

Reimagining the tax function

Find your path forward





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Preface

“A dream is not which you see while sleeping, it is something that does not let you sleep”

**said the Missile Man of India,
Dr. A.P.J Abdul Kalam.**

In the tax world, many organizations have been dreaming about creating a world class, future ready tax department and many of them seem to have embarked on the transformative path to turn this dream into reality.

Finance and tax leaders are vocal about this fact. We also validated the pulse of the industry by way of our annual survey – Re-imagining the tax function. For this survey, team EY reaches out to senior finance and tax executives with some pertinent questions. The first edition of this survey highlighted that the cost of inaction is far greater than the cost of making a mistake, which meant organizations recognized the need to innovate and transform.

We are now pleased to present the second edition, which is a compilation of responses from various respondents from 20+ industries and include a mix of public as well as private companies which are Indian headquartered or global MNCs. This edition establishes the fact that tax transformation is no longer just a buzz word, it is the need of the day!

Tax functions are experiencing a paradigm shift in demands from stakeholders operating in a complex and dynamic environment. Their role has expanded from just managing tax compliances and interpreting the law to effectively partnering with business to add value and proactively control tax risks. This report provides insights on critical areas covering various aspects of a tax function such as – changing expectations from a tax function, increased risks due to digital initiatives, need to do more with less, intelligent analytics in tax, requirement to have a true and consistent data source, etc.

EY's experience from working with clients around the globe is that an efficient tax function would emerge when one can effectively harness the combined potential of people, process and technology. As tax functions seek to transform, they must determine the right blend of people, process and technology aligned with their long-term strategy. One really needs to find the right balance between the areas where they want to be best-in-class and areas where the preference is to be best-in-cost.

With a right operating model mix, organizations will be equipped to handle and ride the transformation wave efficiently rather than be consumed by it. Read along to find your relative position in transformation and chalk out your plan to materialize your plans or shall we say – dreams!

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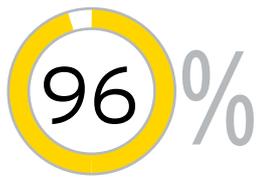
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1

What is the impact of legislative and regulatory changes on tax functions?

How will various transparency initiatives in the legislative and regulatory environment impact your tax function?

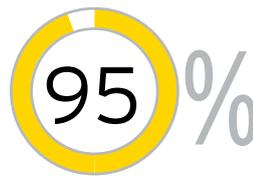


96% believe workload will increase

A vast majority of respondents expect an increase in workload as a result of various transparency initiatives that are underway.

There are sweeping tax policy changes around the globe as countries seek to remain competitive and protect their tax bases.

Closer home, Indian tax authorities have been early adopters of information technology. In India, tax administrators have introduced a number of changes to tax filings that will help increase transparency and reporting requirements. Most recent would be the announcement to expand faceless assessment scheme to tax appeals as per the Union Budget 2020. Project Insight, launched by the government, aspires to provide a 360-degree view of all



95% foresee need for increased collaboration with other business functions

relevant financial data of a tax payer to the administration with leading questions. In the area of indirect tax too, we are experiencing GST scrutiny based on data analytics.

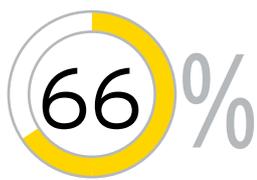
Such initiatives and increased reporting requirements will require companies to perform a comprehensive analysis before any data is reported and thereby increasing workload and costs. It is not surprising to note that the percentage of respondents who believe there will be an increase in the workload has increased from 89% in our last survey to 96% in the recent one.

Given that there will be a lot of data at the disposal of the government, it is necessary for organizations to be prepared and enable themselves to also source similar data and be able to cross-reference with other functions and business units. Therefore, 95% of the respondents believed that there will be increased collaboration with other functions.

ACTIONABLE INSIGHT

Organizations are generally happy with greater levels of transparency, however, in short to medium term, there may be an increase in workload. Organizations need to build their ability to respond to various data requirements of tax administrators with meaningful, contextual, accurate and consistent information. Leveraging technology would be necessary to replace manual effort where possible to be able to effectively manage workload without affecting quality.

