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Modernizing your approach to Legal Entity Management

Legal Entity Management (LEM), a core component of the Corporate Secretariat’s function, continues to grow in complexity. Yet many companies find it difficult to modernize their LEM approach which has impacts across an organization.

However, smart use of the right LEM technologies and LEM service providers will embed structural advantages into a company’s global operations and can provide tax teams and other important stakeholders with faster and more accurate entity data, creating an agile entity framework and rationalization opportunities.

The challenge to create value in a cost control environment

In recent years the role of the Corporate Secretariat has evolved. Core responsibilities to manage a firm’s legal entity compliance and governance are now tasked alongside a drive to create efficiencies and value creation across the LEM processes. However, for many organizations operational execution remains burdensome, thus limiting the opportunity to address evolving requirements and reducing organizational agility. As a consequence, leading organizations are increasingly adopting new ways of working and recasting their service provider networks to reduce cost, enhance

agility, and streamline processes, with one of the aims being to enhance how LEM interacts with other business functions, such as Tax.

According to a research study commissioned by Deloitte Legal, **Future Trends for Legal Services**, global compliance was perceived as a major issue for in-house lawyers, with 26% saying it was one their biggest challenges.¹ As companies grow, entity structures become increasingly complex and LEM processes can be difficult to scale.
URL: <https://www2.deloitte.com/global/en/pages/legal/articles/deloitte-future-trends-for-legal-services.html?id=us:2em:3na:usic:awa:tax:122120&sfid=7011O0000038IErQAI>

Regulators are also demanding more transparency with increased reporting obligations. Examples such as Country by Country Reporting (CBCR) and other governmental transparency influenced in part by the OECD's Base Erosion and Profit Shifting (BEPS) project, illustrate the need for accurate entity data with the risk of penalties, litigation, reputational damage or even having to unwind a transaction if done wrong.

LEM is an area ripe for process enhancement as a means of ensuring accurate, timely compliance while controlling costs and mitigating risk. Automation, standardizing tasks, and centralizing data across global teams can help cut costs, create bandwidth and provide a reliable and accurate dataset for effective planning and reorganizing.

Playing catchup amidst a global transformation

In Deloitte's report, **Going Beyond Risk and Compliance**, only 29% of respondents thought in-house legal teams are sufficiently prepared for rapid technology adoption and able to keep pace with a fast-changing world.²
URL: <https://www2.deloitte.com/content/dam/Deloitte/dl/Documents/legal/dttl-legal-going-beyond-risk-and-compliance.pdf>

However, the demands on the LEM function to deliver a scaled and accurate service are increasing. Entity data is often the starting point for transfer pricing and intercompany activity analysis, ownership and asset composition analysis, and broader entity valuation processes, all of which drive entity rationalization and tax efficiency to reduce cost.

By digitizing certain functions LEM teams can support dynamic and real time entity reporting. Enhanced data management platforms with imbedded analytics and status dashboards are a fast track way to institutionalizing efficiencies and delivering higher quality services. The value created relative to costs enable the LEM function to better serve their business stakeholders without driving expenses up.

Using the right tool also helps to align global Legal and Tax departments, especially when working across an international entity structure. The right LEM technologies can help to ensure local teams no longer operate in silos as data is centrally stored, accessible and current, with mistakes identified and corrected faster and earlier.

Advanced technologies ranging from Robotics to AI should be considered within modern LEM functions. As LEM professionals critically assess how they operate, advanced technologies can reduce administrative tasks, support self-serve real time reporting, streamline organizational chart creation, and increase entity data capture for greater visibility and accuracy. Leveraging technology for "smart admin" inevitably unlocks additional efficiencies.

Despite this, technology on its own does not solve the problem – it needs to be implemented, populated and properly maintained with high quality data.

Innovation doesn't have to be a journey you go through alone

Fortunately, staying current and/or establishing the right technology ecosystem are not challenges a company must solve for alone. Strategic use of service providers equipped with the knowledge and decision-making frameworks to stand up an LEM function and enhance its cross-department dependencies can help drive the right changes for your organization.

¹ **Future Trends for Legal Services: Deloitte Legal Services (deloitte.com)**

URL: <https://www2.deloitte.com/global/en/pages/legal/articles/deloitte-future-trends-for-legal-services.html?id=us:2em:3na:usic:awa:tax:122120&sfid=7011O0000038IErQAI>

² **Going beyond risk and compliance: Legal functions embracing digital (deloitte.com)**

URL: <https://www2.deloitte.com/content/dam/Deloitte/dl/Documents/legal/dttl-legal-going-beyond-risk-and-compliance.pdf>

However, companies should first understand what their needs are. To do this effectively, functional stakeholders such as Tax, Treasury, and Accounting, should have a role in the decision-making process. Their insights early on may enable a more holistic approach to LEM solutioning, often grounded in valuable company insights, such as entity structure, potential tax exposures and savings opportunities. Similarly, leveraging consulting expertise from a strategic advisor can also help shape what a real value creation exercise ought to look like and comprehensively align the needs of broader business stakeholders.

For some companies an LEM service provider will be tasked with managing technology vendor selection and implementation, establishing LEM databases and data governance modes, and remediate entity information with data cleansing. For larger organizations, outsourcing can play a strategic role in driving LEM efficiencies to create bandwidth and deliver benefits to the in-house team.

