

Key Challenges for Today's Tax Department

*The Current State of the North American
Tax Environment*



*A special report by Ryan based on independent studies conducted by
CFO Research Services and Canadian Financial Executives Research Foundation.*

Making Tax Matter Again

Tax departments across North America are facing a new reality as they manage their organization's tax function. A perfect storm of external factors, many beyond the organization's control, are aligning to drive a unique set of challenges for tax executives. These evolving changes present both risks and opportunities as corporate tax departments seek to manage the increased complexity of regulatory requirements, as well as rapid globalization, technology and infrastructure limitations, increased risk, and a lack of resources.

The increased scrutiny on tax administration from shareholders, audit committees, and management, combined with the evolving market dynamics, are trapping many tax departments in a low-value compliance loop as they try to balance the increased demands of accuracy and risk mitigation against the pressure to run the department as efficiently as possible. But simply focusing on compliance does not meet the expectations of the C-level and senior finance executives. They want the tax department more involved in planning, creating prospective performance and profitability improvement strategies that complement the organization's plan for growth. The lack of alignment between the realities of the tax executive's world and the expectations of the Chief Financial Officer (CFO) has often reduced the role of the tax department to mere compliance-related activities at the expense of higher value strategic planning initiatives. As a result, tax departments often lack the visibility needed within the organization to significantly drive the desired change, develop the business case for additional resources, and demonstrate the strategic responsibility that can break the cycle of the low-value loop.

These pressures are unprecedented and are changing the way that tax leadership and their stakeholders, as well as tax advisors, are thinking about their responsibilities and their response to a common objective—helping the organization think strategically about the implications of tax, and striking a balance between managing costs, driving efficiencies, and maximizing accuracy.



CONTENTS

Low-Value Loop	3
Key Challenge #1: Lack of Alignment	5
Key Challenge #2: Increased Requirements and Complexities	6
Key Challenge #3: Reduced Resources	7
Key Challenge #4: Mitigating Risk	8
Key Challenge #5: Data Management	9
About the Study	12

The Current State of the North American Tax Environment

Over the past three years, Ryan has commissioned independent studies by CFO Research Services and the Canadian Financial Executives Research Foundation (CFERF) to validate our long-held beliefs related to the dynamics of a changing tax environment, formed as a result of our extensive work with many of our premier global clients. These survey groups solicited opinions and perspectives from 348 senior tax and finance executives in companies across North America, with more than 70% of those having more than \$500 million in annual revenues. The objectives of the studies were to determine how each organization defined and measured the success of its tax function, as well as gain unique insight into the objectives, challenges, and dynamics of tax from the perspective of both senior finance and tax executives.

The resulting data overwhelmingly pointed to five key challenges that inhibit the tax department's ability to be more strategic, and ultimately more effective. These challenges can be broadly defined as 1) lack of alignment between the tax department and the organization, 2) increased regulation and globalization complexities, 3) reduced budget and human resources, 4) risk management and mitigation, and 5) technology issues related to disparate systems and data integrity.

Differences in perceptions surfaced between responses from senior finance executives and tax professionals on several of the topics surveyed. The studies provide deep insight into the alignment issues that tax departments face when understanding and connecting with the objectives of its key stakeholders. Increased complexity in compliance, the greatest in history, is presenting a serious challenge for tax departments. While tax executives seek to maintain pace with the changing regulatory requirements and compliance complexities, they struggle with securing the talent and financial resources needed to stay ahead of the growing demands and expectations. In many cases, these resources are proving extremely difficult to justify, secure, and maintain.

A tremendous amount of attention and pressure is being placed on the tax department's ability to manage and mitigate business risk. Data issues resulting from disparate and antiquated systems and frequent merger and acquisition activity are presenting significant challenges to a tax department's ability to gather, analyze, and report the necessary data required on a daily basis.

