Reimagining the tax and finance function

Find your path forward

Building a better working world

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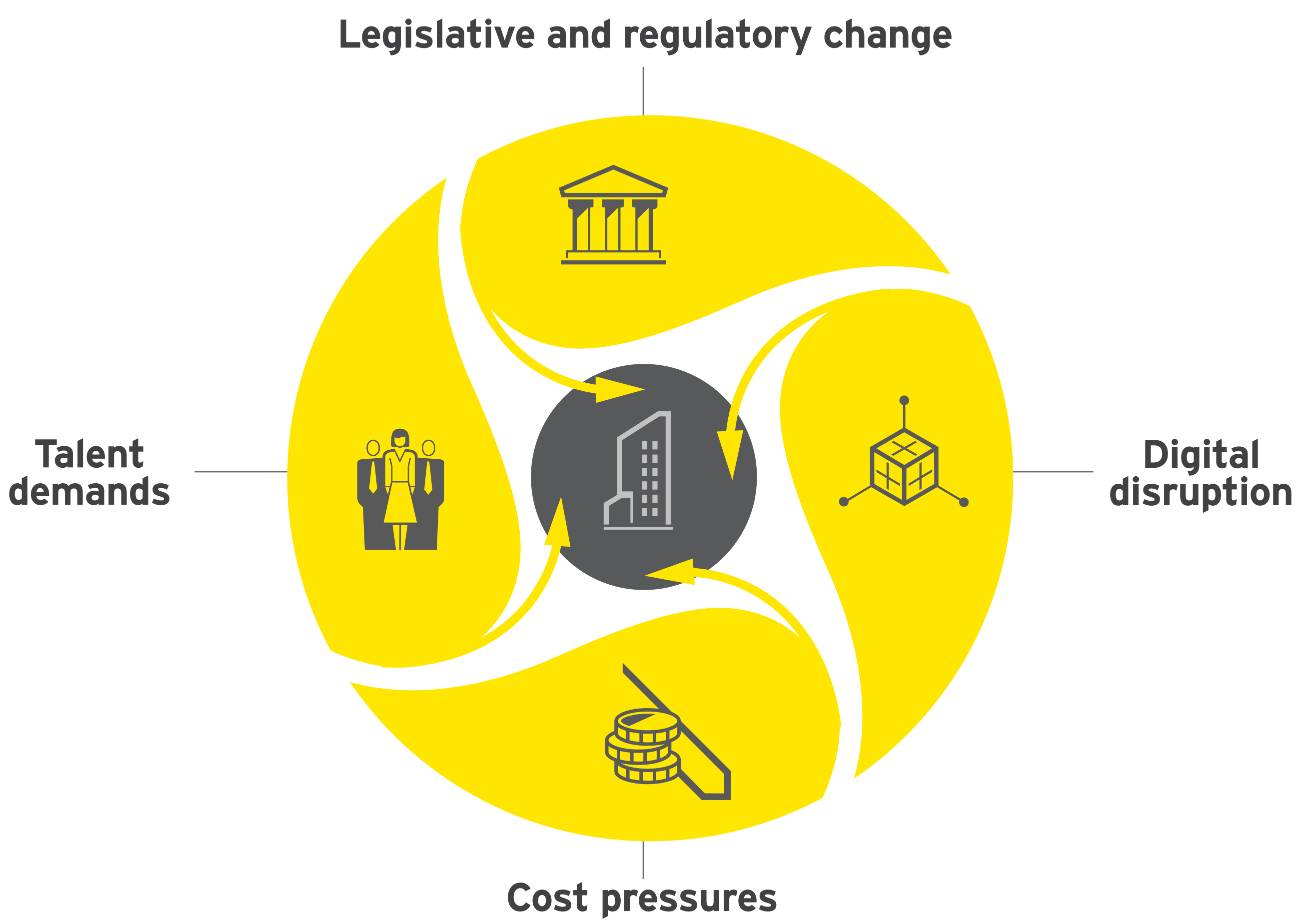
Introduction

This study of senior executives from 1,722 large organizations around the world indicates that 84% of companies are taking action due to deficiencies in their current target operating model.

It demonstrates how the tax and finance function generally is struggling to keep up with digital advances, a push toward transparency and global reforms of the international tax system.

The survey, which was conducted by Euromoney Institutional Investor Thought Leadership and includes respondents from 63% of the Forbes Global 500 largest public companies, indicates organizations recognize they need to be bold and innovate their tax and finance function to successfully manage these pressures and deliver value in an era of cost reduction. But it also shows many are struggling to find the right solution.

Tax and finance function challenges



EY's experience from advising organizations around the globe is that merely keeping pace is not a successful long-term strategy in this new world. **Companies must identify and execute the change required within their own organizations to adapt to the continuing challenges they face.** For global organizations, that means reimagining the tax and finance function.

