

## Moving the tax department toward the digital future

Three ways to develop an environment that encourages and supports digital transformation





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Technological advances are rapidly transforming businesses, including the tax function, according to the results of several recent surveys. Nine out of 10 (92 percent) C-level executives responding to a [NewVantage Partners survey](#) indicated that their companies are accelerating investments in big data and artificial intelligence (AI).<sup>1</sup> That finding echoes results of a recent Deloitte Australia survey of tax executives in which the majority (85%) of respondents said they believe unprecedented change driven by digital transformation is coming to tax in the next five years.<sup>2</sup>



Yet few companies seem to be prepared for this new digital future:

The NewVantage survey found that “production implementations” of big data and AI are still few and far between, hindered by insufficient human resource skills, lack of organizational alignment and agility, and cultural resistance to the pace of change.

In the Deloitte Australia survey, tax executives reported widespread unpreparedness for digital transformation due to a lack of “tech-savviness” and no documented digital strategy for tax.

A recent report from the Association of International Certified Professional Accountants and Oracle asserts that only one in 10 senior finance leaders believe their finance teams have the skills to support the company’s “digital ambitions.”<sup>3</sup>

This lack of preparedness should be concerning given that tax authorities around the world are

actively incorporating new technologies such as big data analytics and AI into their tax examination and enforcement programs. They are rapidly hiring data scientists. And they are applying technology in innovative ways to extract more insights about companies. Embracing the [Power of With](#)—facilitating an environment in which humans work extensively with machines to amplify their collective capabilities—is imperative for companies and their tax departments to become more comfortable with leveraging new technologies and cultivating the talent pool they need for the digital future.

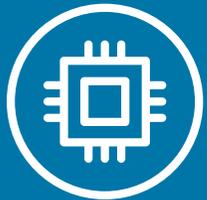
Individual tax professionals can take a number of steps now to adapt to that future. But what can tax departments themselves do to move forward? How can they lay groundwork to help tax departments and the professionals who power them thrive in the face of digital transformation? What does it take to be an adaptable organization?





# What is the Power of With?

It's humans working *with* machines in ways that better leverage data and improve insight, strategy, accuracy, collaboration, accountability, and efficiency. When organizations harness the Power of With:



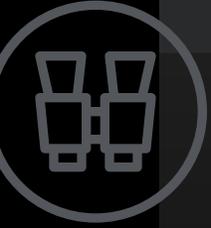
Machines bolster tax department confidence in decisions and tasks, enabling teams to focus on more creative, strategic, and value-add work.



Data volumes and complexities can be harnessed to enable strategic decision-making, and predict and address risk.

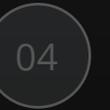
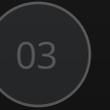
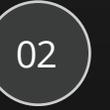
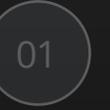


Automation technologies like RPA help tax departments achieve flawless execution at the relentless pace of business and regulatory change.



# Identify and act on emerging talent requirements

When the topic of digital transformation comes up today, it may be easy for tax professionals to go straight to the negative, wondering who's going to get let go or when the robots are going to take over. However, tax-technical knowledge will continue to be important because of the increasing complexity of local, federal, and international taxation and the growing need to be able to convey important tax information to people elsewhere in the company. As the focus on data-wrangling and report-building diminishes due to digitization of tax processes, other skills will be needed, too, whether developed among existing tax personnel or imported into the tax department through new hires.





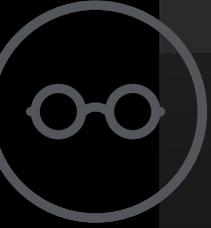
To get ready, tax leaders should focus on **reskilling and upskilling initiatives** for existing personnel, along with any new hires, to reflect the changing role and structure of the tax department. Flexibility and strong collaboration skills will be valued in addition to tax-technical or technology capabilities needed for specific jobs. Everyone in the department should be able to contribute to elevating the value of the tax function in terms of communication, impact, and influence.

One way to foster those capabilities is to assign a team to learn how other areas of the company—and even other tax departments in peer companies—are **piloting digital tools and automating processes**. The technologies that become mainstream in the next 18 to 24 months are likely already being evaluated somewhere. Investigate and understand who’s doing what.

As the tax department’s most labor-intensive processes are considered as candidates for automation and cognitive tools, **assess potential impacts on the tax department and its talent needs**.

Then **work with HR to define new talent requirements**. Identify existing people in the tax department—as well as new hires—who exemplify these capabilities and find places for them. If tax personnel need to become more collaborative and technologically savvy, make sure they are being evaluated on those dimensions. And get comfortable being *uncomfortable* leading people with skill sets that are different than what tax professionals have had in the past.





