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2020

Corporate Tax Departments Survey:

New Technology Demands New Skills & New Attitudes

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Executive Summary

In the past two years, the U.S. federal tax system has undergone a seismic change after passage of the Tax Cuts and Jobs Act (P.L.115-97) in 2017 that amended the Internal Revenue Code dramatically. Now with the COVID-19 pandemic, even more changes are emerging at a time when corporate tax departments are having to work remotely, while suffering a surge in workload and resource constraints.

Keeping up with these reforms — not to mention the myriad of overseas tax codes they have to follow — presents a major challenge to the tax chiefs of America's largest corporations. Already expected by their boards and shareholders to minimize tax liabilities and regulatory risk, in-house tax experts now must battle on multiple fronts as they seek to satisfy both stakeholders and regulators in an ever more complex world.

In our new report, *2020 Corporate Tax Departments Survey*, published by Thomson Reuters / Acritas, we examine the landscape in the corporate tax field, surveying corporate tax professionals on the challenges their teams are facing and what they need to address them. In the last month, we ran a pulse survey to see how the impact of the COVID-19 pandemic has changed these priorities.

Technology ought to offer some support, particularly as many companies embark on a program of digital transformation. There are certainly plenty of technological solutions available to the tax profession, but as our research indicates, many of these solutions fail to meet expectations. Indeed, resolving this failure was a major key challenge for tax teams coming into 2020. With departments reacting to the new situation, there is a strong risk that technology initiatives get placed on the backburner just at a time when the need for them is more pressing. Now that tax departments must work remotely — while keeping up with their initiatives on increasing efficiency and accuracy, and providing demonstrative value to the business — internal pressure to perform is high.

Much of the problem lay in resourcing, our survey found — and with recruitment freezes becoming the norm, it seems likely that existing resource challenges may become compounded. Many of the respondents say they feel under-resourced and struggle to keep up with day-to-day pressures. Worse yet, taking a step back to look at a long-term strategy of improving skills and technological development is an indulgence few feel they can afford.

However, this is exactly what they need to do. It's clear from our research that the key to success lies in people as much as technology. There's a skills gap that is leaving technology under-utilized, and many corporate tax departments are not operating as efficiently as they might. Developing and communicating a clear strategy, bringing in new skills as well as new technology, and measuring the effectiveness of their operations will help US corporate tax heads deliver more value to their boards — and greater job satisfaction to their teams.

In times of difficulty there are also opportunities in addressing the changes in the ways of working that have been forced upon departments by COVID-19. Some of these changes may actually improve the employee experience, as well as departmental efficiency — two key challenges which tax departments already needed to address.

"There's a skills gap that is leaving technology under-utilized, and many corporate tax departments are not operating as efficiently as they might."

In this report, we go into more detail on these challenges and how companies are addressing them. We provide some examples of best practices, together with checklists of actions that corporate tax teams can take now, including creating a compelling business case for investment and re-examining how they can get the most out of their external advisors. At times like this, we need to lean on external advisors to keep up to date with a dynamic environment and adopting best practice approaches.

Some of the key takeaways highlighted in the survey report include:

- Successful tech implementation calls for properly defined return on investment (ROI) goals, a clear strategy, and rigorous Key Performance Indicators (KPIs) in order to track progress.
- The role of tax technologist is increasingly important, and combines tax expertise with technology skills.
- Tax departments need to decide whether to teach technology to tax professionals, or hire technologists who then can learn about tax.
- Tax teams will benefit from taking a higher profile in their company, allowing them to better manage expectations and workloads as well as more effectively communicate their need for resources. Moreover, with the current situation the need to provide commercial, strategic advice to the business is greater than ever.
- New tech projects are likely to be temporarily put on hold; however, getting existing technology fully operational remains a high priority for the majority.

BACKGROUND TO THE SURVEY

Prior to our main survey, we spoke at length to 23 senior in-house decision-makers within corporate tax departments in the United States, between October 2019 and January 2020. We asked them about their remits, governance structures, core objectives, strategy, and challenges for the coming year. We also discussed their use of third-party support along with changes to their resourcing strategies, specifically focusing on their use of technology and automation initiatives within tax departments. We also asked about the relative successes and shortfalls of their efforts.

Following this qualitative research phase, Acritas and Thomson Reuters launched a web survey to explore some of the emerging trends in more detail, and to develop a quantifiable base for future tracking and benchmarking.

More than 300 respondents took part in the survey between January 29 and February 16, 2020. Nearly half (49%) held senior roles on their tax teams (Chief Tax Officer, Director, Senior Manager, etc.), and 32% were Tax Managers or Assistant Tax Managers. The remaining 19% were senior tax technologists, analysts, or tax accountants.

Using the in-depth interviews to guide the questions, the web survey focused on the following key areas:

- Key objectives and challenges
- Sizing, headcount, resource levels, and recruitment strategy
- Skillset gaps and talent development
- Use of technology and automation
- Level of technological development
- Use of external advisors

The COVID-19 pandemic began to impact the US more heavily in the period shortly after the survey fieldwork. To understand these changes, a follow-up pulse survey was then distributed in March and April 2020, which generated an additional 53 responses. That survey asked about the impact of COVID-19 on the tax departments' strategic priorities, how tax advisory firms were supporting them, and long-term predictions for impacts on their department after the pandemic eases.

Shifting Challenges

As part of the main survey, respondents identified key challenges their teams were facing in the coming year, we found these fell into four main areas:

i) dealing with changes to tax regimes;

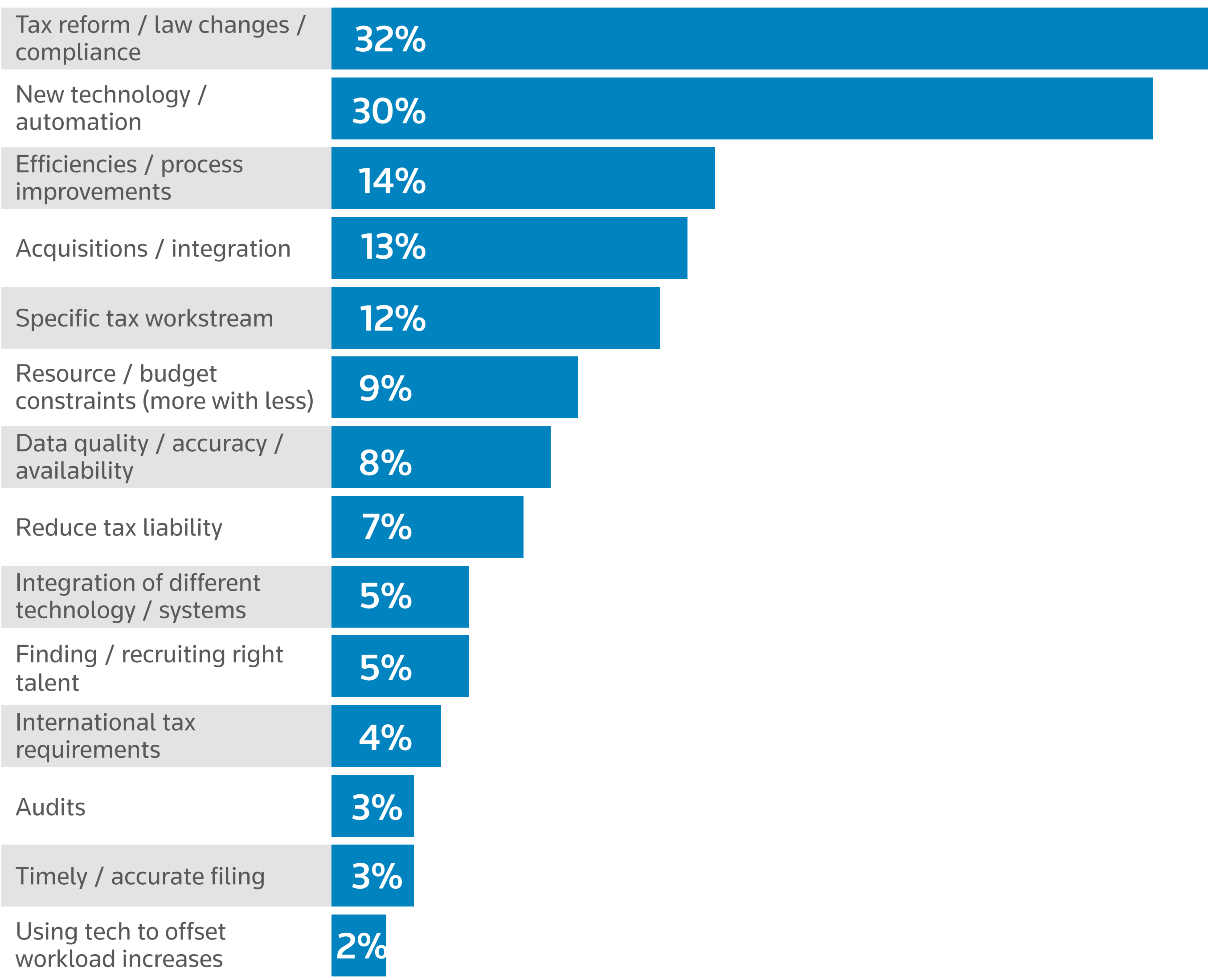
ii) reacting to internal demands;

