

Reimagining the tax function

Being future ready!

Foreword

COVID-19 has brought about dramatic disruptions to both, the way we work and the way we live. While we saw a dip in cases, there has been a surge recently in India. We all acknowledge that such disruptions will keep coming and we will all have to deal with them. Considering this has been there for a while - we also saw the economy bouncing back, stock markets recovering, and businesses have become agile to deal with uncertainty. COVID-19 has made it abundantly clear that continuing on the traditional path without adapting, evolving or transforming the way we operate is not sustainable in the medium to long term and tax functions are no exception to this!

As businesses stabilize amidst the crisis, tax functions are being called upon to play a greater role and actively contribute to helping organizations evaluate and determine their future path. Tax and finance functions might have to proactively anticipate future challenges based on past learnings and take necessary steps to overcome them.

In our last survey launched in March 2020 (i.e. prior to the pandemic), we observed that many organizations were looking to create future ready tax functions and most of them seemed to have already embarked on the journey towards transformation.

During the pandemic, the expectations from tax functions has only increased and the pressing need to deliver "more from less" will only be greater. It is noteworthy that 70% of the respondents of our recent survey believe that tax functions are being called upon to play a stronger role in helping businesses determine next steps and what happens beyond COVID 19.

In the recently announced Union Budget 2021, the Government continues to focus on transparency and efficiency in tax administration through various measures with strong emphasis on digitization and analytics.

In this backdrop, tax functions need to seize the opportunities that emerge from these disruptions and become future-ready.

To understand where tax functions stand today in their transformation journey and how they have coped in these uncertain times, we launched the third edition of our annual survey – **Re-imagining the tax function**. EY India reached out to senior finance and tax executives with some pertinent and thought-provoking questions. This report is a compilation of responses from various respondents from 20+ industries and include a mix of public and private companies which are Indian headquartered or global MNCs. This edition evidences the fact - tax functions need to think out of the box to future proof themselves and transforming "today" can go a long way in being ready to take on "tomorrow".

Read along to find out what your peers are saying and assess if you are future ready.



Jitesh Bansal

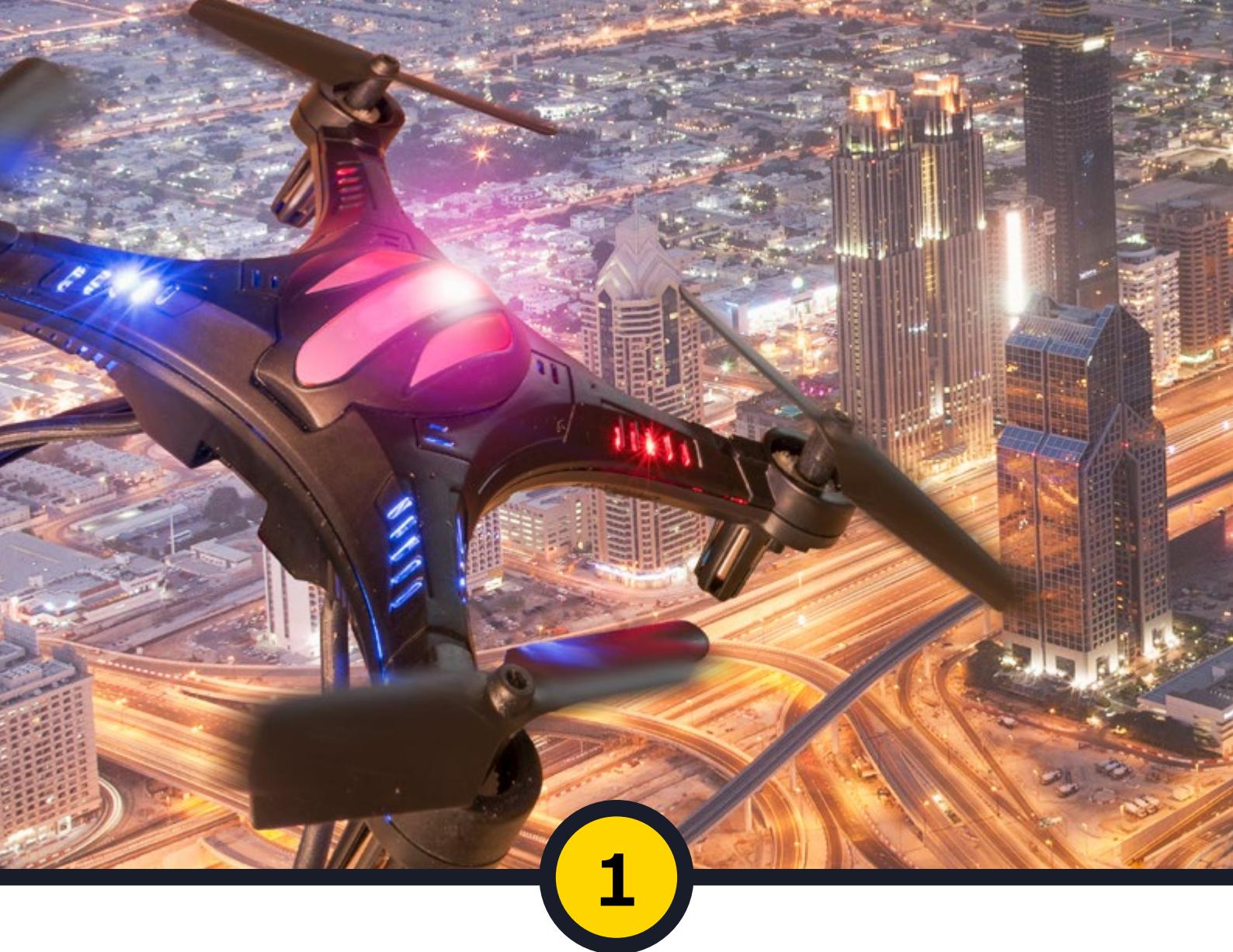
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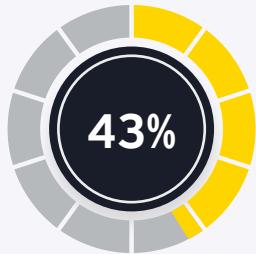


