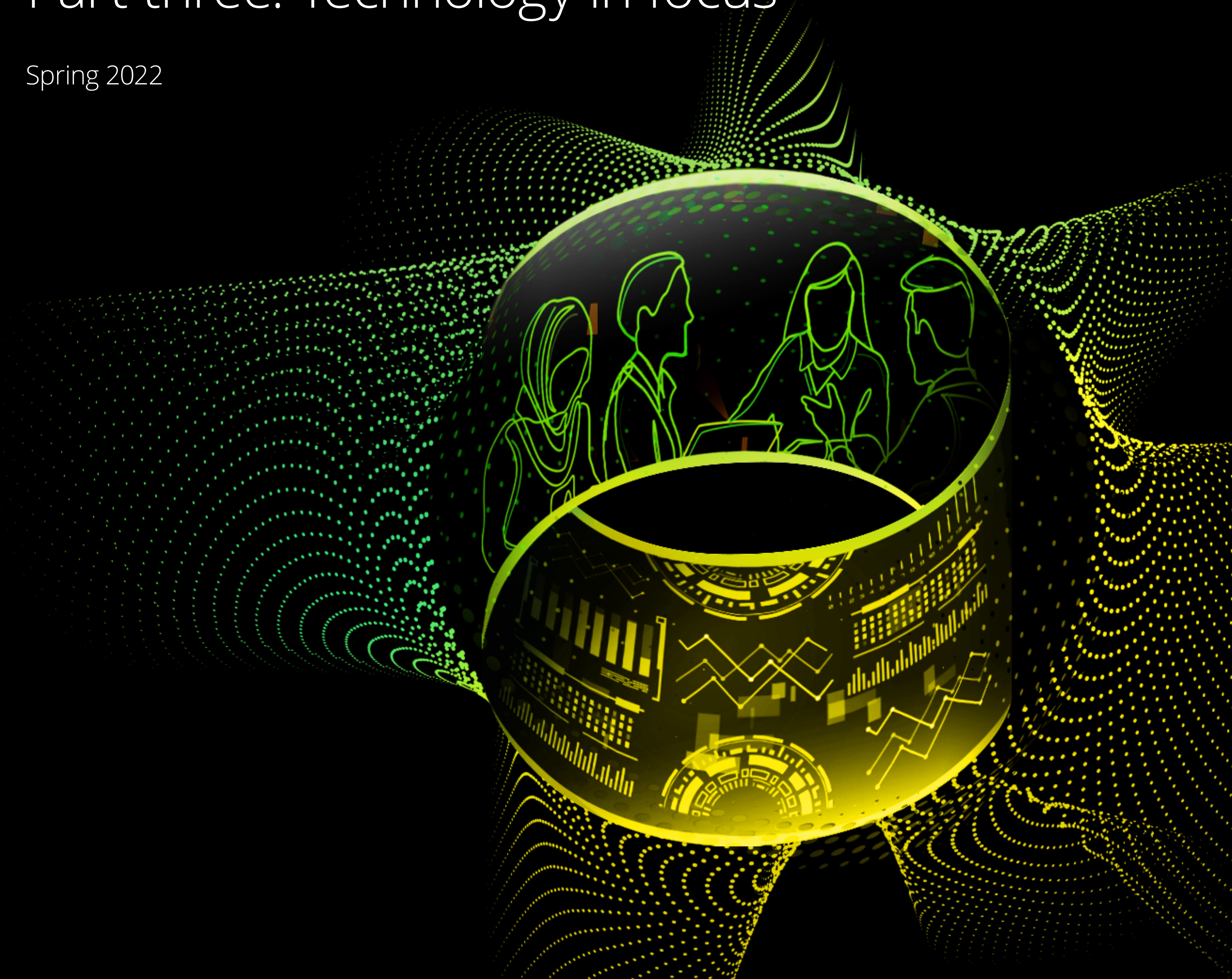
Tax transformation-trends series
Part three: Technology in focus

Spring 2022



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Tax in a transparent world

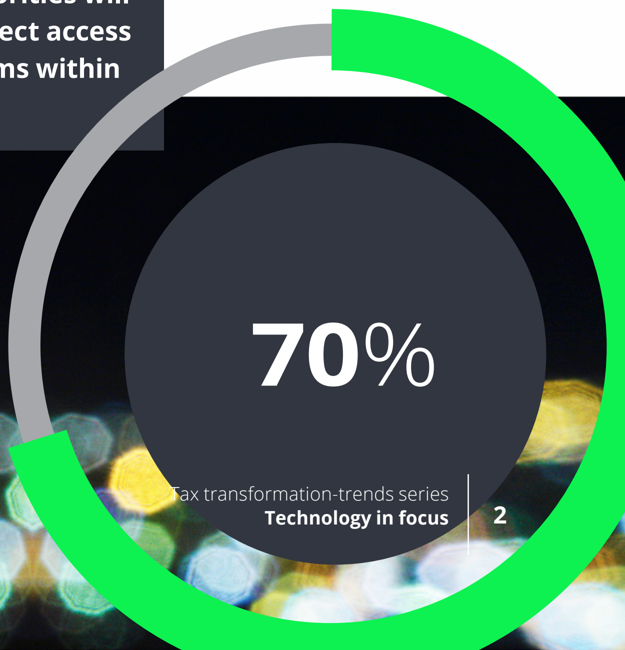
The infusion of technology into every aspect of our lives has ushered in an entirely new age of transparency. When we order food, hail a ride, or buy groceries, we can track where things are at each step of the process. The world has become accustomed to and embraced this level of visibility. For businesses, it is no longer enough to deliver an exceptional product, service, or experience. People want to know things like where materials are sourced, what type of labour is used, and how big the carbon footprint is.

The tax function is no exception. The public and taxing authorities want to know who pays how much tax, when, and where. This has a growing and material impact on companies' reputations and brand perceptions.

While the transparency that technology has enabled has greatly improved customer service, coordination, and tracking, it has also made many things that used to happen behind the scenes visible for all to see. The result can be increased scrutiny and, at times, vulnerability for businesses and their employees. Working in a completely transparent world can feel like being in a glass house.

Here, in the final report of Deloitte's three-part tax transformation-trends series, we show that business leaders are expecting these dynamics to intensify with the Organisation for Economic Co-operation and Development's (OECD's) Pillars 1 and 2 agreements as well as the accelerating shift of revenue authorities toward digital tax administration.

In our study, **70% of tax leaders predict that revenue authorities will have more direct access to their systems within** three years.



> *"The global push for transparency is driving tax transformation today."*
>
> **Ivo Nelissen**
> Head of tax, **DSM**

As the glass house analogy becomes a reality, this report explores how tax leaders are using technology to get their houses in order.

Leaders are:

Focusing on data quality, automating processes, and rethinking operating models.

