Insights and Intelligence with Platform Technologies
Driving Value in Tax, Finance, and Controlling
Introduction
Increasing demands and competing pressures are shining the spotlight on tax and finance functions, urging them to move out of the shadows and to start delivering value as a true business partner. However, with an increasing volume of work and limited resources to work with, this is not easy to achieve. As a result, multinational companies are looking at platform technologies from SAP and at solutions such as those delivered by EY, a global SAP partner, as strategic enablers to help them deliver business value, reduce risk, improve efficiency, and reduce cash leakage. Could a platform technology be the right solution for your company?
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Tax functions at multinational companies are going through unprecedented change due to growing tax reporting and compliance requirements and changes in the business environment. This is leading to an increase in associated tax risks and internal cost pressures, together with business expectations to deliver value as a true business partner rather than as a compliance function.

Technology is becoming the go-to answer for many, both within and outside the finance function. The use of technology has primarily focused on reducing the workload through automation. These changes greatly help to improve efficiency and performance, but could more be done with technology in the finance function? The answer is a resounding yes!

The tide is turning, and the potential for better insights and intelligence to aid decision-making is being realized. Consider this: a platform technology that enables tax functions to make complex decisions in real time or even on a predictive basis across multiple taxes. How would such a technology transform current practices?

98%

Of companies believe that the core competencies needed from tax and finance professionals will shift from traditional tax technical skills toward deeper process and technology skills.¹

The good news is that this is not an imaginary scenario. It is already being made possible through the use of SAP technologies such as the SAP® Profitability and Performance Management application and the SAP Analytics Cloud solution, in collaboration with EY, a global SAP partner.

**Challenges of Reporting and Compliance Requirements**

In the last decade, the focus of most tax functions has been on addressing the ever-increasing reporting and compliance burden. Tax authority requirements have increased significantly in terms of the filings required, the granularity of information, the frequency of submissions, and the submission method.

When it comes to transfer pricing (TP) relating to intercompany transactions on both goods and services (see Figure 1), the reporting and compliance requirements associated with reporting and file preparation can often increase the cost of compliance. These activities can also result in less time and fewer resources available for tax functions to connect with the business and to advise on decisions that drive value, such as recommending a better intercompany price that can be achieved or determining that there is a negative TP impact of a proposed trading route.

Not addressing these issues has resulted in reactive, sub-optimal, or, at times, inaccurate TP calculations and adjustments leading to tax compliance risks, inefficient processes, and cash leakage.

**Figure 1: Business Touch Points in the Transfer Pricing Lifecycle Based on the EY Transfer Pricing Approach**
The Need for Adding Value As a Tax Function

Apart from external pressures, corporate functions such as tax are being challenged internally to transform from a back-office compliance function to a value-adding business partner function, supporting decision-making with intelligent business insights. But how do you enable highly trained tax resources to support business decision-making rather than data gathering, aggregation, and reporting? And how can tax functions use the wealth of data available to drive value? From our experience, the answer is technology – in combination with the right know-how.

Tax functions have not yet embraced integrated technology as the primary means of easing the pressure from the increasing reporting and compliance burden (see Figure 2). The use case for technology has focused on improving controls and speeding up the process of data gathering, aggregating, and reporting to reduce compliance costs. Now, however, we are seeing a move from improved controls and processes to solutions that provide value through insights and intelligence for informed decision-making.

Figure 2: Documentation Tools Used in Transfer Pricing

The Case for Platform Technologies

As finance functions pave the way forward to becoming effective business partners, new platform technologies are enabling this finance journey and are well placed to enable the same journey for tax.

SAP Profitability and Performance Management is a prime example of such an enabler. At the core, it offers flexible aggregation, calculation, modeling, simulation, and reporting capabilities used in the statutory and managerial finance areas. These can also address the complex information needs of the tax function.

This technology is successfully being used by tax functions to enable the intercompany transfer pricing use case, helping to achieve significant business value, reducing risk, reducing cash leakage, and improving efficiency (see Figure 3).

The same platform can also be used to deliver solutions for wider tax use cases in the indirect tax and customs duty areas, delivering rich insights on the same data and a better ROI on technology.

Figure 3: Example of Potential Benefits Achievable, Based on EY Transfer Pricing Use Cases

<table>
<thead>
<tr>
<th>Mitigating tax and compliance risk</th>
<th>Reducing cash leakage</th>
<th>Improving efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>$48 million in net benefit value</td>
<td>$6 million customs impact</td>
<td>$4.1 million in net benefit value</td>
</tr>
<tr>
<td>$9 million in potential transfer pricing (TP) exposure in terms of unpaid tax (not including penalties or interest)</td>
<td></td>
<td>Over 40,000 hours less time spent on TP audits, TP documentation, country-by-country reporting, TP adjustments, and policy and other reviews</td>
</tr>
<tr>
<td>$19.4 million TP adjustments</td>
<td></td>
<td>$7.7 million forex implications of making the adjustments in the later periods</td>
</tr>
<tr>
<td>$32.3 million in TP audit exposure</td>
<td>$3.1 million in forex impact</td>
<td>$25.9 million TP provision</td>
</tr>
<tr>
<td>$2.5 million TP audits</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Numbers quoted are based on EY experience of many projects over the past decade.
The Power of SAP Profitability and Performance Management

Where there is a requirement to gather, model, calculate, simulate, and report data, the SAP Profitability and Performance Management application can provide rich insights for decision-making. Capabilities of SAP Profitability and Performance Management and its applicability for transfer pricing are shown in the table.