While the impact of each specific challenge varies by organization, the outcome is often the same. The inability of tax and finance executives to appropriately align and address these key challenges often results in a preponderance of low-value activities that dominate the resources of the tax department. The tasks associated with managing compliance requirements and resource issues often prevent the tax department from elevating its presence in the organization to focus on more strategic initiatives. With so much time being spent on necessary, yet less strategic matters, the perception that the tax department is a compliance oriented, non-strategic member of the corporate finance function is perpetuated, and the cycle of low-value activity is strengthened. Clearly, the choices organizations make when facing these challenges have significant and lasting effects on the outcomes.

Tax is Trapped in the Low-Value Loop

An overwhelming majority of tax executives reported that the primary allocations of tax department resources are devoted to compliance, as opposed to planning. As the tax department spends more time on preparing tax returns and record keeping, the time devoted to the more strategic activities such as analyzing the tax consequences of business decisions is reduced. As a result, high-value activities are giving way to low-value demands, leading to a focus on the urgent rather than the important, and resulting in the misalignment of priorities and resources that deliver the greatest return on investment.

As more and more tax departments are forced to focus on what is urgent at the expense of what is important, they become trapped in a low-value loop that decreases the perception of the tax department's performance and damages their organizational credibility.



76% of tax departments devote most of their resources to compliance.

Survey Question: The tax department at my company devotes most of its resources to:

Tax Executives	Compliance vs. Planning	
Compliance	97	76%
Planning	30	24%

CFERF and CFO Research Survey Findings

9 of 10 finance executives indicate the need for increased tax involvement in planning and policy matters.

Survey Question: In your opinion, how well has your company's tax department performed in the following areas?

Finance Executives	Participating in tax planning and policy making	
Room for improvement	59	36%
Average (comparable to peers)	83	51%
Excellent	22	13%

CFERF and CFO Research Survey Findings

Less than 50% of tax executives believe they have the requisite organizational credibility to be effective.

Survey Question: To what extent do you agree or disagree that the tax respondents believe they have the requisite organizational credibility to be effective?

Tax Executives	Greater organizational credibility to be effective	
Disagree strongly	8	9%
Disagree	12	14%
Neutral	27	31%
Agree	27	32%
Agree strongly	12	14%

CFO Research Survey Findings

Creating Opportunities to Break the Low-Value Loop and Improve Tax Performance

Despite the emerging trends and challenges facing tax executives, the increased scrutiny and attention provides an opportunity to develop a compelling case for change. Improvement opportunities can be tied to reduced risk, increased efficiency, improved accuracy, and the delivery of greater overall strategic value.

Tax executives essentially have two choices: do nothing and perpetuate the status quo, or do something to enhance reliability, accuracy, and the overall efficiency of tax through the right alignment of people, processes, and technologies.

The research contained in this report validates a business case for creating a tax competency center focused on building total tax performance by assessing the current state of tax, evaluating the existing outcomes, and transforming the tax function into a best practices environment.

Key Challenges

We have outlined five key challenges identified in our research studies.

- ❶ **Lack of Alignment**
- ❷ **Increased Requirements and Complexities**
- ❸ **Reduced Resources**
- ❹ **Mitigating Risk**
- ❺ **Data Management**

Tax executives must address these challenges to break free of the low-value loop. In this report, we provide our analysis of how executives can meet these challenges and create breakthrough performance improvements for tax.



Key Challenge #1:

Lack of Alignment

Our studies indicate that there is a lack of alignment between the tax function, tax executives, finance executives, and those who define the success of tax in the organization. Senior financial executives continue to rank tax minimization as a high priority, yet the time that the tax department spends on managing tax liability continues to decrease while compliance demands continue to increase. While 76% of tax departments are immersed in compliance activities, a major priority of the finance executives is the strategic initiative of reducing the company's overall tax liabilities through tax planning and analysis, indicating a lack of alignment between departments.

91% of senior finance executives believe the tax function needs to improve its ability to reallocate resources from tax compliance to tax planning and analysis.

Survey Question: In your opinion, how well has your company's tax department performed in reallocating resources from tax compliance to tax planning and analysis?

