- WHEN TO CONSIDER
- FULL OR PARTIAL
- OUTSOURCING

OF CORPORATE TAX FUNCTIONS



DRIVERS PROMPTING THE OUTSOURCING ALTERNATIVE

Companies of all sizes are driven to explore outsourcing their tax functions for a clear set of reasons. These include deadline pressures, budget limitations, stretched-thin internal resources, and challenges keeping up with regulatory changes. And the trend towards outsourcing is only increasing. In a recent Big 4 survey of 300 chief tax officers at large public and private U.S. companies with revenue of \$2 billion or more, 83% plan to use outsourcing, co-sourcing, or managed services models in the next three years. Nearly half of them (49%) have already begun to leverage third-party tax technology providers, and over half (52%) have plans to address current and future talent retention issues by adopting these models. (Cohn, 2023)¹

Outsourcing tax functions, whether fully or via a co-sourced arrangement, offers companies access to the right people, process, and technology to comprehensively address operational tax functions and reduce overall tax liabilities for their organization. The relationship between a tax services provider and a company allows the department to scale up or down as the business evolves.

TAX TECHNOLOGY AS A KEY DRIVER

When it comes to outsourcing tax functions, the service provider's acumen in helping companies fully leverage tax technologies cannot be understated, regardless of where the company currently stands in its tax technology journey. When companies experience real change – whether it be through new products, divestitures, mergers and acquisitions, or by way of legislation at the Federal, state, and international levels – tax departments are expected to adjust practically overnight.

Technology is often among the more expensive investments that companies make, and the same is true of tax software. If not used at all or underutilized, companies of all sizes remain bogged down with manual processes.

THE BENEFITS OF OUTSOURCING

The benefits of outsourcing will vary based on each company's exact scenario, but often include:

- · Access to specialized expertise
- Processes fully automated with best-in-class technologies
- Tighter controls
- Return deadlines more closely monitored and accelerated
- Lower internal costs (technology, FTEs, etc.)

By outsourcing or co-sourcing their tax functions, companies gain access to best-in-class tax software, enterprise applications, data management software, BI tools, and even collaboration technologies that streamline workflow management, data wrangling and preparation, tax calculation, and review activities. These technologies help companies transform raw data, adapt for changes to calculations, automate manual processes, and create meaningful outputs for easy end-user interaction and understanding – all without costly up-front investments or a prolonged learning curve. And as companies evolve, the service provider can provide in-house training and a strategic plan for future technology integration and growth should companies decide to bring more of their tax function in-house.



SELECTING THE RIGHT OUTSOURCE ARRANGEMENT:

FULL OUTSOURCING OR CO-SOURCING?

How do companies determine the best outsourcing structure for their tax department? There are various outsourcing options, each of which may be tailored to companies' individual needs. A full tax outsourcing engagement is one where an outside vendor controls the entire tax process. In contrast, partial outsourcing arrangements – also known as co-sourcing – may involve one or more tax functions, with other aspects remaining in-house. The decision on whether to fully outsource or co-source should not only be based on the company's immediate needs, but focused on the envisioned longer-range staffing structure and growth projections.

FULL OUTSOURCING

Ideal for...

- Companies with additional capacity needs outside of the typical volume of tax department functions.
- Companies that don't have specialized tax functions.
- Companies with limited resources or no internal tax department.
- Private equity-owned companies.
- Foreign-owned companies entering the US market.

Full Outsourcing Triggers

- New tax legislation and/or reporting requirements
- Mergers and acquisitions
- Changes in geographic and/or tax footprint
- Recent entry into the US market
- Limited specialized expertise in any given tax function, including tax technology
- Challenges retaining in-house staff

Some companies want to maintain ownership of tax functions, while others want an experienced tax firm to be entirely accountable and responsible for their tax needs. Some want a mix of both. Short-term or long-term, an outsourced tax provider brings the tax technical knowledge, leadership skills, and communication skills to manage any or all discreet tax functions. They help provide a tax infrastructure with resources to manage an entire tax operation, and the ability to scale services as a company grows and begins to build its own in-house tax team.

Full outsource arrangements are ideal for multinational companies that are public, private, or private equity (PE)-owned, and have either a small in-house tax department or no tax department at all. Often, they are rapidly growing, and already outsourcing other back-office functions. In addition, they may be new to the US market, or expanding their footprint through acquisition or entry into new markets or countries.