iii) selecting and implementing technology; and

iv) working with limited resources.

The pulse survey found that priorities had temporarily shifted as a result of the COVID-19 crisis. Those that remained high priority were tax reform and working more efficiently (working with limited resources). Those that have become higher priority are reducing tax liability, providing more business-centric advice, seeking cost reduction, ensuring data accuracy and integrating existing technology. Unfortunately, many tax departments are putting new technology projects on hold, with skills-building and talent recruitment also going into a holding pattern.

KEY CHALLENGES



Base: 288

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

CONSTANT CHANGES TO TAX CODES ECHO A COMPLEX WORLD

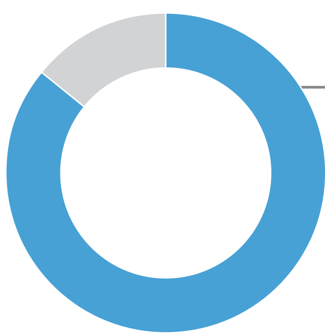
With a tax code that runs into the thousands of pages and has changed significantly over the past two years with the Tax Cuts and Jobs Act of 2017, it's no surprise that keeping up with tax reforms and complying with constantly changing regulations came up as the #1 challenge cited by our respondents:

"Everyone's rolling out new rules... in the new U.S. tax law, and we're just trying to keep our head above water."

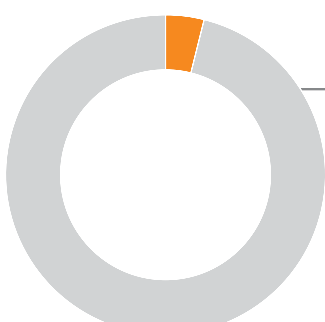
"The expectation is from tax authorities that companies are just sitting on this information, and it's really high quality and easy to get to — and as I'm sure you know, that's just not the case."

"We're living in a tax environment where there's constant reform — so you have the significant U.S. tax reform that went through in late-2017, which we're still getting guidance on today as to how it applies to U.S. income taxes."

For those companies doing business internationally — 86% of our respondents had international tax responsibilities — this challenge is even greater with some having to monitor changes in more than 10 countries. In this respect, it's perhaps surprising that only 4% cited international tax requirements as a major challenge.



86% of respondents had international tax responsibilities



only **4%** cited international tax requirements as a major challenge

Base: 305

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

INTERNAL DEMANDS: DOING MORE WITH LESS

Then there's the day-to-day pressures from their board, their management, and their other stakeholders for greater efficiency and effectiveness. In particular, corporate tax teams face the challenge of rising up from being "in the weeds" as one put it, to deliver more strategic, value-adding service to their colleagues. Efficiency means reducing errors and re-runs, increasing speed and accuracy of reporting, and of course, working with more limited resources.

Added to this will be the changing demands of their own organizations. Indeed, as companies move into new markets, acquire other companies or merge entities, there will always be tax implications — whether that means adding new jurisdictions, deciding on the tax treatment of assets, or simply merging different payroll systems. Not surprisingly, post-M&A integration ranks fourth among challenges cited by respondents.

"Business operations seems to be historically the biggest challenge, and unfortunately you don't know what that's going to be, whether it's an acquisition or a system change… you don't know."

Internal organizational change — and in particular the implementation of new technology — comes a close second to tax reform as a major headache for many tax departments. Whether it's a CEO-mandated digital transformation of the whole business or a raft of new technology around daily tax work, many respondents said they found that technology and automation, which should make things easier, too often seems to make things harder.

"That's the goal of every tax department: they want to be very efficient and effective. Effectiveness means bringing tax value to the company and identifying opportunity to bring that tax value. It's also minimizing inefficiencies and enabling effectiveness."

In a COVID-19 world, the need to work more efficiently is even more pronounced.

"We are testing new ways of working better, faster, leaner."

Tax departments that were already up and running with remote working and accessible technology — and where their third-party advisers are also used to this way of working — are more likely to be on a step ahead.

TECHNOLOGY: A MISSED OPPORTUNITY?

But are corporate tax departments missing the technology boat? Certainly, technology promises so much: cost savings; efficiency; better, faster data analysis; clearer decision-making; the ability to streamline repetitive tasks. All of these factors enable tax staff to add value by creating the efficiencies to free up staff to pursue more strategic, and more interesting, activities.

And there are plenty of tax-relevant and tax-specialist tech solutions and applications available, for both general finance work and highly specialized tax functions. So, it's no surprise that successfully utilizing new technology is a high priority for so many respondents.

"Exploring new technology to improve all phases of the tax life cycle."

So why do tax managers cite this as such a challenge? We asked respondents about their use of various technologies, and a surprising number noted how much of their technology was under-utilized. In some cases, this was due to an understandable timing issue — they were at an early stage of adoption. But for many, the tax team lacked the skills, training, support, or time to use it properly.

> *"When [the technology] becomes very complex or hard to use, nobody uses it correctly, and there goes your automation."*

"We need better understanding of resources we utilize to realize all the benefits."

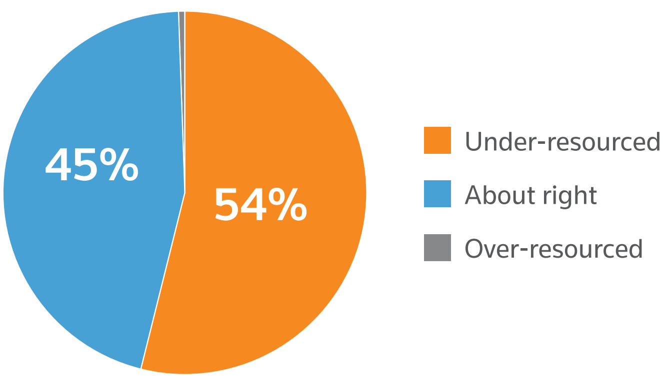
The COVID-19 survey revealed good and bad signs for greater adoption of technology for tax departments. Survey respondents cited an increased need to get current technology fully integrated and operational – especially in a remote-working environment. However, new technology projects were likely to be put on hold as teams focus on the immediate pressures of reacting to the changing tax landscape, reducing liabilities, and providing strategic advice to the business.

RESOURCING: PEOPLE & SKILLS

All these factors create a huge issue around resourcing. Although in our initial survey only 9% of respondents said that lack of resources and budget was a major challenge in 2020, more than 50% felt that their teams were under-resourced. These respondents identified significant skills gaps — 39% said they lacked specific tax-related skills in their team; and nearly one-third lacked technological skills. Unfortunately, this translates into suspicion and skepticism around the value of the technology itself. At worst it's seen as a threat to individual jobs, at best it's viewed as a complicated and complex system compared to traditional pencils, paper and Excel software.

