Tax transformation 2.0

The tax function is being reinvented.
What does the future hold?

Business leaders today are operating in an uncertain environment, navigating a confluence of threats that some have aptly termed a polycrisis.[1] On the one hand, businesses are battling short-term crises such as inflation, supply chain disruptions, talent shortages and threats of a recession. On the other hand, impacts of larger megatrends such as geopolitical tensions, climate change and technological disruptions have left businesses increasingly vulnerable, calling for a much-needed transformation.

PwC's 27th Annual CEO Survey: India perspective, too, underlined the need for businesses to reinvent themselves to navigate these challenges and tap emerging opportunities. India CEOs highlighted that changing customer preferences, technological shifts, government regulations and competitor actions are among the top factors driving changes in the way their company creates, delivers and captures value.[2]

Rapidly changing business needs have made transformation across various domains, including tax, a prominent boardroom agenda. But before businesses embark on the transformation journey, they need to build differentiated capabilities. This entails a change of mindset among leadership such that they comprehend the urgency to shift gears to make transformative rather than traditional incremental changes.

In view of this, each and every aspect of an organisation needs to be looked at holistically – right from understanding the purpose of reinventing the business model to considering ways and means to address upskilling and sustainability powered by technology. Business leaders also need to factor in the impact of their transformative journey on their tax function. This article therefore underlines what a transformed tax function would entail. It also delves into the challenges that chief financial officers (CFOs) and tax heads would have to deal with during the process of tax transformation, and looks at possible means of resolution.

1 PwC, Building resilience in a polycrisis world

2 PwC, 27th Annual Global CEO Survey: India perspective, January 2024

The tax transformation imperative

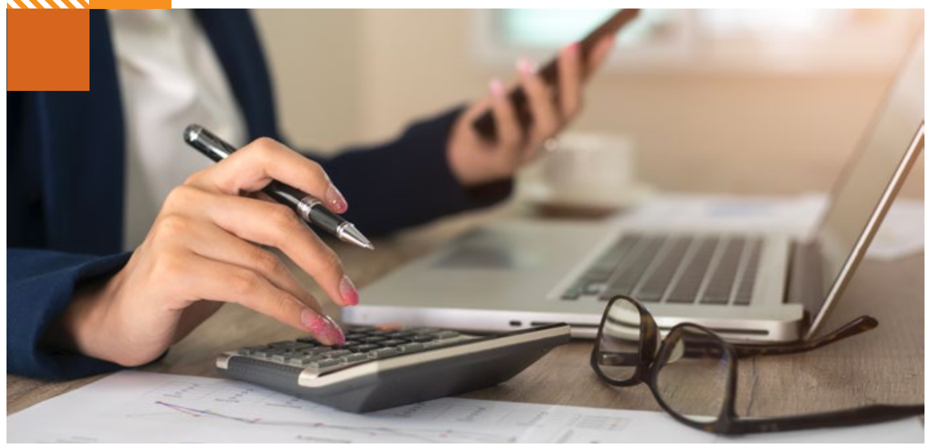
The need for tax transformation is being driven by:

1. wider business transformation with tax implications
2. the changing global tax landscape
3. new opportunities to pursue ESG-driven tax incentives.

1. Wider business transformation with tax implications

As businesses re-model themselves to keep up with changing customer preferences, they are increasingly looking at ways to optimise costs, benefit from technology and upskill their workforce. Technological dependencies by way of enterprise resource planning (ERP) upgrades or deploying relevant technologies and tools are at the centre of such a transformation. Once the wheels of transformation are in motion, it would also entail workforce transformation as the roles and responsibilities of CXOs and the larger workforce would undergo a change. All of these aspects have implications on the tax function of an organisation. The tax function could potentially consider actioning any of the following:

- plug tax leakages as a result of any operating model restructuring to ensure payment of fair share of taxes
- discover new avenues to seek tax incentives from government-led programmes
- compute the overall tax impact of any potential transformation to understand the full benefits that the organisation could achieve through such a transformation.



