MANAGING STATUTORY REPORTING AND TAX IN SHARED SERVICE CENTERS

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EXECUTIVE SUMMARY

Multinational corporations are increasingly looking for ways to leverage current investment in shared service centers including moving statutory financial reporting and tax compliance functions into these centers of excellence.

Managing these business-critical processes from a shared service center provides a means for improving the efficiency of a company's operations, delivering an improved bottom line to the business. Consolidation of core business activities helps create a consistent process across the organization that minimizes risk and allows local finance and tax teams to focus on the activities that add more value to the organization.

However, managing statutory reporting and tax compliance across multiple jurisdictions is complex. Handling source data from disparate ERP systems is a common struggle, along with:

- Standardizing non-financial data that differs from country to country
- Presenting data in specific ways, whether it be IFRS or another standardized format, to meet local regulatory requirements
- Overcoming language barriers and, relatedly, regulations that require reporting to be lodged in a language specific to the location
- Using the inconsistent, rarely standardized software packages that filers must use across multiple countries

"Moving to a shared services environment...isn't a choice anymore, you really have to scale your accounting control and compliance functions, you just cannot do them efficiently locally."

SHARED SERVICE CENTERS (SSCs): LEAN AND EFFICIENT OPERATIONS

As big businesses grow larger, they must prioritize cost containment and seek organizational efficiencies, in both good times and bad. And as the mid-sized firms of today become, or merge with, the behemoths of tomorrow, they too must contain costs and create efficiencies in order to maximize profitability.

A shared service center is a way to concentrate critical business processes into centralized units or groups with expertise and static processes instead of duplicating them in multiple business units that are spread across the globe, which creates redundancies. It aligns skills with job responsibilities in a way that helps a company scale.

When done right, this strategy improves cost efficiencies, service levels, and the overall responsiveness of the company. It can pay increasingly large dividends as a company grows. Some of the departments most commonly associated with shared service centers are human resources, payroll, information technology, legal, compliance, purchasing, security — and, increasingly, tax compliance and statutory financial reporting.

On top of the cost reduction, shared service centers also reduce risk and facilitate better management, such as by providing information about workflow.

Companies across the world, in a number of sectors, are using shared service centers for statutory financial reporting and tax compliance as one small but crucial step to containing costs and creating efficiencies across the business.

Shared service centers impact multiple areas of finance:

- **Statutory financial reporting:** Encourages standardization of both process and deliverables. Historically statutory financial reporting has been a decentralized process. More and more organizations are looking to centralize and relying on technology to assist in streamlining the process.
- **Transfer pricing:** Promotes the sharing of information about related-party transactions between in-house trade teams and customs and border protection, which has traditionally been a major source of manual effort.
- **Value-added/Indirect tax:** Ensures compliance with the many jurisdictional rate changes that routinely affect a company's tax liabilities.
- **Corporate tax:** Helps tax close faster and with less risk of errors.

MULTIPLE BENEFITS OF SSCs

All departments involved can benefit from a shared service center strategy.

In a recent survey from Thomson Reuters and Shared Services Outsourcing Network, executives indicated their top reason for moving financial reporting and tax functions to shared service centers was to reduce costs. The second and third most-cited reasons were to improve consistency and control and to standardize processes, both factors that directly improve how tax is done at an operational level.

Similarly, standardizing statutory financial reporting processes can pay off, particularly for companies that do business in many different jurisdictions or have uniquely complex regulatory reporting responsibilities. The efficiencies seen through the reduction in both data collection and iterations of reports are well worth the up-front effort.

Moving statutory reporting and tax workflow into a shared service center is a way for management to give the teams that handle those crucial responsibilities another opportunity to add strategic value throughout the organization. Because shared service centers eliminate redundancies across large, multinational organizations, tax as a department is able to get leaner and more efficient as a result of them.

But there are barriers to this.

First, the departments that handle statutory reporting and tax workflow can be challenged to centralize processes while still maintaining the regional knowledge required to achieve compliance in the areas where the company does business. Having favorable relationships with local tax authorities is important, and losing this can be a concern with most any form of centralization, including shared service centers.

Moreover, moving such work into a shared service center is not something that just happens. It is a significant organizational change to mission-critical activity that involves many steps.

Both shared service centers and outsourcing are popular ways to centralize statutory financial reporting and tax compliance functions. Both approaches have benefits.

