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Chief Tax Officer Insights

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Never before has the tax department played such an integral role in the success of the business. Chief tax officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. KPMG LLP's (KPMG) *CTO Insights* is designed to highlight top-of-mind issues for tax executives and ways CTOs are addressing these opportunities and challenges. We are confident that you will find the information in each issue of *CTO Insights* practical and actionable in demonstrating the value you and your department bring to your organization.

Topics in this issue

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The tax department of the future: Transforming tax workforce models

Today, tax has a vital role to play in everything a business does, from managing risk to driving growth. As compliance demands increase across the world, tax activities are being placed under a microscope by the public, the media, and authorities. At the same time, tax teams are continually embracing ever-advancing technology, from data analytics to intelligent automation.

Clearly, the tax function is changing dramatically. So must its people. Good talent is as important as ever. But faced with new responsibilities, capabilities, and operating models, tax departments require new skill sets and approaches to meet the organization's tax needs.

What does the tax department of the future look like?

From an organizational standpoint, most tax leaders believe tax specialists should collaborate closely with the rest of the organization, even outside of finance. Forming productive and mutually beneficial relationships with many different functional groups enables tax to better understand and support the business strategy, while gaining both the respect and opportunity to contribute their unique perspectives to important business decisions.

Tax leaders take different views on outsourcing. While it is a clear way to save on headcount, they are challenged to effectively leverage outsourcing models, especially when dealing with multiple service providers. Strong internal oversight of external workers—especially those handling sensitive data or working directly in the company's systems—is essential to maintain control of processes and information.

Many CTOs envision a more centralized tax function that relies less on outsourcing and more on local staff and contract workers supported by new technology. But augmenting the work of tax professionals with technology is a complicated matter.

For one, some workers fear they will lose their jobs to automation. CTOs use a variety of strategies to get buy-in for automation projects, including demonstrating how people will actually benefit: They can spend less time on mundane tasks and more on interesting, high-value work. They also emphasize the risk to the organization of getting left behind.

? Questions to consider

- **Do your tax professionals possess the business skills and perspectives necessary to deliver valuable insights up the chain? How can you help them develop better business acumen?**
- **How has the adoption of new technology affected your tax department staff? Do your people require new skills to realize the expected return on your technology investments?**
- **What tax processes do you outsource and what do you keep in house? How do you maintain control and oversight of multiple service providers?**

Global tax: Navigating cross-border confusion

Questions to consider ?

- As BEPS continues to unfold, how will your organization adapt to the changing legislation ahead?
- How does your organization participate in the digital economy?
- Do you understand the impact of proposed digital taxation rules on your structure and profits?
- How will you ensure sensitive information remains confidential in your tax reporting?

The global campaign by the Organisation for Economic Co-operation and Development (OECD) to address base erosion profit shifting (BEPS) continues to occupy the attention of tax leaders of multinational companies. The sweeping initiative—designed to increase transparency and fairness—is in full swing. Across the world, tax policies are evolving, scrutiny on international transactions is increasing, and structures are changing.

However, when and how multinational companies should respond to specific recommendations remains uncertain and will likely vary significantly from one country to the next.

One noteworthy development adding to the complexity already surrounding BEPS reform relates to taxation of the digital economy. A core focus of BEPS is to overhaul international tax rules to better fit today's hyper-connected, global business environment, in which masses of income is generated online. Certain BEPS provisions already attempt to tackle the tax challenges of digital businesses and business models. In fact, nearly all European Union member states have signed a multilateral instrument (MLI) to implement measures to tax digital profits "where value is created," regardless of whether a company has a brick-and-mortar presence in that jurisdiction.

However, seeking a short-term solution, several countries have proposed an equalization tax on turnover of digital activity—a tax on all untaxed or insufficiently taxed income generated by Internet-based businesses. This proposal is putting pressure on the OECD to take measures to address digital taxation more holistically.

Such a move would raise a number of questions. For one, given the fact that the MLI is itself a treaty, what will be the legal ramifications if countries try to enact their own measures? Secondly—and perhaps most importantly—what will be the scope of digital taxation laws, in individual countries or across the international tax landscape? KPMG believes rules could emerge that are much broader than regulators, governments, or companies anticipate, potentially leading to uncertainty and potentially double taxation that could drive away business investment in certain jurisdictions.

Another BEPS-related challenge is country-by-country (CbC) reporting, which requires large multinationals to file financial information by jurisdiction on their annual returns. Tax executives are struggling to understand how to craft their narrative as well as how much information to reveal. The concern is over what tax officials in foreign countries might do once information is shared. Some tax executives feel is it critical to control their story and keep their information confidential.