"The imposition of technology brought an additional management challenge when it was seen as a threat to existing headcount."

54% of respondents feel under-resourced



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Not only was lack of skills an issue, respondents noted. The imposition of technology brought an additional management challenge when it was seen as a threat to existing headcount. For some companies, this was deliberate — they actually intend to replace headcount with technology. For others, it was the opposite — they envisioned their technology providing an opportunity to upskill and add more value. Whichever approach a company takes, the usual change management challenges come to the forefront as team members resist disruption to their usual way of working.

This challenge further highlights how important it is for departmental heads to communicate a clear strategy to their teams, bringing them on-board with a new way of working and helping them to develop new skills.

"One thing I've committed to my team is that I will never use technology as a headcount reducer, because that does not encourage people to go out and find technology."

"Once they hear robotics, my team freaks out. They panic, start looking for another job, then go ahead and jump ship; they're very quick to panic, react, and just find something else."

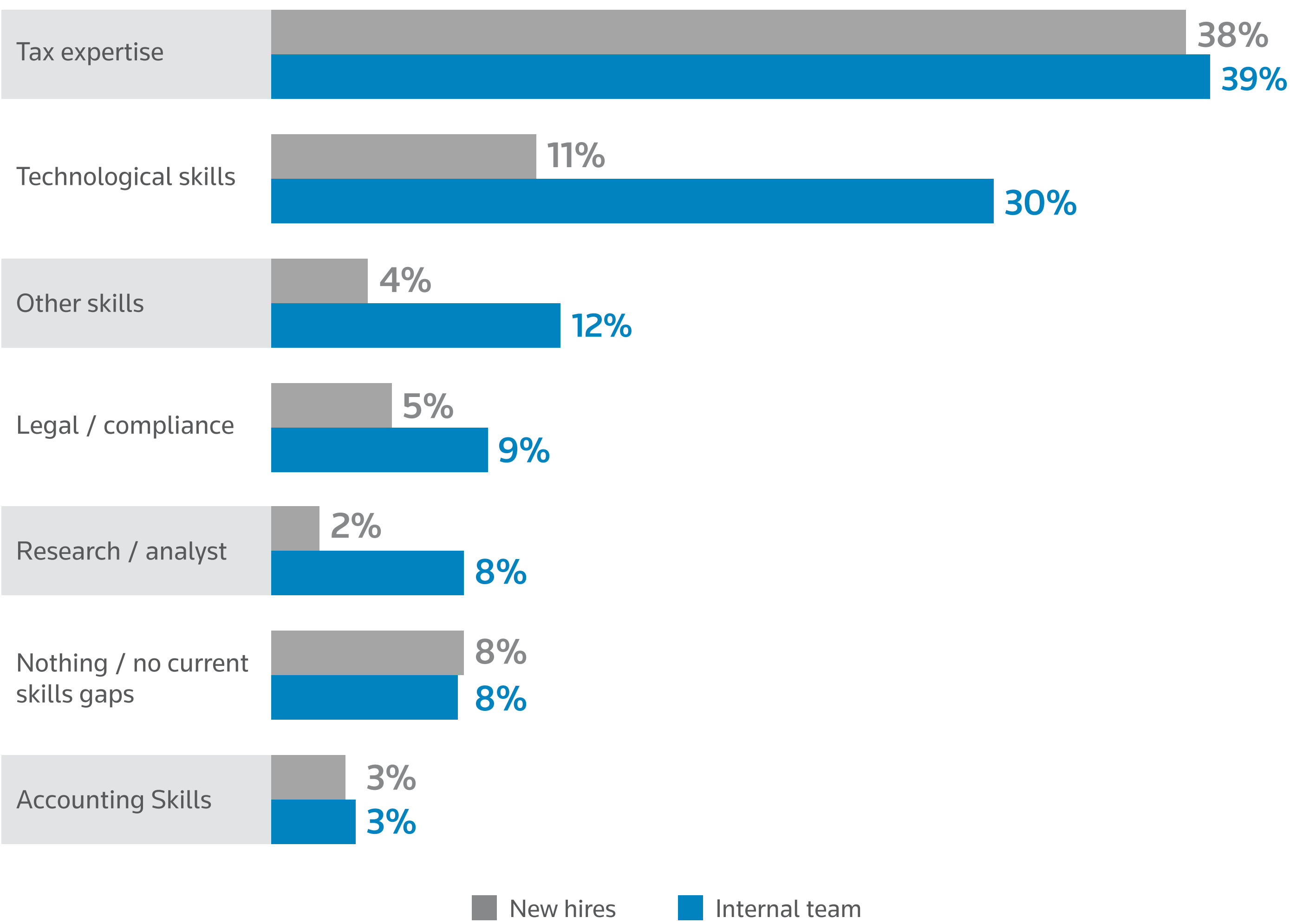
"I've found that, from one perspective, I'm having a hard time getting products integrated. I've heard other people are having the same issue, but even when we make an improvement, it's hard to get the users to shift into new changes."

"I'll see people that work 100-times harder to bastardize the system, to make it look and work like it did before, rather than if they just changed and did it the right way, then eliminating all the downstream problems as well."

Even if some corporate tax departments are able to increase headcount — and encouragingly, more than one-third said they are planning to increase the size of their team — they still face a challenge in recruiting the right people. It's a tight market, especially for tax specialists and also for the technology experts that might support them in their drive for automation.

This is a challenge which our pulse survey suggests will be significantly compounded by the COVID-19 crisis. Indeed, very few tax departments see talent recruitment as a continuing priority, with only slightly more prioritizing team training. Despite the macro-environment impacting every tax department, it is unlikely to be experienced equally. Those teams who were already stretched thin may find their challenges increased, while those who were already struggling to secure resources for headcount, training, or technology are unlikely to find their business cases improved.

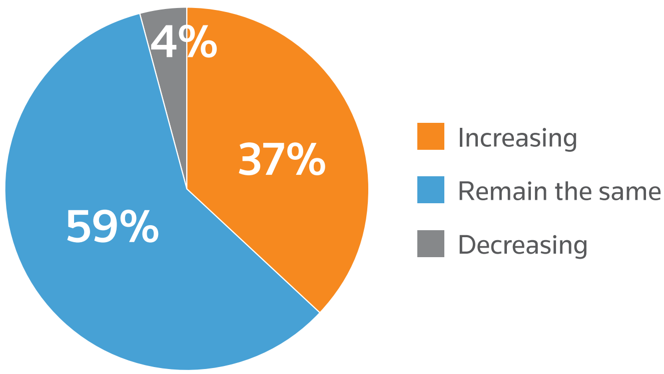
PERCEIVED SKILLS GAPS WITHIN IN-HOUSE TEAMS



Base: Internal (250); New hires (185)

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

37% of respondents set to increase team, but **4%** set to decrease



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"It is incredibly difficult to find qualified candidates. There is high demand and short supply, resulting in competing firms and companies promoting their staff too early and paying them too much, and this results in misalignment of expectations of talent versus the available talent pool."

Several respondents told us that relations with the company's IT department were often a problem: IT teams had their own mandates and were less inclined to understand or support the more specialized requirements of the tax team. As a result, more and more companies are looking at the role of tax technologists — a professional that will combine tax knowledge with technology and data skills. A key question for many (which we address elsewhere in this report) is whether these are tax experts who train in technology, or vice versa.

"In most companies, tax is kind of off on its own. IT is not focused on tax; IT is focused on the business."

