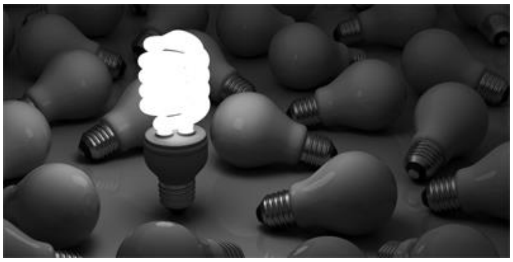
Valuable tax functions start here: 5 tools for you

By Brian Amann, CPA

Corporate tax professionals are facing a pressing problem. Many contemporaries fail to see the value of the tax function. Instead they see the tax function as additional overhead to the organization's bottom line. In a business environment where generating value is expected, tax functions that fail to achieve this benchmark in the eyes of their managers may be putting the tax function at risk of losing resources and prestige within the organization.

A function that manages tax obligations is common to all companies. This work might be performed by an internal tax department, an outsourced tax solution, or some combination of both. As tax issues become more complex, and tax bills larger, tax management is becoming increasingly relevant to business strategy.

Tax functions are primarily understood for their role in performing backroom compliance and reporting tasks. Tax executives are rarely involved in supporting major operational and transactional decisions for the organization. Few tax executives are regular attendees at the boardroom table, and even fewer consistently provide input and advice that influences strategy and risk management decisions.



An efficient tax function drives greater value to your organization

With corporation's intent on squeezing value from every last dollar expensed, leaks in the value chain of the tax function must be plugged. Regardless of size, integrated tax functions understood across the business, and focused on opportunities that add value congruent with the company's definition, generate the best results. Based on industry experience and leading practices, there are five primary disciplines where today's tax functions can generate greater value.

- Leadership
- Alignment
- Scalability
- Efficiency
- Collaboration

5- Operational Disciplines

Leadership

Now that corporate tax needs are broad and complex, active tax leadership and managerial skills are a critical component of value generation. Business leaders determine the success of a company. It is up to tax leadership to manage tax affairs in ways that maximize the function's contribution to the overall results of the company. Strong leadership is also required to ensure tax is taken seriously throughout the organization. Similar to other business functions, tax leadership today should set tax objectives and measure performance relative to metrics. By applying metrics to the tax function, value can be more easily recognized.

Strong leadership in the tax function correlates closely with added value. A great tax leader creates a structure with people, processes, technology and open communication channels that broadly support business operations and strategic goals. Tax executives who also assume a role in business decision-making report more effective tax management and closer collaboration across a broad range of functional areas.

Tax executives must understand the business objectives and growth strategies of the company to provide relevant tax information to leadership and line-management. For example, if the business development team is negotiating a contract, the tax team must be able to explain tax implications arising from the contract.

Symptoms of a failing tax function

- Lack of individual or department goals
- Multiple manual touches of data
- High turnover
- Higher overtime
- Significant return to provision differences
- Difficult relationship with outside auditors
- Lack of collaboration with management, finance and legal groups
- Returns regularly filed at or close to the statutory deadline
- Restatement of financial statements due to tax function deficiency or material weaknesses
- Lack of alignment to business goals
- Inability to provide timely tax information upon request
- Lengthy or difficult closing process related to tax
- Low morale

Tax leaders also achieve higher levels of performance when a strategy for hiring and retaining talent, and communicating clear expectations to staff, is in place. A strong leader helps keep key individuals motivated, challenged and focused on items having the most impact on a consolidated level.

Alignment

Tax function isolation occurs when the priorities of the tax function are not aligned with the business strategy and goals of the organization. When the tax function is out of sync with the larger organization, tax resources tend to be skewed toward traditional roles of reporting and compliance, and opportunities to add value in critical enterprise areas become less evident.

Tax function responsibilities should align to the objectives of the business units and the goals of the organization to keep resources focused on strategically relevant tasks, such as boosting income or liquidity. The tax function can proactively plan to minimize effective tax rates and payments in ways that contribute to strategic outcomes, and identify opportunities leading to tax benefits.

How such efforts are prioritized is based on the alignment of related tasks to corporate objectives. For example, from a financial statement perspective, a strategic objective to lower financial risk can be achieved through efforts to avoid financial restatements, prevent undetected tax liabilities and protect the reputation of the company.

Scalability

Tax resources must be flexible and scalable enough to support a dynamic tax function. When resources are fixed, tax personnel may be slow to reprioritize relevant tasks and take advantage of emerging opportunities for tax planning.

Scalability is the state of readiness and ability of an organization to adjust to changes in risk and strategy. Tax functions that are scalable more easily absorb the implications of, for example, changes in tax rules or an acquisition.

A variety of tax functions are scalable. Scalable tax technology can be integrated with other enterprise systems for broad access and sharing of information across applications. Scalable staffing models adjust to growth in the organization, both in geographical terms and complexity.

Scalability ensures expertise is in place and available to manage tax issues when organizations open an office in new tax jurisdictions or management requires additional mid-year disclosures of its worldwide tax position.

In addition, changes in the way of doing business – such as new supply chains or the sales expansion of a new product line – may require additional tax function capability and skills to go beyond those traditionally required. Tax executives can adjust to short-term spikes in tax function demand by identifying additional internal resources, reliable sources for staff augmentation, and a go-to outsource partner in advance of expected change.

