Creating A Strategic and Tactical Plan For Tax:

Seven Effective Steps To Impact The Enterprise

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Introduction

The most successful organizations are savvy and analytical, and base their actions on well-developed strategic plans. These plans and other crucial management decisions require timely and accurate data to support them. Although not typically strategically-focused, corporate tax departments rely on large volumes of historical, current, and forecasted data to support their operations. In many instances, corporate tax departments are the largest users of corporate information and data. . To get this information, tax departments expend vast amounts of energy gathering and extracting, analyzing, reviewing, and correcting information before it is ever used.

This uninterrupted data gathering supports the continuous cycle of filing and compliance, and so it's easy to understand why many tax departments are reactive and compliance focused, rather than being proactive idea generators. Sure, tax departments must do the basic blocking and tackling associated with the compliance function, but the information Tax manages to fulfill this function can also be used to provide strategic support for the company's goals. Tax can offer so much more to the corporation when it becomes a strategic partner rather than simply a functionary. Instead of reacting to corporate decisions made elsewhere, Tax can become a part of the strategic process and, as a result, ensure that decisions take into account tax consequences, and possible bottom line tax savings.

One of the fundamental keys to being a strategic player within an organization is to foster a proactive and strategic mindset. This may sound obvious, but actually cultivating such a mindset in a tax department that is enmeshed in day-to-day execution and implementation can be quite challenging. Tax departments cannot avoid having to provide analytical support for unplanned transactions contemplated by executive management. In larger organizations, these unscheduled and unplanned transactions occur frequently, resulting in an overly tactical focus among tax professionals. But Tax can do so much more than just react, especially if the task of gathering, preparing, and managing the information necessary for its most basic functions can be made more efficient, freeing resources for more strategic thinking.

Tax departments can and should extend their influence beyond compliance and think strategically. So, what are some of the strategic objectives that a tax department should consider? This paper provides some fresh thoughts and point-by-point action steps to enable tax departments to contribute strategically as well as tactically to the organization. But first, before running off and trying to accomplish too much too soon, it's important to prioritize and align the needs of the organization with the needs of the tax department. Overall, the goals for a successful tax function, should always be to:

- **Improve efficiency and productivity**
- **Enhance the value of contributions** by pursuing proactive planning opportunities (e.g., minimizing the effective tax rate)
- **Rapidly turn around decision-critical information** to corporate customers

These are certainly warm and fuzzy goals. But how does a tax department plan, execute, and measure its performance? A progressive tax department can incorporate a number of significant actions into a well-developed and thoughtful strategic and tactical plan. We examine a variety of potential areas for improvement in this paper.

This paper summarizes a variety of common sense projects and recommends action steps in seven areas that can prove beneficial to most, if not all tax departments. Many departments may already have drafted strategic plans or implemented some or many of the recommendations discussed herein. This document will benefit these companies as well by providing additional insights and ideas to be considered and improved upon.

First, we examine the sources of the data Tax uses, and suggest some opportunities to streamline this area where so much energy is committed.

Step 1: Understand Your Data – Find The Pain

Many companies embarking upon large system or process related changes that affect tax compliance and planning have attempted to aim directly at the target of automating the analysis and calculation of various taxes. However, if the underlying source data and supporting interfaces are not tax-sensitized, these efforts usually fail.

Data identification is the basic building block of effective tax data management and efficient tax automation. For maximum results, electronic data must be available for basic analysis, for interfacing into tax applications, for what-if simulations, and for audit support. Tax data necessary for compliance and planning such as organizational structure, master data (e.g. chart of accounts, vendors, materials, etc.) and selected transaction level detail is found throughout Enterprise Systems (e.g. SAP, Oracle, legacy systems, etc.).

Below is a sample of financial systems containing a variety of required tax information for compliance and planning purposes. This example shows the complex and diverse data requirements of the tax function.