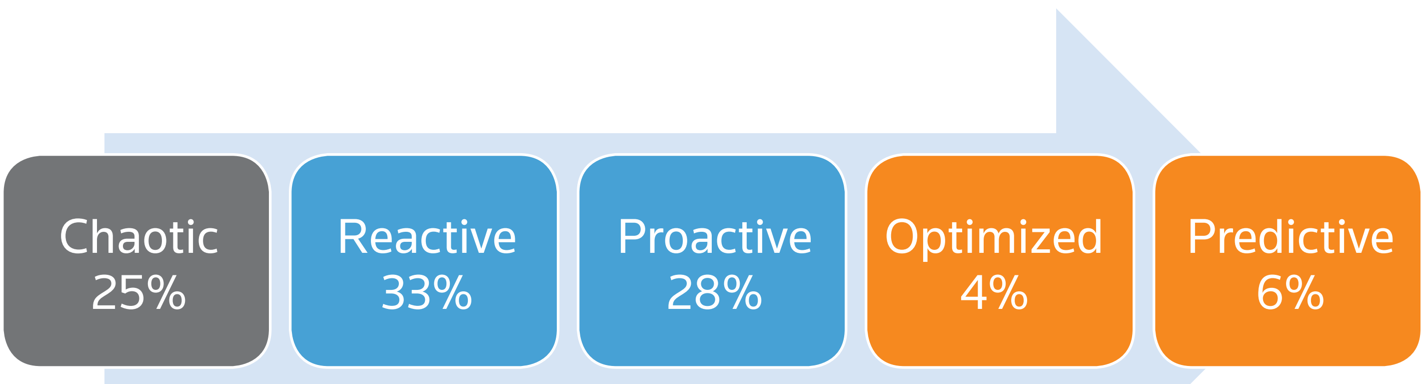
"My particular IT department is way back in the 1990s, so it's a little difficult getting them on board with anything new."

"Do we need to have a dedicated IT resource embedded within tax and teach them, or do we teach a tax person IT? There's no answer there, or we haven't found the solution. I think it's probably easier to teach the business analyst the tax nuances."

Chaotic & Reactive: A Wake-Up Call to CEOs & CFOs

The day-to-day pressure of compliance with an ever-changing tax code, often over multiple jurisdictions; the frustration of dealing with technology that could do so much more but needs time and resources to make it effective; and increasingly limited resources, internally and externally, to call upon: How do tax teams feel as they cope with these myriad challenges?

We asked respondents to describe the state of their tax department and their ability to leverage technology. We summarize their responses in the following *Levels of Control* chart:



Chaotic	Reactive	Proactive	Optimized	Predictive
Using email, spreadsheets, system reports, and manual processes to collect, review, and prepare compliance and respond to audits; individual tax departments work independently	Utilizing tax department databases, some 3rd party software with some automated feeds, but not connected to enterprise data or departments across the company	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	Analytics driven decision making, reporting available as needed, and tax workflows are completely automated across the enterprise	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

LEVELS OF CONTROL ANALYSIS

More than half of our respondents describe their approach as *Chaotic & Reactive*; only 10% feel *Optimized & Predictive* and able to deliver the best value for their businesses.

This is data that should keep CEOs and CFOs awake at night. Not only might their organization be at risk of failing to comply with tax regulations, but it is not getting the best out of a team of highly qualified and talented specialists and tax experts. In a tight labor market for such talent, the corporations that do not support these individuals with training, technology, and the right resources are likely to lose talent fast.

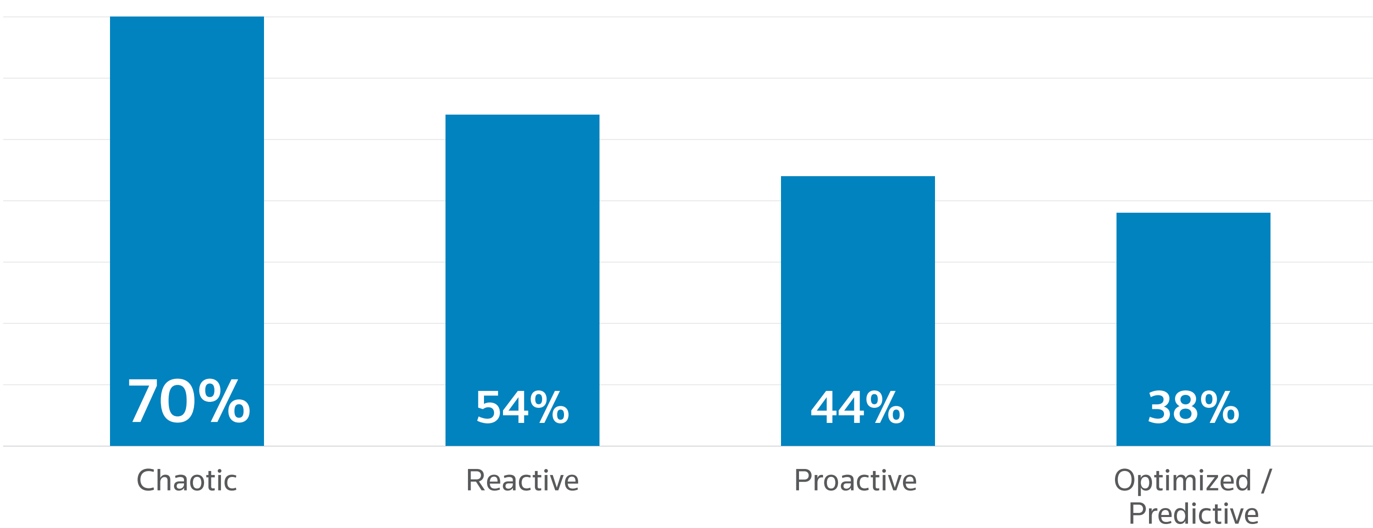
Chaotic teams were significantly more likely to feel under-resourced and were looking to address this by leaning more heavily on existing team members and external advisors. *Optimized* and *Predictive* teams were more likely to look to technology and have more efficient overall budgets, relative to revenue.

"That mindless cut-and-paste stuff... it's not the best use of talent."

"In a tight labor market for such talent, the corporations that do not support these individuals with training, technology, and the right resources are likely to lose talent fast."

"I was frustrated at how much time my team was spending on non-value added work — I don't pay them to manipulate data in Excel. I pay them to analyze data, understand what it means to us, and file returns."

LEVELS OF CONTROL – PERCENT FEELING UNDER-RESOURCED



Base: Chaotic (77); Reactive (101); Proactive (85); Optimized / Predictive (32)

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

How should tax teams and their companies address these issues?

Our initial survey went on to ask respondents how they were planning to address the challenges they cited. Their top suggestions included:

1. **Keep abreast of tax legislation and share your views**

   There's not a lot that corporate tax teams can do about the deluge of new tax legislation that Congress produces every year. However, they can participate in consultations and lobbying, especially around the question of how to make any new legislation easy to understand and administer. Tax professionals need to ensure their voices are heard in the corridors of power and influence.

   There are databases that will keep tax pros informed of new legislation while providing examples and interpretation; and there are also peer groups they can join to share concerns and ideas.

   "We have a lobbyist group in Washington, D.C., so we monitor a lot of the federal legislature and so on that way. State and local is a little more haphazard, but that team also tries to monitor the major states [in which] we operate."

   "That's a significant hurdle that we can't control — what tax reform looks like, not just in the U.S., but in a worldwide sense. Which countries are going to implement new tax laws, and how do we respond to those?"

   As COVID-19 creates even more changes to legislation, external tax advisory firms have been stepping up to share updates and knowledge, often free of charge. As is often the case, the most well-received advice is proactive, specific, and applicable to the company in question.

2. **Keep close to the business in order to plan more effectively**

   Similarly, there's a limit to how much tax teams can control the workload, especially when it's driven by external corporate actions such as acquisitions and market entry. What's vital, however, is that tax teams stay informed about such work and be prepared to get involved as early as possible. This preparation will ensure that any implications — not only for tax teams, but also for their resources — are clearly understood and factored into any project planning.

   This may mean tax teams will need to take a higher profile internally than they may have in the past. For example, they could launch an internal communications program that keeps their internal stakeholders informed of tax issues facing their business units and helps ensure stakeholders are kept in the loop on major initiatives.

3. **Invest in technology to gain control and to be in a better position to respond**

   Our data suggests that by taking a strategic approach to their technology investments and becoming more efficient and properly resourced, tax departments will be in a much better position to handle the workload and understand the implications of any new legislation.

