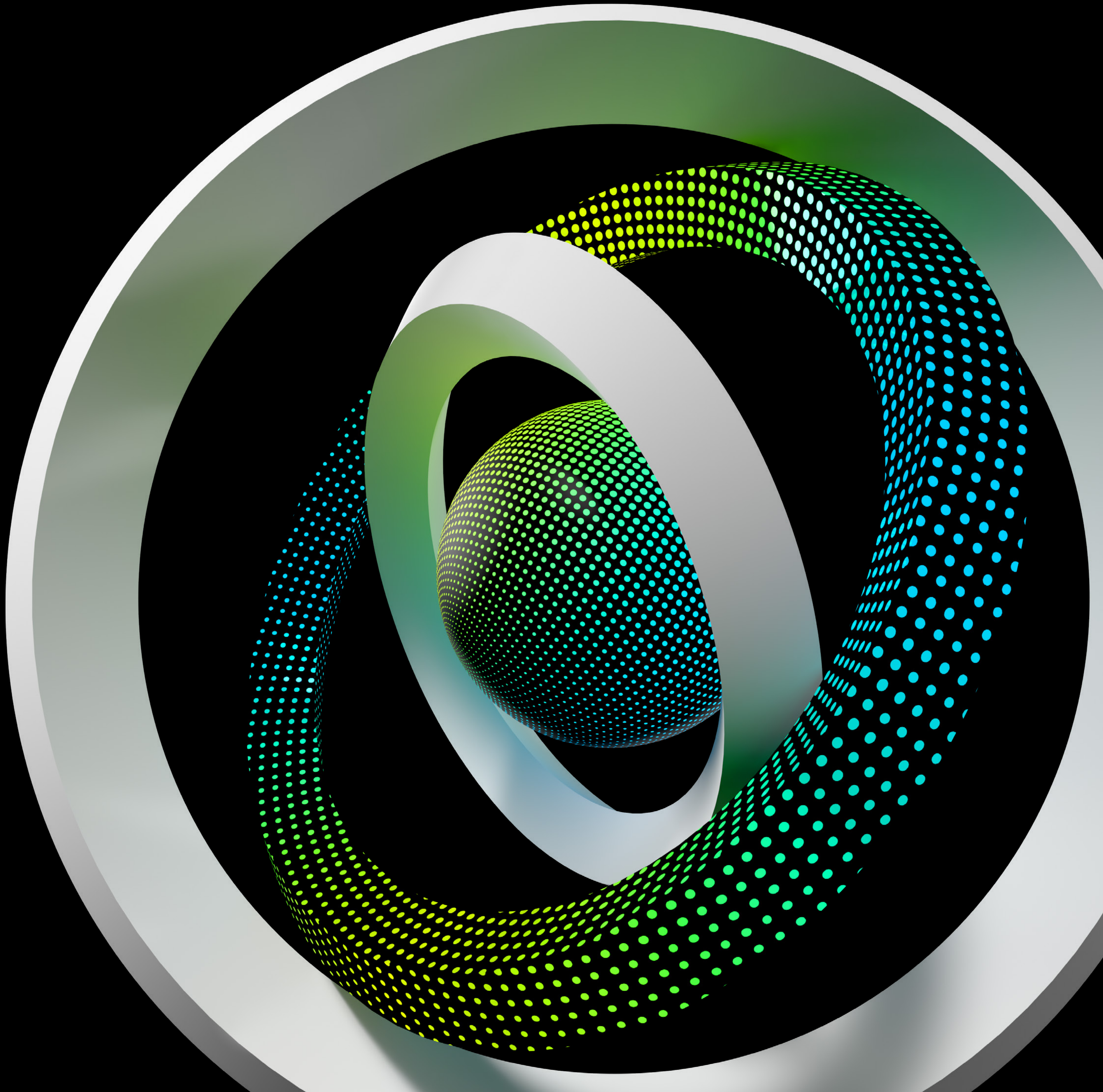
Deloitte.

Insight-driven compliance

Tax Transformation Trends 2023

Executive summary



Top 5 trends: Emerging themes from Deloitte's 2023 research

Tax departments at many companies are today undergoing fundamental transformation to respond to a significantly altered legal and regulatory landscape, including the OECD's Pillar Two requirements, and a rise in indirect taxes around the world. To respond effectively to these and other changes, tax departments will need access to accurate and timely tax-related data across their company's global operations, combined with tax teams that have data management and technology expertise.

These are some of the key themes that emerged from Deloitte's 2023 Tax Transformation Trends research, which included a global survey of 300 senior tax and finance executives together with a series of qualitative interviews with the heads of tax at large multinational companies.

Trend 1:
Holistic data management and integrated systems are required for insight-driven global compliance

Trend 2:
Costs and efficiency are still important, but the top priority for tax transformation efforts is now complying with changing tax laws and regulations

Trend 3:
Outsourcing is a prime strategy to access technology capabilities

Trend 4:
Tax isn't just done in the tax department anymore

Trend 5:
Future skills requirements are giving rise to the "hybrid tax professional"

