



**TEI - Dallas, TX**

# **ERP Systems: Integrating Tax from Record to Report**

Raffi Markarian, Deloitte Tax LLP

August 23, 2011

# Agenda

What is an ERP and what are the implications for tax

ERP stages & implementation phases

ERP Integration:

- Direct Tax
- Indirect Tax
- Audit Support

Evolution of tax record-to-report

Summary of key points

Questions & answers

What is an ERP and what are the implications for tax

# What is an ERP?

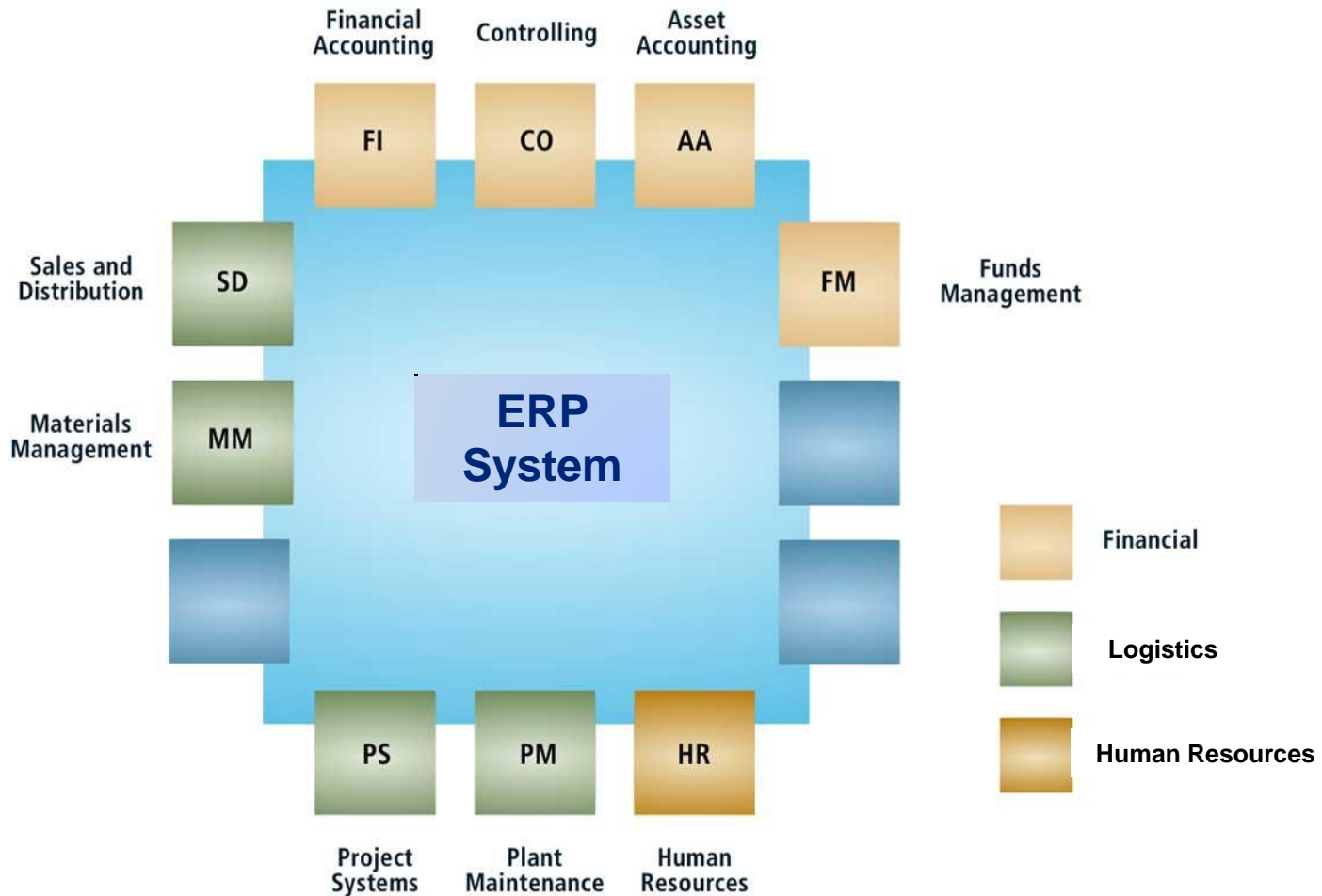


## ERP vendors include:

- SAP® (SAP® ERP)
- Oracle® (Oracle® ERP, PeopleSoft and J.D. Edwards),
- SSA Global™ (Baan)
- Lawson™ (Lawson™ ERP)
- Microsoft® (Dynamics)

# What is an ERP?

Modules include support for manufacturing, order entry, accounts receivable, accounts payable, general ledger, purchasing, warehousing, transportation and human resources

