Why five years of transforming tax and finance functions is paying off

Building a better working world

Contents

Introduction

New tax operating models in the last five years delivered value to businesses, the survey shows. The next five years will add even more.

Converting organizations' tax and finance functions into modern, data-powered operations that deliver insights to help direct the wider enterprise is one of the most significant and consequential business stories of this young century.

The EY organization has been chronicling this trend for the last five years with a series of surveys. The transformation began as a practical solution for these critical but cash-strapped divisions dealing with a confluence of pressures. These pressures include rapid legislative change, endlessly accelerating data and technology developments and a radically shifting talent environment, including a continued shortage of accounting and tax professionals.

Making the change

96%

of businesses say they are transforming their tax operating model.

The 2023 EY Tax and Finance Operations survey of 1,600 tax and finance professionals across 32 jurisdictions and 18 industries finds the phenomenon is evolving in critical ways. Among other things, it's now clear these transformations are being driven by more than just pragmatism – they are intended to empower tax and finance functions to deliver more strategic value to inform and influence decision-making across their businesses.

Tax functions are adapting to current pressures

The latest survey finds businesses face many of the same pressures that sparked the transformation trend in 2018:

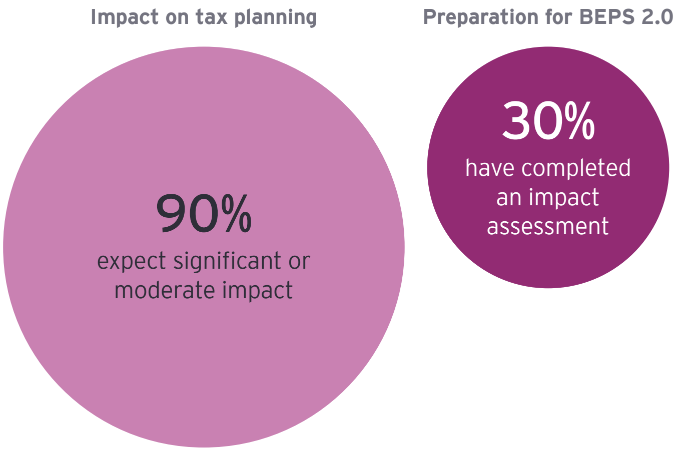
- 51% of leaders say they struggle with motivating talent and avoiding burnout.
- 48% say the lack of a sustainable plan for data and technology is the biggest barrier to achieving their vision for a modern tax and finance function.
- 90% say they expect moderate to significant changes to their business operations as a result of the implementation by governments of global minimum tax rules developed by the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework.
- 75% say they plan to reduce the costs of their tax and finance functions over the next two years. Broadly speaking, respondents have reported an average two-year cost reduction ranging from 4% to 9% in each of the four EY surveys, including the newest one.

The new survey does find more businesses are transforming – and co-sourcing – in response.

- 96% say they're changing, whether it's to build their own capabilities, outsource key tax and finance functions to third-party vendors or some combination of the two.
- 95% say they're more likely than not to co-source tax and finance operations in the next two years, an increase from 81% and 73% in 2022 and 2020, respectively.
- Co-sourcing with a provider with significant capabilities in data, technology and a shared services center delivery model was identified as the top priority by respondents making changes.

"Companies have gone from 'how?' to 'now!'" says Marna Ricker, EY Global Vice Chair – Tax. "The conversation around transforming tax and finance functions has changed in five short years from 'is this something we should do?' to 'how quickly can I get the most out of a co-sourcing relationship?'"

Figure 1: BEPS 2.0 expected impact on tax planning and business operations



The BEPS 2.0 Pillar Two Model Rules provide for a global minimum tax of 15% applicable to multinational enterprise (MNE) groups with a global turnover of €750 million or more.

Making a five-year plan

The trend of transforming tax and finance functions has evolved over the last five years. The newest EY survey draws important conclusions about how businesses are positioning their tax and finance functions for the next five years. During this time, survey respondents indicate they expect existing pressures to become magnified and new ones to emerge.