Navigating the impact of the pandemic

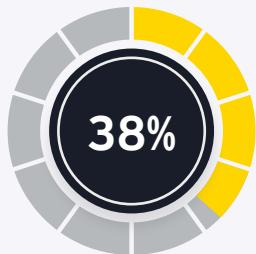
The COVID-19 pandemic has unleashed changes that seemed unthinkable a year ago. Before March 2020, no one could have imagined that the entire white-collar workforce across the globe would be working remotely.

As an increasing number of countries imposed stringent restrictions on the movement of people to curtail the spread of COVID-19, tax functions (in India and across the globe) have had to quickly adapt to the remote way of working while

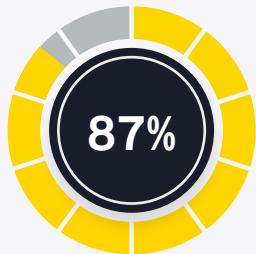
ensuring delivery of their normal responsibilities. Additionally, there was a growing need to stay updated on the various tax reforms and changes arising from the COVID-19 measures enacted by governments around the world. This is in addition to the requirement that, tax functions need to keep themselves up to date, consider the tax implications of current or potential changes in business models, supply chains and workforce mobility.



of respondents said they have adopted problem-based solution approach and leveraged technology to resolve weaknesses in the tax function due to the COVID-19 pandemic. This supports the fact that the companies believe in the need to adapt and evolve the tax function and technology has a key role to play.



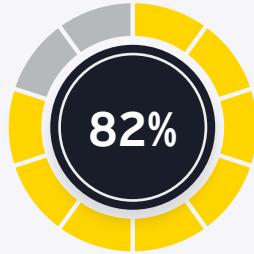
reengineered their tax function/ exploring outsourcing/exploring other options



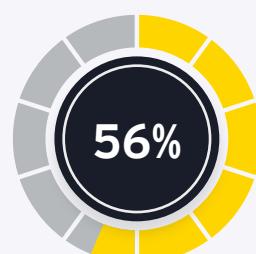
had effective communication, remote access to data/information and robust tax governance and control framework while working remotely

Traditionally, companies have been apprehensive toward effectiveness of a remote working tax function, which also set an opaque view toward the concept of outsourcing tax and finance functions. However, COVID-19 has proved to be a star witness on this front and has contributed to a huge change in this perception by forcing companies (without exception) to adapt to remote working methods. Now, an increasing number of companies are actively exploring new ways of working, including, outsourcing of their tax activities and/ or introducing tax process automation.

