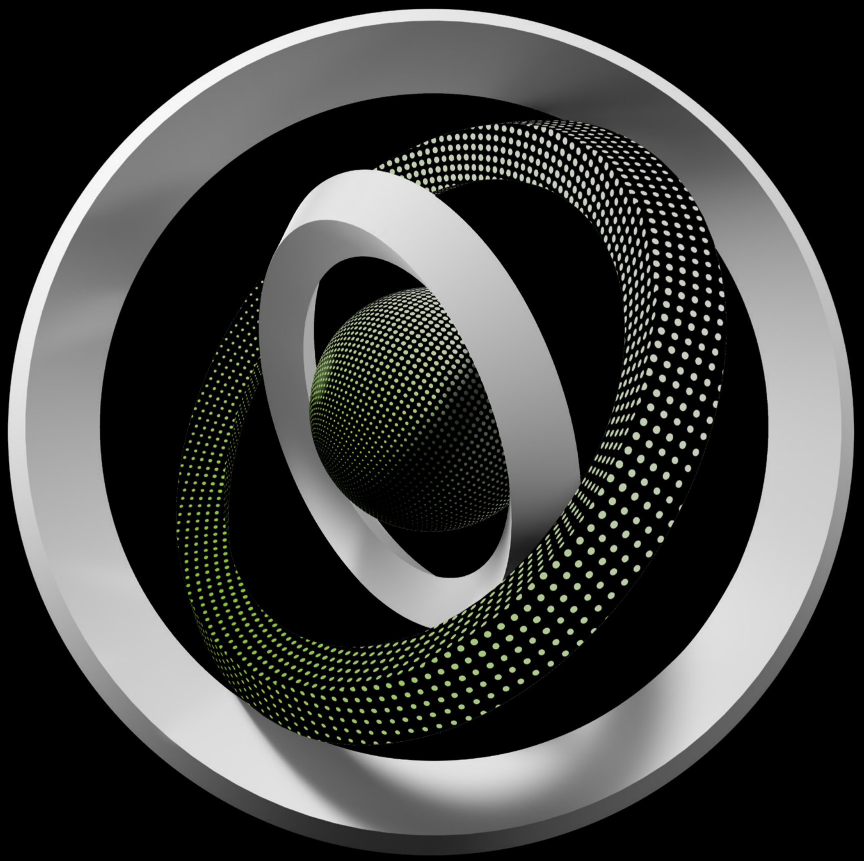


Investing in transformation

Tax trends in financial services

Embracing change

Tax leaders in financial services companies are facing rapid, dramatic change. Tax authorities are pressing new initiatives everywhere these companies operate as they implement the OECD's Pillar Two framework, develop new transfer pricing guidelines, implement new indirect tax compliance requirements, and much more.

The tax changes that global financial services organizations must grapple with often have technology requirements at their core. Each new compliance requirement inevitably comes with a demand for more accurate, detailed, and reliable data. Tax leaders are dealing with these requirements individually as they come into force in specific jurisdictions, but they also need a clear view of the bigger picture to ensure that ERP systems and other IT assets can keep pace with evolving data demands. Technology infrastructure needs to have flexibility and scalability to continue to meet the needs of the tax function for years to come.

> *With ever-increasing demands from government and revenue authorities, with changes such as Pillar Two and e-invoicing heading our way, we have to ask: 'What is the right skillset mix for us in the future?'*
>
> **—Tax director of an Australian global financial services group**

At the same time, tax leaders in financial organizations must also change how they allocate resources as work processes in the tax function evolve. They must have a strategy to recruit and retain the talent they need. And tax, of course, faces continual pressure to do more with less, boosting efficiency and automation.

Deloitte investigated how tax departments within financial companies are responding to these developments by conducting in-depth interviews with a dozen tax leaders in the financial services industry. We asked how they are responding to changes in the compliance environment, where they are on their technology journey, how they are restructuring the tax function, what they are doing to develop the talent they need, and what they see as the future state of their department.