2. The changing global tax landscape

In addition to changing business demands, the increasingly complex tax landscape, too, has spurred the need to transform the tax function. Recent developments around newer regulations – in the form of the incorporation of Pillar Two into domestic legislations, new rules around sustainability and transparency, and selective tax audits with a laser focus from the authorities on accessing the most relevant data – have necessitated tax transformation as a critical imperative. Stakeholders are also aware of the reputational risks associated with non-compliances or tax disputes moving to courts. This further adds to the need to transform the tax function.

3. New opportunities to pursue ESG-driven tax incentives

Tax heads are keen to explore opportunities to avail maximum tax incentives around the larger environmental, social and governance (ESG) agenda. Such incentives are increasingly being rolled out across the globe and require deep and continuous study – irrespective of whether they are to do with the US Inflation Reduction Act or EU-specific green deal or local regulations in several territories. This is time-bound and unless routine tax functions are automated, it would be difficult to focus on such strategic imperatives.

On the other hand, businesses availing of tax incentives while engaging in sustainable practices are more likely to earn the trust of their stakeholders. In a 2024 PwC survey, a majority of the business leaders stated that tax incentives can drive environmental preservation, inclusion and diversity, and address social vulnerabilities.[3]

Organisations are simultaneously working hard to transform themselves to adapt to changing customer preferences and stay ahead of their competitors. Consequently, businesses are willing to not only respond and manage the current tax risks as they emerge, but are also keen to develop a comprehensive tax strategy which is robust enough to anticipate changes on account of internal factors such as business growth or supply chain restructuring or external factors like geopolitical and economic uncertainties. Besides, technological interventions and automation can address talent shortages while driving productivity and efficiency in the tax function.

Changing role of the CFO

The CFO and tax heads of any organisation would be primarily responsible for steering the tax transformation agenda. Responsibility for business continuity is often shared jointly with the CFO's office. Despite huge resource constraints, CFOs are expected to ensure that plans are executed. They work closely with functional heads responsible for procurement, marketing, and CapEx and OpEx spends. Irrespective of the value of transactions, CFOs exhibit tighter control and are now metamorphosing into change leaders, or rather game changers.

They are driving costs and technological interventions. On the cost front, they are not only monitoring the spends but also participating in decision making, such as where to spend and how much to spend. On the technological front, CFOs are working closely with chief technology officers (CTOs) and are keen to automate processes that are capable of being automated.

On the investment front, they are keen to invest in building the workforce of the future and are closely working with chief human resources officers (CHROs) to drive the skilling programme. Further, they are keen to invest in acquisitions, explore inorganic opportunities and identify opportunities to invest in growth areas working in tandem with their business heads or the CEO.

Challenges to tax transformation

With the augmentation of the CFO function, one of the most important touchpoints and dependabilities that they have is with the tax function. Largely, the tax function is a subset of the finance function. CFOs are working on building the finance function of the future. As an integral part of this, CFOs are mandating that their tax heads build tax functions of the future. In PwC's 2023 Pulse Survey in the US, 89% of CFOs said striking the right balance between cost cutting and investing for growth is a top challenge to transformation.[4] Moreover, 88% of business executives said that achieving measurable value from new technology was a challenge to transformation, 85% cited cost of adoption of new technologies as a barrier, and 84% said training talent on new technology was a major hurdle to transformation.[5] Indian business executives, too, face these roadblocks along with other challenges. Some of these include:

Inadequate budget and tax transformation not top-of-mind for leaders: It has been observed that large transformation programmes today are customer centric or growth oriented. Large parts of the available funds are diverted towards such transformation programmes, which may be necessary for long-term viability. Accordingly, the budget available for transforming tax is slashed and at times does not feature in the leadership agenda.

