EXECUTIVE BRIEF

Executive Perspectives on the Importance of Technology in Today's Tax Operation

Tax executives share their views on current priorities, management imperatives, and leveraging technology to create world-class tax organizations

LIQUID ENGINES™

Optimizing Tax Performance™

Executive Perspectives on the Importance of Technology in Today's Tax Operation

Liquid Engines recently gathered a panel of senior tax executives to discuss the state of today's tax department and exchange insights on current priorities, management imperatives, and ways technology can be leveraged to create world-class tax organizations. Our panel had a lot to say about the evolution of the tax function over the past five years and its impact on tax teams; challenges in supporting new executive management, audit committee, and business unit requirements; and recommendations for securing and realizing the value of tax technology.

About the Executive Panel

Deborah Lange
Former Senior Vice President, Tax and Customs
Oracle

Deborah Lange led Oracle's worldwide tax department from 1987 to 2006. In the role of senior vice president of Tax and Customs, Ms. Lange was responsible for managing Oracle's worldwide tax and customs functions, including all aspects of tax compliance, audits, tax policies and procedures, and tax accounting. Prior to joining Oracle, she was with Arthur Andersen serving multi-national corporations in London, Hong Kong, Oregon, and California. Ms. Lange is currently chair of the Silicon Valley Tax Directors Group and a board member of the Software Tax and Finance Executives Council. Ms. Lange graduated from the University of Newcastle upon Tyne (England) in 1978 with a Bachelor of Science degree (with Honors) and from the University of Birmingham (England) in 1979 with a Masters of Science degree. Ms. Lange is a CPA.

John Kinney
Vice President, State and Local Tax
TimeWarner

John Kinney joined TimeWarner in late 2005 and is currently vice president of State and Local Taxes. His responsibilities include oversight of the state tax compliance, financial statement provision, planning/policy, and M&A transaction functions. Prior to joining TimeWarner, Mr. Kinney served as a state and local tax partner in KPMG LLP's Washington National Tax and New York City offices, where he worked for approximately 15 years, 8 years as partner. Prior to joining KPMG, Mr. Kinney was with Arthur Young/Ernst & Young in a tax compliance and consulting role from 1986 to 1991 in Washington, DC. He obtained his Masters in Professional Accounting (MPA) in Federal Taxation from the University of Texas at Austin (1986) and his BBA in Finance from Iowa State University (1984). He is a Texas CPA.

Joseph Hall
AVP, Tax Technology
CIT

Joseph Hall joined CIT's tax department as head of tax technology in June 2006. In his role, Mr. Hall helps evaluate, develop, and implement software tools that automate key tax department planning and compliance initiatives, including tax provision, FIN 48, state planning, and tax data warehousing. Prior to joining CIT, Mr. Hall served as a member of KPMG LLP's tax practice from 1986 to 2006. Mr. Hall worked as a local tax staff/manager in KPMG LLP's Dallas office for five years and as a senior manager in KPMG LLP's Montvale, New Jersey-based tax technology practice for more than 14 years. His focus in KPMG's tax technology practice was the support of the internal- and client-facing technology needs of the firm's state and local tax, personal financial planning, and international executive services practices. Mr. Hall graduated from Arkansas Tech University in 1986 with Bachelor of Science degrees in Accounting and Economics & Finance. Mr. Hall is a Texas CPA.

Perspectives on Today's Tax Environment

Q: What do you believe are the key responsibilities of today's corporate tax department?

Lange: Today the top priority is to minimize the company's tax expense and the tax cash outlay — within an acceptable level of risk. In addition to managing the tax liability number, the tax function must also ensure that the company meets its global compliance requirements — filing tax returns, information filings, and the tax aspects of the financial statements.

Hall: I'd agree and add that the department is responsible for ensuring that the provision for the audited financial statement is accurate and complete. A lot of components are involved, so a number of roles in the tax department either directly or indirectly support this work. It is important to keep internal controls as a priority on a daily basis.

Kinney: And one gets the privilege of doing planning or policy work – perhaps the more fun work – only if these primary obligations have been met first.

Q: Are today's responsibilities any different than they were a few years ago?

Lange: While companies have always had to meet compliance requirements and manage tax liability, I believe the risk component today is much more at the forefront of people's minds. In addition, I would say that the view as to what might be considered "reasonable or acceptable risk" has also probably changed for many. For example, companies that invested in tax shelters in the past might not do so today.