What will be the impact of government using targeted data for enforcement activities?



66% think there will be an increase in their tax risk profile

Governments across the world are leveraging digital platforms to assess taxpayer data, including cross-referencing information at the source, running it through increasingly sophisticated analytics and sharing it among agencies.

In India, there are significant technology-led reforms underway both on the direct and indirect tax side. There is increased collaboration among various government agencies resulting in swift exchange of information using

digital means. This is rapidly changing the manner and quality of audits. Sharper and focused risk-based selection of cases for scrutiny, based on technology and data analytics is becoming more of a reality than a work of fiction!

Impact of this digital shift on businesses has resulted in elevated C-suite attention towards managing the consequential tax risks.

ACTIONABLE INSIGHT

Enterprise tax functions cannot continue to remain blindfolded due to a lack of access to and visibility on their own source data and ability to access trends and issues accessible to tax authorities. Organizations will need a comprehensive approach to tax controversy that provides a line of sight into the issues at stake and the potential for future conflicts. Traditional tax function operating models need to rapidly evolve and be equipped to defend targeted inquiries and audits.

2

What are the biggest challenges for a tax function today?

What are the biggest challenges for the tax function at the strategic level in the organization?

47%

feel adding value to business through tax insights is the biggest challenge

The trend seems to remain undeterred – tax functions find themselves challenged while partnering with business as their trusted business advisors.

Historically, the tax function has been viewed as a compliance center. This center was expected to ensure tax compliances with accuracy and timeliness. Today, with tax finding a prominent place on the front page of leading newspapers, tax has assumed prominence in C-suite discussions. Expectation from tax function has evolved for it to be of vital importance rather than a support function. The ability to factor in precise tax cost estimates in business

35%

find ensuring risk managed tax compliance difficult to achieve

decision making is a competitive advantage. Effective communication of tax considerations to C-suite executives is important considering the high reputational and financial risks.

Further, tax, by its very nature, finds itself embedded in various functions of the organization – accounts payable, financial reporting, regulatory filings and business decisions among others. However, tax sometimes does not have complete visibility over processes and controls in functions outside the tax organization. This is one of the reasons 35% of Indian survey respondents find ensuring risk managed compliance difficult to achieve.

ACTIONABLE INSIGHT

Tax is being viewed by the top management as a critical input to take informed decisions and to deliver increased value to the business.

Businesses are now running 24x7 and the expectation from tax function to contribute as partner is the highest ever. Therefore, traditional tax operating models will have to be reimagined to ensure integration with business, access to cutting edge tax technology which allows tax professionals to better focus on analyzing data and create strategies to generate value for business, rather than spending valuable time on gathering data alone.

3

Are tax competency requirements changing and is there challenge in finding the right talent?

Do you believe that core competencies will move from tax and technical skills to process and technology skills over the next three years?

84%

agree that there is some level of change in the skill requirements and competencies from tax in future

Tax function needs to keep up with the pace of change - internal and external. Expectations are changing and so is the skill requirement to manage such expectations.

Future tax function would need to have elements of both domain and functional skills. Specific skills in technology need to be developed for integration of tax with finance and other functions for seamless data extraction, automation and data analytics.

ACTIONABLE INSIGHT

Organizations need to review competencies existing in the tax function and ascertain the level of upskilling, training or co-sourcing required. It would make sense to do an as-is review of the operating model for tax to make sure there is right leverage of skills to meet the changing expectations. Once the gap between as-is and future state in terms of competencies is identified, steps should be taken to build or co-source such competencies.

Do you feel it is difficult for one person to be a subject matter expert on all facets of taxation (e.g., direct tax, GST, transfer pricing, international tax)?

There is enormous challenge for a tax professional to stay continually updated in a rapidly changing and fluid regulatory regime. Having said this, in order to manage tax risks and also provide valuable insights to business all facets of taxation need to be considered and evaluated. However, the irony is that it is difficult to find and retain such resources.

