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Automating tax provision: The power of technology

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> **Let's start with this question: "How much do we owe?".** It may be a simple question, but the answer is not. For corporate tax professionals, an extensive amount of work is devoted to that one figure.

This work is compounded by constantly evolving tax regulations. From taking advantage of opportunities to avoiding potential missteps, the foundation for adapting swiftly to tax changes is technology. Those who prepare now will realize immense benefits, while those who react slowly will have to deal with the consequences.

An exact science: That figure has to be right

Tax provisioning is a straightforward calculation of a company's tax exposure on current income and its estimated tax exposure on future income. In other words, a tax provision is a corporation's estimation of what income tax it owes. Like other corporate finance matters, tax provisioning needs to be exact. Inaccurate estimates lead to poor cash management, dissatisfied investors, and the potential for tax reviews and audits.

Moreover, monitoring the income tax liability of corporations is an increasing focus of regulators throughout the world, and investors have long made investment decisions based on the effective tax rate of a company.

> **When one single figure has so many far-reaching consequences, it just has to be right — and it has to be available on demand.**

Although the actual math behind tax provisioning isn't so complex, what is complex about provisioning is integrating and properly structuring data from both the finance and tax departments in a way that minimizes risk and makes provisioning easier and quicker. Accurate provisioning data, made available in real time and on multiple devices, allows tax professionals to address questions from management — and contribute to sound decision-making.

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The challenge of data consolidation

A typical challenge regarding the structure of data is locating relevant data, structuring it in a consistent way, and then using it to make decisions. For most modern companies, tax provisioning is a tremendous data challenge.

Because most of all business today is global business, financial data can originate from all over the globe. Teams located across countries or, in many cases, the world, collaborate with each other. Their data is analyzed among various source systems, which may or may not align with each other. Consolidating this data for provisioning is the first challenge.

Then the system needs to apply rules that depend on multiple factors. Further, tax policy differs from country to country and there are many variables to consider. Those variables are not static.

And on top of this, tax laws and accounting principles are always changing!

All of this adds complexity to the provisioning process. Many companies use a convoluted series of spreadsheets to calculate tax provisions because of their flexibility. But spreadsheets are unstructured and lack embedded controls. Manual updating slows the process down and puts at risk the ability to provide a timely tax entry to complete the financial close.

Furthermore, the corporate structure that tax departments put in place can require customized software development when the tax provisions are too complex to complete in spreadsheets.

Technology = Volume + speed + accuracy

Manual data entry is a fact of life in tax, but those companies that are striving to automate it are enjoying the benefits of reducing both cost and risk, while improving the speed at which information can be accessed.

Volume coupled with the changing landscape of the tax rules and the speed required to determine the appropriate tax make software the only effective approach for the tax provision process.

This is why the successful companies are using software to automate the tax provisioning process in real time, before closing their books. Real-time provisioning eliminates these concerns. It gives management valuable information on which to base business decisions and enables tax to truly add value throughout the organization. Spreadsheets built in Microsoft Excel® simply cannot calculate the provision with the speed, accuracy, and flexibility that management demands.

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Close faster, file earlier

The value of accurate, real-time tax provisioning is only accelerating — as well as the resulting data burden. When a company makes an acquisition, ventures into a new market, explores new commercial channels, or increases its global footprint, its tax provisioning changes.

If a company is growing, then its tax provisioning needs are becoming inherently more complex. So, how to resolve this complexity? Is tax technology the answer? Here are some additional thoughts.

Assembling data from multiple sources

Managing the flow of tax information for modern organizations, especially multinationals, isn't getting easier, and internal expectations are on the rise as well, especially where global growth is desirable. Data must be found, gathered, validated, calculated, shared, and demonstrated. This is time- and labor-intensive work, which is why the average tax department spends 80% of their time collecting and entering data and 20% actually using it. This doesn't leave much room for strategic contribution.

> **Luckily, tax technology can reverse that trend, automating the heavy lifting and leaving tax experts to more value-added activities.**

Data optimization

Tax technology gives you the ability to securely gather and collect data regardless of source, allowing you to seamlessly share the data with both your income tax and tax provision workpapers. It eliminates the need for manual consolidation, making data available for global retrieval and reporting directly from Excel. It also helps to identify duplications or incorrect codes, preventing time-consuming errors and increasing your compliance.

Trial balance automation

In today's tax environment, it's common for your department to work with trial balance data that comes from multiple general ledgers, ERPs or other extracts that may have different account-coding structures. Tax technology delivers harmonized and consolidated trial balance data and can keep it current even as book numbers continue to change. It also enables a common master chart of accounts to standardize trial balance data for the entire tax department, while minimizing administration and maintenance redundancies. This gives you more time to focus on strategic tasks.

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Accurate and audit-resistant calculations

Tax automation enables organizations to produce a quick and accurate tax provision — and its audit-resistance is ironclad. By using the same data for return and provision, tax departments can cut days and even weeks off the annual financial close and tax compliance process, while decreasing risk by ensuring data is consistent across tax department processes.

With tax technology, you also have readily available data to compute accurate tax accruals and produce reports and workpapers that support the amounts that were booked — all on a tight deadline. A tax calculation engine can assist with your tax provision assessment while also ensuring that changes in statutory rate, apportionment, and currency in the different jurisdictions in which you operate are all being taken into account.

You can leverage off your tax provision calculations for tax return purposes and complete and lodge your corporate tax return using ONESOURCE® Corporate Tax.

Run scenarios with real-time impact

Tax technology also provides you with self-reconciling reports that ensure data changes are processed quickly and accurately. With the ability to have different datasets and run scenarios, while having results in real time, you know the exact impacts of the entries you're making from the actual tax provision, right down to the effective tax rates and the journal entries — all within a few minutes.

Report across the company with speed and accuracy

Often, tax results must be reported in multiple formats to satisfy the different ways that information is expected to be used. With tax technology, reports can accommodate the wide range of requests you receive around your provision for income taxes. Whether it is from an internal or external auditor or management, ONESOURCE Tax Provision allows you to deliver data to all your stakeholders in a variety of formats — with a click of a button.

> **ONESOURCE Tax Provision speeds up your financial close, helps tax departments review provisions faster than ever, and analyzes data in a second.**

Its filtering, sorting, grouping, and drilldown capabilities produce real-time intelligence that reduce the risk of manual errors. This allows for a smoother, faster processing of financial close.

Responding to changes in tax legislation is an enormous undertaking. If you haven't yet invested in tax technology, now may be the perfect time.

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ONESOURCE Tax Provision software calculates corporate tax estimates in seconds, and lets you quickly review data with filtering and drill-down capabilities. Plus, you can easily move data from tax provision to other direct tax solutions, so you only have to enter it once. Automation during the tax provision process results in more efficiency across the tax lifecycle — which means closing faster, filing earlier, and freeing up time to grow your business.

For more information,
visit **tax.thomsonreuters.com/en/onesource/tax-provision**.

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