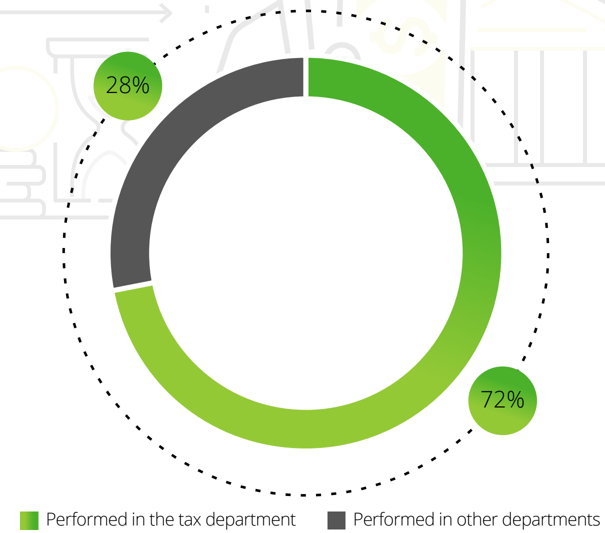
As context for this discussion, we rely on survey data collected for a Deloitte research report published late last year, *Tax Transformation Trends 2023: Insight-driven compliance*. For this project, Deloitte surveyed 300 senior tax leaders from large companies in North America, Europe, and Asia across a range of industries.

New organizational thinking

The organization of tax departments within financial companies varies considerably based on factors such as legal entity structure, geographical reach, and business mix. In some cases, all or part of the tax function reports up through the finance group, while in other organizations tax may be more separate. Some tax leaders told us their organizations have tried both approaches. Irrespective of how this question is settled, close alignment and cooperation between tax and finance is vital, especially given the need for sharing and coordinating data resources.

Our *Tax Transformation Trends* data supports the idea of shared responsibilities between tax and finance, independent of whether tax reports directly through the finance reporting line. Respondents said that 72% of tax work by professionals is done in the tax department and 28% in other departments such as finance—often with input from subject matter experts embedded within tax (Figure 1) .

Figure 1. Where is tax work performed?



Most financial services industry (FS) tax leaders described a geographically decentralized structure, with tax teams residing in each country or region where the company has significant business activities. This can be important, they said, insofar as it enables local teams who understand local tax developments. It makes it possible to tap into necessary country-level expertise. Country or regional teams are often the key drivers of tax compliance, local statutory reporting, and tax audit management, reporting to the central team. Several tax leaders emphasized the importance of central support to align regional and corporate strategy, ensuring that regional functions are accountable and are operating efficiently.

> *Having a regional alignment allows people to have a more bite-sized knowledge that is sufficient to deal with the issues in their geographical location.*
>
> **—Christopher Pinho, Global Head of Tax, UBS**

Centralized functions can complement the local teams, with a focus on strategy responses to Pillar Two, for example, or specialized tax areas such as transfer pricing, transformation, and technology. As e-reporting and e-invoicing become common in more jurisdictions, including the EU, where new rules are coming under its "VAT in a Digital Age" (ViDA) framework, a more centralized and holistic approach may also be beneficial. Several tax leaders emphasized the importance of central support to align regional and corporate strategy, ensuring that regional functions are accountable and are operating efficiently.

Another organizational split described by some is to separate business advisory from compliance and financial reporting management. This can help to define each area more clearly, especially where activities and priorities are likely to be very different. Advisory, on the one hand, needs a clear focus on how it can bring greater value to the business; compliance and risk, on the other, needs to recognize the importance of boosting efficiency, automation, and accuracy. It is critical that there is ongoing and robust communication between advisory and the compliance and reporting functions.

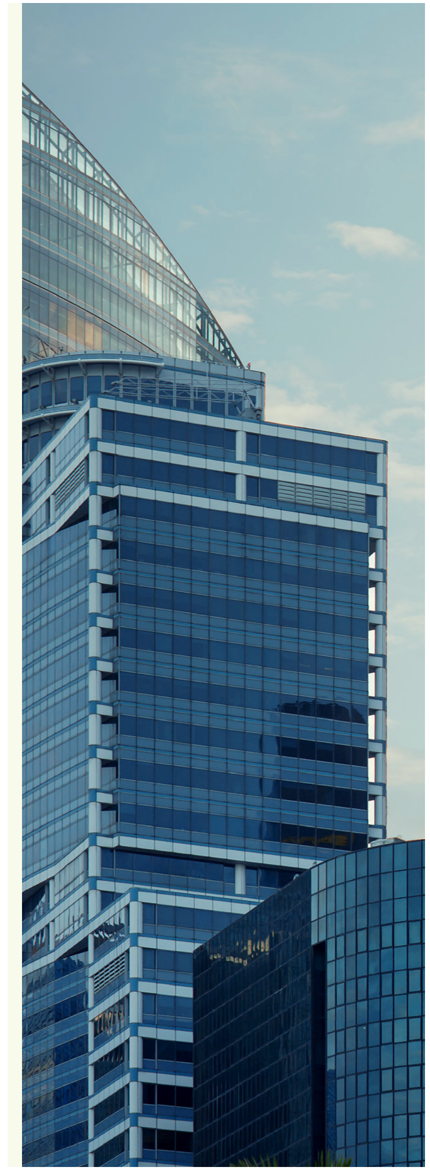
The change we need, in my mind, is to separate the mandate for doing the data-driven insight work from the compliance process and technology work. I think each benefits from a very different skillset, and provide a very different employee value proposition.

