How to Reduce Risk, Improve Transparency and Increase Efficiency in Tax Provisioning

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Introduction

The pace of digital innovation, consumer trends, and macroeconomic change has driven CFOs to reshape their teams to meet modern-day business demands. Moving to a front line in a forward-looking role, finance teams are being operationalized directly within lines of business to drive decision analysis, produce rapid insights and create agility for the enterprise. While adoption of this "business partner"-centric model expands, it is only possible through back-office innovation where modern corporate performance management (CPM) software solutions can automate business processes such as financial consolidations and tax provisioning to drive productivity and reduce accounting close cycles.

What Is Tax Provisioning?

Tax provisioning is the business process of calculating and reporting the global income tax liability/asset values and related expenses or benefits for current and future periods. Because taxes are computed and often reported at the legal entity level, which can be different from management reporting structures, global enterprises must individually develop repeatable processes to compute tax provisions for each legal entity, as well as for the parent company. While doing this, global enterprises must also consider various reporting standards, such as US GAAP, IFRS, UK GAAP and local jurisdictions.

Tax provisioning is typically broken down into a series of business processes, as illustrated below and in figure 1.

Data Collection
Data collection is the process of gathering trial balances, tax rates and other inputs that impact tax provision for each legal entity within a consolidated tax hierarchy.

Workpaper Development
Workpapers collect additional inputs and provide standardized computations to calculate the current and deferred tax provision.

Calculations
Calculations are at the core of tax provisioning and provide the framework for tax provision reporting. These typically include tax account reconciliations and current and deferred tax roll-forward or walk across. In addition, calculations provide required detail and support effective tax rate (ETR) analysis for a consolidated company and statutory purposes.

Reporting
Once detailed tax calculations and resulting journal entries are completed, tax reporting can occur. Tax reporting typically includes and requires management, line of business and location views of the consolidated financials. Standard reports often include ETRs and footnote disclosures for tax provision reporting and to support liabilities on the balance sheet.
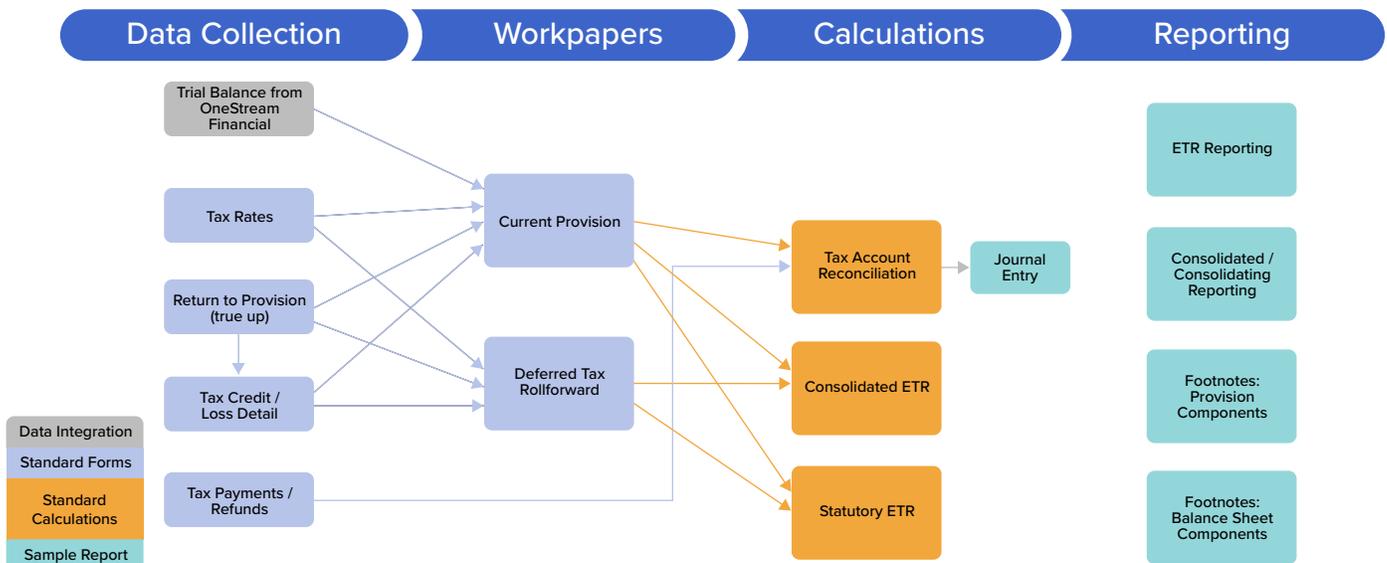
Tax Provision Process Overviews