With limited in-house resources, these companies often lack the specialty technical knowledge to keep pace with regulatory reporting changes, as well as other areas of increasing tax complexity. They may also have budget constraints that are better suited to an outsourcing relationship than to building, training, and sustaining an in-house department.



The ideal outsourcing relationship for small to mid-size multinational companies should offer the same high levels of attention and quality that larger companies expect to receive, with service and delivery options scaled to their budgets. An outsourcing partner can serve as their company's tax director, managing their entire tax function across the globe, while pulling in additional specialty tax professionals as needed on a seasonal or project basis. Their services should include the use of licensed tax technology and software platforms, giving companies ownership of all processes and data to support their growing needs.

PARTIAL OUTSOURCING

Ideal for...

- Tax departments that have variable resource needs around regulatory filing deadlines but do not need a fully staffed internal tax department year-round.
- Large multinational companies with a complex tax footprint, desiring to maintain ownership of all tax department functions.
- Tax departments that need outside expertise in a specific area of tax.
- Companies focused on cost reduction.

Partial Outsourcing Triggers

- Key tax department members have left the organization
- Material weakness/deficiency exists within tax
- Changes in corporate structure
- Technology is underperforming or is being underleveraged
- Tax law/regulation changes

Partial outsourcing involves having a tax services provider manage one or more tax functions to help companies achieve full operational efficiency. Other tax functions may be handled in-house or through a hybrid approach known as co-sourcing.

Co-Sourcing for Large Multinational Companies

Co-sourcing arrangements are often ideal for large multinational companies with complex tax structures. While they may have a sizeable tax department and may already be working with a Big 4 or comparable firm in some capacity, they also find themselves in the position of needing more value for the dollars that they spend on tax, or to make more of their budget available for non-operational items. In these cases, it makes sense to fully outsource tax work for one or more specific tax functions (e.g., compliance or provision), creating a structure that can handle peak reporting deadlines and evolving demands in a flexible, more budget-friendly manner.

The right co-sourcing relationship for large multinational companies offers companies access to top talent at an affordable price point, with a practical approach to solving their challenges. This co-sourcing partner should be highly experienced in anticipating and navigating changing tax regulations; possess the experience to handle the volume and complexity of companies with a sizable tax footprint; have a proven track record implementing and enhancing tax technologies; allow you to maintain control and ownership of your data and processes; and possess an "in-house" mindset to easily integrate as an extension of your team.



Co-Sourcing for Growing Multinational Companies

Multinational companies growing through acquisition, expanded geographic footprints, and/or product expansion have complex tax needs. Whether public, private, or PE-owned, companies ideal for co-sourcing usually have some level of an in-house tax department. However, resources are often stretched thin and may not have all the specialty tax technical knowledge to keep pace with regulatory reporting changes, as well as other areas of increasing tax complexity. They may also have budget or resource constraints that make it difficult to expand their in-house team.

Growing Multinational Companies: Triggers

- New finance leadership
- Expanded tax footprint
- Tax department turnover
- Projects that require specialized expertise
- Material weakness/deficiency in tax

In these scenarios, a combination of in-house and co-sourced resources to manage all tax functions is ideal.

The right co-sourcing relationship for growing multinational companies will provide highly qualified expertise in all areas of corporate tax. It will also offer high levels of flexibility and responsiveness; will be adept at effectively reporting tax data and outcomes to all levels of stakeholders; will offer affordable yet specialized expertise; and will offer proven consistency in the resources and tools that will become an integrated part of the company's tax team.

The **Outsourcing Considerations Checklist** provided within this white paper walks you through a series of questions designed to help determine if some form of outsourcing is the right answer based on the current state of your tax department's people, process, and technology.



