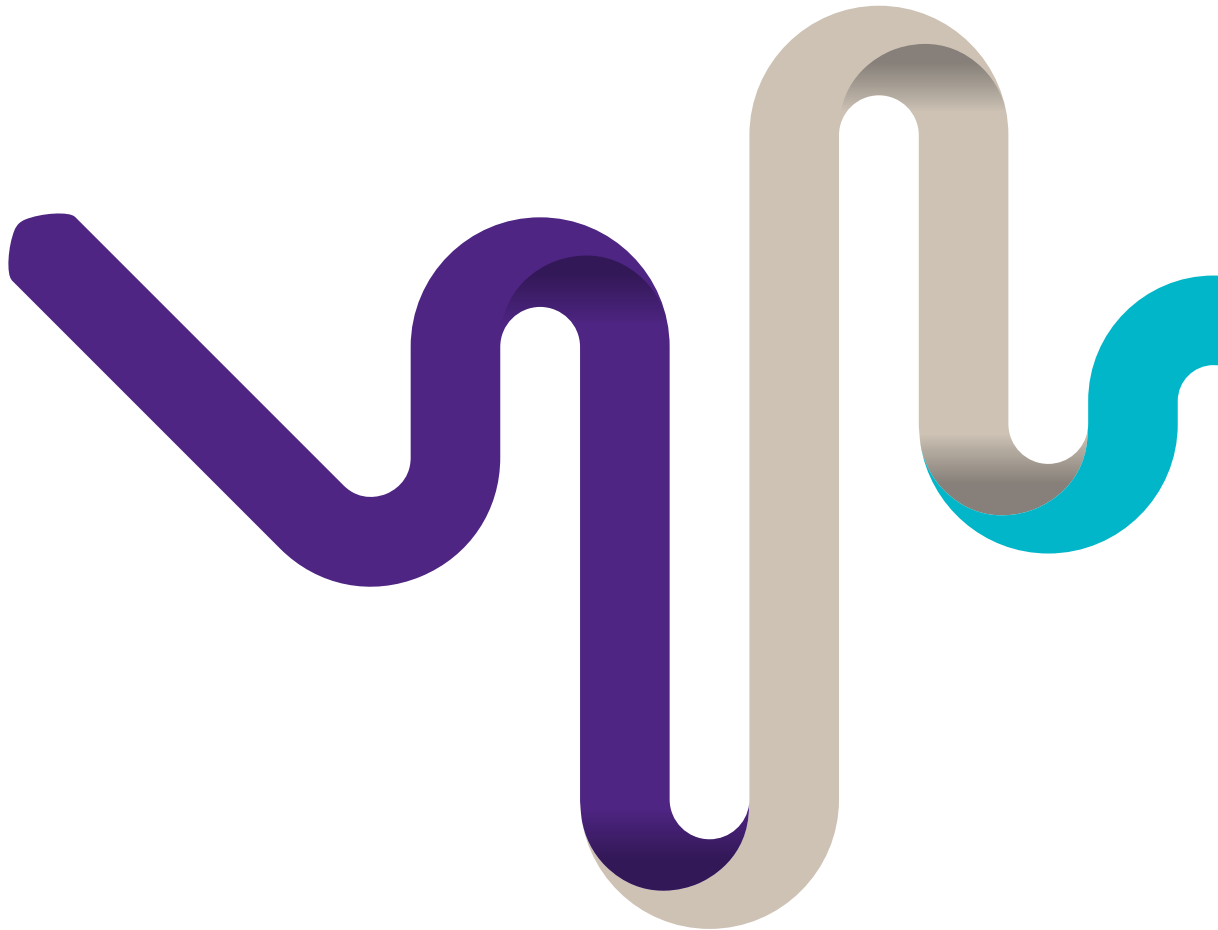


# Tax innovation meets pragmatism

Getting data-ready





### Getting data-ready

Tax functions are increasingly playing an important role in engineering the futures of their organizations by bringing practical and realistic, yet forward-thinking innovation ideas to life. In order for technology-led innovation to drive the future, it must be pragmatic and grounded in a solid data foundation.

