Tax Automation & Innovation

INTRODUCTION

In 2024, FustCharles continued our commitment to talent development, innovation, and teamwork to provide our clients with a best-in-class service experience. As we turn the page on 2024, there is plenty of uncertainty in the tax landscape. Many TCJA provisions are set to expire at the end of 2025, however as Republicans hold the White House, and have a slim majority in both chambers of Congress, there is an increased likelihood that 2025 will have some level of tax legislation through the budget reconciliation process.

FustCharles tax professionals grasp the intricate connections between evolving laws, economic dynamics, and the tax implications of various business decisions, and are well-positioned to serve as strategic advisors, steering companies toward success. Tax planning remains a vital aspect for businesses seeking to optimize cash flow by managing their long-term tax obligations.

Our 2024 Year-End Tax Planning Guide delves into effective tax strategies, considering recent administrative guidance and potential legislative changes that are currently under review. For further information and assistance, please reach out to a member of our expert tax team.

Unless explicitly stated otherwise, the information provided in this guide is based on existing tax laws and policies as of the publication date, and it may be subject to adjustments in response to future legislative or tax policy changes.

An effective tax function needs the breadth and depth of technical knowledge to assess the impact of tax changes on a business's overall tax liability and adjust tax strategies accordingly. That requires adaptability to meet tighter reporting deadlines while dealing with shrinking headcounts, demands for more real-time information, and the expectation of cross-functional collaboration. In other words, business leaders are pushing tax departments to do more work more quickly and accurately than ever before.

That's where tax automation and innovation comes in. The end of the year, which falls between compliance and reporting busy seasons, is the perfect time to prepare an organization for quick-win transformation and deploy data readiness best practices to ensure a streamlined close.

What Can the Tax Function Feasibly Accomplish Before Year End?

Companies can use the precious post-compliance season to lay the groundwork for tax process implementation and improvements to go off without a hitch during the tax provision reporting period, which is the most compressed deadline during the tax life cycle. This year, that may include additional complexity because of the OECD Pillar Two reporting requirements. So, what can feasibly be done in two to three months?

Identify and Execute Quick Wins

Regardless of whether a company is in the nascent or late stages of relying on technical tax solutions, several important steps — ideally revisited annually — can contribute to more consistent and lasting success.

- Perform a post-mortem on the prior year end. Which workstreams took the longest and how can that be avoided this year? Can those workstreams be automated with simple pre-work, or is an extract, transform, load (ETL) tool or software necessary?
- Ask what return-to-provision items popped up as material in the 2023 compliance finalization. Was that caused by a lack of detailed data or information? A lack of time or review?
- Poll tax team members individually. What are they most concerned with executing for the year-end close? What process or file is the most challenging, and how can they streamline ahead of time or replace with a better, more automated solution?
- Will a hard close save time or duplicate work for the team?
- Draft a tax team workplan with specific dates for completion, sign-off, and review. Plan for live, daily debriefs across the entire tax team to avoid miscommunication and reliance on email alone.
- Specify tax technology best practices, including importing tax rates enacted through November 30 into the tax provision software to review the impact of any rate changes on beginning deferred balances (refreshing only if any law/rule changes occur in December, as discussed below); ensuring all users can access the necessary and appropriate data; and updating blended state current/deferred tax rates based on recently filed tax returns, as applicable (unless recomputing live apportionment rates).

Streamline the Year-End Close and Plan for Possible Tax Law Changes

If a business is behind with its year-end close or has concerns about accounting for potential last-minute federal tax changes, it should consider five year-over-year processes that can help it realize more consistent and lasting success.

Fine-tune technologies and processes. Roll over the last period's dataset within the tax provision system and relevant workpapers and perform system entity maintenance. Create a detailed year-end-close workplan with clearly defined roles, responsibilities, and timelines and prepare and test tax analytics dashboards.