Kinney: Absolutely. Risk management is clearly a high priority. This issue has changed the CFO organization's expectations and the way they assess the effectiveness of the tax department. What's important now is whether unpleasant surprises are at an acceptable level. Take the Effective Tax Rate (ETR), for example. At many companies there's as much focus on the ETR being "accurate" as there is on it being "low." Even a rate reduction is not necessarily a good thing if a higher rate was expected. Accuracy, consistency, and a lack of surprises are crucial.

Hall: We're in the same situation and, because of this, we're being asked to look at a lot of things in greater detail in arriving at our ETR. It's important to understand what's out there that can potentially cause big swings that, on the face of it, wouldn't appear to be a factor. For example, states are rapidly changing rules, companies are expanding internationally, and acquisitions and divestitures are part of corporate opportunities for growing the business.

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Q: Which, if any, regulatory changes have had the greatest impact on the tax department in the past few years?

Lange: Sarbanes-Oxley initially, and now FIN 48, have both had a significant impact on the tax department by dramatically increasing the documentation requirements that have to be met contemporaneously with the financial results. Not only do you have to provide documentation for everything that could be material, but you also have the requirement to "prove" to your auditor that something is not material. Thus, documentation is required for essentially everything. That was not the requirement before SarbOx. Couple that with the fact that most companies are driving for a faster and faster financial close. In the past, you could correct or true up initial decisions. That's no longer acceptable. In today's world, you have to get it right the first time and provide the necessary documentation within a much shorter window of time.

Hall: Another thing I can add is that, with additional oversight under Sarbanes-Oxley, the internal audit group here has been forced to increase staff. When they come to review us twice a year (interim and final), there's a lot of work that is required of people in tax and in a lot of areas — with the walk-throughs, testing, spreadsheet controls, etc. These things were not required in this detail before. We're working to develop a world-class tax department, so we have to ensure that key controls are in place supporting things that have a material effect on financial statements. We have to write — for the critical spreadsheets — detailed, annotated user guides or explanatory manuals as well as the actual "let's review what's being done on this spreadsheet." We'll give the audit team a large number of spreadsheets supporting our key controls.

Lange: Yes, and to make matters worse, the tax compliance burden has increased as well with additional disclosures, new schedules (such as the M3), and electronic filing. With e-filing, it isn't as easy as running to the post office on September 15. Filing thousand-page tax returns can't be left to the last minute if you're doing it electronically. So the burden has increased in a number of areas, but the time to accomplish the work has not changed.

Kinney: More is being added to the plate, but we're not necessarily being given a bigger plate.

Hall: Agreed, we don't have a bigger plate or the resources to necessarily accomplish all of this. You've just got to do it in a more efficient manner using technology and with constant communication from all disciplines.

Q: Have these "environmental" changes increased the need for technology in a tax department?

Kinney: I would say YES. Tax technology is often the means through which you're going to meet the additional requirements of SOX. While it's not the only means, it's probably a combination of technology, additional staffing — if you're so fortunate — and an overall heightened level of quality and robustness in your process documentation, which isn't really technology. But those three things are the bundle.

Lange: One need only consider the process related to generating the financial reports to see the need for technology. During the close, Tax can't finalize their numbers until Accounting finalizes theirs. Thus, Tax is always under pressure to get the information they need as quickly as possible, do what they need to do with the numbers, and then have the answers ready within the tight financial close window. Given the speed that is required, software is critical. This process can't be manual. There can't be any question that the work will get done in the time provided and that it will be done correctly. Add to that the increased documentation requirements and you immediately see the need for advanced software. It is the only way to get the calculations done correctly with a lower level of risk.

Kinney: You're absolutely right. The whole concept of decreased turnaround time is the biggest single pressure point, in order to have something with the level of accuracy and specificity that is needed these days. In the past you could have done it with a spreadsheet or something rather simple. But now, as you said, because of the decreased turnaround time between the time the book numbers are generated and a completed, signed-off tax provision needs to be completed, technology is unquestionably the only means to get you there from here. Throwing additional bodies at it is not going to solve the problem when it's a time-crunch issue.

Hall: One of the reasons we've got cycle-time pressures is the way data is gathered, analyzed, and even provided to the tax department. We've built a tax data warehouse to try to synthesize that data and conform it for tax purposes. What this process has uncovered is that there are a lot of opportunities to enhance and standardize items on the source system side. Business units may need to do things just a little bit differently or be aware of additional data that needs to be gathered in order to ensure we're feeding good tax data. Ultimately, it will be used to deliver data in a consistent format, which will allow more time for analysis as opposed to error checking.

