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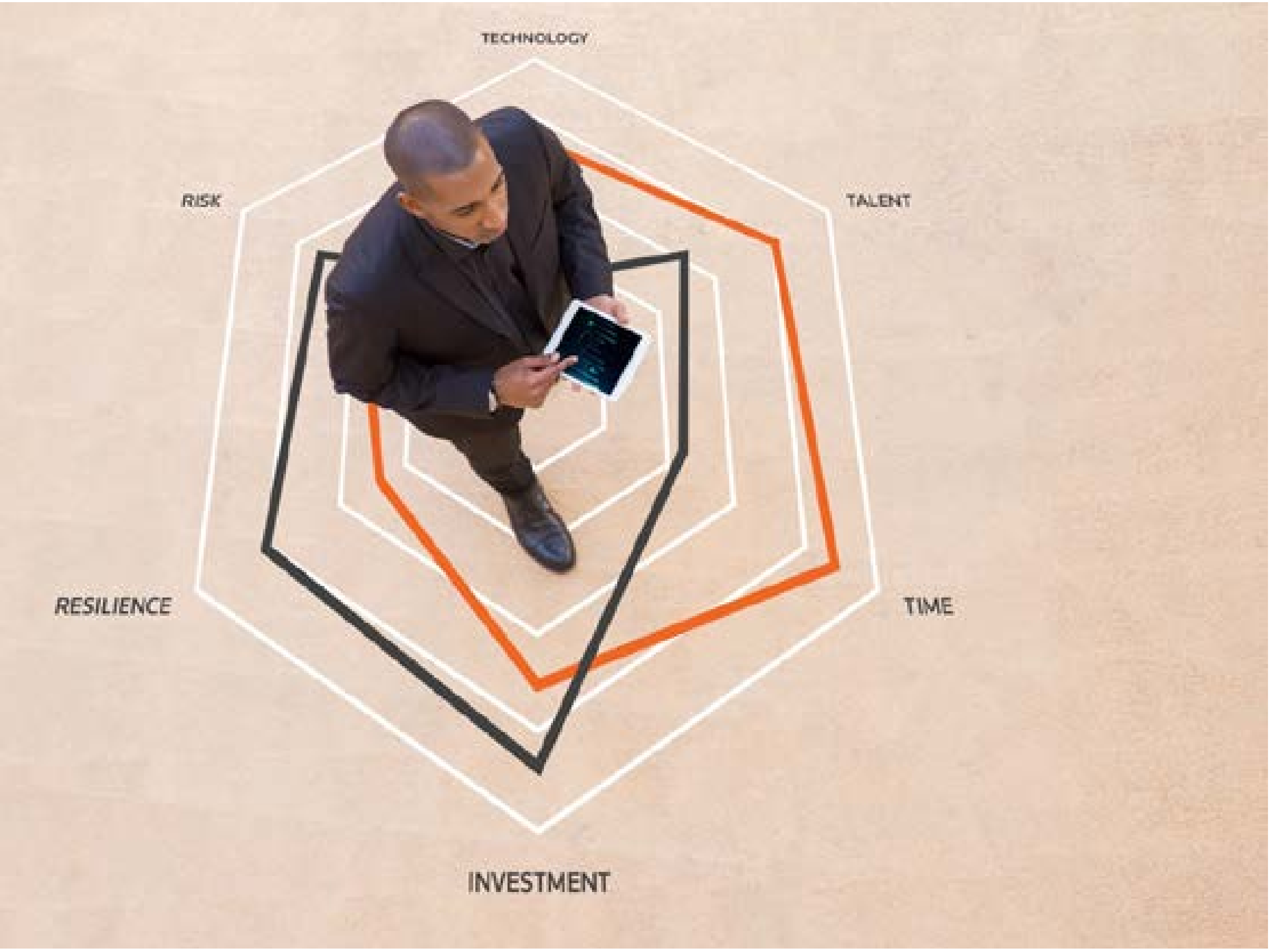

2021 State of the Corporate Tax Department

Transitioning to a Digital Tax Department

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EXECUTIVE SUMMARY

The results of the 2021 survey reveal that half of corporate tax departments feel under-resourced. Tax departments are dealing with the impact of the global pandemic at the same time as their usual business activity, which is under considerable change. Tax reform, specific tax workstreams, acquisitions, and macro-changes related to politics and the economy are typical examples of demands on tax departments which, collectively, put a strain on resources.

The most common strategy in place to address the resourcing issue is technology. This, in part, was validated by the survey finding that those tax departments with more technology-enabled operations (self-classified as optimized, predictive, or proactive) are more likely to feel comfortable with their resource levels.

Technology, when it is utilized, saves time, which in turn saves cost and increases the speed of turnaround. Tax departments with successful technology deployments also noted the reduced risk of errors, higher data accuracy, and improved reporting. Better organized data also provides more control and easier compliance. Unfortunately, these benefits are all too often not realized because many tax departments lacked the time, budget, and skills to effectively deploy technology.

Advanced technology skills are the single biggest skills gap within existing tax teams, and tax departments are struggling to find good tax people, in addition to those with technology skills. It is essential that tax departments have the resources to adequately train existing team members or turn to specialist tax technologists if the right skills cannot be found.

For those departments that have responsibility for indirect tax, which included half our sample, 57% were anticipating major government change, more specifically, digital filing or in some cases real-time reporting. Most survey respondents feel their departments are going to face significant challenges around technology, processes, and human capital, in order to comply with emerging rules.

The metrics being used by tax departments focus heavily on compliance, meeting deadlines, and the quality of data — very few metrics relate to the efficiency of the department. Perhaps if more departments look to measure the cost of tax operations by tracking the impact of streamlining and automating processes, there would be more data available that could demonstrate the potential of a more sophisticated approach to using technology. Indeed, this is something which in turn reinforces the return on investment (ROI) argument when it comes to securing budget for this technology.

It should not be overlooked that strained people start to become demotivated and can suffer from poor mental health over time. It was therefore concerning that 29% of departments said they are planning to rely even more heavily on their existing team to deal with their resource challenges. The report includes some useful benchmarks for different-sized companies, which may be helpful to see whether your team is in line with its peers. It is worth noting that the departments that felt right-sized were spending an average of between 10% and 20% more, relative to their revenue, than those that saw themselves as under-resourced.

The final section of the report focuses on *purpose* and how tax department leaders describe both their personal motivations and how their work impacts the broader society. Visiting this topic with team members can be a great way to understand people's personal motivations, which can highlight ways to raise engagement and foster a deeper team spirit.

"For those departments that have responsibility for indirect tax, which included half our sample, 57% were anticipating major government change, more specifically, digital filing or in some cases real-time reporting."

METHODOLOGY

During February 2021, Thomson Reuters' researchers spoke to corporate tax department and indirect tax leaders to understand the goals they were seeking to achieve and the challenges they faced. These in-depth interviews helped researchers to design a questionnaire that would form the basis of an online survey, which was distributed in March 2021. The survey received 821 high-quality responses.

This year, the survey responses were intentionally more global in nature, with strong representation across the U.S., Canada, the U.K., and Mainland Europe, with a small number (24) from the rest of the world. Within the report, the survey results are shown for the full sample with interesting differences by regions shown in the charts or highlighted in the commentary. We also look at other subgroups of the data and highlight where interesting differences apply — for example, different sizes of organizations. For year-on-year comparisons with the 2020 results, we only include the U.S. results from 2021, to ensure the sample base in consistent and that trends are genuine trends and are not just caused by sampling differences.

