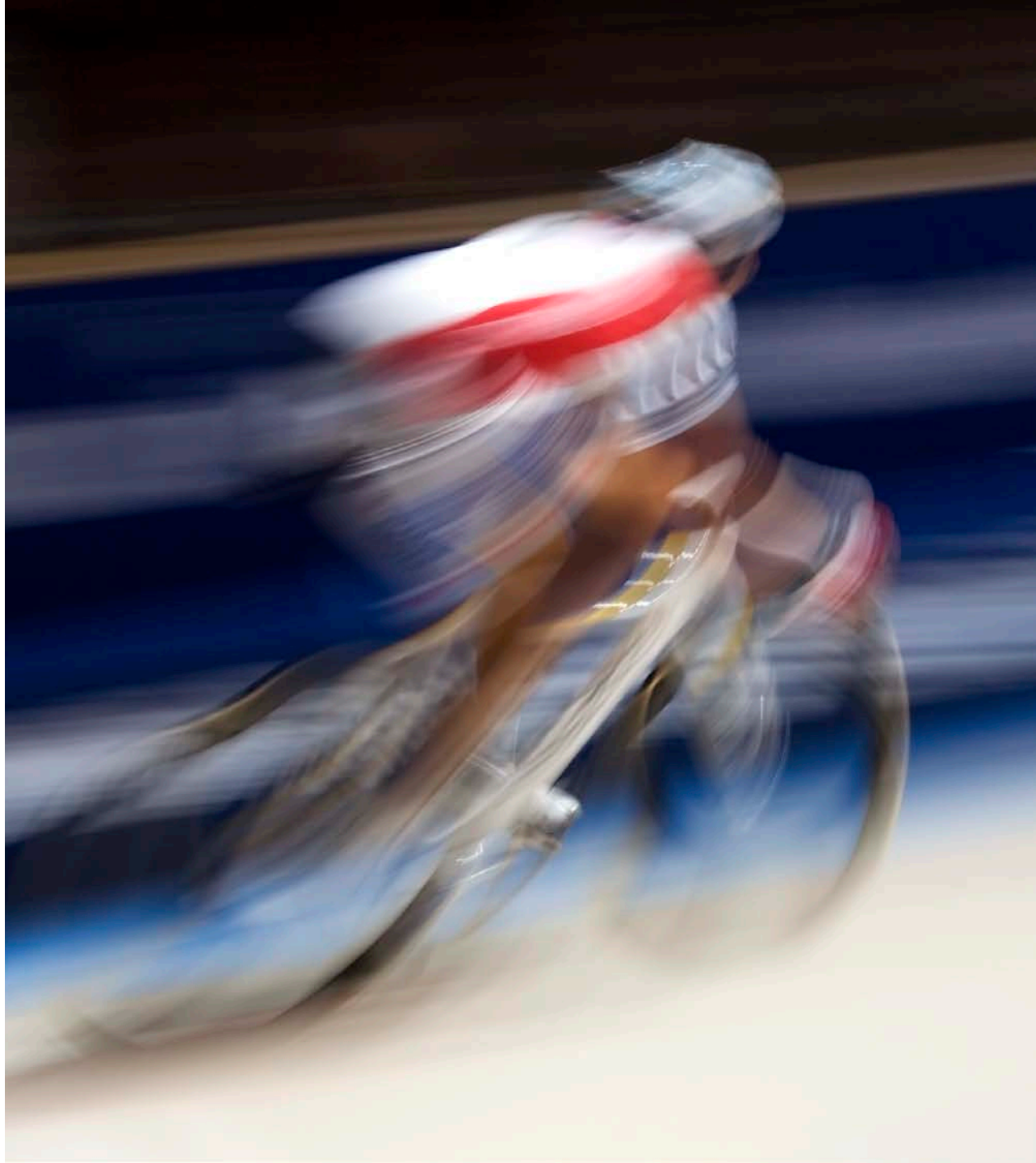




# How to Create Value for Your Company by Properly Managing Your Global Trade and Indirect Tax Process

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Shoab Malak  
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Deloitte Tax LLP

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# Agenda

The need for Tax and Trade departments to add value

Global Trade management

- Overview/Current trends
- The importance of data
- The need to centralize
- Automation opportunities/analytics
- Global Trade – a value added function

Global Indirect Tax management

- Overview/Current trends
- Leveraging automation
- Global vs. local
- Data analytics to drive value
- Closing



# The need for Tax and Trade departments to add value

## **Integrated partners in the business**

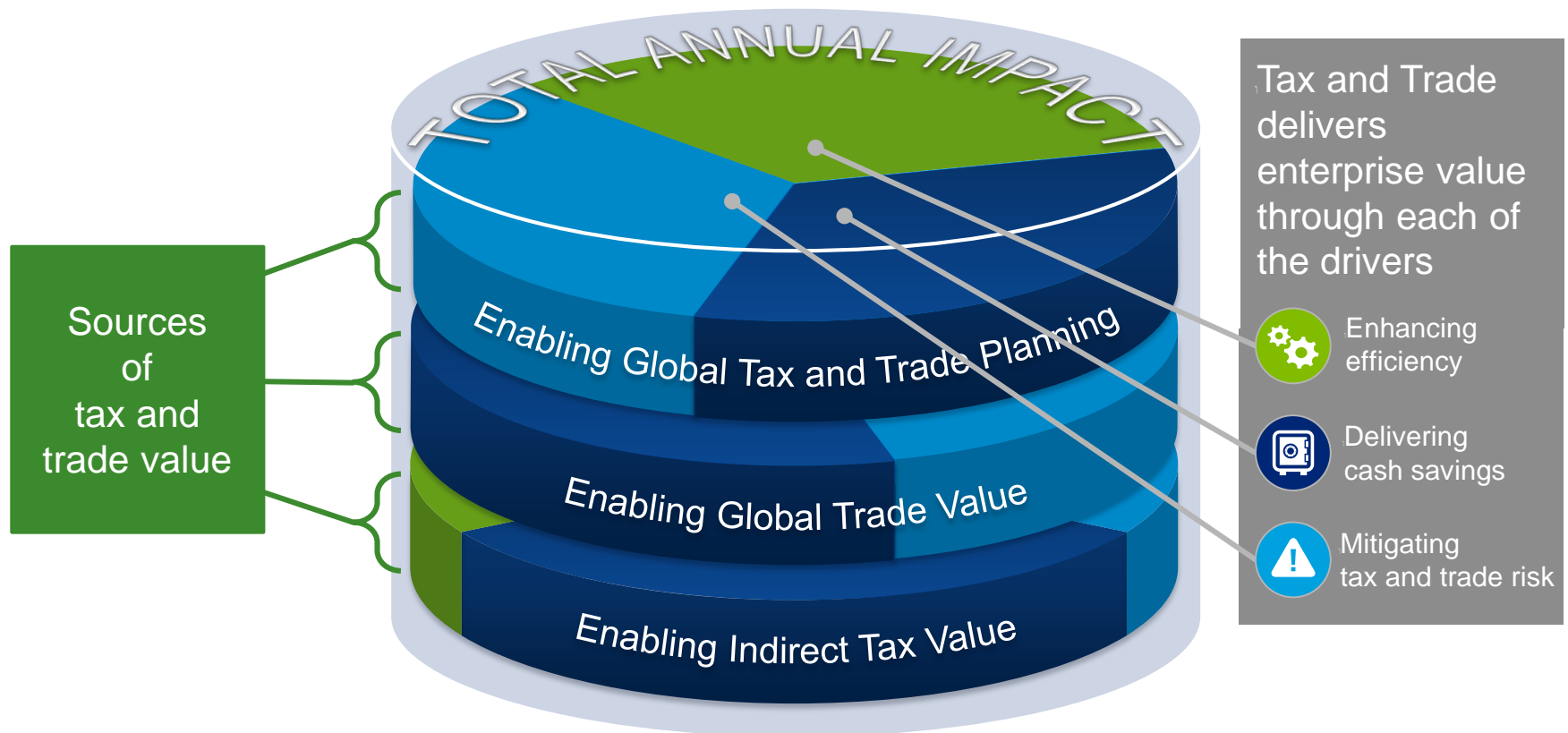
- Automation of tax and trade has pushed tax and trade to the business forefront
- Tax must consider effects of transactions before they occur
- Tax dependent on the business process and other business owners
- Tax is increasingly required to consider transactional effects in real-time

## **Increasingly dependent upon technology**

- Analytic tools give tax and trade true business insight and decision making ability
- Automation tools facilitate calculation of taxes, duties and filing of returns
- Data warehouses give tax departments ability to retrieve historical data without IT support and conduct predictive data analytics