Once they decide to act, leading companies typically choose one of three approaches. Each has its pros and cons. This report explores these options in more detail, using survey results to explain what companies are doing in the aggregate while offering insights to help companies decide which approach is right for them.

The first option is rebuilding or transforming the existing tax and finance function. This generally will include building a new digital platform, training or hiring tax technologists who understand both tax and the new tools and exploring the creation or expansion of a shared service center. This option generally causes less disruption in the organization and offers the most control. But it's expensive, requires significant management focus and can be hard to staff due to a shortage of talent with the right blend of skills. And it requires constant vigilance to ensure people, processes and technology keep pace with change.

The second option is outsourcing tax and finance activities to a third party. Under this option, the IT costs and risks are shifted to the vendor(s) who have already made large investments in a technology platform and a global network of skilled people. However, it requires a significant change for the organization, including a new management and governance model.

The third option is a blend of the prior two options as companies look to maximize effectiveness and control while still reducing the overall cost of the tax and finance function.

We hope this report will help readers draw conclusions of their own as well as benefit from our actionable insights and the suggested path forward found in the conclusion. Do they want to transform their tax and finance function? Do they want to outsource their tax and finance function? Or is the right answer somewhere in between? Now is the time to act.

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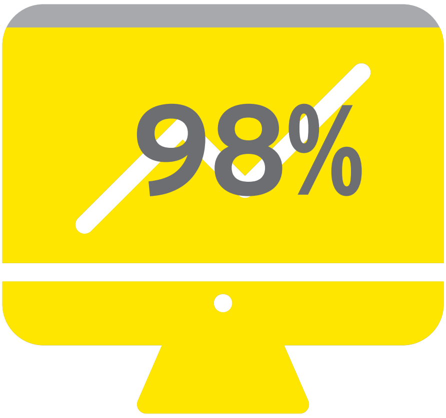
Talent demands: shifting competencies and skill shortages

Talent demands

Q The core competencies required from tax and finance personnel will gradually move from tax and technical skills to process and technology skills over the next three years.

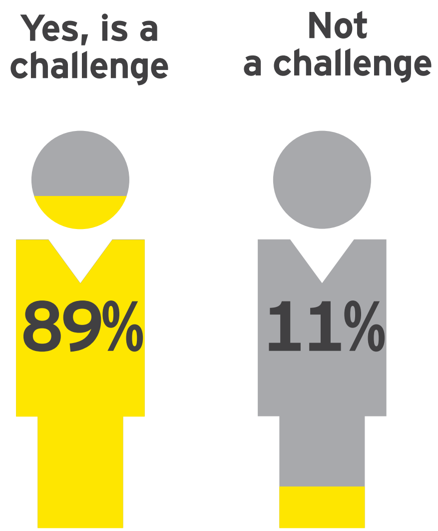


- 18% Strongly agree
- 80% Somewhat agree

- Almost all (98%) companies believe that the core competencies needed from tax and finance professionals will shift from traditional tax technical skills toward deeper process and technology skills.
- This indicates organizations will need to provide more training for existing staff and/or consider a different talent mix in the future tax and finance function.
- Companies will need to make significant changes or consider an entirely different approach to bridge the talent gap.

Actionable insight: Organizations need to provide current employees with the skills for the future. As talent demands evolve, so should learning and skills development programs. Additionally, accessing a contingent workforce or teaming with external vendors may help to supplement this emerging competency.

Q Is your organization able to attract and retain the appropriate talent (e.g., scientific, technology, engineering and math skills) needed in today's tax and finance function?



The vast majority of organizations (89%) around the globe are finding that attracting and retaining appropriate talent is a challenge in today's tax and finance function.

The digital skill set (e.g., proficiency in artificial intelligence, automation, data governance and analytics) is becoming increasingly important.

Around the globe, the tax and finance function is grappling with evolving talent needs and shortages of the right skills.

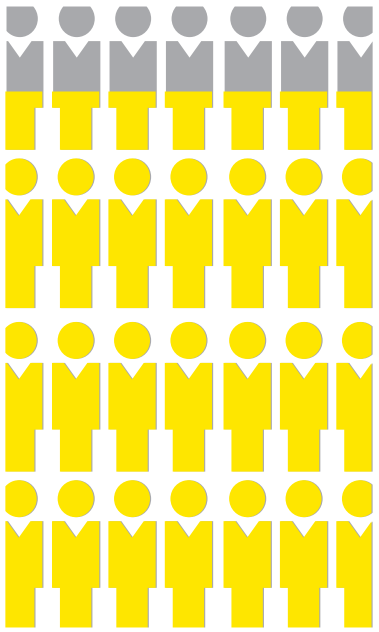
Organizations struggle to recruit, train and retain the tax and finance professionals of the future.

