



TAX NEWS & VIEWS PODCAST

Episode - Beyond the tax budget

Host

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Speakers

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Carrie Falkenhayn: Welcome to the tax news and views. Podcast I'm your host, Carrie Falkenhayn. Today we have an exciting episode lined up where we're going to discuss how tax can drive enterprise value through technology led projects as well as how tax departments can collaborate with their IT and Finance functions to access budget for those initiatives. Joining me today are a great group of specialists. We have Frank Salerno. He's from Deloitte's Tax Technology Consulting practice. We also have Andrew Guberman. He's from Deloitte's International Tax Practice. Finally, we have Jeff York, who is from Deloitte's Multi-State practice, and I know this is going to be a great discussion. Let's dive in. Frank, I'll turn this 1st question over to you, which is really around. What are some of the operational and data challenges that tax departments are facing today. How can technology help address those issues?

Frank Salerno: Thanks, Carrie, look forward to the conversation. The tax departments that we work with today. Many of the organizations seem to have a very similar pattern in the sense that they're all facing. Whether it's a small challenge or a large challenge around talent. They're all having talent struggles for sure. I think many people listening to this will probably agree that tax talent is at a premium, finding experienced folks that know a lot of tax rules and Regs is becoming increasingly difficult. Technology is changing rapidly. You wrap that around larger and larger volumes of data that organizations have to sift through to get to correct calculations. Some of those facts I just mentioned are becoming hard to handle, and without being able to put more people on projects which we know is not easy to have happen with

the talent shortage and not efficient. Technology is the way that you're trying to make things better. The trap that you want to avoid falling into is using technology properly. Can you have the right piece of technology implemented correctly for your organization so that all of the data, for example, that's across all the systems can be brought together? You can run some analytics. You can use the power of the data to make better tax driven decisions. What you want to avoid is a bunch of technology that doesn't work well together.

What we try to do when we're looking at our tax departments is getting the right technology that fits for the organization, for the industry. That's what we look at to alleviate some of the pressures that tax departments are faced with. The right technology implemented specifically for the organization is where we relieve some of that pressure that tax departments are facing with the new reporting requirements. As I mentioned, some of the talent shortages. The data sets are getting bigger. The requirements are getting harder, and the speed to produce information is being asked to, Organizations are being asked to do things faster and faster.

Jeffrey York: Frank, you highlighted that data is important. I find that even though tax practitioners are getting better at data and technology. They still spend a lot of time gathering data, reconciling it, manually working with it. It's a big time spend in the tax department. Some of that data sits in traditional accounting systems like ERP systems and others sit outside traditional accounting systems. You've got paper or electronic documents, such as AP invoices that support sales, tax or property tax bills or exemption certificates or things like that.

You end up spending so much time collecting this data and trying to get to a data set that can give you that value that you want. You don't have as much time for strategic tax planning or analytics projects that you want. One example may be related to that is time spent collecting accounts, payable related data to support a sales tax audit. If you don't know how to get that out of your own ERP system, you might need it assistance and budget. Tax isn't the highest priority with it budgets. Once that data becomes available, it often represents 3 or maybe 4 years of transactional details. The volume and complexity is challenging for a tax department to review and analyze before sending it to an auditor. You want to make sure you're looking at it before you send it to your auditor. With that we also talked a little bit about invoices before. You want to supplement that, or try to get the supporting invoices. You need all of that to support that audit, and you spend so much time collecting the data that you can't analyze it enough, and that results in more uncertainty and less confidence in the outcome of that audit than you've ever seen before.

Carrie Falkenhayn: Data needs are increasing. Maybe talk specifically about why technology is becoming important for tax departments now? Andrew, be interested in your perspective from an international tax point of view.

