



Navigating the forces of change in tax

Tax policy, artificial intelligence and talent

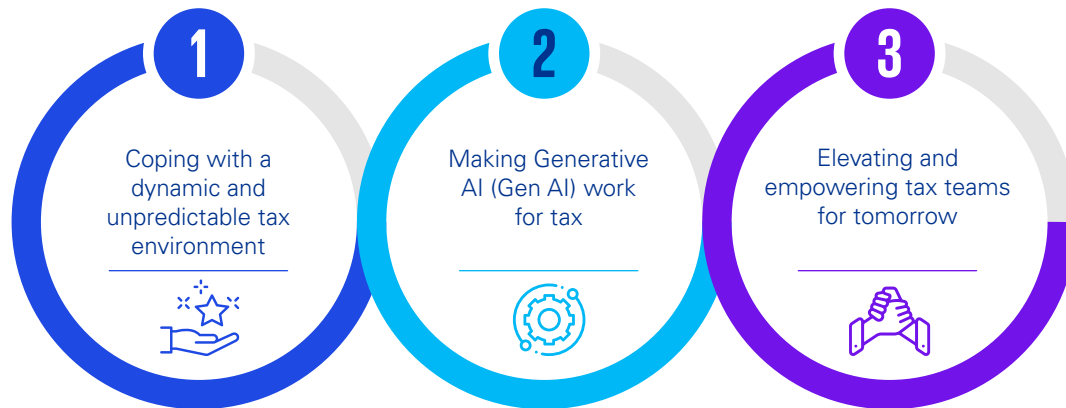
Executive summary



Strategic imperatives for tax leaders

The global landscape of tax policy and business practices is rapidly evolving, leaving many tax leaders uncertain where to focus their efforts for maximum impact. Externally, tax bases face threats from demographic changes, diminishing trust in governments, a shortage of tax talent and the global tension between tax cooperation and competition. Internally, tax functions are under pressure to cut costs amidst finance transformations and technological advancements, necessitating a strategic reassessment of priorities.

To navigate these challenges, tax leaders should focus on three key areas to help ensure organizational success.



Traditional tax operating models are under significant stress, requiring substantial investment and transformation to meet future challenges. This report analyzes these developments and outlines key actions for tax leaders to position their teams for success, emphasizing strategic adaptation, technological integration and talent development in the new global reality.



Coping with a dynamic and unpredictable tax environment

The global tax landscape is rapidly changing, with evolving regulations and world events creating challenges for businesses. According to the KPMG 2024 CEO Outlook, many CEOs believe trade regulations and regulatory demands will negatively impact their organizations. Companies are reassessing operations due to potential tariffs, rising energy costs, and complex tax regimes as governments seek to optimize tax revenues amid financial strains.

Digital businesses face unique challenges as governments aim to tax profits where they are generated, complicating traditional tax regimes. The rise of digital services taxes and potential US retaliatory tariffs necessitate adaptation. E-invoicing is crucial for VAT compliance, requiring accuracy to avoid disruptions.

Efforts to align international tax systems through BEPS 2.0 face uncertainty, with the US rejecting the OECD's Global Tax Deal. ESG taxes and incentives are increasingly used to drive renewable energy transitions. Tax leaders must integrate tax considerations into business strategies, focusing on data strategies and proactive engagement with tax authorities to manage risks and create value.

Key actions

- Collaborate with the C-suite to incorporate tax into business strategy, manage risks and optimize tax outcomes in new markets.
- Stay updated on global tax changes and use modeling to assess impacts, aiding compliance and strategic planning.
- Enhance data visibility and accuracy to meet compliance needs and leverage insights for strategic decision-making.



Making Gen AI work for tax

Gen AI is transforming tax functions by boosting efficiency and productivity, streamlining compliance and enhancing communication with tax authorities. It provides insights into the global tax landscape and helps with complex transactions, allowing tax departments to focus on strategic decisions.

However, challenges include concerns about AI accuracy, reliability and reduced human oversight. The KPMG 2024 Chief Tax Officer Outlook Study highlights that 49 percent of respondents worry about AI accuracy and 42 percent about decreased human oversight. Data privacy and security require robust safeguards, and transparency in AI processes is essential.

