Session 7C: The Evolving Tax Function

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Overview
External Challenges
Internal Pressures
Data
Value and Needs
Operation Models
Where things stand today

While a number of leading finance organizations are using pilots to experiment with new technologies, we aren’t yet seeing evidence of scalable, transformational change. The roadmaps to that future are still being drawn.

The good news? The technologies needed to reimagine Finance are here and they will only get better. Plus, we can learn a lot from other business functions. Modern factories give us a glimpse of what automation can deliver. Smart contracts show us new ways of tracking assets. The lessons are out there. We don’t have to reinvent the wheel. We can focus instead on adapting and adopting.

Here’s the bottom line. The business leaders that Finance supports are people first. They see how technology is making their personal lives better and easier. That’s what they want for Finance, too.

The needs of the business are growing. The pace of innovation is accelerating. CFOs can either plan for change, or plan to retire.

Finance Function Predictions

1. The finance factory
Transactions will be touchless as automation and blockchain reach deeper into finance operations.

2. The role of Finance
With operations largely automated, Finance will double down on business insights and service. Success is not assured. The skills required by finance professionals will change, likely dramatically, as new combinations of technology and human workforces permeate the workplace.

3. Finance cycles
Finance goes real time. Periodic reporting will no longer drive operations and decisions—if it ever did.

4. Self-service
Self-service will become the norm. Finance will be uneasy about this.

5. Operating models
New service-delivery models will emerge as robots and algorithms join a more diverse finance workforce—think about the integration of freelancers, gig workers, and crowds. Companies will assess the benefits of automation against onshore and offshore operations.

6. Enterprise resource planning
Finance applications and microservices challenge traditional ERP. Big vendors will be prepared.

7. Data
The proliferation of APIs will drive data standardization, but it won’t be enough. Companies will still be struggling to clean up their data messes.

8. Workforce and workplace
Employees will be doing new things in new ways, some of which will make CFOs uncomfortable.
Changing Environment:
*Trends impacting tax departments*

- Global regulatory changes
- Rapidly changing technology
- Brand risk
- Global transparency
- Limited resources
- Add more value

External Challenges
Tax Authorities Moving to Real-Time Reporting of Data

Deloitte categorizes taxing authorities into four distinct groups as it comes to Digitization of Tax:

- **The compliance group.** This group sees the digitization of tax as a smart, efficient means to transition a large “informal” economy into the tax system. Projections for revenue generation drive most decisions about digitization. This group includes South America and the Mediterranean.

- **The efficiency group.** Recognizes that the digitization of tax can deliver massive efficiencies to tax administration and management. These authorities are often seeking to leverage existing technology penetration to drive digital adoption in the economy. This group includes Southeast Asia, Scandinavia, and the former Baltic states.

- **The developing market group.** Encouraged and supported by international financial institutions such as the World Bank, this group is looking to leverage new technologies to help developing markets leapfrog into a new era of tax administration. This group includes Africa and Asia.

- **The legacy group.** This group’s tax authorities are relatively advanced and mature. They are struggling to achieve the value from digitization within legacy IT environments. This group includes markets such as Canada, France, Germany, the Netherlands, the United Kingdom, and the United States.

With tax authorities going increasingly digital, tax functions must look to improve data quality and insight by automating tax management processes, dashboards, reporting workstreams, VAT compliance, and e-invoicing.

- Observers have several models to study, and many have looked to Brazil’s early adoption of digital tax models. Businesses operating there are not only required to submit a Nota Fiscal Eletronica (or NF-e) form every time a taxable transaction takes place—they are required to electronically submit all of their transactional accounting information to the authorities for review. And the OECD’s Standard Audit File for Tax (SAF-T) has been in use for more than a decade in Europe.

In 2020, Norway will join the existing six European markets that currently require their corporate taxpayers to abide by this international standard for electronic exchange of data with tax authorities. Other workstreams aimed at improving the digitization of tax authorities continue at the OECD level.
Internal Challenges

New Challenges, New Tools

Digital tools designed to deliver new and different capabilities to finance

Core modernization

Cloud

Cloud is a kind of computing that uses scalable, elastic technology to deliver cloud services over the Internet. Instead of making large investments up front, finance can get the full stack of finance functionality “as-a-service,” delivered through public, private, or hybrid clouds.

Process robotics

Process robotics automate transaction processing and communication across multiple technology systems. Robots perform recurring processes just like humans, but with less risk of errors and fatigue.

Visualization

Visualization refers to the innovative use of images and interactive technology to explore large, high-density data sets. Visualization suites complement business intelligence and analytics platforms, offering rich graphics, interactivity, and usability on par with leading consumer experiences.

Exponentials

Advanced analytics

Advanced analytics have long been part of the finance arsenal, but new techniques are helping business people tackle the crunchy questions with insightful answers.

Cognitive computing

Cognitive computing and artificial intelligence (AI) simulate human thinking. This technology includes machine learning, natural language processing, speech recognition, and computer vision.