Andrew Guberman: Happy to add some flavor to that, and some of this will touch on what Frank and Jeff already said. The tax legislative landscape has increasingly become more complex, with more data elements driving these calculations. With all that change, the time to report or comply is staying exactly the same, or in some cases even tightening. One of the main ways to address these challenges and meet these deadlines is to embrace technology as an example. We're now a year into pillar 2 at least for calendar year taxpayers. The complexity is apparent with over 200 data points that are potentially applicable, depending on the facts. Assuming we ignore safe harbor for now. These data points come from various sources and owners across the entire organization. The ability to leverage that technology, whether it's information from an ERP or data wrangling solutions, this technology could be used to help create the necessary data points if they don't exist today, that technology would also help to utilize that data downstream and then ultimately compute using that data. It's critical. For in this case the pillar 2 calculations themselves.

Additionally, because pillar 2, it's widespread or it has widespread applicability across the entire

organization. There is a significant impact that could have on companywide decisions. We're seeing some of these conversations around the technology adjustments happen at the C-suite level and not just with the VP of Tax. The technology that's being implemented or enhanced because of pillar 2 and other changes. It's directly integrated into the ERP systems, the legal entity systems, or other non-tax and tax areas of the ecosystem. Therefore, having these discussions and connections across the organization is the key.

Keep in mind that everything that I'm mentioning about this in Pillar 2 does not factor in the potential legislative changes that we're seeing within the US. Coming from the new administration. That's coming into office soon. We're hearing a lot about tariffs as well as the expiring TCJA provisions and what they're going to do with that. With all this, it would create additional complexity, or at least create a need to model, to assess, to plan around these policy changes which would bring us back to the technology to do that, to help get us there.

Frank Salerno: Andrew, I want to add, briefly, that I 100 agree with you, and you spoke about pillar, 2 pillar, 2. Such a great example of how technology is important, because organizations are not hiring full blown pillar, 2 only teams. We know that the organizations have to say, Okay, we need to comply with pillar 2 and do our assessments. We're doing that with the existing folks that we have to get all that added work done and all that added complexity. You need to have better technology footprints to consume your information and produce whatever it is that you're doing for pillar 2. It's more work for the same amount of people, and you are forced to look at what pieces of technology and what improvements with my information can be out there. I can comply with all these complex rules.

Andrew Guberman: The one thing I didn't mention that we are seeing because of what you said on the resource side and the dedication to something like a Pillar 2. We are seeing some companies start to look into co sourcing or even outsource type arrangements to help take advantage of the technology and the deep technical expertise that an outside provider might have. That's a way to help combat all these tax legislative changes. If there is resource, constraints.

Jeffrey York: I would add to that that we look at. Some of the policy changes. We also look at the differences in the way the world works from 10 years ago. We've got digital services now, cloud computing, we've got remote work, the gig economy. In addition to policy, we've got these economic or changes to the way our economy works that impacts, taxability, the sourcing of products and services and all of it's making tax in general more complex. A couple examples I could give from that perspective is, we ask our clients whether their state apportionments changed because their hybrid workforce now splits time between an office and in a home environment. Instead of recording all the payroll in an office environment, do they now have employees in states where historically, they haven't had to file because they're working from home. What does that look like? What are the challenges to that? Do they have the data and the systems to be able to track that level of data. Similarly, if you look at software, companies purchase software all the time, some of it's now hosted in the cloud. Some of it's put in a physical data center that the corporation owns and others still is on the computers of the individuals that are geographically diverse throughout that corporation's workforce. We always ask our clients, do you have means to track and manage where that software is being used. The type of software it is, and the taxability of it that way they can avoid either overpaying or underpaying the tax they can get it right. In addition to policy, general economic headwinds and changes in the way our culture works has created a lot of complexity for tax that makes technologies increasingly important.

Carrie Falkenhayn: You have all made a great case for the why, but maybe talk a little bit about how tax departments can collaborate both with their information technology as well as their finance functions to fund some of these technology led projects? Frank. Maybe you can start us off here.