Leveraging the momentum of next-generation enterprise resource planning (ERP) and finance transformation projects to provide the means to address data-quality issues and ultimately allow for transparency.

Creating the business case for investment in the tax department using the OECD's Pillars 1 and 2 and the move toward digital tax administration

1

Next-generation ERP
Data access for tax transparency

Just as sand is essential for creating glass, quality data is essential for creating transparency. Tax leaders are using next-generation ERP projects as a gateway to team with finance and gain access to tax-sensitized data via revamped, standardized processes and integrated systems. This is an essential step in the effort to get their data houses in order. The majority of respondents' organizations (86%) are in the process of implementing a next-generation cloud-based ERP system such as S/4HANA or Oracle Cloud. Nearly one-quarter of those (24%) have already implemented an upgraded system, and another 37% are close to going live.

It's essential for tax leaders to understand their data requirements and existing data-quality challenges, and then make their voices heard—alongside other department leaders in their organization—in the decision-making process that informs the design of new ERP systems. "The systems need to be designed in a way that we can create a tax-sensitized environment within the normal finance data environment," says Ron Angelillo, VP of tax at **Enpro**. "That will help ensure whatever data tax is getting is fit for purpose."

> ***"The business increasingly understands that tax needs a place at the table when major technology decisions, such as ERP upgrades, are made."***
>
> **Gaby Bes**
> Head of tax and customs, **ASML**

While a fully tax-sensitized ERP system may remain elusive as the needs of tax challenge its ability to fully align with business operations, huge gains in efficiency and data quality can be made where tax is able to embed its requirements by working with finance and IT.

Many tax teams are already reaping the rewards of tax-sensitized ERP systems for indirect tax compliance—for instance, confirming that relevant information is displayed at the transactional level in the accounts payable or receivable section of the ERP system. "Existing systems are fairly advanced in dealing with taxes that are transaction-based," says Mike Munoz, VP of tax and treasurer at **Suncor**.

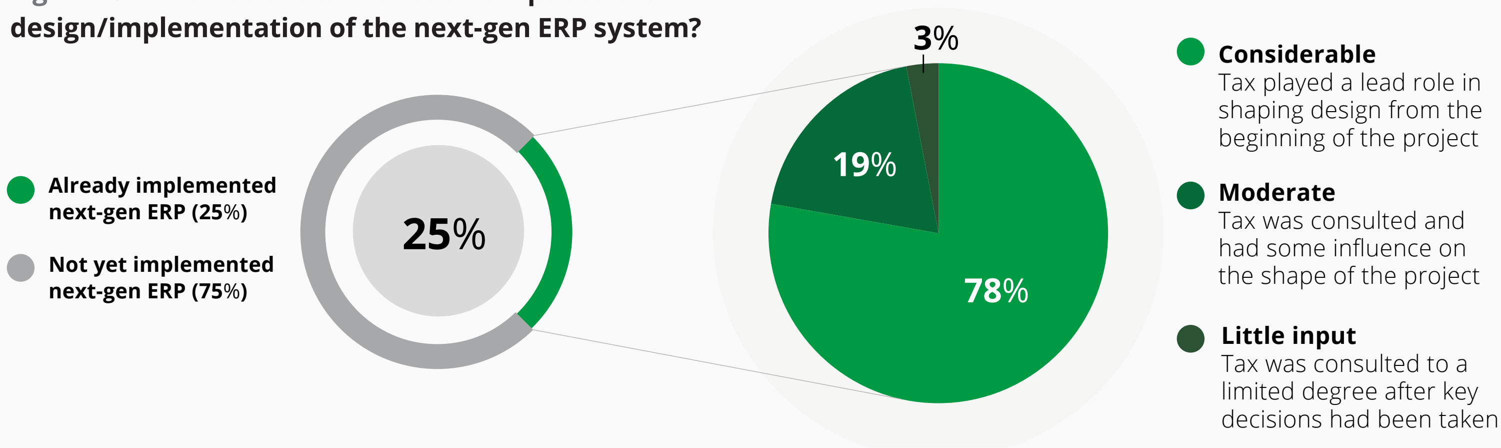
"It counts the transactions and gives you an input for jurisdiction, rates, and other information. You then just click a button and create the report you need to file, and then click another to send it. Strong ERP systems assist with advances in digital filing and create a great record, which is a big help in tax controversy and dispute resolution."

Getting tax data sensitized for direct tax compliance is more complex, however, since calculations need to be made after the fact, rather than at the time of the transaction, and will often require data that does not sit within the ERP system.

But even here, steps can be taken to sensitize data by influencing how information is processed at the general ledger account level, which can enable greater tax automation across other systems outside of the ERP system.

Of the quarter of those surveyed whose next-gen system is up and running, nearly eight in ten **(78%) played a lead role in shaping the system's design.**

Figure 1. What was the tax function's input to the design/implementation of the next-gen ERP system?