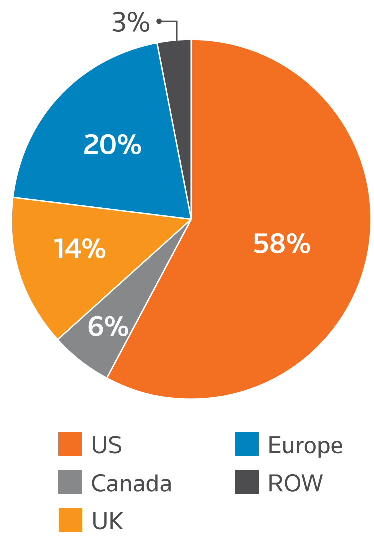
821

Web responses

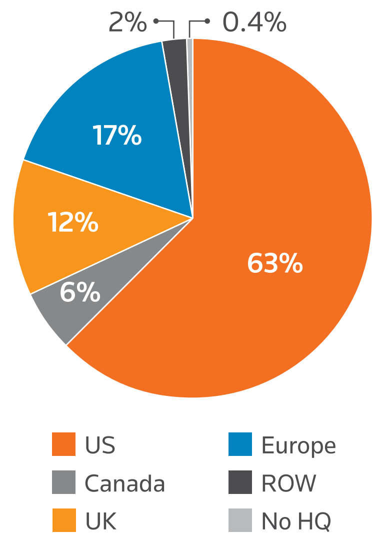
WEB SURVEY

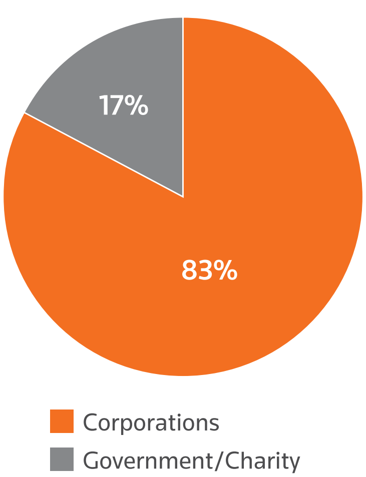
conducted in March

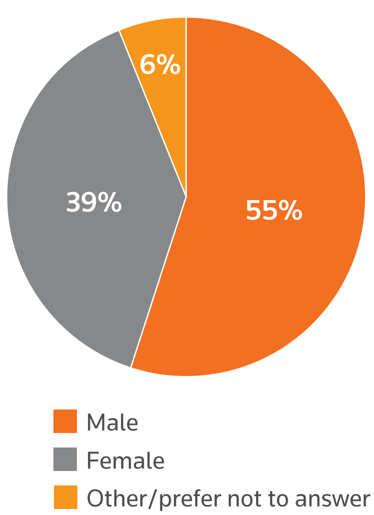
Organization HQ

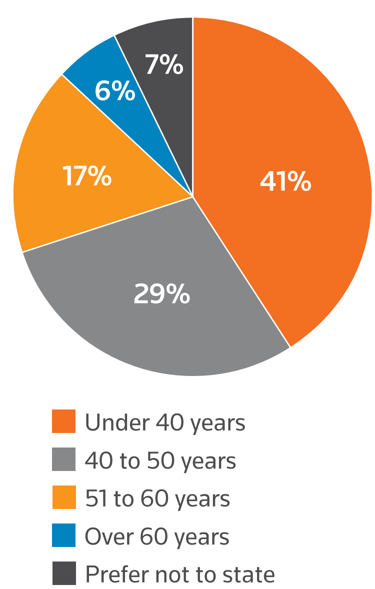


Tax Department HQ



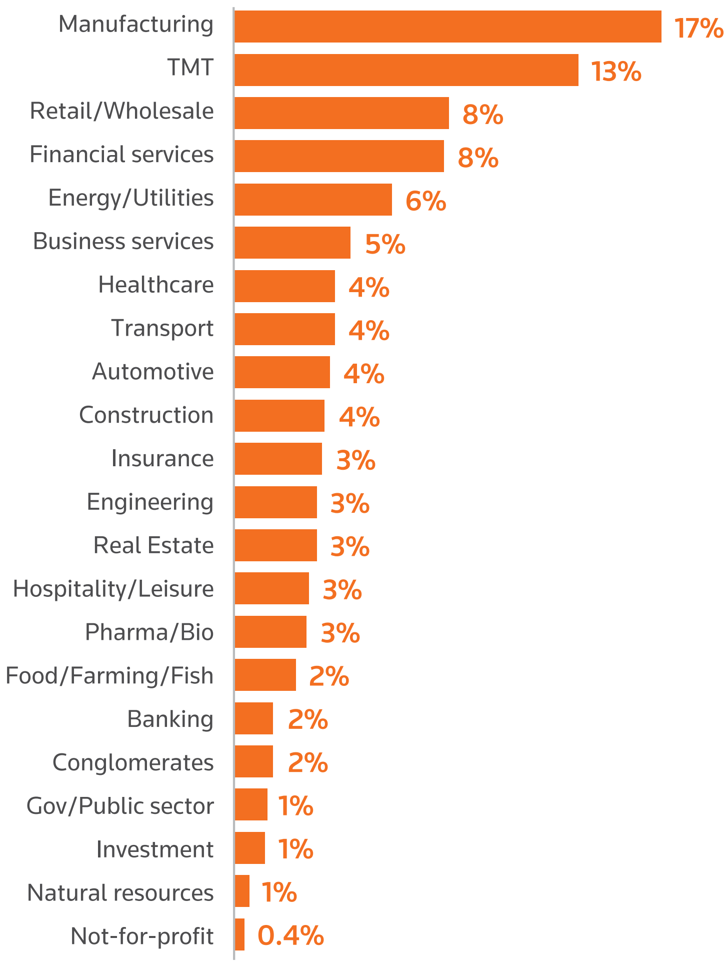






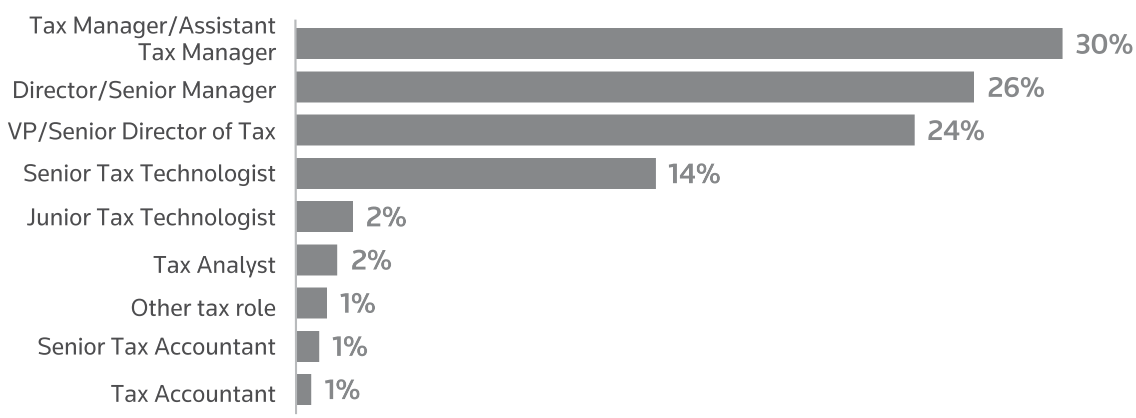
ROW = Rest of World

Sector



TMT = Technology, Media, and Telecommunications

Title of respondent



Thomson Reuters would like to thank the Tax Executive Institute for its support in providing respondents for the early in-depth interviews and allowing us to distribute the web survey to their members, which received fantastic engagement.

SECTION 1

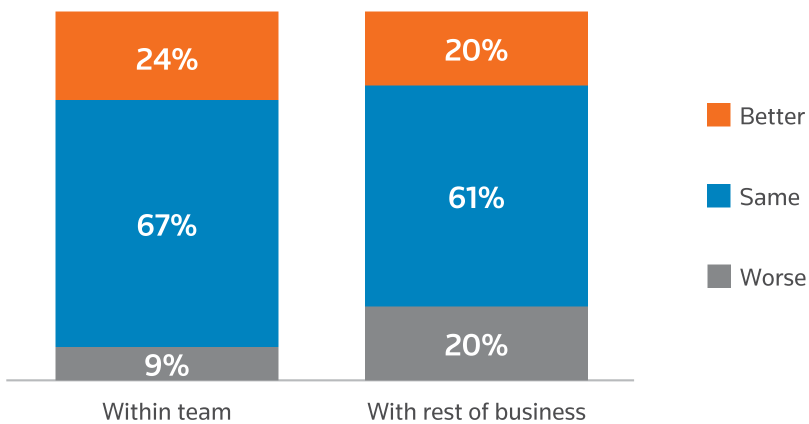
A year in review: The impact of COVID-19 on corporate tax teams

SPLIT OPINION ON WHETHER THE PANDEMIC HAS IMPACTED COLLABORATION

Although two-thirds of survey respondents feel the quality of collaboration stayed the same between team members during the pandemic, of the remaining one-third, twice as many feel the quality of collaboration had improved as thought it had deteriorated. Therefore, on balance, within teams, collaboration slightly improved.

Unfortunately, when it came to collaborating with the rest of the business, one-fifth of respondents feel collaboration had deteriorated, the same that had seen improvement. So, overall, no increase is seen.

Figure 1 – Quality of collaboration since the Pandemic

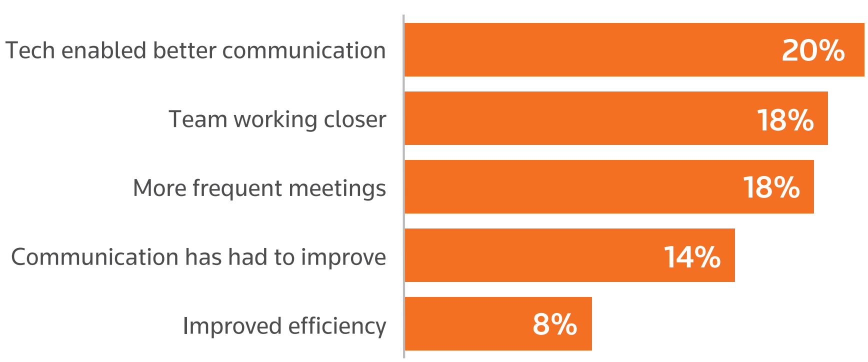


REGULAR, TECHNOLOGY-ENABLED COMMUNICATION IMPROVES COLLABORATION

For those departments that had experienced improved collaboration, there is a clear pattern in the comments that explain why. Improved communication led to improved collaboration; and one-in-five respondents note their department was leaning more heavily on technology like Microsoft Teams or Zoom. Whatever the format, more regular, more personal, and more efficient communication leads to better collaboration.

When thinking about why there may not have been the same increase in collaboration with the rest of the business, perhaps the same efforts have not been established as with the more immediate team, or maybe the structures are not in place for tax departments to maintain closeness to the rest of the business.

Figure 2 – Why collaboration had improved



TOP TIPS

- Revisit your communications schedule within your team. Are you building in sufficient meetings? Are the right people invited? Do you share agendas and background information in advance? Do you agree on actions during meetings? Are you allowing for informal relationship-building time or activities? Are you utilizing video conferencing technologies like Zoom or Teams?
- Revisit your communications schedule with the rest of the business and consider all the same questions.

SECTION 2

Strategic goals and challenges faced

Tax reform is cited as the most common challenge faced by tax departments in 2021, consistent with the results in 2020. Many tax departments are monitoring for further change ahead arising from new administrations across the world, combined with continued impact of the COVID-19 pandemic. Specific tax workstreams moved up to be the second biggest challenge cited in the survey.

New technology and automation projects, which were the second most common strategic priority in early 2020 and then took a back seat in our pulse survey last April due to the pressures of the pandemic, moved back into the top three. A reduction in tax liability, came in as the fourth most common goal, moving up to third for those with indirect tax responsibility and number one for tax departments in Mainland Europe. Priorities related to cost saving, efficiency, and process improvement round out the top five.

Four new challenges emerged in 2021 which are not mentioned in our pre-pandemic survey last year — all four pertain to the new and dynamic environments that we now all work within. These include keeping track of macro-changes (political and economic), generally coping with the impact of the pandemic, staying abreast of business changes, and enabling effective remote working.

