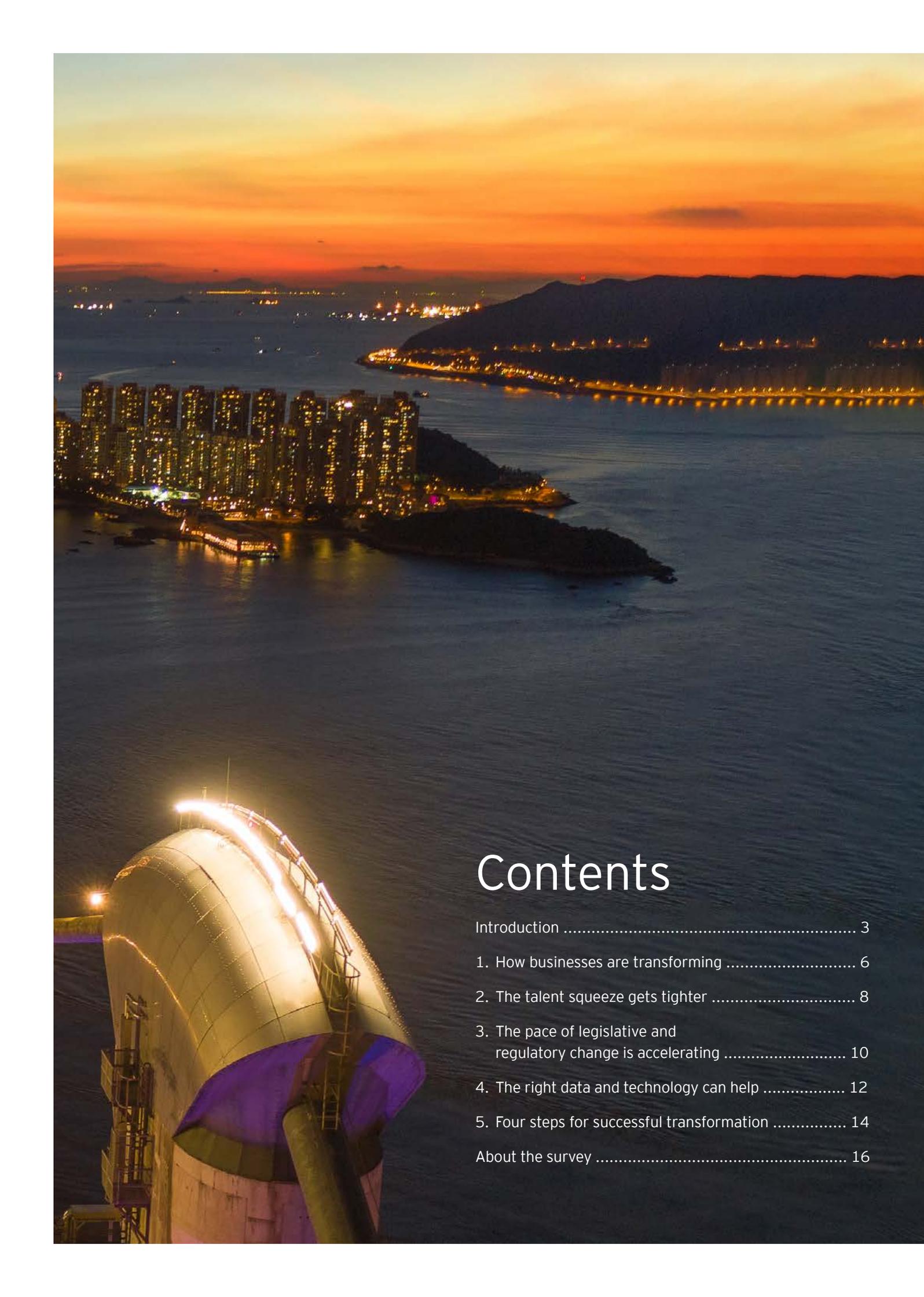




How to realize the value of your tax and finance function

2022 EY Tax and Finance
Operations Survey



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Introduction

Businesses are transforming to manage talent shifts, legislative and regulatory uncertainty, and evolving technology as cost pressures mount.

Organizations are transforming. This is not necessarily a 'need' or 'want' anymore, but a 'must.' The global landscape has arguably never been more challenging – with external factors creating a multitude of pressures that have pushed businesses to reexamine their operating models across the entire enterprise, including in the tax and finance functions.

The [2022 EY Tax and Finance Operations Survey](#) (TFO survey), which queried 1,650 executives in more than 40 jurisdictions and a dozen industries, has found that organizations are having to find a balance between driving value, managing risk and reducing cost. Yet they are attempting this even as they face challenges retaining and transforming their talent, keeping up with legislative and regulatory change and future-proofing their technology and data.

Businesses have been dealing for years with a number of pressures that were exacerbated by the COVID-19 pandemic. These include supply chain; rapid tax legislation and regulatory change, such as global tax reform efforts and thousands of law changes to support businesses during the pandemic; and shifting workforce dynamics.

On this latter point alone, changes to working practices and concerns about personal safety have played a role for many workers around the world reassessing their priorities and contributing to a phenomenon of people leaving and changing jobs at unprecedented levels that has been dubbed both 'The Great Resignation' and 'The Great Reshuffle.'

