



Get deeper
insight into
today's complex
tax environment.



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Introduction

In today's environment, having enough time for global tax planning, tax compliance, transfer pricing analysis and defense, along with ASC 740-10-50 / ASC-740 accounting is a huge challenge for tax professionals. And tax compliance, while adding relatively less value, is actually the largest consumer of limited tax resources.

Significantly increased workloads due to growing global tax complexity, condensed closing cycles, and greater scrutiny of accounting for income taxes by audit committees and auditors have placed enormous stress, resource, and system burdens on corporate tax departments. Instead of devoting precious time to value-added activities like tax planning and risk management, tax departments are struggling just to meet compliance demands and new regulatory requirements.

In 2008, Vertex surveyed tax professionals to get a closer look at income tax activities and time spent on issues within their tax department. Results found that respondents were taking on increasing amounts of responsibility without any additional resources to aid in the work overload.

Two years later, some of these trends have changed and some have remained consistent. In 2010, a follow-up Tax Process Survey was sent to income tax professionals to get an updated snapshot of tax activities and the time spent in key areas, such as domestic and international compliance, global provisioning, and tax planning. As part of the survey, profile data was compiled on tax

departments and their typical structures. This information is invaluable to identifying process improvements, enhancements, and tools needed to manage data and increase efficiency.

In comparison to the 2008 survey, the 2010 results found two important themes:

- There appears to be a significant decrease in the amount of time spent on compliance activities since 2008. Respondents to the 2010 survey noted that there is a significant amount of time still being spent on activities relating to tax planning, special projects, and tax provision. The 2010 survey also indicated that more effort is being spent in the tax department on quarterly provision.
- Similar to the 2008 Tax Process Survey, the data and responses received from the 2010 survey clearly show that increasing tax responsibilities, growing complexity, and lack of talent, create significant challenges for the tax department.

The following pages detail the actual survey questions and answers. More importantly, they provide deep insight into the resulting implications and conclusions. It will help tax executives engage in fact-based, meaningful discourse with their CFOs and audit committees as to how to prudently address these problems in their efforts to manage risk and maximize shareholder value.



Executive Summary

Today, income tax professionals are facing increased workloads caused by factors such as federal and state income tax law changes, increased global tax complexity, condensed closing cycles, and greater scrutiny of accounting for income taxes by audit committees and auditors. The demand on their time is greater than ever. Tax department stress also continues to rise with more resource limitations and system burdens. As a result, value-added activities like global tax planning and risk management do not receive adequate attention as tax departments struggle just to meet compliance regulations.

The Vertex Tax Process Survey takes a focused look at key income tax activities and processes to get a deeper understanding of the challenges tax departments face. The results reveal enlightening trends — including comparisons to the 2008 Tax Process Survey — that can be applied to identify areas for process improvement, communicate potential risks to your team, and develop an evidence-based business case for change.

Demographic Profile Highlights

- The majority of companies represented (79%) have annual revenues in excess of \$1 Billion.
- The tax departments represented in this study have an average of eight tax professionals in the department, two of which support the income tax practices.
- The minority of firms (41%) has international entities, which are also controlled foreign corporations.
- Of the 6000 tax professionals invited, a total of 86 recipients completed the 2010 survey — an average 1% response rate.

▶ Survey participants were asked to answer a number of questions that focused on their tax departments, key income tax activities and processes, and accuracy of the data they collect. The compiled survey data showed the following results:

Income Tax Activities

The majority of time spent on income tax activities is dedicated to domestic compliance issues (34% of staff involved) and to tax provision issues (19%). The 2008 survey comparables were 41% and 17% for domestic compliance and tax provisioning respectively.

- These figures represent a trend of declining involvement in domestic compliance and increased involvement in tax planning.
- Further indication of activity shifts is observed in examining areas that income tax professionals perceive as having the most growth potential in the next two years: 49% indicated that more time will be spent on tax planning — a significant increase from the 2008 report in which 8% of participants projected more time spent on that task.
- Insight: Overall, 2010 participants reported increased interest in spending more time on key tax activities (tax provisioning, tax research and special projects) compared to 2008 respondents.

Average Time Spent for Processes within Key Activities

Tax professionals spend the greatest time on processing adjustments over any other process, regardless of the activity or task in which they are involved. The figure ranges from year-end tax provision at 37% to international compliance at 22%, showing a slight decrease in time spent on the task since 2008 (40%).

Time Spent for Specific Processes Varies by Activity

- Domestic Compliance: In both 2008 and 2010, the largest amount of time is spent on processing adjustments, although the 2010 report shows a relative decrease in the amount of time spent (4%).
- International Compliance: The largest amount of time is spent on processing International corporate level data (28%). The 2008 survey showed adjustments to consume the most time (26%).
- Quarterly and Year-end Tax Provisioning: The focus is reported as adjustments, however corporate level data and trial balance processing still take a significant amount of the tax professional's time — the same findings as the 2008 survey.