Financial Module	
ERP Capabilities	**TAX Needs**
G/L A/P A/R Asset Management Projects Budgets Expenses Treasury Cash Management	**FEDERAL** Legal Entity P&L/BS Book/Tax Depreciation G/L on Dispositions Intangibles/Amortization Financial Derivatives Other Schedule M-1s 1120 Line Items R&E Credits AMT Specific Items **INTERNATIONAL** CFCs Subpart F Income FX Gains/Losses 1.861-8 Apportionment Transfer Pricing Foreign W/H Taxes P&L/Balance Sheets E&P Specific Items **STATE/LOCAL** State Apportionment State Specific Deprec. Other State Specific Info

Sales and Logistics	
ERP Capabilities	**TAX Needs**
Order Entry Order Management Billing A/P Inventory Order Processing	State Apportionment Info - Inventory - Sales Bad Debts Sales Taxes FSC Commission Calcs Foreign Source Income 1.861-8 Apportionment Foreign W/H Taxes Warranty Accruals

HR Module	
ERP Capabilities	**TAX Needs**
HR Management Benefits Pension Payroll Stock Administration	State Apportionment Info Payroll Taxes Tax Deductibility Issues/Schedule M-1s Specific Tax Credits

Because it is important to influence information requirements and data gathering at the ultimate source, tax leadership must get involved in ERP system implementation projects at the design stage. In a recent ACT[1] industry survey, only 49 percent of tax departments who responded said they were involved in the selection or setup of a new financial system, and 14 percent of those involved indicated they were involved too late in the process to have a positive effect on integrating financial and tax information. And yet the same survey found that about 63 percent of necessary tax data resides in the corporate ERP/accounting system.

Because of the paramount importance of data systems in providing information to Tax, the department must be involved in the design, procurement, and implementation of any new data systems. Make sure Accounting and IT leadership ALWAYS includes Tax as one of the primary stakeholders. Why? Because Tax is one of the biggest users of

[1] Corporate Tax Automation – Current Trends in Technology. 2002 Membership Survey by the Association for Computers & Taxation.

information in any enterprise – operational (e.g., location of facilities and assets) and financial! Being a strategic partner to the organization begins with the data.

Action Steps:

1. **Facilitate working sessions** to identify data needs for the taxes (e.g. income, property, etc.) and related processes being addressed. Create a detailed listing of all data elements needed and how they are used.

2. **Identify and review** ERP and legacy system configurations, business processes, and accounting procedures.

3. **Locate and document** best data sources and locations and identify gaps between data needs and available sources. This produces manual data collection requirements and goals for future automation.

4. **Document proposed business changes** to underlying ERP and/or legacy systems to ensure effective identification and capture of tax data elements that were identified during the gap analysis.

Results

The importance of making sure all information and financial systems being considered and deployed are sensitive to the needs of Tax cannot be overemphasized. Rapid and efficient access to data can save valuable time and improve the accuracy and quality of analysis for planning and compliance purposes. Getting Tax involved early in ERP planning, documenting and implementing data requirements up front will minimize any frustrating dependency on IT/MIS resources to provide data when critically needed. Helping to define the information and access requirements puts the data access and delivery burden where it belongs – on the IT/MIS function. Additionally, by flowcharting processes and identifying all relevant data stores, Tax can quickly see overlaps, duplication of effort, and time consuming manual work that can be easily automated with today's technology. This is not a one-time project; Tax's needs should be updated and revisited as systems are changed, added, or taken off-line.

Step 2: Revisit the Data Collection Process

Leading tax departments are constantly looking for ways to shave a little more process time and inefficiency off their recurring data gathering rituals. In most real world tax functions, not all data can be collected directly from source systems and tax-sensitized in an automated and streamlined manner.

Recently, hard copy data collection packages have been replaced by electronic spreadsheets such as Excel, and e-mail systems. In a recent survey of tax professionals[2] more than 95 percent of the respondents identified Microsoft Excel as their primary data collection tool. However, with the proliferation of Web-based technologies, tools, and improvement to Web security, the Internet and Web-based data collection have emerged as the practical solutions to remote data gathering. Furthermore, the ease of configuring and maintaining third party databases (such as Oracle and SQL Server) enables the tax department to implement new changes much more efficiently. Web-based tools can be used to gather, consolidate, manage, and easily integrate data into source and tax compliance systems. Some key benefits of using such techniques include:

- **Real time review and tracking** of information as it is updated in the field.
- **Immediate online access** to customized data packages by assigned individuals in the field. This can include separate packages based on entity types (foreign vs. domestic, division vs. legal entity, etc.) and/or based on entity business lines (insurance, financial, manufacturing, etc.).
- **Improved management** of the collection process – ability to review the collection progress, status updates, and to perform data validations prior to submissions.
- **Higher quality data** requested and received. By providing pre-populated information as part of an intranet e-package, Tax can facilitate and accelerate the data requests from the field at minimal cost to corporate headquarters. Effective techniques include:
    - *Prior year balances appearing as beginning balances* (less manual input),

[2] Corporate Tax Automation – Current Trends in Technology; 2002 Membership Survey by the Association for Computers & Taxation.