—Alex Goldsmith, Senior Vice President, Tax, Sun Life Financial

Overall, tax leaders emphasized the increasing need to structure the tax function and define roles to encourage specialization as the demands on the tax function evolve. In some compliance roles, for example, the needed skillset is shifting ever more toward technology and automation, while in other areas expertise in tax rules and regulatory change matters most. To allocate resources efficiently and to find and keep appropriate talent, it is important to align employees' roles with their strengths and interests.

To the extent that I can provide our regional teams with support from the top of the house, it's a lot easier to effect change, ensuring that they are efficient and they are accountable.

—Ted Tomkowiak, Senior Vice President, Taxation, RBC



The value of collaboration

Tax teams in FS increasingly need to work effectively with other parts of the organization, not just to execute on their compliance and risk mandates but also to bring greater value as advisors to the business.

Tax leaders emphasized the growing need for tax advice around M&A transactions, insights about the tax implications of entity structuring, account holder reporting, new product launches, and information about changing tax policies and regulations to name just a few. They described how the broad business implications of ongoing tax changes boost the importance of the advisory role for tax and align with the growing level of reporting and transparency.

> *When the business is considering an M&A transaction or a strategy change, we definitely have a seat at the table, and that's important. It's much better to identify risks up front and proactively, rather than later when it may be too late.*
>
> **—Mike Pelzel, Senior Vice President, Corporate Tax, Ameriprise**

Collaboration also becomes increasingly important so that tax can ensure that its data and systems priorities are reflected in the organization's technology plans. As a consumer of ever greater amounts of data to meet the demands of tax authorities, the tax function needs to ensure regular and effective communication with IT leadership as well as a close partnership with their colleagues in finance and accounting.

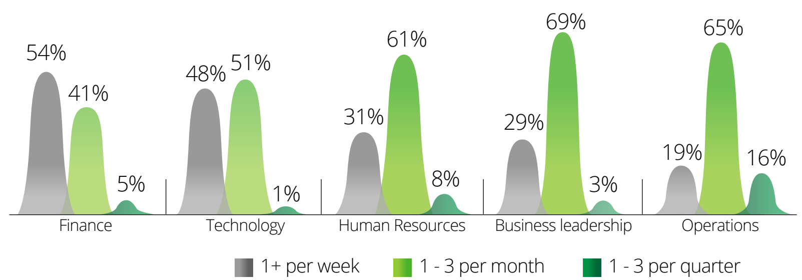
> *We're going through a technology transformation, and it was made clear from the start that this is not a tax-only project—that this is heavily reliant on our financial accounting and reporting team and others. Our collaboration is particularly good because in that initial kickoff, it was made clear that there are roles to play for each of these groups.*
>
> **—Richard Hauser, Senior Vice President, Corporate Tax, Zurich**

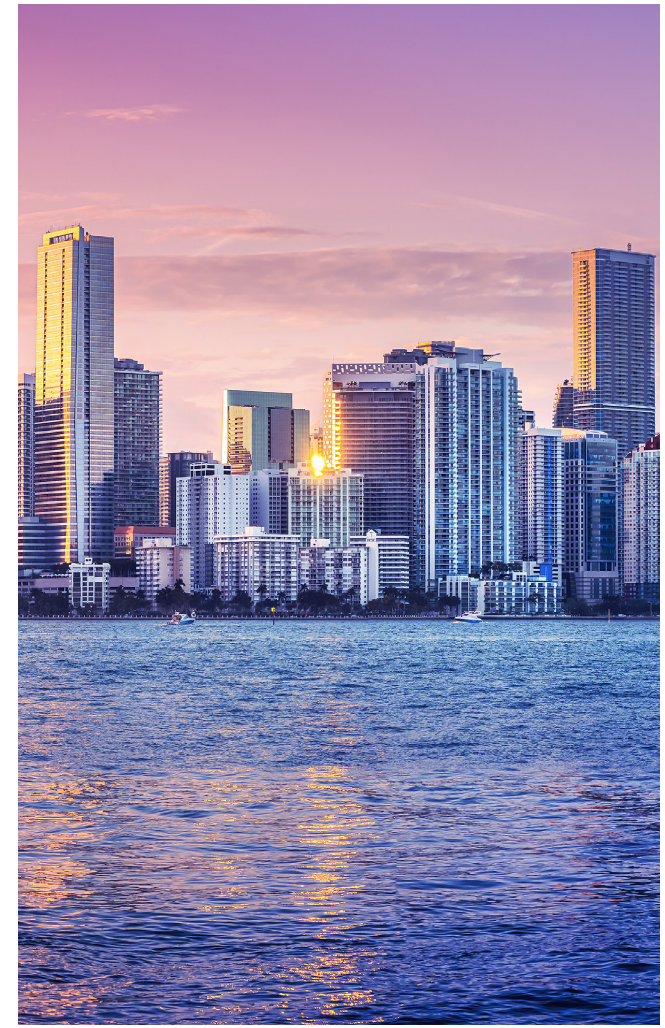
One aspect of the relationship between tax and IT, emphasized by the FS tax leaders interviewed, is the need for the tax team to bring up-to-date knowledge of tax technology options to the table. The relationships between tax, IT and finance increasingly demand a true collaboration that addresses the design and development of systems for the future, rather than data requests from one side and delivery of data by the other.

