# Handling tax in a shared service center environment

# Introduction

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For some time, EY has worked with many organizations who want to understand how tax can be best handled as part of a shared service center (SSC) environment, particularly where their enterprise is undergoing some kind of finance transformation process.

Inspired by the increasing frequency of this question and on the basis of our learning over the years in supporting organizations to address the challenges it raises, this report has been designed to challenge and expand thinking on how to gain best value for tax in this process.

This report will discuss the major stages in the SSC life cycle and how tax might be impacted or incorporated within a finance shared service structure.

The themes discussed and principles outlined are broadly applicable to both large and small organizations, and to organizations operating out of and into various geographies worldwide.

Our experience over the years has also indicated that there are a number of core topics or themes that need to be considered in order to provide complete value to organizations in this space, including the following which we address in this report:

- Establishment of a clear operating model
- Addressing the people agenda
- Clarity around processes
- Governance risk and control mechanisms
- Structure and plans around data and technology

| Stage | Description |
|---|---|
| **Setup** | When considering setting up a tax SSC, what are the issues and considerations that organizations should contemplate, and what tax functions and activities should they look to transfer? |
| **Basic effectiveness** | When tax is still an emerging activity or process within the SSC environment, we consider how to identify leading practice and gain value from the transition. |
| **Ongoing improvement** | When advising a maturing SSC, we look specifically at the tactical improvement areas for tax activities and processes in a finance shared service environment. |
| **Sustainability** | For the mature tax SSC looking to "move up the value curve" in tax processes and activities, we highlight considerations relevant to building a long-term, sustainable, but flexible, operating model around evolving tax needs for the organization. |
| **Future focus** | In this section, we look at the impact that emerging technologies, including robotics and artificial intelligence (AI), will have on processes and activities in a tax SSC. |

# 1 Setup of the tax SSC



## Charting your course

Ever since the 1990s, organizations have been moving offshore or outsourcing functions, such as operations and finance, with the main aim of taking cost out of the business. These days, however, cost savings are no longer the sole benefit being derived from offshoring. Instead, organizations are also looking to drive standardization and improve compliance across the business; some leading organizations are also using SSC structures to build out their next generation of global tax and finance leaders. With these additional objectives in mind and the rapid development in the field of tax technology, tax comes squarely in the spotlight as a candidate for moving offshore or outsourcing. But where do we start?

## What is your tax SSC strategy?

Before you make the decision to move some of your tax activities into an SSC environment, it is important that you have an overarching strategy which outlines what you are trying to achieve and how you plan to get there. Some of the issues that organizations need to consider as part of this strategy are:

- The main **outcomes** that you are trying to achieve and how these align to your future state tax operating model
- The types of **activities** that you are planning to move to the SSC, such as repetitive and routine tasks, tasks requiring physical presence, standardized and scalable tasks, or even components of an existing process that you might choose to break up

- The **order** in which you should move these activities to the SSC and from which regions
- **Where** they should be moved (such as onshore, nearshore, offshore or multi-shore), which will normally depend on your finance SSC strategy
- The **dependencies** that exist with finance to enable this activity to occur in the SSC
- Check if these tasks can be **improved** as part of the shared services transition process or simply be a "**lift and shift**" exercise in the first instance with improvements being made at a later stage, along with the pros and cons of each approach

Starting off on the right foot is key – without this strategic direction, organizations can quickly lose their way.

## Which tax processes do I move to the SSC first?

Tax has traditionally been seen as a function that is technical in nature. These days, people are realizing that tax departments spend over 50% of their time on low-value tasks, such as data gathering, data manipulation and spreadsheet population. This has resulted in many large organizations moving these activities into an SSC, especially when the corresponding finance activities have already been moved to an SSC environment. Below are a few of the low-value tax activities we commonly see being moved into the SSC in "tranche 1":

- Indirect tax activities, such as report running, basic data entry and data validation
- Tax reporting activities, such as report running, reconciliations and basic data entry
- Tax compliance activities, such as report running, reconciliations and tax software data entry

For many organizations, it is only after these activities have been successfully moved to an SSC environment that organizations look to move up the value curve by shifting higher-value activities, such as international tax reporting, tax forecasting and tax planning, to the SSC.

## Learning lessons from organizations where the tax SSC failed to achieve its original objectives

If you have yet to move any of your tax activities to an SSC, you are in a fortunate position, in that you can learn from others who have gone before you. Here are some of the common reasons why tax SSC initiatives falter or fail:

- Lack of end state vision and tax SSC strategy
- Poor executive sponsorship, coupled with lack of ongoing executive communications and expectations management

- Insufficient ongoing investment in people, technology and process with a lack of focus on continuous improvement
- Insufficient patience to endure the initial "rough patches" or "performance drops"
- Lack of consideration for how the onshore and offshore teams will work together, including an often overlooked issue around the minimal training provided to the onshore team in relation to why this change is occurring and how their roles will change as a result of the tax SSC

The following negative outcomes of the above mistakes can result in the tax function moving backward instead of forward:

- Increased cost of compliance
- Inferior quality of work, resulting in increased tax risk
- Business disruption for little tangible benefit
- Lost credibility with senior executives
- Increased employee dissatisfaction
- In some instances, the SSC arrangement being determined as a "failure" and the activities being reversed

## Key success factors

So what does best practice look like? Here are some of the key success factors from organizations that have successfully moved tax activities into an SSC:

- **Process:** Select the most appropriate tax processes to be moved to the SSC initially, then understand the tax process intimately (via process mapping) and identify areas within the process that can be easily standardized. Remember, there is no requirement to move the entire end-to-end tax process to the SSC; you can still realize material benefits by only moving the aspects of the process that require little judgment and can be industrialized easily.
- **The important role of technology:** Don't forget about the important role that technology has to play in the SSC environment. After all, an SSC strategy is all about standardization, so a process that consists of hundreds of bespoke tax Excel spreadsheets will be difficult to move to an SSC in an effective manner. A data-centric approach to a technology solution which leverages cloud platforms, and disruptive technologies, such as robotics process automation (RPA), also need to be taken into consideration when determining which tax activities to move into an SSC.
- **Training and people readiness:** A lot of SSCs live or die by the quality of the training and the level of investment in the SSC staff. Finding suitably qualified staff to work in the tax SSC is hard enough, but this issue will be compounded if the organization does not continually invest in the staff. They will not only deliver poor quality work, but will be more likely to move elsewhere within or outside the organization. Sensitivity to people or cultural concerns should also form a part of the people model.