OUTSOURCING CONSIDERATIONS CHECKLIST

Instructions: is outsourcing TAX DEPARTMENT FUNCTIONS a viable option for your organization? Check "yes" or "no" in response to each question below and tally the number of responses in each column

PEOPLE:	YES (HAVE)	NO (NEED)
Do you have the right mix of tax expertise aligned to your specific tax functions?		
Are business executives/CFO reluctant to consider alternative sourcing options?		
Are your tax professionals able to focus on creating strategic value?		
PROCESS:		
Are tax reporting processes automated?		
Is data accessible and integrated into processes?		
Do you follow a standard for workpapers?		
Do you follow a set of standard controls?		
TECHNOLOGY:		
Do your technologies streamline processes and promote collaboration?		
Are you fully leveraging tax technology and obtaining value that exceeds related costs?		
Is your platform scalable to ensure ease of transition and future agility?		
RESPONSE TALLY:		
If you answered "need" more than "have" to these questions – you will have a strong signal that outsourcing some, or all of the tax function should be considered.		



OUTSOURCING TAX SERVICES: WHAT ALL COMPANIES SHOULD EXPECT

Regardless of whether companies outsource or co-source, those that that embark on an outsourced relationship for their tax function or department should expect the following from their services provider:

Specialists On Demand

The need for specialized tax expertise is a driving factor when considering outsourcing. A company that has an evolving tax footprint may find that the tax resources it needs today may not be sufficient to meet future requirements as the business expands. Outsourcing enables each tax engagement to be staffed with the right technical resources as needed (Federal, state, international, transfer pricing, sales and use, property, tax depreciation, tax credits and incentives, tax automation, etc.). Having the ability to use specialists in every aspect of the department's function when needed creates the ideal tax department, allowing companies to manage cash taxes and effective tax rate (ETR) while successfully accomplishing all tax reporting requirements.

Mitigated Risk

When a tax team is overburdened, there is a larger margin for error that can result in inaccurate calculations on tax filings or missed filing deadlines. The ideal outsourcing partner reduces this risk by providing access to a pool of technical tax specialists in all areas of corporate tax. The outsourcing provider comes equipped with tax technology that powers tax provision and compliance processes and transforms data into useful formats without significant manual intervention along with the technical documentation procedures to help avoid calculation errors.

Contained Costs

Outsourcing is a good option when a department has complex tax issues, but the company is unable to navigate them at a consistent and reasonable cost with internal resources alone. With a set monthly budget, a company can have the best of both worlds – a core dependable team with the flexibility to bring in additional specialists only at peak seasonal times or when a need arises. Outsourcing will also save you the cost of having to procure tax software licenses and the investment of training in-house personnel on its use.

Ability to Scale

Company size and structure rarely remain static. As companies add entities, increase their geographic footprints, and enter new markets, their tax needs will grow – and a tax services provider should be able to scale with those needs. In addition to being able to grow their service teams as needed and help preserve institutional knowledge and continuity as companies expand, they provide full visibility and ownership of data, workpapers, and processes to ultimately help companies build their own in-house tax departments if needed.



PARTING WISDOM: SCALING FOR FUTURE GROWTH

When selecting a partner for outsourcing, consider soft skills as well as technical acumen. Interview at least two to three outsourcing providers and rely heavily upon relationships and contacts within the tax community to help identify individuals and firms with the specific subject-matter expertise needed. The relationship with the outsourcing provider, like any good relationship, needs strong communication, personalities that complement one another, similar organizational values, and the ability to grow and customize its services to meet your evolving tax needs.

Whichever provider you choose will be an extension of the tax team, representing your company as a tax liaison to external auditors and responding to tax inquiries from your company's internal business units. Be sure to perform due diligence when considering the right outsourcing partner. The benefits of outsourcing and co-sourcing tax functions can be substantial. Not only can it mitigate business risk and have a positive impact on the bottom line, but if done correctly, it enables over-burdened tax departments to focus on higher value-add activities such as tax data analysis and strategic tax planning.



- LEADING TAX
- DEPARTMENTS
- FORWARD

Global Tax Management (GTM) is a corporate tax services firm dedicated to helping mid-size and large multinational corporations address complex tax operations. GTM takes operational tax burdens off tax and finance leaders, providing high-level tax expertise at value driven rates without any independence issues. For over 25 years, GTM has provided the expertise to build, operate, and manage tax functions for its clients. Core services include tax provision, income tax compliance, international tax, transfer pricing, indirect tax, tax automation, tax training, R&D tax credits and incentives, and tax consulting and planning. GTM is a 100% employee-owned company (ESOP) and is distinguished as a best workplace, healthiest employer, top accounting firm, and fastest-growing company. The firm is a U.S. alliance partner of WTS Global.

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