REIMAGINE YOUR CORPORATE TAX FUNCTION

When to consider co-sourcing and how to get it right

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Keeping pace with a variety of external and internal forces can be an exhausting challenge when it comes to your organization's tax function. From navigating the ever-evolving regulatory environment and increasingly complex tax code to retaining skilled tax professionals and the right technologies, it's a never-ending endeavor. Combine that with global expansion, mergers and acquisitions (M&A), and expected high business growth, and the race to stay on top of tax planning and compliance efforts can be a struggle if the right people, resources and technologies aren't in place.

In this e-book, we'll discuss the resource issues associated with planning and compliance functions that you might face as a tax director, and the resource strategies often considered to manage them.

1 | DRIVING FORCES

The need for bench strength

According to a recent study** of tax professionals about their corporate tax concerns, 43 percent indicated compliance and reporting were their biggest areas of challenge, as many grapple with new regulations and the resulting effects on their businesses. In addition, respondents indicated skilled tax professionals continue to be the most important asset for any corporate tax department, particularly those professionals with technical tax skills and proficiency in tax technology.

In reality, however, many tax departments lack the luxury of deep bench strength in the specialized compliance areas that their business operations demand, such as international, property, or state and local. Further still, staying on top of the core tax reporting efforts can be a struggle as well. Outsourcing, co-sourcing and loan staff are frequent approaches to help balance the needs of the tax function with organization resources. Through this collaboration, internal resources can work separately or in tandem with external tax professionals, all aligned toward a common goal of a more optimized corporate tax function.

Reimagining your role

As tax director, your clear goal is delivering efficient, credible tax planning, reporting and compliance. Achieving this goal requires that your people and processes be properly aligned. If they aren't, however, the business is vulnerable to tax risks. A lack of knowledge in international tax or diminished resources committed to transfer pricing, cost segregation, fixed assets or a variety of other tax needs puts strain on your organization's tax function. On the other hand, a properly resourced tax function can bring benefit to the organization that offsets the associated costs of compliance.

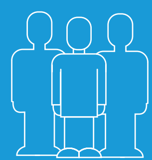
As tax director, you manage these various risks and you look for solutions to resolve them. So rather than tax director, reimagine your role as director of tax risk. As such, one of those risk mitigation strategies could be outsourcing or co-sourcing. This slight shift in thinking helps you, and others in your organization's leadership, embrace the sourcing solution as part of your overall risk strategy. And it can be a critical component of helping achieve your overall goals.

**Corporate tax professionals' greatest challenges require forward-looking technology, Tax Executive, The Professional Journal of Tax Executives, May 25, 2016, http://taxexecutive.org/corporate-tax-professionals-greatest-challenges-require-forward-looking-technology/

1 | DRIVING FORCES

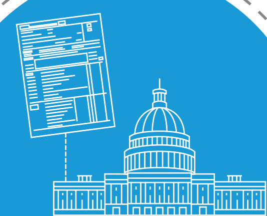
Issues and the impact

According to a recent RSM US Middle Market Leadership Council survey, the following are driving issues affecting businesses, thus directly or indirectly affecting their tax functions. Can internal resources address these issues or must tax departments look externally to help support their growing needs?



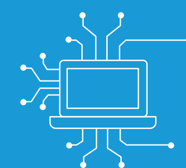
Labor and workforce challenges

Business leaders cite labor and workforce issues as the biggest challenge in reaching their business goals for 2020. The shortage of skilled labor is threatening the ability of companies to achieve business objectives and putting pressure on margins. Tax departments also feel this pinch, as finding and keeping skilled talent will continue to be a challenge for them as well.



Regulatory changes

Business leaders are cautiously optimistic about the Trump administration's views on regulations and policies. However, the timing and reach of these changes is not known, making it difficult for tax departments to have internal resources ready.



Harnessing technology

Business leaders agreed that evolving technology presents both risks and opportunities for organizations. Threats of data breaches and fears of limited resources to mitigate them are dominant, while concerns about the lack of skilled labor hamper their ability to harness technology to drive forward. Tax departments share these same concerns.

2 | DETERMINING YOUR NEEDS

If the time is right to seek external resources for your tax function, how do you determine the best services for your needs? Do you have specific skill gaps to fill or do you need a more comprehensive outsourcing solution for your entire tax function?