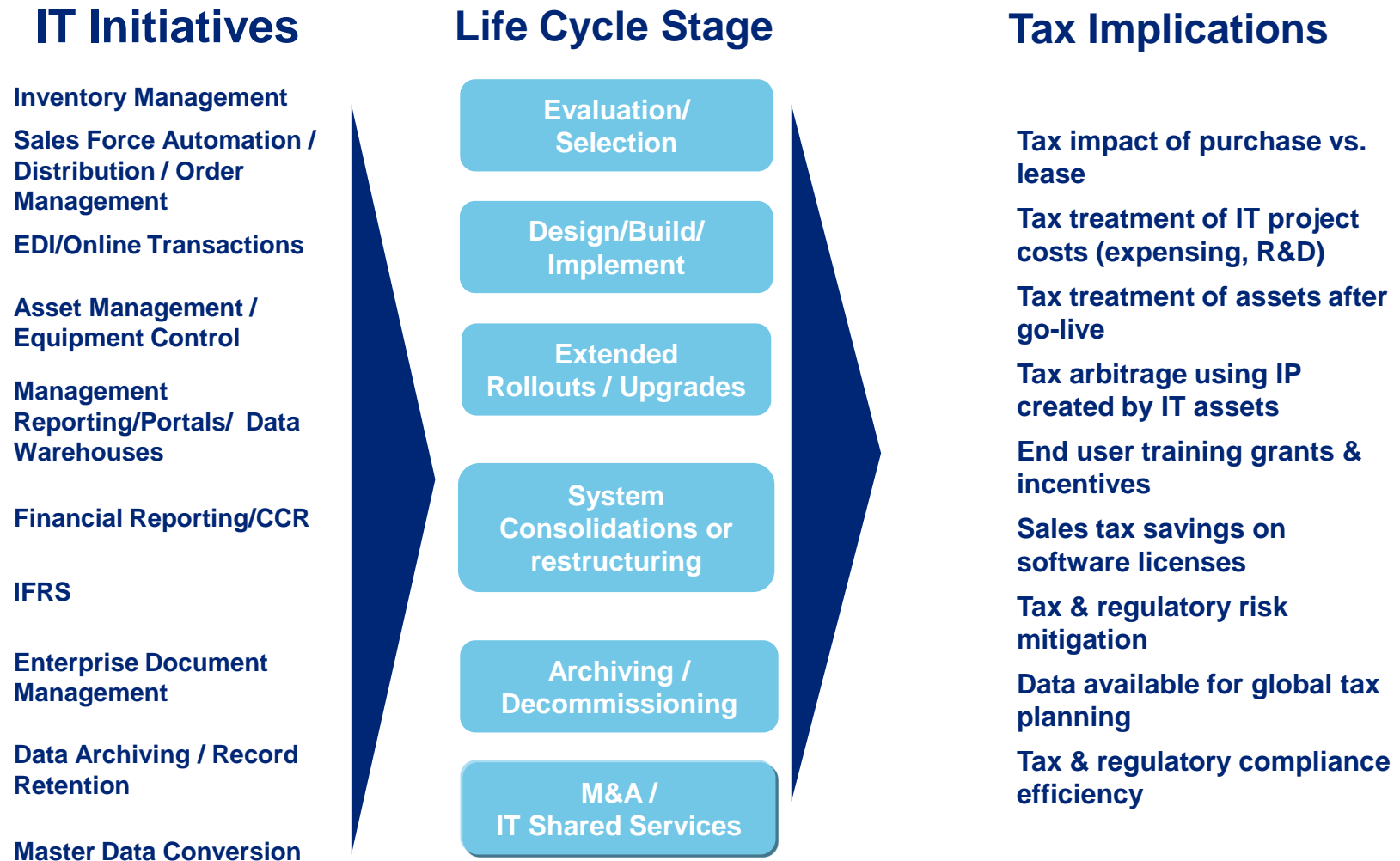


# What are the implications for tax?

Due to the integrated nature of how an ERP functions, tax requirements and consequences must be considered and addressed for the following areas:

- Legal Entity Structure
- Finance / General Ledger
- Treasury
- Sales - trade and inter company
- Purchasing – (trade and inter company, inventory and expense)
- Fixed Assets
- Inventory management (plants, warehouses, storage locations)
- Global Logistics (customs duties / import and export VAT)
- Master Data (customer, vendor, material, cost centers, etc.)
- Statutory Reporting
  - Returns Preparation Strategy (Internal vs. External)

# Beyond ERP: Broader IT Strategy



Methodology to analyze, validate and quantify company-specific tax and regulatory benefits.

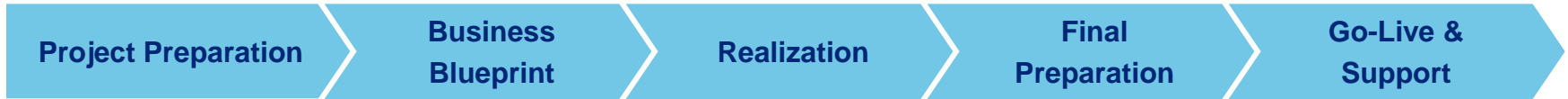
Getting in the game early

# Key considerations for a successful ERP tax implementation

- Understanding the project timeline and scope
- Negotiating a “seat at the table”
  - Key benefits / value proposition
    - Effective tax management approach that’s scalable
    - Alignment of data, technology, process, and people
    - Increase accuracy / reduce exposure and risk
    - Tax processes that are efficient and integrated, end to end
    - Sound audit defense, clear transparency and controls
- Partnering with integrated functions and organizations
- Understanding ERP capabilities and constraints
- Legacy Audit Support

# Resource planning/meeting project demands

**Tax support is required during all ERP project phases!**



## Tax involvement can include...

- |  |  |
|--|--|
| Developing business process flows                | Defining legal structure                   |
| Defining tax accounting procedures               | Defining country specific tax requirements |
| Documenting reporting requirements               | Transaction results testing / validation   |
| Defining data standards and controls             | Change management / training activities    |
| Analyzing trading flows, expected tax results    | Deployment activities                      |
| Data requirements on forms (i.e. Invoices, etc.) | Security and Controls                      |

## Resource Options:

- Augment existing staff to dedicate tax knowledge resources to project activities
- Outsource specific project activities to a third party

Leveraging technology  
(direct and indirect tax)

# Why should tax be involved?

- A tax sensitized ERP solution should allow the Tax Function to realize tax benefits that are currently unavailable due to system or data availability constraints.
- Example ERP Tax Design Principles
  - Technology landscape allows for a global governance model across all tax processes
  - Financial reporting is inclusive of tax and statutory requirements
  - Tax relevant data is consistent across financial applications
  - Finance applications will support or incorporate automated tax decision processing

# Where does tax need to be involved?

As every financial transaction has an eventual tax impact, all ERP modules should involve some level of Tax Function involvement.