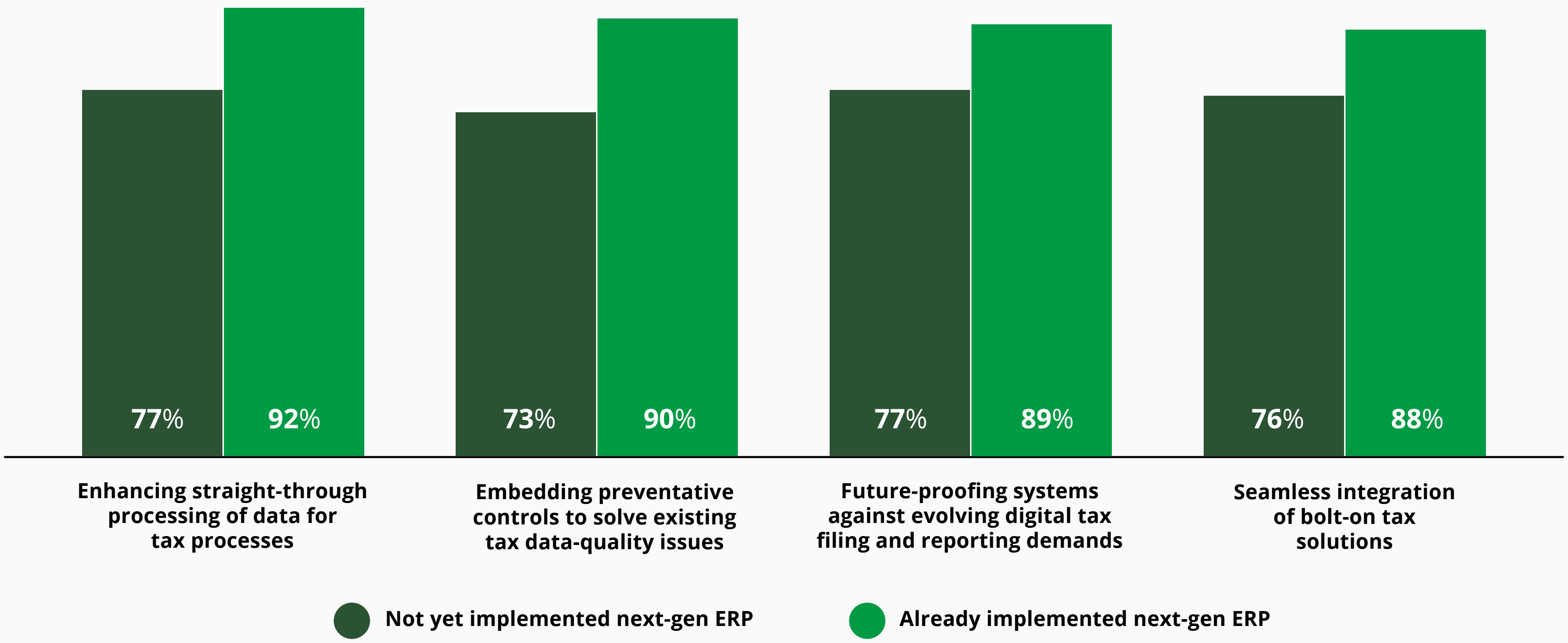


Confidence levels in the benefits of ERP upgrades are high, particularly for the first movers, who believe that their upgraded ERP system will enable them to enhance straight-through processing of data for tax processes, and to embed controls to solve existing data quality issues. There is also substantial confidence that such systems will help tax teams cope with evolving digital tax administration requirements.

> ***"[An upgraded ERP system] will allow us to do so much more in real time. And, in combination with a data lake, we can play around with data much more than we could before."***
>
> **Gaby Bes**
> Head of tax and customs , **ASML**

Figure 2. Confidence that an ERP upgrade will address specific tax challenges.

What specific tax challenges do tax departments hope ERP upgrades will address?
(% of respondents who said they are somewhat or extremely confident)

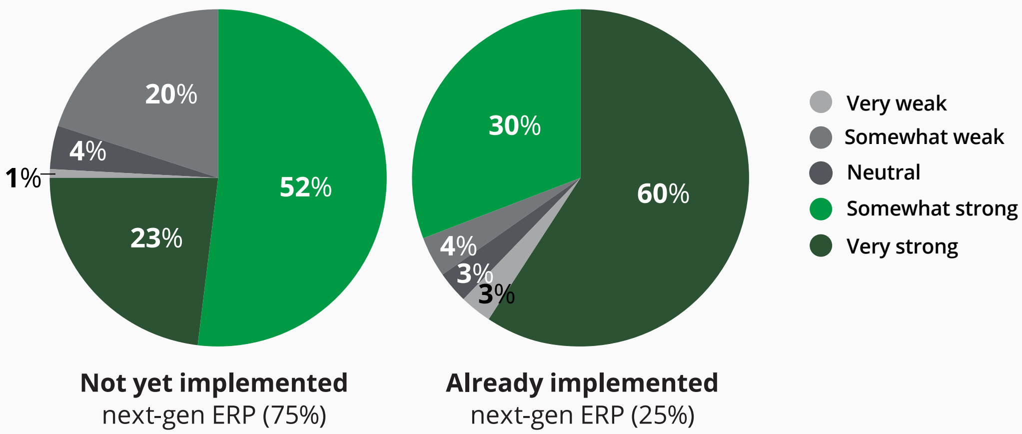


Those companies already working in a modernized ERP system see benefits that stretch beyond compliance and reporting. For example, 60% of this group describe their ability to conduct sophisticated scenario modelling as "very strong" in relation to the OECD Pillars 1 and 2 changes. This is almost three times as many as in companies that have not yet implemented a next-gen ERP system.

Systems modernization and the data improvements that go with it are important foundations to the corporate glass house. For tax, the implications of these advances extend beyond daily processes to the operating model itself. By applying the right mix of technology, IP, talent and capacity, organizations can drive efficiency and more business value.

Figure 3. **Ability to support sophisticated scenario modelling to assess impact of OECD Pillars 1 and 2 reforms to international tax rules**

(% of respondents who have already implemented a next-gen ERP system and those who have not)



Weak: We struggle to access the relevant and timely data we need for this and modelling is labour-intensive.

Strong: We can access all relevant data in near-real time and modelling is highly automated/efficient.

2 Technology fuelling tax transformation

> *The reality is, so much tax actually happens in upstream finance processes.*

Eleanor Macdonald
Tax technology and transformation lead,
Anglo American

As their function undergoes transformation, tax leaders are more involved in technology discussions—with finance, with IT, and even with senior management—than they were likely to have been five or 10 years ago. To change the shape of their operations to match the ever-changing shape of business, it's imperative that they are not only involved but influential. This is particularly true when it comes to critical decisions being made by other budget-holders about things such as ERP modernization and enterprise data strategy.

Many who took the survey are trying to exert a more significant influence over their function's technology destiny. Nearly half (48%) say they take a proactive and expansive approach to technology strategy, including redesignin their entire digital architecture. This represents a step change in the attitudes of tax professionals to technology transformation. Another 29% indicate they are proactive, albeit relating to specific systems and processes rather than the technology architecture as a whole.

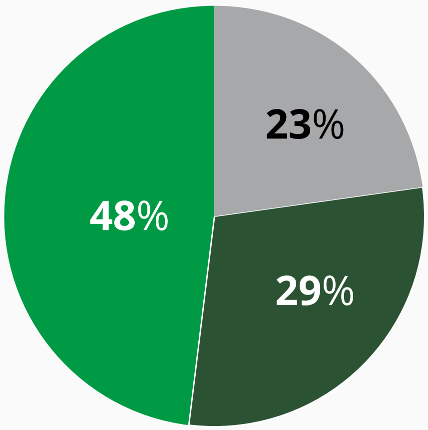
Their efforts to exert influence appear to yield results. Almost two-thirds (63%) of the respondents indicated they have significant autonomy over tax technology strategy, although conditions to exercise influence differ in every organization. Some of the executives interviewed say their influence is limited, with finance or IT holding a tight rein. And over one-third (37%) of respondents with autonomy over strategy have only limited control of their capital expenditure (CapEx) budget.

Since tax functions typically do not hold the purse strings, it will be even more important to capitalize on major finance transformation projects, which could impact nearly every aspect of tax work. Tax must have a say in the design of new systems.

For tax leaders who are building their own technology, their knowledge can go a long way in increasing their influence and harnessing disruption. "Tax is not always top of mind in technology decisions, and quite often you have to fight yourself in," says Gaby Bes, head of tax and customs at **ASML**. "But the situation is improving. We as tax leaders are becoming better at explaining what we need from technology and why."