Legislative and regulatory change: companies lack resources to deal with rapid change

Legislative and regulatory change

Q

Does your organization have the resources in place to identify, evaluate and respond to new tax legislation (e.g., US tax reform, Base Erosion and Profit Shifting [BEPS] and digital taxation)?



87%

responded that they do not have adequate resources

Most companies report a lack of resources in place to monitor, evaluate and respond to legislative change.

This could provide challenges as the changing tax legislative landscape will affect both the risk profile and taxes paid by all organizations.

Actionable insight: Companies should ensure they have the right talent and technology capabilities available to monitor, evaluate and respond to major legislative change around the globe.

Q

How will complying with the various transparency initiatives (e.g., country-by-country reporting, common reporting standard, Standard Audit File for Tax [SAF-T], other electronic transactional government filings) impact the workload of your tax and finance function?

88%

expect an increase in workload to result from the various transparency initiatives

The vast majority (88%) expect an increase in workload to result from the various transparency initiatives underway.

The Organisation for Economic Cooperation and Development's (OECD) BEPS program of reforms is culminating in the largest set of changes to the global tax system in more than 100 years.

Furthermore, sweeping tax policy and legislative changes in one jurisdiction – such as the enactment of tax reform in the United States – can trigger changes around the globe as countries seek to remain competitive and protect their tax base.

The increasingly connected nature of tax administrations globally, enabled by digitalization, is resulting in greater demands on the tax and finance function.

Legislative and regulatory change: greater enforcement activity increases workload and risk

Legislative and regulatory change

Q How will governments gathering electronic information and using it in targeted enforcement activity impact the workload of your tax and finance function?

89%

expect enforcement activity to increase workload

Not only are governments gathering more information, but these insights are increasingly being shared across borders.

The exchange of country-by-country reporting will begin in June 2018, and significant increases in targeted enforcement activity is expected.

As governments and their tax administrations ramp up electronic information gathering and use it in targeted enforcement activity, 89% of organizations expect this will increase the workload of the finance and tax function.

Q How will governments gathering electronic information and using it in targeted enforcement activity impact your organization's tax risk profile, including reputational risk?

Percentage expecting an increase in their tax risk profile

80%

Electronic information gathering and targeted enforcement will **increase the tax risk** profile of most organizations.

As tax administrations around the world become more deeply connected to companies' data, 80% of organizations expect their tax risk profile to increase due to targeted enforcement activity.

Actionable insight: Companies need a comprehensive approach to tax controversy that provides a line of sight into the issues at stake and the potential for future conflicts. For practical actions to better prevent, manage and resolve tax controversy, please visit https://betterworkingworld.ey.com/trust/tax-controversy.

Legislative and regulatory change: companies fear inability to manage inconsistent positions

Legislative and regulatory change

Q How concerned are you that your global organization might not be taking consistent positions in various tax jurisdictions?

93%

are concerned with maintaining consistent positions

- 34% very or extremely concerned
- 59% somewhat concerned

The risk of taking inconsistent positions across tax jurisdictions is a concern for nearly all organizations.

- There is widespread concern over the risk of taking inconsistent positions – likely linked to growing transparency requirements and information sharing globally.
- 93% of companies are concerned at the risk of taking inconsistent positions.
- More than a third of organizations (34%) are very or extremely concerned.

Q How confident are you that your organization has the appropriate process, controls, technology and governance to effectively manage your reputational and tax risk profile?

Percentage that are not very or not extremely confident

64%

New transparency requirements and more targeted (and robust) enforcement activity are requiring a greater focus on tax and reputational risks by tax and finance functions.

In the face of these challenges, 64% of organizations were not very confident that they have the appropriate process, controls, technology and governance to effectively manage their reputational and tax risk profile.

Actionable insight: Managing risks in-house is overwhelming for most companies. Many organizations are reviewing their existing processes and controls while exploring alternative global sourcing models to manage their risk profile.

Legislative and regulatory change: increasing tax risk requires greater internal collaboration

Legislative and regulatory change

Q How will complying with the various transparency initiatives (e.g., country-by-country reporting, common reporting standard, SAF-T, other electronic transactional government filings) impact your organization's tax risk profile, including reputational risk?

95%

of organizations think there will be an increase in their tax risk profile, including reputational risk

The range of transparency initiatives underway from governments around the world is expected to increase the tax risk profile of almost all organizations.

Vulnerability to reputational risk has never been more prevalent. Companies need to: (1) understand the impact of all the legislative and regulatory changes on their risk profile and (2) proactively manage their risk profile on a continuing basis.

Actionable insight: As tax authorities collect more data from taxpayers, the tax and finance function should increase collaboration with other functions in the organization and adopt a global approach to managing tax risk and controversy.

Q How will complying with the various transparency initiatives (e.g., country-by-country reporting, common reporting standard, SAF-T, other electronic transactional government filings) impact collaboration with other functions?

