How will GenAI shape tax and finance transformation?

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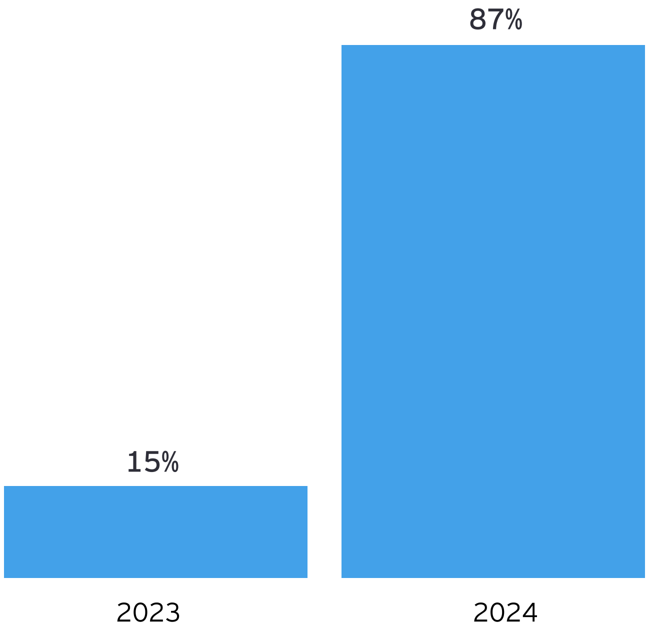
Introduction

The 2024 EY TFO survey finds GenAI may help tax and finance functions with talent gaps, budget cuts and BEPS reporting.

GenAI is reshaping the way businesses think about tax and finance function transformation. That is the clear takeaway from the 2024 EY Tax and Finance Operations survey (TFO survey) of 1,600 professionals, in which 87% of respondents say they believe integrating GenAI will drive increased efficiency and effectiveness within the tax function. The optimism represents an about-face from the previous survey, conducted before headlines brought mainstream attention to breakthroughs in GenAI's capabilities, when only 15% said the technology would have an impact.

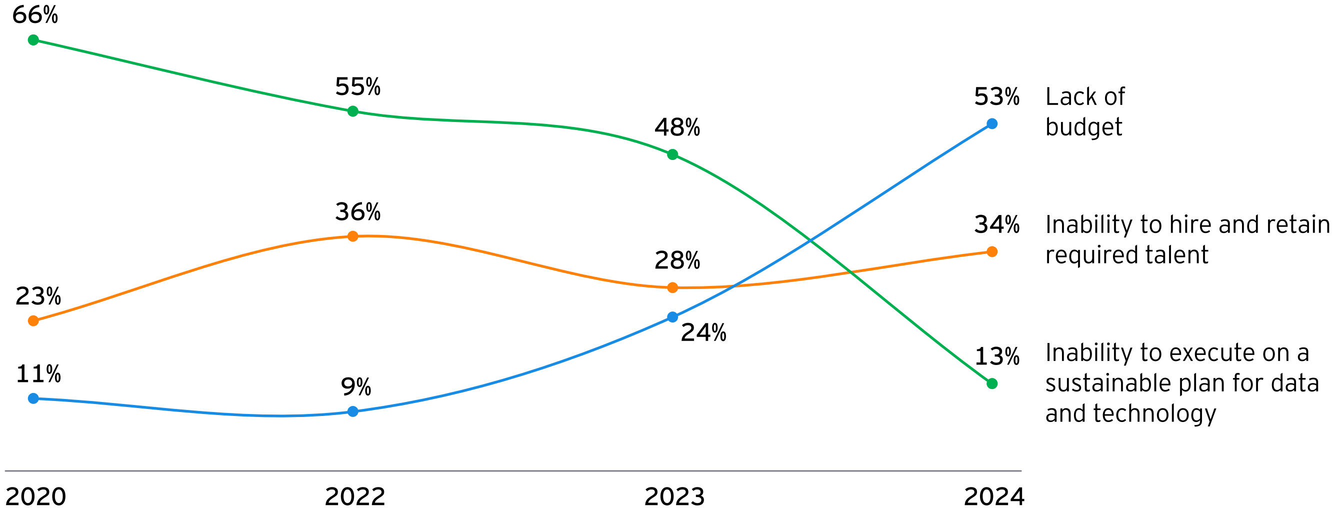
Tax professionals believe GenAI will make their functions more efficient and effective



The findings of the TFO survey are among the most dramatic in its six-year history during which long-simmering challenges around cost, talent, data and reporting pressures have intensified. GenAI may hold the key to helping resolve them, adding new opportunities for tax and finance functions that are transforming their operating models. The survey finds:

- Cost pressures are the top concern for the first time, as cumulative cost-cutting and inflation have significantly eroded budgets in real terms. As a result, tax and finance professionals say managing budgets is their highest priority, followed by cash tax planning. Fifty-four percent say they are rethinking their operating models and respondents say co-sourcing is the most important change they're considering.
- Talent shortages in tax and finance are approaching crisis levels because fewer people are entering the accounting profession, and many accountants are retiring. Among one of the more surprising findings: A majority of tax and finance leaders say that professionals without a university degree are important to their talent strategy, signaling a shift to skills versus degree focus.
- Businesses are struggling to implement the right data strategy and technology needed to cope with the emerging legislative and regulatory requirements. This includes greater adoption by jurisdictions around the world of new global minimum tax rules and real-time filing requirements, including e-invoicing, as well as new rules mandating disclosures of tax and financial information to the public.