The path forward begins with taking a step back to do some tax department soul searching. The key questions listed to the right can kick off that process for you and lead you to identify gaps and risks. Once these gaps and risks are assessed and defined, you're ready to consider your resource options to address your challenges. Begin with a self-assessment to get an idea of where your gaps and opportunities lie. If you are thinking with the perspective of the director of tax risk, however, you may find it valuable to have an impartial third party conduct a review. Fresh eyes can see strengths and weaknesses that you and your team may overlook.

The right resource

With a full assessment complete, it's time to identify the right combination of internal and external resources to address your needs. This decision process might be something you do in concert with a sourcing provider. Remember, solution sets vary with every business—there is no cookie-cutter approach—but these are typical tax resource management approaches that companies consider, much of which is determined by who provides oversight.

Assess your tax department risk

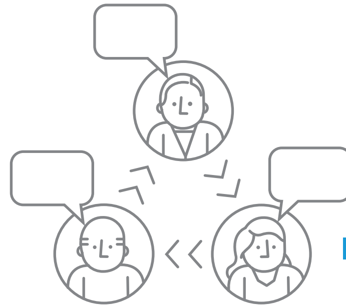
1. Do you have sufficient internal resources, technology platforms and skills to support all areas of the tax life cycle—from planning through compliance and provision?
2. Are you coming off of a challenging tax season or have concern about compliance quality?
3. Besides U.S. federal and state income taxes, what other indirect taxes or industry-specific pseudo taxes are imposed on your company? Do you have the resources to address those needs?
4. Do you have international operations that create foreign jurisdictional compliance and statutory reporting, transfer pricing or withholding obligations? Do your international operations present occasional or frequent expatriate concerns?
5. Do you have routine tax functions that could be completed by an external resource, freeing your internal team to focus on planning, compliance or strategic tax needs?
6. Do you have a sense that current processes are too slow, burdensome, complicated or siloed?
7. Do you worry about control deficiencies in the provision process? Can you identify where your process is most at risk?
8. Do you have a budget to hire external service providers?
9. What are your other common business issues that have associated tax implications? Are these handled inside or outside the tax department?
10. How will your tax needs evolve as the overall business changes in a year, two, five years from now? Do you have a succession plan for key employees and a system for transferring knowledge?

2 | DETERMINING YOUR NEEDS

Common resource management options

Corporate loan staff

- Highly qualified professionals to execute compliance, may include:
  - Temporary professionals to help with an interim resource gap
  - Individuals with highly technical or specialized tax experience
- Complements existing tax department staff while operating under your day-to-day supervision



Integrated tax co-sourcing

- Specialized resources (tax strategy, technical and compliance) that work with you to develop a shared set of responsibilities between internal personnel and experienced professionals
- Strong collaboration required
- Builds on the strengths of your team, working within your existing environment without adding to your employee count
- Includes analysis of processes and technical skills to identify an ideal approach based on the strengths and priorities of your organization

Comprehensive tax outsourcing

- A complete, customized tax function, designed and delivered by an external team, from people to platform
- Suited to companies that prefer to focus on the core business instead of tax operations
- Provides professionals and the technology in order to design, manage and deliver a complete tax function without adding to your payroll

Consider co-sourcing

A form of integrated co-sourcing is often the top choice for mitigating tax risk while maintaining strategic control. Co-sourcing addresses a variety of tax function needs, can be tailored to your specific challenges and can evolve as your tax department's needs shift. However, co-sourcing, due to its customized and collaborative approach, often requires further consideration and planning on your part as the director of tax risk.

Want to learn more?
Check out these related resources.

- First steps to finding the right tax department resource balance
- 3 questions to ask before co-sourcing your tax function
- Utilizing outsourcing to counteract rising labor costs
- Meeting evolving needs through corporate tax outsourcing

3 | ESTABLISHING A CO-SOURCING RELATIONSHIP

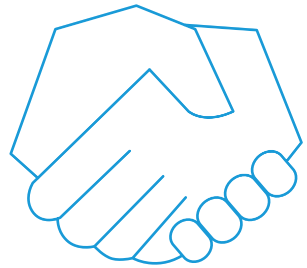
Once you take the step to move ahead with a co-sourcing approach, you need to decide on a service provider. In this section, we look at key considerations in vetting providers.

Building trust, one project at a time

Loyalty to an established relationship can be a powerful factor when you're selecting a co-sourcing service provider. You can assess the work already done with a current provider and extrapolate that performance to include co-sourcing. This can often be the best way for organizations to begin a co-sourcing model as the comfort level around processes and resources already exists, and you are essentially extending and formalizing these roles.