In-memory computing

In-memory computing refers to storing data in main memory to get faster response times. As a result, the data is compressed, storage requirements are reduced, and costs are lowered.

Blockchain

Blockchain is a digital distributed ledger, where transactions are verified and securely stored on a network of distributed and connected nodes, without a governing central authority.

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Tax Transformation

The role of the tax executive is changing... CFOs have new expectations.

Traditional role

- Planning
  - Reduce global tax burden and enhance cash flow
- Reporting
  - Comply with reporting obligations
- Managing
  - Within an appropriate risk framework

Emerging additional expectations

- Process, technology, and data
  - Tax has insufficient knowledge of how to leverage processes and technology to access data for efficiency and effectiveness
- Business partnering
  - Build relationships across the organization to understand and gain alignment with the overall business strategy
- People
  - Tax resources are viewed as over-priced and under-deployed; Tax has inadequate succession planning compared with the rest of the finance organization
- Sustainability and efficiency
  - Continually work to drive down the cost of the client's global tax function
- Clear communication
  - Articulation of tax strategy and the value of tax concepts to a non-tax audience is a key skill for the Tax Executive
- Leading strategic initiatives
  - Lead projects across functions that align with the company's vision, while maintaining line of sight throughout the organization

Derived from Deloitte stakeholder interviews, including over 50 CFOs, in preparation for Deloitte Tax Executive Transition Labs.
Future of tax organization design framework

Six steps to define the roadmap

## Art of the possible
- How are digital disruptions transforming Tax and Finance? Why should we care?

## Vision
- What is our Vision for the Future Tax Organization?

## Work
- How can we optimize the way work gets done?

## Workforce
- What skills do we need?

## Workplace
- How do we enable our organization?

## Roadmap
- How do we implement?

### Tax Digital Framework

- **Process/role simplification**: Simplify processes, leveraging a single tax portal for support tickets, access control, and user management. The portal simplifies multiple clicks and supports standardization.

- **Tax decision rules**: Eliminate manual tax decisions and standardize system logic to mitigate risk of inaccurate payments and reporting.

- **Data management**: Leverage finance technologies or separate technology if needed—a data hub for tax to provide a single source of truth, eliminate manual data requests, and mitigate risks of inconsistent data across tax processes.

- **Data wrangling & analytics**: Leverage data wrangling and visualization tools to organize and combine data, to provide a foundation that can enable smarter decision making in real-time.

- **Robotics process automation (RPA)**: Automate remaining manual processes like data extraction, manipulation, reconciliation, and forms completion—by replacing repetitive tasks with software, freeing digital labor to your headcount.

- **Cognitive intelligence & machine learning**: Explore the potential for exponential value-add through cognitive intelligence driven applications such as machine learning and natural language processing.

- **Business partnering**: Build relationships across the organization and with tax in key aspects of the business to advise on transactions proactively and real-time.
Future Tax Department – Data

Data Trends

Data problems hide beneath the surface for many CFOs, some of whom don’t fully appreciate the heavy lifting required to fulfill their requests. That’s partly because the problems involve technical issues, and partly because there’s little motivation for people to elevate the problems to the corner office. No one wants to be the bearer of bad tidings.

Automation and cognitive will make it easier to get the work done, but it’s still going to be hard and tedious.

What to do

- Articulate all Tax Department Data Requirements to the Finance Function
- Convene a data summit with your finance technology team and those responsible for master data management. Ask for a review of the quality of data needed for critical business analysis.
- Identify areas where there’s a pressing need for improvement. You may not really care about this now, but when you eventually do care (and you will), you’re going to care a whole lot.
- Identify where there are tax planning opportunities if data could be obtained at a more granular or cleaner manner
Future Tax Department – Value and Needs
Workforce and workplace

Employees will be doing new things in new ways, some of which will make CFOs uncomfortable.

Finance talent models are evolving quickly, with a premium placed on data scientists, business analysts, and storytellers. This represents a dramatic shift for many finance organizations. To get ready, make sure your new hires represent the future you’re striving for. Important qualities include a strong customer service orientation, flexibility, and good collaboration skills—in addition to the technical capabilities needed for specific jobs. Also, all of your people should be able to contribute to elevating the value of Finance in terms of communication, impact, and influence. Make every new hire count.

Work

With rule-based work largely automated, the focus shifts to business-facing analysis and exception-based investigations. More time will be spent on proactive support. Tools like predictive modeling, self-service reporting, and digital assistants enhance the capacity for employees to provide more advice on strategic interventions.

Workforce

The workforce of the future will bristle with cross-functional teams and constant collaboration. Finance organizations will need their people to be more flexible and open than they’ve ever been. Data scientists will work alongside business analysts to solve problems no individual could solve alone. Everyone will need more technical literacy, just as everyone will need a customer-service mindset.

Workplace

As the finance workplace evolves to embrace more self-service, expect to see digital assistants filling in where analysts used to operate. This technology will serve both customers of Finance and workers in Finance with new tools that make it easier to get information and make sense of it. This shift will elevate the importance of visualization, as well as tools to keep people well-connected. Ironically, the future may require more physical proximity for teams, especially in the early phases of projects and work planning.