For example, there are concerns about how to deal with requirements around global minimum tax rules developed in Pillar Two of the OECD/G20 Base Erosion and Profit Shifting (BEPS) 2.0 project – while 90% said they expect to experience a "moderate" or "significant" impact from BEPS 2.0, only 30% have completed an impact assessment. Survey respondents also say there is growing pressure on tax and finance functions to provide the data companies need to meet their environmental, social and governance (ESG) and sustainability objectives and obligations, including voluntary disclosures of tax information to the public. Many are struggling with post-pandemic shifts in where and how workforces perform their tasks. And questions about how generative AI tools will affect tax compliance and administration loom.

Importantly, the report examines how enterprises that have already undertaken transformations appear to be more confident about handling some of these challenges to come.

"There is considerably more change coming than I can think of for a long while," says Dave Helmer, EY Global Tax and Finance Operate Leader. "The good news is that companies that have gravitated toward transformation, including co-sourcing, are feeling slightly less pressure because they have many of the data collection, platforms, technology tools and/or processes in place to facilitate what lies ahead. Still, the pressure will never completely go away, so it's more important than ever to have a plan for the future."

From how to now: Businesses have embraced co-sourcing

Building world-class tax and finance functions still appeals to some, but co-sourcing is more popular as smaller enterprises transform.

In the inaugural 2018 survey, 84% of companies told us they were exploring how to transform their tax operating models to better manage relentless pressures. They just weren't sure how to do it.

Building in-house modern tax and finance functions equipped with the right people and future-proof technology remains a viable path for some. But the latest survey makes clear that co-sourcing with third-party vendors that invest in dedicated people, data capabilities and technology needed to manage the complexities and pressures on modern tax and finance functions has emerged as a preferred choice for many businesses.

Ninety-five percent of respondents say they are more likely than not to co-source selected tax and finance activities over a two-year period in the new survey, a 22 percentage point increase since 2020.

The allure of co-sourcing

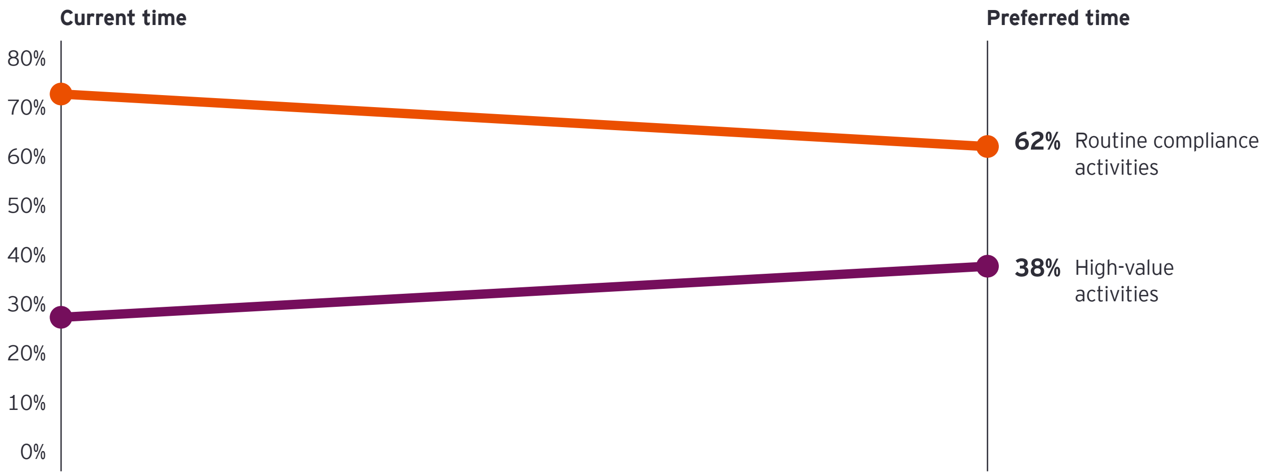
95%

of companies are more likely than not to co-source select tax and finance activities in the next two years.

Moreover, respondents say they're co-sourcing across a wide range of tax competencies, including tax accounting, direct tax, indirect tax, environmental tax and transfer pricing. Ninety-one percent say they're co-sourcing other finance function activities, including statutory reporting compliance, legal services, payroll, HR and other people-related services, customer reporting, and ESG reporting.

Moreover, we're seeing businesses consolidate their service providers. Respondents reported using 1.5 of the Big Four providers on average, with 52% of the respondents using only one of the Big Four for tax co-sourcing services.