Capture year-to-date discrete impacts. Prepare the necessary tax entries for purchase accounting events, complete return-to-provision analyses (both domestic and foreign) and assess the tax effects of audits and amended returns. Also calculate the income statement and balance sheet effects of tax law changes, keeping in mind that the impact of any changes in rules and rates are recorded in continuing operations in the interim and annual period that the changes are considered enacted for U.S. GAAP purposes. Update for known global tax rate changes and, if the accounting department is responsible for recording tax effects of equity-related items, inform it of any new tax rates.

Be ready for possible late December tax law enactment. While the status of any tax legislation is unclear post the November election, it's still smart to monitor tax proposals and run preliminary calculations for management.

Quantify any national, state, and local/regional tax rate change effects to deferred tax assets and liabilities, ideally by using tax provision software. Consider the effects tax legislation may have on net operating losses and valuation allowances based on changes that could affect future taxable income (for example, international tax provisions).

Ensure documentation regarding key judgments is thorough. Focus on documentation for purchase accounting issues and estimates, valuation allowance conclusions, and current- and prior-year uncertain tax positions, as well as any facts supporting an indefinite reinvestment assertion.

Conduct planning meetings. Ask any external auditors whether interim work can be accelerated. Request the prepared-by-client request list and agree on timing well in advance. Have the tax team review its workplan and have users test systems access early. Ask the finance organization to outline any timing expectations for tax deliverables and when pretax book income will be finalized.

Looking to 2025 and Beyond

Even companies that have mastered the year-end-close process should consider ways to improve and integrate their tax technology systems and more directly access and transform source data. Annually assessing data management and quality and the strength of the overall tech framework can keep a business's tax function running smoothly all year long.

Master Data Management

In an ideal world, all data would be uniformly structured and digitized. But that's not reality, especially for companies with rapid growth that have scaled to meet both business or profitability (shareholder) demands and customers' digital market demands. Those companies may have acquired entities with disparate IT infrastructures or purchased in-house finance or IT technologies (inclusive of tax) without pausing to integrate new systems. Or perhaps C-suite leaders attempted to automate the front-end customer experience by deploying more modern technology, such as generative AI.
Those changes would require back office and tax functions to understand the related effects on their companies' tax profiles or filing needs, while keeping an eye on the regulatory landscape to ensure compliance. Further, tax leaders are requesting more real-time, on-demand insights into effective tax rate drivers, total tax liabilities, and cash taxes paid worldwide.

Planning Consideration

- Instead of striving for perfection in a short window, tax departments and their organizations should start with a methodology to handle data that can't be consistently structured. By digitizing as much as possible and applying an agreed methodology, organizations can reduce disruptions caused by new or dissonant data.

In selecting a master data repository or platform, a company can take the first step toward creating a hub to draw from for reporting needs and any downstream tax process or deliverable — be it for tax provision, tax compliance, audit defense, OECD Pillar Two directives, indirect tax reporting needs, or otherwise. Companies that have already taken that step are on the right path; those that haven't should consider this proven way to bring structure to disparate tax data. Once a data lake or hub has been selected, turn to the creation of high-quality data for storage and use.

Data Quality

High-quality data is the cornerstone for effective and efficient tax processes. It allows for light- or no-touch data transference from the data lake to other necessary tax or finance systems and eventually can be used to train an AI model to accurately predict, analyze, and process tax-related information.

Planning Consideration

- In determining data quality, there are many factors to assess:
  - Accuracy: *Is the data factually correct?* Does it reflect the business's financial transactions and compliance obligations for all regions and jurisdictions?
  - Integrity**:** *Is the data transparently justifiable?* Does it remain unaltered from its source after being processed and analyzed? Has it been safeguarded against unauthorized access, human error, or process disruptions?
  - Relevance**:** *Is it the right data at the right time (especially when combining multiple data sets)?* Does the information collected and analyzed directly support tax needs? Is it confused or mixed with unrelated information?
  - Timeliness**:** *Does the data consistently represent a desired period or moment in time?* Is it available when needed?
  - Completeness**:** *Is the data quantitatively and qualitatively comprehensive?* Does it include all necessary information without gaps that could lead to under- or overreporting tax obligations?

