DATA MANAGEMENT - KEEPING PACE WITH TAX TECHNOLOGY ADVANCES

By Irish McIntyre
KEEPING PACE WITH TAX TECHNOLOGY ADVANCES

INTRODUCTION

A few years ago, the tax department at Lehigh Hanson Inc., the North American division of Germany’s HeidelbergCement Group, faced a challenge familiar to thousands of companies growing worldwide. Each tax season, the company’s U.S. tax department staff sent separate Microsoft Office® Excel work papers to constituents in 150 global subsidiaries, and then tried to decipher and harmonize what they got back in time to submit the company’s federal and state tax returns. There was no standard process, so some work papers came back with errors while others were incomplete or late. Any changes to the sheets required the U.S. staff to resend the workbooks and start the process again. As a result, the lights were on well past midnight on September 14—the day before the extended deadline for filing their federal return—as the U.S. tax department rushed to finish.

It may seem like we’ve come a long way since tax departments relied on physical ledger paper to manage tax data, but in some ways we haven’t progressed that much. Most tax departments still rely on high volumes of manual, spreadsheet-driven work even though much of their manual labor is automatable using modern technology solutions. It is fairly common to uncover workbooks from the late 1980s that are still in use today, their only transformation being the migration from Lotus 1-2-3 to Excel. In fact, of more than 1,200 tax professionals polled by Deloitte on ways to improve data collection, 61% reported using Excel to meet at least half of their data management requirements.

The survey’s respondents cited a number of challenges in obtaining the data required for the provision and compliance processes, including a heavy reliance on finance book income updates without access to source systems, extracting tax-sensitized data from the ERP system, integrating data between systems, and getting data into legal entity format. More than 40% of respondents listed “all of the above” when asked to identify their biggest issues in obtaining data for their provision and compliance processes.

Lehigh Hanson faced similar issues and decided to do something about it. They recently implemented ONESOURCE DataFlow to manage their data needs in four foundational areas: determining and understanding what data is needed, collecting the data effectively and efficiently, utilizing the data in both tax returns and provision, and storing the data in a way that allows reuse for a wide range of future needs.

As a result of the ONESOURCE implementation, the company eliminated “a lot of rework and a lot of confusion about who was supposed to do what,” said Chuck Kamen, Lehigh Hanson’s state and local tax manager. “We’ve saved weeks on process alone.” The company’s 2009 return was filed on Sept. 1. And in 2010, “we filed in the middle of August,” Kamen said. The real triumph in Kamen’s boss’s eyes is that the tax department accomplished this with fewer people.

A COMBINATION OF PRESSURE POINTS

Lehigh Hanson is among a growing number of companies that recognize the appeal of single-vendor tax software solutions to ease pressures on their tax departments. Most companies are now expected to close their books in three to five days with the same level of staffing, when they used to have months to hit their deadlines. The burden on companies to prove the accuracy of their data is also growing, adding pressure as regulators step up scrutiny in the wake of the last decade’s major accounting scandals.

These pressures are forcing changes to how tax departments manage their data. When asked to list top data management issues, 31% of 200 tax executives recently polled by Thomson Reuters cited difficulty in reconciling data, while another 25% listed the amount of data being processed. Small tax departments are no exception. They can face a proportionately bigger impact when losing a few employees’ productivity to manual data entry and reconciliation every tax season. When those employees are freed from manual data manipulation, they spend more time reviewing data and looking for planning opportunities.

Change is a tall order for many tax departments. It takes a long time for tax departments to migrate away from labor-intensive spreadsheets, and many companies have yet to begin that journey. Inertia often sets in due to the strain of their current workload. When this happens, tax departments often stick with the status quo even when the cost savings and inefficiency gains are obvious.

The most severe case occurs when a company gets cited for a material weakness, forcing upper management to take a hard look at the tax department’s data management processes. Material weakness was a major catalyst for one global automotive manufacturer to re-evaluate its processes around data management. In the wake of a huge restructuring plan resulting from being in and out of bankruptcy in 2009, the company realized it needed
to build out a stronger, larger tax accounting group and leverage software solutions. Challenges they faced prior to implementing data management solutions included a disjointed provision-to-return process that took up to three months for the calculation and analysis to be completed.

“ONESOURCE does the math so we don’t have to worry about the calculation,” said one tax official with the company. “It gets us out of that Excel mode where we needed to use Excel to prepare a calculation for us. Now, I can’t wait to push that button to generate the provision to return,” she said. “I can’t wait to see how clean it’s going to be.”

Factors such as employee turnover can also lead management to reconsider the importance of a technology-enabled tax function. Tax professionals rarely relish the time spent manually manipulating spreadsheets; they want to put their expertise to better use. One global pharmaceutical organization responded to 100% turnover in its tax department five years ago by focusing on technology. As part of its tax process overhaul, the company added ONESOURCE DataFlow to automate the compilation, preparation, and manipulation of their workbooks while documenting the data management processes. The new approach has yielded a 90% reduction in manual data manipulation, saving about 10,000 hours each year.

“We’ve had no turnover since,” says the company’s tax executive. “People are engaged and empowered to make improvements, and they have a lot of enthusiasm.”

Finally, globalization causes companies to expand their footprint to new regions, and data is more dispersed than ever. Corporations that do business around the world need the “cloud”—the term used for web-based solutions that deliver hardware and software resources over a computer network—to collect data from people and information systems scattered around the globe. Selecting a single-vendor technology solution with global cloud ecosystem eliminates variability and ensures that when data comes in, it’s ready for use in multiple tax department functions.