Another aspect that is and has always remained at the forefront of any tax function is data, i.e., easy and secure access to data, anytime, anywhere. It is not surprising that institutionalization of data and workflow controls were top on the wish-list of tax functions, during the pandemic as can be seen below:



wished they had institutional repository of tax compliances or a work-flow manager or appropriate knowledge management system.



wished for seamless data extraction for timely and accurate tax compliance.

Actionable insights

The volatile environment prevailing since the outbreak of COVID-19 across the globe, has given rise to newer challenges and risks as well as opportunities for organizations. Over the years, the tax function has established a strong position for itself in business decision-making. The pandemic has only strengthened this position and this message has been voiced by close to 70% of our respondents. From the survey response, it is clear that companies have embarked on the transformation journey. This includes identifying gaps and opportunities in order to undertake necessary action such as outsourcing or investing in digital tax solutions that can help tax functions drive value by managing costs and mitigating risks in the medium to long run.



2

Legislative reforms continue to impact tax functions

Even before the pandemic hit the world, we saw the Indian tax administration adopt numerous steps aimed at increased transparency in tax reporting through a host of digital and reporting reforms such as proposals for e-invoicing, e-assessments, visibility to SFT, country-by-country reporting, etc. In fact, even before tax functions could completely stabilize from the impact of pandemic, tax functions witnessed additional measures such as widening of Tax Collected at Source (TCS) compliance provisions,

launch of CAROTAR 2020, launch of compliance portal, etc. These measures taken by the Government further clarifies their intent of establishing a transparent tax framework and single source of truth.

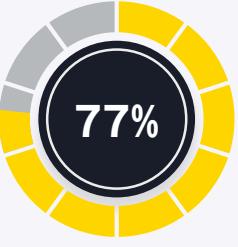
There is no doubt about the rapid pace at which legislative and regulatory changes are being brought about and it seems that the pace is unlikely to slow down.

Similarly, there is a constant change in the manner and quality of audits. Such initiatives and increased reporting requirements mean companies will have to pro-actively perform a comprehensive analysis before any data is reported.



90%

foresee the need for increased collaboration with other business functions



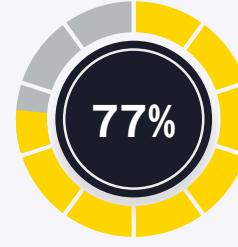
77%

believe workload will increase with recent legislative changes



87%

believe increase in workload as government uses targeted data



77%

expect increase in tax risk profile

While there is no doubt that the above measures by the government are welcome, as these new systems and processes stabilize, they are expected to cause some disruption in the short-term. Therefore, we are not surprised that majority of organizations anticipate increase in workload of tax functions.



63%

had to increase their tax function budget

Basis the responses received, it also appears that tax function budgets have increased over the recent years to aid tax functions in dealing with tax reforms including digital initiatives of the government. Having said so, it would be important for companies to introspect on the areas where these increased budgets have been utilized, i.e., augmenting resources, automation, upskilling teams, etc. This aspect also assumes relevance since like any other function in an organization, the tax function is also constantly under pressure to do more with less.

Depending on this analysis, one may be able to assess the need to re-evaluate the spend decision from the perspective of achieving future readiness of the tax function.



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The Indian Government is clearly on the path to achieve the vision of digital tax administration where comprehensive taxpayer profiling is driving the way for pre-filled tax returns enabling tech-driven focused audits with crunched compliance and assessment timelines. In fact, tax functions would need to handle four years of tax assessments (without transfer pricing audit) during the limited period from February 2021 to December 2022. It is therefore imperative for India Inc to match the pace of administration's digital acceleration to be ready for the future where consistent data reporting across tax and regulatory filings becomes the new order.

Rahul Patni
Digital Tax Leader, EY India

Actionable insights

A fully compliant and risk managed tax function requires a great deal of investment in people, process and technology. It is imperative for the tax functions to realize the need for achieving visibility and reduction in overall tax function costs for the years to come which can be achieved by investing in the right target operating model today.



