

## The Tax Function as Value-Add Lever

Two veterans of the private equity tax function discuss the challenges of getting data tax-ready, the finance team's move to high-value tax analysis, and a new RSM tax technology solution called PartnerSight



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**Privcap:** Historically, tax has always been part of the deal process, but it has often been considered somewhat painful—the wrangling of data has been seen as arduous. And yet, increasingly, the CFO's office, the finance function and the tax function are being seen as a way to add value to an investment. Walk us through that trend.

**Lauren Demas, RSM:** Tax is at the forefront of deal-making because a lot of the structures and different legal entities, and the different forms of those legal entities, are there for tax purposes. If you think about the life-cycle of a deal—you buy a deal, you hold it throughout its life and then you exit—tax considerations are at the forefront.

**Privcap:** What have been some challenges for elevating the tax function to a level where it moves the needle in creating value for an investment?

**Brad Collins, RSM:** Traditionally, the challenge I've seen is if the CPAs aren't in the room, aren't part of the process. They're hearing about it afterwards, and then trying to build the tax model without having the instructions. The smoothest situations are when everyone is in the room from the beginning and everyone is part of the process. The biggest challenge is when you're coming in after the fact and saying, "Okay, what did we create here? And how are we going to actually operationalize that from a tax perspective?"

**Privcap:** Lauren, you've worked with a lot of private equity firms, structuring deals for success. Is there ever a sense that the service providers who have the tax information are difficult to access in key moments?

**Demas:** Having that data to be what we call "tax-ready"—ready to be used for tax purposes—is really important. And we do see a lot of struggle in that area. What we've seen is a large effort by a large number of firms to get to the point where they're moving from the low value-add, but important, activity of getting the data tax ready to the more high value-add [activity of] being able to do analytics on that data once it is tax-ready.

**Collins:** We are always looking for ways to shorten the time period from deal creation to operationalizing it, so you can begin the race to analyze the data from a tax perspective.

**Demas:** The data is there, but how easy is it to use the data in and of itself? It can be very difficult to pull all of that data together at every instance it's needed.

**Privcap: Can you give an example of tax analysis as a higher value form of analysis?**

**Demas:** You could look at whether your deal has state nexus. If you have a wide investor footprint, you can make the best decision on structuring for that up front, which will give you a strategy for exit and the best answer for your LPs. But how much pain is involved in getting there? How long is that field? Are you starting on the 50-yard line? Are you starting on the five-yard line?

**Collins:** Deals happen quickly. When an opportunity arises, there's not a significant amount of time. Oftentimes, data and data wrangling takes a significant amount of time. So, the more information you can put in the hands of decision-makers, the more value you can bring to an organization, to provide that voice around how a deal should be structured and what the tax implications of it could be on the front end.

A quick anecdote: I was meeting with a client and talking about this exact process. They were looking to exit a deal and they had spent three days and nights in a conference room with multiple Excel spreadsheets, trying to understand what the tax implications of exiting the investment would be. He looked at me and said, "We hope we got it." That's not the position that you want to be in under those circumstances.

**Privcap: Are private equity firms increasingly viewing tax value-add as a competitive advantage in a crowded private equity market?**

**Collins:** It's a true competitive advantage to have tax information at the ready. The more information you have around it, the more valuable you can be as a firm to your potential investors.

**Demas:** Just to add to that, you need to report on these deals annually to federal, state and local agencies, which is very important. You want to make sure that the data needed to facilitate that is available and that the effort your team puts in isn't around the gathering of data and formatting of data. It's spent on analytics, saying, "Okay, this is what we intended from a structure standpoint, and this is what we're reporting. And it's a 100-percent match."

**Privcap: As with every other human endeavor, technology is starting to really make an impact on the tax function. RSM has created a technology solution called PartnerSight. What is PartnerSight and why was it created?**

**Collins:** PartnerSight is a tax compliance platform for tiering and allocations that marries perfectly with the structures that private equity firms create. We've talked about the challenges with data and access to data, with transparency and the quality of the data. We created PartnerSight to remove those barriers. My team and I—who I like to call the "Tax Technology Avengers"—came together and created this platform based on our collective hundreds of years of experience. We started with a blank piece of paper and asked, "What are the issues we've heard over the years that have really challenged our clients?" We are providing this tool to private equity firms so they can, in turn, provide it to their investors. It's incredibly powerful.

**Demas:** If you're in an Excel world, you're in multiple Excel workbooks trying to build an answer for your investors. A new way of doing business with PartnerSight is to have a one-stop shop for LP questions. All of your data is there and you're not spending time gathering data to answer the question. You're going straight to the answer. So, it's a huge benefit for our clients and their LPs. But it is also a huge benefit for RSM and a change in how we're doing business. We're very excited about it. ■

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