KPMG

Tax meets tech to meet tomorrow

With change all around, tax transformation steps forward

2024 Chief Tax Officer Outlook Study

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Foreword

Our 2023 Chief Tax Officer Outlook Study[1] found tax teams beginning to redefine the value tax brings to the organization. As we look ahead, familiar issues remain in place, with significant uncertainty across all spheres of business: geopolitical, economic, legislative, regulatory, technological, and operational. Also unchanged is the vital need for tax functions that are strategic, collaborative, agile, resilient and data driven.

Now, in the fifth edition of our annual KPMG Tax series—the 2024 Chief Tax Officer Outlook Study—we spotlight the transformations underway in the current tax department to navigate the current wave of disruption—and the one that will undoubtedly come next.

Technology enablement is high on the agenda. While tax functions have widely leveraged technology, it is now essential to use advanced tools to digest data, make calculations, generate intelligence, and automate compliance in order to manage increasingly heavy workloads and deepening complexity. Today's CTOs are exploring—and to some extent embracing—both game changing emerging innovations such as generative artificial intelligence (GenAI) and new applications of tried-and-true solutions to automate and accelerate the day-to-day work of tax and provide future-looking insights for tax planning.

Leveraging technology offers vast opportunities, many of which have yet to be fully discovered. CTOs are particularly excited by its potential to help reduce a compliance and reporting burden that continues to escalate in size, complexity, and detail. Enhancing tax and data processes will indeed be crucial this year. Among several key external drivers are the: implementation of the Organisation for Economic Co-operation and Development (OECD) Pillar Two rules; increasing requirements for greater tax transparency and information sharing around the world; and geopolitical and macroeconomic risks affecting tax and business strategies and operations.

At the same time, tax leaders must be deeply attentive to the widespread effects of technology deployment and other disruptions on tax talent, workplaces, structures, and operating models. Relying on technology without supporting organizational changes is shortsighted. To seize the full potential benefits of advanced technology, CTOs must strategically manage the transformation journey in a way that alleviates risks and positions their teams to realize the benefits for the long-term.

This report shares a research-driven outlook on key challenges, opportunities, and priorities of enterprise tax functions in the year ahead. Data and insights reflect:

- Findings of a Fall 2023 survey of 300 CTOs of companies across all major industries;
- One-on-one interviews with CTOs representing a diverse set of businesses;
- Perspectives of KPMG Tax partners who advise CTOs on the topics covered in this report.

As you lead your tax function into a new tomorrow, we hope this report assists you in embracing change and helping to drive value in the evolving tax landscape.

— **Rema Serafi**
Vice Chair - Tax
KPMG LLP

Key findings

Tax technology transformation

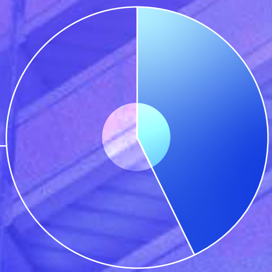
Steps tax functions are taking to leverage technology and automation:

Implementing tax software solutions

44%

Integrating or leveraging enterprise financial systems

43%



Using data and analytics and business intelligence tools for tax planning

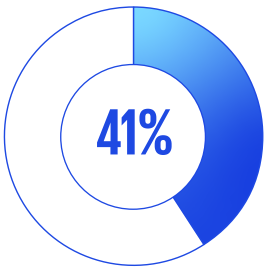
39%

Tax functions that use technology to free up tax professionals for strategic activities.

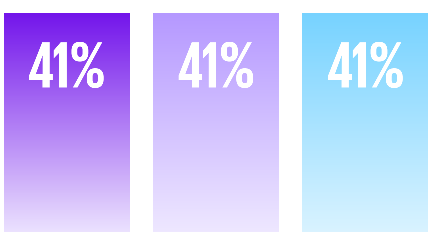
2024	41%
2023	32%

Tax operations and talent

Greater access to advanced technology is the top benefit CTOs expect to obtain from **shifting to greater outsourcing or co-sourcing.**



Top ways tax functions will **respond to the evolving tax landscape** over the next three years.

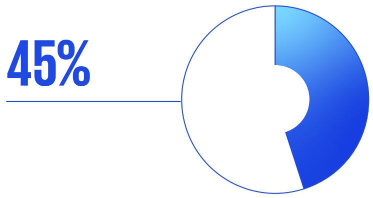


- **Implementing flexible/ remote work**
- **Adopting new technology/ software**
- **Redesigning job roles**

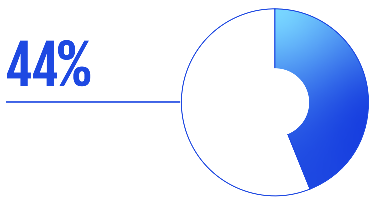
Tax legislation, regulation, and administration

Significant challenges tax functions face in the current U.S. and international tax landscape:

Addressing the challenges of BEPS initiatives

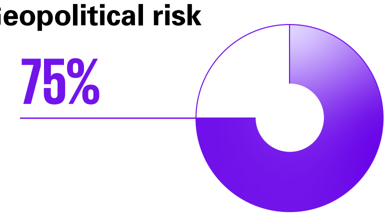


Managing compliance in multiple jurisdictions

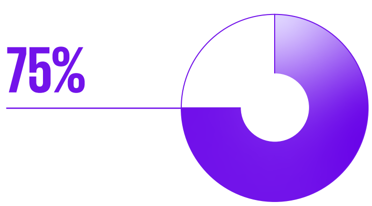


Business risks that pose the **most significant challenges** to the tax function.

Geopolitical risk

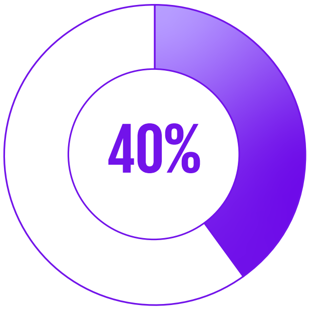


Macroeconomic risk

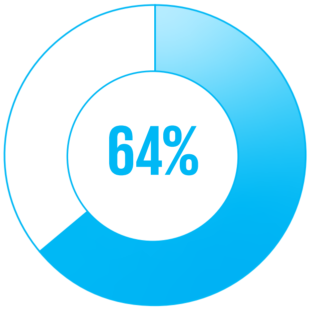


Enterprise issues and growth

ESG risk (40%) is the **greatest threat to organizational growth** from a tax perspective over next three years.



64% of tax functions **work to limit existing tax exposures** and **identify new tax strategies** to **speed up M&A transactions**.



Tax technology transformation

As high-potential innovations evolve and emerge, tax doubles down and leans in.

Added compliance obligations. Heightened regulatory complexity. Expanding strategic responsibility. Geopolitical and economic volatility. Today's demanding tax landscape, coupled with expectations for tax departments to both manage day-to-day tasks and create broader business value, has increased pressure on tax leaders and put a heavy strain on their teams. To meet their objectives, tax departments of the future will increasingly rely on technology and automation.

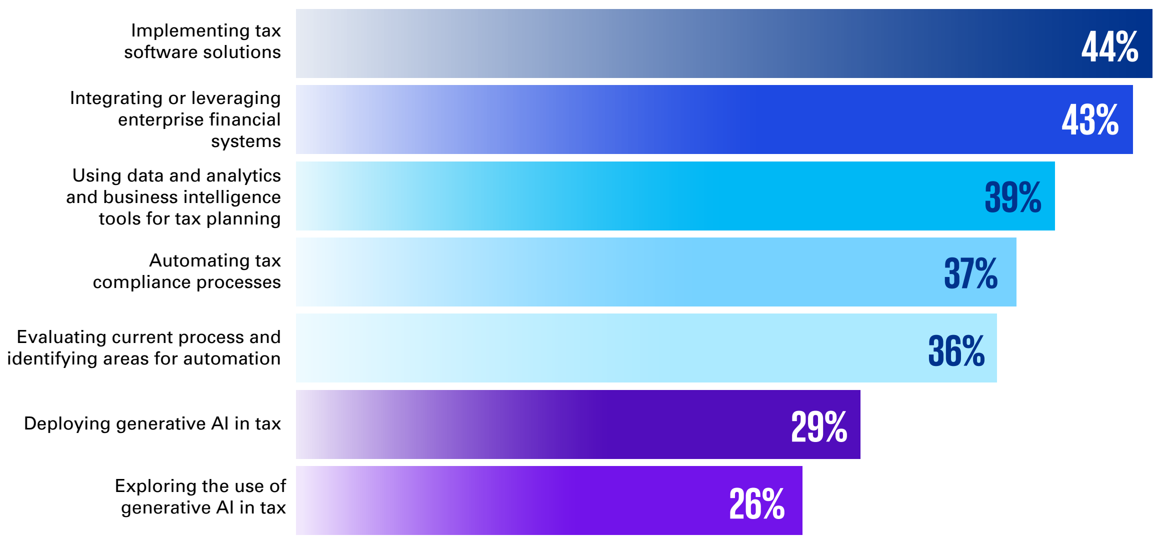
Of course, digital transformation is a journey that most tax departments have been on for years. From tax software solutions to enterprise resource planning systems to data analytics and business intelligence tools, tax functions put technology to work every day to drive efficiency, improve business outcomes, and generate insights for strategic decision-making.