Finance Executives	Reallocating resources from tax compliance to tax planning and analysis	
Room for improvement	69	42%
Average (comparable to peers)	82	49%
Excellent	15	9%

CFERF and CFO Research Survey Findings

More than 50% of senior finance executives believe the tax function should be more tightly integrated with the rest of the finance function.

Survey Question: To what extent do you agree or disagree that the tax function should be more tightly integrated with the rest of the finance function?

Finance Executives	Tax function's integration with the rest of the finance function	
Disagree	13	13%
Neutral	35	35%
Agree	39	40%
Agree strongly	12	12%

CFO Research Survey Findings

Meeting the challenge

The challenges faced by tax executives often prohibit them from meeting the expectations of finance executives. The tax function is forced to devote its scarce resources to compliance, while the senior finance executive's assessment of tax performance is shifting to enhanced financial performance and strategic planning, in addition to accurate and timely compliance and reporting.

To deliver maximum corporate value, tax departments need to identify their key stakeholders to thoroughly understand how they define success for the tax function and their priorities regarding time and resources. Tax departments need to seriously evaluate how they are prepared to succeed in the eyes of these stakeholders, modifying today's behaviors to achieve desired future results. A clear strategy for aligning the tax function with the organization must be defined. The tax department needs to leverage its value as a strategic planning function of the organization, elevating its role in planning initiatives related to risk management, capital investments, and overall corporate growth and development.

Key Challenge #2:

Increased Requirements and Complexities

As organizational demands and compliance requirements increase, so does the burden on tax executives. In addition to the day-to-day operation of the tax function, tax departments face new developments in tax laws, changes in accounting standards, rapid globalization, and compliance. As a result, increasing regulatory compliance is now a complex burden for many tax executives.

9 of 10
tax executives face greater complexity due to the increased frequency of audits.

Survey Question: In your opinion, how much of a challenge will increased tax complexity due to increased frequency of audits present to your company's tax function?

Tax Executives	Increased complexity due to growing tax authority audits	
Little or no challenge	19	15%
Moderate challenge	63	49%
Significant challenge	46	36%

CFERF and CFO Research Survey Findings

81% of tax executives are faced with increased complexities due to changing overseas business activity.

Survey Question: In your opinion, how much of a challenge will increased tax complexity due to increased overseas business activity present to your company's tax function?

Tax Executives	Increased tax complexity due to increased overseas business activity	
Little or no challenge	23	19%
Moderate challenge	61	50%
Significant challenge	38	31%

CFERF and CFO Research Survey Findings

Meeting the challenge

In an environment of intense scrutiny, North American tax departments are experiencing exponential increases in their administrative responsibilities. Tight deadlines and compressed time frames are the norm, while tax executives are continuously challenged to adapt to the requirements of changing corporate structures, disparate data sources, frequent audits, and an increasing number of taxing jurisdictions.

To overcome these challenges, tax executives must develop strategies to improve the efficiency and effectiveness of the people, processes, and systems that will engineer certainty and repeatability in their tax operations. They need to find innovative and efficient ways to manage the tax implications of globalization and the varied priorities and perspectives that exist country by country. They must also enhance the credibility and visibility of the tax department to build consensus across their key organizational partners for deploying their process improvement strategies.

Key Challenge #3:

Reduced Resources

With fewer qualified resources available in the marketplace, tax executives must seriously consider the implications of maintaining the status quo on their ability to attract and retain top talent. The reality is that talented professionals are drawn to a more dynamic environment and welcome the challenge of contributing to strategic and meaningful activities that provide an opportunity for growth and advancement.

88% of tax executives indicate that improving talent management is a priority over the next two years.

Survey Question: Looking forward over the next two years, how high of a priority is improving talent management for tax professionals (e.g., recruiting and training)?

Tax Executives	Improving talent management for tax professionals (e.g., recruiting and training)	
Low priority	10	12%
Mid-level priority	43	50%
High priority	33	38%

CFO Research Survey Findings

9 of 10 tax executives face significant constraints in time, budget, and resources, severely restricting their ability to strategically realign their focus.

Survey Question: How much of a challenge will time, budget, or resource constraints present to your company's tax function?