# Tax and Trade departments must add value

Tax and Trade must be integrated business partners for the organization



# Global Trade management



# Global Trade trends

## Pressures, concerns and drivers

Enterprises are facing multiple pressures that are driving review and evaluation of their Global Trade Management practices and policies

**Figure 1: Pressures driving Global Trade Management and GTC**



Source: Aberdeen Group, September 2010

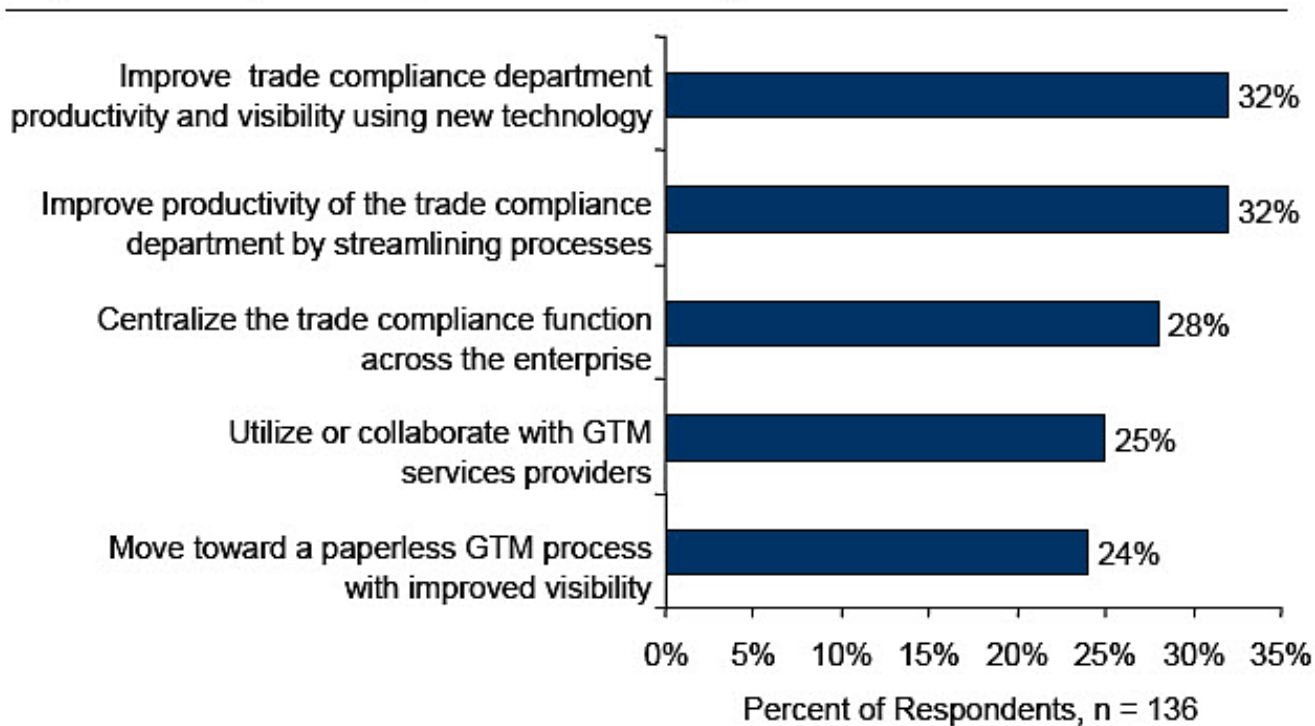


# Global Trade trends

## Opportunities and value

Centralization and Automation are critical components for the top global trade compliance improvement strategies

**Figure 2: Top Strategic Actions to Improve GTC**



Source: Aberdeen Group, September 2010

# The pervasive nature of Global Trade data

## The importance of data and cross-functional links

### Key business processes

New part intro/retirement

Source to pay

Plan to accept

Plan to fulfill

Service to satisfaction



### Key functional groups

Master data (customer, material, vendor, etc.)

Sales

Order management

Logistics and reverse logistics

Support services

Tax

Manufacturing

HR (recruit, transfer, restructure)

Procurement

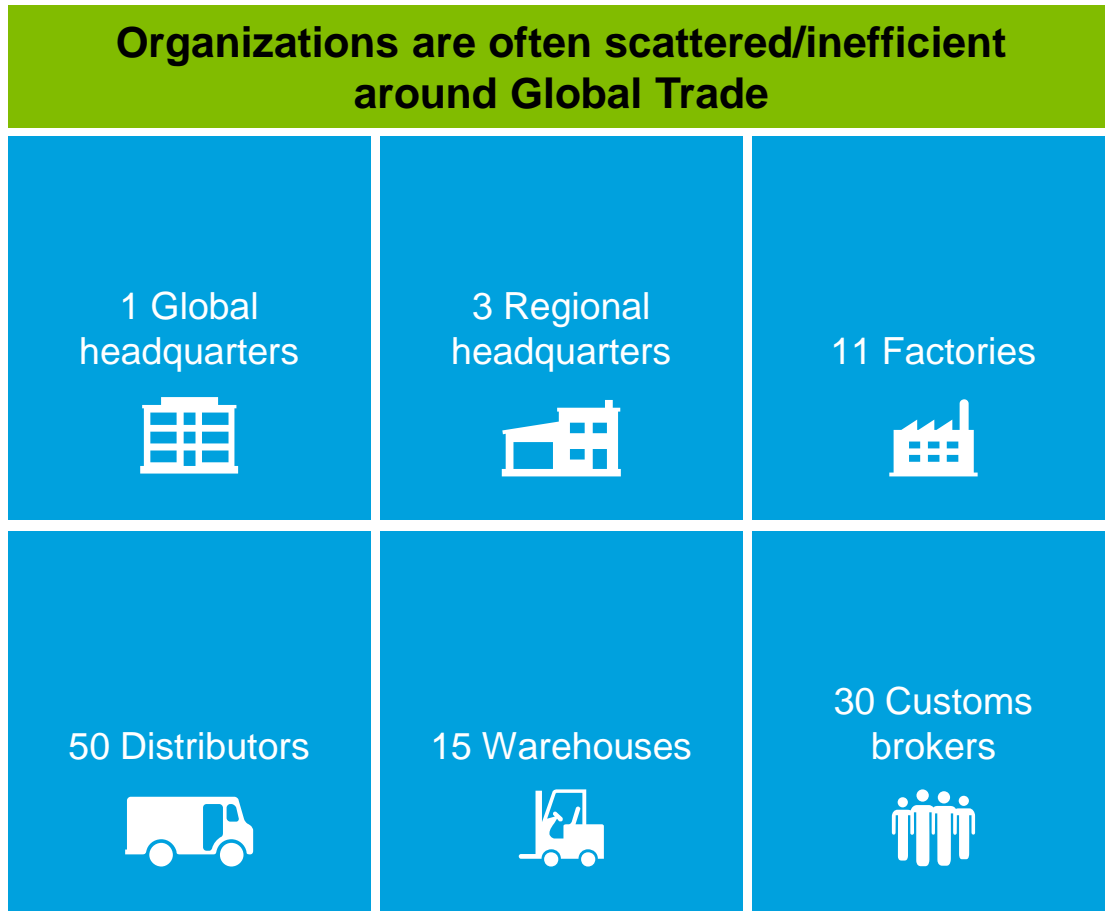
Inbound processing and inventory control

Every time a product crosses a border over 50 data elements need to be reported to the Customs Authorities



# Connecting the dots - the need to centralize

## Current state of the Corporate Trade Compliance function



### Inefficiencies within the Global Trade function

- A lack of standardization makes it difficult to gather data needed for trade processes
- Siloed regions, organizations and functions yield redundancies that make trade management particularly complex and costly

### Inefficiencies throughout the organization

- The global trade function must be linked to various other functions within the organization such as: Manufacturing, engineering, operations, logistics, sales, accounts payable, etc.
- Even within a region, linkages between functions may be absent
- Independent operations within an organization further increase difficulty in obtaining needed information and data for effective trade management