And then, there's the fact that big companies are continuously under IRS audits and state audits. You've got to be able to defend those numbers with detail when the auditors come in and ask "Where's the detail for a particular line item?" The detail needed may be a huge file, but it's got to tie back to what we had on the return or be reconciled. Having technology tools in place to help you do that in a structured way will ensure greater efficiency and engender more trust in the numbers.

Key Factors Driving the Need for Technology:

- Additional documentation requirements and information requests
- Cycle-time pressure: needing to get the work done in a shorter window of time
- Heightened focus on accuracy, controls, and "no surprises"
- Resource scarcity

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Kinney: Furthermore, you've got to look at not only your own tax organization's technology, but your outsourcer's. Whereas, in the past — pre-SarbOx — I don't think it was probably as crucial to know what your outsourcers were doing. Because historically, the measurement for whether the compliance outsourcer was doing their job was whether you got your taxes filed accurately and on time. That's still important. However, you now need to carefully view how anything the outsourcing team is doing may "touch" the financial statements.

Q: In the absence of advanced software technology, what are tax departments using to meet these stringent requirements?

Lange: Most tax departments are struggling to meet the new requirements because they are buried in spreadsheets, spreadsheets, and more spreadsheets. The problem is that while spreadsheets are flexible and relatively easy to use, they can be easily broken and or changed. So you very quickly lose conformity. It is too easy for someone to add a column or play with a formula and completely mess things up. Spreadsheets are simply not as reliable as a piece of application software that is purpose built. Take, for example, complying with FIN 48. Without software, you would be relying on huge — inherently unreliable — spreadsheets to manage multiple issues, currencies, interest, penalties, and a myriad of tax calculations. There are too many moving pieces and something inevitably goes wrong.

Kinney: You know, there was a time not that long ago when, if a tax department used a lot of spreadsheets, people would say "Wow! That's a good tax department." [laughter] Now, if a tax department uses a lot of spreadsheets, they are likely to be considered archaic.

Hall: Right. When you're talking about modeling tax stuff and tax calculations on a spreadsheet, they can be very complicated and are typically much more sophisticated than those from other areas within the organization. I can see from some of the white papers I've read that spreadsheets are really frowned upon. I recall one example in which a company incorrectly cut and pasted data into an Excel spreadsheet. It cost them $24 million in a deal they'd signed. It scares people when they see examples like that.

Kinney: There's an emphasis on getting rid of spreadsheets and replacing them with something more robust and "SarbOx'd" from both the internal and external auditors and, therefore, the finance organization's viewpoints as well.

Hall: Yes, something that has the controls in place.

Views on Technology and the Tax Department

Q: There is a lot of talk these days about the "tax talent shortage." In what ways might technology help tax leaders overcome their HR challenges?

Lange: I'm seeing in the tax community that almost every company is crying out for people and it is taking months — sometimes up to a year — to fill positions. In fact, I recently heard from one recruiter that they have spoken to more than 400 candidates in the last five months to fill a senior position in Tax. In addition, companies are being very selective about who they bring on board, because of an increased focus on risk and exposure, and oversight by the Board, the Audit Committee, and the CFO. But not only it is more difficult to recruit new staff, it is increasingly more challenging to retain existing talent because you've got a whole team of overworked individuals who are saying "This isn't fun anymore." Long hours, hard work, lots of pressure, and the potential that you could lose your job over something that wasn't your responsibility — perhaps it was an issue that arose before you even joined the company — is having a hugely negative impact on morale.

I believe technology can help in several ways. One, with technology at their disposal, tax professionals would benefit from being able to do their job in significantly less time, rather than spending their time banging their heads against the computer screen trying to manage multiple spreadsheets. If people can work more efficiently, then you are maximizing what they can get done, and they are less likely to leave. They are just happier. Two, during certain peak times of the year (such as quarterly/ annual provisions), the use of technology could enable the movement of corporate tax professionals from other tax department functions (such as planning) to help with other more time-critical functions, helping to relieve the workload and stress of other tax department employees. And third, if you have software built for a specific job, you can draw on people in the tax department who have "different" skills and get them up to speed on it quickly.

Hall: You know, in terms of MS Excel, not many people have really deep skill sets. They get the job done, but how efficient is that, really? When you have a formal technology tool in place, the process has been thought through and built into the workflow and the tool itself. I would think it would make the tax department more efficient once they're up and running with it.

Kinney: These are all interesting ideas. I'm also thinking that new technology platforms provide a light at the end of the tunnel for the staff. That's a morale booster because people get on board and hopefully get involved with the process of selecting what the technology is. They feel it's going to make their life better and get excited about it. They see the company spending money on the things they really care about and want. So I see it as a very positive morale builder.

