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Oracle Hyperion Tax Provision
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Introduction

Corporate income tax is one of the largest expense lines on the consolidated income statement. The tax expense often represents as much as 40% of total profit. Even larger tax numbers lurk on the balance sheet. Yet, the systems in use to calculate the tax provision in most companies continue to be a disconnected array of point solutions and spreadsheets that lack the transparency warranted by such material numbers. Not surprisingly, the accounting for income tax has been an area of increasing scrutiny both internally and externally to corporate finance and tax.

Why does the corporate tax provision process continue to be a challenge that few companies are able to solve? The calculation is not complex. In fact, clear guidance is provided on the proper methodology for calculating tax a provision under both IFRS and USGAAP. Any spreadsheet or basic software solution should be able to calculate it. So, what then, could be creating the problem?

Figure 1: Tax and financial close processes share the same DNA

The secret is that the tax provision problem does not lie with actual calculation of a tax provision, but rather with the collection and management of the data necessary to calculate the
tax provision. Today’s corporate tax departments are not properly armed with the right tools to manage the data necessary for calculating the tax provision. In fact, tax departments are besieged by financial data on all sides. Data arising from the general ledger, sub-ledgers, and the consolidation system must be parsed and analyzed to calculate an accurate and transparent tax provision.

And, the data problem continues to grow - both on the supply and demand side. Globalization is bringing companies into more and more markets around the world. With each new acquisition and/or organic expansion comes more data for which the tax department must account. While the data volumes expand, so too do the calls for more transparency and regulation. Whether it is demands from the board audit committee, the auditors, more aggressive tax authorities, or increasing disclosure requirements, the corporate tax department needs to have a long term strategy that empowers them to manage data effectively.
Why is Tax Data Such a Problem?

Long-gone are the days where Microsoft Excel spreadsheets are an adequate tool for managing the data necessary tax reporting. However, many tax departments continue to rely on spreadsheets to address part or all of the tax reporting process. Unlike their finance counterparts, corporate tax departments have not spent the last 20 years investing in enterprise software to help manage the growing data problem.

Corporate tax isn’t necessarily to blame for this under-investment in technology to manage data for purposes of tax reporting. We can point to two primary culprits as to why corporate tax departments are now struggling with data in comparison to their counterparts in finance:

- **New regulations increase scrutiny on tax**— Sarbanes-Oxley in the US, and similar legislation around the world, has had a broad-based impact on the level of scrutiny placed on the tax reporting that, until 2002, simply was not there. Previously, the tax department was focused on tax compliance and managing the effective tax rate. To most outside of the tax department, the tax function was a ‘black box’, and they were content to keep it that way. As long as there were no ‘surprises’, the corporate tax department was left to its own devices. There was no internal or external pressure for tax to invest in technology when everyone was happy with the status quo. Since Sarbanes-Oxley, we have seen similar legislation around the world impacting tax reporting. For example, under the Senior Accounting Officer (SAO) legislation, introduced in the UK in 2009, the individual responsible is required to personally certify that their company systems are fit for the purpose of reporting taxes. Tax has entered a brave new world. The status quo is no longer acceptable. The ‘black box’ has given way to the need for transparency. This is one of the primary forces driving the need for change within corporate tax reporting.

- **Lack of out-of-box tax capability in financial systems**— Prior to Sarbanes-Oxley and similar legislation, there was no real incentive for the providers of financial systems to address the needs of the tax department. The buyers of large finance systems, such as the Enterprise Resource Planning (ERP) and Enterprise Performance Management (EPM), especially the financial consolidation module, were in the finance and IT departments. Finance was focused on internal and external financial reporting and filing – not the book-to-tax reporting process executed by the corporate tax department. IT was focused on keeping finance happy. So, this left corporate tax out in the cold.

As the reality of post-Sarbanes-Oxley world kicked in, the light was turned on the tax function. The leaders of the corporate tax department recognized that there was a problem, but as they looked for solutions, traditional financial systems were not providing any answers. Most financial close & reporting systems lacked adequate legal entity or chart of account detail, and they were not addressing the book-to-tax reporting process as required under US GAAP and IFRS.

