

*Tax Function of the
Future series*

October 2016

The Tax Function of the Future

Building the Business Case for Change

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Introduction

The Tax Function of the Future series predicts challenges that Tax functions (“Tax”) may face in the future and suggests solutions to those challenges. Prior papers have presented insights on new legislative and regulatory challenges and the resulting impact on risk management, discussed the need for Tax to focus on data analytics and to play an integral role in broader Finance transformation initiatives, and most recently, highlighted the importance of enhancing income tax reporting processes.

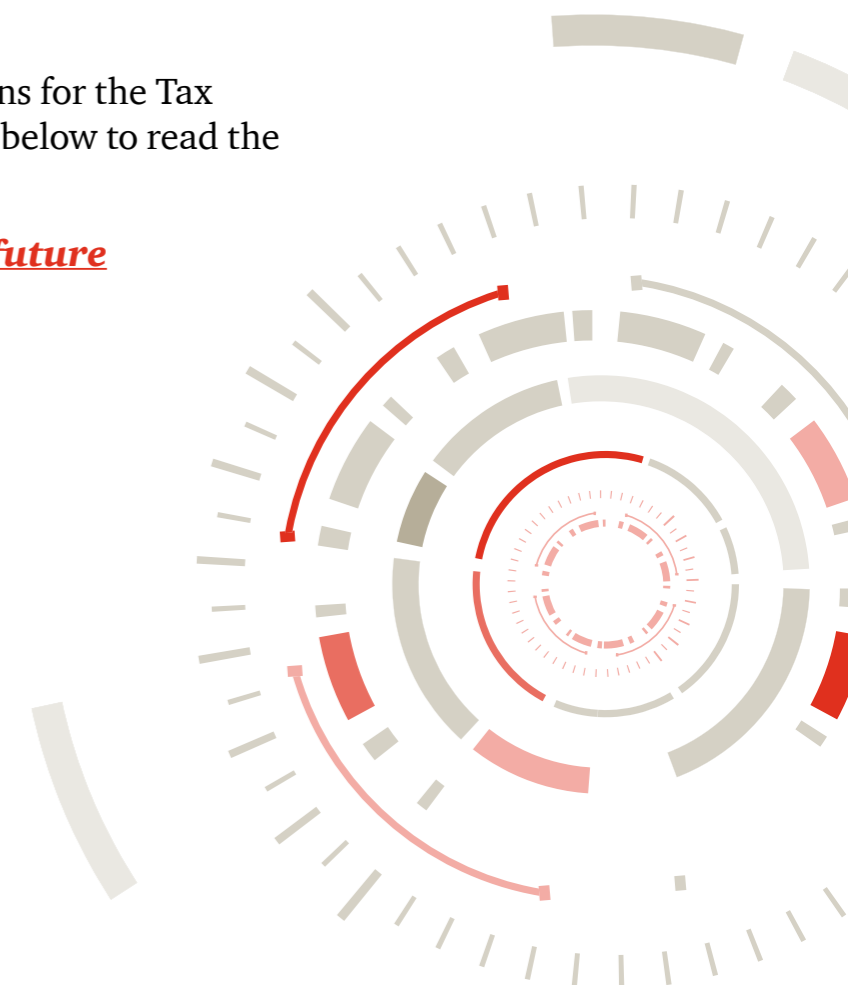
Tax must have a clear strategy and vision, supported by a well-articulated business case, to gain the Leadership support and funding necessary to implement the solutions we identified in prior papers. This paper focuses on the process and elements of building a successful business case and includes information gathered from a recent PwC global client survey.

The global predictions presented in this series cover six main topic areas:

1. [Global legislative and regulatory landscape](#)
2. [Tax function's role in risk management and governance](#)
3. [Data flow into the tax function](#)
4. [Technology automation for tax function analytical tasks](#)
5. [Tax function roles and processes](#)
6. [The tax professional of the future.](#)

For more information on our predictions for the Tax Function of the Future, follow the link below to read the previous publications in our series.

www.pwc.com/taxfunctionofthefuture



Executive summary

Never before has Tax needed to influence its organisation and change its approach as much as it does today. Tax faces a global macro tax environment that is fraught with increased regulation and scrutiny, as well as a heightened focus on which jurisdictions have the right to tax global income. Also, the media spotlight on tax has resulted in increased reputational risk, requiring improved understanding, governance, and oversight of tax matters at senior levels within an organisation.

This environment makes it increasingly important for Tax to secure funds necessary to transform its operations to meet these increasing demands. It is critical that Tax move beyond departmental funding or trying to 'find' the money within its annual operating budget to drive true transformation. Senior executives within the organisation are demanding that Tax develop formal business cases to secure funds to participate in other enterprise transformation efforts, participate in newly defined shared services



capabilities, or implement new provision or compliance software. It is imperative that Tax present a compelling, integrated, and thorough business case that is in line with organisational expectations when requesting the organisation's finite funds to invest in new projects.

Tax needs to be able to define both qualitative and quantitative benefits of transformation efforts and commit