- **Good governance:** Having the right executive sponsorship is key to not only an effective transition but also sustainability in the long term. Many organizations establish a clear governance model around the SSC, including appointing a tax SSC leader who is responsible for all aspects of the tax operations in the SSC across people, process and technology – this role generally cannot be done by someone "on top of their day job."

- **Interaction with finance:** Alignment with finance SSC activities is key when considering which tax processes to move to the SSC, but is also critical to the day-to-day sustainability of the tax process. Focus needs to be given to building this strong intersection with finance and in our experience, too many organizations do not realize the significance of this point.

There is much that can be learned from early adopters, so tapping into this knowledge base is key to ensuring that you do not make the same mistakes. Many organizations see advisors, such as EY, playing a key role in what is still seen as a very "niche" space.

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# 2 Driving basic effectiveness



After setting up the tax SSC it is time to assess its effectiveness. Is this tax function or process working as planned and how can you improve it?

## How to evaluate your SSC tax operating model or process effectiveness

First, evaluate where you are now against the business case and similar processes that have been outsourced. Consider things that are working well, processes that need to be improved or additional communications that may be needed to smooth a process. On the basis of our experience with various clients in this phase, we believe the following four key focus areas are critical for effective tax SSC operation:

‣ Process

‣ People

‣ Technology

‣ Governance

## Process

Setting the right process in place – and getting it to work properly – is key for basic effectiveness. An interim review of process efficiency should include knowledge transfer from the local country to the SSC, the nature of work now being performed in-country and a review of the original process documentation to identify any differences or improvements. For example:

‣ **Streamlined information flow:** Most tax processes are less standardized and more reliant on local knowledge than other finance processes. So it is important to ensure that the SSC has the information it needs to complete its assigned tasks and that the ongoing information flow from local countries is as streamlined as possible. Within the first two years, symptoms of inefficient information flow may become apparent.

- **Refocus local resources:** For tax, one of the most significant benefits of having an SSC is the freed capacity of in-country or in-region tax teams to focus on partnering with the business. Despite this being a part of the business case, it may be expected to happen naturally. Now is a good time to check with both the country tax teams and the business units on the progress and use the feedback to better manage and measure this key benefit.
- **Improve process documentation:** The migration to an SSC will have produced many process documents and manuals. As the SSC processes have settled down and these documents are used in real life, there will undoubtedly be updates to content and ideas for improved usability.

## People

If the people strategy is not operating well, the tax SSC will struggle with lack of clarity over responsibilities, high staff turnover and gaps in technical knowledge resulting in poor return on investment. The following areas should be considered:

- **Aligning of roles and responsibilities:** The alignment of the relationships of tax SSC staff with the other business units is important to achieve the right change and culture. There needs to be a clear alignment of roles and responsibilities, and where accountability and ownership lie, in order to maintain the effective transition of tax processes and ensure that nothing slips through the cracks. Often, this is something new to tax professionals, who in the past may have had a more "fluid" approach to the execution of roles and responsibilities.
- **Understanding motivations and goals:** Getting this right will dramatically improve people and knowledge retention. High turnover in the SSC culture always triggers the loss of knowledge, where the SSC function is relatively small (i.e., less than 5,000 hours per annum). This will often completely undermine any initial progress and business case. The measures you can put in place to combat this loss of knowledge include detailed onboarding procedures, documentation of processes in training manuals, strong focus on goal setting and continuous professional development for tax SSC teams.
- **Keeping up with multi-country technical changes:** In light of constant changes in tax laws and different taxation regimes across the world, how will the tax SSC keep abreast of law changes? Can the staff join regular training webcasts with country teams or advisors, or have a rotation program focusing on certain jurisdictions. This would help staff spend time with those local country teams so as to maintain technical knowledge.

## Technology

Technology and process go hand in hand, and the move to a tax SSC not only provides opportunities to reduce duplication of solutions and cost, it also helps look for further productivity gains:

- **Tax technology road map:** Consider all tax technology needs, such as calculation, reporting, document and workflow management, and tax data management; then, prioritize them according to your business needs. The rise of secure cloud-based platforms also allows for a data-centric model to be adopted as part of the set up, and supports the effectiveness of geographically dispersed operations. For tax processes that can be standardized globally, such as tax provisioning, there are multiple solutions in the market. Familiarity across these tools can help evaluate the appropriate solution for your needs.
- **Rapid response to critical issues:** New processes and reliance on technology come with apprehension; is there enough expertise on hand to resolve system issues and identify improvements? There will undoubtedly be some early teething problems with new technology or new usage patterns on legacy systems, but organizations that are able to respond quickly to critical IT issues can avoid derailing confidence in the SSC project.
- **Collaboration tools:** Working across geographies has its own challenges and there are a number of technology solutions that can help address this. Working with an offshore SSC puts increased importance on workflow tools, document management tools and communications technologies working well and being used as intended. This continues to be hard for many organizations. We are seeing SharePoint increasingly being used as the tool of choice in this space.

## Governance

Many SSCs provide a governance structure while migrating tax processes or activities into the SSC, but fail to consider putting an ongoing governance structure in place beyond transition. It is essential to consider a mechanism to monitor ongoing service delivery and define a baseline to measure performance, such as the following:

- **Performance management:** KPIs should be based on realistic expectations, allowing for the current state of the tax SSC transition.
- **Change management:** Ongoing, strong and structured change management and communication processes are required to continue to engage with stakeholders. These include communicating quick wins, explaining strategy changes, managing any negative situations and minimizing adverse impacts on business confidence.
- **Strategic governance:** Ensure that there is a governance structure in place to monitor ongoing service delivery.

# 3 Ongoing improvement — managing a maturing tax SSC

After setting up and achieving basic effectiveness, how do you manage a maturing tax SSC where the initial tranche of tax processes has been moved to the SSC and further improvements are now being sought?

At this semi-mature stage, tax SSCs are looking to move forward from the inevitable "performance drop" that occurs in the first few years and are seeking to move more sophisticated tax processes to the SSC. At the heart of this phase of continuous improvement is usually a tax SSC optimization framework that outlines the key attributes of a "healthy" SSC and provides a structured method of identifying focus areas.