3

Changing role of tax function

Shift from being a compliance center to being strategic partner

The biggest challenge at the strategic level for your tax function

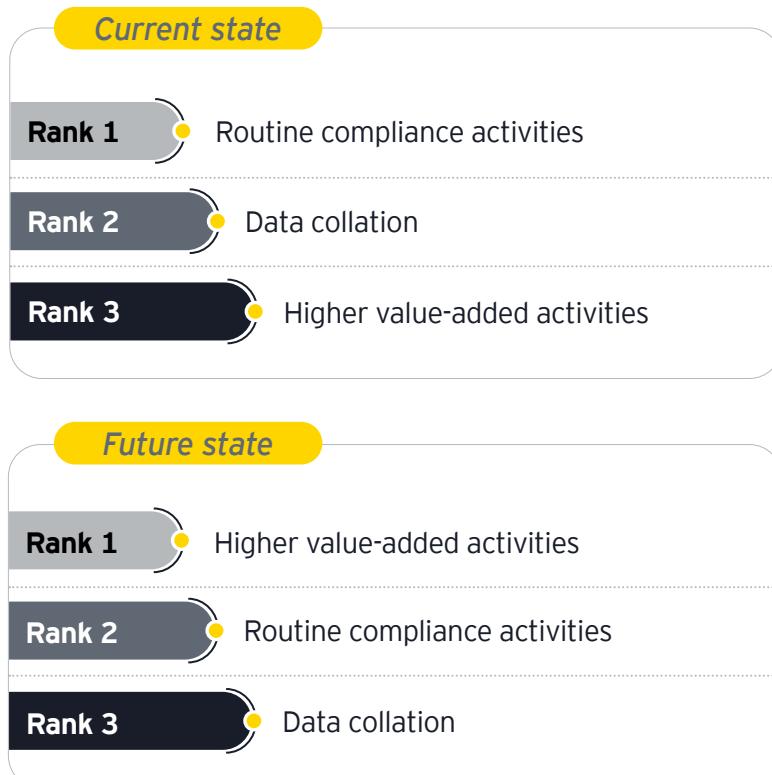
Rank 1 Adding value to business through tax insights

Rank 2 Optimizing tax costs

Rank 3 Ensuring risk managed tax compliance

Rank 4 Attracting, retaining and remunerating talent

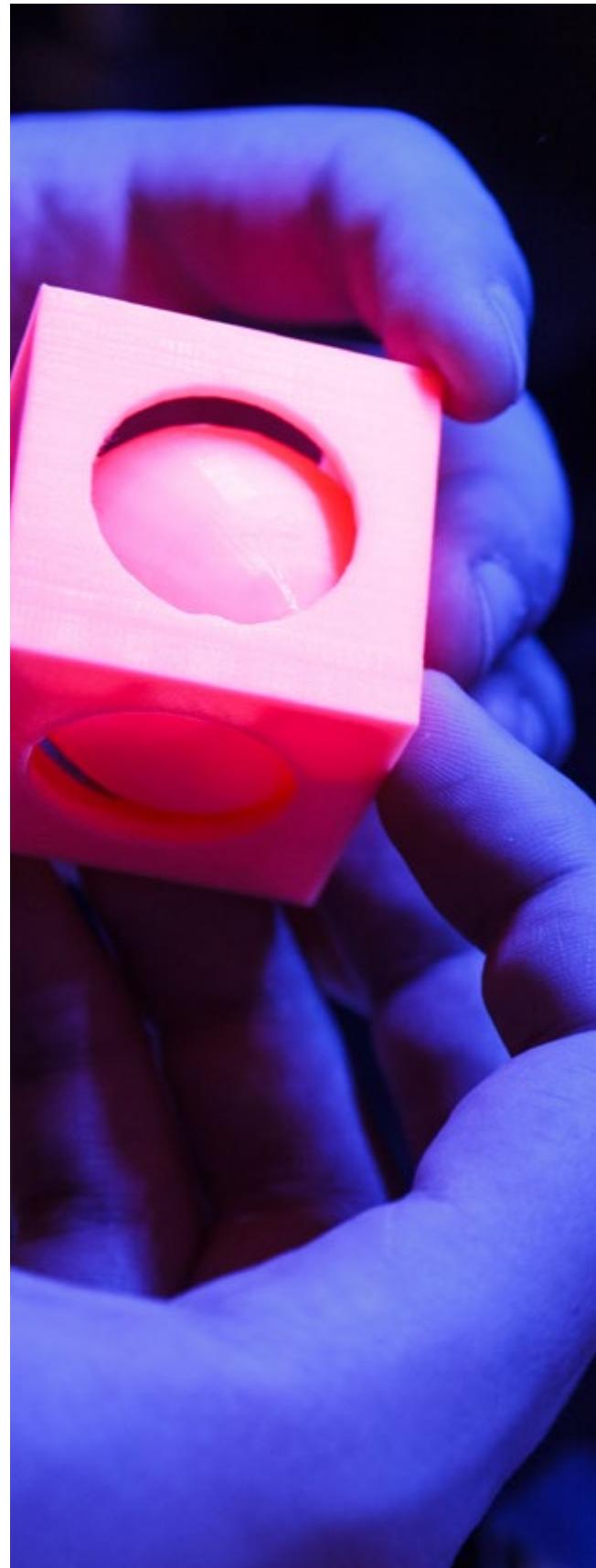
Key activities of the tax function of the future