# Focus intensely on change management

In the NewVantage Partners survey, 95 percent of respondents cited people and business process issues as the main barriers to adoption of new technologies. Tax leaders can benefit from change management techniques that help bring their people along on the journey.



Keep it real



Ask critical questions



Seek buy-in and leadership endorsement



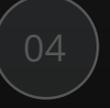
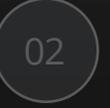
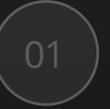
Take small steps frequently



Nurture prudent risk-taking



Show the benefits of change





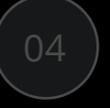
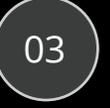
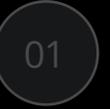
**1. Keep it real** and constantly reinforce the value of digital transformation. It's easy to get caught up in a vision of what the tax department may look like 10 years from now. However, tax leaders must get through the next two to five years on ever-more-constricted budgets. Consequently, the vision of and strategy for the tax department's future, along with individual initiatives such as automation, must be practical. They should be clearly articulated, communicated, and regularly updated, both within and outside of the tax department to gain and keep stakeholder support for the transformation journey.



**2. Ask critical questions.** Will digitization make tax planning and compliance faster, or will it make things more accurate—or both? Will it immediately produce time and cost savings, or will it initially take longer and cost more before savings appear? How much investment of time and budget will be required to derive value from the changes? These are important questions that should be carefully considered up front and analyzed by people who understand the affected tax process, the requirements of the tax department, and how the change can benefit both the process and the organization.



**3. Seek buy-in and leadership endorsement.** Make sure the plan is designed and implemented in a way that resonates with stakeholders. Whether the initiative is tax department-wide, such as a new tax operating model, or a specific technology implementation, such as RPA, it should be fit for purpose—a purpose that is clearly understood and agreed to and supported up the management chain.





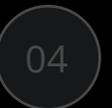
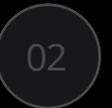
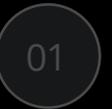
**4. Take small steps frequently,** especially with technology implementations. People often expect that a software application will solve all their problems straight out of the box. Rarely does that happen. Instead, consider implementing in three-month increments, each of which produces a “minimum viable product” that solves enough of the overall problem to provide tangible benefit and is accomplished in a time frame that keeps stakeholders engaged and supportive in the journey.



**5. Nurture prudent risk-taking.** Informed risk-taking is a key mindset to foster in a digital tax department. Rather than avoiding risk for fear of failure, promote critical evaluation of risk as an enabler of progress and innovation. Encourage tax professionals to view failure as a learning opportunity and then reinforce the words with positive actions. Instead of being concerned about “rocking the boat” with leaders in tax and elsewhere across the company, identify those who will partner with tax to champion a culture of measured risk-taking that drives tax forward in alignment with overall business goals.



**6. Show tax professionals the benefits of change.** If they understand that their efforts to adapt will be rewarded with opportunities to grow and do more valuable work, they are more likely to buy in to the changes. For example, in one company our Deloitte UK colleagues saw tax professionals who had to manually analyze more than 80,000 rows of capital allowances data. Automating the process reduced analysis time by 85 percent (from 20 hours down to just three). This not only led to a more efficient review process with higher quality, but it also allowed the tax professionals to focus their time on other interesting and valuable activities.



## A new, agile mindset

It may be easy for tax executives who are used to working with facts, figures, and hard deadlines to dismiss the idea of an ongoing digitization journey that demands a series of short-sprint projects which lead to a loosely defined end state.

However, Deloitte UK tax professionals met with a senior tax executive of a multinational company who embraced the concept of this journey and the benefits to be gained from a small-step, incremental wins approach. He told our colleagues that his tax department was in the process of automating its transfer pricing compliance process and had built a database to facilitate that automation. The database worked as designed initially, but as data volumes increased the process slowed down. So instead

of moving to the next major milestone of the automation journey, they accepted the reality that the database needed improvements and refocused their efforts on addressing that one step of the journey before moving ahead. Ultimately, this tweak led to a more fit-for-purpose solution.

Tax departments that adopt an agile mindset can reap benefits by breaking the process improvements down into bite-sized chunks, enjoying a series of smaller successes along the way as individual elements are completed, and communicating not only the desired end state to their organizations, but how each step along the way is contributing to it.



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# A multinational software implementation journey

In 2017, an indirect tax compliance solution was rolled out to Deloitte's Latin American network to support the end-to-end process of a global client's tax compliance engagement. The implementation spanned five countries in a region with diverse languages, culture, and indirect tax laws.