> *Communication is the cornerstone of a healthy organization. Consistent and effective communication across departments is critically important, especially when we're trying to scale and adapt to the tax-related regulatory and legislative changes affecting our business.*
>
> **—Teresa Yue, Managing Director, Finance, GCM Grosvenor**

The importance tax leaders place on collaboration is in evidence in the *Tax Transformation Trends* data. Most survey respondents (54%) said they interacted frequently (at least once a week) with the *finance department* (Figure 2), while 48% said they interacted frequently with *technology* executives in their organization. Fewer respondents (29%) reported frequent interaction with *business leadership*, but a total of 77% said they see some need or substantial need for improvement in the collaboration between tax and business leadership.

Figure 2. Frequency of interaction between Tax and other departments



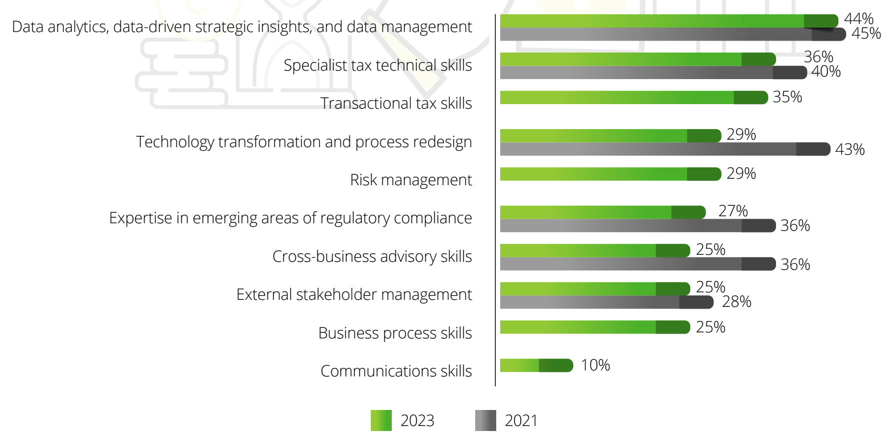


Finding and developing talent

Questions of technology and talent are increasingly intertwined. Our FS tax leaders said they want to bring people into the tax department who will take ownership of processes and tackle difficult data questions. This means understanding the technical tax guidance that underpins a process along with the technology tools that might be applied. In this way, the best employees will be able to bring to the fore the strongest ideas around automation and efficiency.

In the *Tax Transformation Trends* research, *data analytics, data-driven strategic insights and data management skills* ranked as the top desired trait for employees, cited by 44% of respondents. Abilities relevant to *technology transformation and process redesign* ranked fourth out of 10 options, selected by 29% of respondents as a top concern (Figure 3).

Figure 3: Greatest needs for skills in the tax department over the next one to two years



Automation, in addition to boosting efficiency and lowering costs, can help make better jobs in the tax department, the tax leaders said. Automated processes eliminate repetitive or rote tasks, freeing employees for more interesting, more rewarding, higher value work. This is one of the big benefits of technology transformation for tax—and it helps address a nagging issue, which is how to recruit and retain talent.