Amid all of this, environmental, social and governance (ESG) issues have been rapidly rising up the corporate agenda, creating a whole new dynamic for organizations – around how they operate, how they recruit talent and how they appeal to customers.

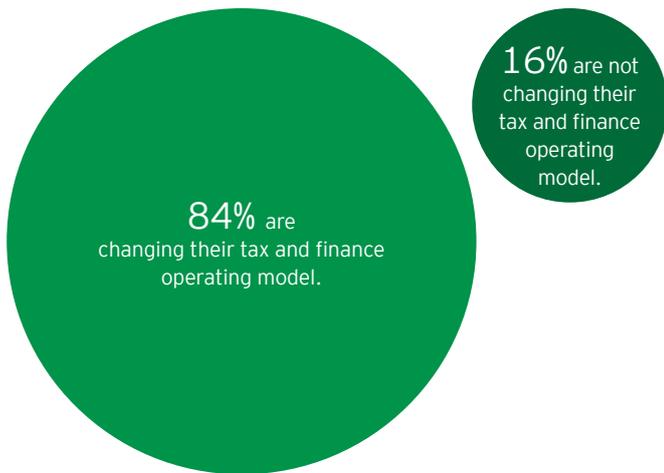
“Even before COVID-19, businesses knew they needed to change the way they operated to succeed in a rapidly evolving environment,” explains Carmine Di Sibio, EY Global Chairman and CEO. “The pandemic brought new urgency to making change while underscoring the need for any transformation to put them on a path to build long-term value for all stakeholders.”



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Carmine Di Sibio
EY Global Chairman and CEO

Figure 1: Organizations are actively transforming their tax and finance operating model



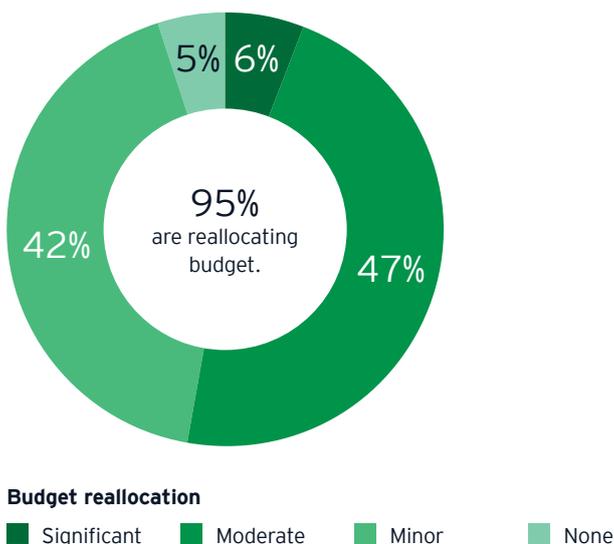
The headline findings of the TFO survey clearly support this assertion that businesses are actively transforming, with 84% of respondents changing their tax and finance operating models, citing a range of priorities such as automation, use of shared service centers and co-sourcing.

This transformation is having a direct impact on where budgets are being spent. The survey shows that 95% of companies plan to reallocate some of their tax and finance budget away from routine activities (such as tax compliance) to strategic activities (in areas such as tax policy, planning and controversy) during the next two years.

Kate Barton, EY Global Vice Chair – Tax, says tax functions have made good progress demonstrating how they contribute to the value of their organizations. “Tax leaders have undeniably taken on a more significant role as trusted advisers in the C-suite,” Barton says. “Businesses that have begun transforming their tax functions are seeing the biggest dividends.”

Indeed, the survey shows that 64% of tax functions have been involved in major business-wide finance and/or IT transformation initiatives (e.g., enterprise resource planning implementation) in the past two years.

Figure 2: Companies plan to reallocate tax and finance budget from routine to strategic activities



Note: Examples of routine activities include ‘tax compliance’ and strategic activities include ‘tax policy, planning and controversy.’

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Kate Barton
EY Global Vice Chair – Tax

Central to tax leaders' increased focus on change is the effective allocation of resources. As such, 81% of respondents are more likely than not to co-source tax and finance activities within the next 24 months (rising to 96% for organizations with revenue at \$30 billion or above). Many also need to make simultaneous investments in strategic internal activities, such as planning, controversy and data management.

The COVID-19 pandemic is also a driver of transformation – with 70% of those surveyed saying that they anticipate an increased focus on an efficient tax and finance operating model as a result of the pandemic.

Figure 3: Co-sourcing select tax and finance activities in next two years



Complexity of managing today's priorities

As organizations create that laser focus on the tax and finance function, many are realizing that there is a real balancing act when it comes to achieving business objectives while dealing with a distinct set of obstacles.

How do organizations attract the best people, ensure they reach their full potential, enhance their career path, and retain them long enough so they contribute to the long-term value of the organization? How do businesses succeed in countries where the tax laws seem to change daily? How do they implement and develop a data and technology plan in the face of constant change?

Jacky Wright, Chief Digital Officer, Microsoft, maintains companies must find answers to these questions in order to serve as a value-adding business partner, managing risk and reducing costs. "As tax and finance functions transform, businesses need, for example, to understand the role data can play in providing companies with accurate compliance and business insight," she says.