The trends in depth

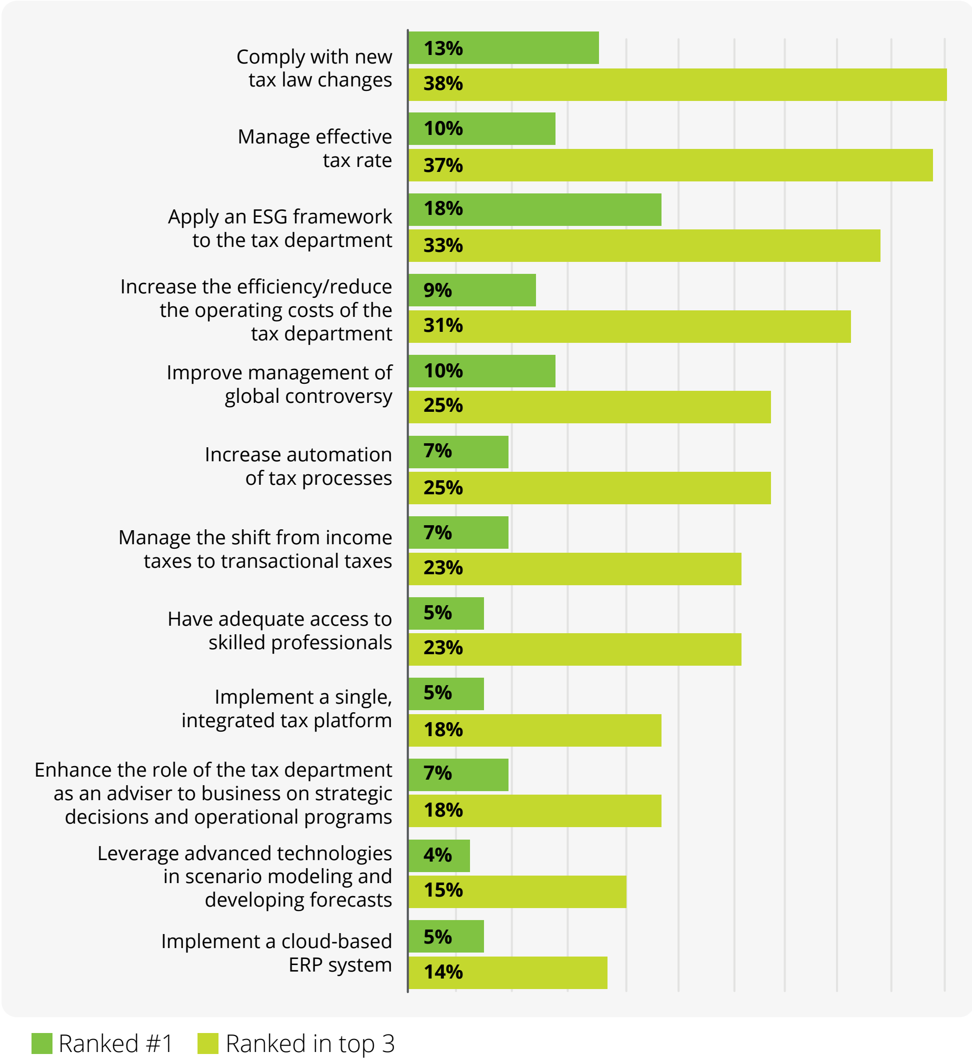
Trend 1: Holistic data management and integrated systems are required for insight-driven global compliance

The importance of complying with a changing tax environment was reflected in both the top priorities and top challenges that tax departments expect to face over the next three to five years. The top priority—*comply with new tax law changes*—was cited by 38% of respondents (Figure 1) and 43% said *complying with evolving tax laws and regulations around the world* was their top challenge (Figure 2). To comply, tax departments will need accurate, timely tax-related data that is integrated across their organization, whether to calculate their global tax liability, comply with Pillar Two, or assess the indirect taxes owed in individual jurisdictions around the world.

> "It's a priority to meet compliance requirements, which are becoming significantly challenging these days, such as Pillar Two and e-reporting. All these new kinds of compliance are very connected to technology and digitalization."

Jesus Bravo Fernandez
Head of Indirect Tax, Transfer Pricing, and Tax Technology, **Coca-Cola Europacific Partners**

Figure 1. Highest priorities for the tax department over the next three to five years



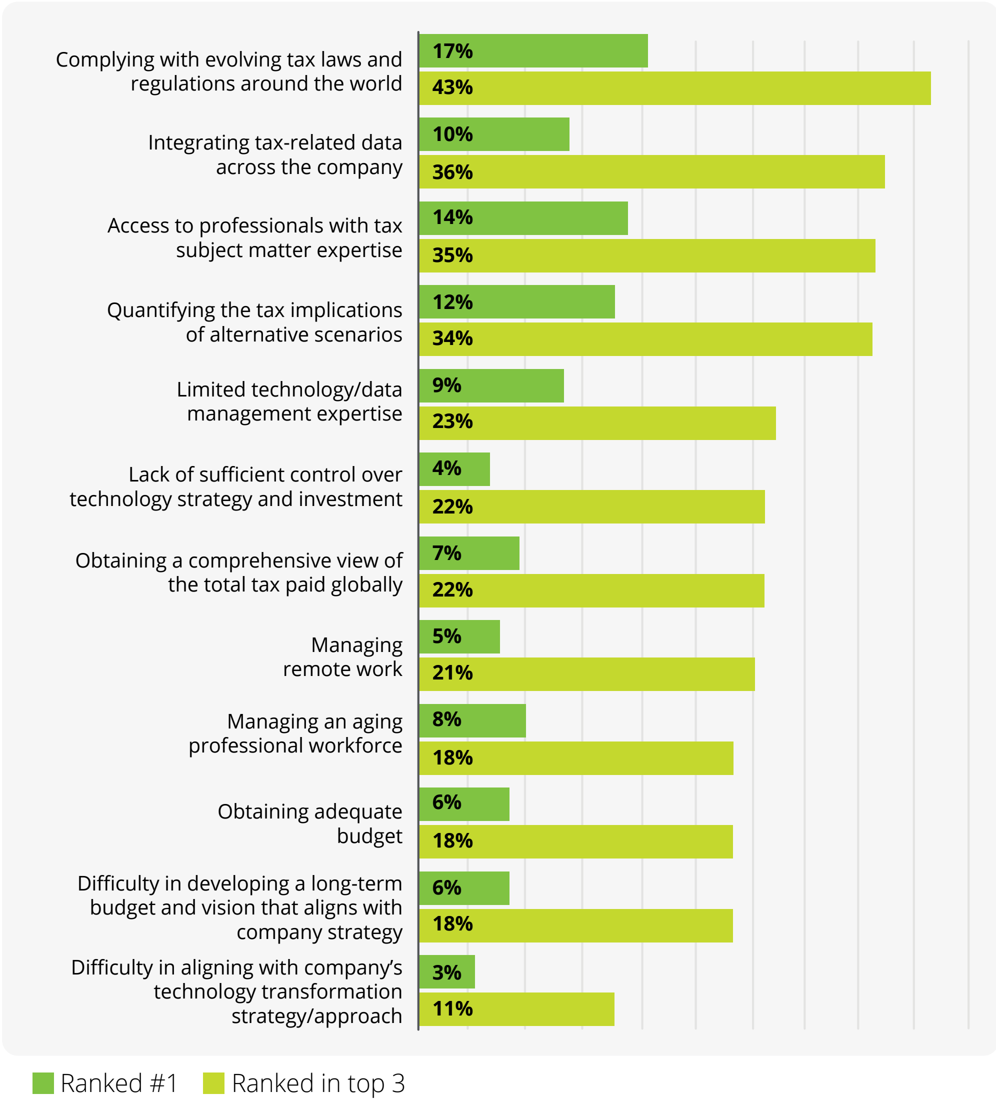
However, achieving visibility into enterprise-wide tax data has proven difficult for many companies, with integrating *tax-related data across the company* (36%) being the second-most cited challenge for tax departments as they pursue increased efficiency and access to better data. For many, there is still work to do on rationalizing fragmented technology landscapes.

