Tax transformation

Remodelling tax departments for the future

With mounting regulatory requirements, talent gaps, and cost concerns, many large **tax departments are facing efficiency** challenges as a result of their current operating systems. At the same time, companies are considering their tax divisions as sources of additional value—**and confidence**.

In response—according to the 2019 Deloitte Global management of tax survey[1]—tax leaders are considering new ways to **structure their organizations, not only to** keep doing their jobs effectively, but also to maintain visibility, transparency, and governance globally. While 81 percent of tax departments of global businesses already **use central organizations to a certain extent**, many of the more than 270 heads of tax who responded to the survey appear keen to follow this trend and make use of outside tax resources—such as shared-services centres and third-party providers—more often (see Figure 1).

Any such shift involves a change in how—but not necessarily what—work is performed. It also requires that a tax department's responsibilities be enhanced to align with the company's overarching business strategies. And while these types of changes may benefit an organization's performance in the short term, transformational change—the type required when adopting a new tax operating model—can increase a tax division's value even more by enhancing its **efficiency, improving risk** management, and further aligning business goals and strategies.

However, there are potential benefits and risks to introducing **and implementing** a new tax operating model.

In this issue of CFO Insights, we'll discuss some of the conditions that are leading many companies to reassess how their tax divisions operate—and to challenge everything from the capabilities of their staff to their data-**collection processes—as they refocus their tax** operations.

Assessing three operating models

An in-depth assessment of current and **future needs is a critical first step in** considering whether to adapt or to replace a tax operating model. This includes identifying redundancies that can be improved—e.g., through procedural redesign and automation—locations that can accommodate systems and processes, and business models and risk-mitigation practices needed to meet tax-compliance and oversight standards in order to further solidify control.

Another essential consideration is how to **create systems that can access, retrieve, manage, and analyze data as needed. Any company aiming to modify** their tax strategy therefore needs to determine whether their revenue data is accurate and easy to access—and whether they might need updates down the line.

Then, there's the issue of tax operating models. The three primary options are:

In-house model: This is the traditional option. Though the concept of a fully in-house tax arm has evolved in recent years via greater use of automation and shared-services centres, this set-up can still require large, on-site teams. **Maintaining this model can** also involve extensive, ongoing innovation spending to keep up with rapidly evolving advancements in technology.