Tax Process	ERP Impacted Area*								
	GL	SD	AR	MM	AP	FA	PJ	HR	DW
Tax Financial Reporting	X	X	X	X	X	X	X	X	X
US Tax Compliance	X	X	X	X	X	X	X	X	X
Research and Development	X	X	X	X	X	X	X	X	
Section 199	X					X	X	X	
Non-US Tax Compliance	X	X	X	X	X	X	X	X	X
Tax Audit Defense	X	X	X	X	X	X	X	X	X
Transfer Pricing	X	X	X	X	X				
Tax Planning	X	X	X	X	X	X	X	X	X
Customs and Duties	X	X	X	X	X	X			
Tax Budget and Forecasting	X	X		X					
Fixed Assets	X	X		X	X	X	X		

## FACTS

*Tax departments are one of the largest consumers of financial data*

*Approximately one third of “material weaknesses” reported are attributable to Tax*

*In most cases, taxes represent the single largest expense after cost of sales*

\*GL – General Ledger, SD-Sales and Distribution, AR – Accounts Receivable, MM – Materials Management / Purchasing, AP – Accounts Payable, FA – Fixed Assets, PJ– Project Systems, HR – Human Resources, DW – Data Warehouse & Reporting Tool(s)

# Direct tax out-of-the-box expectations

What native functionality should tax expect from an ERP?

The short answer is **None!**

## The Tale of Two Implementations

### ABC Implementation

Results:

- No Tax benefits achieved
- Does not support tax legal entity reporting
- No fixed asset tax functionality
- Taxable income difficult to calculate/reconcile
- Difficulty complying with IRS source system data requests

### Implementation Factors

- Same ERP
- Same Industry
- Same Integrator
- Same Timing
- Same Cost

### XYZ Implementation

Results:

- Tax benefits realized (Value Case)
- Tax legal entity level reporting
- Automated fixed asset tax functionality
- Automated taxable income feed from ERP to income tax application
- Accounting data warehouse used by Tax

# Tax Requirements: ERP Design Related

- Legal entity reporting: US and non-US
- Tax level granularity (e.g. Chart of Accounts)
- Local currency reporting
- Potential sub-consolidations
- Reconciled inter-company transactions
- Jurisdictional attributes (country, state, locality)
- Business processes (buy/sell, commission agent, 'Hubco', transfer pricing, etc.)
- Flexibility
- Transparency (financial accounting to tax reporting)

# Tax/ERP Intersection Points

## Financial Processes & Modules

### ERP Capabilities

- G/L
- A/P
- A/R
- Purchasing
- Asset Management
- Projects
- Budgets
- Expense Tracking
- Treasury
- Cash Management

### Tax Needs

- **Transactional Taxes**
  - Sales tax calculations
  - Use tax processes
  - Tax matrix
- **Federal/International**
  - Legal entity P&L/BS
  - Book/tax description
  - G/L on dispositions
  - Intangibles/ amortization
  - Financial derivatives
  - Sched. M-1/M-3
  - 1120 line items
  - E&P specific items
  - AMT specific items
  - NOLs
  - Purchase Accounting
  - Foreign source income
  - ETI/FTC/5471 Adj.
- **State/Local**
  - Apportionment factors
  - State depreciation
  - Other state items
  - Transfer pricing
- **Property Taxes**
  - Real and personal
  - Like kind exchanges

Master Data  
Org Structures  
Transactional  
Detail

## HR Processes & Module

### ERP Capabilities

- HR management
- Benefits
- Pension
- Payroll
- Stock administration

### Tax Needs

- State apportionment
- Compensation/benefits
- Tax deductibility issues
- Schedule M-1s
- Special tax credits
- Employee benefits
- 1099

## Sales & Distribution / Order Management

### ERP Capabilities

- Order entry
- Order management
- Billing
- Inventory
- Order promising

### Tax Needs

- Sales, use taxes
- State apportionment
  - Inventory
  - Sales
- Bad debts
- Warranty accruals
- Commissionaire/buy sell
- Transfer pricing

# Tax/ERP Intersection Points

## Materials Management

### ERP Capabilities

- Purchasing
- Payables
- Inventory
- Expenses
- Asset Management

### TAX Needs

- Use Taxes
- Inventory Valuation–LIFO/FIFO
- Depreciation
- State Apportionment Factors
  - Fixed Assets
  - Inventory
- Uniform Capitalization
- Property Taxes

## Production Planning

### ERP Capabilities

- Product Cost
- Inventory
- Procurement

### TAX Needs

- Inter-company Sales
- Inventory LIFO/FIFO
- Standard Costing
- Uniform Capitalization

