The Future of Tax Technology Can Be Found in the Cloud

Education and Considerations

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Summary

The goal of this article is to inform tax professionals about cloud computing and Software-as-a-Service (SaaS) concepts, trends, and practices. The intent is to educate, emphasize SaaS drivers and benefits, address SaaS concerns, and help make tax professionals more knowledgeable about the "cloud," and why it makes sense from a business perspective.

Introduction

Cloud Computing: Everyone's Adopting It.

There is a reason why we will never see a bumper-sticker advertisement touting the use of the cloud: promotion is unnecessary. The vast majority of companies have already invested in some form of cloud computing, and these investments are projected to grow substantially in the coming years. A growing body of research shows that there are compelling reasons for the soaring interest: cloud-related technology investments can lower enterprise technology costs, improve organizational agility, strengthen disaster recovery and business continuity management (BCM) capabilities, reduce implementation times, and more.

Given its value proposition, cloud technology simply does not need a catchy marketing slogan. The increasingly pervasive penetration of cloud technology creates a more pressing need across organizations: education. As cloud computing – in the form of hosted applications and SaaS models – spreads to nearly every corner of the enterprise, executives and managers need to understand cloud technology's application to their area of expertise, the technology's benefits, and how cloud applications are purchased, deployed and managed.

Examining those needs is the purpose of this paper, which is directed to those involved in the purchase of enterprise tax technology: IT, Finance and especially Tax, which, like most functions in the enterprise, has a growing number of cloud-based technology solutions available.

Providing Context Around the Cloud

Cloud computing's world dominance is not an exaggeration these days. Cloud computing and hosted technology solutions "will be the default way of delivering technology in the future," emphasizes *Forbes* Contributing Writer Ben Kepes.[1] Judging from the steady procession of cloud-related adoption statistics, Kepes forecast seems on target. Sixty-nine percent of organizations use at least one cloud-based software application or use the cloud to host a portion of their IT infrastructure.[2]

Before examining why cloud-based and hosted business applications are becoming a standard enterprise-IT model, it helps to define some basic terms and understand the recent history of cloud-technology adoption. Like many technology concepts, cloud can get confusing, particularly when terms that refer to different processes and activities are used incorrectly.

Here are three of the most common, and most important, cloud phrases that relate to its use in tax applications, as well as throughout the rest of the enterprise:

- **Cloud Computing**: This umbrella term describes the technical environment that enables a company to access and use software and IT infrastructure that is located outside of the company's physical boundaries. In practical terms, "cloud computing" does not imply one of the business models described by the more specific phrases that follow.

- **Hosting**: This term refers to a model in which a company outsources IT infrastructure while maintaining ownership (through licensing) of the software.

- **Software-as-a-Service (SaaS)**: This phrase describes a software-subscription business model through which the software is rented rather than owned. The software is hosted remotely and is accessed through an Internet connection, instead of through an interface that is part of an on-site software installation.

The modern era of cloud computing began with the introduction of Salesforce.com in 1999 and Amazon's Web Services a few years later. In 2006, Amazon launched a commercial online service that enabled smaller companies to rent IT infrastructure (computers, services, etc.) to run their own software applications.[3]

The allure of Salesforce.com's innovative approach was that its sales and marketing applications could be licensed or rented by much smaller companies that did not have the budget or inclination to invest in the IT infrastructure necessary to support more traditional (and much larger), on-site sales and marketing software solutions.[4]

As hosted and SaaS offerings evolved, companies of all sizes became more interested in their benefits, especially in the form of greater business agility. By using these offerings, companies found that they could quickly and easily increase or decrease software use. Organizations also discovered that they could redirect IT resources previously dedicated to low-value (but necessary) software installation, maintenance and support activities to higher-value activities.

The shift of sales and marketing applications to hosted solutions was quickly followed by the migration of other functionally-focused software applications – Finance (ERP), HR, Internal Audit, governance risk management and compliance (GRC) and Tax – to the cloud.

This year, nearly one-quarter of all IT budgets are allocated to cloud computing, and the majority of this cloud investment goes to SaaS solutions, according to an International Data Group (IDG) survey. Many of the survey's other findings show that cloud computing and SaaS are becoming the norm within companies:

- In the past two years the number of companies making these cloud investments have increased by 21 percent.