Provision and Compliance Activates

Number of Data Sources Required

- While nearly all process tasks require between one and five different data sources for process completion, the fixed asset process leads the number of data source required according to survey respondents. Results gathered in 2008 showed the same leading task (87%).

Primary Method of Data Receipts

- The most frequently mentioned methods of data receipt are Excel-based tax packages and export files, and to a lesser degree, direct bridges. Comparatively, 2008 results identified printed reports and export files as the most frequently used methods. Although the use proportions of these methods vary by process task, it is clear that participants do not utilize data automation.

Percentage of Data Received via the Stated Primary Data Sources

- Most respondents indicated that they receive at least 90% of required data from their primary data source regardless of the process task — the same conclusion reached in the 2008 survey. However, a high percentage of participants involved with processing International look-through data state that their primary data source provides less than 50% of their required data — a significant difference from the low percentage (33%) reported in 2008.

Level of Difficulty in Collecting Data Necessary to Complete a Data Request

There is a slight dichotomy of perceptions pertaining to the degree of difficulty in collecting key data:

- At least 52% of all respondents stated it was “relatively easy” to collect data, regardless of the process — a similar assessment made in 2008 (59%).
- However, a higher percentage of 2010 respondents (35%), compared to 2008 respondents (18%), reported that it was “difficult” to collect data.

Metrics for Provision Process Measurements

- 44% of all respondents claimed to have current metrics from which they measure the provision process, compared to 50% responding in 2008. However, both surveys' respondents stated that “variance from final return” and “provision to return” reconciliations are frequently used.

Take a closer look at the latest survey results

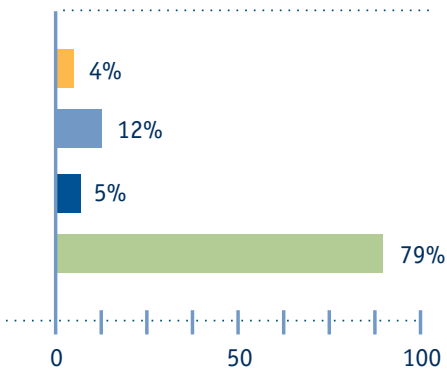
The survey results that follow provide a greater level of detail on findings from the 2010 study as well as their implications and conclusions. Read on to deepen your understanding of the current tax environment.



Corporate Demographic Profile

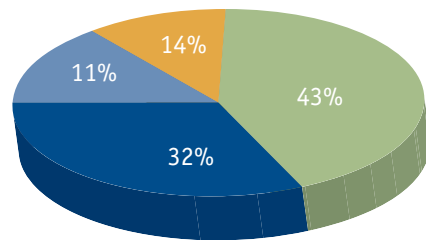
Respondents were asked to provide details about their company and tax department with regard to company revenue, annual budget for tax department, and annual budget for tax technology.

Annual Revenue



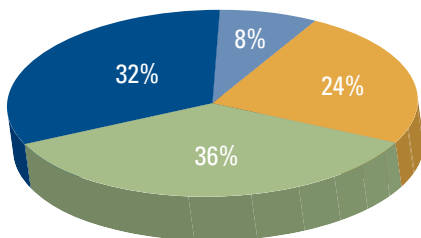
■ < 500 - 999 Thousand ■ 500 - 999 Million
■ 100 - 499 Million ■ > 1 Billion

Annual Budget for Tax Technology



■ None	■ \$50K - \$99K	Average	\$130,151
■ <\$50K	■ >\$100K	Median	\$85,000
		Low	\$20,000
		High	\$500,000

Annual Budget for Tax Department



■ < \$500K	■ \$1 - < \$2 Million	Average	\$1.6 Million
■ \$500K - < \$1 Million	■ > \$2 Million	Median	\$1 Million
		Low	\$200,000
		High	\$6 Million

▶ The average budget for tax technology across all companies (\$130,151) accounts for **only 8%** of the average budget for the entire tax department in these companies (\$1.6 Million).

▶ The majority of companies (79%) represented have annual revenues in **excess of \$1 Billion**.

Industry Type Demographics

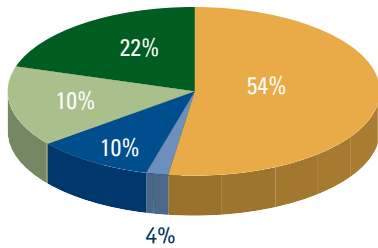
Industry	Total of Received	Percentage
Manufacturing	1736	27%
Finance, Insurance, Real Estate	1110	17%
Services	919	14%
Transportation and Communication	793	12%
Retail Trade	742	12%
Wholesale Trade	403	6%
No Industry Data Available	197	3%
Misc. – Public Administration	183	3%
Mining	146	2%
Retail	95	2%
Construction	92	2%
Agriculture	19	0%
Accounting and Auditing	13	0%
Retail and Wholesale	2	0%

Tax Department Profile and Corporate Structure Profile

Respondents were asked a series of questions to describe their corporate and tax department structure, and their financial systems with regard to:

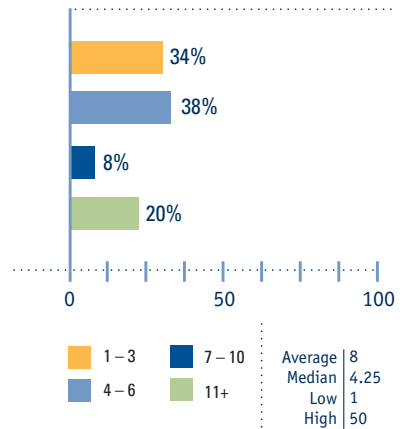
- The number of full-time employees (FTEs) in the tax department and the number of FTEs in the tax department supporting Income Tax
- The number of U.S. Entities, and International Entities, and the percentage of International Entities that are CFCs
- The number of states in which they file
- The number of general ledgers and the number of chart of accounts

Number of International Entities



<10	20 - 39	70+	Average	58.1
10 - 19	40 - 69		Median	6
			Low	1
			High	900

Number of Employees in Tax Department

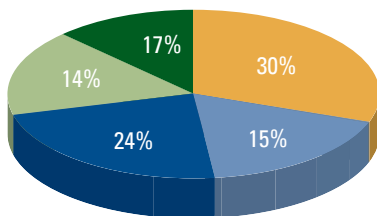


▶ Tax departments of participants in the study employ an average of *eight tax professionals*, and ranged in size from a single employee to 50 employees.

An average of *two thirds of the employees* support the income tax practice within the department. This ranges from no income tax support to 50 employees for income tax support.

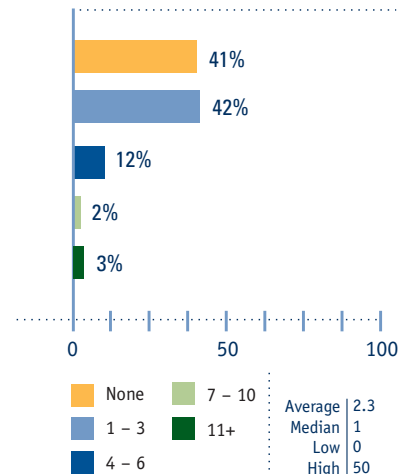
▶ Companies represented in this study have an average of *44 U.S. Entities*. *67% of the firms* have international entities which are also controlled foreign corporations (CFCs).

Number of US Entities

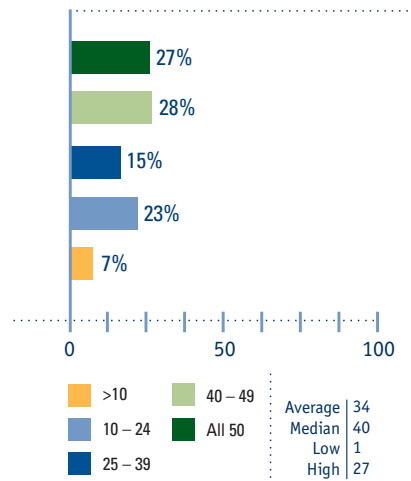


<10	20 - 39	70+	Average	44
10 - 19	40 - 69		Median	20
			Low	1
			High	450

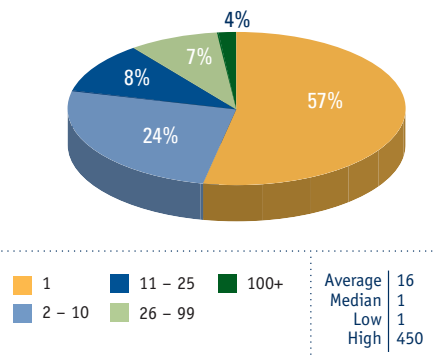
Number of Tax Department Employees Supporting Income Tax