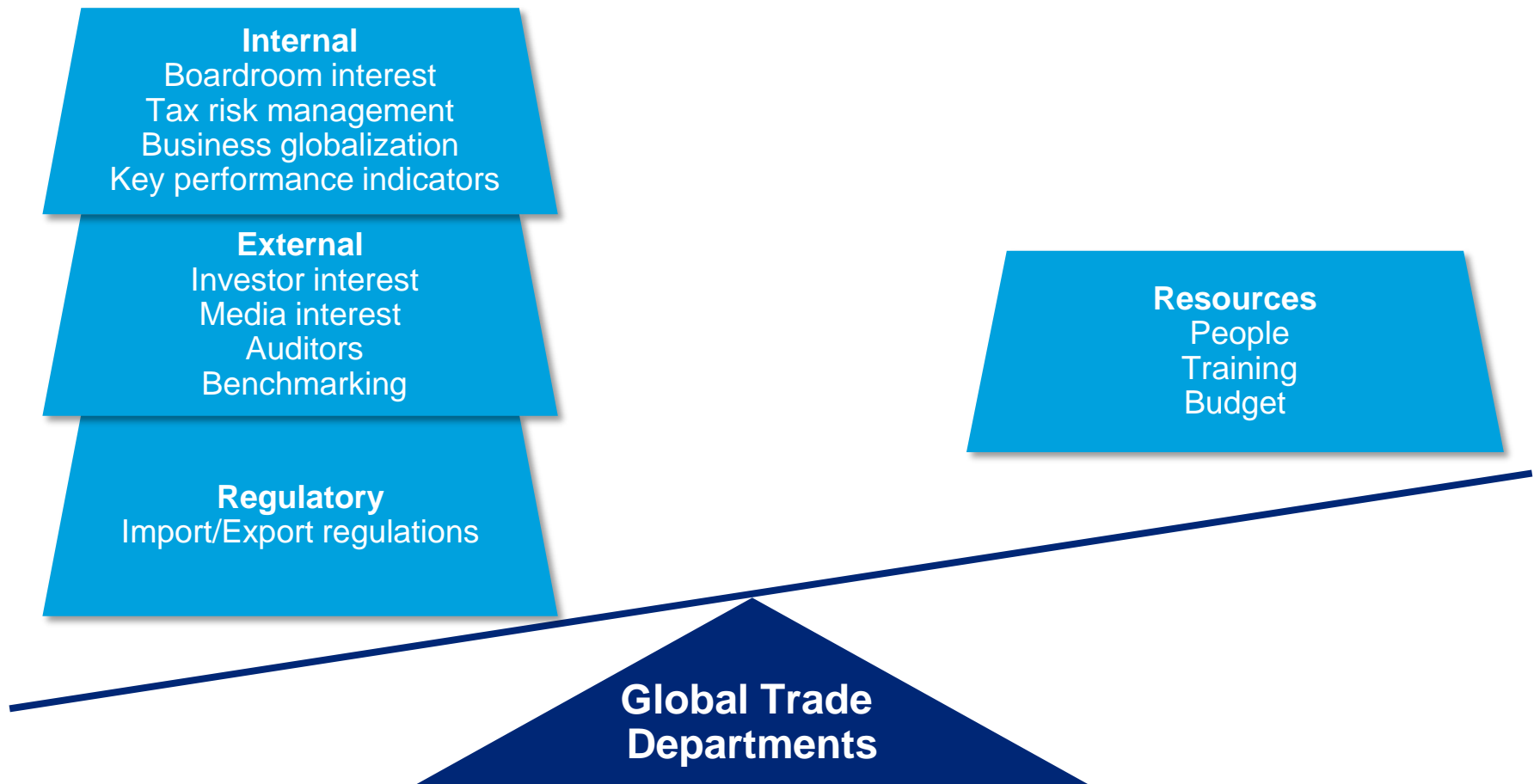
# Connecting the dots – the need to centralize

## Centralization increases compliance and reduces risk

The cost of redundant processes and the need for data analysis		
Opportunity	Value	Root cause
Harmonized tariff code Management <ul style="list-style-type: none"><li>• Reduce redundancy</li><li>• Mitigate risk</li></ul>	Immediate savings	\$5M <ul style="list-style-type: none"><li>• No centralized/regional process or control</li><li>• No single source of data</li><li>• HTS assigned at border</li></ul>
Improve supplier documentation	Immediate savings	\$2M <ul style="list-style-type: none"><li>• No process for SLA with suppliers</li><li>• Most communications paper based</li></ul>
Streamlined automated filing process	Immediate savings	\$1.6M <ul style="list-style-type: none"><li>• Currently file import/export declarations manually due to lack of data and automation</li></ul>
Program cost savings <ul style="list-style-type: none"><li>• First sale for export</li><li>• Trade zones and programs</li><li>• Rationalize third party providers</li></ul>	Immediate savings	\$7M <ul style="list-style-type: none"><li>• Lack of visibility to trade flows causes unnecessary duty payment; other trade costs and inability to take advantage of programs (1% reduction)</li></ul>
	Immediate total savings	\$15.6M

# Doing more with less – the need to automate

## Current state of the Corporate Trade Compliance function



# The need to centralize and automate

## Leading practices road map

			Premiere
		Leading	<ul style="list-style-type: none"> <li>• Trade industry benchmark</li> <li>• Strategic use of trade policy and compliance for competitive advantage</li> <li>• Organizational alignment promotes high visibility and executive support</li> <li>• Fully integrated with key business units</li> <li>• Use of leading-edge GTM systems solutions</li> <li>• Full electronic data exchange with vendors, 3PLs and Government agencies</li> <li>• Manage by exception</li> <li>• Full resources with formal education and awareness training</li> </ul>
		Emerging	
Traditional	<ul style="list-style-type: none"> <li>• Limited global considerations or cohesiveness</li> <li>• Random execution</li> <li>• Band-aid approach</li> <li>• Constant fire-fighting</li> <li>• Compliance is an option</li> <li>• No business partnership with Trade</li> <li>• Limited supporting resources or systems, if any</li> </ul>	<ul style="list-style-type: none"> <li>• Ad hoc standards</li> <li>• Inconsistent execution</li> <li>• Reactive problem-solving approach</li> <li>• Some fire-fighting</li> <li>• Compliance awareness</li> <li>• Recognition by business</li> <li>• Some dedicated resources and ad hoc systems support</li> <li>• Shepherd</li> <li>• Behave</li> </ul>	<ul style="list-style-type: none"> <li>• Established global policy and processes</li> <li>• Integrated systems support</li> <li>• Consistent execution</li> <li>• Proactive identification of problems</li> <li>• Rare or no fire-fighting</li> <li>• Compliance-focused</li> <li>• Business partnership and collaboration with trade group</li> <li>• Skilled personnel (including Licensed Brokers), and at least one supporting system</li> </ul>

**Error prone paper and spreadsheet-based process are used by 63% of respondents (59% of billion dollar companies) ... Consequently, one out of every ten international shipments are late (one out of every five are out of compliance)\*\*.**

Source: Aberdeen Group 2005

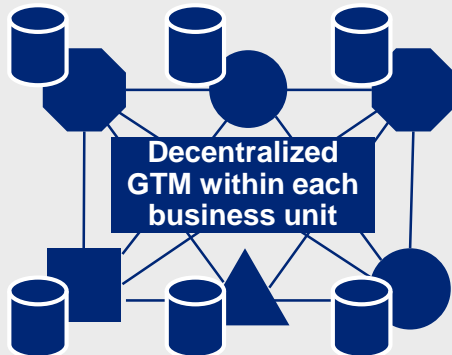
\*\* New Strategies for Global Trade Management – Aberdeen Group 2005

# The need to centralize and automate

## Roadmap toward leading practices

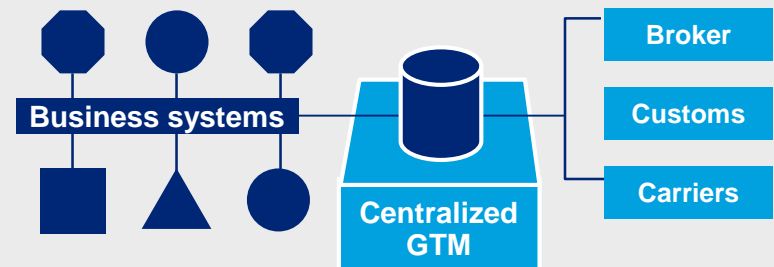
### Typical AS-IS infrastructure

- Fragmented ERP systems and global trade practices across business units
- Data is collected in many systems
- Relatively difficult to change
- Higher IT maintenance costs
- Difficult to standardize compliance process



### Leading practice TO-BE

- An enterprise-wide, GTM centralized system
- Shared data
- Easy to modify process as requirements change
- Lower IT maintenance costs
- Standardization of compliance process



**From fragmented infrastructure to centralized international trade compliance platform enabling full transparency cross business unit**

# The pervasive nature of global trade data

## Key business processes

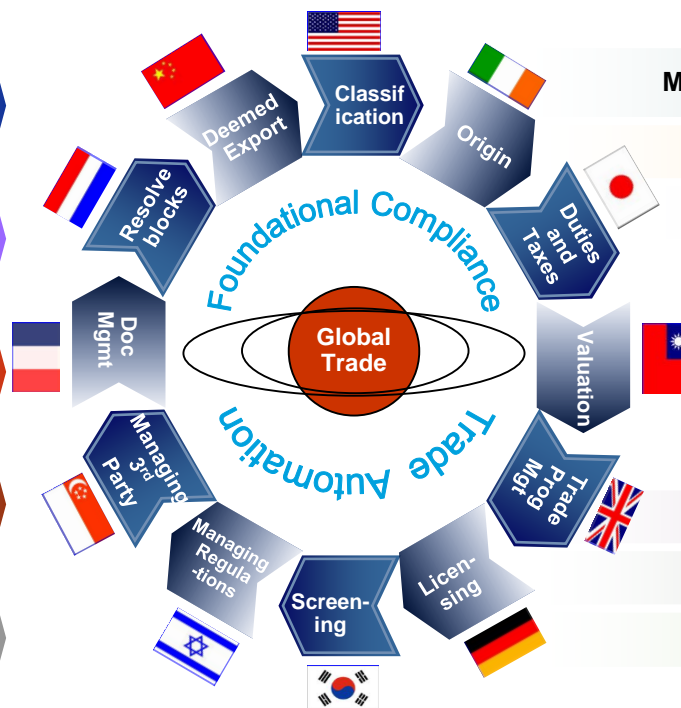
New part intro/retirement

Source to pay

Plan to accept

Plan to fulfill

Service to satisfaction



## Key functional groups

Master data (customer, material, vendor, etc.)

