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Chief tax officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. *CTO Insights* is designed to highlight top-of-mind issues for tax executives and ways CTOs are addressing these opportunities and challenges. We are confident that you will find the information in each issue of *CTO Insights* practical and actionable in demonstrating the value you and your department bring to your organization.

Addressing talent risk: Approaches for building tax teams of the future

Since the COVID-19 pandemic ignited a "Great Resignation," a deepening talent shortage has become a top risk for C-suite executives in many sectors and industries. CTOs are under particular strain when it comes to staffing teams with the skills and expertise needed to compete in the rapidly evolving future of tax.

Drivers of tax workforce disruption

Challenges in attracting and retaining talent to fill tax roles preceded the pandemic era and have been worsened by the workforce disruption that ensued. Several factors are converging to push talent investment toward the top of the CTO agenda.

For one, the role of tax departments is changing as regulator and stakeholder demand for reporting transparency increases in both volume and complexity. In many organizations, tax is being elevated to a more influential place in the corporate structure to better reflect an expanded view of the value of tax to the wider business. Today's tax activities are becoming more strategic and advisory in focus, with tax leaders moving closer to the nexus of finance, operations, and communications. To manage new priorities, meet raised expectations, and provide strategic counsel to top leaders, tax functions require people with broader skill sets beyond traditional technical tax backgrounds. This includes soft skills like critical thinking and problem solving as well as strategic business knowledge and savvy.

Another related driver of current talent risk is the digitization of tax, which is changing the hiring landscape. Facing mounting compliance requirements as well as calls from the C-suite to contribute tax insights beyond reporting, tax functions are rapidly overhauling older platforms and systems and adopting new tools and software for managing and analyzing data and enhancing operational efficiency. As such, there is a growing need for technical know-how in the tax function. Tax leaders are increasingly looking to hire more technologists and data engineers alongside tax professionals.

Adding to the talent gap is a larger demographic shift affecting the U.S. workforce at large. Many tax leaders are aging and retiring, taking with them their expertise.

Finally, worker expectations in tax—like most other parts of the business—are shifting dramatically in the post-pandemic world. People—especially younger generations—are placing greater value on cultural factors such as purpose, flexibility, work-life balance, growth opportunities, and general job satisfaction. While compensation certainly matters, traditional draws such as high salaries are being somewhat deemphasized as professionals evaluate employers and jobs. Many organizations are reinventing work models and policies to accommodate these workforce trends and create a positive work culture that people want to be part of. Yet high attrition persists, increasing already high competition for top-tier talent.

Talent strategies for reimagined tax functions

When it comes to hiring, both adding staff to fill expanding departments and replacing workers who leave due to retirement or attrition has proven difficult. Changing attitudes about work, a competitive talent environment, and hard-to-find skill sets mean the profession simply isn't attracting new professionals to its ranks.

With open roles and skill gaps common challenges cross departments, CTOs are taking a variety of approaches to improve talent attention and retention.

To improve hiring success, some CTOs are using professional recruiters more often than in the past, despite the associated cost. For example, one CTO received few quality applications to a role posted online. Recruiters with access to the broader finance community the CTO then turned to were able to solicit much more reliable talent sources.

Another approach, leveraged by some CTOs, is reevaluating structures for open roles. This can help better align searches to more readily available talent.

CTOs are also cultivating opportunities to recruit from elsewhere in their own organization. For example, organizations likely have people with strong accounting and analytical skill sets in finance or technology roles that can be trained for jobs in tax.

Meanwhile, CTOs are leveraging work model changes as a recruiting tool. For example, as talent pipelines near their main office locations become smaller, some CTOs are considering creating fully remote positions.

To cope with impending talent retirements, upskilling is a key strategy in many tax departments. For example, some CTOs are developing more transparent pathways for succession planning. This often includes training and preparing mid-level managers to become top leaders. One CTO imposed a rule that senior team members must bring a junior team member to meetings with the CFO or comptroller, helping increase subject matter knowledge, improve public speaking, and develop other leadership competencies.

A CTO in a flat organization takes a different approach: providing opportunities for team members to work in other groups within the tax organization. This gives employees the chance to learn new skills without making significant changes to the teams. Similarly, another CTO has found success in cross-training tax and treasury employees.

Upskilling is especially crucial in areas of tax that require technology and data prowess. CTOs are investing in people who understand the tax part but are tech-savvy enough to grow the knowledge needed to effectively collaborate with IT. For example, in several tax departments, professionals with tax backgrounds are actively teaching themselves Alteryx on YouTube.

With "flight risk" a key concern, another talent-related focus area is improving employee engagement. CTOs use a variety of tools to spur excitement among and create connections to each other and the wider business. They can be as simple as facilitating "get to know your colleague" sessions or as innovative as arranging visits to manufacturing facilities to see how products are made.

CTOs are also taking action to avoid dissatisfaction that cause people to seek out new opportunities. For example, if financial resources made available by HR are insufficient compared to competing offers, some CTOs are considering off-cycle adjustments for existing employees—especially those in higher compensation ranges.