- Accessibility**:** *If the data needs to be verified or refreshed from a source, is it available without compounding unnecessary risk?* Can the right people (such as tax professionals, auditors, and regulatory bodies) easily retrieve and use the data when needed?

Taking small steps and gradually introducing high-quality, master data concepts into specific functions will best position tax departments to realize the efficacy of their technologies.

Implementing Technology: Select Now, Build or Buy in 2025

Even if a company has chosen to implement a master data hub, there's no universal method for doing so. The best approach will depend on several factors that vary by organization, so tax leaders should start with gathering information and defining goals. Perform a gap analysis and understand where infrastructure is failing. Where are the bottlenecks? Can stronger solutions bridge any gaps left by current tech processes?

Planning Consideration

- In building short- and long-term roadmaps for tax innovation, a business should ask the following questions:
  - What is the budget?
  - What kind of tech staff does the organization already employ?
  - Does the tax team have any co-sourcing or outsourcing arrangements?
  - What suppliers and third-party firms does the company work with?
  - What data management policies does the company have in place?
  - What is the company's financial reporting cadence?
  - What is the company's expected growth over the next year? Three years? Five years?

Scaling Up

Even if a business already has a tax technology plan, it can be difficult to decide how, when, and why to scale up. Many business leaders are prioritizing cost optimization. While scaling up requires a significant upfront investment, it can prove cheaper than addressing shortfalls stemming from outdated processes.

Planning Consideration

- In considering whether to scale up, first ask how existing tech can be improved. Identify top challenges in the tax team's ability to keep up with increasing compliance demands and determine how technology can help. Then tailor plans to complement existing capabilities and foster cross-functional collaboration.

Building vs. Buying

Deciding to implement or scale up tax tech isn't the final step. Tax leaders must assess which technology investments will have the greatest returns and whether they should build or buy solutions. Buying often requires software tailored to meet a company's specific needs. And while building generally doesn't mean starting from scratch, it still requires significant resources and time.

Planning Consideration

- In choosing whether to buy or build, a company should weigh the following six factors:
  - Cost
  - Urgency
  - Expertise
  - Scalability and regulatory compliance
  - Integration compatibility
  - Data security

Proactive tax planning and seamless tax compliance are essential components of financial success. At FustCharles, we are dedicated to providing year-round support, ensuring you stay informed about emerging opportunities, evolving tax laws, and optimal strategies. Our commitment is to guide you towards the most advantageous course of action aligned with your objectives, ultimately contributing to your business's financial well-being.

For more information, please reach out to our Tax Team Leaders:

Thomas J. Giufre, CPA
tgiufre@fustcharles.com

Patrick A Capella, CPA
pcapella@fustcharles.com

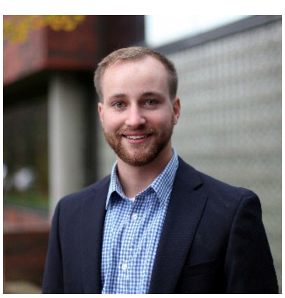
Kelly A. Redmond, CPA
kredmond@fustcharles.com

Joseph L. Charles, CPA
jcharles@fustcharles.com

Desireé M. Bennett, EA
dbennett@fustcharles.com

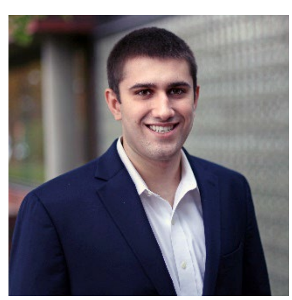
Ellie Luker, CPA, JD, LLM
mluker@fustcharles.com

Christian Snyder, CPA
csnyder@fustcharles.com



Michael W. Hartwell, CPA
mhartwell@fustcharles.com

Candice M. Pack, CPA, EA
cpack@fustcharles.com



Marek M. Gonzalez, CPA
mgonzalez@fustcharles.com

Erin Morford, CPA
emorford@fustcharles.com

FustCharles

FustCharles