Sales

Order management

Logistics and reverse logistics

Support services

Tax

Manufacturing

HR (recruit, transfer, restructure)

Procurement

Inbound processing and inventory control

Requires companies to centralize, standardize and automate where possible to maintain compliance and reduce costs



# Indirect Tax management



# Today's Indirect Tax landscape

- VAT is an **indirect tax** levied on the **value of a supply of goods or services**
  - Payable regardless of profitability

Governments increased focus on Indirect Tax

- Source of revenue – increased audits
- Tax complexity increasing – more taxes and more authorities
- Tax department pressure for greater control and visibility

Company strategies include global expansion

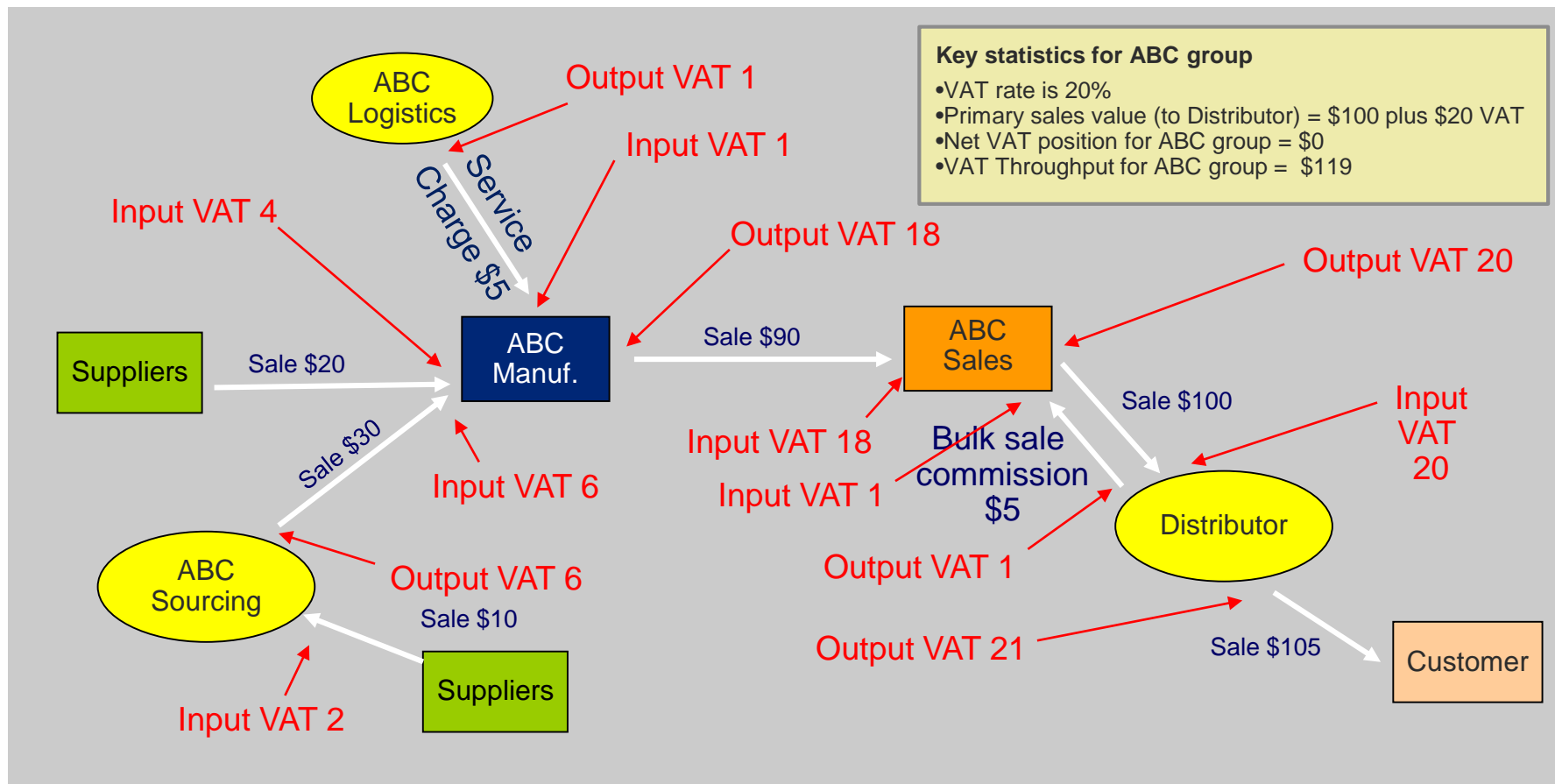
- **Liability to account for VAT** does not necessarily depend on nexus/establishment as with SUT
  - Easier to trigger a **VAT registration liability** than a corporate tax PE
- Very tax-complex regions and countries are desirable locations, i.e. Brazil, India, European Union

Multiple business application systems

- Additional systems due to acquisitions or organic growth
- Multiple systems for IT to manage tax logic and reporting

# VAT throughput in a domestic supply chain

- VAT throughput in a supply chain can be significantly more than the value of a final sale – as illustrated in the example below
- It is therefore important that this VAT can be properly tracked for compliance purposes



# Future trends – Base Erosion and Profit Shifting (BEPS)

## Indirect tax (mostly VAT)

- Remote supplies to exempt businesses and multi-location entities (MLEs)
- Imports of low value products from online sales
- Growth of cross-border digital supplies made to end customers



# Global Indirect Tax automation opportunities



# Common Indirect Tax automation goals

## Decrease complexity and consolidate systems

- Reduce the number of Tax compliance, Tax rate, Tax rules, and Tax determination systems

## Mitigate risk

- End-to-end automation – remove error prone manual processes
- Remove business logic programming in ERP
- Centralize Tax Department control over Tax policy

## Increase agility

- Ability to support future business priorities
- Country expansions
- New business lines
- Acquisitions
- Manage tax law changes
- Support corporate shared service initiatives



