
GLOBAL SOURCING

Outsourcing to Improve the Tax Function

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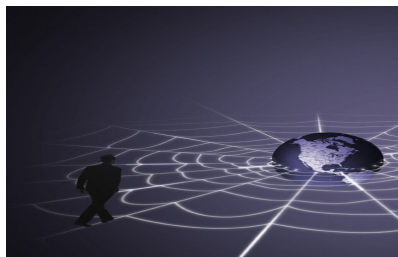
WRG Reengineering Tax Summit

May 19, 2004




Overview

- The Tax Function has evolved; many internal tax processes and tools are inadequate to meet the current demands of business and statutory regulation.
- Outsourcing can be used to streamline and improve the tax function; but most companies simply perpetuate historical processes and problems.
- A key to successful *transformational* outsourcing is the adoption of a strategic sourcing focus.
 - ▶ Key Element: Map data flows
 - ▶ Key Element: Define the Enterprise Operating Model
 - ▶ Key Element: Define scope of outsourced services with a strategic focus

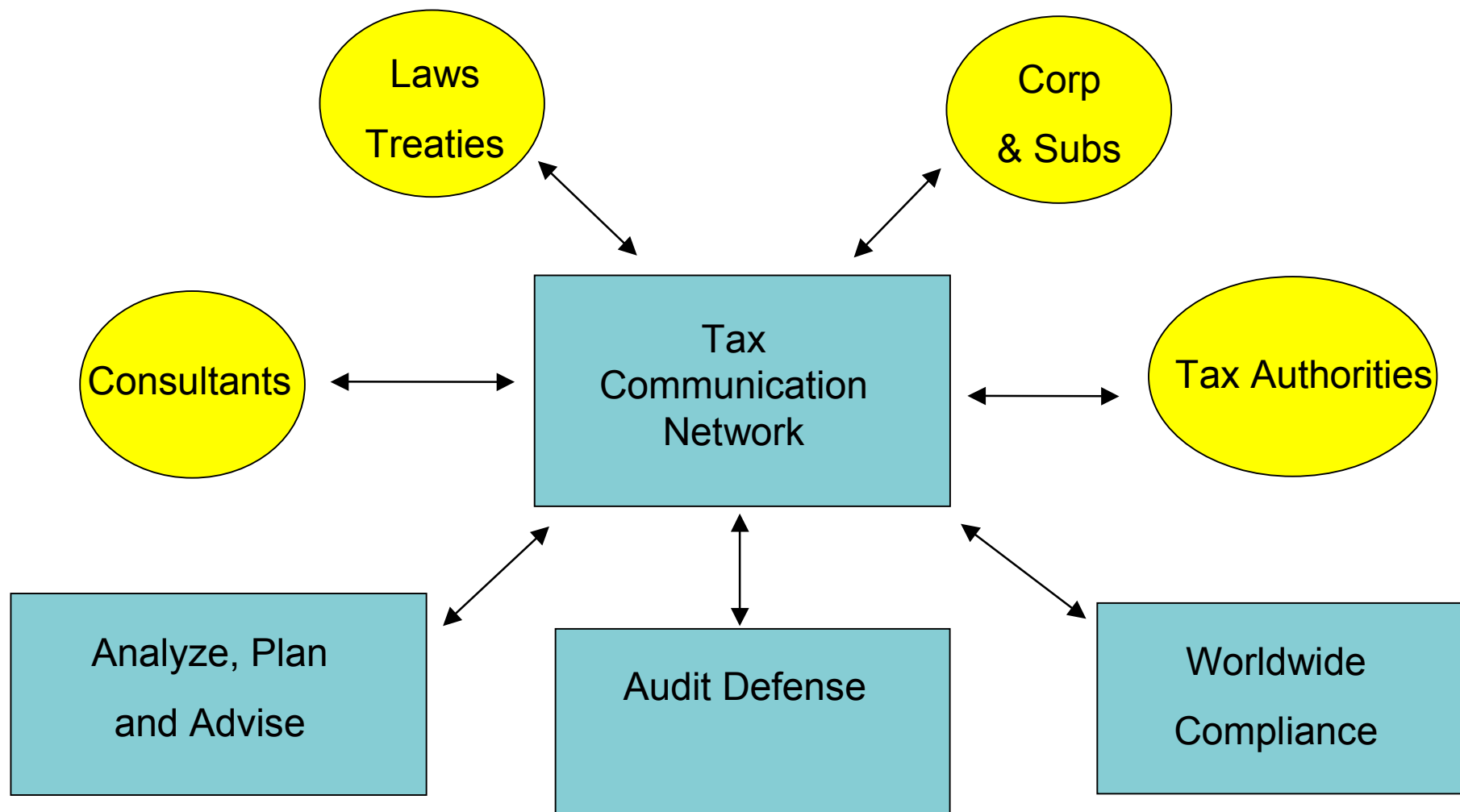


Challenges for The Tax Group

- Historically, the Tax Group has been responsible for:
 - ▶ Communicating information needs & collecting data
 - ▶ Performing compliance
 - ▶ Defending audit issues and Identifying planning opportunities
- Many enterprises have developed a “silo” mentality which can create compliance problems
 - ▶ Tax departments are dependent on information generated from other sources
 - ▶ Transactions are accounted for incorrectly and/or inconsistently, info requests are misinterpreted, supporting data may not be available for audit
- Regulations are now more stringent and demand control of processes, data and information
 - ▶ Rev Proc 98-25; Sarbanes Oxley 302 and 404; Tax Shelter disclosure requirements
- Enterprises are constantly seeking ways to reduce cost; but sometimes investment is required to achieve maximum efficiency and control



The Tax Function involves Many Stakeholders and Interactions





So, How Can Outsourcing Help?