  - *General Ledger information pre-loaded* (populating reconciliation totals and minimizing follow up)

- **Seamless integration** of data into a repository or source systems for various compliance and planning activities.
- **Rapid deployment** of tools and process change.
- **Minimize end-user training** using Web based collaboration and e-learning tools.

Whether or not you are considering a change in the data collection process, you should create a map of the current data flow. Accurate documentation of the process can minimize the turmoil from staff turnover or a transfer of knowledge out of the department. Documenting the current process identifies key inputs (data required from other systems or individuals), clearly illustrates manual and automated processes, and enables users to easily identify key bottlenecks that may not be readily apparent in the current process.

Action Steps

1. **Create a blueprint** of the current process
    a. *Review your current collection packages*
    b. *Identify all source systems* where data is provided
    c. *Identify old, duplicate, or unnecessary inputs*
    d. *Look for collection areas where the process is different, but shouldn't be*
    e. *Highlight process dependencies* that may inhibit timeliness of data
    f. *Isolate areas* in the process causing the greatest pain and costs
2. **Assess current technology** and **evaluate Web-based collection tools**:
    a. *Determine security and assignment requirement*
    b. *Evaluate ability to customize* and meet unique business requirements
    c. *Consider viability of consolidating data*
    d. *Determine cost versus benefit*
    e. *Consider ease-of-use and level of training* required
    f. *Estimate deployment time and service fees*
3. **Assess change management** required

a. *Determine the number of staff affected* and the degree of impact
b. Assess the ability of the department and personnel to absorb the changes

Results

Ultimately, by creating a map of the current data flow, areas of significant pain (e.g., data never ties out to the trial balance) can be identified. The cost to correct the "pain" in the process can be estimated, budgeted, and tackled. Further, by using automation tools and rethinking procedures and practices, the data collection process can be standardized across all companies and the tax function can achieve greater control during the collection process. Improved accuracy, time to collect, and elimination of transcription errors are significant benefits to be gained from scrutinizing and automating the collection process. This thoughtful review and implementation of improved processes and tools can eliminate trouble spots and can positively affect strategic tax planning by providing management with critical information, even at a moment's notice.

Step 3: Implement a Tax Data Repository

As mentioned earlier, Tax is one of the largest users of information within an enterprise. It consumes a significant amount of historical, current, and forecasted financial information to perform both its compliance and planning obligations for the organization.

The ability to access, analyze, and process enterprise information for tax purposes is greatly complicated by the number of data sources, the level of detail generally presented by financial systems, and the difficulty and/or lack of access. To resolve these difficulties, Tax should identify the necessary information from a variety of sources to integrate into a centralized repository for structured (e.g., financial data), audit-ready, and forecasted data.

The terms often used to describe this repository differ based on the amount of detail desired or required:

- A tax data repository designed to capture more voluminous data at a transaction level to support record retention requirements is generally referred to as a Tax Data Warehouse
- A repository designed to capture focused data to support a specific compliance or planning process at a more summarized level is commonly called a Tax Data Mart.

Tax leadership will need to agree on and establish the level of detail required for the tax data repository for its enterprise. The level of detail needed can vary greatly based on the business objectives and cost/benefit of tracking data at the transaction level.

Benefits of a Successful Data Repository

The benefits of implementing a tax data repository mirror many of the overall goals necessary to become a strategic partner of the enterprise:

- **Accurate and timely information** to facilitate the decision process
- **Control and ownership** of tax data

- **Rapid response** to planning opportunities
- **Greater productivity** from a streamlined process
- **Less dependency and drain on other resources** to gather and provide data

There are other considerations when evaluating the needs and requirements of an effective tax data repository. Any data repository project under evaluation should:

- **Easily integrate** with the department's tax compliance and reporting systems to provide source data and receive calculated results.
- **Support compliance and planning activities** for returns, modeling, custom or standard reporting
- **Web-enabled** to provide global anytime access
- **Support the development of audit-ready workpaper**s
- **Include near-time data** delivered through an efficient data extraction, transformation, and load process from the source financial and non-financial systems or other data repositories.

