



Chief Tax Officer Outlook

**Top-of-mind issues for tax
leaders — sixth global edition**

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Never before has the tax department played such an integral role in the success of the business. Chief tax officers (CTOs) and other tax leaders are expected to align tax with business goals, drive strategic value, increase transparency and improve the efficiency of tax operations. This publication is designed to highlight top-of-mind issues for tax executives and the ways tax leaders are addressing these opportunities and challenges.

Topics addressed in this edition¹

- **The evolving role of the CTO**
- **The tax department of the future:
Transforming tax workforce models**
- **Global tax: Navigating cross-border confusion**
- **Tax risk management: Transparency matters**
- **Intelligent automation:
Not 'if' but 'where' and 'how'**
- **The shift towards taxes easiest to collect and
the impact on technology**

¹ This report was first published as 'Chief Tax Officer Insights' by KPMG LLP in the US, a limited liability partner and the US member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"). In its current form, the report has been expanded upon to provide a global context and address audiences in addition to those in the US. As with the original report, the information throughout is based on discussions between KPMG professionals and CTOs, as well as with government contacts.



The evolving role of the CTO

Businesses and regulators are demanding quicker and more streamlined tax reporting. Tax compliance is becoming more complex, especially for global organizations. The tax function is being called on to provide upper management with data-driven insights that inform broad, strategic business decisions. The regulatory environment has gained unprecedented attention by the mainstream media.

In light of these forces, the role of the CTO, and other tax leaders, is evolving significantly.

In this edition of *Chief Tax Officer Outlook*, we examine the changing expectations on, and responsibilities of, the CTO and other tax leaders in today's high-stakes tax environment, including how they add value to the business, prepare the business for potential legislative changes and size and staff the tax function in light of the current economic environment.

Adding strategic value

Tax has shifted away from solely a back-office function. As organizations recognize that more data and more insights are critical to achieving a competitive advantage, the role of the CTO has changed. CTOs and other tax leaders now have a seat at the leadership table and are increasingly involved in significant organizational decisions. After all, tax and finance have a pulse on key performance indicators that can help business leaders see around the corner, avoid surprises and prepare strategically for what's ahead.

One way CTOs and other tax leaders are adding strategic value to the business is through modeling activities. Whether the business is anticipating a new regulation, a geographic expansion or a merger or acquisition, tax modeling can help leadership prepare for any kind of outcome.

Another way is by integrating with the broader leadership team. Although it takes time to earn the trust of leadership and understand the business well enough to provide insights that make an impact, the CTOs and other tax leaders we work with say they are making headway. Many are making a point to meet with senior management to demonstrate that they are not 'just tax people'. They often focus conversations on educating leaders on the business impact of current, top-of-mind tax issues, remind them of how tax is helping to grow the business or add value in other ways, such as through tax savings.

CTOs and other tax leaders say it is very important to find effective ways to communicate what business leaders need to hear. That might mean presenting on specific, timely topics — such as US tax reform — directly to the CEO and COO rather than solely financial management, as has historically been the case.



Questions to consider

- How do you measure results and clearly articulate the value the tax department brings to the organization?
- Which aspect of current tax reform proposals (e.g., rate structure, denial of net interest expense deduction, expensing) would have the greatest impact on your company?
- Are you considering intelligent automation technologies to cope with shifting department sizes and increased expectations?

Sizing and staffing the tax function

With many organizations exercising caution in spending given a new administration in the White House and an uncertain global economic outlook, many tax functions are facing budget cuts. Yet as downsizing occurs, tax is also expected to do more. As a result, CTOs and other tax leaders are challenged to rethink how tax performs its duties and garner support for the department among leadership.

To cope with shifting department sizes coupled with increased expectations for performance, many CTOs and other tax leaders are turning to intelligent automation technologies. Technology has long been prevalent in the tax departments, but today's digital labor tools are much more powerful than the software and systems of even the recent past. They enable CTOs and other tax leaders to bring together masses of data for faster, deeper analyses of tax positions while also streamlining basic and routine tax processes, thereby eliminating the need for some staff roles and enabling tax professionals.

Given the vast complexities involved in automation projects, it is no surprise that many fail to achieve expected results. However, a clear strategy, combined with careful alignment of skills, support tax technology automation success.