It is a challenge to attract and retain appropriate talent needed in today's evolving tax and finance function. A digital skillset (e.g., proficiency in basic technology tools such as business intelligence tools, automation, data governance and analytics) in a tax professional is a rare find.

79%

feel It is difficult

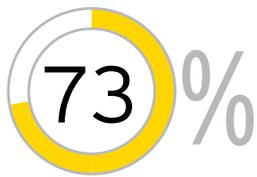
ACTIONABLE INSIGHT

Training and investment in resources to ensure scalability is the need of the hour. Since this may result in additional cost in attracting and retaining talent, companies must evaluate and determine their long-term strategy. There should also be focus on automation of processes and innovation to provide resources the bandwidth to acquire new skills.

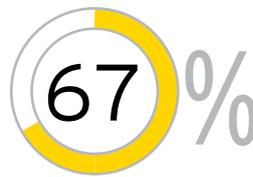
4

How confident are organizations about their data management process as well as accuracy of data for tax positions?

How confident are you about tax data management in your organization?



73% are not very confident about the tax data management



67% of the people feel that the confidence would fall further if the people managing this data are not around

There is no denial that data is an asset today. If the right quality of data is available to tax professionals, they will be empowered to take consistent tax positions and risks are likely to reduce considerably.

Traditional tax operations are faced with the following challenges with respect to data:

Difficulty in managing and locating final versions of critical documents

Inadequate information-sharing across tax functions and geographic locations

Redundant and e-mail intensive data collection methods

Excess time and effort spent on manual tracking

Dealing with multiple sources of data and spending valuable time in reconciliations

Lack of visibility over deadlines, delivery status and resource allocation



Traditional methods used in tax functions may not be capable of handling the speed, volume and the accuracy of data required.



How confident are you that you will be able to respond to notices and information/data requests from tax authorities from the following perspectives?

Half the battle is won if accurate and reliable data and documentation is provided in a timely manner during tax scrutiny proceedings. Tax teams find it hard to achieve this since usually there is no single source of truth. With the advent of digital initiatives for tax assessment and scrutiny, data management and retrieval is the top priority for tax functions.

Tax teams should be able to provide reliable data, which can be reconciled and is uniform across all facets of taxation. Consistent and reliable data helps tax authorities to understand and interpret complex transactions and tax positions, failing which there could be disputes.