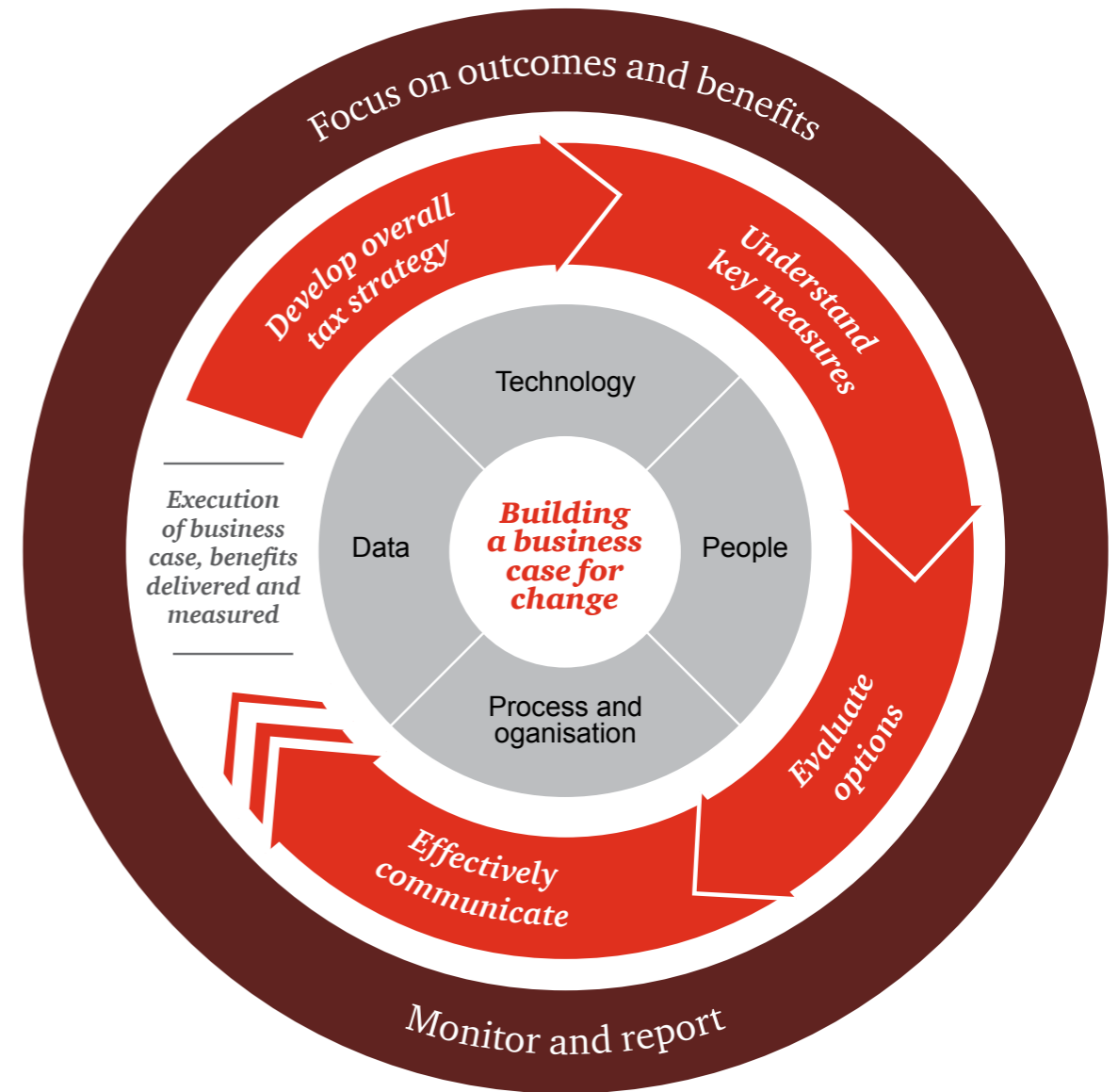
to delivering those benefits within a specified period of time. These benefits include better cash management, effective tax rate (ETR) reduction, alignment with other business areas, legal entity reporting and management, and strategic input into other key business areas, such as business planning, new product/service development and M&A transactions.

Executive summary

Tax is in a unique position to generate benefits to the organisation; however, these benefits only can be achieved with a well-articulated business case that is supported by a clear strategy, roadmap, and execution. The Head of Tax needs to leverage a wider range of skills and approaches. A formal business case can no longer simply be about qualitative assertions on risk, moving a few hours out of a process, or making employees' lives easier. Tax transformation must be integrated with the overall business and have a robust and critical approach to the cost/benefit analysis of the choices available.

The cost/benefit analysis must be comprehensive, anchored to the strategy, and reflect the whole business context.

A Tax organisation looking to build a transformation business case must develop an overall tax strategy, identify key measures of its future performance, understand the choices it faces to transform from where it is now to where it needs to be, and effectively communicate an overall roadmap that takes a holistic approach in defining the transformation. These key elements are represented in the following diagram:



Let's dig deeper: Considering Tax's current strategy

A successful Tax function needs to identify its objectives and be able to measure how well it is accomplishing them. The starting point for the Head of Tax in preparing a business case for change is to review the fundamental pillars of its current tax strategy. What we mean by strategy is how the organisation manages its tax affairs and responsibilities with a clear view of its key stakeholders' concerns, and what it is expected to deliver.



Survey

70% of companies surveyed have a tax strategy. Of these, 58% have had senior level sign-off and 74% were introduced in the last five years.

Such a strategy should address these key aspects:

Stakeholders

Key internal stakeholders include senior management and relevant functional areas within the organisation including Finance, Supply Chain and Operations. External stakeholders include shareholders (represented by the Board of Directors), and others such as tax authorities, non-executive directors, regulators, and customers. Public views are becoming increasingly important and may need to be considered and prioritised.

The consideration of stakeholders should address the alignment of the organisation's overall corporate strategy with its tax position and behaviors. For example, if a business places customers and community at the centre of its

corporate strategy, such an approach presumably would be reflected to some degree in its tax strategy; if not, there should be a clear understanding of the possible consequences of the mismatch.

“Senior management is increasingly focused on how tax risk is being managed and how that aligns with the overall goals of the organisation. Risk appetite can no longer be set in isolation from the wider business due to the potential for unexpected tax errors, exposures, or even reputational damage.” - *Breaking away: How leading finance functions are redefining excellence*, a 2015 PwC Finance Effectiveness paper based on benchmark engagements across a broad range of industries and finance activities.



“Tax alignment with overall business goals and objectives and integration with Finance and other functions, particularly assessment of risk and governance, are key to driving and sustaining value while creating a successful tax organisation.”

— Alex Peng, Emerson Electric

Let's dig deeper: Considering Tax's current strategy

Tax cost and tax risk

Stakeholders' objectives with respect to Tax focus primarily on how much tax is paid and the level of tax risk accepted within the organisation. Full compliance with the law is required for all organisations, but beyond that, the question is: What is the right balance in managing tax costs and risks? If the objective is to reduce taxes, how much risk is the organisation prepared to take in doing so? What degree of confidence will it seek from practitioner opinions? Will it always litigate disputes? What is its tolerance for negative publicity? How will it behave with respect to choices in the law, or where there are grey areas or other ambiguities? Are there specific tax concerns driven by jurisdiction or industry?

Approach and responsibility

Who within the organisation is responsible for developing and delivering the tax strategy? Is it entirely the responsibility of the Tax function, or are responsibilities shared with other functions? What key performance indicators will measure and drive the accomplishment of Tax's goals?

Having developed a clear strategy, it is important for Tax to assess how well it is currently delivering on this strategy and consider its options for developing the business case for change.



“A clear agreed upon strategy is vital for any organisation in the current environment. It brings organisational clarity, a touchstone for decision making and a clear destination for leading the Tax team.”

— Head of Tax

Let's dig deeper: Evaluate effectiveness of strategy delivery

The effective delivery of the organisation's tax strategy likely will require that the Head of Tax consider whether:

- Taxes are managed appropriately.
- Tax risk is within set parameters.
- Tax is operating efficiently and effectively and in full collaboration with other internal teams.