Cost has surpassed talent and data and technology as biggest barrier to success[1]

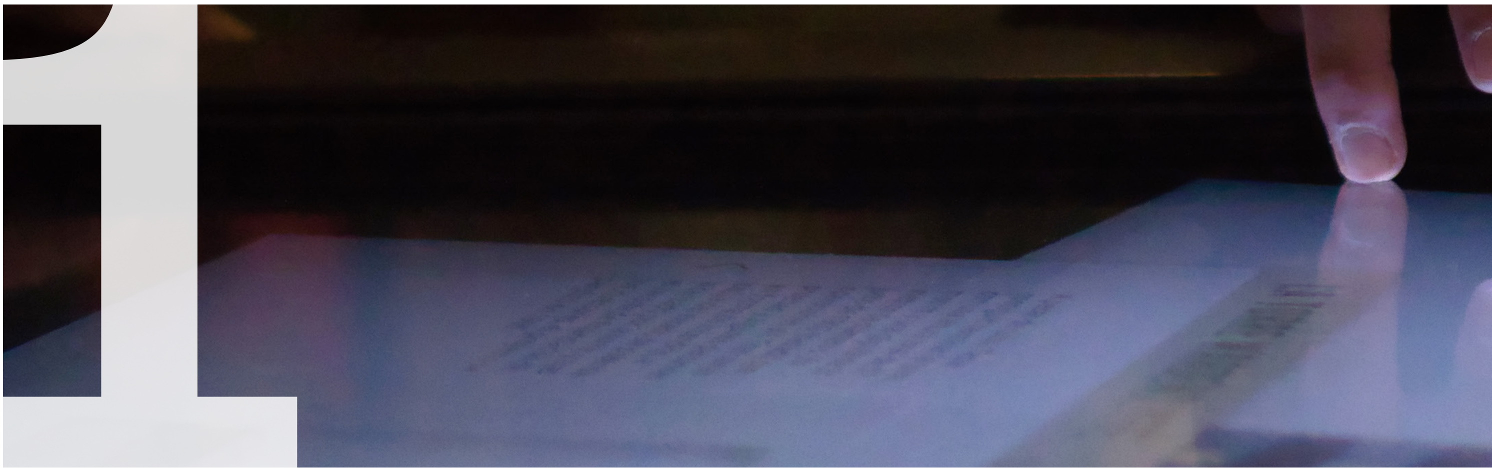


1. In 2020, 1% selected 'other'; in 2022 there was an additional option: 33% selected ability to identify, evaluate and respond to legislative and regulatory changes; in 2024 there was an additional option: 19% selected inability to adequately advise given the complexity and unpredictability of the global tax landscape. For 2022 and 2024, the percentages have been recalculated for the three legacy options that are monitored over the time series.

While GenAI may not yet provide solutions to all of these challenges, an overwhelming majority now believe it will have an impact. Respondents who had little idea what GenAI was a little more than a year ago are now considering how, with thoughtful and responsible integration, the technology can help redefine what a modern tax and finance function looks like. Of course, GenAI's potential presents a dilemma given the concerns about managing costs and talent challenges because leveraging it requires significant investment and human governance. Companies must decide whether they are going to build or buy the GenAI capabilities to transform their function, or if a hybrid approach makes more sense.

"GenAI is redefining tax and finance functions at the most rapid pace I've seen, and that pace is only accelerating," says Marna Ricker, EY Global Vice Chair – Tax. "You need a transformative mindset for how to take advantage of the technology, so it's going to be more critical than ever to take a strategic approach in shaping the ideal operating model."

How GenAI is changing tax and finance transformation



Respondents are energized about the technology's potential, and initial use cases are already having an impact.

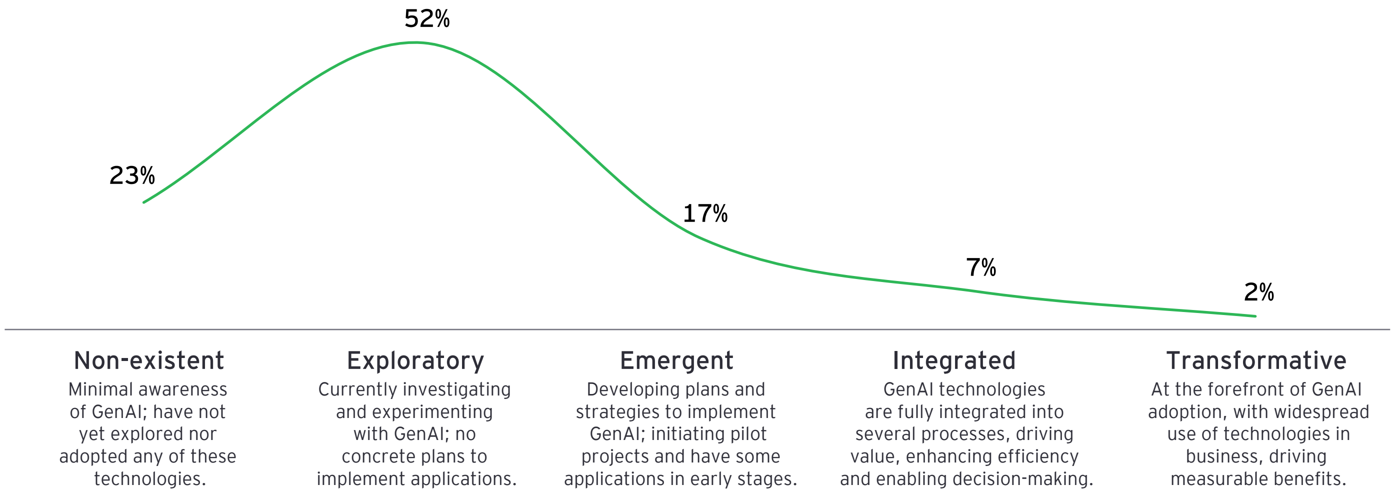
GenAI exploded into the mainstream in late 2022 and is already having a transformational effect on the business world and the global economy. EY teams estimate GenAI could increase global GDP by US$1.7t to $3.4t over the next decade and have a meaningful impact on more than half of the world's workforce.