Figure 2: Tax personnel prefer to spend more time on high value activities than routine compliance activities



High-value activities: include data analytics, tax planning, tax controversy, strategy, communications; risk management. Routine compliance activities: include data collection/cleansing; workpaper preparation, tax return compliance related and reconciliations

A better way to manage the team

Co-sourcing is broadly viewed as a way for workers to spend less time on routine and repetitive compliance activities and more time on strategy and other value-added work. Currently, respondents say their tax personnel spend 72% of their time on routine compliance work (including data collection and cleansing, tax return compliance and related reconciliations) and 28% of their time on higher-value work such as data analysis, tax planning, managing tax controversy, general strategy, communications and risk management. They would prefer those figures to be 62% and 38%, respectively. Nearly all respondents say they plan to reallocate more resources to strategic work from routine activities.

Transforming tax and finance functions is one way to achieve those gains. Fifty-nine percent say the ability to drive effective talent management is the most significant benefit of partnering with a provider to co-source multicountry tax compliance and statutory reporting activities. Just 18% identified cost savings as the biggest benefit.

Businesses also view co-sourcing as an efficient and convenient way to match knowledgeable talent and technology resources to fluctuating workloads within their businesses, including special projects and unexpected events like the COVID-19 pandemic.

> “
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>
> Todd Davis,
> Warner Bros. Discovery, Executive Vice President – Senior Tax Counsel

"Co-sourcing allows us to dial up and dial down the people and technology in a cloud-like concept as needed," says Todd Davis, Warner Bros. Discovery Executive Vice President – Senior Tax Counsel. "It allows us to be sure we're meeting our core compliance obligations in an efficient way while freeing our own talent to better analyze and understand how tax will affect broader business decisions being made, including supply chain changes, acquisitions or divestments, and where to invest research funds. It really allows us to be ready for anything."

Grant Duncan, Fonterra Global Head of Tax, agrees. "Co-sourcing has given us a high level of confidence that our compliance is being managed appropriately and accurately in each country," he says. "This frees up my team's time and resources to perform more strategic tasks and value delivery. It also gives the Board the confidence that we are managing all of our tax risks globally. Simply put, co-sourcing delivers a high-quality product that would have cost significantly more to replicate in-house."

Indeed, the survey finds respondents have a long list of priorities to which better-functioning tax and finance operations could potentially contribute. Among these, 49% say looking to tax planning as a way to drive increased cash flow is "very important," followed by 47% who say they are reviewing projects and capital expenditures. Another 47% say undertaking a digital transformation related to front office activities is a "very important priority."

Driving cash flow

49%

say tax planning as a way to drive cash flow is "very important."

A wider range of businesses are also transforming and co-sourcing

The trend of transforming tax and finance functions and the ensuing popularity of co-sourcing as a solution initially started with the world's biggest companies, especially those with revenues of US$20 billion and above.

Our latest survey finds a sharp increase in action being taken by businesses in smaller revenue bands; co-sourcing is also growing in popularity with these businesses. For example, the proportion of businesses with US$20 billion and above that were "more likely than not" to co-source, remained at a significant 95% in 2023. Among businesses with revenues below US$20 billion, that figure is 94% this year, up from 79% in 2022.

"There's an incredible amount of interest in co-sourcing across all businesses," says Ryan Burke, EY Global Private Leader. "A lot of businesses have seen the benefits the first movers have enjoyed and have made their decision to act on a transformation as a result."

Privately held companies are also transforming, although their reasons for doing so differ somewhat from their publicly held cohorts. Among other things, the surveys have shown private companies view having modern tax and finance functions as being a competitive advantage. Their boards and C-suites are also even more likely to view the tax function as a strategic partner for the business.

That's true at family-owned Boehringer Ingelheim, which recently undertook a major transformation of its tax function. The decision was consistent with a long-standing tradition of acting with ingenuity and having a first-mover mentality. The company focused on driving tax operating model innovation in different dimensions – locally and globally – with regard to the past, present and future.

"We wanted to move fast and challenge the status quo of common tax compliance practices. Our goal was clear – raise quality, boost efficiency and leverage new ways of sourcing and technology to ensure global tax compliance," says Malte Fidler, Boehringer Ingelheim's Global Head of Tax & Trade Governance. "We trust our service provider to deliver the highest quality and make the whole system work every day. In the end, this is a question of people interacting with trust and solving complex and pressing problems together."

