Special Report

The Tax Office of the Future

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Technology and talent

Future success will rest on the twin pillars of new tools and new skill sets

By Antoinette Alexander

Ever-changing regulations and the call for more strategic, data-driven insights will continue to shape the tax office of the future. For firms looking to remain competitive, this will mean leveraging advanced technologies and rethinking business models.

"The tax office of yesterday was all about being stuck with hard-to-find and hard-to-use data. But the tax office of the future is all about being able to utilize the right data effectively and fast, focusing on value-adding decisions, planning, strategy … a real connection to the business," said Brian Trauman, chief data officer for tax at Big Four firm KPMG.

While change within the profession has been underway for some time, there's no denying that it has been accelerated by the onset of the COVID-19 pandemic. Going forward, firms looking to maintain their competitive edge cannot afford to rest on their laurels. Doing so means a greater risk of losing talent, losing clients, and, ultimately, hurting growth and profitability.

"In order to get there, the tax office has to continue to invest in technology and data, working to unlock the value that tax provides for the overall success of the business," said Trauman.

Unlocking value

Unlocking value for clients will involve a continued shift away from a pure compliance-based business model in favor of higher-value, higher-margin services like tax planning and advisory.

According to the most recent Wolters Kluwer Tax & Accounting Annual Accounting Industry Survey of nearly 2,000 tax and accounting firms, 85% of firms reported that their clients want strategic tax planning and advisory services. Furthermore, a survey by Spotlight Reporting of 600 accounting professionals from the U.S., New Zealand, Australia, Asia, the U.K., Canada and South Africa, found an accelerated need for advisory services worldwide. According to the findings, 72.5% of respondents identified themselves as being part of hybrid or progressive advisory firms, and only 25.3% of firms considered themselves traditional in the sense that they mainly offer tax and compliance services.

In addition, 20.8% of firms said that they "derive a significant portion of their revenue from these value-added services." And the majority of firms (70.9%) said they "were providing advisory, but wanted to do much more."

In fact, the report found that 37.2% of responding firms expect that a hefty 51%-70% of their future revenue will stem from advisory work, and another third want future advisory revenue to fall between 31%-50% of their work. For many firms it will not be a question of "if" they should provide advisory but rather "how."

Echoing the sentiment, Cathy Rowe, vice president and segment leader for the U.S. professional market for Wolters Kluwer Tax and Accounting North America, said, "As many traditional accounting and tax compliance functions

become more automated, firms need to look at how they can grow their practice using value-add services and advisory, and be able to make the shift, because it will help with growth and increased profitability."

Some examples, said Rowe, would be "tax planning, risk management and overall strategic advisory services so that they can remain competitive. This shift will require tax professionals to develop deeper industry knowledge, analytical skills, and a more proactive approach to problem-solving."

This is not to say that compliance will not remain important. However, the commoditization of such services and shifts in client expectations are clearly leading many firms to rethink their business model.

Further leveraging technology and automation capabilities to drive efficiencies and streamline workflows will prove critical in completing compliance-based work, while freeing up time for professionals to focus on more advisory services. However, some industry sources also expect to see a rise in outsourcing compliance.

"I think a lot of firms are going to be using the hybrid model, outsourcing their compliance, which means they are able to focus much more on tax planning and delivering value with the technology and the value-add that technology adds," said Claire Tarrant, INDG practice lead for international tax at Bloomberg Industry Group.

Booming service areas

The tax office of tomorrow will also need to keep its finger on the pulse of a number of booming service areas, ranging from international tax to environmental, social and corporate governance. Industry sources agree that ESG is one of the hottest, if not the hottest, service areas on the horizon.

1. International tax. Given the ever-growing complexity of international tax, it is critical that multinational companies can effectively manage their global tax burden and ensure compliance with evolving regulatory and reporting standards.