Success for each of these factors will need to be defined within the context of the organisation's tax strategy and hence be considered based on goals



Survey

The top three most important measures of performance of the Tax function, based upon survey response are:

1. tax risk management,
2. management of the effective tax rate (ETR) to reduce ETR, and
3. management of the ETR to ensure a sustainable long-term ETR.

or key performance indicators (KPIs) established for Tax. Tax leadership often drives the framing and negotiation of these KPIs with key internal stakeholders.

KPIs

Setting the right KPIs to reflect the strategy allows Tax to understand gaps between current and desired states and identify the requisite focus areas for the business case.

Some KPIs might be viewed as more traditional, and consequently more familiar, to Tax teams and management. There also are different and less traditional ways to measure risk and performance. Both methods are crucial to reflecting the breadth of factors behind an effective realisation of strategy.



Tip

KPIs are developing but are currently quite immature, and tend to be around ETRs, customer satisfaction (feedback from other business units), and submitting returns on time. Looking forward, companies should align tax KPIs with the overall corporate KPIs. A key reason Tax is struggling with a business case for change is the lack of KPIs/targets, and in turn a lack of ability to demonstrate their value added to the business.

Let's dig deeper: Evaluate effectiveness of strategy delivery

Traditional tax effectiveness measures include:

- measures of actual and forecast ETR,
- magnitude of the return-to-provision adjustment,
- time spent on and resources dedicated to compliance activities,
- financial statement impact of tax risk and exposure,
- measures of accuracy and timeliness of compliance filings,
- tax prepayments as a percentage of income tax return liability, and
- tax savings generated as a percentage of total revenue.

“I believe that staff engagement scores should be given a higher priority.”

— Global survey

Non-traditional tax KPIs include:

- job satisfaction/recognition measures,
- measures of the effectiveness of Tax department process or quality improvements, and
- measures of Tax's leadership profile within the organisation.

For each KPI identified, the Tax function should set specific targets that are appropriate to the strategy and the internal and external challenges that the organisation typically faces.

Below are examples of traditional and non-traditional KPIs that might be considered in the context of Tax's three strategic focus areas:

1. Are taxes managed appropriately?

The ability to manage taxes and cash payments while identifying tax savings opportunities historically has been a goal of many Tax organisations. Which KPIs should the Tax function use to measure success in this area?



Survey

A reduction in the ETR is second after risk management in the ranking of KPIs by importance.

While hard reductions in ETR may no longer be the most important measure of success, there are factors that drive the rate that can be appropriate KPIs, such as implementing effective processes for timely and complete claiming of research and development tax credits. Is the organisation's ETR higher than is standard for its industry, and, if so, why? Can the Tax function or the wider organisation influence factors that affect the ETR? The consideration of KPIs should go beyond corporate income tax to all key taxes borne by the organisation.



“Tax risk management has become more in focus than reducing or optimising the tax burden.”

— Global survey

Let's dig deeper: Evaluate effectiveness of strategy delivery

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A Tax function seeking to manage tax risk needs to understand its organisation's tax risk profile.

Risks

We capture and analyse everything that does or might impact our tax position: structural product or external.

All tax processes and requirements are fully embedded in our operations and kept current.

All our tax returns are complete, correct, tax paid and returns filed on time.

Tax costs and consequences of all our activity is correctly reflected.

Managing risk and reputation

Reputation

2. Are the tax risk parameters set?

Managing risk is a key objective of Tax strategy and has traditionally been an important tax effectiveness measure. In fact, the PwC global survey shows evidence of KPIs being focused on increasing organisational value through tax risk control.

A current risk analysis should consider:

- Whether there is a clear understanding of the risks for all of the organisation's taxes.

- Whether the 'owner' of the risk is clear and appropriate.
- The individual or function responsible for managing risks (Are there gaps or weaknesses in the management of these risks?).
- The extent to which Tax is adaptable and able to shift its focus in a dynamic environment.
- The adequacy of tax risk management monitoring and reporting.

These factors flow into the setting of KPIs as the risk assessment will identify whether there is excessive risk or failure of control in certain areas, such as miscoded expenses, the size and extent of return to provision adjustments, levels of late filing or error penalties, and the number of resubmitted tax returns.

Let's dig deeper: Evaluate effectiveness of strategy delivery

PwC prediction



Risk & Governance

- Many jurisdictions will legislatively require the adoption of a tax control framework which follows guidelines similar to Sarbanes-Oxley and COSO (Committee of Sponsoring Organisations of the Treadway Commission).
- Enhanced stakeholder scrutiny and reputational risk will force companies to continuously re-evaluate their tax decisions.
- Strategic focus on jurisdictional reporting and documentation of business activities, including transfer pricing, will be critical to managing the increased tax controversy resulting from transparency initiatives.

3. Is Tax operating in the most efficient and effective way possible?

Tax must achieve its objectives and deliver its strategy in an efficient and effective manner. Its KPIs should assess whether its people, processes, and systems are working well together, effectively consuming the appropriate amount of resources.

Job satisfaction and recognition measures

KPIs that address the people component of the Tax function also are important in developing a holistic strategy for Tax. Measures of the tax professional's workload, skill sets (technical and leadership), responsibilities, location, work-life balance, and overall job satisfaction can be important as they are critical to attracting and retaining the people needed to deliver on Tax's goals and objectives. For instance, are senior people spending time on less skilled work due to resource constraints or a low degree of automation resulting in too much time being spent on data analysis rather than tax technical work or business planning? There may be time

and resource consequences of a location strategy. For example, a high number of small geographically diverse teams may result in more hierarchy, task repetition, and inefficiency in communication, all of which can be measured.

A particular area to consider is career opportunity for tax staff. A more challenging business environment can mean that the ability to promote staff within Tax is reduced. Focus on measures of development, increases in the range of experience, recognition, and staff rotation inside and outside of Tax can be key to influencing staff retention.

Measures of the effectiveness of Tax department process or quality improvements

Is Tax making the best use of internal or external technology to access data or perform some required tax activities? Tax should consider whether its current



Survey

54% of respondents believe that it is more expensive to outsource and 20% do not feel it manages their risk as well.

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processes are the most efficient and fit for its immediate purpose. Tax also should consider measures of frequency of process and technology enhancements. The Tax function's effectiveness can be improved by automation of tax accounting and compliance activities; enhancements to document management, workflow, and collaboration between Tax and Finance; availability of tax-sensitised financial data; and shifting business models.