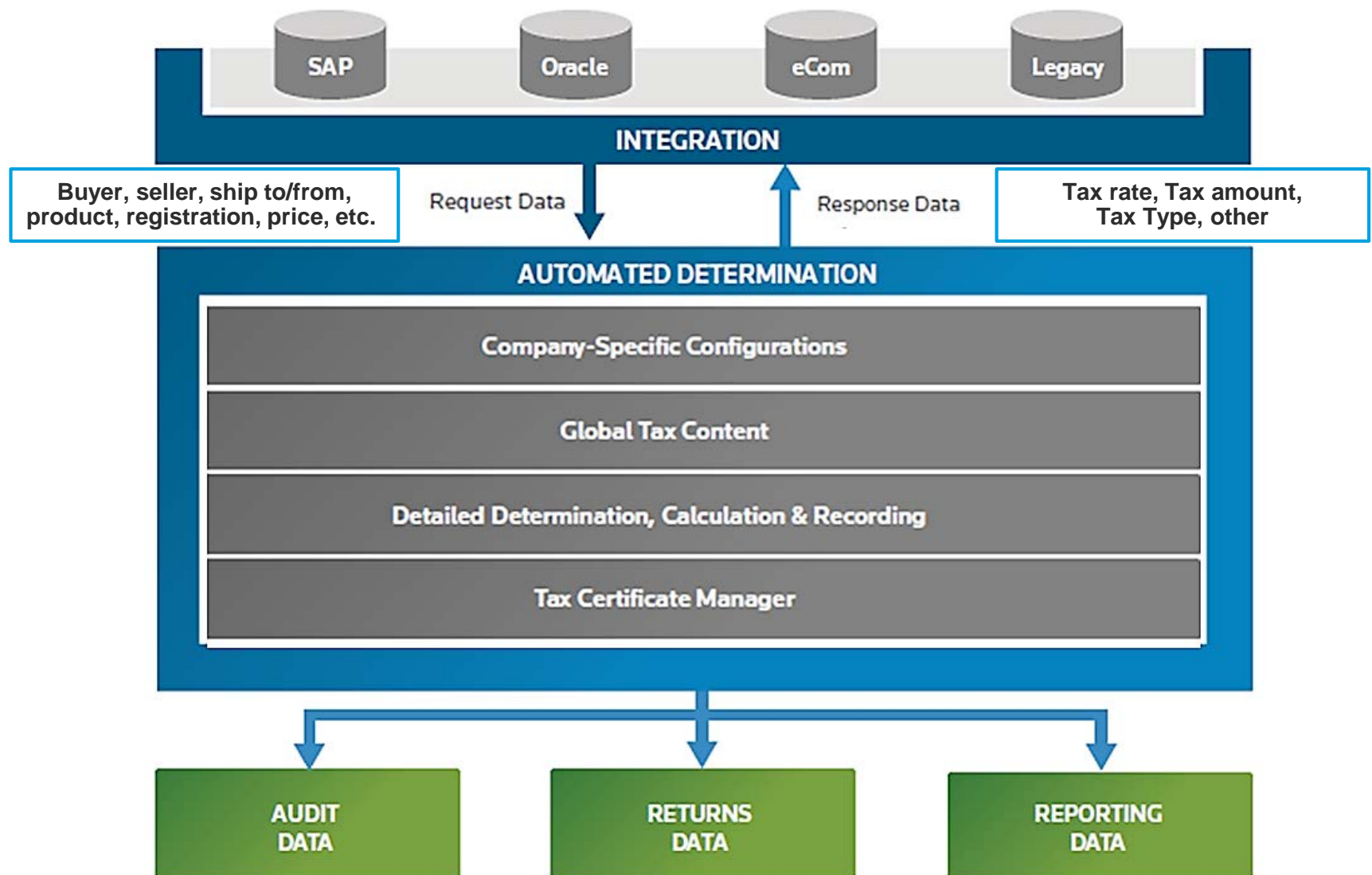
# Global perceptions.....

## Old schools of thought...

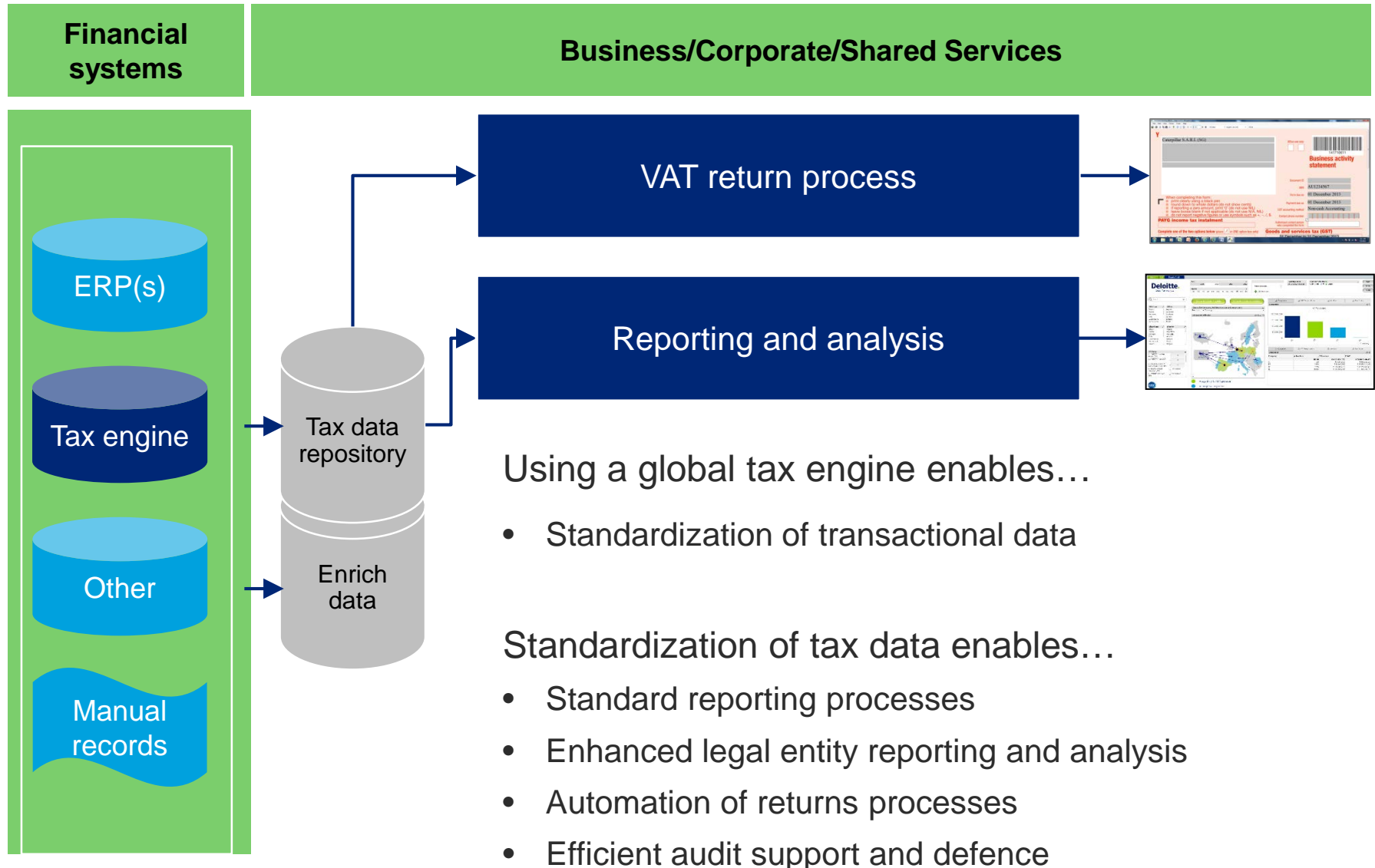
- “Our business is too complex”
- “The tax regimes we manage are too complex”
- “I’ve heard horror stories about tax engine implementations”
- “We have too much M&A activity”
- “We have too many systems”
- “My native ERP solution works fine”
- “How do I create a business case for this?”

.....a wave of evolution is occurring

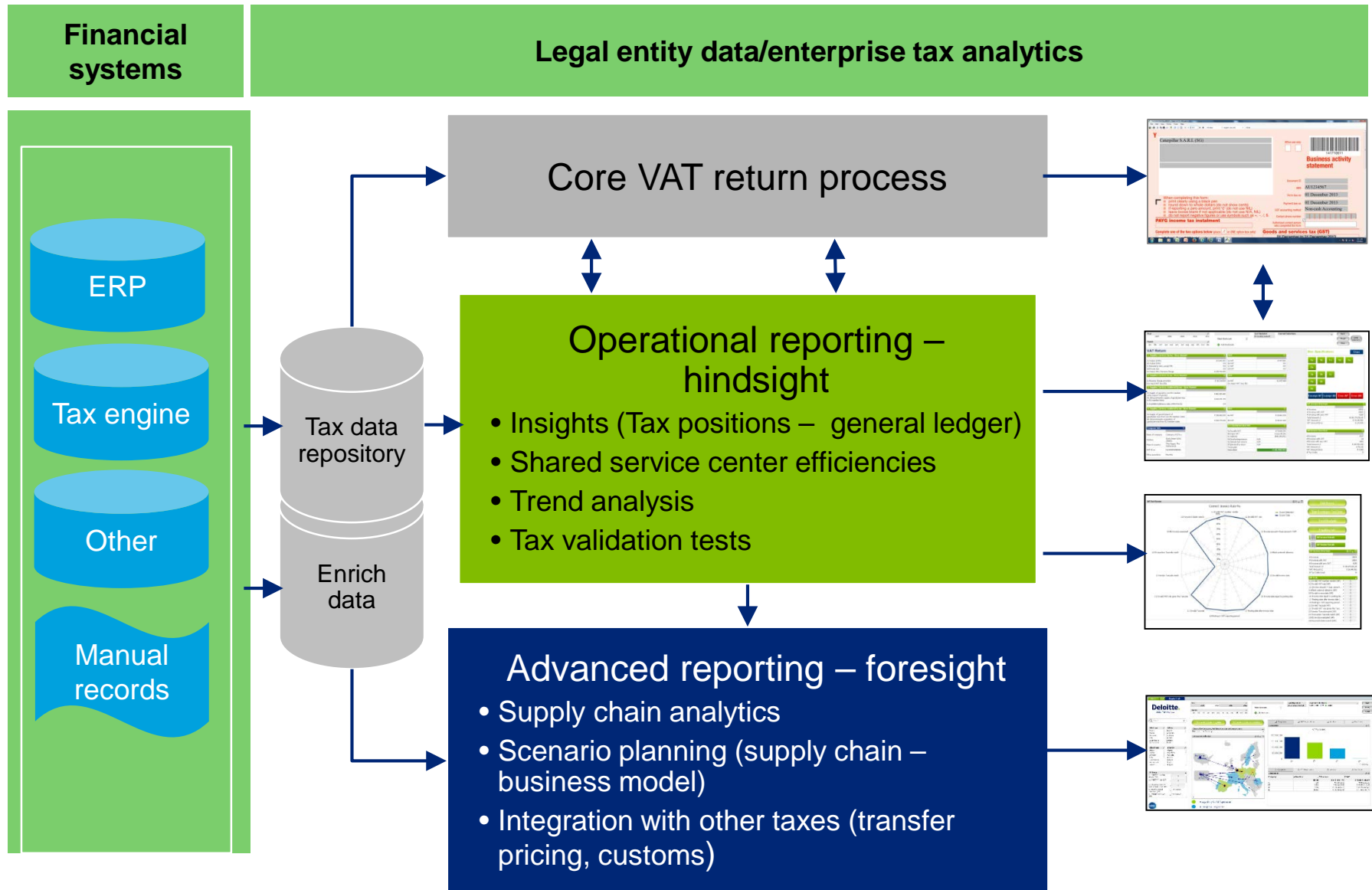
# What is an Indirect Tax Bolt-on Engine?