An ideal candidate for a shared service center is an organization that meets three basic criteria:

1. It already has up-to-date infrastructure
2. It wants to closely control the technology, as well as the business process in question
3. It relies heavily on the outcome of strong statutory financial reporting and tax compliance processes

MULTIPLE BENEFITS OF SSCs (cont.)

Organizations that meet these conditions tend to value the precise control over technology and processes that shared service centers offer.

It is also not a one-or-the-other question. Many companies use local teams in countries where there is significant revenue at stake or risk to ensure they can have exacting control of the technology platform used to manage the tax or statutory reporting processes. Some of these companies do so with the intention of eventually migrating into a shared service center.

The centers give companies this flexibility. It is possible, and sometimes even preferable, to use a shared service center to, for example, handle compliance work in some regions or for certain business units and use outsourcing in others. A company can then scale the shared service center up as it builds up the skills, infrastructure, and processes internally.

"Many multinational companies underestimate the true cost of the statutory financial reporting process and indeed the complexity that it drives. So it's critical to have a good assessment (of these costs) and the right tool to help you prepare the statements."

HOW TO ADD STATUTORY FINANCIAL REPORTING AND TAX COMPLIANCE INTO EXISTING FINANCE SSCs

It is tough to argue against the efficiency that shared service centers drive. Instead, what can impede the migration of new processes into a shared service center is the perception of a high opportunity cost.

However, three common responsibilities that statutory reporting personnel and tax departments have, which overlap in an operational sense, can potentially justify placing it in a shared service center environment.

- They need to handle multiple jurisdictions simultaneously. Does the transition of statutory financial reporting and tax compliance into a shared service center environment help it achieve compliance quicker and with reduced risk across multiple jurisdictions?
- Regulators are constantly exerting pressure on MNCs. Will the transition better meet the needs of the evolving global regulatory environment?
- They need processes that accommodate business growth. Can the transition help tax departments integrate and analyze new information on the business quickly and efficiently? Is it sufficiently scalable for statutory reporting if the company enters new markets?

Changing how these responsibilities are confronted comes with benefits and drawbacks, and an instinct to objectively weigh both the upside and downside of migrating statutory financial reporting and tax compliance into a shared service center is the right one.

The answers to the questions above will vary from one organization to the next, but generally shared service centers answer all three affirmatively.

Centralization and standardization are two qualities the teams in question look to achieve as businesses grow globally, regulators tighten their grip regionally, and technology creates new ways to leverage data. Migrating statutory reporting and tax into a shared service center environment is a form of centralization and standardization.