The core difference between traditional machine learning and GenAI is that machine learning finds patterns and makes predictions based on past data, while GenAI can, by itself, understand the reasoning and make decisions almost instantaneously across a very broad range of tax activity.

"Tax professionals are early movers in innovating with GenAI because tax is a data-driven, rules-based operation," says Raj Sharma, EY Global Managing Partner – Growth & Innovation. "I anticipate innovations in this space to continue growing exponentially in the coming years, especially for organizations that make the right investments."

Survey respondents see GenAI improving every part of their functions, ranging from data acquisition through to compliance and controversy. But it's still early days; seventy-five percent characterize their tax and finance functions' use of GenAI in practice to be either nonexistent (23%) or exploratory (52%). That usage will likely shift dramatically to the "emergent" and "integrated" categories on the maturity scale over the coming years, with more organizations finding GenAI to be "transformative."

Tax and finance functions' use of GenAI is largely exploratory but evolving fast



Lyn Bird, Corporate Vice President of Industry Solutions Delivery at Microsoft Corp., says tax departments will continue to be leaders for most organizations as they move quickly along the maturity curve.

For example, businesses are already using GenAI to make indirect tax returns more accurate at the time of filing, eliminating the need to seek refunds years later. Smarter chatbots are also helping payroll departments provide better, more customized answers to worker queries. And GenAI is being used to compare different kinds of data sets to identify tax deductions and credits that previously were hard to detect.

"Tax is setting the standard in many businesses for using GenAI," Bird says. "It presents a huge opportunity for tax executives to lead."

Steps tax functions can take to start using GenAI

1 Identify use cases and align them with your business

Determine where GenAI can add value in your tax function and business processes across the organization. This could be in areas like data cleansing, compliance or analytics.

2 Choose the right tools

Select tools (e.g., pre-built large language models or LLMs, integrated toolsets, industry- or sector-specific models) and platforms that will be effective for your use cases. In some cases, process automation may be equally good or better for select tasks.

3 Build required data foundation

Gather and prepare the necessary data. Ensure your data is clean, relevant and structured to train and leverage your GenAI models effectively.

4 Start with small pilot projects

Test the effectiveness of GenAI in your chosen use cases. This helps in understanding the potential impact and in refining your approach. Embrace agility and be prepared to pivot based on learnings.

5 Scale, integrate and continuously improve

Once the pilot projects show positive results, scale up the use of GenAI and integrate it into your tax function processes with proper governance. Continuously monitor and optimize the performance of your AI.

6 Bring your people along on the journey

Your people need to be confident and knowledgeable to get the most out of your GenAI tools. It is important to foster a culture of continuous learning and adaptability. Be sure the integration enhances the employee experience and aligns with your organizational goals.

Tax professionals are starting to use GenAI for more advanced tasks like quickly analyzing and building data solutions, performing predictive analytics and horizon scanning, and benchmarking with real-time data. New skills such as prompt engineering, which is the ability to chat with an AI system using natural language, are increasingly being coupled with enterprise data to analyze complex tax documents and data at scale.

GenAI requires significant investment. Harnessing the transformative impacts of GenAI — and advancing along the maturity curve — will require a thoughtful plan and the ability to overcome a broad, costly range of obstacles. These obstacles include a lack of accessible, high-quality and reliable data, and insufficient talent to build, deploy, maintain and govern the technology. Respondents also voiced concerns about data security and privacy while others cited uncertainty regarding regulatory compliance and legislation.

"GenAI is creating huge opportunities for every aspect of the tax function," says Dave Helmer, EY Global Tax and Finance Operate Leader. "Most companies are early on the maturity curve and need a plan to realize the benefits of GenAI."

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Why transformation drives more effective regulatory tax compliance

New global minimum taxes, tax transparency requirements and real-time filings ramp up the need for efficient operating models.

Tax authorities' move toward digital transformation, which is also integrating GenAI, requires ever more reporting by taxpayers and accelerates the need for transformation. Tax departments are under increasing pressure to keep up with the data and technology needed to comply with ever-increasing government demands.

