

The intelligent tax function

2020 Global Tax Technology and Transformation Survey highlights

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font, with a yellow triangle above the 'Y'.

Building a better
working world

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About this study

This study includes survey responses from a group of 100 of the largest multinational companies with median US\$12b+ in revenue. The survey was conducted in May 2019 by the EY Quantitative Economics and Statistics (QUEST) group and Wakefield Research.

1 Our perspective



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Multiple megatrends are disrupting the very nature of global corporate tax operations. The pace of regulatory change and the digitalization of tax authorities, demands for transparency, technological advances and the explosion of data are just a few of the forces redefining how tax functions must operate. Yet the technology, leadership and skills within many global tax functions have not kept pace.

In the context of this digitally evolving marketplace, EY's global survey was conducted to gain insight into the current challenges of the tax function. Among the varied perspectives we gained, there was one overarching conclusion: tax functions must close the data and technology gap, and do so as quickly as possible, if they are to keep pace with today's rapidly evolving demands.

This survey helps us paint a picture of what a high-performing tax function will look like over the next several years, including the increasingly essential capability to perform more advanced analytics. The tax function of tomorrow must master data intelligence. That is the foundation for what we call an "intelligent tax function," where every employee performs only the activities matching their skills and experience, and where they focus more on building value rather than making fixes or wasting time on workarounds.

The path to an intelligent tax function begins with a strategic plan, one that maps a new way of working, and incorporates new skills and technology. It uses well-proven solutions to address persisting issues and leverages the potential of newer technologies to make a quantum leap in capability to be ready for tomorrow.

What will **your** journey look like?

2 Tax authorities are disrupting the tax function

Tax functions dealing with digital tax administration (DTA) feel a noticeable impact and are taking clear action.

98% of companies surveyed, with global headquarters in countries with digital tax administrations, are organizing their response to DTAs in a centralized and globally consistent manner.

They are more aware of the difficulty in monitoring these requirements and asserting proper governance for government submissions.

“

We have spent a lot of money on technology at [the] IRS, but have not spent enough.” [We plan] to bring [the] IRS into the modern age of technology.”

Steven Mnuchin, United States Secretary of the Treasury - IRS Strategic Plan 2018-2022

“

Automation and artificial intelligence make use of data, analytics and tools to extend automation and analytics use cases, and enhance our realized artificial intelligence capabilities.

ATO Corporate Plan 2018-2019

“

...to further adapt to the needs of developing the market economy and tax modernization, the Shenzhen Taxation Bureau has set a goal of ‘Building Smart Tax’ as its goal, and has organized and developed a pilot for using blockchain to issue ordinary electronic Fa Piao invoices.

State Administration of Taxation Shenzhen Taxation Bureau Announcement 2018 No. 11 2018-08-09)

In spite of overall budget constraints, tax transformation spend, annual technology budgets and the hiring of data skills each increase by more than

+40% for companies surveyed that are dealing with DTAs.

Companies surveyed with global headquarters in countries with digital tax administration are

31% less confident in their monitoring of these requirements.

“

HMRC’s ambition is to become one of the most digitally advanced tax administrations in the world. Making Tax Digital is making fundamental changes to the way the tax system works – transforming tax administration

HMRC Making Tax Digital

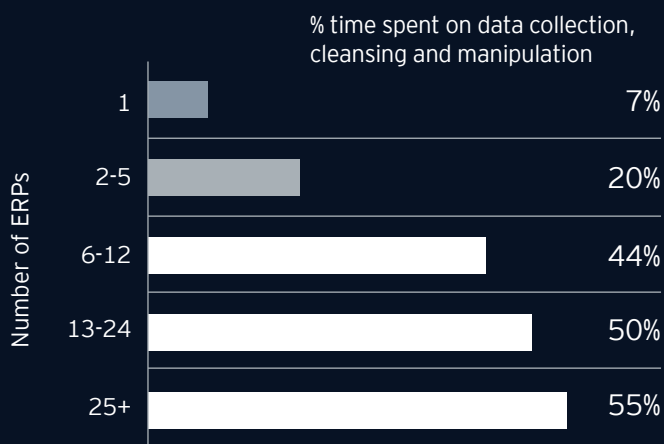
EY point
of view

Tax authorities are driving changes that are increasingly impacting corporate taxpayers. These changes require filing through digital methods, more information, more real-time filing and the employment of data analytics for risk profiling and auditing.

