inquiries from your company's internal business units. Be sure to perform due diligence when considering the right outsourcing partner.

The benefits of outsourcing tax functions can be substantial. Not only can it improve risk management and have a positive impact on the bottom line, but if done correctly, it enables over-burdened tax departments to focus on higher value-add activities, such as tax data analysis and strategic tax planning.

Caius Tax Management Solutions focuses on delivering tax management services to small, mid-size and large multinationals, public, and Fortune 500 companies. Core services include M&A, tax controversy, tax accounting, transfer pricing, compliance services, tax automation projects, indirect tax, and tax structuring.

For over 20 years Caius has worked within companies to provide the necessary know-how, and management skills to effectively manage any aspect of the tax function under whatever situation.

Global tax expertise,
embedded within.

Get started today.
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