Key Ways Technology Can Ease HR Challenges:

- Improves moral by enabling people to work more efficiently and reduces the time spent on low-value activities, such as managing spreadsheets
- Facilitates workload leveling during peak times by enabling skilled professionals to contribute in more than one area of the department
- Reduces training time and helps ensure people follow the defined best-practice processes

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Q: What about supporting a distributed and/or global tax organization — where might technology aid collaboration?

Kinney: We have tax professionals at multiple locations around the globe. Having something that's web-based with security around it so that people can touch and see only the things they should be able to touch and see is very important. As well as to have automony — as opposed to having it centralized in New York only, for example. Technology is obviously the way to do that.

Hall: I echo what John said there. Our international tax operations are also de-centralized. We're working toward implementing a centralized tool — especially around the provision — to gather information so that we can tighten controls and receive the information in a more timely manner. Everyone around the globe will be able to get to the information and manage the workflow, and we'll know who made which changes and when. These tools have features that can set up tickler reminders and other things that are helpful in working across time zones.

Lange: Well, we're all in agreement here. If you are trying to manage a team across time zones — be that 3 time zones or 24 — the team will benefit greatly from technology. With a central database, you can provide 24x7 access to needed information. And as Joe said, you can ensure that the database contains the most current version, so you know everyone is working with the right information. You can also control security and read/write capability to help ensure conformity with information standards. Let's say you have staff in several countries, working around the clock, and it is the last day that something can be submitted. That final information needs to roll through the central data warehouse in a standardized format so it can be easily consolidated at HQ — in a rapid fashion. If someone has "monkeyed" with a spreadsheet, the process will fall apart and critical time will be lost trying to figure out which information is more correct or having to reformat the data. Being able to track who made changes and when those changes were made is a huge time saver.

Q: So reduction in cycle time is critical?

Lange: Very. Each iterative step in the review process can result in a 24-hour delay — time that you don't usually have to spare. This problem comes back to the tight window. You don't have that extra day. You can't wait the additional time.

Q: And what about following best practices?

Hall: Again, very critical. Locking down the process, data standardization, and standard practices are key to the whole thing coming together at the right time with the correct numbers. With technology, you have the ability to control workflow, so you can ensure that a process can't be finalized if a piece is incomplete. This type of process control is not possible in a spreadsheet environment. Spreadsheets do not have "internal audit" functionality and, in today's environment, it is all about controls.

Q: What about information requests from senior executives or the audit committee? Are these on the rise also?

Lange: Oh yes. When you are asked to attend a meeting, you need to be prepared for the question from left field. Having that information available at your fingertips is critical. If you walk in with your laptop, connect to your tax server, and have access to your provision calculation, FIN 48, and your tax data warehouse, you are prepared for anything. The days of walking in and saying "I'll have to get back to you in two days" are long gone. You may have some leeway on a new issue (such as an issue associated with a potential acquisition that first surfaced at the meeting). But if it is an existing issue, you will be expected to have your arms around it and be fully prepared to brief the CEO, the Board, and so on.

Hall: Same here. As Deb said, they want quick turnaround, and with no surprises.

Q: We hear from a number of tax executives that they would like to improve their ability to serve the needs of the business units. How might technology aid in this initiative?

Lange: During my tax career, it was always important to work closely with the business units. I believe that if you want to minimize the risk in your tax provision, accruals, or tax returns, you must not only understand what is happening within the business, but you must also be aware of the future plans. Tax often needs a more detailed forecast than any other group in the company because we are trying to forecast taxable income on a country-by-country level for this fiscal year and maybe next fiscal year. Thus, you have to work closely with the business lines to understand where the business is going. And when changes occur (changes in estimates, changes in company structure, and so on), you need solid technology that allows you to run "what if" scenarios in a speedy manner.

Kinney: It's the same for us. We reach out to the business units a lot, and to operate at their speed, you can't rewrite a spreadsheet every time you have to run a new "what if." Timeliness and accuracy are critical here, and to really manage risk, it is critical to be very proactive with the business units.

Hall: And I'll add that, in a leasing business like ours, working with the business units is critical. We've hired senior and mid- to upper-level people within our tax department, and a couple of those people are actually sitting out in the business units and are involved when deals are being priced and sold. When you're talking about airplane or railcar leasing, to be able to manage the tax numbers faster is a competitive edge for the people in the business units. It's the business that's really driving these initiatives because they've seen, at other companies they've worked for, how the tax benefits can be pushed down to them in the rates they're quoting. Forecasting by unit and by geographic location are the platforms for the global tax provision and value-added tax planning.