Getting your data house in order is step one in setting the stage for pragmatic innovation. The amount of data that organizations generate and manage has increased exponentially, calling for even greater speed and integration. Emerging technologies residing in the intelligent automation space — such as data analytics, robotic process automation (RPA), blockchain, optical character recognition, data visualization and automated cognition — present new possibilities for efficiency, risk management and insight. Existing technologies such as cloud computing are being applied more vigorously to tax.

“It’s tempting to overreact to the demand for innovation — adopting too much, too quickly, without a clear strategy. Besides being costly, this approach can be demoralizing and even lead to less long-term innovation.”

**Rob Clarke, National Principal in Charge,  
Tax Data Analytics & Digitalization  
Grant Thornton LLP**

C-suite expectations add additional pressure to innovate. Rob Clarke, Grant Thornton's National Principal in Charge, Tax Data Analytics & Digitalization, warned: “It’s tempting to overreact — adopting too much, too quickly, without a clear strategy. Besides being costly, this approach can be demoralizing and result in fewer innovation efforts over time.” Technologies can overpromise and underperform. They can fail to align with business strategies, integrate with operations or gain acceptance in the culture. Of course, doing nothing at all is not an option. The pressures driving adoption are real.

There are several advantages to an incremental and pragmatic approach, which focuses on a change that can be made on a modest budget and implemented by a core team with minimal disruption to larger processes. Such an approach makes it easier to demonstrate return on investment (ROI) and achieve milestones.

As Carli McClure, Grant Thornton Managing Director of Tax Innovation, noted: “An incremental approach also provides insight into the larger challenges your organization is facing. These successes build confidence in both the change agents and the executives who must accept and approve the change. Small wins spur larger investments.”



“An incremental approach provides insight into the larger challenges your organization is facing.”

**Carli McClure, Managing Director, Tax Innovation  
Grant Thornton LLP**

Rather, organizations need to start with an acknowledged business problem. This allows sharp definition — the squeaky wheel has probably already been given some thought. Known problems are also easily prioritized and, when you achieve success, people take notice.

#### **Incremental gains, long-term visions**

Although it's best to begin with a limited scope, inform your efforts with a comprehensive examination of the organization's larger business issues. That starts with your business strategy and business model.

Different strategies demand different processes that, in turn, suggest different innovation paths. Are you focused on growth? If so, is it organic? Does that mean new markets, new products or both? Will you be acquiring companies? Does growth mean international expansion with international tax requirements? Each of these choices has distinct tax implications.

Are you establishing yourself as a market leader? If so, investment in research (and, to a lesser extent, branding or customer service) may have tax implications. On the other hand, what if you're seeking to compete on price? That may call for prioritizing automation, incremental efficiency gains or high transaction volumes.

The better you define your mission, the easier it is to determine what's mission-critical. By bringing your strategy and structure into the discussion, you can more readily identify the most important issues and the most consequential changes.

#### **Business processes are tax processes**

Like business strategy, organizational structure has inevitable tax implications. The extent and volatility of your regulatory environment; the size of your capital requirements; the presence of public shareholders; the existence of franchisees, contractors and/or channel partners; and the complexity of your structure all impact tax strategy. And, because they impact tax strategy, they impact tax innovation strategy.

Your distribution approach also influences tax considerations. Are you B2B or B2C, multistate or international? Are you online only or online plus brick and mortar? How consultative are you, and how does that affect pricing? What's the status of your inventory?



Different strategies demand different processes that, in turn, suggest different innovation paths.

For example, while direct taxation issues can appear to be simpler than indirect issues, the sheer number of assets owned by retail and manufacturing companies can make apportionment a challenge.

