Managing operational tax risk

Find the right people, processes and technology to manage record-to-report risks

2014 Tax Risk and Controversy Survey series
Managing operational tax risk

This report is the second in a series discussing EY’s global 2014 Tax Risk and Controversy Survey. Using the survey results, inputs from tax function leaders and EY professionals, it provides a deeper exploration of the many sources of “operational” tax risk. We define operational tax risk as those risks arising inside the organization from people, processes and technology. The report concludes with a series of detailed actions for companies to consider adopting, which together make up a framework for operational tax risk management. We hope this series will be your guide for your journey up the mountain – and safely down the other side. To access other reports in the series, please visit ey.com/taxriskseries or connect with your local EY Tax contact.

Contents

Introduction 1
People and organization 5
Policies, processes and controls 13
Using technology to mitigate risk 21
The right tools for the climb 29
Conclusion 33
Tools and insights 34
Introduction

The first report highlighting results from EY’s 2014 Tax Risk and Controversy Survey compared managing tax risk in the current environment to climbing a mountain. It identified four heightened sources of risk – reputation, legislative, enforcement and operational – based on results from 962 tax and finance executives in 27 countries, including more than 130 chief financial officers. The first source, reputation risk, is a relatively new phenomenon that has thrust tax onto the front pages and into the boardroom. Companies are wrestling with the reputational implications of demands for more transparency from a wide group of stakeholders that now includes national governments in addition to news media and social justice activist groups. They’re also adapting to thresholds for satisfying public opinion, which can be very different than the technical thresholds required under tax law.

The second driver is legislative risk, from both the effects of the Organisation for Economic Co-operation and Development’s Base Erosion and Profit Shifting (BEPS) project and from the myriad policy changes that cash-strapped governments continue to put in place. On BEPS, companies expressed skepticism that universal adoption of all recommendations is likely to occur. They were equally concerned that countries are moving unilaterally to pre-empt some provisions in an uncoordinated way. The net effect of these parallel developments is that 61% of the largest companies say they expect to face increased double taxation in coming years. Higher enforcement risk is the third driver. Among other findings, many companies in the survey reported more frequent and aggressive tax audits; 63% of Americas-based companies said they have experienced difficulty in securing pre-filing rulings or Advanced Pricing Agreements, and a significant proportion – 67% – said they also feel their efforts to foster a more open and cooperative relationship with tax authorities have been unrequited in recent years.

Those three sources will be the subject of subsequent reports. This report focuses on operational tax risks – the many internal challenges that companies face in achieving an accurate record-to-report process for their tax and statutory reporting obligations.

“‘It’s always further than it looks. It’s always taller than it looks. And it’s always harder than it looks.’”

– The three rules of mountaineering

1 See www.ey.com/taxriskseries.
2 The first report in this series, Bridging the divide, was based on survey results from 830 executives in 25 countries. Additional survey results have been collected since the publication of that report.
3 The “largest” companies reported more than US$5 billion in revenues.
Managing operational tax risk

This fourth driver of tax risk has wide ramifications for businesses large and small; every company has to deal with it, and few do it with absolutely certainty in such a changing landscape. Although there has been a steady decline in the number of material weaknesses specifically related to US generally accepted accounting principles (GAAP) since 2005, taxes continue to be the most prevalent of the US GAAP failures reported: more than 50% of tax material weaknesses reported in the United States today, for example, are driven by a lack of review, lack of personnel or poor process execution. And operational risk covers not only financial statement reporting but all reporting to governments and governing bodies. For example, more than 60% of VAT errors leading to adjustments are due to mistakes such as incomplete invoices or receipts, or errors in applying tax rates.

It has always been a challenge to get the right people, processes and technology in place to properly define, align and source the financial information that must be reported to regulators, investors and tax authorities in every business line and jurisdiction in which a company operates. In recent years, many companies have sought cost savings from their finance function by transforming those operations, centralizing and standardizing their processes and leveraging shared service centers and centers of excellence. These simultaneous demands of finance transformation, along with the other drivers of risk identified by the survey, layer new pressures on tax that must be managed.

“Finance transformation is changing the face and the operating environment for a lot of the things for which tax is responsible,” says Patrick Trapp, EY’s EMEIA Director of Tax Performance Advisory. “All of that changes the broad operating environment of the tax function. When the people, the processes, the technology or the data change, that puts those of you responsible for the quality of tax outcomes at risk. It is creating the number-one risk in my opinion, and it is happening everywhere. It is pervasive.”

Data integrity, in particular, is a core operational risk factor for every business. Often, day-to-day transactions booked in any given country are not properly sensitized for tax purposes; accounts may not be used for the correct purposes or changes may go uncommunicated. The difference in tax treatment between a normal everyday accrual and a major restructuring reserve, for example, can be immense.

Ensuring data integrity goes from basic controllership of general ledger (GL) accounts right through to making sure that the right people are pooling together legal entity ledgers to support effective tax and statutory accounting. For companies with multiple lines of business and a presence in dozens, if not hundreds, of jurisdictions, the problem of data integrity can grow exponentially.

Automation of the tax audit process by some revenue authorities is compounding these risks; the increasing use of IT-driven auditing such as the growing European phenomenon of Standard Audit Route signs

On any trek, flags and signs mark the route for safe passage. The illustrations in the margins of this report both tell a story of their own and complement the text. However you use them, they are designed to enrich your journey.

The report and accompanying graphics make references throughout to “largest” and “large” companies. “Largest” refers to global companies with more than US$5 billion in annual revenues, and “large” refers to global companies with revenues in excess of US$250 million.
Files for Tax, or SAFT, means that one wrongly booked transaction can ripple through multiple calculations, causing incorrect results and new tax risks.

In our mountain climbing analogy, the three external drivers of risk identified by the survey — reputational, legislative and enforcement — equate roughly to unpredictable and uncontrollable hazards such as avalanches, frostbite and whiteouts at high altitude.

Operational risk, on the other hand, is all about having the right gear, the right plan and the right support team to reach the summit successfully.

“Many risks are not arguments around deep, tax technical interpretation but instead about whether your can build and sustain an organization that finds and corrects errors before they get out of control” says David Helmer, Global Director of Business Tax Services. “Candidly, you need to ask yourself whether you are thinking deeply enough about how you can position your tax function in a way that enables them to manage these operational risks.”

This report showcases survey findings about specific challenges tax professionals say they’re facing across the dimensions of people, processes and technology within their enterprise.

Using survey responses and a number of insights from tax leaders in different companies, it examines what companies are doing with the resources they have now, as well as how they build flexibility and resilience. It also investigates the divide that some companies may have to cross as they move from current to future tax risk management models.

Finally, we identify eight key components of an optimal tax framework that can be adopted to mitigate operational risks and achieve control, value and efficiency across the entire record-to-report process.

