Leveraging the power of performance management technologies for your tax department:
It’s time to take control
Given the current economic climate and increasing regulatory scrutiny, organizations need to improve visibility of the business levers that drive planning and budget forecasting. Consequently, many are increasing their focus on performance management technologies (PMT) and adopting a growing array of tools that can provide a historical and current view on, and help forecast, business operations. Given their versatility, PMT tools can be an important source of “tax-sensitized” data. As more and more organizations adopt such tools, it is imperative that corporate tax functions get involved early to gain the most value and benefits.

Deloitte hosted a Dbriefs webcast to provide an overview of tax technology trends, and specifically those related to the record-to-report cycle for tax data. Presenters reviewed new developments in enterprise resource planning (ERP) and PMT functionality, as well as the implications of PMT applications for tax functions.

**Technology: the catalyst for change**

As the tax environment moves from simple to complex, tax executives must continually look at investments in people, processes, and technology that can help them to:

- Accelerate reporting cycles.
- Improve transparency and compliance.
- Operate in a more agile manner.
- Deliver accurate information to support tax statutory reporting.
- Perform strategic analysis spending less time on processing and more time on value-added tax analysis.
- Align systems and controls more effectively with business processes to facilitate planning and forecasting.

Technology can be a catalyst for change and for accomplishing these goals, with an array of choices that range from limited functionality to high-value approaches that integrate tax functions with business processes. Currently, there is an increased focus by external auditors and audit committees which are driving investments in Finance and Tax Process Transformations. However, virtually any enterprise project that includes an implementation or upgrade of core financial or PMT software provides a great opportunity to “tax sensitize” financial data.

The **tax record-to-report cycle**

With the array of available technology, how do you determine the right direction? A good way to start is to conduct a detailed assessment of your organization’s tax record-to-report cycle — breaking down specific needs to the data-element level in order to determine how well current financial data meets tax requirements. This type of review can provide a basis for discussions about how technology — including core financial systems, consolidation tools, tax return, and provision software — could better support the tax function’s needs.

The exhibit illustrates an efficient tax record-to-report cycle. The left side represents tax-aligned financial systems, including one or more source systems from a major ERP vendor and/or a legacy application. For example, apportionment data may be retrieved from subsystems that feed the general ledger but, in the current state, may not carry the necessary attributes for tax calculations; therefore, some data must be collected through manual, labor intensive activities. The middle section of the diagram represents PMT and consolidation tools, which perform the various adjustments, analyses, and calculations needed for consolidated financial reporting. On the right side are some tax-specific products used to complete the provision process.

**Efficient tax record-to-report cycle**

**ERP opportunities**

After a long period of reduced IT spending, many organizations are beginning to resume — or at least consider — long-overdue projects to improve core financial systems. These initiatives may be transformation initiatives that include new ERP and PMT implementations to improve efficiency, compliance risk management, enhance customer value, or cost reduction. Or, they may be upgrades as the organization “sunsets” its current software, addresses functionality gaps, adds new capabilities that have become available (for example, developments around the use of multiple ledgers within Oracle®), or responds to changing business requirements such as the migration from U.S. Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS). Either way, these initiatives present new opportunities for the tax function to promote alignment of source data with its requirements for many subsequent federal, state/local, international, property, tax planning, and reporting activities. Tax leaders should be prepared to play a lead role by contributing to, or creating, a business case to support the IT initiative and influencing system and business process design.

There are many considerations when getting involved in an ERP update or implementation. For example, when looking at general ledger designs, it is important to focus on both alignment with legal entity structure, as well as the data interface to the general ledger to determine that the necessary tax attributes are available. In addition, do not overlook the opportunity to fully utilize ERP configuration to enhance analysis and reduce time spent on financial close consolidation accounting activities. Finally, keep in mind that success depends on the ability to connect the dots linking detailed tax requirements and accounting processes to system design. In the end state, organizations can benefit by leveraging the accounting system to gain some “quick hits” and then use other tools to fill in the gaps.