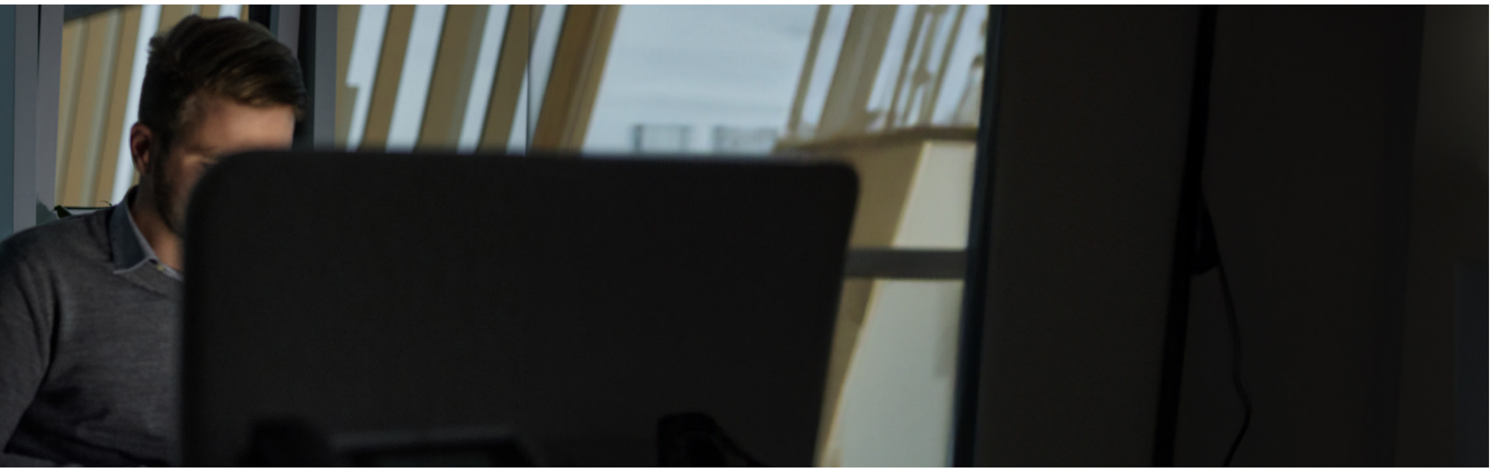
Three pressure points stood out in the survey:

1. All businesses are contending with more demands for real-time filings, including e-invoicing.
2. Large businesses are struggling to comply with global tax reforms developed by the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework.
3. Many businesses are bracing for the required public disclosure of more information about their tax and finance affairs by governments.

Digital tax filing and e-invoicing

Survey respondents say complying with real-time and digital tax filings is the most "significant" emerging reporting requirement for tax and finance functions. More countries than ever require e-invoicing, which involves transmitting specific data to tax authorities, typically in real time. Governments take this approach because once they have the data, they can determine the amount owed. This puts enormous pressure on businesses to be sure the data is accurate and reliable, and it effectively shifts the audit cycle forward, essentially resulting in real-time examinations.

The e-invoicing trend started in Latin America, where it's well-entrenched. More European jurisdictions are working to implement their own e-invoicing requirements, followed closely by jurisdictions in Asia-Pacific. Currently, some 80 jurisdictions have implemented e-invoicing in some form, and many are constantly making changes to their regimes, making it hard for companies to keep up. Another 16 countries are confirmed or proposing to go live through 2027.



For businesses, real-time digital filing, including e-invoicing, presents another build-or-buy conundrum; multinational businesses are finding it is no longer economically feasible to have a localized approach to solving e-invoicing challenges.

"It's costly and resource intensive," says Gemma Beck, Head of Tax and Trade Compliance at Haleon plc. "It's a never-ending task to adjust local and central resources, including people and technology to match the ever-evolving filing requirements. Teaming with a service provider is a cost-effective way to help keep us compliant in every jurisdiction."

Pillar Two global minimum taxes

Businesses also face challenges complying with evolving global minimum tax obligations.

Specifically, 83% of respondents say they must make "moderate" to "significant" adjustments to their source data to develop tax-ready information to comply with BEPS 2.0.

These reporting requirements are largely attributable to complying with the implementation in jurisdictions around the world of the Pillar Two global minimum tax. Pillar Two is a set of interlocking rules designed to ensure that businesses with global revenues of €750 million or more are subject to an effective tax rate of at least 15% on their income regardless of where it is earned.

More than 140 jurisdictions have agreed in principle to the Pillar Two global minimum tax, and jurisdictions are moving at different speeds to implement these rules through local legislation. As of September 2024, 39 jurisdictions have final legislation, 14 have draft legislation and nine have announced their intention to legislate, according to the EY BEPS 2.0 – Pillar Two Developments Tracker. This adds complexity to an already rapidly changing tax legislative environment by requiring affected businesses to calculate whether they might owe top-up taxes in any of the jurisdictions where they operate.

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An earlier OECD initiative, so-called Country-by-Country Reporting (CbCR), is also putting stress on businesses' attempts to access, analyze and use their data productively. These reports, first called for in Action 13 of the OECD Base Erosion and Profit Shifting (BEPS) project nearly a decade ago, require a breakdown of the amount of revenue, profit before income tax, and income tax paid and accrued by jurisdiction. They also include information about capital, accumulated earnings, number of employees and tangible assets for each tax jurisdiction in which the group operates. (Action 13 also established the requirement for master and local transfer pricing files, another milestone in tax transparency mandated by tax authorities over the last decade.)

These reports, like other filings with tax authorities, are confidential, but a growing number of jurisdictions, including EU Member States, have instituted or are considering new requirements to make CbCR information available to the public. The prospect of public disclosure is creating new stress on businesses' data systems; some 34% say they face a "significant" number of adjustments to source data to deal with CbCR, while another 47% say they face a "moderate" number of adjustments.

Public disclosure

56%

will voluntarily report total taxes paid to the public.

Perhaps due to the prospect of mandatory public disclosure requirements in some jurisdictions, some 56% of respondents say they anticipate publishing details about the total amount of taxes they pay around the world, up from 38% in 2023.