Finally, the implementation of technology is a great tool for retention, CTOs say. Younger staff tend to be excited by and interested in being involved with technology adoption and implementation. Time savings associated with reduced data management and manipulation also provides staff with more time to work on systems or more substantial work.

Questions to consider

- What outside-of-the-box recruitment strategies can increase access to in-demand talent and help overcome limited tax talent resources in the market?
- How can cultural and work model changes help engage diverse groups of employees, improve satisfaction in the tax department, and avoid the cost of heavy attrition?
- As tax functions take on a greater business advisory role, what skills and backgrounds are needed to meet new responsibilities and drive new value?

Implementing outsourcing: An option to ease talent and workload shortages

From turnover and retention issues to skill deficiencies, to added day-to-day demands, to an all-out war for talent, many CTOs are struggling to access people resources within their companies' local markets to staff the internal tax function. This is especially the case in smaller tax groups, where main tax staff may be unable to deal with high-volume workloads and the lack of upward mobility makes the team less exciting for potential talent.

One approach for easing tax talent issues is cosourcing and outsourcing. Cosourcing and outsourcing arrangements are not new for tax; they have long played a key role in executing tax operations on a domestic and global basis. However, different factors and variables are beginning to influence decisions to use external providers, select the right model, determine the type of work to outsource, and identify good-fit third-party advisers and providers.

More outsourcing of basic compliance

As a general trend, tax departments have traditionally leveraged outsourcing partners for higher-end work, asking in-house teams to handle most day-to-day activities.

The market is now experiencing somewhat of a reversal. There is an uptick of external corporate compliance resources being used for high-volume, low-risk workloads that can be handled securely and efficiently. Under such outsourcing models, tax functions retain subject matter experts in key areas and have in-house teams overseeing key matters. Meanwhile external resources carry out basic "on-the-ground" work.

For example, one KPMG client initially only outsourced its smaller countries' tax work and relied on in-house talent to process larger, more complex countries. However, the tax function started experiencing increased employee turnover. At that point, it began to outsource more of its U.S. and U.K. tax work, given that KPMG had far less turnover of tax professionals. Now, all the organizations' compliance work is outsourced, and the in-house team reviews compliance work done by the partner firms.

Consolidating outsourcing partners

Another recent trend is consolidating outsourced work under one or two external outsourcing partners instead of spreading work across many. Consolidating allows for greater control over partners and likely translates to cost savings given the expanded scope of work. It is also helpful as tax functions deal with a wider variety of tax regulations and more complex cross-border tax liabilities.

Technology as an outsourcing enabler

As tax teams increase use of external resources, using technology can help significantly increase the value of the arrangement.

Software like Alteryx, for example, helps incorporate corporate tax team expertise into tools that off-site support professionals can more efficiently utilize. This helps drive productivity improvements across the enterprise while also enabling new career paths for individuals with tax tech skills.

Some tax functions also develop and adopt citizen-led technologies. These tools can incorporate process efficiencies that are difficult to establish at the enterprise level. However, they also run the risk of being confusing to other employees later on, which could lead to frequent rebuilding when key people leave the organizations.

Rethinking outsourcing value and benchmarking

Cost (and cost savings) is a major factor in outsourcing decisions. However, proper benchmarking on cost is difficult when peer organizations' balance sheets differ in complexity or cost structures are based on different objectives (e.g., a value-add tax function versus one focused on compliance and regulation). It is likely most effective to benchmark against those with a similar makeup of international operations but much higher revenue, who are spending far more on their tax departments.

Of course, value measurement and realization begins even before benchmarking. Tax leaders should first ensure teams are doing the appropriate work for their functions. This will enable them to align resources and control of work with financial planning and accounting as well as any shared services departments.

Questions to consider

- How can external resources help address talent shortages in the tax function?
- How can you determine which third-party tax advisers and providers are the best fit in terms of size, geography, and scope of work?
- Are your current outsourcing arrangements providing expected value, given shifts in the talent market and tax environment?

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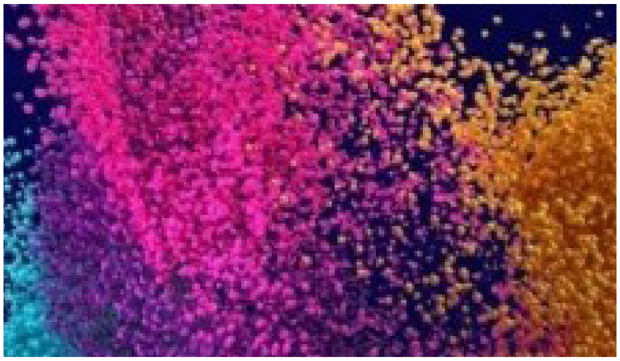

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Tax Reimagined focuses on your vision, challenges, and operational priorities—whether it's to deliver effective tax compliance, integrate technology to mitigate risk, leverage the power of data and analytics to harness revenues, or learn from peer-to-peer insights.

Be ready for disruption

For businesses everywhere, disruption comes in many forms. Tax organizations need to stay alert to emerging legislative and regulatory changes both large and small. Speed and flexibility are critical. Our tax insights, seasoned professionals, and powerful technology can help you navigate uncertainty and disruption with confidence.

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