> “We are looking at how do we deal with all the various ERP (and other) systems, and how do we bring structure, consistency and visibility across such an ERP landscape—what evolution and trends are happening from a technology point of view that drive efficiencies and value-add.”

Dirk Timmermans
Vice President of Global Statutory Finance and Tax Operations, **Johnson Controls**

Other issues often cited as top challenges were *access to professionals with tax subject matter expertise (35%) and quantifying the tax implications of alternative scenarios* (34%) (Figure 2).

Figure 2. Greatest challenges for the tax department over the next three to five years



Trend 2: Costs and efficiency are still important, but not the top priority for tax transformation efforts

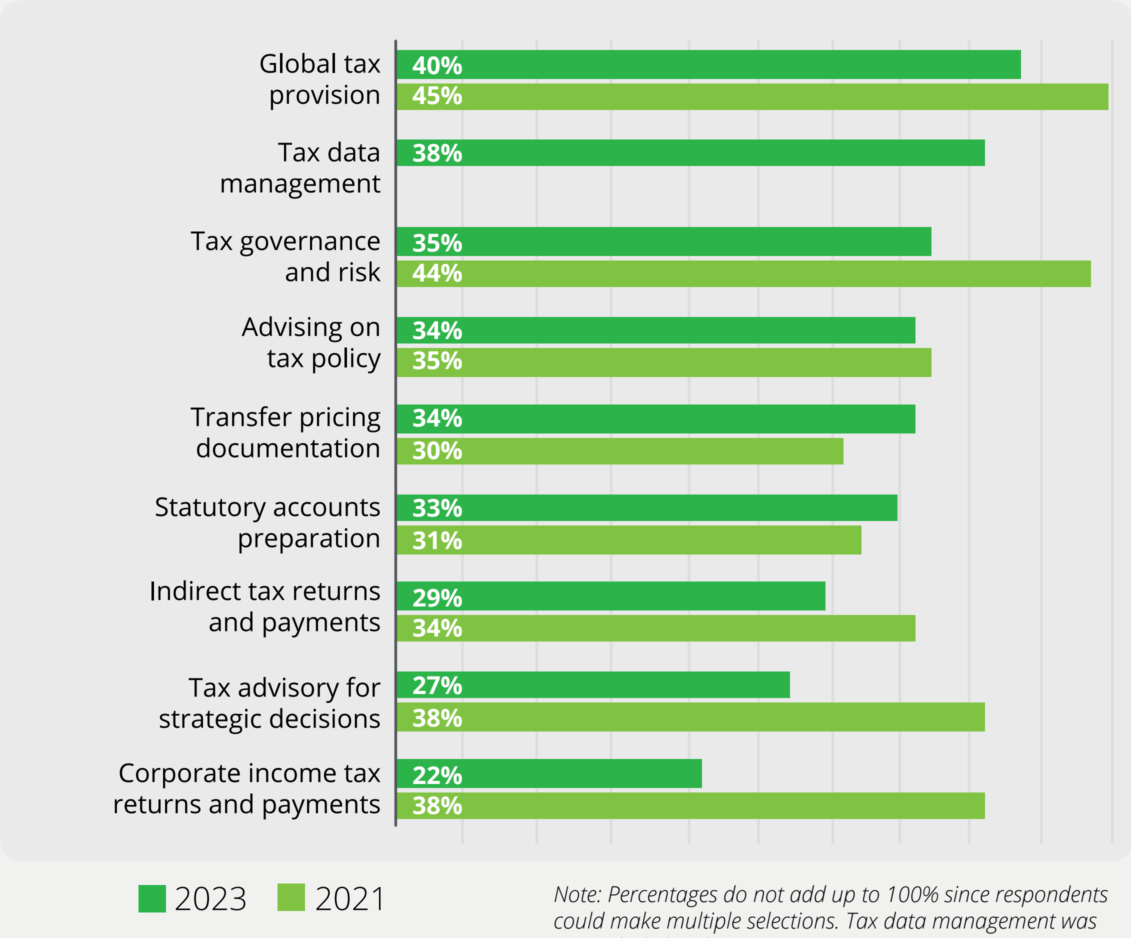
Although responding to changing tax laws and regulations has moved to the top of the agenda for many tax departments, achieving greater efficiency remains an important objective. When asked about the priorities for their tax department over the next three to five years, 31% of respondents cited *increase the efficiency/reduce the operating costs of the tax department*—the priority named fourth most often out of 12 choices (Figure 1).

When asked about their specific priorities in moving toward a lower-cost operating model, respondents most often named *global tax provision* (40%) and *tax data management* (38%) (Figure 3). Global tax provision was identified as the area more often handled in the tax department, as opposed to another area in the company or through outsourcing. But with companies targeting it for implementing a lower-cost operating model, that may be changing.