# Enhancing Indirect Tax operations

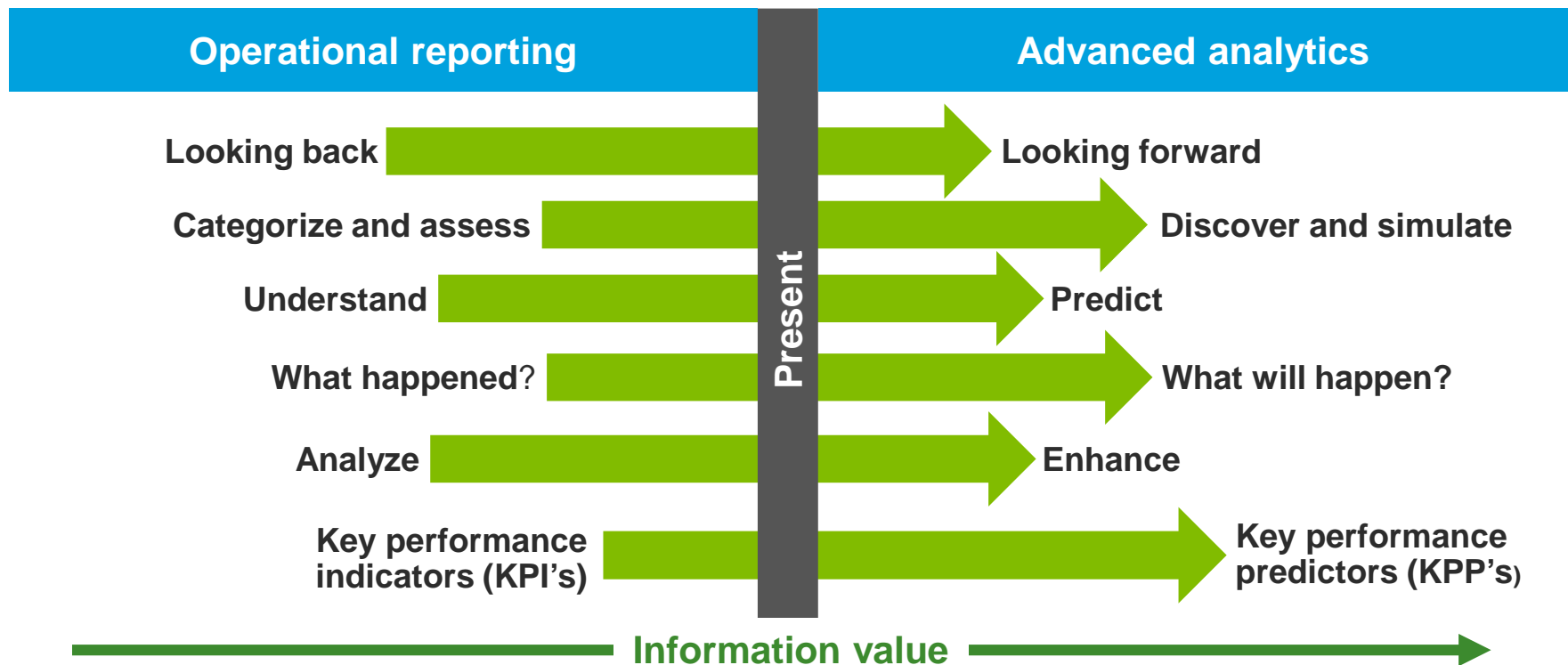


# Beyond Indirect Tax compliance – analytics



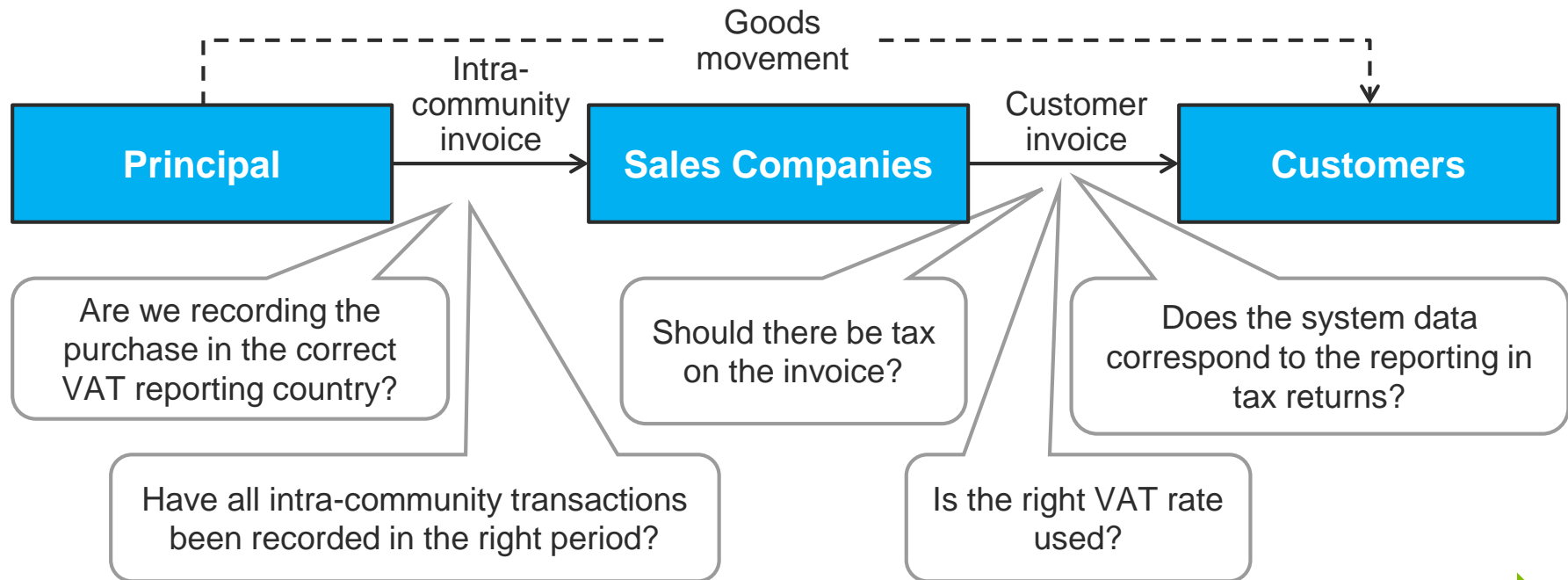
# Indirect Tax analytics – from hindsight to foresight

- Move from operational analytics (efficient compliance) to advanced data analytics (fact based planning)
- Leverage data analytics to identify indirect tax patterns, uncover anomalies, flag risk and improve cash flow



# Indirect Tax analytics – foresight

## Translating systems data into VAT insights



### From hindsight (operational)

- Are we applying the VAT rules regarding chain supplies correctly?
- What would be the financial impact if we fail to apply them?

### Foresight (advanced fact-based planning)

- Are we applying intra-community triangulation simplification?
- If yes, is this correct?
- If no, could we apply it?
- What would it bring us?

- What if we change the sales companies into agents?
- What is the VAT cash flow impact?
- How would this affect my customs duties?



