



**Entering a new era:**

# **The future of corporate tax management**

## Technological, regulatory, and operational demands and disruptions are making it harder for corporate tax professionals to do their already difficult jobs.

**“We are seeing very consistent macro trends that are impacting tax departments,” said Faranak Naghavi, a partner at Ernst & Young LLP<sup>1</sup>. For example, she notes that many corporate tax departments are facing greater scrutiny from tax authorities and heightened operational risks even as they fall behind in adopting technology that could tackle these challenges.**

In fact, these pressures strengthen the case for investing in technologies needed to move tax professionals beyond routine data wrangling and compliance work and able to deliver valued analysis, insights, and guidance to their companies.

Here are a few of the trends and developments shaping the future for — and demanding a thoughtful response from — corporate tax departments.



## DEMANDS and DISRUPTION

### Digital disruption

Tax departments' primary points of interaction — inside and outside their companies — are being reshaped by digital transformation. This includes government regulators, external service providers, and their own companies' enterprise systems and business units. These entities are leveraging the cloud, connected platforms, and tools such as robotic process automation (RPA) and artificial intelligence (AI) to deliver greater value.

Everything is becoming more digitally focused," Naghavi said. "Unfortunately, a lot of tax departments do not invest enough in such technology to move along with that disruption."

### Regulatory demands for greater transparency

Tax authorities worldwide continue implementing legislation that require greater disclosure from corporations, and they increasingly share companies' financial data amongst themselves.

"More and more . . . transparency is being required," Nasghavi said. "Government agencies want more line-of-sight to the business activities through access to the (financial) data or more reporting processes."

This era, which Deloitte labeled the Global Tax Reset<sup>2</sup>, began when Brazil introduced real-time, electronic invoicing and reporting requirements in 2008. Mexico followed suit in 2011, and Italy brought the concept to the European Union in 2018. A year later, the U.K. launched Making Tax Digital, an initiative that requires companies to e-file VAT returns.

<sup>1</sup>From a presentation titled *Future of Tax Professionals: How to Stay Relevant in Changing Times* at Thomson Reuters virtual customer conference, SYNERGY 2020.

Meanwhile, tax policymakers aligned behind the Organization for Economic Cooperation and Development's (OECD) tax base erosion and profit shifting (BEPS) project. Under BEPS, countries' tax authorities automatically exchange taxpayer information to improve the collection of tax revenue from multinational business activities.<sup>3</sup>

**“Since the final BEPS recommendations were endorsed by the G20 and European Union (EU) in 2015, they have gradually been implemented in a phased approach that is set to continue to 2022 and in some cases even beyond,” KPMG<sup>4</sup> reported. ”**

Country-by-Country Reporting (CbCR) laws, for example, require multinational companies to report profits and tax payments for every jurisdiction in which they have legal entities<sup>5</sup>, and DAC6 is a mandatory disclosure regime affecting those with business activity in the European Union.

## Heightened risk management

Many global companies are ill-equipped to meet these demands because their tax data are decentralized and stored in siloed systems dispersed around the organization and the globe. Tax managers may spend valuable time finding and gathering the data they need for tax calculations from these disparate sources. Data may arrive in a variety of formats and stored in standalone Excel spreadsheets — requiring extensive manipulation before it will conform with tax department applications.

This lack of standardization and controls increases the risk of costly errors, undermines tax compliance, and may cause companies to take inconsistent tax positions that are more likely to be discovered “when tax authorities are increasingly sophisticated in their use of technology to scrutinize and compare corporate returns and reports,” Nasghavi said. “When each part of the organization is functioning independently there is a lack of transparency that creates a lot of risk challenges.”

<sup>2</sup> Deloitte, *Global Tax Reset: The Changing World of Tax*, 2015. <https://www2.deloitte.com/me/en/pages/tax/articles/global-tax-reset-the-changing-world-of-tax.html>

<sup>3</sup> IMF, *Corporate Taxation in the Global Economy*, March 10, 2019. <https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/03/08/Corporate-Taxation-in-the-Global-Economy-46650>

<sup>4</sup> KPMG, *Corporate Tax Transparency in the BEPS Era*, August 8, 2019. <https://tax.kpmg.us/articles/2019/tax-transparency-beps-era.html>

<sup>5</sup> Tax Foundation, *The Trade-Offs of Tax Transparency Measures*, July 25, 2019. <https://taxfoundation.org/trade-offs-tax-transparency-measures/>

## Partnering with Finance

Finance departments in large companies increasingly are called on to provide strategic business guidance based on data analytics and business savvy. The tax team can, and should, contribute to this effort — but outdated systems, processes, and technology platforms are an obstacle.

**“There is a lot of connection, there is a lot of alignment that has to be made between tax and finance — and value has to be added to the broader finance picture,” Nasghavi said. “Without being ready for that transition, tax departments are being challenged, and finding themselves in a bit of a concerning situation.”**

Jill Schwieterman, Tax & Finance Operations leader for EY Americas, recommends<sup>6</sup> tax and finance teams strengthen their working relationship by collaborating on four key challenges: talent gaps, data and technology needs, legislative and regulatory changes, and budget constraints. “As a leader, if you are able to more closely align your tax department with the business outside of tax, it will set the department on the path to adding value to the company,” Schwieterman explains. “And that’s where we see the most upside.”