The TFO survey finds tax and finance functions are playing a bigger role in helping their organizations address ESG objectives. Respondents identified environmental and climate risks and impacts as the most important ESG issue facing their organization in the next two years, and 95% say they are currently or considering co-sourcing ESG reporting activities. Separately, tax and finance functions are stepping up to help their organizations satisfy more public demands for transparency in tax reporting. All survey respondents say they have increased attention on making voluntary disclosures about their organizations' tax activities that range from their governance framework to a variety of tax payments made to governments.



As tax and finance functions transform, businesses need, for example, to understand the role data can play in providing companies with accurate compliance and business insight.

Jacky Wright
Chief Digital Officer, Microsoft

Having the right people in command of data is critical to delivering these types of insights.

"Businesses also need a digitally literate workforce that can adapt to emerging technologies in order to succeed," adds Wright.

For many, cost is an additional pressure that complicates solving the many challenges tax and finance functions face; tax and finance functions are constantly being challenged to do more with less. Indeed, 87% of all companies surveyed in the TFO survey plan to reduce the cost of the tax and finance function in the next two years.

This only serves to highlight the difficult journey ahead for many tax and finance functions and the importance of designing an effective transformation roadmap right from the outset.

1 How businesses are transforming

Finding the right balance between performing routine activities and making more complex contributions to their business may require new investments.



As indicated earlier, many businesses are considering or are already transforming their operating models in order to strike the critical balance between routine activities and more complex contributions to the broader business objectives.

With costs as a key area of focus, it is perhaps unsurprising that tax and finance budgets are being shifted from routine to strategic activities. And considering recent, significant changes to global tax policy, such as the agreement to introduce new global minimum tax rules, this would appear to make sense.

This strategic focus on the allocation of resources will help organizations not only keep pace with the current state of play, but also plan for inevitable future regulatory change.

This means that businesses that shift budget away from routine activities, such as tax compliance, will need to ensure that spend is reallocated effectively.

This has been the experience of SAP, which has leveraged EY's global network and technology investments to improve its own tax compliance capabilities.

“Digitalization and globalization have had a great impact on economies, affecting the lives of people around the world,” says Kirsten Birnbaum, Head of Global Tax, SAP SE. “And the impact is sure to increase in the future. Working with a global network of specialists, jointly utilizing our technologies has enabled us to considerably increase our efficiency in delivering tax compliance. We have more room to focus on strategic activities – and that’s a great benefit for the company.”

The importance of having advanced technology cannot be understated. Seventy percent of respondents say they intend to invest \$2 million or more over the next three years (this rises to 85% for organizations with \$30 billion or more in revenue).

Tax and finance functions will also need to have a laser focus on the following three key challenges: talent, legislation and regulation, and technology and data. Achieving all of this may well help them unlock the power to do more.

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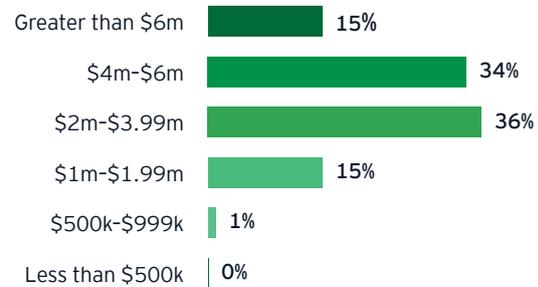
Kirsten Birnbaum
Head of Global Tax, SAP SE

Figure 4: Companies are planning to invest in tax technology over the coming three years

85% of companies having \$30b+ revenue plan to spend \$2m or more on tax technology

