

Tax Performance Improvement: Adding value and reducing risk in the tax function



Agenda followed by Fireside Chat

Setting the Stage and Audience Participation/Polling

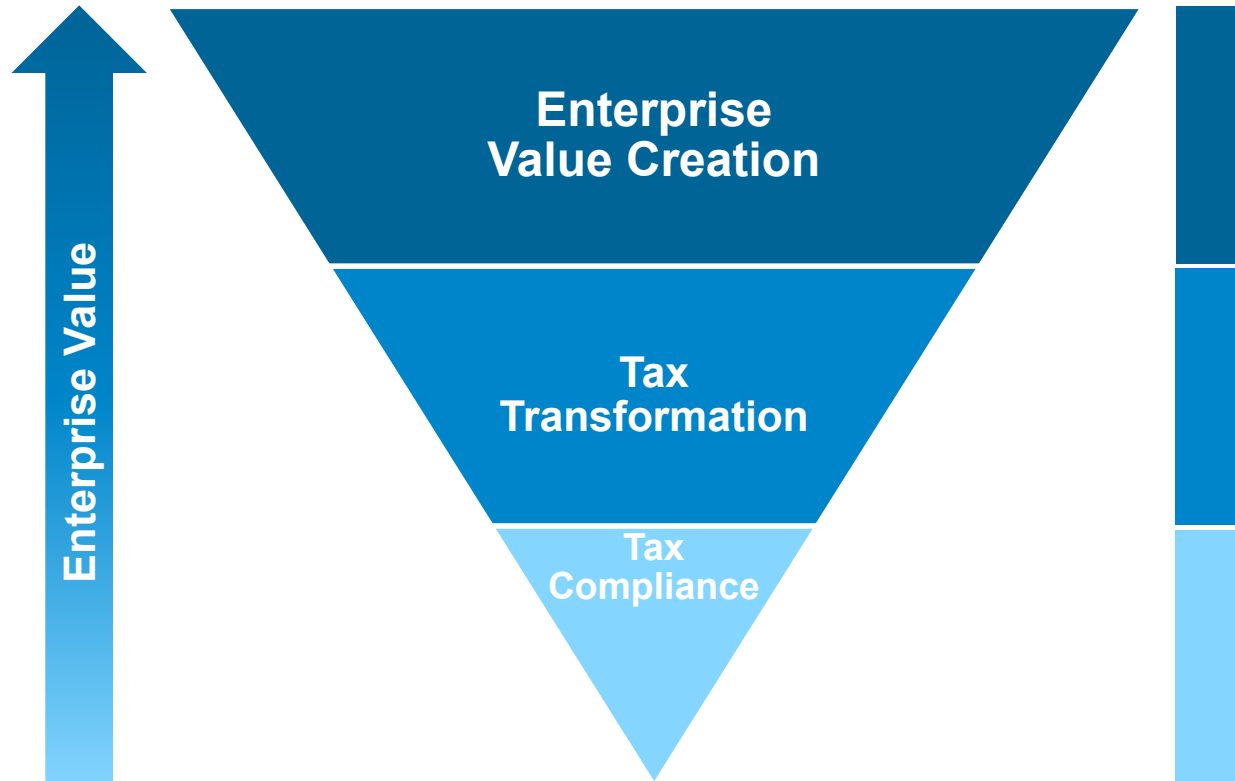
- Tax Value Pyramid
- Maturity Model
- Trends in Data Readiness
- CFO Reporting & Department Funding

Fireside Chat

- Head of Tax for TFI International – Julie Eising
- A&M CFO Services/Interim CFO – Teresa McMahon
- A&M CFO Services/Corporate Performance Improvement Partner – Sean Kracklauer

Tax Value Pyramid: From Tax Compliance Expert to Critical Business Partner

As corporate tax organizations mature their capabilities and show value from internally transforming, they earn a seat at the table as a critical partner to the business, recommending and implementing innovative tax strategies