## COVID-19

In the early days of the global pandemic, businesses focused solely on survival, notes Kirsten Light, Senior Manager of Tax Technology & Transformation at Ernst & Young, LLP<sup>7</sup>. This included crisis management, employee safety, communications, financial and business continuity, customer support, and supply chain stability. As restrictions eased, they turned their attention to recovery — refinancing, cost of debt, workforce transformation, agile business models, and supply chain reinvention.

**“This can bring large impacts to tax and you need to make sure you have a seat at the table and you’re able to access the information you need in order to shift and make decisions,” Light said.**

<sup>6</sup> *4 Factors to Help You Optimize Your Tax and Finance Teams. Thomson Reuters Tax & Accounting blog.*

<sup>7</sup> *From a presentation titled CARES Act: Now Next & Beyond at Thomson Reuters virtual customer conference, SYNERGY 2020.*

## MAKING THE SHIFT

Multinational companies sit at different points across the spectrum when it comes to implementing technologies needed to manage these challenges and seize opportunities. The average corporate tax department, however, spends most of its time on data collection, data manipulation, and compliance — and it has likely seen its resources reduced in recent years, Nasghavi explained.

**As a result, tax professionals are unable to deliver the analysis, risk management, and business planning that bring added value to the finance department and the C-suite. “We need to shift to tools and technologies that . . . streamline and cut down the time it takes to perform these processes,” she said.**

### Nasghavi describes a future tax department in which:

- People leveraging automation and AI technologies that perform most of the repetitive and manual tasks.
- Tax professionals acquire new skills and the ability to apply cutting-edge technology — and many come from science, technology, engineering, and mathematics (STEM) disciplines.
- Tax departments will rely on a “workforce portfolio” that includes full-time, contingent and crowdsourced talent.
- There will be more collaboration, integration, and line-of-sight among geographically dispersed teams and tax leaders can define new and creative work models.



## THE TECH ROADMAP

For tax departments, this journey starts with a strategy and a clear technology roadmap with several stages:

### Automated data management

Tax data software solutions can streamline and standardize data collection and management throughout the corporate tax workstream. This type of solution securely stores data in a centralized platform, protects the data through access controls that establish users' roles and responsibilities, and ensures data can easily be reviewed in real-time, aggregated for reporting, and used in assorted tax management applications and processes.

### Robotic process automation (RPA)

Robotic process automation solutions enable tax professionals to establish automated, repeatable processes for performing data preparation, blending, and analysis in order to support advanced forecasting and predictive and prescriptive analytics.

For example, this type of solution can pull information from disparate sources and merge and transform it for use in dashboards, year-over-year comparisons, and other applications. This gives tax professionals more understanding of and control over tax and legal risk, effective tax rate, cashflow modeling, reserve planning, and audit support and response.

### Analytic process automation (APA)

In a recent report<sup>8</sup>, Gartner noted that corporate tax teams need to go beyond siloed RPA applications and combine "complementary sets of tools that can integrate functional and process silos to automate and augment business processes." This approach is called analytic process automation (APA) or "hyperautomation."

**"Processes are not always simple, routine, repetitive, and stable," Gartner explains. "They may be long running, and they often involve intelligent automated decision making and optimization. The real challenge — to scale beyond the initial few low-hanging fruits of routine processes — cannot be solved by a single tool or with siloed strategies."**

<sup>8</sup> *Move Beyond RPA to Deliver Hyperautomation.*

Amanda Kateman, Assistant Vice President of Tax Technology at CIT, a leading national bank, recently described<sup>9</sup> her firm's use of an APA solution to manage massive data sets, reconciliation, and analytics at the backend of its tax processes. The efficiency gains were "miraculous," she said.

**"You build it once and then you're done," Kateman said. "It just takes us under a minute to get the results that we're looking for. It's a one-time job to get all this data."**

## Artificial intelligence

Ronald Hein, a tax law researcher at Tilburg University in Netherlands, sees more advanced applications of AI becoming more essential in the tax realm<sup>10</sup>.

**"Artificial intelligence is being used now in tax not just for data analytics. It's also used for problem solving," he said. "What tax people do all day; every day is essentially interpreting tax laws and regulations — the sort of thing we would like computers to help us with. It could save us a lot of time if computers could do some of the work in that area for us."**

**"In many areas of law, including some tax areas, computers are capable of predicting the outcomes of court cases with quite a high score," Hein continued. "Quite impressive, quite useful and, I think, tax departments will be using this type of software more and more often going forward."**

<sup>9</sup> From an episode of the Thomson Reuters Tax & Tech Talk podcast titled *Tax Game Changer: Analytic Process Automation*.

<sup>10</sup> From an episode of Thomson Reuters Tax & Tech Talks podcast titled *The Future is Here . . . Almost! Questions AI Can Solve in Tax*.



## SEIZING THE FUTURE

The tough, high-stakes job of tax management at complex, multinational companies is growing increasingly challenging. To keep up with the demands, navigate disruptions, minimize operational risks, and deliver greater value to the company, tax professionals need to craft a comprehensive technology plan. Key steps might include:

- Assessing the current state of your tax department's technology adoption. Identify the gaps, risks, pain points, and manual processes that are candidates for automation.
- Identifying technologies your company already uses across IT, finance, treasury, human resources, and other functions. It's easier to build your tax technology plan on an existing foundation.
- Engaging and educating stakeholders. Show them how tax technology will help you address risk and improve performance in quantifiable ways.
- Ensure your plan aligns with and advances your company's strategic objectives.
- Secure funding. Understand the process and calendar for the IT and finance departments to assess, prioritize, and fund projects — so you can engage effectively.
- Evaluate results. Have explicit metrics to assess your results and share them with stakeholders.





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