TAX SOFTWARE IMPLEMENTATIONS – WHAT YOUR DEPARTMENT NEEDS TO KNOW

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ONESOURCE® TAX PROVISION

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EXECUTIVE SUMMARY

Does this scenario sound familiar? After a year of internal and external discussions, you've chosen a software product. It took more time than you wanted, but it's done. You've seen the demos, talked to other companies and done your due diligence. All that's left is to implement and you can start reaping the benefits of your new toolset. The hard part is done, right? Wrong. This is the area where many tax departments misstep. Choosing a service provider who isn't experienced enough or turning to an internal resource who's known as the "go-to guy" (or gal) for other tools can create huge risks for your investment and future productivity.

This paper explores the critical aspects to consider in implementing a software tool, including the benefits of a staged approach, where to spend your budget and what expectations to set during the process. Above all, the goal should be to provide a solution that leverages the company's investment in technology and allows the tax department staff to apply their talent and time to tax analysis and planning instead of mundane tasks. This paper focuses on a tax provision implementation, but the concepts apply to many different software products in the tax space.

Key Learnings

- A successful implementation is more than switching out software. It hinges on identifying and seizing opportunities to make processes more efficient over the long run.

- Common challenges in implementation can, if not addressed, ultimately cause tax personnel to revert to manual processes, shortchanging key features and benefits of the provision software.

- A dedicated project manager and implementation team who understand the software solution may prevent costs from exceeding expectations and key capabilities from being overlooked.

- Much of the value of software is evident only after the implementation is completed, as new features and updates are incorporated on a regular basis.

AUTOMATING THE PROVISION PROCESS

Tax provision software can bring many tangible benefits to a tax department. A 2011 survey of U.S. domestic and multinational companies, conducted by the Association for Computers & Taxation, found that those using tax provision software realized boosts in efficiency, better data controls, reduced manual effort, and increased automation.

Yet it's clear that some tax departments don't capture the full benefit of tax provision software solutions. The same survey noted that respondents sometimes found their software failed to perform all necessary calculations, produced inaccuracies, or suffered from a lack of transparency.

More often than not, these issues are the result of less-than-optimal implementation. After the decision is made to purchase a software solution, tax department leaders have a tendency to narrow their implementation focus due to budget or time pressure. Later, they discover that software features or capabilities they passed over during implementation would have addressed issues that are far more costly to fix retroactively.

Most, if not all, of these challenges can be averted by recognizing that the benefits of a full implementation quickly outweigh additional costs on the front end and position the tax department to drive continuous improvement efforts. Most successful implementations have three main stages, which are outlined and analyzed below.

DESIGNATING A PROJECT TEAM

Many of the implementations done in the tax space today are conducted without thinking about the proper roles of the personnel involved. Either one person works independently on the implementation or everyone attempts to participate in every meeting. Sometimes this is the only option, since a tax group may be small or limited in bandwidth. However, in defining a successful project, several elements should really be present:

- A project manager (internal or external)
- Tax department subject matter experts
- Core subject matter experts on the tools (professional implementers)

If all of these people are present, and the roles are clearly defined, then everyone is working in his or her area of strength—and the project has a much better chance of being more efficient and providing more value. Remember that the professional implementers can provide the most value if they have a background in both the tools and the tax field they're serving. In hiring people for our teams at Thomson Reuters, we look for both tax background and proficiency with software products.

STAGE ONE: DESIGN & ANALYSIS

With the team assembled, the implementation can begin. The first stage, and the foundation for the remainder of the implementation project, is a thorough analysis of the existing provision processes with an eye toward designing new workflows that reduce inefficiencies and harness all appropriate software capabilities.

In the analysis phase, the team of software and subject matter experts takes a collaborative approach and evaluates a company's specific provision needs. They examine current processes to identify bottlenecks, inefficiencies, and redundancies, going beyond simple information gathering by inspiring the tax department to think critically about what they've done in the past. In this stage it is very important to scrutinize data sources and try to determine if changes related to these source systems and data points will produce better processes and outputs. Often, this process unearths multiple employees conducting identical tasks or tasks that are no longer needed. After this examination, the analysis and design team assembles a vision for a new process that will address these issues—preserving the features that work well—and adapts the entire process to take the most advantage of the provision software.

At the close of this phase, the tax department has a visual schematic or diagram that documents all of the process and workflow changes that will be required, which sets clear-cut expectations for the rest of the process. Many companies find that putting in time up front can help ensure a smoother implementation process. In one recent example, a client recommended that investing time in the beginning phases is pertinent to a successful implementation.

This document also establishes a timeline for the implementation of each piece of software, maps out roles and responsibilities for each employee during the process, and delineates how an interim or year-end provision will take place. In this implementation model, the new provision processes dictate the software's configuration, rather than the other way around.

STAGE TWO: IMPLEMENTATION

With the plan for a redesigned provision process in place, implementation enters the second stage, which comprises configuration and implementation. By this time, the implementation team has scaled the software components to fit the company's needs and budget and has clarified how each component works in the overall provision process. All of this makes the actual configuration fairly seamless, because a plan has already been defined. This eliminates trial-and-error or rework situations.