> ***We're in a fortunate position because we're in the middle of a finance transformation. Upstream finance and supply chain processes are already undergoing a significant redesign, meaning we can ensure they are designed and implemented in a way that will provide the outputs we need to feed our tax processes. Without finance transformation, that would be very difficult.***
>
> **Eleanor Macdonald**
> Tax technology and transformation lead, **Anglo American**

Figure 4. The tax function's approach to technology strategy
(% of respondents)



- **We are generally reactive, making upgrades when it becomes necessary because of changing regulation**
- **We are proactive in modernizing specific systems and processes, but we're not redesigning our entire architecture**
- **We take a proactive approach, focused on redesigning and digitalizing our entire architecture**

The visibility imperative:

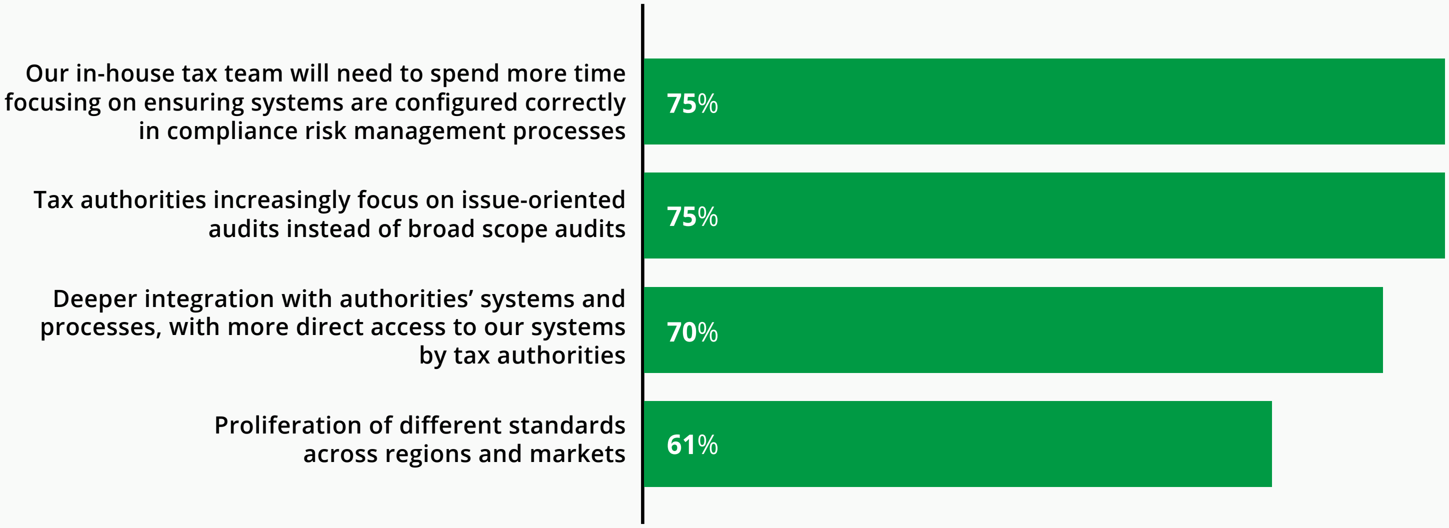
Pressure from the public and regulators

Regulation has long been a change driver, incentivizing businesses to invest in their tax departments. This dynamic is currently at work in the mounting pressure from governments and international organizations for greater transparency of tax information. For example, the OECD-proposed Pillars 1 and 2 changes to international tax rules on profit allocation and global minimum taxation. It's clear that tax functions will need to upgrade their technology capabilities to support new calculations and tax compliance burdens as a result. Additionally, companies want more sophisticated scenario-modelling capabilities that include these new rules to inform their strategic decisions in the future.

The rapid shift toward digital tax administration occurring in many parts of the world is also propelling tax transformation forward, with undeniable implications for tax technology. Among the survey respondents, 70% deem it "somewhat likely" or "extremely likely" over the next three to five years that tax authorities will have more direct access to their IT systems. This poses a significant challenge to integrate internal systems and processes with tax authorities' digital interfaces. Three-quarters (75%) of respondents expect their teams to spend more time ensuring internal systems are configured correctly for this purpose.

Figure 5. Likely outcomes over the next 3–5 years from tax authorities' move toward digital filing and reporting

(% of respondents believing the indicated outcomes to be "somewhat likely" or "extremely likely")



There is also a need for more detailed and accurate data. "Getting access to good quality, standardized global data is by far the biggest challenge we face today," according to Eleanor Macdonald, tax technology and transformation lead at **Anglo American**. "We can have great technology, but if the data's not there, the benefits it can deliver are limited."

Operational transfer pricing (OTP) is becoming a main driver for technology investments, especially if triggered by time-consuming discussions with regulators on transfer pricing (TP) outcomes. The impact may be limited to spending time on collecting and explaining data but can also lead to taxable and non-deductible TP adjustments, penalties, and related financial surprises.

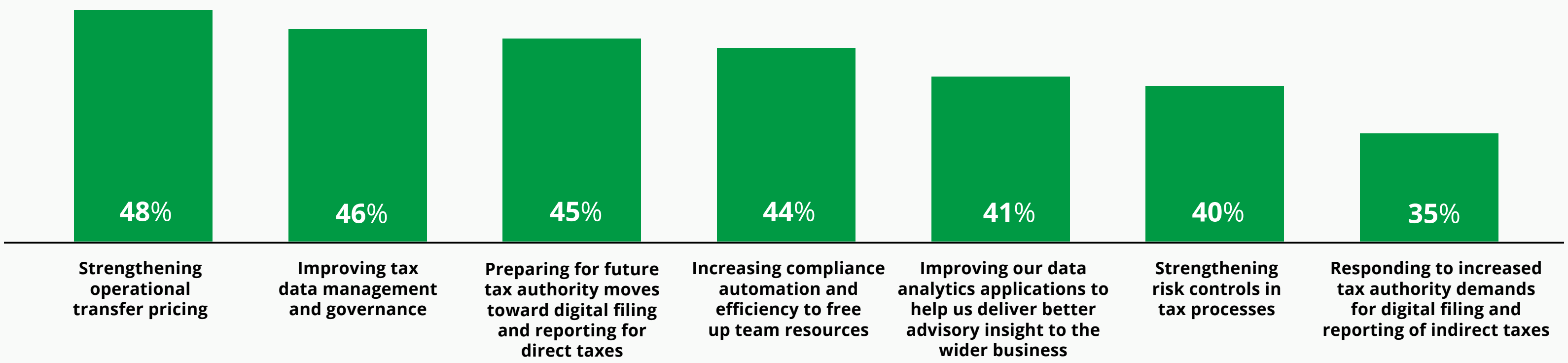
Impacts could also include:

- An increased focus on the **process and technology** around data granularity, postings in ERP, and price setting of the intercompany transactions, but also...
- The realization that more **optimized processes and technology** are needed, with added **data collection, analysis, and calculation power** to turn data into actionable insights and conclusions.