Action Steps:

1. **Define a clear business mission** for the Tax Data Repository and understand *how* the data will be used to support the selected tax processes before any time is spent capturing business requirements or performing system design.
2. **Bring only selective source data** into the repository environment. All data in a repository should have an explicit purpose and objective – and not be simply part of a massive data dump.
3. **Design it to meet usage requirements** and deploy the appropriate set of tools (e.g., reporting and analysis)
4. **Treat the Tax Data Repository as a real system** by focusing on issues such as data throughput, end-user requirements, and backup and retrieval capability.
5. **Adhere to the appropriate architectural philosophy** and deliver the system in sensible chunks while evolving the system over time.

Results

A properly implemented tax data repository will provide the corporate tax function with the right level of tax-sensitized detail to support all the primary activities, including provision, compliance, audit, and planning. This benefit alone will save time, resources, and improve productivity by putting the data at the fingertips of the tax professional. Once implemented, the dependency and drain on Tax and IT/MIS resources to gather, transform, and organize the data for tax purposes can be greatly reduced. The resource and maintenance burden to support a single repository is significantly less than supporting and accessing 20 or 30 different data stores (e.g., directories of individually maintained spreadsheets). The potential dollars lost due to incorrect, lost, or missing information can be eliminated. Additionally, implementing a repository will reduce the volume of and reliance on paper. Lastly, developing a central data collection and storage point provides management with a significant data mining and planning tool. Removing the potential prohibitive cost to locate and produce information for strategic planning results in more time and tools for high-value planning, and less time required for compliance.

Step 4: Leverage New Technologies To Improve the Compliance Process

Technology keeps changing, and thus processes must evolve to leverage technological advances. In the past, to share and consolidate tax information for compliance purposes many larger enterprises with multiple tax departments at remote locations used everything from sending hardcopy tax packages, data files, and electronic worksheets to accessing compliance systems via Wide Area Networks (WANs).

Today, remote tax departments and locations can use a variety of Web technologies and software to securely access compliance and planning software, collaborate on projects, and instantly create and share knowledge with minimal effort or risk. Although most tax departments have automated much of their compliance processes, Tax can further improve the compliance process using Web technologies and applications. It is also important to review software vendors and their capabilities on a regular basis. Software vendors make changes to their applications continuously based on technology platforms and industry needs.

Tax leadership should consider the following:

- **Web-based compliance products**. More and more companies are mandating the use of Web-based solutions over the more traditional applications, which need to be installed on individual desktops or Local Area Networks (LANs). There are major benefits to using Web-based compliance products:
    - *Rapid deployment of new applications.* An application can be installed quickly at one central location and accessed globally.
    - *Access anytime and anywhere.* As long as the laptop or remote location has access to the company's intranet, work can continue.
    - *Easy to maintain and provide system updates.* Simply update the environment hosting the application, and everyone, everywhere has the latest and greatest changes. Due to the nature and frequency of tax law changes and updates, this becomes a critical advantage.

  - *Lower Cost of Ownership*. Deploying a solution from a single location can greatly reduce the overall cost of ownership. Additionally, the cost of hardware can be leveraged across a wide user base through use of thin client technology.

- **Single solution for provision reporting**. More than 80 percent of the tax departments are responsible for the tax provision, with the majority using Excel spreadsheets to manage the process. Integrating the two processes into one application provides the following key benefits:
  - *Significantly reduced system maintenance* to handle changes in the entity structures, tax accounts, adjustments, tax calculations
  - *Substantially reduced or eliminated manual collection* and manipulation of data
  - *Ability to leverage provision data more efficiently* for interim and annual compliance needs
  - *Reduced learning process and enhanced overall efficiencies* through utilizing standardized processes and systems
  - *Reduced risk of inaccurate information* due to manual intervention and customization