<table>
<thead>
<tr>
<th>Leading sources of operational tax risk for the largest companies (in order of prevalence):</th>
</tr>
</thead>
<tbody>
<tr>
<td>75% cited insufficient resources to cover tax function activities.</td>
</tr>
<tr>
<td>64% cited insufficient internal communication.</td>
</tr>
<tr>
<td>57% cited a lack of process or technology.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>More than 50% of tax material weaknesses reported in the United States are driven by a lack of review, lack of personnel or poor process execution.</th>
</tr>
</thead>
<tbody>
<tr>
<td>60% More than of VAT errors leading to adjustments are due to mistakes such as incomplete invoices or receipts or errors in applying tax rates.</td>
</tr>
</tbody>
</table>
These words of US businessman Harold Geneen are particularly true when it comes to effectively performing the complex tasks that companies hope will result in timely, accurate and sound statutory and tax reporting.

People are the lifeblood of an effective tax function. The skills and competencies they possess, how they are deployed, and the relationships they have with each other and with other business functions are all vital to successfully managing operational tax risk. Left unmanaged, the risks can result in incomplete, inaccurate and hazardous statutory and tax filings.

By all accounts, the broad spectrum of internal and external risks identified in the survey is driving a profound focus on talent issues in the tax function. Survey respondents report that, in the majority of companies, the overall size of the tax function has either stayed the same (41% of respondents) or increased (49%) in the last three years. Only 8% of respondents reported an overall decrease in size. The rest did not know.

Of those tax functions increasing in size, more than half (57%) attribute the expansion directly to the changing tax risk landscape, while the remaining 43% attribute it to other reasons. Yet despite the seemingly favorable growth in tax function size, survey respondents report that “insufficient resources to cover tax function activities” is the leading factor that may contribute to increased operational risk in their company; 68% globally agreed, rising to 79% for US-based respondents.

The five countries where the largest number of survey respondents say their tax function has increased in size during the course of the last three years for any reason are Germany (71%), the Netherlands (66%), India (63%), Singapore (60%) and Canada (57%). Separately, the five countries identifying the changing tax risk landscape as the sole reason for increasing their tax functions include Germany (57% say their tax function has increased in size for that reason), India (51%), the Philippines (42%), Singapore (40%) and Indonesia (35%).

The five countries with the largest population of survey respondents who say their tax function has decreased in size are the United States (19% of respondents), Canada (15%), the United Kingdom (14%), Spain (13%) and France (13%).

Interestingly, the size of the tax function in US-based companies is just as likely to have increased in size as the global average (48%) over the last three years. But tax functions in the United States are also almost three times as likely (19% in the US versus 7% global average) to have decreased in size during that period; the one thing US-based tax functions are not doing is staying stable in size, at either end of the spectrum.

“Every company has two organizational structures: the formal one is written on the charts; the other one is the everyday relationships of the men and women in the organization.”

— Harold Geneen
American businessman, former president of ITT Corp
Tax functions in US-headquartered companies tend to be the biggest in size globally; 69% of US-based respondents said their worldwide tax function included more than 50 professionals — compared to just 25% of respondents globally. Of course, these US-based respondents also represent companies who say they feel their tax operations are under higher levels of enforcement pressure than countries elsewhere; 74% of US-based executives report an increase in cross-border focus by tax authorities in the last two years, a 20-percentage-point (or 34%) increase over the global sample of all companies and 6 percentage points higher than the “largest companies” sample. Seventy-nine percent of US-based executives report an increase in the number or aggressiveness of tax audits, a 24-percentage-point (or 44%) increase over the global sample and 11 percentage points higher than the “largest companies” global sample. On that basis, it is interesting to see that tax functions in the United States are more likely to be decreasing in size than in other jurisdictions.

Roles need to be reassessed as global exposure changes

Not all of the people responsible for managing taxes will be core members of the tax function.

“I think if the hours were ever captured for analysis, we would be seeing a company-wide increase in the number of hours spent on tax issues,” says Gary Paice, EY’s Americas Tax Performance Advisory Director. “You might not see that show up directly in headcount expansion, but it’s definitely occurring. You’ve also got things like finance people doing tax processes and controls or putting more effort into tax training and execution. That would never show up as a tax statistic, since it is not on the tax budget. But it’s out there.”

The effective deployment of tax function resources is probably more important than their overall number. Tax risk and controversy management, indirect taxes and withholding taxes are all areas of significant importance and challenges for organizations. All three areas are creating new demands on the tax function, and each has implications for the corporate bottom line and reputation. Yet the survey indicates that in each of these three areas, resources tend not to be focused on dedicated roles.

In the area of tax risk management, our 2011 survey indicated that 81% of companies had a single, readily identifiable individual who had overall responsibility for managing tax risk within the enterprise. In 2014, this figure fell to 70%. In 54% of cases globally where that role does exist, it is not a dedicated role. In the United States it is only dedicated in 30% of cases; in BRIC-based companies, that figure rises dramatically, to 75%.

The management of indirect taxes presents an equally unclear picture to companies: 53% of global respondents say the tax function manages indirect taxes, 47% say finance or the accounts department do, and only 28% of companies have a dedicated indirect tax director. This is a dangerous scenario for a tax whose quantum can reach billions of dollars for a large company, and where, in many cases, the company is responsible for collecting tax on behalf of the revenue authority.

Responsibility for management of withholding taxes presents a similar picture: 55% of global respondents say the tax function manages withholding taxes; 40% say Finance or the Accounts department do; while in 5% of cases, they are managed somewhere else completely. Just 13% of companies have a dedicated withholding tax director.
The right activities for managing tax risk

Though the percentage of companies with a dedicated tax risk management role in place may have declined a little since 2011, companies say they are actually spending more time than ever managing tax risk and controversy. Survey respondents say they are spending slightly less time on financial reporting and tax planning than in 2011 (about 5% and 6% less, respectively, among the largest companies globally) and more time on managing routine tax compliance and disputes/controversy (about 9% and 11% more, respectively, among the largest companies).

Again, geographic divergences are common in the data. In the United States, for example, businesses typically spend far more time on tax planning (around 28%, versus 19.5% in the global sample). Conversely, India-based companies report spending around 28% of their time managing tax controversies, versus 21% in the global sample.

The importance of everyday relationships

As business models continue to evolve, the relationships between tax, finance and other key business functions is becoming more and more important. But maintaining communication is not easy, and survey respondents report that they feel that such failures in communication are the second-most common factor contributing to increased operational tax risk in their company.

Whether communication is within the tax function or between tax and finance or tax and operations, survey respondents tell us that the simple fact that tax has to juggle more sources of risk and more changes in legislation and regulation – all without enough resources in place – is contributing to a lack of time to effectively communicate with others on complex tax issues.

That said, the relationship between tax and decision-makers in the company seems to be robust, according to survey respondents: 82% described their tax functions’ involvement in the general business strategy and planning process as adequate or significant, while only 16% reported it as being negligible.
Having visibility of all parts of the business is an important foundation of any tax strategy. “We align our tax resources to the business functions,” says Ian Brimicombe, Vice President of Corporate Finance at AstraZeneca. “Business partnering is the ongoing engagement whereby our tax team has responsibility for understanding activities within commercial, R&D, business development and manufacturing functions as well as the enabling functions like legal, HR and IT. Our objective is to achieve tax efficiency by mitigating risk and identifying opportunities to support business transactions,” Brimicombe adds. “The business, of course, is focused on its own objectives, but we stay close to provide an interpretation of what their activities mean in terms of tax consequences. Generally, the business takes our tax perspective on board and adjusts the way it does things, so we’re able to support them in achieving their objectives and at the same time achieve our goals in tax efficiency. It’s a hand-in-hand partnership.”