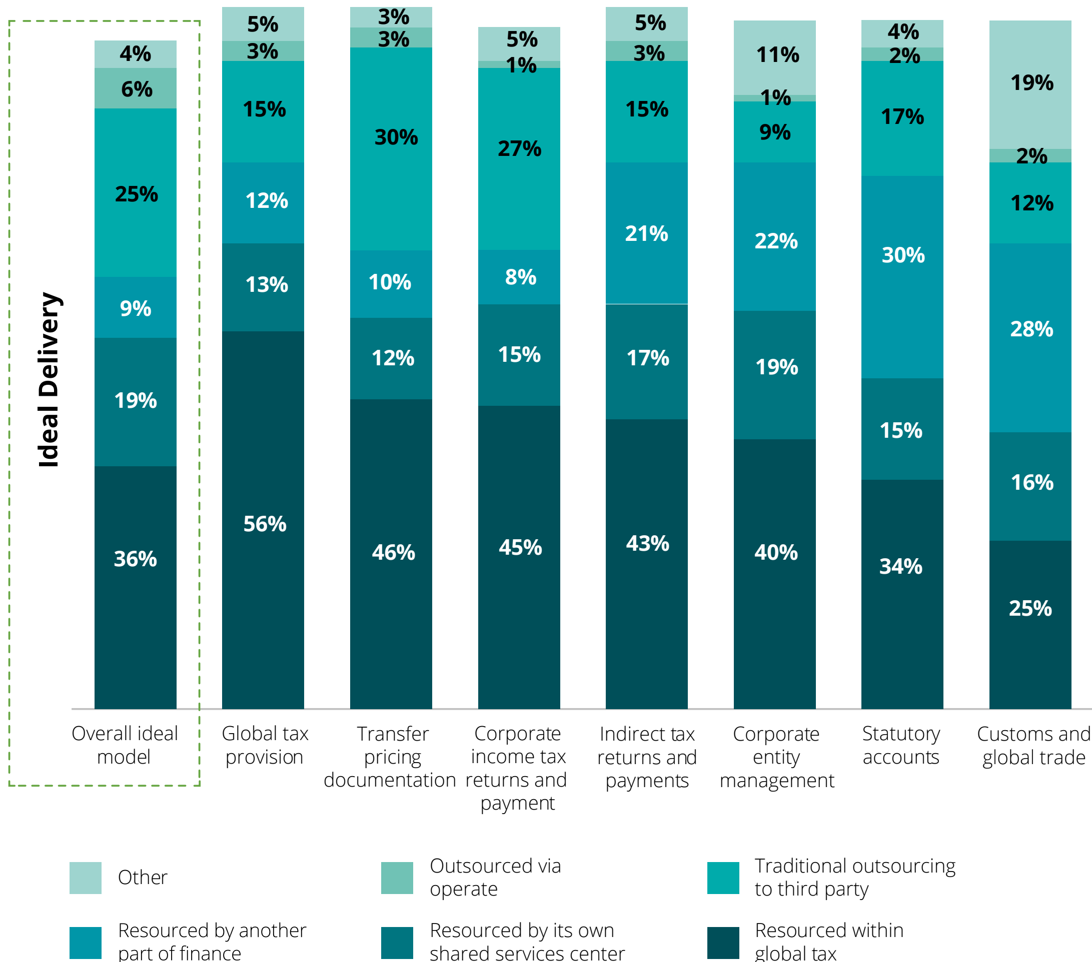
Hybrid model: Many companies use this option to combine selective third-party outsourcing with in-house resources. **This model can accommodate both a single, specific tax focus** (e.g., global compliance) and a complete subdivision (e.g., indirect tax returns). An advantage is that it offers **potential savings on staffing, licensing fees**, and technology upgrades, since the chosen **third party will instead be responsible** for these.

Fully outsourced model: In this newer design, a third party manages all or most of the tax requirements and supplies most of the required talent and technology. As such, the company has only to maintain a relatively small in-house tax department for management decisions, **sign-offs, and strategy** calls. Another benefit is that tax employees are often transferred to the third-party provider, bringing their accumulated company knowledge with them.

Deciding on the appropriate model **involves balancing** in-house talent, automation options, and outsourcing to meet your savings and efficiency goals—**while retaining your company's targeted level of control** (e.g., maximum control of risk management).

Figure 1: One size doesn't fit all

Tax leaders want to shift delivery to shared-services centres and third-party providers



Source: "The management of tax: Discovering value, delivering confidence," Global research bulletin, 2019; Deloitte Tax LLP

"With the fully outsourced model, however, companies would retain only those tax professionals who can tackle key management responsibilities."

Aligning the tax workforce with company transformation

While many variations on the three basic models can be successful, it's critical that, as organizations get closer to their target tax-handling strategies, they consider their company culture, as well as how they're managing the tax priorities they've chosen to retain.

Senior management should support tax-division staff throughout this department transformation, assessing employees' understanding of their updated roles and responsibilities, as well as of the skills they might need to develop to better achieve their additional goals. Moreover, to help ensure staff engagement during this transition and beyond, it should be made clear to them that process automation and workforce upgrades will improve overall efficiency—and ultimately lead to exponential increases in **benefits**.

It's important to note, too, that employee skill requirements **may differ across tax-operation** models. The in-house model might call for **a broadly competent staff, while the** hybrid model might work best with internal employees whose skills complement and augment those of external **providers.** With the fully outsourced model, however, companies would retain only those tax professionals who can tackle **key management responsibilities**.

These highly skilled workers might then focus on company strategy such as planning, as well as on **analyzing and preparing for challenges that are still on the horizon**.

Considering the macro level of company culture, CFOs and tax directors generally aim to make ongoing learning a priority (see "What CFOs want from chief **tax officers**," CFO Insights, May 2018). As such, they should encourage employees to take part in corporate programs that foster communication—such as storytelling events—thus prompting them to share ideas that can contribute to the company's transformation. These initiatives can include pilot programs that can be assessed for **effectiveness—e.g., a return on investment (ROI)—with all results then** shared with the corporation's finance department **and the senior executives that make up the *C-suite***.