The tax department of the future: Transforming tax workforce models

Today, tax has a vital role to play in everything a business does, from managing risk to driving growth. As compliance demands increase across the world, tax activities are being placed under a microscope by the public, the media and authorities. At the same time, tax teams are continually embracing ever-advancing technology, from data analytics to intelligent automation.

Clearly, the tax function is changing dramatically. So must its people. Good talent is as important as ever. But faced with new responsibilities, capabilities and operating models, tax departments require new skill sets and approaches to meet the organization's tax needs.

What does the tax department of the future look like?

From an organizational standpoint, most tax leaders believe tax specialists should collaborate closely with the rest of the organization, even outside of finance. Forming productive and mutually beneficial relationships with many different functional groups enables tax to better understand and support the business strategy, while gaining both the respect and opportunity to contribute their unique perspectives to important business decisions.

Tax leaders take different views on outsourcing. While it is a clear way to save on headcount, they are challenged to effectively leverage outsourcing models, especially when dealing with multiple service providers. Strong internal oversight of external workers — especially those handling sensitive data or working directly in the company's systems — is essential to maintain control of processes and information.

Many CTOs envision a more centralized tax function that relies less on outsourcing and more on local staff and contract workers supported by new technology. But augmenting the work of tax professionals with technology is a complicated matter.

For one, some workers fear they will lose their jobs to automation. CTOs use a variety of strategies to get buy-in for automation projects, including demonstrating how people will actually benefit: They can spend less time on mundane tasks and more on interesting, high-value work. They also emphasize the risk to the organization of getting left behind.



Questions to consider

- Do your tax professionals possess the business skills and perspectives necessary to deliver valuable insights up the chain? How can you help them develop better business acumen?
- How has the adoption of new technology affected your tax department staff? Do your people require new skills to realize the expected return on your technology investments?
- What tax processes do you outsource and what do you keep in house? How do you maintain control and oversight of multiple service providers?

Global tax: Navigating cross-border confusion

The global campaign by the Organisation for Economic Co-operation and Development (OECD) to address base erosion profit shifting (BEPS) continues to occupy the attention of tax leaders of multinational companies. The sweeping initiative — designed to increase transparency and fairness — is in full swing. Across the world, tax policies are evolving, scrutiny on international transactions is increasing and structures are changing.

However, when and how multinational companies should respond to specific recommendations remains uncertain and will likely vary significantly from one country to the next.

One noteworthy development adding to the complexity already surrounding BEPS reform relates to taxation of the digital economy. A core focus of BEPS is to overhaul international tax rules to better fit today's hyper-connected, global business environment, in which masses of income is generated online. Certain BEPS provisions already attempt to tackle the tax challenges of digital businesses and business models. In fact, nearly all European Union member states have signed a multilateral instrument (MLI) to implement measures to tax digital profits "where value is created," regardless of whether a company has a brick-and-mortar presence in that jurisdiction.

However, seeking a short-term solution, several countries have proposed an equalization tax on turnover of digital activity — a tax on all untaxed or insufficiently taxed income generated by internet-based businesses. This proposal is putting pressure on the OECD to take measures to address digital taxation more holistically.

Such a move would raise a number of questions. For one, given the fact that the MLI is itself a treaty, what will be the legal ramifications if countries try to enact their own measures? Secondly — and perhaps most importantly — what will be the scope of digital taxation laws, in individual countries or across the international tax landscape? KPMG believes rules could emerge that are much broader than regulators, governments, or companies anticipate, potentially leading to uncertainty and potentially double taxation that could drive away business investment in certain jurisdictions.

Another BEPS-related challenge is country-by-country (CbC) reporting, which requires large multinationals to file financial information by jurisdiction on their annual returns. Tax executives are struggling to understand how to craft their narrative as well as how much information to reveal. The concern is over what tax officials in foreign countries might do once information is shared. Some tax executives feel it critical to control their story and keep their information confidential.



Questions to consider

- As BEPS continues to unfold, how will your organization adapt to the changing legislation ahead?
- How does your organization participate in the digital economy?
- Do you understand the impact of proposed digital taxation rules on your structure and profits?
- How will you ensure sensitive information remains confidential in your tax reporting?

Tax risk management: Transparency matters

Financial. Legal. Operational. Reputational. Risks can come from anywhere and everywhere. In fact, executives describe the nature of tax risk in business today as “the butterfly effect” come to life. For example, an error on a routine statutory filing in a small city in India can morph into a major regulatory action affecting the entire Asia Pacific region.

