

# STATE INCOME TAX MANAGEMENT

*“Liquid Engines’ software can revolutionize tax management and planning processes by enabling tax professionals to analyze and optimize their tax and business structures in an interactive, multi-dimensional, and transparent manner that renders traditional spreadsheet analysis obsolete.”*

**Walter Hellerstein, Francis Shackelford Professor of Taxation Law,  
University of Georgia School of Law**

## Highlights

Designed for real-time tax planning, audit analysis, and tax forecasting

Centralized, scalable tax database

Unlimited multi-year, multi-jurisdiction “what if” modeling; supports iterative and comparative modeling

Tax optimizers for entity combine, entity split, transfer pricing, operations placement, and apportionment method

Menu-driven modeling wizards

Division-level analysis across functions, products, and geographies

Built-in logic for sales throwback and apportionment factor modeling

Unitary, combined, and consolidated group analysis

Flow-through entity analysis

NOL and credit tracking

Multi-year tax rules database with support for user-defined positions

Centralized documentation

Graphical organization charts

Data import from compliance, ERP, legal, proprietary systems, and spreadsheets

Robust reporting system with Excel integration and pivot table capability

## Liquid Engines STx

Ever-changing state legislation, increased scrutiny, budget constraints, and ongoing pressure to reduce tax liability are forcing corporate tax departments to reevaluate their current tax management practices. Managing and forecasting state taxes in today’s business climate requires rapid, comprehensive analysis of complex, multi-variant business problems. In addition, the decision process must be well documented and transparent. While spreadsheets are suitable for evaluating small problems, they fall well short of supporting a decision-making process that is rapid, error-free, and auditable. Liquid Engines addresses these issues with advanced application software that enables state tax professionals to positively impact the company’s “bottom line” by reaching a level of efficiency and effectiveness that was once impossible.

Unmatched in the industry, Liquid Engines STx is specifically designed for real-time, multi-year, multi-state tax planning, audit analysis, and tax forecasting. Feature-rich and offering unlimited “what if” analysis capabilities, STx enables state tax professionals to advance beyond traditional spreadsheet modeling and analysis to a method that is more efficient, accurate, and transparent. Armed with STx, state tax professionals no longer have to spend valuable time gathering data and maintaining complicated spreadsheets. Instead, they benefit from rapid access to relevant tax information, increased control of their projects, simplified record-keeping procedures, and greater confidence in their decisions.

Completely web-based and scalable to support complex corporate tax structures, STx provides a single, integrated view of state tax information, enabling corporate tax professionals to quickly identify an optimized tax profile and effectively forecast and manage the tax impact of changes in business forecasts, business events, and regulatory environment. With STx, corporate tax departments are now empowered to accurately quantify the state tax effect of:

- The business forecast and proposed business operational changes, such as mergers, acquisitions, and divestitures
- Legal entity rationalization and structure simplification
- Proposed audit settlements, including the state tax effect of federal audit changes
- Changes in legislation, including decoupling trends and changes in filing requirements
- Net operating loss (NOL) utilization, both for filing purposes and provision
- Diverse transfer-pricing strategies, including the effect of anti-PIC legislation

# Liquid Engines STx—Empowering State Tax Professionals

Liquid Engines STx enables state tax professionals to focus on value-added analysis and decision making instead of spending their valuable time on data gathering and spreadsheet maintenance. Armed with STx, companies benefit from an optimized state tax profile, reduced tax risk, and a tax operation that is more efficient and effective.

## STx supports accurate and comprehensive multi-year/multi-state modeling of:

- **Entity structure**—Model structure changes and evaluate an unlimited number of merge and split combinations.
- **Nexus**—Assess the tax impact of nexus changes, automatically accounting for the effect on destination/throwback sales, including Joyce/Finnegan in unitary states.
- **Flow-through entities**—Analyze the state-by-state impact of changes to an entity’s check-the-box election.
- **Unitary, combined, and consolidated**—Measure the impact of filing unitary, combined, or consolidated in multiple states.
- **Apportionment**—Model factor treatments, the impact of changes in apportionment legislation, and negotiated positions.
- **Divisions spanning functions, products, and geographies**—Track and manipulate data at the division level, while rolling up and calculating liability at the legal-entity or group level.
- **Intercompany transactions and transfer pricing**—Optimize transfer prices while automatically accounting for intercompany eliminations.
- **Multi-year NOL and credits**—Track and automatically apply NOLs and credits during “what if” modeling to achieve an accurate multi-year view.
- **Operations placement**—Identify the optimal domicile and legal entity structure for a new operation.