Frank Salerno: It's an interesting question. Years back there was a divide between a pure tax, professional

and information technology, it professional. It was totally different sides of the country, right? They were not even close. At best, you called your IT person. If your laptop didn't work and tax didn't have any connection to the IT function. More and more increasingly, we're seeing whether it's in meetings or presentations or questions. We're dealing with tax professionals. We're dealing with information technology professionals and even the pre-tax. The finance folks that triangle, if you will, has become tighter and tighter for decision making. It's because taxes continue to get asked to produce faster and at times more complex data than they have had to do, say the prior quarter or the prior year and without having a strong partnership with the IT team, that information technology team in house, you're limited as a tax department, because whether it's the lack of data or a more granular set of data that you would need access to that constant communication, that constant dialogue. You're turning tax people into IT people. You're by default turning your information technology people into proficient tax people because they have to understand. It's cross learning between what both sides of the house need, and by doing that ultimately the organization is benefiting. The tax department is. On the pre-tax side. They're getting the benefit because they're more confident that when something has to be tax affected and turned around quickly.

It has produced what tax needs to do, to tax effect and tax, plan and tax model and ultimately give it back to the finance function. They can continue in the context of a financial statement, putting it all together so that team needs to be strong. Our most successful organizations that we deal with our clients that we're closest with have probably the best partnerships between the finance, the information technology team and the tax team. Without that tax can't deliver on these increasingly complex and fast calculations.

Jeffrey York: I would add to that that oftentimes tax departments could be mistaken as cost centers within an organization, and I've seen a growing trend for it, and finance to view tax as a value driver to help fund projects to say, if we can make sure we have tax relevance to what we're doing here, we might be able to save enough money, and that might help us justify this additional spend. Making sure your tax department even sees itself as a value driver is important to that whole discussion.

Frank Salerno: Jeff, you're 100% right. The only thing I'll add to it is the tax departments that are closest and have the best relationships with especially the IT teams. They're the ones that are not necessarily just going to it for traditional IT things such as I need a faster connection. I need a faster laptop. I want to double down that education and the collaboration that's happening where it is becoming a better listener and a better learner of tax. That's where the value add is happening, because without that it doesn't have the full appreciation for some of the complex tax rules. Taking that extra time and having a bunch of one on ones, and meetings that are cross Departmental is paying dividends for a lot of our tax departments.

Carrie Falkenhayn: You've gotten this technology project funded because of all the great teaming and you're going to have access as a tax department to more data. How should the tax department be thinking about how they manage that data effectively?

Andrew Guberman: Data accuracy and integrity are truly paramount, especially when you need the numbers to be right and to be right quickly. Often when we do work with clients, we realize that different teams within an organization might be leveraging different sources or source systems for the same exact data element that they're trying to pull. For example, a legal entity structure. Someone might be using one source to get the legal entity information while another team might be using a completely different source. This could create downstream reconciling issues and disconnect concerns. When we go to clients, the question becomes, when one of those source data is updated for that specific data element, like the legal entity structure or all the other sources that other teams are using to leverage for their calcs are those updated as well? Or is there that disconnect? In this perfect world everyone would be pulling from one source of truth per data element. Because of this concept, and because of the added complexity around the data points due to those legislative changes like we talked about before with pillar 2 and potential reform and things like that, we are seeing a shift in the marketplace. What we've been seeing is a growing focus on developing and enhancing a data warehouse or a data lake. Or even just a change in the mindset

around how data is shared across an organization. This ties back to what Frank and Jeff were talking about before being closely tied in with the IT department to ultimately get there. How to think about the data this is not just within the tax department, or even the headquarters itself, but across the entire organization, globally.

The goal with all this is to centralize the data points, whether structured data or unstructured data, so that everyone in the organization has this one source of truth to pull from and pull from quickly. Using that data warehouse or data lake, or something similar, could allow for these quick refreshes, to update the calculations as the data itself changes. This centralized data concept does help to another area. Frank, you were mentioning around the concept of creating visuals off of that data that's there to help support in the issue identification, to support and review the opportunity identification, reporting and general storytelling. The way we've seen companies think about data, work with data, get to this one source of truth concept has been paramount.

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