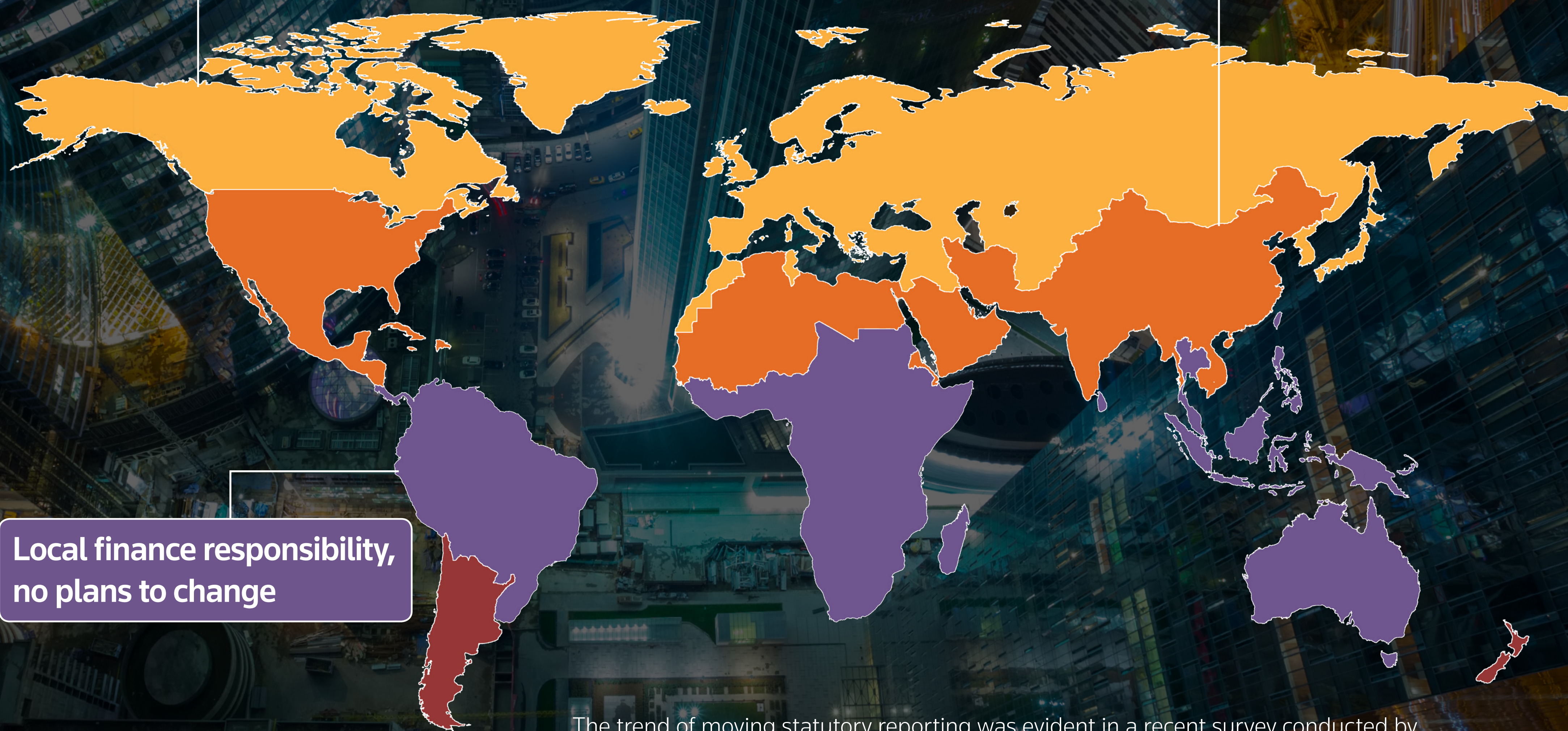
Perhaps the most tangible action a global corporation can take with respect to shared service centers is to ensure the organization is structured to derive the maximum possible benefit from them, whether now or down the road.

It is obvious that enterprise technology has drastically changed how large corporations do business, and that global corporations today face far less friction when leveraging the resources or people located across borders. More of this is coming. Businesses have a voracious appetite to look across the world rather than across the country to improve processes or gain an advantage.

Shared service centers are a small but real part of this. Companies need the right organizational structure in place that allows country operations to be centralized as well as modern IT infrastructure to get the most value from the use of shared service centers.

Because statutory financial reporting and tax compliance are business-critical functions, they should be migrated into a shared service center environment if the above-mentioned conditions are met.

HOW TO ADD STATUTORY FINANCIAL REPORTING AND TAX COMPLIANCE INTO EXISTING FINANCE SSCs



The trend of moving statutory reporting was evident in a recent survey conducted by Thomson Reuters of more than 50 multinational customers. The results showed 50% of customers were either already using or planning to use a shared service center in the near future for statutory reporting, 40% had local finance responsibility with no plans to change, and 10% outsourced.

WHAT CAN SSCs DO FOR TAX DEPARTMENTS?

MANAGE MULTIPLE TAX JURISDICTIONS

Because business is global, the best-performing statutory reporting and tax departments know how to assess what local jurisdictional rules mean for the company in the context of the rules outside jurisdictions obey, as well as the nature of the company's short-term strategy and longer-term business interests.

This pushes these processes towards being centralized, often within a shared service center.

First, multinational firms have not historically been effective at managing statutory reporting and tax compliance across multiple jurisdictions. There are myriad reasons for this, chiefly among them the emergence of new markets, trade liberalization, and the fact that some jurisdictions change rules incredibly frequently.

A shared service center for tax and statutory reporting addresses this with technology — specifically, a technology-driven strategy for collecting, retaining, and managing data that cannot be replicated at scale on a region-by-region basis.

Second, local finance teams themselves are being challenged to add more value to the organization. They need to progress away from manual tasks that fail to deliver adequate strategic value and toward being a true partner in delivering actionable intelligence and insight up, down, and across the company's business units.