In other cases, factors such as cost, the desire for a fresh approach or the need for niche tax abilities can make the challenges of working with a new provider pay off.

Whether expanding an existing relationship or assessing new ones, it is important to make space for the conversations that build trust. Both you and the potential co-sourcing provider need to get comfortable with how this relationship could work. This means checking each other out to get a



feel for needs, motivations, abilities, resources and work style. Those conversations could cover topics such as overall tax systems, what your tax provision process is like, how quickly your company closes the books, your staffing and the number of hours needed to accomplish tasks. Gradually, you'll get answers for the big relationship questions, such as:

- Are you confident you can work effectively with the provider's team?
- Does the provider understand your goals and have a convincing plan to meet them?
- Can the provider go beyond meeting basic needs to serve as a trusted advisor, applying distinctive experience and abilities?
- Does the provider have your best interests at heart and a focus on client service?

Be clear when talking about scope: what do you need and what changes you are ready to make can be two conversations. A single, well-defined project on a common tax need can be a low-risk way to see how a service provider performs. If that works out, the trust process can continue with more assignments as the tax function evolves.

Looking for the right stuff in qualifications

When scoping potential service providers, you look for the basic table stakes: Does the provider understand your tax software, your industry and the geographic markets in which you operate? Does its team bring capabilities across provision, compliance, state and local tax (SALT), international tax and industry-specific tax credits, for example? With deep industry knowledge, a service provider can point out risks and opportunities specific to your sector. Similarly, hands-on industry experience—from team members who previously worked in tax at similar companies—can have a strong impact. These professionals can draw on their background to ask informed questions and offer approaches that they've seen or used in private industry.

In addition, look for a provider who can confidently address complex global issues, and has access to resources on the ground where your company operates. For example, a co-sourcing provider may need to assess the tax aspects of the decision to open a distribution center in either India or in the United Kingdom; costs are higher in the U.K., but wages are subsidized. That intelligence is critical, if it applies to your situation.

Knowledge of tax issues only starts the discussion. Everyone you consider will be competitive; you must determine who is compelling. As director of tax risk, you must be convinced that your selected provider can execute against the agreed-upon scope.

Tax co-sourcing requires close cooperation among your tax team and the service provider's staff. Will the teams work well together, sharing information, agreeing on tasks and resolving issues? What happens when the scope shifts? The provider must be ready to respond to filing deadlines, technology updates, changes in corporate strategy (e.g., M&A, international expansion) and new regulation. That requires a nimble ability to adjust, ramp up services and bring in subject-matter capabilities when needed.

Take a closer look at the capabilities that can move a qualified provider from competitive to compelling.

Co-sourcing provider checklist

Capabilities	What's delivered
✓ Knowledge of tax software	Understands program strengths and weaknesses—including how to address specific gaps that matter to your business
✓ Industry experience	Advises you on industry-specific tax matters, such as R&D tax credits, subsidies for target industries
✓ National presence and global reach	Understands state and local tax issues, offers guidance on international tax regulations and their impact on strategic matters; in some cases, a local presence to allow for on-site meetings is a key consideration
✓ Broad experience across tax functions	Advises on specialty tax areas where you need support from a co-sourcing provider rather than reliance on existing or expansion of in-house capabilities
✓ Tax professionals with industry experience	Provides first-hand sense of departments' functions and needs
✓ Soft skills	Listens and understands the dynamics behind the decision to co-source and is realistic, dedicated to open communications and a client-service focus; will speak frankly about concerns; "egoless" in the sense of readiness to work with competing service providers to get the job done

Getting the nuances of co-sourcing dynamics

You'll want your co-sourcing provider to see the full picture behind an opportunity. Help the provider connect the dots of what's on the surface of an engagement to the less obvious organizational dynamics. This helps the provider navigate divergent interests in a client setting, such as reducing headcount, responding to emerging tax needs or enhancing the impact of tax function on corporate strategy. The push-and-pull can involve these stakeholders and their perspectives:

- **Tax staffs and tax/corporate management.** Staff of your tax department may see their mission as executing discrete tasks, such as compliance and provision, and getting the taxes tallied and paid on time in all jurisdictions. You and your corporate management may want more in the form of support in making strategic decisions, a focus on high-value functions and a lower headcount. That sets up a tension where staffers may see co-sourcing as a way to push them out of their comfort zone or even eliminate their jobs. Your views may align more with one view or another: Do you want to protect the status quo, reacting only to pressures from management, or lead as a change agent? If the latter, you'll want to explain the value added by co-sourcing to your team; these benefits can include the possibility of less stress during close, and the opportunity to work on more valuable or sensitive tax projects, rather than the routine number-crunching of provision and compliance.