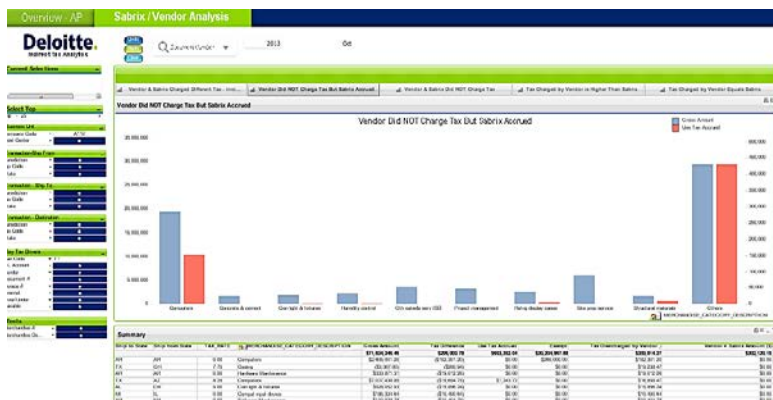
# Indirect Tax analytics – “the art of the possible”

## Data Driven Analytics

### Dashboard



### Standard Analytics



### Description

- High-level accounts payable spend analysis
- Top spend by GL
- Top spend by vendor
- Use tax by jurisdiction
- Top spend by company

### Description

- Different vendor and calculated use tax
- No use tax charged
- Exempt taxes
- Potential refund opportunities
- Vendor and system calculated taxes equal

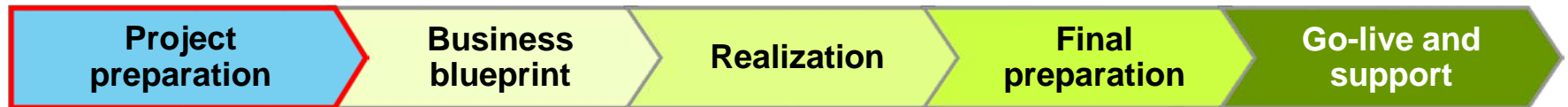
# Automation: Country considerations

## Things to consider when planning global implementations

- Some countries are more complex than others
- Standard content may need to be supplemented in complex countries
- Complexity is not necessarily just the Indirect tax
  - India – moving targets on tax regimes by province
  - Brazil – SPED reporting; integration with government systems
  - Mexico – Pedimento; integration with government systems
  - Israel – Hebrew language requirements/government accounting requirements
- A tax engine alone cannot satisfy all statutory requirements or resolve all reporting issues in all countries

# Automation: Get in the game early

**Tax involvement is required during all project phases!**



## **Tax involvement can include...**

- |  |  |
|--|--|
| Developing business process flows                                      | Defining legal structure                   |
| Defining tax accounting procedures                                     | Defining country specific tax requirements |
| Country reporting requirements   | Transaction results testing/validation     |
| Defining data standards and controls                                   | Change management/training activities      |
| Analyzing trading flows, expected tax results                          | Deployment activities                      |
| Data requirements on forms, i.e. invoices, etc., security and controls |  |



# Conclusion?

# Today's tax and/or trade executive should function more similarly to a CFO than a compliance expert

## Catalyst

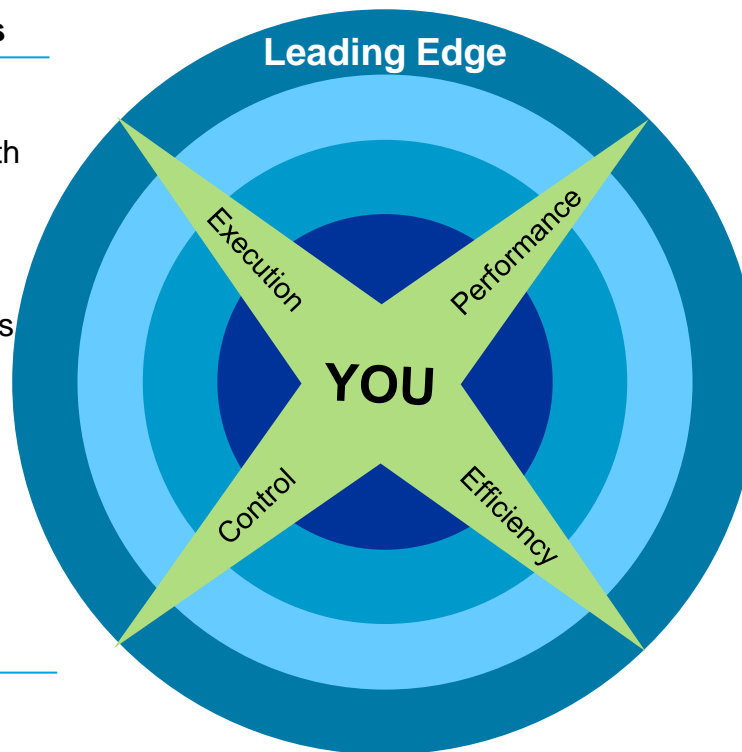
**Catalyze behaviors to execute strategic and financial objectives**

- Lead strategic initiatives
- Initiate business model optimization through teaming with the business (TP, Supply Chain, IP, R&D)
- Enhance tax and trade's collaboration and visibility with operations and business leaders

## Steward

**Protect and preserve the critical assets of the organization and accurately report on financial position and operations**

- Accurate and timely compliance and reporting
- Effective audit defense
- Risk identification and controls
- Risk intelligence



## Strategist

**Provide tax and trade leadership for vital strategic business direction and long term strategies that impact performance**

- Support strategic initiatives with fact based analyses
- Tax and trade enhanced business decision-making
- M&A / Post merger integration
- Proactive cash flow planning
- Finance and tax and trade transformation

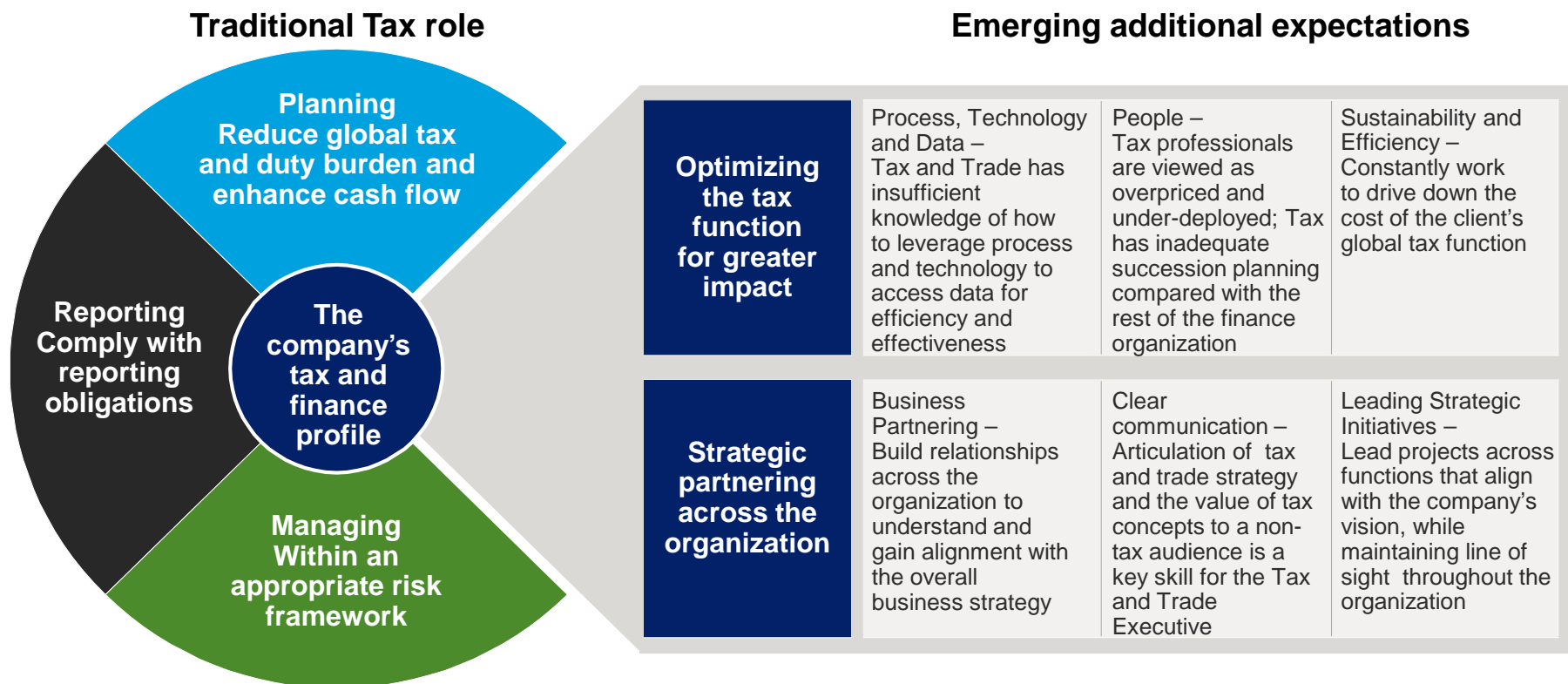
## Operator

**Balance capabilities, talent, costs and service levels to efficiently fulfill the tax function's core responsibilities**