Enterprise Value Creation

- Focus on enterprise value creation & transformation initiatives
- Enhancing value of M&A, GBS/Shared Services, enterprise transformations, and business expansion/ growth (both assets and hiring)
- Recurring budget for a Tax Value Creation

Tax Transformation

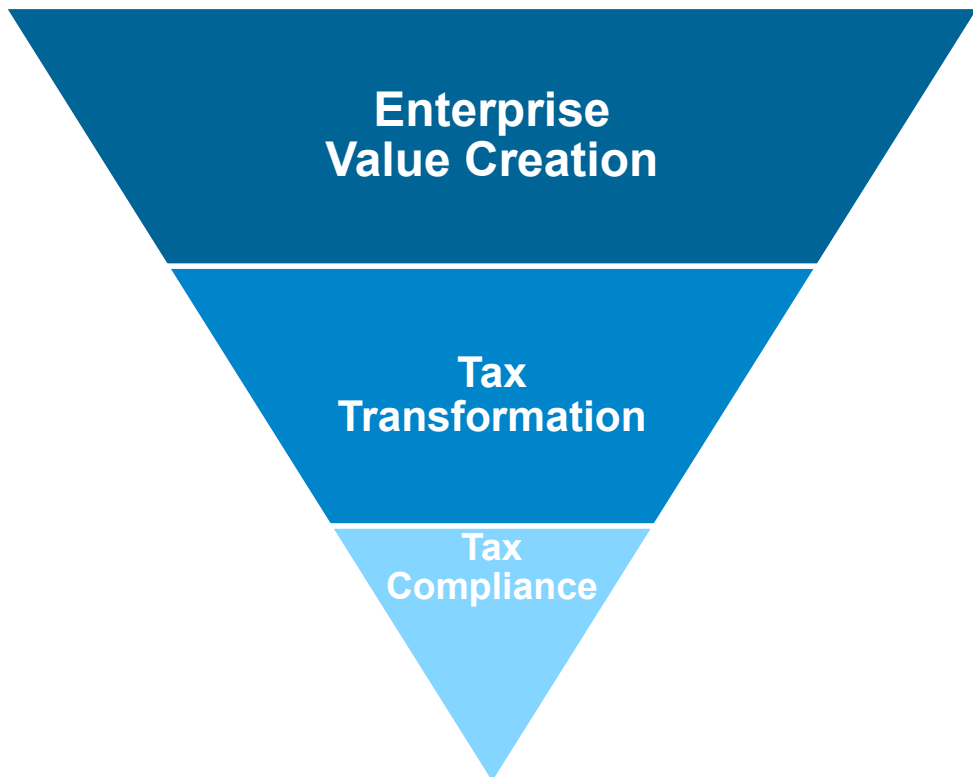
- Focus on internal Tax function transformation
- Optimizing tax's value with forecasting, risk mitigation, and identification of value-added initiative
- Incremental budget for ROI-positive tax transformation projects and initiatives that reduce the ETR/bring cash in the door

Tax Compliance

- Focus is on execution
- Tax reporting, compliance, and audit defense
- Budget is flat to down

Audience Poll – Question 1

Where do you think the business believes your tax organization is on the Tax Value Pyramid?



Critical business partner – able to get budget for projects/initiatives that are strategic, forward-thinking and which drive value for the organization

