



Tech's Tax Outsourcing Opportunity:

Empowering Teams to Capture
Credits and Incentives

Belt-tightening continues across the technology industry, with companies seeking methods to save costs and generate value that are not tethered to dealmaking and valuations. However, tech leaders may not need to look as far as they think. Due in part to internal tax teams lacking adequate resources and knowledge to identify and pursue opportunities, tech companies may be missing out on valuable tax credits and incentives. Expanding capabilities to capture credits and incentives is an important avenue for organizations to lower their total tax liability.

For example, an earlier-stage software startup may have its finance team handle salient tax areas like sales and use tax compliance. But as the business expands, so do its tax obligations. Its lean-staffed tax function may be so focused on complying with additional tax liabilities, such as employee withholding, that they may not even know where to look for — let alone claim — the myriad tax credits and incentives available. This is one way tech companies can leave value on the table.

Early investments in building the right internal tax team, and augmenting it with informed outsourcing and co-sourcing arrangements, can help avoid knowledge gaps, enabling companies to better capture opportunities to reduce their total tax liability. Tech companies should prioritize empowering tax teams to think strategically about the business and pursue all applicable incentives as the company expands. This can position the tax function to be a value driver, instead of a cost center, and give tax the ability to provide constructive input on key business decisions.

The Right Focus

In the current business landscape, tax directors and their teams are sometimes judged based on their ability to file timely and accurate tax returns, rather than their ability to drive value beyond compliance. Consequently, tech companies sometimes build tax teams on an ad hoc basis, hiring based on their current needs — needs that are often dictated by other departments, such as internal audit.

This hiring mentality represents a tactical approach to tax compliance, which can limit the strategic value that tax teams can provide. A more strategic tax approach involves a core tax team with robust internal capabilities and external support. This can help to avoid the need for reactive staffing changes and enhance the team's ability to accumulate the knowledge, time, and resources necessary to pursue valuable opportunities — such as seeking out tax credits and incentives.

This means that tech companies with the ability to hire or expand full-time tax staff should build their teams with strategic business goals in mind, rather than to meet various filing deadlines. While specific objectives may vary depending on the business, the overarching focus of a tax team should be to adopt a [total tax approach](#), manage tax risks, and bring strategic insights to key decision-making conversations. Identifying, pursuing, and securing credits and incentives is a core component of these goals, but doing so often requires hiring for specialized roles.



Knowledge Is Power

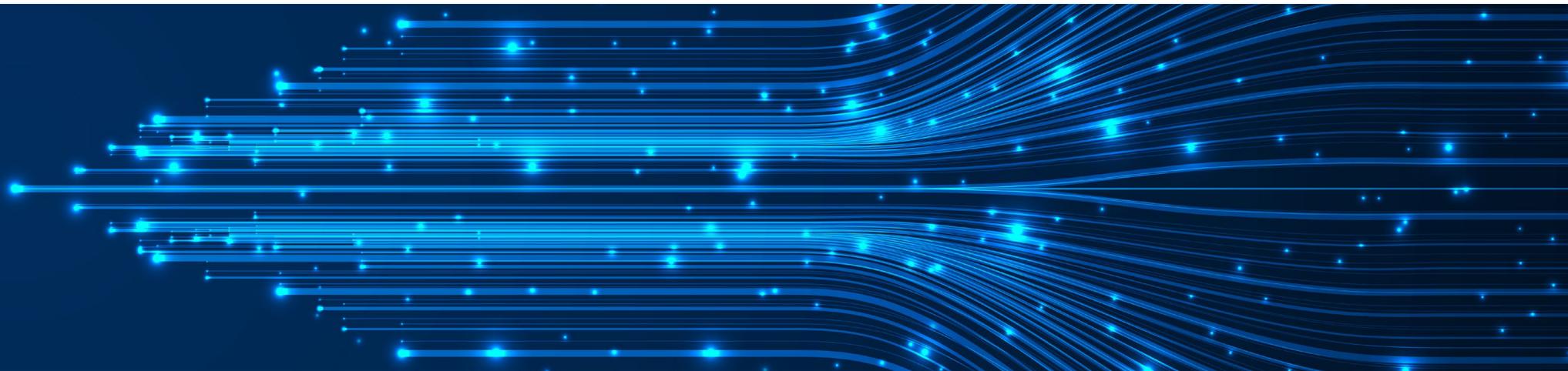
Tax teams can't claim what they can't identify. To locate and take advantage of every available opportunity, tech companies may need to augment their tax staffing model to include professionals with specialized credits and incentives knowledge. This is particularly true at the state and local level. Because there are thousands of available state and local tax credits, tax teams often find it difficult to identify, apply for, and capture available credits.