The early years after Sarbanes-Oxley were a trying time for many tax departments. Year after year in the “accounting for income tax” was the number one issue leading to a material weakness or significant deficiency in internal controls. The leaders responsible for corporate tax needed to do something.
At the same time that the early impact of Sarbanes-Oxley was being felt by corporate tax departments, a new breed of stand-alone tax provision solutions were being created by tax return vendors. These solutions promised to solve all of the problems and challenges of the calculation of the corporate tax provision. These solutions didn’t address the underlying data problem, but at least offered an alternative to the spreadsheet as the primary tool for tax calculation and reporting. Tax departments were comfortable with tax return vendors since they had been purchasing tax return software for years to facilitate the tax compliance process. With few other options available, many tax departments began to adopt the tax provision solutions offered by their tax return vendors.

The early adopters of the stand-alone tax provision software saw dubious results. Many of the early implementations were failures resulting in ‘shelfware’. Other implementations resulted in moderate success, but often fell far short of really providing the transparency and efficiency necessary for tax reporting. As the stand-alone tax provision solutions matured, so did the number of tax departments adopting stand-alone tax provision software. However, even the companies reporting moderate success still have a material amount of inefficient manual processing (often in spreadsheets) to achieve the results, and few companies can report true transparency between ‘book’ (audited financial statements) and tax data.

There seems to be a plateau at which stand-alone tax provision solutions cannot break-through. The solutions can achieve very basic automation. However, after more than a decade of implementing these stand-alone tax provision solutions, companies are still struggling to find the right answer. Many have given up on the stand-alone tax provision systems and are awaiting a better solution.

The Problem with Stand-alone Tax Provision Tools

Stand-alone tax provision solutions attempt to address the tax provision by replicating the finance data and process in a more tax-friendly manner. While a stand-alone tax provision can indeed calculate a tax provision, they seem to fall down in other areas. Specifically, these tools struggle address two key areas:

Connection to the book data

By duplicating the financial data and process for purposes of the tax provision, tax departments are unknowingly ‘building an island’ that is separate and disconnected from the broader financial close process. Beyond the obvious inefficiencies of duplicating data and process, a stand-alone tax provision isolates tax from the systems, people and process that are the source of the data necessary for tax to do its job.

A tax provision solution that is not closely integrated with the financial close creates stale, disconnected data. Adjustments posted in the in the finance system are not easily seen in the tax reporting systems and vice versa. This makes it enormously difficult for finance and tax to collaborate on data that impacts each other. For example, late consolidating adjustments booked during the financial close process are one of the primary challenges for tax departments during the tax close. How does tax keep up with the ‘final version’ of the finance numbers? Finance can’t close the books until they get the tax journal entry from the tax department. However, tax can’t generate an accurate tax journal entry until the book numbers have stopped changing. All too often, tax is not even aware that the book numbers
have changed due to the disconnected relationship between the tax close and the finance close. Moving tax reporting further away from the financial close process in separate stand-alone system further exacerbates issues like this.

Duplication of effort

Addressing tax reporting with a stand-alone tax provision system requires a significant amount of redundancy in data, metadata, and process. Corporate finance has spent the last 20 years investing in process and technology to ensure efficient and transparent financial close process. The following are examples of existing process in finance that must be replicated by tax:

- **Data governance** – Strong controls exist around data flowing between the Enterprise Resource Planning (ERP) systems and the financial consolidation system to ensure that finance is always working with the latest data in the financial consolidation system. Data can be shared between these systems without manual intervention. Furthermore, foreign currency calculations are consistent between the ERP and financial consolidation systems to ensure that the consolidated numbers are always reconcilable back to the ERP source ledgers. If tax data is not coordinated with the data in the finance systems, then data issues can arise that slow down the close.

- **Metadata governance** – A clear process exists to ensure that the accounts, entities and other metadata in the ERP systems are always synchronized with the financial consolidation system. In fact, many finance departments use automated metadata management tools (such as Oracle Hyperion Data Relationship Management) to allow metadata to be maintained centrally with all down-stream finance systems automatically updated for changes. Without a process like this, tax must update their systems each time a new account or entity is added into the ERP or financial consolidation systems.

- **Integration resulting in transparency between systems** - The financial consolidation system is linked with the ERP systems to give corporate finance visibility into transactional details. This allows the finance users to ‘drill’ from summarized account balances all the way down to the individual transactions and journals that support the account balances. This provides finance with the transparency that they need to understand their data. If the tax system does not have this integration, then tax users will continue to rely on spreadsheets to manipulate transactional detail from the ERP systems.