- **Web-based tax administration tools**. Because of the sheer volume of tasks and deadlines, project and resource management solutions are critical for tax departments to ensure that tax returns and reports are timely filed and tax payments are effectively managed. A few tax compliance software vendors integrate a variety of project management functions as a component of the software and are able to deliver these applications based on Web technologies. Additionally, integrated Web applications are now available to assist with many tax calendar and compliance scheduling activities. Some benefits include the ability to:
  - *Access from anywhere, anytime*
  - *Improved management* of department activities
  - *Reduced manual intervention*

- *Enhanced delegation and tracking* of responsibilities

Action Steps

1. **Create a Tax Technology Committee** to meet regularly to discuss technology issues, proposed projects, review processes and procedures, and needed investments. IT/MIS should be involved, but Tax must be responsible for the team, processes, and decisions.
2. **Review existing technologies** and perform detailed gap analysis of current and future needs. Examine all off-line calculations (i.e., spreadsheets, etc.) and determine if these calculations can be automated into the existing compliance software. Include an analysis of any tax tickler or calendar software, modeling programs or spreadsheets, etc., especially homegrown applications. Homegrown solutions pose the greater risk in staff-turnover situations. Determine whether the department is under-utilizing or failing to fully implement existing software and hardware.
3. **Integrate various tax systems and databases** (e.g., the tax provision) to maximize information re-use and knowledge sharing.
4. **Evaluate potential Web applications**, especially in more decentralized or compartmentalized tax functions. Web applications are ideal for these purposes – no matter how large or small the department.
5. **Make the technology support the process,** and not rely on the process to support the technology.

Results

In recent years, tax departments have achieved significant productivity gains through the use of technology. A Tax Technology Committee can greatly enhance the sharing of knowledge among key personnel in the department, while providing a pool of ideas, perspectives, and a forum for problem solving and issue resolution. When technology and software are used to support the people, and enhance and facilitate the process, a tax department can achieve much more in less time, with greater accuracy and efficiency, and deliver a greater contribution to the bottom line.

Step 5: Capture, Manage, and Share Knowledge

Significant intellectual capital is available within the tax function. Tax leadership must protect the enterprise and itself against loss of knowledge by deploying systems and processes to capture, document, retain, and organize tax department knowledge.

This knowledge comes in three forms:

- **Structured knowledge** is data sitting in financial systems databases, tax repositories, and other databases.
- **Unstructured knowledge** is in the form of paper documents, memoranda, and research materials.
- **Tacit knowledge** is gained through experience and expertise, and is more personal in nature. The more tacit the knowledge is, the greater the risk of loss since it is rarely captured or preserved outside a person's mind.

The primary objective of knowledge management for tax leadership should be to:

- **Capture and categorize all forms of information**, both structured and unstructured
- **Convert tacit knowledge into explicit knowledge** to be effectively used by the entire organization.

Today, a significant task of any tax function is to integrate software and technology used for compliance, planning, record retention, document management, and project collaboration. There is currently no end-to-end solution to address all the specific needs of a corporate tax function. Thus these needs are met mostly by weaving together a variety of off-the-shelf best-of-breed technologies, custom-built solutions, and a multitude of data legacy systems and electronic worksheets. Although these technologies are disconnected, tax leadership can consider a number of technologies and action steps to improve overall department processes.

Action Steps:

1. **Use Web-based document management and collaboration tools**. Electronic document management allows for quicker access and re-use of information on an anytime basis. Other advantages include providing:
    - *An audit-ready paperless environment* by capturing all tax return workpapers, memoranda, research, tax forms and schedules in one organized location
    - *Better communications*, including policies and procedures
    - *Enhanced collaboration* on projects and related documents in distributed environments
2. **Centralize document retention**, management, and dissemination. Emails, voice recording, scanned documents, and facsimiles are all candidates for this process.
3. **Create an environment for effective collaboration**. Collaboration needs to be effectively managed both internally in the tax function, externally, and within the enterprise. For example, it should be possible in real time and anytime to quickly call an internal team together to review effective planning strategies with the ability to review documents and data.
4. **Create an Executive Dashboard or Web portal** to share and disseminate knowledge within and outside the tax function such as effective tax rates, cashflow analysis, tax savings ideas and results, data collection needs, and more.
5. **Build a program of regularly scheduled tax update meetings**, Web conferences, seminars, and strategic tax planning sessions with management and outside experts. The results of these programs and meetings must be documented and shared.