However, it may not be a judicious use of otherwise limited financial resources for tech companies, especially those in earlier stages of growth, to hire a full-time, in-house specialist. Tech companies often prefer to hire generalists, who keep the basic functions of a tax team running smoothly — meeting deadlines, avoiding costly mistakes, and complying with internal controls. But generalists may not have the specialized knowledge or operational bandwidth to pursue credits and incentives on their own.

Fortunately, expanding the internal tax function is not the only solution to this problem. Tech companies that are unable to on-board full-time specialists may consider filling knowledge gaps with external providers via an outsourcing or co-sourcing arrangement.

A tax function assessment, which can also be supported by a third-party provider, can help pinpoint a company's gaps and [determine an optimal makeup for the tax department](#), which likely includes some level of outsourcing or co-sourcing. Companies should leverage their existing tax team during these evaluations, as their knowledge of the business and involvement in strategic planning can help identify where opportunities exist and what specializations are required to capture them.

Many companies already outsource or co-source other tasks, such as compliance-related work, because one or two in-house generalists may not always be adequate to meet increasingly stringent compliance expectations. Public companies or companies planning a future IPO often explore outsourcing related to [income tax accounting under the Financial Accounting Standards Board's Accounting Standards Codification \(ASC\) Topic 740](#). Material weaknesses or inaccuracies related to income tax accounting are historically among the [top reasons for financial restatements](#), in part due to resource issues within tax departments. In these cases, the tax team may already have existing partnerships that can be expanded to include pursuing credits and incentives.

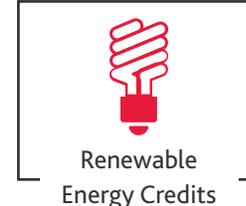


A Proactive Tax Function

There is no one-size-fits-all approach to building the right tax team. However, a guiding principle for any tech company should be empowering the tax team to drive value through proactive strategic thinking, rather than reacting to meet fixed compliance deadlines. That means the tax function must be included at both the planning and decision stages of key business conversations, weighing in on the need for external subject matter experts.

For example, tech companies considering [moving operations to a new state](#), or even expanding within an a state where they already have a presence, should solicit input from the tax function at the outset. Differences in available statutory and negotiated credits can be a determining factor when selecting between potential locations. Tapping external parties with specific knowledge and experience working with local economic development authorities to negotiate credits and incentives can be invaluable.

For a tech organization whose business supports the need for a dedicated internal tax function, an ideal starting point is likely a tax generalist with a strong knowledge of multiple tax types, such as state and local tax, federal tax, and others. This individual can then seek the council of outside specialists to capture meaningful credits and incentives that tech companies often miss, such as:



Through outsourcing and co-sourcing, tax practices can source external providers that actively update and inform strategic in-house professionals. Under this model, the tax team gains the benefits of a far deeper bench, granting access to a broader knowledge base, and enabling successful pursuit of credits and incentives that it might otherwise miss.

How BDO Can Help

BDO's tax professionals can help companies determine the optimal staffing model for their tax function to uncover and pursue the full range of credits and incentives available to them. We work alongside tax leaders to help uncover credit opportunities and shift their approach to proactively capturing those opportunities on an ongoing basis. Our teams have significant knowledge of state, local, federal, and global credit offerings, as well as experience negotiating with economic development officials in tax jurisdictions across the U.S. We can provide guidance through the entire credits and incentives process, from identification to procurement and negotiation, and finally to ongoing compliance.

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