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Data Models that Support Real-Time Tax Provisioning

WHITE PAPER

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"How much do we owe?" seems like a question that should have a straightforward answer, but for corporate tax professionals, an extensive amount of work can go into that one figure.

This work is exacerbated by constantly evolving tax regulations. For corporations operating in the U.S., the impending tax overhaul requires proactive planning. From taking advantage of opportunities to avoiding potential missteps, the foundation for adapting swiftly to these changes is technology. Those who prepare now will realize immense benefits, while those who react slowly will be forced to cope with the consequences.

Understanding the Basics

A tax provision is a corporation's estimation of what income tax it owes. Like other corporate finance matters, tax provisioning needs to be exact. Inaccurate estimates lead to poor cash management, dissatisfied investors, and the potential for large annual filing reconciliations.

Moreover, monitoring the income tax liability of corporations is an increasing focus of regulators throughout the world, and investors have long made investment decisions based on the effective tax rate of a company. In the U.S., calculating the impact of tax reform on the overall annual effective tax rate is key for management reporting and decision-making. When one single figure has so many far-reaching consequences, it has to be right, and it has to be available on demand.

The fact of the matter is that the actual math behind tax provisioning isn't complex. What's complex about provisioning is integrating and properly structuring data from both Finance and Tax in a way that minimizes risk and makes provisioning easier and quicker. Accurate provisioning data, made available in real time and on multiple devices, allows tax professionals to address questions from management and contribute to sound decision-making.

Manual data entry is a fact of life in tax, but best-in-class companies are striving to automate it wherever they can to reduce both cost and risk while improving the speed at which information can be accessed.

Structured Data vs. Unstructured Data

Structured Data	Data that resides in a fixed field within a spreadsheet, relational database or other file. In tax, structured data can include the general ledger, tax workpapers/workbooks and XML/XBRL.
Unstructured Data	Data that lacks a pre-defined data model. In tax, unstructured data includes anything that isn't structured, such as data from email, locally hosted documents and even social media.

The Data Challenge

A typical challenge regarding the structure of data is locating relevant data, structuring it in a consistent way, and then using it to make decisions. Tax provisioning is different.

Tax provisioning is a straightforward calculation of a company's tax exposure on current income and its estimated tax exposure on future income. For most modern companies, this is a tremendous data challenge.

Because virtually all business today is global business, financial data can originate from all over the globe. Teams located throughout countries or, in many cases, the world, collaborate with each other. Their data is parsed amongst various source systems, which don't talk to each other well. Consolidating this data for provisioning is the first challenge.

Then the system needs to apply rules that are dependent upon multiple factors, such as the jurisdiction in which a transaction took place or the industry in which the company operates. Not only does tax policy differ from country to country, state to state, and even city to city, but online commerce has its own set of complex tax rules. There are many variables to consider, depending on what the company sells and where it sells it.

Those variables are not static. Both tax law and GAAP are always changing.

All of this adds complexity to the provisioning process. Many companies use a convoluted series of spreadsheets to calculate tax provisions because of their flexibility. But spreadsheets are unstructured and lack embedded controls. Manual updating slows the process down and puts at risk the ability to provide a timely tax entry to complete the financial close.

Furthermore, the corporate structure that tax departments put in place can require custom software development when they are too complex to complete in spreadsheets.

Volume coupled with the changing landscape of the tax rules and the speed required to determine the appropriate tax journal entry make software the only effective approach for the tax provision process.

This is why best-in-class companies are using software to automate the tax provisioning process in real time, before closing their books. Real-time provisioning eliminates these concerns. It gives management valuable information on which to base business decisions and enables tax to truly add value throughout the organization. Spreadsheets built in Microsoft Excel simply cannot calculate the provision with the speed, accuracy, and flexibility that management demands.

End-to-end tax platforms like Thomson Reuters ONESOURCE™ are simple, connected, and modern.

Close Faster, File Earlier: A Valuable Outcome

The importance of accurate, real-time tax provisioning and the resulting data burden is only accelerating. When a company makes an acquisition, ventures into a new market, explores new commercial channels, or increases its global footprint, its tax provisioning changes.

If a company is growing, then its tax provisioning needs are becoming inherently more complex and therefore require automation.

Thomson Reuters ONESOURCE™ Tax Provision, a simple and intuitive application to speed up your financial close, helps tax departments review provisions faster than ever and analyze data in seconds. Instead of entering data multiple times, users can easily transition data from provision to other direct tax obligations.

Further, as corporations prepare for the impact of tax reform in the U.S., ONESOURCE Tax Provision offers an advantage when it comes to handling the pending reporting requirements, transitioning out of Excel, and minimizing risk by managing data out of one database.

The filtering, sorting, grouping, and drilldown capabilities produce real-time intelligence that reduce the risk of manual errors. This integration allows for a smoother, faster processing of financial close and tax returns.

Responding to changes in tax legislation is an enormous undertaking. If your organization has already implemented tax technology, make sure you understand how to utilize features like predictive modeling as you prepare for the potential changes, particularly in relation to the U.S. tax code. If you haven't yet made an investment in tax technology, now may be the perfect time.

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