These teams can in theory become more nimble with the backing of a shared service center to do their heavy lifting. They can then focus on understanding and communicating exactly how their specific jurisdictional rules for tax and statutory reporting impacts the broader business. There is value to digesting nuance if local tax teams are driving local tax matters only.

Last, finance is already in shared service centers at many multinational corporations.

This is beneficial because finance departments would ideally work very closely with the teams that perform compliance functions related to statutory reporting and tax. If the management of the finance function resides principally inside a shared service center environment, then placing other aligned functions there as well enables better communication and a closer cross-departmental working relationship. That isn't a tough sell.

"One of the benefits we got from the SSC process was to really drive our focus on the preparation of the statutory reports...you cannot have full-time resources locally, so we were able to scale that work (in the SSC)."

WHAT CAN SSCs DO FOR TAX DEPARTMENTS?

GET AHEAD OF REGULATORS

The extent to which regulators are tightening their grip on multinational corporations with respect to statutory financial reporting and tax compliance is perhaps one of the more salient themes for tax professionals today. How can companies meet regulators' increasingly exacting requirements while keeping pace with growth?

The authorities are becoming more savvy about how they use data and developing a voracious appetite for new kinds of data. Crucially, they are also cooperating and collaborating with one another more closely than ever.

This evolution is putting significant pressure on corporations to have sound compliance strategies at the ready, which is one outcome of standardizing the statutory financial reporting and tax compliance functions with shared service centers.

By using shared service centers, a company can provide speedy answers to anticipated regulatory questions with a high degree of confidence. While tax regulators will probably not require real-time responses to their questions in the immediate future, businesses generally obtain value from answering regulatory questions quickly so their people can move on to more strategic work.

For example, many European countries are now mandating eXtensible Business Reporting Language (XBRL) filing of statutory reports and the trend is growing around the world.

For a company doing business in multiple jurisdictions that require XBRL filing, standardizing this reporting inside of a shared service enter through the use of technology allows them to meet this demand through one reporting system utilizing pre-tagged XBRL reports. This ensures that the process in completed in one integrated consistent phase instead of multi-step manual processes. This ultimately streamlines the process and protects an organization from inconsistencies between hard copy and electronic outputs.

Another example, an OECD initiative called SAF-T (Standard Audit File for Tax) is gaining momentum in Europe, with six tax authorities beginning to implement it as a requirement.

The file contains information on both direct and indirect tax returns and payments, including data on general ledger positioning, accounts receivable, payable transactions, and other transaction-level details.

The regulators have standardized the data format of this file. So, assume a company does business in all six of the countries that are implementing SAF-T. By centralizing tax in a shared service center, this company could meet six regulatory demands in one go instead of repeating the same tasks with six different local teams.

These are just two examples of how centralizing tax and statutory reporting in a shared service center can better satisfy local regulatory demands, particularly as regulators band together to share information and collaborate on regulatory techniques.

WHAT CAN SSCs DO FOR TAX DEPARTMENTS?

USE DATA BETTER

It's difficult to overstate the value that comes from being able to turn tax, statutory reporting, and other financial data into real-time insight. Data analysis has transformed how the consumer sector sells, and it can make similar waves for how businesses are managed.

The departments that perform statutory reporting and tax functions are a perfect place to leverage the potential of data analytics because it is a massive consumer of a company's data, right down to the transactional level. No matter how the data is displayed, it all tells one consistent story — if, and only if, it is sufficiently centralized, overseen by the same teams that use it in the same ways.

