



# Transforming tax through integration with finance

How tax and finance are  
becoming a transformative  
force within their organization

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
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# Tax is integral

Tax teams around the world are facing a tax landscape that is growing dramatically more complex and competitive. New reporting and regulatory paradigms are emerging — including digital tax filing requirements, environmental, social and governance (ESG) reporting, and base erosion and profit shifting (BEPS) 2.0 initiatives introducing global minimum tax — all are driving change at unprecedented scale and pace. Meanwhile downward pressure on budgets and the ongoing race for talent are making a difficult situation even more challenging.

As the world emerges from the COVID-19 pandemic, these forces have triggered in the need for transformation, both finance transformations and the integration of finance and tax.

And so, we find the tax function at a point of inflection for change. Conventional operating models are no longer fit for purpose. Those who continue to cling to them risk falling foul of the fast-paced regulatory change, adding to already spiraling costs, and missing a golden opportunity to add value to the broader business — whether that's guiding sourcing decisions with knowledge of duties and tariffs; influencing expansion strategy by highlighting available incentives; or even helping to fund large-scale transformations by optimizing tax credits available for doing so.

To meet this potential, tax must redouble its collaborative efforts with finance to digitally transform their operating models, and ensure they are sufficiently resilient and future-proofed to deal with disruption in the months and years ahead. Key pillars of this transformation will be to review processes and data, and to use technology to link together the tax and finance functions.

“Business operating decisions have long been based on financial information and reporting, but the trend we're now seeing is that tax can have a very large impact on business operating decisions too,” says Daren R Campbell, EY Americas Tax Technology and Transformation Leader. “But tax departments of today are like archeologists — in order to determine future tax implications, they look at transactions that happened sometime in the past. If tax strengthens the bond with finance, using tech to bring its work closer to real time, businesses can effectively factor tax in as part of the broader decision process.”

Indeed, there are huge opportunities to be gained from tax strengthening its bond with finance and positioning itself at the vanguard of transformation. If these departments can achieve greater alignment, they will not only keep pace with rapid change; they will succeed in becoming a transformative force within their organization, increasing its potential to thrive in an uncertain future.



# 1 The importance of designing a technology roadmap linking tax and finance

An effective technology roadmap will help align tax with finance and become a driving force in business transformation.

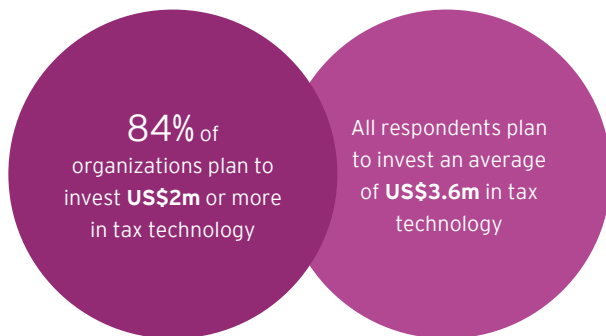
Companies are showing clear intent to invest in tax technology transformation, despite the trend for budget cuts. According to the EY 2022 Global Tax Technology and Transformation Survey Report, 61% of organizations say their tax department strategies are now focused on investment in data; while 84% of organizations plan to invest \$2 million or more in tax technology, with an average of \$3.6 million planned over the coming three years.

### The majority of tax and finance functions are pursuing increased value through investment in tax technology

#### Tax department strategies



#### Investment plans in the tax technology by organization



Source: EY 2022 Tax Technology Transformation Survey for companies with \$10bn in revenue or more.

The need to invest makes sense when we examine the current state of play. Tax departments report little usage of many tax technologies. According to the report, only 12% to 34% of tax functions are extensively using advanced technologies such as automation, cloud-based platforms, data integration tools, data visualization tools, enterprise performance management (EPM) or corporate performance management, fast close technologies or workflow management. This is likely down to a lack of understanding the technology and what’s possible; the potential cost of training and implementation; and the lack of time or external pressure to commit to new systems.

This is going to have to change. Beyond the strategic imperative, the fundamental changes to international taxation introduced with the likes of BEPS 2.0 requires processing a volume of data far beyond the scope of existing systems. According to Albert Lee, EY Global Tax Technology and Transformation Leader and EY Asia-Pacific Tax Technology and Transformation Leader, “a lot of companies just manage their tax function through basic tools like spreadsheets and shared drives. But you won’t be able to calculate data-intensive calculations like BEPS 2.0 on a spreadsheet in a timely manner.”

