

Three challenges that boards should address for tax transformation

Center for Board Matters

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In brief

- ▶ The tax and finance functions need to transform effectively for greater resilience against disruptions.
- ▶ To support such transformation, the board must address rapid regulatory changes, the growing talent squeeze and obstacles in leveraging data and technology.
- ▶ The right mix of in-house and co-sourced activities can allow the tax and finance functions to play more strategic roles in the organization.

Boards must address three challenges faced by the tax and finance functions to help transform them into strategic business partners.

The COVID-19 pandemic has underscored the importance of having strong tax and finance talent, technologies and processes to help withstand disruptions. As boards focus on post-pandemic recovery, transforming the tax and finance functions into value-added collaborators to the business is crucial.

This is already gathering pace. According to the *2022 EY Tax and Finance Operations Survey (TFO survey)*, 84% of the global respondents are actively changing their tax and finance operating models. What's more, 95% plan to divert part of their tax and finance budget from routine to strategic activities – including tax policy, planning and controversy – over the next two years. Yet, tax and finance functions are also expected to do more with less: 87% of respondents plan to reduce costs over the same period.

2022 EY Tax and Finance Operations Survey

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of respondents plan to reduce costs over the same period.

The board should assess whether the tax and finance functions are able to effectively manage tax risks, drive higher value for the business and keep a close eye on costs. After all, the functions' effectiveness in managing tax risks has a direct bearing on the board's governance mandate. To help the tax and finance functions transform successfully, the board should address three pressing challenges faced by the functions.

Boards should assess the ability of the tax and finance functions to manage tax risks effectively, drive higher value for the business and monitor costs closely.

Accelerating legislative and regulatory changes

Even before the pandemic, tax and finance functions faced unprecedented legislative and regulatory changes. The sheer impact of the COVID-19 pandemic has only magnified this challenge. As businesses go into post-pandemic recovery, their tax and finance functions have to reckon with the unwinding of temporary policies and fast-moving tax reforms.

Of these, the most significant policy developments are derived from the OECD's project on addressing the tax challenges of globalization and digitalization of the economy, more commonly referred to as the Base Erosion and Profit Shifting (BEPS) project. The BEPS initiatives on this front look set to trigger major overhauls in many countries' tax regimes.

The move by many tax authorities around the world toward digital tax administration – which involves real time or near-real time reporting and filings – is expected to further increase compliance requirements, risks and costs. Close to six in 10 (59%) of the TFO survey respondents believe that complying with digital tax filing requirements will increase the cost of running their tax and finance functions. It is imperative that boards stay up-to-date on evolving developments in the tax legislative and regulatory landscape. In addition, tax and finance functions are playing a bigger role in helping organizations and boards address environmental, social and governance objectives. Boards will need to empower the tax and finance functions and support their transformation – including making talent and technology-related investments – to enable them to become key business and strategic partners of operating units in the organization.

Growing talent squeeze

Successful tax transformation needs robust talent with the right mix of tax technical, data, process and technology skills. But there is a dearth of such talent. Ninety-five percent of the TFO survey respondents believe their tax and finance personnel need to expand their skill set beyond technical knowledge to include data, process and technology skills in the next two years.

But this is easier said than done. The post-pandemic environment, which is seeing fundamental workplace shifts, exacerbates the talent crunch. Employees are expressing greater demands for flexibility – including flexible working arrangements – and heightened expectations around professional development, advancement and wellbeing. The talent squeeze is likely to get tighter. It may therefore be more expedient for companies to consider working with a vendor that has dedicated tax professionals with the requisite technical, data and technology skills to bring their insights to bear on the business.



Hurdles to leveraging data and technology

Access to technology-driven solutions is crucial to help tax and finance functions work more effectively and efficiently, enabling them to stay up to speed with digitally enabled tax administrations. By using advanced technology and data, the functions will be better equipped to project the tax impact of broader business decisions, helping to bring value to the organization.

But this is still work in progress for many corporates. Thirty-seven percent of the TFO survey respondents believe the lack of a sustainable plan for data and technology is the biggest barrier to achieving their tax and finance functions' vision.

There's no denying that technology imposes significant expenses for a tax team's budget. As businesses seek to cut costs, building technological capabilities in-house becomes even more challenging. It is therefore of little surprise that 56% of the survey respondents have prioritized working with a provider that has significant capabilities in data, technology and shared services center delivery. This number rises to 68% for corporates with more than US\$30b in annual revenues. With the outsourcing or co-sourcing approach, organizations are not burdened by the cost of continuous investments in talent and technology. Instead, this will enable the management and in-house tax team to focus on more strategic activities – such as tax planning and closer collaboration with business partners – and help drive higher value for the organization.

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Paving the way for successful tax transformation

With a better understanding of challenges faced by the tax and finance functions, boards can drive successful tax transformation in the following ways.

1

Evaluate the tax and finance operating model on a continuous basis

The board should mandate the management to review the operating model regularly to understand how the tax and finance functions are contributing to the overall business strategy as well as identify any people and technology gaps.

3

Consider a hybrid approach

A strong hybrid approach not only increases the effectiveness and efficiency of the tax and finance functions but also enables in-house personnel to focus on strategic activities and become value-added partners to the business.

Future-fit tax and finance functions contribute strategically to the business by helping the management and board make well-informed decisions. The board can help the tax and finance functions find an approach that improves both effectiveness and efficiency for the business while empowering in-house professionals to become more of a strategic business partner. The time to act is now.

2

Decide what stays in-house and what to co-source

The board should direct the management to determine the list of activities to be done in-house – i.e., higher-value and leading activities such as managing tax controversy – and co-sourced – usually routine, data-driven tasks such as completion of tax returns, regulatory filings and data collection. Co-sourcing can reduce unexpected IT expenses and taps into the vendor's technology and talent investments to keep up with the fast-evolving tax landscape.

Boards should consider some key questions:

- ▶ Do the tax and finance functions have a robust technology and data plan in place?
- ▶ Are the tax and finance functions using data and technology to deliver robust reporting and insights to improve visibility, risk management as well as legislative and regulatory compliance?
- ▶ Is the tax function equipped to help the C-suite and board understand how tax changes could impact their decisions in business strategies, plans and operations?
- ▶ Has the organization appropriately assessed higher-value tax and finance activities to determine those that should be executed in-house and those that can be co-sourced? What is the optimal mix for building in-house talent, as opposed to acquiring capabilities through co-sourcing?

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