As companies process the implications of tax reform, they may be discovering that there is not much that's simple about it. In the process, the importance of the tax function—and, in particular, the chief tax officer's role—has taken on new meaning.

In fact, in the Q1 2018 CFO Signals™ survey, some 33% of CFOs noted that the fallout from tax reform is leading them to strengthen or restructure their tax functions (see "Transforming tax in an age of reform," CFO Insights, May 2018). Moreover, given the complexity of implementing the law (60%) and the difficulty in communicating its implications (30%), CFOs are expecting more from their chief tax officers than ever before (see figure 1).

But what exactly are they expecting? To find out, we sifted through materials associated with some of the 206 Tax Executive Transition Lab™ sessions Deloitte has delivered since 2012. These one-day workshops help chief tax officers onboard into their new role and are guided in part by interviews done with their CFOs in preparation for the session. And in this edition of CFO Insights, we synthesize key lessons learned from those interviews, as well as knowledge gained from our CFO Transition Lab™ sessions to determine what CFOs want from their chief tax officers.
Communication that translates tax

Beyond a regular cadence of communications, CFOs tell us they want chief tax officers to be effective communicators. While a detailed technical understanding of tax may not be realistic, CFOs need to have an appreciation of the tax value proposition so they can adequately communicate it across the organization—and to the board. Moreover, to allow the CFO to function as an effective interface between tax and the rest of the business, finance chiefs also want insight into operational issues faced by the tax function, such as sourcing or staffing issues. These conversations can lead to a stronger partnership between tax and finance, as well as allow the CFO to be an advocate for tax.

Adoption and adaptation of technology

CFOs want to know that chief tax officers are efficiently and effectively using technology. While tax may have lagged other parts of the organization in terms of embracing newer technologies (think artificial intelligence, robotics, and digitization), that’s changing. New sourcing options rely heavily on technological innovations (think cloud migrations that house critical data).

In fact, technological capabilities are perhaps the biggest defining characteristic for organizations that have migrated to truly transformative sourcing models. And the ROI on leveraging these technologies improves as more processes are automated; for example, while the automation of a single tax process may not yield a meaningful return, automating several in an integrated workflow may provide the tax ROI that has long eluded CFOs.

Effective risk mitigation

As CFOs take an ever-increasing role in managing enterprise and operational risk, they are looking to their chief tax officers to understand how tax considerations integrate into the broader business’s decision-making and approach to risk management. This is in addition to managing the risks associated with the ever-evolving tax regulatory environment and ensuring the right people are deployed across the department to support compliance and reporting. In that regard, CFOs want to also ensure that reporting lines are clear and that the tax structure encourages the right behaviors and timely flow of risk information.

Strong partnership with CFO and other leaders

CFOs increasingly want chief tax officers who can effectively partner with them and other key business leaders. While CFOs expect chief tax officers to focus on traditional roles, such as tax compliance reporting and planning, many also look to them to help shape company strategy. For example, CFOs in the Q1 2018 CFO Signals survey expect tax reform to raise their domestic investment, hiring, and wages and may look to their tax officers for guidance in how to roll out tax-aligned strategies or even enhance these domestic investments through federal and state credits and incentives. Moreover,

What CFOs want from chief tax officers

Figure 1. Business impacts of US tax law changes
As organizations implement strategies to take advantage of tax reform changes, many CFOs expect the following results. Percent of CFOs selecting each level of agreement for each statement (among CFOs for whom the statement was relevant)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher input from activist investors</td>
<td>26%</td>
<td>21%</td>
<td>36%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>High complexity in implementing new tax laws</td>
<td>6% 7%</td>
<td>27%</td>
<td>41%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Increased need to strengthen/restructure our tax function</td>
<td>11%</td>
<td>14%</td>
<td>42%</td>
<td>27% 6%</td>
<td></td>
</tr>
<tr>
<td>High difficulty explaining changes to investors</td>
<td>16%</td>
<td>20%</td>
<td>34%</td>
<td>24% 6%</td>
<td></td>
</tr>
</tbody>
</table>
What CFOs want from chief tax officers

CFOs are looking to chief tax officers to educate the rest of the organization on what tax does and why it is important. As such, chief tax officers need to be more outwardly focused, requiring a skill set that spans beyond technical capability and includes influence.

Tax department transformation

As was mentioned previously, many CFOs are looking to restructure their tax function in the wake of tax reform. A critical mass may also want tax to add more value to the organization. Specifically, pressure is mounting for tax departments to expand in scope and impact as their organizations cope with increasing competition, globalization, and technologies in the midst of stricter and more aligned tax regulations. Responding to the emerging demands involves a shift in how—not necessarily what—work is performed. It requires enhancement of the tax department’s responsibilities to be in line with overarching business strategies. Transformation can elevate the capabilities and performance in ways that incremental change may not. It can also increase tax’s value by enhancing operational efficiency, improving risk management, and increasing business and strategic alignment.

Strong talent development/succession planning

Leadership turnover in an organization’s tax department can put the organization at risk from a compliance and business perspective. CFOs want to know the tax function is stable and complements the skills of the chief tax officer. They also want assurance that key personnel risks are being managed and that the organization is developing tax talent, including potential successors to the chief tax officer. While CFOs may assume that the tax function is so specialized it has little choice but to recruit from outside, development of in-house talent through effective succession planning (see “Succession Planning for Tax Leadership: Why It Matters to CFOs,” CFO Journal, October 2017) may provide a cost-effective alternative to hiring an external candidate. Moreover, even in a post-tax-reform world, highly qualified tax specialists may still command a premium (whether internal or external) and will need to continually improve their skills in order to bring sustained strategic value to the organization.

“No surprises”

Finally, as in other parts of the business, CFOs hope to have “no surprises” in tax. While surprises are generally inevitable in the course of business, CFOs want their chief tax officer to manage the avoidable issues and inform the CFO in a timely way when the unexpected occurs. This may be particularly true in the rollout of tax reform, where expectations are for quick and substantial savings as the overall tax liability seems poised to drop, perhaps significantly.

The rapidly changing tax environment poses many challenges—but also opportunities—for tax organizations and chief tax officers to play a critical role. Attending early to the needs highlighted above can create a context for CFOs and chief tax officers to effectively work together to execute on an organization’s strategy.

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Endnotes

2. Ibid.
3. Interviews reviewed from the Tax Executive Transition Labs and CFO Transition Labs were mostly from 2017–2018 to reflect the time period closest to the rollout of tax reform.

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