An important aspect of this stage is a prior period replication, which is a detailed process of entering data and tying it back to the old system. The team enters the most recent reporting year or period data (including, for example, pre-tax income, deferred tax expense, deferred tax assets and liabilities), replicates it in the new process and records any differences. Initial testing at this stage ensures that calculations are computing the same way they did in the prior system and identifies gaps that may exist. It also highlights the methodologies that need to be changed and documented.

The importance of these efforts cannot be stressed enough. For one, entering beginning balances alone won't inform the department about how the effective tax rate will be calculated in the software. Second, only a full replication of the data can uncover gaps, errors, and unforeseen issues that would otherwise cause bottlenecks in the future. Finally, the results of these efforts can be used by public companies to help meet their obligations under the federal Sarbanes-Oxley Act, which requires the documentation of parallels between new and old provision processes.

After the replication and testing effort has taken place, the project team works on the other direct implementation deliverables in this phase. This level of flexibility during the second implementation stage can go a long way toward meeting short- and long-term needs, as the software can be configured to allow for additional functionality later. This is a critical advantage for companies who elect to spread implementation over several budget periods rather than cutting off deliverables that could ultimately save money for the company.

STAGE THREE: DELIVERY & ROLLOUT

After the software is configured and fine-tuned, it's time to bring everyone in the tax department on board. In this third and final stage, the end users learn the new provision process and the software that enables it by completing the parallel reports initiated in the previous stage.

"My advice to any client who is going through an implementation is to make sure they put in the time up front and even more than they think. If people new to the process think they've put in the time, I would recommend adding another 5 to 10 hours to the plan to really nail down and test things because it is going to help later in the process."

- Alex Shuster

Tax manager
at Genworth Financial

A successful handoff sees the software specialists turn over operations to in-house tax employees, letting them work through the new process on their own. This is often where the additional parallels for SOX purposes occur. User Acceptance Testing is also a key component of this phase. The consultants remain present in a supporting role to answer questions and handle lingering issues that require additional development assistance, but it's the employees responsible for provision who dive in and do the work.

Often, companies consider the implementation complete at this stage, but advanced software solutions such as ONESOURCE Tax Provision are constantly evolving. A best practice to ensure continued success is to have an ongoing collaboration with the software specialists, including regular reviews of the software's performance in practice, so the specialists can offer fixes and manage software updates.

CONCLUSION: REACHING YOUR GOALS

Companies that shortcut the implementation of tax provision software typically discover that they aren't getting the most out of their investment. Symptoms of tax departments that don't follow through on the three stages described above include employees reverting to manual processes, a lack of awareness about key software capabilities, and the use of outdated features that were improved in subsequent updates.

Choosing the wrong partner, or simply going it alone, may reduce costs in the short-term, but it's likely to lead to issues that cost much more to remediate after implementation is completed. An optimal implementation program is a collaboration between the people within the tax department who know what's worked and what hasn't in the past, and those who understand the full capabilities and functionality that a provision software solution can provide.

"During our implementation of ONESOURCE *Tax Provision, it was very beneficial having access to a dedicated* ONESOURCE *representative and his development team."*

"He took the time to understand our needs, and was able to assist us in tailoring ONESOURCE *reporting functionality. We were able to obtain a specialized report that provides an in-depth ETR analysis by foreign reporting unit, which allowed us to eliminate significant amounts of data entry, streamline the process, and allow more time for follow-up questions and analysis. It allows us to provide high-quality results as part of an ever-accelerating close process. By working with the* ONESOURCE *representative and his development team, we've greatly improved our income tax accounting process during the past year."*

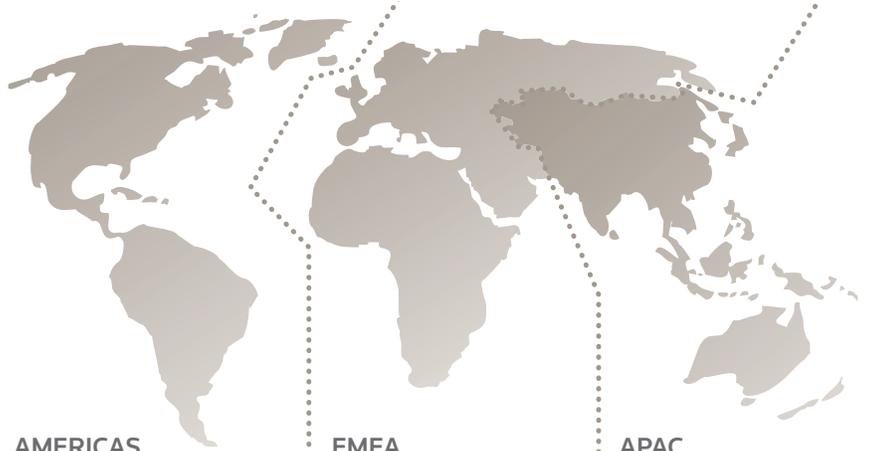- Director of income tax accounting
at one Fortune 250 company

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