Are strategies to reduce overall tax operational cost being implemented in the most effective way? The move toward shared services, Tax centres of excellence, or outsourcing of compliance have the potential to streamline operations and reduce overall cost. Such strategies should, however, be balanced against other considerations such as risk (reputational and financial) and efficiency.

Measures used to monitor the impact of change could include time spent on certain activities or processes, the adherence to deadlines, the number of hand-offs or interactions with other teams.

Measures of Tax's leadership profile

In this shifting global environment, it is important that Tax is viewed not only as a critical compliance function, but as a valuable strategic organisational



Survey

Over 50% of middle management and nearly 30% of leadership time is spent on compliance, reporting, and control activities.



Survey

Do you have any observations about what makes outsourcing more or less successful?

“Historically, there have been too many different providers of tax services across the countries in which we operate. We are seeking to rationalise that because we see no real cost/benefits and the risk: reward trade-off is not working.”



“KPIs should reflect the values of the company, bringing into balance the effective management of the ETR and its cash impact together with the sustainability and social aspects of tax being a contribution to the treasury.”

— Global survey

asset. Thus, KPIs may need to address Tax's ability to influence and impact positive change across the organisation. For example, how often and in what format is Tax reaching out to the business – educating, supporting, presenting its initiatives, and collaborating with leadership across functions? Who is Tax influencing within the organisation? Objective measures can include the frequency of participation on business or risk committees, levels of attendance at tax training sessions for the business and participation in cross-functional organisation initiatives. Subjective measures may include internal customers' feedback.

Let's dig deeper: Challenges to effective delivery of the tax strategy

Once Tax has considered its strategy and evaluated the effectiveness of its delivery by identifying gaps between target KPIs and correct performance, it is critical to understand the internal and external challenges that the function and the organisation will face when considering potential solutions for the business case.

Internal financial pressures could present a significant hurdle if an organisation is not able to secure the necessary funding for its tax strategy. In addition, there are challenges with respect to navigating the existing technology landscape and understanding 'the art of the possible' with respect to internal or external technology solutions that are viable for Tax.

Tax historically may have operated in a silo without much collaboration with other functions. Similarly, it may be conservative in its approach and prefer to maintain the status quo. Additional challenges may exist because of an organisation's structure, the Head of Tax's perceived status, and whether Tax can get the attention of and influence C-Suite decision makers.

External challenges to Tax's strategy are becoming more evident with global pressure for transparency and increases in reporting and levels of taxes. The Tax function is being pushed to provide information typically not readily available to Tax. Tax professionals are required to be proficient in using new

technology as well as managing process improvement projects to meet ongoing demands. Tax resources with diverse tax technical, technology, project management, and business acumen are uncommon; as such, risk of inaccuracy and damage to the organisation's reputation is likely to increase if Tax is unable to respond appropriately to external pressure.



“Business is measured pre-tax, therefore, the effectiveness of the tax function is often disregarded when considering the value that we add.”

— Global survey

Let's dig deeper: Assessing options for change

With high-level goals and target KPIs established, and with awareness of existing performance gaps and challenges to effective change, Tax can turn its attention to developing a plan that addresses current gaps using a target operating model framework.

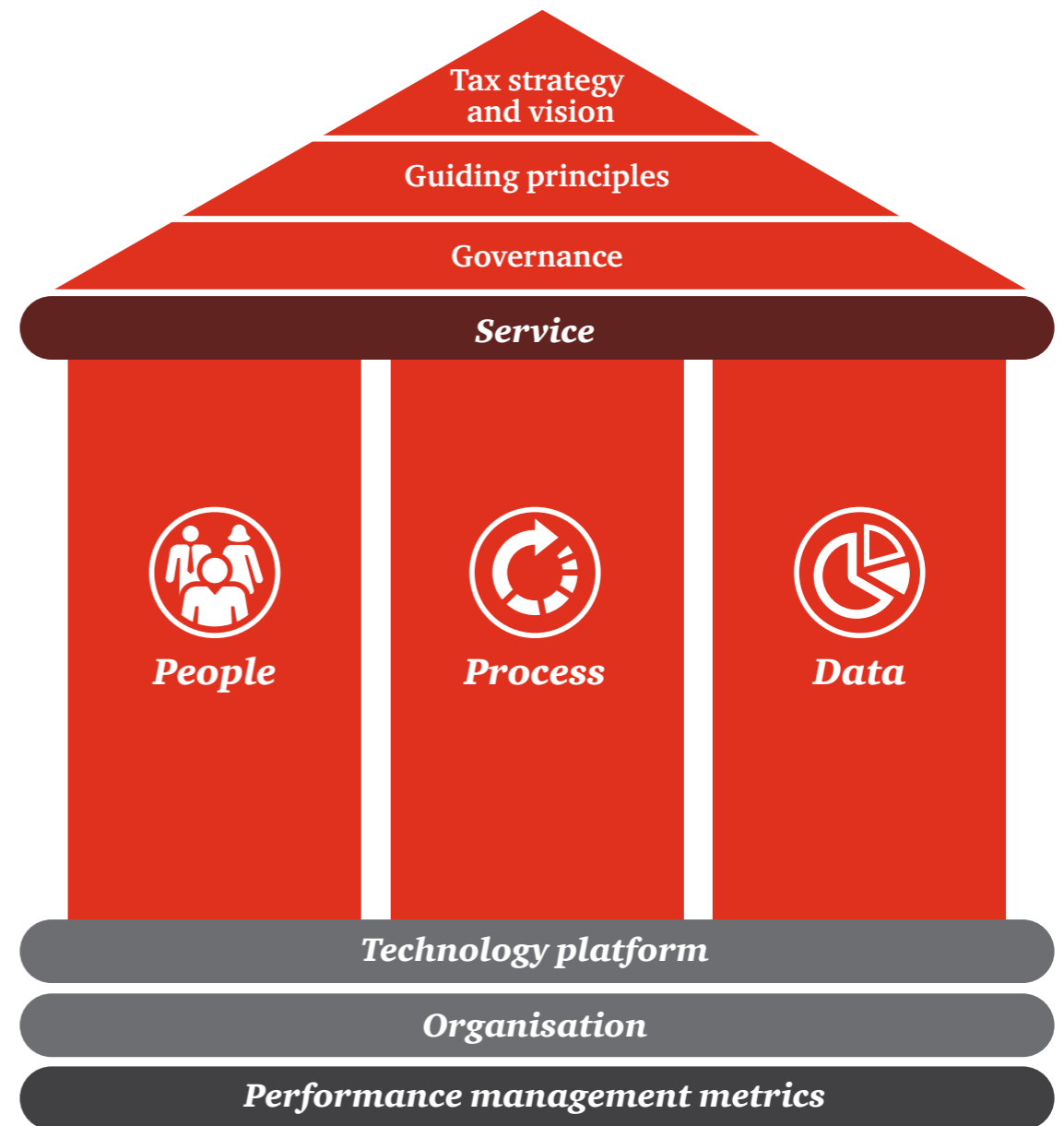


Tip

Running internal workshops may be helpful in determining the right KPIs, understanding the challenges that Tax faces, and assessing the impact of changes to the target operating model. These internal workshops can be successful when they include cross-functional input from team members at all levels in the organisation.