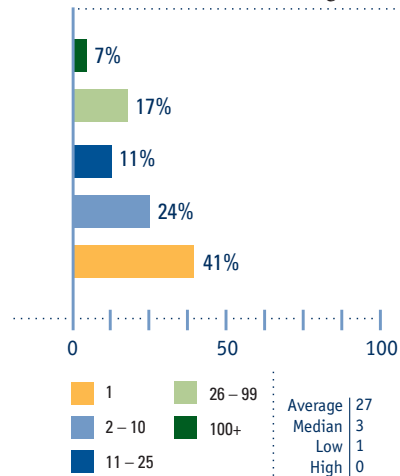
Number of States in which Filed



Number of Chart Accounts



Number of General Ledgers



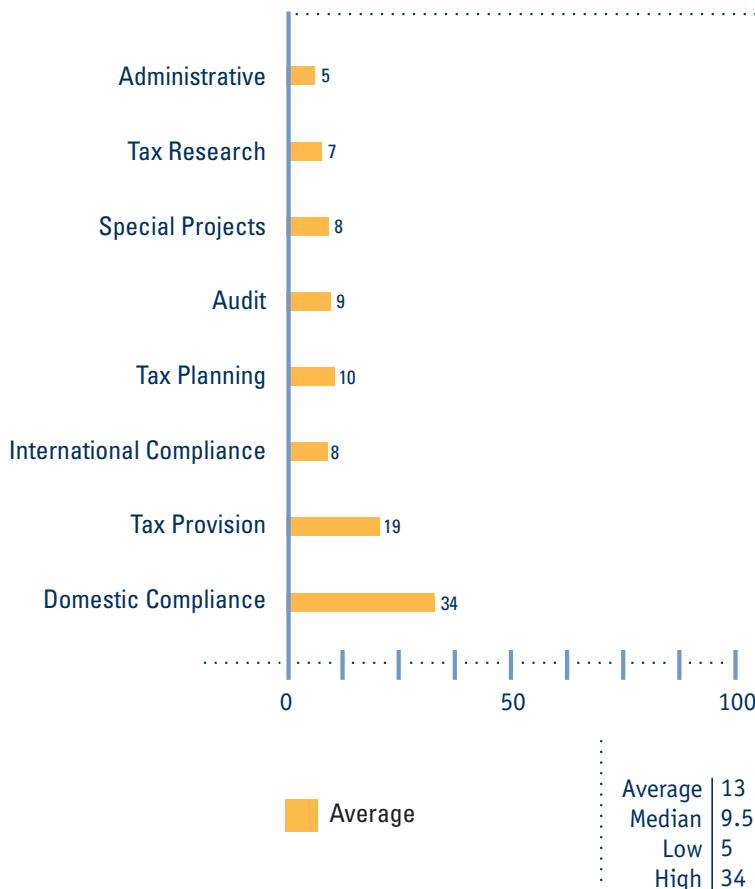
▶ Companies in this study filed in an average of 34 states, had an average of 27 General Ledgers, and an average of 16 Chart of Accounts.

Income Tax Activities

Respondents were asked to estimate the percentage of time currently spent on various income tax activities within their department, and to indicate the expected change in required time within the next two years.

▶ Respondents indicated an *average of 34%* of staff time spent on tax activities is devoted to *domestic compliance*, making it the largest single activity by a ratio of 1.2 to 1, with the next activity mentioned being tax provision at 19%.

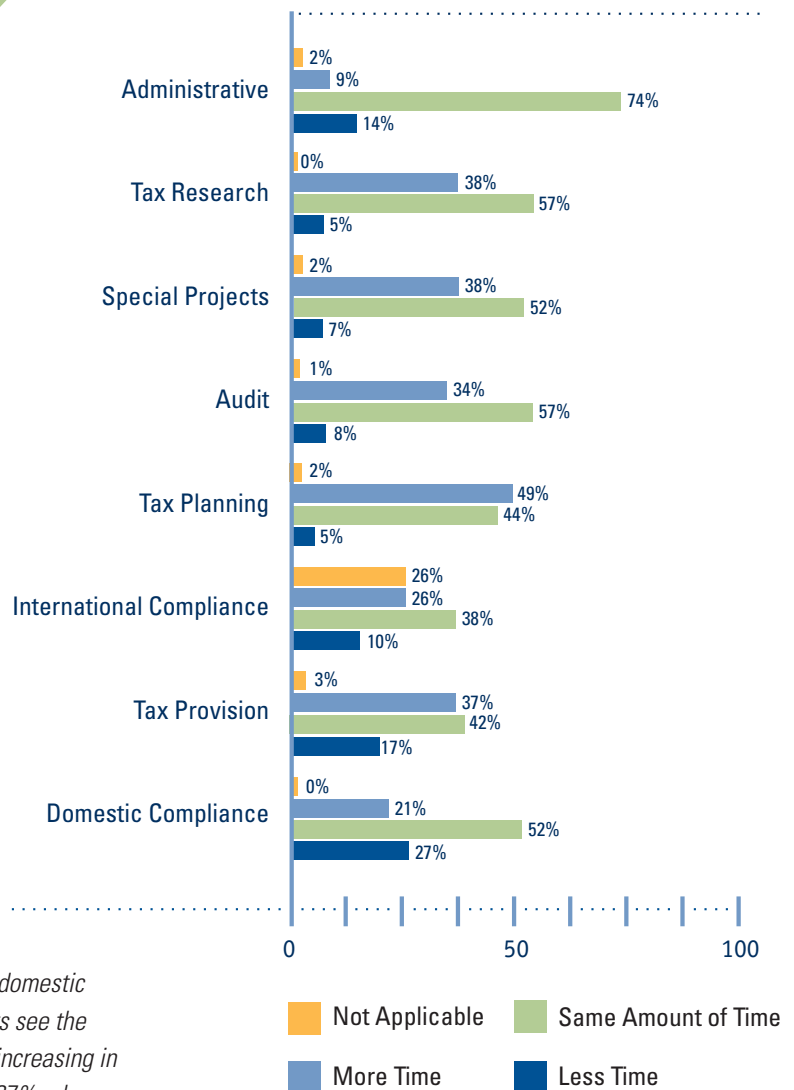
Tax Staff - Average % of Time Currently Spent on Income Tax Activities



However, respondents appeared to believe more staff time will be needed on specialized activities in the future:

- 49% indicated more time will be spent on tax planning
- 37% indicated more time will be spent on tax provision
- 38% indicated more time will be spent on special projects
- Of those respondents who report that time allotments will change, a greater number predicted spending more time compared to less time in the future.