Some of the key matters that might be found in a tax SSC optimization framework at this stage of the tax SSC life cycle are:

▸ Governance
▸ Operating model
▸ People
▸ Process
▸ Data and technology

We consider each of these in detail below.

## Governance

Now that the "euphoria" of the establishment of the tax SSC is over, it is time to take stock and assess if the objectives of the tax SSC exercise have been achieved. It may be difficult to maintain the momentum of the establishment phase without the energy of the implementation team, but continued enthusiasm and good governance are key if a culture of continuous improvement is to be established and maintained. In our experience, organizations need to:

▸ **Monitor the changing role of the tax function and ensure alignment:** In this new era of ongoing regulatory change and digital technology, there is lot of pressure both externally and internally for the tax function to change roles from being a "score keeper" to a "business partner." To keep pace with this changing role, it is important that the tax SSC is constantly monitoring the role of the broader tax function to ensure that it is aligned and aware of any changes coming further down the track.

▸ **Establish a continuous stakeholder communication strategy:** One of the key pitfalls we see in many tax SSCs is the lack of a robust communication strategy. This results in a lack of recognition of any successes or achievements, a potential lack of future investment in the tax SSC, and a misalignment between the tax SSC strategy and the wider finance or tax function strategy. This communication strategy is relatively easy to set up and has a far-reaching effect as it provides connectivity with key stakeholders and the rest of the business.

▸ **A business case for further improvement:** In order for the tax SSC to continue to move up the value curve, there will be a need for further spend and key stakeholders need to be aware of this. Again, this can be addressed as part of the communications strategy.

## Operating model

At this stage, it is likely too early to make major operating model changes, but it would be wise to consider if the current operating model is achieving its desired results:

▸ **Consider how the SSC is tracking against the original plan:** Are there any operating model issues or root causes to be resolved? A benchmarking exercise should show how the current SSC is faring compared with others at this stage in its life cycle. Results should then be analyzed and communicated accordingly, up and down the chain.

▸ **Consider the cost of the current tax SSC**: Has location optimization been achieved or is there an underlying issue that needs to be addressed before further investment is made in the current model?

▸ **Consider what the right balance between onshore and offshore activities is:** As part of the process review exercise, a high-level review of the onshore versus offshore activities should be conducted to ensure that the desired balance is being achieved.

▸ **Consider best practices in the market:** As part of the design phase, a number of operating models would have to be considered, such as:

  ▸ Localization
  ▸ SSC
  ▸ Center of Excellence (CoE)
  ▸ Mixed model
  ▸ Outsourced

Therefore, it is important to review whether the current operating model is working and whether anything needs to be changed. Comparing yourself with peers, especially ones with a more mature tax SSC, is a great way to identify any areas of improvement.

## People

Once the tax SSC is a few years old, it is a good time to review the resourcing model to ensure that the current resource pool is achieving the desired results:

▸ **Is there a mix of expertise in the current tax SSC?** Is the current resource model fit for the role of the tax SSC? Is there the right balance between execution, experience and management? Maybe a formal review is required and the results of this review can then inform the future hiring strategy.

▸ **Is the current team motivated to succeed and do you have a strategy in place to retain the best staff?** Experience has shown that the HR market in popular SSC locations, such as Bengaluru, Manila and Mumbai, are very competitive; so you need to have a strategy to retain your best staff, otherwise they may move on to greener pastures. Common factors to consider are:

  ▸ Remuneration
  ▸ Quality of work
  ▸ Firm culture
  ▸ Opportunity to travel to headquarters and opportunities to move up the chain of command to managerial positions

▸ **Is there a potential for third-party outsourcing?** A third party could include one of the Big Four firms. There is a potential for outsourcing if the current expertise is not there and the cost of expertise is too high. How will the tax SSC work with this third party while not diluting its reason for existence?

▸ **Is there a robust knowledge retention strategy?** The tax SSC itself will start to develop its own valuable Intellectual Property (IP), so having a comprehensive knowledge retention

strategy is critical, as the loss of a few key staff members can have a highly disruptive effect. Consider knowledge retention strategies, such as:

‣ Regular staff training or best practice sharing sessions

‣ Continuous improvement of process documentation

‣ Utilization of technologies, such as SharePoint, to house all documents in a central or accessible location

‣ Mentoring or coaching sessions between staff to ensure that critical knowledge is held by the group (not just key individuals)

## Process

Once the first tranche of tax processes has been successfully transferred to the tax SSC, it is time to improve these processes and identify the next tranche of more complex processes to be moved offshore. At this stage in its life cycle, the tax SSC should be operating in a continuous improvement phase if it is to have any hope of moving up the value curve.

Here are our recommendations relating to process improvement at this medium-term stage:

‣ **Some level of process re-engineering should be considered:** Do this as part of this phase of operation to ensure that current processes are operating at an optimal level and bad habits are not allowed to set in. Root causes should also be identified, diagnosed and resolved as part of the re-engineering exercise to ensure that the culture of continuous improvement is maintained.

‣ **The current tax processes must be evaluated against best practices:** This is also a key activity to conduct at this stage of the tax SSC life cycle. There is a wealth of market information against which you can benchmark your current tax processes, especially when it comes to alignment or handoffs with finance and interaction with onshore finance or tax staff. This benchmarking exercise can be conducted as part of the process re-engineering work.

‣ **Regular visits from onshore tax staff should become common practice:** Having a set of external eyes on the SSC tax processes is key to establishing a culture of continuous improvement. These visits are also essential for maintaining a good working culture in the tax SSC, where interaction with onshore tax specialists occurs on a regular basis and should be seamless. This regular interaction also allows tax SSC staff to learn from their onshore colleagues and helps them develop their own careers.

## Data and technology

While seismic data and technology changes are unlikely to be required at this early stage of the tax SSC, it is an ideal time to conduct a robust post-implementation review to identify areas of improvement. Questions to be considered might include:

‣ **Is the desired or planned level of automation of tax processes in the SSC being achieved?** In line with the continuous improvement environment, it is a good time to review the level of automation in the tax SSC and identify the major activities that still require user intervention.

‣ **What is the level of tax sensitization in the enterprise resource planning (ERP) system and can this be further improved?** Evaluate how the tax SSC is using the ERP data and start conversations around the refining of ERP configuration to yield better results for tax.

‣ **Are collaboration tools being used effectively?** This is to ensure that there is good and systematic planning in the areas of content management, workflow and reporting between onshore and offshore staff. Given the pace at which technology is changing, the tax SSC should not be operating in an ecosystem of email, spreadsheets and paper files as this will inhibit processes being operated at their optimal level, and increase the level of risk in the tax SSC.