For many organizations, indirect taxation poses the greatest complexity. McClure explained: “There are often several different issues. The first is sales tax compliance. The second is exemption certificates. And the third one is sales tax audit. All of these returns are filed monthly. Often for states, cities and counties, additional documents need to be filed.” This proliferation can be exacerbated by the 2018 *Wayfair* decision regarding online sales tax.

Given the volume and velocity of transactions, it’s clear that — no matter the particular issue — tax innovation begins with quality, consistent data.

## 6 ways to improve your data governance

### 1 Identify all sources of data

Any discussion of data starts with data ingestion — the identification of all sources of information and the creation or improvement of processes to regularly gather that information. In Fortune 100 consumer companies, there may be over 75 separate sources of tax-relevant data. Even modestly sized B2B companies can have several dozen data sources.



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### 2 Verify reliability of data

In addition to identifying the source of data, determine the form (digital, legacy, formatted, nonformatted, raw or aggregated, consciously collected or gathered ad hoc over time). Identify the data owners, those who can access the data, how quickly the data can be accessed and how data is integrated with your systems. Finally, verify the quality of the information itself — its reliability and relevance, and how complete and current it is. It may have been developed to answer questions very different from the ones you must now ask.

“The goal,” said Adam Raschke, Grant Thornton senior manager and Data Analytics functional leader, “is the ability to ingest all the data, whether the source is directly from the system or from an access point. So, instead of getting a report from an ERP [enterprise resource planning] system and putting it into Excel in some manner, if you can ingest data from the actual system or file or PDF into an analytics tool, you can manipulate it as needed. The absence of a streamlined process causes great frustration.”

McClure described a client overwhelmed with operational data that could be compiled only once a year. The quality was low, and the risk of errors was high. The Grant Thornton team helped them to install a solution that delivers weekly reports based on consistent, accurate real-time data, with minimal upkeep. The greater frequency and standardization of reports also improved the quality of the information.

### 3 Switch on underused features

When it comes to data management, sometimes ROI is spelled “UX [user experience].” After identifying data sources from throughout the company and formulating a process for ingesting that data, a key question remains — Are those with access to the information actually using it? Is anyone accessing all this information you’ve gathered?

There are additional UX questions. Is the process of accessing data compromised by opaque procedures, poor skills, inability to see the value of data or inadequate tools? You may or may not be able to improve the underlying experience. However, depending on the complexity of the issue, you can provide instructions or access to peer support, mentoring or training.



## Is anyone accessing all this information you’ve gathered?

But even when your software is being used, the potential might not be grasped. This can be remedied by clarifying the value of data and ensuring the right incentives, including managerial reinforcement. Does upper management talk about the value of data? Does middle management praise the use of data? It’s often a cultural rather than a technological issue.

### 4 Integrate databases

Disparate systems containing different file types and formats were historically reconciled and combined manually, making the process time-consuming and prone to error. While Excel might be the current intermediary step between source data and deliverable, there are new solutions that contain ETL [extract, transform, load] functionality that can assist with the integration process.

“The goal is the ability to ingest all the data so you can manipulate it as needed.”

**Adam Raschke, Senior Manager; Functional Leader, Tax Data Analytics, Grant Thornton LLP**



## New solutions that contain ETL functionality can assist with the integration process.

ETL functionality allows an end user to create a re-usable workflow that connects to a data source, cleanses/transforms the data and creates an output dataset that can be used to flow directly into other tax engines or deliverables. Automating the integration frees up team members to focus more on analyzing results.

### 5 Ensure the right people have access

Opening up visibility and transparency into your data starts to shift a culture to a more "democratized" view. This is key to providing tax departments the level of detail that is required for different reports or deliverables.

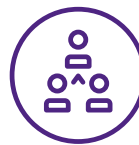
While adding transparency is an important step, make sure the right people have access to the right data. Start by asking questions:

- Are the same people as in the past receiving access to the same data or are there new users?
- What level of access does each user require — e.g., admin, edit, read-only?
- Should any of the users receive a limited view of certain datasets?