This survey indicates that traditional technologies such as spreadsheets, bots, dashboards, and enterprise software will continue to play a key role in tax operations moving forward. To leverage technology and automation, CTOs are doubling down on such trusted, proven solutions first: implementing tax software solutions (44 percent); integrating or leveraging enterprise financial systems (43 percent); using data and analytics and business intelligence tools for tax planning (39 percent), and automating tax compliance processes (37 percent).

What's more, 30 percent of tax departments surveyed plan to increase their technology investment, compared to 19 percent that will decrease it.

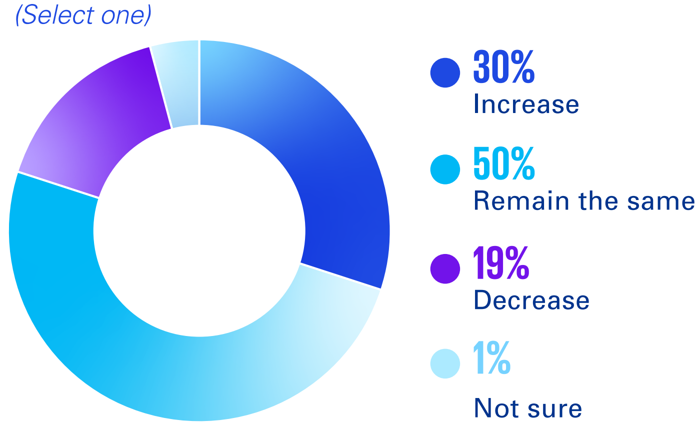
Peloton's tax department is evolving from a technological perspective through investments in tools that contribute to

What steps has the tax function taken to leverage technology and automation? *(Select up to three)*



> ***Leveraging innovation and technology, and automation, in particular is absolutely critical to the success of a tax function and more broadly to a company's finance organization.***
>
> *– Michael Stanton, Corporate Treasurer and Global Head of Tax & Treasury, Peloton*

How will your technology investment to support the tax function change in the next 12 months? *(Select one)*



In a dynamic tax landscape, technology and automation have become essential tools for tax departments to survive day-to-day demands, as well as the path to create broader business value.

– Brad Brown, Chief Innovation Officer and National Transformation & Technology Leader for Tax, KPMG LLP

efficiency. These include tax analytics software, tax modules to support transfer pricing workstreams, and tools to present data in a clean, digestible format for tax planning.

"Leveraging innovation and technology, and automation, in particular is absolutely critical to the success of a tax function and more broadly to a company's finance organization," said Michael Stanton, Corporate Treasurer and Global Head of Tax & Treasury at Peloton, a leading global fitness company. "The tax function can drive value for the company through operational efficiency and the ability to scale—using tax technology tools allows the team to manage the increased workload that comes with the company's growth without adding to the organization's cost structure."

The tax technology team at e-commerce company eBay applies advanced technology capabilities to specialized tax technical areas that are highly relevant in its industry—particularly direct and indirect tax information reporting, which requires more granular data and analytics than ERP systems for broader finance and accounting typically provide. For example, AI, data analytics and automation capabilities help eBay quickly respond to inquiries from governments around the world about individual and seller-level transactions, as well as identify mistakes and get the data needed to support audits.

"Governments globally have looked to marketplaces to be the tax collector for customers' direct and indirect taxes because we have transaction level data," said Heather Jurek, Vice President, Tax for eBay. "We use technology to remove friction from how the company interacts with its customers: both buyers and sellers. For example, we use AI to determine the nature of a product, what category it falls into, and what sales tax rate applies to it."

At pharmaceutical and biotechnology company Moderna, the tax group is building out numerous technologies, from standard software to data lakes to bots. Technology investments at the company are tied to the organization's broader digitization efforts, with process improvement as the primary goal.

How GenAI can help the tax function[2]

Tax compliance: Automating the time-consuming aspects of tax compliance and reporting—such as data capture, computation, and reconciliation—can liberate tax professionals from routine transactional processes so they can add greater value beyond compliance. GenAI can also provide a narrative analysis of information and output while supporting human analysis.

Tax controversy: GenAI technologies can help prepare for discovery and analyze information in tax litigation by facilitating consistent communications with tax authorities across tax types and jurisdictions. It can help apply relevant data and issues from one area to another to communicate with tax auditors, public, or judicial officials on their terms, using language and approaches that resonate most effectively with the audience.

Risk management of a global tax landscape: Large multinational companies operating in multiple jurisdictions need to rapidly identify and make sense of the latest developments across the globe. GenAI models can read, translate, and accurately summarize relevant documents in seconds, giving tax practitioners actionable information at speed.

Tax transactions: GenAI can help with complex tax transactions by identifying patterns and trends in data that may not be immediately apparent to human analysts. This can help tax professionals make more informed decisions and identify potential tax risks and opportunities that might otherwise be missed. Additionally, GenAI can help tax professionals communicate complex tax concepts and strategies to stakeholders in a clear and concise manner that builds confidence in the tax planning process.

Tax technology transformation continued

"We're seeing where there are some technology improvements that we can do to become better, faster, and more accurate, while at the same time not increasing our spend," said Jed Larkin, Moderna's Senior Vice President of Tax. "The starting place for everything is taking the time to map where the pain points in our processes are and seeing if it really can benefit from a technology solution, or if it's just a process efficiency solution that we need."

Larkin said it is important for tax functions to stay on pace not only with enterprise-wide transformation, but also with tax authorities that are modernizing their own technology capabilities, such as moving to all-electronic invoicing and document retention.

"We are being asked to do more and more with less and less, and a lot of the tax authorities around the world have already upgraded their game when it comes to technology," said Larkin. "Having the right skill sets and frankly finding new ways to innovate when it comes to technology is really key."

But when it comes to leveraging technology, this year will not look like the last in most tax departments. Just as tax has been transforming, so have the technologies used in tax operations. Going forward, there is great urgency to integrate newly emerging, highly advanced technologies that can push core tax activities to the next level of efficiency.

GenAI—an evolution of earlier AI algorithms that is revolutionizing knowledge work of all kinds—is poised to be a major piece of the changes coming to tax departments. The deployment of GenAI holds immense potential for boosting efficiency, unlocking valuable insights, and enabling tax professionals to focus on more strategic tasks. Potential benefits and applications of GenAI for tax abound, such as: automating basic tasks; extracting insights from large volumes of data; accelerating risk monitoring and analysis; and enhancing strategic tax planning, reporting, and communications.

This space is still new and taking shape. Yet even as GenAI vendors, capabilities, and applications evolves and expands rapidly, tax functions are already jumping aboard. Of the tax functions surveyed, 29 percent are deploying GenAI, and 26 percent are currently exploring its uses in tax.

At the same time, we see tax executives approaching GenAI with appropriate care and caution, given the sensitive and confidential nature of tax information. Half (49 percent) say accuracy and reliability of tax-related information is the top risk with using AI tools (such as ChatGPT) in the tax function. This is followed by concerns about the reduction of human judgment in tax decisions (42 percent) and the increased potential for errors and misinterpretation (34 percent). Further, 61 percent say they feel at least some level of discomfort in using GenAI tools in tax.

We're moving into GenAI, where the technology makes predictions…anytime you're touching financial statements or tax returns, you get a little bit more cautious…ultimately, we're going to have to make sure we build in the checks and balances.

– Heather Jurek, Vice President, Tax, eBay

What are the potential risks with using artificial intelligence tools (such as ChatGPT) in the tax function of your organization? *(Select up to three)*

Accuracy and reliability of tax-related information	49%
Reduction of human judgment in tax decisions	42%
Increased potential for errors or misinterpretation	34%
Compliance and regulatory risks	30%
Data security breaches	30%
Privacy concerns	24%
Ethical issues and biases	17%
Increased potential for bias and unethical practices	16%
Lack of control over the AI-generated responses	14%

eBay has yet to apply GenAI to direct and indirect tax, but uses it for some back-office taxes, such as reviewing contracts and identifying exposures, and for driving efficiencies in meetings, such as summarizing notes.

