

Focusing
on the
strategic value of tax.





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Introduction



As tax departments continue to struggle with limited resources and time-consuming processes such as compliance, audit defense, and tax data management, little time is left to concentrate on more strategic activities. While most Chief Financial Officers and Vice Presidents of Tax believe that spending more time on strategic tax activities can increase value to their enterprise, significant barriers keep them from realizing the full benefit.

A recent survey sponsored by Vertex®, the market leader in global tax technologies, and conducted by International Communications Research (ICR), explored the significant value that may be realized by optimizing corporate tax operations. The survey targeted CFOs and VPs of Tax and took an in-depth look at the benefits of enhancing the tax function. The survey also quantified the value that tax has on an enterprise and examined the barriers that are keeping tax departments from focusing on more strategic activities.

The following themes emerged from the research conducted by ICR:

- There is a strong belief that enhancing strategic tax activities can have a material impact on corporate financial performance
- Time spent on routine activities is cited as the main barrier to realizing improved tax department performance

- Although CFOs are not particularly involved in the day-to-day work of the tax department, they are critical to the tax department's ability to achieve performance optimization
- Spending more time on strategic activities can add significant, tangible value to the enterprise in the form of reduced taxes and improved management of global tax risk

To supplement this quantitative research, Vertex conducted a series of 24 interviews with Vice Presidents of Tax at companies with \$1 billion+ in annual revenue. The interviewees reacted to the data and provided additional insight on the findings. This perspective is captured in the Executive Summary under the "Insights" headings.

Survey results indicate a significant incentive for tax departments to improve their ability to engage in strategic planning, manage business risk associated with tax, and provide support to strategic business decision making.

The following pages detail the actual survey questions and answers. Additional insights from the qualitative interviews are highlighted in the Executive Summary. These findings will help CFOs and tax departments better understand the benefits and barriers of playing a more strategic role so that the full value of an optimized tax department can be realized.

Executive Summary

Today's tax departments face increasing resource limitations and outdated data management processes, as well as ever increasing compliance and audit demands. As a result, tax departments are challenged to find the time to address strategic business issues.

The Vertex Tax Performance Management survey focused on exploring perceptions of the value of the tax department. The findings reveal that companies forego significant potential value to the enterprise as a result of the tax department's inability to pursue these strategic activities. The findings also reveal the barriers to strategic activities, as well as what is necessary for the organization to overcome them.

Demographic Profile Highlights

- 128 CFOs and VPs of Tax from companies with at least \$500 million in annual revenue participated, with a balanced representation across industries of companies with annual revenues of \$1 billion+
- 24 Vice Presidents of Tax at companies with \$1 billion+ in annual revenue were then interviewed to react and comment on the survey findings

Participants were asked to answer a number of questions that focused on:

- The quantifiable, high-value business benefits of optimizing the tax function
- The barriers to unlocking this high-value potential
- The economic buyers who can approve the investment to realize this potential

The compiled survey data showed the following results:

A vertical image on the left side of the page shows a splash of water against a dark blue background. The water droplets are captured in mid-air, creating a dynamic and textured appearance. The lighting highlights the individual droplets and the overall shape of the splash.

▶ How Effective is Your Tax Department?

More than half of survey respondents see their tax department as making a significant contribution to profitability. However, only one-third “strongly agree” that their department uses a “best practices approach.” The findings indicate that if tax personnel could be better utilized, the contribution that tax makes to the company as a whole would increase, particularly in the area of profit contribution.

Insights

The key concern voiced by those surveyed is the recruitment and retention of qualified tax personnel. This concern was echoed in the interviews by executives who are most often seeking experienced financial accounting and international tax personnel. Another factor was time spent in inefficient processes, or in ones that were unnecessarily executed repetitively because of inefficient linkages to organizations or systems outside of the tax department.