How new operating models are managing ongoing pressures

Transformed tax and finance functions say they can perform essential tasks and advise the business on strategic direction.

Hiring and retaining skilled talent, the rapid pace of legislative and regulatory change and the need to keep up with technological advances have been the primary drivers of tax and finance operating model transformation over the last half-decade. Budget pressures have also been a contributing factor.

The new survey confirms these factors are still the biggest concerns. For example, 48% of respondents identify a lack of a sustainable plan for data and technology as the biggest barrier to achieving their tax and finance function purpose and vision, the third consecutive survey for which that has been true. Twenty-eight percent blame their inability to hire and retain the required talent. Some 24% say a lack of budget was their biggest barrier. Indeed, three-quarters in the latest survey say they plan to cut the cost of their tax and finance function over the next two years, consistent with previous years. In 2018, survey respondents were planning a 9% reduction. It was 8% in 2020, 6% in 2022 and 4% in 2023. Headcounts are also shrinking — 91% report that they plan to freeze or reduce the number of workers in their function in the next two years by an average of 4.4%.

Meanwhile, many of these pressure points have developed new layers that are intensifying the challenges confronting tax and finance functions. Changing work conditions, for example, is affecting the talent puzzle. And implementing BEPS 2.0-inspired tax reforms will create a labyrinth of new compliance obligations, many of which will require businesses to rely even more heavily on technological solutions they may not be able to procure for themselves. Changing economic circumstances and the specter of recession loom large. And businesses are grappling with shifting supply chains, which have massive tax implications, especially in transfer pricing.

A more complicated talent picture

In addition to shrinking headcounts, 63% say their employees will need to augment their tax technical skills with new data, processes and technology abilities in the next three years. And 29% say they don't have enough highly skilled professionals capable of monitoring, evaluating and implementing tax legislative and regulatory change around the world.

Struggling with talent

51%

say they struggle with motivating talent and avoiding burnout.

In addition, two-thirds of respondents say they are at least moderately struggling with promotions and putting employees on a career path. More than half say they are experiencing at least moderate struggles in motivating talent and avoiding burnout. Nearly half – 48% – have at least moderate struggles paying employees at market rates. Notably, respondents that co-source 25% or less of their workload were much more likely to report struggling with these issues than those that co-source higher concentrations.

"It's harder than ever to find the right combination of tax knowledge and data literacy," says Andy McLean, President Tax and Treasury at the international engineering services company John Wood PLC. "Working with a partner that has a team of dedicated professionals and a leading technology solution is often a more reliable way to go."

A more complex legislative and regulatory environment

The legislative and regulatory outlook, one of the original catalysts for the tax operating model transformation trend, is even more daunting than the murky talent picture.

Even as tax functions brace for sweeping reforms unfolding around the world as governments implement the BEPS 2.0 global minimum tax rules, they are dealing with a plethora of ongoing tax legislative and regulatory complexities. These include the US corporate alternative minimum tax, green and sustainability taxes, a sharp uptick in formal and informal requests for information from tax authorities and increasing demands for digital filings containing real-time transactional information. Other challenges include complying with the EU Carbon Border Adjustment Mechanism (CBAM) and filing country-by-country reports with multiple jurisdictions.

Tax and finance functions are also responding to changing operational decisions, especially in the area of supply chains. Seventy-nine percent of respondents say their organizations have already made moderate or significant changes by moving to other locations to reduce supply chain risks. Eighty-eight percent anticipate making additional moderate to significant changes to their supply chains over the next two years.

"It has always been a challenge to keep track of the twists and turns of tax legislation and finance regulations around the world, but that task has shifted into a higher gear in the last year," says Daniel Goff, Microsoft Corp. Vice President, Worldwide Tax and Customs.