93%

expect an increase in collaboration with other functions

Complying with new transparency initiatives will challenge ways of working and create the need for a more connected tax and finance function.

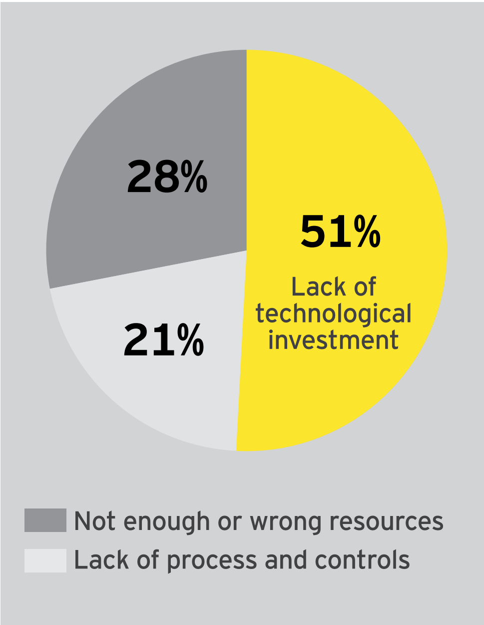
- Due to various transparency initiatives, the tax and finance function will need to increase its collaboration with other functions in the organization.
- 93% of tax and finance executives think their collaboration with other functions will increase as transparency initiatives take effect.

Digital readiness: investing in the right technology is vital

Digital disruption

Q Which of the following has the most significant impact on the ability of your tax and finance function to deliver predictable outcomes on a sustained basis?

Percentage agreeing with each statement across overall sample



The right process and controls and sufficient resources are important. Yet in many cases, companies appear to struggle to develop the right business case to receive adequate investment. Furthermore, 51% of survey respondents said a lack of technological investment was having the most significant impact on the tax and finance function's ability to deliver predictable outcomes.

Q How confident are you that your organization is investing enough time and money in analytics and technology solutions to effectively manage your reputational and tax risk profile?

52% **are not highly confident that they are investing enough**

Less than one in two organizations are very confident that they are investing enough in analytics and technology solutions to manage tax risks.

Companies need to ensure that their technology investment plan is sufficiently funded to adequately execute their risk management strategy.

Successful technology solutions require an investment of **budget as well as time.**

Actionable insight: Organizations should develop an enterprise-wide tax technology roadmap which lays out a target strategy, builds confidence in the underlying data and specifies how to source the necessary elements (i.e., in-house, external vendors or a hybrid approach).

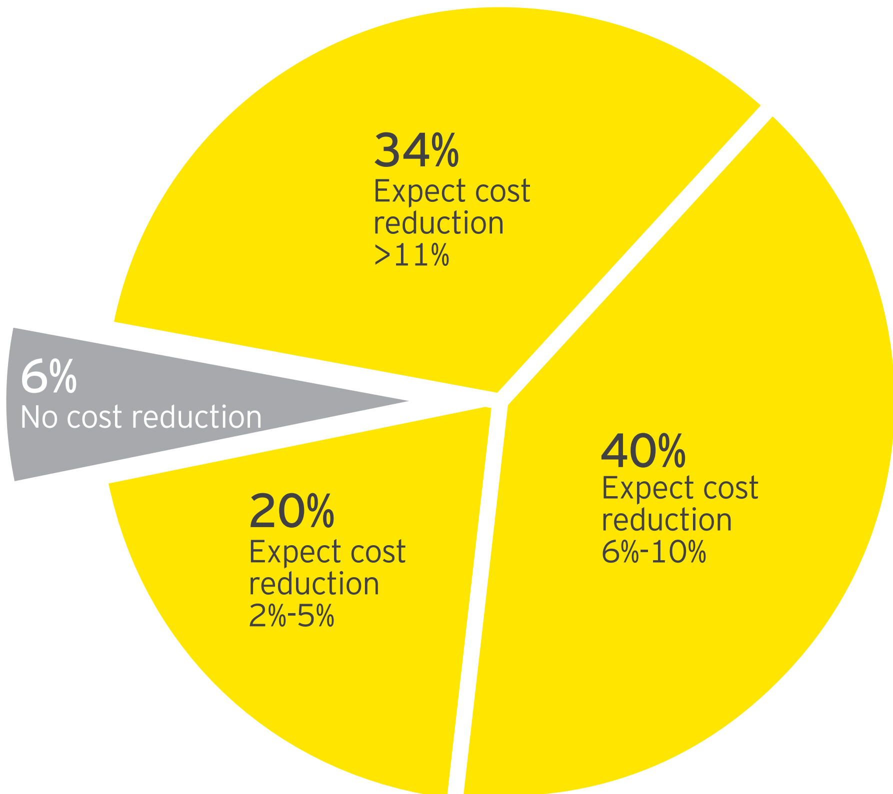
Cost pressures:
companies are forced to do more with less

Cost pressures

Q Does your organization have a plan to reduce the cost of the tax and finance function over the next 24 months?