Results

Knowledge management is more than just implementing a few new technologies to capture and share information. It requires a shift in cultural thinking and must be embraced enthusiastically by all, including top management. Tax professionals will be more knowledgeable about department, company, and industry issues. By creating a knowledge management program, Tax can expand its access to qualified resources without adding headcount. Capturing and sharing knowledge more thoroughly means disruptions to tax department activities can be minimized during temporary personnel shortages. Additionally, tax department personnel are enriched professionally and will achieve greater job satisfaction in a climate of knowledge sharing. Job satisfaction generally translates to greater productivity, less turnover, less disruption, less training cost, and less risk.

Step 6: Review Record Retention Policies and Procedures

The tax function has a unique information requirement: It needs access to historical information to efficiently and effectively support the request for information from a taxing authority upon audit review. For federal income tax purposes (Revenue Procedure 98-25), taxpayers must maintain sufficient transaction level detail to support and verify entries on the tax return and to determine the correct tax liability. The detail information:

- **Must reconcile** to the books and the tax return
- **Must identify the information and the source documents** underlying the machine sensible records for IRS use
- **Must be made available to the IRS** upon request and must be capable of being processed

There are many sources of financial and non-financial data within an organization. It is common for the tax function to 1) be unaware of them, 2) not understand what tax processes they support, and 3) not know who to contact regarding access to the information.

When a request is made for specific information, the tax function, based on their awareness of the source systems, their location, and contacts, can make a reasonable request to retrieve the necessary data file or physical documents to be provided to the auditor in an efficient manner.

Action Steps:

1. **Develop an inventory** of source systems and their supporting processes, which will assure that all source systems are effectively identified and the related data can be efficiently accessed when required.
2. **Identify all data files** required to be retained and perform a mock audit of the data files to ensure that they can be retrieved and that they reconcile to the appropriate financial data.

3. **Assess the data** received and determine whether there are any gaps and determine an approach to resolve them.
4. **Develop a process and procedures guide** to assist with current and future record retention requirements and ensure that the data is stored in an effective repository for later access.

Results

By implementing the above action steps, the extremely time consuming tasks of retrieving, responding, analyzing, and documenting information requests by taxing authorities, in both large and small enterprises can be streamlined further. Tax departments can reap great benefits by thoughtful documentation of the process and by identifying areas for automation. Although many companies have addressed most record retention issues, streamlining this internal process with technology can eliminate any remaining issues.

Step 7: Measure It and Manage It: Benchmarking

If you measure it, you can manage it, and so it is imperative to benchmark the tax department's productivity and overall impact on the organization as an initial step in developing an overall strategic and tactical plan. Once benchmarks are in place, it is equally important to repeat the benchmarking process at regular intervals to monitor progress toward meeting the goals and objectives established as part of the larger plan. There are several different approaches to consider when benchmarking:

- Measuring a very specific departmental activity (for example, compliance)
- Focusing on a specific factor or issue (for example, cash flow)

The truth is that tax executives use a combination of benchmarks and factors to measure the department performance. In a recent survey of Fortune 1000 tax directors, 36 percent of those surveyed indicated the "effective tax rate is the single most important measurement or metric used to evaluate the performance of the tax department, while 11 percent indicated cash tax savings was the most important factor."[3] Measurements commonly used to benchmark performance are:

  - Effective Tax Rate
  - Cash Tax Savings
  - Tax Planning Effectiveness
  - Customer Satisfaction
  - Accuracy
  - Performance Against Budget
  - Productivity Measures
  - Employee Satisfaction
  - Cycle Times
  - Benchmarking versus Peers/Competitors

[3] A Study of Fortune 1000 Tax Directors, prepared for KPMG by Clark, Martire & Bartolomeo, Inc., December 2000, and posted to Bureau of National Affairs (BNA) Website.

Tax leadership can use internal or external data when benchmarking against industry or company-specific best practices. However, it is not a good idea to rely solely on data from either source. Rather, tax leadership should evaluate the merits of both types of data in the context of its own business objectives (i.e., minimizing ETR), organizational strengths and weaknesses, and practical uses and value to the department.

