Tax transformation
What companies need to know

In a wide-ranging interview, ITR speaks to Terri LaRae, partner and leader of the global operations transformation tax team at Deloitte, about the factors driving tax transformation and how tax departments can get the best out of it.

ITR: What market factors and trends are giving rise to tax transformation? How does this differ around the globe?

Tax transformation is top of mind as tax departments strive to become a more strategic and integrated business partner within companies. Regulatory changes and requirements such as OECD and US FATCA reporting are driving additional focus on risk and controls across the global market. Access to the right talent is a driving factor for tax transformation domestically and across the globe. In the US tax reform, cost reduction and the demand for real-time reporting are important considerations for tax transformation. Tax reform has created a host of complexities and uncertainties that require tax departments to act nimbly, while streamlining processes to manage operational efficiency and reduce costs. Finally, across the globe, the need for real-time reporting is necessitating the digitisation of tax departments.

ITR: What role do the tax authorities play in impacting companies' operating model?

New rules are calling for new actions. Modernisation of regulators and a global focus on tax transparency is a driving force in the digitisation of tax departments. Governments are looking for ways to enhance revenues, speed up data collection, lower costs, and reduce the potential for tax avoidance. In addition, tax authorities are increasingly moving away from traditional techniques of manual processing toward automated or semi-automated submission of data and digitisation of tax.

Resulting regulations are requiring increased transparency and reporting frequency which, in turn, is pushing organisations to streamline data and technology to meet these demands. Companies must adapt in order to enhance their efficiency.

Modernisation of regulators, notably in Latin America, is causing tax technology disruption across the globe with increased transparency and reporting frequency pushing organisations to streamline data and technology to meet these demands. As written by Evelyn Kaupp in her article "tax authority mandates drive disruptive change in Latin America," Brazil and Mexico are two countries whose governments are widely considered to be leading transformation through early implementation of real-time electronic government platforms aligned to strict and enforceable regulations.

In addition, European tax authorities are increasingly turning to a standard audit file for tax (SAF-T) protocol and other e-reporting requirements. And as more countries are adopting SAF-T and e-reporting, organisations are looking for solutions that promote global consistency and visibility across territories where these data files are being submitted. While new regulations can pose a challenge, they also provide companies and governments a catalyst for development and modernisation to streamline data and enhance collection.

ITR: Does the tax operating model discussion only apply to big companies?

No. The tax operating model discussion can and should be had at companies of various sizes. The challenges and trends mentioned earlier apply across the board, but we see different approaches for adoption based on company size. Large companies often set the tone and tend to create a large splash when making strategic moves. Mid-size and emerging companies may take their cue from large companies and watch and listen. They are starting to navigate the same issues as large companies as they try to define their future, but often proceed cautiously and can be slowed down by either cost pressures or risk management concerns. We see a lot of interest and potential with emerging companies as they may have less established infrastructure, providing them more of a blank canvas from which to transform. This, along with a strong entrepreneurial culture, often allows these growing companies to be more nimble and innovative.

ITR: What are some of the internal triggers driving tax transformation?

The drivers for tax transformation are multifaceted and fuelled by some of the market factors touched on earlier. Tax leaders are prepared to modernise their practice and bring the tax function up to date and add value to the overall business. There are certain considerations for tax leaders looking to transform their tax department:

- **Modernise dated and/or disparate technologies:** Older technologies can slow down reporting or produce reporting errors. Tax departments are modernising technology to enhance efficiencies, providing them more streamlined access to their data across the organisation and globe. The push toward digitalisation is a leading factor in the tax technology transformation.
- **Reduce manual processing and time with data:** New regulations have created additional complexities for tax departments, and it's critical they reduce time spent collecting and wrangling their data.
- **Hiring and retaining the right talent in the right place:** With talent at a shortage, tax departments are looking to technology to enable a more flexible and strategic workforce.
- **Pressure to reduce cost:** The push to cut costs facilitates the adoption of digital tools, freeing employees' time for strategic thinking.

As internal pressure mounts for tax transformation, tax leaders have the opportunity to revolutionise their practice and turn the tax department into a source of differentiation, innovation, and valuable insights.

ITR: How do you get started on tax transformation?

Deciding to modernise the tax operation is only the first step towards tax transformation. CFOs and tax leaders must also have a practical plan of action. To bring necessary changes to fruition, we recommend CFOs explore the following seven steps.