Tax Executives	Time, budget, or resource constraints	
Little or no challenge	11	9%
Moderate challenge	63	49%
Significant challenge	54	42%

CFERF and CFO Research Survey Findings

Meeting the challenge

Tax executives responded overwhelmingly that their talent management must improve. However, improving talent management begins by creating a challenging work environment that provides talented tax professionals a career path that focuses on high-value, strategic activities, while minimizing the more redundant, compliance-related work. Yet, the executives surveyed report that 76% of the tax department resources are dedicated to compliance. Offering an attractive work environment that promotes strategic career opportunities presents a significant challenge to tax departments that are mired in the low-value loop of administrative tasks.

It becomes imperative that tax executives find a way to align with the objectives of senior finance executives across their organizations

to accurately access and review their tax processes to identify and improve the efficiency of their operations. They must develop and implement a plan to improve the people, processes, and systems related to the tax function. And, they must credibly sell their business case through the executive decision-making process, all the while ensuring that the necessary administrative tasks are completed timely and accurately.

It's an aggressive undertaking, but if successfully implemented, it creates the type of environment needed to attract and retain the best tax talent available. It will also build the credibility needed to secure the capital required to implement technology solutions and process improvements. This will improve efficiency and eventually reduce the resources required to manage burdensome compliance activities.

Key Challenge #4:

Mitigating Risk

Tax departments face the daunting pressure of demanding audit committees and regulatory bodies who demand greater certainty and transparency. To ensure that reporting is timely and accurate, and that the underlying processes are robust, it requires a significantly greater investment of resources from an already overburdened tax group. Given the consequences of inaccurate financial reporting, uncompromising quality and success in this

area are expected. The markets stand ready to punish an organization's stock price at the first hint of restated earnings. With this type of exposure, nothing short of excellence in the tax department's ability to mitigate business risk is acceptable. However, only a small minority of the finance executives surveyed actually believe their tax functions are performing "excellent" in mitigating risks.

Only 14%
of finance executives rate their tax departments as excellent in mitigating business risks.

Survey Question: In your opinion, how well has your company's tax department performed in mitigating the business risks associated with tax?

Finance Executives	Mitigating business risks associated with tax	
Room for improvement	47	28%
Average (comparable to peers)	97	58%
Excellent	24	14%

CFERF and CFO Research Survey Findings

8 of 10
finance executives believe the tax department needs to improve its ability to identify the tax consequences of major transactions.

Survey Question: In your opinion, how well has your company's tax department performed in its ability to identify the tax consequences of major transactions and avoid tax-related errors in financial statements?

Finance Executives	Ability to identify the tax consequences of major transactions and avoid tax-related errors	
Room for improvement	51	31%
Average (comparable to peers)	72	45%
Excellent	39	24%

CFERF and CFO Research Survey Findings

Meeting the challenge

There is a critical new relationship between the quality of tax management and the overall corporate reputation and market capitalization. Ever increasing external scrutiny continues to significantly impact the tax department and the responsibility placed on tax leaders. Risk mitigation has become paramount; transparency and accuracy are absolutely essential. With transaction tax representing such a large portion of overall corporate risk and cash flow, it is critical that the tax function actively participates in mitigating risk. Tax executives can no longer operate independently in today's environment. It's imperative that they actively integrate with executive management and other internal oversight groups, such as the audit committee, to create risk management policies and procedures, and then continually manage, evaluate, and adjust to ensure maximum risk mitigation. The current regulatory challenges driving the need for an enhanced risk strategy is

creating an excellent opportunity for the tax department to demonstrate the greater value it can deliver in the company's risk management and planning strategies. While developing a robust risk strategy requires a significant investment of strategic thought and time, it is a critical measure for tax departments and an opportunity to break free of the low-value loop. Tax executives must effectively identify and communicate the risks that are inherently impacting the overall business. And, they must also be a commanding voice across the organization for driving the required system and process changes to mitigate those risks. Tax executives that can strike a balance between focusing on the additional detail and accuracy required of their tax departments, while effectively reserving time and reallocating resources to focus on more strategic objectives, will see quantum leaps in the visibility and influence of the tax function across their organizations.