## Increase Efficiency and Accuracy with Built-in Intelligence

Right out of the box, Liquid Engines STx provides all the built-in tax intelligence, calculations, and tax rule information required to determine the multi-year tax impact of various tax positions, audit settlements, business forecasts, or changes in the business and the regulatory environment. Users can take advantage of STx’s built-in modeling tools and menu-driven wizards or easily perform ad hoc, iterative “what if” analysis by simply modifying existing scenarios. In addition, STx’s parameter-driven approach makes it easy to modify the embedded tax rules or create user-defined rules to apply negotiated tax positions or model pending legislation. The result is that users save time, increase accuracy, and benefit from increased self-sufficiency and control.

## Do the Impossible with Breakthrough Tax Optimizers

Liquid Engines’ unparalleled optimization technology merges tax intelligence with advanced algorithms, enabling tax professionals to do what was previously impossible—efficiently evaluate thousands of possible combinations with unprecedented thoroughness and accuracy. Combining sophisticated mathematical and economic algorithms with tax rules, specific user constraints, and corporate data from the repository, the optimizers quickly calculate the tax impact of the potential alternatives and present the best options back to the user.

Offering a wizard-driven interface, the State Tax Optimizers are easy to use and enable users to apply constraints reflecting current business facts to ensure that the optimizers identify only the options that would be considered for implementation. With this level of insight and control, it is finally possible to identify a tax profile that minimizes tax liability and adheres to business constraints to reduce tax risk.

- **Entity Structure Optimizers**—Evaluate merging or splitting legal entities to minimize the corporation’s overall tax liability.
- **Apportionment Method Optimizer**—Considers the rules governing apportionment to determine the best method of apportionment.
- **Transfer Pricing Optimizer**—Identifies the set of transfer prices that minimizes tax liability.
- **Operations Placement Optimizer**—Determines, from a tax perspective, the best location and legal entity structure for a new operation, such as a factory, a distribution center, or a warehouse.

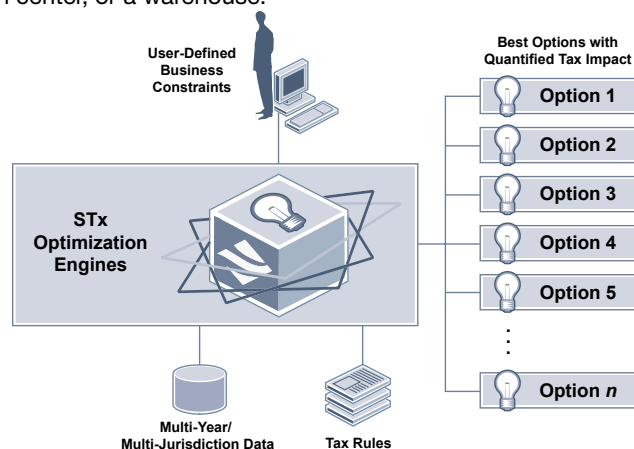


Figure 1: The State Tax Optimizers identify options that can minimize the company’s overall state tax liability while considering relevant state tax legislation and the company’s business constraints.