**Overview of a PMT approach**

One of the primary functions of PMT tools is to consolidate data from enterprise source systems and improve visibility of, and access to, operational data. As a result, many organizations use PMT tools to facilitate financial consolidation processes.

The exhibit illustrates a typical PMT approach that draws data from multiple general ledger systems and other sources. The tool in the center, Oracle’s Hyperion Financial Data Quality Management® (FDM), takes data inputs from the different source ledger systems; performs an “extract, transform, load” (ETL) operation according to conditional logic; and then pushes the data into the consolidation system. Finally, summarized data flows from the consolidation system into the enterprise data warehouse (EDW) as well as to tax technology tools that support the provision and compliance processes. Other outputs may include interactive analysis and reporting capabilities available within the PMT solution suite. In addition, the consolidation system also may output data to an XBRL® (eXtensible Business Reporting Language) tool that facilitates consistent reporting interactions; although with the advent of IFRS, vendors now are building PMT applications that address XBRL requirements.
Leveraging Oracle to enhance financial close, consolidation, and reporting

Many organizations already own one of the principal PMT applications; however, tax departments often are unaware of their existence or of their ability to address the tax function’s needs.

Oracle’s family of Performance Management products, as illustrated above, offer a broad set of integrated solutions which provide an array of capabilities including financial accounting applications, data assurance, financial consolidation applications, tools to support internal management reporting and external financial reporting, and governance, risk, and compliance for the enforcement of internal controls.

Several of the core Performance Management products Oracle offers include Oracle Hyperion Financial Management® (HFM), Oracle Hyperion Financial Close Management® and Oracle Hyperion Disclosure Management®.

HFM solves complex business issues related to consolidation methodology, translations, eliminations, allocations, tax/ treasury and reporting processes. The product includes:
- Custom dimensionality
- Web-based data exchange
- Integrated Microsoft® Office Excel® interface
- Process management and workflow

Oracle has recently introduced two new applications to help customers navigate the “perfect storm” of increasing regulations, higher scrutiny, and a difficult economy. Built specifically for consolidation and reporting applications, Oracle Hyperion Financial Close Management® and Oracle Hyperion Disclosure Management® assists with streamlining the extended financial close cycle and takes regulatory reporting to the next level with automated XBRL reporting.

Several other products also can be a beneficial part of the enterprise applications for data collection. Oracle Universal Content Management® (UCM) is a web-based application used to manage all types of files in a heterogeneous environment. Bundled with Hyperion Disclosure Management®, UCM ties data collection mechanisms with workflow and data validation activities. These products also can help link Microsoft® Office Excel®-based interfaces into a centralized data repository such as Hyperion®. In addition, several tax provision vendors — ONESOURCE® Tax Provision, CORPTAX®, Vertex®, and Longview — offer Web-based data collection modules that allow users to log in via the Web and follow simple, step-by-step processes to enter their local tax provision information.

How a PMT application supports the tax function

As illustrated above, the finance function typically uses a consolidation tool such as Hyperion® not only to pull general ledger data but also to provide supplemental data needed for footnote disclosure, Management Disclosure & Analysis or other reporting requirements. Most tax functions, on the other hand, pull “structured” data from various general ledger systems and supplement that with manually collected data that requires additional reconciliation and validation steps. These differences in approach can produce some divergences in data, primarily due to the steps that often take place in the consolidation process, including:
- Account reconciliations
- Top-side adjustments or other entries
- Intercompany eliminations
- Functional currency translations
- Minority interest related issues
- Entity sub consolidations for management reporting
- Proration
- Custom “dimensionality,” or further segmentation of data

Today’s PMT applications can help better align or structure data as it moves from general ledger to compliance or provision tools, addressing many of the typical areas of concern for the tax function and making these applications much more practical for tax then in the past. In addition, they can help reduce reliance on spreadsheets.