Examples of external data sources for benchmarking are:

- Industry best practices
    - www.mapi.net (Manufacturers Alliance/MAPI)
    - www.cfo.com (CFO.com/Magazine)
- Information provided by CPA and consulting firms
- Data compiled by other specialty tax interest groups such as Tax Executives Institute, Council on State Taxation, Association of Computers & Taxation, or local tax groups
    - www.statetax.org (Council On State Taxation)
    - www.taxact.org (Association for Computers & Taxation)
    - www.tei.org (Tax Executives Institute)

External resources can be extremely valuable in providing abundant insights, but the most important thing to remember is that these measurements and best practice concepts should be relevant to your company and not based solely on another company, industry, or previous experience. To be truly effective, tax leadership must develop unique and customized processes and measurements designed according to the needs of your department and organization.

Potential benefits derived from a continuous process of benchmarking and comparisons are significant and include:

- **Providing valuable information** regarding the benefits achieved as a result of the project and its impact on ROI

- **Providing support for continuous process and organizational change** within the tax department, along with empirical data to support needed technology investments
- **Providing valuable insight** into how your tax department matches up with other tax departments in the industry or based on size
- **Increasing morale** among tax department professionals since most want to be viewed as value-added resources within the organization

Action Steps:

1. **Determine approach** to assessing the tax department processes, technologies, and people. A comprehensive assessment is more valuable since much of the information and resources are shared among various functions and/or processes.
2. **Conduct facilitated working sessions** and individual interviews with people from all levels of the tax department to determine current state. Include both suppliers (field accountants and operations) and users (CFO, Treasurer, Controllers) of tax department information.
3. **Identify and document areas of strength** (e.g. highly experienced people) and weaknesses (e.g. experienced people's knowledge not effectively captured) and develop and prioritize recommendations for improvement. Capture crucial benchmarking information based on the current state of the process(es) under consideration.
4. **Develop detailed list of recommendations** and prioritize based on 1) cost/benefit to the organization, 2) resource commitments, and/or 3) timing and length of project.
5. **Begin design of new processes** by developing process maps and/or narratives of the current state of the focused areas for improvement. Then develop process maps and/or narratives of the proposed process based on requirements.
6. **Identify and select appropriate technology** vendors and related products and modules, if necessary.
7. **Design, develop and implement** process improvements. Include key "change champions" on the initial deployment team to push changes throughout the

organization. Successful change management must start at the top. Make sure all levels of tax department are included in training.

8. **Capture important benchmarking** information based on the new process and communicate delivered benefits of project. Once completed, continuous improvements need to be captured and implemented

Results

In the 2002 ACT Survey[4], 81 percent of the respondents indicated they formally measure efficiency and productivity. Most respondents attributed productivity gains to technology, improvements to their processes, and lower turnover in the department. A reasonable case can be made that better technology and processes directly and positively affected staff turnover rates, which in turn improved productivity and efficiency. Tracking this kind of information is critical for management and can be used to support additional investments in technology and software, to investigate and pursue further process improvements, and implement potential changes in HR policies. Gathering and analyzing this kind of data can only be achieved through effective benchmarking and performance measurements.

[4] Corporate Tax Automation – Current Trends in Technology; 2002 Membership Survey by the Association for Computers & Taxation.

Conclusion

Tax departments perform a vital and difficult role, and are not simply administrative functions executing repetitive government-mandated work. Tax can play a major strategic role in the organization by providing timely information for complex business transactions and by helping to minimize any significant tax impact on the financial statements. Like many other functions within an organization, tax departments are being asked to do more with less. Thus, tax departments must continuously hunt for better and more efficient ways to accomplish the same number of tasks, in less time, and with greater accuracy.

State of the art tax departments learn to eliminate or reduce dependencies on systems and processes that erode resources. They master a new mantra: “Touch data only once,” and they focus on technologies that yield the greatest returns and efficiencies. Continuously improving tax departments are now able to cost-justify investments in technology and avoid the information bottlenecks, processes, and issues that erode most technology dollars. Successful tax leadership is getting actively involved early in ERP projects, transaction planning, and thus helping to drive down overall effective tax rates.

Continue investing in and evaluating new technologies, track and document metrics you believe are critical, change the culture from knowledge hording to knowledge sharing, implement systems that integrate and consolidate tasks.

By understanding and implementing the action steps and concepts in this white paper, tax departments can step out of the backrooms and into the boardrooms as strategic partners.