Tax leaders rank strengthening OTP (48%), improving tax data management and governance (46%), and preparing for future digital tax administration requirements for direct tax (45%) as three of the biggest drivers of tax technology investment at their companies over the medium term.

> ***"Tax authorities having direct access to corporates' tax systems and data is a reality in indirect tax now."***
>
> **Dick Mans**
> Lead expertise teams/tax and customs, **ASML**

Figure 6. The main drivers of tax technology investment over the next 3-5 years
(% of respondents ranking each factor among their top three drivers of technology investment)



A compelling business case for investment in tax

Senior leaders at many businesses understand the urgency of meeting digital tax administration and other emerging obligations. "With regulatory requirements increasing dramatically, compliance is at the top of any priority list," says Rob Schipper, global head of tax at **ING**. "When proposing a technology solution to improve tax compliance, our story is easier to sell."

With the help of technology, tax teams will also benefit from expanded access, **better accuracy, and better-quality** data from all parts of the business.

This includes:

- The opportunity, in concert with the finance team, to **standardize operational data and render it "tax-sensitized,"** which would greatly facilitate reporting and other tax processes.
- The basis for offering **value-added insights and strategic advice to other parts of the business,** thanks to greater visibility into their operations.
- A good foundation for **applying artificial intelligence (AI) and machine learning (ML) capabilities to tax processes.**
- **Increased control over how to get work done.** Once internal data issues are resolved, tax leaders have more options for how best to deploy their internal resources and where outsourcing increases their value-add.
- Quantitative benefits such as **redeploying the future number of full-time equivalents (FTEs) involved, optimizing third-party advisory costs, and reducing penalty and adjustment risk.**

Harness emerging industry technology and new user experience requirements to unlock innovation, control, and an advanced user experience. Tax leaders should use this environment to create a compelling business case for investment in technology modernization for their departments. Draw on the momentum of the moment to overcome what may have been obstacles in the past.

Progressing AI in tax
The tax leaders in our survey have heady ambitions to use AI and ML to help transform their tax operations. Three-quarters (75%) say it's likely that their team will make use of such capabilities in the next two years. "AI and ML are definitely on our horizon," says Feiza Jivraj, EMEA head of tax at **Macquarie**. "We're currently piloting ML in indirect tax processes, where rules can be set easily."

AI and ML use cases commonly cited by the survey respondents include the real-time adaptation of reporting to changing requirements, tax data classification, and the improvement of data quality.

Start with a foundation
Data governance issues are likely to curtail tax teams' efforts to develop these capabilities. Three-fifths (60%) of respondents cite inadequate data to train algorithms for tax purposes today. "AI is only as good as the test inputs, and deep learning requires a lot of them," explains Mike Munoz, VP of tax and treasurer at **Suncor**.

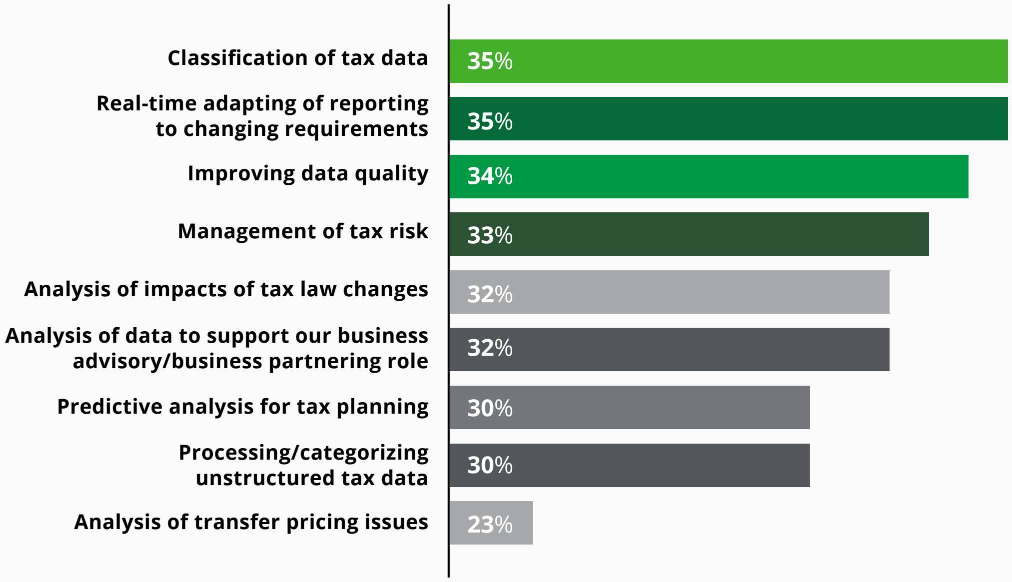
Even more likely to delay AI and ML development are **internal resistance to change** and a **shortage of skilled talent**, cited by 71% and 62% of respondents respectively.

If, however, tax can gain greater access to upstream and downstream enterprise data, it can put a strong foundation in place to leverage these digital technology capabilities. "If we can access quality, rich, and standardized data, there are significant benefits to be gained from AI and ML in the near future, particularly on the compliance side," says **Anglo American's** Eleanor Macdonald.

"We're using ML in our compliance processes today to automate the analysis of data that in the past would have been done manually."

Eleanor Macdonald
Tax technology and transformation lead,
Anglo American

Figure 7. Tax use cases for AI and ML
(% of respondents cite the main areas their tax teams will use AI and ML capabilities)



3

Transforming for a transparent world, at pace

> ***The challenge we are up against is an ever-growing list of highly complex compliance obligations, balanced against an evolving technology landscape. While we all have high strategic aspirations, the reality is that many tax departments will continue to struggle with the basics.***

John McSorley
Head of international tax and transfer pricing, **Arxada**

> ***You cannot cope with this huge compliance burden in the same way as we did before. You need technology just to meet those requirements***

Ivo Nelissen
Head of tax, **DSM**

Many tax leaders are concerned they will not be able to respond quickly enough. Finding solutions to address spiralling data-management complexity and shifting demands on talent are just two of the issues tax leaders are contending with today. For help, some are turning to third-party providers and outsourcing solutions.

