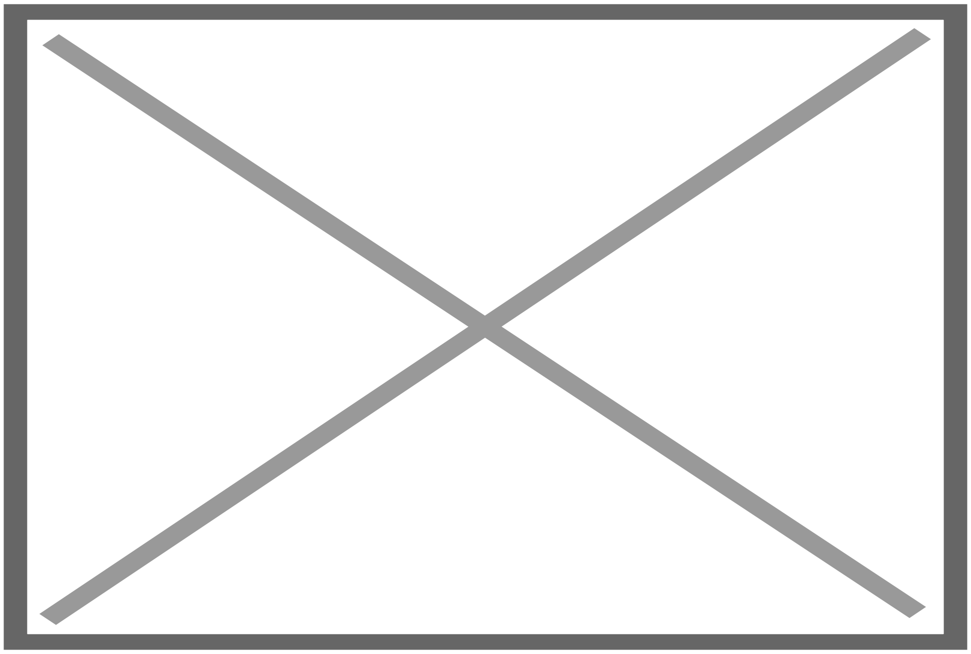
Sharing the load

Large Corporate Management of taxes



01 July 2021

Binka Layton considers the current trends in tax compliance outsourcing and best practice for implementing arrangements with service providers

Key Points

What is the issue?

Businesses can see tax compliance outsourcing as a disruptive event. There is thinking to do about whether it is the right decision for business, the benefits of such an arrangement and the processes that need to be undertaken to appoint a service provider.

What does it mean for me?

This article considers why businesses are now increasingly looking at tax outsourcing arrangements, and the best practice approach to identifying a service provider and managing the implementation of any change.

What can I take away?

Put simply, outsourcing arrangements can bring good governance and control on routine compliance matters to create long term value to the business.

Businesses can see tax compliance outsourcing as a disruptive event. There is thinking to do about whether it is the right decision for business, the benefits of such an arrangement and the processes that need to be undertaken to appoint a service provider. Outsourcing arrangements in this context refer to a third party outside of the business taking over the tax compliance and reporting preparation and delivery on a contract basis.

This article considers why businesses are now increasingly looking at tax outsourcing arrangements, and the best practice approach to identifying a service provider and managing the implementation of any change.

For the last decade, multiple megatrends in the business landscape have been disrupting ways of working and encouraging businesses to look at transformational opportunities wherever possible. For routine matters such as tax compliance, change has happened in an incremental manner, with the tax function looking at discrete technology, process improvements, and roles and responsibilities to work out compliance arrangements.

Following the global pandemic, many businesses are now rethinking the overall strategic objectives of their tax function. There is an increasing pace of change in the enforcement paradigms of tax authorities, which require real time data for tax returns and mandatory digital filing of returns. Group restructuring matters – such as acquisitions and divestments, new CFO appointments and wider stakeholders wanting a global view on tax compliance matters – are other reasons for reconsidering compliance models and operations. Outsourcing arrangements are seen as a practical way to manage these changes and help the tax function to do 'more for less' with the resources available.

Once the decision has been made to look at an outsourcing arrangement, a business will need to undertake a structured approach for the main work?activities to appoint a service provider.

Preparatory stage

The main drivers for outsourcing Being clear on the main drivers for outsourcing will achieve the desired outcomes envisaged from an outsourcing contract. For example, if the driver is visibility and assurance on compliance filings, one of the outcomes that businesses should expect is reporting on the tax processes in any one compliance cycle, including:

- how they are being progressed;
- the trends in country patterns for late filings; and
- data quality issues feeding into the tax returns.

Similarly, if businesses are seeking access to the latest legislative trends and updates in digitalisation of taxes, they should request reporting on any ongoing basis from the service provider, which will be more than an annual commentary on a country budget.

Choosing what to outsource Businesses will need to decide which elements of the tax compliance process to outsource. As an example, if the business wanted to optimise its accounting and tax model, then the full end to end processes starting with book?keeping to preparation of accounts and returns should be outsourced. If businesses have multiple service providers across several taxes and are seeking consistency in approach, they could consider consolidating those processes to one single provider.

Stakeholders

It is important to identify the stakeholders in the tax function and other stakeholders in the wider business that need to be involved in the selection process. In a tender process, it is typical to have the procurement team working alongside the tax function. Finance stakeholders are also involved as they are usually the point of contacts for data provision for accounts and tax returns.