▶ The Strategic Benefits to Enhancing Tax Functions

Executives surveyed were asked to grade their tax departments on seven different functional areas including routine tax work, developing provision projections, accounting for income taxes, and more strategic activities such as providing input into business decision making. Over half of the executives gave their departments a grade of “B” or lower on:

- Providing input to strategic business decision making (79%)
- Providing strategic tax planning (65%)
- Managing exposure to business risk associated with tax (61%)

More than 75 percent of survey respondents thought that enhancing strategic tax planning would be of major benefit to the enterprise, where “strategic planning” was defined as assessing the tax impact of merger activities, offering recommendations to management related to tax incentives or tax planning strategies to minimize overall taxes paid.

In addition, two-thirds of survey respondents saw improvements in risk management and input to strategic business decision making leading to major benefits to the enterprise.

Insights

While in agreement about the benefits of enhancing these strategic activities, the executive interviewees also noted that performing routine tax activities well was essential from a risk management perspective.

▶ Potential ROI to Tax Performance Improvement

In the survey, the consolidated effective tax rate was used to quantitatively gauge the benefits of enhancing the tax function. (The effective tax rate is the total income tax paid as a percentage of pretax income. A one-point reduction in the effective tax rate of a company with \$1 billion in pretax earnings is worth \$10 million per year.) With this in mind,

- Almost all survey respondents (>93%) were willing to estimate the impact of effective tax rate reduction due to optimized global tax operations
- 61% said that they would expect an effective tax rate reduction of at least one point from optimized tax operations
- 14% said that they would expect an effective tax rate reduction of more than three points

These findings reveal that executives intrinsically believe tax savings are possible if their company's tax operations are focused on more strategic activities.

Insights

Many of the interviewed executives told us that whether effective tax rate reductions are achievable is dependent on the tax department's ability to identify additional tax planning opportunities and the organization's willingness to execute them.

In addition, executives interviewed also suggested that investing in outside consultants to identify tax planning opportunities was not always guaranteed to yield favorable results, since detailed knowledge of the business is often required.

Barriers to Realizing the Benefits of an Enhanced Tax Department

▶ The survey asked about the barriers to achieving tax planning and risk management best practices. Not surprisingly, availability of resources was cited as the main barrier to improving tax performance. Specifically, too much time is spent on routine tax work such as compliance, audit defense, and manual tax data management.

Some survey respondents told us that the strategies they believe will enable enhanced tax operations are to better utilize key tax personnel and to improve not only recruiting, but also retention of personnel.

Insights

In follow up interviews, VPs of Tax also told us that impediments to reaching an optimal state of operational efficiency include time constraints on staff to meet increased global tax compliance workloads and accounting for income tax reporting tasks. One of the key components limiting operational efficiency is the time spent collecting and managing the financial and tax data required to complete the compliance and provision tasks.

Other obstacles to tax savings include the lack of integration with corporate finance systems and processes, operational decisions made without considering the enterprise-wide tax implications, and other business constraints such as location of operations and overall business strategy.

Interviewees agreed that hiring more personnel to complete these activities may become less of an option as experienced resources are difficult to find. Some leaders interviewed are finding ways to optimize the personnel they have. For example, cross-training employees in the provision, compliance, and audit defense processes can lead to reductions in the time dedicated to these tasks.

▶ Decision Making on Major Tax Changes

Survey findings show the authority to make major changes in tax processes resides primarily at the CFO level. Among VP of Tax respondents, over 80 percent said that their CFO was at best only "somewhat involved" in the tax department.

Insights

VPs of Tax that were interviewed stated that organizations that have the attention and support of their CFO are likely to succeed in a tax process transformation effort. Gaining the attention and support of the CFO can go a long way to implementing the necessary changes in tax data management, tax accounting, and compliance processes that hinder the efficiency of the tax department.

In addition, working with the accounting group to make financial data more accessible to the tax department can be beneficial. For example, CFOs have supported and championed their tax departments' requests to reduce needless manual data management by providing access to GAAP financial data by legal entity along with the supporting detail that tax requires to optimize its effectiveness.

Take a more focused look at the survey results.