Figure 3 – Global strategic goals and related challenges

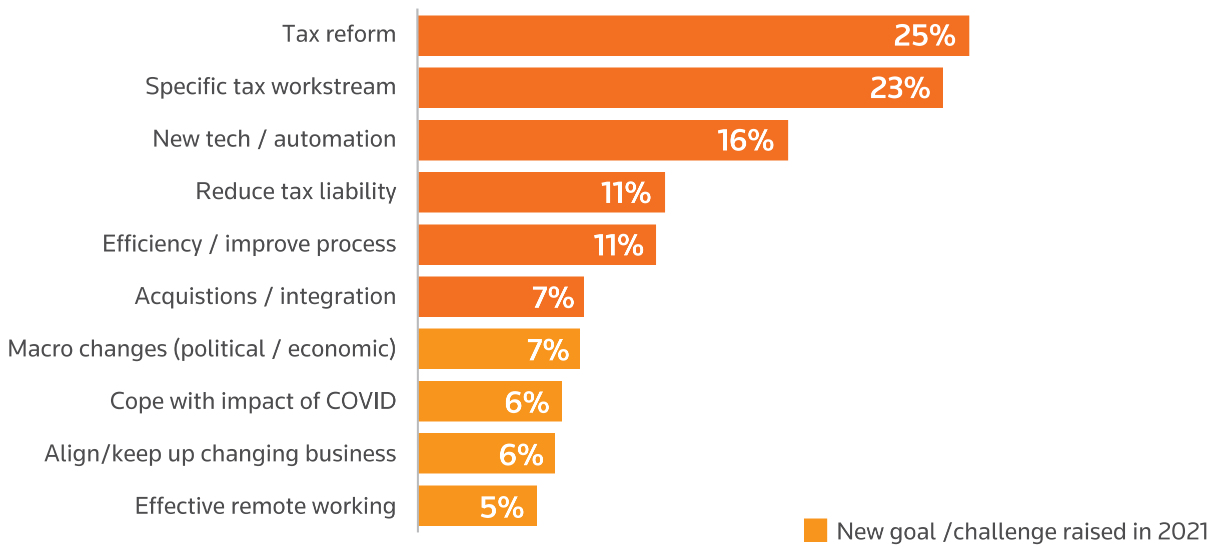


Figure 4 – Changes since last year

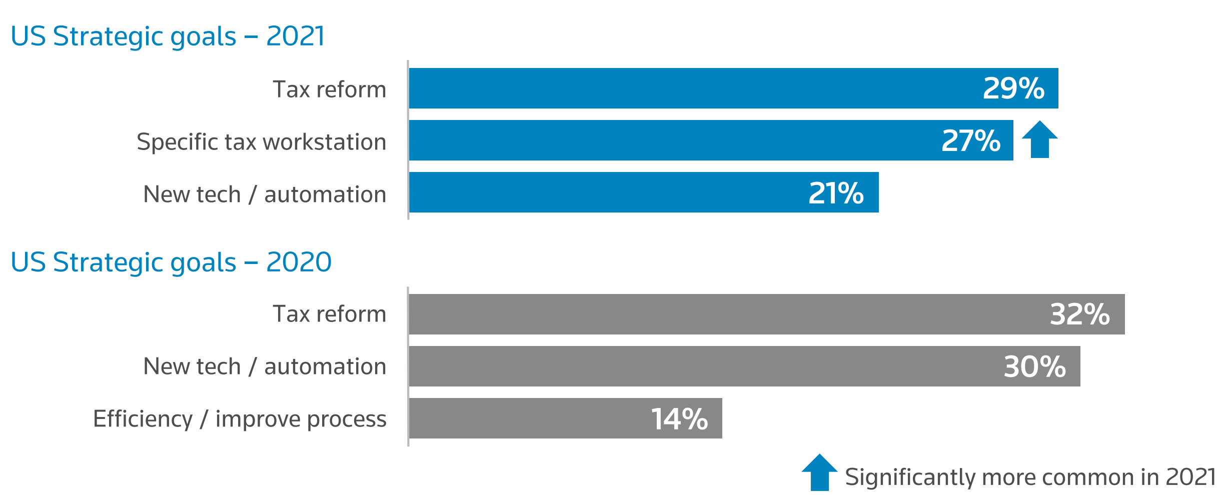
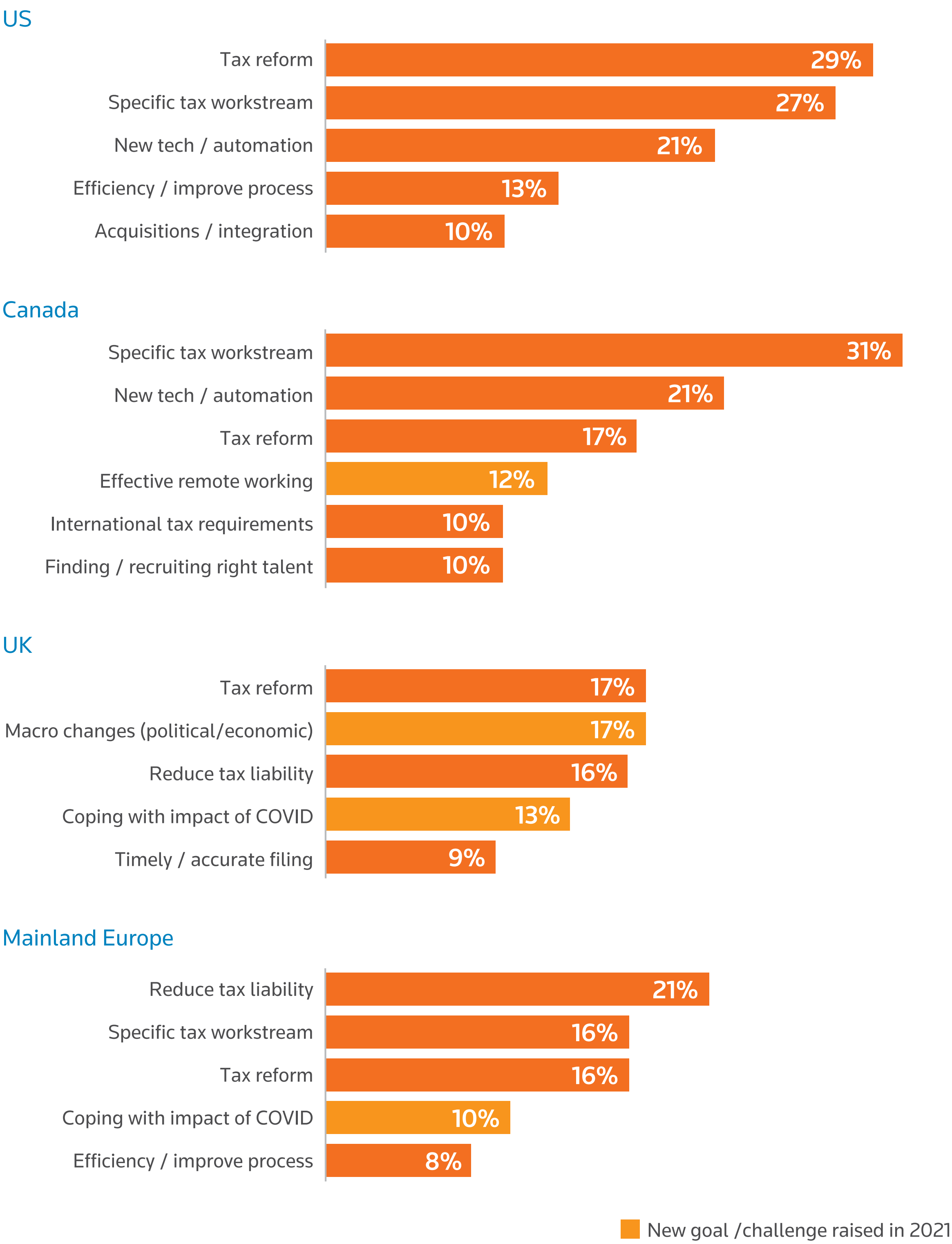


Figure 5 – Strategic goals by region



SECTION 3
Measuring success: A metrics framework

Virtually all tax departments utilize metrics to help them run their department successfully. The metrics are generally split into three themes — effectiveness, efficiency, and talent management.

PROVIDING AN EFFECTIVE TAX FUNCTION

The metric that stands out above all others as most useful to the largest number of tax departments is meeting deadlines/complying with tax requirements. Closely related is high accuracy or quality of work and completing work/filing returns. In other words, getting the work done, accurately and on time.

The next effectiveness metric relates to how much tax is being paid — for some companies this is measured by the effective tax rate (ETR), for others by the cash tax paid, and for others in tax savings. This is most likely to be a metric to minimize, but as scrutiny increases on large companies paying their fair share of taxes, there is arguably merit having this metric land in what is seen to be the lower end of a reasonable range.

The final metrics in the effectiveness bucket are penalties incurred or tax risks/exposures. This is clearly one to minimize as well, and one in which technology can play a key role in facilitating accurate and timely reporting.

"The metric that stands out above all others...is meeting deadlines/complying with tax requirements."

RUNNING AN EFFICIENT TAX OPERATION

In a similar vein to effectiveness metrics, there are many ways to measure efficiency. The most common is to see whether costs are in line with the budget — this is clearly an important metric to keep on top of, especially when implementing new technology or processes which may reduce costs and support a wider business case towards digitalization.

More detailed ways of measuring efficiency cited included tallying the number of hours to get work done and what proportion of these are normal hours as compared to overtime. This helps departments keep on top of people efficiency and build a case for the necessary recruitment required to minimize overtime spending and preserve the well-being of the team. How these hours would change with the introduction of different technology solutions is also a great way to show return on investment — particularly alongside any data that highlights accuracy improvements (reducing repeated work and potential penalties) or quicker turnaround times. It is useful to track how much work is supported by technology and how this measure increases over time. One last tech metric to consider is how many tax processes are currently being automated and how much of the tax data is integrated into one tax engine.

A couple of missing metrics perhaps, would be those that measure total spend (internal plus external) relative to revenue and the split of internal and external spend. If a department is able to access benchmarks, these two metrics should enable it to see if it's in a sensible range for its size and whether the typical balance of internal/external resources is in an optimal range. The survey suggests just 2% of tax departments report measuring external tax spend as a core key performance indicator (KPI), which is lower than expected.

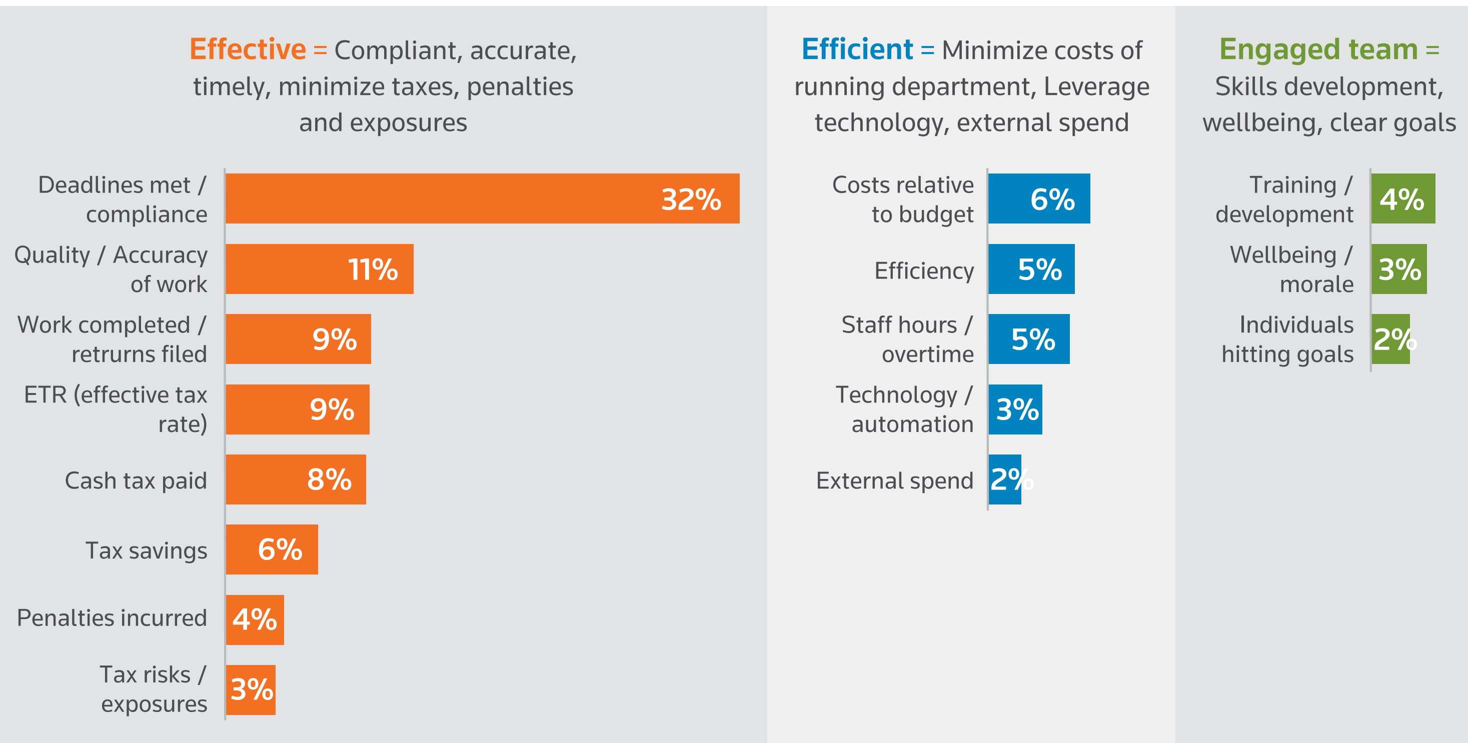
ENGAGING AND RETAINING TALENT

The survey shows that simply finding quality people was the biggest recruitment challenge, so it pays to look after existing team members well and help them maximize their potential within the organization. Only a small number of tax departments look to talent metrics to help their department be successful — and this is a missed opportunity.

Measuring investments in training and the development of new skills is the most cited talent metric, but by very few departments. This is closely followed by well-being/morale and individuals' performance against goals. Another metric to consider in this vein is the extent to which automation is freeing up key team members to focus on more strategic work, which both adds value to the department's outputs and generates improved career opportunities.

Overall, there are many metrics to consider, and those shown in the chart below are cited as the most important by survey respondents. Actual adoption of these metrics is likely to be higher.

Figure 6 – Measuring performance – most important metrics



USING BENCHMARKS TO PROVIDE GUIDANCE AND CONTEXT

Benchmarks are useful in five ways:

1. To provide evidence for budget requests
2. To measure progress over time
3. To compare your performance to peers
4. To compare performance between business units
5. To measure return on investment for specific initiatives

That said, it is worth noting that benchmarks can be misleading — particularly when measuring costs. Different organizational demographics can change the level of resources required; for example, larger organizations access significant economies of scale. There is not a linear relationship between the size of the organization and the tax budget required. Different challenges like extensive tax reform or real-time reporting requirements put a heavier demand on resources. The more sophisticated tax departments, which have integrated, streamlined tax engines, spend significantly more than their chaotic, reactive counterparts.

Therefore, benchmarks must be considered carefully, but they are an extremely useful tool. And it is critical for departments to optimize their value.

BENCHMARKS FOR DIFFERENT TYPES OF TAX DEPARTMENTS

In the table below, we offer benchmarks from our data to provide some context to your own efficiency metrics. It is worth noting that tax departments that consider themselves right-sized, spend between 10% and 20% more on internal and external tax work as a proportion of their revenue. Therefore, when reading the benchmarks for the different-sized organizations and the two industry groups, you should add a premium of 10% to 20% if you desire a right-sized, rather than average, benchmark.

Financial institutions spend nearly three-times as much as other industries, and a similar pattern is observed in legal spend.

The proportion of revenue allocated to the tax department decreases exponentially as the size of company rises, revealing the huge economies of scale.

A typical organization has 0.5 tax professionals for every $100 million in revenue globally, although smaller organizations have more, relative to their size. More than half (56%) of organizations also have at least one analyst or tech support role in their tax department, and a similar proportion have one or more administration or general support roles. Departments which did include one or more of these support roles are typically spending twice as much as those without.

All departments are spending a similar proportion of their internal budget on technology at around 15%. Bear in mind, that for right-sized departments, that means 10% to 20% more in value of spend than for the average department.

