Driving Strategic Value through Tax Transformation

Deloitte Tax LLP
Tax at the forefront

• In today’s world, internal and external stakeholders have an increased interest in tax matters
• US has a worldwide system of taxation (vs. territorial)
• Increasing likelihood of significant tax legislation
• Tax can comprise up to 40% of the profit and loss making it the second largest single expense after cost of goods sold
• Potential for inefficient double and even triple taxation of the same transaction
• Analysts increasingly are asking questions on tax issues in earnings calls
• Securities and Exchange Commission comments on tax disclosures are on the rise
• Tax is increasingly in the news (Base Erosion Profit Shifting (“BEPS”), re-domiciling, etc.,)
Curiosity and scrutiny of Tax are increasing ... leading to opportunities and expectations

The Lloyd 2013 risk survey has ranked High Taxation – Where Ethics and Economics Meet as the #1 issue for the CEOs globally (up from #13 in 2 years).

- Agee or strongly agree that tax authorities will, irrespective of any actual changes, increase tax audit assessments globally as a result of the current BEPS debate.* 90%
- Indicate that the C-Suite and/or Board of Directors have inquired about the increased media, and political interest in tax 63%


- Agree or strongly agree that tax strategies implemented are under greater scrutiny now than they would have been a year ago* 91%
- Indicate that their organization is concerned about the increased media, political and activists group interest in corporate taxation* 80%

Common challenges for the tax department

• Converting a common vision into an actionable plan
• Driving down the total cost of ownership and increasing efficiency
• Changing the internal brand from a cost center to valued business partner
• Climbing the mountain of bad data—serving as human middleware
• Aligning tax professionals with transformation efforts outside of tax
• Enhancing Risk intelligence to better identify, manage and mitigate risk
• Leveraging financial systems being implemented or re-implemented
• Scoring Risk and Reward—presenting the Art of the Possible
• Communicating outside of the Tax function—Others understand in a way they can relate to?
• Creating sustainable processes
Tax executives play four critical roles

Each of the four faces of the tax executive (mirroring those of the CFO) can add value. It is the balance between responsibilities and the related allocation of resources based on the vision and strategy of the organization that promotes exceptional results.

**Catalyst**

**Tax initiates—business conforms**
Catalyze behaviors to execute strategic and financial objectives

- Lead strategic initiatives
- Initiate business model optimization through teaming with the business (TP, Supply Chain, IP, R&D)
- Enhance Tax’s collaboration and visibility with operations and business leaders

**Steward**

**Risk and controls model**
Protect and preserve the critical assets of the organization and accurately report on financial position and operations

- Accurate and timely compliance and reporting
- Effective audit defense
- Risk identification and controls
- Risk intelligence

**Strategist**

**Business initiates—Tax supports**
Provide Tax leadership for vital strategic business direction and long term strategies that impact performance

- Support strategic initiatives with fact based analyses
- Tax-enhanced business decision-making
- M&A/Post merger integration
- Proactive cash flow planning
- Finance and Tax transformation

**Operator**

**Cost-driven model**
Balance capabilities, talent, costs and service levels to efficiently fulfill the tax function’s core responsibilities

- Recruit, retain and develop talent
- Cash tax and tax planning
- Evaluate alternate sourcing models (build vs. buy)
- Leverage automation opportunities
The four faces of the tax executive: time allocation

Tax executives are currently spending an average of 68% of their time on steward and operator activities, with a goal of reducing it to 42% of their time.

- Deloitte’s research has shown that most executives aspire to allocate the majority of their time to the catalyst and strategist roles, but in reality spend most of their time in the operator and steward roles.
- Leveraging people, process, technology & data will allow tax executives to reduce their focus on the steward and operator roles. For catalyst and strategist, tax executives can only leverage people.
- Consistent with our research and based on feedback from over 400 key stakeholders, tax executives are expected to move up the value chain and be more strategic and catalytic.

Catalyst

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Strategist

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Steward

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Operator

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<td>40%</td>
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Data derived from Deloitte Deloitte Tax Executive Transition Labs™.
Consider new and expanding expectations of tax by c-suite executives
Our tax clients are facing new expectations

Traditional role

- Planning
- Reporting
- Managing

The company’s tax & finance profile

Emerging additional expectations

Optimizing the tax function

- Process, technology and data management
- People
- Sustainability and efficiency

Strategic partnering across the organization

- Business partnering
- Clear communication
- Leading strategic initiatives

Transform … for greater impact

Derived from Deloitte stakeholder interviews, including over 80 CFOs, in preparation for Deloitte Tax Executive Transition Labs™.
What we have heard from stakeholders

**Resources**—Lack of knowledge in finance on how tax resources are deployed

**Sustainability**—Tax department succession planning is non-existent compared with the rest of the finance organization

**Process and Technology**—Tax does not always leverage existing technology and utilize available data

**Efficiency**—Constantly work to drive down the “total cost of ownership”

**Interface with the Regulatory Environment**—Interpreting business relevance of current topics like tax legislative proposals, re-domiciling, and BEPS
What we have heard from stakeholders