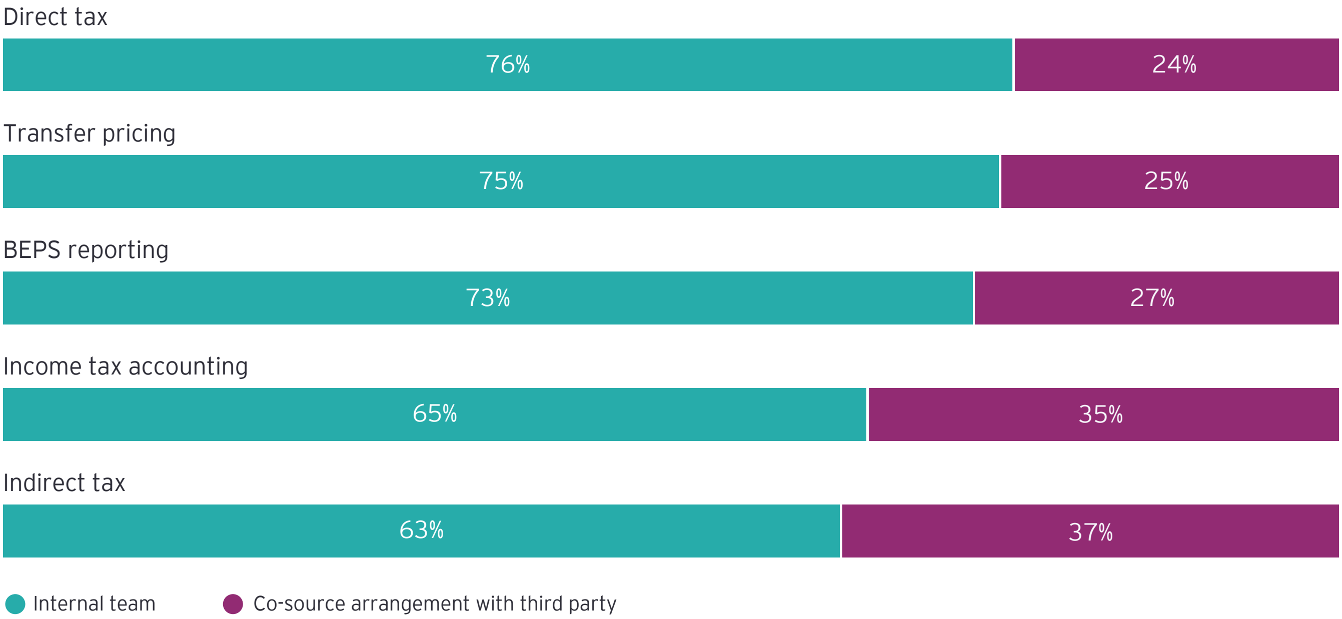
GenAI is also affecting tax administration. Nearly one-third (32%) say it has "moderately" or "significantly" decreased their organization's tax risk profile, while 40% say it's "moderately" or "significantly" reduced their tax controversy. Forty-nine percent say it's "moderately" or "significantly" increased how quickly tax authorities assess returns.

Consolidating providers may provide additional opportunities

The survey finds respondents are looking to consolidate their tax co-sourcing providers and many of them are now using one Big Four firm. This trend has emerged as businesses look to reuse their data more efficiently for compliance and reporting activities, such as corporate income tax, BEPS, indirect tax and statutory accounting.

This combination of the business data and provider's deep knowledge may present a strategic opportunity to co-source some of the remaining workload respondents say they currently perform in-house.

What percentage of your tax compliance workload is delivered by each of the following?



The struggle to retain and deploy tax and finance people is peaking

As functions recruit even those without university degrees, GenAI can help fill the gaps, as well as help tax and finance leaders deliver more strategic insights that C-suite executives want.

Tax and finance functions have for years pointed to talent shortages as a driving factor in their decision to transform their operating models. The new survey reveals this crisis is having a bigger impact.

Fifty-three percent say retaining and attracting talent is either an "extensive" or "significant" struggle. At the same time, 89% say talent-related barriers are preventing their tax and finance functions from delivering on their purpose and vision. These barriers range from budget constraints to an inability to hire necessary talent.

Much of the global talent crunch is driven by demographics. For example, in the US, three-quarters of certified public accountants reached retirement age in 2019, according to the AICPA[2], and the US alone is short some 340,000 accountants and auditors, according to **Fortune** magazine[3].

This shrinking workforce is stressing tax and finance functions – some 70% of survey respondents say fewer accountants entering the profession will cause a "moderate" or "significant" disadvantage in how well their functions perform in the next five years. Simultaneously, 63% say the retirement of senior tax and accounting executives will cause a "moderate" or "significant" disadvantage to the function. To be sure, 39% expect activities with GenAI will create a "moderate" or "significant" **advantage** to the function in their performance; however, that still leaves a wide gap that needs to be closed.

But it's not just about headcount. Tax and finance functions continue to seek a new breed of professional who understands data and technology as well as, if not better than, tax and finance rules. Increasingly, acumen using GenAI will be prized as well.

[2] Succession Planning: A Tale of Two Exit Strategies (Stan Sterna, JD and Amy Massaro; AICPA 2018)

[3] The U.S. is short 340,000 accountants–just look at the wave of earnings report mistakes (Jo Constantz and Bloomberg; Fortune magazine 2024)

"Tax functions need to shape their future talent model to be sure they have the right people with the right skills, including the ability to work with GenAI," Helmer says. "This probably involves some combination of improving in-house training and co-sourcing with a provider to free up your own people to work on projects that align with their advanced skills."

The talent crisis is so acute that tax functions are getting more creative about whom they recruit. Sixty-two percent say tax and finance employees without a university degree are "very" or "moderately" important to their talent strategy. Moreover, 77% say hiring data scientists is either "very" or "moderately" important.