For most activities, in the current survey fewer respondents cited them as priorities for cost reduction than in 2021. For example, 22% of respondents named *corporate income tax returns and payments* as a cost-reduction priority, compared to 38% in 2021. The 2021 survey was conducted at the height of the COVID-19 pandemic. It is likely the greater desire in 2021 to outsource tax advice for strategic decisions was a reaction to the uncharted complexity of the issues businesses were facing concurrently and internal resource instability, which have now subsided. However, there is now a more urgent concern over Pillar Two and other compliance issues taking precedence over cost concerns, indicating a rise in outsourcing activity in the future.

Figure 3. Priorities in moving toward a lower-cost resourcing model over the next one to two years.

Comparison between 2021 and 2023



Note: Percentages do not add up to 100% since respondents could make multiple selections. Tax data management was not included in the 2021 survey.

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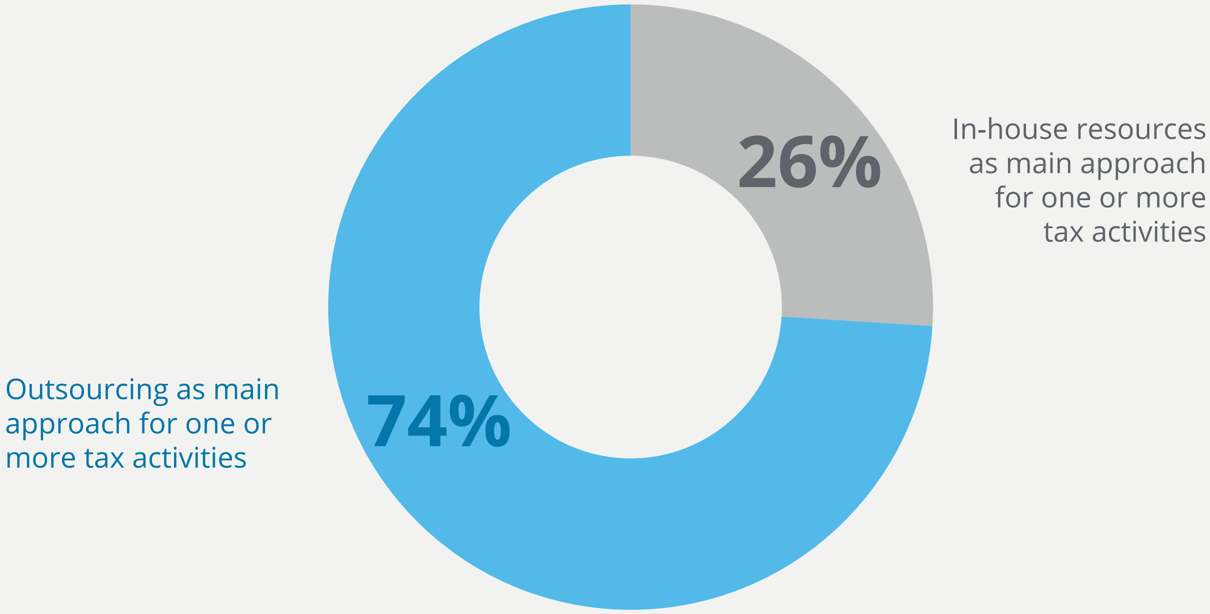
Trend 3: Outsourcing is a key strategy to access technology capabilities

Outsourcing has long been a common practice among tax departments, and that remains the case. About three-quarters of respondents said their company uses outsourcing as their primary approach for one or more tax activities—either traditional outsourcing or managed-services outsourcing in which a third-party provider runs an activity (Figure 4).

“We heavily rely on our outsource provider to be our in-house tax teams around the world. That provider acts as the tax eyes and ears on the ground because it would never make economic sense to put people in all of those jurisdictions.”