In this high-stakes environment, it is imperative that tax executives have the knowledge, skills, tools and perspectives to quickly assess risk and adapt the tax function’s strategies and processes to manage and mitigate it.

Success requires tax executives take on an increased role in risk management. Every CTO approaches this new calling slightly differently, but most agree transparency — with employees, business stakeholders, tax authorities and the media — is critical.

Consider one of the major areas of concern for tax leaders in today’s always-connected age: managing internal risks, such as information leaks. When it only takes a split second for information to spread virally across a 24/7 news cycle, the stakes for managing such internal risks are sky-high. Although internal controls — such as subjecting tax decisions to multiple reviews — are an important element of tax risk management, they can only do so much. Once information gets outside the company walls, it can quickly escalate out of control. In fact, some CTOs believe audits and other disputes are even more difficult on their companies due to what tax officials read in the press.

In response, some tax executives are taking steps to keep employees better informed of the company’s overall tax strategy, how it aligns with the overall business strategy and the reasoning behind significant tax decisions. When even the tax professionals at the very bottom rung of the organization have a good view of the big picture and open lines of communication with senior leaders, there should be fewer concerns and mistakes all around. When an issue does arise, tax leaders who address it openly and directly, rather than hoping it will just resolve on its own, can typically lessen the impact.

In the event a damaging leak does occur, many tax leaders are seeking closer collaboration and involvement with the company’s public relations teams than they have been in the past. Some see a close relationship between the CTO and the head of PR as the new norm, rather than the exception to the rule — a necessary step to protect the company’s reputation.



Questions to consider

- What is your tax department’s role in managing business risk? Does your team have a larger role to play?
- What are the most significant tax risks your organization faces? If you are not aware, how can you get a better handle on them?
- How does your organization manage the risks associated with the information age? Is doing the same old thing enough anymore?

Intelligent automation: Not 'if' but 'where' and 'how'

Technology has long been a crucial piece of tax operations. But today, the emergence of a new class of innovations that can automate and augment human work is reshaping how the business of tax gets done. At KPMG, we categorize these powerful and exciting technological developments under the umbrella term, 'intelligent automation'.

With goals to ramp up analytic capabilities, streamline processes, reduce headcount, cut down on manual errors or achieve a host of other potential benefits, many tax departments are embracing intelligent automation tools with increasing speed.

Automation capabilities are being applied in a variety of areas. Some tax teams leverage software bots to clean up and consolidate data from multiple systems and automatically build returns and send payment requests. Others implement automation tools to streamline the indirect tax compliance process or to reduce the work demands of year-end processes by taking over manual tasks, such as loading data into tax software. Many CTOs see a big opportunity to implement automation in developing countries, where tax compliance demands have increased but there is a lack of skilled workers to accurately complete the necessary work.

Approaches to the automation strategies vary. Some CTOs opt to implement a single piece of enterprise-level software. Others leverage a spectrum of laptop-based automation tools that allow tax professionals to create their own micro-automations. And still more outsource low-level compliance work to robotics groups in other functions, rather than developing the same capabilities in the tax department.

Securing funding for technology projects, including process automation, is an ongoing challenge for tax leaders. Investment in projects is often determined by two factors: 1) budget constraints and 2) how the value of tax is measured by the CFO and CEO. Many CTOs say they have a leg up in budget discussions because their technology spend requests often pale in comparison to those other departments, while the expected return on investment is far greater.

Secondly, tax executives often face staffing challenges as the department gains new technologies. The tax professional role has evolved in the digital age. The best tax people today are those who are proficient in both tax and technology—and not just one technology, but working with a variety of tools that can change on a dime. It's a rare combination. Finding formally trained tax technologists in the job market is difficult given the high level of competition for these resources. And existing employees may have deep knowledge in one category but require training the other.

Tomorrow's tax teams will clearly look much different than today's. Tax leaders will need to carefully assess what skills the department will need in the future and how best to build a team that can truly add value.



Questions to consider

- What are the most compelling intelligent automation use cases in your tax department?
- What technological, organizational or people hurdles do you face to put intelligent automation to work?
- What are the risks to the organization of not implementing intelligent automation in tax?