- Sixty-one percent of companies are evaluating additional technology investments (e.g., network virtualization) designed to optimize their existing cloud-related technology investments.

- The average cloud investment for organizations with more than 1,000 employees was $3.3 million last year.[5]

Cloud Computing Benefits

Additionally, 62 percent of companies report that their cloud computing investments enable them to invest more money back into their business (improving profits by an average of 22 percent).[6] This statistic helps explain why SaaS and other forms of cloud technology are being adopted within enterprises at such a rapid rate.

To be clear, this valuable benefit marks an outcome of a company's *total* cloud technology investment. An investment in a specific SaaS solution in the tax function may not enable a company to directly invest more money into revenue-generating activities. However, a cloud-based tax technology investment certainly can help Tax, Finance and IT identify cost-savings and time-savings, both of which can be invested in higher-value activities. Additionally, moving technology to the cloud frequently enables organizations to treat those portions of IT budgets as operating expenses rather than as capital expenditures – a shift that can provide greater financial flexibility.

While no major surveys of tax SaaS solutions have been undertaken to date, the benefits driving investment in all forms of cloud and SaaS applications are relevant to tax functions. A survey of 1,300 U.S. and U.K. companies conducted by managed cloud computing company Rackspace, and market research firm Vanson Bourne asked respondents to identify how cloud computing purchases have contributed to their businesses. The findings include cuts along functional lines; here's how finance-function respondents ranked the benefits of their cloud investments:

1. *Cloud computing reduced our IT costs;*
2. *Cloud computing has enabled us to invest more money back into the business;*
3. *Cloud computing has reduced the need for our IT team to maintain infrastructure, and given us more time to focus on strategy and innovation;*
4. *Cloud computing has improved our disaster recovery and business agility; and*
5. *Cloud computing has helped us increase profits.*[7]

IT Collaboration and Other Important Considerations

Chief Tax Officers (CTOs) are not Chief Marketing Officers (CMOs). That seemingly obvious point is important to keep in mind when it comes to making investments in cloud-based tax automation.

CMOs were among the earliest and most aggressive investors in enterprise cloud applications, for good reason. "Tech purchases used to creep along in a lengthy approval process through the Chief Information Officer (CIO) who controlled hardware resources, but cloud services meant CMOs could get a subscription and be up and running the next day," notes *CIO Magazine* Senior Writer Tom Kaneshige.[9] In 2012, research firm Gartner projected that CMOs will spend more on IT than CIOs by 2017.[10]

This prediction, and the trend it describes, did not sit well with many CIOs, who understandably felt that their territory was being infringed upon by CMOs. This friction is evident in the growing number of articles and thought leadership dedicated to these challenged relationships: "10 Biggest CIO-CMO Relationship Hurdles" and "CIOs and CMOs Suffer From Failure to Communicate" (both from *CIO Magazine*) and "The CIO-CMO Disconnect" (an Accenture white paper), to name just a few.

Fortunately, CTOs and CIOs generally have maintained a collaborative relationship; it is rare to come across any articles depicting contentious CTO-CIO relationships.

Cloud Benefits Extend Beyond Cost Reduction

A survey of more than 1,200 IT professionals conducted by IT solutions provider CDW identified the following benefits of enterprise cloud computing technology (ranked by frequency):

1. Increased efficiency (55 percent)
2. Improved employee mobility (49 percent)
3. Increased ability to innovate
4. Freed current IT staff for other projects; and
5. Reduced IT operating cost[8]

The cloud can further strengthen this collaborative relationship by reducing the tax function's reliance on IT for software application maintenance (e.g., monthly software updates, patches, etc.). SaaS and other cloud-based forms of tax automation can also be up and running much faster than traditional on-premises software implementations, which also reduces IT workloads.