Developing the target operating model

In order for Tax to understand how it can best deliver the organisation's tax strategy and its options for closing the gaps between its current and desired states, it needs to develop its 'target operating model.' This requires Tax to consider various moving parts to see how they impact each other and can be changed. These 'moving parts' are Tax's organisation, technology, people, process, and data. Any plan for each element needs to be coherent, transparent, and explicit – relating back to how it assists in delivering the Tax function strategy and supporting the business case.



“The real challenge is being able to look forward five years and consider what a Tax function should look like and evaluate what that now means for outsourcing, technology and people.”

— Head of Tax, financial services

Let's dig deeper: Assessing options for change

In developing the target operating model, Tax should determine its specific areas of focus for enhancements needed to achieve its objectives and successfully deliver on KPIs. PwC's predictions for the Tax function of the future relating to technology, people, process/organisation, and data include the following:

PwC prediction



Technology

- More companies will use their enterprise-wide financial systems to prepare tax calculations (e.g., income tax accounting and indirect taxes), thereby replacing spreadsheets and/or traditional tax technology solutions.
- The vast majority of Tax organisations will rely on professional data analysis tools to assist in the decision-making process in areas such as detection of risk, opportunity identification, projections and scenario planning, and overall business support.

Technology-driven disruption, as well as the ever-increasing volume of data required for Tax, are already having a major impact on companies and will continue to do so for the foreseeable future.



Survey

Organisations believe they are somewhat behind their peers and where they want to be in effectively using technology to reduce risk and increase efficiency.



Survey

Companies with a full or partial tax technology strategy/roadmap spend less time on tax return preparation and more on transfer pricing, offering business support and dealing with tax changes (e.g. country-by-country reporting) and tax and business strategy.



Tip

Tax may be less advanced with their use of technology than other functions. Tax should collaborate with other functions to leverage their use of technology and engage with IT to share its objectives regarding technology initiatives. Both functions likely would find that there are intersections in their goals and objectives.



Survey

Excel still remains the most widely used technology with respect to the both corporate direct and indirect tax.

Let's dig deeper: Assessing options for change



PwC prediction

People

- A successful tax professional of the future will be highly proficient in data analysis, statistics, and technology, as well as process improvement and change management.
- Tax will employ dedicated tax IT, data and project management specialists who will develop, champion, and execute the tax technology and transformation strategies.

Tax teams require the skills to navigate an environment that is increasingly technology-enabled. The data skills needed are less about gathering and manipulating data and more about the analytics for making important decisions. Tax technical skills alone are no longer sufficient; tax professionals also require project management and the interpersonal skills to manage process improvement projects across functions and act as effective business partners and members of the overall team.



Survey

Across all global survey respondents, the following skills are considered most scarce in the market: technology & data management (28%), tax technical (19%), communication & process / risk / control understanding (each 16%).

The following skill attributes are ranked highest of what tax professionals must have and will need more of within the next five years: process / risk / control understanding (70%), technology (67%), communication (60%), project management (51), and tax technical (50%).

Let's dig deeper: Assessing options for change



PwC prediction

Process/ Organisation

- Most global tax preparatory compliance and reporting activities, including data collection and reconciliations, will be performed within the company's shared service centre or will be co-sourced with a third party.
- Tax will use real-time collaboration tools to automate their workflow, document management, calendaring, and internal controls.

Tax is undertaking initiatives to standardise and streamline operations, leveraging models that typically have been deployed by Finance and other functions. Increasingly, shared service models are being used to take on certain routine and data collection tasks within Tax. A shared services resource model or co-sourcing/outsourcing can result in direct cost savings. In addition, by shifting responsibilities within tax processes, more time can be focused on strategic analyses.

These process enhancements may be large-scale organisational changes or smaller tax process enhancements aimed at reducing cost and enhancing efficiency and effectiveness.




Survey

With respect to clear and coherent tax processes that operate efficiently, Tax organisations believe they may be just below level compared to their peers and their desired level.

Let's dig deeper: Assessing options for change


PwC prediction



Data

- The majority of Tax organisations will receive all information in a 'tax-ready format' from either their enterprise-wide financial systems or a dedicated tax data hub.
- Dedicated tax data hubs will become mainstream and be developed internally, licensed from a third-party vendor, and/or accessed through an accounting firm as part of co-sourcing arrangement.
- Data security will be high on Tax's agenda due to concerns over confidential information being inadvertently released or shared publicly.

How data issues are solved will shape process change, which in turn will drive the resource model and the opportunities for value-added activities that contribute more strategically to the business.



Survey

Are Tax and stakeholders receiving the outputs needed timely and in the format needed?

Under half (48%) of survey respondents said they receive data in a largely (33%) or fully (15%) tax sensitised/analysed format.



Tip

For technology transformation...

“start with data needed to support the overall tax strategy, then design processes around the data that you have available along with a plan to address the gaps and then look to people.”

Let's dig deeper: Assessing options for change

The cost/benefit analysis

Having evaluated performance gaps and challenges and assessed potential options using the target operating model framework, Tax needs to perform an analysis of cost versus benefit in selecting the solutions assessed.

If a business case is going to have any chance of being successful, it needs to clearly explain why the strategy is worth the investment from a business perspective. The cost/benefit analysis requires thought and very careful analysis. What options provide the 'biggest bang for the buck?' Although it may be straightforward to associate a financial cost and benefit to each targeted area for change, assessment of non-financial costs and benefits also is critical to the overall picture and case for change. This is not an assessment that Tax can make on its own.

Cost/benefit calculation example:

Year 1: The Tax Director of a FTSE 100 company engages a professional services provider to gather data needed to support the calculation of research & development (R&D) tax credits. The cost of professional services in the first year was £450,000 with credits generated in the amount of £3,000,000.

Year 2: The Tax Director considers undertaking a project to tax-sensitise the Company's source data to more easily identify and accumulate R&D expenses. A business case is developed to justify the implementation of a solution.