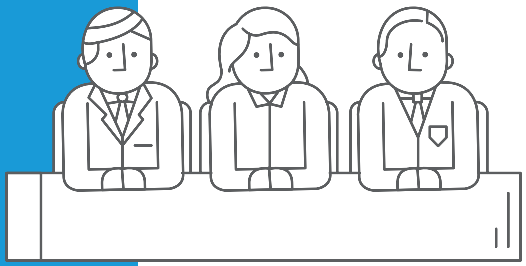
- **Tax leadership and corporate management.** Sensing how tax leadership interacts with corporate C-suite also influences the shape of the relationship. If the corporate connections are frayed—if speaking up about problems in the tax function doesn't play well—then the tax leadership may be reluctant to make difficult changes in either process or personnel. "Don't rock the boat" becomes the guiding principle. But part of managing tax risk is making risk known. It is important to take a measured approach to disclose critical business relationship information in a way that is both transparent and confrontational. Doing so makes it more likely that your co-sourcing provider can help you alleviate communication risk rather than inadvertently contribute to it.

- **Tax director and co-source provider.** This isn't so much a conflict as a situation where you want the co-sourcer to understand your approach as an executive. You may be reactive in how the department functions, waiting for direction from management, or you may be proactive, with a vision of where you want the department to go. You may feel comfortable letting your staff handle the bulk of interactions with a co-sourcer as you monitor progress and performance against goals. Or, you may be a hands-on manager and expect regular contact with the provider, with a steady flow of updates, ideas and alerts, and discussions of ideas for improving performance. Get-acquainted meetings during the scoping phase should clarify the matters of visions and work styles; if not, let your co-sourcer know what you expect if any disconnects arise. Two-way communications encourage idea sharing and flagging of issues in tax functions and technologies. The hands-on approach builds the trusting relationship over the term of an engagement.

You can find positive dynamics in each of these relationships. Your co-sourcer should be sensitive to what can make for a strong, lasting relationship. For example, C-suite support for high-value tax functions can empower tax leadership to bring in fresh capabilities that turbocharge the performance of the department in specialty areas. As co-sourcing takes on the more time-consuming, routine tax functions, in-house professionals gain the bandwidth to build their skills and focus on high-value and sensitive functions. You'll want to work with your co-sourcer to explain the professional and personal benefits of new approaches to your staff in order to enhance tax department buy-in. New skills, higher department impact and fewer late nights can be an appealing combination.

THE VALUE OF AN EXTERNAL SPONSOR

Tax optimization projects can benefit greatly from perspectives and support from outside the tax function. The big-picture view of a chief financial officer or other executive can help you scope the engagement and see its impact on the rest of the organization. They can collaborate with you on how tax can best interact with finance, strategy and resource allocation. An independent, outside sponsor can objectively assess performance against goals, flag issues, lobby for resources and alert you to events that could have an impact on the co-sourcer, such as a major acquisition or international expansion. Support from an outside sponsor validates the role of the tax department and its professionals, and it also validates the decision to hire a service provider for co-sourcing or other forms of tax optimization.



By knowing the tensions and benefits from relationships, you and your service providers can build a solid foundation for co-sourcing engagements. The two organizations can complement each other as the co-sourcer fills in the gaps in your tax function and enables your professionals to work on more challenging projects.

4 | MAKING IT WORK

As previous sections show, honesty about expectations and deliverables is key to making a co-sourcing arrangement work. Projects go off the rails when hampered by ambiguous goals, unrealistic assumptions about time and expense, unclear communications protocols and poorly defined performance metrics. As the director of tax risk, you want to set the stage for a strong engagement by communicating clear, realistic expectations at the start. Co-sourcing is ripe for the age-old dilemma where clients want a product good, fast and cheap; providers can usually deliver two out of three, but never all at once.

With co-sourcing, the good, or "quality" part is replaced by scope (as you should always expect quality) and the framework becomes scope, time and cost. Work with your selected provider to come to a shared understanding of how scope, time and cost can be balanced to achieve your goals.