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Efficiency

Tax functions have traditionally been viewed as cost centers. This perspective has done the tax function a disservice by making businesses more tolerant of inefficiencies.

Tax functions need to improve efficiencies in order to add value. The more efficient the tax function, the more staff can be freed up to spend time providing value-added advice and support to decision makers.

Broad efficiencies are gained when:

- Documented, standardized and repeatable tax processes lower risk and costs;
- Leading technology supports such processes;
- Accessible data and talent lowers exposure; and,
- Corporate risk management efforts are considered when establishing tax objectives.

Process improvements and technology upgrades can stem much of the inefficiency caused by poor resource allocation, risk management practices and workload distribution. For example, process improvements to data streams resulting in fewer manual touches may improve information quality and lower the risk of errors or fraud. Technology upgrades making data and information timely available and accessible for tax purposes further improve risk management efforts and overall efficiency.

Collaboration

Taxes are an integral component of many areas of business. Yet too often, tax is isolated from the rest of the finance function and business line management. As a result, tax consequences may not be evaluated and addressed before a transaction occurs. Collaborating with the tax function can lower tax risk, support enterprise decisions and increase tax savings.

Tax professionals should "collaborate" with other departments and senior leadership about tax concerns, opportunities and strategies. In a close working relationship, corporate tax professionals that understand the business are better able to translate key tax concepts to both finance and non-finance business functions.

Tax professionals should identify and act on opportunities to collaborate across the organization, and be prepared to communicate at all levels of the company. At the boardroom level, tax executives privy to a planned exit strategy or pending transactions, for example, are best able to assess and manage tax risk in support of critical decisions. Tax executives that stay in front of changes in the business can keep decision-makers at the business unit level informed and provide strategies for various transactions.

This type of collaborative working environment raises the profile of tax activities. Tax executives that share information, provide updates on the company's tax position and collaborate with leadership, finance, legal, compliance and business process owners make tax issues more broadly accessible and understood at all levels of the company.

Find out what your tax function is worth~ Take our survey

1. Who does the highest ranking tax professional in your company report to?

- ❑ President
- ❑ Controller
- ❑ CFO
- ❑ VP of finance
- ❑ Other (please specify____________)

2. Does the tax function have a clear strategy for recruiting, developing and retaining talent?

- ❑ Organization has a formalized policy around recruitment and staff development
- ❑ Organization does not have a formalized policy around recruitment and staff development
- ❑ Other (please specify____________)

3. What are tax department bonuses based on?

- ❑ Pre-tax organization-wide metrics
- ❑ Pre-tax department metrics
- ❑ Pre-tax individual metrics
- ❑ Post-tax organization-wide metrics
- ❑ Post-tax department metrics
- ❑ Post-tax individual metrics
- ❑ Other (please specify)

4. How closely tied are tax function objectives to the strategic goals and risk tolerances of the organization?

- ❑ One-for-one tied to strategic objectives of the organization
- ❑ Partially tied to strategic objectives of the organization
- ❑ Not tied to the strategic objectives of the organization
- ❑ Don't know

5. How often does the tax function adjust goals and objectives to business development changes, such as an acquisition or entry into a new territory?

- ❑ Real-time adjustments
- ❑ Quarterly adjustments
- ❑ Annual adjustments
- ❑ Don't know

6. What percentage of tax department efforts are performed by each of the following individuals? (for example, 0, 1-25%, 26-50%, 51-75%, 75-100%, Don't know)

____________Full-time staff
____________Part-time or seasonal staff
____________Loan staff
____________Outsourced contractors

7. How integrated is tax functionality to the technology platform for extracting, manipulating and leveraging data between related tasks, such as tax provisions and extension or returns?

- ❑ Fully integrated
- ❑ Partially integrated
- ❑ Manual retrieval only
- ❑ Don't know

8. What is the level of overtime incurred annually by members of the tax department staff?

- ❑ Less than 14 hours overtime or 5% of total annual hours
- ❑ Between 15 and 28 hours overtime or 6 – 10% of total annual hours
- ❑ More than 28 hours overtime or over 10% of total annual hours

9. How well is the tax function strategy communicated across the organization?

- ❑ Business units are award of tax strategy
- ❑ Senior management is aware of tax strategy
- ❑ Board of directors are aware of tax strategy
- ❑ Shareholders are aware of tax strategy
- ❑ N/A

10. How often do tax function executives meet with key corporate or business unit decision makers, including regular meetings to align strategic objectives of the company with tax objectives?

- ❑ At least quarterly
- ❑ At least semi-annually
- ❑ At least annually
- ❑ Less frequently than annually
- ❑ No at all

Your name____________________________

Company Name____________________________

Preferred mode of contact

❑ Email__________________________

❑ Phone (______)_________________

Email completed 2-page survey to Kristine Newkirk at knewkirk@taxops.com.

We look forward to talking with you shortly about ways you can add significant value to your organization. If you need immediate assistance, please call 720.227.0070. Go to www.taxops.com for more information.

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Contact us

Brian Amann
Founding Partner
720.227.0062
bamann@taxops.com

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