The cost of ERP /Technology consulting services is £550,000 and as a result of automation and enhanced quality of data, the Company projects that R&D credits would amount to £3,750,000 in Year 2.

Having evaluated future qualifying R&D activity and with an automated solution and improved processes in place, the Tax Director expects the Company to generate £3,500,000 in R&D credits for the following three years.

Over a 5 year period:

Total Corporate Tax benefit (£17,250,000 x 35%)	=	£6,038,000
Less: Total costs incurred	=	£1,000,000
Net tax benefit for the business case		£5,038,000

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Measurable areas of cost savings that some companies have seen include:

- driving better cash management;
- reduction in ETR;
- elimination of hours to perform certain compliance requirements;
- lower staff cost to perform preparatory tasks (e.g., shared service centre or co-sourcing with a third-party vendor);
- increased capacity by staff to perform more analytics and partner with business in providing a comprehensive review;
- ability to cross train, hire, and retain key staff, provide career progression, and reduce staff augmentation costs;
- elimination of software costs or other recurring expenses;
- decreased risk of penalties; and
- improved legal entity rationalisation, reporting and management.

In addition, non-financial benefits impacting the broader business include:

- enhanced collaboration with external stakeholders;
- alignment with overall enterprise or finance transformation efforts that leverage technology investments, new resource models such as shared services and elimination of redundant costs;
- strategic input into other key business areas such as new product/service development, and M&A;
- better engagement and control of risk leading to lower 'risk' ratings (depending upon the country) - this ultimately could result in reduced audit or investigation risk and lower penalty and interest costs;
- more certainty with respect to tax positions; and
- higher levels of employee engagement.

An example of tax transformation benefits

34%

Sample ROI for a larger multi-national organisation

16

Reduction in Tax FTE's to a Centre of Excellence (CoE) model

£2M

Annual direct cost savings expected for the Tax department as a result of transformation

47%

Recommended reduction in quantity of adjustments

Let's dig deeper: Assessing options for change

The roadmap for change

A key aspect of developing the business case for change is the establishment of a timeline with key milestones. Tax should articulate the solutions needed, how and when these changes would be implemented, and the key interactions required with other areas of the organisation.

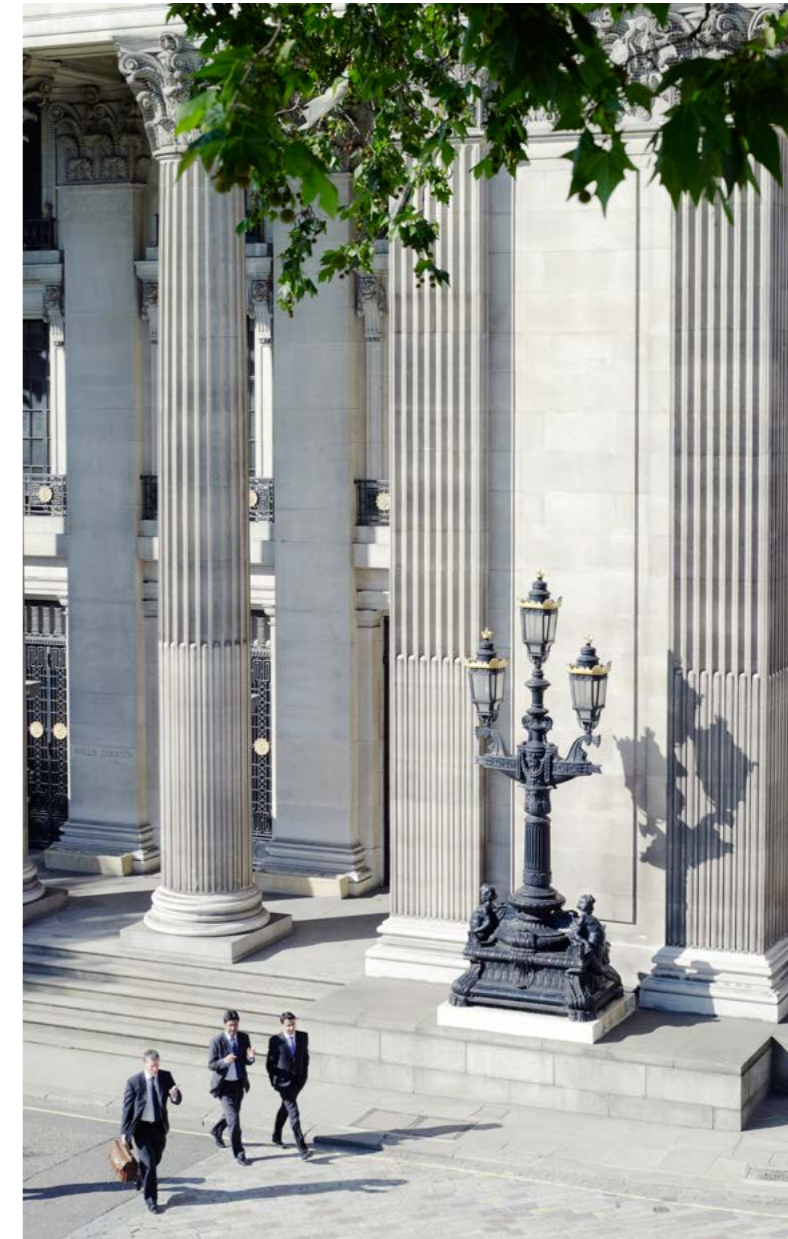


Tip

The biggest mistake Tax will make in performing cost/benefit analysis is using how it currently delivers against its baseline. Instead, Tax should use the anticipated cost of delivering what the business expects as its baseline, and then looking at how costs could be reduced or efficiencies gained.

The roadmap provides an organised approach that allows the business to manage phases of the strategy over time. This approach also allows the business to plan and address budget needs for future years and work with other internal functions to assess the consequences of the change on the wider organisation.

Another important aspect of the roadmap is the ability to align with organisation changes as they occur across functions. For instance, if a Finance transformation is planned for a certain time period, Tax's activities should be coordinated so that there is mutual benefit. Structuring the roadmap to coordinate with other key business initiatives with Tax impact is important in supporting the business case.