Figure 1

Business Challenges Using Spreadsheets

Business Challenges

As CFOs and audit committees push for transparency and seek to shorten the accounting close, tax departments are being challenged to drive efficiencies and reduce cycle times. Like many in finance and accounting, tax departments have historically relied on spreadsheets to gather data, create unique hierarchies, manage adjustments and gather approvals — work that can be time-consuming and error-prone.

For sophisticated global enterprises with multiple legal entities and complex ownership structures, the risks are even greater and can materially impact month/quarter-end close cycles, affect the ability to meet external reporting requirements and decrease the time available for CFOs to focus on forecasting, analysis and investor relations activity leading up to reporting results.

Transparency

With the Sarbanes-Oxley (SOX) Act being introduced in 2002, there are increased oversight responsibilities for company boards and independent auditors to review and ensure the accuracy of corporate financial statements. Further, the SOX Act requires top management to individually certify the accuracy of financial information or face severe penalties for fraudulent financial activity, going so far as to have CEOs personally sign corporate tax returns. Section 404 of the SOX Act holds management and oversight boards responsible for creation, maintenance and regular monitoring of internal controls — which are defined as mechanisms, rules and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.[1]

Despite more than a decade of investment, transparency and internal controls remain a material opportunity for tax departments. Consider the following statistics provided by The Professional Journal of Tax Executives Institute and EY Financial Accounting and Advisory:

- Only 58% of CFOs and controllers view the level of trust between the public and large companies as high.

- Tax accounting was the second leading cause of 2016 financial restatements, at 98%. 36 hours was spent on each key control (including design, documentation and testing).

- Almost 60% of reported tax-related material weaknesses were attributed to insufficient tax accounting expertise, insufficient review and lack of general procedures.

For sophisticated global enterprises, there are often dozens of transactional and management systems operating in parallel, many with limited controls and traceability between them — adding risk to enterprise processes such as tax provisioning. More specifically, as companies seek to find "one version of the truth," data collection from fragmented systems can be a significant challenge

[1] *https://www.investopedia.com/terms/i/internalcontrols.asp*

to providing a complete and visible audit trail without the proper systems to effectively organize and manage data flow. Add to this multiple legal entity structures, with individual workpapers and calculations for each, and the scale of control risk and transparency can be material.

To accommodate this complexity, tax teams have historically built manual, internal processes to capture data, create workpapers, support analysis and manage reporting, most often using of combination of online and offline tools connected by a series of spreadsheets.

Spreadsheet Risk

According to Ventana Research, almost 60% of midsize and large companies relay mostly on spreadsheets to manage the tax provisioning process (see figure 2). Spreadsheets, the most popular tool for finance professionals, provide users comfort, perceived speed and flexibility, although many are simply unaware of the risks and practical alternatives.

While spreadsheets will continue to be used extensively by finance professionals, several risks are inherent when using them for enterprise business processes like tax provisioning:

• **Version Control:** There's no process to ensure that users can find and use the latest and best version.

• **User Documentation:** Spreadsheet developers rarely create satisfactory user documentation.

• **Transparency:** Spreadsheets don't create audit trails, providing little record of how and when formulas or processes were changed.

• **User Error:** Simply using a spreadsheet creates opportunities for errors in both data inputs and calculations.

Tax Management Software
Most Organizations Use Spreadsheets

59% Spreadsheets
18% Internally Developed Application
22% Third-party Application

Source: Ventana Research Office of Finance Benchmark Research
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Figure 2

Disconnected Systems and Data Availability

Tax provisioning requires several data elements for process input. Ranging from trial balances to tax rates and financial forecasts, the need to gather this information for multiple legal entities and/or tax jurisdictions and create a single version of truth is critical to ensuring tax departments are working with up-to-date and accurate information. For companies relying on spreadsheets and disparate data sources, this can be challenging and often results in the "brute force" business processes required to do the following:

• Manually download trial balances from various source systems

• Reconcile trial balances to GLs

• Manually collect assumptions for FX rates globally

• Manually download forecast information for each legal entity

• Apply detailed adjustments for tax purposes

• Consolidate data for global impact

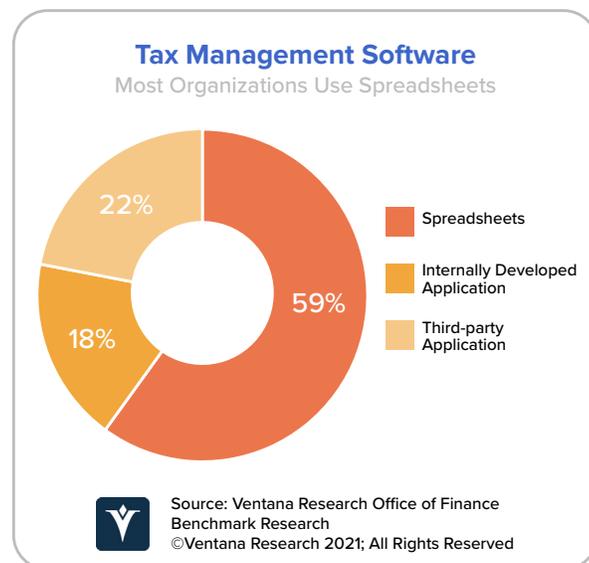• Repeat as necessary until the accounting close is finalized

According to Ventana Research, only 42% of companies have access to consolidated financial information within a week of quarter end. For that same reason, the same study finds that 44% of companies take five days or more to complete tax provisioning on a quarter end, causing material time constraints for financial reporting, FP&A and investor relations preparation for earnings releases, board reviews and other critical management reporting.[2]

Shortening Close Cycles

The financial close cycle impacts almost every function across the sophisticated enterprise. While CFOs push to shorten close cycles to address their own analysis and reporting needs, empowering the business with real-time data and insights is an organization-wide initiative. In fact, modern finance leaders are often tasked to lead efforts to democratize data — enabling business partners in sales, operations, marketing and HR to draw insights, inform plans and make critical decisions.

Thus, the pressure to shorten close cycles is not just a finance task but rather a strategic initiative required for sophisticated enterprises to outpace competition and put critical information into the hands of decision-makers.

With CFOs seeking every edge to create agility and re-deploy resources into lines of business, leaders are looking across the entire back office to move beyond traditional roles and innovate. With only 10% adopting purpose-built software for tax provisioning, tax departments are beginning to think differently to drive productivity and provide transparency into their business processes.

Modernizing Finance

Purpose-built software solutions offer strong benefits for tax departments to consider when evaluating options to modernize. Like with any technology investment, there are many important factors to consider. Here are a few considerations:

- Does tax trial balance data come from a single, unified application?

- Does the solution provide the ability to create unique tax hierarchies with drill-through back to source data?

- Does the application include guided review and process controls to manage the flow of data, adjustments and reviews through each phase of the tax provisioning process?

A purpose-built tax provisioning application can materially decrease accounting close cycles while delivering increased accuracy and transparency. Moreover, by leveraging a single, unified platform with guided review and process controls, tax teams can mitigate risks associated with using disparate data sources and spreadsheets — and drive a higher return on investment.

[2] *Ventana Research: Making Tax Provisioning the Solution, Not the Problem*

OneStream's Tax Provision Solution

OneStream provides a single, unified application supporting multiple CPM processes, including financial consolidation; financial, statutory, and management reporting; planning; forecasting; and analysis. OneStream's built-in capabilities include Guided Reporting for end-users, Extensible Dimensionality®, user-defined calculations and workflows, formatted and ad hoc reports, Excel®-based reporting and interactive dashboards. It also provides seamless integration with Microsoft Office®, automating the creation of board books, presentations, regulatory filings and other complex documents.