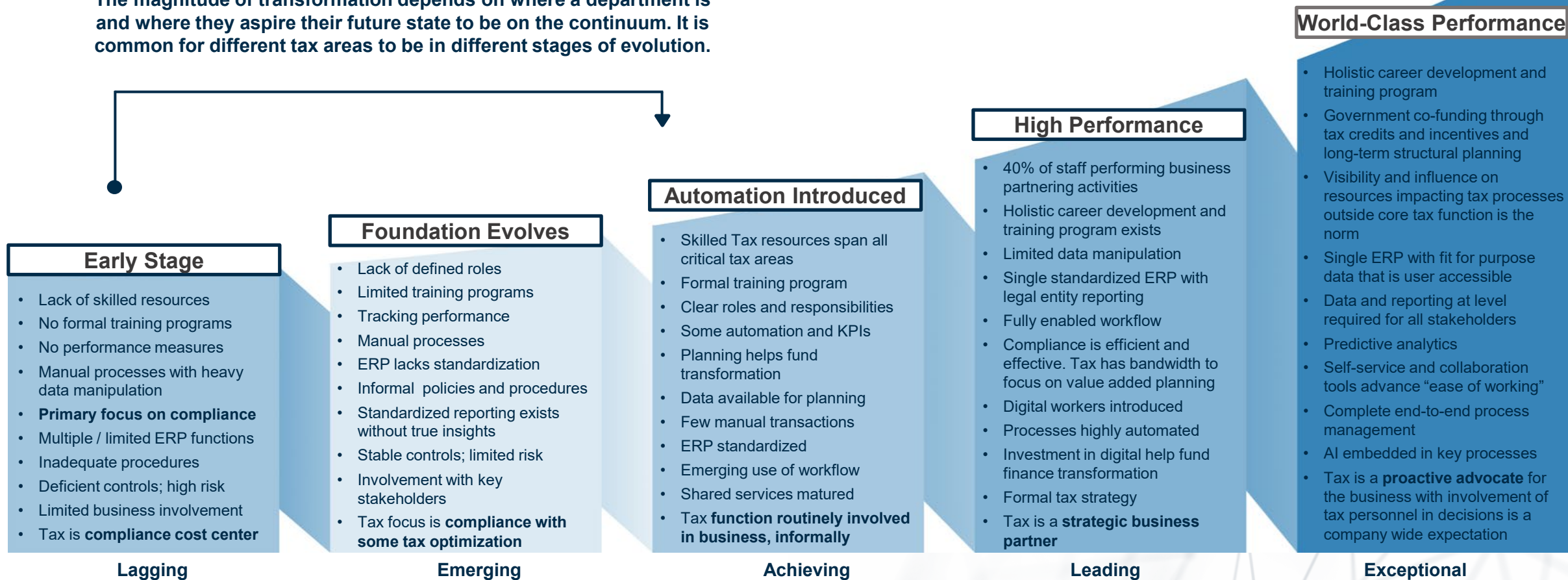
Internal Tax Transformation Focused – able to get budget for tax improvement and continuous improvement projects/initiatives with a business case

Tax Compliance Expert - rarely ask for budget for additional projects/initiatives as primary focus is on tax filing, payments, compliance and audit defense

Maturity Model for Tax Functions

Guide to ranking your department's function and charting development plans

The magnitude of transformation depends on where a department is and where they aspire their future state to be on the continuum. It is common for different tax areas to be in different stages of evolution.



Data Readiness is a Key Area of Focus for Tax Departments

Are you addressing the following areas that require fit for purpose, readily available data?

BEPS Pillar 2

- **Pillar Two Model Rules are a framework for a global 15% minimum tax** - Impacts MNEs with an annual consolidated book revenue above **EUR 750 million** in at least 2 of 4 years preceding the tested year
- Many companies have done modeling to confirm how Pillar Two will affect your company, but with 160+ data points (many of which tax doesn't have readily available access to) the time is now to take a practical approach to how your company will meet the new compliance requirements

Research & Development

- Proposed changes issued by the IRS with finalized rules expected in 2024 that **substantially increase the level of contemporaneous documentation** and level of standardized reporting required to claim and optimize R&D credits/expenses
- Companies **must include projections of their expected R&D credit/expenses in their tax provision** (quarterly and annual reports) beginning in 2024

Transfer Pricing, CbCR, & Real Time Reporting

- Many companies rely on TP for normal operations (e.g. use of IP, funding...)
- Ongoing TP operations require following through with settlement activities, ensuring the right benchmarks are being used, and are properly documented/ defended
- E-invoicing and real time reporting can cause business interruptions. Fit-for-purpose, readily accessible data is no longer a nice to have