		Total spend as a proportion of revenue	Proportion of total spend that is exernal	Proportion of total spend that is internal	Proportion of internal spend that is on technology	Headcount – Tax professionals per $100m revenue globally
		Median	Mean	Mean	Mean	Median
Overall		**0.12%**	**44%**	**56%**	**15%**	**0.50**
Right-sized*		**0.14%**	**39%**	**61%**	**15%**	**0.60**
Industry	Financial institutions	0.30%	48%	52%	16%	1.20
	Other industries	0.11%	44%	56%	15%	0.47
Revenue	<$50m USD	1.00%	47%	53%	15%	n/a
	$50m-$1bn USD	0.28%	42%	58%	15%	1.20
	$1bn-$6bn USD	0.09%	48%	52%	16%	0.33
	Over $6bn USD	0.03%	34%	66%	13%	0.25

*Right-sized = respondent stated their tax department is neither under- nor over-resourced

SPEND ON TAX TECHNOLOGY

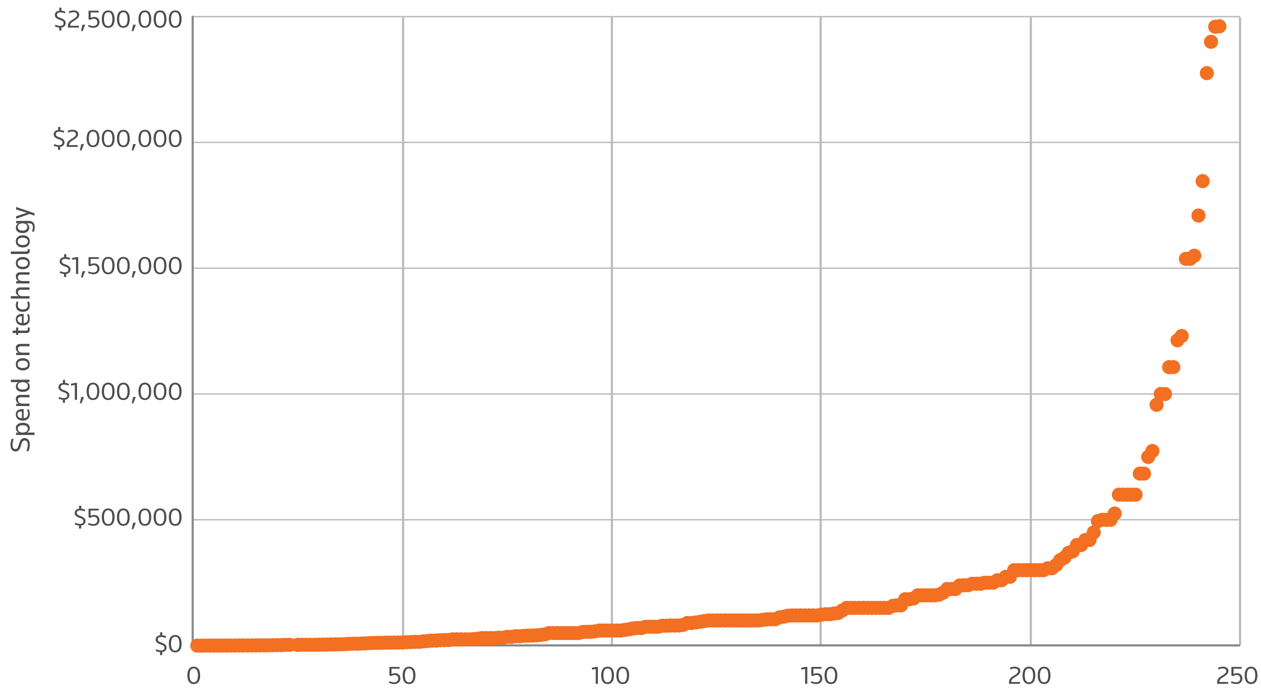
The typical department is spending $100,000 per year on tax technology. However, the range in spend was vast, with the highest being nearly $4 million and typically increasing in line with the size of the company. The chart below shows the majority of the range but excludes seven outliers.

Tax departments that described themselves as optimized or predictive departments spend an average of 20% of their internal budget on technology, almost twice the level of chaotic departments.

Figure 7 – Spend on technology by tax department

$100k

Median spend on technology



TOP TIPS

- Prepare or review a list of your functional goals and strategic priorities for the year ahead. For each goal, try to assign a metric which covers effectiveness (including risk prevention), efficiency, or talent management. Some goals may satisfy all three. Try to focus on metrics that deliver closely to the organization's goals and try not to have too many! It is useful to include some metrics that give you some meaningful benchmarks.
- Once the metrics are set, cascade these down to individual team members' objectives.
- Utilize the benchmarks within this report to check whether your department budget and team size is comparable to peers. Select the row that is most relevant to your size of company, and add 10-20% for a 'right-sized' benchmark.

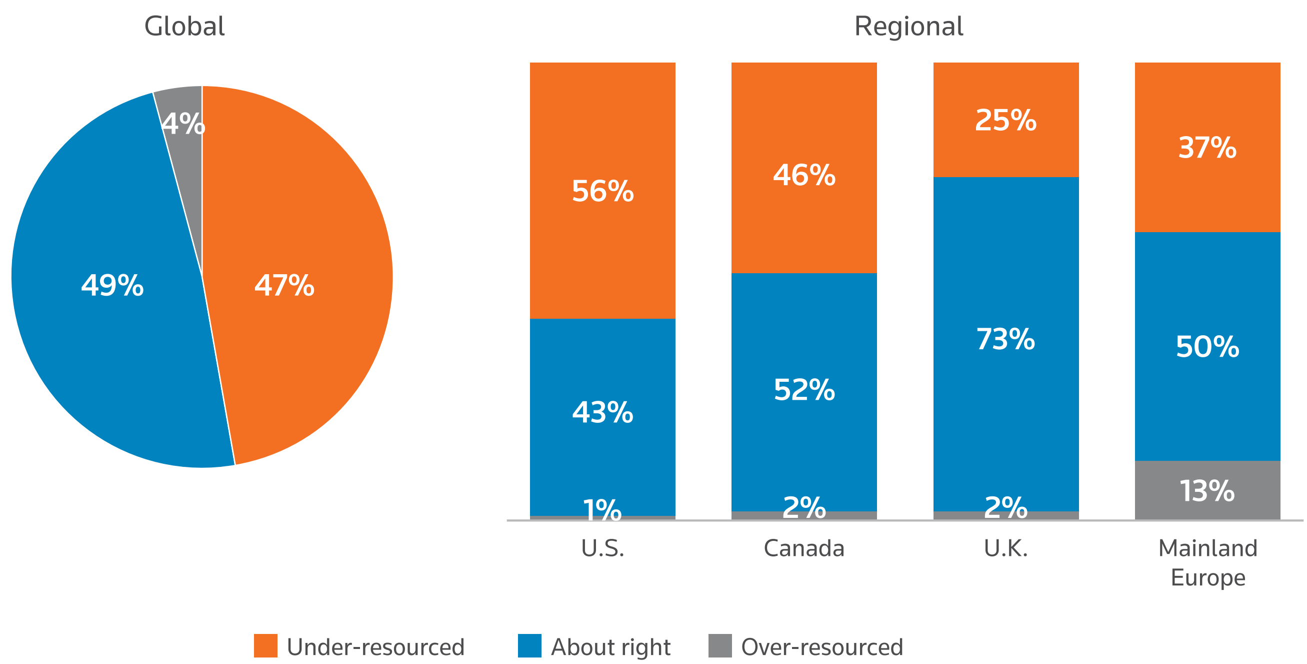
SECTION 4

Trends in resourcing

TAX DEPARTMENTS HAVE STRAINED RESOURCES

Nearly half of corporate tax departments report being strained from a resourcing perspective. The situation is worst in the U.S., where 56% of departments feel under-resourced, up 4 percentage points compared to the first quarter of 2020. U.K. tax departments are in better shape from a resourcing perspective, whereas those in Mainland Europe show a more mixed result.

Figure 8 – Perceptions of current resource levels



The analysis showed that under-resourced companies spend approximately 14% less, on average, than sufficiently resourced companies. The potential risks from a compliance, work quality, and talent retention perspective should be warning enough for departments to address this shortage, but a rightly resourced team may also be able to find further tax savings.

> *"Nearly half of corporate tax departments report being strained from a resourcing perspective."*

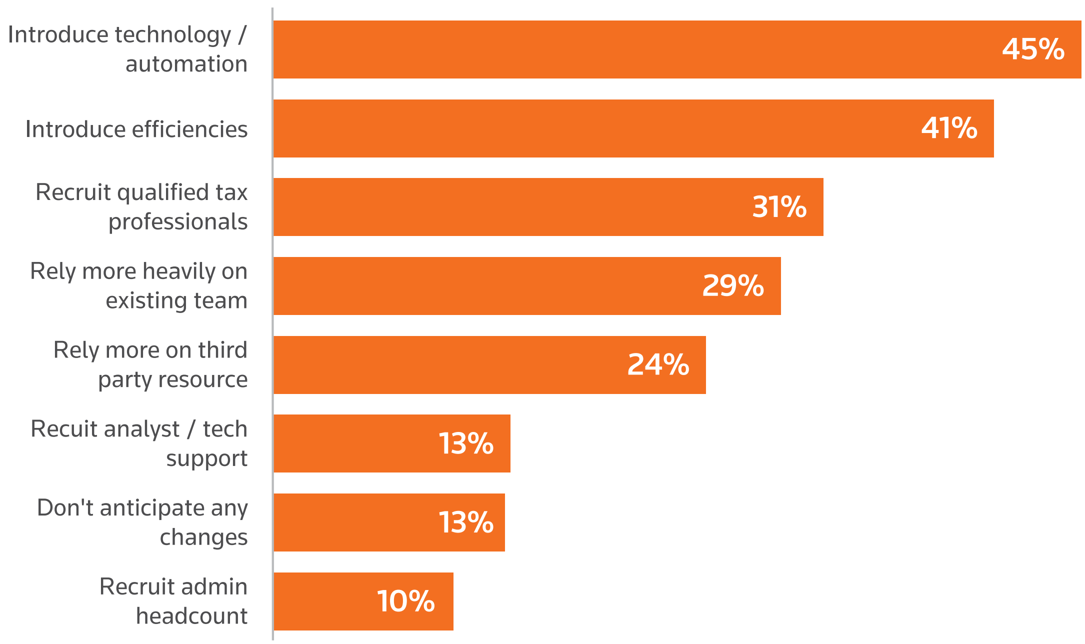
TAX DEPARTMENTS LOOKING AT MULTIPLE STRATEGIES TO ADDRESS RESOURCE GAPS

Throughout 2020, corporate tax departments said they employed multi-faceted strategies to address resourcing shortages. The most common strategy cited by respondents in every region is introducing more technology and automation. This strategy offers two immediate benefits: it enables existing team members to focus on higher value tasks; and it reduces human error, which is likely to increase when people are overworked. Survey respondents cited streamlining processes to create more efficiency next most often used strategy, which itself often goes hand-in-hand with new technology implementations.

From a recruitment perspective, nearly one-third of departments said they are looking to hire more qualified tax professionals, whereas only 13% are looking to hire more analysts or tech support. Interestingly to the latter point, the report notes that the biggest skills gap in tax departments relates to technology.

Just under one-third of respondents say they are going to rely more heavily on their existing team members and just less than one-quarter say they will look to external advisors to address gaps in either skills or capacity.