Tax functions today desire to spend quality time in adding value to business and less time on routine compliance activities.

However, as expected, adding value to business seems to be the biggest challenge since significant amount of tax function time is consumed by routine compliance activities and data collation. Further, the anticipated increase in workload due to Government's initiatives and exchange of information for enforcement activities is likely to add to this time being spent by tax resources.

Hence, there seems to be an immediate opportunity for tax functions to transform themselves from being a mere compliance center to becoming a value-added/strategic business partner. This would be possible only when organizations free up the time of resources by re-imagining their tax operating model with the aim to achieve the right mix of people, process and technology.





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With the pace at which the tax landscape, and legislative and regulatory frameworks are changing, the role of the tax function also needs to evolve. The tax function has historically been looked upon as a compliance centre only, but now the focus needs to be broadened from compliances/accounting to a more critical and strategic decision-making role. Another area which demands more attention is data risk management and governance. We need to build a strong strategy for tax, focussing on the future.

Chandrasekar Thyagarajan
Chief Financial Officer, Birlasoft

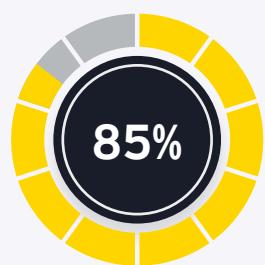
Actionable insights

C-suite expects tax function to become a strategic partner for business providing valuable insights and facilitate decision making. In order to achieve this companies are reimagining their existing tax function and supplementing it with robust data management, automation and outsourcing where possible.



4

Talent demand and skills



believe core competencies will move from tax and technical skills to process and technology skills

Being tax professionals, response to this question on a year-on-year basis has surprised us. In all our surveys (including global), we have observed that the percentage of respondents who believe in core competencies moving from tax technical to process and technology skills, has never been lower than 80%. This has in-turn forced us to believe the direction in which industry is headed to.

Availability of the right talent is critical for smooth functioning of the tax function. In a complex tax environment like today, it is

imperative to have the right kind of people with the right skill sets to handle the challenges and ensure value contribution to an organization.

In this regard, it is interesting to note the shift in skill requirement for tax professionals. Having talent with tax technical skills alone, is no longer enough. Tax functions need to have talent which can understand technology, are able to identify and automate tax processes to bring in efficiency and leverage the ERP system for all tax data requirements.



find it difficult for one person to be a subject matter expert on all facets of taxation

Given the complexity and pace of change within various facets of tax legislations, it is challenging even for subject matter experts to keep themselves updated on their respective domain areas. Further, India is a developing/emerging economy and tax is a critical source for the government to stimulate the GDP, etc. This makes tax a complex subject matter and within tax there are types of taxes (GST, income-tax, etc.) and each type of tax standalone is complex. Hence, we cannot agree more with the responses received. It is almost impossible for one person to keep abreast of everything and handle each

tax matter in depth and qualitatively. This is also reflected in the way in which internally EY is structured – we don't believe that an integrated specialization can be done in all facets of taxation.

Further, the above complexity coupled with digitization-led tax initiatives by the government are making it further difficult to have the right talent in the market and therefore, tax functions are forced to explore alternate solutions.



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With legislative changes through the year, tax laws are getting more complex everyday. It has become imperative to bring together a range of specialised skill sets in a comprehensive tax and regulatory function.

