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# Corporate Tax Administration

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# CORPORATE TAX ADMINISTRATION

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Until about 16 years ago, taxes were no real burden on corporations. Rates were low and the laws were relatively simple. As a result, corporate taxes were handled in most instances in a haphazard manner. Responsibilities were generally divided among treasurer and controller; treasurer, secretary and controller; or some other combination of corporate officials. Various tax functions were carried on as a part of the regular work of the accounting, legal, payroll, production and sales departments, with only nominal supervision and control by a corporate executive. In many instances, certified public accountants handled the major taxes, such as federal and state income taxes, and one of the service organizations such as Corporation Trust Company or P-H Corporation System, Inc. handled the state franchise taxes, annual reports, qualifications and withdrawals. Even some of those companies that had tax departments did not assign the handling of all tax matters to that department.

Over the years, however, a multitude of new and infinitely more complex laws have been adopted. Rates on existing taxes have been raised. New types of taxes have been introduced. Existing taxes have spread to new levels of taxing jurisdictions, resulting in double or triple taxation on the same income, assets or operations. As a result, the tax burden amounts at present to more than half of the net income of a large corporation and constitutes one of its major expenditures. Thus it has become increasingly important for companies to exercise more administration and control over all tax functions in order to be assured that they will not pay more than their share of the overall tax burden and that compliance costs will be minimized. Accordingly, practically all of the larger corporations and many of the smaller corporations have organized tax departments to administer and control all or a major portion of the corporate tax functions. The head or administrator of this department may be directly responsible to a member of the board, president, executive vice president, vice president in charge of finance, treasurer, or some other administrative executive. In many of the larger corporations, however, he is equivalent or superior in rank to the treasurer and controller. Generally the tax department in a large corporation is assigned the responsibility to administer and control all company tax matters in accordance with approved company policy; that is, determine tax obligations and liabilities,

*This article is not to be considered the official view of the company with whom the author is associated.

assure compliance, and furnish tax advice and guidance to administrative and operating personnel.

There is no set pattern, however, in the operation of tax departments of large corporations. The manner in which they operate depends on the responsibilities assigned and the size, scope and type of business. Some have centralized authority with scattered administration. Others have separate tax departments for each division or subsidiary of the corporation. In still others, they are fully centralized. Some companies whose facilities and activities are widespread and subject to a large number of taxing jurisdictions have geographical or functional divisions of responsibility on tax matters. The central or main office administers, controls and handles all federal, foreign, state and municipal taxes which are based on the income, assets, capital stock, etc. of the company as a whole. The regional or functional unit handles all local taxes, such as property taxes, sales taxes and licenses, with or without policy controlled in the main office. Under this type of operation, the local unit can:

1. maintain personal contacts with local taxing authorities in regard to assessments and negotiations;
2. more readily provide regional management with tax guidance and assistance;
3. more readily obtain the data necessary for determination of liability and filing of returns within the due dates, and;
4. decrease the costs of compliance through reduction of travel and other operating expenses.

The facilities and activities of The Coca-Cola Company and subsidiaries are widespread, with a substantial tax burden involving a great number of domestic and foreign taxing jurisdictions in which the parent and subsidiaries are subject to a multitude of taxes. Our tax department has, within approved company policy, the full responsibility for the administration and control of all federal, state and municipal tax functions of the parent and subsidiaries. The managers of our foreign branches and subsidiaries have the responsibility for handling all foreign taxes applicable to their respective operations. The foreign income, excess profits, capital stock and similar taxes, however, are subject to the general supervision of the tax department in order to assure the most favorable overall tax liability and currency position. The responsibility for the preparation and filing of payroll taxes, state and municipal sales, use and ad valorem taxes, licenses and fees, and information reports for each subsidiary has been delegated to the office manager of that subsidiary, with supervision and control by the tax department. The office managers are advised of the essential data in regard to tax liabilities and are kept advised of any changes as a result of revisions in existing laws, regulations, interpretative rulings and court cases. The question of tax liability under a state law or municipal ordinance must be determined by the tax department before any payment can be made. In the event of liability, appropriate instructions containing the procedure to be followed in complying with the particular law or ordinance are issued to the office managers. The instructions include the name and nature of the tax, return and payment due dates, exemptions, bases and rates, statute of limitations and other pertinent information. In addition, in order to maintain effective control, the instructions require the submission to the tax department of copies of all tax returns, payment notices and requisitions, assessment notices and pertinent correspondence from the tax authority.

