

# TAX TECHNOLOGY VIEWPOINT

## *Observations from the Tax/IT Interface*

### Blazing the Tax Trail through the Financials

#### December 10, 2015

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GAAP/SEC reporting in today's enterprise structure consumes a lot of person-hours and technology assets. And rightly so! The investment community has an insatiable appetite for quarterly earnings releases and calls, audited financials and SEC reports; none of this comes easy. Income tax accounting is a very important component of the process and will continue to face increasing scrutiny, resulting in additional pressure on the tax function to timely produce a correct result. Then comes the ministerial task of filing all those tax returns that ultimately match up with the income tax provision/accrual.

The GAAP/SEC financials are composed of a series of business units that combine and/or consolidate into the overall reporting entity. These units often end up being scattered into any number of tax returns and other reports required by the federal, state and local jurisdictions which create the call on the enterprise assets presented in the income tax provision/accrual. The tax base implementing this call is defined by the myriad laws, regulations, courts, administrators, etc. endemic to these jurisdictions.

Technology tools to be used in the conversion of GAAP/SEC financials into tax reporting constructs must:

1. Originate with the data underlying the audited financials.
2. Be at a unit of account to allow recombination into the reporting entities required by the applicable taxing jurisdictions.
3. Allow for the conversion of GAAP/SEC accounting methods into the myriad methods presented by the laws, etc. of the taxing jurisdictions.
4. Exhibit the flexibility to gracefully absorb changes to the enterprise structure and tax reporting requirements.
5. Be primarily contained and operated efficiently by the tax function, under a reliable internal control scheme.
6. Provide precise audit trails from tax reporting back to the audited statements and other financial elements present in the wider enterprise.

This Viewpoint sets forth such a technological tool, tentatively named GL Navigator. The tool is a menu driven multi-user databased program that I have used for many years in a variety of situations.

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**Screen Image of the System's Primary Report Output Generator**

Work Product Reporter

GL Navigator  
Report Preparation

**Required Inputs**

Filer: TDogg | Filing: 1120 | Year: 2010 | Period: 12 | Unit List

Report Variant(s): Detail by Rpt Line | Report

Top Dogg, Inc.  
U.S. Corporation Income Tax Return  
Using Line Set 1120 and Trial Balance with 3 JEs

**Report JE Columns**

GAAPAdj	Tax Accrual	Tax Adj
GAAPFinal	Perm TaxAccrual	Temporary TrExpReclass

Available JE Classes: BegTaxSheet, Carveout, Consol10, Consol20, Consol30, ConsolAll, Earnprof, Elim

Edit JE's

The elements presented on this screen image are explained in the following section.

A Sample Report Screen Image is shown on Page 5.

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A **Filer** is defined as the name of any entity that is required to file a return or be reported upon in any fashion. Examples of Filers are consolidated groups, unitary combinations, separate corporate returns, REITs and partnerships.

Within Navigator, Filers are user defined and there are no practical limitations on the number of Filers defined. TDogg is the short name of Filer # 100001, legal name Top Dogg, Inc.



A **Filing** is defined as a tax return or other report that is required for any purpose. As with Filers, Filings are user defined with no practical limits on volume. Filers and Filings have a many to many relationship; a Filer can have an unlimited number of Filings and a Filing can be made by an unlimited number of Filers.

Each Filing has an attribute called a **Line Set**. A Line Set defines the individual lines that appear on the Filing's report and the assignment of GL accounts to that line. All of these are user assigned and without practical limitation.

Another attribute of a Filing is the **Report**. A Report defines the columns into which the information appears. Reports are system defined but are readily augmented or modified during system installation.

The combination of a Filer with a Filing is known as a **Named Filing**. The GL business units that are included in a Named Filing are user defined and, again, have no practical volume limits.

**Top Dogg, Inc.**  
**U.S. Corporation Income Tax Return**  
Using Line Set 1120 and Trial Balance with 3 JEs

In practice, the user selects a Filer from the dropdown list and the Filing dropdown list is populated. Upon selecting a Filing from the list, thereby defining a Named Filing, this text is presented.