94% of organizations have a plan to reduce the cost of the tax and finance function over the next 24 months.

Percentage agreeing with each statement across overall sample



Cost pressures mean the tax and finance function must do more with less.

Almost all companies (94%) are seeking to reduce the cost of their tax and finance function.

Overall, the average estimated cost reduction organizations are looking to achieve in their tax and finance function over the next two years is 8.4%.

Actionable insight: Trying to modernize a company's target operating model is a perpetual struggle as the pace of change is unrelenting. Companies must decide whether to accept the continual struggle or hire an external vendor who can help them stay current with technology and processes.

Target operating model: most companies are reevaluating their target operating model

Q

How confident are you that your organization has the right target operating model leveraging people, process and technology?

53% **are not very confident in their operating model**

In our experience, many companies are seeking to reevaluate their target operating model. When making these decisions, they must examine their priorities around cost minimization, value creation and risk management.

Actionable insight: Organizations should reexamine their tax and finance function in the context of rapid change to decide whether to undertake an internal transformation or outsource part or possibly all of their tax and finance function.

Q

To address any challenges your organization faces with the current target operating model in the tax function, what will be the principal focus?

Percentage agreeing with each statement across overall sample

Re-engineer current tax function	35%
Considering functional outsourcing	25%
Develop point-based solutions for specific problems (e.g., robotics)	24%
Do nothing, what we have is fine	16%

The survey results are clear that companies are not sitting still as 84% are making changes.

Thirty-five percent are looking to re-engineer their current tax function, while a further 24% are looking to develop point-based solutions, such as automation through robotics.

Notably, 25% are considering functional outsourcing.

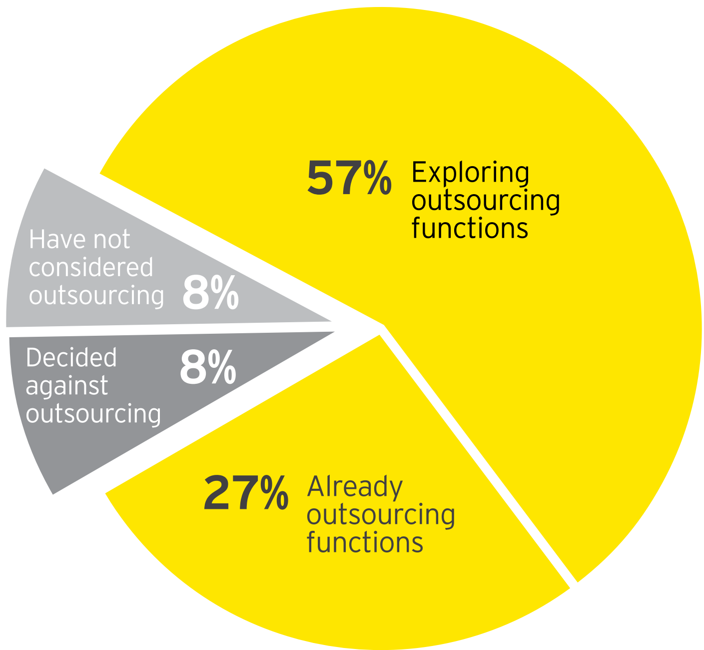
84% of organizations are taking action due to deficiencies in their current target operating model.

Target operating model: many companies are considering tax function outsourcing

Q

Has functional outsourcing (i.e., a third party operating your tax function) been considered as a solution to deal with the pressures on today's tax function?

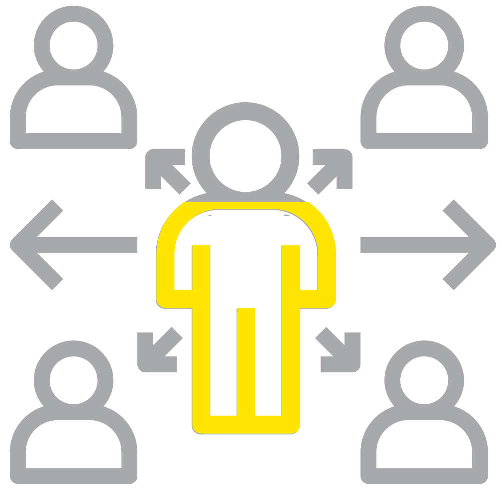
Percentage agreeing with each statement



Some 27% of organizations are already outsourcing parts of the tax function, while 57% are considering outsourcing their tax and finance function.

Only 8% have decided against tax function outsourcing, and 8% have not considered it at all.

Actionable insight: Companies that choose not to undertake an internal transformation of their tax and finance function, or who are struggling to achieve the benefits from a transformation, should consider the benefits of outsourcing to a service provider that has invested heavily in a technology platform and cost-efficient delivery centers.