Figure 9 – Strategies to address resource gaps



> *"The most common strategy cited by respondents in every region is introducing more technology and automation."*

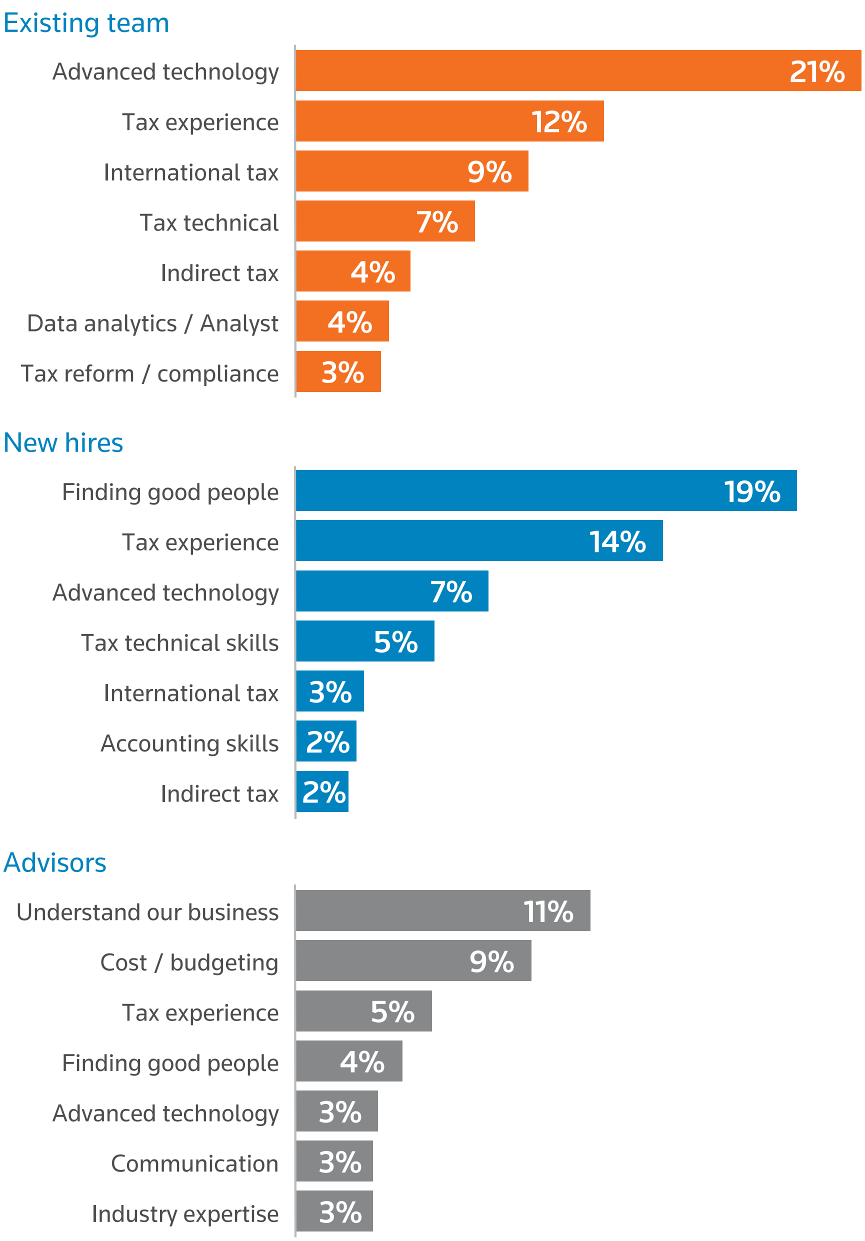
TECHNOLOGY SKILLS GAPS IN EXISTING TEAMS

When it comes to skills gaps, departments say that advanced technology tops the list for their existing teams. This calls into question the fact that more departments say they are looking to hire tax professionals who have technology skills, compared to those departments that are looking to embed pure technologists or analysts.

For new hires, the general quality of candidates on the market is insufficient, according to nearly one-fifth of departments. Further, 14% of departments say they can't find candidates with sufficient tax experience and 7% can't find candidates with advanced technology skills.

There were fewer skills gaps mentioned overall for external advisors, although 11% feel their advisors lack an understanding of their business, and 9% note a lack of cost and budgeting skills among their external advisors. Both of these frustrations came through when respondents were asked about weaknesses in external advisors last year as well.

Figure 10 – Technology skills gaps



GETTING THE BEST OUT OF EXTERNAL ADVISORS

Forty percent of in-house tax professionals said they felt able to call out an individual tax advisor that they considered to stand out from the rest. These exceptional advisors had an array of different qualities.

Stand-out tax advisors offer top-quality work and often have a distinct, deep specialism. They also are often praised for being approachable and friendly. Their human approach, being able to empathize with clients and form a more personal relationship, elevates these professionals into a trusted advisor status.

Service qualities were also important, including responsiveness, effective communication, and quick turnaround times.

Stand-out tax advisors also develop a good understanding of the client's business, so that they can put their advice in context. Closely related qualities include being practical and pragmatic and providing solutions that work for the company.

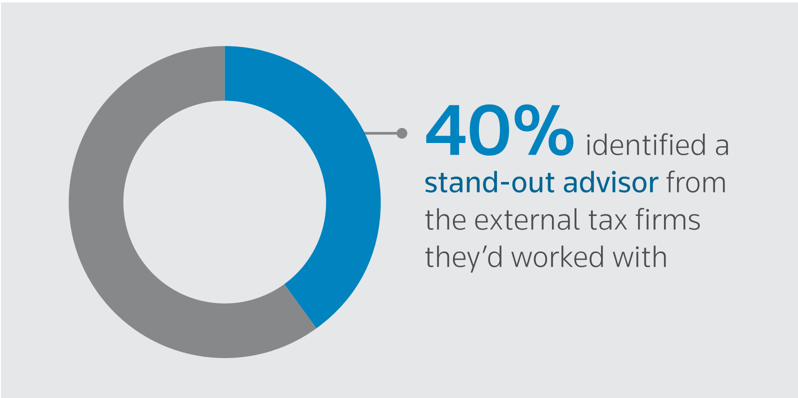
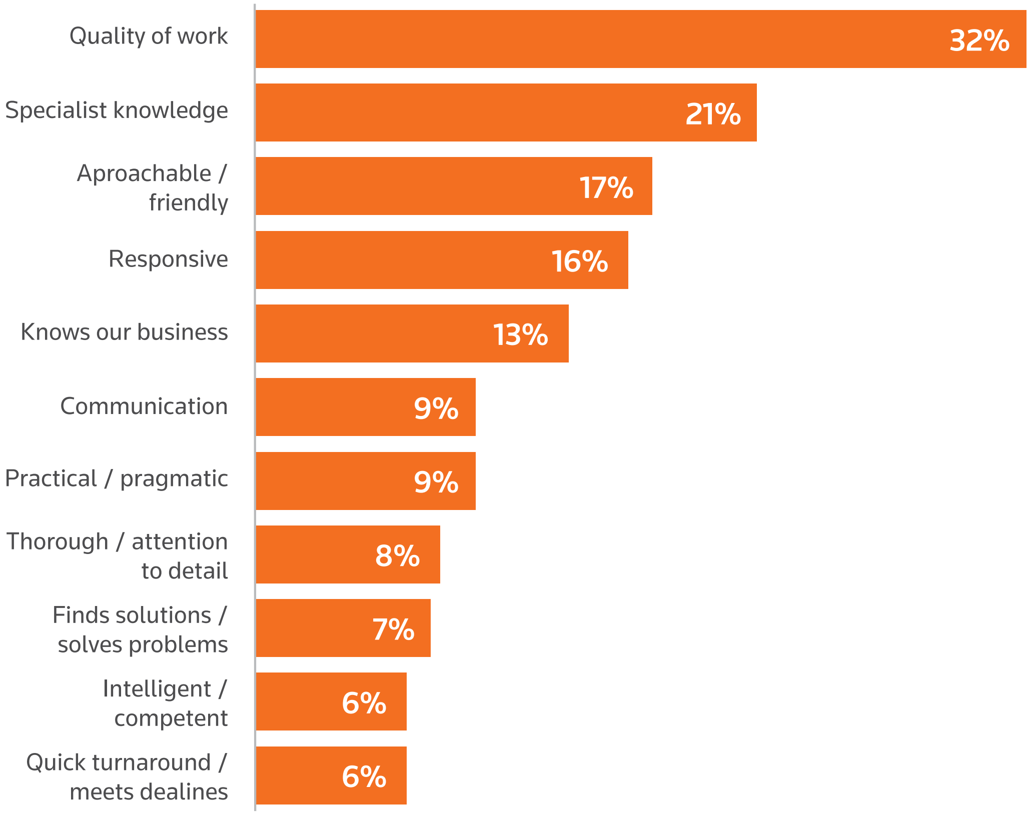


Figure 11 – Top individual qualities from the external tax firms they'd worked with



TOP TIPS

- Help your external advisors deliver exceptional service by providing them with information about your business and how you would like to be serviced. Spend time together, to see if more personal relationships can be formed.
- Measure your advisor's performance on these qualities and share the results with the advisor, providing examples of where improvements could be made. This will enable advisors to step up their game, and if they don't, departments could then consider a new provider and use these qualities to assess which ones will do the best job.
- Although these qualities are related to external advisors, the list also represents qualities that your in-house team should be demonstrating to your internal business colleagues. Are you supporting your in-house team with the right knowledge and tools to achieve this objective?

SECTION 5

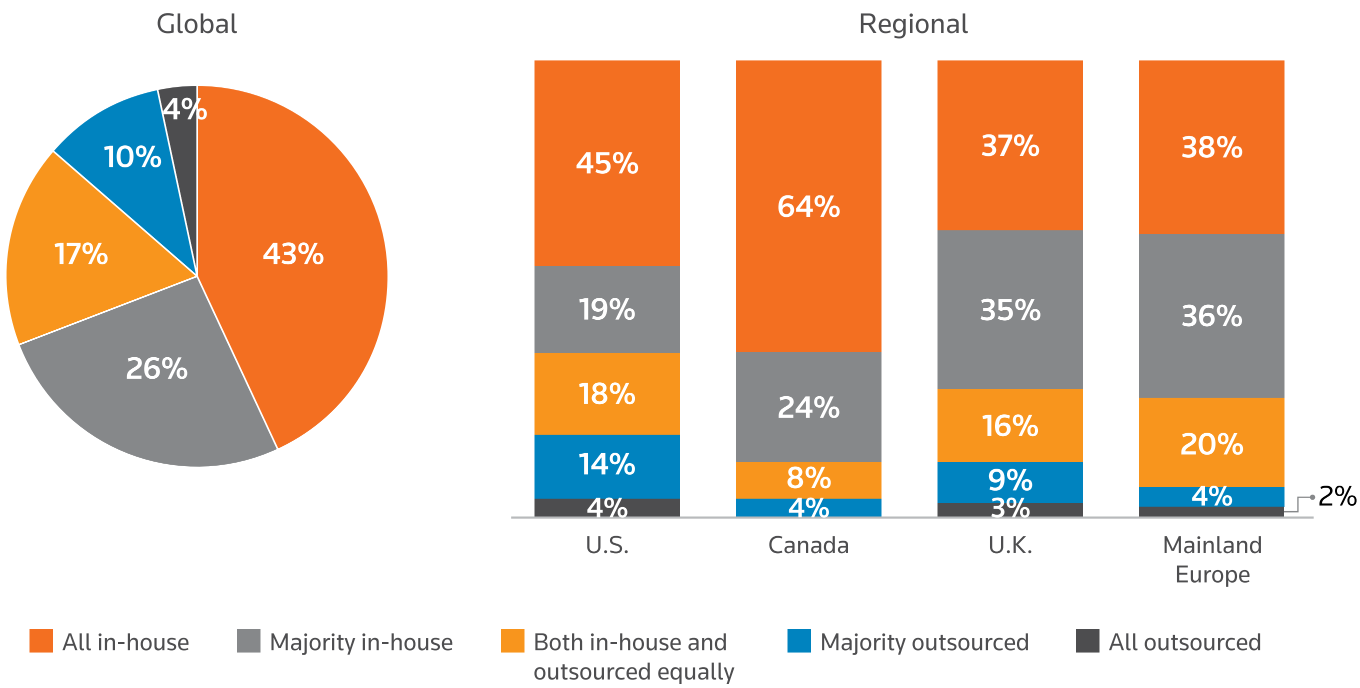
Special topic: Indirect tax and digital filing

Around one-half the representatives from tax departments who completed the survey had responsibility for indirect tax. These respondents were asked a series of questions relating to indirect tax resourcing and movement towards digital filing requirements.

MAJORITY RESOURCE INDIRECT IN-HOUSE

Seven-in-ten corporate tax departments say they resource their indirect tax work either 'predominantly' or 'completely' in-house. A similar pattern applies in each region, with very few Canadian tax departments outsourcing this work at all.