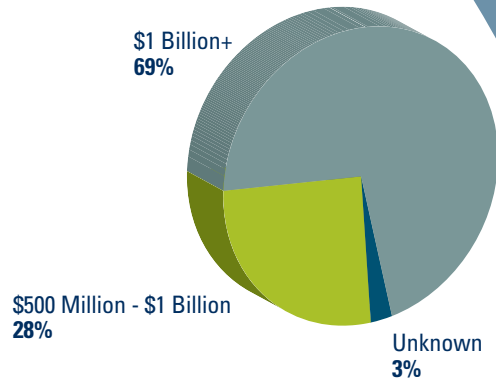
The survey results that follow provide a greater level of detail on findings from the survey, as well as their implications and conclusions. Read on to deepen your understanding of the strategic value of tax and how to improve tax operations to maximize the value of the tax department.

Participant Demographics

The survey consisted of 128 interviews with Chief Financial Officers and Vice Presidents of Tax at companies with at least \$500 million in annual revenue.

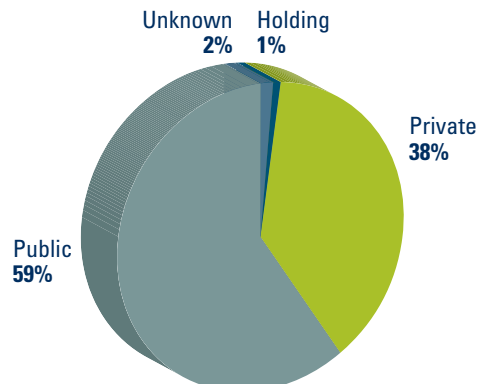
Respondents by Company Size – Annual Revenue

- 69% of respondents represent companies with revenues of \$1 billion+
- 28% of respondents represent companies with revenues between \$500 million – \$1 billion
- There were significantly more CFO respondents from companies with revenues of \$500 million – \$1 billion, and significantly more VPs of Tax from companies with revenues of \$1 billion+

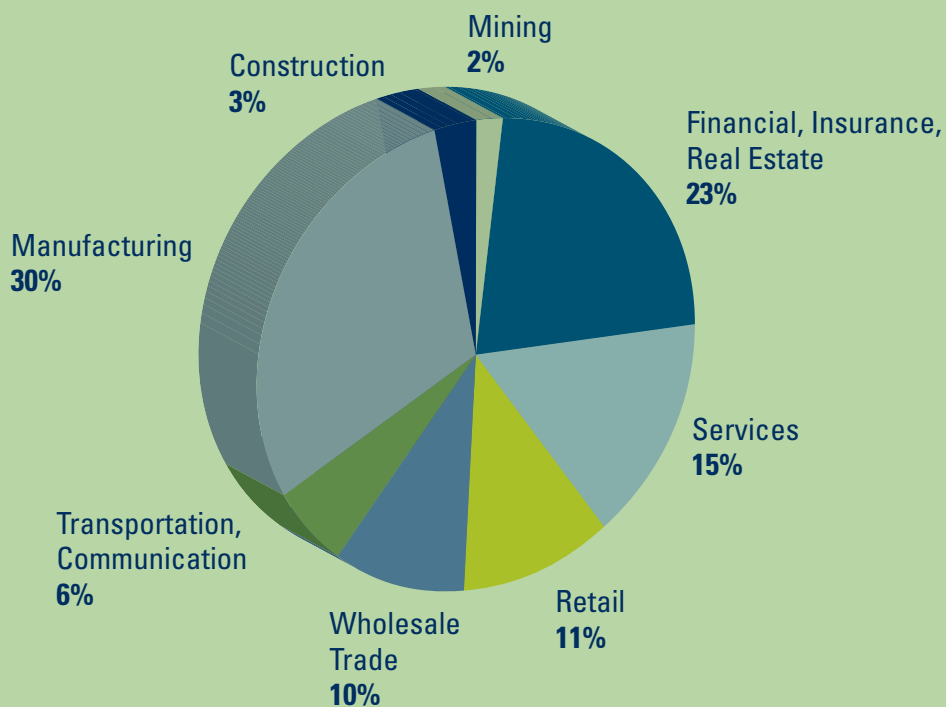


Respondents by Company Type (Public vs. Private)

- 59% of respondents represent public companies
- 38% of respondents represent private companies