"With the world becoming increasingly interconnected, tax practices must deal with international tax regulations and cross-border transactions. This will require the collaboration of tax professionals between countries, making sure they are staying informed about changing tax laws and understand the tax implications of the various international business operations," said Rowe, pointing to such examples as the implications of the Organisation for Economic Cooperation and Development's Pillar Two global minimum tax rules, and any ESG-related reporting requirements businesses may face.

Global tax reform is no doubt a hot-button issue as policymakers sharpen their focus on the globalization of business activity and work toward a global tax framework. Top 10 Firm BDO USA perhaps summed it up best in its 2022 Tax Outlook Survey report when it stated that "global tax reform is on a crescendo."

"Change is coming — the OECD is aiming for implementation of its two-pillar global tax framework in 2023-2024. So far, 137 countries are in agreement with the framework's provisions since it was rolled out in 2021," according to BDO. However, the firm noted that there "is a long road between agreement and implementation" and "the viability of the new framework will depend on the OECD's progress as well as each country's implementation and enforcement of the new rules."

The top drivers of global tax reform, as outlined by BDO, include:

- Calls for greater tax transparency;
- Digitalization;
- Disparity in taxation systems;

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Bloomberg's Tarrant also pointed to the importance of international tax services, saying, "The international tax services are absolutely critical, especially for your big multinationals. They help you keep up to date with frequent changes in tax legislation, you keep up to date with regulations and compliance, and that reduces penalties and fines. If you're a multinational with a footprint in 100 countries you absolutely cannot keep up to date with changes as quickly as they come through."

In addition to risk management, international tax services also help businesses successfully navigate strategic planning and such complex initiatives as mergers and acquisitions, joint ventures, disposals, restructuring, etc.

Added Tarrant, "Also there's the BEPS [base erosion and profit shifting] initiatives. That is aiming to close the gaps in international taxation, so [businesses] need to have access to international services that can help you plan. And then, obviously, Pillar Two is another area that is incredibly complex and relevant for many companies. It is incredibly complex legislation, so being able to access international tax services is critical."

2. Crypto. Cryptocurrency is volatile but it is also one of the world's fastest-growing industries.

"We've seen a significant increase in taxpayers engaging in crypto and digital asset transactions, and anticipate that growth continuing even though we are in a bit of a crypto winter. The transaction volume of crypto usage grew 567% last year, with approximately 26 million U.S. crypto users. Some sources tell us that only 10% of users are tax compliant. That low rate, combined with regulatory headwinds on the horizon, will drive the need for compliance and will create increased opportunity for tax professionals in the near future to provide guidance to clients," said Rowe, who highlighted the new IRS Form 1099-DA (for "digital assets") as an example.

According to published reports, Form 1099-DA is expected to be released in 2024. The new form will be used to capture digital asset activities so taxpayers can more easily report their crypto transactions.

In light of the IRS's increased focus on taxpayers' crypto activity, Rowe pointed to the importance of leveraging digital platforms to help with crypto tracking like CoinTracker or Ledgible by Verady, for example.

Meanwhile, Top 10 Firm Forvis, which was created by the merger of BKD and Dixon Hughes Goodman last year, is working to identify growth opportunities and develop innovative, forward-looking products.

"At our core, we are service providers, so we want to provide a service, but we also have a view of innovation and, through that lens, we look at how we develop products to better help us serve our clients," said Richmond, Virginia-based partner Fran Randall. "We have an Edge Group … an internal innovation group laboratory and they are designed to ideate, develop, and deploy highly impactful … technology solutions for both our clients as well as our internal personnel support team."

Some of the Forvis products that have emerged from the group include a tool to help management teams adopt the new lease standards from the Financial Accounting Standards Board, and one to help users navigate the New Markets Tax Credit Program.

Randall said that crypto is an area the firm is closely watching. "We are very attuned to the issues that are evolving in the crypto space. In fact, we regularly write what we call 'foresights

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and updates' to help our clients understand the regulatory matters. As we are hearing these regulatory changes coming out, we've taken a strategic approach to have a task force pulled together where we have our advisory minds come together, tuned into what's new, what's next, what's going on, and just trying to think about how we help our clients navigate that area," Randall said.