‣ **Does the tax SSC have a technology road map?** If so, how does this align to the broader tax technology road map and has its requirements been considered? Advancements in areas such as secure cloud based platforms that facilitate a data centric operating model, along with RPA and AI, are sure to have an impact on the tax function and the tax SSC, so it is important to stay in touch with what is happening in the wider business or market.

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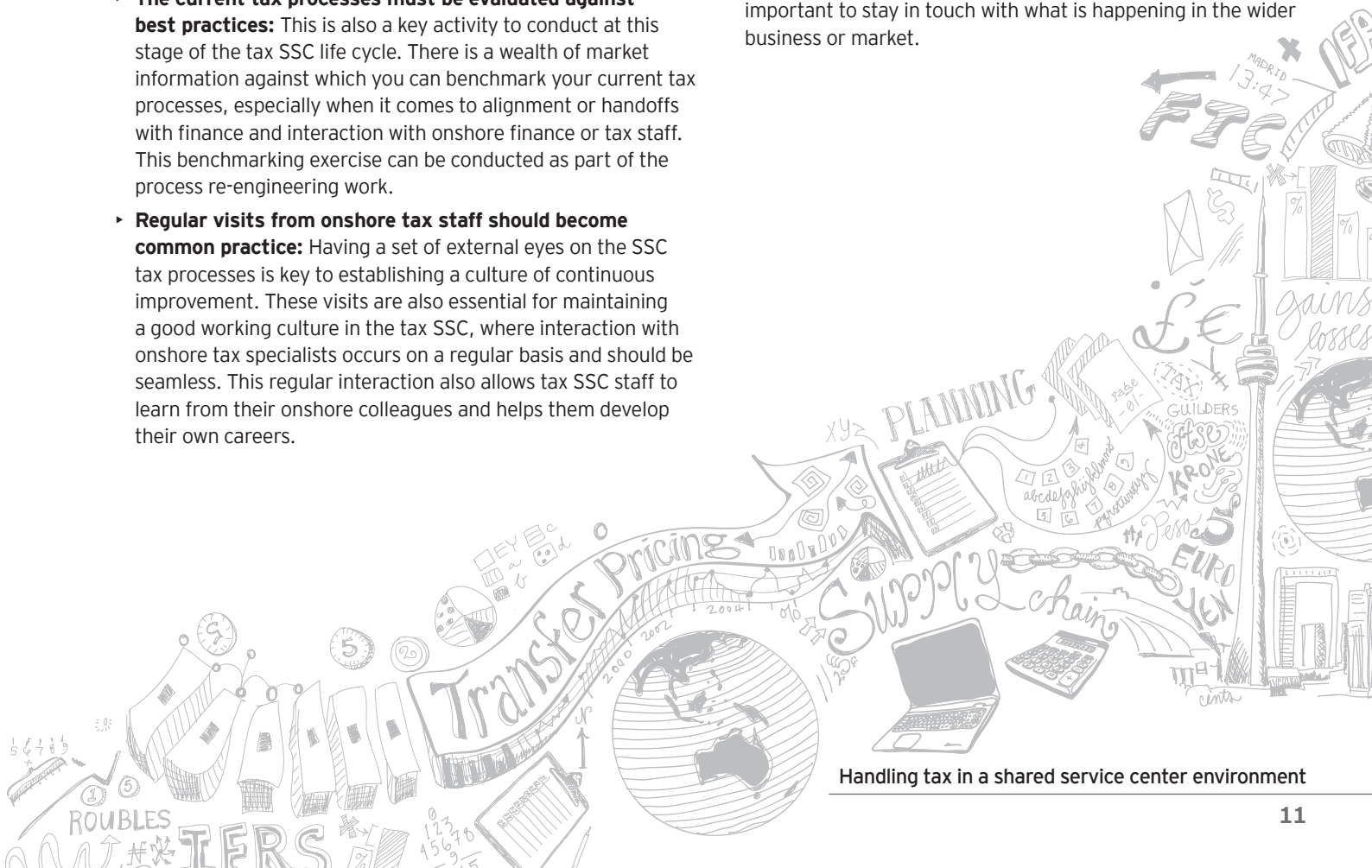
Moving into the mature phase, to achieve sustainability, the tax SSC will need to consider its responses to the following factors:

1. The evolving tax operating model and how the tax SSC fits into this model
2. The tax SSC being asked to perform ad hoc or unplanned activities
3. Getting the people model right

## What makes a tax SSC different?

Compared with having the tax team geographically spread and all essentially doing the same thing, such as compliance, it is beneficial to centralize the delivery of tax services, because:

‣ There is consistency in how the services are provided and enables harmonized tax positions to be taken consistently. By doing so, it helps manage risk.
‣ It improves efficiency, as the person most skilled for the role performs it, notwithstanding the fact that the person is not in-country, such as someone who understands tax interaction with ERP systems during a large system rollout. Because of the scarcity of talent and the relatively high cost of expertise, using these resources on a sharing basis is necessary.
‣ The tax function is allowed to focus on the value-added components and not the lower-value processing functions.
‣ There is more control and visibility, as information and decisions come back to the group tax function, allowing better control and visibility over tax matters.

However, we also need to appreciate that tax SSCs are driven differently compared with existing SSC processes for finance, which means they should be built and managed differently. Some key differences are:

1. **Tax SSC is knowledge-based and not process-oriented:** A degree of judgment and knowledge of tax rules are required. Thus, the tax SSC staff need to understand the facts and the necessary rules in order to make correct assessment of what is required.

2. **Tax SSC has external stakeholders, such as tax authority and external public:** Meeting the expectations and needs which are external to the organization and its goals requires agility, especially in this environment of increasing tax transparency.

3. **Tax SSC is regulatory-driven:** It depends on local tax rules in each jurisdiction, so consistency of process may be a key focus as the actual output and requirements may vary. The speed of regulatory change is also very fast.