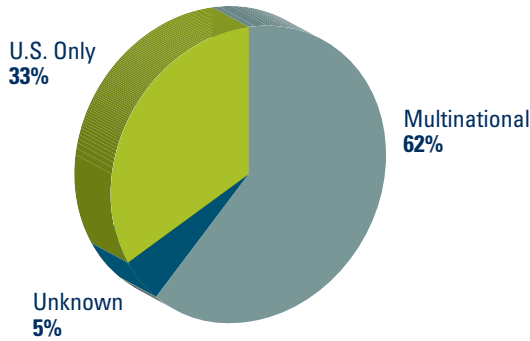


Respondents by Industry (Based on SIC Division)



- The respondents to this survey represent diverse industries with most being Manufacturing, Financial, Insurance or Real Estate, and Service companies

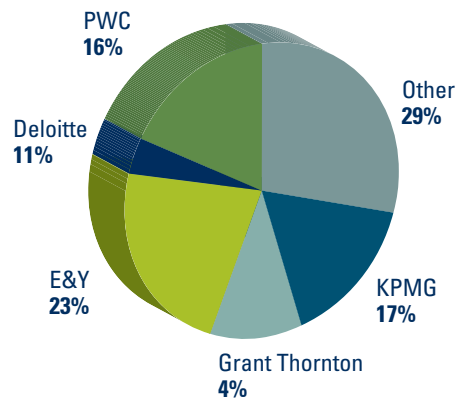
Respondents by Location



- 62% of respondents represent companies with multinational locations, while 33% of respondents represent companies that have only U.S. locations
- There were significantly more VP of Tax respondents from multinational companies than U.S. only companies; consequently, there were significantly more CFO respondents from domestic companies than multinational companies

Respondents by Auditor

- 67% of the respondents come from companies audited by Big 4 accounting firms
- 29% were audited by regional accounting firms



Goals and Methodology

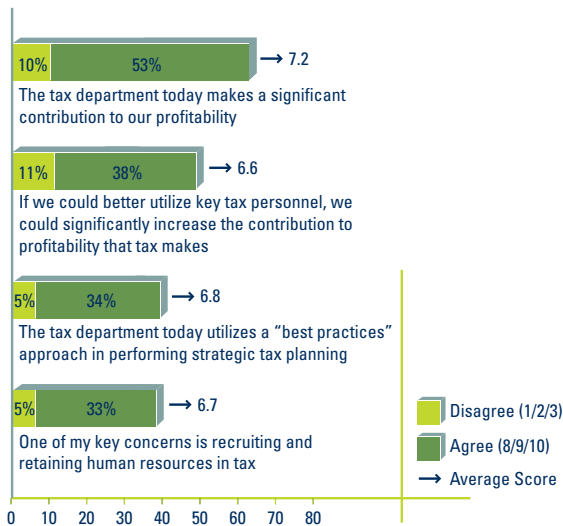
The objective of this survey was to explore whether CFOs and VPs of Tax thought their tax department could increase its contribution to the organization. The first goal was to understand the views of CFOs and VPs of Tax on the functional expectations of the tax department. Next, respondents characterized and measured the benefits anticipated from enhancing specific tax functions and identified the barriers that prevent the tax department from playing a more strategic role. Finally, respondents described the buying process for tax process improvements that would be outside of the normal tax department budget.

Participation rate was commensurate with industry standards and expectations; statistical confidence level was 95% with a +/- 9% margin of error.

Tax Department Effectiveness

To understand executive perspectives on the current state of the tax function, executives were asked if they agreed or disagreed with four effectiveness statements. They used a 10-point scale, with 10 indicating that the respondents completely agreed. A dark green bar indicates an agreement rating of 8/9/10. Displayed in light green is the percent that gave a disagreement rating of 1/2/3.