Digital tax department of the future

New professional skills and training are required

<table>
<thead>
<tr>
<th>Tax professional skills</th>
<th>Past</th>
<th>Future</th>
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<tbody>
<tr>
<td>Tax technical</td>
<td>🟢</td>
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<tr>
<td>Global project management</td>
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<tr>
<td>Data management</td>
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<td>Technology application</td>
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<td>Process optimization</td>
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<td>People change management</td>
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<tr>
<td>Consultative business</td>
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Skills requirements are changing
Specifically, tax organizations are looking for skills related to leveraging digital technologies and analyzing data

Top-3 targeted skills
- Analytical
- Digital technologies/automation
- Core business skills

Other skills
- Talent
- Continuous (process) improvement
- Risk management
- Leadership

Future Tax Department – Operation Models
Operating model

Companies may see significant disruption in the offshoring and outsourcing space, with individual suppliers and their capabilities looking quite different than they do today. At the same time, the need to build dynamic, cross-functional teams will strain finance organizations that aren’t preparing now for what’s ahead. As with all changes, good leaders will be essential for navigating these transitions.

What to do

- Formulate strategies for automation, cognitive, and blockchain over the next five to seven years.
- Identify how productivity improvements will be shared. Insist on being dealt into the game on automation upside.
- Use scenario planning to figure out how technology will affect choices about what work should be done where and by whom, including potentially not within the Tax Department.

Outsourcing trends in the marketplace

Percentage of respondents planning to maintain or increase their level of outsourcing

<table>
<thead>
<tr>
<th>Service</th>
<th>Currently Outsourcing</th>
<th>Planning to Maintain or Increase Level of Outsourcing</th>
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<tbody>
<tr>
<td>IT</td>
<td>74%</td>
<td>87%</td>
</tr>
<tr>
<td>Tax</td>
<td>56%</td>
<td>92%</td>
</tr>
<tr>
<td>HR</td>
<td>52%</td>
<td>88%</td>
</tr>
<tr>
<td>Finance</td>
<td>39%</td>
<td>89%</td>
</tr>
<tr>
<td>Procurement</td>
<td>43%</td>
<td>93%</td>
</tr>
</tbody>
</table>
Evaluate operating models aligned with the strategic vision

Using the value matrix to unlock insights

<table>
<thead>
<tr>
<th>Non-Strategic, Non-Value Added</th>
<th>Strategic, Value-Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry-specific knowledge applied to business</td>
<td>Tax strategy</td>
</tr>
<tr>
<td>Transaction planning and related matters</td>
<td>Tax planning and related activities</td>
</tr>
<tr>
<td>Tax audit management</td>
<td>Tax accounting processes</td>
</tr>
<tr>
<td>Transfer pricing policies</td>
<td>Business unit-specific tax planning matters</td>
</tr>
<tr>
<td>FIN 48 calculations and related management</td>
<td>Understanding new business units and establishing tax profiles</td>
</tr>
<tr>
<td>Section 404 compliance activities</td>
<td>Interface with businesses and financial reporting</td>
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<tr>
<td>Day-to-day inquiries from the business</td>
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Focus on unique non-value items

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<thead>
<tr>
<th>Focus on efficiency and quality</th>
<th>Focus on company knowledge</th>
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</thead>
<tbody>
<tr>
<td>Routine income and Franchise tax compliance</td>
<td>Special projects requiring specialized tax knowledge/higher risk positions</td>
</tr>
<tr>
<td>Transactional tax compliance activities</td>
<td>Credit studies e.g. R&amp;D credit or state credits</td>
</tr>
<tr>
<td>Non-US Local country tax compliance processes (indirect and direct tax, VAT)</td>
<td>Tax accounting and filing methods reviews</td>
</tr>
<tr>
<td>Tax depreciation calculations</td>
<td>Technology selection and implementation projects</td>
</tr>
<tr>
<td>Selected routine data management tasks</td>
<td>Transfer pricing documentation activities</td>
</tr>
<tr>
<td>Supporting activities for tax audits</td>
<td>Controversy matters – assistance with unique items</td>
</tr>
<tr>
<td></td>
<td>Digest Tax Reform and apply to tax compliance and consulting</td>
</tr>
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Focus on specialists

Final thoughts

Much of tax in the past has been defined by the steps required to produce forms and reports themselves: collecting data, performing calculations, constructing reports/form, and disseminating them. That’s changing. In a digital world, process flows, dashboards and digital technology will do a lot of that work, which means humans get to do more interesting things.

Some of these are things you’ll want your best people working on. Bringing insights to the business. Creating effective stories about what information might mean to different audiences.

Ensuring that the quality and accuracy of your company’s data are superior.

Keep these things in mind. They’re important. Don’t let yourself get caught up in technology bells and whistles.

The Tax Function isn’t all about about technology. It’s about understanding information and making more effective decisions. New tools may take some of the tedious and repetitive work out of reporting processes, but there is an indispensable role for human intelligence. Make sure your people know that.