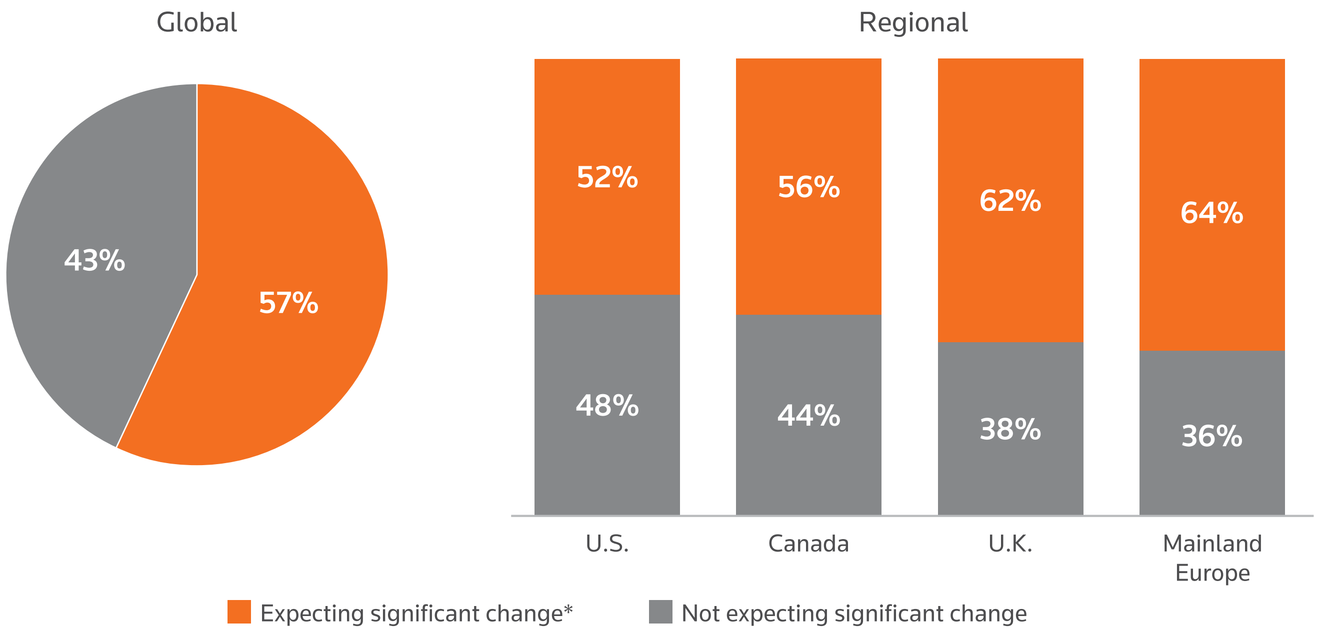
Figure 12 – Approach to resourcing indirect tax



DIGITIZED TAX FILING AND REAL-TIME REMITTANCE EXPECTED WITHIN NEXT 2 YEARS

Looking ahead one to two years, more than one-half of tax departments say they anticipate significant change to government requirements for indirect tax — more specifically, they expect increased digitized tax filing and real-time remittance requirements. The expectation for change is highest in Europe, with 64% of Mainland Europe-headquartered companies and 62% of U.K. companies expecting significant change, some of which is already underway.

Figure 13 – Expectation of significant change to government requirements in the next 1-2 years

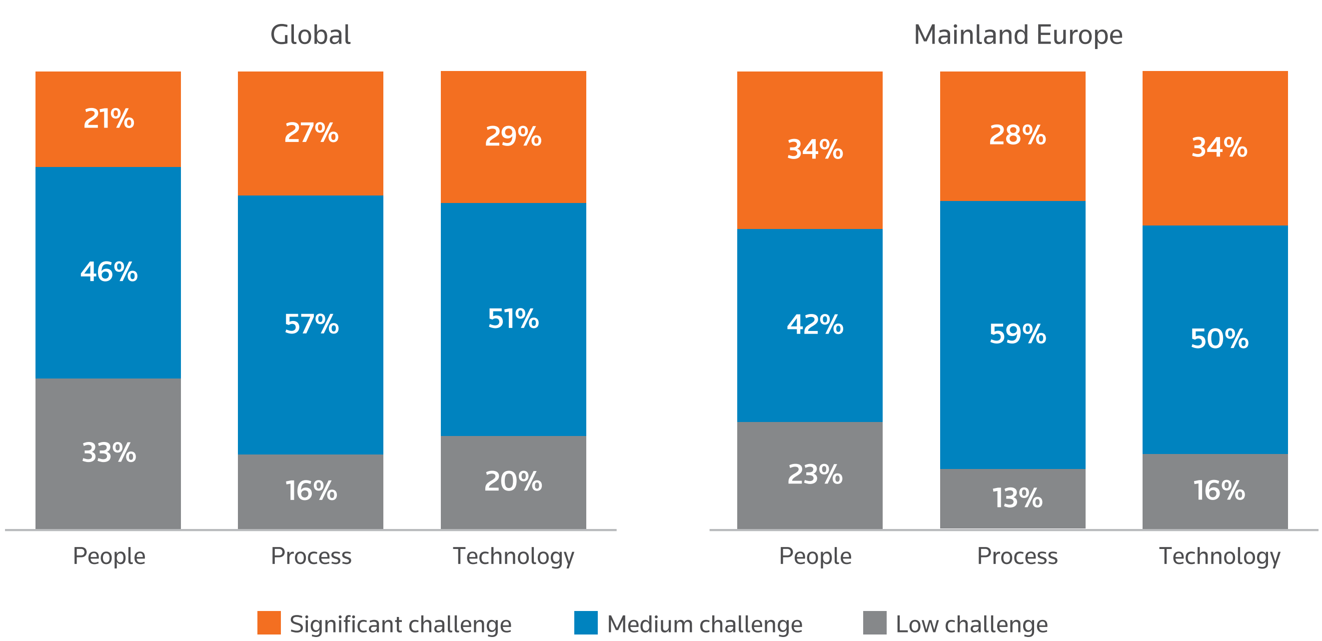


*Increasing digitized indirect tax filing and/or real-time remittance requirements

MAJORITY FORESEE CHALLENGE IN GETTING READY FOR NEW REQUIREMENTS

Most tax departments (80%) say that these expected changes in requirements pose a challenge, most significantly in relation to technology and process. Yet, nearly 70% say they also see talent challenges as well. For tax departments of companies headquartered in Mainland Europe, where change is already underway in many jurisdictions, the sentiment intensifies, particularly around the people challenges. However, most tax departments surveyed operate across multiple jurisdictions so dealing with many different sets of changes at different times. Clearly, there is significant work to do to comply with new government requirements for most tax departments.

Figure 14 – Level of challenge in people, process,and technology to get ready for the changes



PACE OF CHANGE AND LEVEL OF CHALLENGE DIFFERS BY JURISDICTION

Eighty percent of tax departments note they have responsibility for tax in multiple countries, typically five countries (median) but an average of 17 countries (mean). Even those operating in just one country, such as the U.S., say they will be dealing with different requirements across different jurisdictions. These departments with multi-jurisdictional coverage can compare and contrast the different government approaches in the markets in which they are active. In this way, departments learn as they adapt to the most digitally progressive jurisdictions, which then helps to get them ready in advance for the jurisdictions that follow.

Jurisdictions mentioned as challenging included:

- U.S. (especially California)
- U.K.
- Canada
- India
- Germany (and Europe more broadly)
- Mexico
- Brazil

Departments' strategies for adapting to changing requirements varied, but the most commonly cited ones included a mix of additional resources, specialized skillsets, and technology implementation. Specific strategies mentioned, in ranking order, include:

- Hiring external consultants
- Automation
- Streamlining processes
- Keeping up with legislation
- Hiring more people

As example of these strategies in practice, survey respondents cite:

"Automated the tax workflow and outsourced indirect tax filings"

"Solidify sales/use tax process around manufacturing"

"Daily updates, forecast modeling, building out technology and automation"

"Documenting digital sales processes — taxability, legal entity issues"

"Analyzing data better to ensure we are correctly reporting non-physical location sales."

TOP TIP

- Check out the free resources available on the web sites of external tax advisors and law firms which have specialized tax teams.

  Visit https://tax.thomsonreuters.co.uk/webinars/discovering-the-opportunities-of-embracing-global-tax-digitalisation/ to access the recording of a recent webinar focused on the digitalization of tax.

  See also https://tax.thomsonreuters.com/en/corporation-solutions and https://tax.thomsonreuters.com/blog for more free resources.

SECTION 6

Sophisticated tax departments: Leveraging technology to improve operations

Throughout the survey, technology is consistently mentioned as a priority for tax departments. Implementing new technology was a top three goal for corporate tax departments this year. Advanced technology skills show up as the major skills gap, which is most likely to be lacking in existing team members; yet just about 13% of departments say they are looking to hire tax technologists or analysts in the year ahead.

CURRENT ADOPTION LEVELS

In the survey, we wanted to get a picture of current adoption levels, so we asked which technologies tax departments were using and which were highest impact, compared to which were most under-utilized. The most adopted technologies were direct tax compliance and tax provision and these two were considered to have the most positive impact, relative to adoption. Indirect tax compliance and indirect tax determination were the next most implemented technologies. Indirect tax determination is the third technology with the most positive impact, relative to adoption.

Three technologies stood out as being under-utilized — tax data management, tax workflow management, and tax analytics and KPIs.

Figure 15 – Current technology implemented and perceived impact

Technology	Currently Implemented	Most positive impact*	Most under-utilized*
Direct tax compliance	56%	2 41%	13%
Tax provision	55%	1 48%	16%
Indirect tax compliance solution	32%	25%	17%
Indirect tax determination engine	26%	3 34%	9%
Country by country reporting	22%	10%	15%
Tax workflow management	22%	23%	2 26%
Tax data management	21%	26%	1 29%
Transfer pricing documentation	20%	8%	16%
Tax analytics and KPIs	11%	17%	3 25%
Digital tax reporting	10%	28%	15%
FATCA / CRS / AEOI	5%	7%	21%

*Those calling out as most positive or most under-utilized as a proportion of those with technology currently implemented

Adoption varied significantly by market. U.S. and Canada departments are more focused on a couple of core technologies with high adoption — direct tax compliance and tax provision. Overall, U.S. departments are using 2.7 of the technologies listed, and Canadian departments are using just 2.2. Mainland Europe tax departments adopt a broader spread of technologies — 2.9 on average — with higher adoption on tax data management, tax analytics, and digital tax reporting technologies. U.K. tax departments are using the most technologies of all — 3.2 on average — and are more likely to be adopting indirect tax compliance, indirect tax determination, and tax workflow management technologies.

Two core technologies — direct tax compliance and tax provision — were among the top three favorites, relative to adoption, for U.S., Canadian, and Mainland European departments; but U.K. departments found the most impact from indirect tax compliance, tax workflow management (along with Canada), and indirect tax determination (with the U.S.). In Mainland Europe, tax data management and digital tax reporting were also found to be most impactful.

Figure 16 – Technology currently implemented in each region

Technology	U.S.	Canada	U.K.	Mainland Europe
Direct tax compliance	62% ↑ ★	51% ★	51%	44% ↓ ★
Tax provision	64% ↑ ★	49% ★	41% ↓	38% ↓ ★
Indirect tax compliance solution	33%	20% ↓	44% ↑ ★	29%
Indirect tax determination engine	29% ★	13% ↓	31% ★	20%
Country by country reporting	20%	20%	21%	29%
Tax workflow management	19%	11% ↓ ★	30% ★	27%
Tax data management	16% ↓	9% ↓	28%	33% ↑ ★
Transfer pricing documentation	19%	20%	17%	24%
Tax analytics and KPIs	5% ↓	9%	27% ↑	21% ↑
Digital tax reporting	3% ↓	4%	26% ↑	22% ↑ ★
FATCA / CRS / AEOI	3%	9%	6%	9%

↑ Significantly higher than global
↓ Significantly lower than global
★ Most impactful, relative to adoption

DRIVERS OF SUCCESS OR FAILURE IN ADOPTING TECHNOLOGIES

Technologies that make the most positive impact are those that create efficiencies and improve data quality, the survey shows. This might be saving time and therefore cost, turning work around quicker, and reducing errors; others see the impact as improving reporting or enabling better control. There are many benefits seen to having more organized and well-managed tax data as well.