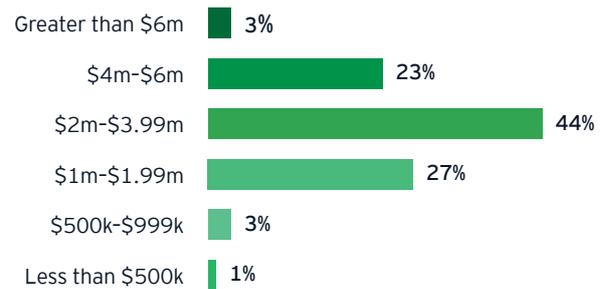
Planned spend on tax technology

Revenue: \$30b or more



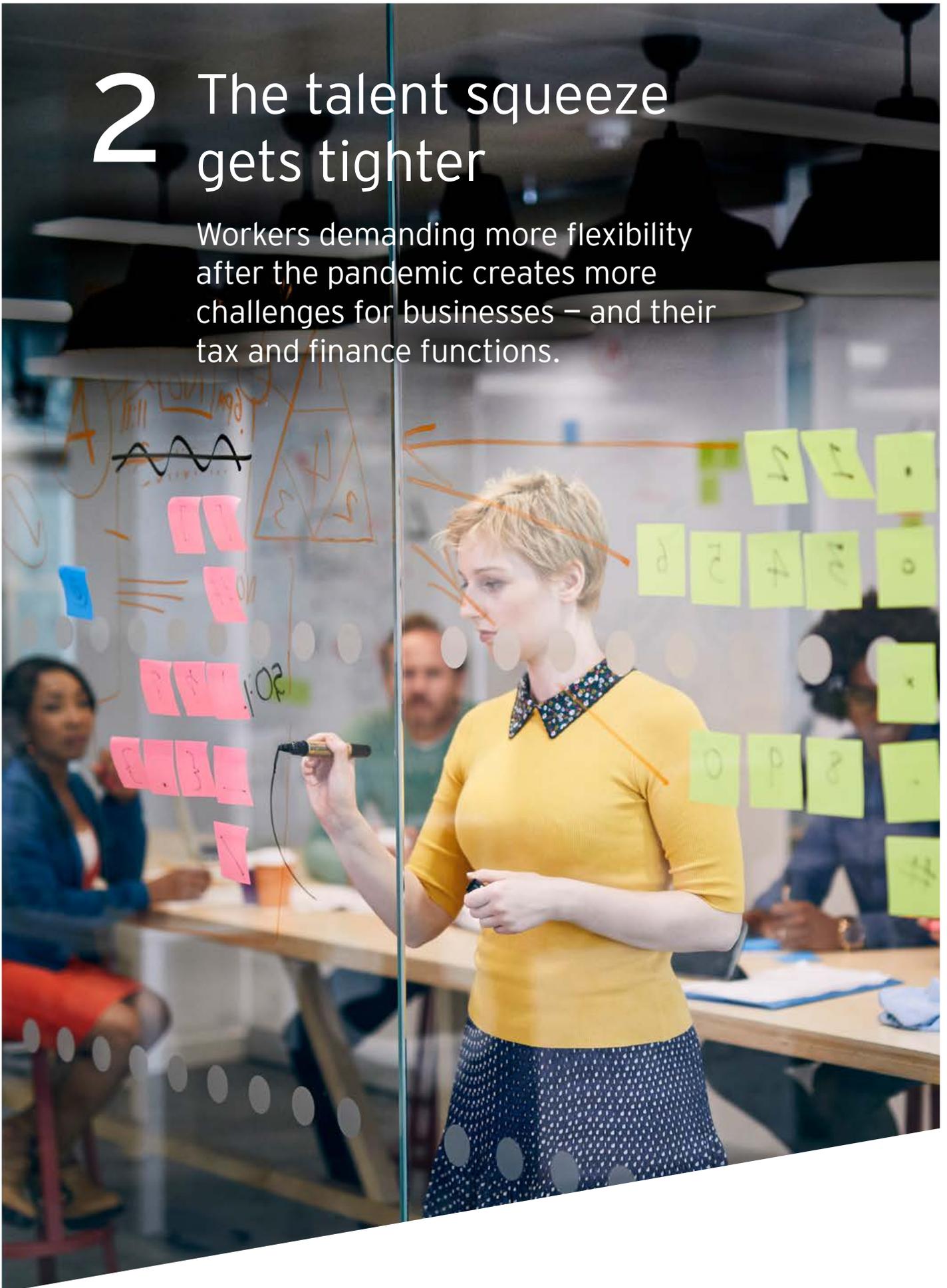
Planned spend on tax technology

All companies



2 The talent squeeze gets tighter

Workers demanding more flexibility after the pandemic creates more challenges for businesses – and their tax and finance functions.



All business functions, including tax and finance departments, are facing difficulties attracting and retaining the right talent. Even before the pandemic, workers were increasingly demanding more flexibility in a variety of forms: flexible working arrangements, secondment opportunities, a greater emphasis on wellbeing, and heightened expectations around professional development and advancement. Companies have been also under increasing pressure to align their values and ESG policies with employees' values as workers assess not only where and how they work but also why they work.

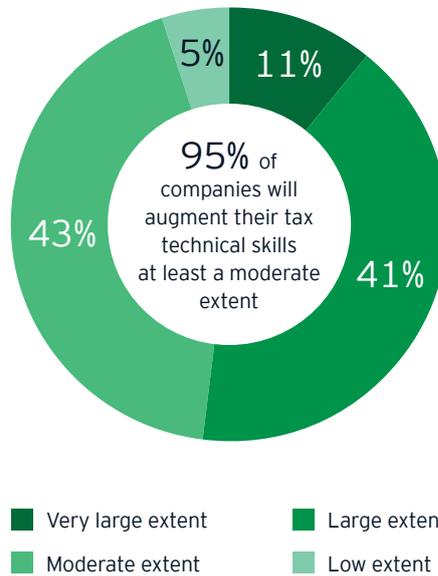
The pandemic accelerated these workplace shifts and left employers scrambling to contend with the logistical challenges of more flexible arrangements. These challenges included implementing new health-and-safety protocols for on-site workers, ensuring they had the right technology in place to facilitate remote working and the management of business-as-usual operations.

Many of these flexible arrangements, particularly remote working, have become entrenched. According to the [EY Work Reimagined Employee Survey 2021](#), 9 out of 10 respondents want flexibility in where and when they work, with 54% saying they are likely to quit if they are not offered that flexibility. At the same time, 35% of employers want a full return to the office post-pandemic. Of course, with 'The Great Resignation' making headlines and many industries facing labor shortages, workers have more leverage than ever before. But workers are not just resigning to leverage newfound power, the survey found. They are exploring (reshuffling) roles that better align with more fulfilling experiences.