"We were early adopters of AI, but now we're moving into GenAI, where the technology makes predictions," Jurek said. "Anytime you're touching financial statements or tax returns, you get a little bit more cautious. Ultimately, we're going to have to make sure we build in the checks and balances, just like when we implemented our tax accounting technology. We'll need to be able to see where everything came from and make sure we have an audit trail."

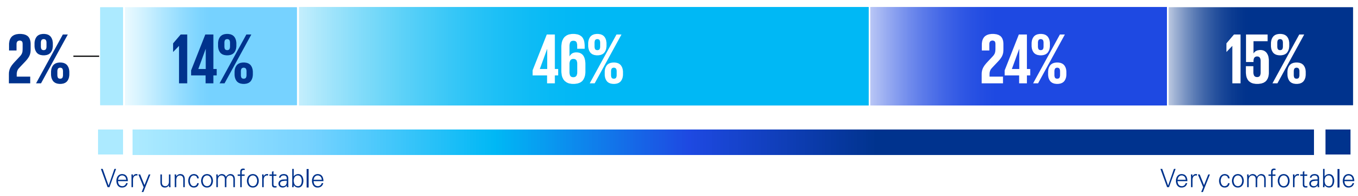
Moderna is experimenting with a GenAI tool to support the tax team in the early stages of drafting documentation, but Larkin said greater linkages to additional data and databases will be needed to increase its value.

"By using it more and regularly, you can see where those gaps and opportunities are," he said. "I don't think that it's going to be the cure-all, or replace a bunch of people, but it is a tool that I think you can effectively use."

Finally, Peloton has not implemented an AI-based tax tool. However, the tax department is mindful that clean data is a foundational piece to leveraging GenAI, and is carefully tracking its applications in areas such as tax research and tax policies.

"There will be some valuable GenAI use cases, and when the right tool exists to help drive value, we'll be ready to leverage it," Stanton said.

How comfortable are you with using artificial intelligence tools (like ChatGPT) in the tax function of your organization? *(Select one)*



Tax leaders recognize the importance of keeping pace with technology and investing in advanced capabilities, such as GenAI, to boost efficiency, quality, and enable tax professionals to focus on more strategic tasks to unlock valuable insights.

– Brad Brown, Chief Innovation Officer and National Transformation & Technology Leader for Tax, KPMG LLP

INSIGHT INTO OPPORTUNITIES

Tax transformation is the most powerful underlying solution to the dominant tax functions issues of today and tomorrow. It is set to be a top tax function agenda item in 2024 and beyond. Nearly all tax departments already integrate a broad set of technology tools and solutions across their ecosystems and processes to accelerate data extraction and analysis, and to automate especially time-intensive tasks. Continued strategic investments in such technologies—with a continuous search for new applications and optimizations—will remain vital for tax functions to meet heightened objectives. At the same time, this year offers the opportunity for tax to enter a new technology frontier: the exciting world of GenAI. Several success factors will help tax functions tap into the potential, including: a strong understanding of which tax processes that can reap the benefits of GenAI; a clear vision where and how to experiment with and deploy GenAI; and a robust plan for tackling issues related to talent, workforce, culture, ethics, and risk.

Tax operations and talent

Tax redefines structures, roles, and ways of working to unleash new capabilities.

Many factors have been driving the ongoing evolution of tax operations: downward budget pressure, added regulatory complexity, increased data requirements, new expectations from the C-suite leaders, and changing demands of tax talent. Today, technological disruption stands out among the rest. As a tech-centric future of tax unfolds, it raises a critical question about tax models and people: What operating structure and skill sets will fully unlock newfound capabilities, enabling tax functions to turbocharge efficiency and create value beyond compliance?

Leveraged strategically, technology can fundamentally transform how tax teams work and the value they contribute. Software and algorithms can take over many aspects of data capture, computation, reconciliation, and other routine, transactional and time-consuming compliance, reporting and risk management workflows. But deploying technology is not necessarily fast nor cheap, and it often requires knowledge and skill not available in-house. To incorporate and capitalize on the latest technologies, a far broader tax function reinvention will be needed, from realigning service delivery models, to addressing talent gaps, to embracing new ways of working.

KPMG research indicates that such challenges are driving a shift toward increased use of outsourcing and co-sourcing within tax. According to the 2023 KPMG Global Tax Function Benchmarking Survey,[3] 25 percent of companies plan to increase their use of co-sourcing/outsourcing or tax managed services. And this survey provides the reason: Greater access to advanced technology (41 percent) is the top benefit respondents expect to obtain from greater outsourcing or co-sourcing. Tax teams are leaning into their service providers because they are already investing in the hot technologies of the day and have the most knowledgeable, skilled people to design, deploy, and use them. According to eBay's Jurek, a combination of budget, pipeline, and workload issues make it crucial for tax departments to embrace innovation.

What benefits do you expect to obtain from shifting to a more comprehensive sourcing strategy with third party providers? *(Select up to three)*

Greater access to advanced technology	41%
Improved managerial focus on higher value-added issues	39%
Address problem of attracting and retaining in-house talent	38%
Greater scalability	38%
Greater assurance or reduced risk	37%
More rapid access to new markets or opportunities (agility)	35%
Lower costs	26%

“We can’t have unlimited budgets, so when you put the complexities of what we do in tax together with the sheer volume of increased regulation, we physically cannot do our jobs without greater efficiency,” she said. “With fewer people entering the tax and accounting fields, we have to work out how to automate things, and at the same time, level-up the people we have.”

Outsourcing and co-sourcing can also help tax departments address a related problem of the digital era: talent risk. As the nature of work in tax evolve, there is growing demand for higher-value roles. The 2023 KPMG Global Tax Function Benchmarking Survey finds that employee turnover is a key disruptor in 31 percent of tax departments.[4] Using service providers to handle technology-driven tasks can help free up in-house professionals for tax planning responsibilities, which require more advanced skills: general business knowledge, data fluency, collaboration, and critical analysis.

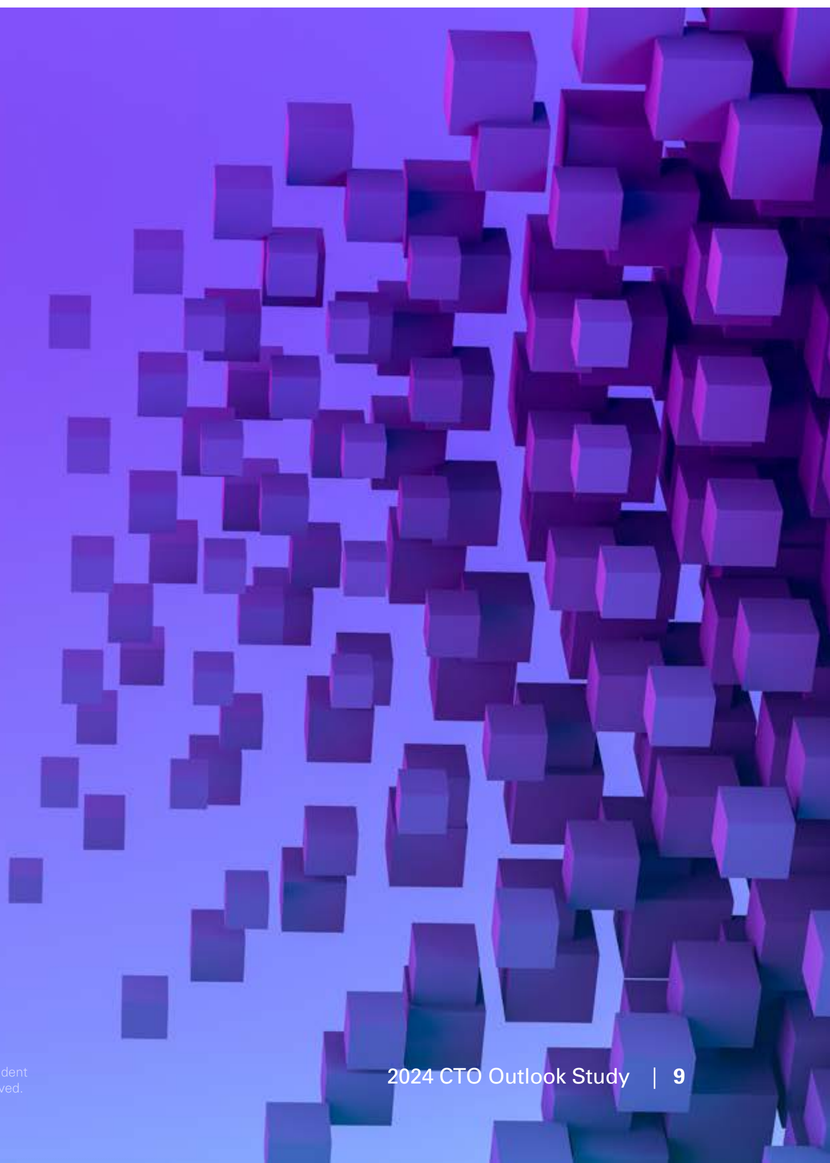
Nearly 4 in 10 (39 percent) of tax leaders surveyed say attracting and retaining in-house talent is a top benefit of outsourcing or co-sourcing adoption. In addition, 49 percent of respondents say they will use independent contractors in the next three years, up from 44 percent during the past two years.

