The tax data dilemma

How tax organizations are addressing their data access and quality issues
No matter how well run the tax department is, the chief tax officer (CTO) always seems to inherit the operational problems of the entire organization. Everything from company accounting system limitations, a lack of policy adherence by other departments, and even a last-second adjustment are all felt by the tax department. The costs are real, from extensive manual data rework, Sarbanes-Oxley compliance, and late fines and penalties.

While there is no single solution, new technologies offer tax professionals a host of options for managing data. Some simple steps can help overwhelmed tax leaders better understand the factors to make the tax data management choices relative to their needs.
Understanding the “the tax data dilemma”

Most tax departments seem to have challenges around data. Among the many reasons for this is the very nature of organizational systems. Different systems get put in place at different times, have different objectives, and were likely implemented when the organization looked very different. Especially for organizations with decentralized operating structures, the number of these systems can run into the hundreds.

As a result, there is rarely one place for tax professionals to go to get all the information they need. Many tax departments spend more time getting access to data, assembling it, and fixing it than performing actual tax work. Imagine if just a portion of that time could be recovered and reallocated. That lost value is leading more and more tax leaders to seek answers and solutions in the form of technology.

Lack of data access and efficiency is one aspect of the tax data dilemma, but data quality is the other. Automation alone simply runs the risk of only moving bad data faster. At some point in the process data quality has to be addressed or at least managed. These issues tend to be more organizational and cultural and not easily solved by technology alone.

Tax reform has also put the tax operating model under scrutiny like never before. Organizations are asking: Is our current tax department the right size for the new tax footprint and risk profile? Can outsourcing save money? Imagine a CTO being told, “As a result of tax reform, you are 25 percent less valuable to me now.”

The need for innovation in tax is self-evident, and for many tax departments, the use of technology has moved from a “nice to have” to a business imperative.

Less than one quarter of tax leaders are satisfied with the ability of their companies’ ERP systems to provide tax data.*

Finding the right solution

Technology is an enabler of tax data strategy, not the reverse. However, it’s hard to keep up with the latest technology developments or know how to integrate them with tax data strategy. A few simple steps can help tax professionals begin to effectively evaluate technology solutions to help solve the tax data dilemma.

1. **Create a “disruptive insight.”**
   What if a new technology could save your tax department thousands of hours? What if the solution was already on your workstation but you just didn’t know it? This could very well be true, but you don’t know what you don’t know.

   A disruptive insight is learning a new technology or approach that could materially change the way you run your tax department and view your team—for the better. Therefore, creating awareness of new technologies is often the very first step.

   **New technologies that are most relevant for tax generally fall into two categories:**

   1. **End-user solutions:**
      A new generation of software has come to the market that allows users to perform data blending and enrichment, develop visual analytics, and automate common tasks right from their desktop computers. Tasks at this scale were previously only possible on large enterprise systems.

      Existing software and operating system improvements have also been put in place but not well advertised. For example, a question you might ask yourself is: When is the last time your tax department got trained on the latest features of Microsoft Excel?

      These single-user solutions are part of a broad generation of technology called “do-it-yourself analytics,” and tax departments stand to benefit greatly especially in day-to-day tax functions.

   2. **Enterprise solutions:**
      Enterprise solutions focus on fixing upstream systems to solve the tax data dilemmas at their source. Contrasted against end-user solutions, enterprise solutions work well in solving data challenges across all of tax. While these solutions have traditionally been viewed as long term and expensive, more flexible and cost-effective solutions are now available.

   More than half of tax leaders expect IT will gain a better understanding of tax data needs over the next few years.*

Data lake. A process of assembling data into a single location from multiple upstream systems, often without any transformations or adjustments. Data is simply available for easy access for later use. Some refer to it as the ELT model, or extract, load, and transform (later). This option solves upstream data access challenges, but pushes quality and/or rework challenges downstream.

Data warehouse. A process of assembling data into a single location from multiple upstream systems. Generally data quality and rework is performed before loading. The resulting warehouse becomes “golden records.” Some refer to this as the ETL model, or extract, transform (now), and load. While benefits are high, maintenance is an important consideration.

ERP/BI solutions. Most modern enterprise resource planning (ERP) and business intelligence (BI) systems have the capability to act as data warehouses/lakes for tax. This is a system integration data model. While potentially costly, integrating tax as a formal part of the information system architecture is the most sustainable.

2. Develop a use case.
How big is your tax data dilemma, really? Some tax professionals measure their problems by the degree of personal pain. While that may be valid, there is a business case to be made in fixing a problem that requires 30 hours of frustration versus fixing a problem that takes 600 hours but seems to work well.

The other challenge in defining the tax data dilemma is total cost. The number of hours is just one aspect, but it might also involve other cost elements like fines and penalties for late filings or even lost tax value. Reducing time and effort during close for example is a multiplier of value beyond just the hours themselves.

Some tax professionals learn of an exciting new technology then go about trying to find a problem to fix. This approach is something like a hammer looking for a nail. Most tax organizations get better results by first defining the problem then determining the right solution. After all, better questions get better answers.

Many high-performing tax departments often develop a roadmap of tax data challenges. This process helps the department understand and prioritize issues and develop a series of coordinated solutions more formalized over a period of time. Chief tax officers have also found this approach and documentation valuable in budget meetings.

More than 60 percent of tax professionals expect increased usage of tax data warehouses going forward.*

Third-party tax software. A variety of vendors offer software to help tax departments gather their data and information. Optimizing the use of existing software, or learning of advanced features, is sometimes a good place to start.

Local machine/tax packages. Not to be left out, smaller tax departments can make powerful use of desktop software. Advanced features of the Microsoft Office suite and its ability to integrate with systems and data stores come as a surprise to some.

3. Scale successful solutions
Once the potential of a given technology is realized, the next step is to scale. However, this is the point where governance needs to be considered. What if your new robotic software is allowed to post journal entries to your GL system without any human review?

To scale a tax technology solution, there are generally two approaches:

1. Internal model: Train internal tax resources to use and maintain the solution themselves. This is seen as more sustainable and invests and empowers team members within the organization.

2. Partnering model: Outsource or cosource non-value-added data management or data facility activities. Many external firms have made significant investments in technology, and simply leveraging the investments may make more sense than investing and building internally.

It is not uncommon to see even the perfect technology solution fail without proper governance and a data strategy in place. Properly managed, however, these approaches can help to ensure the value to the organization is realized.
Final thoughts

With a thoughtful definition of tax data challenges and awareness of available technologies, tax organizations are developing the right solutions for their specific needs. Not all problems can be solved with one solution and the practicalities of available time and budget have to be recognized. However, an incremental data strategy executed over time can be a practical way to build to the future state of your tax department.

How we can help

KPMG’s professionals have the deep experience in tax processes, technology, and data analytics required to understand and help corporate tax teams. We are working with companies across sectors to evaluate their tax data management needs, formulate an operational structure, and acquire the appropriate tools.

Examples of how we have helped organizations include:

— Improving data collection, extraction, standardization, and presentation
— Training and providing guidance on new technology tools
— Building tax data warehouse facilities
— Offering improved spreadsheet and database models.

We invite you to visit one of our KPMG Ignition Centers; we can collaborate with you to design the right data management solutions for your tax department.
Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia