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Transforming tax in an age of reform

When US tax legislation[1] was signed into law in December 2017, many CFOs may have felt a sense of relief. After all, a corporate tax cut ranked as their top public policy concern based on a 2017 *CFO Signals*™ quarterly survey. But, as it turns out, *reduction* does not mean *simplification*. In fact, the new legislation introduced a host of complexities and uncertainties that may not be clarified for years.

That may be why in the most recent *CFO Signals* survey, 60% of respondents said they expect high complexity in implementing the new laws—and one-third cited the need to strengthen or restructure their tax function.[2]

In other words, whatever bottom-line benefits tax reform may usher in, it also is creating a need for CFOs and tax leaders to rethink their tax departments—and how much they want to invest in them—as the overall tax liability seems poised to drop, perhaps significantly. In this issue of *CFO Insights* we'll explore why and how CFOs should reevaluate how the tax function is structured, and how it might contribute a new level of value to the organization.

Multiple forces for change

Even before the recently enacted tax legislation, tax departments were confronting several internal and external challenges that seemed likely to impact the function.

Internally, there has been pressure to significantly reduce costs, embrace automation, and recalibrate talent. For example, given that, on average, tax compliance consumes more than 50% of a tax department's time,[3] many companies are looking at a combination of automation and third-party service providers to lower the tax function's overhead.

Externally, the impact of new regulations, increased collaboration among tax authorities, and public attention on what amount of tax is "fair," all seem likely to have an impact on how the tax function is evolving. As one example, the impact of the Organization for Economic Cooperation and Development's (OECD) work on Base Erosion and Profit Shifting (aka, "BEPS") calls for greater international cooperation and information sharing, which could lead to greater scrutiny and more tax audits. Without greater insights regarding their global tax position and more real-time access to data, tax executives could find that governments have a deeper understanding of their business than they do.

Moreover, as globalization accelerates, tax issues are becoming more relevant to an organization's strategy, both in terms of tax-specific concerns (think repatriation) and overall challenges (think expanding into new geographies). In response, CFOs are asking tax executives to proactively partner with the business—and for the function to add more value. To do that effectively, however, tax leaders will need to frame their roles more broadly, moving beyond the traditional responsibilities of compliance, reporting, and management to address issues such as risk mitigation and tax-aware decision-making.

Assessing current—and future—status

Meeting this new scope may require transformation, not incremental change. Getting there, though, first means taking a careful look at the various components of the current tax operating model (people, process, technology, data, and governance) and then asking tax leadership specific questions that can shed light on how to future-proof it. For example:

- What is the full scope of our compliance requirements?
- What is our total cost of tax, including tax expenses that may be embedded in various parts of the company, technology charge-back expenses, and so on?
- How can we standardize processes to gain efficiency?
- Are we optimizing the talent and experience of the tax team?
- What skills and capabilities will we need three to five years out, and where do we stand on those today?
- What is the quality and accessibility of data for tax?
- Are we fully leveraging the technology we have, and what emerging technologies might help us more?
- Are we connected to finance and IT decisions and systems?

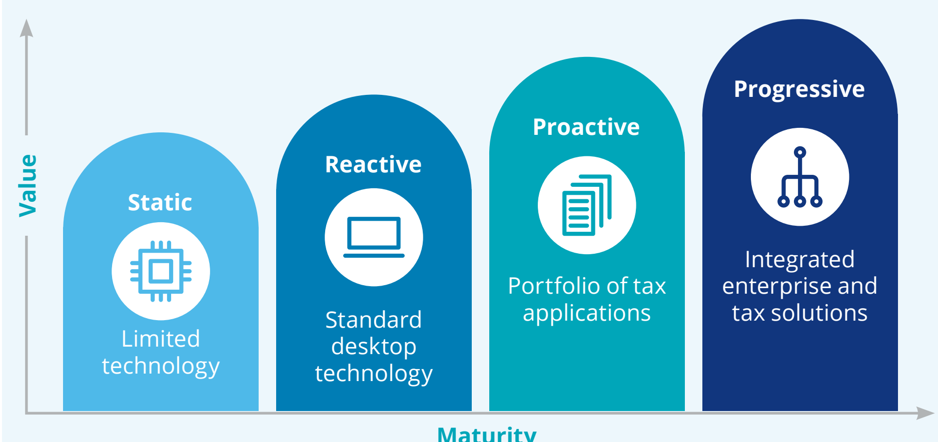
What model are you?

Armed with the answers to such questions, CFOs can assess where their tax function falls on the maturity curve (from Static, in which the tax function is a low-ROI cost center that manages basic tax compliance and reporting, to Progressive, in which the operating model has been transformed and the focus has shifted to value-added activities such as planning, analytics, and cross-functional collaboration; see Figure 1) and then determine where they'd like it to be at some future point.

Organizations intent on moving up the curve may decide to change their tax operating model. If so, there are several options to consider.

- The **Insourcing** model relies on delivery of tax services by in-house staff, and is focused on identifying areas that can be combined to reduce headcount, as well as on process improvements and tax system upgrades to create efficiencies.
- The **Outsourcing** model focuses on joint delivery, with strategic teaming between in-house and third-party service providers addressing specific compliance and planning objectives. This is perhaps the more conventional model, in which outsourcing service providers are used tactically and in-house teams are focused on activities that require more company-specific knowledge.

Figure 1. Where does your tax function currently fall on the maturity curve?



Source: Deloitte Development LLC, 2018

- The **Operate** model entails full outsourcing, not only of the more routine tasks needed to file taxes and meet compliance requirements, but of key technical, analytical, and/or advisory components. With the Operate model, a company can also shift data management and other technology responsibilities to a third party, which is typically not the case in a conventional outsourcing arrangement. Some members of the tax team may also become employees of the service provider. Under the Operate model not only can service levels improve while the overall cost of operating the tax function declines, but the company may gain new capabilities and insights that allow retained staff to play a more strategic role, and the tax function to deliver more value.

Leveraging technology to elevate tax

Whatever model you land on, the key to the transformation is the evolution of technology. Tax has lagged many other parts of the organization in terms of its embrace of newer technologies, but that's changing. New sourcing options rely heavily on technological innovations that have matured rapidly, often to the point of becoming standard practice. In fact, technological capabilities are perhaps the single biggest defining characteristic for organizations that have migrated to truly transformative sourcing models (see Figure 2).

The tax function today is much more involved in cloud migrations, particularly for the large enterprise systems that store the data that tax relies on. Tax now also has access to a wide variety of point-specific software solutions that address everything from data visualization to very focused compliance needs, much of it cloud-based and able to be integrated with ERP systems.

Add to that the increasing presence of RPA (robotic process automation), advanced analytics, and other tools, and not only are many aspects of tax and its associated compliance requirements able to be automated, but the ROI calculation changes: while the automation of any given discrete tax process may not yield a meaningful return, the ability to automate several or many tax processes in an integrated workflow may provide the ROI that has long eluded CFOs.

Making tax a priority

Tax reform has lowered the total tax bill for many companies, perhaps significantly. But rather than crossing “tax” off the priority list, CFOs should consider investing the time now to explore how reform combined with automation and new operating models can create an opportunity to rethink the strategic role the tax function plays.

Tax does not have to be merely a compliance-centered expense in which specialists toil away on rote tasks, thus potentially missing the opportunity to leverage their knowledge and insights in ways that drive value (see sidebar: “What about tax talent?”). 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 also tightly integrated with finance and the rest of the organization, helping to drive planning and support strategy at an entirely new level.

Figure 2. Building a NextGen sourcing model

The market disruption has amplified the need to get NextGen Sourcing right and moves the goal from efficiency to transformation.

	"Efficiency"	"Value"	"Transform"
	Yesterday	**Today**	**Tomorrow**
Scope	Standardization	Centralization	Mobility, cognitive, cyber
Focus	Efficiency and effectiveness	Higher value creation	Business enablers and transformation services
Enablers	Wage arbitrage	High quality knowledge workers	Global process, robotics, cloud, analytics, digitalization
Labor	Local	Regional and local	Multi-sourcing, global locations, agile contracting
Benefits	Reduce labor costs	Management of risk and cost of tax	Transformational (internally, externally)

Source: Deloitte Development LLC, 2018

What about tax talent?

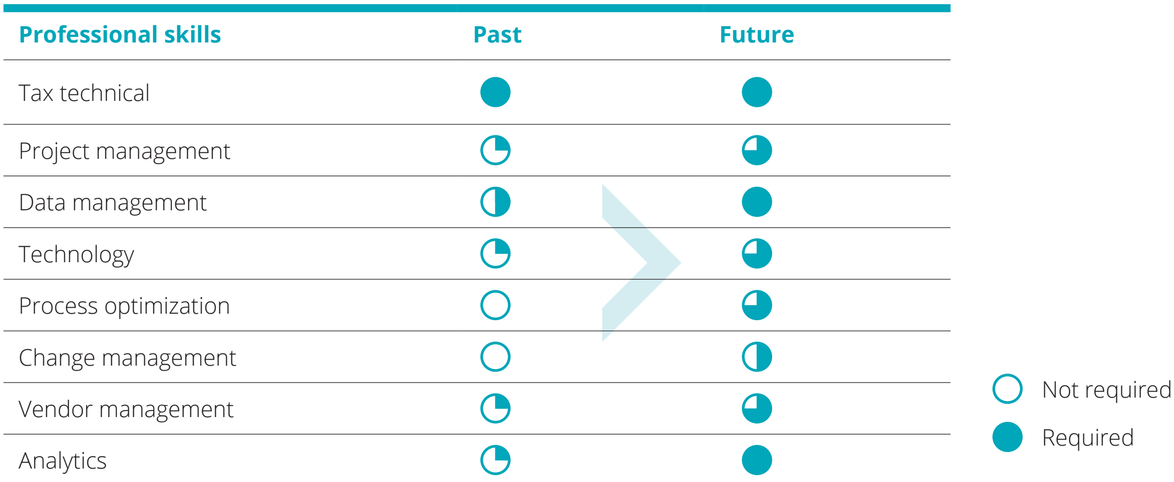
No matter what tax operating model a company opts for, a key consideration is talent.

A company that retains most tax functions in-house will need a broadly competent staff, while a company that opts for the Outsourcing model needs to both find qualified external partners and provide development opportunities for the staff that remains. Even in the Operate model, which maximizes the use of third-party expertise, some tax professionals would be retained. But they may be able to focus on more strategic activities, such as planning, and can apply their knowledge and judgment to analyze issues that are on the horizon. Figure 3 outlines types of skills likely required from tax professionals in the future (see page 4).

Moreover, even in a post-tax-reform world, highly qualified tax specialists still command a premium, so it behooves CFOs to help these highly compensated individuals maximize their contributions to the bottom line.

By thinking differently about the tax operating model and the sourcing options that support it, organizations can relieve tax professionals from the heads-down grind that may characterize much of their work, and enlist them in merging their tax expertise with the organization's long-term financial strategies. This, in turn, can lead the way for CFOs to get genuine value from their tax department.

Figure 3. What tax skills will likely be needed in the future?



Source: Deloitte Development LLC, 2018

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Endnotes

1. Public Law 115-97, An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018; 115th Congress (2017-2018).
2. *North American CFO Signals*, Q1 2018; US CFO Program, Deloitte LLP.
3. "Corporate tax compliance and automation," https://www2.deloitte.com/us/en/pages/tax/articles/tax-compliance-in-a-digital-world.html, Deloitte Tax LLP, 2017.

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