Unavailability of the tax workforce and lack of upskilling: The tax workforce is generally occupied with routine and regular compliances. They spend a large amount of time responding to tax authorities. Thus, the agenda for transforming tax gets deferred and delayed and the entire tax function continues to operate without creating enough efficiencies. The overarching involvement in tax scrutiny and routine tax compliances result in low bandwidth for important upskilling programmes. The tax workforce needs to skill themselves adequately and continuously to ensure that they are embracing the change powered through tax technology tools. Other issues include:

- **Trust in tax technologies is remarkably low:** Employees are concerned that new technologies may replace them and thus resist change. Some also fear that tech-powered tools may deliver beyond their capabilities without adequately studying the use cases in depth.
- **Non-collaborative ecosystems:** Many organisations embarking on transformation are driving it vertically without cutting across domains horizontally, indicating that not all important stakeholders are involved at the time of planning for transformational programmes or when outcomes are evaluated. Often, the important yet missing stakeholder is the tax function. In order to reap the full benefits of transformation initiatives, the tax function should be brought in at the outset, in the initial stages and at least no later than when the outcomes of these programmes are being evaluated.

While every organisation will have to find appropriate mechanisms to solve some of these challenges, a few possible resolutions could revolve around:

- preparing the business case document for transforming the tax function in a robust manner so as to draw the attention of the leadership
- weighing in an outcome-focused approach to garner adequate funding support
- ensuring cultural alignment of key players within the tax function with concerns around job security suitably addressed
- building a collaborative ecosystem that helps dovetail tax considerations into large-scale transformation initiatives.

Tax transformation readiness assessment

Tax heads need to ask themselves the following questions:

1. Tax policy: How well is the tax policy of the organisation defined and does it encompass business growth and its ensuing complexities?

2. Data accessibility: Is the tax function equipped to source relevant data from the system to face scrutiny by the tax authorities on GST, transfer pricing, corporate tax or customs?

3. Collaborative ecosystem: Does the organisation have a well-knit ecosystem that allows tax leaders to participate in business decision making?

4. Tax at the start of transformation: Is the tax function factored in at the start of a large transformation programme that the organisation runs?

5. Tax controls: Are there enough tax controls embedded in the entire tax risk management framework that allows tax processes to be followed in a seamless manner without manual intervention?

6. Adequate staffing and skilling: Is the tax function adequately staffed and skilled so as to respond with agility to questions by different stakeholders, including business heads, employees, CXOs, investors, regulators and stock exchanges?

7. Digital maturity: What is the digital maturity of the organisation's tax function – has an exercise been conducted to explore hyper automation of routine processes, and are tax technology tools available to perform the necessary analytics?

8. ERP upgrades: For ERP upgrade programmes, does the tax function have a clear ask in terms of its expectations from the system upgrades?

9. Outsourcing requirements: Should all necessary activities required to comply with tax regulations continue to be housed in the current tax office of the organisation or does it merit outsourcing?

It is imperative that these questions be addressed before the tax function is reimagined to be future-fit.

3 PwC, Tax transparency in ESG, January 2024

4 PwC Pulse Survey, August 2023

5 Ibid.

From the as-is to the to-be state

The future-fit, best-in-class tax function should be designed in a manner to achieve the following outcomes:

- Face newer compliance requirements, be it around Pillar Two, e-invoicing or the Carbon Border Adjustment Mechanism (CBAM).
- Provide accurate data speedily to the tax authorities for them to conduct tax audits with ease.
- Enhance tax workflows through automation.
- Leverage the newest technological solutions such as GenAI.[6]
- Participate in upgrading ERPs in a manner that provides clear and consistent access to tax data points.
- Furnish tax impact for any business transformation initiative, be it supply chain, finance transformation, acquisitions or divestitures, cloud adoption and moving from products to services.
- Access tax dashboards with relevant tax data analytics capabilities.
- Have well-equipped and well-trained staff with tax expertise and awareness of tax technology solutions.
- Capitalise on government incentives around the ESG agenda.
- Factor in sustainability-led tax implications for any potential transformation initiatives.
- Prepare to undergo the next round of transformation – be it driven by internal business factors, external regulatory factors or geopolitical or economic factors.

The CFOs and the tax heads are working hard to ensure that their organisation's brand reputation is not hampered due to high pitched tax audits and such tax disputes are concluded based on legal and business merits. It is, however, equally important for them to adopt a focused approach on tax transformation to enable the tax function to be an important contributor to their organisation's overall business transformation initiatives.

Subject matter expert **Vishal Nanavati** has contributed to this article.

6 PwC, Unlocking opportunities in tax using GenAI