Kushal Agrawal
Partner & CFO, Lighrock

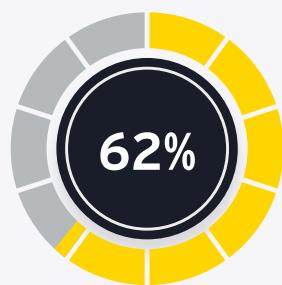
Actionable insights

Existing tax competencies need a critical review to evaluate whether the same are enough to meet the growing demands of the business and the changing tax landscape. Organizations need to have the right balance of generalist and specialist to bridge this gap and be future ready.

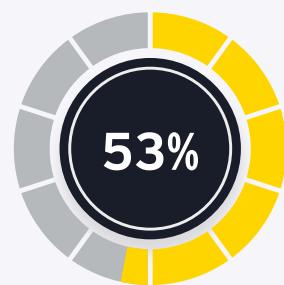


5

Data management



are not very confident about their tax data management



feel that the confidence would fall further if the people managing this data are not around

Given that data is one of the most critical elements of a tax function, it is not surprising to see that tax data management continues to be a challenge for more than 60% of the respondents. It is heartening to see that this percentage has reduced when compared to the earlier surveys demonstrating that organizations have started taking action to ensure appropriate tax data management.

Having said that, there are still more than 50% respondents who have said that their confidence in tax data management would fall if the people managing this data are not around. This indicates that a lot of tax functions are continuing with the traditional ways of handling tax data and are people dependent.

In the backdrop of increased transparency initiatives by the government, tax functions of the future need to have an integrated data source and automated tax data management to ensure single source of truth and consistency in tax positions. As they say, "data is the new gold", and having the right data at all points in time would give tax functions the efficiency and the effectiveness that is un-matched.



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In 2015, we concluded that by 2020 all businesses will “effectively” be technology businesses. If businesses have to thrive, it is essential that they fully leverage the power of digital tools to empower the customers and transform themselves into a truly data-centric organisation ie almost all decisions should be machine made or machine assisted.

**Vishal Nevatia
Managing Partner, True North**

Actionable insights

Given the legislative developments coupled with Government's sharper focus on data collection and augmenting the reach with technology, it has become imperative for companies to ensure single source of truth. This will assist companies to address data gaps, reduce people dependencies and take appropriate actions on a proactive basis.