3 Companies need to focus on data sources and transaction-level information

Spreadsheets are often the symptom of multiple data sources and systems not being set up correctly for Tax.

93% of companies surveyed are dealing with multiple ERP systems.



Companies surveyed with 6+ ERPs spend at least

6x more time on data collection, cleansing and manipulation.

While the tax function cannot control the number of ERPs, it can influence the design and governance of ERPs.

Only **45%** of those surveyed participate in ERP implementations regularly or full-time.

Those surveyed who participate in the ERP implementation on average experience

17% efficiency gains.

EY point of view

With Tax becoming more real-time and transaction-based, tax functions should actively participate in the design and governance of financial systems to help ensure data quality via correct processing at the time of transaction.

4 Improving data quality is the key to providing tax insight

Clean data is required for all tax activities. Data quality is dependent on the information accessible by Tax, whether it's accurate and sufficient to answer the most relevant questions or just the basis for estimates.

The majority of companies surveyed still spend

40%-70%

of their time on data cleansing.

What exactly is consuming all that time?

Data cleansing can broadly represent a wide variety of activities, most of which are symptoms of people, process and technology gaps that exist prior to Tax receiving the data.

Seven of the most common activities:

- 1 | Splitting accounts, cost centers or profit centers
- 2 | Making group-to-local GAAP adjustments
- 3 | Splitting data into correct locations or jurisdictions
- 4 | Splitting data into correct legal entities
- 5 | Reclassifying transactions
- 6 | Mapping
- 7 | Splitting or assigning correct trading partners

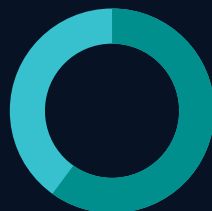
Time spent



When using data to drive insight, detail becomes even more crucial. As for the promise of emerging technology, the simple truth is that even artificial intelligence and machine learning cannot analyze unavailable data any more than humans can.

The level of data detail available is most influenced by the primary source.

40% of the companies surveyed are using a tax reporting package, consolidations ledger or disconnected spreadsheets as their primary source for tax data.



60%
ERP systems or
Finance/Tax data
warehouse

40%
Spreadsheets, data
collect package,
consolidations
ledger

40%

efficiency gains

are realized by companies surveyed with multiple ERPs that build a tax data warehouse as their primary data source to reduce collection, cleansing and manipulation time.

EY point
of view

The intelligent tax function thinks strategically about the tax data supply chain and employs artificial intelligence-driven data intelligence and insights to improve data quality, accuracy and efficiency.

The tax function should seek maximum leverage from the financial reporting technology investments made by the enterprise while also using specialized tax technology.

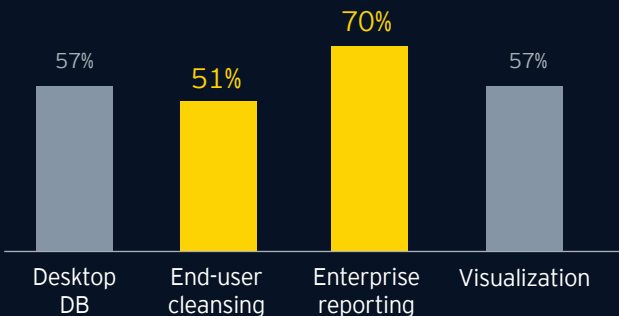
41% of companies surveyed do not use commercial tax accounting software.

The companies that *do* are

50% more efficient.

Technology in use by tax end users

% adopted



While decades-old technology such as business intelligence tools have only been adopted by

70% of companies,

newer end-user data-cleansing tools have already been adopted by

51%

The survey results show that companies have a large appetite for increasingly complex analytics, even when they can't adequately perform the basics.