Tax Staff - Expected Change in Time Spent 2 Years from Now



▶ The one notable exception is within domestic compliance: only 21% of respondents see the time spent on domestic compliance increasing in the next two years, as compared to 27% who see a decline in the time spent on domestic compliance.

Average Time Spent for Process within Key Activity

Respondents were asked to estimate the percentage of time they expect to spend on various tax processes within key activities in their department in the next two years.

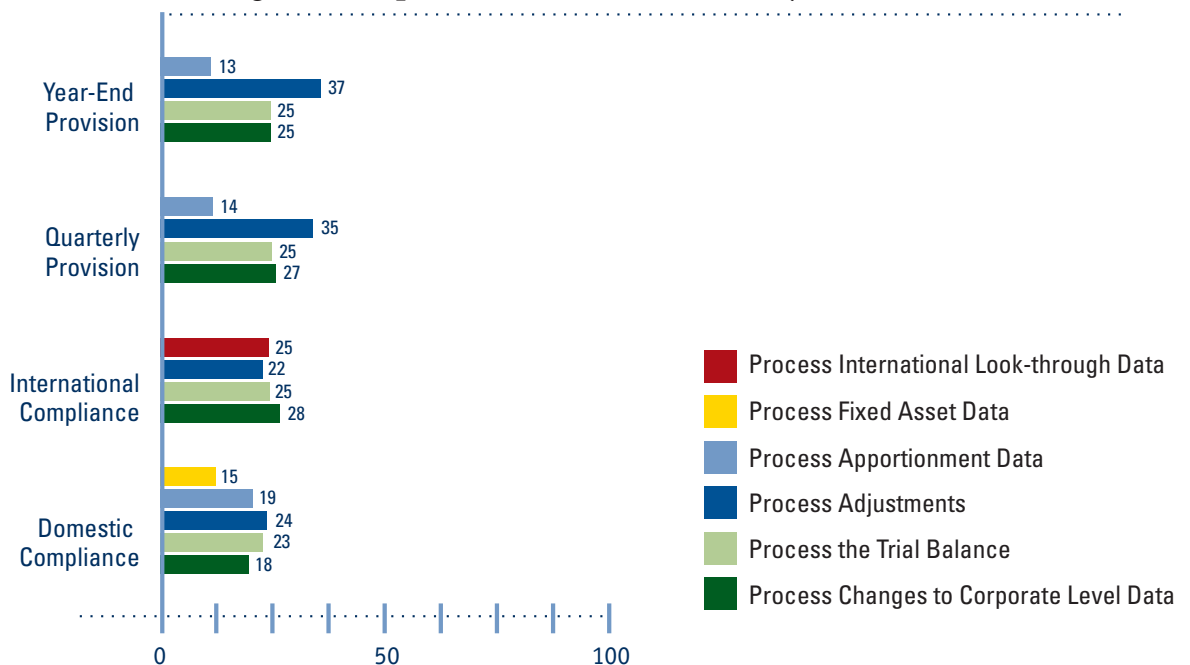
Overview:

Respondents report that the greatest amount of staff time was spent on processing adjustment across the different tax activities with the exception of international compliance, where a greater amount of time is spent collecting corporate level data. The proportion of time spent varies by each of the tax activities, and ranges from a high of 37% to gather adjustment data for year-end tax provision to a low of 13% to gather apportionment data for the year-end tax provision.

Each activity exhibits a different perspective on time spent on various processes.

- Time is evenly distributed across domestic compliance activities, given the likely necessity for multiple tasks on an ongoing basis.
- Even though time is evenly distributed across the international compliance activities, more time is spent on gathering corporate level data (28%).
- Both the quarterly and year-end provisioning appear to focus on four major processes: corporate level data, trial balance data, adjustment data and apportionment data, with the time spent on gathering adjustment data outweighing the other processes.