Three common scenarios are:

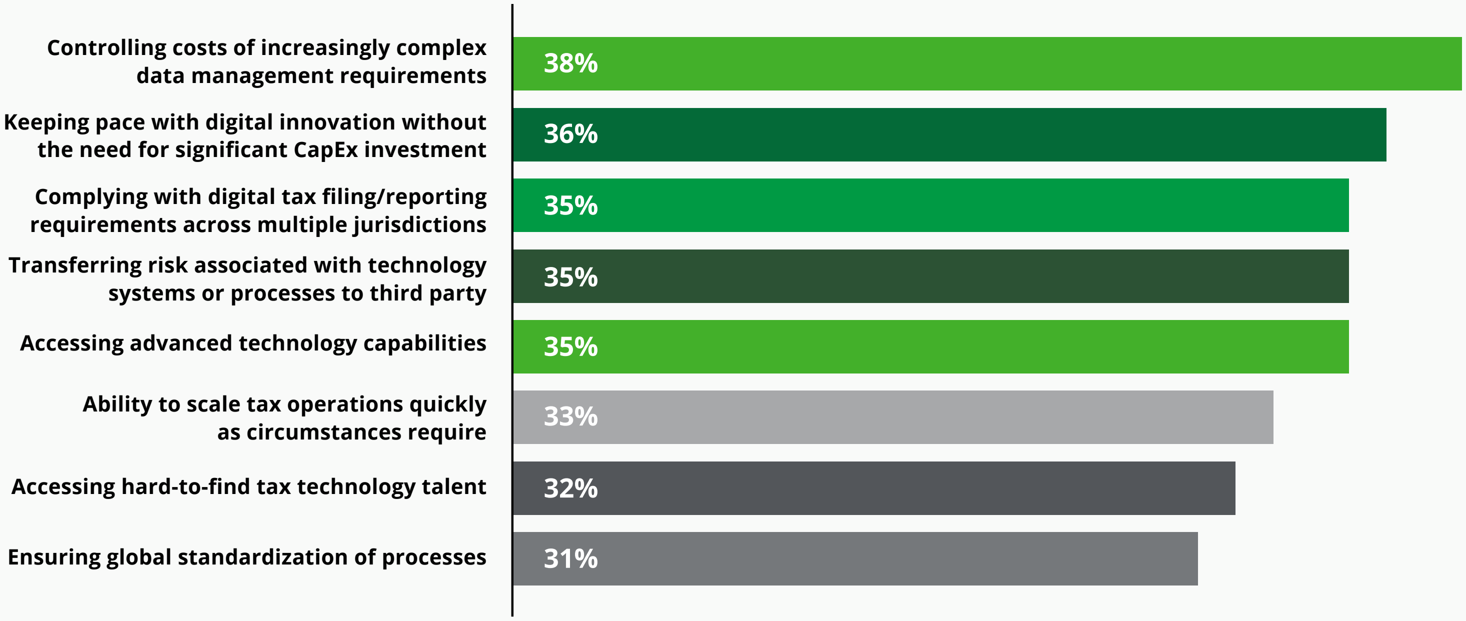
1. Give compliance activities to a third party **to transform and modernize, with the intent to bring them back in-house** to a shared services centre (SSC) at a future date.
2. Use third-party providers for long-term compliance needs to both **control costs and gain technological innovation**, while allowing in-house teams to focus on **adding value to the business** in more strategic ways.
3. Use third-party providers to augment **or support only certain activities or geographies.**

Survey respondents indicated that they plan to use outsourcing partners at different stages of their journey. Such relationships will be important to accelerate technological modernization by providing access to cutting-edge systems that might not yet be a priority for CapEx investment.

There is no single path to an optimal sourcing strategy for tax. Different business models, levels of technology maturity, digital transformation strategies, and capabilities of in- house talent create numerous considerations when deciding which processes to outsource, for how long, and what conditions would dictate bringing them back in-house

> ***"Our vision at the moment is to outsource as much as possible in order to stay lean while benefiting from outsourcer scale and localization capabilities. I expect to see more outsourcing trends over time, as it becomes increasingly difficult to keep up with global compliance developments internally."***
>
> **John McSorley**
> Head of international tax and transfer pricing, **Arxada**

Figure 8. The main technology advantages of outsourcing tax operations
(% of respondents ranking each advantage among their top three)



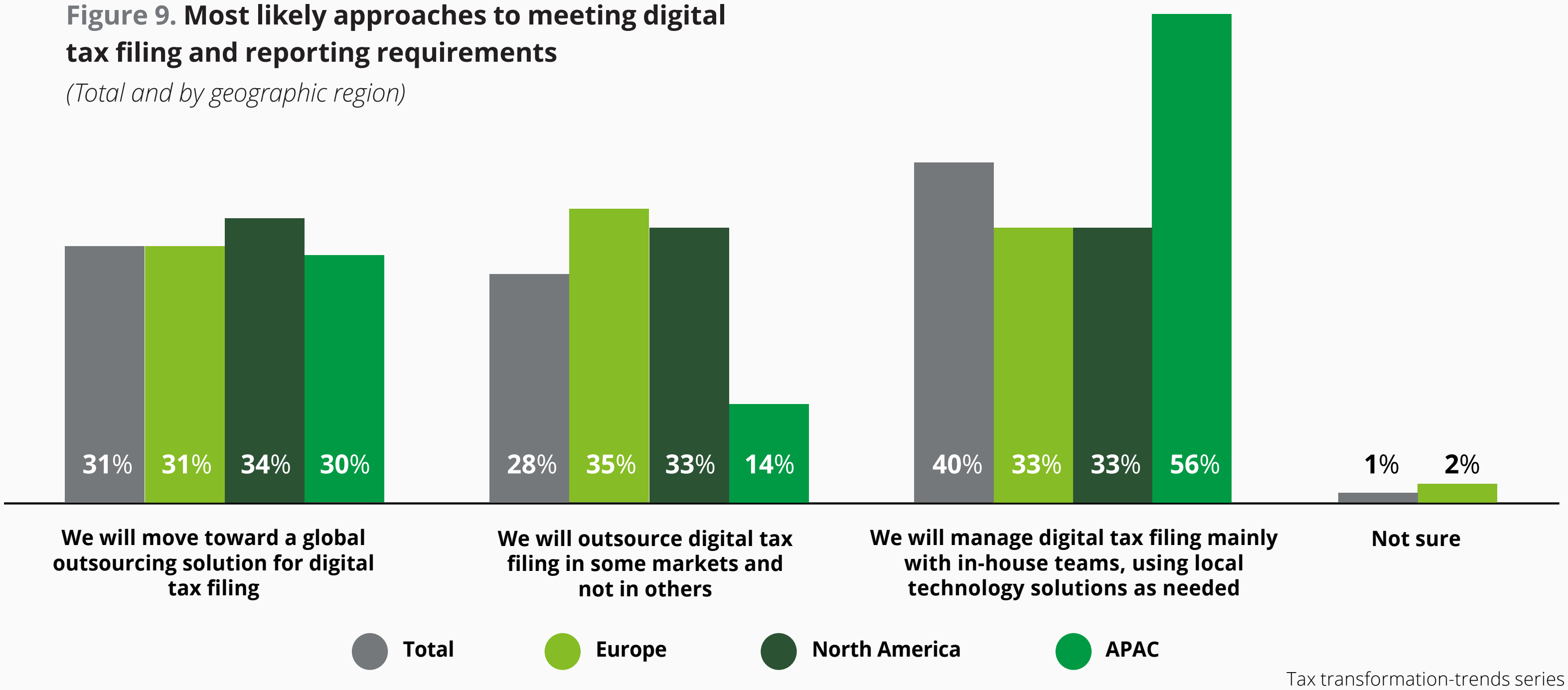
Blended operational models will be the norm for the foreseeable future. Four-fifths (80%) of the surveyed tax leaders agree their function is evolving toward a model that combines the outsourcing, in-sourcing, and co-sourcing of tax operations, with the precise contours determined by the specific process and geographic location..