4. **Invest in people, to ensure teams have the right skills to benefit from the technology**

   Survey respondents highlighted how important it is to keep their tax teams motivated and enthusiastic. These teams need to feel a sense of ownership of any new processes or technologies. This requires a combination of clear communications, practical training, and supportive leadership.

We explore these last two points in more detail on the following pages.

MAKING THE CASE FOR TECHNOLOGY INVESTMENT

Our survey showed that the average (median) spend on technology was 10% of total budget for corporate tax departments. More important perhaps was the finding that those departments that allocate *more than* 10% to technology tend to have less overall spend, relative to revenue — a clear testament to the direct benefits of investing in technology.

The most successful tax teams typically shared four characteristics in their approach to technology:

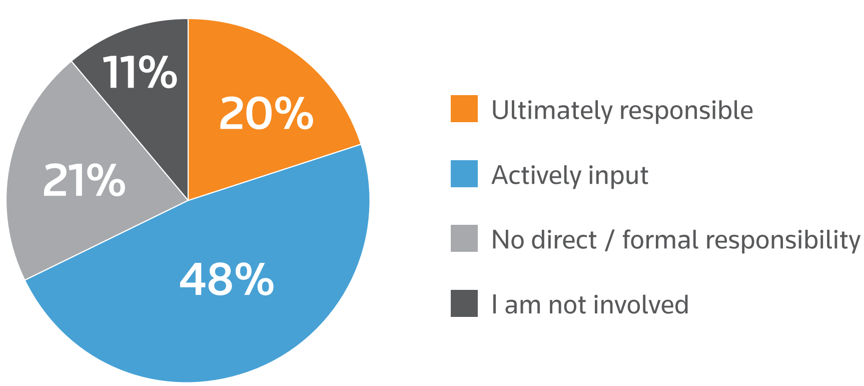
- A clear strategy
- Rigorous KPIs to track Return on Investment
- Dedicated technology headcount (if not in place, then at least planned)
- System consolidation and coordination

A technology-enabled approach to tax requirements has proven to be a huge advantage for tax departments, allowing them to work quickly, efficiently, and accurately through this crisis. A silver lining to this crisis might be the willingness to invest more resources in technology in the future.

In contrast, less sophisticated tax departments were more likely to be reliant on Excel, had probably tried (unsuccessfully) to implement some automation, and found that day-to-day pressures took priority.

Any technology strategy starts with making the business case for investment. Most of our respondents had input into this process, but only 20% had ultimate responsibility, while a similar proportion had no direct input. Predictably, direct cost reduction ranked as the most important point to make when setting out a business case for investment in the tax department. But it's important to break this down: It's not just about headcount reduction (*see page 16*), respondents also mentioned greater efficiency, speed of reporting, risk reduction, and improved tax positions as potential cost reduction benefits. In fact, all the other benefits listed in the chart below combine to drive a reduction in overall costs.

RESPONSIBILITY LEVEL FOR TECH BUSINESS CASES AMONGST RESPONDENTS



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"We took what was at best a three-day process, and we cut that down to a two-hour process, more with the same or less resources. That's primarily due to automation, artificial intelligence, machine learning, those kinds of things.

"The return. It's all going to come down to that — is it going to pay for itself?"

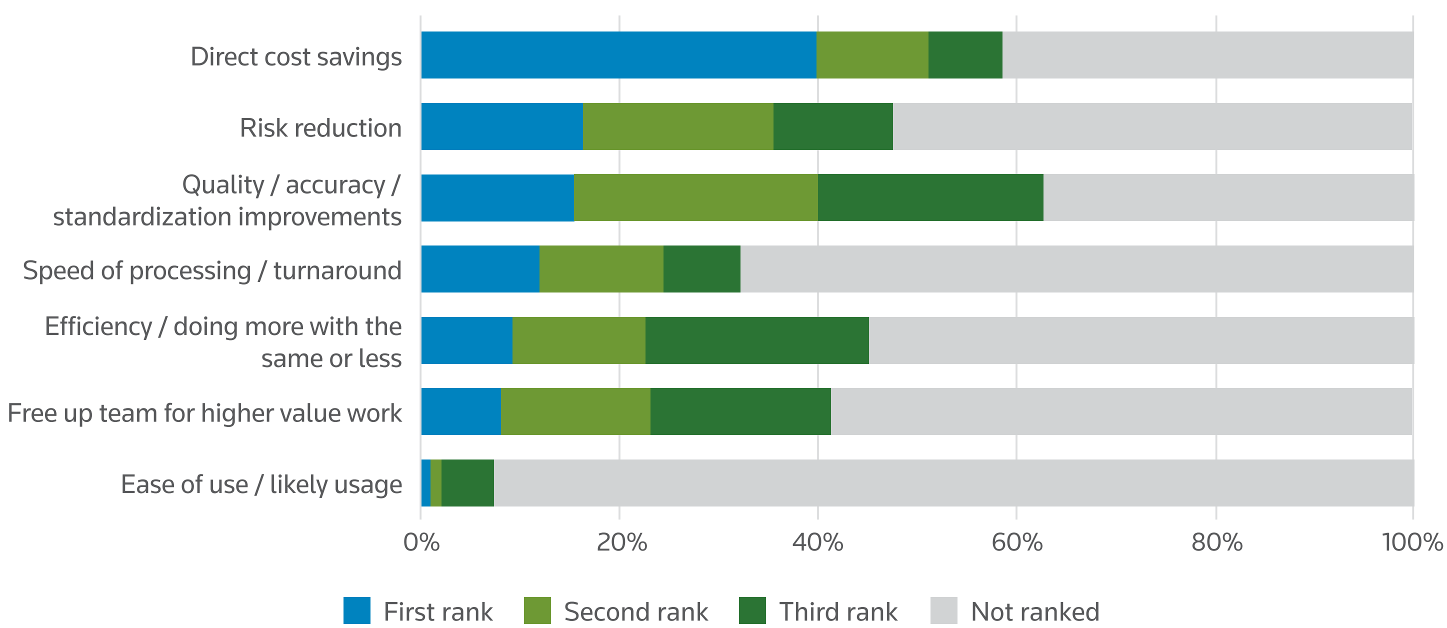
Several respondents talked about the process of making the business case — identifying who controlled the budget, what their motivations and interest were, and how best to present it. For the most part budgets sat with the CFO or head of IT. The CFO is most likely to simply focus on ROI — either headcount reduction or lower tax bills — rather than the detail of departmental processes that will change, said many respondents.

As we outlined earlier, IT can be more of a challenge, as they have other priorities as well as a limited understanding of complex tax issues.

Even when IT controls the budget, it's best for the tax team to control the process, as one respondent put it:

"It begins with getting buy-in from senior leadership, to say 'yes, we need to do this,' and then it begins with understanding who inside your company owns the budget. Often tax does not own the technology budget because the investment is quite large. In the company I was in, IT owned the budget; so I was making my business case to IT with the support of finance leadership and tax leadership, getting approval for the project, getting a budget I was going to need to work within, interviewing and bringing in vendors, and then submitting a request for proposals or quotes to the vendors. I spent probably half a year interviewing different vendors with my requirements, bringing in my tax staff [and] having them see demos of my vendors, then narrowing it down to two vendors."

RANK THE THREE MOST IMPORTANT ARGUMENTS YOU USE WHEN MAKING A BUSINESS CASE TO SECURE BUDGET FOR A NEW PIECE OF TAX TECHNOLOGY



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Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

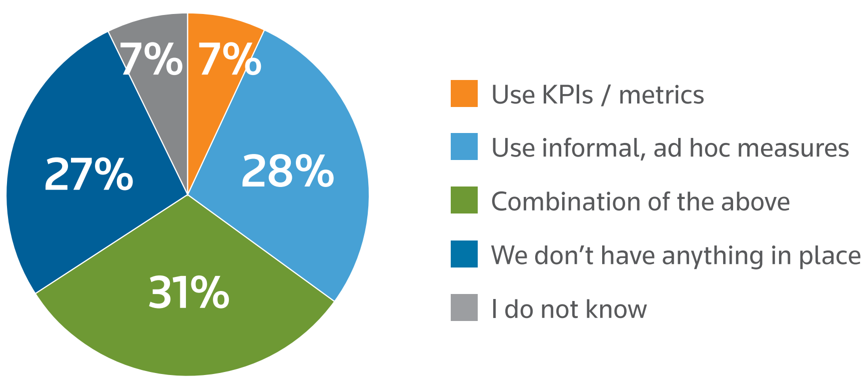
IMPLEMENTATION: WHERE TECHNOLOGY MEETS PEOPLE

Getting the budget approved and identifying the right vendors is only part of the battle — possibly even the easiest part. The challenge that remains is *implementation*, getting the buy-in of the team and making sure the technology is used to its full effect. As we saw above, this is often the hardest part — which is why all of this is more about people than about technology.