For a stand-alone tax provision system to be successful the infrastructure described above must be replicated by the tax department. In fact, some of the functionality described above simply isn’t possible in a tax reporting solution that is not integrated into the financial close process. The duplication of effort required by stand-alone tax solutions results in inefficiencies, bottlenecks, and weaker internal controls between book and tax data. With this approach, most tax departments find that they are stretched just to calculate and report the tax provision and do not have the staff to ‘re-invent the wheel’.

In the tax department’s rush to catch-up in technology and process, it is wise to carefully evaluate investments in tax systems and ensure that they integrate with the source financial systems. ‘Building islands’ and ‘re-creating wheels’ may seem like a “quick fix” to the challenges faced by the corporate
tax department. However, as finance and IT have learned over the last 20+ years, integration is the only long-term sustainable means of achieving a truly transparent and efficient close process.

The Ideal Solution for the Corporate Tax Provision

In an ideal world, corporate tax and corporate finance should work from the same technology platform to close the books and to calculate the tax provision. This will provide a truly transparent and efficient tax reporting process that lays the foundation for an outstanding tax function. Specifically, the integrated solution should address the following four processes:

- **Automation of tax data** – Where possible, tax data would be automatically calculated from the source financial data. Data would not need to be exported, mapped, and re-imported between differing technologies. Instead, profit before tax and tax differences would be automatically calculated from the data in the underlying financial systems. This would eliminate work for the tax department as well as provide confidence that the tax department is working with the latest data from finance. Of particular importance would be that the metadata (e.g. accounts & entities) supporting both the finance and tax departments would be synchronized. For example, this would ensure that a new account only needs to be added once in a central location –thereby eliminating redundant metadata management that is currently done separately by the finance and tax departments.

- **Combined collection of tax and financial data (Manual)** – Both the tax and finance departments should collect manual data leveraging the same web data collection tool. This will ensure that the regional controllers that submit manual data to both the finance and tax departments can do their job in a single integrated solution. This will make their job much easier since they are not required to be trained on two different systems. It also reduces the amount of work they need to do since they don’t need to switch between a tax and finance systems to validate that the two systems reconcile. More effective submissions from regional controllers goes a long way to improving the overall tax provision process. Furthermore, the web data collection should leverage the same workflow across both finance and tax. This will ensure a consistent workflow process and will automatically validate that the tax data reconciles to finance data. This will save a significant amount of effort across all tax users.

- **Calculation, Consolidation & Foreign Currency** – The solution should calculate the tax provision in functional currency and translate the data using the same foreign currency engine that is use in the financial close. This will ensure that foreign currency issues are always consistently addressed across both tax and finance data. The combined system should be flexible enough to allow the tax and finance departments the ability to consolidate in manner that is appropriate for each of them (e.g. legal entity vs. management). This ensures that the consolidated finance and tax disclosures can be generated from the same system.

- **Reporting & Analysis** - Finance and tax should work from a common reporting and analysis tool. Then, power users analyzing the consolidated results will not need to switch between systems to view both tax and finance numbers. Instead, tax and finance numbers can be seen on the same report (or from the same Microsoft Office application). Additionally, users would be able to drill
from a consolidated tax number all the way down to an individual transaction in the ERP systems. For example, a user would be able to start at a consolidated effective tax rate (ETR), drill into a specific legal entity, then to a specific permanent difference, and finally to the individual G/L transactions that make-up the permanent difference balance. This should be done in a few clicks of the mouse, and will provide unparalleled transparency to analyze the drivers of tax data. Lastly, variance analysis and trend reporting should be immediately available across both finance and tax data in a single reporting tool. This will save countless hours of effort and significantly improve the tax department’s ability for tax planning.

An important direct benefit of a more integrated book-to-tax process is the advantages that this presents across the entire lifecycle of data in the tax department. From tax reporting, to tax planning to compliance, to audit defense, the entire lifecycle of tax processes will benefit by having a more transparent book-to-tax reporting process. For example:

- Tax planning opportunities can be identified and explored much more rapidly when there is a more transparent book-to-tax process. Furthermore, tax users can explore these opportunities more effectively when they are armed with the same enterprise-quality reporting tools that are in use by finance.

- Tax compliance is streamlined when the tax reporting process is closer to the source financial data. Less time is necessary to compile and reconcile data in preparation for the tax return.

- Tax positions and filings can be defended more effectively when there is a clear and auditable book-to-tax process.

The foundation required for success in the tax data life-cycle is this more transparent and efficient access to the underlying book data.
The Oracle Solution

Many corporate tax departments still operate outside of the umbrella of financial reporting systems and process. However, that can now change with the introduction of Oracle Hyperion Tax Provision which represents a major shift in the way the tax department can manage corporate tax reporting.