Peloton leverages a co-sourcing model, with KPMG as a service provider, to reduce operating costs while achieving several other benefits. The service provider gathers, reviews and analyzes data for initial calculation and compliance activities—especially for niche areas—while the in-house team of tax experts owns and manages data, facts, and business relationships.

“I think the greatest benefit of working in a co-sourced arrangement is access to expert tax professionals when we need them,” said Stanton. “When you have a co-source

Organizations must regularly reevaluate their tax operating model to ensure compliance with emerging regulations, while also addressing talent demands, budgetary constraints, and other operational issues. Scalable, agile tax capabilities can empower organizations not only to meet expanding obligations, but to elevate tax into an enterprise-wide value creator.

– Kevin Jackson, National Managing Partner – Tax, KPMG LLP



Tax operations and talent continued

model, you can flex with the business. When things get really busy—or when needs pop up in specialty tax areas, or in jurisdictions that are just a small part of our structure—we can leverage our service provider team for additional tax talent to help with the compliance workstreams. When things get slower, we can dial down."

Moderna—which has been on a three-year journey to grow, formalize and centralize its tax function along with the company's rapid growth—has begun to pull certain activities that were previously outsourced back in-house, such as U.S. federal and state tax return accounting and compliance.

"It gives us more immediate visibility and better control of timing and processes," said Larkin.

International return work remains outsourced or co-sourced.

"Having external teams fully manage our international returns made more financial sense than staffing one or two people in every country, and it also helped align with our statutory accounting, which is also outsourced," Larkin said. "For country-by-country reporting, we have a small dedicated in-house team supported by external teams, who have experience in the specific rules for each country."

Using contractors also helps Moderna release the in-house team from routine, mundane activities and free up time for self-investment through training and development.

"You always want to use your people for the highest best use," said Larkin.

Work arrangement changes are also on the horizon as tax leaders look to cultivate the skill sets of the future, close talent gaps in the internal tax function, attract and retain top-tier talent, and address counter-cultural resistance to the human impact of technology transformation.

Over the next three years, 41 percent of tax functions will redesign roles in response to the evolving tax landscape. The same percentage plan to implement flexible work arrangements or remote work policies for tax department employees. Finally, nearly half of tax functions (47 percent) say investing in professional development and training for the tax team is a key way to enhance their departments' contribution to enterprise-wide decision-making.

Both eBay and Moderna have a hybrid tax workforce and their leaders recognize the value of both choice and balance for employees and dedicated time for in-person connectivity and collaboration.

"When I think how much the world has changed, I don't really see it ever being back to what it was pre-COVID-19," said Larkin. "There is a strong desire and a push to be in the office from a culture standpoint and to be interacting with your teams and others on a daily basis, but there is flexibility in that."

Relatedly, the impact of technology enablement within tax is starting to make a tangible difference tax professionals' roles: being liberated from the grind of routine, transactional processes.

In response to the evolving tax landscape, what measures have you taken regarding your tax function workforce in the past 2 years? What measures are you planning to take within the next 3 years?

	In the past 2 years	Within the next 3 years
Adopting new technologies or tax software to enhance efficiency and productivity	38%	41%
Implementing flexible work arrangements or remote work policies for tax department employees	32%	41%
Redesigning job roles and responsibilities within the tax department	32%	41%
Hiring additional tax professionals to address workload demands	37%	39%
Investing in workforce succession planning to build a pipeline of future leaders	30%	37%
Exploring outsourcing or co-sourcing for certain functions	27%	31%
Investing in training and professional development	23%	31%

In this survey, 41 percent of respondents say their organizations use technology to free up human capital so their tax professionals can focus on more strategic, value-added activities. Although there is still room for improvement, this marks a jump of 9 percent from our prior year survey.

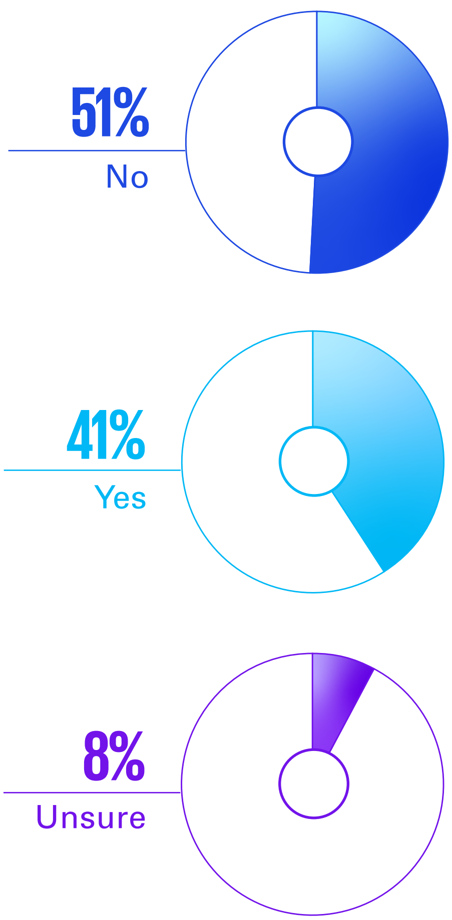
Jurek's view is that asking people to use technology to do things differently than they've done before is a particular challenge for the stereotypical tax professional.

"As a breed, we might be perceived as risk adverse," she said. "We like to reconcile to the dollar. We think, 'If it worked this well for the last five years, why mess with it?' Getting people willing to be open and adapt is a cultural shift happening in tax departments right now. What we need to show is that yes, tasks will be automated with technology, but ultimately that can make people's roles more interesting and of higher value."

Peloton's Stanton said the most critical skills to be a successful in-house tax professional in the increasingly digital world of tax are not technical ones, but soft skills: curiosity, partnership, and communication.

"Without curiosity, you might not explore multiple layers of information that can perhaps unlock tremendous value," Stanton explained. "Without partnership, you won't receive information that is going to be most helpful to achieving what you set out to do. And communication is equally critical because you have to be able to share with others the great things that you know. If you're a tax expert who can't communicate in a digestible way the knowledge that you've accumulated over time, it's hard to drive value."

Are you using technology (e.g., tax software, AI, etc.) to free up human capital so your tax professionals can focus on more strategic, value-added activities? *(Select one)*



INSIGHT INTO OPPORTUNITIES

Structuring tax departments to take best advantage of emerging technologies is a massive opportunity to achieve new levels of efficiency and effectiveness. This will be an effort spanning both a workforce and an operational transformation. Digital disruption is changing the skills needed to thrive as a tax professional, pushing digital fluency and critical thinking to the forefront. Rather than replace them, technology—deployed strategically and responsibly—can elevate people to thrive in these higher-level roles. Of course, professionals who combine technology expertise with tax technical skills and general, business-savvy people are in high-demand, yet low supply. Training and upskilling the current workforce can help foster the skill sets of the future internally, while supplementing the in-house team with outsourcing and automation can boost productivity and allow top talent to focus on high-priority strategic responsibilities. The bottom line: Whether integrating old or new technologies, seizing innovation opportunities in tax—and staying relevant in the rapidly evolving technology landscape—will require thoughtfully reshaping talent strategies, ways of working, partnerships with outsiders, and service delivery models.

Tax legislation, regulation, and administration

Global tax code overhaul pushes forward amid compounding risk and volatility.

As efforts to enhance cohesion and transparency of the international tax environment progress, corporate taxpayers are heading into a year of complexity and uncertainty—and the burden is falling on the tax function.