## Enhance Accessibility. Ensure Transparency.

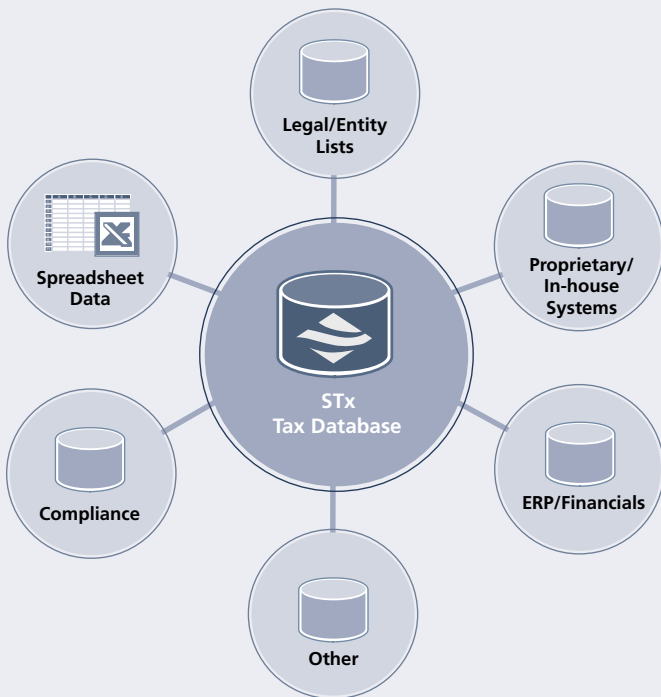


Figure 2: STx's legal entity-centric, multi-year data repository is completely configurable and supports the import of structured and unstructured data from an unlimited number of sources.

Liquid Engines STx includes a comprehensive, configurable data repository that enables corporate tax departments to collect, standardize, and centralize critical data associated with state and local taxation. By integrating relevant data, STx eliminates issues commonly associated with independent data silos, disparate tax systems, and individual spreadsheets. With STx, users benefit from embedded tax calculations, rapid access to data, and enhanced record keeping for audit defense and to comply with Sarbanes-Oxley documentation requirements. The data repository includes:

- Multi-year legal entity structure
- Multi-year entity- or division-level income and apportionment factor information
- Multi-year group membership and filing elections
- Group and entity-level eliminations
- Tax rules for domestic taxing jurisdictions
- Flow-through rules
- NOLs and credits
- Apportionment methods and detailed sub-accounts
- Intercompany transactions and transfer prices
- Intercompany transaction expense disallowance

## Report, Manage, and Document—All at the Click of a Button

At the click of a button, STx's reporting system provides detailed, comprehensive views that accurately reflect current and future tax positions and provide critical Sarbanes-Oxley documentation. In addition, STx reports are fully integrated with Microsoft Excel, so the final report format is familiar and easy to use. STx reporting capabilities include:

- **Organization Charts**—Organization charts provide a graphical view of divisions and legal entities.
- **Standard Reports**—Compare apportionment factors and tax liability across scenarios or compare tax liability by entity, group, or jurisdiction.
- **Structure Reports**—Report on legal entity structures and apportionment summaries, group membership, entity-by-entity nexus for group and separate filing jurisdictions, and tax rule detail.
- **Custom Reports**—Build reports according to specific criteria and leverage Microsoft Excel pivot tables to perform comparisons across scenarios, years, entities, jurisdictions, and accounts.
- **Analysis Views**—Compare legal entities, unitary groups, and consolidated filing groups over multiple years, and view comprehensive state-by-state apportionment data.

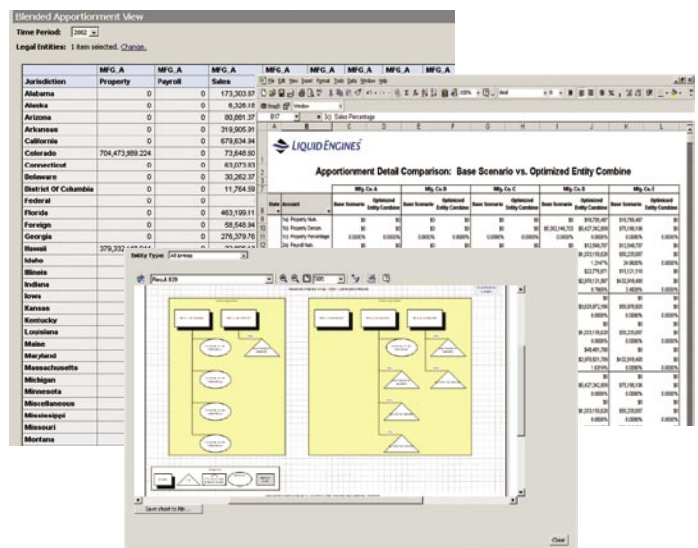


Figure 3: Extensive reporting capabilities support and document tax planning and management efforts.

