Transforming tax through centralization
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As pressure increases on global power and utility (P&U) companies to cut costs, a centralized approach to tax, compliance and reporting may improve efficiencies, enhance controls and allow for a sharper focus on the core business. Ute Benzel reports.

Around the world, companies are in the midst of a finance transformation initiative. Economic pressures and the challenge of meeting complex compliance regulations in all of the jurisdictions in which they operate have more and more organizations moving toward centralizing some tax processes through co-sourcing or outsourcing partnerships.

However, due to the close links between the tax, compliance and reporting cycle, decisions regarding the centralization of processes should be made with the entire cycle in mind. Ernst & Young’s Global Compliance and Reporting Process enables companies to standardize the delivery of compliance services around the world and realize three key benefits:

- Quality assurance
- Fulfillment of compliance regulations
- Creation of additional value

These benefits may be particularly relevant to the P&U sector, which faces a growing need to keep energy prices low while financing massive capital upgrades.

Where are the benefits?

For P&U companies, those areas that may benefit most from a centralized approach to tax are:

- Value-added tax (VAT): Companies operating within the European Union may consider centralizing the VAT processes of numerous countries, cutting costs through reducing staff in individual countries while also improving efficiency and creating a central repository of tax information.

- Tax accounting: The accurate and timely calculation of current and deferred taxes included within the group financials has become more important in the face of increasingly tight submission deadlines. Centralizing the preparation of group financial statements will typically produce cost reductions while increasing the transparency of this information across the entire group.

They may also centralize routine finance processes such as accounts payable and accounts receivable.
Beyond cost savings, centralization can give P&U companies a strategic advantage by freeing up resources and delivering an overview of the group’s overall tax position that can enhance future planning.

Overcoming challenges

Centralized tax functions have the potential to reap significant cost and efficiency benefits for P&U companies, but the process can be complex and must be managed carefully. Before embarking on any centralization of processes, organizations will first need a thorough understanding of exactly what these processes are, how they are performed and what information is required to complete them accurately and on time.

Once centralization begins, a key challenge is to standardize the local processes of many different countries into one centralized process. Companies will need to:

- **Design** standardized process maps
- **Define** controls based on scenario planning that considers exactly what could go wrong
- **Test** these controls

Another issue is the selection of an appropriate low-cost jurisdiction in which to establish the centralized function. The decision about whether to move staff to this new location or hire local people should be approached strategically and with caution if the envisioned cost reductions are to be achieved.

Co-sourcing or outsourcing?

When many companies centralize their tax functions, they will often engage a third-party provider to manage the complexity of the process and mitigate the risks. Determining whether to outsource or co-source with this third-party provider will depend upon a utility’s individual circumstances, countries of operation and corporate culture.

Outsourcing tax functions would see all aspects of these processes performed by a third party with no local department remaining. Co-sourcing may be a better option if a local tax function remains but at a reduced level. These remaining staff would work in collaboration with the third-party provider to perform all the necessary processes.

Ernst & Young professionals work with many P&U clients in both outsourcing and co-sourcing arrangements. Our global network and deep sector experience allow us to help design and implement tailored centralization arrangements that bring real value to our clients. The transparent, standardized and easily accessible data we provide gives P&U leaders confidence that their tax processes are efficient, compliant and aligned to their organization’s strategy.

Seamless collaboration

A successful implementation of global tax processes can bring significant cost reductions and increased efficiency for P&U companies at a time when the pressure to improve performance is greater than ever. The Global Compliance and Reporting Process can serve as a valuable road map for organizations as they centralize these processes. Whether an outsourcing or co-sourcing approach is taken, the goal for any company centralizing these functions is a seamless collaboration between their team and their third-party provider. The right third-party provider will be a true partner, giving companies confidence that their centralized tax functions will create sustainable value and competitive advantage.

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