CFO Reporting

Set Up Your Tax Department for Success

CFO reporting is critical to the success of the Tax Function. Key KPIs include (note this is just table stakes):

- Global tax rate overview
- Summary of items that may affect future results (tax law changes, new reporting standards, etc.)
- Audit update & results
- Uncertain tax benefit & risk update
- State of department summary (relevant projects, staffing, & changes in needs)

Reporting can be used to enhance your Tax Function by tracking efficiency, value gains, and benefits/opportunities with the business which are driven by tax. If your department's efficiency/ accuracy isn't at the desired level, this reporting will help to justify/validate budget requests:

- What projects does your department need so you can be a value driver for the business?'
- How will your wish list/roadmap of projects improve your function and allow you to repurpose time for value-add projects and improvements to the company's business (improved forecasting, efficiency gains, tax planning, etc.)?
- Additional staffing/skill needs

Results Delivered - Show Dollar Value for Savings Generated

How Tax Performance Improvement drives value

Ultimately, your reporting should show your CFO how YOUR initiatives accomplished results:

- ✓ Reduction in provision and compliance cycle time/staff hours/more time for management review
- ✓ Significant reduction of risk and key man dependency
- ✓ Reduction of yearly consulting/professional fees
- ✓ Significant time freed up to re-deploy resources to strategy, planning, and other higher value projects, which bring in cash and/or increase EPS (important you put a dollar value on this time along with value created)
- ✓ Increased reliability of data and analytics for decision making, forecasting, and planning
- ✓ Connecting tax to the rest of the organization and creating transparency for the C-Suite
- ✓ Timely meeting increased compliance and regulatory obligations while reducing risk of business interruption

Presenter Panel Bios



Panel Presenters



Shaun Lockhart
Managing Director
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Tax Performance Improvement
Practice Leader

- Focuses on tax function optimization, often paired with wide scale finance transformation projects



Sean Kracklauer
Managing Director
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Corporate Performance Improvement
– CFO Services

- Focus on SG&A transformation, Global Finance Transformation, SSO optimization, and EPM implementation



Teresa McMahon
Senior Director
tcmahon@alvarezandmarsal.com

Corporate Performance
Improvement – CFO Services

- Transitioned from industry CFO to consulting and interim management



Julie Eising
VP of Tax
TFI International, Inc.

Big 4 Background

- Spearheading tax transformation and M&A integration at TFI
- Focus on driving value for the organization

Tax Optimization

Tax Operations

Problems We Solve ...



- **Tax is a cost center** instead of a partner in optimizing organizational value
- **Lack of transparency** in the tax function hampers timely/accurate projections, which may significantly increase risk
- **Missed opportunities for tax planning, incentives, and subsidies** during times of transformative change
- **Non-competitive tax profile** causing cash leakage and loss of value
- **Unidentified or mismanaged** duties costs due to decentralized trade functions

Modeling, Reporting, & Analytics

... And How We Solve Them



- Leverage process and technology to **modernize the tax department**
- **Drive visibility and connectivity** between tax and the C-Suite through user accessible dashboards, KPIs and predictive analytics
- **Realign tax strategy to a business' operations** by modeling the current tax profile vs operating footprint
- **Liquidity focused modeling** capabilities including cash tax, duty obligation, and incentive opportunity analysis

Credits, Trades, & Incentives

Digital Finance Solutions



- Compliance, reporting, and modeling tools that integrate with source systems (ERP, EPM, etc.)
- Tax Strategy Feasibility Indicator
- Use of APIs in reporting and analysis, AI and ML in the determination process
- Tax Benefit Model/tech enabled Duty Drawback Program

Legal Entity Strategy

Our Leadership



Shaun Lockhart

Atlanta

- **20+ years** experience in tax dept. optimization coupled with finance transformation
- Expertise in **modernizing the tax operating model**
- Drives change for tax that **enhances value across the organization which often pays for a large portion of finance transformation**

DRIVING VALUE

\$10.6B Multinational Fortune 500 Chem. Co.
Modernization, incentives, supply chain, and planning

Provided tax process & technology enhancements resulting in **80% reduction in provision cycle, 30% efficiency gain, and \$15M incentives**, alongside restructuring, planning, and cost take out resulting in **\$40M** savings and supply chain and operating model changes resulting in an additional **\$300M** in savings.