> "Agility is key for a modern tax function when it comes to talent.
>
> Aaron Konnick,
> Senior Vice President and Global Head of Tax, UPS

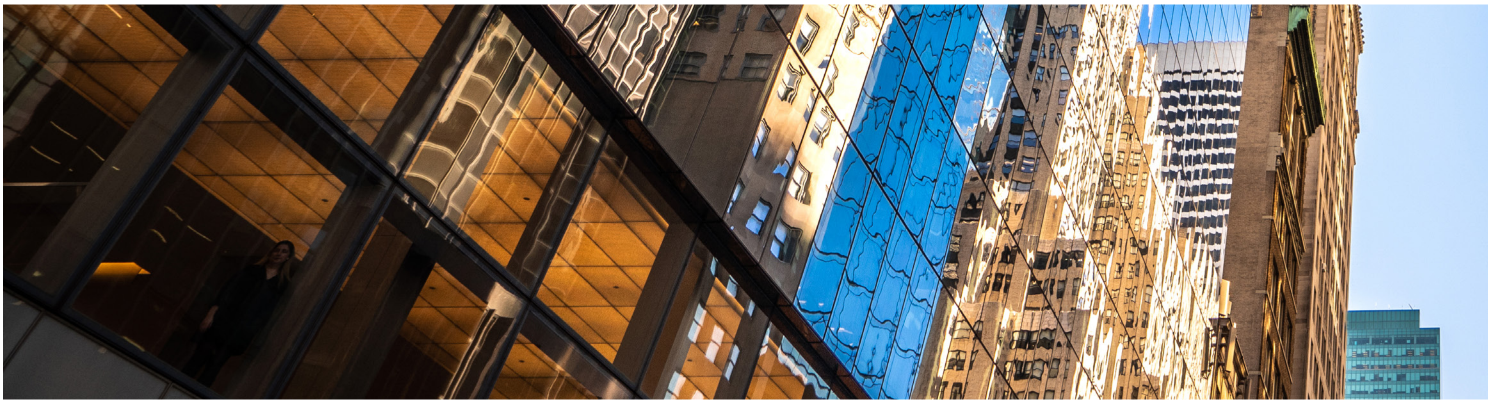
No degree required

62%

of respondents say that professionals without a university degree are important to their talent strategy.

"Agility is key for a modern tax function when it comes to talent," says Aaron Konnick, Senior Vice President and Global Head of Tax at UPS. "Working with a provider allow us to scale up and down our team and tap into specialists when needed."

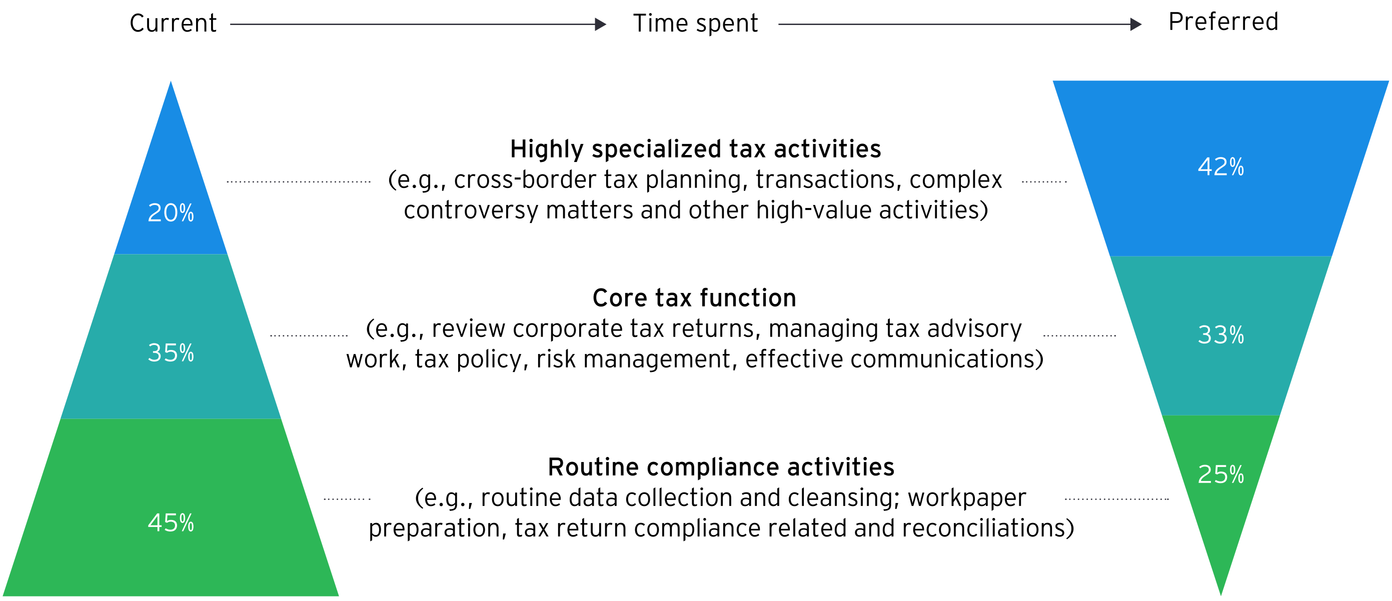
Tax functions are under more pressure than ever to deliver more value to their organizations with fewer resources. The proportion of companies saying they want their people to focus twice as much time on more value-added tasks and do less remedial work.