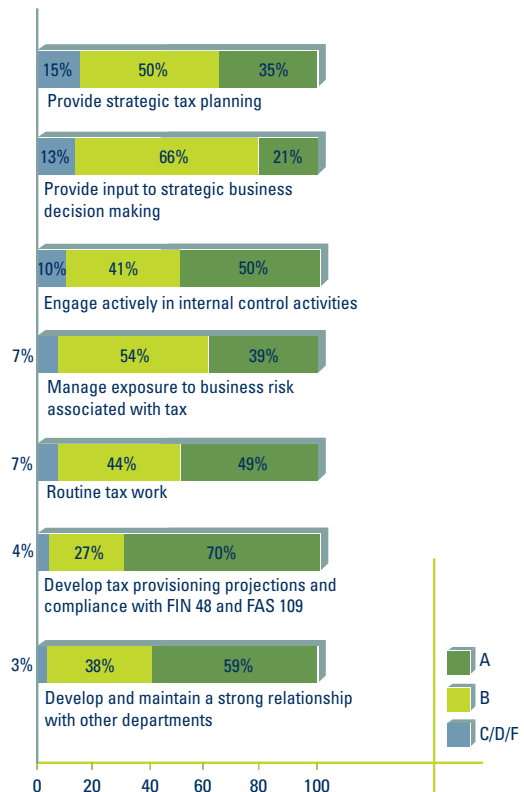
Tax Department Effectiveness



▶ *Most tax department leaders are concerned with the recruitment, retention, and proper utilization of their tax personnel.*

When asked to grade how well their tax department performs various functions, executives responded with a less favorable report card when it came to strategic tax planning activities.

"Grades" for Tax Department Functions



▶ *Dissatisfaction with tax was most widespread with:*

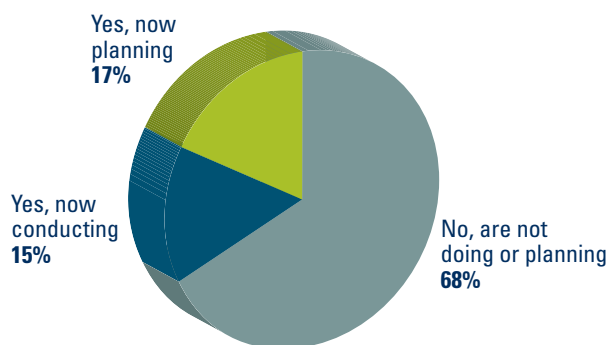
- Providing strategic tax planning (15% of grades below "B")
- Providing input to strategic business decision making (13% below "B")
- Engaging actively in internal control activities (10% of grades below "B")

Improving the Tax Function

The executives surveyed reported that a business benefit would result from tax professionals engaging in more high-value work. In particular, tax departments must:

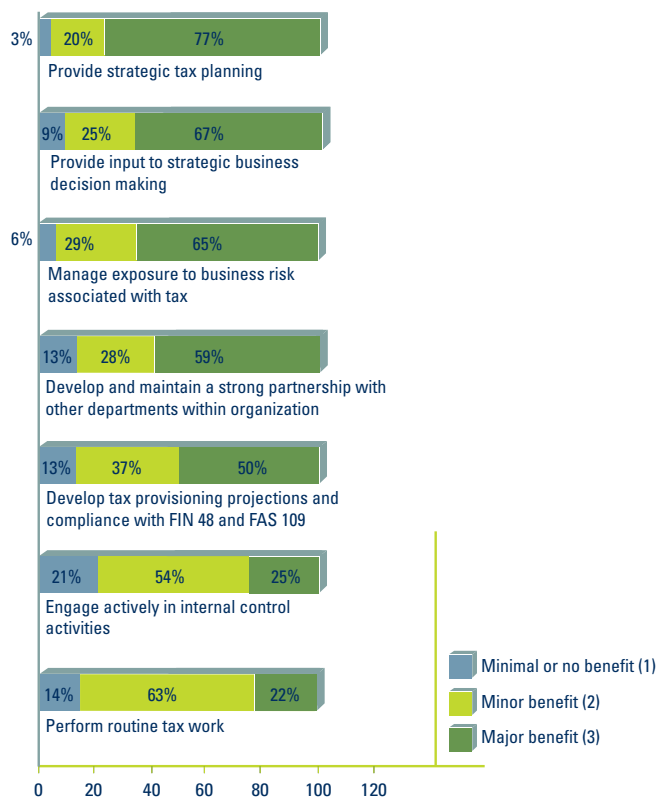
- Improve their ability to do strategic planning
- Manage business risk associated with tax
- Provide support to strategic business decision making
- Collaborate with finance and accounting

Business Process Management Studies to Improve Tax



Though the survey showed that executives feel they could improve the performance of their tax department, few were planning to conduct Business Process Management (BPM) Studies to make improvements. Only 32 percent of executives were conducting such studies or planning to do so.