Having the flexibility to dynamically switch resources into other areas is another important element of effective tax function management. Business priorities can change rapidly, particularly when a company is experiencing either side of the M&A equation.

“Emerging markets are a good example,” Brimicombe confirms. “In China, in particular, our business is growing very rapidly and we need to be alive to that fact, supporting it and managing any risks and opportunities that arise.”

Samantha King, Deputy Head of Tax at Standard Chartered, explains this need to maintain resource flexibility in a similar way:

“In financial services, I think tax functions have probably stayed around the same size, despite cost pressures,” says King. “The challenge though, is that the workload has changed. So it’s not that there’s necessarily a lack of resources, but potentially a lack of the right resources.

“We now have to be aware of whether we may be perceived as facilitating our customer’s tax planning and consider the reputation risks around that,” King adds. “We are also, through FATCA and similar regimes, drawn into a policing role. Plus, we have to operate due diligence up the supply chain to reduce risk of MTIC4 fraud. So all of those things mean that we have to engage with a far broader group of people in the organization.”

King said that tax functions in financial services companies historically interacted primarily through new product processes and via Finance. More recently, Tax has become involved with customer reporting, including on-boarding and operations. Indirect taxes, which are proliferating in the financial services industry, are a particular challenge, she said. “There isn’t actually an accounts receivables function in a bank, so you have to interact with a whole range of operations functions and a myriad of sub-accounting systems.”

King also adds that transfer pricing has attracted great interest from some regulators as well as tax authorities. “So the number and type of different interactions we need to have has increased, and that relies very heavily on getting the processes right.”

But tax functions in the United States are also almost three times as likely to have decreased in size during that period.

19% (United States versus 7% global average) to have decreased in size during that period.
The intersection between tax and finance

There is increasing evidence that companies are doing a lot more to manage the relationship between tax, finance and other key personnel in order to better manage operational risks.

“There is an increasing recognition that tax ultimately depends on finance for its data and information,” says Albert Lee, EY’s Asia-Pacific Tax Performance Advisory Director. “This means tax must take an active interest in how transactions are processed, the teams who are involved and how financial systems are set up in the first place.”

This view is confirmed by Anne Hellemans, Tax Performance Advisory Manager in EY’s EMEIA Tax Center.

“I am no longer surprised if I see a weekly meeting between tax and finance people now – just to go through some issues that they may have or they may be facing or just to confirm that everything is OK,” Hellemans says. “Normally that was only done at month- or year-end when there was a really intense period of two or three days where everybody was stressed and there wasn’t actually time or space to correct anything. In a well-run tax function, they have pretty much sorted out everything already.”

This is an important, constructive development. With data integrity sitting at the heart of so many operational tax risks, getting this relationship cemented for the long term is a key element of any tax risk management strategy.
Managing operational tax risk

Managing the complex and fast-paced relationship between tax and finance personnel has always been a challenge. But the trend towards the transformation of finance operating models can put connectivity between these key groups under more pressure than ever before.

Their good intentions aside, finance transformation exercises can negatively affect tax resources in two ways. First, and by their very nature of regionalizing or centralizing activities, they can result in the loss of highly knowledgeable tax resources at the local level. As they standardize and consolidate their operations, companies are doing more with less. While this may be achievable (and desirable) from a cost perspective, it risks ignoring the fact that tax remains a highly national issue. For instance, centralizing European finance operations may well make sense, but the fact remains that a company widely operating across Europe may expect to file almost 60 national-level tax returns each year, not to mention at least that many statutory reporting obligations. Without key local expertise and experience, many companies are now finding that meeting their record-to-report obligations in all countries where they operate is a huge challenge.

Second, the globalization or regionalization of processes can lead to an erosion of skills and competencies. “Take VAT,” says EY’s Trapp. “It could be that in the past you had a very low probability of a VAT failure because the people who were taking care of the operation of VAT matters had a full department who had been there for a long period of time, they had a big staff, and they were cross-trained. Under a finance transformation, all of that activity may get moved to a shared services location in a different part of the globe, with people who have been newly hired. That’s a real challenge. It’s not insurmountable, but if you ignore it, it can bite you.”

Pace, volume and complexity of legislation increases

In addition to the sheer volume of reporting obligations, tax functions are now dealing with a policy and legislative environment that has become far more complex and challenging since the global financial crisis. Indeed, 79% of companies globally say that the increase in the volume and/or complexity in the legislation and regulation that must be adhered to is contributing to increased levels of tax risk. This figure increases to 85% for US-based respondents. All countries are likely to see this complexity accelerate as BEPS-related legislation is implemented in a variety of different manners in the years ahead.

A more effective way to meet global compliance and reporting obligations

Ongoing business transformation, cost reduction exercises, market expansion and a heightened global enforcement and transparency environment are all drivers leading many companies to reassess whether they are best-positioned to manage the day-to-day operation of their global compliance and reporting needs.
These needs span many different areas, including statutory accounting and reporting, tax accounting and provisions, transfer pricing documentation, income tax compliance, indirect tax compliance, corporate secretarial requirements — and not to mention governance and control of all these processes. As a result, some companies are finding that leveraging the scale, flexibility and consistent methodologies of a professional services provider can help them build a more resilient and dynamic compliance model that is more suited to such a rapidly changing landscape. While making this change can be a challenge, taking a “wait and see” approach can be dangerous.

Ian Brimicombe says AstraZeneca decided to work with EY to fulfill the company’s statutory accounting, tax reporting and compliance obligations in more than 75 countries — including the filing of more than 5,000 annual statutory and tax deliverables in order to facilitate the transformation of the global finance organization:

“Our global finance organization has been restructured to become much more focused on business partnering, decision support, investment appraisal and allocation of resources in markets.” Brimicombe says. “So for activities in the tax area, we felt it was more efficient to centralize responsibility for these deliverables and move to EY as a service provider. We could have built regional in-house tax specialist teams or perhaps a single hub or center of excellence where all statutory accounts and tax returns could be prepared. However, we chose instead to leverage our Global Financial Service (GFS) teams who process transactions and generate the core trial balance information and in-market EY teams who take that information and turn it into statutory accounts and tax returns. We chose this structure because the GFS teams were already in place and we thought it best to rely on local expertise to deliver those services that need tailoring to dynamic local requirements.”

53% of global respondents say the tax function manages indirect taxes, and 47% say finance or the accounts department do; only 28% of companies have a dedicated indirect tax director.

55% of global respondents say the tax function manages withholding taxes; 40% say finance or the accounts department do, while in 5% of cases, they are managed somewhere else completely. Just 13% of companies have a dedicated withholding tax director.