It starts with developing and communicating a clear strategy, usually based around a "burning platform". It's not enough to go straight to the benefits — leaders have to identify *why* change is necessary.

Only when the team has accepted this is it wise to move on to the next stage of discussing solutions. And at this stage it's vital to involve the end-users as to avoid the "not-invented here" resistance. Of course, for many companies this will be a standard change management practice, but some respondents stated they struggled to get staff to implement or integrate new systems that were imposed on them.

HOW IS SUCCESS MEASURED?



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"If you don't do a good job of implementation then you know it won't be successful."

"It's really all around what I would call change management — not only doing things differently, but thinking differently, and understanding 'what's best for the company?' It's not only changing what you're doing and how you're doing it, and then documenting it with controls, it's also the mental part of it, which can be just as hindering as anything else."

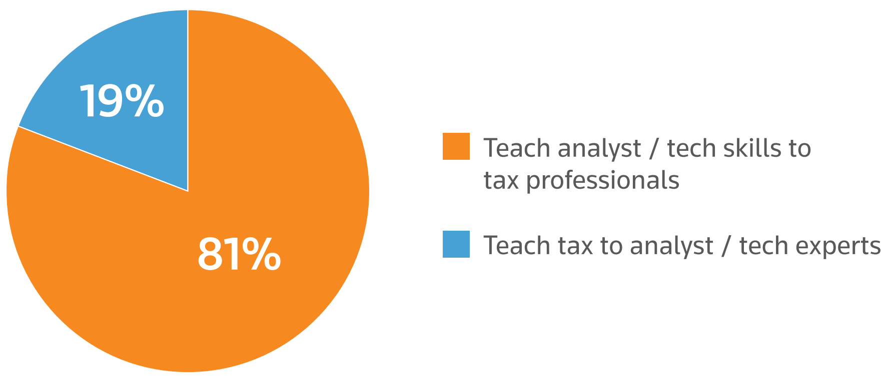
"This might seem obvious and most firms do apply some KPIs to measure success, but a surprisingly high proportion take an informal, ad hoc approach or have nothing in place."

"The KPIs are fairly easy; it's cycle time in your quarterly reporting, or time in your tax return compliance process. Controlled efficiencies are errors identified in the SCC reporting or in the tax return process; then hours incurred (which the finance group is very focused on); close dates and how quickly we can close; and the extent to which we can shave off hours — so there's a couple of easy KPIs in that perspective."

And at the heart of the people issue is whether a department has the right people. Sometimes it's simply a question of leadership — getting people to change their attitudes and be willing to adapt — but other times it's a question of skills. You either need to train existing staff or bring in staff with a new skillset. And that leads to the question of whether to create a role for a tax technologist.

The major debate here is whether these should be tax experts who learn technology or technologists who learn tax issues. There are convincing arguments for both sides, as our survey comments attest; but overall, the majority believe it is easier to teach technology and analytical skills to tax professionals rather than the other way around.

MAJORITY PREFER TO TEACH TECH / ANALYST SKILLS TO TAX PROFESSIONALS



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"I've had associates work with me that don't get the data analytics side, from an analyst perspective, to me it's harder to teach them that piece than to teach them the tax side."

"I think if you've got good analytics skills then you can learn the tax rules."

"Historically, it's been much better to have a tax person who is good with technology and can learn. I think it's a lot for people to have a business person become a technology person, rather than a technologist become an accountant."

"I would say there really wasn't a career path until eight or nine years ago. It seems to be evolving very rapidly now, so larger companies are going to have people like me who are tax and technology and then midsize companies are going to be trying to build that in-house by taking someone who is maybe strong in the area of tax provision. They will take people who are strong in working with their tax accounting and provision in technology, and put them into these tax technology roles, because they've proven they can understand the financial data and income tax type analysis and technology, and then apply that knowledge to indirect tax and other areas of tax."

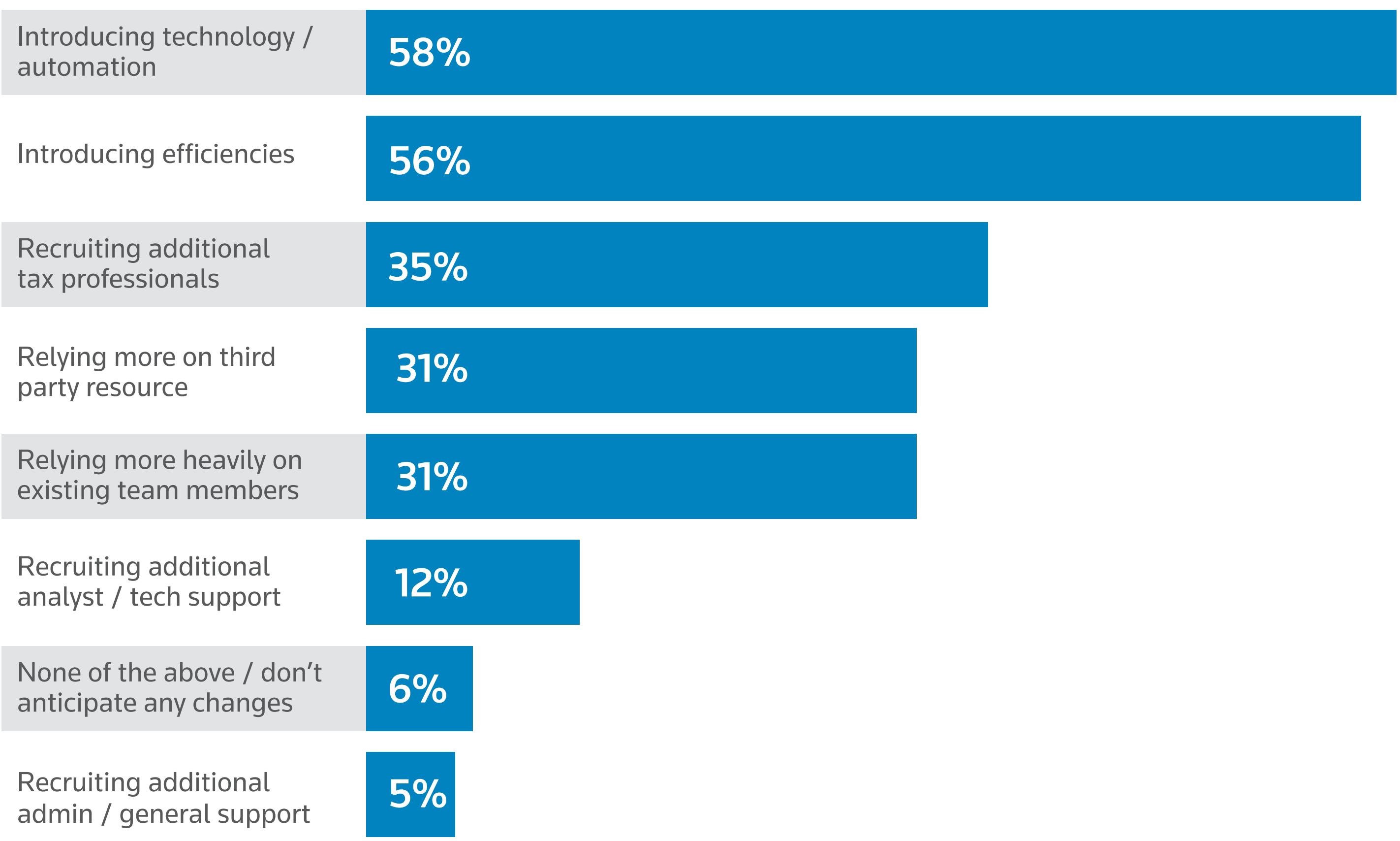
ADDRESSING THE TALENT & RESOURCE ISSUE

What do the best tax departments look like in terms of resources? What are they doing to address some of the issues we've raised so far? Budgets predictably can vary according to the size and complexity of an organization, and it's clear that larger firms enjoy some economies of scale. There's also some evidence that there are greater efficiency gains to be had from boosting internal spend versus external spend, but the data on this is limited and may not reflect spend on external systems being brought in-house.