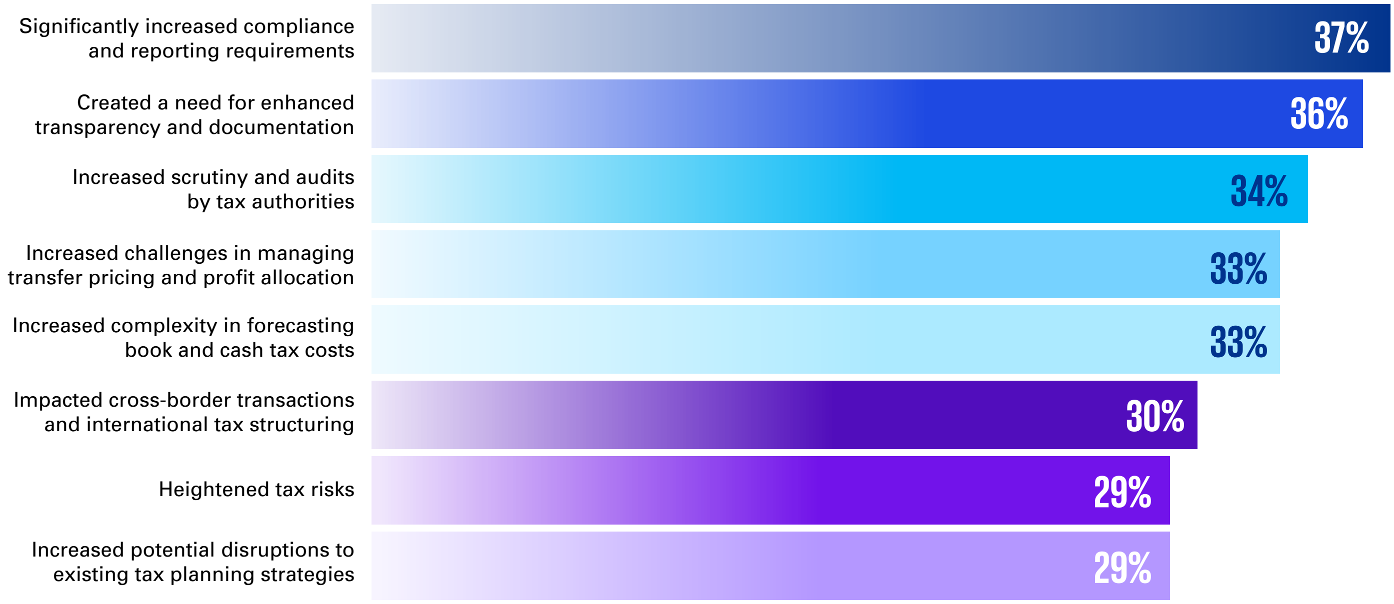
Major reform initiatives—particularly OECD Pillar Two rules and EU public country-by-country reporting—continue to amplify the cost and workload of tax compliance. With Pillar Two implementation now underway, multinational organizations that meet the criteria in numerous jurisdictions face intensive new data needs and expanded compliance activities.

Addressing the challenges of BEPS initiatives (45 percent) and managing compliance in multiple jurisdictions (44 percent) both rank as significant challenges tax functions face regarding the international and U.S. tax landscape in this research.[16] Tax executives say recent tax code changes and global initiatives aimed at a globally coordinated minimum tax are affecting tax planning, strategy, and operations in multiple ways, led by: significantly increasing compliance and reporting requirements (37 percent) and creating a need for enhanced transparency and documentation (36 percent).

What are the top challenges your tax function faces regarding the current U.S. and international tax landscape? *(Select up to three)*

Keeping up with complex and evolving domestic legislation and regulations	50%
Dealing with increased scrutiny and enforcement by tax authorities	48%
Addressing the challenges of base erosion and profit shifting (BEPS) initiatives	45%
Managing compliance in multiple jurisdictions	44%
Navigating cross-border transactions and transfer pricing complexities	36%
Balancing tax planning strategies with the demands of environmental, social, and governance (ESG) considerations	33%

How have recent tax code change and global initiatives aimed at combating base erosion and profit shifting (BEPS) impacted your organization's tax planning, strategy, and operations? *(Select up to three)*



> ***Staying ahead of ever-evolving legislative and regulatory changes will be a key challenge for tax leaders as we move through 2024 and 2025. We anticipate continued complexity, particularly as it relates to the implementation of Pillar Two, which is creating a significant amount of work for organizations.***
>
> *– Rema Serafi, Vice Chair — Tax, KPMG LLP*

Tax legislation, regulation, and administration continued

With Pillar Two rules set to take effect before the end of 2024, and operational readiness high on the tax function agenda, rising compliance costs are also concern. While almost all respondents (91 percent) have spoken with their executive management team about the potential incremental compliance and administrative costs associated with Pillar Two, just one-third have asked and received budget.

The fact is that tax functions simply cannot manage the technicalities, data demands, and sheer volume of global compliance manually, nor alone. In major part to capitalize on the data and technology of service providers, more than half (56 percent) say their organization will manage Pillar Two compliance using an outsourcing (33 percent) or co-sourcing arrangement (23 percent). Fewer than one-third (32 percent) will manage in-house.

With Pillar Two adoption underway, tax departments are also challenged by the increased aggressiveness of tax authorities. Taxpayers with multinational operations are now subject to more reporting requirements in more jurisdictions, which in turn heightens tax controversy risk. At the same time, many countries are struggling with a slow economy and are looking to taxes to raise revenue. Dealing with increased scrutiny and enforcement by tax authorities (48 percent) is the second-leading tax function challenge regarding the current U.S. and international tax landscape. And, 34 percent of respondents say increasing scrutiny and audits by tax authorities is a key challenge of Pillar Two compliance specifically.

Larkin believes Pillar Two policies could ultimately harm U.S. companies and U.S. competitiveness in the global economy.

"Companies getting an offsetting tax credit for outgoing payments could ultimately mean less revenue being generated in the U.S.," he said.

Domestically, tax leaders appear to be looking ahead to potential late-year, post-election disruption to follow a period when U.S. tax reform was essentially on hold. According to our survey, keeping up with complex and evolving domestic legislation and regulations (50 percent) is the top challenge tax functions face in the current U.S. and international tax landscape. This is despite the fact that through two years of a divided government, tax activity in the U.S. has been nearly nonexistent. Consideration of major policy changes are not expected to pick up until after the November 2024 U.S. presidential election, when—depending on the outcome—the administration will set out a new tax agenda. In addition, several Trump-era tax reforms are set to expire in 2025, which could also increase the probability of tax code changes.

Moderna's Larkin said the fractured U.S. political landscape is driving uncertainty for tax planning.

Have you spoken with your executive management team about the potential incremental compliance and administrative costs associated with Pillar Two? *(Select one)*

YES	You have asked for more budget and received it	30%
YES	You have asked for more incremental budget dollars but were told no	21%
YES	You have described resource and compliance needs but have not yet asked for budget	25%
YES	But you are still determining the additional budget required	16%
NO	Or only in very high terms	9%

It worries me that TCJA will soon sunset, and we need to do something from a tax reform perspective, but it is so difficult to actually work together to have something happen.

– Jed Larkin, Senior Vice President, Tax, Moderna

"We have seen tax proposals being pushed as contentious even when both parties and both houses were supportive of the things being proposed," he said. "It worries me that TCJA will soon sunset, and we need to do something from a tax reform perspective, but it is so difficult to actually work together to have something happen."