79% globally say that the increase in the volume and/or complexity in the legislation and regulation that must be adhered to is contributing to increased levels of tax risk. This figure increases to 85% for US-based respondents.
Managing operational tax risk
The right tax talent, however well deployed, will only be as effective as the policies a business puts in place and the processes it follows — and is measured against — in the fulfillment of day-to-day tasks.

The design, deployment, management and measurement (and ultimately improvement) of effective tax controls requires a clear understanding of the origins of the very risks those processes are designed to address and mitigate.

Operational tax risk is driven by a variety of highly complex factors, all of which require proactive processes to manage. At a high level, these factors include issues such as:

- Heavy reliance on data (both actual and forecasted) from foreign jurisdictions, much of which may be provided exclusively by finance personnel using a multitude of different software packages
- The necessity for high levels of tax account support, including identification of uncertain tax positions (for SEC registrants and countries where this is a requirement), return-to-provision analysis, fixed asset book-to-tax differences and accurate payables validation
- The need to effectively manage transfer pricing obligations
- The need to maintain close involvement with significant transactions — both to proactively plan the most tax efficient strategy and to manage the impact of business transactions on previously taken tax positions
- The need to manage short close cycles in an effective manner, with the minimum of risk

The majority of these factors have been present for some time. Today, though, they are compounded by a new tier of external challenges:

- The volume, pace and complexity of tax legislation and change continues to accelerate (85% of US-headquartered companies report that they are experiencing more risk or uncertainty around tax legislation or regulation than they were two years ago, for example).
- As globalization drives onward and business models change, finance transformation is driving new cost reduction plans resulting in a decrease in the number of resources in finance functions, including tax.
- Governments, the public and tax administrators are demanding increased transparency around not only taxes paid, but also the policies and procedures put in place to manage tax risks — particularly in the case of high-technology companies, well-known retail brands or companies engaged in sustainability-type activities, to name just a few criteria.

“If you can’t measure it, you can’t improve it.”

— Peter Drucker
management consultant and author
Managing operational tax risk

Managing operational tax risk

The starting point: effective tax policies

Effective tax policies — those principles and protocols that guide tax decisions in order to achieve desired outcomes — sit at the heart of successful tax risk management. A well-defined policy can describe how the tax function manages tax across the entire business as well as setting out an operating model, responsibilities, processes and protocols for all elements of tax management.

Effective tax policies not only lend structure, guidance and instruction to the enterprise, they can also prepare companies to communicate more proactively in a public fashion, should they make that public relations choice.

“We’re acutely aware of the whole spectrum of challenges that impact the way we need to manage our risks,” says Beatrice Deshayes, Group Tax Director at Veolia, a multinational utilities company based in France. “We’ve not only put great effort into institutionalizing our tax policies and processes in a number of key countries, we’ve also put in place a dedicated group to manage and improve them on an ongoing basis,” Beatrice Deshayes says. “More than just developing new tax policies, we realize the external environment has changed significantly. So we’re actually working with our management team to see whether we should make these policies available to the public. For a business like ours that’s engaged in sustainability, it’s an important issue.”

Many companies have chosen to review and revise their tax policies in light of the increased focus on tax by the media, politicians and the public. Whether or not they make them public, survey data shows that more than 6 out of 10 (62%) of the largest companies responding have either created or refreshed their tax risk policy during the course of the last two years. Of these companies, one-quarter had created completely new policies, while the remaining three-quarters had refreshed an existing policy.

Reassess adequacy of internal controls

The internal controls a company puts in place across the tax lifecycle of accounting, provision, compliance and controversy are critical to the effective management of operational tax risk. While the factors that contribute to increased levels of operational tax risk are very complex, virtually all of them require data integrity to be overcome. With data being posted and managed in multiple GLs and multiple sub-accounts (across both different lines of business and jurisdictions), applying effective controls can be one of the most time-consuming (and frustrating) activities for the tax function to manage.

Tax controls must address innumerable specific processes. They include, among other things:

- Managing the timely reconciliation of tax accounts
- Addressing risks of improper recording of valuation allowances, dangers from inadequate monitoring of significant transactions,
- Responding to new disclosure and reporting requirements, financial close and work compression issues, estimation errors of myriad types
- Striving for accuracy (and timeliness) in the valuation and measurement of deferred income taxes and uncertain tax positions

85% of US-headquartered companies report that they are experiencing more risk or uncertainty around tax legislation or regulation than they were two years ago.

The survey data shows that 62% of the largest companies responding have either created or refreshed their tax risk policy during the course of the last two years.
Sourcing and then maintaining properly tax-sensitized data (i.e., building into the data, at the time it is recorded, the specific tax attributes that will facilitate future tax accounting and tax compliance processes) held in multiple enterprise resource planning (ERP) systems is one of the core frustrations of tax professionals everywhere and is the focus of much internal controls work.

“There has to be a centrally applied gateway control over the creation of accounts and changes of definitions” says Brimicombe of AstraZeneca. “There also has to be an ongoing process to ensure that the chart of accounts stays business relevant, consistent, standardized and, as far as possible, simplified. It takes significant effort from the tax team to ensure that our voice is heard at the accounting table so that relevant tax information continues to be available. Consolidating or simplifying accounting data runs the risk of losing the granularity required for tax computations.”

In fact, the issue of implementing and maintaining effective internal controls extends well beyond the GL, affecting sub-accounts in every business line and jurisdiction. This can make a consistent approach to control implementation a very time-consuming, complex issue.

Real-time monitoring

Successful ongoing monitoring of the range of supranational and national proposals and legislations is fast becoming an important benchmark for the leading tax functions. But more than just monitoring change, processes to react and embed those changes across the tax lifecycle are equally important. This includes not only tax legislation and tax administration “intelligence” of revenue authority focus areas, processes and approach. It extends to real-time monitoring of more specific issues – such as making sure the transfer pricing policy is properly implemented, that national changes are reacted to and that transfer prices charged match the model set, on a real-time basis.

“Historically, we relied on the people in a range of different departments to put figures into different systems, and nobody was really trying to properly understand or challenge the figures,” says Beatrice Deshayes. “Then we would need to identify and extract what the potential areas of tax inefficiency might be. But we have 3,000 legal entities, so that leaves potential for a lot of tax leakage if you don’t manage it correctly. So we have a team now that’s responsible for understanding, analyzing and, most importantly, applying controls processes to the data we see in each entity, in a more systematic, measured way. That allows us to be able to launch an action plan, both to reduce operational tax risks and to improve our tax efficiency.”

It is not just the largest, most visible entities in an enterprise that are the sole source of tax risk, though.

Beatrice Deshayes continues, “Sometimes you can have many subsidiaries, and they don’t all have hundreds of millions of revenue. Sometimes you have a subsidiary which makes $50 million turnover per year in a group which makes $25 billion a year. But that entity could trigger more risks than a larger one, for a variety of different reasons. The size of the entity is not always a key indicator of whether it generates risk or not. So applying your controls in a systematic, measured way is very, very important.”
Different sectors, different needs

It is not just the number of entities, jurisdictions or product lines within a business that affects how complex it can be to embed the right controls. Different industry sectors all possess very specific characteristics that drive how they design, implement and manage their controls environment.