Going forward, employees and teams can **benefit from in-depth training to** help them develop and refine the skills they'll need to function in their **organization post-updates**—improved data-analysis abilities and the know-how to get the most out of new tax systems are two such possible training benefits. Cross-department training in soft (i.e., interpersonal) skills—with a focus on clear and consistent communication—can help tax groups better work **with other divisions**. And team leaders can receive training to manage employees whose duties involve working alongside bots and other technologies.

Avoiding technology pitfalls

Technology is central to all tax-division updates. (More than half of the tax-department heads surveyed said **their organizations had increased their focus** on technology over the previous two years.[2]) **But although artificial intelligence, robotic process automation, and machine learning can help improve tax departments**—and finance divisions overall such updates can be costly, and can disrupt both the workforce and the company culture if they're not incorporated properly.

Additionally, implementing major upgrades in tax systems can be challenging, given the extensive levels of processing, integration, and control required. And when IT and tax divisions are unclear on their given responsibilities in this process, there can be further delays—sometimes an additional 18 to 24 months—before a new system is fully launched and operable. By then, however, it may **no longer meet** the tax-department's needs, or the underlying technology may already be outdated.

To avoid such pitfalls, multiple departments must discuss and agree upon mutual goals, the levels of disruption they're willing to endure, critical timelines to meet identified milestones, and measures to deal with other obstacles that may arise. The dual aim of those conversations **should be to define a vision** for the project and to create a road map—with key responsibilities and monitoring objectives—for its completion.

Once tax leaders determine their best approaches, they can begin to make their cases for new tax operating models, including **the anticipated benefits**. Given ongoing cost-cutting pressures and evolving regulatory requirements, **planning thoroughly with finance and other** departments can help secure crucial funding and executive support.

New technologies and operating models have created opportunities for CFOs to rethink the roles of their tax divisions. These departments don't simply have to be compliance-centred expenses in which specialists spend all their time on rote tasks, thus potentially missing opportunities to use their knowledge and insights to help shore up company value. By taking a fresh look at sourcing options, and with the support of powerful new **technology, CFOs may find that** they can have the best of both worlds: **high-performing yet highly cost-efficient tax** departments that are closely aligned with **their finance divisions—along with the rest of their organizations—all** helping to drive business planning and to support company strategy at an entirely new level.

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What CFOs want—versus what they get—from their tax divisions

In the fifth Deloitte Global Management of tax survey, interviews were conducted with both CFOs and **chief audit officers to gauge the** value they perceive in their tax departments. Not surprisingly, the survey found that CFOs seek to reduce risk and increase ROIs. For some CFOs, though, ongoing tax compliance across their companies' global locations—and subsequent accurate tax reporting—are not enough. Instead, they're looking to increase value and efficiency, as well as gain insight.
Specifically, CFOs expect tax divisions to:

Do the job and gain control. CFOs rely on their tax departments to mitigate financial risk by **avoiding audits and monetary** penalties, thereby helping to protect their companies' reputations.
In reality: *CFOs are fairly confident their tax teams are mitigating risk.*

Reap more from less. CFOs expect **tax groups to be efficient**, reducing costs and enhancing tax delivery to increase profits on technology investments.
In reality: *CFOs feel the push for greater transparency by regulators and investors is propelling an increased investment in technology, but that tax teams aren't fully using the data to maximize value.*

Face the future. CFOs want their tax teams to collaborate with the businesses as a whole, offer proactive advice, and provide views on future tax regulations.
In reality: *CFOs claim these collaboration expectations aren't consistently met, often because tax staff focus too much on details of the data.*

Uncover value. CFOs seek to keep their companies' taxes low, and they expect their tax teams to understand business as well as tax regulations in order to maximize opportunities and savings in both realms.
In reality: *Some CFOs feel their companies' taxes are too high and question whether their tax teams are fully using the available tax information, especially in areas such as transfer pricing and indirect tax.*

Endnotes:

1. "The management of tax: Discovering value, delivering confidence," Global research bulletin, 2019; Deloitte Tax LLP
2. Ibid.

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