**A SIMPLE SOLUTION FOR COMPLEX TIMES**

Companies are shifting more of their focus toward standardization, automation, and integration. Single-vendor solutions like those created by Thomson Reuters benefit them in five principal ways:

1. **Compliance**: Compliance is the tax department’s fundamental requirement; staying on top of filing deadlines and required documentation around the world isn’t optional.
2. **Planning**: Easier to manage your effective tax rate and keep it predictable by improving data integrity and the speed with which it can be collected, reviewed, and calculated for your provision.
3. **Transparency**: Enables tax departments to better track cash flows, giving finance a centralized view into cash flow management.
4. **Efficiency**: Tax is one of the biggest overall expenses, and companies need to do more with fewer resources, minimizing costs related to manual data manipulation and outsourcing.
5. **Strategy**: Set an appropriate risk profile and manage risks effectively by maximizing time spent on review and planning rather than low-value data scrubbing.

With the help of single-vendor solutions, companies are realizing these benefits across the continuum of data management processes.

**Collecting Data**

Tax departments typically rely on Finance or IT for data, but that data is rarely structured the way Tax needs it. Often, data is stored in multiple general ledger systems, each with its own peculiarities, and it can be a significant undertaking to integrate everything into a standard format. This becomes even more complex when companies acquire other companies and merge information systems.

Of course, data doesn’t just come from other systems — people play a big part as well. Companies today are following their customers around the world into rapidly developing economies. As they expand into new markets, they are adding tax obligations in new jurisdictions, and partnering with global accounting firms and other partners. When it’s time to collect data globally, companies need a centralized system to empower people around the world to complete their tax packages on time and accurately.

Tax departments that adopt technology solutions like ONESOURCE DataFlow can fundamentally change the way they spend most of their time, flipping the equation from 80% manipulation and 20% review to 80% review and 20% manipulation. ONESOURCE DataFlow allows tax professionals at headquarters to collect data from around the globe and then pull that data on demand without having to ask someone to send it, and without having to worry whether it will be accurate or in the correct format. Similarly, web-based spreadsheets allow the tax function to use data from other tax systems so that when it comes up for audit, provision, or some other need, it’s readily available. This allows companies to deploy a “collect once and re-use” solution around the globe.

**Utilizing Data**

Tax departments want to touch data once and use it for many things. All of the trial balance data obtained from general ledger systems is redeployed for multiple uses, from putting together the provision and the return, to forecasting and planning.
When a tax department puts that data into spreadsheets rather than a system, there is an inherently low probability that the data will be in a reusable format for other purposes. This leads to costly manual effort and data duplication, while limiting the amount of on-demand data that other people in the organization can access at any point in time. Just as in the collection process, Tax needs to be able to access data easily to prepare their returns and their provision.

Another challenge tax departments face when they don’t have an automated, integrated technology solution is using old data because it’s simply too costly or time-consuming to refresh data for some purposes. By contrast, using tax automation software enables departments to get up-to-date information without having to reinvent the wheel each time.

AstraZeneca, the global biopharmaceutical company, was able to compute 75% of its book tax adjustments and save 20 hours of a seven-day close after migrating to ONESOURCE DataFlow. The tax department is now confident the numbers they report are accurate, and they use their time savings to put their expertise to work.

Data management is “the biggest area of focus to gain efficiencies” in the tax department, says Linda M. Peoples, manager of tax accounting and reporting at AstraZeneca. “Rather than spend time putting the data together, we’re able to spend more time validating it.”

**Reusing Data**

Tax departments need to reuse data for multiple reporting purposes regardless of how decentralized and dispersed they are. The top priority, of course, is staying in compliance with financial and tax reporting requirements in every jurisdiction. This can be time-consuming and ineffective when data is stored in silos across hundreds of spreadsheets.

Tax data is most valuable when it can be readily used to both stay in compliance, and influence strategic planning. Implementing technology can help companies achieve this benefit. Data management solutions enable tax professionals to quickly and easily query data across all tax types and jurisdictions, giving them a global view of tax.

Jason Hamil, senior tax accounting manager at a global logistics company, says the addition of ONESOURCE Tax Provision and ONESOURCE Income Tax has enabled the company to improve the quality of its financial information, its forecasting for provision, as well as tax planning.

“ONESOURCE has helped us to work better; we are able now to spend more time focusing on the analysis aspect of the tax provision and compliance versus the actual crunching of numbers,” Hamil said. “And so we definitely have seen the benefit of that as a department as a whole.”

**CONCLUSION**

The increasing complexities of managing tax data in a globalized world demand a technology solution that makes the best use of a tax department’s resources. Every minute tax professionals spend manually inputting and moving data—and fixing mistakes that naturally stem from manual work—is a minute that doesn’t help discover new ways of adding value to the company’s strategic goals.

Technology has come a long way in a short amount of time, and now it’s time for tax departments to take advantage of it—before they are forced to by events outside their control. Only through automation and standardization of tax data can tax leaders hope to play an integral role in shaping the future, not just for their departments, but for their organizations.
GLOBAL SOLUTIONS

No matter where you do business today, a global perspective is essential to achieve success. That’s why Thomson Reuters has focused on developing tax software and services that function globally and enable customers to maintain accurate and seamless compliance with increasingly complex international tax laws and accounting rules.

LOCAL SOLUTIONS

ONESOURCE from Thomson Reuters provides the localized resources and expertise you need to manage your taxes in numerous jurisdictions worldwide – and we continue to expand. Bridging important language, currency, and regulatory gaps, our local solutions and software can help you smoothly interact with the tax requirements and accounting practices in your specific location.

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