1. Define a tax department vision focused on a shared concept of what the department will look like three to five years down the

Tax departments must transform in order to reach new heights

Terri LaRae
Global Operations Transformation for Tax Leader
Deloitte Tax LLP
T: +1 612 207 6471
tlarae@deloitte.com

Terri LaRae is a partner and leader of the global operations transformation for tax for Deloitte. She helps multinational companies transform their operations and embrace a digital agenda by designing tax operating models that incorporate outsourcing, data management, tax technology and talent transfers.

With more than 30 years of corporate taxation and tax process automation experience, Terri brings a deep understanding of the challenges facing today's tax and finance leaders. She previously served as Deloitte's national leader of corporate tax reform advisory services and led the international tax compliance practice and international tax quantitative consulting services.

Terri is a frequent speaker at tax industry events. She is a certified public accountant (CPA) licensed in Minnesota and a member of the American Institute of Certified Public Accountants (AICPA).

line. Leaders should prioritise initial, small steps to move quickly to prove the concept and achieve rapid results – and perhaps even 'fail fast', if necessary.

2. Understand the perspectives, insights and expectations that tax stakeholders and customers have, as well as any challenges they foresee. This requires thinking big to expand the tax department's ecosystem and collaborate across the organisation, especially with the digital team and with external partners.
3. Confirm the key competencies of their tax department to uncover what opportunities may exist to improve performance or create more value for the business. Examine what works well to lay the groundwork for all future action.
4. Prioritise opportunities by identifying responsibilities to focus on based on the findings of step three.
5. Identify potential approaches to address these important competency and opportunity areas and, from there, develop an action plan with clearly defined milestones and owners for the work.
6. Confirm the department's commitment to executing against these initiatives and commit to specific actions. From there, they should also secure buy-in and funding from stakeholders and the company at large to bring the vision to life.
7. After the tax transformation vision is complete, the department should be ready to market successes!

ITR: Who are the key stakeholders and what are the common pitfalls when designing or implementing a tax transformation?

There are often three critical stakeholders in a tax transformation: tax leadership, the c-suite and digital leadership. And while the stakeholders are quite clear, the common pitfalls when designing or implementing a tax transformation are more nuanced. In the case of a tax transformation, these pitfalls can impact how successful the transition is. However, if anticipated, they can be overcome.

One of the foreseeable yet common pitfalls is limited access to client personnel and data. To protect against this, companies should identify a point person who can provide critical insight into the data dependencies and associated roles and responsibilities during the transition. He or she can also help uncover where additional assistance may be required in obtaining data from financial systems and how to best move the data.

Another easily mitigated yet common pitfall is the setting of vague, ambitious and unrealistic timelines for the delivery of services. Scheduling a kick-off meeting at the onset of the transition period with key internal and external stakeholders is crucial. Although it may seem obvious, an often-overlooked point is to fully document schedules, including planned time off and vacation to confirm there is adequate coverage during delivery periods.

ITR: What have you seen go well, and less well in the client organisations that you have helped?

When things go well with clients, it's for several reasons. Close alignment and mutual focus on change management and communications among client stakeholders facilitates the ability to make an impact through technical excellence, leading technologies, cross-border collaboration and an overall focus on bringing the right people with the right tools at the right time.

ITR: What does the future tax professional or department look like and how might that influence tax transformation?

For years, the business world has been buzzing with predictions of a robotic takeover. These predictions are turning out to be more fable than fact. In reality, automation technologies like RPA and AI are enhancing the work of tax professionals, not replacing it. This is largely because many human traits, such as professional judgment, intuition and advisory skills, cannot be automated.

Even without a robotic takeover, the tax profession is notoriously complex. This complexity is giving rise to the need for a tax professional of the future who has, for starters, technical acumen. Tax technical knowledge will continue to be vitally important given the increasing complexity of local, federal and international taxation.

Tax professionals should also be consultative and willing to build relationships across his or her organisation due to the growing need to convey tax information beyond just the tax department. Additionally, as the focus on data-wrangling and report-building diminishes due to digitation, other skills will likely be needed. Tax professionals should be prepared to collaborate and work across various work streams and the organisation at large.

Overall, one of the most important traits is the willingness to embrace change. Tax professionals should start preparing for this digital transformation today by understanding the disruptive technologies involved, determining their role in the digital tax department and taking ownership of the reskilling required.