Taking a more active role in managing risk and adding value

LEM done right facilitates rapid decision-making, effective interactions between Tax and Legal, actionable data insights, and improved internal operations. It can support entity rationalization, entity integrations (M&A) or spinoffs, and help provide a competitive edge for other functions, such as Legal, Treasury and Tax.

While the modern LEM model will vary depending on the organization, clearly defined policies and processes with well-defined roles and responsibilities will likely be at the core. Robust data governance and information management enable flexibility (especially in a decentralized organization) whilst maintaining consistency and accuracy.

The importance of LEM is growing as the world gets more complex and global. LEM is often the silent partner to other parts of a business and when done right can provide the tools necessary to not only support compliance standards but also drive tax efficiencies and value across an organization.

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Prepare for the future today: Assess tax transformation readiness and journey

Many tax departments were undergoing change even before the pandemic hit, driven by the complexities of tax reform and greater compliance demands. The current environment, however, is causing leaders to rethink their operations with even more urgency in an effort to drive greater efficiencies, improve transparency, and leverage technology. Should you consider alternatives to update your tax operating model to align with business goals?

The majority of respondents to the Deloitte's Global Tax Management survey revealed they are evolving their tax operating models by considering the levers of technology, talent, data, processes, as well as tax internal controls and governance. Many anticipate expanding their tax outsourcing arrangement, the use of tax shared service centers have doubled over the last two years and over half are seeing an increase in investments in tax technology.

URL: <https://www2.deloitte.com/us/en/pages/tax/articles/global-tax-management-survey.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI>

Technology investment heats up



19%

Less than 1 in 5 companies have a clear road map for **tax technology, appropriate budget, and someone responsible for delivering this**, although this is up from only 12% in the previous survey



56%

Over half say they have increased their **investment in digital and tax technology** over the past two years



36%

Over one-third of those with highly centralized tax operating models say their **technology investment has significantly increased**

Tax leaders are tackling these strategic challenges through a broader transformation in how they deliver services, with many looking for increasing support from a broader ecosystem. Some take on the responsibility to modernize and keep operations in-house, investing in flexible and scalable technology solutions while leveraging global business or shared services centers. Others outsource core tax obligations, taking advantage of a third-party provider's technology investments and freeing their teams to focus on strategy and planning. Lastly, many are starting to deploy an Operate model, in which all or a portion of the tax function is operated by a third-party service provider with the potential for some of their people to transfer to that provider. In particular, some companies are considering deploying an Operate model on a geographical basis for complex tax jurisdictions such as the United States.

How do you know what operating model is right for your department and broader organization? There is no "one-size-fits-all" solution as each organization has unique challenges and goals. Learn more about tax operating model design that fits business today and flexes for the future.

URL: <https://www2.deloitte.com/us/en/pages/tax/articles/tax-transformation-readiness.html?id=us:2em:3na:usic:awa:tax:122120&sfid=7011O0000038IErQAI>

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COVID-19 Resource Center

Business leaders are managing through one of the most sweeping crises in recent history. Deloitte's COVID-19 Resource Center can help management respond, recover and ultimately thrive post COVID-19.

- **Combating COVID-19 with resilience:** A collection of Global Deloitte Insights to help businesses manage and mitigate the risk associated with COVID-19
URL: <https://www2.deloitte.com/global/en/pages/about-deloitte/topics/combating-covid-19-with-resilience.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI>
- **Deloitte COVID-19 Tax & Fiscal Measures:** Deloitte is offering two free digital resources which can help you keep track of tax and financial measures introduced around the world and review the measures by country.
URL: <https://www2.deloitte.com/global/en/pages/tax/solutions/tax-atlas-signal.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI>

Calendars to watch

Each edition, be sure to mark your calendars for some of the more important events (recent and upcoming) as well as tax developments making in impact on businesses investing into the United States.

Upcoming activities

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| January 14
2:00 p.m. ET | Dbriefs webcast: Consumer Products in 2021: Industry outlook
Register
URL: https://www2.deloitte.com/us/en/events/industries-dbriefs-webcasts/2021/consumer-products-2021.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI |
| January 19
1:00 p.m. ET | Dbriefs webcast: The evolution of Indirect Tax landscape in today's environment
Register
URL: https://www2.deloitte.com/us/en/events/tax-executives-dbriefs-webcasts/2021/evolution-indirect-tax-landscape.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI |
| January 21
1:00 p.m. ET | Dbriefs webcast: Tax operating model transformation: How to balance risk and rewards
Register
URL: https://www2.deloitte.com/us/en/events/tax-executives-dbriefs-webcasts/2021/tax-operating-model-transformation.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI |
| January 26
2:00 p.m. ET | Dbriefs webcast: Economic Outlook 2021: Where do we go from here?
Register
URL: https://www2.deloitte.com/us/en/events/private-companies-dbriefs-webcasts/2021/economic-outlook-2021.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI |
| January 28
1:00 p.m. ET | Dbriefs webcast: Disrupting traditional M&A: Transforming while transacting
Register
URL: https://www2.deloitte.com/us/en/events/strategic-mergers-acquisitions-dbriefs-webcasts/2021/disrupting-traditional-m-and-a.html?id=us:2em:3na:usic:awa:tax:122120&sfid=701100000038IErQAI |

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