In addition, a clear understanding of roles and responsibilities is critical at the start of any co-sourcing engagement.

Roles and responsibilities

Engagement category	Internal tax department	External service provider
Scope	Define precisely what you want to accomplish, your metrics and process for out-of-scope approval Articulate immediate and future goals to ensure expectations are aligned	Understand and confirm goals and scope Clearly identify access, resources, data, systems required to meet goals on time and within budget Proactively address changes in the above throughout project
Resources and contacts	Appoint a person to manage the relationship and serve as the day-to-day contact Define communications protocols and preferred contact channels Provide clarity on decision-making roles	Identify primary relationship owner Communicate regularly, following stated preferences Respect roles and access to different internal staff Define explicit escalation processes before issues arise, to both mitigate issues and also resolve them more efficiently if they do occur Outline expected updates and decision points
Technology	Define what the service provider can and cannot do with the software Establish level of access to sensitive information Provide and maintain systems, according to agreement Clarify which systems may and may not be considered for review or replacement	Frankly assess performance of software Recommend fixes or replacement, as appropriate Provide agreed-upon access to vendor systems, as appropriate Liaise with vendor representatives, as appropriate

Bridging the gaps

Pre-engagement planning can address many of these issues, but others will arise during the actual work. That's natural. Gaps often involve differences in expectations. For example, even a straightforward tax project can take more time than anticipated. Some functions like fixed asset net book value calculations are low-risk and simple enough, but you and your co-sourcer need to schedule a realistic amount of time to complete them.

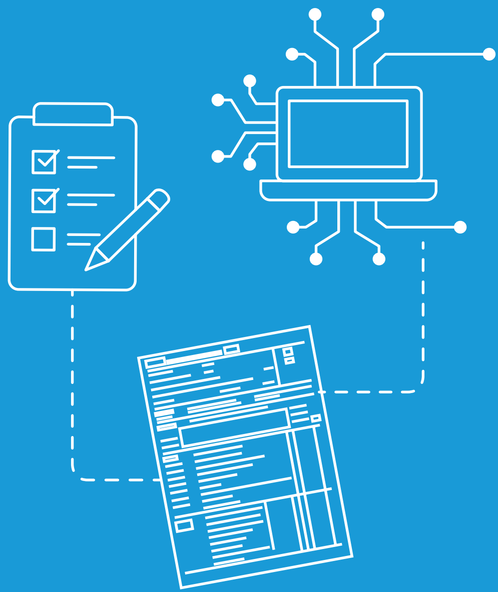
Communications miscues can cause severe headaches when one team assumes the other knows what's going on; posting deliverables on a shared intranet, for example, doesn't do much good if teams aren't informed that they're available. You want your service provider to over-communicate on deadlines, requests for information and anything else needed to get the job done. You can work with them to revise the communications rhythm and audience as needed.

Another common gap involves clashing views within a tax department about co-sourcing's goals, and the role of the service provider in bridging the divide. You may want to focus on foreign entities and major projects, but feel stymied when the staff spends weeks getting one more routine tax process done. Your management may not understand why tasks take longer than expected, and they take it for granted that, for example, trial balances seamlessly flow into software (that brings up gaps in views of tax technology, which may be poorly understood by management). The staff, in turn, may see a more efficient approach as a threat to their positions. A competent service provider should recognize these frustrations, analyze the situation, understand the tensions and propose solutions. That's where a service provider can add value, bridge gaps, re-engineer processes and streamline your workflow.

TECH TALK

Every tax optimization program will involve tax software programs, from Excel spreadsheets up to the major tax programs. As a tax director, you may focus on tax deliverables more than technology, so this is a place where an outside perspective can be eye-opening. Plans to enhance the tax function assess what, if anything, needs to change with the technology. A service provider's analysis of the technology may reveal that fixes to the technology could be enough to enhance the department's performance. Co-sourcing may not even be needed.

At other times, the technology may be too antiquated to meet the needs of a tax optimization program. In that case, the software needs to be replaced. When evaluating any new applications, you will want to consider what software package makes sense for your organization, how it interacts with other technologies in your company, the costs and benefits, and the implementation process. Rather than dive into a new evaluation process, take the time to critique your process and data flow. Eliminate and simplify the process first, then add in technology to automate what remains. By taking this approach, technology becomes an enabler of efficiency rather than a burden, and the net overheard may be significantly reduced or even eliminated.