The OneStream MarketPlace enables customers to extend the value of their investment with over 50 purpose-built business and productivity solutions to address complex processes across the enterprise. For tax departments, the OneStream Tax Provision solution accelerates time to value, reduces risk and increases transparency by eliminating spreadsheets and disconnected point solutions from the tax provisioning process. The key components of the Tax Provision solution (see figure 3) include Tax Input Forms, Tax Workpaper Manager and Tax Reporting.
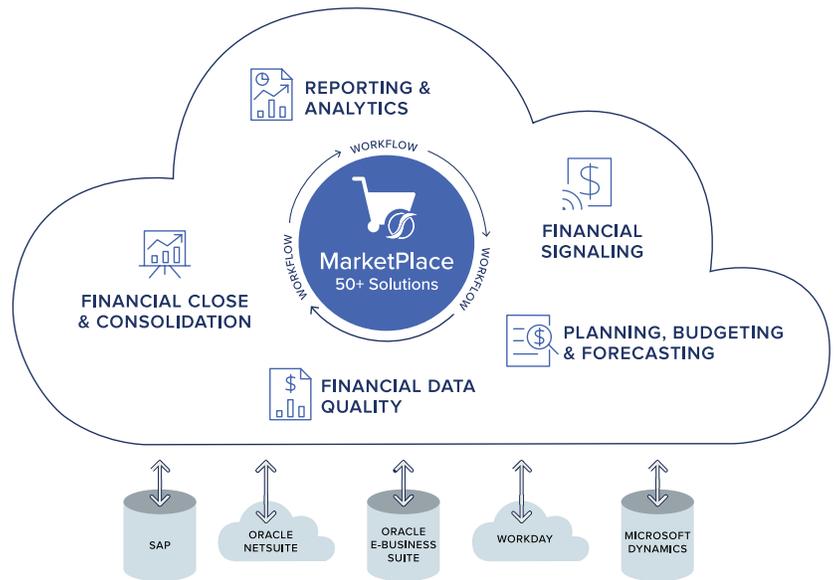

OneStream Tax Provision Solution

Tax Input Forms
Configurable input forms for data collection
Tax Rates, Payments & Refunds,
Tax Attribute Detail, Return to Provision

Tax Provision
Starter Kit

Tax Reporting
Facilitate Internal Review &
Automate Report Generation
Management Reporting,
External Financial
Reporting, Footnotes

Tax Workpaper Manager
Replace spreadsheets &
manual business processes
Current Tax Expense, Deferred
Tax Roll-Forward, Calculations,
Journal Entries

Figure 3: OneStream Tax Provision Solution

Key Capabilities and Benefits

Unified Data Collection

OneStream simplifies data gathering by leveraging the platform's built-in financial data quality capabilities and powerful Extensible Dimensionality® — enabling users to automate and streamline tax data collection and validation and to ensure consistency of data to support tax provision calculations and all tax processes across multiple hierarchies within the same application. This offers several advantages, allowing users to do the following:

- Leverage the same trial balance load (and/or more detailed trial balance) for tax provisioning as for financial reporting

- Enable automation of required book trial balance data into the tax accounts

- Collect supplemental data through standardized data entry forms

- Apply standard repeatable tax provision calculations that can be extended to suit the company's needs

- Perform consolidation and translation automatically and consistently

Data Alignment and Validation

Once tax information is loaded and prepped, OneStream's unified platform enables users to leverage data and minimize reconciliation, automate reporting and export data to tax compliance systems. Here are a few of the key advantages:

- Data alignment, transparency (drill-down), and validation reduces reconciliation requirements

- Configurable input forms for tax rates, payments and refunds; tax attribute detail; return to provision; current provision; deferred tax roll-forward; and tax account reconciliation

- Ability to create custom confirmation rules and workflow certification

- Data exportable to tax compliance systems and importable from tax compliance, to facilitate the return to provision true-up

Integrated Reporting and Drill-Down

Finally, after all data and inputs are validated, OneStream guides users through each critical element in the tax provision process, from accounting adjustments and reconciliation to external reporting. It also allows users to report consolidated and statutory ETR with full drill-down into supporting details, and to generate footnotes and management reporting. Here are a few of the key advantages:

- Generate current tax expense, deferred tax expense, and deferred tax assets and liabilities

- Use configurable reporting that enables footnote disclosure reports required under ASC 740

- Perform tax account reconciliation and report on consolidated and statutory ETR

- Generate supporting management reports and footnotes

- Provides full drill-down capability from report through initial data load or input

The OneStream platform also provides drill-down capability from report through to initial data load or input.