Timeliness



Accuracy



Skills/ Competencies / Ability



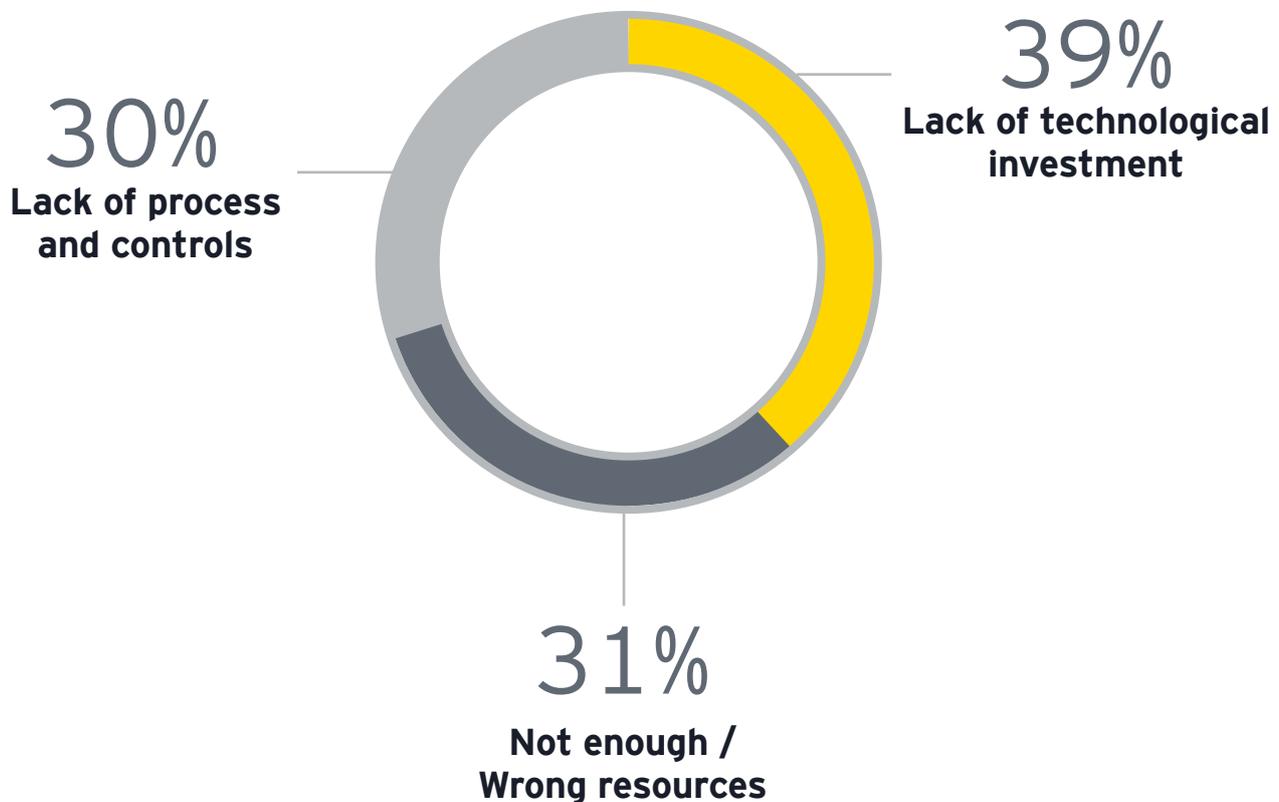
ACTIONABLE INSIGHT

It is important to have an integrated tax data source to prevent siloed approach and facilitate availability of data across tax department. Seamless extraction of data is necessary for timely and accurate compliance. Companies should ensure that they have the right strategy to monitor, evaluate and report with the help of robust ERP systems, tools for consolidation, automation and data analytics

5

What is impacting the ability of tax and finance functions to deliver predictable outcomes on sustained basis?

Which of the following has the most significant impact on the ability of your tax and finance functions to deliver predictable outcomes on a sustained basis?





Is your organization investing enough time and money in analytics and technology solutions to effectively manage your reputational risk and tax risk profile?

59%

feel that the organization is not investing enough

Organizations are recognizing the need to invest adequate resources in technology, as without such an investment they may inevitably end up spending money later in terms of retrofitting or replacing the systems, increased cost of compliance, potential penalties or additional resources.

