

Technology-Enabled Tax Accounting

*21st Century Technology Transforms Accounting
for Income Tax*

February 2017

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Accounting for income taxes has never been more important—or more challenging.

External and Internal Forces Create a Perfect Storm

External forces continue to drive change—from regulatory demands around transparency and controls; to battling the perception that companies simply don't pay enough taxes anywhere, in turn motivating global tax reform and pleas for more and faster information. These market factors all lead to more compliance, more audits, and the need for faster more accurate tax accounting processes.

Combine these external forces with such internal difficulties as:

- diverse and rapid global growth (some organic and much via acquisition);
- complex global supply chains and entity structures—driven by business needs and by sophisticated tax planning—supported by equally complex transfer pricing;
- disconnected and dissimilar financial technology systems—some homegrown—in multiple currencies and accounting standards;
- decentralized tax operations (or, conversely, the use of distant shared service centers);
- finding, developing and keeping up morale to retain tax talent; and
- managing shrinking budgets and resources.

Technology and Processes Can't Keep Up

In response to the above, Tax Departments have amassed a network of multiple detached, inefficient, and sometimes outdated technology and processes to accomplish tax functions with a heavy reliance on spreadsheets. Nearly two decades into the new millennium and yes, the data that feeds these solutions is cobbled together from multiple, disparate sources using a risky “spit and bubblegum approach”. Making it worse, the accelerating pace of change, both from a regulatory and technological perspective, is unprecedented.

It's All About the Data

There is some good news, though. The fundamentals of provision have not changed substantially in recent decades. The basic computation of current and deferred tax is the same and is not drastically divergent across the globe. The provision software applications that were introduced (largely in response to the Sarbanes-Oxley fervor) perform the same basic functions—calculate the tax provision. But today, users of tax technology want more than just point solutions to address one piece of the tax lifecycle. Today's tax professionals recognize that to perform all tax functions efficiently and become the agile partner who can quickly respond to the needs of their global businesses, they must first focus on getting command of the data and using that data to feed into all of their tax functions across all aspects of the tax lifecycle. And since activities around accounting for income tax sit at the beginning of the tax lifecycle, managing that data is key to any technology for the tax function.

For decades, tax professionals have wrestled with a myriad of challenges associated with accounting for income tax and have done the best they could with what they had—with limited success. They tried to find ways to:

- **gather data more efficiently**, moving from paper tax packages to spreadsheet-based tools,
- **process the data more efficiently** by getting downloads of financial data and linking spreadsheets, and
- **automate portions of work** by finding ways to automatically calculate simple book/tax differences.

Some did this by implementing point solutions to calculate their provisions, others continued to expand a complex collection of spreadsheets. But these systems were disconnected from their compliance solutions and thus only offered limited efficiency. None of them got to the heart of the problem—the data that must be managed.

A Breakthrough Data-Centric Approach

What Tax Departments need is not just a better tax provision tool...they need a fully integrated global tax accounting framework that manages all the data needed for provision and downstream processes alike. They need

sophisticated yet flexible data management capabilities including the following:

- **Consolidate Multiple Data Sources**
Data will always come from multiple sources. That won't change. The framework must be able to accept data in multiple formats. It must also be able to actively transform data and export data readily.
- **Real-Time, Tax-Ready Data**
The data must arrive timely (ideally in real time) and it must be made ready-to-use in an automated way because manual manipulation of data is time consuming and risky. But this data transformation must happen in a controlled and repeatable environment.
- **Minimal Processing Required**
The data should be touched as few times as possible. Enough said.
- **Visibility of Versioned Data**
Changes to entity structures and related "meta data" should be easy and should be versioned. Tax people always need to see things the way they were at any given point in time.
- **Detailed Underlying Data Readily Accessible**
The trial balance and its underlying detail should be seamlessly available as often as needed. Detail should be available from any source and for any tax need.
- **Automated Book/Tax Adjustments**
Book/tax adjustments should be automated as much as possible. All the data needed for even the most complex adjustments should be maintained in the software, even if the actual calculations are performed in a well-integrated spreadsheet. The result should be a return-ready provision.
- **Tax Sub-Ledger**
Tax account detail should live in the software, serving as a robust sub-ledger to allow for easier account reconciliations.
- **Global Use, Centralized Visibility**
The framework should be able to be used globally so that local tax departments and controllers can produce their own provisions, but also permit centralized visibility of all tax processes by headquarters or the global parent company.
- **Reporting with Audit Trail**
All calculations and reports should contain a full audit trail back to the original source data.
- **Forecasting and Scenario Planning**
The technology should support the accounting for income tax processes all year long. This includes forecasted tax provisions for interim reporting. The technology should also allow for multiple scenarios—to be used for whatever purpose—cash tax and effective tax rate planning, acquisition analysis, analytics and what-if calculations.
- **Configurable Reports**
The technology should offer the ability to produce reports that are fully configurable to meet the needs and reporting preferences of each company, or parent company, or audit attest firm.
- **Supportive Technology Framework**
The technology framework should be flexible enough to support well-honed provision processes, not be rigid or dictate how the provision is prepared.
- **Tax Footnote Capability**
The technology should produce a fully built-out tax footnote and support the ability to retain not only the data tables, but the text as well.
- **Support True-ups**
The framework must seamlessly support the annual provision-to-return true up process. It should also be able to be used for return-to-audit true ups without signification manipulation.
- **Single (Archived) Source of Tax Data**
The data should be able to be retained in a single database to be used across all tax functions, including audit support, for as long as the user wants.
- **Usable by Tax, Without IT Intervention**
Reliance on IT departments to produce the needed detail years later should be a thing of the past.

Driving Value into the Business

Only with the above data management capability can today's Tax Department finally become the valued business partner they want (and need) to be.

- They'll have more time to devote to value-added activities like effective tax rate planning.
- They'll be able to focus on developing their staff.
- They'll have the tools they need to be nimble and adjust to business changes that have a tax impact.

With the right technology framework that can grow with them, tax professionals will be ready for whatever the future holds.

About the Author

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Nancy Manzano is a Director in the Chief Tax Office at Vertex Inc. She has 25 years of experience and provides insight regarding in-house corporate tax department operations and works on the development of the company's income tax solutions under Vertex® Enterprise.

Prior to joining Vertex, Nancy was a Tax Director at 21st Century/Farmers Insurance and MBNA America Bank. She was also a Supervising Tax Analyst in the Philadelphia office of KPMG. Nancy's areas of expertise include federal, state and local corporate income taxation and accounting for income taxes. Her particular focus has been on tax for the financial services industry. Nancy is a licensed CPA, has a B.S. in Business Administration from Drexel University and a M.S. in Taxation from Widener University.

About Vertex

Founded in 1978, [Vertex Inc.](#) is the leading provider of corporate tax software and services to automate, integrate, streamline or outsource tax processes for companies of all sizes, from small to medium-sized businesses to global multinationals. Vertex provides solutions for all tax types with industry-specific solutions for retail, communications, hospitality and leasing industries.

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