Gemma Beck
Head of Tax, **Haleon PLC**

Figure 4. Widespread use of outsourcing

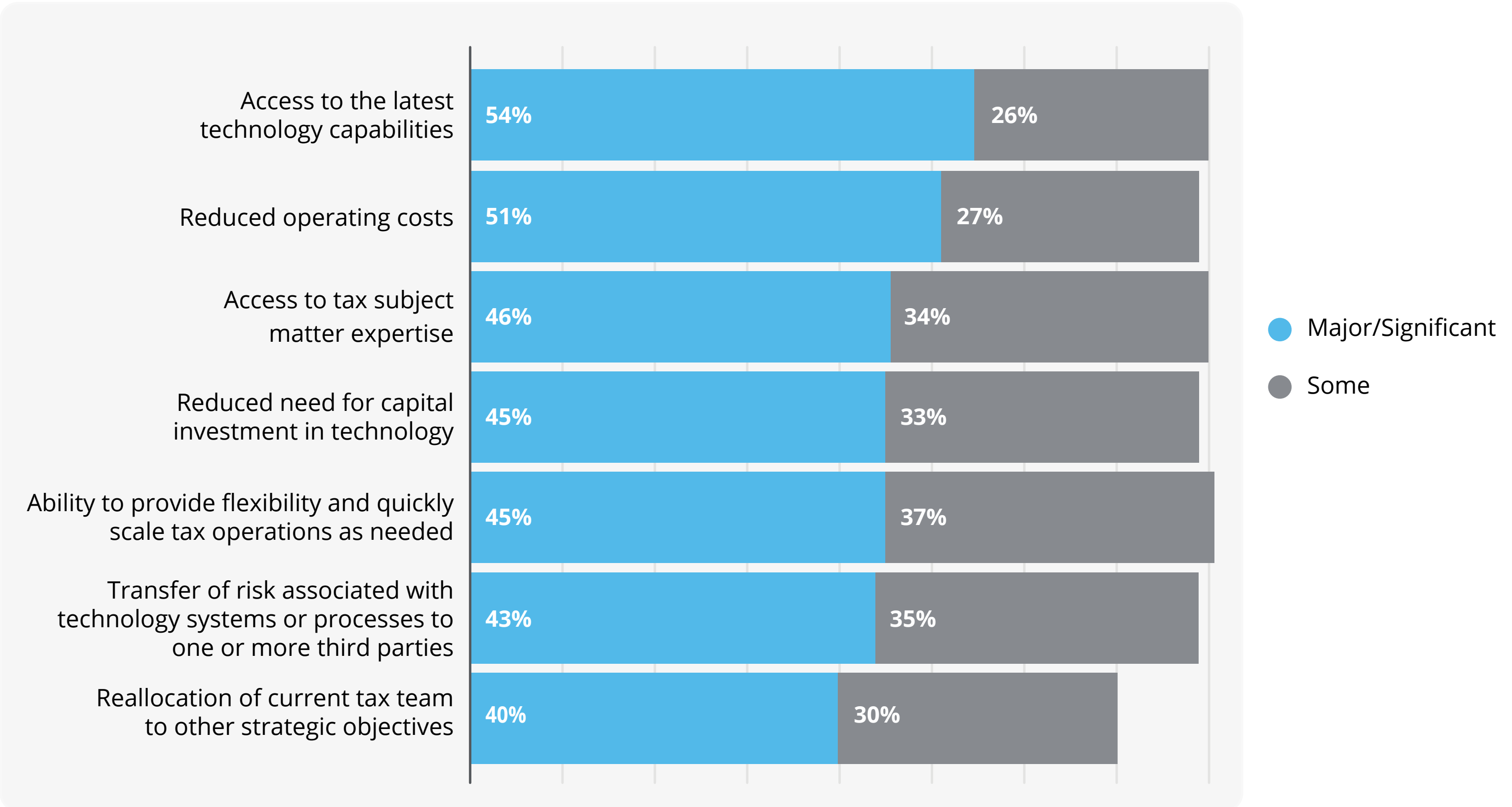


Outsourcing = Either traditional outsourcing or a third-party running a function/activity

Outsourcing has long been recognized as a tool for increasing efficiency, but access to technology tools is now an even more important driver. Respondents cited *access to the latest technology capabilities* (54%) even more often than *reduced operating costs* (51%) as a major or significant benefit of outsourcing an entire activity or function in the tax department (Figure 5). *Reduced need for capital investment in technology* (45%) was also named frequently as an important benefit. Outsourcing can provide a strategy for tax departments to acquire the technology tools and expertise that the current environment demands without incurring the significant capital investment that would be required if these enhancements were developed in-house.

Technology plays a key role in many aspects of tax operations and in transforming those operations to meet today's challenges. Many respondents said implementing a single, integrated tax platform was a key priority for the next few years as they pursue increased efficiency and access to data.

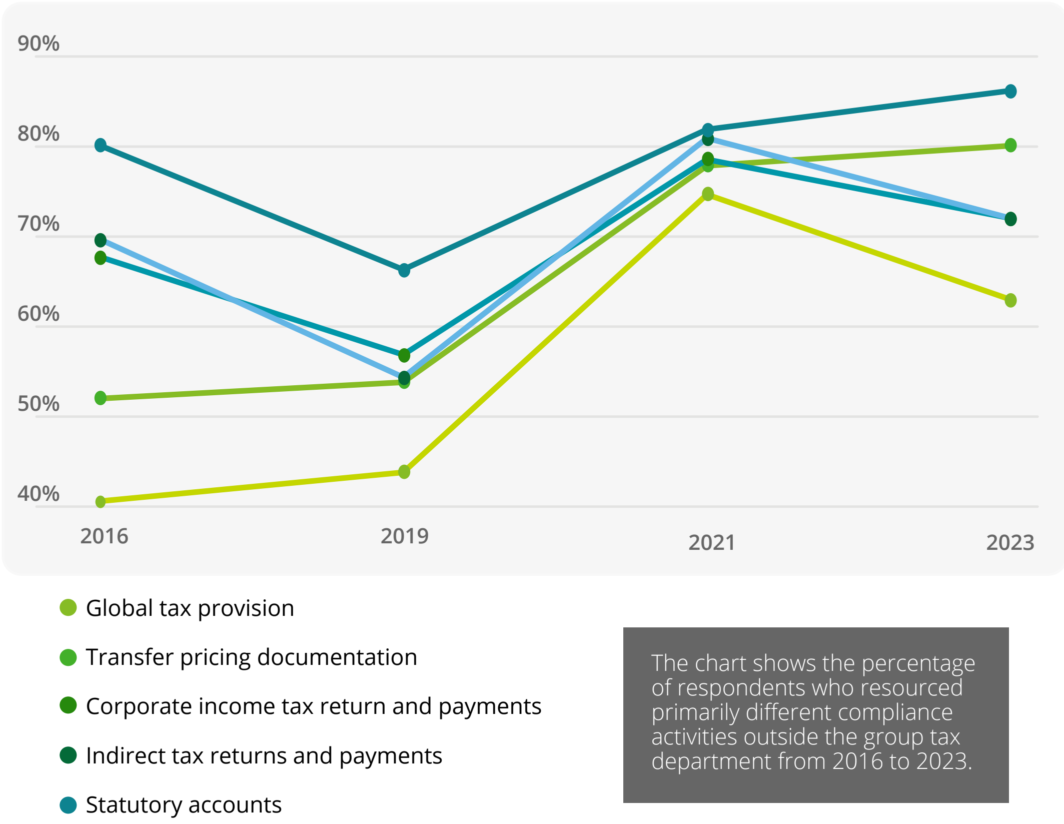
Figure 5. Benefit company has received—or could receive—from outsourcing an entire activity or function in the tax department



Trend 4: Tax isn't just done in the tax department anymore

Since 2016, companies appear to be increasing the practice of performing key tax activities outside the tax department—including by another part of the finance function, by shared service centers, or by outsourcing to a third-party provider (Figure 6). This trend intensified from 2019 to 2021 due to the impact of COVID-19 and the human resources and technology challenges entailed in the sudden move toward remote work. The 2023 survey saw this tendency moderate somewhat, with respondents less often saying that they performed *global tax provision, corporate income tax returns & payments*, and *indirect tax returns & payments* outside the tax team, compared to 2021. However, for each of the five tax activities in Figure 6, the percentage of companies who reported that it was performed outside the tax team remained higher in the current survey than it was in 2019, prior to the pandemic, and there was a continued increase in intention to outsource *statutory accounts* and *transfer pricing documentation* since 2021.