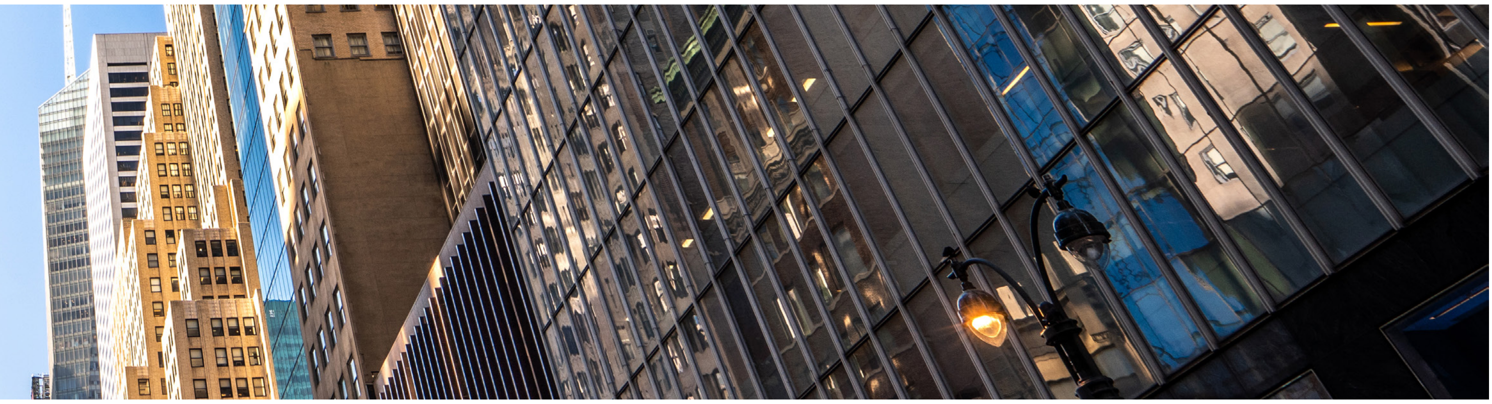
For example, survey respondents say they spend 45% of their time on routine compliance activities such as data cleansing and tax return compliance and reconciliation. Another 35% is spent on core activities such as reviewing and signing corporate tax returns, managing tax advisory work, managing risk and communicating with stakeholders.

They spend only 20% of their time on high-value activities, such as cross-border tax analysis and complex controversy matters. Ideally, those time proportions would flip, with respondents spending 42% of their time on strategic work and 25% on routine activities.

Tax leaders want their people to spend twice as much time on strategic activities



GenAI potentially offers many solutions to the talent crunch. Beyond the 39% who say activities performed by GenAI will deliver “moderate” to “significant” advantages to the tax function, for example, 41% say GenAI is “moderately” or “significantly” increasing their ability to hire and/or retain talent. The ability of GenAI to perform more of the rudimentary and repetitive tasks, clearing the way for them to focus on higher-value, more fulfilling tasks, will appeal to prospective workers. Yet even with AI efficiencies, six in 10 respondents expect their headcounts to remain the same or increase.



Developing, motivating and retaining talent

Headcount and qualifications are not the only talent challenges facing tax and finance functions.

Fifty-eight percent say motivating talent and avoiding burnout is a "moderate" or "significant" struggle for their organization, while 47% struggle with training and developing their people.

Survey respondents say the following training methods have the greatest impact:

1. Training sessions from external accounting firms
2. Internal company trainings
3. Making online learning available

Hybrid work policies continue to be a talent issue as well. Just 15% say they're primarily working remotely, while 46% say they're required to be in the office four or five days a week. While individual employee preferences may vary, 48% say their policy has "moderately" or "significantly" improved their ability to retain and attract talent.

Streamlining tax compliance

GenAI can assist indirect tax professionals with product classification.

To tax or not to tax: How GenAI is helping manage grocers' risk

Product classification has always been a compliance challenge for indirect tax professionals. The tax treatment of the same product can vary by country, state or province, and even neighboring municipal jurisdictions, which creates massive complexity for widely distributed goods. Food is especially complicated: a bagel might be taxed or not, depending on whether it's sliced; a bottled drink or Popsicle could be tax-exempt depending on the proportion of real fruit juice they contain; or a pizza could be subject to tax depending on whether it was baked in the store or taken home in a shrink-wrapped container. This complexity is particularly onerous for grocery stores, which create tens of thousands of new and private-label products annually. Classification mistakes can cost millions in penalties and legal settlements.

In a recent pilot program, a GenAI agent was able to scan tens of thousands of stockkeeping unit (SKU) numbers and cross-reference their ingredients with tax laws in every jurisdiction in which the grocer operates. Before the technology, products would land on shelves, and humans operating without technology would perform the due diligence months later, creating tax and legal exposure, especially if taxes were collected that should not have been. The GenAI agent can quickly determine what a product is (including its ingredients), locate it by jurisdiction, and apply any taxability. The result: more certainty, more accurate tax remittances, better cash management, and human tax professionals freed up to focus on high-value activities.

Cost pressures become the top priority

Co-sourcing more compliance activities may offer a solution for those struggling with fewer resources.

Most tax and finance functions must contend with compounding budget pressures before they can focus on embracing a GenAI-enabled future. Respondents say they're expecting an average of a 3.3% reduction in tax and finance function budgets in the next two years; 13% said they anticipate a freeze. That's on top of the EY surveys since 2018 – totaling nearly 8,000 responses – that reported an average two-year cost reduction ranging from 4% to 9%. These cuts, combined with a period of high inflation, have shrunk the purchasing power for nearly all.

At the same time respondents say they continue to do a significant amount of tax compliance work with internal resources. As they look to save money, they may wish to explore co-sourcing more of these activities, especially BEPS reporting and direct tax compliance.

Harnessing GenAI adds a new dynamic to these budget pressures. Just as companies must analyze which activities to perform internally and which to co-source, they face a similar build versus buy decision in terms of GenAI tools and capabilities. Building these capabilities might meet the business' needs, but it is challenging and expensive to do so. Buying some or all of the needed tools and services may provide a quicker transformation and better value.