Key Features

☑ Configured to support the Total Tax Provision requirements

☑ System collects data and calculates and enables reporting for all tax provision computations, including the following:
  - Current tax provision
  - Deferred tax roll-forward
  - Effective tax rate analysis
  - Monitoring of tax losses and tax credits
  - Current and deferred tax asset balance / walk across

☑ Alternate entity hierarchies for tax reporting

☑ Tax-specific scenarios

☑ Separate dimension for tax accounts, jurisdictions and other details

☑ Total tax provisioning that lives in the same application as the financial reporting solution

☑ Pre-built tax calculations

☑ Tax input forms & reports

☑ Confirmation rules

☑ Supporting documentation & commentary

Customer Case Studies

Several OneStream customers have already experienced the benefits of aligning tax provision with the financial consolidation, close and reporting process through our unified platform. Here are a few examples:

SPX Corporation had been using their current EPM application set for 18 years. SPX was using separate solutions for data loads, consolidations, planning and forecasting and account reconciliations. They had also built their federal tax provision process into their consolidation solution and had built flash forecasts, bridge reporting and state tax provisioning in their planning applications. This multi-product approach to their critical financial applications created challenges for the Finance and IT teams. In 2018, SPX was reaching the end of support for their current application set, so they evaluated their alternatives and decided to convert to OneStream.

The SPX team has experienced many benefits from having one unified platform for actuals, plans, forecasts, tax and account recons. According to Keith Chapman, Director of IT for Corporate Applications, "Tax and FP&A are no longer separated; actuals can be seeded into budgets; and we are no longer waiting for overnight processes. The tax team can leverage the roll-forward data from consolidation right into the tax solution. Users enter the data once, and it is leveraged across multiple processes."

Victaulic — the world's leading producer of mechanical pipe joining solutions, with 3,600 employees at over 40 locations and 19 global entities — had been using spreadsheets to manage tax provisioning, which was taking a week to complete at year-end. Having evaluated several other tax solutions in the market, Victaulic chose to leverage its investment in OneStream and extend its use of the platform for its total tax provision requirements. One of the key drivers of this decision was the ability to align tax provisioning with financial consolidation and reporting in a single platform.

Jennifer Koorie, Corporate Tax Manager with Victaulic, commented that "Phase 1 of our OneStream Tax Provisioning implementation automated 86% of our process across our 19 global entities. We have replaced what previously took a week at year-end with the push of a button. One of the biggest benefits with OneStream is our ability to leverage a consistent, standard and controlled tax provisioning process across the globe, with full visibility into sign-offs and workflow at the legal entity and local levels."

Conclusion

For sophisticated global enterprises, a purpose-built tax provisioning application can substantially decrease cycle time and provide several benefits:

- **Reduce Risk** — Automate and streamline tax data collection and validation, and ensure consistency in tax calculations

- **Report Transparently** — Report consolidated and statutory ETR with full drill-down into supporting details, and generate footnotes and management reporting

- **Increase Efficiency** — Synchronize data and minimize reconciliation, automate reporting and export data to tax compliance systems

Available from OneStream's Marketplace, the Tax Provision solution enables customers to extend their investment in the OneStream Intelligent Finance platform — purpose built to simplify complex processes, deliver rapid insights in finance and beyond, and enable organizations to get back to business.

About OneStream Software

OneStream Software provides a market-leading intelligent finance platform that reduces the complexity of financial operations. OneStream unleashes the power of finance by unifying corporate performance management (CPM) processes such as planning, financial close & consolidation, reporting and analytics through a single, extensible solution. We empower the enterprise with financial and operational insights to support faster and more informed decision-making. All in a cloud platform designed to continually evolve and scale with your organization.

OneStream's Intelligent Finance platform can easily be extended with over 50 solutions from the OneStream MarketPlace.™ These downloadable solutions are fully battle-tested and optimized for the OneStream platform. They allow customers to easily extend the value of their investment to meet the changing needs of finance and operations. MarketPlace solutions in use by customers include Account Reconciliations, Lease Accounting, Tax Provision, Predictive Analytics, People Planning, Capital Planning, Cash Planning, Sales Planning and many others.

For more information, visit our website at **OneStreamSoftware.com**.

OneStream Software
362 South Street
Rochester, MI 48307-2240
Phone: +1.248.650.1490
OneStreamSoftware.com
Sales@OneStreamSoftware.com