## Liquid Engines: Optimizing Tax Performance

Today's tax professionals are under growing pressure to provide accurate forecasts, infuse cash into the business, manage the impact of changes in legislation, reduce audit exposure, and adhere to corporate governance guidelines. Hindered by constrained resources and limited technology, tax professionals have been struggling to meet these high demands, often resulting in unnecessary tax expense, an increased tax risk exposure, and the misuse of high-value employees.

Liquid Engines addresses these issues with a revolutionary software application that enables corporate tax departments to optimize their tax performance by:

### Reducing tax risk

*Rapidly and accurately forecast the multi-year tax impact of changes in business forecasts, business events, and legislative and regulatory environments.*

### Minimizing tax liability

*Identify an optimal tax profile that balances tax savings and appropriate risk, given known business conditions.*

### Increasing efficiency and effectiveness

*Improve responsiveness to inquiries, reduce operational expenses, and move resources to high-value activities.*

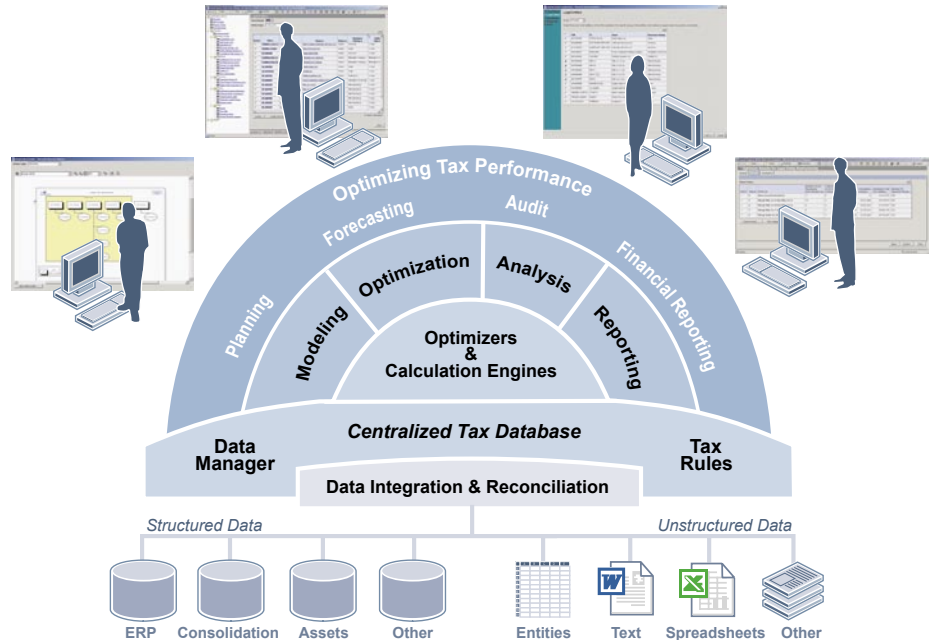


Figure 4: The first of its kind, Liquid Engines' real-time, multi-year software offers a fully integrated, robust application environment designed to meet the complex needs of corporate tax departments.

Both of Liquid Engines' products, STx (multi-state) and ITx (international), are specifically designed to support real-time, multi-year/multi-jurisdiction tax planning, forecasting, audit analysis, and financial reporting. Completely web-based and easy to use, the products combine tax-specific modeling tools, breakthrough optimization technology, and comprehensive reporting capabilities with a centralized data repository and embedded tax rules.

Built to handle even the most complex corporate tax structure, Liquid Engines streamlines the modeling process, enhances accessibility to critical data, and ensures a higher level of accuracy and transparency.

Armed with Liquid Engines' revolutionary software, corporate tax departments now have the speed, agility, and control they need to achieve an optimal tax profile and improve the overall efficiency and effectiveness of the tax function.



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