Tax risk management: Transparency matters

Financial. Legal. Operational. Reputational. Risks can come from anywhere and everywhere. In fact, executives describe the nature of tax risk in business today as "the butterfly effect" come to life. For example, an error on a routine statutory filing in a small city in India can morph into a major regulatory action affecting the entire Asia Pacific region.

In this high-stakes environment, it is imperative for tax executives have the knowledge, skills, tools, and perspectives to quickly assess risk and adapt the tax function's strategies and processes to manage and mitigate it.

Success requires tax executives take on an increased role in risk management. Every CTO approaches this new calling slightly differently, but most agree transparency—with employees, business stakeholders, tax authorities, and the media—is critical.

Consider one of the major areas of the concern for tax leaders in today's always-connected age: managing internal risks, such as information leaks. When it only takes a split second for information to spread virally across a 24/7 news cycle, the stakes for managing such internal risks are sky-high. Although internal controls—such as subjecting tax decisions to multiple reviews—are an important element of tax risk management, they can only do so much. Once information gets outside the company walls, it can quickly escalate out of control. In fact, some CTOs believe audits and other disputes were even more difficult on their companies due to what tax officials read in the press.

In response, some tax executives are taking steps to keep employees better informed of the company's overall tax strategy, how it aligns with the overall business strategy, and the reasoning behind significant tax decisions. When even the tax professionals at the very bottom rung of the organization have good view of the big picture and open lines of communication with senior leaders, there should be fewer concerns and mistakes all around. When an issue does arise, tax leaders who address it openly and directly, rather than hoping it will just resolve on its own, can typically lessen the impact.

In the event a damaging leak does occur, many tax leaders are seeking closer collaboration and involvement with the company's public relations teams than they have been in the past. Some see a close relationship between the CTO and the head of PR as the new norm, rather than the exception to the rule—a necessary step to protect the company's reputation.

? Questions to consider

- **What is your tax department's role in managing business risk? Does your team have a larger role to play?**
- **What are the most significant tax risks your organization faces? If you are not aware, how can you get a better handle on them?**
- **How does your organization manage the risks associated with the information age? Is doing the same old thing enough anymore?**

Intelligent automation: Not "if," but "where" and "how"

Technology has long been a crucial piece of tax operations. But today, the emergence of a new class of innovations that can automate and augment human work is reshaping how the business of tax gets done. At KPMG, we categorize these powerful and exciting technological developments under the umbrella term, "intelligent automation."

With goals to ramp up analytic capabilities, streamline processes, reduce headcount, cut down on manual errors, or achieve a host of other potential benefits, many tax departments are embracing intelligent automation tools with increasing speed.

Automation capabilities are being applied in a variety of areas. Some tax teams leverage software bots to clean up and consolidate data from multiple systems and automatically build returns and send payment requests. Others implement automation tools to streamline the indirect tax compliance process or to reduce the work demands of year-end processes by taking over manual tasks, such as loading data into tax software. Many CTOs see a big opportunity to implement automation in developing countries, where tax compliance demands have increased but there is a lack of skilled workers to accurately complete the necessary work.

Approaches to the automation strategies vary. Some CTOs opt to implement a single piece of enterprise-level software. Others leverage a spectrum of laptop-based automation tools that allow tax professionals to create their own micro-automations. And still more outsource low-level compliance work to robotics groups in other functions, rather than developing the same capabilities in the tax department.

Securing funding for technology projects, including process automation, is an ongoing challenge for tax leaders. Investment in projects is often determined by two factors: 1) budget constraints, and 2) how the value of tax is measured by the CFO and CEO. Many CTOs say they have a leg up in budget discussions because their technology spend requests often pale in comparison to those other departments, while the expected return on investment is far greater.

Secondly, tax executives often face staffing challenges as the department gains new technologies. The tax professional role has evolved in the digital age. The best tax people today are those who are proficient in both tax and technology—and not just one technology, but working with a variety of tools that can change on a dime. It's a rare combination. Finding formally trained tax technologists in the job market is difficult given the high level of competition for these resources. And existing employees may have deep knowledge in one category but require training the other.

Tomorrow's tax teams will clearly look much different than today's. Tax leaders will need to carefully assess what skills the department will need in the future and how best to build a team that can truly add value.

? Questions to consider

- What are the most compelling intelligent automation use cases in your tax department?
- What technological, organizational, or people hurdles do you face to put intelligent automation to work?
- What are the risks to the organization of not implementing intelligent automation in tax?

For further information

Explore the resources below for deeper insights on the topics in this edition of *CTO Insights*.

Topical resources

KPMG BEPS Web site
For resources and news on BEPS and its impact on multinational organizations worldwide.

KPMG Tax Innovation Web site
For insights that will change the way you think about tax.

For previous editions of CTO insights, please visit KPMG.com/us/cto-insights.

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