Of course, different workers want different things, and there are many craving more human interaction in the workplace as a growing number of people have been hired and left employers during the pandemic without meeting their colleagues in person. But in instances where workers fled cities to rural areas with lower costs of living and cases where employees moved to different countries to be closer to family during the pandemic and do not want to return, more businesses than ever before face tax compliance and reporting requirements in jurisdictions where they have created a 'permanent establishment.' In fact, 55% of respondents in the TFO survey anticipate facing more permanent establishment risks in the coming two years as employees continue to work remotely as a result of the pandemic. These risks will only heighten as work-from-anywhere culture becomes more commonplace.

Figure 5: Tax technical skills need to be augmented with data and technology skills

Respondents were asked "To what extent will your tax and finance personnel need to augment their tax technical skills with data, process and technology skills in next three years?"



Coincidentally, people with the right combination of specialized tax technical and data, process and technology skills are in short supply; 95% of respondents believe their tax and finance personnel need to augment their tax technical skills with data, process and technology skills in the next two years.

And, just as workers with specialized skill sets are hard to find in some industries facing labor shortages, these types of modern tax professionals can be hard to find and hire.

In many cases, it is easier to work with a vendor that invests heavily in developing its own tax professionals that are also knowledgeable in leveraging data to meet obligations and bring insights to the broader enterprise.

"Flexibility is the new currency for employees. In fact, 54% say they would leave if they did not have it," says Marna Ricker, EY Americas Vice Chair – Tax. "Between the short supply of tax and finance talent, remote workforce tax tracking and reporting, and the need to cost effectively transform, businesses are increasingly turning to their service providers for both technical and technology acumen to accelerate and elevate their tax and finance department impact."

3 The pace of legislative and regulatory change is accelerating

The rapid pace of legislative and regulatory change shifted into higher gear during the pandemic – and it may soon reach overdrive.



Legislation and regulation underwent seismic change during the pandemic. Governments have passed more than \$33.6 trillion in support and stimulus programs, or the equivalent of 39% of global Gross Domestic Product (GDP) according to the International Monetary Fund (IMF). In many cases, that relief took the form of tax measures, many of them temporary.

As the world emerges from the pandemic, tax and finance functions have to contend with an unwinding of temporary policies, a return to a longer-term view, and tax reform that was already gaining speed pre-COVID.

“Governments are focused on their fiscal stability and will likely seek to recover what was spent on the pandemic,” says Eng Ping Yeo, EY Asia-Pacific Tax Leader. “This means the already rapid pace of legislative and regulatory change might accelerate. Businesses also have to contend with more tax law enforcement activity, which will place additional pressures on resources.”

The most significant policy developments have been prompted by the Organisation for Economic Co-operation and Development’s (OECD) project on addressing the tax challenges of the globalization and digitalization of the economy, including the agreement in October 2021 on new global minimum tax rules at a rate of at least 15%.

This global tax reform is also set in the context of policy change taking place on national levels around the world. In the US, for instance, there have been proposals to significantly increase the corporate tax rate from 21% – although the currently pending legislation does not include such an increase, discussions are still in a state of flux. In the UK, the corporate tax rate is set to rise from 19% to 25% in April 2023 for all affected businesses. And these are just two examples of major, ongoing change.

The difficulties faced by organizations in this shifting global tax landscape are significant. According to the [EY International Tax and Transfer Pricing Survey 2021](#), 76% of respondents say they are being challenged by the sheer volume, pace and complexity of global tax reforms. But this is only part of the picture.

“While keeping up to date with the regulatory and legislative landscape is critical, tax teams are also having to deal with changes to reporting obligations,” says Bridget Walsh, EY EMEA Tax Managing Partner. “Tax authorities have become increasingly sophisticated in recent years and a continued shift to digital filing and a move toward real-time or near-real-time reporting is increasing the compliance, risk and cost requirements.”

Emerging digital tax filings

59%

of respondents believe that complying with emerging digital tax filing requirements will increase the cost of running the tax and finance function.