Tax leaders must also consider how to manage digital tax administration in their operational model. Over half of those in the survey (59%) plan to outsource it to some extent. This may involve adopting a global solution or a country-by-country one. It's worth noting that this is the only place in the survey results where there are significant regional differences within the survey group. While a majority in Europe and North America will outsource digital tax administration to some degree, most in Asia Pacific plan to manage it mainly in-house.

Distinctions in approaches to digital tax administration are also evident between companies of different sizes. For smaller tax teams, John McSorley, head of international tax and transfer pricing at **Arxada,** believes the complexities of digital tax administration, with all its geographic idiosyncrasies, are likely to favour an outsourcing approach. This is visible in the survey, where just 33% of the smallest companies (earning between US$750 million and US$1 billion in annual revenue) plan to manage digital tax administration in-house, compared with 50% of the largest ones (revenue of US$10 billion or more).

Figure 9. Most likely approaches to meeting digital tax filing and reporting requirements

(Total and by geographic region)



The endgame

Companies that outsource processes don't often do so with an assumption of permanence. Whether due to resource constraints, the complexity of requirements, or the nature of their business model, companies sometimes find it easier and less expensive to buy access to talent and technology than to build capabilities in-house. Four-fifths of tax leaders (79%) say they intend to outsource technology and processes for specific tax functions that are not core competencies in their long-term tax strategy.

> ***"I don't have an aspiration to bring things in-house purely to gain direct ownership. It's about obtaining the most efficient path to sustainable and cost-effective delivery."***
>
> **John McSorley**
> Head of international tax and transfer pricing, **Arxada**

But most (74%) also intend to eventually bring at least some operations back in-house once they have developed the internal capabilities to manage them effectively. "A good outsource model contemplates the possibility of bringing efficient processes back in-house," says Suncor's Mike Munoz.

"We've had circumstances where we put something out with the full intention that if it goes well and the process gets efficiently streamlined, we can bring it back inside."

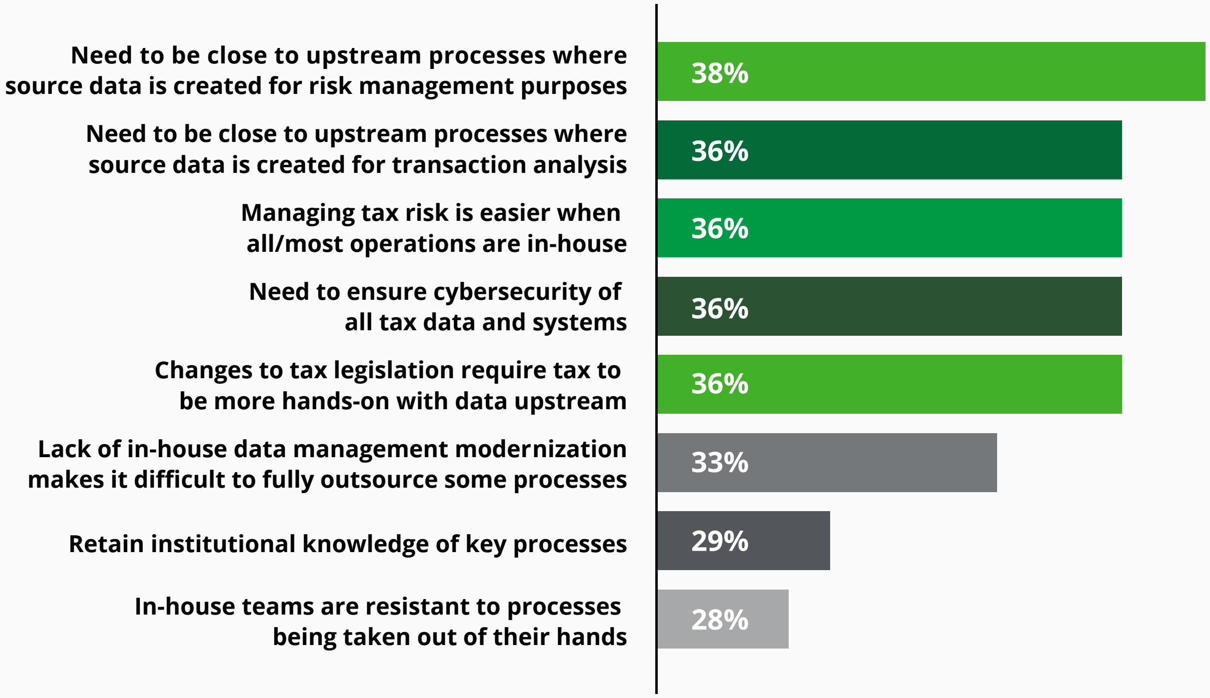
In these cases, learning from third parties can also help to accelerate in-house modernization. For instance, where an outsourcing provider has managed to automate a process, the tax team may gain insights into how they might achieve this in-house in the future, or simply purchase an automation solution.

Even if a process remains with the external provider, many companies aim to bring the related data back into their own environment, where they can maintain control over it.

Nearly eight in 10 (79%) of the survey respondents state this intention, and risk management is a key motivation for doing so.

Figure 10. **The main reasons for keeping certain tax systems and processes under in-house control**

(% of respondents ranking each reason among their top three)



When determining the role of outsourcing, tax leaders need to consider, process by process, which approach will do the most to accelerate their team's transformation, while naturally taking the cost and control over data into account. A clear technology road map that sets out the time frame for transformation, the ideal end state, and the interim solutions that may be needed along the way will help tax leaders make the best use of outsourcing partners along their transformation journey.

The road maps need to be flexible, however, in case companies find that their original assumptions have changed. **Anglo American's** tax transformation journey reflects this, as outsourcing was initially used to help standardize their processes and technologies globally, with the intention of bringing them back into an SSC. "We envisioned having an in-house centre of tax excellence, whether in our own team or the SSC. But our view now is that if we get our processes to where we want them to be, there won't be anything to bring back. The types of activities we would put in a shared services environment—preparing reports, analyzing data, and formatting it into a tax return—we think are not going to exist for much longer," says Eleanor Macdonald.

Confidence
in the age of transparency

Many facets of life are technology-enabled in this digital age, where information and data are available on demand both for the ease of doing business and for scrutiny. This new era of transparency is uncomfortable for many organizations.

