

Outsourcing Corporate Tax Services

Superior Strategies for Tax Compliance and Payment Payable Function Costly and Inefficient

Why are companies increasingly outsourcing tax services that previously were handled by their own personnel? What are their outsourcing options? What are the key benefits of delegating these activities to tax solution providers?

These are some of the questions that CFOs, controllers, treasurers and tax directors are now trying to answer for themselves. They realize that all is not well with their existing tax management arrangements. Now, they are trying to determine whether superior approaches might exist.

What they are discovering is that they have essentially two options when outsourcing. They can adopt a consolidated approach—tax compliance and payment processes provided by a single service provider. Or they can adopt a convergent approach—tax compliance and payment services delivered by two, seamlessly aligned specialist firms.

In order to select the right approach, decision makers should consider the strengths, limitations and trade-offs associated with each option. They should carefully weigh the evidence and decide what might work best for their companies. The evidence, in most cases, heavily favors the convergent strategy. While there are certainly benefits associated with having a consolidated, “one stop” solution, the balance generally tips to the convergent solution when one considers the superior value it delivers in terms of expertise, efficiency and execution. Specialist firms, quite simply, deliver preferable outcomes with respect to cash management, risk management and customer service.

In this position paper, you’ll learn the case for corporate tax services outsourcing, the varying outsourcing options, and the key reasons why most companies should rely on proven specialists to address their tax compliance and payment needs.

Why Are Companies Outsourcing Their Tax Services?

There are several key trends and factors now encouraging companies to consider outsourcing their tax management services. Indeed, finance and accounting decision makers are coming to several conclusions about their in-house efforts. Among them:

+Tax Management is Increasingly Complex and Risk-Laden. New rules and regulations—covering a multitude of tax jurisdictions—have made it extremely difficult to remain compliant. Whether their compliance concerns are related to sales and use taxes, excise taxes, property taxes or some mix, companies are finding themselves overwhelmed by a growing list of demands and requirements. Nor is there any likelihood that tax regulation and enforcement will become any less complex in the future. Not only do they run the risk of non-compliance (which can trigger audits and other governmental actions), they are at risk of absorbing profit-killing penalties for late tax payments.

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+Tax Management is Increasingly Costly and Inefficient. To meet growing tax demands, companies are throwing their people at difficult and time-consuming problems. Too often, they don't have the people on staff necessary to complete the job in a timely and effective manner. Not surprisingly, today's labor-intensive approaches to in-house tax compliance and tax payment are an enormous cost burden on an enterprise. Tax compliance professionals now have to study and understand the guidelines associated with each tax jurisdiction to merely remain in compliance. But then they must rely on their accounts payable counterparts to handle payment in an expedient and appropriate manner—a common point of misalignment and breakdown.

+Tax Management is Not a Core Competency. No company distinguishes or differentiates itself in the marketplace through its management of taxes. Their customers simply don't care. Rather, companies now realize they have to focus on deepening their core market strengths

if they are to win in today's hypercompetitive world. With this in mind, they are seeking ways to delegate and outsource activities that are considered "non-core." In so doing, they can redirect their energies and resources to efforts that will produce enduring value and competitive advantage.

In a recent survey of its members, the American Institute of Certified Public Accountants (AICPA) identified several key reasons for outsourcing corporate tax services. The top reasons were:

- increasing time for high value activities (33%);
- lack of qualified tax professionals (30%); and
- improving the control, accuracy and timeliness of tax functions (27%).

By outsourcing tax management services (both compliance and payment), companies gain an opportunity to address these challenges. They can better manage and mitigate their risks in the face of increasingly complex tax environments. In fact, they can shift accountability for compliance and payment to their partner or partners through service level agreements. They can ensure their tax services are handled in a more productive, efficient and cost-effective way. And they can focus their strategic efforts and organizational resources on actions that contribute to shareholder value, market differentiation and profit margins.

What Tax Services are Being Outsourced?

When companies do outsource tax services, they are typically outsourcing two distinct tax functions: compliance and payment. It's critical to take a closer look at both of these functions to understand what makes them such distinct and demanding roles.

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+Tax Compliance. Outsourcing this function enables a company to delegate the management of tax law compliance and benefit from the expertise of the supporting firm. Given the growing demands and complexities associated with compliance, these capabilities are recognized as increasingly valuable. These parties can handle sales and use taxes, excise taxes, and property taxes in a wide array of tax jurisdictions. Many specialty firms even offer protection to their clients for any errors that are made in compliance work and offer expert representation in an audit. Further, these firms generally can provide corporate tax return review, responses to IRS notices and Sarbanes-Oxley document compliance. It's a demanding role that depends on deep knowledge and expertise in the laws, regulation and requirements of varying tax authorities and jurisdictions.

+Tax Payment. While such activities have traditionally been handled in a very manual and laborious manner, tax payment processing is increasingly being automated and streamlined. Through tax payment processing software platforms, some payment providers can provide their clients with visibility into the payment process while increasing control over cash flows associated with tax payments.

Tax payment processing tends to get outsourced because it is considered a critical portion of accounts payable—one that is subject to fines, penalties and other negative consequences if it is mishandled. Quite simply, the corporation takes a hit to the bottom line every time a tax payment is late. However, external payment processors can offer guarantees of on-time payment, bearing the cost of penalties should they be incurred due to their own errors. In this case, efficiency and

execution are critical to successful performance. By allowing the outsourcing partner to handle checks and electronic funds transfers, companies are able to delegate activities that have often been handled by in-house accounts payable departments in very frustrating, inefficient and time-consuming ways.