Those companies that do use more advanced systems, for tasks including document management, workflow and collaboration, report the technology adds significant value. Such tools can help to get more done with fewer people, reduce risk when it comes to audits, and achieve a single source of truth through more sensitized data.

“Tax has always been very manual, relying on workarounds, because they haven’t had the budget or focus. A roadmap and vision are critical first steps,” says Lee.

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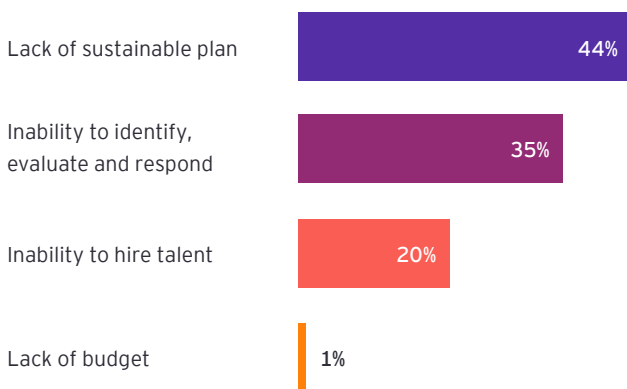
**Tax has always been very manual, relying on workarounds, because they haven't had the budget or focus. A roadmap and vision are critical first steps.**

**Albert Lee**

EY Global Tax Technology and Transformation Leader and EY Asia-Pacific Tax Technology and Transformation Leader

Indeed, for in-house tax functions, developing a tax technology strategy and roadmap to underpin these new processes is a critical first step. This roadmap should include a robust reporting framework, linked to finance, that ultimately spans the whole finance and tax life cycle. Forty-four percent of survey respondents state that the lack of a sustainable plan for data and technology is the biggest barrier to achieving their tax and finance vision.

### Barriers to tax and finance functions delivering on purpose and vision



Source: EY 2022 Tax Technology Transformation Survey for companies with \$10bn in revenue or more.

“A transformation roadmap is very important,” says Lee. “A roadmap is nothing more than a game plan, and you don’t go into anything without a plan. But what’s important with a roadmap is to make it evidence-based, perform current state and impact assessments, and evaluate the various options for solutions, all to support your business case.”



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**Daren R. Campbell**

EY Americas Tax Technology and Transformation Leader

And roadmaps are only becoming more important with the advance of technology. There was a time when implementing new enterprise resource planning (ERP) systems typically involved planning for major builds. The challenge then was that, by the time the arduous process was complete, everything from regulations to business models and the technology itself had moved on. Modern technology now enables companies to approach such implementations more flexibly, in smaller building blocks. But this too creates problems.

“A lot of companies will implement tools such as automation, to try to solve a specific immediate issue, without looking forward,” says Campbell. “Only to find later that it doesn’t really fit together with the broader picture.”

As an example, Campbell recalls being drafted in to automate processes within a company comprising 15 different business units. Tax data was being sourced from a range of different places, adding complexity to essential disciplines such as transfer pricing. Campbell’s team repeatedly asked where the data came from, and eventually found that it all had the same point of origin. Armed with this information, the team was able to create a single automated system, making only minor adjustments for each of the 15 use cases.

“This illustrates the importance of the roadmap and the danger of not having that wider view,” says Campbell. “The company could have ended up with 15 different automations, and that would have been very expensive to build and maintain. This is the biggest thing we see: a lot of companies are missing out by simply trying to fix the immediate pain point. Look upstream and understand where the data is coming from before you automate. That’s where there’s a lot of missed opportunity.”

Armed with an effective technology roadmap, tax has real potential to align with finance to become a driving force in business transformation, showing the wider organization how to develop an integrated ecosystem of emerging and mature technology.

# 2 The case for aligning tax and finance

Leveraging data to the maximum extent means that tax and finance functions must align for the greatest value.



Tax is ultimately based on financial information. Companies pay tax based on critical data that has a financial foundation – whether that’s profit, or the value of a transaction.

To achieve maximum impact with technologies such as data analytics, machine learning, artificial intelligence and intelligent automation, that data needs to be liberated and democratized, so it can be accessed and leveraged at all levels, including the end user within the tax function.

These days, organizations can no longer afford to tolerate a siloed approach to data.

“Given the volume of data requirements for tax, in terms of process efficiency, a single source of truth is now a must,” says Lee. “It’s also a must in terms of data integrity, supporting audits and enquiries. More and more, we see tax authorities around the world auditing by looking into the source systems, as opposed to doing a desk audit, so companies don’t get the chance to re-present their information back to the tax office.”