84%

of companies are already outsourcing or considering outsourcing for the tax and finance function.

Conclusion:
find your path forward

A path forward: Leading tax and finance professionals need to reimagine their tax and finance functions to properly manage today's mounting pressures. The path to success starts to emerge as companies take a holistic look at their tax and finance function and the role it plays in the overall organization.

To identify and execute the change required, companies can take these few steps:

1. Scrutinize the current target operating model: Companies must first examine their priorities around cost minimization, value creation and risk management and how the tax and finance function plays into the overall strategy. With a thorough understanding of their priorities, companies will have a clear view to assess any gaps in their current target operating model and its ability to stand in the future.

2. Determine what to build: Keeping tax and finance activities in-house generally requires some degree of internal transformation aimed at optimizing a company's existing people, process, data and technology. Oftentimes, companies will want to maintain or build activities that are considered higher-value, or best-in-class, as they should be performed with optimal effectiveness and control. Examples of best-in-class activities include tax planning and managing controversy.

3. Determine what to buy: Activities that are considered lower-value, or best-in-cost, should be performed at minimal cost through centralization, sourcing from lower-cost locations, or via third parties. This provides high efficiency performance of those activities at a lower cost. Some typical activities with lower cost or efficiency objectives include completion of tax returns and data collection.

4. Find the right mix: Once a decision has been made to designate an activity as best-in-class or best-in-cost, companies need to decide whether they want to "own" that task by keeping it in-house or alternatively "buy" or outsource the task to an external provider. Many businesses choose a hybrid approach in order to maximize the effectiveness and efficiency of their tax function.

There are pros and cons to keeping activities in-house versus outsourcing. An internal transformation and keeping these activities in-house is the most traditional and may be the most familiar solution, as it creates the least amount of change and disruption. But it requires significant management focus and capital investment. Moreover, sustaining a robust tax and finance function in a rapidly changing environment may be the most difficult challenge of all.

Outsourcing to a third party can ultimately reduce overall tax costs, control unpredictable IT investment and pivot internal resources for more strategic activities. Because the external vendor bears the burden of making considerable investments in the necessary talent and technology, the company is able to leverage change more effectively. However, outsourcing requires a significant transition effort as well as management and governance of a new operating model.

With the challenges for the tax and finance function building, it is imperative to act. Companies should consider the best approach and take the necessary steps to meet their tax and finance objectives. Only then can they fully reimagine and deliver the tax and finance function they need and be positioned to thrive.

Every company is currently at some stage of this reimagination process. EY has insight into each stage of the journey from strategy to implementation.

Please contact one of our leaders whose information is on the back cover if you'd like to schedule time to discuss your process.

Appendix: about the study

Unique insights from

1,722

organizations globally

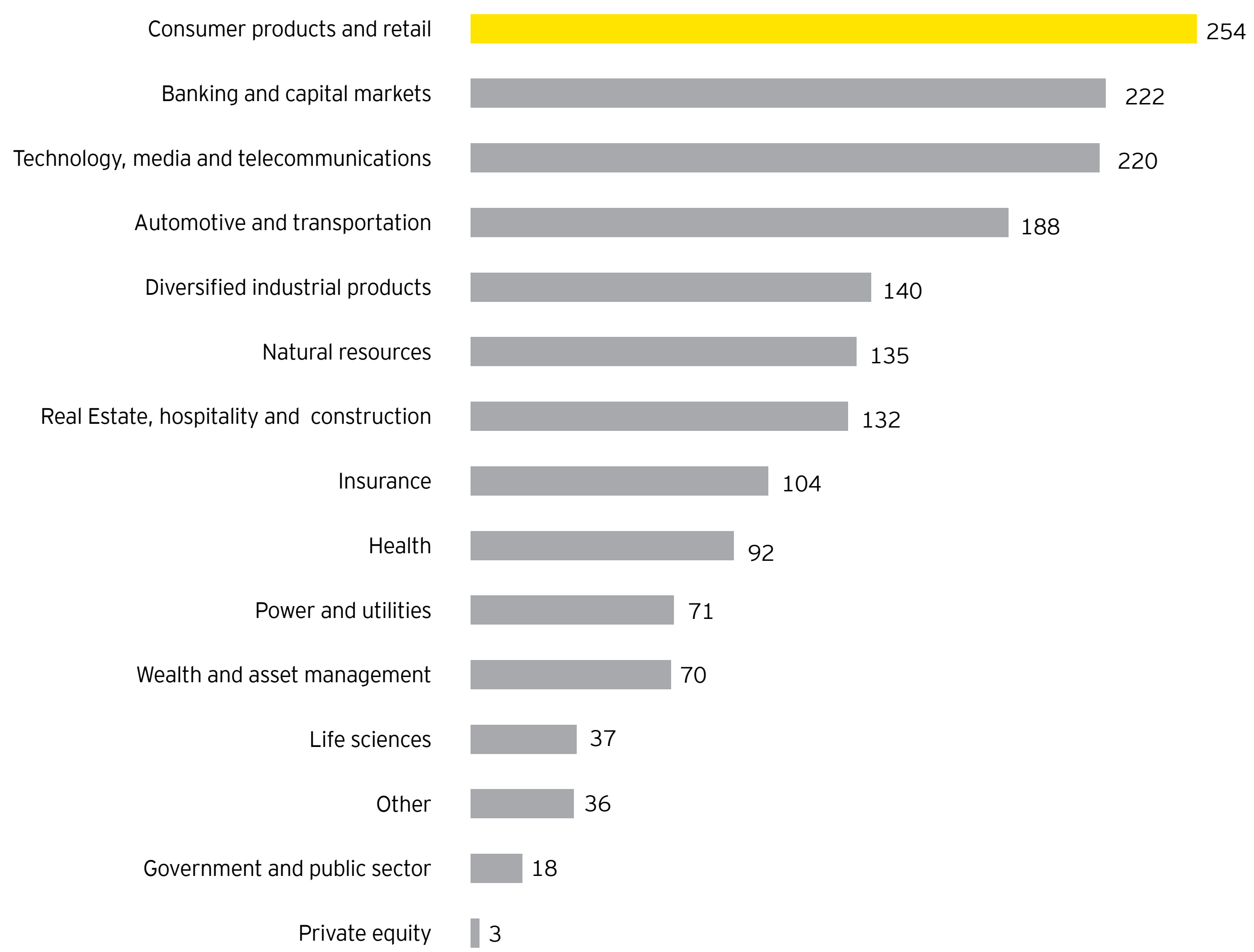
This survey of senior executives from large companies around the world was conducted by Euromoney Institutional Investor Thought Leadership. The survey gathered unique insights from 1,722 organizations globally and 315 out of the world's largest 500 publicly listed firms to understand how tax and finance functions are being impacted.