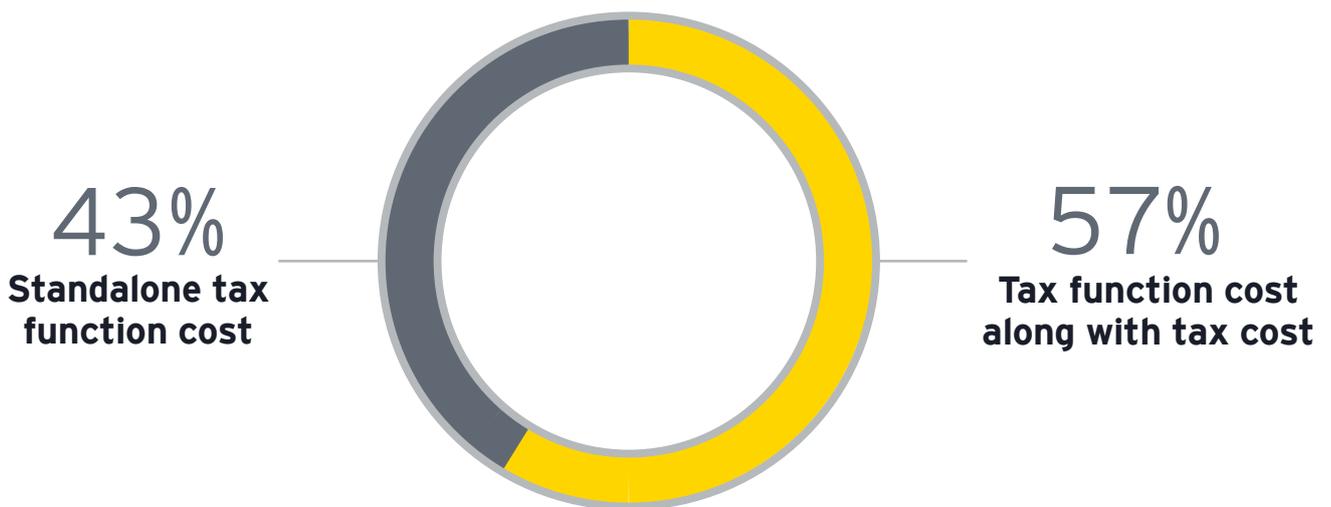
ACTIONABLE INSIGHT

Organizations need to develop the right business case to receive adequate resources for technology/resources/ process requirements needed to meet increasingly granular and real-time information filing and compliance requirements. Organizations need to build business data analytics and capabilities to get a holistic view of their tax risk profile so as to manage their tax risks proactively.

6

How is the efficiency of tax functions measured?

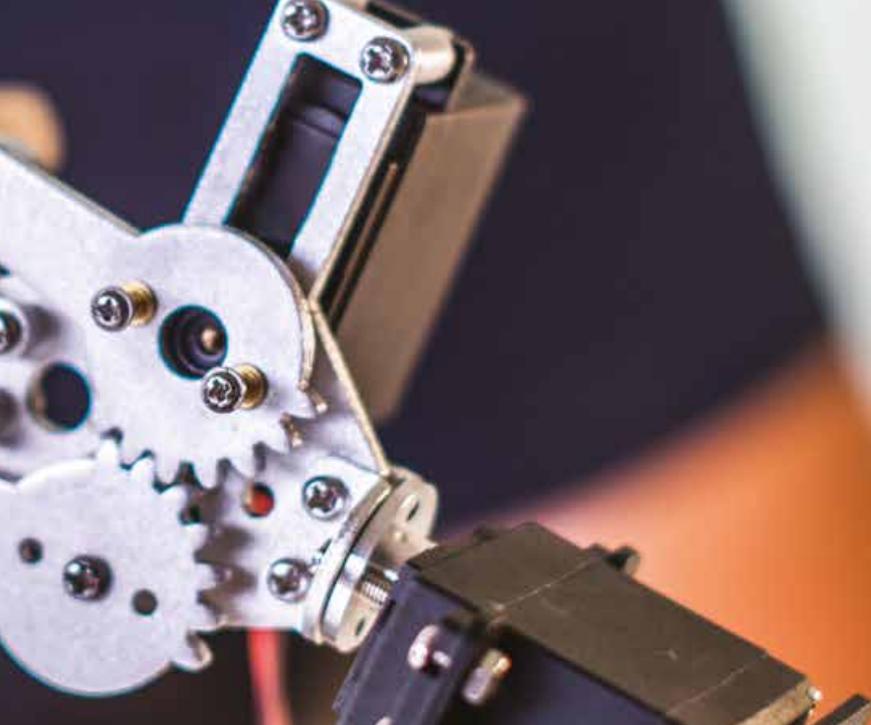
How do you measure the efficiency of your tax function?



Holistic view on efficiency of the tax function is important to ensure that the corporate objectives on cost reduction are achieved.