The top reasons why technologies are most under-utilized are because of the resources involved in implementing the technology. There also may be a lack of budget or a lack of skills. This is compounded by the seeming complexity of certain tools or a lack of training. Sometimes people are simply resistant to change and stick to using simpler technology with which they are already familiar.

Figure 17 – Reasons why technology has most positive impact

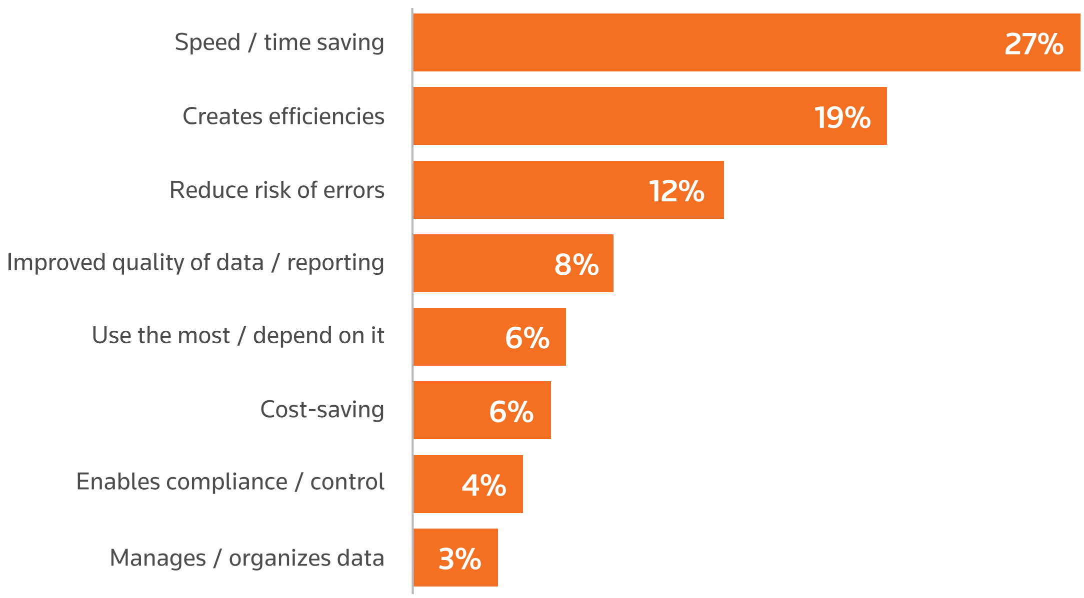
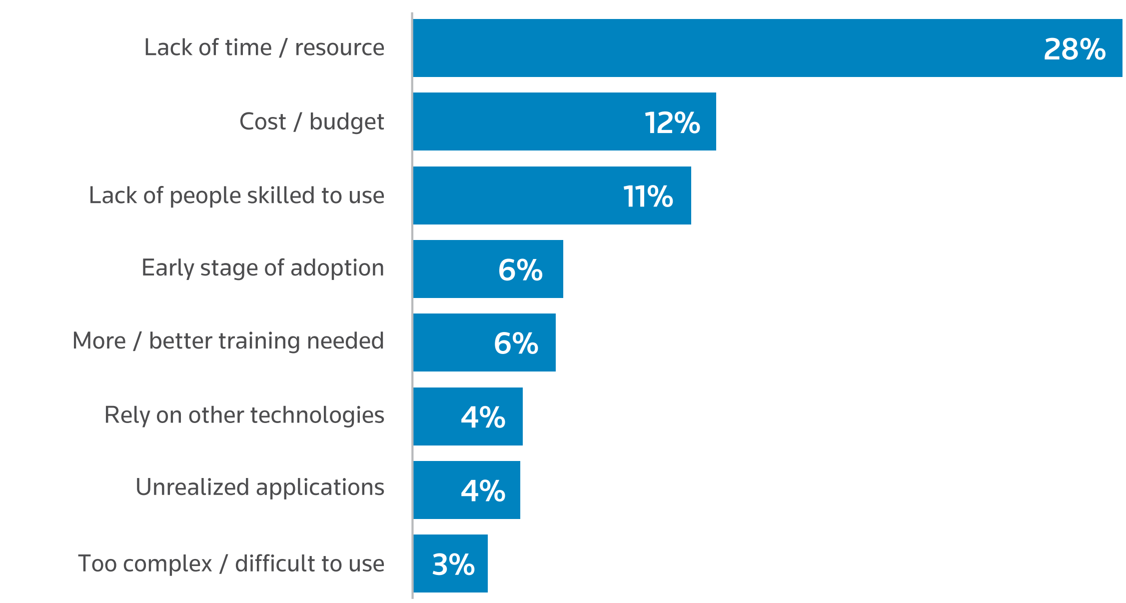


Figure 18 – Reasons why technology is under-utilized



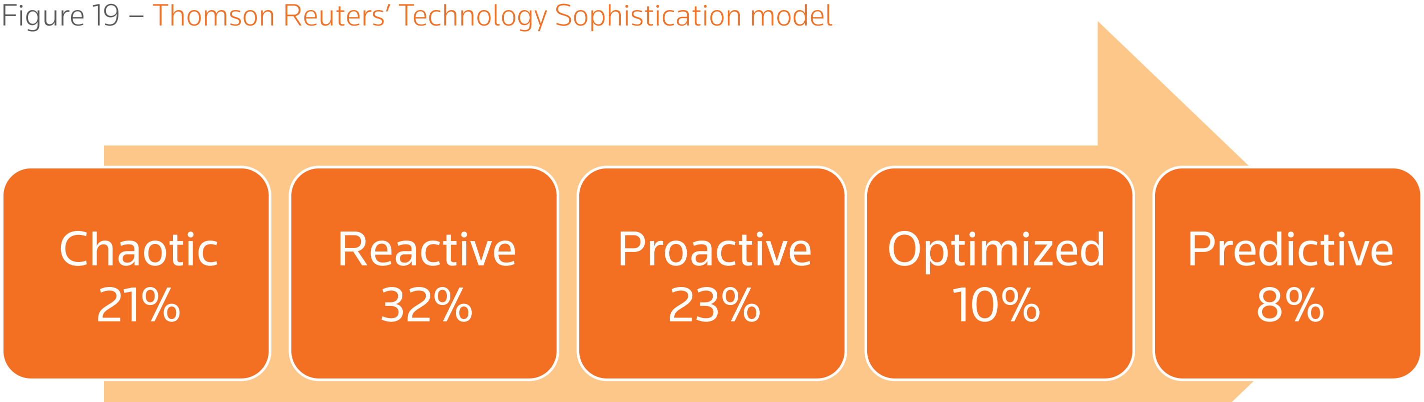
TOP TIP

- When making investments in technology, ensure you provide sufficient budget to successfully embed the technology, in terms of changing processes and training existing team members. Bring in specialist talent to help drive success.

MAPPING OUT A JOURNEY TO BECOMING MORE SOPHISTICATED

As part of the survey, we created a useful framework that groups departments on the basis of their approach to using technology and associated processes. We asked respondents to categorize themselves into whichever grouping they thought most closely represented their approach. More than one-half of departments place themselves in the two least-sophisticated categories — chaotic and reactive. Just less than 20% consider themselves to be in the top categories, optimized or predictive.

Figure 19 – Thomson Reuters' Technology Sophistication model



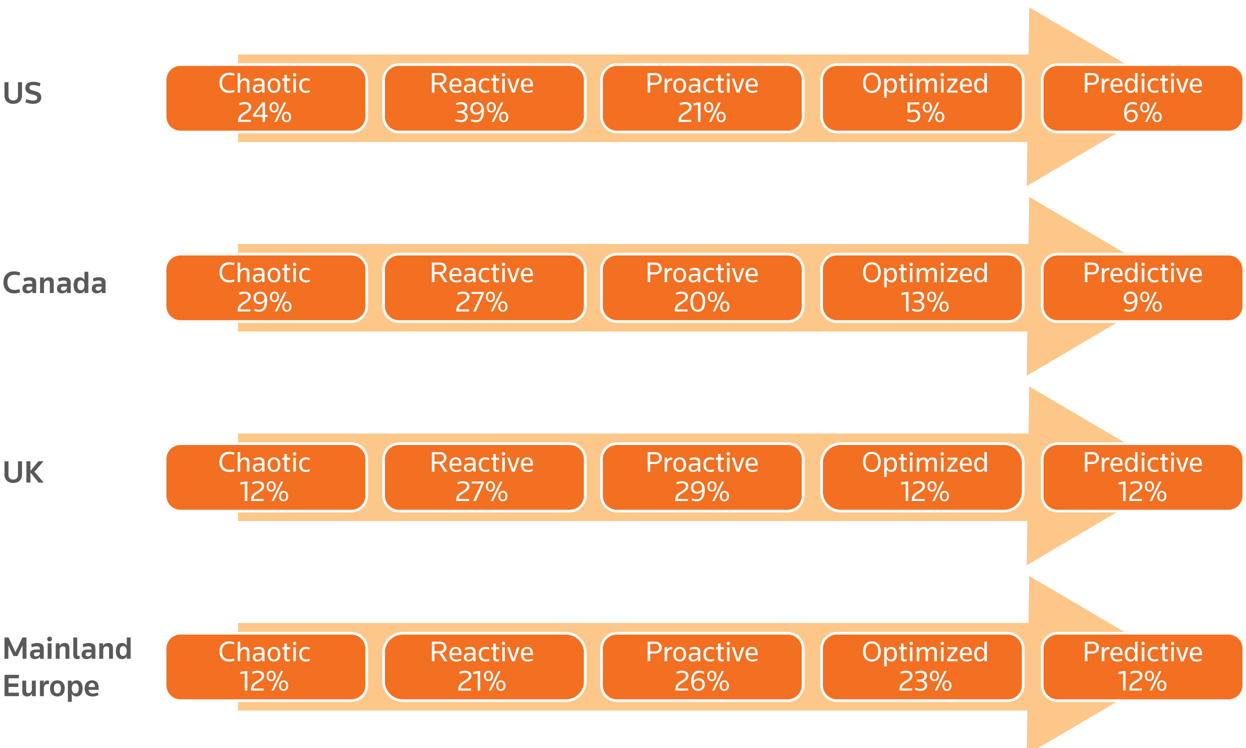
- **Chaotic:** Using email, spreadsheets, system reports, and manual processes to collect, review, and prepare compliance and respond to audits; individual tax departments work independently
- **Reactive:** Utilizing tax department databases, some 3rd party software, with some automated feeds, but not connected to enterprise data or departments across the company
- **Proactive:** Integrated with enterprise data and leveraging tax automation software for file-ready compliance, storage of documents and data; formalized coordination and processes with other departments
- **Optimized:** Analytics driven decision making, reporting available as needed, and tax workflows are completely automated across the enterprise
- **Predictive:** Leveraging rule-based technology and embedded enterprise data for automated workflows, alerts, pre-audit analysis, and reporting across the enterprise; proactively managing risk and regularly advising key decision makers with analysis

6% felt their departments did not fit any of these categories

> *"More than one-half of departments place themselves in the two least-sophisticated categories — chaotic and reactive."*

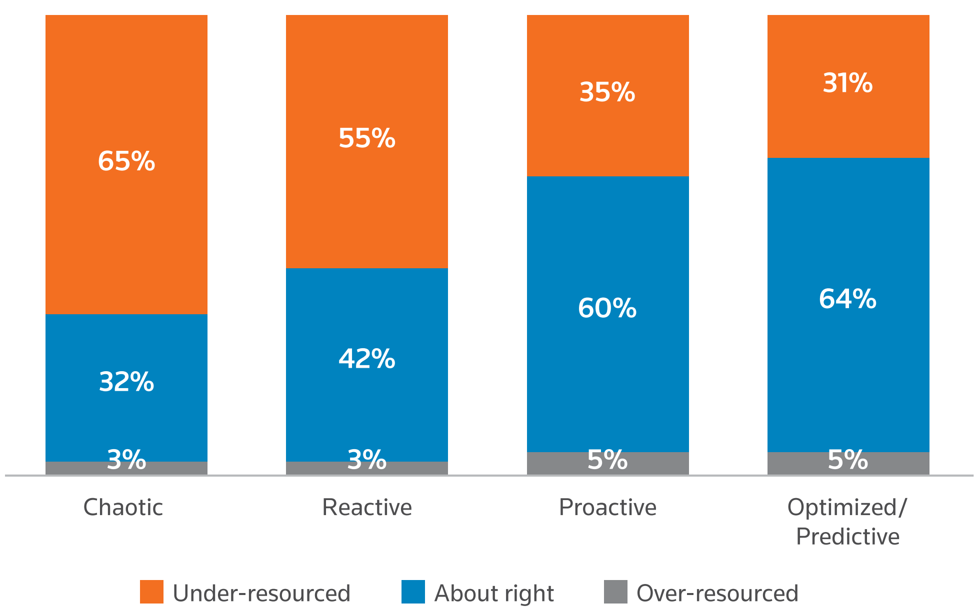
Tax departments in Mainland Europe are more likely to be optimized than any other region; while U.S. departments are lagging the field with the highest proportion saying they are reactive.

