Tax-Aligned IT Implementations.

Federation of Tax Administrators Technology Conference
Stephen Metoyer, Sr. Manager Deloitte

Agenda

• Definition of “Tax Aligned IT Initiatives”
• IDC Research
• The traditional IT approach
• Tax Aligned Approach
• What does this mean for tax authorities
Definition

**Tax Aligned IT Initiatives** – IT / ERP project that addresses the common thread of tax that permeates every functional element of system integration projects. Virtually every transaction within an organization’s operating and financial systems has a tax impact or effect. Without grassroots involvement in IT/ERP projects, tax is relegated to very tactical role. Tax Aligned IT Initiatives seek to strategically address tax technology requirements and to leverage the power of the larger IT initiatives to drive compliance and organizational value.

IDC Survey: Background

- In 2004, Deloitte Consulting LLP and Deloitte Tax LLP sponsored an IDC survey.
- The IDC survey was focused on the decision-making process of IT acquisitions greater than $1M.
- 70 percent of the 201 respondents were either the decision-maker or part of the team that made the final decision.
- IDC asked these senior IT and Finance executives 26 questions, ranging from the role IT plays in their company to the factors that are considered for an IT project.
IDC Survey: Population

- Your largest taxpayers
- Your largest employers

IDC Survey: Tax Is Ignored

Although business cases routinely contain input from several functions, tax professionals are included in fewer than 30 percent of respondents’ business cases.

Q. During the business case development process for major IT acquisitions/investments, which of the following areas are typically involved in the process? (Select all that apply)
IDC Survey: Why Tax Is Ignored

Many executives believe:

• “It’s not my job,” or “Someone else must be taking care of it.”
• “I’m not measured by a project’s tax compliance.”
• “It’s too difficult to get Tax involved.”

Reasons for Not Considering Tax Implications

- Assume tax issues are covered by legal, procurement, etc.: 27%
- Do not consider it to have a material impact: 27%
- Adds unnecessary degree of complexity to the process: 13%
- Not measured and/or does not impact my performance: 10%
- Does not impact my IT budget: 8%
- Unaware that there may be an impact: 7%
- Other: 8%

Why IDC Received Those Responses

Each of these areas has a tax solution associated with it. In many organizations each of the related tax solutions were developed independently and with little or no leveraging of technology between solutions.

Many of the required data elements for tax solutions have the same roots in jurisdictional identification, transaction classification details and financial amounts.
### Tax Integration – Tax Processes, Data Elements and Attributes by ERP Area

#### Core Financial Modules

<table>
<thead>
<tr>
<th>ERP Capabilities</th>
<th>TAX Needs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>G/L</td>
<td>TRANSACTION TAXES</td>
<td>• Sales Tax calculations</td>
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<tr>
<td>A/P</td>
<td>• Use Tax processes</td>
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<tr>
<td>A/R</td>
<td>• Tax Matrix</td>
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<tr>
<td>Purchasing</td>
<td>FEDERAL</td>
<td>• Legal Entity P&amp;L/BS</td>
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<tr>
<td>Asset Management</td>
<td>• Book/Tax Depreciation</td>
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<tr>
<td>Projects</td>
<td>• G/L on Dispositions</td>
<td></td>
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<tr>
<td>Budgets</td>
<td>• Intangibles/Amortization</td>
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<tr>
<td>Expense Tracking</td>
<td>• Financial Derivatives</td>
<td></td>
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<tr>
<td>Treasury</td>
<td>• Other Schedule M-1/M-3</td>
<td></td>
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<tr>
<td>Cash Management</td>
<td>• 1120 Line Items</td>
<td></td>
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<tr>
<td></td>
<td>• ERP Specific Items</td>
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<td>• AMT Specific Items</td>
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<td></td>
<td>• NOLs</td>
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<td></td>
<td>• Purchase Accounting</td>
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</table>

#### Order to Cash

<table>
<thead>
<tr>
<th>ERP Capabilities</th>
<th>TAX Needs</th>
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</thead>
<tbody>
<tr>
<td>State Apportionment Factors</td>
<td>• Inventory</td>
<td></td>
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<tr>
<td></td>
<td>• Sales</td>
<td></td>
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<td></td>
<td>• Bad Debts</td>
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<td></td>
<td>• Sales Taxes/VAT</td>
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<td>• Section 199</td>
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<td></td>
<td>• Foreign Source Income</td>
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<td></td>
<td>• 1.861-8 Apportionment Factors</td>
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<td></td>
<td>• Foreign W/H Taxes</td>
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<td>• Warranty Accruals</td>
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</tbody>
</table>

#### Requisition to Payment

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<thead>
<tr>
<th>ERP Capabilities</th>
<th>TAX Needs</th>
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</thead>
<tbody>
<tr>
<td>Purchasing</td>
<td>• Use Taxes</td>
<td></td>
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<tr>
<td>Payables</td>
<td>• Inventory Valuation - Uniform</td>
<td></td>
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<tr>
<td>Expenses</td>
<td>• Depreciation</td>
<td></td>
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<tr>
<td>Asset Management</td>
<td>• State Apportionment Factors</td>
<td></td>
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<td></td>
<td>• Fixed Assets</td>
<td></td>
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<td></td>
<td>• Inventory</td>
<td></td>
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<td></td>
<td>• Uniform Capitalization</td>
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<td></td>
<td>• Property Taxes</td>
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### Despite the Numbers … Notice the Shift

#### Tax Aligned IT Initiatives

- **Sarbanes Oxley**
- **Value Based IT Implementations**

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Advantages of a Tax-Aligned Approach

- Business processes
- Compliance and ongoing operations
- Immediate tax benefits
Tax-Aligned Advantages

Business Processes

- Many projects are now measuring the value. IT projects aim to improve business processes, such as finance and accounting, supply chain, manufacturing and sales, and distribution. Tax can provide huge organizational value.
- Without thorough tax involvement, taxpayers risk overlooking and compliance requirements, which could undermine the project’s business case.

Compliance and ongoing operations

- Significant and permanent cash savings can be achieved by reducing tax compliance costs and audit cost.
- You can also avoid costly system changes to keep pace with mergers, acquisitions, dispositions, market dynamics, or new tax laws.
Tax-Aligned Advantages

Immediate tax benefits
• Short-term opportunities alone can substantially reduce the cost of many IT initiatives.
• These opportunities can include;
  – avoiding the overpayment of transaction taxes on IT-related purchases
  – accessing all available governmental grants and incentives
  – expensing certain implementation costs
  – securing available tax credits or deductions on R&D activities

Why this Matters to Tax Administrators

- Improved record retention for audit defense
- Increased data integrity and reliability
- Reduction of compliance costs from gathering information & preparing returns manually
- Reduction of IS time spent maintaining tax calculations & rate tables
- Reduction of staff time spent researching tax rates and regulations
- Automate and standardize tax audit processes
Why Tax Aligned IT Approach Matters to Ta Administrators

Enterprise Tax System Architecture

- Fixed Asset Tracking
- SAP Financials
- HR Systems
- Other Source Systems

Archival & Record Retention

Source System Interfaces

Tax Data Warehouse or Platform

Manual Collection Web

Document Management

Planning and Modeling

Tax Calculations and Reporting

Source Systems

Foreign Subs

OtherGL Systems

Other Financial Data Sources

Scanned Documents

Electronic Documents

Source System Interfaces

ETS Data Interface

Enterprise / Tax Portal

Web-based Tax Dashboard

Thin Client & Push Technology

Custom Views & Query Cap

SAP Financials

HR Systems

Other Source Systems

Fixed Asset Tracking

Archival & Record Retention

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