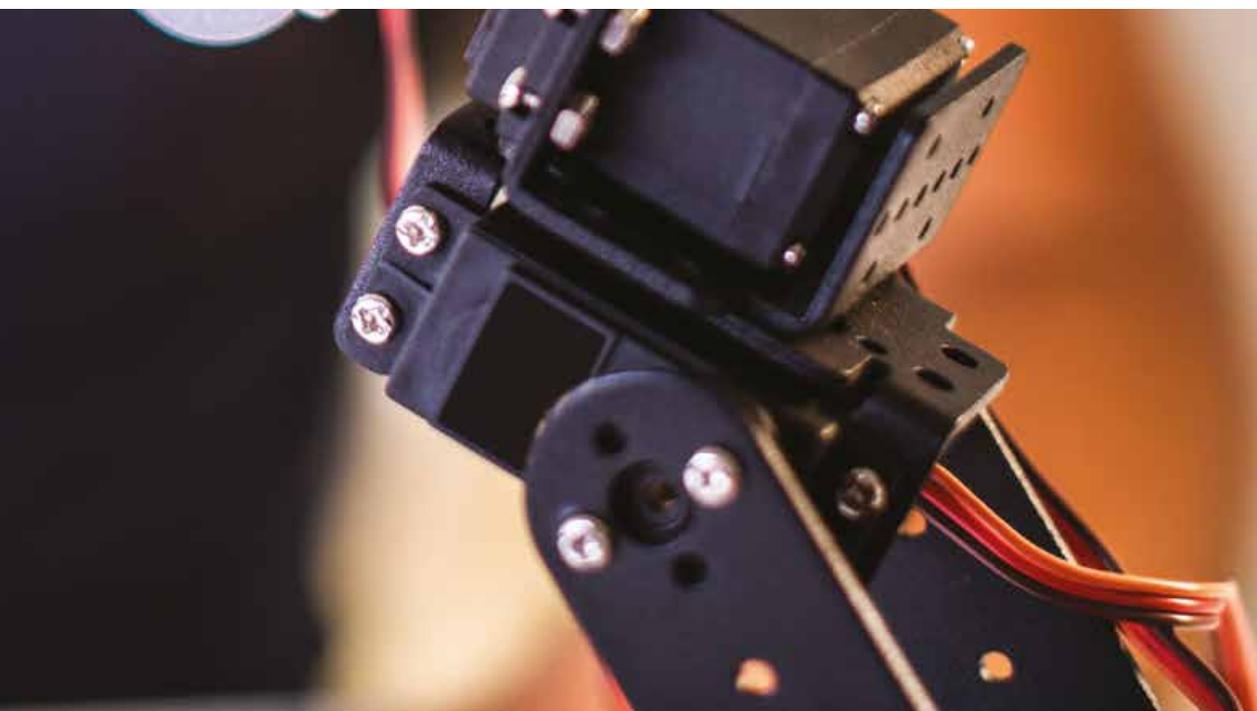
Most corporates are trying to maximize the benefit they can generate from internal efficiencies while tackling the external factors. Hence, cost reduction has been one of the top management focus areas. The tax function is no exception and there has been growing pressure on the tax function to create cost efficiencies.

Tax function can contribute to the organization through optimizing the cost of operating the tax function or the tax costs itself. Hence, there is a need to take a holistic view of not only administrative and people expenses, but also the risk adjusted tax cost incurred.



ACTIONABLE INSIGHT

Tax risks and opportunities are two significant components of tax function costs. Organizations must not lose sight of these while focusing on tax operating costs. Isolating and concentrating on tax operating costs alone would be a myopic approach in the larger agenda of tax transformation aimed to add value and address tax risks of the future.





Are organizations re-imagining their tax function and what measures are they taking to become future ready?

How confident are you that your organization has the ideal tax function- optimally leveraging people, process and technology?

To be able to efficiently operate in complex business and tax environments, it is now well understood that organizations need to ensure the optimal utilization of people, process and technology. These three enablers when optimally leveraged would result into a world class tax function having the potential to meet the evolving demands from stakeholders.

Interestingly, in the previous survey, 78% of the respondents were not very confident about optimally leveraging people, process and technology. The dip in the current year is an indication that companies have embarked on the journey of re-engineering their tax function in some form.

71%

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



What action would you take to resolve deficiencies in the current tax function?

90% of the respondents believe change, in some form or the other, is required in the current operating model. The role of the tax function and the environment in which it operates has undergone radical changes in the recent years. Clearly the time to act is now.