> *It's not realistic to find that unicorn (a tax person with strong data science/technology skills). But we don't seek to find it — we build the digital skill sets and awareness in our tax teams, and we will work with external advisors, and internal teams outside of tax.*
>
> **—Ching Tan, Global Head of Tax, Nomura**

Every tax leader we talked to described specific talent strategies, tailored to their specific circumstances. Some described a growing need to address the work-life balance of employees in the tax department, while also paying greater attention to training and advancement. Others, whose companies are mostly outside of large metropolitan areas, said that remote work had significantly shifted their talent concerns. They like how remote work has made it easier to recruit employees, but at the same time they worry it will make it harder to keep people, because employees can jump to a new employer without uprooting their lives.

I think of tax as being a spot market for talent in the sense that you have to be somewhat lucky to find the right person to fit your need at the right moment.

—Gordon Zittlau, Managing Director, Tax, AIMCo

Several FS tax leaders said their ability to find the people they need has improved in the past year, even as the labor market has tightened, and no one complained about important roles going unfilled. Pressure on cost management in the department is also now just "business as usual". Some complained of difficulty finding specific skills, such as transfer pricing expertise, and others lamented that universities are enrolling and graduating fewer accounting students.

We're willing to use interns. There are other heads of tax who won't even hire someone recently graduated from college, but the interns we work with are perfectly capable and can come in and prepare a bunch of returns.

—Scott Albertson, Director of Tax Operations, Transamerica

Potential of Generative AI

Tax generally is a conservative and risk averse function within an organization. As a result, early adoption of generative artificial intelligence (Gen AI) technology is not a priority. No one interviewed described a specific project under consideration today to bring Gen AI technology into production in the tax department. Several tax leaders noted that existing technology, including machine learning and AI but not involving the newest Gen AI tools based on large language models, are already bringing dramatic automation advantages.

> *It's an open book right now for us, and we're exploring use cases. In Europe we have a sandbox where we explore this, because we're concerned about all the data privacy issues and things like the so-called hallucinations.*
>
> **—Richard Hauser, Senior Vice President, Corporate Tax, Zurich**

And to be sure, everyone said that Gen AI bears watching. The potential to change tax department work processes—perhaps significantly—is on everyone's minds. Use cases include the improved ability to manage large volumes of regulatory information, better automation of repetitive tasks, quality control for tax data, and more. Many have started experimenting with Gen AI in secure environments, and the general consensus is that it would be another tool to help increase efficiency, reduce costs, and free up their tax teams for more strategic work.

> *AI isn't really a risk mitigant, but it's a way of being more efficient with the deployment of resources within the firm. Maybe you reduce headcount because you could use AI, but I don't think that's actually true. I think what that leads to is just the deployment of resources to a different type of headcount.*
>
> **—Christopher Pinho, Global Head of Tax, UBS**

> *I think it could be a real game changer but finding that value point might be the most difficult thing for tax managers.*
>
> **—Gordon Zittlau, Managing Director, Tax, AIMCo**

Vision for the future

Tax leaders described how changes coming from tax authorities pull their organizations in different directions. The need to keep pace with new or rapidly evolving rules can result in ad hoc processes and stopgap technology solutions, while the need for flexibility, resilience, and efficiency in the longer term demands a longer-term strategic vision.

> *We need to be trusted business partners, adding insights to help promote the business, and continuing the use of technology to enhance that opportunity as well as to boost efficiency and reduce our costs.*
>
> **—Richard Hauser, Senior Vice President, Corporate Tax, Zurich**

It's important to keep the strategic vision front and center, the tax executives said. The organization needs to continue to implement technology changes that will allow for both efficiency and compliance in an environment that may change in unpredictable ways. The tax team, meanwhile, needs to continue to broaden their skillset.

A never-ending journey

There is no doubt that the current pace of change is accelerating transformation in many companies. Tax leaders are under continued pressure to respond to the significant shifts in the tax landscape, leading to a heightened need for detailed data, standardized across many jurisdictions, to enable insight-driven decision making, and transparency in reporting.

Tax leaders in the financial services industry are increasingly making use of a variety of resources to achieve their objectives, and have made significant progress in their collaboration with finance and IT to help integrate tax into ERP systems, or bringing in the right subject matter expertise via outsourcing to third parties.

> *My first priority is just making sure we're compliant. And that's easier said than done sometimes, especially with data reporting. Second would be efficiency, making sure that both the team, the cost of being compliant is efficient, but also that we're not so lean that we're missing out on valid opportunities. The third would be succession in the team such that if someone left, there's a standby replacement.*
>
> **—Steve Southon, Chief Tax Officer, National Australia Bank**

During all this upheaval, one thing is certain: change is never-ending. But those who adapt to and embrace this change will find their journey to full digitalization and insight-driven compliance accelerated.

About the Tax Transformation Trends

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. For more information and to read the report, visit Deloitte.com/taxtrends.

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