## Evolving tax operating models

Sustaining the position of the tax SSC cannot be pursued without regard to the changes happening to the finance function. As the second and third waves of change in finance take place, the tax function has no choice but to adapt to these changes and come up with a tax operating model that takes these changes into account. The advent of digital tax, the increasing use of technology within the organization and the technological or
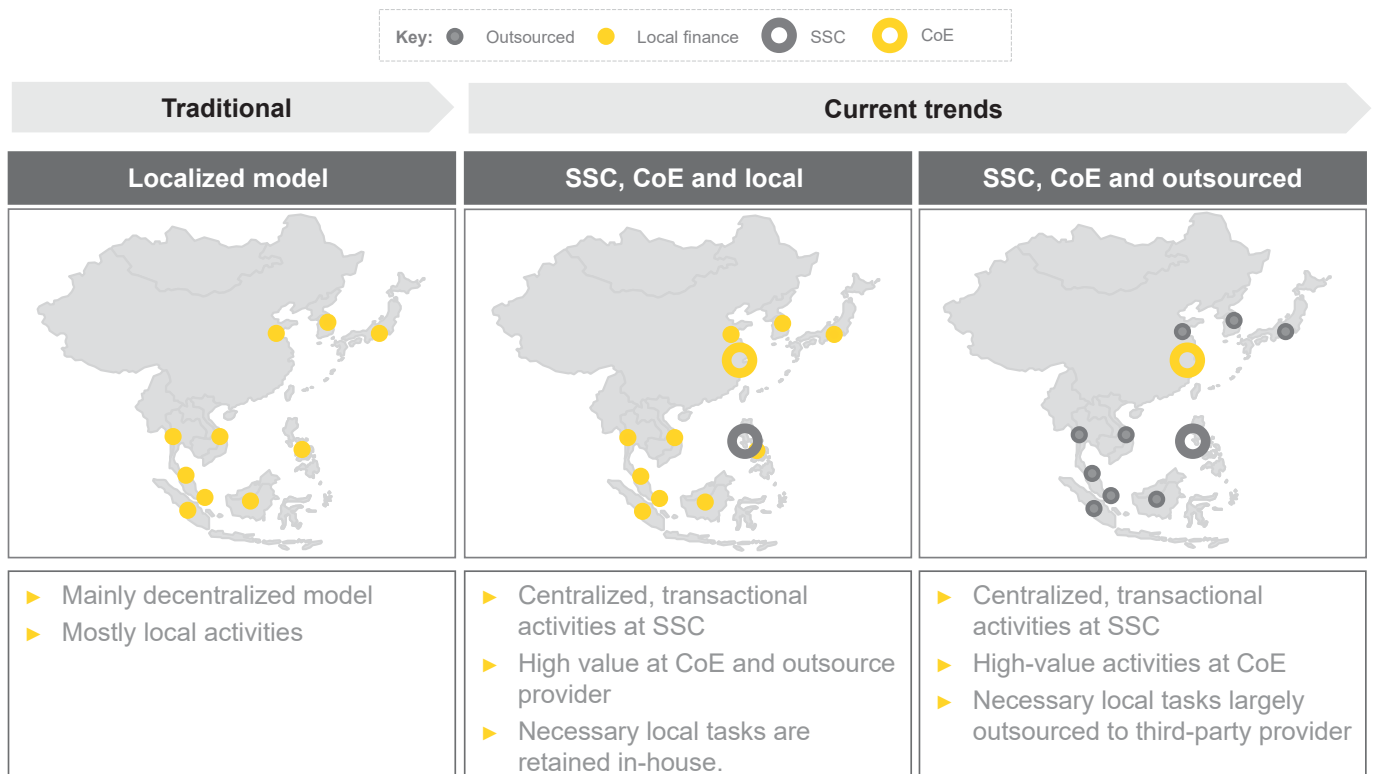
digital capabilities of tax authorities around the world mean that tax functions operate in an increasingly data-driven world. Speed and agility to respond to tax needs in this new world, while continuing to balance costs, talent shortages and the level of tax risks, will be key.

In this environment, the continual re-evaluation of your tax function is needed, and an important piece of the puzzle will be how the tax SSC is geared up to support the tax needs of the organization.

The evolution of the SSC and its greater maturity will mean that the tax SSC is able to take on more — it is able to broaden its scope of services and the number of tax processes it is involved in, such as transfer pricing (TP) documentation and country-by-country reporting (CbCR). Increasingly, judgment-based processes, such as decision support, extraction of data and analysis, and running data analytic tests from a risk management perspective (on an error-finding and predictive basis), will become areas of focus.

| Key: ● Outsourced  ● Local finance  ◎ SSC  ◉ CoE | | |
|---|---|---|
| **Traditional** | **Current trends** | |
| **Localized model** | **SSC, CoE and local** | **SSC, CoE and outsourced** |
|  |  |  |
| ▶ Mainly decentralized model<br>▶ Mostly local activities | ▶ Centralized, transactional activities at SSC<br>▶ High value at CoE and outsource provider<br>▶ Necessary local tasks are retained in-house. | ▶ Centralized, transactional activities at SSC<br>▶ High-value activities at CoE<br>▶ Necessary local tasks largely outsourced to third-party provider |

**Definitions**

▶ CoE — centralized hub carrying out high-value activities for a number of entities or geographies

▶ SSC — center carrying out transactional activities for a number of entities or geographies

▶ Outsourced — third-party specialist carrying out activities locally or centrally on behalf of the organization

Another key feature of the evolving tax SSC is the further integration of tax processes with financial or accounting processes from an overall record-to-report perspective. Given the direction of the tax SSC, some important considerations at this stage are:

▸ In view of the increasing size of the tax SSC, do you then consider outsourcing the more transactional pieces of the process to business process outsourcing (BPO)[1] providers?

▸ As you seek to go higher up the value chain, are there pieces requiring highly technical tax skills that you might want your tax service provider to provide or even be integrated with the current tax processes that you have?

▸ Are you considering setting up your own COEs[2] to take on tax processes that require highly specialized tax skills, such as decision-making, maintaining relationships with tax and governmental bodies, tax risk management, tax technical, tax technology, and management and control of tax processes?

▸ Can the tax SSC move up the tax value curve? Or because of the specialized tax requirements, is it better to set up a separate tax CoE for this purpose, given the lack of people with the required skills in the same location as your tax SSC? Will a virtual CoE work?

The answers to the questions above will depend on your particular circumstances, but the reality is that we see a hybrid of some of these models working together with the other components in a symbiotic way to provide optimum results, given the inevitable constraints of each organization.