Each organization will go through its own path of transformation, which can vary from reengineering the current tax function, developing point-based solution to specific problems or consider functional outsourcing. Most would employ a mix of these models based on their organizational factors to achieve the right balance between risk management, cost minimization and value creation.

90%

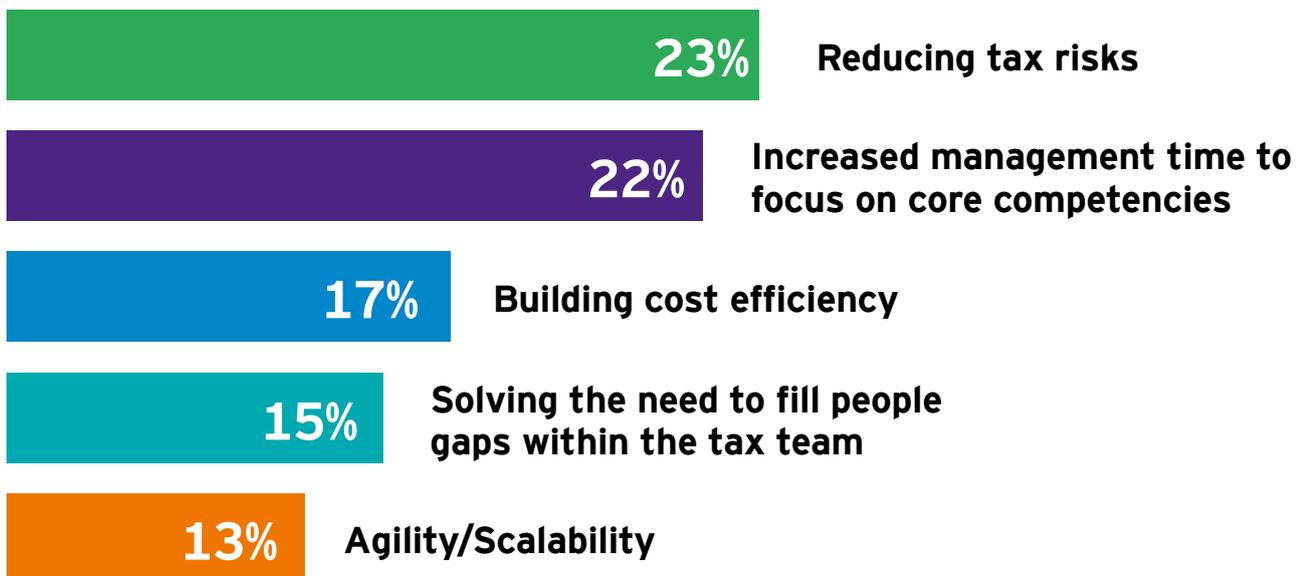
Internal transformation/outsourcing

Has functional outsourcing (i.e., a third party operating your tax function) been considered as a solution to deal with the pressures on today's tax function?

53%

Exploring outsourcing/
already outsourcing

Which would be the top benefits of an outsourced model?



Co-sourcing or outsourcing in part or full can provide access to skills and technology that are hard to find and nurture. Hence, more than 50% of the respondents are already outsourcing or exploring outsourcing as a part of their operating model for the tax function.

Will business fund the expansion / new skill needs of your tax team as the tax law evolves?

Businesses are generally aware of the rapid change in regulatory environment and the increasing workload on tax teams. Tax heads need to build the right business case, elaborating the benefits to encourage business to invest in tax transformation. For most tax functions, the challenge today is determining their requirements, identifying the right operating model and availability of resources to execute the tax transformation strategy, rather than lack of funds or appreciation from c-suite regarding the need for transformation.

61%

Yes, of course

ACTIONABLE INSIGHT

Tax function should endeavor to achieve an optimal combination of people, process and technology to add value to business. The combination will vary based on various organizational factors and can be achieved through mix of internal transformation or outsourcing. Businesses will generally fund the requirements, if tax function can align their objectives to the vision of business.



Are you on the path to the future

Food for thought!

We believe that every organization is currently at some stage of transformation.

Below is some food for thought to help you understand your relative position in this journey:



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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