The Named Filing is a Form 1120 for Top Dogg, Inc. Line Set 1120 contains the appropriate lines for this return and the GL accounts that are included on each line. The Report to be created is the "Trial Balance with 3 JEs". This is a seven column report with the following columns:

GAAP GL – The GAAP trial balance amounts.  
*Imported from the GAAP G/L.*

GAAP Adj – GAAP adjustments.  
*Tax JE's applied to this column at runtime.*

Adj GAAP – Adjusted GAAP.  
*Cross totals.*

Tax Accrual – Permanent GAAP/Tax differences  
*Tax JE's applied to this column at runtime*

Pretax – Pre-Tax accounting income.  
*Cross totals*

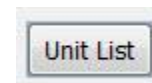
Tax Adj- Temporary GAAP/Tax differences  
*Tax JE's applied to this column at runtime*

Tax Balance – Tax basis amounts.  
*Cross total final amounts.*

**The Tax AJE subsystem will be explained later.**



This report is for the old and cold 2010 calendar year.



As set forth earlier, a Named Filing is associated with a list of business units that are included in the end reporting. In this example, there are (only) 23 business units that are included in the 1120.

The system presents a popup window that lists these units when the user clicks on this button. This is designed as a quick check during the report process so that the user does not have to call other main menu items to review the assignment list.

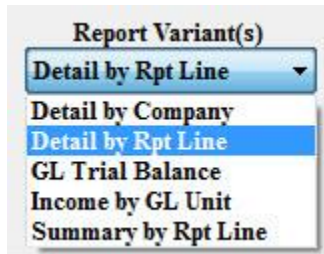
Continued...

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## *Observations from the Tax/IT Interface*

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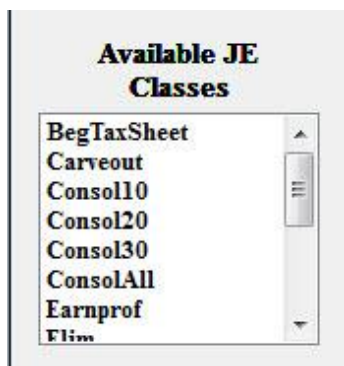
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The Report chosen (Detail by Rpt Line) from the dropdown list presents the tax trial balance elements sorted by the lines associated with the 1120-REIT. There are 4 other variants in the gallery for this Report that are quite useful. This variants are system supplied but can be extended or modified during system installation (or later) to reflect user requested customizations.



The user clicks this command button to execute the requested report. In most database environments, the report executes very quickly and is presented in a new window.



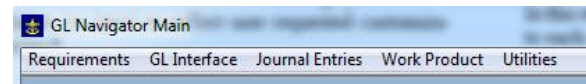
This element of the Work Product Reporter introduces the system's Tax AJE subsystem, designed to allow the tax function to efficiently allow conversion of GAAP accounting to income tax reporting while maintaining a tight audit path.

Users create tax AJE's using fully balanced journal entries at the business unit/GL account level. These entries are assigned to **JE Classes** that are fully user defined. Again, there are no practical limits on the volume of classes defined but class creation and use

should be carefully executed. All Tax AJE's are maintained in separate data stores and are combined and posted in **Report JE Columns** at report runtime, as below...

Report JE Columns		
GAAPAdj	Tax Accrual	Tax Adj
GAAPFinal	Perm TaxAccrual	Temporary TrExpReclass

In this example, there is one journal classes assigned to the first JE column and two journal classes assigned to each of the second and third. At runtime, Tax AJE's that are assigned to these classes having the appropriate time period are aggregated and assigned to the proper report lines for inclusion in the report's cross-totals. These columns are populated by drag and drop from the Available JE Classes dropdown list and can easily be removed from the report by dragging and dropping the Class back to that list.



