

## Optimizing the Tax Function Through Strategic Sourcing

By: Michael Murphy and James Ramsey, Shaw Pittman, LLP

*In a typical multinational enterprise, local or regional consultants are engaged to provide “arms and legs” for compliance tasks within an information and data collection framework dictated by the enterprise’s local business unit or subsidiary.*

Many large enterprises hire external service providers to perform varied tax compliance activities such as data collection, return preparation and forms maintenance. In a typical multinational enterprise, local or regional consultants are engaged to provide “arms and legs” for these compliance tasks within an information and data collection framework dictated by the enterprise’s local business unit or subsidiary. Meanwhile, tax planning, tax strategy and tax audit functions are commonly regarded as “core” activities and retained within the enterprise, both at a local and a global level.

This local out-tasking model produces an enterprise-wide tax function with limited oversight and control at the enterprise level. Service providers are often selected based on local working relationships with little appreciation for the enterprise-wide implications of individual out-tasking decisions. The result is a fragmented approach to the planning and execution of important tax processes. This can produce serious and unnecessary weaknesses in the enterprise’s tax function and internal controls. These weaknesses include:

- *Perpetuation of inefficient and error-prone data collection systems, symptomized by wasted manual effort, rework, and exposure to tax penalties, fines and assessments.*
- *A misplaced focus on individual out-tasked activities, instead of a focus on optimizing the underlying processes needed to meet the enterprise’s tax strategy, planning, compliance and audit objectives.*
- *Institutionalized incentives to perpetuate inefficiency instead of incentives to identify and implement improvements in tax-related processes.*
- *A set of processes and systems that impede, rather than facilitate, the enterprise’s ability to establish internal controls and to satisfy tax disclosure requirements imposed by Sarbanes-Oxley, revised tax shelter disclosure regulations and other regulatory changes.*



## A Better Approach - A Strategic Sourcing Model

By adopting analytical tools that put tax-sourcing decisions into a broader strategic framework, the enterprise shifts the focus of its sourcing decisions from localized out-tasking to an enterprise-wide view of processes and information flows. This shift in focus is fundamental and, when implemented carefully, delivers substantial reductions in error rates and rework, enhanced strategic planning and control, improved regulatory compliance and lower tax compliance, controversy and audit costs.

The most important step in implementing a strategic sourcing framework is to develop an operating model for the entirety of the enterprise's tax function – including both outsourced (or out-tasked) and internally performed work. Traditional contracting analysis focuses solely on the components to be out-tasked without providing the organizational “context” within which those tasks are performed, and the interdependencies and interactions that are created by the out-tasking.

The operating model is developed in a matrix format showing how each task or process is performed across the enterprise's organizational units. For example, tax compliance tasks can be mapped by geographic region, sub-region/taxing jurisdiction, subsidiary or business unit. Two versions of the operating model are created – an “as is” model showing current sourcing arrangements and a “to-be” model showing the desired combination of insourced/outsourced functions that produce manageable, cost effective subdivisions of work. Key to the identification of viable combinations is the identification of important interactions across insourced/outsourced work segments. Importantly, the operating model provides a highly visual tool to determine whether these sourcing decisions and coordinated work environments should be made at the local, regional or global level.

The benefits of this approach go far beyond merely identifying the best way to source taxation services. With such detail, the enterprise is equipped to drill down into the operating model to identify opportunities to streamline tax-information gathering processes, and create consistent methods for capturing tax-critical facts at the system level. For example, by mapping the flow of tax-data inputs and outputs, the enterprise can centrally identify cost-effective opportunities to adapt existing IT system fields and outputs, and bring the audit trail into sharp focus. This can be done in combination with a particular sourcing strategy, such as a competitive RFP (Request for Proposal) for taxation services, or as an internal re-engineering exercise.

*The most important step in implementing a strategic sourcing framework is to develop an operating model for the entirety of the enterprise's tax function – including both outsourced (or out-tasked) and internally performed work.*



*By mapping the flow of tax-data inputs and outputs, the enterprise can centrally identify cost-effective opportunities to adapt existing IT system fields and outputs, and bring the audit trail into sharp focus.*

The result is an analytical framework and tool set that can be used to make sourcing decisions based on broad strategic considerations, such as:

- *Viewed from the enterprise perspective, what elements of the existing tax function need to be improved?*
- *How should those improvements be achieved? Should the solution be defined and/or implemented internally or through an external service provider?*
- *For those elements that are currently functioning well within each existing organizational unit, is there scope to optimize them across organizational units?*
- *What combination of internal and external services will best support the enterprise's strategic tax planning function and objectives?*
- *How should external service providers be engaged – locally, regionally or globally?*

*Rather than out-task services to “do the same for less”, enterprises should ask “how do I source to optimize my total tax function?”.*

### **A Compelling Case to Change the Sourcing Model**

In today's competitive global economy, the pressure on enterprises to root out inefficiency and unnecessary risk is relentless. In addition to market pressures, multinational enterprises are confronting the limits of their existing resources, systems and processes in meeting new regulations and requirements for transparency. To respond to these challenges, enterprises must fundamentally change their sourcing model and objectives. Rather than out-task services to “do the same for less”, enterprises should ask “how do I source to optimize my total tax function?”. A strategic framework for assessing existing tax processes and making cost effective sourcing decisions is the key to this change.

---

Michael Murphy is a Partner with the firm Shaw Pittman, LLP. Michael can be reached at (310)-551-4503 or by email at [michael.murphy@shawpittman.com](mailto:michael.murphy@shawpittman.com)

---

---

James Ramsey is Senior Counsel with the firm Shaw Pittman, LLP. James can be reached at (202)-663-8374 or by email at [james.ramsey@shawpittman.com](mailto:james.ramsey@shawpittman.com)

---