Personalized data permissions enable the data to be aggregated, manipulated and stored once, and then automatically spliced uniquely based on customizable permissions such as regions, departments and levels. The goal is to have one source of the truth driving data and decisions throughout the organization, controlled by appropriate governance.

### 6 Document data transformations

Transitioning away from an Excel-based model has many benefits. But ensure that you retain an accurate record of any transformations that are performed on source data.



## Make sure the right people have access to the right data.

Many of the software platforms, with ETL functionality, allow a user to perform common calculations and manipulations. However, in order to have an auditable workflow, all steps throughout the process should be well documented so other users can easily follow what transformations that were performed.

## 5 ways to improve data usage

### 1 Proceed from strategy to implementation

Define your objectives, set innovation and data goals, complete your innovation roadmap and software selection based on those goals, then develop and deliver a hands-on training workshop to empower the achievement of those objectives. Finally, select a specific use case on which to base a proof of concept, develop, test, deploy and assess.

### 2 Improve data quality

The more confidence you have in your underlying data, the more you can trust the amounts in your reports. Often, we see companies start to lose trust in their data — for instance, in M&A activity that introduces competing systems. The traditional fix has been to revert to Excel to combine the data — creating a cumbersome spreadsheet footprint and making it difficult to trace one line on a tax return through a maze of workbooks and tabs back to the actual source data.

To increase the reliance on data, consider leveraging a data repository to act as a single source of truth. This could be a data lake that pulls in all of the raw data, with transformations through ETL tools, and provides final output datasets. Once those datasets are validated and accurate, they should be certified with a time stamp. Tracing from a line item on a tax return back to a certified dataset connected to the source system is much easier and can increase the level of confidence in your data.

### 3 Add data visualization tools

A picture is worth a thousand spreadsheets. Trying to pinpoint year-over-year trends, anomalies and metrics can be difficult and time consuming. Consider leveraging data visualization tools to aid in this process. The same level of detail that would be contained in a spreadsheet can be brought into a visualization tool. Rather than sifting through rows, you can now represent your data in a more meaningful way.

### 4 Manage by exception

Use data visualization tools to focus on data that matters the most. Analytics and visualization software can alert you when data crosses a predefined threshold. Given the amount of transactions that occur, especially in the indirect space, this manage-by-exception mentality can save countless hours and lower the level of risk associated with missing large variances or discrepancies in the underlying data.

### 5 Monitor employee data usage

Moving to a more data-driven culture is a great step. A key to getting there is holding users accountable for their involvement. Do you want members of your department more actively involved in a new analytics strategy? If so, how are you tracking their involvement? A number of the SaaS-based analytics tools allow you to monitor who is logging into the software, how often they are logging in and what datasets they are most frequently viewing.



Retain an accurate record of any transformations that are performed on source data.



### Quick wins can drive long-term strategy

You've laid the groundwork for innovation by anchoring your data initiatives in your business strategy, addressing the most pressing problems and ensuring that data is accessible and useful. Now is the time to determine the first steps toward successful change. This may be as simple as activating a capability you already have.

"For clients starting their journey without extensive funding, I'll sometimes ask if they have access to Power BI, a Microsoft product usually included in their 360 package," said Lindsay Miller, Grant Thornton's Senior Manager of Tax Reporting and Advisory Services. "Simply activating this capability allows you to make very concrete changes that can help generate an ROI and build positive momentum toward more extensive changes." Although Power BI is a good starting point, you will also want to select a mid- to long-term solution so you can take that into account from the start, avoiding a costly reset.

The initial win with Power BI can help justify the next appropriate step. For example, for ingesting and manipulating data, Alteryx could be a good choice. If you require data visualizations, it may be Tableau. If you need end-to-end solutions, Domo could be preferred.

