



Tax transformation: Remodeling tax departments for the future

With mounting regulatory requirements, talent gaps, and cost concerns, many large tax departments are facing efficiency challenges from their current operating structures. At the same time, companies are looking to tax to deliver additional value—and confidence—to the organization.

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 help get the job done, but also to maintain visibility, transparency, and governance globally. While 81% of tax departments now operate some form of centralized global tax delivery model, many of the more than 270 heads of tax who responded to the survey appear keen to move resourcing outside

the core tax function, using shared services centers and third-party providers more often (see Figure 1).

Any such shift involves a change in how—not necessarily what—work is performed. It also requires enhancement of the tax department's responsibilities to be in line with overarching business strategies. And while incremental change may elevate performance in the short term, transformational change—the type required in adopting a new tax operating model—can also increase tax's value by enhancing operational efficiency, improving risk management, and increasing business and strategic alignment.

There are potential benefits and risks to introducing a new tax operating model

and effectively implementing it. And in this issue of *CFO Insights*, we'll discuss some conditions that are leading many companies to reassess how tax operates and challenge everything from talent capabilities to data collection as they redefine their future tax operating models.

Assessing three operating models

An in-depth assessment of current and future needs is a critical first step when considering whether to adapt or replace an existing tax operating model. That includes identifying redundancies that can be improved through process redesign and automation, locations where systems and processes can be housed, and which 

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governance model, controls, and risk management functions are needed for compliance and oversight requirements.

Data needs are another critical consideration, involving information flows from across the enterprise, with the goal of creating efficient and flexible processes to retrieve, manage, and analyze data. Any company embarking on a tax transformation therefore needs to determine the current quality and accessibility of data for tax—as well as the future desired state.

Then, there is the question of which model to choose. The three primary tax operating models are:

In-house model: Although it has evolved through greater use of automation and shared services centers in recent years, the traditional model, a fully in-house tax operation, can still require large teams of tax staff onsite. Maintaining this model can also require large technology and innovation spending to keep up with rapidly evolving technology advancements.

Hybrid model: Many companies are working collaboratively with third-party

providers to leverage a co-sourced approach, which involves a combination of in-house and selective outsourcing. This could be focused in a specific area of responsibility (e.g., global compliance) or for a complete process, such as indirect tax. An advantage is the ability to leverage a third-party provider's size and scale for potential savings on staffing, licensing fees, and technology upgrades.

Fully outsourced model: When a third party operates all or most of the tax function, a relatively small in-house tax department makes management decisions, provides sign-offs, and gives strategic guidance, while most talent and technology needs are met by the provider. This newer model often involves a transfer of in-house talent to the third party, thereby retaining institutional knowledge that might otherwise be lost.

Deciding which model is right for your organization requires identifying the right combination of in-house talent, automation, and outsourcing that provides necessary efficiencies—while retaining the control that the organization needs.

Aligning the tax workforce with transformation

While there are many variations of the three basic models that can be successful, it's critical that as companies approach strategic transformation, they consider the culture of the organization as well as the management of the retained function.

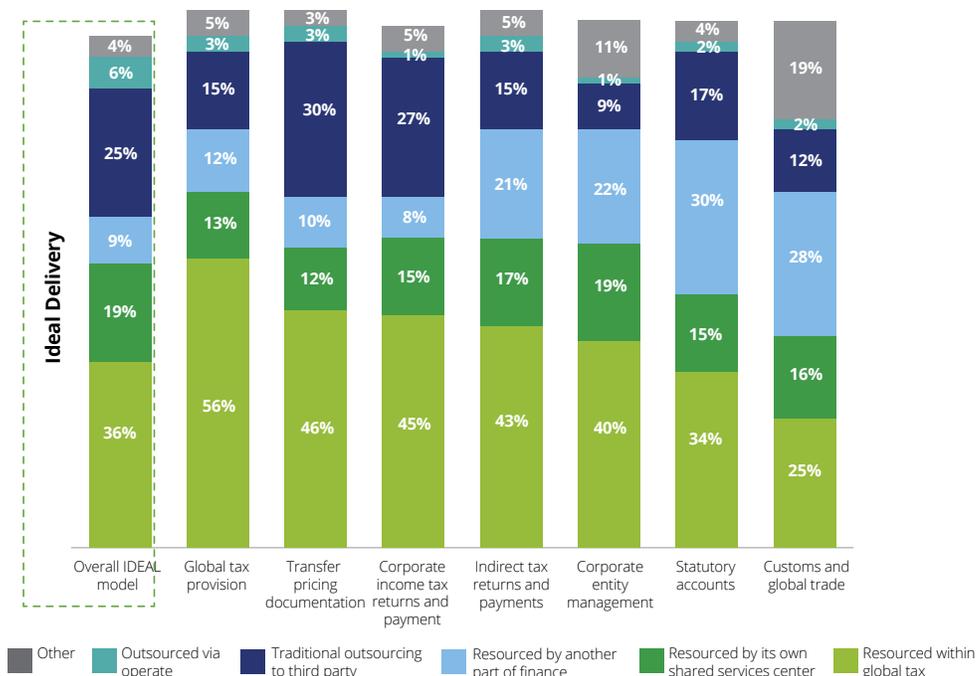
Senior management needs to support tax employees at all stages of a transformation by engaging in a talent strategy that assesses their level of understanding of their evolved roles and new day-to-day responsibilities, as well as what skills they need to develop. Moreover, it's important that employees appreciate the exponential benefits that can happen when automation is combined with the human element to create new efficiencies.

The skills needed in the company's tax department may differ depending on the model chosen, however. A company that retains most tax functions in-house will need a broadly competent staff, while a company that opts for a hybrid model should assess what skills are needed internally to complement and augment those of qualified external partners. Even in the fully outsourced model, which maximizes the use of third-party expertise, some tax professionals would be retained to fill key management responsibilities. These professionals will likely focus on more strategic activities, such as planning, and can apply their knowledge and judgment to analyze issues that are on the horizon.

At the macro level, though, it is a leading practice for CFOs and tax directors to adopt a culture where continuous learning is a priority (see ["What CFOs want from chief tax officers," CFO Insights, May 2018](#)). In that culture, individuals should be encouraged to be part of the transformation journey by sharing ideas and experiences through storytelling and programs that open communication channels. These can include pilot programs that are monitored for ROI and other effectiveness metrics, with results channeled back to finance and the C-suite.

Figure 1: One size does not fit all

Tax leaders want to shift delivery to shared service centers and third-party providers



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

Going forward, individuals and teams can benefit from in-depth training to develop the skills they will need in the evolved organization, such as expanding analytics capabilities and understanding how best to extract value from new systems. At the team level, cross-department training in soft skills, with a focus on clear and consistent communication techniques, can help tax professionals work and engage effectively with other functions. Team leaders may need training in managing individuals working alongside bots and other technologies.

Avoiding tech pain points

Technology certainly plays a central role in all tax transformations. (More than half of the surveyed tax department heads say their organization has increased its focus on the use of technology over the past two years.²) As in other finance functions, though, artificial intelligence, robotic process automation, and machine learning can offer significant improvements, but all can be costly and introduce workforce and cultural disruptions if not incorporated properly.

Moreover, major upgrades in tax are complex given the high levels of processing, integration, and control needs. Such implementations can be challenging when a lack of clear responsibilities between IT and the tax department leads to implementation delays. Such lags can last 18 to 24 months before systems are fully integrated, with a result that the outcome no longer satisfies the tax needs, or the underlying technology is outdated by the time it is available.

Avoiding such challenges requires a clear understanding across multiple departments, with detailed discussions about mutual goals, how much disruption the business is willing to endure, critical timelines for milestones, and how obstacles should be addressed. Those conversations should lead to defining a vision for the project and a roadmap with responsibilities and monitoring objectives.

Once tax leaders determine the best approach, they can begin to make the business case for a new tax operating model, making clear the reasons for transformation and the anticipated benefits. Thorough planning with finance and across multiple departments can help secure appropriate funding and executive support, in light of ongoing cost-cutting pressure and evolving regulatory requirements.

New technologies and operating models have created an opportunity for CFOs to rethink the strategic role of tax. Tax does not have to be a compliance-centered expense in which specialists spend all their time on rote tasks, thus potentially missing the opportunity to leverage their knowledge and insights to drive value. By taking a fresh look at sourcing options, buttressed by powerful technology capabilities, CFOs may find that they can have the best of both worlds: a high-performing, yet highly cost-efficient tax department that is tightly integrated with finance and the rest of the organization, helping to drive planning and support strategy at an entirely new level. ◀

What CFOs want—versus what they get—from tax

As part of the fifth Deloitte Global Management of Tax survey, interviews were conducted with both CFOs and chief audit officers to gauge the level of value they experience from their tax departments. Not surprisingly, CFOs are looking for reduced risk and some sense of ROI. For some CFOs, though, reliably delivering accurate global compliance and reporting is not enough. They are looking for ways to get more value, insight, and efficiency from tax. Specifically, they are looking to tax to:

Get it done and gain control. CFOs are looking for tax to mitigate risk by avoiding audit issues and financial penalties and ensuring no reputational fallout from tax. **Experience:** *CFOs are fairly confident that their tax teams are mitigating risk effectively.*

Reap more from less. CFOs are also looking for tax to deliver efficiencies, not only through cost reduction, but by enhancing the tax delivery model to increase ROI on technology investments. **Experience:** *The push for greater transparency by regulators and investors is propelling increased technology investment, but tax teams don't seem to be fully using the data to drive commercial value.*

Face the future. CFOs want their tax team to collaborate with the business and maintain an ongoing dialogue by offering proactive advice and providing perspectives on future regulation. **Experience:** *CFOs' expectations for tax to collaborate are not consistently met, often because tax can seem "buried in the technicalities of the data."*

Discover value. CFOs want to keep their tax levels low and are looking for their tax teams to fully understand regulations and the business to provide strategic and commercial tax advice. **Experience:** *Some CFOs feel they could be paying less tax and are unsure whether their tax teams are making the best use of the data available, especially in areas like 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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