Key Challenge #5:

Data Management

Current technology, combined with best practices in process improvement, can dramatically upgrade the tax department's ability to avoid tax-related errors in financial statements and facilitate the reallocation of resources toward higher value strategic tax planning activities. However, our research results indicate that decentralized, redundant, and unreliable data continue to inhibit the ability of North American tax professionals to operate at peak efficiency and effectiveness. Additionally, existing financial system limitations beyond the direct responsibility of the tax executive seem to be compounding the challenges.

81%

of tax professionals indicate a need to drive improvements in their processes and systems for storing, analyzing, and retrieving tax data.

Survey Question: Looking forward over the next two years, how high of a priority is improving processes and systems for storing, analyzing, and retrieving tax data?

Tax Executives	Improving processes and systems for storing, analyzing, and retrieving tax data	
Low priority	16	19%
Mid-level priority	37	43%
High priority	33	38%

CFO Research Survey Findings

75%

of tax and finance executives believe limitations in their current financial systems will present and create challenges for the tax department in the near future.

Survey Question: In your opinion, how much of a challenge will the limitations of current financial IT systems present to your company's tax function?

Tax and Finance Executives	Limitations of current financial IT systems	
Little or no challenge	82	25%
Moderate challenge	182	56%
Significant challenge	60	19%

CFERF and CFO Research Survey Findings

Meeting the challenge

With the tax department's performance being heavily reliant on complete and accurate data, it's imperative that the tax executive assess and transform the processes and systems that collect, analyze, and manage this information. They must also conduct internal reviews of the accuracy on a routine basis to ensure the dynamic environment has not rendered the "old way" deficient. All too often, highly skilled tax professionals are charged with making the most

of bad systems and processes, which paralyzes the department's performance and ability to deliver real strategic value to the organization. Tax executives that effectively build a business case for making the required technology changes with the key stakeholders of the organization will make monumental strides toward breaking the low-value loop that entraps many tax functions.

Achieving Total Tax Competency

Today's tax executives have a choice. They can do nothing and perpetuate the low-value loop, or they can do something and transform the tax function into a recognized, value driven function within the organization.



The reality is that North American tax departments are faced with challenges of doing more with less while being asked for greater efficiency and accuracy in a dynamic and complicated environment for capturing the necessary information to perform their jobs. Concurrently, the individuals who define the department's success perceive it as an administrative function limited in its ability to advise on a strategic and prospective basis.

This leads to a crossroad for the tax department, with many continuing to engage in low-value activities as opposed to the pursuit of high-value, rewarding opportunities. The ultimate goal for the tax department should be to exhibit the success that will attract the attention and needed investments to enhance the department's future growth. By performing well in the defined metrics of the stakeholders, the requisite dollars and talent should follow.

To do so, tax executives must address strategic alignment issues by implementing processes and technologies needed to manage the increased requirements that drive

tax departments to focus on urgent, rather than strategic activities. They must evaluate the department's credibility and perception within the organization. By increasing their involvement in more strategic activities that demonstrate a higher return on investment, the tax department will attract and retain talent and gain a more prominent, credible voice with executive management.

Tax executives must find a way to leverage experience and best practices to transform the tax function into a Tax Competency Center. They can benefit greatly from a total performance assessment of their current processes relative to their desired objectives and stakeholder expectations. Through benchmarking current performance, identifying best practices in relation to peer and historical performance, and measuring the delta between reality and the department's potential, tax executives can develop a clear roadmap for transformation. Armed with this vision, tax executives are poised to develop an effective business case that outlines and justifies financial and human resource needs, and the anticipated return on investment.

Equally as important, tax executives will see the critical need for creating a culture of performance-based measurement. Shifting the department's focus to high-value activities and outsourcing or automating low-value activities will enable them to establish a culture that is dedicated to continuous improvement while enhancing the department's ability to attract and retain tenured, experienced professionals who share the proper mindset and ability to deliver critical business expertise and corporate value. Outsourcing or automating low-value activities will free departmental resources for higher value activities while improving efficiency and embedding expert, functional knowledge into repetitive activities. Focusing on higher value activities improves the tax department's ability to offer current and potential employees a more desirable career path that includes broader exposure to the overall business operations and involvement in strategic decision making and planning processes.

