



CTO Insights – Issue Spotlight

Tax technology: The question isn't whether to invest. It's how.

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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.

More tax complexity, more demands on the tax function

In corporate America, attention and sensitivity to tax has never been higher. U.S. tax reform, coupled with an increasingly complex global tax environment, is placing ever-greater demands on corporate tax functions. With substantial ambiguity and uncertainty surrounding what tax reform means to individual businesses, tax leaders now field regular questions from board members, senior executives, and investors about the new law's impact on tax projections, processes, and planning.

It's time for tax leaders to deliver the answers. While analysis of the tax law will continue for some time—considering that further guidance is expected from regulators—tax functions are under pressure now to guide their organizations in navigating the new tax landscape.

Within the tax department, the conversation now focuses on solutions: what actions to take to reduce negative consequences and enhance positive ones. But responding effectively is nearly impossible without new information and approaches. For example, many tax functions are finding they need to significantly improve their tax modeling processes to reliably forecast revenue and plan accordingly in such a complex tax environment. Current modeling approaches are often incapable of handling the high number of considerations that now affect global tax planning. In addition, tax reporting work is increasing significantly, particularly in multinational businesses, online businesses, and businesses operating in highly regulated industries. Tax compliance now requires massive amounts of data in increasingly granular levels of detail, drawn from all across businesses and jurisdictions.

Budgets increase for transformative tax solutions

To meet evolving responsibilities, many tax functions are turning to technology solutions, which have a transformative impact on tax functions. This isn't news. Innovative technologies have been helping modernize tax departments for years. But with tax now at the top of the business agenda, tax leaders now have an especially strong case for technology investment.

When they're successful getting more dollars for technology spend, many tax functions are prioritizing data and analytics and automation solutions.

Data and analytics solutions help tax departments make sense of data and put it to use, making previously missing, inaccessible, or indecipherable datasets practical for everyday tax operations, including planning, reporting, and compliance. Improving how the tax function gathers, stores, and uses data is a foundational piece of nearly every other tax transformation effort, from simple process improvement initiatives to major system and platform adoptions.

Automation technologies—such as bots, visualization tools, and machine learning—help streamline tax processes that were previously manual, slow, and error-prone, saving time and money while improving quality and freeing up tax professionals for more strategic activities. Common tax automation applications include basic compliance activities, such as preparing and filing returns to meet requirements related to income tax apportionment, sales and use tax, deferred tax balances, exemptions, and transfer pricing. In fact, automated compliance solutions are advancing so rapidly—becoming both more accurate and more affordable—that future tax departments may completely automate compliance work.

Outsource, co-source, or in-house?

The question many tax leaders are now confronting is not what to invest in, but how. Should they develop their own technology solutions in-house, outsource technology-centric tax activities to third-party providers, or strike a balance through co-sourcing arrangements?

There are pros and cons to each approach and no one-size-fits-all solution. Some tax departments go all-in on outsourcing, moving all staff and work to external vendors. Some leverage their own tax team—with the help of technical people, such as developers and data scientists—to build and implement proprietary technology solutions. And some combine both approaches, outsourcing routine work, such as state and local operations and compliance activities, while keeping especially high-stakes and strategic work, such as tax planning, in house.

The benefits of outsourcing go back to the complexity of the current tax environment. Running large-scale tax operations is such an immense challenge today that it's often easier and cheaper to rely on service providers that specialize in the work of tax practice, using proprietary technology to manage tax activities efficiently and effectively.

But outsourcing tax processes comes with risks, too.

For one, companies with unique tax compliance challenges—such as those with especially complex operating models or those competing in highly regulated industries—may find generic third-party solutions don't meet their needs and may be better off developing their own solutions.

For further information

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



KPMG's Tax Reform website

Browse numerous resources to help stay abreast of the latest developments.



KPMG Tax Reimagined website

Think unconventionally to inspire new ideas that transform the tax function.



KPMG's Tax Function Benchmarking Study 3.0

Learn about leading practices in the tax department and identify improvements to deliver greater value.

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In addition, outsourcing of the tax function isn't always realistic, and the arrangement often morphs into some type of co-sourcing that doesn't result in much cost savings. Given the wide range of tasks within the tax department, leveraging service providers won't necessarily eliminate all internal positions.

No matter what approach an organization takes, the tax function will likely need to bring new people with new skill sets. Technical knowledge and expertise are usually a basic requirement simply to use advanced tax solutions, from simple bots to large-scale platforms. Developing solutions in-house requires even greater levels of technical competency and sophistication.

The typical tax worker lacks such abilities. As such, many tax functions are actively recruiting tax professionals who understand technology and technology professionals who understand tax. Others are instituting programs to train hybrid workers, increasing compensation for tax people who add technology specializations, and designating information technology people within the tax function.



Questions to consider

- How are your tax function's responsibilities changing and growing under the new tax regime?
- What technologies can transform the work of your tax team in order to meet current challenges?
- Do you have the resources, skills, and knowledge internally to develop your own tax solutions?
- Are existing solutions and service offerings capable of handling the unique needs of your tax operations?
- What are the pros and cons of outsourcing or co-sourcing tax processes versus keeping them in-house?

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