Benefits from Enhancing the Tax Function



- The majority of respondents (77%) report that enhancing the tax department's ability to provide strategic tax planning would be a major benefit to their company
- 67% report that enhancing the ability to provide more input to strategic business decision making would also be a major benefit
- 65% report that improving the ability to manage exposure to business risk associated with tax would be a major benefit to their company



In contrast, 63 percent of survey respondents believe increasing their ability to perform routine tax work would only provide a *minor* benefit to their company. While improvements in routine work are not considered as beneficial as strategic activities, inadequate performance in this area creates unnecessary risk for the organization.

Overcoming the Barriers to Improving the Tax Function

The executives surveyed reported that the most significant barriers to tax departments taking on a more strategic role were a lack of head count and too much time spent on compliance and audit activities. A major barrier to increasing resources was not budgetary, but rather finding qualified tax professionals.

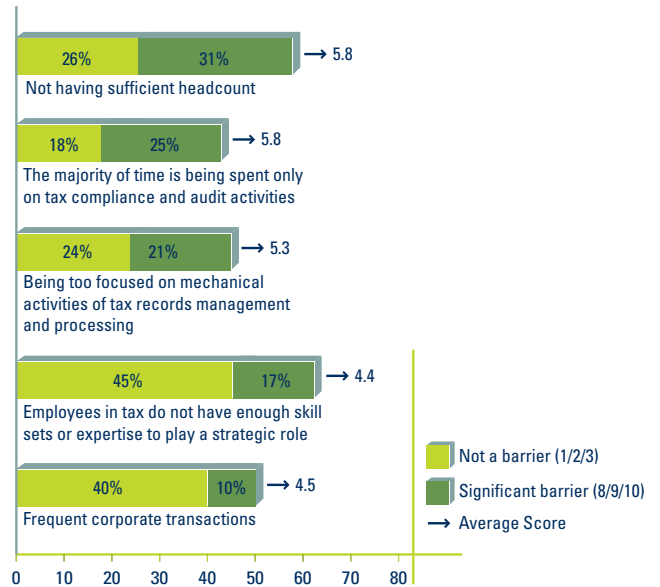
Barriers to Improving the Tax Function

The survey focused on the barriers that were keeping tax departments from playing a more strategic role. Respondents answered using a 10-point scale where 10 is a significant barrier and 1 is not a barrier. A dark green bar indicates a significant barrier. Non-barriers or very minor barriers are displayed in light green. The average score is on the right. The greater the barrier the higher the average score.

The barriers that executives felt were the biggest issues (with an average score above 5.0 on the 10-point scale) are listed below according to importance:

- Not having sufficient head count
- Time spent on tax compliance and audit activities
- Heavy focus on tax records management and processing

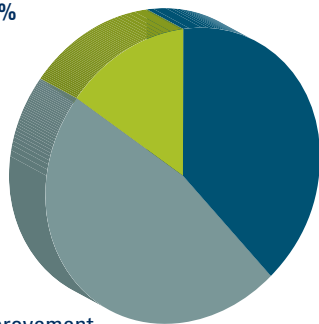
Tax Function Barriers



Tax Rate Impact from Enhancements

A major improvement, meaning a reduction of more than 3 percentage points

14%



A minor improvement, meaning a reduction of 1 to 3 percentage points

47%

n=120



Minimal or no improvement
39%

Since CFOs and VPs of Tax stated there was significant value in improving the strategic function of tax, the survey aimed to quantify that value.