Figure 6. Specific tax activities performed outside the tax department
From 2016 to 2023



The chart shows the percentage of respondents who resourced primarily different compliance activities outside the group tax department from 2016 to 2023.

Trend 5: Future skills requirements are giving rise to the "hybrid tax professional"

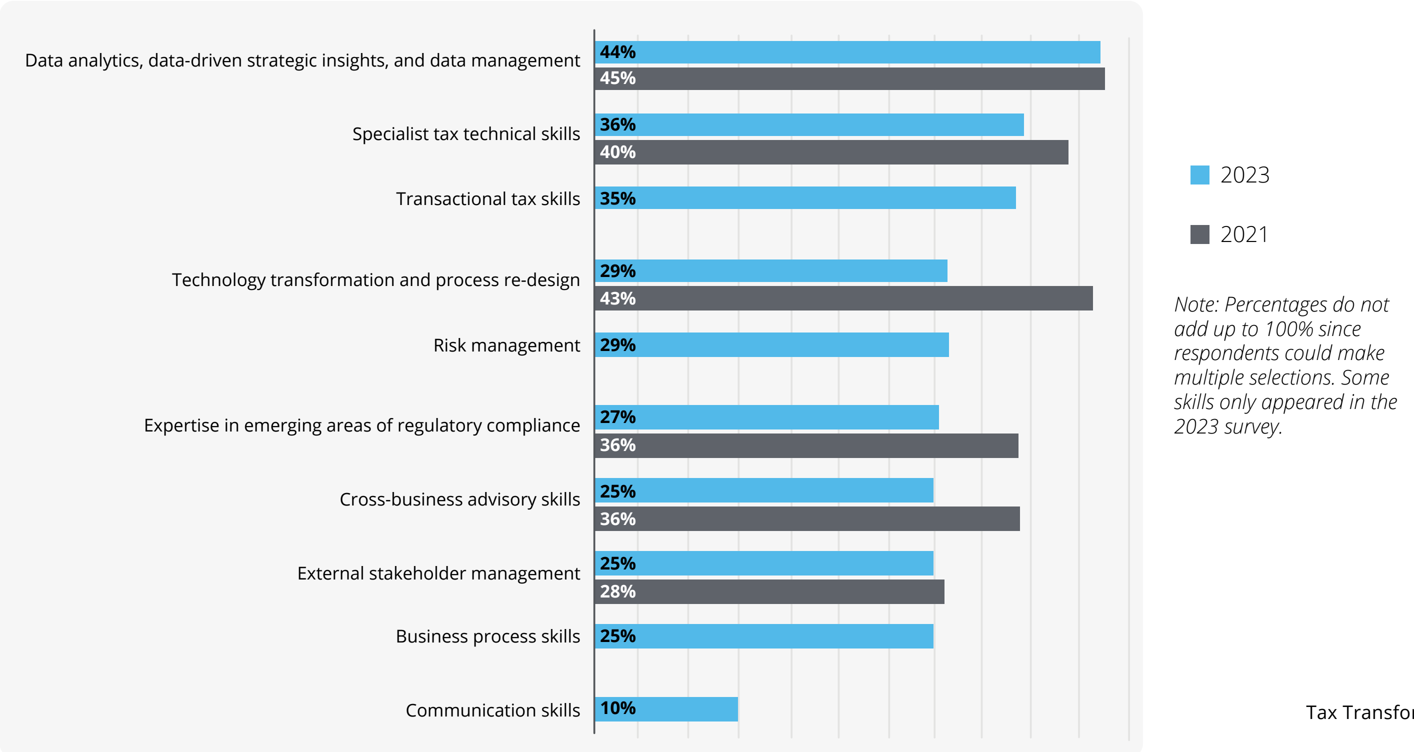
When asking about challenges for the next few years, 35% of respondents said they foresee difficulties in accessing professionals with tax subject matter expertise. But many tax departments are looking for professionals who can span company domains, which fits with the need for tax to collaborate more closely with other functions. This is clearly the case with technology-related skills. Commenting on the talent profile their tax department needs, Dennis Beyers, head of tax at UCB, described it as,

> "... a blend between an IT and a tax specialist—almost impossible to find on the market."

Dennis Beyers
Head of Tax, **UCB**

A cross-domain mix of skills is also critical to the tax department's efforts to act as a close adviser to the business. That mix includes both business knowledge and softer skills (Figure 7). As tax departments reorganize and adapt to the changing legal and regulatory tax landscape, they need to develop professional teams with the new skills required, especially data management and technology expertise. When asked where their tax department will have the greatest need for skills over the next one to two years, respondents most often named *data analytics, data-driven strategic insights, and data management* (44%)—a reflection of the growing importance of data-driven decision-making and increased government requirements for direct access to companies' tax data (Figure 7).

Figure 7. Greatest needs in the tax department for skills over next one to two years. Respondents chose up to three skills.