“The GL is maintained by finance, with very tight, strong controls” says Samantha King of Standard Chartered. “The issue is harder when you get underneath the GL. You have a series of sub-accounting systems or transaction posting systems, where the actual day-to-day transactions are posted. There will be a different one for every part of the bank, in our industry.

“When you get into the world of indirect taxes, it’s a question of whether the underlying sub-accounting systems are being used appropriately and with the right ledgers,” King adds. “The challenge is that that isn’t just one group in finance – it’s a multitude of people across operations and parts of product control, middle office and finance, so it’s more difficult to control. In a non-financial services company, you would have an accounts receivable function, and they would be your key point of contact for VAT or GST issues. A bank has no accounts receivable function, so in that case, you might not have a global owner and you’ll need to pick it off unit-by-unit instead.”

Documenting controls and transactions is changing

The survey indicates that a significant majority (80%) of all companies surveyed have documented their control processes, and this figure rises to 88% for the largest companies. Within this largest company segment, though, controls are not always documented in a completely broad or consistent manner; of the largest companies saying they do document their control processes, just 25% say they are documented in all jurisdictions, whether or not it is required by regulators. Twenty-three percent say they are in all jurisdictions where it is required plus some other jurisdictions, while the remainder (52%) says their control processes are documented in the jurisdictions where this is required.

While managing the complexities of data integrity has long vexed the tax function, demands for enhanced documentation of transactions – in the area of transfer pricing, in particular – has drawn even more attention from tax authorities and regulators in the last few years. This is driving more and more companies to redefine and improve their processes to develop documentation.

In EY’s 2013 Global Transfer Pricing Survey, for example, the frequency of transfer pricing documentation “as filed” being deemed adequate on audit declined for multinational companies in 22 of the 26 countries covered by the survey. The same survey indicates that the shift toward operational risk management is evident in the level of effort companies say they devote to documenting their intercompany transactions. Only a very small minority of parent companies (4%) left the preparation of transfer pricing documentation until an audit request arose. In fact, 70% of

---

companies claim to be either fully compliant with the transfer pricing rules in every country in which they operate or fully compliant wherever they consider transfer pricing to be high-risk.

With documentation requirements in place in more and more countries, it is challenging for even the most diligent taxpayer to meet complete compliance, and the survey responses reflect the magnitude of the challenge. Only 28% of parent company respondents claimed to be fully compliant in every country. The highest percentages of taxpayers reporting full compliance were based in countries with strict requirements for contemporaneous documentation: Argentina (83% of parent respondents) and Mexico (70% of parent respondents).

King at Standard Chartered explains some of the complexities that must be dealt with in terms of documentation: “There has been a significant change in the level of documentation required, and of course, there’s a huge focus on transfer pricing. But it’s not like there is a single approach that we need to follow.” For example, she explains, Korea requires a Korean translation for every contract the company enters into, and any policy change must be translated into Korean before it can be adopted. India has required the company to produce invoices for all head office costs that have been recharged into India.

“That’s binder after binder after binder of information!” King says. “So appreciating that the level of documentation goes beyond the existence of a nice transfer pricing master binder is the first point here. Second is, how do you deal with the issue in a way that gets the best results? I think you have to move to real-time documentation. And then you have to circulate it to the country tax teams very, very quickly after year-end because you will only find out what is missing at that point. The country tax teams are the ones that have to interact with the local tax authorities, and they are going to have a much better idea of where any gaps may lay. I also think that gives the local tax team a higher level of confidence that they aren’t going to get burned if there’s an audit two, three or four years later.”
Respondents to the survey overwhelmingly agreed with these views. Sixty percent of the largest companies report having made changes to the way they approach the documentation of transactions for tax purposes in the last two years; this figure rises to 77% for companies resident in BRIC countries. For the global respondents, the reduction of compliance risks was far and away the leading driver for changing documentation processes.

That is not to say there are no other drivers toward the same goal – survey respondents also mentioned the need to improve internal data sharing capability, to respond to country-level legislative developments, remediate a controversy that has arisen in the past or respond to an internal audit finding. Even so, higher documentation requirements by national tax authorities are driving the bulk of taxpayer behaviors in this area.

The Tax Control Framework – the next evolution of tax controls?

Today, many companies are adopting what is referred to as a Tax Control Framework, or TCF. Finding its genesis within the Dutch Tax Authorities’ Horizontal Monitoring concept, a TCF is an internal instrument made up of the people, processes and technology that enable the effective management (including risk management) of taxes.

While an important concept in its own right, the TCF may take on heightened importance in the years ahead. The design, existence and effective functioning of a TCF is likely to sit at the very center of as-yet unpublished guidelines (expected in late 2014) from the Organisation for Economic Co-operation and Development (OECD) on how countries can most effectively develop and implement co-operative compliance programs.

A May 2013 report from the OECD discussed how a TCF is central to a corporation’s disclosure and transparency activities, whether or not those activities are required under law or are offered voluntarily. The report discusses how a survey issued by the OECD confirmed that while corporate governance obligations are set out in legislation in a majority of

---


countries, only three – Australia, the Netherlands and the United Kingdom – explicitly include tax. Many countries do, however, impose specific tax disclosure requirements upon corporations, including the disclosure of specific tax positions or aggressive planning schemes. The ability of a corporation to meet these obligations, according to the report, is largely reliant upon the effectiveness of the corporation’s TCF.

The OECD report includes a discussion of how each multinational company will typically develop a TCF to meet its own requirements, resulting in no “one size fits all” approach for revenue bodies to assess. Furthermore, the report sets out that a TCF typically evolves over time, meaning that its effectiveness must be assessed on a case-by-case basis. Within a co-operative compliance relationship, the revenue body will typically expect the taxpayer to be fully transparent as to the different components of the TCF, and revenue bodies will typically assess its effectiveness across five core parameters:

- Detection of tax-related risks and opportunities
- Disclosure of tax-related risks and opportunities
- Preventing tax-related errors
- Detection and correction of errors
- The existence of a learning cycle

The existence of the OECD’s report and the possibility that a more detailed, defined approach to developing a TCF may well be in the works – with an associated requirement for entry into the ever-growing number of co-operative compliance programs – are both important markers for tax function leaders to be aware of.

The 2013 COSO report: an opportunity to get engaged in process redesign

It will be of no surprise to tax professionals that the guidance or requirements set forth by one organization are not the only source of inspiration (or requirement) that must be folded into the mix. In 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released an update to its Internal Control – Integrated Framework. The original COSO framework, released more than 20 years ago (in 1992), has extremely broad acceptance as a model to which corporations should adhere in their design, implementation and management of internal controls.

Many enterprises – and in particular, the finance function within those enterprises – will now be studying the COSO recommendations in detail. It will be imperative for tax leaders to find a middle ground that both meets finance function needs and retains the flexibility to enable tax to develop highly effective TCFs and enter into (if desirable) a cooperative compliance arrangement. This is not an insurmountable task, but it will take forethought and planning to achieve.
Using technology to mitigate risk

Using technology to detect potential tax leakages, calculate the tax provision at the press of a button or use data analytics to find real-time opportunities for commercially driven tax planning is the stuff of daydreams for most tax leaders. Yet finding a way to effectively access and reconcile multiple general ledgers, manage the endless spreadsheets that make up the tax provision and keep on top of endless email-based communication around the identification, status and management of uncertain tax positions (not to mention the status of disputes and litigation) often keeps the lights burning late in the tax department.