As the use of cloud technology increases, it becomes more important for tax and finance executives and professionals to nurture the healthy relationship it maintains with IT. This need can be met through an increasingly important skill set, according to Vertex Chief Tax Officer, Peggi Rockefeller, who describes the tax technologist skill set as "a 'next-generation' tax competency" that rising tax leaders need to develop and strengthen as they face greater pressure to become more proactive and less reactive. This new breed of tax technologist has the ability to understand the tax technology needs and can "translate this need to IT."[11]

Clearly, information security marks one of the top needs to address when organizations implement a cloud solution. Cloud-related information security is a changing and nuanced issue. On one hand, cloud technology offers inherent security improvements. By storing data off site with multi-site failover capability, companies that use cloud technology strengthen their disaster recovery and business continuity management capabilities (e.g., if an extreme weather event or even a power outage strikes headquarters, the data is unaffected). On the other hand, the rise of major data breaches within well-known companies has motivated IT security professionals (and technology vendors alike) to focus more resources and innovation on data-protection capabilities. This focus explains why the number of data encryption, multi-factor authentication and related security measures within cloud-based technology has been increasing.[12]

More focus and energy are being placed on all aspects of organizational information security in response to the growing frequency and magnitude of cyber-attacks. This focus extends to cloud technology in the form of cloud-security practices and tools like intrusion detection systems, intrusion prevention systems, vulnerability scanning, file integrity monitoring and security incident and event management processes.[13] Each IT function typically has specific security questions and requirements that tax professionals should identify and address.

Learn the Purchasing Process

There's another reason why tax professionals should collaborate with CIOs and IT professionals on the purchase of cloud-based tax automation: IT is much more familiar with organizational technology-purchasing processes and requirements.

Although processes can vary considerably from company to company, most of these approaches include the following elements, activities and considerations:

- **Work with IT to Learn How Software is Acquired**: IT functions and CIOs remain firmly in the driver's seat when it comes to planning and navigating cloud-related software purchases. At nearly two-thirds of companies, the central IT function makes the majority of cloud spending decisions.[14] Before evaluating vendors, it is helpful to clearly define the problems the cloud-based technology will address, learn about business case requirements (often outlined by the Finance function), understand all IT-related requirements (including security), and identify which other stakeholders typically provide input on the technology investment decision.

- **Create the Business Case**: Specific requirements for a formal business plan should be identified (again, often in thorough consultation with IT and Finance). Most business cases clearly outline the problems being addressed, identify the measures that will be used to monitor progress toward those objectives, calculate the time and total costs (including any training and support) the investment will require, and present a clear timeline for deployment. (The Vertex white paper, "Build a Better Business Case," provides a more detailed guidance on creating successful businesses cases.[15])

- **Evaluate Vendors and Check their References**: Once tax teams have identified their own functionality requirements, internal IT requirements and what the business case requires, they should learn from vendors about their offerings' implementation, integration and

technical requirements. Once a company has settled on a short list of cloud tax technology options, references should be checked. If possible, discuss vendors with client companies of similar size who operate in the same industry.

- **Training and Consulting Considerations**: Training for SaaS and other hosted applications is typically less intensive and costs less than training related to traditional on-site enterprise software implementations. That said it is important to understand what training is recommended by vendors, what form it takes (e.g., classroom-based, on-site, online training, etc.), and who should receive it. It is also important to identify what other support (e.g., related consulting services) is available and how these services can help optimize the cloud-based tax technology investment. When checking references, find out what amounts of training and support are required.

Conclusion

As the enterprise adoption of cloud technology continues its rapid ascent, these investments are driving down IT costs, delivering many other benefits and upending traditional technology-management processes and lines of authority.

It is important for Tax and Finance professionals to recognize the disruptive *and* beneficial impacts of SaaS and hosted solutions as cloud technology becomes more readily available to support the complex compliance needs of the tax function. Getting more knowledgeable about the "cloud," means cutting through the hype and pursuing the most effective ways to evaluate and maximize value of cloud-based tax technology. Lastly, it pays to collaborate with other key stakeholders across the organization, most notably IT partners, to ensure that these investments live up to their promise.

The importance of this collaboration will increase as more companies harvest the value of cloud technology. These benefits include lower total cost of ownership, greater implementation speed and ease, more flexibility to scale up and down (as business conditions require changes), the use of fewer IT resources, greater financial flexibility and risk-management improvements (e.g., disaster recovery). These benefits extend to nearly every business function and business technology category, including enterprise tax automation and compliance.

Endnotes

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About Vertex

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