Compliance delivery

Businesses will need to be clear about which elements of compliance delivery are important to them to set the selection criteria for the service provider. In practice, there is no one answer and set criteria can range from the cost of service provision to identifying transformation opportunities in the compliance delivery.

The market trends for transformation have been growing in the recent past as businesses use the global reset to think of better alignment of tax function objectives to the wider business. These can range from understanding how better to complete tax returns in an automated manner to bringing wholescale process efficiencies and better governance structures for identifying and managing material tax risks.

> Following the global pandemic, many businesses are now rethinking the overall strategic objectives of their tax function.

Supplier meetings and evaluation stage

The evaluation stage by business can be in phases with a request for information being the first phase, followed by the request for a proposal. The recent trends in outsourcing show the request for information being popular, as it helps businesses to obtain value propositions, capability and expertise of the service provider before shortlisting to the pricing and scoping of services.

Businesses, however, need to get ready with background information and outsourcing requirements for both phases, which can involve a number of activities to work through.

Data gathering

Gather data on business background facts and build a compliance inventory of the elements that are to be outsourced. This may seem like a simple step but, in practical terms, it is much more complicated and potentially time consuming. It means pulling data on country and entity details, capturing known past issues on compliance difficulties, and the list of returns to be outsourced, along with the contact details of persons to liaise with the service provider.

Tender document

Write a tender document that is clear in outline and allows for an easy comparison of responses from providers. This should specify:

- the scope of the outsourcing arrangements;
- the term of the contract;
- the expectations of the business under the arrangement;
- pricing information at a granular level on an entity and filing basis;
- details of the service provider’s expertise; and
- team details.

Timelines for submission and details of the evaluation process should be set out clearly. In practice, depending on the business profile, it is typical to have three to a maximum of five service providers in any tender process. Obviously, the more service providers that are involved, the greater the time and effort required by the organisation in the selection process.

Meeting selected service providers Hold meetings with the selected service providers and test submitted responses against the selection criteria and objectives. This is usually in the form of a presentation. Second round questions and meetings are also common after this stage.

Selection stage

Following internal consultation, the business should appoint the chosen service provider. The rationale for the appointment and the expectations from that business partnership, should be communicated within the business.

The steps to appoint the service provider as set out above can take between three and 12 months (depending on the size, scale and complexity of the tender) and businesses should consider this carefully as it requires precision and planning.

With the appointment of the service provider, it is imperative to ensure a smooth transition to the new outsourcing arrangements. Businesses often perceive this phase to be difficult with disruptions taking place in the current ways of workings. However, where businesses are stretched for time and resources or have other priorities, it is common for any incumbent provider(s) and the new service provider to work closely together. Either way, this phase is a critical aspect in establishing the overall framework of working and therefore, worth time and effort from all parties.

The priority is for business to transfer knowledge to the new service provider in a logical manner. Rigorous documentation is needed to capture processes and discussion points on entity and compliance complexities. In practice, the documentation can be as detailed as process maps of who does what, from data provision to return submission.

Whilst undertaking transition, there should be clarity on cut over dates of service commencement, as the danger in any change is that filings get missed. In practice, it is typical to draw up a compliance inventory which comes from the tender process and then to validate that with the new service provider. It is typical to see scope changes at this point; for example, identifying new filing obligations in countries, or where local statistical and supplementary forms are required for core tax returns. Similarly, if corporate income tax (CIT) payments are scoped as part of the CIT return preparation – and it is identified that the profit forecasts are such that there are no advance payments – scope decrease would be in order.

> Transition activities can ‘add value’, as this can allow businesses to identify potential transformational opportunities to partner with the service provider.

Where country risk areas are known, businesses could consider tailored approaches to transition. In practice, goods and sales tax or VAT returns can be undertaken as ‘dry runs’ – where a return is prepared by the service provider in parallel to the business/outgoing provider. Checks are then performed by the business as part of the review and approval process.

Transition activities can ‘add value’, as they can allow businesses to identify potential transformation opportunities to partner with the service provider. Such activities can range from discrete opportunities in the actual preparation of the tax returns to large scale new technology implementation. Service providers will document the findings from the review of the returns in a standard checklist, in order to discuss and agree the material areas that could benefit from adopting a revised approach; for example, amending tax returns for missed tax credits and incentives.

Another trend is in VAT return preparation, where global technology solutions are increasingly positioned in response to the digitalisation and pre?population of data in returns.

There should be a clear governance framework and escalation path for queries and potential issues faced by service providers. Typically, the governance is set out in a structured approach, starting with a transition kick?off meeting between the parties to agree key activities and milestones, the ongoing monitoring and review phase to a final transition meeting to sign?off on the compliance activities being taken over.

There is no set timeline within which transition activities should be concluded but it is typical to expect this phase to be between three to six months depending on scale, breadth and complexity of the outsourcing services to be transferred.

Benefits of outsourcing Outsourcing arrangements can bring several benefits to the tax function:

- Do ‘more for less’: free up people to focus on tax advisory and more strategic matters with the outsourced provider taking on the more routine compliance work.
- Stay ahead: the outsourced provider can bring insights from the compliance data and upcoming legislative changes.
- Achieve wider ‘strategic objectives’: identify transformation opportunities to improve data quality for returns, identify tax risks and benefit from the systems and technology investment that the outsourced provider has made. Service providers, for example, may have established onshore and offshore specialist staff to deliver a cost competitive compliance model often underpinned by technology applications.

Put simply, outsourcing arrangements can bring good governance and control on routine compliance matters to create long term value to the business.