- More than half (61%) of respondents feel that the enhanced functions covered in the survey could produce a reduction in the effective tax rate of more than one point
- One in seven CFOs and VPs of Tax would expect a tax rate reduction of more than three points

▶ Driving Investments for Process Improvement

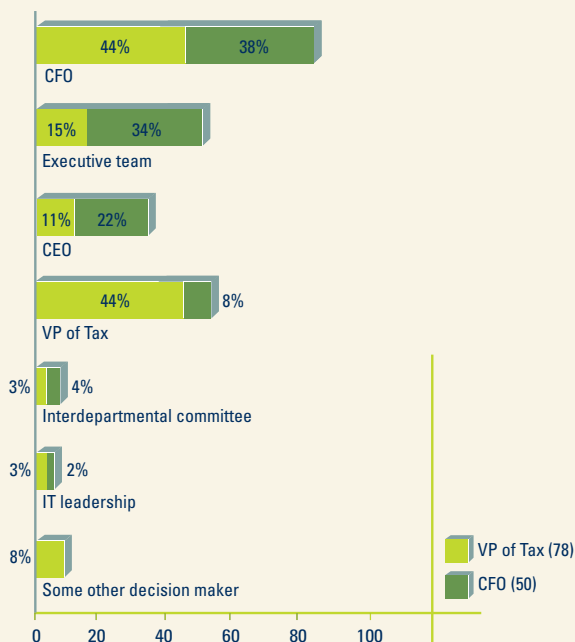
Improving the strategic tax function will be a major change for most tax departments such that funding of these improvements would be outside the normal tax department budget. The survey attempted to identify the key decision makers that would have to approve this investment.

- The graph shows that large investments in tax outside the normal tax department budget will have to be approved by the CFO, a combination of the CFO and VP of Tax or the CFO and an executive team
- The VP of Tax has the power to make the case for the investment due to the tendency for the CFOs to not be directly involved in tax

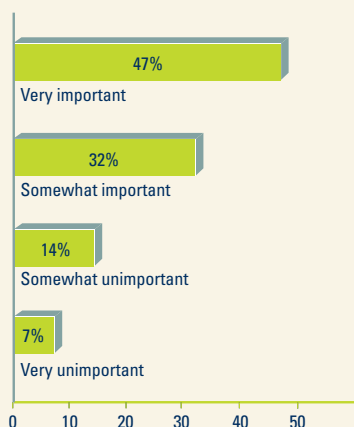
The survey showed there are CFOs and executives that are conducting business process studies to further improve tax. In fact, we found:

- One-third of CFOs and VPs of Tax are either conducting or planning to conduct these studies
- Many of those conducting studies already have high-performing tax departments

Key Decision Makers



Importance of Delivering ROI



ROI is an important consideration when making the decision to implement a major change in the processes or infrastructure in the tax department. These decisions would involve an expense outside the normal tax budget.

▶ *Nearly 50 percent say that ROI is “very important,” and this pattern holds regardless of company size or respondent title*

Conclusion



Our findings reveal that focusing on the strategic value of tax operations holds many opportunities for companies. While CFOs and VPs of Tax acknowledged many barriers keeping tax departments from playing a more strategic role, their views that optimizing the tax function could reduce the effective tax rate by more than one point clearly suggests significant ROI from such an investment. The survey also showed that it is important that CFOs take a stronger leadership role in driving the tax department to a more strategic level, particularly since they are crucial to decision making on major tax operations changes.

Vertex would like to express sincere thanks to the CFOs and VPs of Tax who participated in this research. To show our gratitude Vertex has contributed \$3,000 to the American Red Cross on behalf of those executives.



In addition to the “*Tax Performance Management Survey: Focusing on the Strategic Value of tax,*” Vertex® features two related papers:

- “*The Convergence of Finance and Tax,*” a Vertex opinion paper which outlines key tax and IT industry trends and their impact on the future state of tax technology.
- “*Tax Process Survey Report: Insight into Today’s Complex Tax Environment,*” which benchmarks current tax processes, related performance, and on-going challenges to enhanced tax performance.

▶ Both studies are free and available at vertexinc.com.

Vertex encourages you to visit the Tax 2.0 portal where you can interact with tax industry leaders and contribute to the effort to shape the future of the industry – please visit tax2point0.com.

For more information about our leading enterprise global tax solutions – including Vertex® Provision Global Tax Office™ (GTO), the premier global provision solution in the industry and Vertex® O Series®, the leading enterprise transaction tax solution in the industry – please visit vertexinc.com.



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