Finance function transformation is increasing

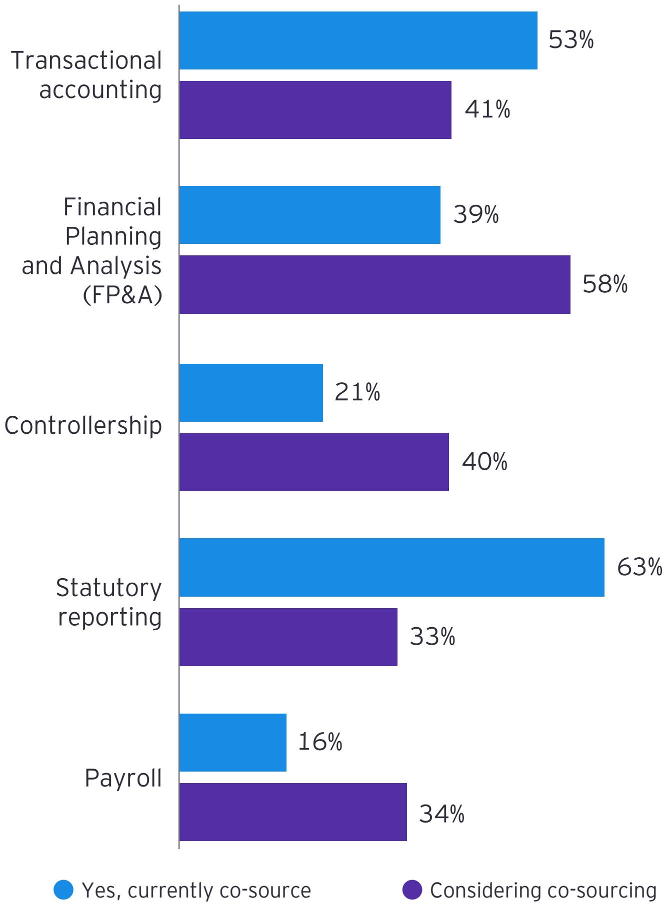
Cost concerns are also driving finance functions to transform. Like tax, 54% of finance professionals say they are considering changing their operating models in the next two years, and CFOs are slightly more

likely to say they're doing it as a combined tax and finance transformation.

Much like tax leaders, CFOs and their teams are being challenged to deploy their teams on the most strategic activities while reducing cost. They're also facing talent challenges and their own complex compliance and reporting obligations. Achieving an optimal outcome often means transforming the finance function's operating model as well.

CFOs, senior finance executives and financial controllers in the survey also say they're considering more co-sourcing for a range of activities, especially transactional accounting and financial planning and analysis. And while businesses continue to seek ways to reduce the cost of activities, they also want to maintain control; automation can play a role there. Co-sourcing is particularly attractive as a solution for financial planning and analysis, for example, because it can reduce costs while using data and technology to derive even more value. Businesses are also looking mostly for providers that excel at standard reporting and analytics and those with configurable workflows, task management and work routing capabilities. Additionally, businesses are seeking providers with highly integrated solutions to ensure that both their employees and service providers have seamless access to the data.

Finance functions are considering co-sourcing more key activities



How to approach transformation in the GenAI era

Here are four actions to consider now as your organization tries to achieve more with less in a disruptive period.

No matter where you are on the transformation spectrum, all tax and finance functions should pursue four actions:

1 Operationalize GenAI for tax and finance

Think of it as a transformative tool, not just as a way to achieve short-term efficiency gains. Tax and finance functions need to move swiftly and smartly along the maturity curve to begin deploying GenAI tools into their operations. This starts with identifying use cases that align with your business and selecting the right tools. Next you need to prepare your data, then choose a small pilot project. Then scale, integrate and continuously improve. Most importantly, make sure your people are prepared to work confidently with GenAI. For example, can you develop a GenAI agent to properly classify tax transactions, identify planning and analysis opportunities and provide real-time reporting insights that your executives can leverage to bring more value to the enterprise?

2 Create a comprehensive data strategy

Position yourself to realize all the benefits of GenAI and data reuse. This will become increasingly important as regulatory reporting requirements increase and as you manage cost and talent pressures.

3 Develop a strategic talent plan

The plan should address the many pressures impacting your tax and finance functions, including the talent gap, role of GenAI, ability to focus on strategic activities, emerging reporting requirements and cost pressures. You should develop a strategic talent plan to position your tax and finance people for future success. This involves predicting your future talent needs and then determining how you will source the people you need through a combination of internal hiring, working with a service provider, automation and GenAI.

4 Continue to re-examine operating models

You still need a strategic plan, especially with the capabilities of GenAI growing quickly. The options for transformation remain essentially the same: build by investing, outsourcing a significant amount of activities, or more commonly, taking a hybrid approach by using external providers on some activities while keeping other activities in-house.

Ultimately, the new survey shows the growing demand for data makes working with a single service provider a prudent choice, especially for certain activities like Pillar Two compliance. Once a single provider is already working with your core data, it may make sense to outsource more tasks that you are finding harder to complete in-house with ever-tighter budgets. This, in turn, can put your people in the best position to deliver the data-driven insights your business craves. It may also put you in a better position to take advantage of fast-evolving technologies, including quantum computing, which is likely to supercharge GenAI.

About the survey

Insights from 1,600 executives across the globe

The EY Tax and Finance Operations survey of 1,100 tax function and 500 finance function leaders seeks to measure the effectiveness of transformations to date and the ability of tax and finance functions to leverage support from co-sourcing to GenAI. The survey was conducted in June and July 2024 in 32 jurisdictions and across 18 industries.

Participant profile:

1,600
senior tax and finance professionals

18
Industries

32
Jurisdictions

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