Average Time Spent for Process within Key Activities





Provision and Compliance Activities

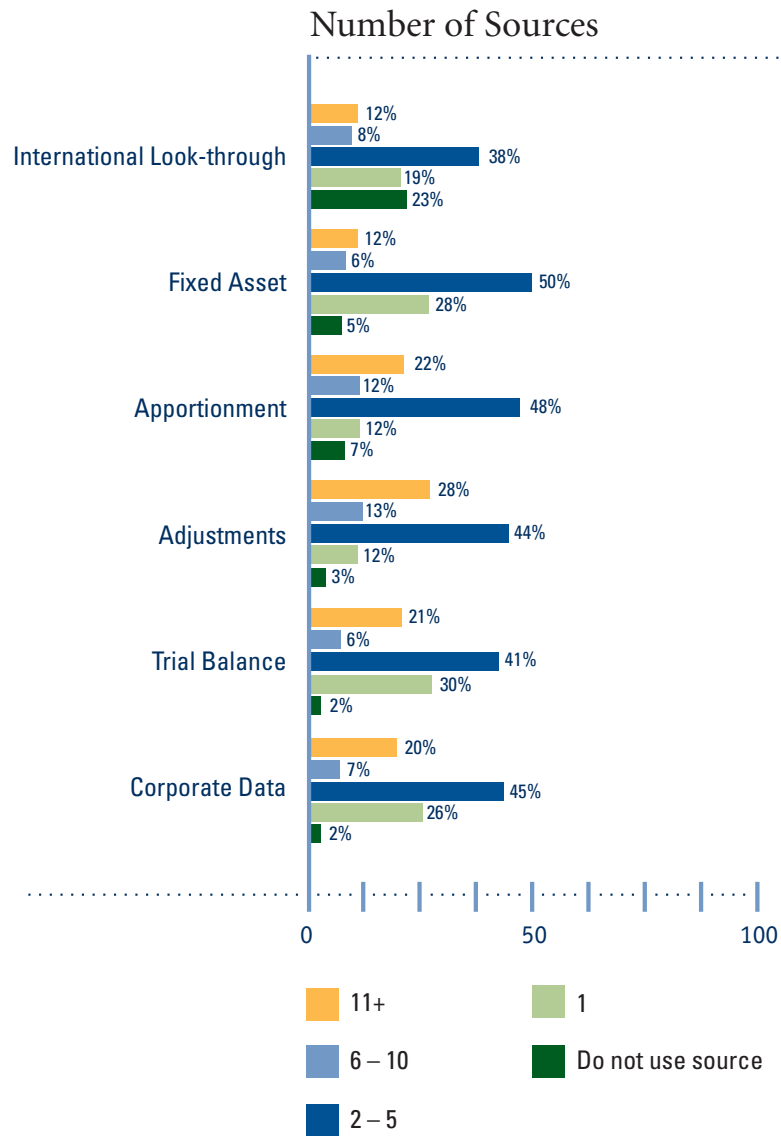
Respondents were asked a variety of questions relative to the tasks and processes involved with their provision and compliance activities.



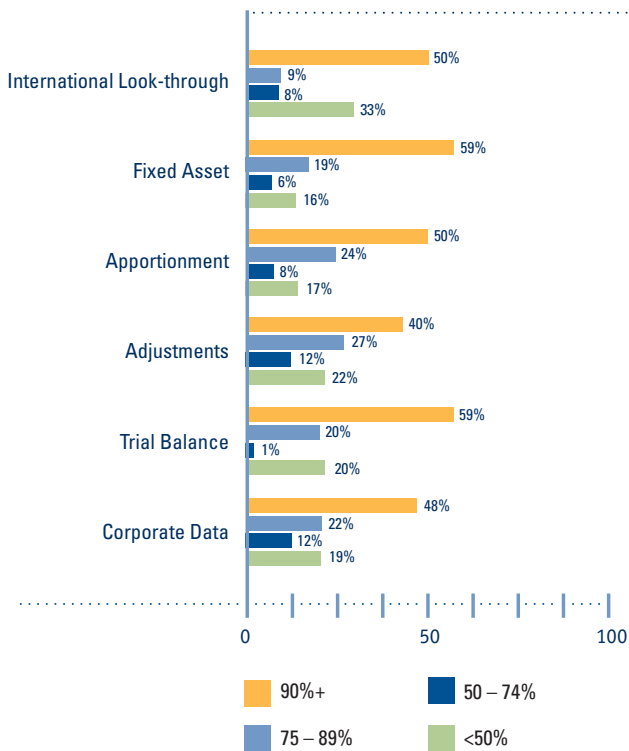
Overview:

Nearly all process tasks require between one and five different data sources for process completion. Process tasks requiring greater numbers of data sources are:

- Process Adjustments – 41% of respondents use six or more sources
- Process Apportionment data – 34% of respondents use six or more sources
- Process Trial Balance data – 27% of respondents use six or more sources



Percentage of Data via Primary Method



Percentage of Data Received Via the States Primary Source

Overview:

Regardless of the specific data sources utilized, the majority of respondents indicated receiving at least 90% of required data for any process task from their primary source.