Figure 3A: The impact of emerging reporting requirements on tax and finance functions varies by sector and region

Respondents that say new or emerging reporting requirements will have a significant impact on their tax and finance function

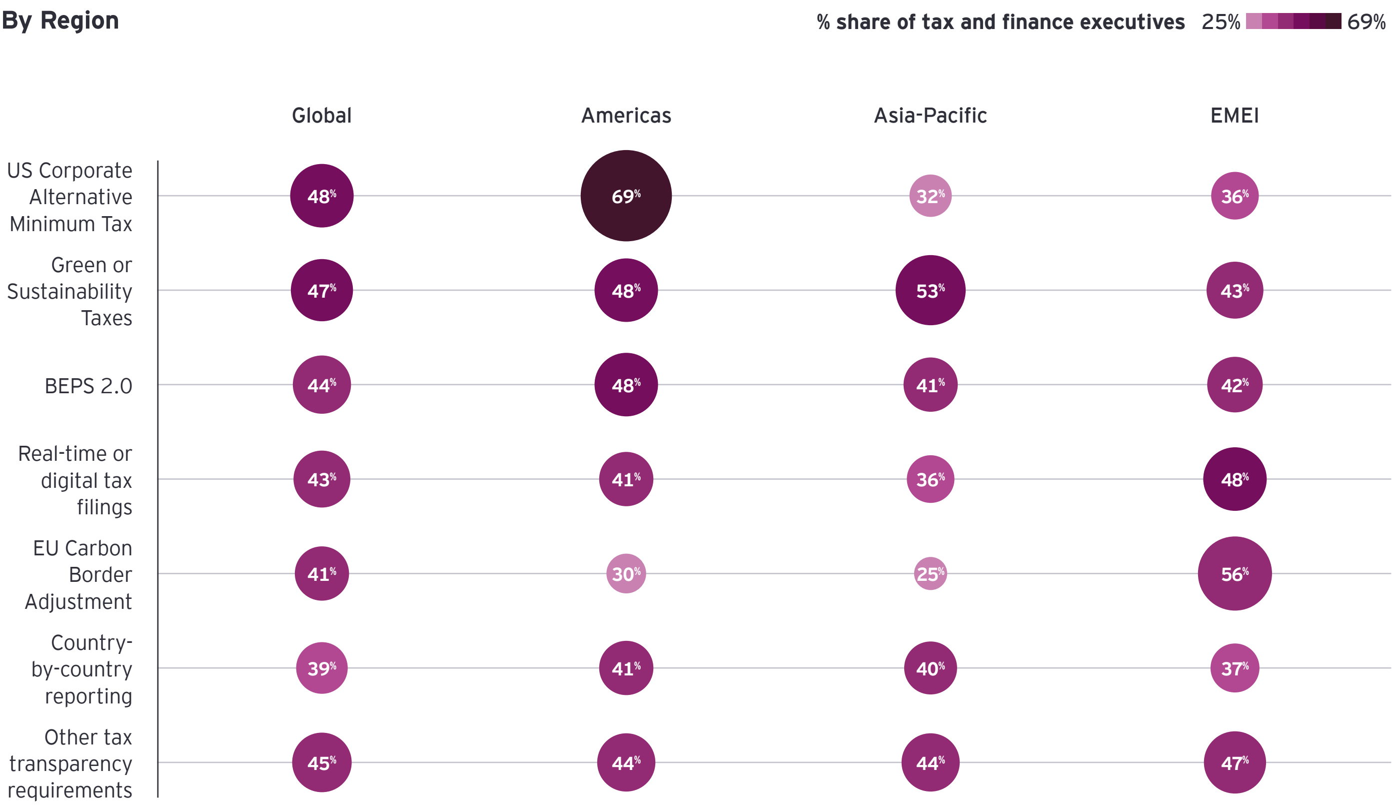
By Sector

% share of tax and finance executives 25% – 69%

	All respondents	Manufacturing	Consumer	Energy	Financial Services	Real estate	Life sciences	Private Equity	Technology
US Corporate Alternative Minimum Tax	48%	49%	47%	49%	43%	47%	47%	32%	54%
Green or Sustainability Taxes	47%	60%	33%	65%	34%	57%	61%	38%	37%
BEPS 2.0	44%	44%	47%	44%	44	30%	47%	36%	48%
Real-time or digital tax filings	43%	26%	47%	33%	49%	43%	55%	56%	42%
EU Carbon Border Adjustment	41%	53%	44%	38%	32%	41%	44%	32%	43%
Country-by-country reporting	39%	43%	39%	37%	35%	41%	36%	28%	44%
Other tax transparency requirements	45%	46%	55%	44%	45%	39%	39%	42%	47%

Figure 3B: The impact of emerging reporting requirements on tax and finance functions varies by sector and region