## Procurement

### ERP Capabilities

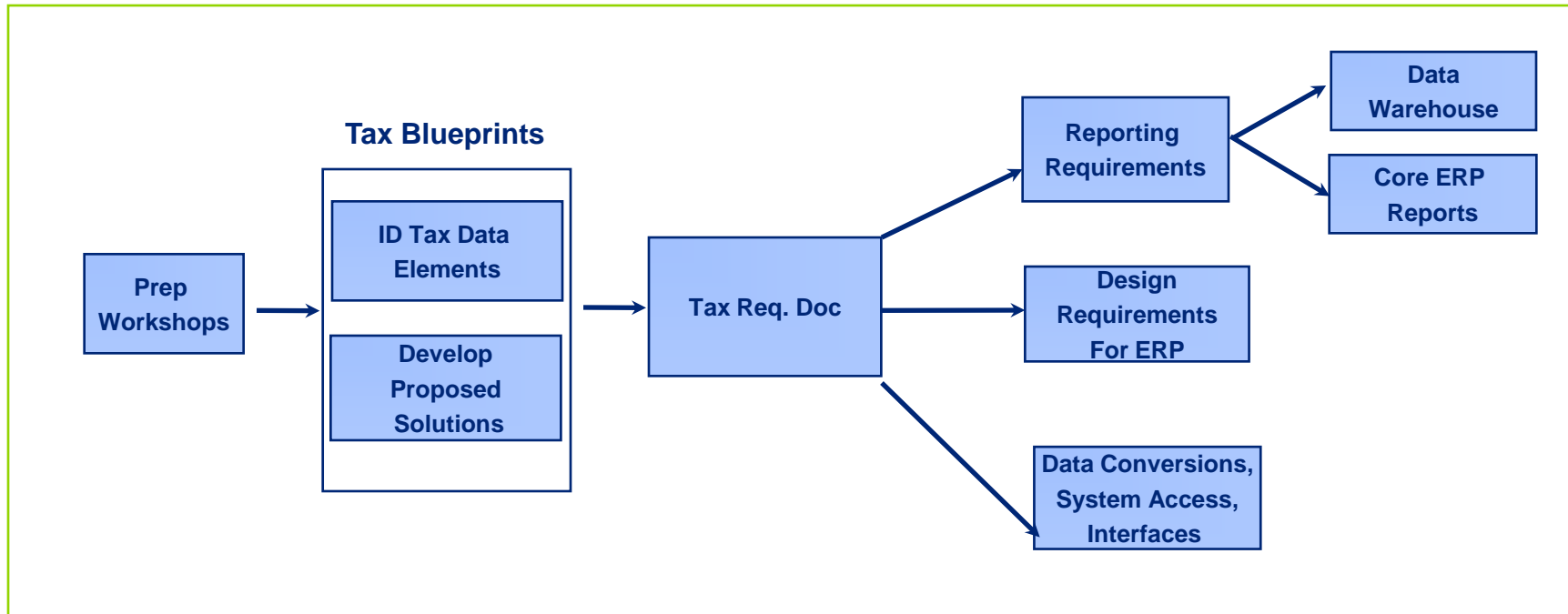
- Purchasing
- Inventory
- A/P
- Expenses
- Asset management
- eProcurement

### TAX Needs

- Expense Reporting
- Use Taxes
- VAT Taxes
- Expensed Assets
- State Apportionment Factors
- Property tax

# Tax/ERP Integration Approach: Blueprinting

Tax Data Blueprints are the “starting point” for defining tax critical data and other implementation requirements.



# Indirect tax out-of-the-box expectations

## Indirect Tax rates and rules

- ERP solutions are not delivered out-of-the-box with support for indirect tax rates and rules
- ERP solutions do support the following:
  - Ability for tax rates and rules to be configured and maintained within the ERP
  - Ability to integrate with third-party tax engines to leverage tax rates and rules provided by a third party.

**Important!** In the event you already have a third party tax engine supporting your existing processes, it is not a plug-n-play exercise to connect with the new ERP solution. Significant design will have to occur to integrate the existing application with the new ERP processes.

## Indirect Tax reporting

- ERP solutions are delivered with a standard selection of Indirect Tax reports. However, these reports should be thoroughly evaluated to determine if they will address your organization's needs prior to final acceptance.

# Indirect tax - Country scope considerations

## US Deployments

For companies with nexus in multiple US states, the standard is to integrate with a third party tax engine. This is due to complexities in managing tax content for over 8,000 U.S. taxing jurisdictions.



## Non-US Deployments

Countries outside of the US have significantly different tax regimes and reporting requirements than the US. These requirements vary from country-to-country and will require additional tax data planning and support. Examples include Brazil, India, Argentina and European Union countries.

Understanding the differences and complexities early in the ERP planning phase should allow tax leadership to:

- a. develop a global indirect tax approach
- b. provide sound guidance to the business when developing country deployment strategies

# Indirect tax – Native ERP vs. Tax bolt-on

What is the right global indirect tax solution for your situation?.



## Factors to be considered:

- Number of countries to be deployed
- Tax complexity / change frequency of countries to be deployed
- Breadth of product / service mix
- Exemption certificate management
- Complexity of supply chain
- Tax research cost / bandwidth
- Ongoing support cost / capabilities

## Third Party Bolt-on Solutions

- ONESOURCE® Indirect Tax (Thompson Reuters)
- Sales Tax Office (CCH)
- Taxware Enterprise (ADP)
- Vertex® Indirect Tax O Series (Vertex®)

Each solution offers various strengths and constraints

Each should be thoroughly evaluated from a technical and functional perspective

**Important:** Include your IT organization in the solution evaluation process! Their opinion matters as they will support you and the solution ongoing.