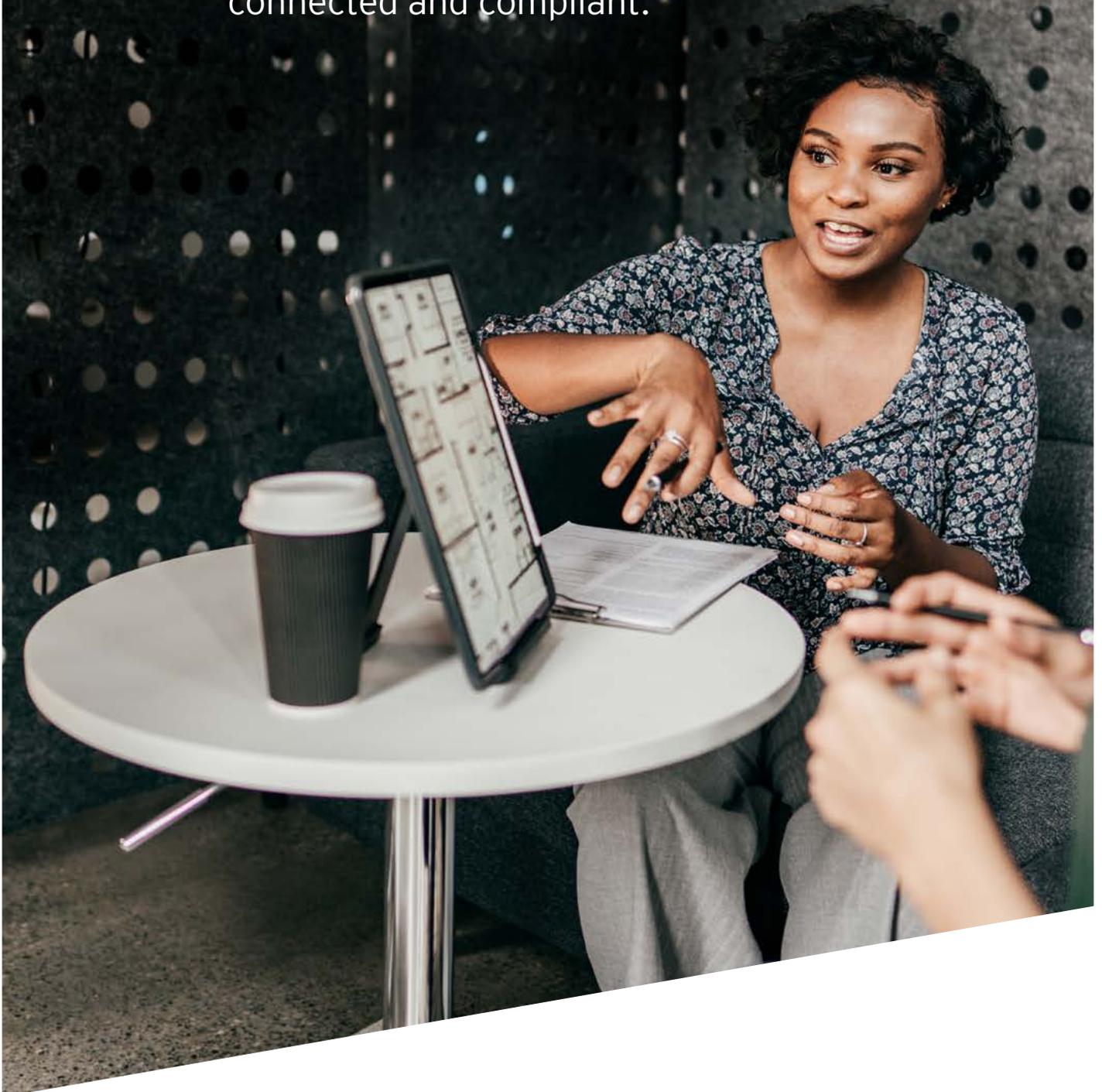
According to the TFO survey, 59% of respondents believe that complying with emerging digital tax filing requirements will increase the cost of running the tax and finance functions.

The cost of compliance will be considerable as well – with 83% of all companies expecting to spend at least \$5 million, an average of \$11.1 million, to comply with emerging digital tax filing requirements over the next five years (rising to 92% for companies with revenue at \$30 billion or above and an average spend of \$13.2 million).

As is always the case, compliance is not optional. But as tax authorities look to recoup support provided during the pandemic and clamp down on tax compliance and reporting, these changes are likely to have a serious knock-on effect in the years ahead. It is perhaps unsurprising then that the [2021 Tax Risk and Controversy Survey](#) showed that 53% of tax leaders expect heightened tax enforcement in the next three years.

4 The right data and technology can help

Data and technology helped businesses survive the pandemic and many now seek solutions to help them stay connected and compliant.

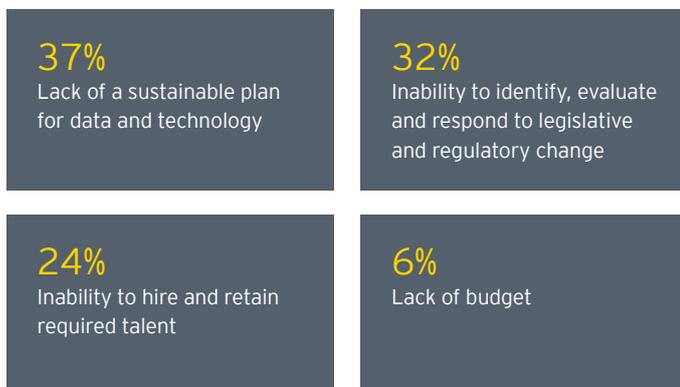


Access to up-to-date data and technology is key to achieving transparency in today's fast-changing global tax landscape. This became painfully clear to many organizations during the pandemic as tax and finance teams, many of which were separated from their workplace files, struggled to meet basic compliance obligations such as filing tax returns and dealing with audit activity with tax authorities.

Tax and finance functions can also bring more value to the entire enterprise when they have advanced technology and data at their disposal because they are able to better project the tax implications of broader business decisions ranging from acquisitions and dispositions to the impact of tax law changes.

The C-suite has recognized the significant role that technology plays and how the tax and finance functions can be real value-adding partners to the business. Thirty-seven percent of respondents (including 41% of chief financial officers) to the TFO survey believe a lack of a sustainable plan for data and technology is the biggest barrier to achieving their tax and finance function's vision. This rises to 50% of larger companies with over \$30 billion in revenue. This clearly shows that there is plenty of transformational work to be done.