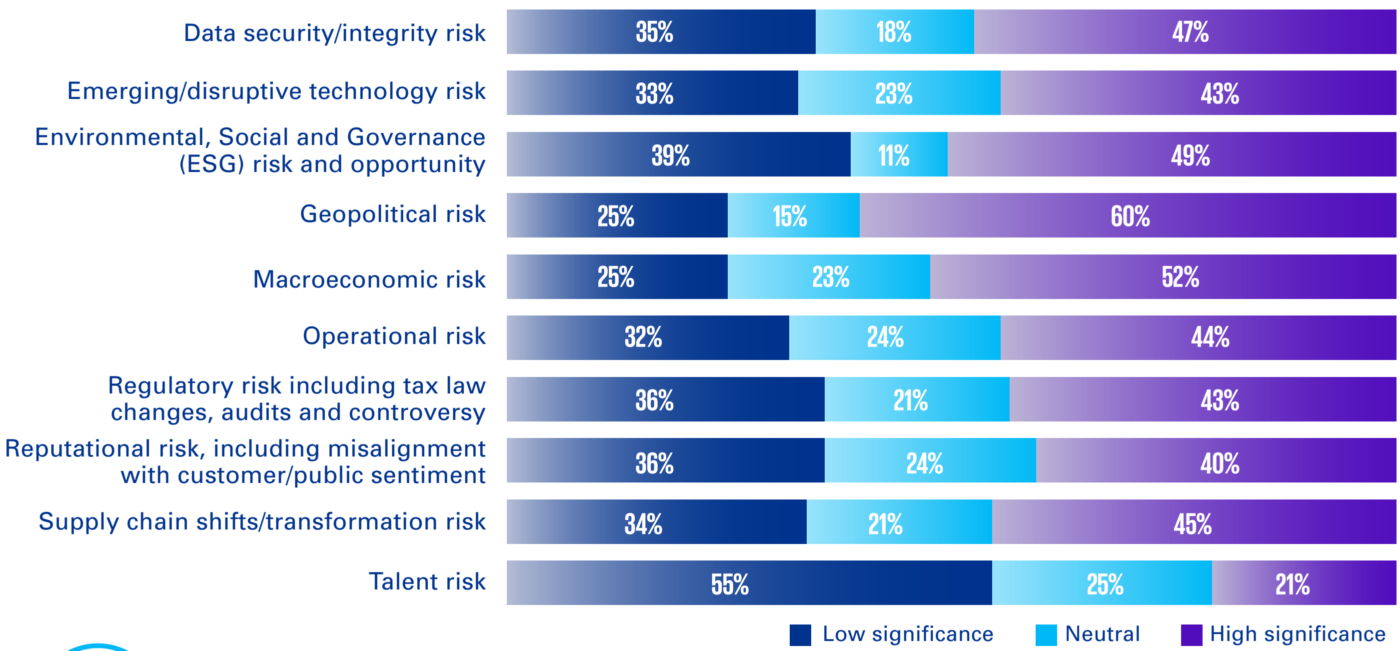
Stanton, of Peloton, believes bipartisan evaluation of tax legislation is good for the country.

"I'm encouraged by the fact that the House just passed tax legislation with strong bipartisan support, although the Senate is a very different body for that type of legislation to work its way through," he said. "I think we need our legislators to step back and take bipartisan views of the tax landscape because it impacts not just companies, but employees of those companies who are critical to the U.S. economy."

Compound volatility—extremely complicated issues across the business landscape that exacerbate other interrelated issues—may also potentially drive further domestic and global tax reform in the years ahead. The legislative environment and overall tax exposure is intertwined with—and often driven by—multifaceted, high-impact disruptions, such as rapidly changing market and, political, social, and economic conditions across sectors and portfolios. Respondents say geopolitical risk (75 percent) and macroeconomic risk (75 percent) pose the most significant challenges to the tax function.

How these challenges play out could have profound effects on tax data needs, exposure, risk management, and planning, especially for companies that operate on a global basis and manage compliance in multiple jurisdictions. Though the very nature of compounding risks makes it very difficult to predict or prepare for the tax impacts, we see tax departments taking a diverse variety of actions to proactively manage risks and exposures: regularly reviewing and updating tax policies and procedures (29 percent); maintaining documentation of all tax-related transactions, positions and decisions (29 percent); conducting regular tax risk assessments (28 percent); and conducting regular tax training for employees involved in financial and operational activities (27 percent).

How significant are the challenges to the tax function in terms of both risk management and planning opportunities associated with each of the following business risks? *(Select one rating for each)*



INSIGHT INTO OPPORTUNITIES

The major tax legislation story for 2024 has been well-covered in prior KPMG Tax outlook reports: OECD BEPS Pillar Two initiatives. Though slow to develop and closely watched, make no mistake: This is a true global tax overhaul for organizations who fit the criteria. Though multinational tax functions have been modeling Pillar Two impacts and preparing for years, now that implementation is here tax leaders report ongoing challenges: intensive data needs, increased scope of reporting, an escalated compliance burden, and heightened risk for tax controversies. Tax functions are also challenged by the uncertain impacts of geopolitical and macroeconomic risks globally, and election outcomes domestically. Operational readiness will be paramount to navigating new requirements and preparing potential changes to the tax agenda to come. Top priorities should be: strengthening data, calculation and analysis capabilities; tax function transformation to enable real-time, speedy, agile decision-making; and revisiting tax strategies and corporate structure, location and operating model to avoid double taxation and make tax structures efficient under Pillar Two rules.

Enterprise issues and growth

From ESG to M&A, tax helps guide and progress strategic change.

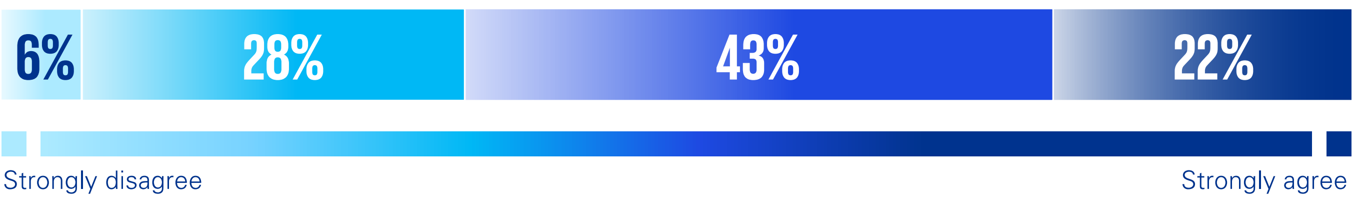
Over five years that we have conducted our annual CTO Outlook Study, we have seen a steady shift in the role tax functions play in the broader enterprise. This year tax departments will continue the move from cost-center to value-creator, contributing to planning and decision making around core enterprise issues as true strategic partners.

A majority of respondents (59 percent) say the tax function continually adds value to overall enterprise strategy and operations. In addition, two-thirds (66 percent) feel satisfied or very satisfied with the level of communication between the tax function and senior management.

How strongly do you agree or disagree with the following statements? *(Select one)*

Your organization's tax function continually adds value to the overall strategy and operations of your organization.

Your organization's tax function is well-connected to the enterprise and is an integral part in making key business decisions.



Jurek said the tax function's close involvement in helping eBay understand and navigate the impact of complex, evolving tax laws on our sellers has earned it high regard from company leaders.

"We have billions of dollars running through our balance sheet that is not our money—that we're collecting from sellers and paying to tax authorities," said Jurek. "Anytime new information reporting rules come out, it creates confusion for our sellers, impacting their ability to monetize the items they have sitting around their garage. We work with leadership to understand the related business and customer impacts to operationalize how the company collects, remits, and reports taxes with the least disruption."

According to Stanton, who leads both tax and treasury at Peloton, the tax department has a trusted seat at the leadership table and is included from the outset of strategic initiatives that may have significant tax complexities.

"Our tax and treasury departments focus on operating as a business enabler, as compared to a bureaucratic, red-tape type of function," he said. "We are brought in early to help our peers understand tax, compliance, and fiscal impacts they may not be aware of, and to see around corners and troubleshoot potential speed bumps."

Larkin said the tax function has been valued and prioritized at Moderna for the past several years, since the company shifted from a product development focus into commercialization, prompting rapid growth in terms of company size, cashflow, and geographic presence.

"As things were built very quickly, leaders realized that they needed dedicated tax support," he said. "Tax was recognized as core need, and it became an investment that was prioritized. Based on where we are in the lifecycle, cash is our biggest driver, helping us make the next investment in R&D. Since income tax, VAT, and indirect taxes are a huge amount of our spend, we need the right resources in the right conversations to make sure we're doing it in the right way. Plus, we are now in more than 20 countries around the world. We need tax people as part of the expansion discussion to make sure we stay compliant, identify risks and the opportunities, and are strategic in our thinking."

Intent on spending less time on compliance and more on strategic initiatives, tax leaders will not rest on this positive view of tax's current role, the survey shows. Further transformation—with technology capabilities as a key enabler—are in store. Respondents say the leading ways tax can enhance its contribution to enterprise-wide decision-making are: implementing advanced data analytics to provide real-time tax-related insights (47 percent) and investing in professional development and training for the tax team (47 percent).

"Tax technology disruption can actually be viewed as enablement," said Stanton of Peloton. "When properly utilized, tax tools will help unlock incredible value from in-house tax talent. A big part of my role is to give my team tools that unlock their capabilities, expand their knowledge, and clear roadblocks for them to contribute to the business through more strategic thinking and planning work."