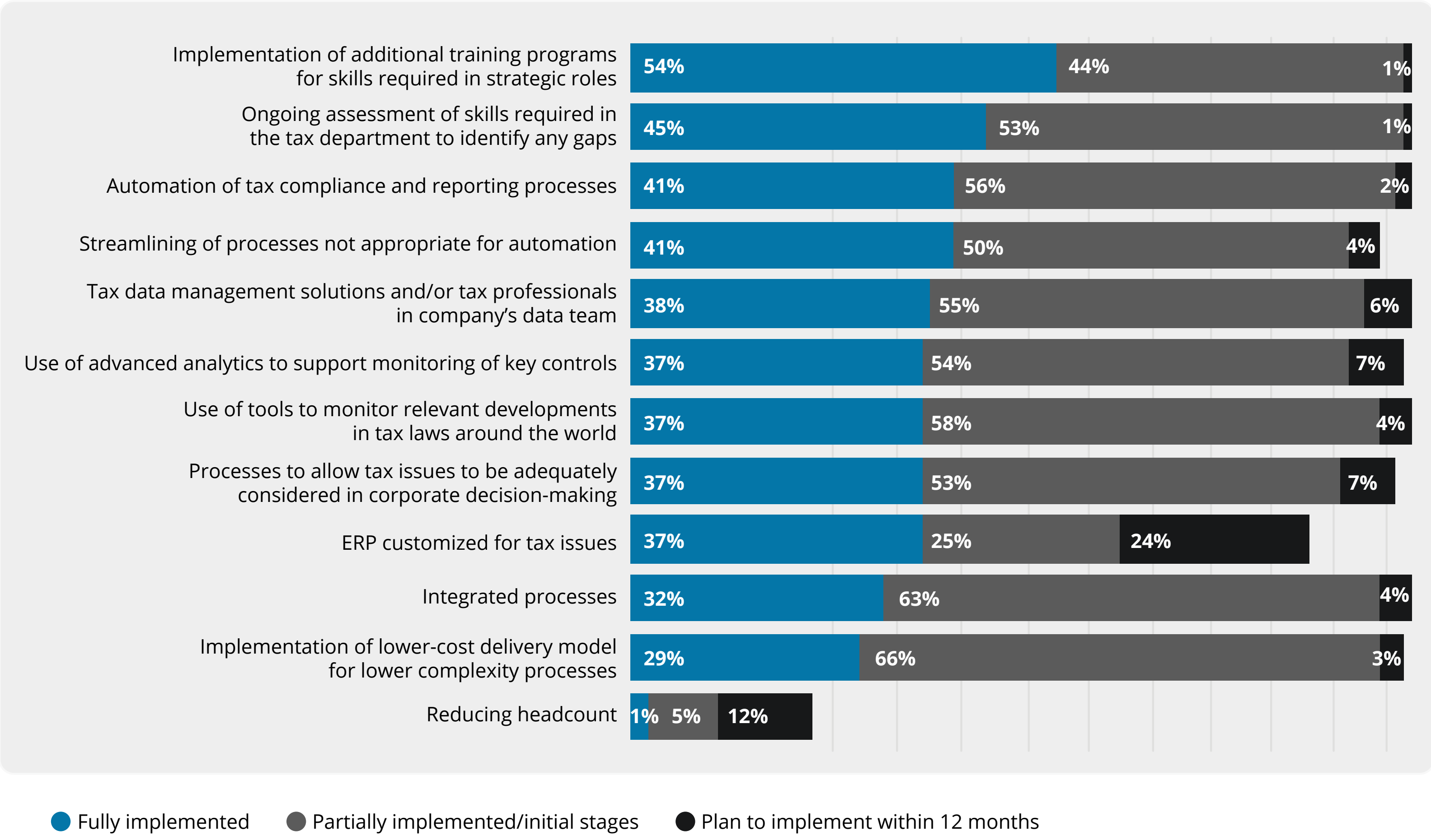


Note: Percentages do not add up to 100% since respondents could make multiple selections. Some skills only appeared in the 2023 survey.

Building the capabilities needed to be a trusted adviser to the business was another area where more progress is needed. Only 37% of respondents said their tax department had fully implemented *processes to allow tax to be adequately considered in corporate decisions*, although almost all the other respondents said this was either underway or in the planning stages. Relatively few respondents—less than one-fifth—reported their tax department had acted or planned to act on *reducing headcount*. Given the new and shifting demands being placed on tax departments, most companies seem to have concluded reductions in personnel are not an option (Figure 8).

Significant progress has been made in implementing efficiencies such as process streamlining and automation. But this has not resulted in headcount reductions.

Figure 8. Progress made in implementing tax transformation actions



What's next?

Dramatic changes are putting tremendous pressure on tax departments. Responding to significant shifts in the tax landscape, like Pillar Two, have tax departments struggling to access the detailed data required.

Despite these challenges, tax and business leaders are increasingly making use of a wide range of resources to achieve their objectives—from relying on IT and Finance to help integrate tax into ERP systems, to gaining technology and subject matter expertise via outsourcing to third parties.

The 2023 Tax Transformation Trends results revealed a heightened need to extract data-driven insights from compliance activities and for more agile partnering with other parts of the business. In order to achieve this, tax and finance leaders will need to manage increasingly diverse teams, further integrate technology for direct data access, and continually reassess their operating models to maintain an optimal mix of in-house capability and outsourced expertise and technology. As regulatory changes continue—particularly those related to global minimum taxes and ESG—the trend toward insight-driven compliance will accelerate.

Are you ready?

Visit www.deloitte.com/taxtrends to download and share the survey report.

About this research

This summary report provides the highlights of a larger study on tax transformation trends—research fielded every two years to track changes in the market. This year's study engaged tax and finance executives at large companies to understand their strategies for tax operations, talent, and technology.

Deloitte surveyed 300 senior tax and finance leaders at companies across a range of industries, sizes, and regions to understand their future vision for the tax function and how they plan to achieve that vision. Deloitte also conducted a series of qualitative individual interviews with senior tax executives at large multinational companies to develop deeper insights into their tax transformation efforts.

