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Modernizing Tax Compliance: AI, Data, and the Operating Model

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Carrie Falkenhayn: From Deloitte Tax, welcome to the Tax News and Views podcast. In this series, we talk to specialists from Deloitte about the latest business issues and developments. I'm Carrie Falkenhayn, your host for Tax News and Views. This podcast will explore how tax leaders can use AI, technology, and an effective operating model to strengthen compliance readiness and to modernize their tax function. In this conversation, I'm going to be joined by two of my Deloitte colleagues, Irene Puhala and John McKinney. Irene and John are going to discuss how organizations are responding to both changing legislations, including global developments such as Pillar 2, as well as the growing data complexity and increased scrutiny from tax authorities. How they're doing it through smarter processes, using connected technologies, and practical AI applications. They're also going to share some really relatable examples of how people, process, and technology can work together to save time, improve accuracy, and enhance readiness before looking ahead to the priorities shaping the next 12 or 18 months, something that I know is really important right now for tax leaders. So, Irene, I'm going to start with you, and let's start with the big picture. What are some of the biggest challenges tax leaders are facing today when it comes to compliance readiness?

Irene Puhala: Carrie, that's a great question. I mean, tax leaders today are being asked to modernize even faster than before. They're having to navigate changing legislation, increased scrutiny from tax authorities, and global developments, such as Pillar 2. But at the same time, they're also managing growing data complexity. There's increased pressure to define what an AI-powered tax function should look like in practice. And so, for many organizations, the question is no longer whether to transform, but where to actually even begin. So, I mean, an effective starting point may not be automation for its own sake. It typically starts with understanding the current process, including handoffs, friction points, and then data issues that create unnecessary effort. Then from there, tax leaders can identify the practical entry points for transformation. And then it's also important that tax aligns with the broader enterprise AI architecture and technology strategy. So that alignment really helps to confirm that the investments will support a connected, scalable future state than, you know, rather than another siloed solution. So, you know, those are some of the significant challenges that tax directors have these days.

Carrie Falkenhayn: John, building on that, where do you typically see the biggest opportunities for process optimization in tax compliance?

R. John McKinney: Yeah, Carrie, there's a couple of opportunities that I'll go through, and I I think a common one that maybe comes to mind first is closing that disconnect between the provision process and the compliance process. We've seen, in a lot of organizations, maybe the calculations are getting completed, during the provision process, but those aren't getting fully leveraged later when they're being redone for compliance. And so, as a result, teams are often repeating that work, you know, a few months later. And so, what happens here is this duplication really consumes time and can create surprises later on, in the cycle where they're, you know, computing their return to provision adjustments that maybe could have been planned on earlier.

I think another big opportunity is making better use of their existing tax technology oftentimes, organizations are investing in strong provision and compliance platforms, but really only using a fraction of their capabilities. And so, instead of allowing those platforms, you know, to do those complex calculations, improve workflows, and have stronger controls, you know, the software is used too narrowly, you know, when teams are maybe doing these calculations outside in Excel, or doing some of these other analyses outside of the platforms. I think when teams really fully understand the available functionality in those platforms, they can really often improve, you know, both quarterly and annual processes significantly without necessarily having to start anything from scratch. Finally, data management, I think, is another big opportunity. Oftentimes, fragmented and duplicative data sources that can really make automation harder and limit an organization's ability to really scale automation and AI effectively. And so, if you have a more connected data foundation that can give your tax teams a better platform for seeing analytics, other dashboards, and decision making. So really, what we see there is process design is a huge opportunity, and that really matters. Because a lot of workflows that can remain heavily manual, and spreadsheet-driven really is where automation can fit in. So, as maybe we're doing a process mapping or design exercise, this can really help teams see that full flow from beginning to end, and help identify where those low activity help identify where those low-value activities are that are still consuming a lot of time, that there is a possibility for automation or AI.

Carrie Falkenhayn: Irene, how can technology be an enabler for tax compliance, and where should tax leaders focus that investment and maybe you could also add how Deloitte is helping clients address this challenge?