To help the tax function even add more value, Jurek structurally reorganized the eBay tax team to remove silos and present opportunities to get involved in strategic issues.

"We are in a world where anything the business does differently—a new product, acquisition, regulation, etc.—is potentially going to impact many areas of tax and finance. To be more strategic, you have to be present and listen, even if you do not think it matters to you. The more you go to meetings where the business is talking about broader things that they're doing, the more you'll start connecting the dots."

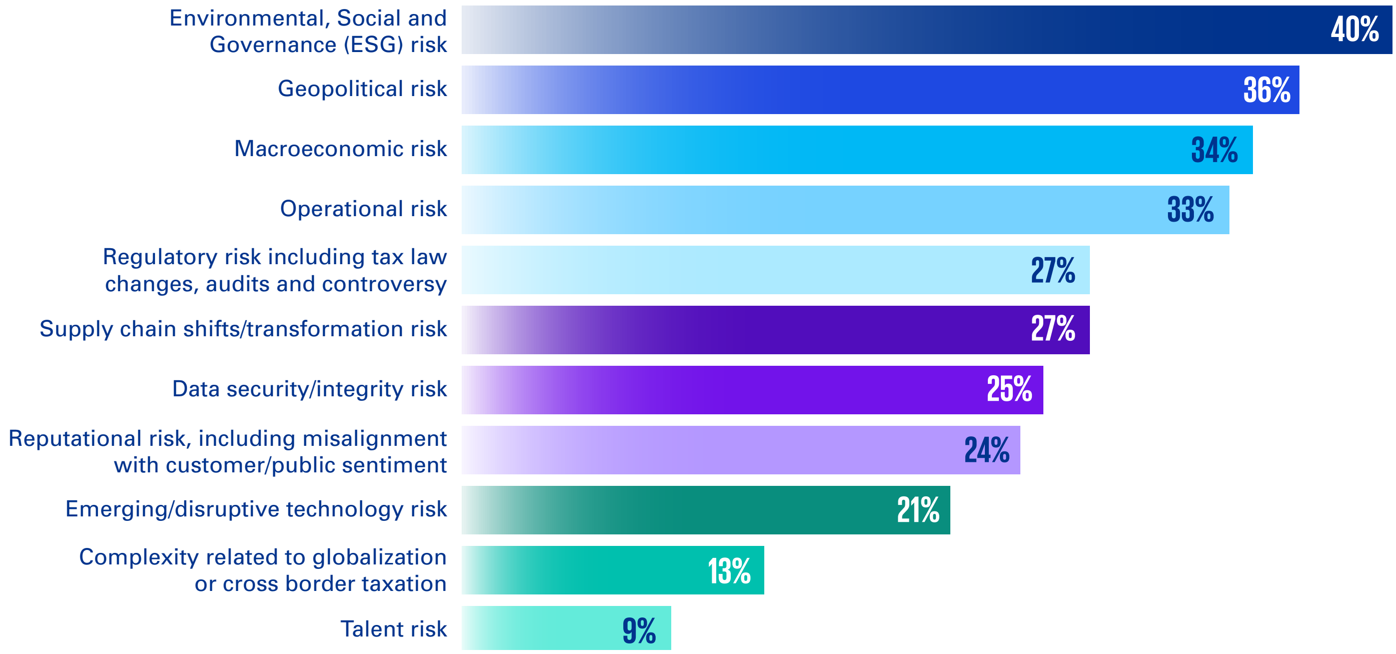
Moderna's tax department has invested in coaching for more senior, technical experts who need not just knowledge of tax law and developments, but also a strong executive presence for meetings with the CFO or CEO.

"Being recognized as a leader beyond just a subject matter expert and being able to communicate and build relationships with senior leaders, is a core, but often overlooked, career development area for tax professionals," Larkin said.

One strategic area where tax executives will focus is supporting enterprise environmental, social, and governance (ESG) initiatives from a tax standpoint. Tax is a powerful social and industrial engineering tool increasingly used by governments to further societal ESG outcomes. Tax executives are strategically involved with senior management to address tax costs and tax incentives associated with ESG initiatives. Two-thirds (65 percent) of respondents say their tax function is well-connected to the enterprise and has an integral part in making key business decisions. Further, the vast majority of respondents (82 percent) report significant progress on ESG tax credits and incentives for their businesses.

As ESG has become an increasingly watched measure of corporate behavior, public stakeholders and regulators around the world have turned their attention to the tax impact of corporations on the communities and economies where they operate. In this research, tax executives rank ESG risk as the greatest tax threat to organizational growth over the next three years. It was also the top tax risk to growth noted by CTOs in our 2023 study.

Which of the following risks poses the greatest threat(s) to your organization's growth from a tax perspective over the next 3 years? *(Select up to three)*



Enterprise issues and growth continued

For many companies, managing tax affairs responsibly and transparently, including paying a "fair share" and even sharing information beyond what is required for compliance, is now important to business reputation. As tax ESG incentives proliferate alongside greater public tax transparency, tax executives are growing increasingly confident in their ability to add value through responsible tax planning.

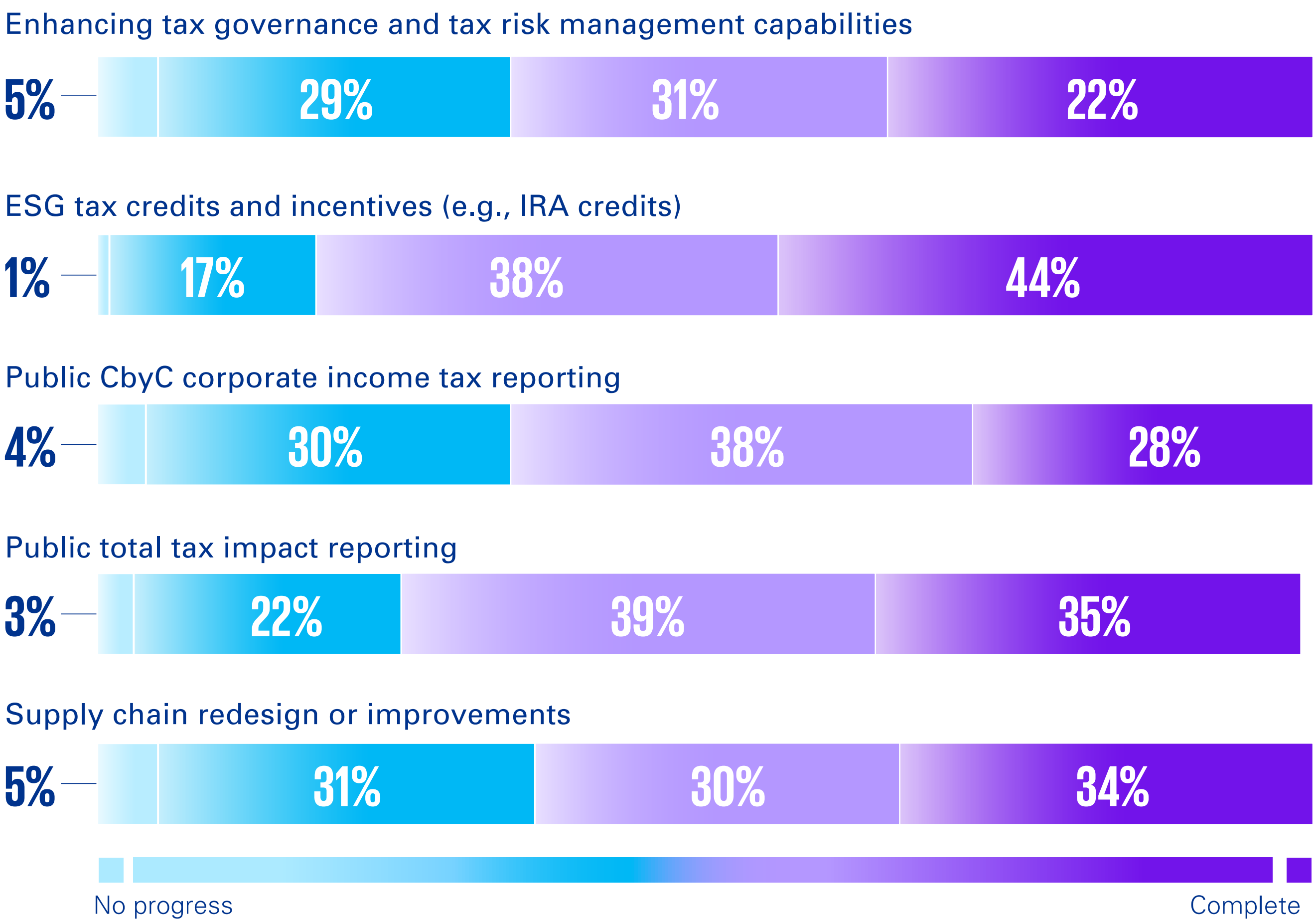
Three-quarters of respondents (74 percent) indicate they focus on ESG metrics to some degree as they develop and deploy their tax strategies. This includes 28 percent who seek a balance between minimizing taxation and prioritizing corporate citizenship. Further, 46 percent are more interested in being perceived as a good corporate citizen than minimizing their tax burden. This is lower, however, than last year's survey, when 56 percent held this attitude—a decline that could be an indication that tax executives are growing more comfortable with ESG tax standards and disclosures as they have made strong progress on multiple ESG initiatives.