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To leverage data to the maximum extent, and to create this single source of truth, organizations should consider investing in IT architecture, such as data fabric, and next-generation ERP systems, including SAP S/4HANA.

For tax teams unable to participate in ERP transformation, perhaps because such a process has recently been completed, another alternative is to harness EPM systems, which consolidate data from different source systems and are typically used for group financial reporting, planning, budgeting and forecasting. EPMs are a good option for tax functions as they consolidate information from different sources.

Other emerging technologies may be worthy of consideration too. Take blockchain, which has the power to further disintermediate and decentralize data exchanges, ensuring that value and information changes hands at the fastest speeds possible. The added power of blockchain is that it can be used much more broadly to help with the veracity of data throughout the supply chain, to help process and track customs and duties and other linked payments.

According to the EY 2022 Global TTT Survey Report, 84% of respondents agree that the tax function is seen as a strategic business partner by the organization’s owners, board and C-suite. At the same time, technology is enabling businesses to treat data as a strategic asset. In this environment, tax and finance, which historically have had so much data at their fingertips, can truly embrace this strategic role, adopting a more prominent position and providing a wealth of data and valuable insights into the business, at speed.



# 3 Collaboration – leveraging ERP implementations

The tax needs when implementing an ERP system is a critical part that is often overlooked.

When companies embark on implementing new ERP systems, tax needs can often end up as an afterthought. Yet EY research shows how critical it is for the tax function to work alongside finance from the project's inception.

Tax departments that do work with finance overwhelmingly report that their tax data was sensitized during the ERP implementation process. Sensitizing data up-front enables teams to get the necessary tax information faster, and to use that information strategically as opposed to reactively.

Without close collaboration, both tax and finance teams encounter high levels of inefficiency and additional cost in meeting regulatory requirements and are exposed to greater levels of risk.

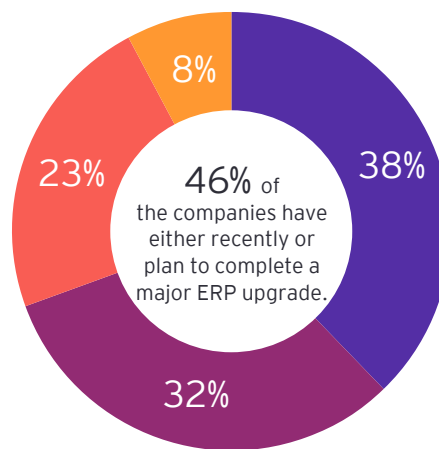
"We saw a worst-case scenario example recently, where tax was not involved in the planning discussions at all," says Campbell. "Under the new ERP system, tax actually lost some of the data it had in the old system and was unable to report properly. There was then a big scramble to try to figure out how tax would even get that information. And the eventual workaround was a lot more expensive than it would have been just to design it right to start with."

The latest ERP systems have added new tax-specific capabilities, improving the quality of data as well as processes for tax purposes, thereby allowing tax personnel to focus more effectively on such value-added activities as business integration and tax planning.

According to the EY 2022 Global Tax Technology and Transformation Survey Report, more than half of respondents that have undergone an ERP upgrade in the last two years believe it was a success. Fifty-three percent said they disagree with the notion that their recent ERP upgrade has not yet delivered on expected value.

With 46% of companies having recently completed or planning for a major ERP upgrade in the next two years, tax teams should ensure they have reserved a seat at the ERP implementation table. If they don't, they may find their reporting requirements simply are not met.

### Percentage of companies looking to upgrade their ERP systems



#### ERP upgrades:

- Planning a major ERP upgrade in the next two years
- Looking to rationalize to fewer ERP instances
- No recent or planned upgrades
- Had a major ERP upgrade recently

Source: EY 2022 Tax Technology Transformation Survey for companies with \$10bn in revenue or more.