<table>
<thead>
<tr>
<th>Capability</th>
<th>Applicability for tax purposes, in particular transfer pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Data gathering</strong></td>
<td>• SAP® Profitability and Performance Management enables data gathering for transfer pricing (TP) calculations.</td>
</tr>
<tr>
<td></td>
<td>• Calculations require gathering profit and loss data at an aggregated level and product or service data at a transaction level.</td>
</tr>
<tr>
<td></td>
<td>• Data typically sits in different systems and requires sourcing of this data from multiple systems.</td>
</tr>
<tr>
<td><strong>Modeling and calculations</strong></td>
<td>• SAP Profitability and Performance Management enables modeling of the underlying data into a required state and then subsequently running calculations.</td>
</tr>
<tr>
<td></td>
<td>• Predictive models can be created by combining actual data on a real-time basis and forecast data.</td>
</tr>
<tr>
<td></td>
<td>• The application facilitates complex calculations to enable accurate allocations of costs based on identified drivers.</td>
</tr>
<tr>
<td><strong>Simulation</strong></td>
<td>• SAP Profitability and Performance Management enables planning for multiple pricing scenarios involving intercompany transactions.</td>
</tr>
<tr>
<td></td>
<td>• A predictive view of outcomes can be created by simulating the combination of price changes and journal adjustments.</td>
</tr>
<tr>
<td></td>
<td>• Users can understand the knock-on effect on other taxes such as customs duty and withholding taxes for better decision-making.</td>
</tr>
<tr>
<td><strong>Reporting and Analytics</strong></td>
<td>• SAP Profitability and Performance Management enables flexible and transparent reporting.</td>
</tr>
<tr>
<td></td>
<td>• It also enables reporting views to be traced through to the source.</td>
</tr>
<tr>
<td></td>
<td>• On intercompany service transactions, it provides visibility of all the components that build up the service invoice and the traceability required for tax audits.</td>
</tr>
</tbody>
</table>
In addition to SAP Profitability and Performance Management, the SAP Fiori® user experience and the SAP Analytics Cloud solution can enhance decision-making with additional capabilities, as shown in Figure 4.

Figure 4: Role-Based Interface, Modeling Environment, and Enhanced Visualization as Deployed in EY Projects

SAP Fiori® user experience: Role-based user interface to manage end-to-end processes
SAP® Profitability and Performance Management: Business user modeling environment for data aggregation, calculation, modeling, simulation, and reporting

SAP Analytics Cloud: Enhanced visualization for transfer pricing analytics
Case Study: Intercompany Transfer Pricing Processes

The table summarizes the challenges of transfer pricing at a hypothetical company, the capabilities with SAP Profitability and Performance Management, and the value provided to the company.

<table>
<thead>
<tr>
<th>Business challenge</th>
<th>Solution</th>
<th>Value provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Process inefficiencies and inconsistencies</td>
<td>• Automation of intercompany services and tangible goods transactions in compliance with transfer pricing requirements</td>
<td>• Process efficiencies and integration</td>
</tr>
<tr>
<td>• Manual data collection and processing</td>
<td>• Workflow-enabled processes</td>
<td>• Improved business value through reduction of cash leakages and additional insight</td>
</tr>
<tr>
<td>• Limited data visibility and traceability</td>
<td>• Sourcing of data from multiple systems</td>
<td>• Enhanced tax risk management through data visibility and granularity</td>
</tr>
<tr>
<td>• Potential cash leakage</td>
<td>• Standardized and transparent transfer pricing calculations</td>
<td></td>
</tr>
<tr>
<td>• Limited overview of transfer pricing risks and exposures</td>
<td>• Full audit trail of processes and data to support compliance requirements</td>
<td></td>
</tr>
</tbody>
</table>

Applicability to Other Use Cases

The requirements addressed by SAP Profitability and Performance Management illustrated above from a transfer pricing perspective can be applied to other tax, statutory finance, and managerial finance use cases. We see businesses having access to new and valuable insights for decision-making by implementing multiple tax use cases such as indirect tax and customs duty on a single platform, answering questions such as these:

• What is the impact of my new transfer prices on customs duty?
• What is the impact of TP journals adjustments?
• What is the related impact on my effective tax rate?

What if there was a platform technology that could enable tax and finance functions to make complex decisions in real time or even on a predictive basis across multiple taxes and business scenarios? That platform exists today – and it is available to customers of SAP and EY. Contact us to start your journey.
For More Information

For details on products and services from SAP and EY, visit the following Web sites:

- [Intelligent financial management solutions](#) (SAP)
- [EY and SAP alliance](#)
- [EY transfer pricing](#)