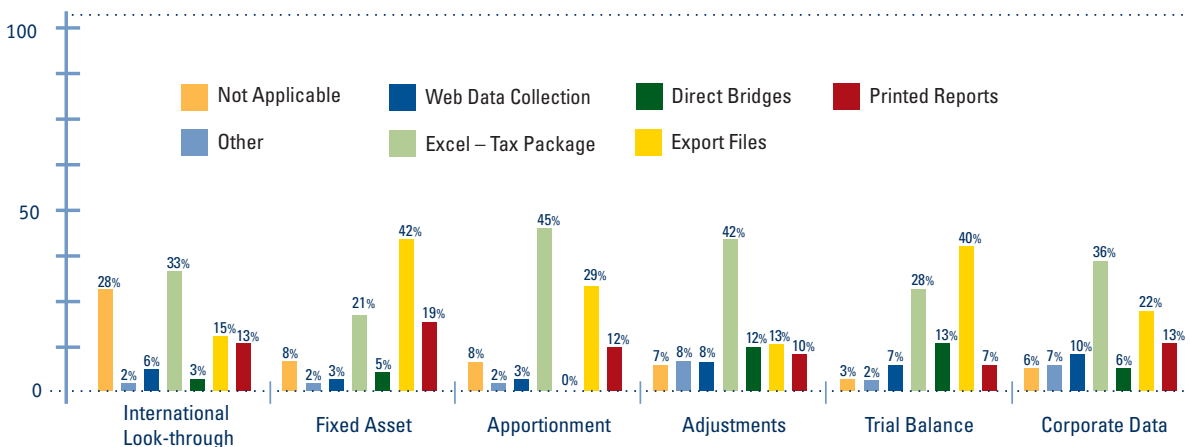
- These numbers range from 40% of respondents involved with processing adjustments to 59% of respondents involved with the processing of trial balance and fixed asset data.
- 33% of respondents involved with processing International look-through data indicated receiving less than 50% of required data from their primary data source.

Primary Method of Data Receipt

Overview:

- Though differing slightly by process task, the most frequently mentioned method of data receipt are Excel-based tax packages, export files, and printed reports and, to a lesser degree, direct bridges and web data collection.
- Respondents involved in the adjustment and apportionment data process are significantly more likely to receive data via Excel tax packages (45%) than those involved in any other process.

Primary Method of Data Receipt

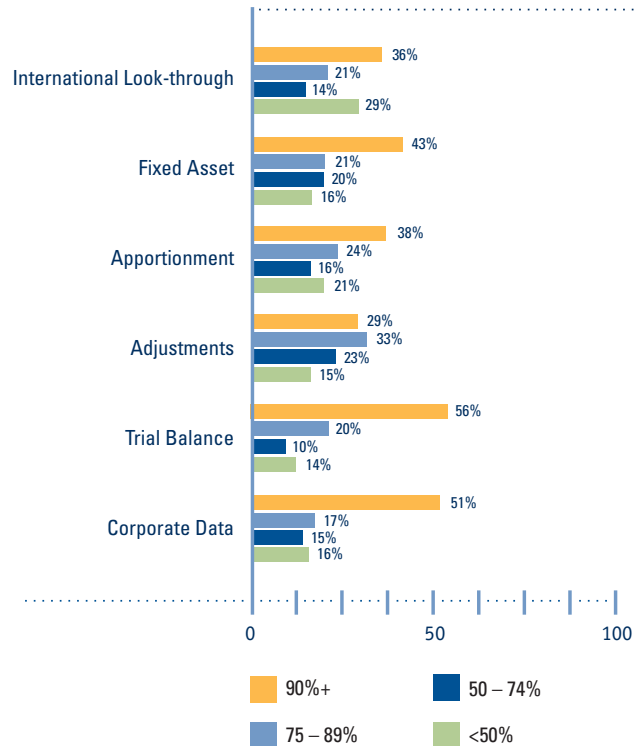


▶ Completeness of Data Received via the Stated Primary Source

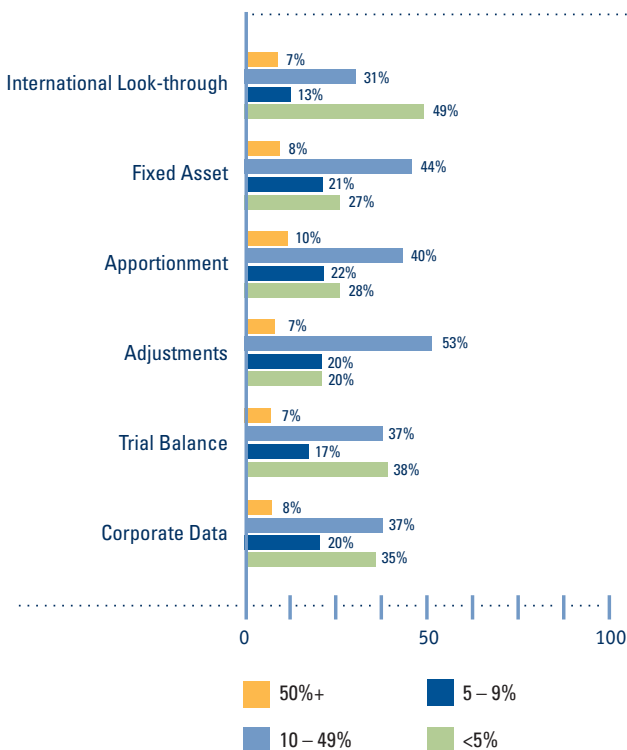
Overview:

- Most respondents answered that from the initial request made to their data source, the information they received was at least 90% complete.
- This trend is most frequently observed in those involved in processing trial balance data (56%) and changes to corporate level data (51%).
- Again, respondents involved in the process of International look-through data indicate that less than 50% of the data requested from their primary source is complete.