Figure 9. Survey demographics—300 respondents to a web-based survey

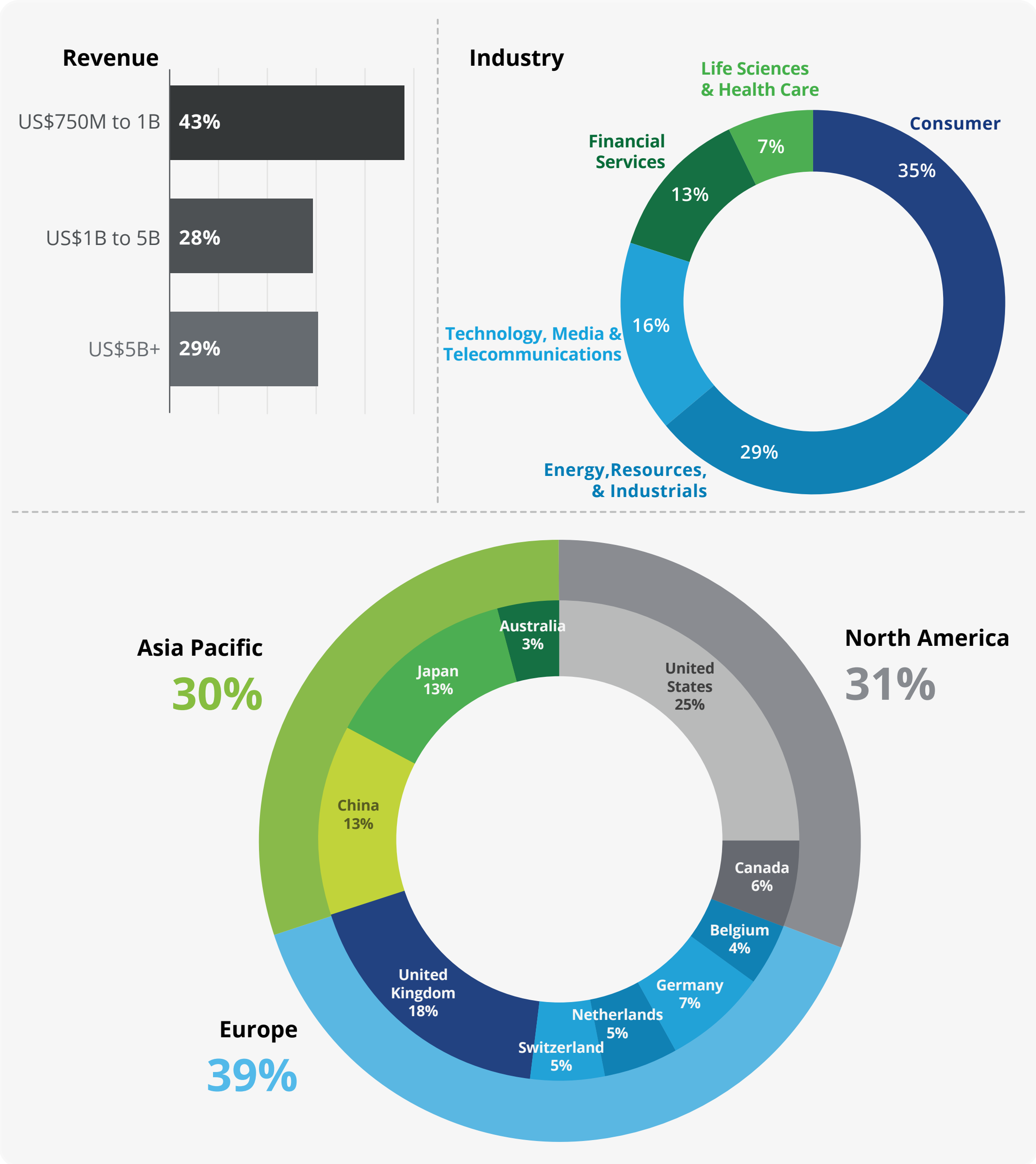
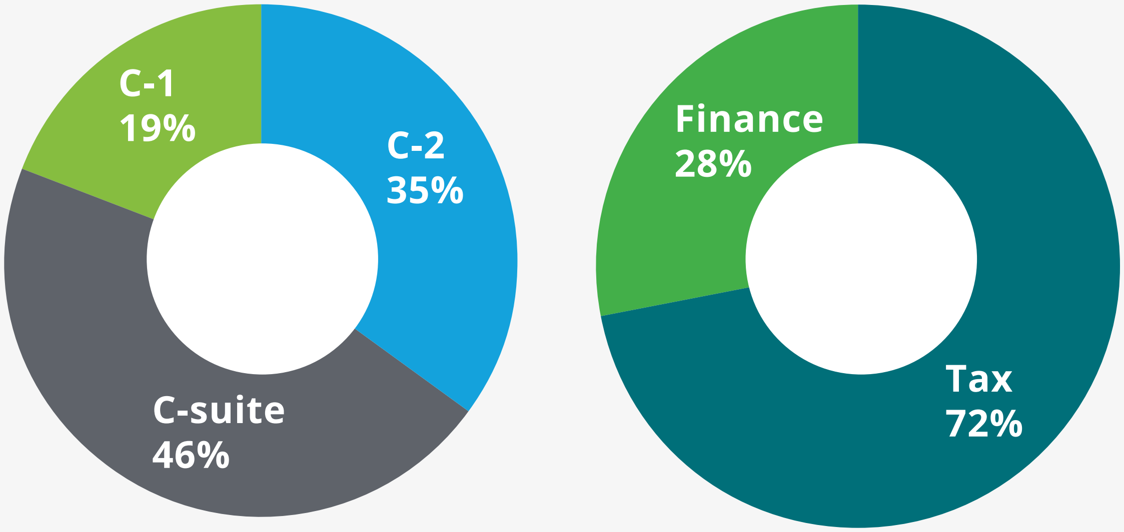


Figure 9. (continued)

Role



Survey sample size = 300
C-suite (e.g., CFO, CAO, CTaxO) = 137
C-1 (e.g., EVP, SVP of Tax or Finance) = 57
C-2 (e.g., Directors, VP, Head of sub-division) = 106

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