**Tax Risk Intelligence**—There is minimal understanding of the inventory of tax risks and how they are measured and managed

**Business Partnering**—Tax needs to strengthen relationships across the organization and expand partnerships with other business functions

**Importance of Understanding the Business**—More than ever, leaders across the enterprise expect the tax team use knowledge of business operations and finance

**Long Term Tax Function Strategy**—Tax Leaders must maintain line of sight and be adept at developing and communicating long-term strategy for tax function

**Leading Strategic Initiatives**—When tax reduction or risk management are important success factors, the Tax Leader is well positioned to lead

**Communication**—Articulation of tax concepts to a non-tax audience is a key skill for the Tax Leader

**Executive Diplomacy**—Willing to state the tax case without alienating key business partners
Tax transformation and leading practices
Trends in tax transformation.... Why now?

**Globalization**
Companies are increasing cross-border investments to grow and diversify and they are leveraging new delivery models.

**Business complexity and regulation**
Navigating current and changing tax laws in multiple jurisdictions adds complexity, heightening sensitivity to risk

**Competition**
Lower economic growth is causing an increasing need to put capital to work and grow the top line. Higher competitive intensity due to new competitors, markets, and business models playing more important roles.

**Talent**
Tax departments have increased need for personnel with advanced technology and business skills and capabilities in project management, leadership, and planning.

**Technology**
Technology increases efficiency and ability to meet evolving demands; allows for deeper insights through data analytics and greater focus on high value add activities

**Scalability**
There is an increasing number of companies entering into transactions to create shareholder value such as split ups, spinoffs, acquisitions and divestures. Tax needs to have scale and agility to support these transactions.
Transformation is a journey

Tax vision and roadmap
- Assess current state/status quo—Doing nothing may be increasing risk
- Understand the full population of processes and tools currently in place
- Aligning value creators to opportunities identified
- Utilize tax process maturity models to help guide the development of end state goals
- Include key representatives from throughout the tax function
- Prioritize each identified roadmap thread using following criteria:
  - Identification of “low hanging fruit”
  - Contribution to the overall strategic goals
  - Initiates the progress toward change
Transformation enablers:

A high-performing—or “transformed”—tax department spends less time, personnel, and resources on:

- Data manipulation
- Tax compliance
- Reporting, and
- Risk management

Thereby creating more time to deliver more value to the broader organization as a strategic partner. This is achieved through key transformation enablers:

- **People**
  - Enhance talent development and management

- **Process**
  - Develop common processes and measures

- **Data management**
  - Improve access and usage of financial data

- **Technology**
  - Improve use of tax related systems
Leading practices to consider

- Assess Team and Develop a Talent Strategy-role definition, organizational structure, interfaces and deployment
- Develop a succession plan for members of the tax department
- Build sustainable processes around compliance and reporting
- Leverage the technology that the rest of finance uses
- Achieve effective tax planning and risk management
Laying the foundation–actions to consider

1. Create a vision for tax

2. Demystify the “black box”-develop and implement a communications framework.

3. Identify and articulate opportunities for tax value creation to the enterprise

4. Build a business case
Create a vision for tax

The journey from current state to future perfect state

1. Define your vision
   - Focus: A shared vision of key characteristics that define your department in 3-5 years.

2. Understand perspectives and expectations
   - Focus: Gain insight into perspectives from external stakeholders and your direct reports to calibrate expectations and understand opportunities for transformation and alignment.

3. Assess your effectiveness
   - Prioritize: Validate the competency model for your department and assess your effectiveness across four key enabling areas. Identify opportunities to improve your performance or create more value for the organization.

4. Prioritize opportunities
   - Prioritize: Consider your vision for the future Tax department and select a subset of priorities (competencies and/or enablers) to focus on based on the potential value to the organization.

5. Develop initiatives and mobilize
   - Mobilize: Dig into root causes and identify potential approaches to address high priority competency areas. Develop an action plan with key milestones and owners.

6. Confirm your commitment
   - Mobilize: Identify areas of confidence and concern relative to executing against your initiatives. Commit to specific actions as individuals and a team to move toward your vision.
Demystify the “black box”-develop and implement a communications framework

Effectively evaluating, managing, and communicating tax issues

Communication framework
One Voice

- Resources
- Reporting
- Rate
- Risk
- Reward
Build a business case

Requires more than just cost—holistic approach including costs, opportunities, risk mitigation, value contribution, and budget rationalization

Requires understanding the business needs, identifying stakeholders and obtaining their approval

### Alignment and scope
- Establish understanding of tax alignment process
- Agree on approach and scope of tax business case
- Develop and prioritize a list of potential value areas and pain points

### Value discovery
- Broad-based review of tax processes, work papers, filings and tax planning
- Conduct workshops
- Estimate value of potential benefits

### Analysis
- Develop solution recommendations and overall value proposition
- Refine business case and benefit estimates
- Prepare business case presentation

### Validation
- Review, validate and finalize business case with stakeholders
- Present findings to finance executives and project sponsors
Organizational transformation initiatives tend to be very large and tax impacts most areas of business, so narrowing the focus for tax is key.
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