6

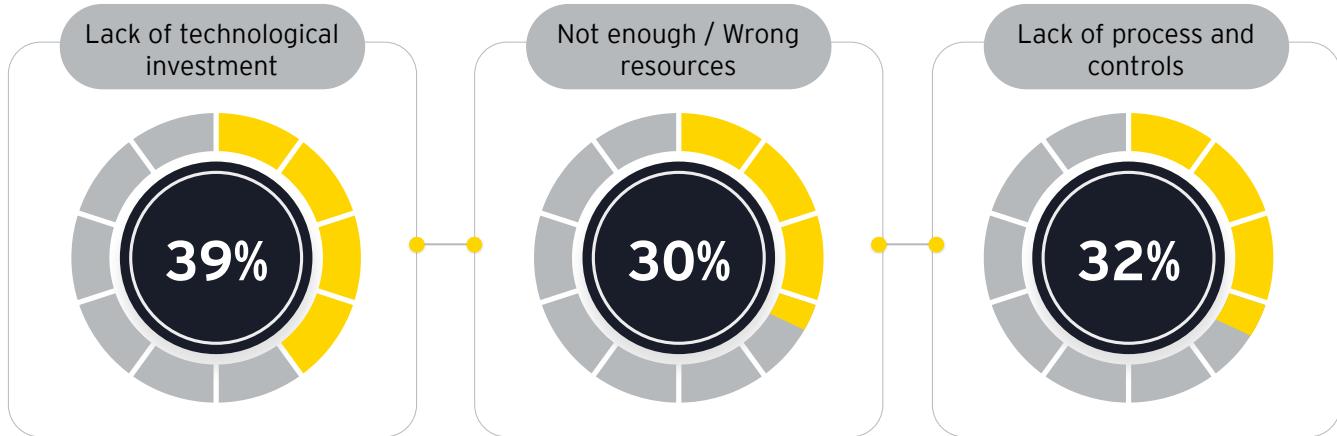
Optimal tax function



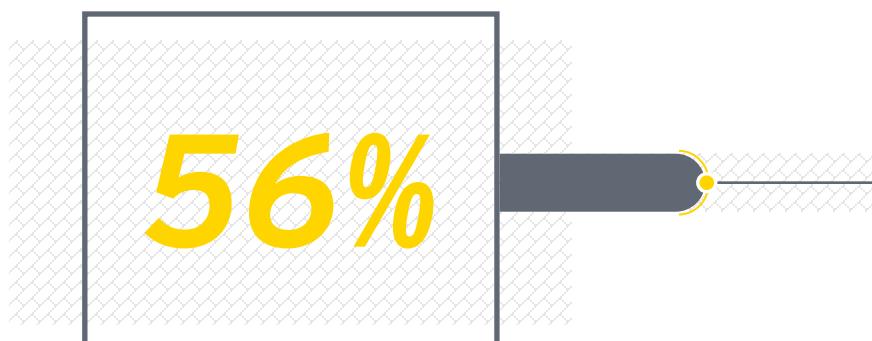
respondents' top priority is to ensure their organization is tax compliant

Clearly, ensuring a tax compliant organization is the top priority for most tax functions. Further, to be able to achieve this on a sustained basis, companies need to have the investment in right kind of technology, the right skillset and number of resources along-with the right processes/ controls.

This can also be seen from below responses received which shows the focus of tax functions and how lack of these can impact the ability of tax function to deliver predictable outcomes:



In order to achieve best-in-class in-house tax function requires optimum utilization and an efficient mix of three critical levers – people, processes and technology.



respondents are not very confident of optimally leveraging people, process and technology.

Interestingly, the percentage of respondents has reduced from our earlier surveys indicating that companies have embarked on the journey of re-engineering their tax function in some form.

Actionable insights

For organizations to have a best-in-class tax function, they need to assess and achieve the right balance of the core levers of any tax function - people, process and technology; benchmark against industry best practices and develop a future-state roadmap.



7

Being future ready

90%

want to re-engineer their tax function.

With majority of respondents considering re-engineering their tax function, there is a clear indication that organizations continue to recognize the need to be bold and innovative when it comes to addressing current state deficiencies.

Companies may choose to reengineer their tax function by either keeping activities in-house or outsource them.

Establishing a best-in-class in-house tax function requires significant management focus and capital investment including problem-focused technology solutions, automation of tax hotspot using robotics, third party technology tools, etc. On the other hand, with outsourcing of tax function, companies can reap the benefits of an agile and future-state tax function including access to best practices, efficient data management, reduced people dependencies, process improvement, etc. without having to make a continuous investment to achieve these outcomes.

Companies should assess the best approach and take the necessary steps to meet their tax and finance function objectives.

Here is the ranking of top benefits of an outsourced model:

Rank 1

Increased management time to focus on core competencies

Rank 2

Reducing tax risks

Rank 3

Building cost efficiency

Rank 4

Solving the need to fill people gaps within the tax team

Rank 5

Strengthening tax-business partnership

Rank 6

Agility/ Scalability

While outsourcing is one of the ways to re-engineer the tax function, in our survey around 50% respondents are exploring outsourcing/ already outsourcing as a solution to deal with the pressures on today's tax function. Additionally, they believe that top 3 benefits of an outsourced model would be freeing up management time for core activities, managing tax risks and building cost efficiency. Indeed 50% respondents to the survey believe that they are likely to explore outsourcing or are already outsourcing/ co-sourcing to add value to business, reduce risk and reduce costs.

Actionable insights

Companies that do not wish to invest independently in people, process and technology for internal transformation or who are struggling to achieve the benefits from transformation should consider the benefits of outsourcing to a service provider who can deliver efficiencies through a repository of digital assets and a robust and effective delivery centre model. A company may want to relook its existing outsourcing strategy and determine the right mix of capabilities they wish to build in-house vis-a-vis those that should be outsourced.

Are you future ready?

We believe that every organization has several opportunities to unlock and transform their tax function to become future ready. Each organization's journey is different and hence, there is no "**one size fits all**".

Chalk your own path:





Should tax keep pace with transformation, or help shape it?

In the Transformative Age,
the opportunities that emerge from
disruption are ready to be seized.

ey.com/digitaltaxstrategy #BetterQuestions



The better the question. The better the answer.
The better the world works.



We at EY are happy to help you find answers to these and any other questions that may come up as you navigate your transformation journey.



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EYIN2104-011
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