## Business "unusual"

Shared service operating models are built on routine recurring processes that can be planned. This means that the benchmarks, service level agreements (SLAs) and KPIs that are used to measure efficiency, such as cycle times and cost-to-tax process ratios, are built around such processes. The resource model that is in place, financing or funding plans and budgeted hours will also be structured around this understanding of what the process needs.

However, as explained previously, the tax function in the SSC is very different from normal transactional processes in that the volume of work is driven in part by unplanned or ad hoc events caused by regulatory developments (something we term as business "unusual"), such as:

▸ Tax audit and controversy

▸ Tax transparency agenda, e.g., CbCR or greater requirements for data from governments

▸ Project work, such as system implementation or ad hoc management reporting on tax-related issues

Scalability needs to be built into the tax function to handle these situations. While the logical place to do such work seems to be the tax SSC from a cost and efficiency standpoint, the common reaction when this is suggested to SSC leaders is that it is just not possible to deliberately build fat into a very lean model. Without such forward planning, tax leaders in SSCs feel they are overworked, exhausted and constantly putting out fires. Planned improvements are always put aside; recognition for the additional ad hoc work is seldom given (since there is no KPI for it); and more importantly for the organization, the timeliness and quality of planned activities will inevitably be affected.

Business "unusual" needs to be planned for and factored into the tax SSCs' budget and estimated cost-to-deliver. In most cases, this is an estimate in addition to planned activities, but putting some thought into this will also help explain and educate users regarding the cost of their requests to the tax SSC, the need and value that these ad hoc requests bring to the organization, and the cost of production for each request. Finally, all these can be tied to the remuneration mechanism upon which the tax SSC works.

## People

Finally, the last and possibly most important consideration for the sustainability of tax processes in an SSC is whether the right people model has been put into place. To succeed from a people perspective in a tax SSC, we need the following characteristics:

▸ **Career progression:** It is important for talent to identify the big picture, to be able to see beyond what they currently do in the tax SSC to the broader tax function in the organization.

▸ **Learning:** Tax SSC should be focused on constantly improving their talent from a technical, process and business knowledge perspective. Also important would be the need to build a work force and talent profile that is flexible and can adapt to differing tax environments.

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[1] A BPO is where a third-party specialist carries out activities either locally or centrally on an organization's behalf.

‣ **Innovation versus process-orientated focus:** As we enter into business as usual, the focus of the tax SSC should be on innovation or business process re-engineering rather than just maintaining the same processes.

Also, when considering sustainability, the main issue for the tax SSC personnel is the lack of business context when they analyze; hence, they often lack the ability to make decisions beyond basic rules-based scenarios. Another key risk area is the technical tax understanding – hence, more training is required beyond what is fit for purpose for a finance SSC role.

‣ **Here are some ideas to consider:** Consider specific and deliberate rotation programs into and out of the tax SSC, e.g., move tax personnel in business partner roles into the SSC to lead teams or certain processes. Rotate employees from the tax SSC to support markets or tax group as junior analysts to learn from more senior tax business partners or professionals. This will allow business knowledge to spread into the tax SSC organization, while at the same time, help the external tax SSC users, such as Group Tax, understand how best to use the tax SSC personnel, their strengths and weaknesses, and how best to improve them. In the longer term, promote success stories of talent from the tax SSC who have been placed in the broader tax function as business leads or process leads, or of talent from the SSC who have gone on to play pivotal roles in the organization. In short, the tax SSC should be seen as an avenue for the development of tax talent of the future.

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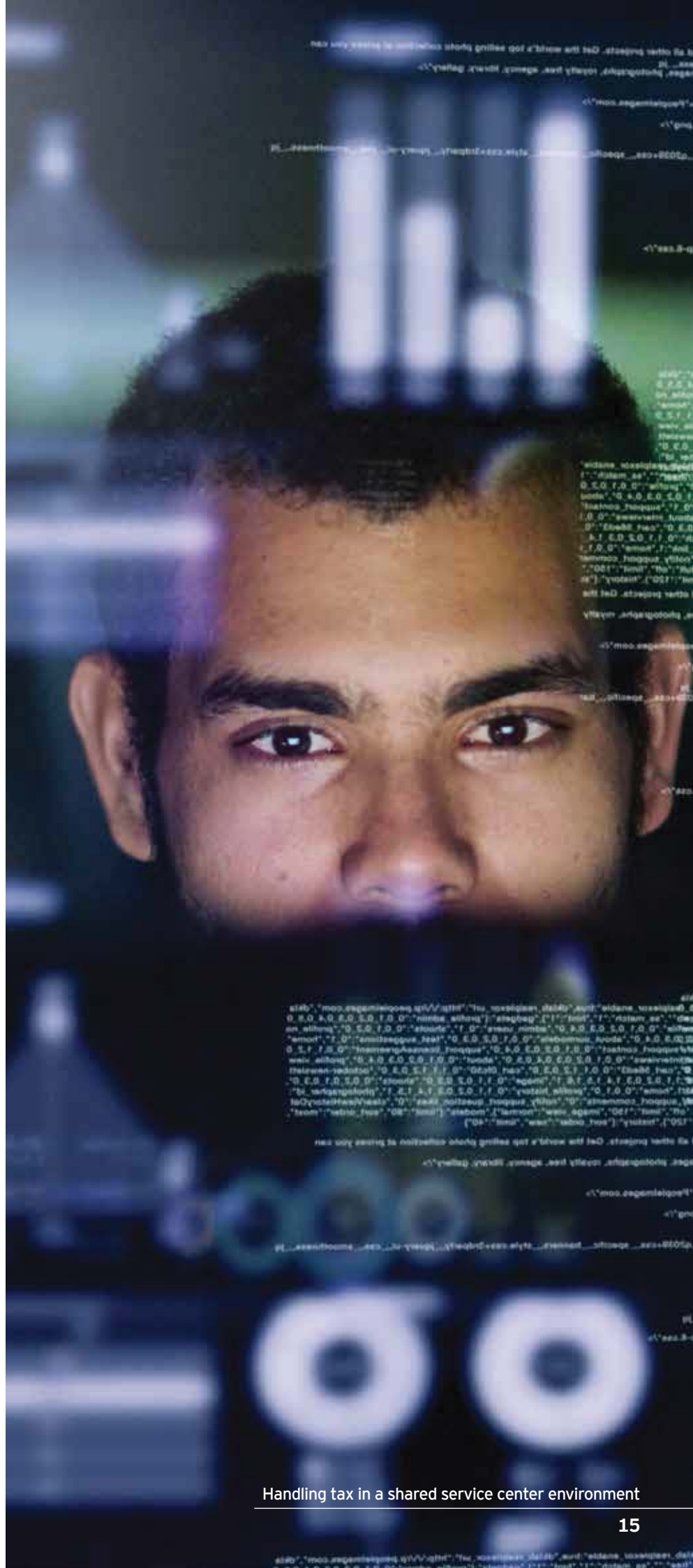
# 5 | Toward the future



Even after successfully addressing all of the above, there is no time to rest on our tax SSC laurels. We still need to monitor the impact that emerging technologies, including robotics and AI, will have on tax processes and activities, and more broadly, how we can be ready to respond to it.