Respondents that say new or emerging reporting requirements will have a significant impact on their tax and finance function



EMEI: includes Europe, Middle East and India

More governance and transparency

Businesses are also under increasing pressure to adopt more robust tax governance policies as a result, especially if they want to manage what is projected to be a large uptick in tax controversy in the coming years. Generally, this is causing businesses to be more transparent than they ever might have considered being even a decade ago. Every respondent says they would make at least some voluntary disclosures beyond what governments mandate – the most common example is public disclosure of the business's tax governance framework, something 49% of respondents say they plan to do. Ninety-two percent say they would disclose at least three new pieces of tax data to the public, with information about property taxes and employer-paid payroll taxes ranking second and third behind tax governance frameworks.

More transparency

92%

say they intend to disclose at least three new pieces of tax data to the public beyond what is mandated by governments.

Being more transparent brings additional risks because it's critical the disclosures are interpreted accurately and fairly by stakeholders, the news media and the public. A transformed tax function will be better positioned to put public disclosures in the proper context. That requires both the right data and access to the right people with the right data skills.

Seeking a mature data and technology model

Being able to harness the right data is absolutely critical for success in the fast-moving world of tax administration. It helps with better, faster and more informed decision making within the business and also in responding to tax authorities and regulators in an era of more tax transparency.

The lack of a sustainable plan for data and technology is consistently identified as the biggest barrier to achieving tax and finance functions' purpose and vision in the surveys over the last five years also helps explain the popularity of co-sourcing. This is especially true among businesses with under US$20 billion in revenues, which are less likely to have resources to build future-proof systems in-house.

In fact, 61% of survey respondents report they rely on service providers to consolidate tax data on their behalf, while just 34% report having their own data lake or warehouse. Seventy-two percent say they have some gaps between their Enterprise Reporting Planning (ERPs) and source systems set to capture relevant tax information, and just one in five say their tax and finance functions' data management capabilities are most mature. Businesses that co-source higher levels of activities were much more likely to report having higher levels of data management maturity than those that co-source 25% or less of their activities.

Consolidating data

61%

say they rely on third-party providers to consolidate tax data on their behalf.

"Given the world of generative AI and the speed at which technology is reshaping our future, the most fundamental thing to get right is an organization's data foundation," says Lyn Bird, Microsoft VP Transformation. "Having the right data strategy in place is absolutely critical to success in today's business environment. You need to be able to gather and organize the right data and then ask the right questions. So, it's not so much what is the data; it's what questions we need to ask to drive better value, insights and compliance across the organization."

The top three most important process and technology capabilities when choosing a provider include integrated document management providing access to documents from dashboards and workflow, standard reporting and analytics and a common data model providing for increased automation, and data reuse, the survey finds.

These findings also help explain the co-sourcing phenomenon. Third-party providers have made dedicated investments in these capabilities (and the people to complement them). And while the survey's sponsor was unknown to the respondents, the EY organization was identified as the global market leader for co-sourcing and for data and technology tax services for the fourth consecutive year.

Dealing with global tax reform and ESG

BEPS 2.0 is increasing the need for accurate data that can be communicated effectively. The same is true for meeting ESG obligations.

Complying with BEPS 2.0 implementation as well as increasing ESG compliance and reporting requirements can put additional demands on the resources of tax and finance functions. The reforms unfolding around the world as governments implement the BEPS 2.0 recommendations are dramatic. They create new reporting requirements on businesses, force additional calculations for enterprises that might be subject to global minimum taxes and fundamentally change basic tenets that have guided international tax norms for more than half a century.

With these changes come significant new data requirements. Tax accounting teams are already scrambling to improve record keeping, structured data requirements and collect more refined information about a variety of financial affairs. Complex analyses of when and where "top-up" taxes will apply will require next-level capabilities for tax functions and may not exist for many in-house operations.

> "Complying with the BEPS 2.0 changes alone will be a massive undertaking. A lot of businesses are going to need help.
>
> Jeffrey Michalak,
> EY Global International Tax and Transaction Services Leader

While 90% of respondents to the survey say BEPS 2.0 will have a moderate or significant impact on their business, just 30% have completed an impact analysis. Perhaps one reason for this lag is the amount of time tax and finance functions must spend managing all of the other pressures they're already under — with fewer resources than ever.