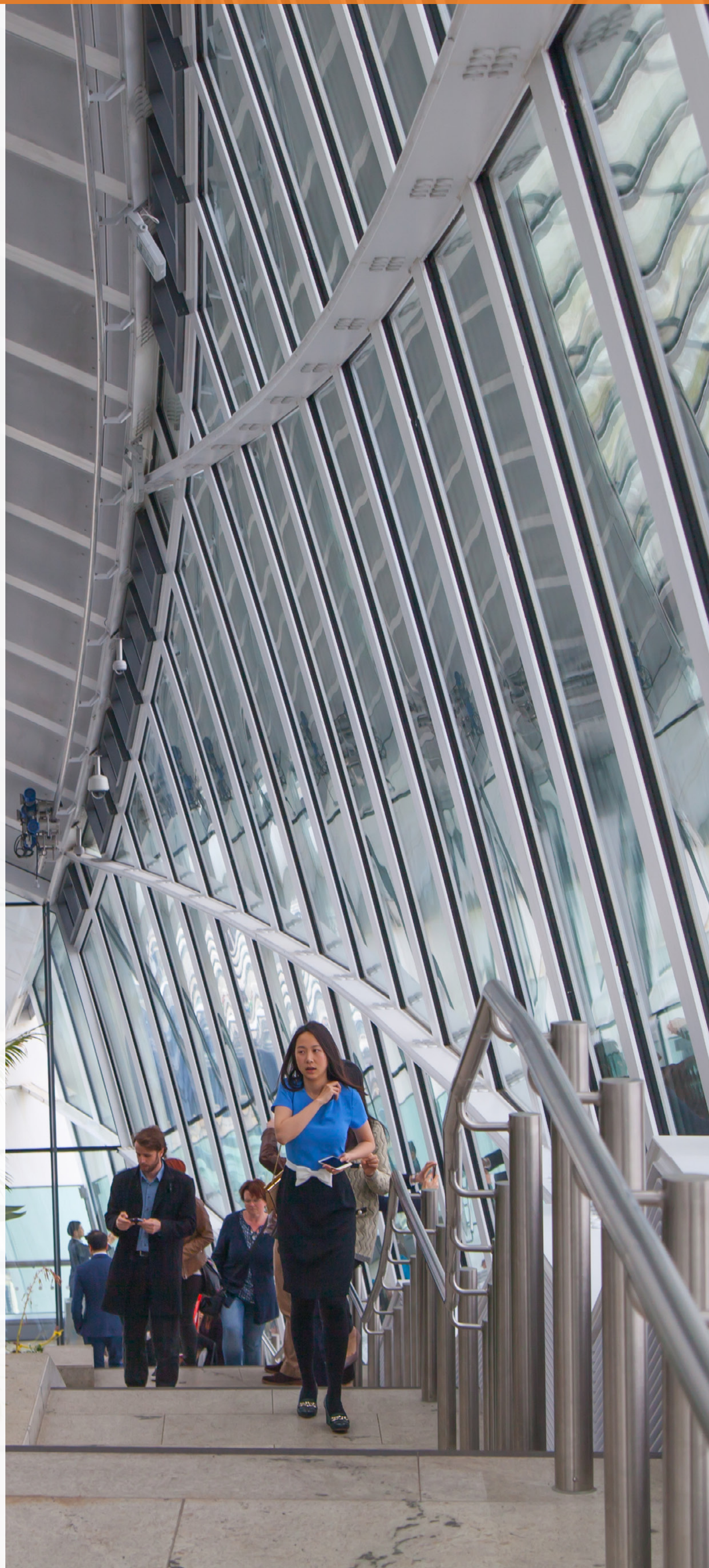
Data analytics allows these teams to simplify complex information, use that information in different ways at different times, and be better prepared for strategic planning.

For some practitioners, the holy grail for statutory reporting and tax with respect to analytics is this: Being able to use the relevant data once and have it flow through to the final outputs for each use. If all teams had access to the same data, they could save time not having to re-do tasks and learn from others' work. The platform's ability to reconcile at any point in time between usage of the data is important. This would empower teams to analyze data for trends and making timely, impactful decisions that influence company's bottom line.

For instance, analyzing trends in revenue, expense, and currency fluctuations in the context of different business strategies that the company is considering could reveal useful information on effective tax rates and cash positions — insight many senior leaders value. This data could also be used in effective tax planning strategies, helping these departments play a more strategic role in the business.

Businesses today create more data than ever, and they have the technical capability to store, access, and process that data into conclusions that are more dynamic, specific, and meaningful than ever before. Tax authorities, in turn, are increasingly obtaining this data and seeing to it that the data is shared.

The shared service center environment truly accommodates the direction that statutory reporting and tax functions are heading with respect to data analysis.



CONCLUSION

The professionals who manage shared service centers are tasked with being profit centers, not costs. Incorporating statutory reporting and tax into the shared service center environment is one more way for them to provide value to management.

For those teams, the benefits of shared service centers are clear. They drive easier management of information from multiple tax jurisdictions, prepare teams for questions from regulators, and eventually leverage data analytics in tremendously beneficial ways.

Thomson Reuters ONESOURCE can provide valuable, actionable insight on these issues.

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