Only one-third of our survey respondents said they were planning to recruit additional tax professionals, and 12% said they planned to take on additional technology support. If we look at the *Chaotic & Reactive* category of departments, they are more likely to be relying on loading more work on to existing team members. A small majority, 58%, said they intended to solve their resourcing issues by introducing new technology and automation; but as we have seen, this can increase rather than reduce resourcing issues unless it is planned and implemented properly.

A key finding from the data is that *Optimized & Predictive* departments are nearly twice as likely to have identified and addressed advanced skills gaps in their teams than departments in the other categories.

RESOURCING STRATEGIES



Base: 250

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

REVENUE AND BUDGETS

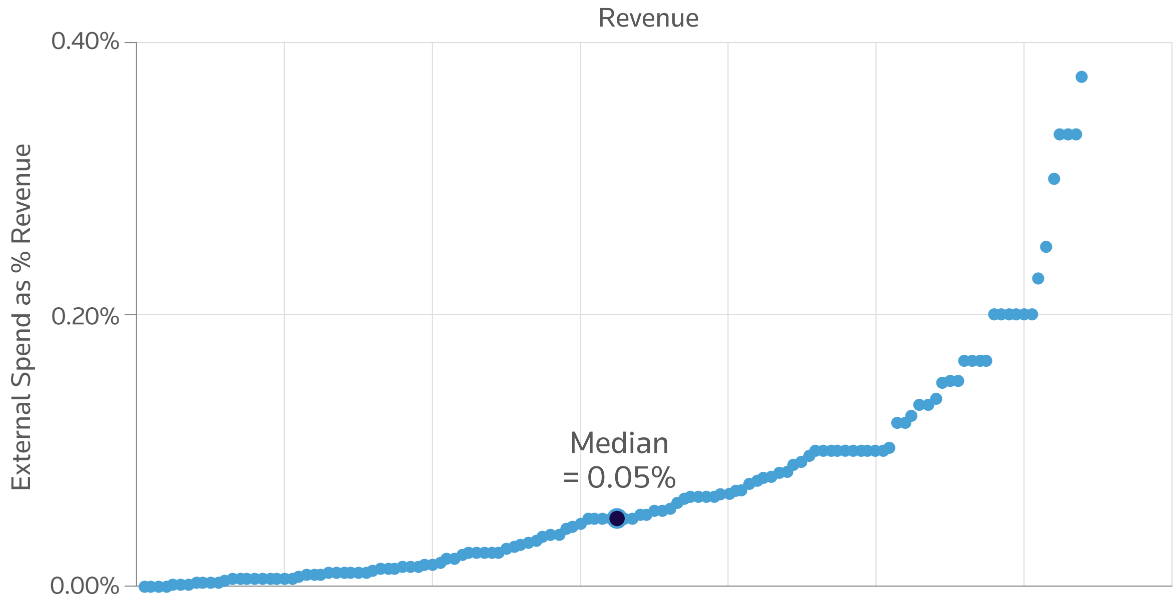
External spend generally accounts for 0.05% of revenue

$2.6bn
median revenue*

$1m
median internal budget

$600k
median external budget

0.05%
median external spend to revenue ratio**



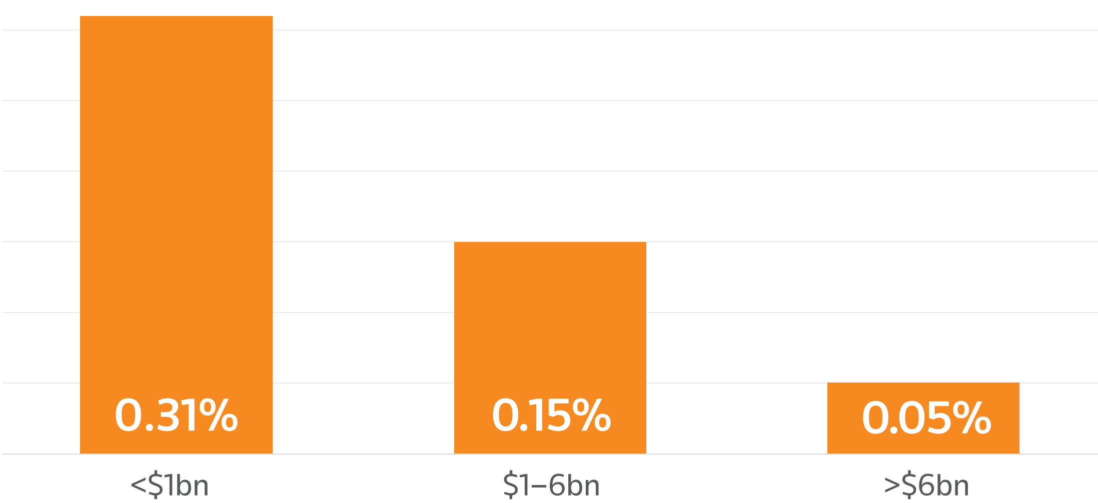
*Where specific revenue provided
**Ten outliers removed

Base: 135

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

ECONOMIES OF SCALE EVIDENT FOR TAX COSTS

Comparing organizational averages for different revenue bands



Total spend on tax (external and internal) as a proportion of revenue declines with size.

Base: 242

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

TEACHING TAX VS TEACHING TECH?

When it comes to talent and people, there are different approaches to addressing the skills gap and leading change. For example, there's a clear move to developing the new role of tax technologists, who will usually be tax experts trained in the art and science of data analytics, artificial intelligence, and other technologies.

However, *Optimized & Predictive* departments were more likely to favor training technology experts in tax, while some firms were willing to bring in pure technologists to sit in with the department to focus on developing its technological expertise. Very often these technologists will be young, junior staff from a new generation of employees. This, in turn, may bring additional management challenges for departmental heads as they combine different generations — Baby-Boomers, Millennials, and Gen Z — along with their different career and work expectations into one team.

"The younger generation is a technology generation now, but they don't have the tax technical skills."

"I tried to hire a tax technology manager, but the problem is they are few and far between right now, and they're very well paid, so I couldn't fit it into my budget. So, we pivoted a bit, and brought on a U.S. intern or co-op, so someone that's currently in college. He's a data scientist — he's not a finance major or a CPA hopeful, he's a true data scientist — so he's working with my team to build out some of these analytics and these dashboards."

"...there's a clear move to developing the new role of tax technologists, who will usually be tax experts trained in the art and science of data analytics, artificial intelligence, and other technologies."

"The other was a dual-major in IT & Tax, which is why we hired him. We definitely see that's something that will be very important to us, and we are expecting him to spend about 50% of his time doing tax work. The rest of it will be automating things, programming things, helping us keep our databases working. I think that most tax departments are going to need people like that."

"In June we have a person starting out of college who has a computer engineering background, data mining type stuff. I think we are going to be hiring that person with the vision of taking a look at different areas, saying 'Hey, how do we go ahead and do this?'" [Does that person have any tax background?] "No, she'll be right out of school."

Other firms talked of identifying *super-users*, internal champions who would lead the implementation and help avoid the "not-invented here" resistance. For many, the dilemma of eliminating headcount versus upgrading skills and roles comes down to a question of corporate culture and strategy.