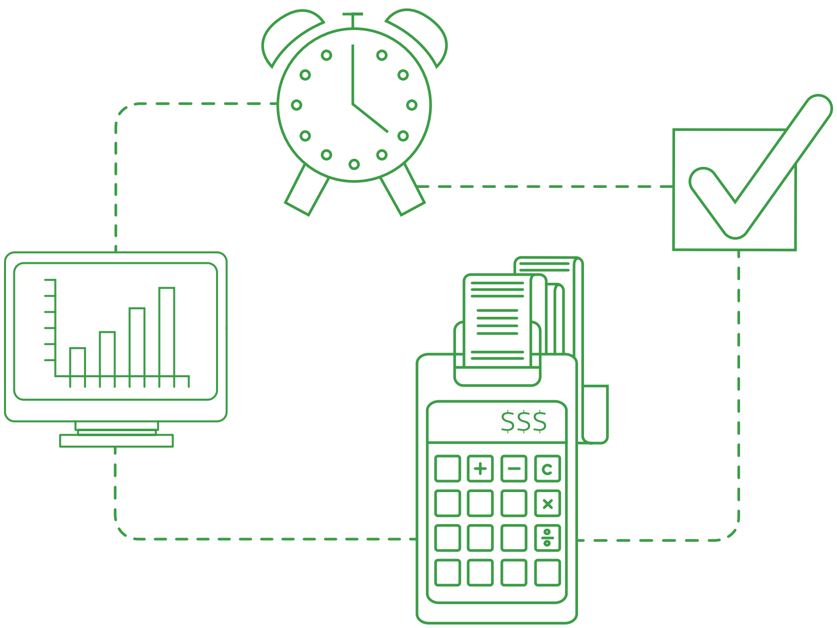
Collaborate with your provider's proposals to leverage software to enhance efficiency and accuracy, such as importing sheets to reduce transposition errors and enhance document management. Such efforts can significantly improve return on investment for both legacy systems and new implementations.

5 | THE MEASURE OF SUCCESS

To measure the success of a tax optimization project, start at the beginning, with the scoping agreement made with your service provider. The decision to co-source, outsource or use a loan staff solution would typically involve agreed-to goals that the service provider would want to achieve. If the goals aren't clear, consider going back to square one to rethink the process.

A client-focused service provider will monitor performance against expectations throughout the engagement. These could be quantitative and qualitative, short- and long-term. At the most basic level, success would include:

- Meeting milestones and deadlines
- Delivering the work at the expected cost
- No surprises