Fifty-six percent of survey respondents agreed or strongly agreed that a lack of effective technology is a contributor of tax risk within their company. This figure increased to 69% for companies responding from Asia-Pacific. Survey respondents identified three key areas where technology is either causing risk or could go a long way further to mitigate risk if it was leveraged more effectively: first, access to data and the integrity of that data; second, how technology affects the preparation of the tax provision; and third, how post-filing, local activities such as collecting information requested by local tax authorities for the execution of tax examinations, tracking active disputes, and handling litigation are all managed.

Access to higher quality data is key for the tax function

An old adage holds that a database is only ever as accurate as the information inputted. This is especially true in tax, where the wrong data can lead to penalties, interest, disputes and reputation risk. Successful ERP implementations have become a prerequisite for high-performing companies, and without doubt they play a mission-critical role in the enterprise-wide business operations of every single multinational company. But not every company has a consistent, global implementation, even if they have implemented the same package around the world. The result is that tax functions must typically interact with multiple standards and spend valuable time translating to a common structure or data definition. Even when tax has access to these systems the data management challenges can be daunting.

Fortunately, both the ERP and the tax technology software market have developed significantly in recent years. New players have identified the value that can be delivered to companies by providing them with unfettered, transparent and consolidated access across multiple ERPs and major tax processes, and the major ERP players themselves have realized that building tax into their ERP offering can differentiate them in a highly competitive market.

“The goal is to turn data into information and information into insight.”

— Carly Fiorina, former chief executive of Hewlett-Packard
For many tax functions, though, achieving seamless access to multiple instances of different ERP systems is an area that is very difficult to achieve independently. At a minimum it requires significant support from the finance function. Sometimes, this audacious goal can be delivered via a finance transformation process.

King of Standard Chartered explains, “It’s an exceptionally challenging thing for a tax department to solve in isolation. So whether it’s a full finance transformation or an interim improvement project, there has got to be great connectivity between tax and finance.”

King adds, “If you are lucky enough to have a finance group that is willing to partner with tax, you can get a lot out of it. I think the biggest part for tax is simply access to data, rather than anything like data analytics or complex front ends. Truthfully, just having the ability to access the GL, click down into the transaction posting system and then click down into a document – that’s nirvana. Everything else is icing on the cake.”

King says her company previously had 13 different GLs and couldn’t run a report that picked up information from all 13 because they used different software on different servers in different countries – a very typical situation for a large company.

The company’s finance department eventually brought the different GLs into a single software package, allowing the organization’s tax professionals to generate a single report.

“For us, that’s saved the equivalent of two to three FTEs when we run our quarterly processes, as well as helping us managing our ongoing risks,” she says.

The good news is that of those companies in the survey that have either started, are conducting or have completed a finance transformation process, 72% said that tax was in scope. Of this 72%, roughly 80% said that tax was included from the start, while the remainder has to make a case for inclusion. Only 10% of the largest companies say that tax was not in scope at all during the finance transformation.

Of those companies that have undergone a finance transformation, the vast majority felt that their tax requirements were met; 84% said they were both heavily involved and able to meet all of their tax requirements, or they were somewhat involved but believe the majority of their global requirements were met. Only 14% said they were somewhat involved and had only a limited opportunity to meet their global tax requirements.

The technology challenges of the tax provision

The tax provision is no longer a forgotten or incidental part of a company’s financial reporting, not least due to the increasing focus on companies’ effective tax rates resulting from BEPS and the activity of social advocacy groups.

“Gone are the days where the tax provision was a disclosure requirement that needed to be completed, but was never read,” says David Kovar of EY’s Tax Performance Advisory team. “In today’s world, companies have to anticipate that components of their tax disclosure, especially related to the effective rate or uncertain tax positions, can become front-page news.”

56% of survey respondents agreed or strongly agreed that a lack of effective technology is a contributor to tax risk within their company. This figure increased to 69% for companies responding from Asia-Pacific.
The risks and challenges that the tax function faces in relation to preparing the tax provision can be daunting and are exacerbated by ever-shortening close cycles. Some of the notable risks and challenges include:

- Poor data quality from foreign subsidiaries
- Late journals not communicated, resulting in the tax calculation being based on inadequate data
- The difficulty of generating a reliable tax basis balance sheet
- Internal control deficiencies from the tax provision
- Inefficient processes, including excessive use of spreadsheets or a lack of data automation
- Resource shortages
- Top-heavy staffing and a lack of appropriate leverage
- Lack of meaningful connectivity between the tax function and other business units
- Multiple manual touches of data and a lack of integrated technology platform
- Crisis mentality, leading to less time for analysis and review
- Contemporaneous responses to regulatory changes
- Lack of ability to leverage provision data with the tax compliance process and vice versa

The good news is that of those companies in the survey that have either started, are conducting or have completed a finance transformation process, 72% said that tax was in scope. Of this 72%, roughly 80% said that tax was included from the start, while the remainder has to make a case for inclusion. Only 10% of the largest companies say that tax was not in scope at all during the finance transformation.

Of those companies that have undergone a finance transformation process, the vast majority felt that their tax requirements were met. 84% said they were both heavily involved and able to meet all of their tax requirements, or they were somewhat involved but believe the majority of their global requirements were met. Only 14% said they were somewhat involved and had only a limited opportunity to meet their global tax requirements.
With the current focus on taxes generally and the tax provision specifically, the tax function now has a stronger voice with others in the finance organization. In order to address the multiple challenges of calculating the provision, one of the most important tasks is to proactively push for higher-quality tax data at the legal entity level.

Many finance organizations will already have consolidation and data warehousing technologies that may be able to pull together the data that the tax function requires in a much more automated and efficient manner. With the increased scrutiny and requirement for increased controls and audit trails, the tax function should consider all opportunities to actively leverage these technologies to their advantage. Indeed, some of the companies that make the ERP, consolidation and data warehousing software are now including tax provision functionality in those tools.

In addition to quality source system data, the increasing desire for a rapid, high quality tax provision based on strong controls has driven many tax functions to implement third-party tax provision systems. Although these can be complex to implement, they can be integrated with both source system data and the tax compliance system for increased speed, efficiency and the removal of many risks from the provision process.

Tracking uncertain tax positions, disputes and tax litigation

In India alone, it has recently been calculated that the total value of tax under litigation is an astounding US$92 billion.\(^7\) While the Indian tax regime is notorious for its willingness to litigate, that figure would seem to indicate that the global stock of tax litigation could well reach the hundreds of billions of dollars.

Additionally, the OECD in a 2007 publication\(^8\) estimated that 38% of corporate spending on tax services relates to tax audits, appeals and litigation. It is likely that this figure has risen since then.