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Key Benefits of Technology:

- Decreases risk and reduces surprises
- Enables access to critical information
- Helps attract and retain the best people
- Increases confidence that Tax is "on top of things"
- Ensures accuracy in the numbers
- Increases efficiency and speeds turnaround time
- Enables you to "do more with less"

Insights on Securing and Realizing the Benefits of Technology

Q: From your vantage point, what do you believe are the top benefits of leveraging technology?

Lange: First and foremost, you decrease across-the-board risk of having calculations that are wrong, that something doesn't get done on time, that surprises occur because Tax was unaware of changes in the business, or that documentation can't be located to support your judgments. These are things that get the company written up for a material weakness. Second, technology will help you keep — or attract — the best people because they won't be doing mind-numbing, frustrating work and can maximize their usefulness. When tax professionals feel valued, they are more likely to stay. Technology can also aid the process of financial and tax audits. And last, but certainly not least, the right technology can help keep your senior executives and Board happy by demonstrating that you are "on top of it."

Hall: Ensuring more accurate information and having a more reliable provision is priority #1. That said, technology can increase the efficiency of the tax department and potentially help reduce the inventory of projects we have. The only way that we'll have a shot at getting to those projects is with the help of technology.

Kinney: Our primary needs for accuracy and quick turnaround are not going to be solved by simply working smarter or having more people working. We've got the smart people. We're working hard enough. The issue is that it needs to be automated to a much higher degree.

Hall: "Do more with less." That's the ultimate goal of leveraging technology. You have budget constraints around trying to bring in people. We have to watch our bottom line and expense ratios. Technology can help alleviate some of those pressures.

Q: What recommendations do you have for our readers regarding securing the approval for the technology of choice?

Kinney: Your request should be tied to the financial statements and the avoidance of SarbOx black marks. If you go to management with a request for a compliance or planning tool, it's not necessarily going to get a lot of attention. Put your focus on risk management enhancement or risk reduction. I would de-emphasize improved functionality and things that are kind of nice, but aren't really drivers.

Lange: Agreed. The unquantifiable aspects are by far the scariest. Anything you can do to ensure that you don't end up with a significant deficiency or a material weakness …the value of that can't be measured or quantified.

Hall: I'll add that, if possible, also try to quantify potential savings down the road in hours and/or your ability to be more proactive with the business units.

Lange: Right. While you can't necessarily "quantify" the ability to respond more quickly to a question from the CEO, a board member, a general manager, or an external auditor, improved responsiveness is very valuable. It is no longer acceptable to tell the CEO of European Ops that it will take you three months to analyze the impact of his reorganization options. Today you must work at the "speed of business," and the only way to do this is through technology.

Kinney: Another area is outside services. If you have good technology, you may not need as much external support from an outside consultant, which could result in overall cost savings.

Hall: We've had that scenario around here. Upper management starts looking at expenses, and consulting fees is one area where they might look. This scrutiny can make it difficult for those times when you need consultants.

Kinney: Exactly. I would say the reduction of outside resources, the flexibility in making the department less dependent on a service provider, coupled with better financial statement accuracy and turnaround are the benefits you need to cover.

Lange: And when you go to present your business case, be honest. Tell the story: what has changed, why technology is needed now, and the benefits that can be achieved. Or tell the scary story about what can go wrong if technology adoption is further delayed. Lay it out as a cost/benefit discussion.

Q: And what about tips to help ensure that the implementation is successful once the technology has been procured?

Lange: Spend a lot of time scoping out what you are really trying to achieve. I think implementation success is in the planning for the implementation. If you plan properly, you will avoid unwanted surprises.

Kinney: It's also crucial to get buy-in from the staff, as well as getting your leadership involved, because people don't want to have something rammed down their throats. There's a real tendency for people who weren't involved in the decision to second-guess it, to criticize it, to say how much better things used to be with their old spreadsheets, and so on. Getting a lot of stakeholders' opinions and buy-in is very important.

Q: In closing, do you have any final advice for our readers?

Lange: Technology adoption is no longer an option for Tax. If you don't do it voluntarily, your auditors will probably require it at some point because they are going to see it used at other companies. You simply have to invest in technology. And if you're not, it will be a really tough road ahead.

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Liquid Engines Headquarters

Liquid Engines, Inc. | 385 Moffett Park Drive, Suite 105 | Sunnyvale, CA 94089

Tel: 408.585.9000 | Fax: 408.585.9001 | www.liquidengines.com | info@liquidengines.com

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