Irene Puhala: Yeah, you know, technology is not only a significant enabler, but I would say is the most significant one. But it's crucial that it's connected to a clear roadmap, and that tax directors have a very realistic understanding of the current state. And so, our approach with clients is very customized, and it's generally tailored to where a client is in their AI journey at the present time and then looks forward into the future with respect to their specific circumstances. And so, in some cases, we start with a broader tax AI transformation roadmap. And then in others, it may begin with, kind of, some targeted use cases that are focused on very, very specific, process flows where we can, get quick hits and create value fairly quickly. And so, when we look at investments and where there's been a lot of success in technology investments, it usually focuses on a few key areas. You know, one is the foundation of automation, especially where there are repetitive tasks that we're able to streamline, so then teams can spend more time on strategic work. You know, similar to what John was saying. And we also find a lot of opportunities around data analytics, which really help organizations to, you know, identify the risks, trends, and planning considerations a lot more effectively, and really allows tax directors to see things at a higher level, and that's been very powerful. We also see a lot of value in moving away, again, from the disconnected spreadsheets, towards a much more integrated system and cloud-based solution, upon which AI and agents can be applied to really improve accessibility, streamline things, and really optimize the workflows.

So, what we're doing is helping clients to build capabilities, and not just simply implement one-off solutions. And our approach includes workshops where we map the current state, and then identify a full portfolio of, you know, optimization opportunities, which can include AI agent use cases, and then work with the client to prioritize those opportunities into a phased roadmap, so that they know what is a have-to-have and what is a nice-to-have. And then, what that leads to is a full AI-enabled process and technology roadmap that can really help leaders to focus on the priorities that matter the most, and ensure that the sequencing and timing of the investment coincides and is aligned with both the near-term impacts as well as long-term change.

Carrie Falkenhayn: John, beyond technology, what are the hallmarks of a truly effective tax compliance operating model?

R. John McKinney: Yeah, and you know, on top of some of the things that maybe Irene just mentioned, you know, I think what I've seen, what we've seen, an effective tax operating model really combines an effective technology foundation, having a collaborative teaming approach, and then really a strong understanding of your full end-to-end process. So, when those elements all come together, the tax function can then move forward from being viewed maybe primarily as a processing center, or as a cost center that we see sometimes to really becoming a more strategic advisor to the business, and I think that's where a lot of tax leaders really want themselves to be. So I think here, automation and AI really play an important role, but that should really be framed kind of as work reallocation, job aids, rather than necessarily job replacement. I think when repetitive or low-value activities are being reduced, then those tax teams that are clients are going to be able to gain more capacity for analytics, planning, problem solving, and really forward-looking attitude, I think, that we want to see tax departments to have. And so, you know, thinking about a shift like that is really where we're seeing value from the tax department and that operating model begin to emerge. I think another big hallmark is, you know, as we've said, just visibility into the whole process. Many organizations really haven't mapped out their full end-to-end workflow, which can really make it harder to improve going forward, and really understand kind of how everything fits together. But once that process is clearly understood, it often becomes easier, I think, to distinguish immediate improvement opportunities from maybe those longer-term items, maybe on the roadmap. From there, you're able to build reliable data governance, strong internal controls, have continuous learning, and really close collaborations with the other functions, like finance, legal, and accounting even, and that can become essential to really having that resilient compliance operating model.

Carrie Falkenhayn: Okay, so looking ahead, what should tax leaders be doing now to prepare for the next 12 to 18 months?

Irene Puhala: Thanks for that, Carrie. I think, you know, over the next 12 to 18 months, I think the message has come pretty clear through this discussion. It's around focusing on assessing their current operating model. With the amount of legislative change, the global tax developments as well as technology and AI are moving so quickly. It's crucial for tax directors to be focused on assessing their operating model to make sure that they have the optimal talent mix and technology environment that's aligned with the future. The future is very uncertain. We don't know what it's going to look like, but what we can do is, help tax directors to plan, to, to be nimble enough, and plan for that. And so, now's the time, right, to invest in your talent development, and then continuously reviewing and optimizing processes, and then making very thoughtful technology decisions, that are, are future, facing, and, and being very deliberate, in the next 12 to18 months, to have a very clear view of, what the plan is.

Carrie Falkenhayn: Well, thank you both, Irene and John. Really appreciate your insights. Lots for our listeners to think about. If our listeners would want more, I'd encourage you to go to Deloitte.com and just search on technology. There's a variety of articles there for you to look at. As always, you can connect with Irene or with John via LinkedIn directly. And I hope you'll continue to tune in here for our next episode. Until then, everyone be well! Take care.

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