For an area where hundreds of billions of dollars of value may be at risk and where spending is this significant, it is perhaps surprising that 44% of all companies surveyed either utilize no technology to enable and support tax authority requests for data and Tax Audit Management or made it the sole responsibility of their local tax teams. The same amount rely on a combination of email or simple spreadsheets, while only 12% leverage some form of customized software — that they have created themselves, have purchased or licensed from an external vendor, or have obtained from their tax services provider. While many companies reported that the overall accuracy and granularity of the data available to them was satisfactory, only one in four survey respondents said that they were satisfied or very satisfied with the level of time and effort it took to source the data to respond to requests from tax authorities.

---

\(^7\) Lok Sabha Unstarred Question No. 3734, answered on 27 April 2012 and Report No. 17 of 2013, Comptroller and Auditor General of India.

While the survey was conducted before drafts of the OECD Transfer Pricing Master/Local file templates were made public, 32% of respondents did not believe their company has the reporting systems in place that would allow them to gather and provide such information.

71% of all respondents expressing an opinion said that they would need to add additional resources in order to be able to gather and provide the required information.

44% of respondents make no use of technology or software tools to enable and support tax modeling.

38% use internally developed spreadsheets, and only 21% use some form of custom tool.

There are many indications that the turbulent changes to business taxation are driving companies to reassess how they manage their stock of disputes around the world. Companies are looking more strategically at how to address the issue and evaluating their resources, processes and systems for effective global tax risk management. From a systems point of view, many more companies are putting in place web-based tools to identify, track and manage both uncertain tax positions and open disputes and litigation. The technology implementation issues aside, this is no easy task. For example, the reliance on non-tax personnel in local jurisdictions to maintain and update the information and the existence of enhanced information regarding uncertain tax positions can actually create a new friction — with the company’s auditor.

Challenges ahead

“Getting the numbers right” has long been a mantra of tax professionals everywhere. More recent developments, though, are putting that goal under even more pressure. Many of the OECD’s BEPS recommendations were still at the drafting stage and well ahead of their final form or enactment into national-level legislation at the time this report was written. But one specific area – demands for transparency – was further along the development cycle.

The advent of country-by-country reporting (whether under the auspices of the OECD BEPS project, the European Union or unilateral developments by countries such as Australia and Norway) as well as the future requirement to provide a series of standardized Transfer Pricing Local Files (as well as a single Transfer Pricing Master File) are putting corporate reporting obligations under even more pressure.
While this survey was conducted before drafts of the OECD Transfer Pricing Master/Local file templates were made public, almost one-third (32%) of respondents did not believe their company has the reporting systems in place that would allow them to gather and provide such information.

Seventy-one percent of all respondents expressing an opinion said that they would need to add additional resources in order to be able to gather and provide the required information. This potential need for resource expansion comes at a time when “insufficient resources to cover tax function activities” is identified as the leading source of operational tax risk.

Other data-driven disclosure and transparency challenges may be less visible now but could become a bigger challenge in the future. For example, other countries may soon copy actions by Australia and the United States that require disclosure of uncertain tax positions (reportable tax positions, in the case of Australia). The OECD’s BEPS Action Item 12, “Disclosure of aggressive tax planning arrangements,” expected in September 2015, may encourage others to follow the US and Australian lead in this regard.

Other uses for technology

Data access, managing the tax provision and dealing with tax audits are but three key areas of operational risk related to the effective use of technology. Survey respondents also provided a series of interesting insights into their use of other technology tools and platforms to enable and support key tax processes:

- 44% of respondents make no use of technology or software tools to enable and support tax modeling, 38% use internally developed spreadsheets, and only 21% use some form of custom tool.
- 35% make no use of technology or software tools to enable and support document management and workflow tools, 31% use some form of internally developed tool, and 41% use some form of custom tool from an outside vendor or supplier.

Data may not add to 100% as some companies report using a combination of software tools and platforms.
• 32% make no use of technology or software tools to enable and support data warehousing, 39% use internally developed spreadsheets, and 41% use some form of custom tool.

• 42% of respondents make no use of technology or software tools or rely solely on local personnel for tax calendaring, 41% use internally developed spreadsheets, and 20% use some form of custom tool.

• 37% of respondents make no use of technology or software tools to enable and support legal entity management, 37% use internally developed spreadsheets, and 31% use some form of custom tool.

Implementing a tax technology strategy that is effective is a real challenge. Numerous systems must be integrated, much of the technology is highly custom; and of course, tax is typically a tertiary player in the whole technology game, following the lead of finance and the IT function. But where the stars align and tax can assert its needs, the opportunities – and not just in terms of managing operational risks – are significant.
The right tools for the climb

In order to transform and mitigate operational tax risks, companies should identify how their operations compare to leading practices, actively prioritize opportunities for change, and design a roadmap and timeline for implementation. They should strive to identify and assess key opportunities and risks on a globally consistent basis. They should also leverage technology to support an approach that instills visibility, accountability and efficiency, while ensuring the integrity of financial data that is used for tax return purposes.

EY has identified eight key components that comprise a framework for managing operational tax risks.

1. Establish and sustain tax policies.

A robust tax framework begins with having a clear tax strategy and supporting policies that are endorsed and supported by the board of directors. There needs to be strong tax governance in place, as well as an effective framework for managing tax risks. A company’s tax policy and risk tolerance should be aligned with the wider finance and business risk agenda. It is critical, however, that the tax function owns the drivers of tax risk and value. Policy statements should be reviewed and revised where necessary to meet increased demands for transparency, such as country-by-country reporting. Finally, companies should have the right technology in place to monitor their tax activities in order to demonstrate adequate oversight over key elements of policy.

2. Enhance performance management.

In light of so much change, companies should consider revising tax and finance role descriptions to explicitly include responsibility for ensuring data integrity and quality. Adding these duties and measurement criteria will help ensure data made available for downstream use is acceptable. In addition, organizations should establish key performance indicators to keep the focus on change and change readiness. They should also better connect key groups in finance, operations and tax with service-level understandings and agreements on processes, including the use of data. And they should develop competency development plans that are focused on building skills and experience in the right areas.

Any successful mountaineering expedition requires careful planning, a team of exceptional personnel and the most advanced tools. Managing operational tax risks requires much the same.
3 Organize globally.

It is also important to orient an enterprise’s organization on a global basis. Businesses should establish global roles with responsibility for ensuring accountability and visibility/transparency within the individual functions. This is particularly important in the area of improving the alignment between tax and finance objectives, which can allow for better results for tax.

Indirect tax, tax accounting, and compliance and reporting should all be managed with global oversight. Establishing tax centers of excellence and shared service centers can be highly effective if they facilitate improved coordination between finance and tax teams in regard to data quality. But equally, there are risks associated with an ineffective implementation that should be addressed as early as possible.

4 Recruit and retain the best people.

The best tax people today think dynamically, work collaboratively with other business functions and focus on continually improving the key processes that are either entirely tax owned or shared with finance personnel.

Successful businesses should build a hiring roadmap that anticipates their functional needs and consider co-sourcing with an external provider that can coordinate globally but execute locally to manage risk. Tax centers of excellence should be designed with the development of these talents in mind. Talent development will be a key priority and will likely include more global mobility to grow key leaders. They should be places where career satisfaction and talent development are key priorities.