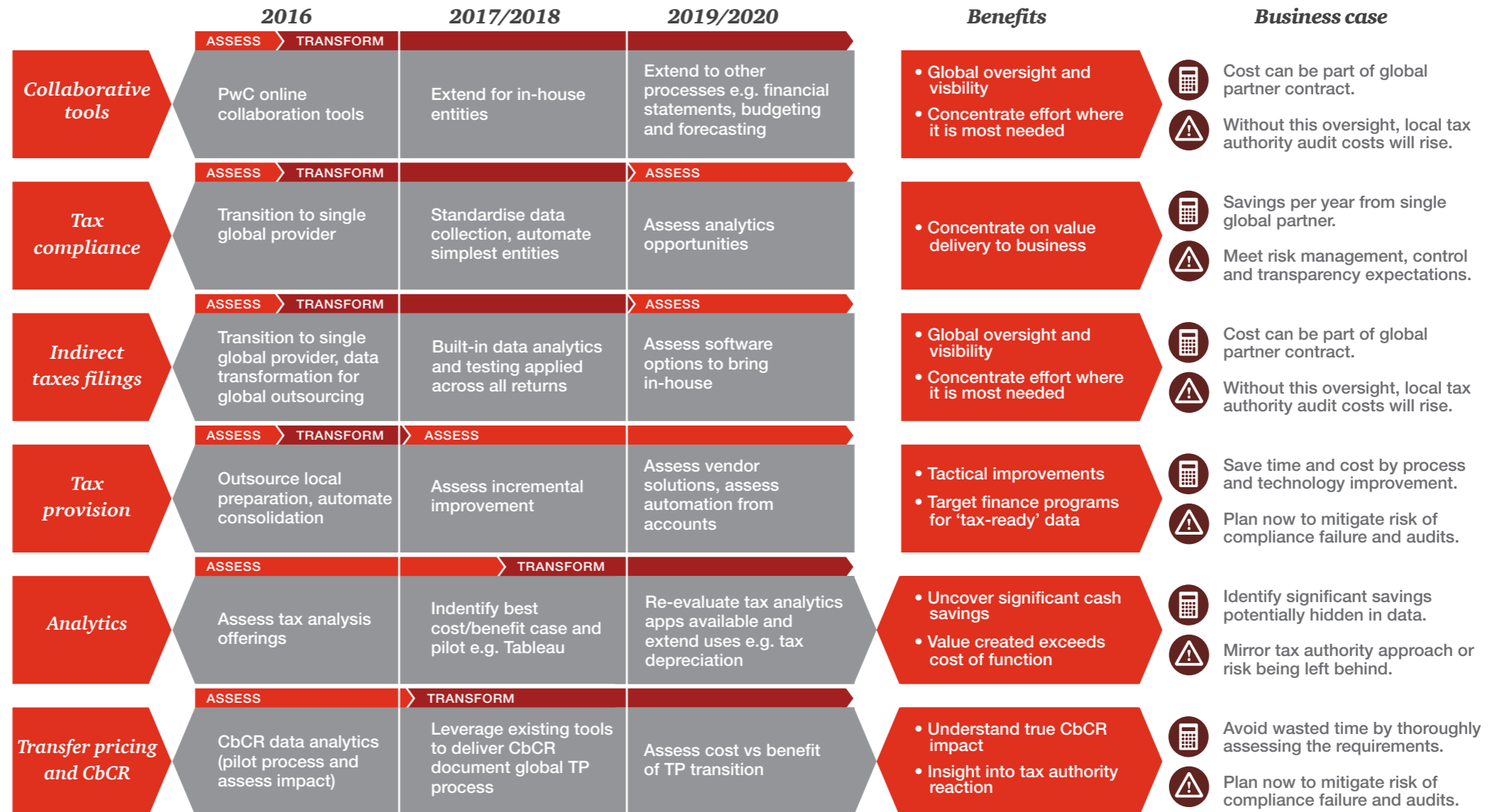


Let's dig deeper: Assessing options for change

Roadmap Example:

- An end state vision is the target under which all transformation roadmap activity is set. It describes how the tax function should look in the future. It also considers the people, process, technology and data required to make it happen. Finally, it takes into account existing skills, technology and change programs in Finance, IT and Risk functions.

Tax transformation - example of 5 year roadmap



Let's dig deeper: Structuring and presenting the business case for change

The structure

With a clear strategy and areas of focus identified for change, Tax is ready to build the business case to secure the buy-in and funding for the change. An effective business case should include the following components:

1. Project overview

- A summary of the existing landscape, including the general business context (and transformation events), the organisational tax position, the challenges, and how they intersect.
- An outline of the proposed initiative, the objectives, and how Tax meets them.

2. Strategic objectives and critical success factors

- An overview of the organisation's overall strategy, its tax strategy, and how its tax strategy is supported by the proposals for change.
- A description of the drivers of the need for change. This section should address the target operating model, gaps, risk management, tax law or practice changes, and efficiency of process and reduction of costs. The description also should provide an overview of the supporting analysis and the critical success factors.
- Details on how the particular proposals address the business and tax challenges, and how this is the most appropriate way of dealing with the challenges.
- An indication of the wider impact on the business including other teams, staff, and culture.

3. Project outputs and business outcome

- Description of the project in more detail, the timing of costs and targets for the benefits, and the measures used and how they will be generated. This should draw out the differences between the financial and the non-financial aspects of the project.
- Ownership and accountability for delivery.
- Major constraints on the project.
- Details of any major contracts or agreements with third parties – with a status of ongoing negotiation.

4. Project strategy and implementation approach

- Description of project management infrastructure, identifying the tiers of governance, timelines and key deliverables, scope management and change control, key resource needs, and the key project management roles.

5. Comparison of alternatives

- Alternatives considered and the associated evaluation as well as the consequences of doing nothing.
- Conclusion on why the proposed option is the most appropriate.

6. Stakeholders and responsibilities

- Definition of the roles and responsibilities for the ownership and delivery of all aspects of the business case.
- Identification of the business sponsor responsible for delivery of the primary objectives; the project manager responsible for the successful delivery of the project; and the key internal and external stakeholders (including their priorities).

7. Dependencies

- Impact on the rest of the business and other teams and the interaction with other key organisation projects and initiatives.
- Key third-party supplier dependencies.

8. Project risk and key assumptions

- Known risks to the project's success.
- Agreed-upon assumptions for project execution.

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The business case should be delivered to Tax's key internal stakeholders. Thus, if Tax reports to the CFO, the CFO would be among the first to review the solutions presented, as he or she is already familiar with the goals and objectives established for Tax. Other important internal stakeholders, including Finance, Operations, and IT, need to be included in the proposed change. This buy-in from other functions is essential either because their involvement is critical to the successful delivery or because they will be impacted by how Tax delivers. These groups need to understand and support the change, the overall tax strategy, and how they are contributing to the overall success of the organisation through their support of Tax.



The key stakeholders for Tax are senior management—with CFO first, CEO second, and corporate board third.