50% struggle with basic analytical reporting capabilities...

but

68% are striving to incorporate more advanced analytics into key activities.

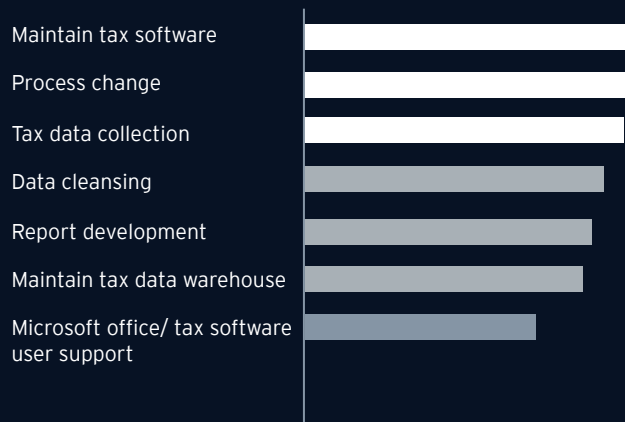
EY point of view

One of the critical goals of a tax function is to add value by providing insights. Once data is harnessed and managed, tax professionals can focus on adding value.

5 The tax function needs new types of skills

The time has come for the tax technology function to become the tax data function. Data sits at the intersection of process and technology and touches every part of Tax.

Today's tax technology function can mean very different things from one organization to another.



The tax technology functions that act as the interpreter between tax personnel and incoming data – ensuring that data is fit for tax use – will be the most successful.

Top 3 activities

Today's Tax function

- 1 Tax software maintenance
- 2 Process change
- 3 Tax data collection

Tomorrow's Intelligent tax function

- 1 Intelligent data management
- 2 Process change
- 3 Report development

Individuals with data and analytics skills as their core skill set will comprise a larger portion of tomorrow's intelligent tax function.

73% of companies surveyed plan to increase tax headcount with people with data and tech management skills.

When considering the abilities of existing staff,

+60% of companies surveyed report that they need more skills with tools their company already licenses.

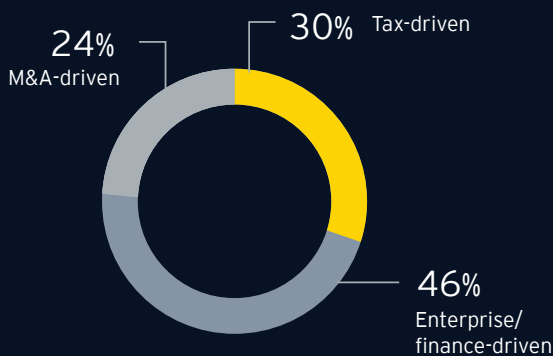
EY point of view

The tax functions that will be most successful in the future are those that adapt to the way authorities are administering tax. In addition to having traditional technical tax and finance skills, tax functions will also need to have technology and data skills.

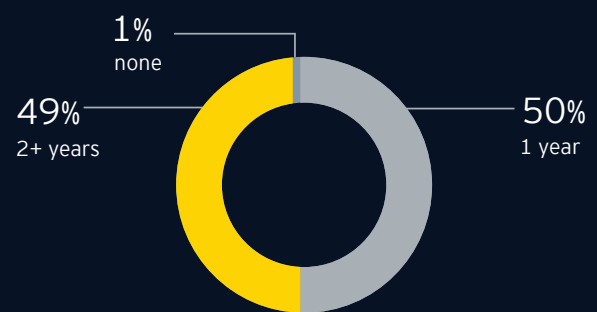
6 Transformation insights

The tax functions that will succeed in the next wave of transformation must get involved, taking an active part in the transformation plan, strategy and execution.

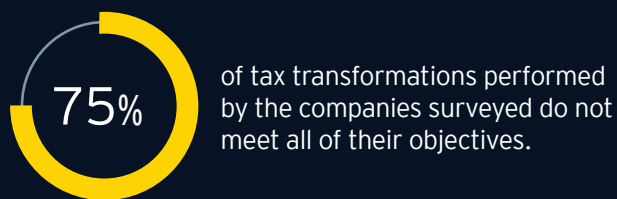
Only **30%** of tax transformations performed by the companies surveyed are driven by Tax.