- Recruit, retain and develop talent
- Cash tax planning
- Evaluate alternate sourcing models (build vs. buy)
- Leverage automation opportunities

# Doing more with data

Tax and Trade departments are expected to provide operational and strategic benefits

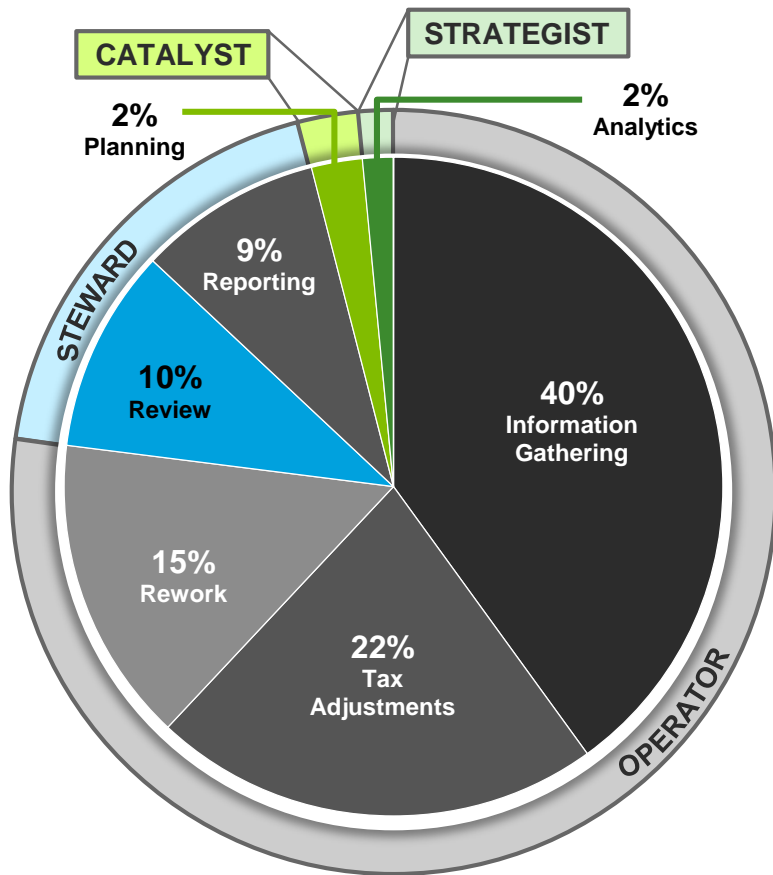


Derived from Deloitte stakeholder interviews, including over 50 CFOs, in preparation for Deloitte Tax Executive Transition Labs.

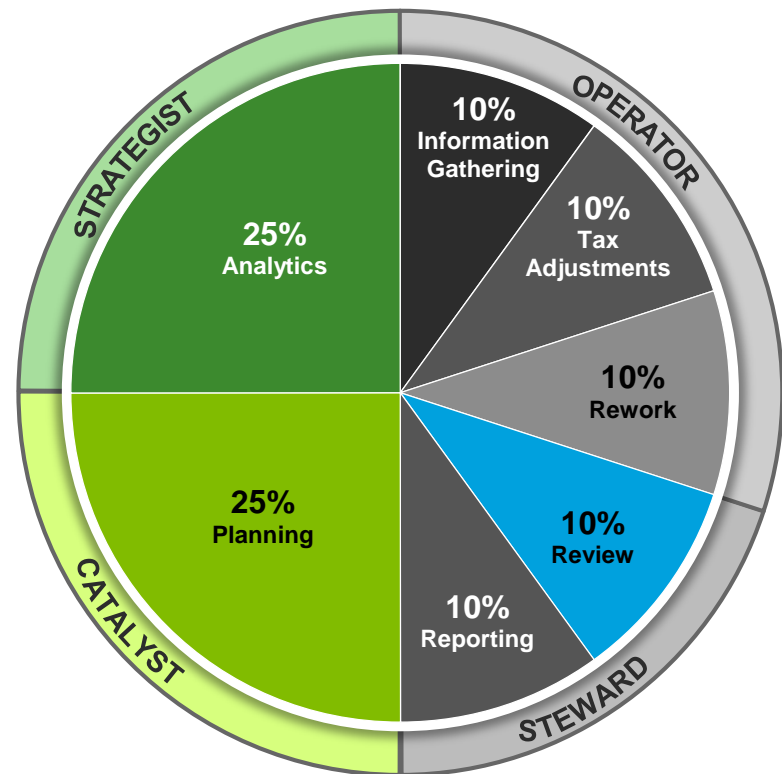


# Tax and Trade departments – the new value centers

Planning and analytics are the future



**Current state**



**Target future state**

Please remember  
to complete your  
evaluation

# Speaker bios

**Helen Cousineau** is a Firm Director in Deloitte Tax LLP's national Customs and Global Trade (CGT) practice.

Helen is responsible for CGT practice activities in the Central and Mid-America regions, and acts as national lead liaison with Deloitte Tax's national Transfer Pricing practice on matters involving related-party Customs valuation. She also co-leads CGT's export services nationally.

In addition, Helen advises clients on global import and export compliance issues as well as advising and assisting them to address legal and regulatory requirements in a cost-effective manner. Helen assists client with the design and execution of tax planning that manage risk, customs duty payments and internal trade costs, while considering duty recoveries and process efficiencies. Helen has experience with developing, designing and implementing global import and export control programs, including programs supported by trade automation solutions. Helen also regularly teaches seminars on U.S. export controls and U.S. import compliance both in the U.S. and abroad.

Helen earned her J.D. from the Boston University School of Law and her M.A. in International Relations from the Boston University Graduate School in 1994. She earned her B.A. in International Business from the California State University at Fullerton in 1987. In addition to being a licensed attorney, Helen is a licensed U.S. customs broker.

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**Suzanne Kao** is the Director who leads Deloitte Tax LLP's U.S. Export Controls practice. Suzanne has many years of experience in trade compliance. She primarily focuses on advising a wide range of industries, such as aerospace, defense, high technology and software, on U.S. export controls and compliance with the ITAR, EAR, OFAC and FCPA, including jurisdictional classifications, technology transfers, strategic licensing, conducting export compliance assessments, compliance audits and investigations, designing and implementing export compliance programs, providing guidance and solutions for proactive and remedial measures for international trade compliance, and creating and conducting customized export compliance training. Suzanne works closely with clients to address their operational and compliance-based export control requirements in a practical and effective manner.

Suzanne received her Bachelors of Arts degree, with Honors, from Brown University and Juris Doctorate from the University of North Carolina - School of Law. Suzanne serves on the Boards of the Society of International Affairs as well as the National Council on International Trade Development as its Chair, and is the Technology and Export Control Section Co-Chair for the Organization of Women in International Trade, D.C. Chapter.

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# Speaker bios

**Shoab Malak** is a Director in Deloitte's Indirect Tax group in San Francisco, providing a significant role in advising US clients on strategic global VAT structuring. Shoab has over 20 years experience of providing specific VAT consulting advice to clients in a number of sectors including Technology, Manufacturing, Telecom and Life Sciences, particularly on cross border transactions and global supply contracts. Whilst in the US, Shoab has been involved in providing VAT advice to US based clients undertaking transactions in regions such as Europe and Asia and in particular managing global VAT projects and advising on strategies to enhance VAT efficiency. Shoab has also substantial experience with advising on M&A transactions pre and post merger and also has provided technical guidance with global ERP implementation projects.

Shoab gained his BA (Hons) in Business Studies from Middlesex University and holds professional qualifications with the Chartered Institute of Marketing and the Chartered Institute of Taxation in the UK.

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**Raffi Markarian** is a Tax Principal in Deloitte Tax LLP's Tax Management Consulting (TMC) practice and a key architect of Deloitte's multi-disciplinary Tax process & data enhancement services. Deloitte's pioneering methodology and team have helped clients integrate global tax planning, data and process requirements into enterprise-wide business and finance transformation initiatives focusing on enterprise financial system implementations, global supply chain transformation efforts and corporate shared services. Raffi has over 25 years of experience in software development, system implementation, and project management specializing in tax data management and tax process optimization. He has led significant tax data integration and process redesign projects for leading multi-nationals across all industries covering data design, tax system integration, ERP system reporting/data extraction, and electronic tax record retention and is a frequent speaker on these and related topics

Raffi received a BA from the University of Chicago and MBA from the University of Illinois

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