"It's a company-wide pressure to not grow headcount, or to have a really good story if you need to grow it."

"I don't want to have it as a perceived threat, but there has to be some of that creating a little bit of anxiety to push them out of their comfort zone and take them into those new roles. If some people aren't capable and can't function in that role, that's fine; there will still be a need for the processing of the information role, but we want to get more people moving toward being more analytical and critical thinking."

These solutions all focus on internal resources, but a wealth of external support for corporate tax departments is available as well. Several respondents talked about joining peer groups and attending conferences to learn more about how other departments are addressing these issues. Others recommend finding a mentor, either within your own organization or outside of it.

"I'm one of the leaders of an oil and gas industry tax roundtable. We meet twice a year and that's all we discuss for about four hours: issues, optional solutions, things like that."

"Typically, when we implement some new software solution it was with the intent to reduce headcount. But, also with the changing complexity of tax rules and tax planning, rather than eliminate a position, we've been able to retool it and upgrade or upskill."

"I think it's really helpful that I'm on a tax technology board, so it's easy to meet these people that are doing the same thing as me day in, day out."

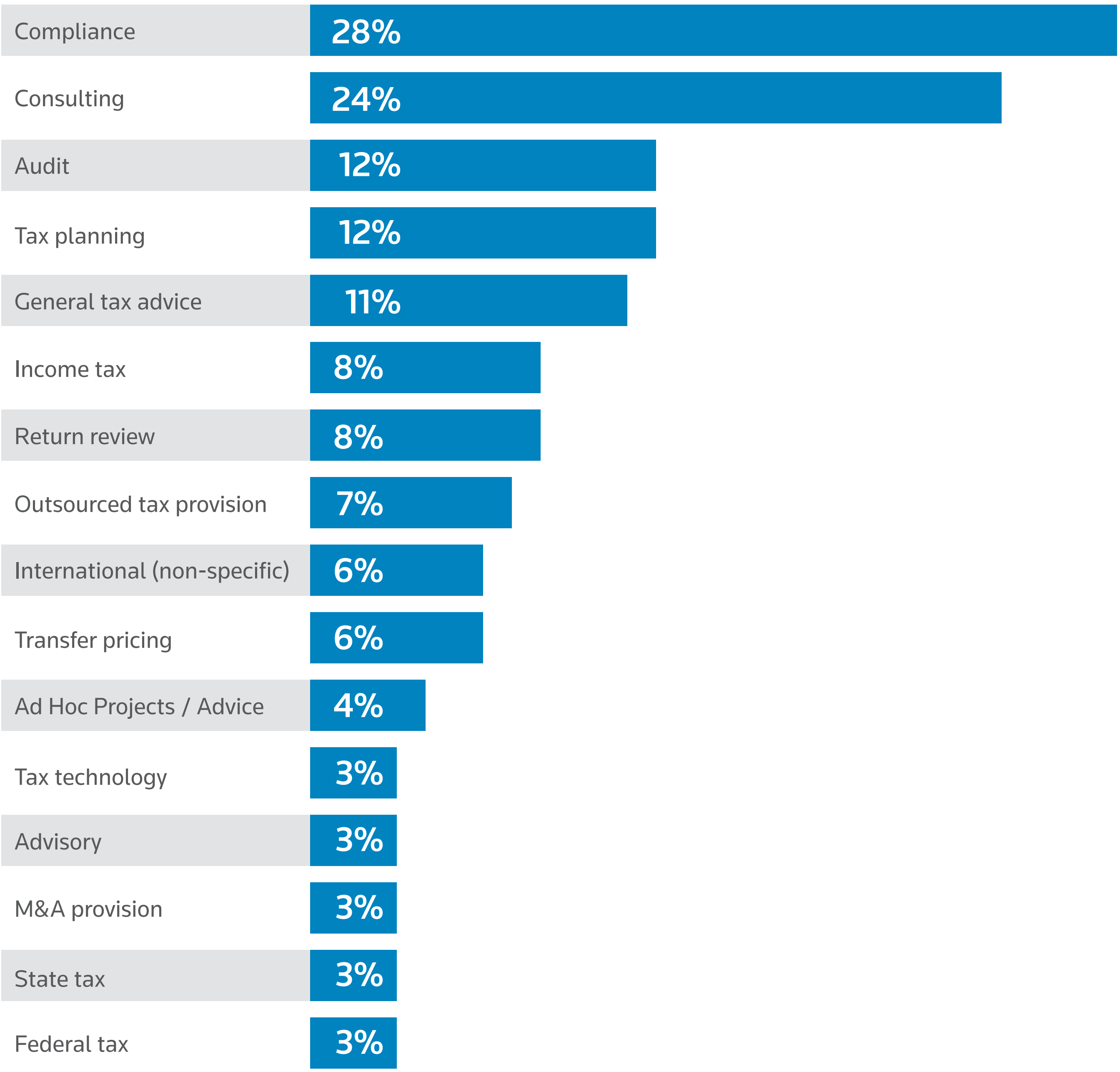
"Find a mentor. There are so many people who have been in tax technology for 15 to 20 years who are happy to share what they know."

The most common external resource, of course, remains the professional adviser — often, but not always, one of the Big Four accounting firms.

GETTING THE MOST VALUE OUT OF ADVISORS

Respondents turn to external advisors for a wide range of support. Sometimes it's to seek help with international issues, other times for specific tax questions, but the two top work types are Compliance and Consulting.

MOST USED FIRMS AND MOST REQUIRED WORK TYPES



Base: Work types (266)

Source: Thomson Reuters / Acritas survey of Corporate Tax Departments 2020

Whatever the activity outsourced to an external advisor, it's crucial to identify what really matters. Tax expertise is — or should be — a given, and this is predictably the #1 concern of any respondent who went to an outside adviser. But barring specialist areas, most firms are likely to bring similar levels of expertise to the table.

What else should firms be looking for? Respondents suggested some of the following:

- Project management skills;
- Leadership of a strong team;
- Responsiveness and speed of service;
- Competitive costs;
- Rapport and trust; and
- Business understanding.

Others suggested:

"Understanding the dynamics of the corporate function. They are typically great technically, but rarely understand the demands of the corporate environment."

"Deeper knowledge of company needs. Widening lack of compliance software knowledge at entry levels as moving offshore with processes."

"Speaking our lingo — some experts can be too technical and confusing. Not understanding our fact pattern and proposing irrelevant topics."

Once the external advisor has been chosen, it's worth agreeing on very clear service standards and KPIs — including response times, timelines, preferred methods of communication, frequency of updates, and key contact points — to ensure everyone understands what is expected.

The external advisor can go part of the way to understanding the business by using public sources, but to help them pivot to a true business advisor role, they will need regular briefing on business priorities and drivers.

Indeed, as you build key relationships with external advisors, they will often share invaluable updates that allow you to keep abreast of relevant developments and trends, particularly during times of uncertainty.

Conclusion

The world of corporate tax is entering a new era, in which technology will play an increasingly important role as companies wrestle with the ever-more complex set of rules and regulations from governments all over the world.

The old ways of doing business — Excel spreadsheets from siloed business units — must give way to a more unified, automated approach. Further, corporate tax department heads will find that they are competing for technology talent with other business functions and sectors unless they are prepared to develop their own specialists. And these will be tax experts who know technology, or technologists who understand tax issues.

It will take strong leadership skills — hard skills to set strategy, allocate budgets, and select the right technology; and soft skills to communicate the strategy, inspire their teams, and manage change. For those tax team leaders that get it right, there's great opportunity to add value and increase job satisfaction.

The COVID-19 pandemic will hit many organizations very hard. Indeed, 38% of tax departments felt their organizations would emerge weaker from the crisis, although 25% thought they would be stronger. According to our new survey, some of the benefits tax departments are seeing include becoming more resilient and enabling practices like remote working; but the negatives include significantly reduced revenues and lower profitability and even losses, plus the fear of a major recession.

For corporate tax departments, a modern approach has proved to be advantageous to best deal with this crisis. Keeping on this path is essential to long-term success and to best manage what lies ahead.

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