Heads of Tax recognise communication as the #1 skill for them and its importance will increase. Overall, Tax leadership spends most of their time on tax and business strategy and management of the team – their most important skills are communication (1st) and people management (2nd).

The delivery

Delivery of the business case will require Tax executives to demonstrate strong leadership, business partnering, and communication skills. Tax executives should consider their approach to presenting their case for change as they may not be addressing stakeholders with a comprehensive background in Tax. Executive communication skills – the ability to convey complex ideas simply without too much technical detail – are critical.

In addition, Tax executives will need to leverage their relationships with other functions to get their buy-in for the project. Influencing other functions to



Tax needs to be better at articulating the value that the Tax function brings to the wider business.

Tip

serve as members of the team can be achieved by focusing on the impact of the change at an organisational level. Most notably, tax executives should clearly articulate the value Tax brings to the wider business and how the proposed changes can benefit the entire organisation as opposed to presenting an isolated opportunity for Tax.



“I have spent a fair bit of time considering my approach and style for presenting my case to the executive committee. I asked about the personalities around the table and practiced my approach with a senior colleague.”

—Head of Tax, banking

Let's dig deeper: Building and presenting the business case for change

Monitoring and reporting results

After successful delivery of the business case, Tax needs to periodically measure and report on the effectiveness of its execution, the approach adopted, and choices made. Business sponsors and key stakeholders should be kept apprised of performance against the original business case and KPIs. A governance and review process should be in place to ensure that risk is managed and that there is alignment between IT and Finance budgeting processes.

Tax dashboards should be established for periodic review of agreed upon KPIs. Although dashboard solutions may vary, Tax should seek to use the best available technology, possibly leveraging solutions that already exist within Finance or other functions. Tax should utilise data analysis solutions that present results in a dynamic and compelling fashion, focusing attention on the Tax function and its operations.



Bringing it all together


The global tax landscape is changing rapidly, resulting in significant implications for the Tax function. In light of this challenging environment, organisations need to develop a clear strategy for Tax that is delivered effectively and measured by KPIs that are aligned with business goals, supported by a strong formalised business case. Where there are gaps in performance, Tax needs to develop a plan that addresses those gaps using a target operating model approach to technology, people, process/organisation, and data. With cost/benefit analyses and a manageable road map, Tax can communicate to stakeholders a compelling business case for change.

The Tax function cannot begin the transformation process without alignment of key stakeholders within the organisation. In order to obtain this backing, Tax will need to 'make its case' as to why now is the time to pursue change. Stakeholders will need to justify the additional budget and resources. Putting forth a clear case for all transformation activities and associated change management, should include a discussion about the strategic value the investment brings for the overall organisation.

Tax will no longer be 'ok' just maintaining the status quo. Our survey of global PwC tax clients indicates that enhancements in tax technology infrastructure, data

sensitisation, professional skill sets, and processes may become essential to performing even routine activities and addressing goals for managing taxes, risk, operational cost and effective internal and external communication.

It is important for Tax to not only understand the business, but help the organisation understand that what is occurring in other functions may be triggers for Tax. It also is important for Tax to educate other functions on how and why business changes and external demands have an impact on tax and the business. Collaborating and building relationships with other functions will enhance Tax's ability to successfully deliver the business case for change.

 *“One of the most important skills and the most lacking in Tax is communication, the ability to explain tax issues to non-Tax team members so that they can understand. Tax should spend more time listening, developing relationships and being helpful to other functions. Listening is key since it is important to understand issues fully in order to calibrate the appropriate actions. It's not just about the Tax agenda, it is about developing Tax people to be organisationally cognizant.”*

—Alex Peng, Emerson Electric

Bringing it all together

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As with most organisational transformation, change will not be immediate and will require a 3-5 year plan that should be revisited on an annual or semi-annual basis to allow adjustments for inevitable changes to priorities. Carefully considering the timing of solution implementation to accommodate budgets and other business activities is an important aspect of the business case. A well thought-out roadmap presents Tax as a function that is critical to the organisation, yet considerate of other needs and helps to set a positive path forward to change.



Predictions

The global predictions we present in this thought leadership series include the following. We hope they inspire Tax executives and team members to forge a new future vision for their Tax function.

Global legislative and regulatory landscape

- Global tax information reporting requirements (e.g., CbCR and similar transparency initiatives) will grow exponentially and will have a material impact on the operations and related budget allocations within the tax function.
- Regulators will demand transparency regarding global taxation, necessitating clear and thoughtful communications with public stakeholders about corporate contributions to the communities in which they do business.
- Information sharing will be commonplace among taxing jurisdictions, and taxing authorities will have the capability to mine data and conduct global audits, resulting in increased disputes.

Tax function's role in risk management and governance

- Many jurisdictions will legislatively require the adoption of a tax control framework which follows guidelines similar to Sarbanes-Oxley and COSO (Committee of Sponsoring Organisations of the Treadway Commission).
- Enhanced stakeholder scrutiny and reputational risk will force companies to continuously re-evaluate their tax decisions.

- Strategic focus on jurisdictional reporting and documentation of business activities, including transfer pricing, will be critical to managing the increased tax controversy resulting from transparency initiatives.

Data flow into the tax function

- The majority of tax functions will receive all information in a 'tax-ready format' from either their enterprise-wide financial systems or a dedicated tax data hub.
- Dedicated tax data hubs will become mainstream and be developed internally, licensed from a third-party vendor, and/or accessed through an accounting firm as part of a co-sourcing arrangement.
- Data security will be high on the agenda of tax functions due to concerns over confidential information being inadvertently released or shared publicly.

Technology automation for tax function analytical tasks

- More companies will use their enterprise-wide financial systems to prepare tax calculations (e.g., income tax accounting and indirect taxes), thereby replacing spreadsheets and/or traditional tax technology solutions.

- The vast majority of tax functions will rely on professional data analysis tools to assist in the decision-making process in areas such as detection of risk, opportunity identification, projections and scenario planning, and overall business support.

Tax function roles and processes

- Most global tax preparatory compliance and reporting activities, including data collection and reconciliations, will be performed within the company's shared service centre or will be co-sourced with a third party.
- Tax functions will use real-time collaboration tools to automate their workflow, document management, calendaring, and internal controls.

The tax professional of the future

- A successful tax professional of the future will be highly proficient in data analysis, statistics, and technology, as well as process improvement and change management.
- Tax functions will employ dedicated tax IT, data and project management specialists who will develop, champion, and execute the tax technology and transformation strategies.

Let's talk

Look for future publications exploring the Tax Function of the Future

To have a deeper conversation about how these issues and predictions may affect you and your business, please contact:

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