Tax authorities are increasingly using AI for compliance and audits, prompting organizations to adopt similar technologies. Today, Gen AI is primarily used to reduce routine task time, manage data, assist in research and improve compliance and risk management.

Key actions

- Ensure trust and security by using reliable data, strong controls and updating AI models with current tax knowledge.
- Combine Gen AI with traditional technologies to balance stability and innovation for comprehensive solutions.
- Collaborate across departments and with partners, using insights and initiatives like ideation competitions for transformation.
- Maintain human oversight for effective interpretation and ethical judgment of AI outcomes.



Elevating and empowering tax teams for tomorrow

The 2024 KPMG CEO Outlook highlights a demand for agile workforces, with most CEOs planning workforce expansion and skills development. However, there's a disconnect with the global mobility function which isn't involved in skills development. Tax leaders face challenges in acquiring capabilities amid geopolitical and technological changes, with recruitment and retention being major issues due to a scarcity of tax talent.

Younger tax professionals seek diverse experiences and flexible work, moving away from traditional paths. Gen AI is transforming tax functions, with many leaders seeing it as transformative and a supplement to talent needs. As AI automates tasks, tax professionals must focus on strategic thinking and change management.

To address the talent gap, companies are increasingly turning to outsourcing and co-sourcing for access to advanced technology and efficient tax compliance management. Service providers offer valuable technological skills, and many companies are planning to expand their use of these services.

Key actions

- Enhance the employee experience by redesigning roles and using telecommuting to boost performance, focusing on learning, team-building and cross-functional opportunities for engagement and retention.
- Adopt a blended workforce of full-time and gig workers to meet tax talent needs, with diverse experiences and training supporting growth.
- Prioritize investment in and adoption of Gen AI and technology capabilities when choosing third-party providers.

Transforming the tax function for the future

The tax function is facing significant transformation driven by AI advancements, the implementation of BEPS 2.0 and the talent challenge requiring leaders to address complex challenges. Geopolitical uncertainties, financial transformations and economic pressures are testing traditional tax models, prompting a reevaluation of resources, data quality and governance structures.

Tax compliance faces increased scrutiny as authorities use automation and data analytics to enhance audit and enforcement processes. Countries like Brazil, India and China are using advanced technologies to streamline compliance and improve audit capabilities, highlighting the need for organizations to ensure data accuracy to avoid penalties and maintain credibility.

Despite these challenges, tax teams can transform their operating models and enhance their strategic role. By evolving with other business functions, they can deliver greater value and position themselves for future success.

Key actions

- Redesign the target operating model with a focus on governance, process optimization, people capabilities, service delivery models, technology enhancements and performance insights.
- Create a business case with objectives and key results (OKRs) that measure and communicate the success of transformation efforts.
- Develop and refine tax governance by implementing responsible tax policies that align with ESG principles to enhance company reputation and reduce audit risks.
- Prepare for various future scenarios by building a robust risk governance framework to identify geopolitical risks.
- Highlight the tax function's dual roles as a compliance function and strategic business partner through key performance indicators (KPIs).
- Take an agile approach to tax transformation by experimenting with discrete operational areas and building on successes.

Making a world of difference

How KPMG can help

KPMG professionals can make all the difference on your transformation journey. We offer insights and specialized guidance to help you navigate these challenges, harnessing technology and innovative strategies to enhance your tax functions. By collaborating with KPMG, you can better align your tax strategies with overall corporate goals, ensuring that they not only comply with regulatory requirements but also drive value across your organization.

Together, KPMG professionals can help you define and build an ideal target operating model, improve compliance processes, engage in discussions around responsible tax, manage complex transactions, and add more value to the business and beyond. We are united by our values, governed by our Global Tax Principles, and driven by our purpose to inspire confidence and empower change by delivering the modern tax services and data-driven solutions needed today.

KPMG. Make the Difference.

Tax Services

With deep tax experience, industry focus and advanced technology, we help deliver results today and opportunities tomorrow.

AI in tax

Build and deploy responsible, ethical and fair Gen AI programs that create value across tax operations.

Tax Reimagined

Organizational tax transformation is complex. Transforming your tax operations doesn't have to be.

Digital Gateway for Tax

A single platform solution offering the full suite of KPMG Tax technologies for tax leaders' evolving needs.

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