Oracle Hyperion Tax Provision is a comprehensive, easy-to-use tax provision solution that is purpose built for the automation of the accounting for income tax process. The system is designed by tax users for tax users, and leverages the existing finance data and processes without impacting finance’s current financial close procedures. The solution addresses both IFRS and US GAAP requirements, and includes tax maintenance wizards that are designed to be easily maintained by the tax department. Since Oracle Hyperion Tax Provision is architected on top of the Oracle Hyperion Financial Management (HFM) platform, both finance and tax can realize significant efficiencies in training both the casual and power users involved in the tax reporting process (e.g. regional controllers around the world and power users in the tax department). The following is a summary overview of the capabilities of the solution:

- **Automated Collection of Tax Data** - the solution is architected from the ground up to provide business user managed processes to source financial data from subsidiaries. The system can leverage the financial data already in Oracle Hyperion Financial Management or source data directly from general ledgers such as Oracle E-Business Suite Financials, SAP, JD Edwards EnterpriseOne Financials, and PeopleSoft Financials. This allows for easy integration to source finance data as well as laying the framework for significant automation of tax differences. Importantly, the tax and finance departments work from a synchronized set of data and metadata. These features combine to greatly reduce the amount of double-work for the tax department and eliminate the likelihood that tax is working with stale data.

- **Manual Collection of Tax Data** - Oracle Hyperion Tax Provision includes a complete set of web data collection forms for use in collecting manual data from the regional controllers in the subsidiaries. The web forms are intuitive and easy to use. Data entry uses Microsoft Excel-like
forms and will therefore be familiar to tax users. The web forms also include a completely integrated workflow and validation process that ensure the data is validated on the front line of the tax provision process. Furthermore, the solution includes a ‘supplemental schedule’ capability that allows customers to configure company-specific or industry-specific data collection and calculation forms. The data in these supplemental forms is easily integrated in the tax provision and reporting process.

- **Calculation, consolidation & foreign currency** - the solution calculates the tax provision using both IFRS and US GAAP rules. The solution will also address local statutory tax provision and reporting requirements. Furthermore, Oracle Hyperion Tax Provision leverages the same market leading consolidation and foreign currency engine that is in use in Oracle Hyperion Financial Management (HFM). An additional major benefit to the tax provision process is that the tax and finance processes leverages the same foreign currency capability.

- **Reporting and analysis** - Oracle Hyperion Tax Provision includes a comprehensive set of tax provision reports. These reports are suitable for boardroom quality executive reporting as well as detailed ad hoc analysis required by corporate tax managers. Whether it is the tax disclosure or a detailed analysis of the deferred tax assets and liabilities the reporting and analysis capabilities are unparalleled. There is also complete Microsoft office integration via Oracle Hyperion Smart View for Office – the leading standard for Microsoft Office integrated reporting. Users can easily look at both financial and tax data using a single reporting standard.

Lastly, Oracle Hyperion Tax Provision is specifically architected to allow autonomy for both the finance and tax departments. Tax can leverage the data, metadata, and internal controls that are already in place in Oracle Hyperion Financial Management (HFM) without impacting the process with which the finance department is accustomed. Furthermore, tax retains the autonomy to run the tax provision solution in a manner that best suits them. In short, using Oracle Hyperion Tax Provision with Oracle Hyperion Financial Management is a ‘win-win’ for both finance and tax.
Conclusion

Finance stands to gain a lot by arming their counterparts in tax with the same great capability and tools already in use in the finance department. Since the tax close is an integral part of the finance close, the benefits realized in the tax provision process will directly improve the financial close. Furthermore, by working within an integrated finance and tax reporting platform both the finance and tax departments will be speaking the ‘same language’. There will be less room for misunderstandings or inconsistencies involving data, metadata, and process.

For the corporate tax department, one of the surest investments in the long-term health of tax reporting is to ensure they are armed with the proper data management strategy. History has shown that the toughest part of tax reporting is the proper collection and management of book-to-tax data. This not only improves the tax provision and reporting process, but also translates into efficiencies across the entire data life-cycle within the tax function. By being prepared to manage the ever-growing data landscape necessary to calculate the tax provision, corporate finance and tax leaders can best position the tax function to efficiently meet its obligations and focus more of its time on value added activities such as risk analysis and tax planning.