Figure 20 – Thomson Reuters' Technology Sophistication model by region



One of the upsides of being a more sophisticated department is the higher likelihood of being right-sized in terms of resources. Almost twice as many chaotic and reactive departments feel under-resourced, when compared to optimized and predictive departments.

Figure 21 – Perception of current resource levels by sophistication of department



One of the downsides of being more sophisticated is the higher operational costs involved. Effective technology and streamlining processes take significant investment, as do advanced technology skills. We found that optimized and predictive departments were spending three times as much per dollar of revenue on the tax department budget, when compared to chaotic and reactive departments.

SECURING BUDGET FOR TECHNOLOGY

Most departments hold the budget for tax technology within the finance and accounting department. In the U.K. and Europe, however, budgets were much more commonly held by the IT department (in around 25% of cases, compared to in fewer than 10% of North American companies).

Two-thirds of VPs of Tax and Senior Managers surveyed were decision-makers when it came to selecting technology and securing budget. Almost everybody we surveyed had an influential role.

Budgets are tight coming into 2021, and this has created challenges in securing resources for new technology implementations. Some departments struggled to quantify the benefit or the return on investment (this challenge was much more common in North America than in Europe). And it's not just the cost of the technology itself, resources need to be made available for training and implementation as well.

Figure 22 – Where tech budget comes from

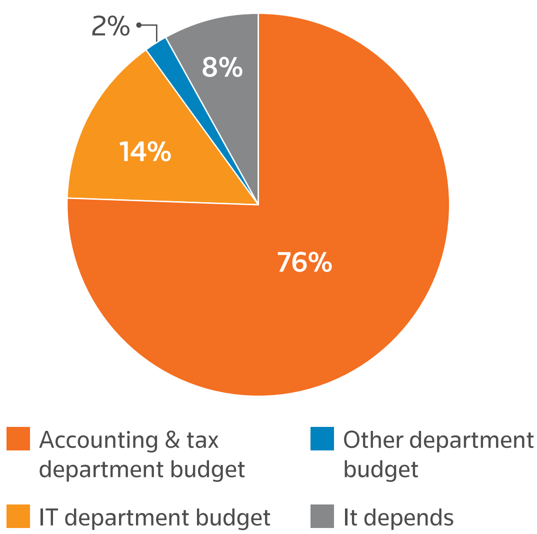
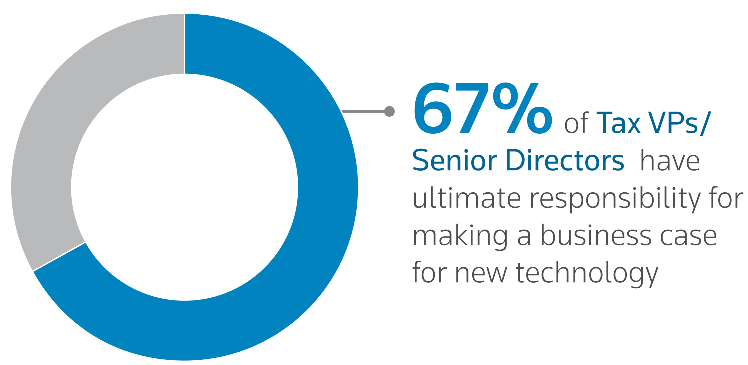
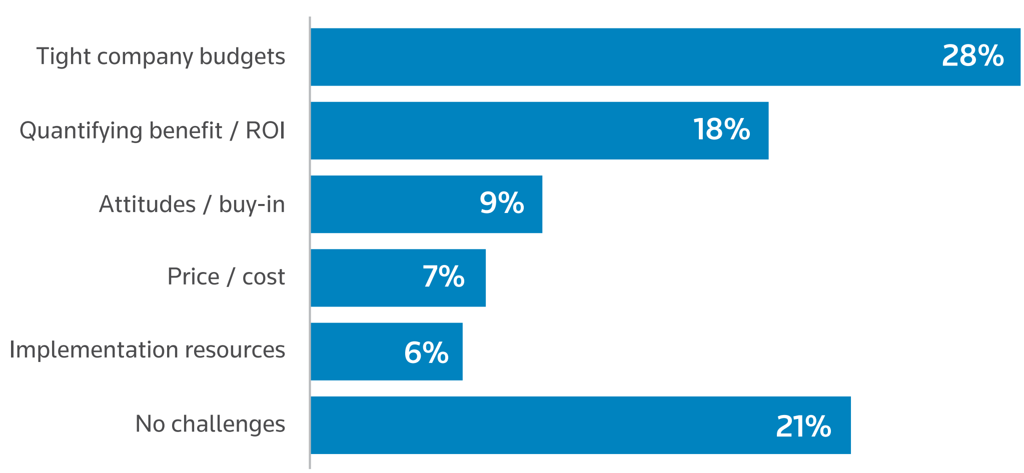


Figure 23 – Who is responsible for making business case



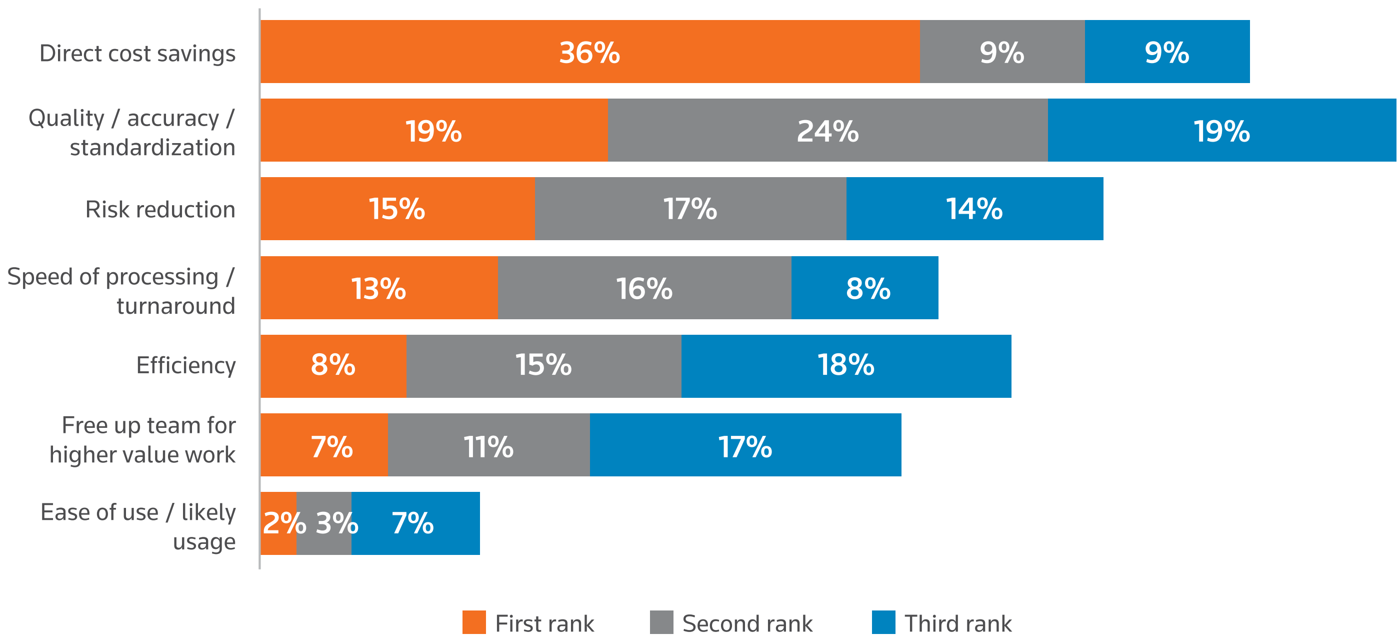
The majority of senior tax professionals play an influential role

Figure 24 – Challenges in securing a budget



When it comes to making the business case, direct cost saving most often was cited as the most important argument. But more departments in total would put forward the impact on quality, accuracy, and standardization as a desirable outcome. Risk reduction came next followed by speed of processing and general efficiency. Given the strained resources in nearly one-half of tax departments, it is not surprising that freeing up the team to conduct higher value work was also a top three argument for more than one-third of departments. Just 12% called out ease of use; yet, given the common outcome of technologies being under-utilized once implemented, we would recommend that departments see this as an important selection criterion.

Figure 25 – Making the business case



> *"When it comes to making the business case, direct cost saving most often was cited as the most important argument."*

SECTION 7

Finding a greater purpose for the corporate tax department

Words and acronyms such as purpose, CSR, and ESG are increasingly talked about as priorities for corporations. However, these efforts can often feel removed from individual employees working within an organization. Yet, the pandemic has provided an opportunity for many people to reflect on their lives and their role in the world. As part of the survey, we wanted to hear how those leading and running corporate tax departments feel their roles impact on broader society and to understand what they believe their professional purpose to be.

PERSONAL MOTIVATIONS

More than one-half of respondents say they feel their personal purpose at work is about their own job performance — continuing to develop in the role and performing at a high standard to gain job satisfaction and just reward. Many sought a better work-life balance, which became an increasingly common desire in wake of the pandemic.

For others it was more at a department level — running an efficient operation with high standards and developing the talent on the team for members to reach their potential. As one department leader said:

> *"I would like to achieve efficiency across our organization. That includes learning about new technologies and retaining existing employees, hiring new ones, so that new technologies are implemented and used to achieve the highest level of efficiency and cost savings."*

Still, for others the purpose was at a broader organizational level — equipping organization leaders to make the right decisions and create value for the company.

TAX DEPARTMENTS IMPACT BROADER SOCIETY

The products and services offered by certain companies, for example, those in the healthcare or educational field, directly help society. Thus, the tax departments at these organizations feel pride in helping the company to succeed. For other companies, the products themselves may not directly help society, but the tax department itself may help the company to save money and redirect those resources to good causes. Further, 11% of respondents also mention volunteering and charitable work.

For others, the indirect impact of helping to run a successful company means local communities benefited by way of job and wealth creation. Others cite the taxes paid, making sure they were fair and noting how this enables government services to run.

Just less than 10% talk about giving back to the tax industry through mentorship, empowering others, or simply being an active role model, particularly for those from diverse backgrounds.

TOP TIPS

- Gather the team together to share individual perspectives on purpose. Consider enabling people to develop their own goals as well as a team-based goal.
- Create metrics to track impact and raise engagement.

CONCLUSIONS

This year's report reveals that tax departments are at various stages in the transition to becoming more technology-enabled. The most sophisticated departments, which remain the minority, are reaping the benefits of investments in streamlining and automating processes. Leaders there feel in better shape to achieve their departments' strategic goals and address the challenges they face.

Chaotic and reactive departments, on the other hand, are feeling strained and are more likely to be in the unfortunate position of having to take on new technology projects at the same time as they strive to simply get through the day-to-day.

In any case, gathering the data to prove the business case for investing in technology projects is the first step to starting the process of change.

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