By understanding the distinctive aspects of these two functions, corporate decision makers are in a better position to determine how they can attain an optimal outsourcing solution.

Two Approaches to Outsourcing: Convergent vs. Consolidated

Assuming a company intends to outsource both tax compliance and tax payment, there are essentially two approaches they can take: consolidated and convergent.

CONSOLIDATED APPROACH. The consolidated option involves a single company providing both tax compliance and tax payment capabilities. It has the virtue of being a “one stop shop”—one throat to choke, as they say. The trouble with this approach is that you may want to wring this neck quite often. Whatever the advantages of having these functions under one roof, they are likely eclipsed by the liabilities. The key problem is that companies who offer these expansive solutions are trying to manage two, highly diverse business models under one roof.

This is a recipe for sub-optimization. First, such firms do not tend to be CPA accounting firms. They lack the breadth, depth and focused expertise necessary to keep up with rapidly changing tax laws and rules. They may not be sufficiently expert at addressing the complex nuances of Sarbanes-Oxley regulation. Such limitations on their expertise create risks associated with government

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audits as well as lost profits tied to overpayments. What's more, tax problems can lead to public relations problems, undermining the value of your brand in the marketplace and among investors.

Second, such firms generally lack sophisticated software and automation platforms. As generalists, they lack the specialized capabilities to build and deliver platforms that drive new efficiencies and provide visibility into tax payment activities. Many of them even require that tax monies be collected far ahead of payment—leading to negative impact on cash flow.

With two business models under one roof, the consolidators will always tend to offer reduced service levels and suboptimal performance. They are incapable of leveraging the economies of specialization. The consolidator is a jack of two trades, master of neither.

CONVERGENT APPROACH. The convergent option involves two companies—one specializing in tax compliance, the other in automated tax and accounts payable payment processing. While it's intuitive to believe this adds complexity (relative to a one-stop approach), the reality in today's markets is that advanced network communications and cooperation of the parties involved can virtually eliminate the downside. Tax compliance and tax payment firms can now operate in a seamless manner. They converge.

The true benefit, however, comes in leveraging specialization or “best of breed” capabilities.

In this case, the tax compliance specialists—recognized CPA firms—have the deep knowledge and expertise to handle today's complex tax management challenges.

They have expertise in all manner of taxation and tax jurisdictions. Regulated as CPAs, they are deeply conversant in the issues surrounding Sarbanes–Oxley legislation and would be powerful advisers and allies in the case of a possible audit.

Similarly, tax payment specialists are focused on leveraging advanced technology to deliver visibility, control and new efficiencies in their role of payment processors.

The best in the field pride themselves on “just in time payment”—allowing you to keep possession of your treasury funds until the point at which payments are made.

Moreover, they can swiftly and accurately handle the complexities of dealing with varying taxes, varying payment approaches (check or EFT) and varying jurisdictions— even when the payment challenges are global in nature. Of course, these complexities are only increasing. There are roughly 10,000 tax jurisdictions in North America alone—and the shift toward electronic payments has been accompanied by an absence of standards and, thus, a high risk of payment errors.

By increasing service levels, lowering your risks and managing your money with great precision, the convergent approach represents a superior way (in most cases) to handle the tax management challenge. These benefits are likely to become only more powerful over time as the technology further improves.

The Case for Specialization

Some companies may find benefits in pursuing the consolidated option—at least in the short run. They may try it out and determine it works for them. Still others will abandon the approach when they begin to experience disappointing service levels.

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Most corporations that are weighing these options, however, are likely to see the powerful benefits associated with working with true specialists. The key benefits they experience:

- + Superior Service Levels
- + Greater Brand Protection
- + Better Guidance and Advice
- + Higher Efficiencies
- + Stronger Execution

Corporations today have a lot to gain in terms of how they handle their tax issues, but they have even more to lose. Mishandling of such issues not only can cut into profitability, it can lead to other problems that can harm the firm's reputation or create unpleasant conflicts with tax authorities.

Given the increasingly complex tax environments companies are now confronting, they can no longer afford to stick with a problematic status quo or even embrace a suboptimal alternative. They need specialized partners who are prepared to deliver world-class solutions.

Next Steps: Engaging a Trusted Advisor on Tax Matters

Companies interested in exploring their options in terms of tax management solutions should take the time to compare and contrast both of the options we've presented here. By considering some of the issues we've raised regarding the

Consolidated and Convergent approaches, we think you'll be in a strong position to choose the one that is best for your company.

Should you take the time to consider the Convergent option we advocate in this paper, we suggest you begin your discussions with a reputable and recognized CPA firm.

About Anybill

Built on the premise that all payments are critical, Anybill was created in 2001 to transition any AP transaction to an automated solution. We combine our proprietary technology with unmatched customer service to deliver a complete Software-as-a-Service solution. Clients retain efficient workflows while gaining greater visibility and control, better cash flow management, streamlined approval processes, 24/7 accessibility, and increased auditor confidence. Anybill works with clients ranging from non-profit associations to some of the largest multinationals. We are headquartered in Washington, DC, and are SSAE 16 SOC compliant.