# Indirect tax – Native ERP vs. Tax bolt-on

- **Define required solution capabilities**

- **Business Requirements**

- Standard content (Jurisdictions, Tax rates and rules, Tax Types, Tax Authorities)
    - Extended Capabilities (i.e. Custom Authorities)
    - Supported Products and Services
    - Reporting Capabilities
    - Reconciliation Capabilities
    - Transaction Volume Processing

- **Technical Requirements**

- ERP Integration Capabilities
    - Supported Platforms (Unix, HP, Linux, etc..)
    - User Interface (Web Based)
    - Multiple Client Support (Multiple ERPs)
    - Load Balancing
    - Performance Requirements
    - SLA Requirements

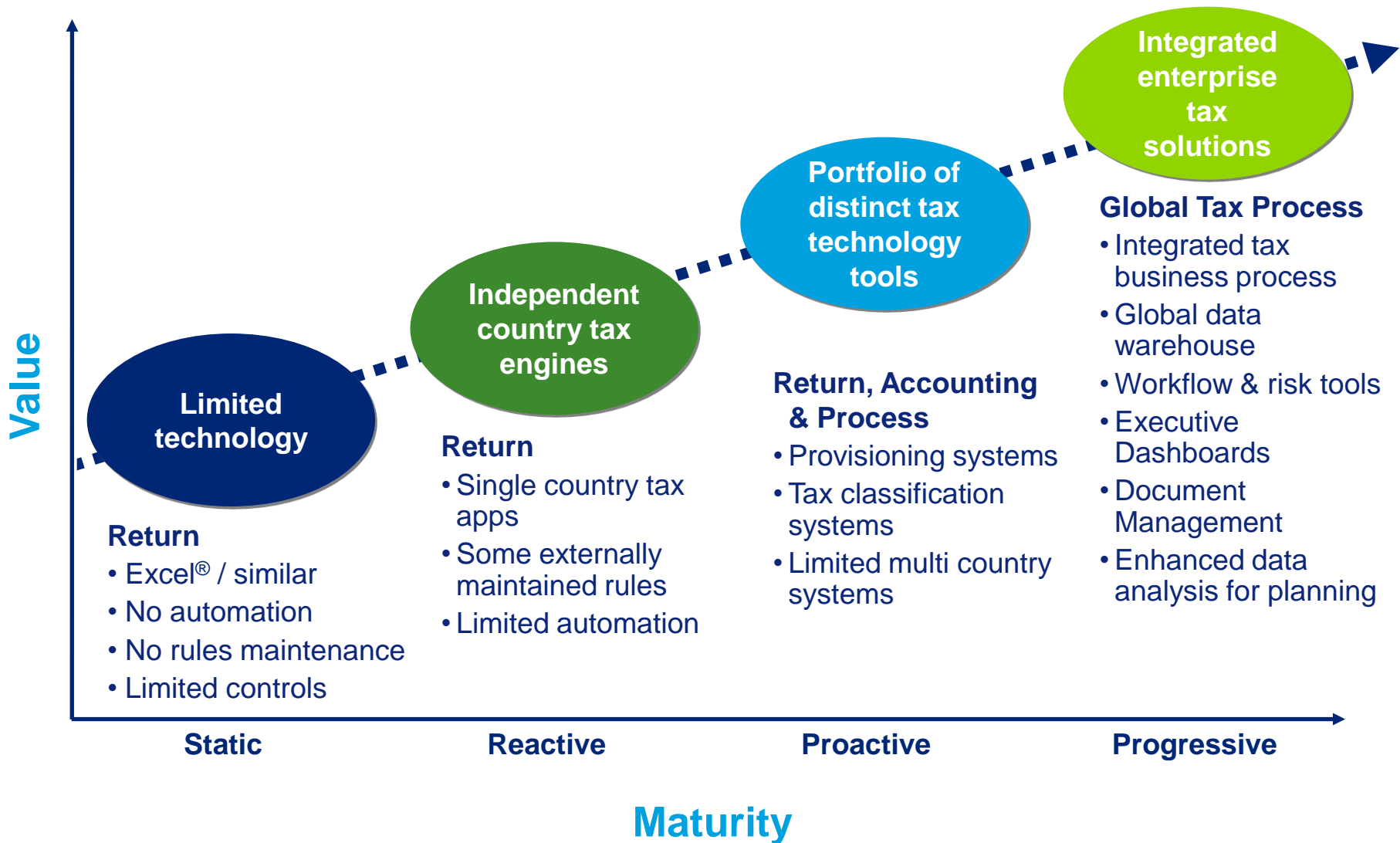
# Evolution of tax record-to-report

# Capability Maturity Model

## Tax Accounting and Compliance Processes

Stage 1 Minimum	Stage 2 Developing	Stage 3 Defined	Stage 4 Advanced	Stage 5 Leading
<ul style="list-style-type: none"> <li>■ High degree of reliance on manual based spreadsheet software driven processes.</li> <li>■ Tax department only has limited access to financial data.</li> <li>■ Tax data is manually verified for input into the tax accounting system or calculation.</li> <li>■ Tax data must be manually analyzed and adjusted prior to being utilized.</li> </ul>	<ul style="list-style-type: none"> <li>■ Tax processes are functioning reliably and are being maintained by manual means at their current levels.</li> <li>■ Manual creation of flat files.</li> <li>■ Limited views and reporting capabilities.</li> <li>■ Tax department has access to more detailed data</li> <li>■ Data is reliable only after some manipulation before being used.</li> <li>■ Tax technologies in place are not properly configured for utilization of available features.</li> </ul>	<ul style="list-style-type: none"> <li>■ Processes and products conform to a standardized format.</li> <li>■ Materiality levels are consistent and are reduced for non value-added reconciliation and review.</li> <li>■ Automated interfaces are utilized between source and compliance systems.</li> <li>■ Tax accounting processes share the results with the tax compliance processes.</li> <li>■ Data is available to the tax department at both the transaction and summary level.</li> <li>■ Data structures have been tax sensitized to allow for quick and reliable retrieval and automation book to tax adjustments.</li> </ul>	<ul style="list-style-type: none"> <li>■ Automation provides for faster access to information.</li> <li>■ Tax has more reliable data and reduced reconciliation efforts; allows more time for exploring potential tax savings opportunities</li> <li>■ Data structure can accommodate changes in entity structures for planning purposes and real-time scenario analysis.</li> <li>■ Methods are consistent from Provision to Return.</li> <li>■ Compliance has more reliable data and reduced reconciliation efforts; allows more time for exploring potential tax savings opportunities</li> </ul>	<ul style="list-style-type: none"> <li>■ Integrated process, structure, and technology supports tax information and audit documentation.</li> <li>■ Chart of accounts set up to permit capture of transactions used during tax lifecycle.</li> <li>■ Shared vision for information, data, and knowledge capital utilization from review to value-added analysis.</li> <li>■ Structures defined to aid aggregation of legal entities across modules.</li> <li>■ Live audit trail is in an electronic format with drill-down capabilities.</li> <li>■ Central access to complete set of financial data at the consolidated level with drill-down capabilities.</li> </ul>