Tax leaders ind themselves in a paradox

Technology creates risk, but it is also the most effective way to mitigate it. The scope of access by tax teams to enterprise data will be a determining factor in just how durable their tax positions are—and thus how vulnerable the glass house they are operating in is. With tax authorities having direct access to companies' IT systems, for example, tax teams will need complete confidence in the data the authorities will be viewing. Tax leaders also need to understand what kinds of conclusions the authorities might draw, so they can provide the right perspective if questioned. They will need the technology investments made by their department, finance, and IT to provide access to transactional data further upstream, closer to where it is generated. This is a significant shift from tax norms of the past.

Momentum behind the case for transformation

The rapid shift toward digital tax administration coupled with organizations' move to next-gen ERP platforms is creating momentum, and an obvious and easier business case for the necessity of investment in tax transformation. Viewed in this light, the transparency imperative is a change driver that tax leaders need to progress their modernization efforts. They need to think holistically about people, process, data, and technology as they move forward. Other important levers are strategy, talent, and operating model design (including how teams leverage outsourcing). The fusion of these elements will be a determining success factor and will need to influence where technology investments are focused.

A final point on the strategic role of tax...

Once implemented, tax transformation will not only help address the transparency imperative, it should also provide the ability to access, understand, report, analyze, and draw insights from across the organization. Providing ready access through modern infrastructure and systems—including next-gen ERP—to rich, high-quality, and standardized data will help tax teams to boost their efficiency and strategic value. With the use of intelligent technologies, tax teams will also have the wherewithal to deliver rich insights to different parts of the business. Therein lies a golden opportunity for tax leaders as they pursue the transformation of their function from a largely compliance-focused role to one that adds greater strategic value to the business over the long term.

Get in touch

We're here to help.

Karen Spencer

Director
Tax & Legal

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More about the research

Our findings are based on a November 2021 survey of more than 300 senior tax and finance executives in a range of industries and geographies. We also drew insights from a series of interviews conducted with tax leaders at multinational companies.

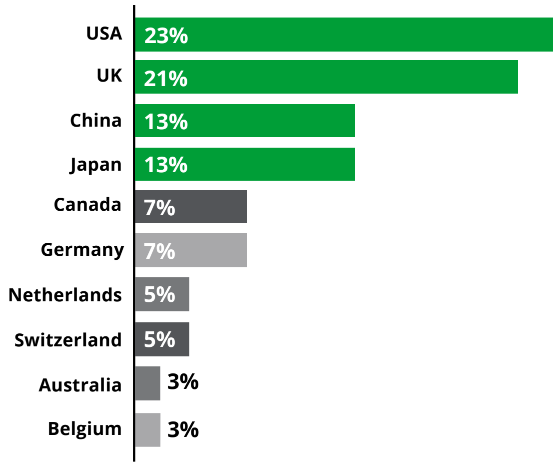
Ten countries are represented in the survey: Australia, Belgium, Canada, China, Germany, Japan, The Netherlands, Switzerland, the United Kingdom, and the United States.

The main industries represented are technology, media & telecommunications (TMT); financial services; manufacturing; energy, resources & industrials (ERI); consumer goods; and life sciences & health care.

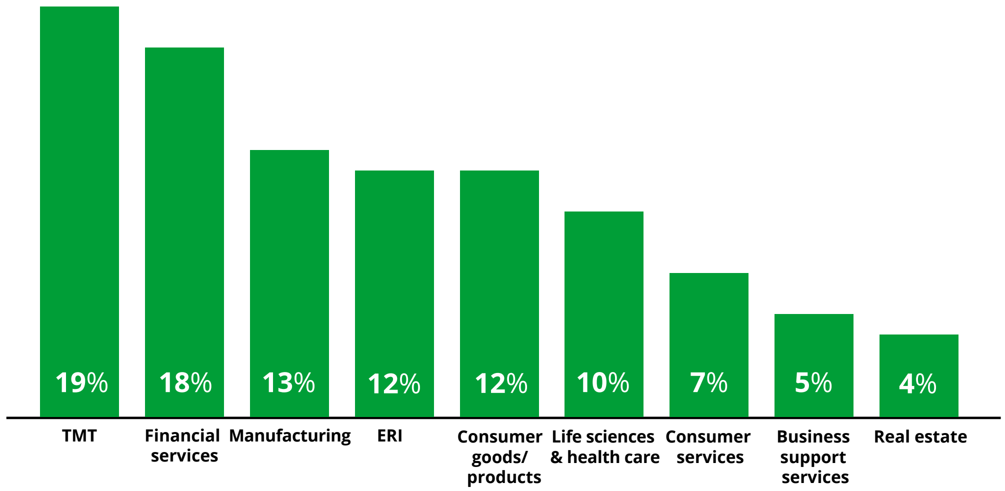
The respondents work exclusively in large firms with annual revenues of US$750 million or more.

We thank all the respondents and the global tax leaders who participated in the in-depth interviews.

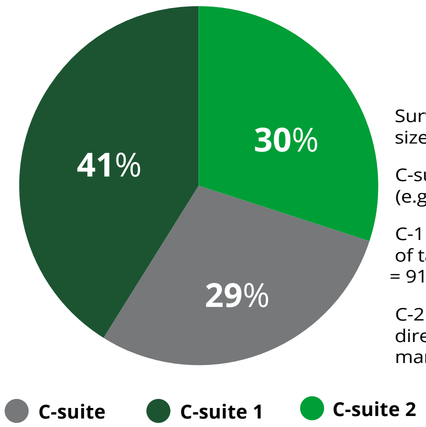
Country



Sector



Role



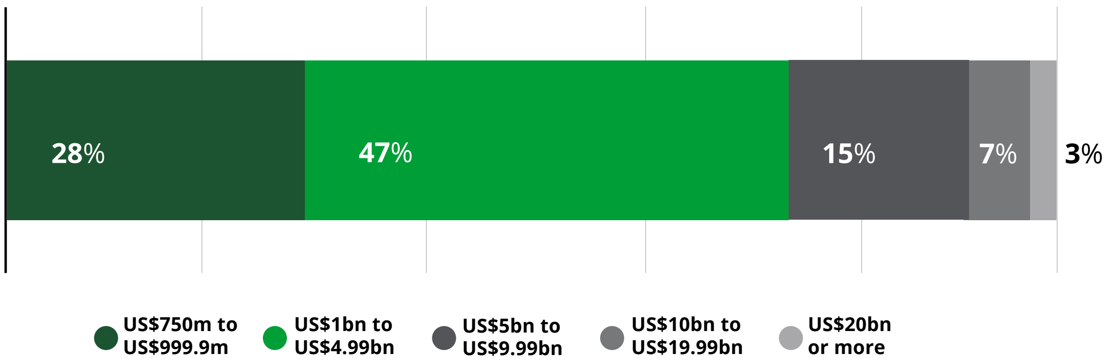
Survey sample size = 302

C-suite (e.g., CFO) = 87

C-1 (e.g., EVP, SVP of tax or finance) = 91

C-2 (e.g., tax directors, tax managers) = 124

Company size



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