\$19.5B Fortune 200 Insurance Company
Digital Transformation and Cost Takeout

Digital and process transformation with democratize access to key data and redesign of tax function, **70% increased efficiency, significant reduction of risk, and \$90M cost takeout** through reduction of yearly professional fees and tax planning.

\$6.2B Multinational Fortune 500 Retailer
ERP Cloud Migration and cash tax savings

Tax data readiness and process enhancements for S4/HANA implementation which resulted in **reduced provision cycle time by 70%** and provided better data for tax planning, transfer pricing, and incentives which resulted in **\$200M** cash tax savings.

\$1.2B Claims Management Company
Future State Planning & Implementation

Remediated material weakness through enhanced visibility to source data, redesign of provision process, and implementation of analytics and enhanced review process. **Reduction of tax cycle time by 50%** as well as **\$20M cost take out.**

Appendix and Supplemental Materials



How does the C Suite View the Tax Function

Questions to consider on how the Tax Function viewed in the organization



Is Tax viewed as a value driver in the organization?



Is Tax proactively at the table when business decisions are being made and do they optimize value for the organization?



Is Tax a proactive business partner for the C Suite and other stakeholders?



Is there transparency into the Tax function?



Are there challenges when Tax related information needs to be obtained? (timing, readiness, quality, fit for purpose, etc.)?



Have there been any control issues or unexpected results relating to Tax over the last years?



Does Tax play a critical role in achieving the organizations financial goals?



Is there the right talent, focused on the right things within the Tax Function?

Tax Performance Improvement Areas of Focus

We work with clients adapting to a wide variety of change whether it be transformation or operational improvement

Operating Model, Cost Takeout, Risk Policy, & Change Management



Ensuring the in-house tax team is best equipped to perform efficiently and strategically

- Tax Executive Strategy Labs
- Innovation Sessions to solve for immediate problem
- Department design, standup, and optimization services
- High performing team blueprinting and training
- Performance management
- Foster partnership and collaboration with the business
- Global service center setup and optimization services



Process Design & Optimization

Designing an actionable roadmap for tax department optimization

- Process design & reengineering
- Curated innovation sessions
- Organization structure and framework realignment
- Benchmarking
- Strategic visioning
- Roadmap/business case
- KPI development

People



Data Transformation

Leveraging good data to drive value, provide insights, and comply with regulations

- Data cleansing
- Tax readiness and data needs for ERP and other financial systems
- Fixed asset and depreciation data
- Predictive analytics
- Robotics and AI
- Financial and tax forecasting
- BEPS Pillar 2 Data Readiness