Participant profile:

1,722 organizations senior tax and finance executives	Respondent community includes more than 1,700 senior tax and finance executives surveyed in Fall 2017
28 countries	Companies from 28 countries
17 industries	Respondents from 17 industries
315 Forbes 500	Insights from 315 of the Forbes 500 largest publicly listed global companies

Proportion of top industries represented at a global level

Number of respondents by industry sectors



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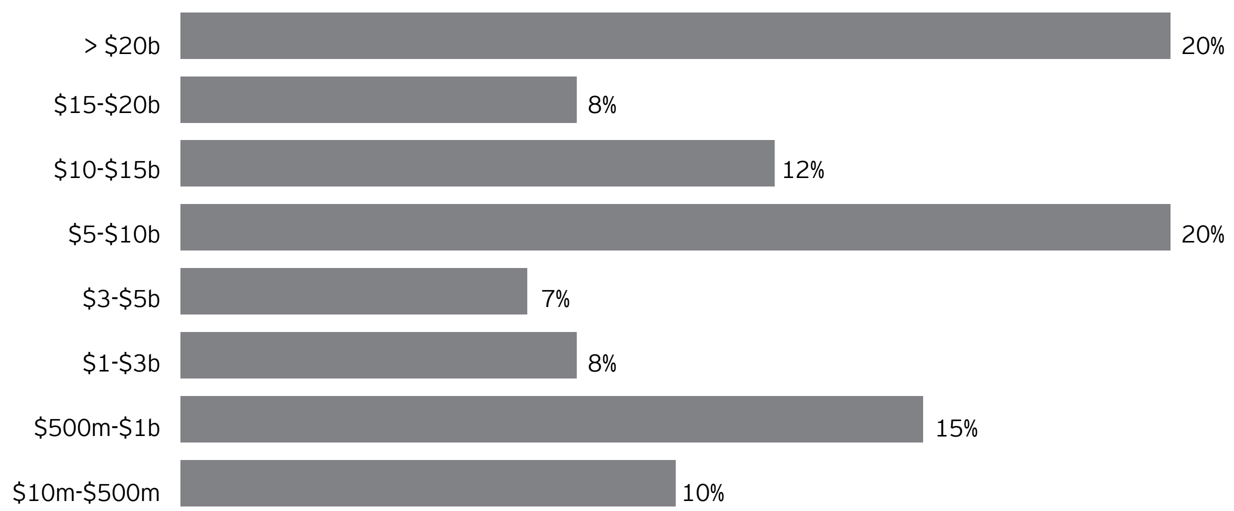
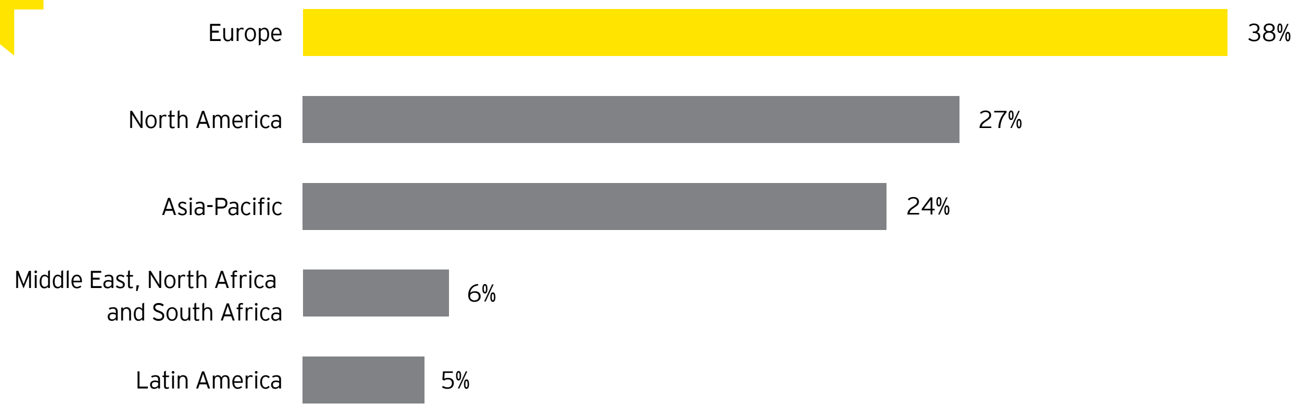
Appendix: survey demographics