Beyond the basics

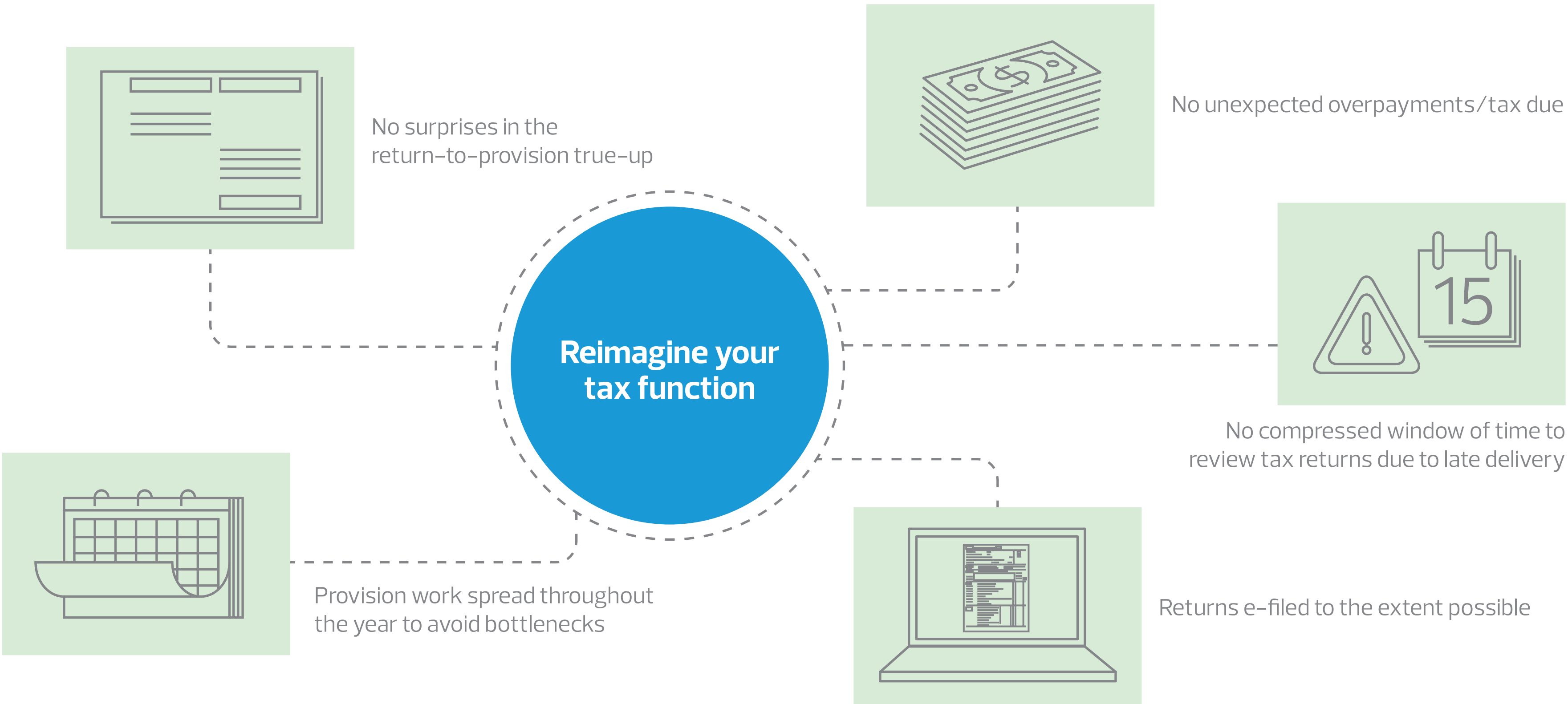
Beyond those essential metrics, you'll want a service provider to explain the impact of the sourcing solution in other ways. How much staff time does the engagement save in terms of hours freed for your staff to devote to higher-value work? What risks were identified and mitigated? How did resources shift away from internal resources, and did that meet the tax department's goals related to timing of the return? Did the department meet its productivity goals without adding full-time employees?

While in-house tax teams are typically not required to complete daily time entry on tasks, most have a good sense of what that time-per-task looks like and can at least provide an anecdotal baseline. Better yet, ask for time tracking for period prior to implementing a co-sourcing plan and re-evaluate during the same time period in the new model. If you can directly compare before and after time spent on a task (while figuring in the provider's cost), then you have a clear way to tell whether an engagement succeeded.

Another measure of success concerns accuracy and security. Meeting a deadline or even delivering early counts less if the work lacks accuracy or compliance, which can lead to costly corrective work or even penalties by tax authorities. On the flip side, if a service provider can find the potential errors and mitigate those risks, either human or technological, then the engagement succeeds in ways that pay dividends in future years.

Finally, measure success on the more personal impact on the tax staffers. The human element counts, too. If your team is less strained, working fewer late nights and has a renewed energy for the tasks at hand, that's definitely a key ROI.

5 | THE MEASURE OF SUCCESS



Tax function optimization realized: Eliminate, simplify, automate

What about the impact on you as the tax director and director of tax risk? What does success look like for you, beyond the impact on hours and headcounts, and getting the essential functions accomplished more effectively? Consider long-term measures such as:

- Having the bandwidth to contribute the tax perspective on corporate strategy, such as on the tax aspects of global expansion
- Integrating tax systems with other financial systems, leading to more thorough and detailed financial information for top management
- Leading a tax team with the ability and resources to perform at a higher level without getting bogged down in routine, repetitive tasks better handled by an external services provider; at the same time, having a staff that can call on an external provider for input on highly specialized tax matters

6 | NEXT STEPS

We've outlined models for tax optimization, the factors that trigger tax departments to consider them, questions to ask yourself, how to select a service provider and how to make the relationship work.

Now what?

The information and tools in this e-book point you to your next steps. Work through them to assess the level of your tax function. Are you satisfied, or does it need a tune-up or a more substantial overhaul? What model works for you? Do you have support for change within your company?

Once you have a sense of where you want to go, assemble a list of potential service providers, set up your meetings, start talking and listening. You're on your way to a more efficient, high-impact tax function.

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