Unlike finance or accounting functions, which need just one set of consolidated financial statements geared toward lines of business or geographic segments, the tax function requires consolidation based on legal entities. Furthermore, tax user groups may need to consolidate legal entities in different ways for different purposes. Local country accountants may need a country-level consolidation for statutory financial statements and tax purposes. A U.S. federal tax group may need to consolidate and use corporate entities and certain flow-through, non-U.S. entities. From a state tax group perspective, a company may need to consolidate according to state funding requirements. For example, some states require reporting on a separate legal entity basis, some on a consolidated basis, and some on a business unit or unitary basis. PMT applications offer alternative entity hierarchies that allow users to apply the same data, preloaded by the finance
function, and consolidate it in a different way based on specific needs. Better yet, this happens without any impact on finance operations.

**Defining the tax requirements for a PMT approach**
Designing the tax-related elements of a PMT approach, like designing a house, begins with the foundation — the “dimensionalities” of data. How will you get the entity view required, at the appropriate level of detail? Without early involvement of the tax function, many PMT design projects tend to take a business management-oriented view of data — one focused around product, geography, or business line. To promote tax function value from these projects, tax leadership should make sure the PMT design addresses tax’s needs, including the ability to:

- Streamline tax reporting and automated work paper computation by leveraging data from the consolidation system.
- Address internal process controls, Sarbanes-Oxley requirements, and document tasks for completing the tax life cycle.
- Comply with narrow time windows for addressing accelerated reporting requirements.
- Enhance tax sensitivity of the chart of accounts.
- Leverage consolidation and data collection tools.
- Manage compliance controls risk by centralizing critical financial data utilized on EUCs (spreadsheets) to support tax compliance and financial reporting processes.
- Deploy consistent, pre-populated, audit-ready workpapers to streamline data-collection processes.
- Address risk and control points using a single system and database for tax compliance, provision, estimates, forecasting, and planning.
- Execute tax planning opportunities and other activities to add value to the organization.
- Manage the time and effort needed to complete compliance activities while increasing the quality, accuracy, and accountability of information.
- Deliver quality tax advice and tax planning opportunities in a fast-paced, global environment.
- Communicate, collaborate, and coordinate across the tax and financial functions.

**Creating and supporting a plan for change**
Creating a business case to support a PMT approach must start with your organization’s own facts, circumstances, and opportunities. If you had better visibility of data, could you implement state restructuring in a more streamlined manner? Could you manage repatriation planning and dividend for cash taxes more effectively? Could you do some of the forward-facing activities that you are not able to do today because your team is busy managing “rear-view mirror” activities?

Certainly, getting involved with existing PMT implementation efforts provides an excellent opportunity to address tax data needs. Asking the right questions and reaching out to finance counterparts can help tax leaders engage in, and gain a seat at the table for, these efforts. Another potential opportunity for many companies today may be the existence of material weaknesses and significant deficiencies. The attention that material weaknesses and significant deficiencies can raise at the audit committee level can be challenging for tax departments, but it also poses opportunities to gain support for addressing tax data needs.

When building a business case for change, consider the ways in which a PMT application can:

- Drive tax value by simplifying legal entity structure; enhancing tax planning and reporting, improving management of tax liabilities, or improving tracking and utilization of net operating losses, incentives, or credits.
- Manage tax risks by maintaining current tax rules, improving visibility of tax positions and risks, sharing data, enhancing tax-specific internal controls, retaining tax records, or supporting audit defense.
- Manage the total cost of ownership by simplifying and standardizing processes, streamlining compliance, enabling the use of shared services, or increasing productivity.

There are many cutting-edge tools on the market that can help improve tax data. Some very well may exist inside your organization already and could help the tax function deliver value to the entire organization. What is important is to understand what tools are available and make use of them as early as possible.

**Tax executives’ perspectives**
Deloitte hosted a Dbriefs webcast to provide an overview of tax technology trends, and specifically those related to the record-to-report cycle for tax data. Presenters reviewed new developments in ERP and PMT functionality, as well as the implications of PMT applications for the tax function. Nearly 700 participants shared their own views through responses to polling questions.