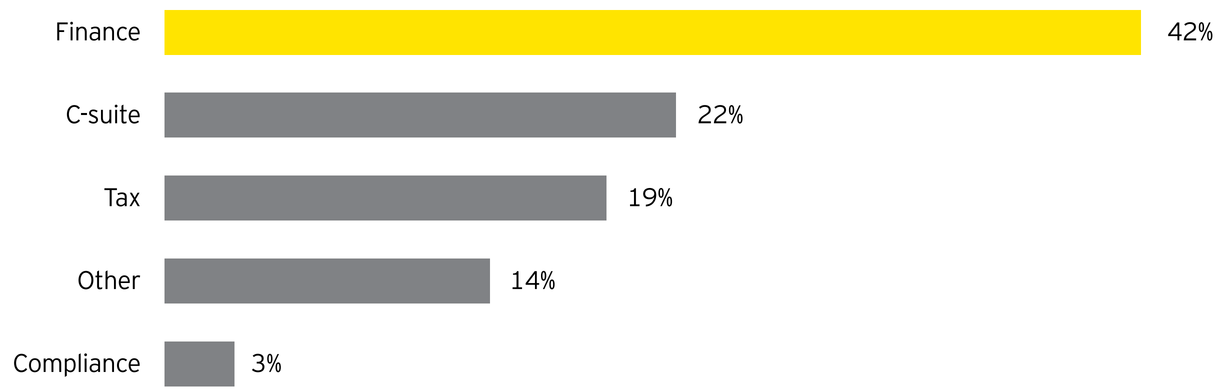
What are your company's annual global revenues?



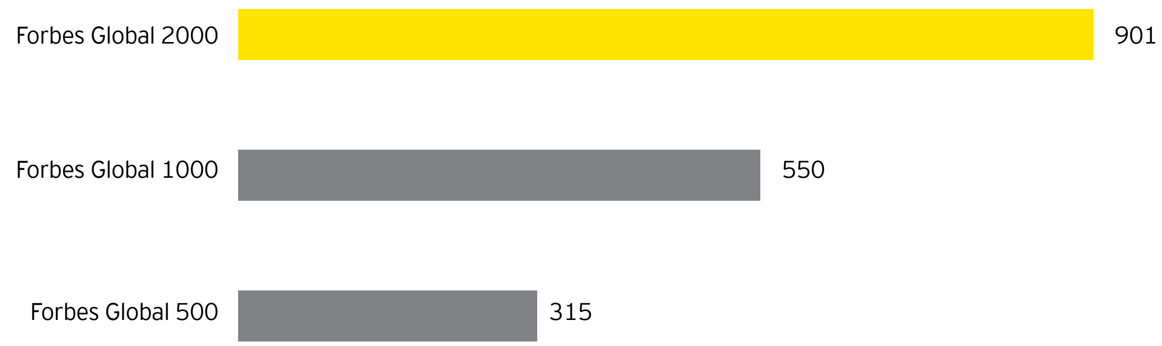
What is the area of residence of the respondents?



What is your position in the organization?



What is the priority status/ranking of the organization?



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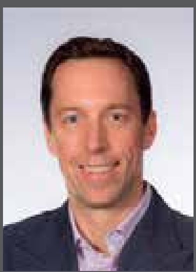

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