Biggest barrier to delivering your tax and finance function's purpose and vision?



Technology can be a significant expense for a tax team budget. On average, the TFO survey respondents say they will spend \$4 million in tax technology over the next three years. Meanwhile, a large number of businesses are looking to reduce costs and are struggling to build the necessary technological capability in-house. Therefore, it is not surprising that 56% have prioritized working with a provider who has significant capabilities in data, technology and shared service-center delivery – rising to 68% for those businesses with annual revenues of more than \$30 billion.

“Digital transformation that enables innovative services in finance, accounting and tax is helping organizations gain more relevant and actionable insights for their business, often at a lower cost,” says Daniel Goff, Corporate Vice President, Worldwide Tax and Trade, Microsoft. “But transformation looks different to different companies. Some want to build internal capabilities. Some prefer to co-source with a provider. Often, a hybrid approach is the best approach. Companies that undertake such transformations are better positioned to redirect resources to focus on the most strategic finance and tax issues.”

Goff's three points to consider:

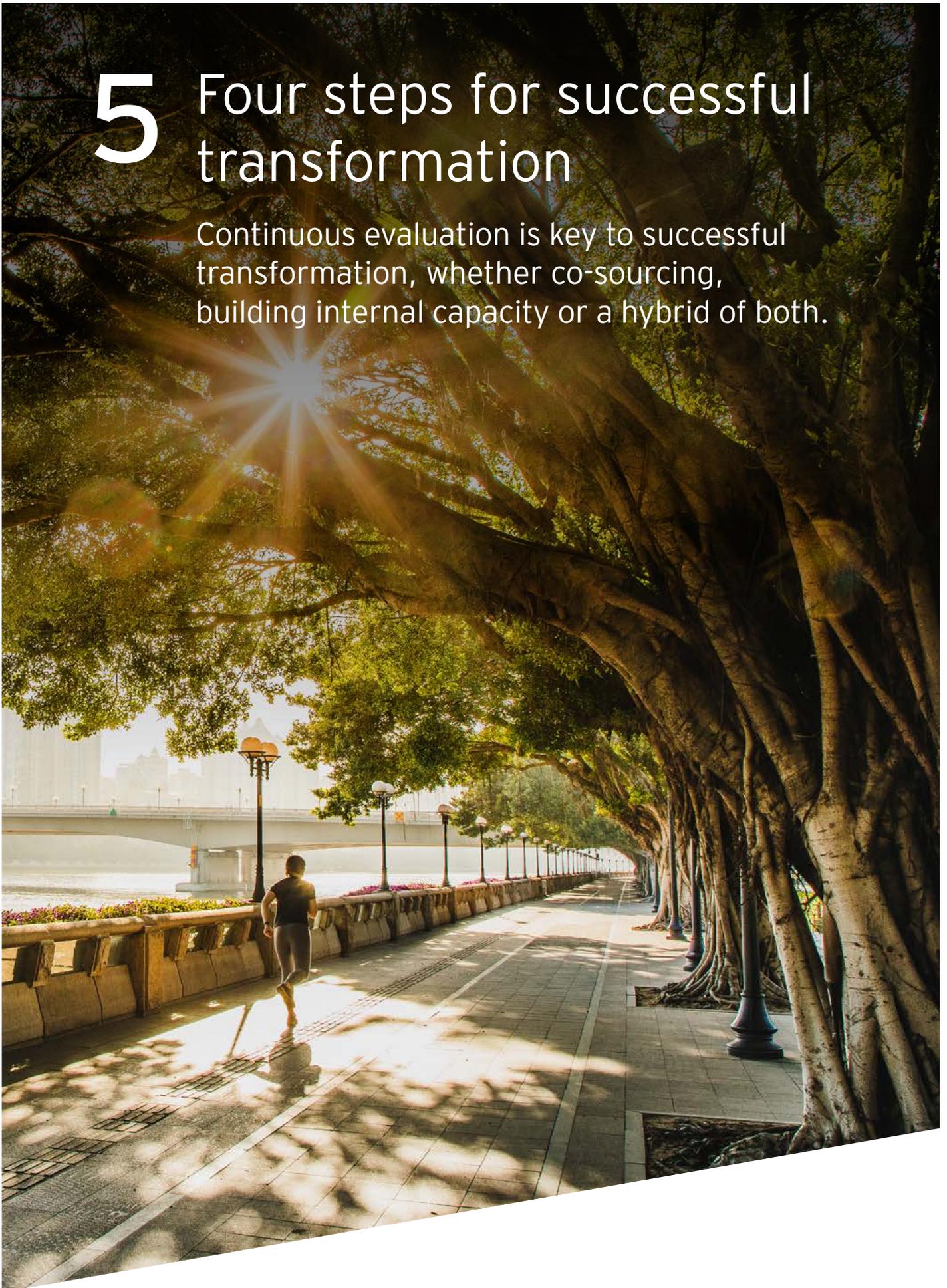
- 1 Assess the technology and processes used in-house to optimize existing use of enterprise technology to efficiently obtain high-quality source data, provide real-time reporting and commercial insights to the organization.

- 2 Determine whether each piece of the IT ecosystem will align to future reporting, risk and governance requirements.