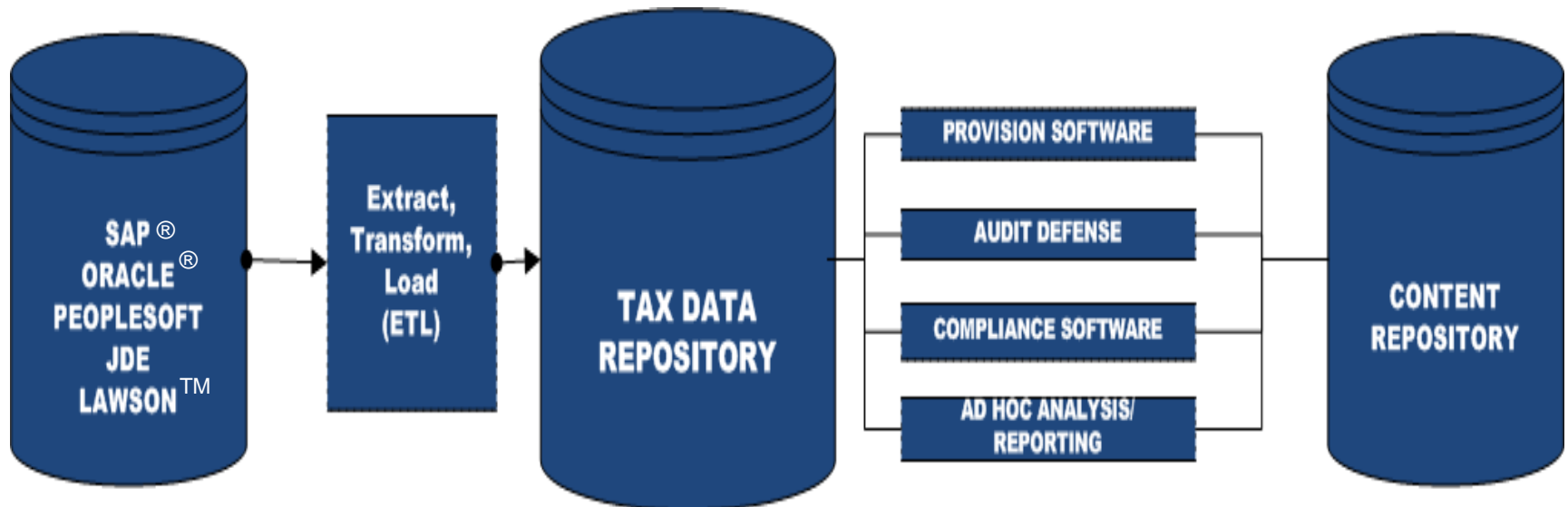
# Enhancing value through evolving technologies



# Tax data repository (TDR)

A Tax Data Warehouse is a complete enterprise data warehouse (EDW) that can improve an organizations performance and revenue collections.

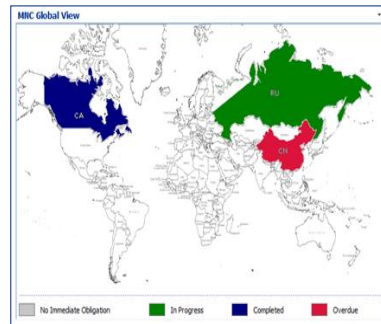
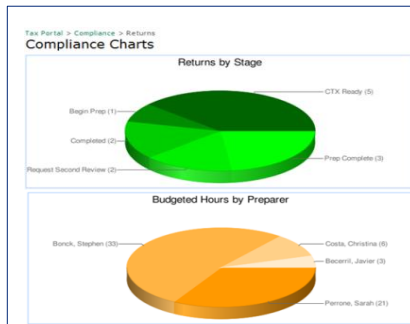
It brings together all tax information for tax compliance, decision support, ad-hoc analysis and reporting.



# Additional considerations

## Tax Portals create efficiencies:

- Manage data from multiple sources
- Providing real-time reports
- Support dashboards
- Tracks KPIs for management
- Efficient and effective collaboration
- Quick access to work papers and files



Transactional Plan for Jakarta\_Restructuring

Back to [Opportunities Dashboard](#)

Go to [Operational Plan Dashboard](#) for Jakarta\_Restructuring

To **sort** the dashboard, please click on the specific **column heading**. To go to detail level of a specific Macro Plan please click on **□**

Step	Title	Status	Task Status	Priority	% Task Complete	Owner	Assigned To	Due Date	Past Due	Comments
1.0	Cash is transferred to Parent Corporation	✓	Completed	Normal	100%	Bonck, Stephen	Bonck, Stephen	3/28/2010	-	
2.0	A new company is formed.	✗	In Progress	High	100%	Bonck, Stephen	Gupta, Adresh	4/8/2010	75	
3.0	New name is selected for entity.	✗	In Progress	Normal	100%	Bonck, Stephen	Costa, Christina	4/17/2010	66	
4.0	Establish general ledger for new company.	✗	Not Started	Normal	100%	Bonck, Stephen	Perrone, Sarah	4/17/2010	66	
6.0	Establish board of directors.	✗	Not Started	High	100%	Bonck, Stephen	Gupta, Adresh	4/4/2010	82	