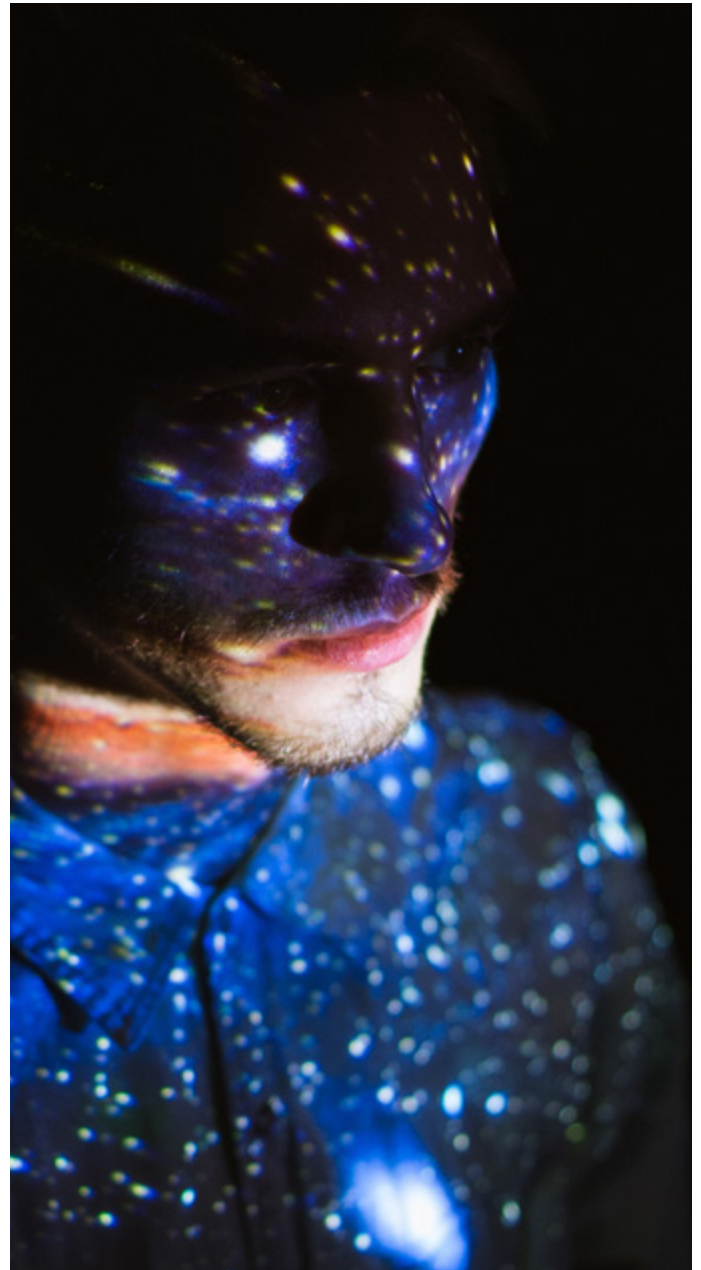
“The biggest thing is going to be for tax to communicate with finance, so they understand each other,” says Campbell. “We’ve held workshops with tax and finance sitting in the same room and talking about the issues for the first time. I’ve seen a lot of eureka moments there.

“In one specific example, the finance team said they’d never understood what tax was doing with the data they were requesting. When the tax team talked about what they needed, finance realized there was actually another report they could give tax, that would be exactly what they were looking for. Tax had been taking five different reports and consolidating them; finance was talking about a single source of data that they’d had the whole time.”

The prospect of a cross-functional ERP transformation may seem daunting, in its potential complexity and cost. If so, using an outside advisor may be an efficient and cost-effective way to absorb the unavoidable burden in terms of resourcing and skills, rather than pulling a full-time tax professional off the team and needing to cover their work for the duration of the process.

An external advisor may also offer invaluable help advising on leading practice, and how to benchmark against peers.

“Unless the tax function has someone who has been through several ERP finance transformations in the past, it’s going to be very hard to implement best practice and be able to identify where some of the risks and challenges are,” says Campbell. “Getting outside support gives you the ability to temporarily add people who have the experience of going through similar transformations, potentially in the same industry, to provide input on leading practice and benchmarking, and how to advocate for tax in the appropriate way.”



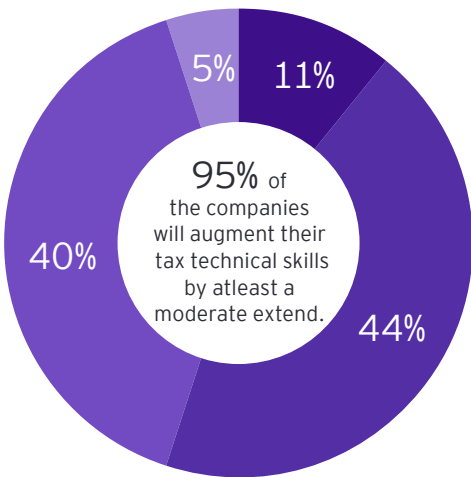
# 4 Winning the race for talent

There is an increasing need to utilize technology to meet the demands of escalating workloads for the tax professional.