The shift towards taxes easiest to collect and the impact on technology

Today's rapidly changing tax, regulatory and business landscape is intensified by technological disruption and increased public scrutiny, and the impact on the business world is profound.

In the world of tax, these trends manifest in different, but equally disruptive ways, including heightened emphasis on data analytics, technology and digital transformation, and generally, a global shift amongst tax authorities in regards to complex corporate taxation collection, with countries generally shifting to prioritize easier-to-collect taxes, leveraging technology. This shift marks a new paradigm for tax leaders worldwide.

"In terms of statutory corporate tax rates, the sky has literally been falling for 3 decades; and the pace at which they are falling is significant," said Tim Gillis, Global Head of Tax Technology and Innovation at KPMG International on stage at a recent tax technology event held in Hong Kong. He traced the shift back to 2000, when 21 countries had corporate income tax rates that were in excess of 30 percent.²

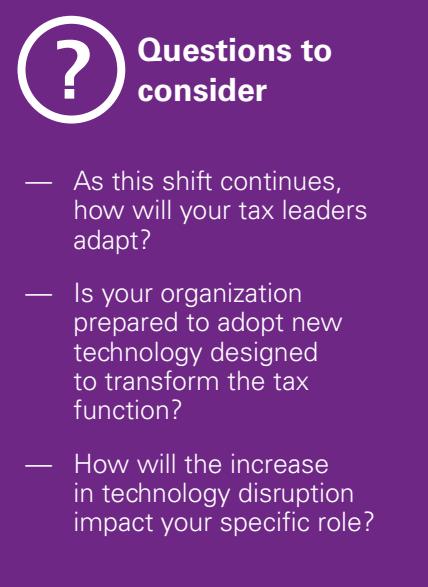
At the time Tim was speaking, only five countries had corporate tax rates in excess of 30 percent, and with the implementation of US Tax Reform, there are now only four. "When I was in law school in the late 80s, the average rate was 43 percent amongst the OECD countries," said Tim. "That rate has now declined to 24 percent, which leads me to believe that I have seen the high water mark for corporate income tax in my lifetime."³

What does this shift have to do with technology and the transformation of the modern tax function?

In 2016, the OECD released five publications dealing with technology in the tax administration function, bearing titles like *Tax Technologies for Better Tax Administrations*, and providing data maturity models to help tax administrators evolve from basic to advanced in their use and deployment of technologies. From these publications, and the resulting policy shifts seen in certain major tax administrations since that time, it is clear that tax authorities are proactively embracing the power and potential of technology and analytics at many levels. The likely result is that tax administration and tax policy in the 21st century will be fundamentally shaped by how easy a tax is for authorities to collect and administer through technology.

In this context, for the tax function of multinational organizations, technology and innovation is increasingly the difference between a corporate tax function that is on the defensive, one that is simply keeping pace, and one that is proactively building a proud tax narrative — adding value inside and outside of the organization.

Regardless of where a tax function stands today in its technological evolution, there is pressure and opportunity to go further, and technology can help.



- As this shift continues, how will your tax leaders adapt?
- Is your organization prepared to adopt new technology designed to transform the tax function?
- How will the increase in technology disruption impact your specific role?

² KPMG International 2018 Online Rates Tool

³ <https://stats.oecd.org/Index.aspx?DataSetCode=REV>

Further information

For further information and resources, please explore these links or visit kpmg.com/tax. You might also consider attending an upcoming webcast or event designed to address issues of interest to tax leaders. As always, please feel free to contact a KPMG professional to discuss these strategies and tools or to speak about the tax issues you face today.



OECD BEPS Action Plan: Moving from talk to action in the Asia Pacific region



OECD BEPS Action Plan: Moving from talk to action in Europe



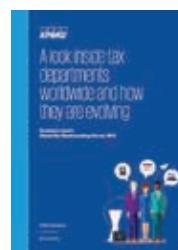
OECD BEPS Action Plan: Moving from talk to action in the Americas



VAT/GST treatment of cross-border services



Global assignment policies and practices survey



Global tax department benchmarking survey: Summary report



Global tax department benchmarking survey: Disputes special report



Technology revs up regulatory complexity and drives deeper data demands



Tax, data and analytics — moving from control to transformation



Global tax department benchmarking survey: Latin America special report



2017 Asia Pacific Indirect Tax Guide



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