Transactional Dashboard Legend

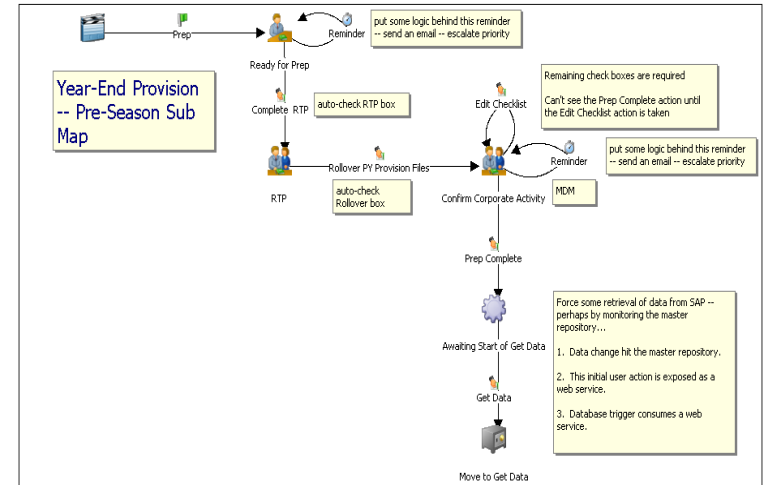
## Dashboards provide users with intuitive visual indications of:

- Global effective tax rate
- High level process status
- Resource utilization
- Transparency into a process
- Data integration from sources to create management views and reports

# Additional considerations (cont.)

Work Flow reduces risk:

- Standardizes and enforces compliance for key processes, tasks and signoff
- Protects IP around process and tasks. If key staff disappears, IP does not.
- Provides transparency to status of key processes



Deloitte Tax Portal

Tax Portal > Tax Document Library

Tax Document Library

List of documents for the Tax Department

Sites: Tax Portal, Planning, Compliance, Provision

Filters: Tax Year, Process, Subprocess, Document Type, Period, Entity, Country, Segment, IRS Code Section, FASB Rule / ASC Codification, Tax Audit Cycle, Opportunity

Modified: From: To: Submitted By:

Apply Filter Clear Filter

To sort the documents please click on the specific column heading.

Type	Version	Name	Tax Year	Segment	Approval	Collect Feedback	Created By	IRS Code Section	Process	Document Type	Subprocess	Entity	FASB Rule / ASC Codification
0.9	20091119	Doc Mgmt Strat Plan v0 01.doc	2008	All			Gupta, Adish		Provision	Effective Rate Schedule/Country Models			
0.1		Clark Bi-weekly Standing Agenda		All			Bank, Stephen						
0.6		Executive Summary	2012	All	In Progress		Costa, Christina		Provision/Planning	Correspondence		Corporation - Corporate	24
0.3		Ries 20100329	2012	All			Costa, Christina	332	Compliance	1099 Reporting Records	US - State and Local	Corporation - Commodities	160
0.1		New Training	2010	EMP			Perrone, Sarah		Provision	Memorandums	Special Projects/Return to accrual	Limited	

Document Management Saves time and effort and reduces risk.

- Centralized document management
- Version control management
- Consistent process of managing documents
- Enhanced audit support

# What is Cloud Computing?

“...a style of computing where massively scalable IT-enabled capabilities are delivered as a service to external customers using internet technologies.”

*Robert P. Desisto, Daryl C. Plummer, David Mitchel, Gartner Analysts*

# Cloud computing can be grouped into several types of services based on their characteristics

Cloud computing technology is deployed in three general types, based on the level of internal or external ownership and technical merits

<b>Public Cloud (External)</b>	Cloud computing services from vendors that can be accessed across the Internet or a private network, using systems in one or more data centers, shared among multiple customers, with varying degrees of data privacy control. Sometimes called “public” Cloud computing.
<b>Private Cloud (Internal)</b>	Computing architectures modeled after vendor Clouds, yet built, managed, and used internally by an enterprise; uses a shared services model with variable usage of a common pool of virtualized computing resources. Data is controlled within the enterprise. (Note: there can be the equivalent of a private Cloud provided by an external source and will be discussed later in the discussion.)
<b>Hybrid Cloud</b>	A mix of vendor Cloud services, internal Cloud computing architectures, and classic IT infrastructure, forming a hybrid model that uses the best-of-breed technologies to meet specific needs.