Having now been to the end, the above is the main menu for the system that appears on the opening page. Practically all of the other elements of the system have to do with user inputs to set up all of the parameters and base data for the Work Product Reporter. These will require some degree of effort and knowledge of the system. However...

It is well worth the effort. I have used the system (or its predecessor) in a variety of situations; it has never broken and I have tried! Also, the working level of detail and the user's ability to extend and modify results have allowed me to handle really nasty circumstances that were completely unseen during development.

The following example is an image of the last page of the report generated by the system.

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## *Observations from the Tax/IT Interface*

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Sample Report Screen Image

Work Product Report

**GL Navigator Report**  
**Top Dogg, Inc.**  
**U.S. Corporation Income Tax Return**  
**For Period 12 of 2010**

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Zero Lines  
 Hide  
 Show  
 Display  
 Screen  
 Print  
 Paper  
 Letter  
 Legal  
 Isolate Account  
  
 Restore All  
 Print  
 Journals  
 Edit JE's  
 Refresh

Business Unit	Form 10K	GAAP Adj	Adj GAAP	Tax Accrual	Pretax	Tax Adj	Tax Balance
<b>Other deductions</b>							
<b>REO FV Reserve</b>		<b>661300</b>					
Tr XV 05-1	1275	(212,243)	(212,243)		(212,243)	212,243	0
Tr XVI 06-1	1276	(383,261)	(383,261)		(383,261)	383,261	0
Tr XVII 10-1	1277	(2,351)	(2,351)		(2,351)	2,351	0
Mortgage Servicing	1345	412,412	412,412		412,412	(412,412)	0
<b>Total REO FV Reserve</b>	<b>(4,405,006)</b>	<b>0</b>	<b>(4,405,006)</b>	<b>0</b>	<b>(4,405,006)</b>	<b>4,405,006</b>	<b>0</b>
<b>Attorney Fees - FCL related</b>		<b>669007</b>					
Top Dogg, Inc.	1248	666,992	666,992		666,992	(666,992)	0
Trust II	1252	75,617	75,617		75,617	(75,617)	0
Trust IV	1254	155,998	155,998		155,998	(155,998)	0
Trust VI	1256	128,954	128,954		128,954	(128,954)	0
Tr VII	1257	101,541	101,541		101,541	(101,541)	0
Tr VIII	1258	127,920	127,920		127,920	(127,920)	0
Tr X	1260	123,898	123,898		123,898	(123,898)	0
Tr XI	1261	166,927	166,927		166,927	(166,927)	0
Trust XII 04-1	1282	154,857	154,857		154,857	(154,857)	0
Tr XV 05-1	1275	167,149	167,149		167,149	(167,149)	0
Tr XVI 06-1	1276	193,756	193,756		193,756	(193,756)	0
Tr XVII 10-1	1277	34,391	34,391		34,391	(34,391)	0
<b>Total Attorney Fees - FCL related</b>	<b>2,116,000</b>	<b>0</b>	<b>2,116,000</b>	<b>0</b>	<b>2,116,000</b>	<b>(2,116,000)</b>	<b>0</b>
<b>Eviction &amp; Other FCL Costs</b>		<b>669014</b>					
Top Dogg, Inc.	1248	258,592	258,592		258,592	(258,592)	0
<b>Total Eviction &amp; Other FCL Costs</b>	<b>258,592</b>	<b>0</b>	<b>258,592</b>	<b>0</b>	<b>258,592</b>	<b>(258,592)</b>	<b>0</b>
<b>Total Other deductions</b>		<b>37,886,586</b>	<b>0</b>	<b>37,886,586</b>	<b>0</b>	<b>37,886,586</b>	<b>(855,279)</b>
<b>Total Taxable Income</b>	<b>(34,841,259)</b>	<b>0</b>	<b>(34,841,259)</b>	<b>(12,974)</b>	<b>(34,854,233)</b>	<b>(21,327,580)</b>	<b>(56,181,812)</b>
<b>Report Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