"Complying with the BEPS 2.0 changes alone will be a massive undertaking," says Jeffrey Michalak, EY Global International Tax and Transaction Services Leader. "A lot of businesses are going to need help."

Tax and finance functions also are key drivers in an organization's sustainability strategy. Beyond addressing ongoing compliance and reporting requirements, they can play an integral role in securing green finance options, which include ESG incentives, credits and grants. These, in turn, provide the organization with funding for sustainability infrastructure, technology and innovation.

The increased involvement of the tax and finance functions in the sustainability journey didn't exist in 2018 with the same intensity they do now. Tax strategies and sustainability strategies are becoming more closely linked, and tax and finance will continue to play a role in defining and shaping ESG approaches and reporting. Just 28% of respondents describe their organization as being "advanced" on its ESG journey, meaning it can drive business innovation, supply chain sustainability and public reporting against ESG goals. Half say they are mid-stage, and 21% describe their organization as being in the early stages. Clearly, there is more work to be done, and modern tax and finance functions will play a central role.

ESG progress

28%

say their organization is at an "advanced" stage of their ESG journey.

What businesses should do next

Businesses should take lessons from five years of transformation experiences to make a plan for the next half-decade.

The story of reimagining tax and finance functions over the past five years is instructive for those trying to plan for the next five. And every tax and finance function should have a five-year plan, even the ones that have undergone or are undergoing a transformation.

Fundamentally, businesses have the same choices they had in 2018: First, they can build modern tax and finance functions internally by investing in the right people, data capabilities and technology. And some have chosen to do so. Second, they can outsource a significant amount of their tax and finance compliance activities. Or third, they can take the hybrid approach, co-sourcing with external providers on some activities while choosing to keep others in-house. Clearly, after five years, the hybrid approach has proven to be more popular.

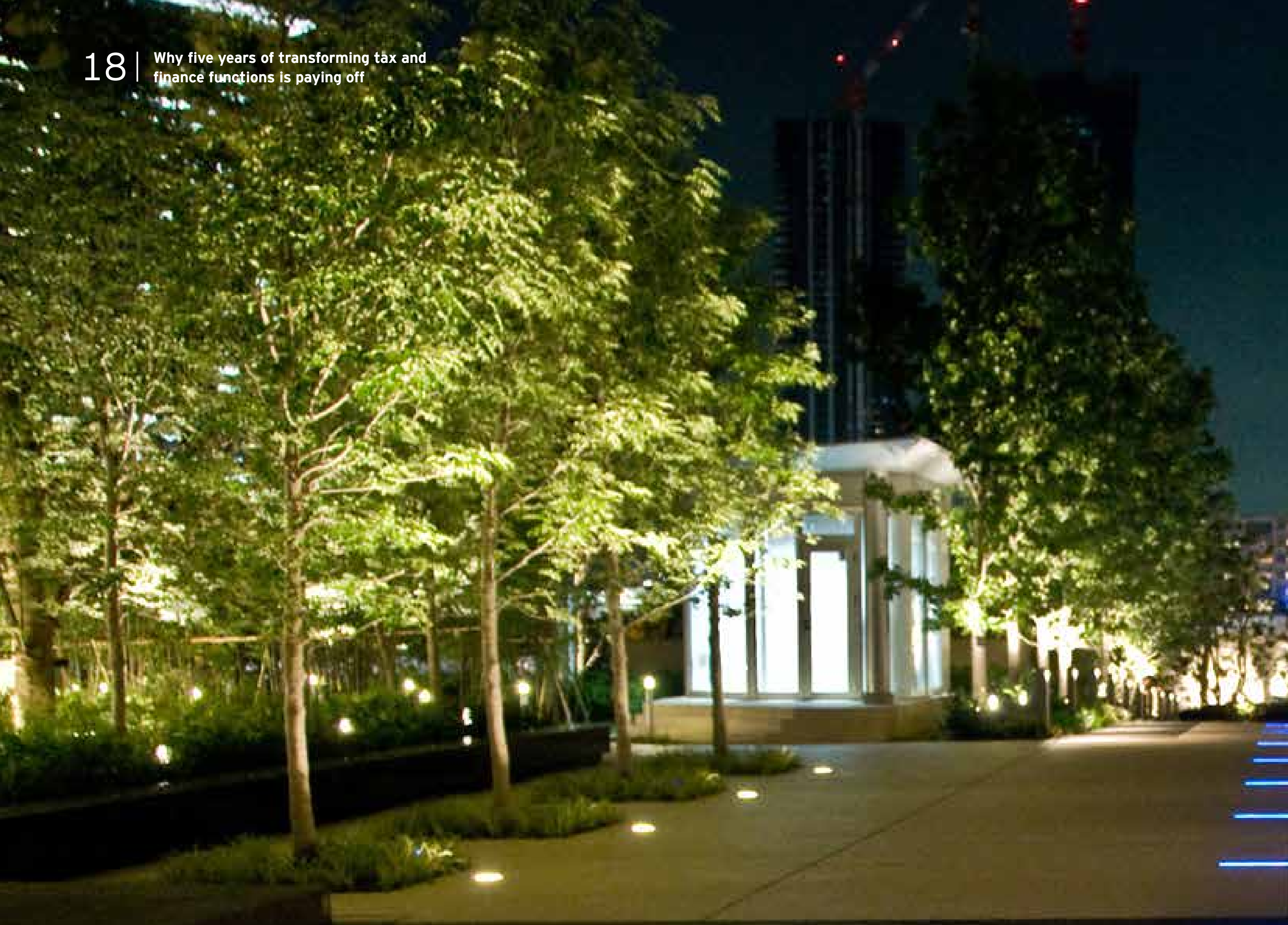
All of the pressures that initially drove tax and finance functions to modernize will continue to exist over the next half-decade. They will just be exacerbated by additional developments. There will be more legislation. Workforce demographics have fundamentally shifted, perhaps permanently. The geopolitical environment is highly unpredictable. And technology will continue to make breakthroughs (in the survey, 85% of respondents say they don't think generative AI tools will help drive increased effectiveness and efficiencies within their tax function in the next three years; we aren't as convinced, as we are long-time users of AI in our business and are accelerating our innovative generative AI use cases daily).