With the increasing integration of tax and finance activities, the continued infusion of technology, and the difficulty tax departments are now facing in finding new recruits to meet the escalating workload, there will be a significant focus on ensuring companies have the right talent and skill sets, both to enable the change and to extract the full potential benefit.

In tax alone, 95% of the companies surveyed expect that their tax personnel will need to augment their tax technical capabilities with data, process and technology skills in the next three years. This is no simple task.

**Companies expect their tax personnel will need to augment tax technical skills with data, process and technology skills**



**Expected skills extension:**

- Very large extend
- Large extend
- Moderate extend
- Low extend

Source: EY 2022 Tax Technology Transformation Survey for companies with \$10bn in revenue or more.

“It’s unreasonable to expect the whole tax profession, which already has a very technical job, to become experts at technology overnight,” says Lee.

Some degree of the tech burden will be offset by the fact that technology is being democratized. Tax professionals can take advantage of the fact that AI and other cutting-edge technologies are being embedded invisibly in the tools they are expected to use, so they don’t need to be a deep technologist to flourish in the role.

But that can only go so far. Again, there is potential scope for outsourcing to, or co-sourcing with, a managed service provider, who can shoulder some of the resource burden and introduce the necessary expertise into the tax function.

“Tax and IT each require completely different training,” says Lee. “It’s like telling a doctor you want them to go and be an engineer. There are some physics and chemistry involved with both professions, but they’re fundamentally different, so it will take some retraining to crossover. One way to bridge those challenges is to work with external professionals.”

Campbell cites the example where EY leaders introduced a team of data professionals to handle the initial data ingestion, which allowed them to centralize the data, standardize the process, and identify where automation was possible. They could then let the tax professionals focus on doing what they did best.

“We put that data transformation work into the hands of professionals who are trained in data,” says Campbell. “And we’re letting the tax team focus on the tax determinations, applying the tax law to that data. As opposed to expecting our tax professionals to be the data transformation expert too.”

Another key takeaway here is that, while the focus is on data automation, skilled people still have a critical role to play in the process. It’s a case of tax professionals working together with the machines, rather than engaging in a race against them. In any finance and tax transformation, people should remain at the center.

“You need people to execute on the strategy, to create the transformation plan and the systems, and then to operate it,” says Lee. “It still requires judgment. And it still requires exception management. That’s why human resources will play a significant role in all of these transformation projects.”



# 5 Steps for successful transformation

Finance and tax functions must embed agility and sustainability into their operating model through key steps.

With enterprise-wide transformation high on the C-suite agenda, CFOs are eager for both tax and finance to reinvent themselves too. They want their tax and finance functions to analyze their operating model, and increase efficiencies, do more with less, and manage the analytics and value coming out of their common data sets. Budget-wise, they know that to meet these priorities, they need to invest in innovation and technology.

EY teams' latest research points to a much tighter coupling between tax and finance in this transformation process, where historically they may have been more discrete.

Finance and tax functions are well advised to embed agility and sustainability into their operating models. Here are some key steps to achieve that:

1. The first task is to **assess your current state** against potential future requirements and run a gap analysis. A key part of this involves functions sitting together and making sure that finance understands exactly what tax needs and why.
2. The changing regulatory environment means extra work, which necessitates **using technology**. Tax professionals with the necessary skills are required, not just to handle the volume, but to manage the heavy data requirements alongside cutting-edge automated tools.
3. Identify which **operating model** best supports the desired strategy. This could be outsourcing, hybrid or co-sourcing, or in-house function redesign.
4. **Leveraging your enterprise systems**, thus building a common, standardized data framework, the resulting ecosystem (which EY teams refers to as the intelligent tax and finance function) will allow ERP, EPM and other source systems to underpin the entire finance and tax record-to-report process.
5. Build the ecosystem incrementally. It should start with leveraging the existing enterprise technology stack and build your data models to support your use cases. Together it will enable **continuous improvement** and help drive long-term value for the enterprise.

# About the survey

## Insights from 1,653 executives globally

EY 2022 Global Tax Technology and Transformation Survey was conducted by Euromoney Thought Leadership Consulting from September to November 2021. The survey gathered insights from 1,653 executives around the world to understand how tax and finance functions are being affected by change. As EY teams were not identified as the sponsor of the survey.

Participant profile:

**1,653** senior tax and finance executives

**12** industries

**42** jurisdictions





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