- 3 Look to managed services providers and ensure they have best-in-class tax technology capabilities both now and going forward and be certain that the organization's technology ecosystem/roadmap is aligned with the provider's.

5 Four steps for successful transformation

Continuous evaluation is key to successful transformation, whether co-sourcing, building internal capacity or a hybrid of both.



Transformation gives tax and finance leaders the power to shape strategy, innovate and have a greater impact on the business. It can transform tax from a compliance, business-as-usual function to one that helps the organization's leaders understand the full picture of broader business decisions.

Tax and finance functions need a transformation strategy that is holistic, flexible and has the scope to evolve and adapt changing talent, regulatory and tech landscapes in order to be as future-proofed as possible.

Transformation can take many forms. Some businesses may decide to address these challenges internally. Others may invest in a co-sourcing arrangement. Many will choose a hybrid model with elements of both. There is no one-size-fits-all approach, however; businesses must choose their own path forward.

The following steps can act as a guide to successful and robust transformation:

- 1. Re-evaluate your operating model.** Even if you have made transformational changes to your operating model, continuous assessments should be undertaken to stay up-to-date. Your priorities around cost controls, value creation and risk management may change as you re-evaluate how the tax and finance functions contribute to the overall business strategy. Continuous assessment will help you identify gaps in people and technology as you look to futureproof your operating model.
- 2. Determine what stays in-house.** You may decide on in-house delivery of activities you consider higher value and best-in-class – for example, planning or managing tax controversy. To do this successfully, however, requires a degree of internal transformation to optimize existing people, data processes and technology.

- 3. Decide what to co-source.** It may be more advantageous to co-source some activities, especially those that are more routine, such as completion of tax returns, regulatory filings and data collection. Highly repeatable, data-driven and rules-based tasks may be performed more efficiently via co-sourcing with a third party.

- 4. Consider a hybrid approach.** You may decide that a hybrid approach works best – continuing to own some critical tax and finance processes and activities, while co-sourcing others. The most effective hybrid approach can improve both effectiveness and efficiency while empowering your people to become a value-added partner to the business by focusing on activities that improve the bottom line. Connecting both in-house and co-sourced activities will provide greater value.

While an in-house approach enables you to develop and grow your own team, and improve control and flexibility, co-sourcing to a third party can reduce overall tax costs, control unpredictable IT expenses, and redirect internal resources to more strategic activities. It also enables organizations to leverage the vendor's considerable and ongoing investments in the necessary talent and technology to keep pace with an ever-changing world.

About the survey

Insights from 1,653 executives globally

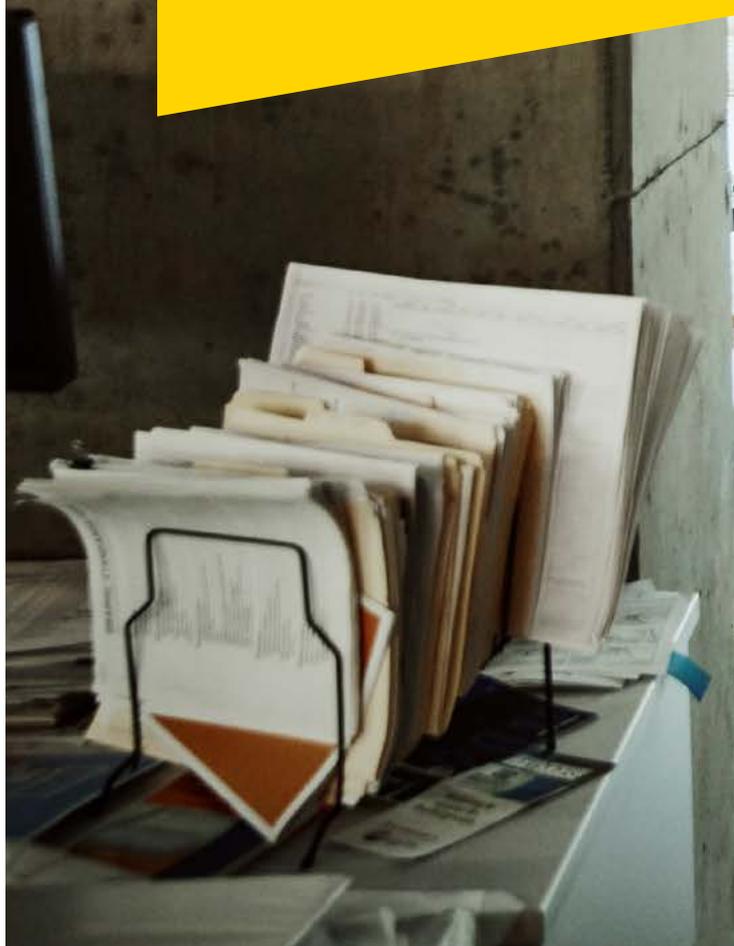
The 2022 EY Tax and Finance Operations Survey was conducted by Euromoney Thought Leadership Consulting from September to November 2021. The survey gathered insights from 1,653 executives around the world to understand how tax and finance functions are being affected by change. EY was not identified as the sponsor of the survey.

Participant profile:

1,653 senior tax and finance executives

12 industries

42 jurisdictions





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