- Done wisely, outsourcing can reduce costs while streamlining data flows and improving the quality of tax information. Key elements of a successful outsourcing strategy include:
 - ▶ Careful mapping of data flows
 - ▶ Defining a comprehensive “operating model” (processes and process owners)
 - ▶ Defining the scope of work to be outsourced with a strategic focus
 - Understand the complexity of the interactions created by separation of functions
 - Assign work in a manner that supports the enterprise’s over-arching need for transparency, consistency, accountability and control
- Cheaper churn is not the answer
 - ▶ Focus on reduced labor unit costs ignores the areas of potentially greatest gain
- Benefits will be maximized only if the operating model provides:
 - ▶ Visibility into the cost of inefficient systems and data flows
 - ▶ Incentives to optimize processes and costs
 - ▶ Alignment of accountabilities and control of results



Key Element: Mapping Data Flows

- Redesign and Transform the data
 - ▶ Get the data right, then you know the outputs are right
- Get your data and information links under control
 - ▶ First, understand where tax decisions are made and capture the basis for those decisions
 - ▶ Next, define exactly what you need from that source of information
 - Example: Are accounts really preserved in your ERP systems (invoice detail, P.O.'s, work orders) or is information consolidated into a format that does not preserve transactional detail necessary for audit defense, planning and tax return position support?
- Benefits of tax data mapping:
 - ▶ Brings audit trail into sharp focus
 - ▶ Provides the ability to re-deploy work to alternative resources within or outside the Tax Function
 - ▶ Reduces training and knowledge transfer through automation and reuse of business process
 - ▶ Enables central management and control of data (collection, filing and storage)



Key Element: The Operating Model

- You are already “sourcing” within the tax function
 - ▶ Income tax return preparation, expatriate returns, state and local tax returns; E&P studies, loan staff arrangements, shared service centers, R&E studies, VAT compliance, etc.
 - ▶ Commonly performed by Big 4 accounting firms, local CPA firms, loan staff or interns
- Understand the full scope of the tax function
 - ▶ Identify the processes, and who-does-what (see next slide)
 - ▶ Cover all tax-related functions, not just the functions that you are considering outsourcing
- Use the Operating Model to “drill down” to a more detailed analysis of processes, work product and interactions between the various actors within the function (intra-enterprise and external providers)



Define the Operating Model

- The Operating Model depicts tax-related processes across a span of geographies, tax jurisdictions and taxable entities:

		United States			Canada			Mexico	
		Federal		State A	State B	Federal	State C	State D	etc
		Sub. X	Sub Y	Sub Z		Sub Z	etc		
Tax Strategy & Policy	Define Global Strategy								
	Define Global tax policy								
	Define Standards								
	Design Access to Corp Data								
	Design Compliance Process								
	Define Archiving Strategy								
	Manage Sourcing Relationships								
Tax Operations	Tax Planning/Lobbying								
	Data Collection								
	Select Service Providers								
	Compliance - Direct Taxes								
	Compliance - Indirect Taxes								
	Archive for Audit								
	Manage Audit								
	Respond to Govt. Inquiries								
Conduct Training									
Tax Advisory	Respond to Corp Inquiries								
	Transaction planning								



The Lesson: Use Outsourcing Strategically

- Don't just hand over the shoebox and say "do it!"
 - ▶ Focus on how an external service provider can add value, instead of replicating your world.
 - ▶ Use sourcing decisions and processes to streamline and improve the tax function.
- A holistic analysis of the tax function is the first step to effective outsourcing
 - ▶ Look at all of the tax functions, across all regions and organizational units

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*Key Elements of
Successful Outsourcing
Relationships*



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Preparing to Outsource

- Fact Finding and Due Diligence on Service Provider(s)
- Internal due diligence and preparation
 - ▶ Data mapping
 - ▶ Operating model and scoping decision(s)
 - ▶ Associated costs
 - people, technology, capital, training, management oversight, external vendors, etc
 - ▶ HR information (who, what, salaries & benefits)
 - ▶ History of work effort
- Establish project governance and decision rules
 - ▶ Who makes the decision to outsource
 - ▶ Criteria for deciding whether to outsource and, if so, to whom
 - ▶ Requirements for internal briefing and buy-in from stakeholders



Key Contract Terms

- Description of Services
 - ▶ Focus on service “outputs” rather than inputs
 - ▶ Avoid exclusive ties to the service provider
- Service Levels
- Monitoring and Reporting
- Ownership of data and intellectual property
- Governance mechanisms
- Ability to renegotiate
- Dispute escalation and resolution
- Remedies if things don’t go well
 - ▶ Termination rights
 - ▶ Fee credits/ liquidated damages
 - ▶ Indemnities against major liabilities/losses
- Wind down/ transition back



Avoiding Disputes

- Understand your rights - and transfer knowledge to retained organization
- Let the service provider know that you are observing the relationship and the provider's performance
- Ensure your organization understands:
 - ▶ Objectives of the outsourcing relationship
 - ▶ Potential effect on people outside the tax function
- Mechanisms to avoid spiralling disputes and miscommunication
 - ▶ Routine operational status reports and meetings
 - ▶ Quarterly performance reviews
 - ▶ Informal dispute resolution process for serious issues
 - ▶ Involve people outside the tax function



Questions?