Anyone making a new five-year plan for their tax and finance functions should do the following:

- Adopt a strategic view around talent. The best-prepared businesses need to be able to attract, develop and retain people who know not only tax but also how to use technology to analyze data in a way that complies with the law and helps deliver insights to the full enterprise. Developing a people model for the next five years is a huge issue for all businesses but a mission-critical one for those in smaller revenue bands.

- Also, review strategy around working with other functions on a comprehensive technology strategy that can integrate with new advances that are coming, especially generative AI. A sound data and technology strategy allows for efficient reuse and will drive efficiencies by helping well-trained people develop predictive analytics. At the same time, achieving more automation also reduces pressure on people.
- Determine how to identify, evaluate and implement regulatory, legislative and transparency initiatives, especially those related to BEPS 2.0 implementation in the coming years. Businesses that lack the right people and systems will especially struggle with all of the legislative and regulatory change that is coming. It's going to be more important than ever over the next five years to communicate quickly and plainly to the C-suite and Board what these changes mean for the larger enterprise.
- Tax and finance functions should do an even better job of being tied to business change overall. The transformation will better equip tax executives to be thought leaders and help apply their tax insights, including those derived using advanced analytical tools, to long-term business strategies and decisions. But they need to get in the room where those decisions are made.
- Make space for tax and finance functions to play a principal role in the organization's sustainability strategy. This allows tax and finance to help manage ESG messaging, educate leadership on tax implications and evaluate potential risks.
- Finally, find the right balance of internal and co-sourcing arrangements to solve all of these challenges. An effective co-sourcing arrangement should cover basic tax and finance compliance obligations while providing the agility needed internally to get the most out of a function's people.

"As a company, you need a view on how you're going to pull all these pieces together," Helmer says. "You need this plan to have accurate compliance and drive value in the organization, and you need to do it in an efficient way. Transforming tax and finance functions into critical and trusted business advisors is well worth the investment."



About the survey

Insights from 1,600 executives globally

The 2023 EY Tax and Finance Operations Survey was conducted by Oxford Economics from April to May 2023. The double-blind study queried 1,600 executives at more than 1,000 large companies in 32 jurisdictions and across 18 industries to understand how tax and finance functions are being affected by change. The EY organization was not identified as the sponsor of the survey.

Participant profile:

1,600
Senior tax and finance executives

18
Industries

32
Jurisdictions

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