Digital Design & Deployment

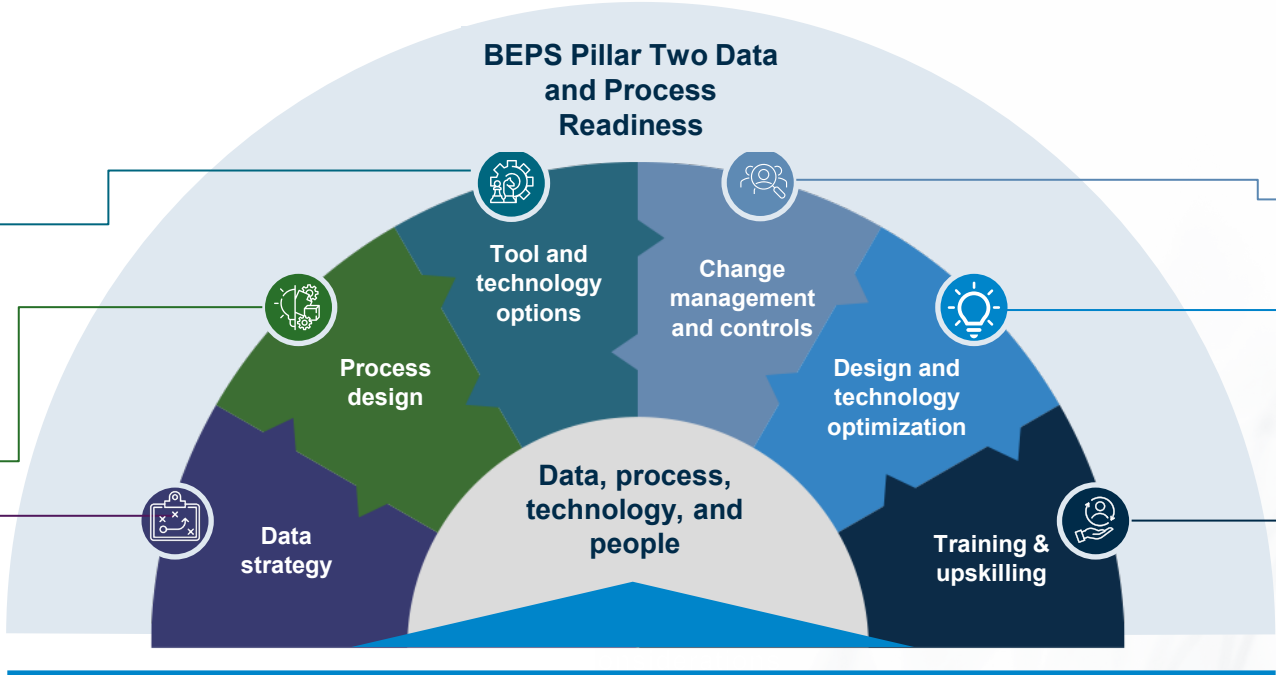
Increasing ROI on technology via systems/tools capable of meeting tax department's evolving needs

- Control testing and optimization
- Digital enablement
- Tool recommendations and alignment (across tax areas)
- Vendor selection
- Tax system design and implementation services
- Tax provision system enhancements and implementations
- Training and technology best practice sessions

BEPS Pillar Two Readiness – Quick Assessment Approach

Is your organization prepared for the transition to Pillar Two implementation? Our Pillar Two services offer quick-assessment and readiness services with practical and clear paths to implementation, positioning tax functions to help guide business strategy in an increasingly complex global tax network.

- Review of existing systems and tools
- Summary of additional tool/technology enhancements needs to drive modeling, provision, and compliance
- Vendor selection and/or software recommendations
- Process recommendations, with focus on finance and tax wholistic lifecycle
- Quick hits often identified through data strategy that drive efficiencies in other areas
- Data mapping and source definition
- Detail of any enhancements, new data sources, or calculations needed
- Data validation and extraction recommendations



- Change management considerations
- Control updates and risk management considerations
- Design and implementation recommendations tailored to process, tools and technology selected
- Optimization updates to existing systems
- Hands on and other training options
- Upskilling recommendations for internal resources

Financing the Transformation

Innovation program costs may be funded or offset through a variety of tax savings and incentive strategies



Increase
Return on Investment

- Transformations may generate ROI of **10% - 50%** through process and strategy improvements



Pay for
Costs through
Government Funding

- Available credits & incentives may defray costs of larger transformations



Save
Costs through
Tax Performance
Improvement

- **Repurposing hours** from mundane tasks to higher value-added activities (in addition to reduced professional and recurring license fees) **normally generates savings of 20-40%**

- We focus on immediate cash opportunities that can be enabled by improving access to critical data for FP&A
- We regularly find actionable tax and incentives savings that serve to fund our overall fees (i.e., government co-funding)
- We often offer success-based fee arrangements
- **40% of restatements are caused by tax errors.** Embedding tax process optimization in finance transformations can significantly reduce this risk