While often overlooked, the transformation process should include a strong communication plan for exchanging information and celebrating success. This plan should solicit regular feedback from stakeholders and identify perceptions and measurements of the tax department's performance. It is critical that tax executives understand the changing needs and objectives of stakeholders while communicating departmental goals and prioritizing transformation initiatives. Routine updates communicating the status of the transformation efforts will keep stakeholders well advised of the department's progress and accomplishments. Overall corporate participation in the transformation plan will increase and expand ownership beyond tax to the key stakeholders, leading to greater appreciation for the tax department's contribution to the business.

During the transformation, various change initiatives will be prioritized based on their importance and potential impact to the

overall effort. Tax executives should build a framework for assessing the cost and benefit expectations for any possible changes, closing the gaps between the current and desired future state. It is critical to prioritize and implement these change efforts in alignment with key stakeholder's objectives, developing evaluation criteria for prioritizing improvement opportunities, current corporate initiatives, and potential impact. To be successful, change should be implemented with reasonable expectations at a reasonable pace.

An efficient tax department will add genuine business value within an organization, and confidence in existing policies, practices, business systems and processes will increase. Tax executives can take great satisfaction in the fact that the organization will have identified and addressed material gaps with high-priority business policies, practices, systems, and processes. The tax department will have a clearly defined process for working in alignment with its internal partners and have a greater voice and influence as a result. Tax executives will know that they are not only adding real business value, but doing so in a way which is highly visible within the organization. Most importantly, corporate leadership will have confidence that its tax department is truly performing and that its efforts are positively impacting the strategic objectives of the organization.

Today's tax executives have a choice. They can do nothing and perpetuate the low-value loop, or they can do something and transform the tax function into a recognized, value driven function within the organization. Tax executives are meeting the challenge head on and successfully transforming the role of the tax department. Many of the world's most successful companies are starting to see and believe that they can!