GAAP Adj :      GAAPFinal  
 Tax Accrual :    Perm, TaxAccrual  
 Tax Adj :        Temporary, TrExpReclass

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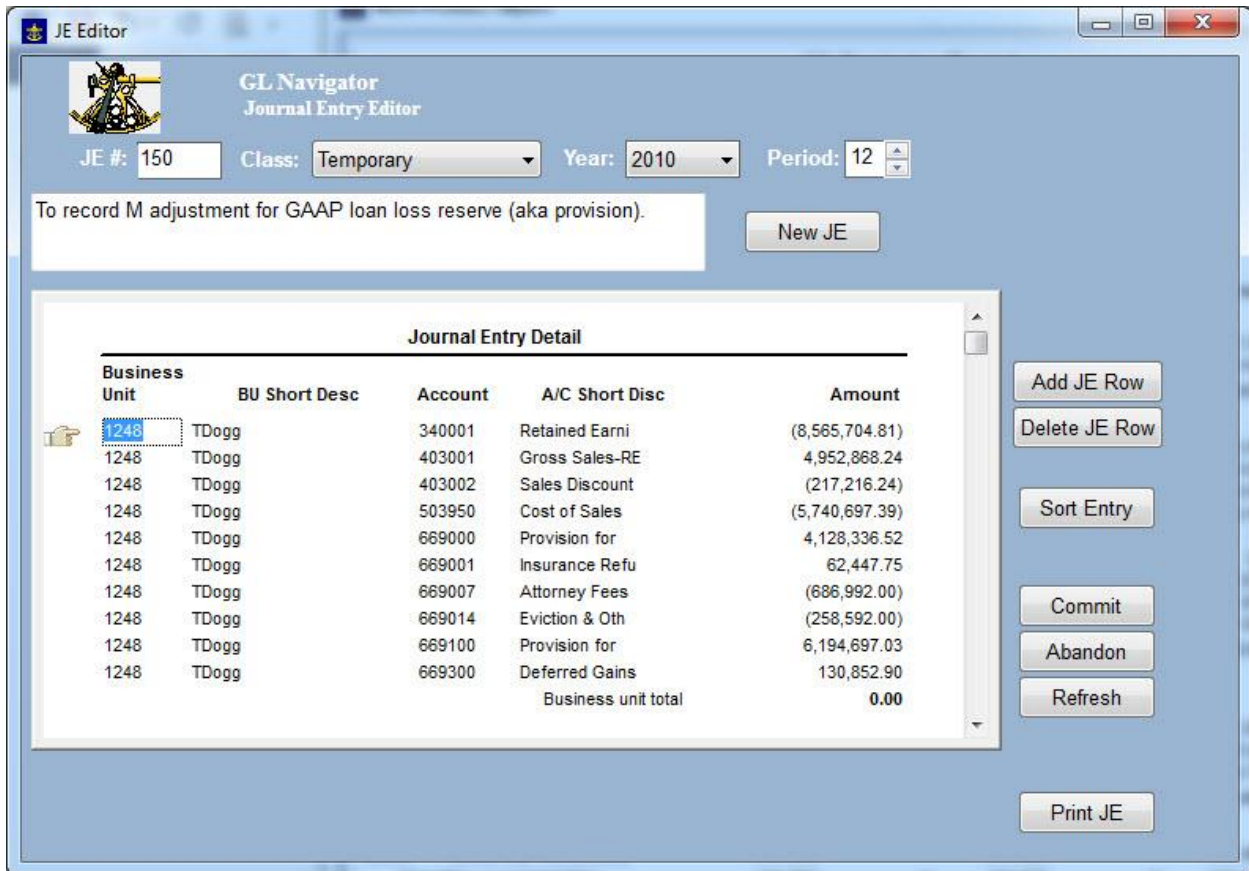
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**Sample Journal Entry Editor Screen Image**



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#### Overall System Schematic