Percentage of Completeness of Data From Primary Method



Percentage of Error Rate of Data Received via the Stated Primary Source



▶ Error Rate of Data Received Via the Stated Primary Sources

Overview:

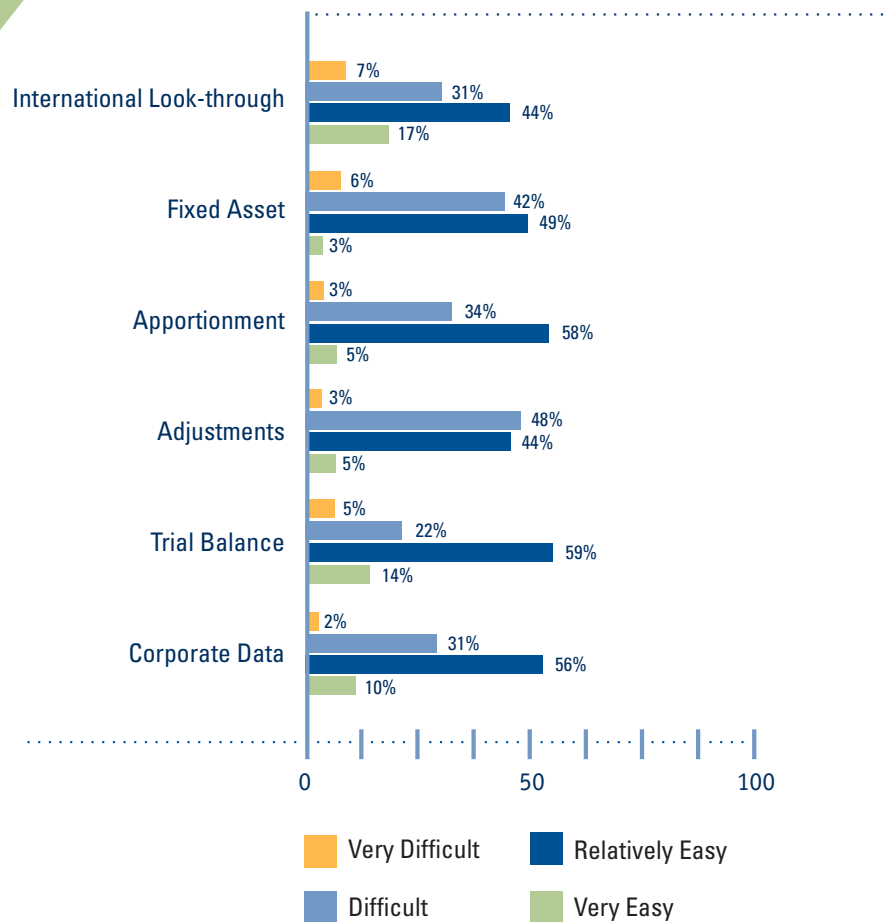
- Only respondents involved in the process of International look-through data (49%) or changes to the trial balance data (38%) stated that the complete data received from their primary source had less than a 5% error rate. The remainder of processes showed an error rate of 10-49%.
- However, among those involved in the International look-through and corporate process, almost an equal number of respondents reported a 10-49% error rate as those that reported a rate of less than 5%. This indicates there is much variation in error rates by company in these areas.

▶ Level of Difficulty in Collecting Data Necessary to Complete a Data Request

Overview:

- 58% of respondents stated it was “relatively easy” to collect necessary data, regardless of the process task. This is specifically evident among those processing changes in corporate level, and trial balance data, and apportionment.
- However, for all other process tasks, at least one out of four respondents stated it was difficult to collect all necessary data.

Level of Difficulty in Collecting Data Necessary to Complete Data Request



Metrics for Provision Process Measurement

Overview:

44% of respondents stated their company has metrics by which the provision process is measured. Although there is no one specific metric consistently identified by professionals, there are two general measurements that respondents mentioned frequently:

- Variance from final return
- Provision to return



Conclusion

Upon a closer examination of all survey data, two recurring themes are apparent:

- First, respondents anticipate taking on an increasing amount of responsibilities requiring a greater amount of time and effort in the near future (i.e. tax provision, tax planning, and special projects).
- Second, despite an increase in role and responsibility, respondents indicated that their departments are likely to be given little or no additional resources to handle workload.

These findings reveal a growing risk for tax departments — one that all tax professionals should be aware of. Vertex can deliver the insight you need to minimize these potential tax process problems and understand how to maximize your value in this challenging environment.





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