The team established several important implementation principles from the beginning:

- **An iterative approach was taken** whereby each country would be offered a baseline implementation that they could then adapt as needed, providing the improvements they made could be shared with our global network.
- **The local language** would be used for all in-person meetings and training.
- **An initial region-wide meeting** was held, at which the vision for the implementation was established, a road map was shared, and buy-in from the global network was obtained.
- **Open dialogue** was encouraged at all levels between the implementation team and the individual country teams as a way to promote collaborative communications that identify and resolve issues quickly.



**RESULTS:** To date, all of the countries have either completed the implementation or are on track to do so. Furthermore, the collaborative approach has generated ideas to improve the indirect tax compliance solution globally.

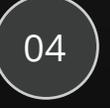
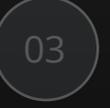
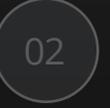
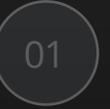


# Inspire people to adopt continuous learning and adaptability

In Adaptable Organizations,<sup>4</sup> acceptance and resilience in the face of change become part of the organization's DNA. Talent programs exist to enable that resilience. Adaptable is not something a person or organization *does*, it is what they *become*.

In this type of environment, learning should be continuous and indistinguishable from daily work. Tax professionals should be provided with opportunities to reinvent themselves even while the tax department is adapting to the continually changing tax environment, increasing demands from across the company, and adoption of digital technologies. Our Deloitte UK colleagues saw an example of this in the tax department of a UK-based

asset management firm. There, tax professionals who five years ago were focused only on preparing VAT returns had recently taken on the role of project managing the implementation of indirect compliance technology tools. Their new role included working with the IT department to identify available tools and redesign the tax processes that those tools would automate. This was much different from what they used to do, enabling them to learn new skills, work





with new people, and evolve their knowledge of the organization.

Tax departments should promote this type of adaptive behavior in their personnel. Those professionals can leverage their tax-technical backgrounds to help technologists identify tax department pain points, plan the digitization journey, identify resources to make the journey happen, and interface with the technologists and external advisers as needed to build and implement the resulting solutions.

How does this work on a practical level? The tax department can adopt a Power of With-friendly curriculum for its professionals to gain exposure to new forms of technology being introduced to support tax processes, such as RPA, analytics, and AI. Tax professionals should be encouraged to pursue certifications or diplomas in those technologies

or related disciplines such as data management. A program that rotates tax professionals into other areas of the business can help those tax professionals gain exposure to broader business issues and opportunities, and foster communication and collaboration across departments. Where guidance is needed, the tax department can seek input from service providers about industry-leading practices and lessons learned from other companies' automation journeys.

All of this change can create an unsettling environment within the tax department. Therefore, the organization should recognize that the successful adoption of digital technologies depends greatly on people being comfortable with the unknown, accepting new ways of working, and overcoming nervousness associated with uncertainty and failure.



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To this end, it's important to coach tax professionals to have a:



**Global mindset**—being open to and aware of diversity across cultures with a propensity to leverage differences and find common ground.



**Design-thinking mindset**—using logic, imagination, intuition, and systemic reasoning to explore possibilities and design outcomes that benefit stakeholders.



**Growth mindset**—thriving on challenge, seeing failure as a springboard for growth, and striving to stretch existing abilities.



**Diversity-of-thinking mindset**—looking for and leveraging different perspectives and approaches to solve problems and seize opportunities.

Finally, tax departments should team with their HR and talent functions to deliver an integrated employee experience that can build this type of resilience and adaptability while unlocking individual potential.



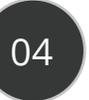
# The organizational change imperative

Digital transformation in the tax department is all about the introduction of new operating models and technologies that supplement and improve current processes. It is by nature an ongoing journey, because technology and the global regulatory environment will continue to change rapidly. Even when initial goals are met and the desired future operating model is achieved, there will be more to do and further to travel.

The individual tax professional may be challenged to adapt to this new environment if the tax department itself is not agile. The tax department has a vital role to play in enabling, inspiring, and sustaining the ability of these people to adapt.

Doing so will require a solid understanding of the evolving talent and resource needs of

the transformed tax department. And change management will be fundamental to success, as will a shift toward continuous learning by everyone in the tax department. Now is the time for strong tax leadership and an organizational push to make the tax department of the future a reality today.



# Endnotes

1. New Vantage Partners, *Big Data and AI Executive Survey 2019*, January 2019, <http://newvantage.com/wp-content/uploads/2018/12/Big-Data-Executive-Survey-2019Findings-Updated-010219-1.pdf>, accessed March 2019.
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4. Deloitte Touche Tohmatsu Limited, "The Adaptable Organization," <https://www2.deloitte.com/global/en/pages/human-capital/articles/the-adaptable-organization.html>, accessed March 2019.



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This report is the second of a three-part series on harnessing the Power of With in the future of tax.



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