Companies that use shared service centers should carefully design activities, deliverables, hand-offs and technology to derive the maximum benefit, and tax personnel should have the skills to team extensively and effectively with external stakeholders, whether in the public or private sectors. Finally, companies should make sure they have people in both global and regional roles to leverage talent and maximize accountability.

5 Implement, monitor and constantly upgrade tax processes and controls.

Establishing global standards and process integration is the next step to gaining more efficiency and managing operational tax risks.

The most successful enterprises build the mechanisms to institutionalize processes and controls right across the tax lifecycle and across business functions: planning, accounting, compliance and controversy. That means setting global standards for statutory accounts preparation, including statutory tax provisions; there should be proactive and transparent monitoring of the key drivers of effective tax rates, cash taxes and risk that facilitates executive accountability and timely intervention where required. Successful businesses create a continuous improvement model that challenges the prior-year process. They re-establish quality in existing numbers by validating tax basis balance sheets. They develop and implement formal, written tax accounting policies and procedures.

Finally, the tax function should assess whether the 2013 COSO reports provides a fresh opportunity for tax to define the specific controls and processes that would help them partner more effectively with other business functions.
Improve data quality.

Detailed, high-quality, tax-sensitized data is critical to successful mitigation of operational tax risk. Successful businesses build an effective data management strategy using a tax technology framework to support the entire tax lifecycle. In some cases, data systems could be better designed or consolidated. But generally, quality data accurately and efficiently tracks direct tax payments; monitors transfer pricing arrangements; tabulates indirect taxes, including value-added tax collections and remittances; records credits and incentives; enumerates withholding taxes; and codifies statutory account differences between International Financial Reporting Standards (IFRS) and GAAP.

In many cases, dedicated data repositories can be considered in order to support tax planning and audit teams. In the leading cases, companies should be able to rely on data to evaluate transactions as originally recorded in ERP systems through the lens of the audit approach taken by tax authorities. All companies should strive to improve data collection on a legal entity basis for the purposes of forecasting and interim reporting. They should automate analysis of the tax effects of intercompany profits by working with the finance function. They should develop tax self-serve data collection competencies and ensure they have proper controls over technology applications comprising the overall provision model. There should also be extensive tax participation whenever data requirements are created or revised or ERPs designed to make sure data is suitable for use.

Implement the right technology.

Companies that want to successfully mitigate tax operational risks should have a clearly defined strategy for investing in and deploying tax technology. They should develop a tax technology roadmap and seek to leverage their organization’s existing technology investments and infrastructure.

They should replace spreadsheet consolidation and email-based workflow with leading-class tax technology including global tax provisioning tools and indirect tax determination engines. And they should consider how best to use workflow management tools to enhance global visibility, accountability and content availability.

Consider whether existing compliance and reporting capabilities meet today’s needs.

Companies may wish to consider expanded outsourcing of global compliance and reporting, particularly if they have sacrificed local knowledge and capabilities as part of a finance transformation or cost reduction exercise.

Companies should assess how each of their statutory accounting and reporting obligations are managed today, including whether they meet the desired business outcomes of market reach, operational agility, cost competitiveness, stakeholder confidence and tax value. Companies should assess the operational elements of efficiency, control and value that may often conflict but must be balanced to achieve an optimal model. Companies should plan any transition carefully, understanding the business’s ever-changing reporting requirements, defining the operating model and adopting proper processes and systems.
Our survey was conducted online between November 2013 and January 2014. Two separate online survey instruments were used.

The respondents included 962 tax and finance executives representing more than 20 industry sectors in 27 jurisdictions.

Companies with annual revenues ranging from less than US$50 million to more than US$5 billion responded. Thirty-four percent of responses came from companies generating in excess of US$5 billion in annual revenues.

Responding executives included the following roles: tax director, global head of tax, chief financial officer, financial controller, a functional tax head (e.g., international taxes, indirect tax or employment taxes), financial director, vice president of finance, vice president of tax, other tax role or other finance role.

Figures contained in the report may not add to 100% due to rounding, non-reporting of “don’t know” responses and no responses.
Conclusion

The 2014 Tax Risk and Controversy Survey finds incontrovertible evidence that meeting tax obligations in today’s global economy is becoming more complex and difficult than ever. Companies are struggling with how to respond to threats to their reputation, a rapidly changing legislative landscape and a more hostile enforcement environment. Yet at the end of the day, there is only so much they can do to control these external risks and the impact they have on their organizations.

Taking charge of their own tax operations, however, will empower companies to not only be more efficient and compliant on an ongoing basis, it will also put them into a more resilient position to confront and manage external risk factors.

Now is the time for businesses to make sure their tax functions have the right people, processes and technology in place. Getting things right the first time can pay dividends – from higher levels of control, greater efficiency and value in the tax function to reducing the incidence of risk. This can form a foothold in the rock as you climb the uncertain landscape that looms for us all.
Managing operational tax risk

Exploring the Possible: making Tax a value creator in finance transformation
In the first webcast in the Exploring the Possible series, leading EY professionals from Tax Performance Advisory look at tax in the overall construct of finance transformation — why, when and how tax should be involved; what risks are likely to arise with insufficient involvement; and what benefits can be gained with proper engagement.

ey.com/exploringthepossible_value

Exploring the Possible: effective global tax data management
In this second webcast in the Exploring the Possible series, leading EY professionals from Tax Performance Advisory take a closer look at data and the impact that finance transformation will, could and should have on the quality and value of enterprise data coming from SAP, Oracle and other ERP solutions.

ey.com/exploringthepossible_data

Managing indirect tax data for insight and control
EY professionals from around the globe outline leading data management approaches and technology tools to help companies analyze indirect tax data more effectively, drive value and achieve strategic goals.

ey.com/indirecttaxdata_insights
EY’s tax risk and controversy series materials are available on a dedicated microsite, which will continue to be populated with new resources as they become available.

Benchmarking yourself against your peers

An innovative benchmarking tool allows you to answer 20 selected questions from EY’s 2014 Tax Risk and Controversy Survey. You then can compare and contrast your views against survey responses for companies in your jurisdiction and company size. Your responses will not be stored by EY.

Listen to podcasts

All of our reports are available for online streaming or offline podcasting. You can download report chapters or listen to the report in one single podcast.

Download infographics

All of the infographics appearing in EY’s 2014 Tax Risk and Controversy Survey series of reports can be downloaded and used in presentations, articles and white papers.

ey.com/taxriskseries
Find the right people, processes and technology to manage record-to-report risks

ey.com/taxriskseries
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY’s Tax services
Your business will only succeed if you build it on strong foundations and grow it in a sustainable way. At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference. So our 35,000 talented tax professionals in more than 140 countries give you technical knowledge, business experience, consistency and an unwavering commitment to quality service – wherever you are and whatever tax services you need.

© 2014 EYGM Limited.
All Rights Reserved.

EYG no. DL1053
1402-1201171

ED none
This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com