Awareness of an organization’s plans for upgrading or improving systems is critical to producing tax-sensitized data.
Yet, more than 20 percent of webcast participants said they do not know if their organizations are pursuing significant finance-related IT investments in the next near. Only 38 percent reported awareness of specific projects, with just over half of those indicating their organizations are planning ERP implementations or upgrades.

Source systems can play a significant role in determining the tax sensitivity of data used in compliance and provision processes. More than 40 percent of participants indicated their companies use a direct feed from a general ledger system(s) as the primary data source to support tax provision and compliance calculations and analysis. Another 20 percent indicated they use direct feeds from a consolidation system. About 14 percent reported they use manual data requested from various departments.

Furthermore, a little over half of respondents indicated their organizations do not source data from a consolidation tool, even though the company uses one. Twenty-four percent of respondents said they take data from the general ledger system rather than the consolidation system due to data challenges or other consolidation issues, such as foreign exchange or intercompany issues.

Source: Deloitte’s Tax Operations Dbriefs webcast, “Leveraging the Power of PMT” held on October 15, 2009. Polling results presented herein are solely the thoughts and opinions of survey participants and are not necessarily representative of the total population of companies.
Similarly, many companies still rely on Microsoft® Office Excel® spreadsheets to support the tax provision process, primarily due to lack of data granularity in their ERP systems. The use of Microsoft® Office Excel® creates additional manual processes to confirm accuracy of data. Webcast participants confirmed this, with more than 55 percent indicating that their organizations currently use Microsoft® Office Excel® and have no plans to change. Another 17 percent said they use Microsoft® Office Excel® but have purchased another software package to implement in the future. Fewer than 30 percent reported using packaged provision software: 12 percent reported using ONESOURCE® Tax Provision, eight percent CORPTAX®, four percent Vertex®, and three percent Longview.

Assuming your company uses a consolidation tool, what is the primary reason why you don’t source your data from the tool?

- Built on management oriented view and legal entities is not available: 23.7%
- Accounts are rolled up to summarized (e.g., miscellaneous prepaid, miscellaneous accruals, miscellaneous reserves, miscellaneous expenses): 42.9%
- Direct feed consolidation system: 11.2%
- We take a feed directly from the general ledger systems due to all of the above data challenges plus other consolidation issues (e.g., foreign exchange, intercompany, top-side entries, other data challenges): 9.1%
- Don’t know/not applicable: 13.1%

Companies face a variety of issues in sourcing data from their general ledger or PMT application. Indeed, webcast participants were divided with respect to the issue that poses the greatest challenge. Nearly a third indicated their biggest challenge to be lack of automation of Microsoft® Office Excel®-based tax workpapers, even though data exists in the general ledger or PMT system. Another 12 percent struggle with obtaining a trial balance on a legal entity basis, and 10 percent reported a lack of account granularity in financial charts of accounts.

**Which system do you currently rely on to produce your tax provision?**

- **Currently Microsoft® Office Excel® and no plans to change** – 17.2%
- **Currently Microsoft® Office Excel® and have bought software with plans to implement in future** – 11.7%
- **ONESOURCE® Tax Provision** – 8.4%
- **CORPTAX®** – 3.4%
- **Vertex®** – 4.1%
- **Longview** – 55.3%

**What is your biggest challenge in regard to sourcing of data from your general ledger or PMT software?**

- **Inability to get a trial balance on a legal entity basis** – 30.2%
- **Financial chart of accounts is too thin (lack of account granularity)** – 10.3%
- **Detail collected through tax packs do not tie back to financial data** – 9.0%
- **Microsoft® Office Excel®-based tax workpapers are not automated even though data exists in the general ledger or PMT system** – 39.0%
- **Don't know/not applicable** – 11.5%


**Additional resources**

For more resources that can help address the challenges tax departments face today, visit [www.deloitte.com/us/movetaxforward](http://www.deloitte.com/us/movetaxforward).

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