## Should tax be considered a core activity for your business?

We are often asked: if tax is not a core activity of the organization, how much time, energy and investment should be put into the ongoing management and evolution of tax in an SSC environment? Can the organization achieve materially the same, or more benefit, by looking at alternative models?

Market trends have increased the focus on this issue for a number of organizations as they look at the most efficient way of acquitting their regulatory and other obligations. But one might question whether these deals achieved anything new.

Since EY developed its global operating model several years back, we have worked with a number of organizations assessing the same question, and we have built tax SSCs on behalf of some companies as well as taken on tax SSC resources from others who prefer a leasing arrangement.

The real question as you consider the multitude of future changes around the tax space is whether you believe your tax SSC will continue in a sustainable fashion to deliver ongoing and increasing benefits.

# The data and technology revolution

It pays to be up to speed with where technology is heading and how the increasing importance of not only data, but the quality and source of that data in your organization will impact the position.

## Disrupt me

The last several years have seen the tax technology market dominated by a few key global players. These systems have been adopted globally by many multinational organizations. In an SSC environment where you can run consistency of process standardization and scale teams, they have supported in delivering material cost-to-serve benefits for many organizations, on top of risk reduction where they have generally replaced a web of Excel spreadsheets and various other nonstandard point solutions.

However, there are three factors that are driving against this trend and changing the face of tax technology solution sets:

1. **Exponential increase in technology sophistication and capability:** Most tax practitioners globally were not aware of RPA as a concept two years ago. And even today, a dialogue on how you might look to utilize AI to drive real value in a tax function might get some blank stares in response. But in truth, technologies that were not really prevalent even 18 months ago in the tax functions are now widely available and extraordinarily sophisticated. Unsurprisingly, this reflects where technology is heading more broadly, and there appears to be no deceleration in the speed at which these technologies continue to evolve.

2. **Falling cost of technology:** Everything in the IT space, from hardware to software, is relatively much cheaper now than it was even 24 months ago, and the trend continues. Often referred to as Moore's Law (which essentially states that the cost of computing power halves every two years), this has a material impact on organizations. It wasn't that long ago that a program to build, develop and deploy a data lake was a multimillion dollar, multi-year project. With the emergence of open-source big data systems like Hadoop Distributed File System (HDFS), the cost and speed of getting a sophisticated predictive analytics program up and running has materially decreased.

3. **Rise of the digital natives:** What do you think of when hearing the word, "video cassette recorder or VCR? Does it transport you to the 80s or 90s? We all know how difficult it was for our parents to adjust and adapt to the technology. They always had to get children to help them. Well, now the internet has killed off the VCR and technology is transforming everything. The way we consume today is very different to even five years ago. Digital natives consume differently to older generations and those coming into their first year of the workforce live, breath, eat, exercise and sleep digitally. And they cannot understand why their workforce does not run the same way, or why it operates so inefficiently.

What does this mean for tax SSCs? They are at risk of being disrupted; what often started as cost arbitrage play now fundamentally requires the business case to be revisited, since the hours no longer exist in the same format. And even the "thinking" part of tax, the higher value-add component, is coming under the same pressure.

On the flipside though, technology enabling a tax SSC is likely to become a far cheaper proposition heading forward. So, rather than kicking off an implementation of a mega-system built by a third party that may not flex to your needs or might charge significant money to flex to meet them, now maybe you can source the components and talent to build your own. Does this mean the historic tax technology providers are at risk? Maybe not in the immediate future, but certainly in the coming years; if they cannot flex their offering models to offer more nimble, user-configurable and reconfigurable solution sets, they too are at risk of disruption.

## Who builds the technology?

The last year has seen an explosion of RPA across finance and tax organizations, so we can expect to see more of that being deployed. With an expected ratio somewhere between 8–16 times the delivery output of a human, it will have a material impact on people models.

Data lakes are also now at the forefront of the sophisticated tax function's digital road map. However, we have a little way to go to prove some of the core promises of minimizing the cost and effort around structuring the data.

The rise of secure, cloud based technology platforms are also allowing organisations to revisit their overall technology approach. Previously it was common to implement "point" solutions, all of which had their own data structure, which meant reuse of data across tax needs was difficult if not impossible. Now cloud based platforms that implement a data centric model allows for efficient reuse of data, and also allows for the work effort to be readily shifted between in house and outsource, as well as onshore and offshore.

There are clear benefits that come from being able to correlate organizational data to drive tax insight, and perhaps layer a natural language processing feature on top, so you can "google" across all your tax data for relevant hits.

As regulators digitize globally, direct connectivity of regulators to data is also accelerating. Countries like Brazil, Russia, Mexico and others are driving toward fully digital systems, where you no longer file a tax return. Rather, you simply hand your transaction data across to the authorities – sometimes daily or more frequently – and they tell you how much tax you owe. While it will still take some time for this to permeate across a majority of countries, tax SSCs will strike this issue earlier in the process where they handle multiple jurisdiction filings. So, if there are no tax returns required, what are your tax SSC teams going to do with their time?

Recognizing the challenges around this space, EY developed a global tax innovation lab with a remit to disrupt the tax filing process. This has led to a focus on collaboration arrangements with corporate enterprise system developers, upstream accounting systems and niche technology players who focus on data extraction, interrogation, cleansing and prediction. More specific technology tools are being deployed in the tax environment, carrying out discrete tasks, and the deployment of integrating technologies across a series of source systems providing a holistic digital ecosystem.