The general functions of this department are to:

1. prepare and file or supervise the preparation and filing of all federal, state and municipal tax returns;
2. supervise the handling of all foreign income, excess profits, capital stock and similar tax returns;
3. handle or supervise the payment of taxes due with domestic returns and also those payments subsequent to or independent of the filing of returns;
4. prepare and file necessary amended returns, claims, briefs, protests, etc. in connection with all domestic taxes;
5. prepare and file requests for rulings where such procedure is deemed necessary for protection;
6. guide, control and coordinate the intermingling of tax operations with other company activities;
7. formulate policies and procedures on tax matters designed to facilitate the efficient preparation of returns, reduce costs, and minimize tax liabilities;
8. advise management on the tax aspects of proposed company actions, policies and problems;
9. advise management on the tax implications of new tax statutes, revisions in present tax statutes, court decisions, regulations and interpretative rulings;
10. confer and advise with division and department heads on procedures and methods to be followed in accounting, purchasing, etc. to assure full benefit of available tax savings;
11. conduct negotiations and settlements of tax liabilities with tax authorities;
12. prepare and furnish tax accruals and estimates to operating units;
13. maintain tax files, records and receipts relative to all tax matters;
14. cooperate with tax and legislative authorities and business

representatives in an effort to eliminate inequities and improve tax systems.

The work is divided basically into four divisions:

1. Federal income and excess profits taxes;
2. State and municipal income, franchise, property and privilege taxes;
3. Payroll, excise, sales and use taxes, and;
4. Foreign income, excess profits, capital stock, etc. taxes.

This general allocation of work into divisions permits the development of technical specialists in each field of taxes. The entire staff, however, is kept abreast and familiar with the taxes of other divisions by departmental conferences and the circulation of all correspondence, tax returns, tax service releases, etc. This lends to proper correlation of decisions and handling on interrelated tax matters.

A tax calendar is used to maintain overall control for all taxes for which the department is responsible. The calendar contains the name and nature of tax, return and payment due dates, exemptions, bases and rates, statute of limitations and any other pertinent information.

An extensive tax library is maintained which provides each division with a continuous review of tax laws, regulations, rulings and court decisions pertinent to the respective taxes handled by that division.

It has been our experience that the administration of tax functions in this manner has resulted in:

1. more effective control of tax policy;
2. more uniform handling through consistent accounting and reporting;
3. more efficient use of technically trained staff;
4. better tax planning;
5. consistent interpretation of tax laws and regulations, and;
6. minimization of costs through planning and less duplication of work.

Undoubtedly other corporations have obtained equally good results through other types of tax administration. The form and type of administration will, of course, depend to a great degree on the various taxes for which the corporation is liable and the number of jurisdictions in which it is subject to tax.

The tax executive should maintain a cooperative business relationship with officials of all taxing jurisdictions in which his company operats. In this way, he is cognizant of any proposed changes of a serious nature. Differences can be discussed as they arise and generally settled at that time. Thus, settlement of audits and claims is facilitated. In the event of any unsettled issues, he should not hesitate to resist the position of the taxing jurisdiction if he believes that he is right. Such resistance should be predicated, however, on the recurring nature of the issue involved and the related costs of litigation.

Any proposed change or new development in foreign operations requires intensive investigation and study in the field of taxes in order to determine the most favorable form of operation from a tax standpoint. Where should the operation be located? Should it operate as a foreign branch or should a foreign subsidiary be formed? Can it qualify as a Western Hemisphere or Possession Corporation? What capital structure would the corporation take? Local taxes, foreign exchange rates and restrictions on transmission of funds abroad are all matters for consideration. After the location and method of operation have been determined, proper procedures must be established to provide the necessary data to handle all taxes properly and expeditiously.

Somewhat similar problems arise in the case of domestic expansion or changes in methods of operation. Studies must be made to determine the tax consequences of any proposed change. Will the change constitute "doing business" in a state in which the company has not heretofore qualified? If there a choice of location or methods of operation? If so, which is the most advantageous from a tax standpoint? In the case of income or franchise taxes the method of operation can sometimes be altered to affect the allocation factors. Sales, use and property taxes must be considered as well as local licensing and regulatory ordinances. Here, too, once a location and method of operation have been decided upon, proper data must be forthcoming for the handling of all taxes. It is the duty of the tax department to pay no more taxes than those legally due and to maintain proper records and procedures to support the minimum tax position.

You can readily see that the operation of a tax department in a large corporation, or for that matter a small corporation, is not limited to mere compliance and payment of taxes on time. It cuts across every operation of business. Tax functions must be guided, controlled and coordinated. Proper accounting methods must be established which are responsive to tax needs. Operating and planning executives must be advised of the tax implications of any proposed course of action. Operating procedures must be reviewed continually to be sure that, commensurate with company overall interests, tax liabilities and related costs are kept to a minimum. Each change of any consequence by management should be analyzed for tax aspects before final decisions are made. Contracts, whether marketing, production, or any other kind of any import should be reviewed for tax implications. No entries of any consequence should be made on the books unless tax tested. Finally, but not least, all of the functions, as well as the actual handling of the returns, must be correlated with other departments.