The internal team should have a plan to manage the enhanced system after the initial setup. They may manage it themselves or work with a partner. This conserves budgets while ensuring that improvements are integrated into the organization's workflow.

### The greatest technological challenge may be human nature

Depending on where they are in their innovation journey, some organizations may want to move beyond data triage and analytics capabilities. The next step is often RPA. RPA enables you to program the completion of customized functions that would otherwise need to be performed by people. RPA is well suited to repetitive manual processes that are well documented, and that process large amounts of information and are governed by clear rules. In the context of tax, it's especially applicable to seasonal data processing.

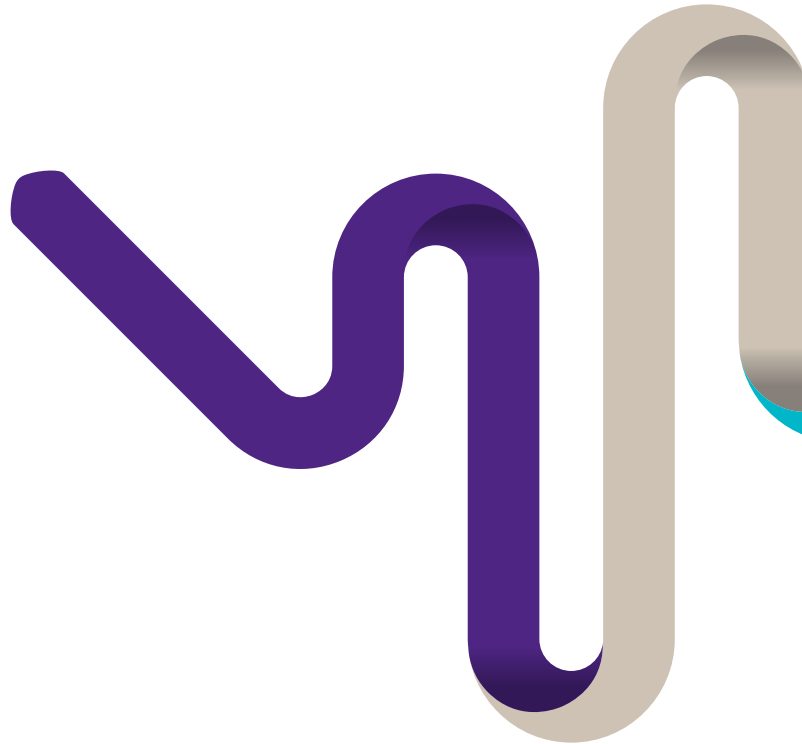
"Based on those criteria," Tax Innovation Managing Director McClure said, "you can typically see opportunities for RPA in apportionment, fixed assets, transfer pricing or in indirect tax. It could also be e-filing and saving files to PDF — very basic manual functions."

Ironically, the biggest challenge with RPA and other technologies is the human element. Because RPA implementation involves the programming of individual customized solutions, the initial price tag is often higher than for packaged software. The development process can be relatively time consuming compared to installation of packaged software, and it involves more complexity because of the necessity of working across departments.

“When you actually go down the path of RPA, it’s likely an organizational strategy, which means tax isn’t going to do it in isolation,” McClure said. “You have to coordinate with IT and the CFO for the larger firm finance and tax strategies. So there’s a lot more collaboration and discussion. You need to define success so you can measure it later. Are you trying to save hours? Increase accuracy? Analyze more data? You’ll want to work with technical experts to ensure feasibility, identify exceptions and focus on manageable but meaningful processes.

“But RPA is also a way to build capacity without bringing on people. So if I’m a tax director and we’re understaffed, I can request a bot. I can create my capacity through technology.”

Because technology is inherently dynamic, an incremental approach will itself incrementally change, moving in time to such cutting-edge solutions as blockchain and automated cognition. But the core strategy retains its essential elements of close alignment with business needs, focused scope, quick wins, a prioritization of data quality and training for long-term success.



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