# Major Cloud computing categories: Infrastructure, platform and software services

## Cloud computing categories can be segmented by type into specific functions

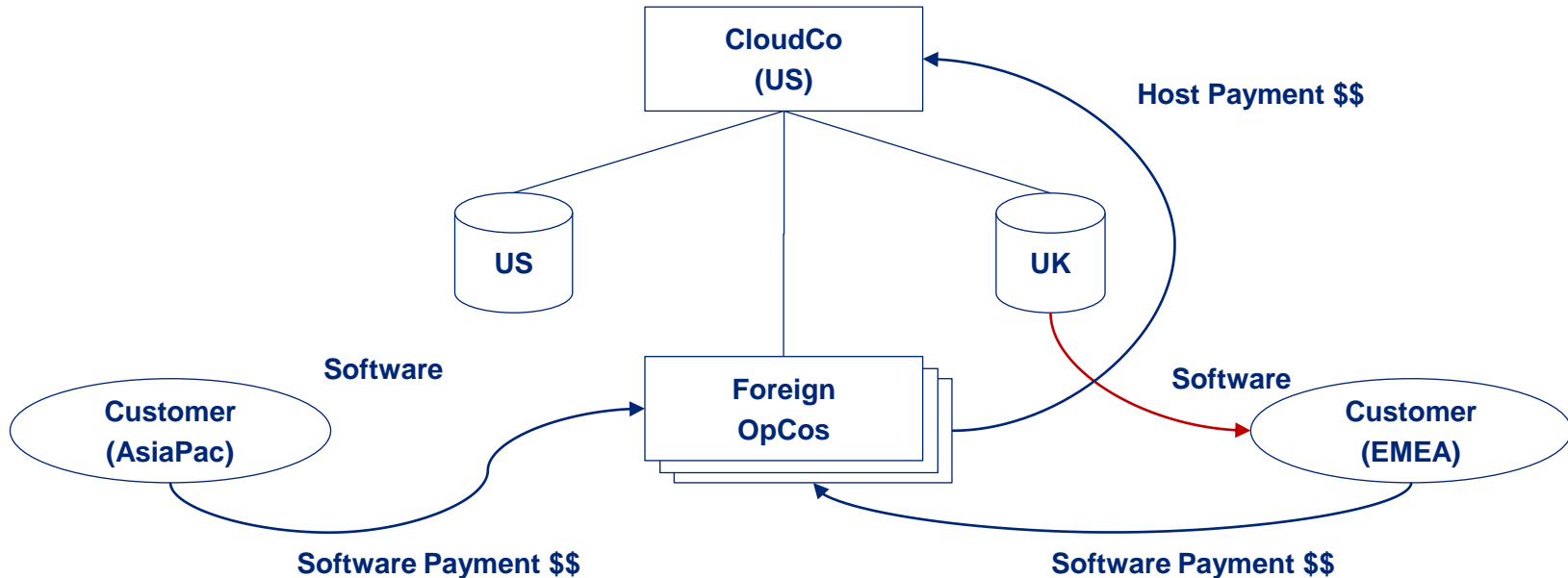
Service type category	Description of service and IT Function
Software as a Service (SaaS)	<b>SaaS</b> covers the range of application that are licensed for use as services provided to customers on demand typically across the Web.
Platform as a Service (PaaS)	The <b>PaaS</b> model makes all of the facilities required to support the complete life cycle of building and delivering Web applications and services entirely available from the Internet.
Infrastructure as a Service (IaaS)	<b>IaaS</b> is the delivery of computer infrastructure as a service. Rather than purchasing servers, software, data center space, or network equipment, clients instead buy those resources as a fully outsourced service.

# Reasons to move to Cloud

Reasons companies are moving towards Cloud computing:

- Internet based, portable, accessible from anywhere
- Low up-front cost, no capital outlay
- Scalable — enterprises of all sizes can seamlessly scale their services depending on client demand. A pay as you “grow” concept
- No hardware or software upgrades (outsourced business technology platforms and facilitated by massive data centers):
  - Users do not have to administer periodic software updates, plan for hardware upgrades, or add servers to keep pace with capacity
- Users are able to take advantage of highly specialized professionals that leverage off of a large client pool, and
- Users can more easily plan annual budgets

# Cloud Computing: Sourcing of Income



- Are services performed on the Customer's computer when the Customer accesses the hosted software?
- Are services performed over the internet?
- Are services performed on the server which hosts the software?
- Are services performed where people functions necessary to hosted software are performed?
- What about VAT?

# Cloud Computing — Multistate Tax Issues

For Cloud Service Providers:

- Understand that PaaS may be construed as SaaS — don't rely on the name or the contract wording alone.
- Credits/Incentives: Some States offer exemptions for Data Center operations.
- Are your systems capable of proper sales/use tax collection?

# Cloud Computing — Multistate Tax Issues

For Cloud Service Consumers:

- Nexus — consider whether hosting arrangements, leased servers or other Cloud services at the Cloud service provider's facility will be nexus creating activities in that state.
- Identified the States where your users are consuming Cloud services. Are those services subject to sales/use tax in that jurisdiction? Are your Purchasing business applications able to source the use to the correct state and are vendors over/undercharging sales/use tax on the purchase invoice?
- PaaS may be construed as SaaS — don't rely on the name or the contract wording alone.

# Summary of key points

# Summary of key points

## Getting in the game early

- Tax needs a voice and representation (very big deal!)

## Understand ERP capabilities

- Know the baseline / fill the gaps

## Understand Supporting applications

- Leverage technology / automate

## Integrating with other functions

- Tax, Business, Data, IT – be friends not foes.

## Legacy Audit Support

- Don't forget!

## Resource Planning

- There is a lot to do...plan accordingly

# Capture Your Opportunities

**Tax is In! Now What?**

**Identify Tax 'point of contact'**

**Embed additional tax resources as needed**

Maintain global perspective

Consider all tax types impacted by project scope

Stay involved throughout project phases

**Transfer knowledge back into tax function**

Integrate tax needs into new accounting procedures

Leverage shared service centers (tax training, data collection)

**Be prepared for ERP consultants' scope battles**

Take lead in transaction tax software selection (i.e. Vertex /Taxware / Sabrix)

Consider integration with income tax software (i.e. CORPTAX, TaxStream)

**Tax costs should be part of overall ERP budget.**

Question and answer

# Contact info

Raffi Markarian – Principal

(312) 486-3345

[rmarkarian@deloitte.com](mailto:rmarkarian@deloitte.com)

This presentation contains general information only and Deloitte is not, by means of this presentation, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This presentation is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this presentation.

## **About Deloitte**

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

**Deloitte.**