3. ESG. Far from just a buzzword, ESG-related measures are quickly becoming a business imperative as the focus on ESG legislation continues to heat up and businesses face increased pressure from investors and other stakeholders. Surfacing as a critical ESG issue for business is advancing corporate tax transparency.

"I've been to a lot of talks where heads of tax are actually saying that [ESG] is going to be a real issue for them in the future and you can't afford to not focus on that. … I think there's a lot of pressure on tax departments to identify the tax implications of their business ESG policy," said Bloomberg's Tarrant. "If you think about it, if your company has an ESG policy, tax needs to help them understand the tax implications of sustainability changes. So, there's a lot of pressure on the departments. It is certainly a service, I think, that firms could utilize and take advantage of in terms of professional advisors. That's a big one."

Underscoring this point, BDO's Tax Outlook Survey found that more than half (53%) of tax executives said they believe they should be very involved in strategic conversations on their organization's ESG program. Nearly half (49%) of respondents said that they are already involved.

The BDO survey also revealed some of the leading tax transparency reporting challenges that companies face, and found that "nearly two-thirds of respondents (62%) said data collection and analysis is problematic, pointing to an underlying issue of tax data governance and fragmented systems." Additional challenges include a lack of reporting standards, lack of strategic alignment, resource constraints, and a lack of reporting tools.

Trauman also pointed to the importance of ESG and the implications on tax: "There are so many opportunities on the tax side to help a company when it comes to ESG — everything from tax incentives to protecting your reputation by ensuring you're a 'good corporate citizen.' And with the substantial changes in tax law introduced under the Biden administration, there have been even more tax opportunities for companies."

The impacts of AI

To remain competitive in a challenging environment, firms are increasingly turning to automation and innovative technology like artificial intelligence to drive greater efficiencies, expand bandwidth, and better serve clients.

"To say artificial intelligence and generative AI are helping to get things done a lot more efficiently would be an understatement. We have really been blowing the lid off when it comes to its implementation and seeing its rewards firsthand — for professional services and companies at large, but also specifically for tax departments. We're asking ourselves, 'How can we embrace and embed artificial intelligence into how we deliver for our clients?'" said Trauman of KPMG.

He is especially excited about the potential impacts of generative AI, which is an emerging form of AI that can perform tasks such as creating original articles, music, and even code. Generative AI recently made news headlines with the debut of ChatGPT, a sophisticated, next-generation chatbot developed by OpenAI. "It's really exciting. A lot of people are using generative AI for pretty simple tasks right now, but its potential and power are enormous," Trauman said.

Examples of current uses include using the technology to generate client emails, or scanning a company's 10-K filing in seconds to generate talking points. There is still the need, however, for human talent to review, tweak, and ensure accuracy.

Said Trauman, "Gen AI enables us as accounting, finance and tax professionals to be a lot faster in what we do and better armed to have the right discussions, continuing to bring strategic value to our clients. The important thing to remember is that generative AI has not replaced the consultant who brings with them a more nuanced skill set, valuable perspective, and a deeper understanding of data analysis. AI can appear confident but still make errors — and while technology will continue to advance, it will still need, especially today, that human element to complete the equation."

When asked about some of the benefits and uses of AI, Tarrant said, "It can identify risks and anomalies, and you can proactively fix areas if you can see the patterns and mitigate risk. … It allows for cost savings because you're automating tasks, and it basically enhances your decision-making is what I would say. You can make informed decisions and I think that's really important."

However, Tarrant also stressed the importance of human talent and ensuring that staff possess the right skill sets. "This is why it is so important that heads of tax upskill their staff so that they can actually have access and use this technology in the way that it's meant to be used, and not just have the latest and greatest thing. That upskilling is critical." **AT**