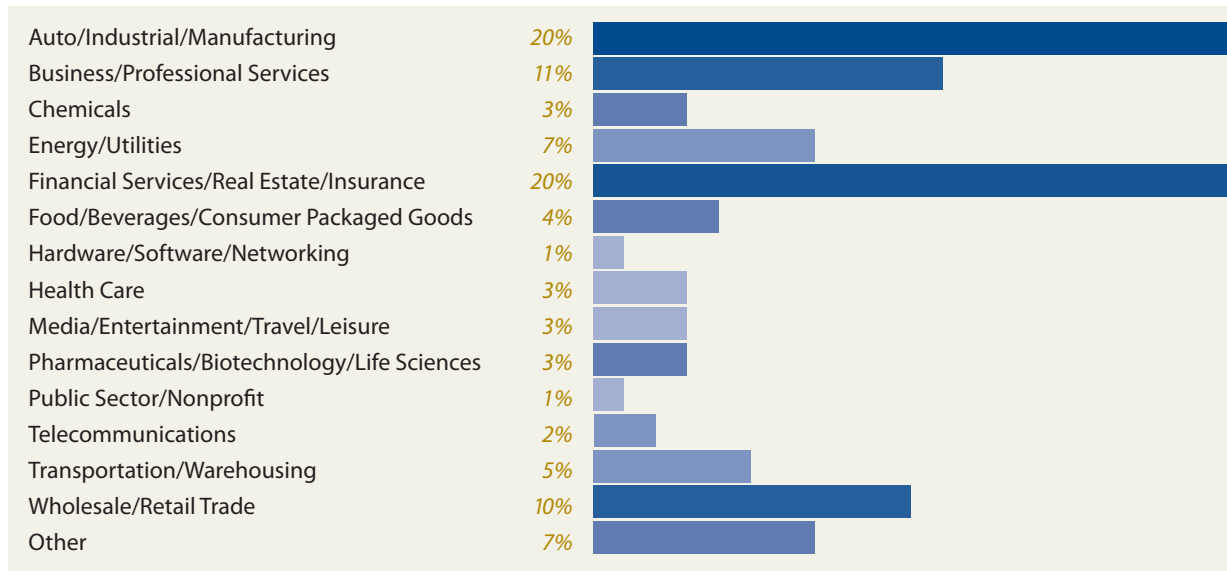


About the Study

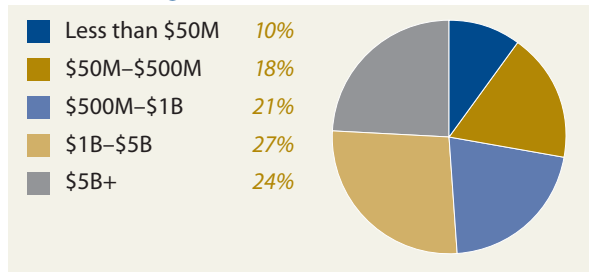
Over the course of three years, Ryan has commissioned independent research studies with CFO Research Services and Canadian Financial Executives Research Foundation (CFERF). The studies targeted senior finance and tax executives across the United States and Canada to confirm and validate our experiential findings of the new reality facing corporate tax departments. The surveys solicit input on how the role of tax is continuing to evolve and the challenges that impact the tax organization's ability to strategically align and add value for the business.

CFO Research Services and CFERF distributed an invitation-only survey to corporate senior finance and tax professionals. A total of 348 responses were received. Recipients represented a broad range of industries, with 73% reporting revenues in excess of \$500 million. Cross tabulations of responses from finance and tax professionals were drawn to highlight differences in perception, priorities, and strategic vision.

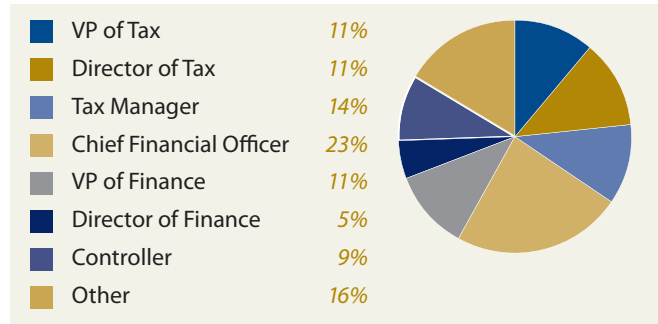
Respondents represented the following industries:



Respondents reported the following annual revenues:

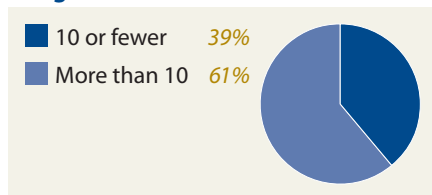


Respondent positions included:

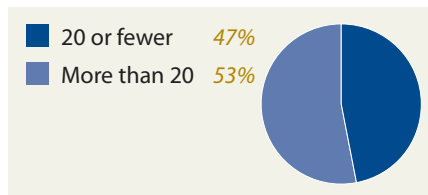


Corporate structure of respondents included:

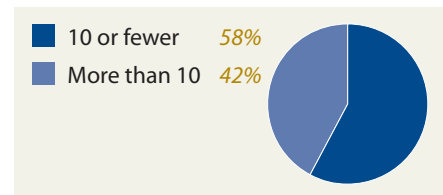
Legal Entities:



Domestic Tax Jurisdictions:



Overseas Tax Jurisdictions:



About Ryan

Ryan is the leading tax services firm in North America, with the largest transaction tax practice in the United States and Canada. Headquartered in Dallas, Texas, the Firm provides a comprehensive range of state, local, federal, and international tax advisory and consulting services on a multi-jurisdictional basis, including audit defense, tax recovery, credits and incentives, tax process improvement and automation, tax appeals, and strategic planning. With a multi-disciplinary team of more than 875 professionals and associates, Ryan serves many of the world's most prominent Fortune 1000 companies.



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