Along with the ESG tax credits and incentives, the majority of respondents also report significant or complete progress in: public total tax impact reporting (74 percent); public CbyC corporate impact tax reporting (66 percent); enhancing tax governance and risk management capabilities (66 percent); and supply chain redesign or improvements (64 percent).

Peloton's Stanton said doing the right thing—including being a good corporate citizen—is core to the company's culture. His tax team uses the mantra as a simple guide for navigating the ESG landscape, helping the company make fair, reasonable, fact-based judgments about tax planning positions.

"I look at ESG not as a challenge, but as an opportunity to be transparent with the world about the things you're doing," he said. "We're neither passive nor aggressive with our tax activities: We're letter of the law, down the middle. Because of that, I feel quite fine with ESG reporting requirements."

To what extent has your tax function made progress on the following ESG initiatives? *(Select one for each)*



A responsible approach to adding value through tax will help drive corporate development and enterprise growth. Indeed, 68 percent of respondents describe their organization's appetite to undertake M&A transactions as high (27 percent) or moderate (41 percent). Tax teams play a key role in the success of these strategic efforts with information on tax implications and support for tax structuring, due diligence, and compliance. Sixty-four percent of respondents say their tax function continually mitigates existing tax exposures and identifies new tax strategies to speed up M&A transactions.

Larkin said complying with environmental tax rules, such as plastics taxes, have increased the workload on Moderna's tax team, but the impact on costs has been relatively small.

Additional tax transparency is also not a major worry in terms of reputational or audit risk. The more pressing challenge, according to Larkin, is tying new public disclosures to something usable for accounting.

"Frankly, there is some information that can be shared that is not highly sensitive, such as how many people are employed in a country, what your revenues are in the country, and what your income tax is," he said. "My biggest concern about the current country-by-country reporting is that it's not statutory or GAAP—it's something in between. If somebody gets their hands on it, they need further interpretation."

How strongly do you agree or disagree with the following statements about the tax function's role in M&A transactions? *(Select one for each statement)*

It's crucial to engage the tax function for both tax structuring and due diligence during M&A transactions

Your tax function continually mitigates existing tax exposures and identifies new tax strategies to speed up M&A transactions

Strongly disagree

Strongly agree

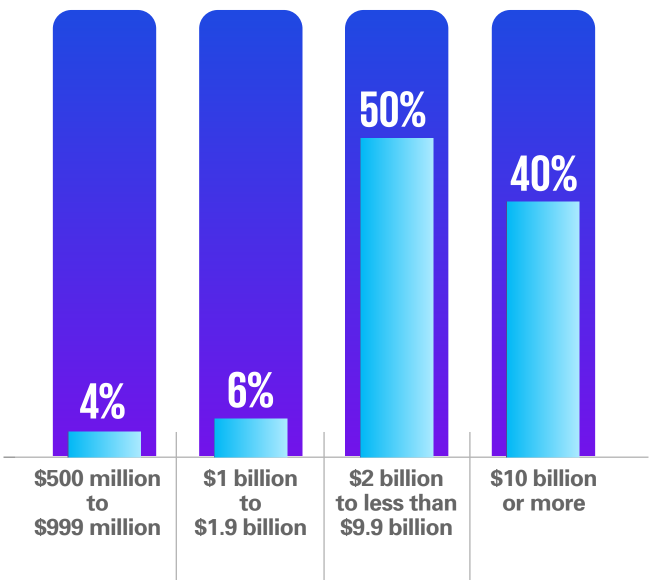
INSIGHT INTO OPPORTUNITIES

With strengthened data analytics capabilities and enhanced tax team knowledge and skills, tax functions are increasingly seen as business partners, with meaningful information and guidance to offer around strategic enterprise issues, such as ESG initiatives and M&A transactions. Fundamentally, effectively contributing to such enterprise-wide strategic discussions means staying ahead. Opportunities abound. Proactive modeling and early identification of tax impacts and opportunities of ESG- and M&A-related investments. Helping to shape the public narrative through tax transparency. Regular engagement with top leaders and cross-functional teams. Nimble adjustments to tax structures, governance, controls systems and processes to ensure evolving business trends, risks, and opportunities are considered throughout. These will all help continue turning tax departments from cost-centers to value-creators.

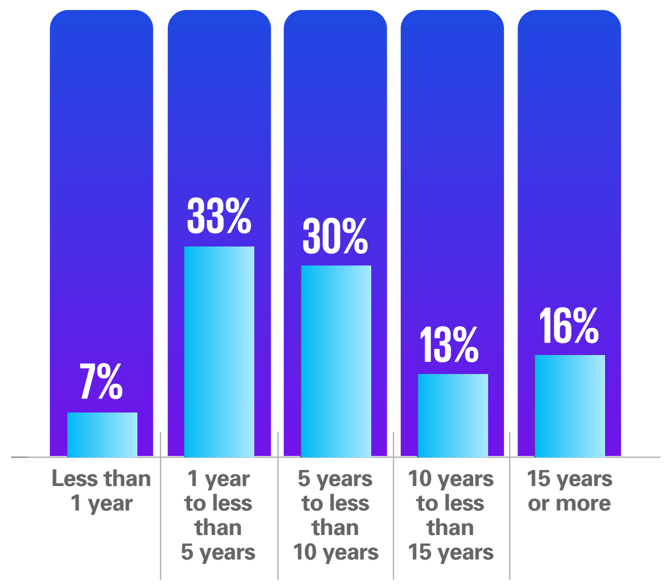
Survey methodology

In Fall 2023, KPMG surveyed 300 CTOs at large public and private U.S. companies across 22 industries about how they are leading their organizations' tax function through a period of vast change. Ninety percent of CTOs came from companies with revenue of $2 billion or more. Respondents represented all major industries.

What was your organization's revenues in its most recent fiscal year?
(Select one)



How long have you been the Chief Tax Officer (CTO) or equivalent at your current organization?
(Select one)



How KPMG can help

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About the authors

Rema Serafi is the Vice Chair – Tax at KPMG LLP, overseeing more than 10,000 partners and professionals across all tax disciplines. Prior to this role, she served as National Managing Principal – Tax and led the Economic and Valuation Services (EVS) practice. Rema's client experience includes serving as a Lead Account Partner for a Fortune 250 company and providing transfer pricing consulting services to leading multinationals across numerous industries, with an emphasis on financial services. During her nearly three decades at KPMG, Rema has a particular interest in the impact of data & analytics, artificial intelligence, and emerging technologies on corporate tax functions, as well as in strengthening the talent and diversity pipeline in the profession.

Kevin Jackson is the National Managing Partner – Tax at KPMG LLP. Prior to this role, Kevin served as the Tax Practice Leader for Markets, overseeing 11 Tax business units and working with local leadership to drive the KPMG Tax strategy and go-to-market efforts across service lines and geographies. He also led the national KPMG Tax Operations team and the onshore and offshore Shared Service Centers, improving operational efficiency. As lead partner to several high-profile financial service companies, Kevin has more than 25 years of experience structuring transactions for companies of all sizes and providing tax due diligence and other compliance services. A majority of his career has been focused on multinational and domestic alternative investment funds.

Contributors

Heather Jurek, Vice President, Tax, eBay

Jed Larkin, Senior Vice President, Tax, Moderna

Michael Stanton, Treasurer and Vice President, Tax & Treasury, Peloton

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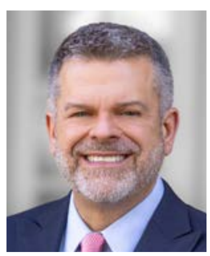

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