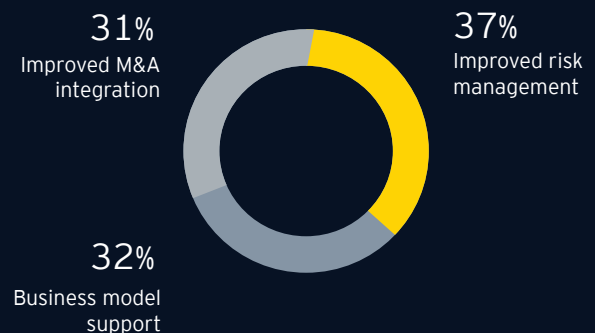
Only **49%** of the companies surveyed have a plan beyond the current year.



Making meaningful change can be difficult without appropriate planning and resources.



Top 3 most commonly realized benefits from tax transformation



EY point of view

Transformation needs to be approached strategically and with focus. Tax leaders need to set a clear vision, define the business case to support the journey, commit and obtain appropriate resources, and enlist sponsorship from a range of stakeholders.

7 The intelligent tax function

Blueprint for success

Today's working world demands an intelligent tax function, with a new way of obtaining, processing and using data, bolstered by a new mix of talent, training and technology – all working together to create sustainable, long-term value.

New tax operating models will need to be in place within the next few years. This intelligent tax function will also be more tightly integrated with the rest of the business from an operational perspective, and will leverage data and technology to deliver value to the business.

This tax function has the potential to be a very different place from the one we know today. Artificial intelligence will increase the opportunities for applying human intelligence. Tax professionals will be able to analyze data, adding another skill to their tax resumes. The data aptitude gap that exists in today's tax function will close rapidly over the next five years as companies hire more technologists and data scientists, and supplement tax technical training with training on data management and analysis.

This combination of higher data quality, automation, new skill sets and realigned responsibilities creates the best chance for tax functions to achieve the aspirational yet elusive mode of focusing on high-value activities to create the intelligent tax function.

8 A blueprint for action

Talent

Begin to upskill your people in such key technology areas as database concepts, desktop data management and analytic tools

Enterprise systems

Leverage the system of original entry – the ERP – and other data repositories and be a part of their governance and processes.

Transformation approach

Establish a seat at the enterprise transformation table and make sure your tax function needs are adequately addressed.

Intelligent tax function

Tax technology

Continue to evolve your internal tax technology function from its roots to become more engaged and accountable for tax data tools and relevant IT governance.

Data control

Some of the most significant challenges across the tax data life cycle are ERP proliferation, data fragmentation and inadequate use of finance or tax data warehouses/lakes. Champion investments here to drive improvements in your overall tax operating model.

9 Conclusion

How can you transform into an intelligent tax function?

- ▶ Stand back and assess the landscape of goals and reporting requirements
- ▶ Set a vision and strategy, and then execute
- ▶ Understand your end-to-end tax data supply chain
- ▶ Invest in technology skills
- ▶ Get data correct at the source by setting up your enterprise systems appropriately for tax
- ▶ Focus and dedicate resources to transformation

Change is always unsettling, but this is also a time to be excited.

The best days to be a tax professional are ahead – including the enticing possibility of spending the majority of time doing the tax work that adds value.

Learn more at:

ey.com/taxtechtransform

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About EY's Tax Technology and Transformation Services

EY's Tax Technology and Transformation (TTT) is a global practice that brings together transformation strategists and technology professionals dedicated to helping organizations redefine the tax function to meet the demands of the digital age: from rapid business model change and global transparency, to expanding digital tax administrations, escalating reporting requirements and cloud-based solutions. Our objective is to help each client transform the traditional tax function into a connected intelligent tax function, with an operating model that thinks about data differently – one that's integrated and adding value across the enterprise, embraces innovation, and is open to adopting advanced and emerging technologies to fuel continuous transformation.

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