## Impact on SSC activities

With a technology and data revolution underway, there is a correlated impact on the processes that tax SSCs can undertake. Processes change from the old world of preparation or processing of a return to more inquisitive ways of:

‣ Reviewing exceptions

‣ Running analytics

‣ Responding to predictive output or findings

‣ Looking for organizational value

Tax SSCs need to be nimble around processes and adopt an agile approach to building and deploying. There is no point in spending six months mapping processes and transferring knowledge if the underlying processes become redundant through technology evolution. So the mantra must be: build nimbly, fail fast, revisit often and do it with multiple skill sets at hand.

SSCs are also uniquely placed to identify and act on predictive future events, so organizations need to add new processes to the SSC further up the value curve. An investment in a changed tax function and an SSC should drive real insight for the organization. This might mean that you revisit questions, such as whether the location of your SSC is right, given the future skill sets required. Do you only need an SSC or might a CoE also be required to fit with the organization's needs (where a CoE is the aggregation of higher-value skill sets that can derive real value out of the data)? Often, it will be challenging to source these skill sets in the same location as the SSC.

## SSC people impact

Given these changes, the talent aspect often becomes the biggest area of challenge for organizations. Do your SSC people have the skill sets you need for the future?

These challenges are not unique to SSCs; they are aligned with challenges around the "Tax Professional of the Future," more broadly. As you look to your SSC and your wider tax function, you are likely to need a combination of the following skill sets to remain effective:

‣ Taxologists
‣ Accounting skill sets
‣ Data scientists
‣ Deep tax technical skills

Can you redeploy your existing SSC people to play these roles? or will you have to hire new people with these skill sets?

This remains a big issue for organizations to address. It is hard to find this mix of skill set and even harder to find it if there is not enough critical mass in your SSC.

## Managing it all

How can you keep up with all these changes as well as your day job? One way is to make sure you and your team adopt an "innovation mindset." This includes being aware of changes, having accountability and a clear process to identify and uncover trends and changes, and knowing how to exploit them. Consider deploying an innovation leader or group in your tax function and in the existing SSC. In most cases, this can align well to wider organizational initiatives around innovation.

The other question to be addressed is: do you still really want to own the SSC, heading forward? If you cannot drive sufficient critical mass or invest the time and resources to keep up with the coming changes, why not consider leasing it? You can then be assured of an SSC function that is kept up-to-date, and by choosing the right business partner that does it for a living, you can effectively make it "someone else's problem."

Whatever approach you take, be aware that establishing and running an SSC is not a "set and forget" activity, even when you get to a sustainable operating model in the SSC. Disruption will affect all parts of your business, and harnessing it for your advantage might be your best competitive differentiator.
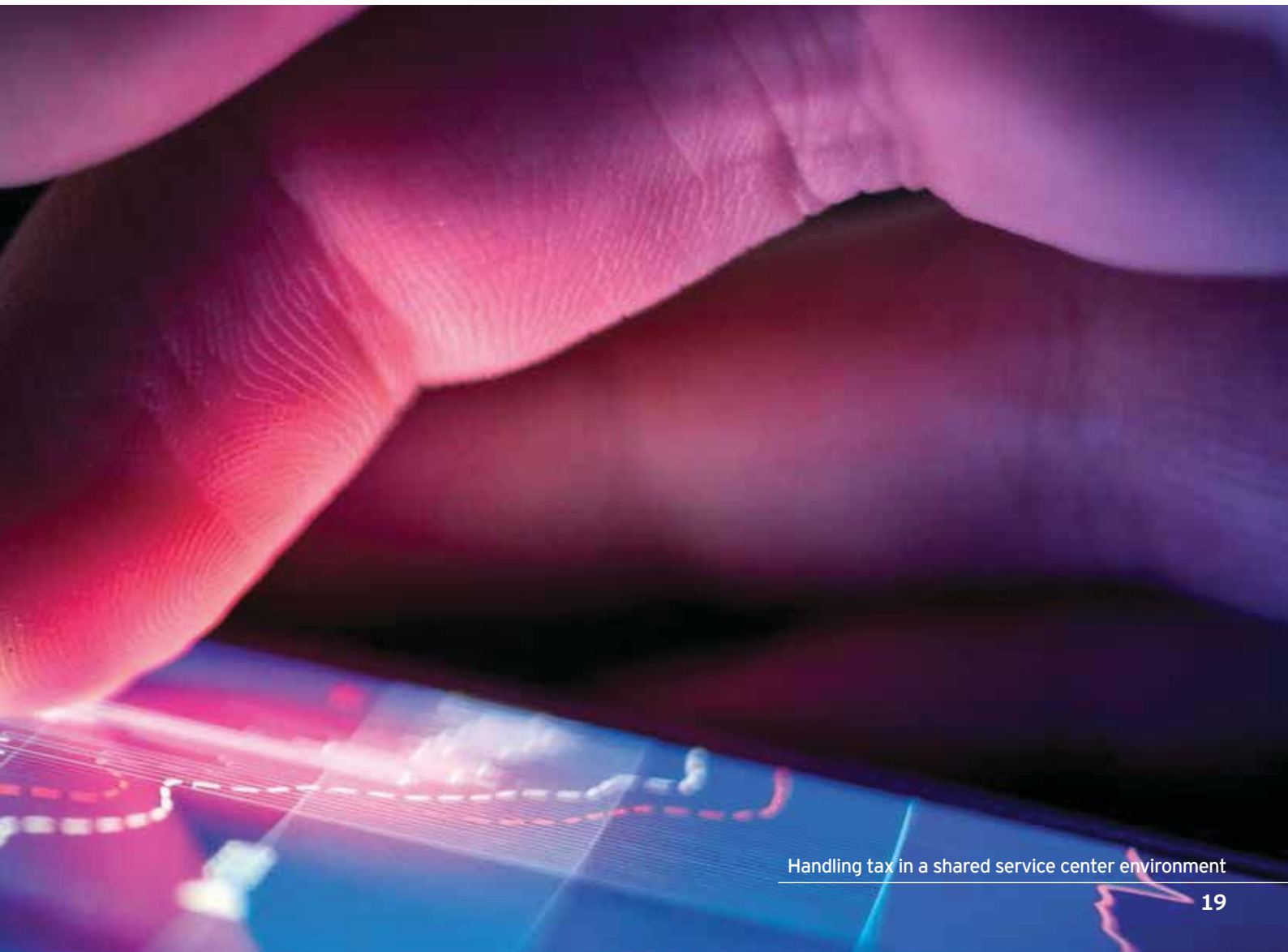
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Handling tax in a shared service center environment

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# Notes

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