

KPMG LLP

Tax Reimagined 2021: Perspectives from the C-suite

October 2021



Introduction

What do C-level executives see as the biggest emerging tax-related issue facing their organizations? What are the forces driving the transformation of tax? How well are corporate tax functions adapting to today's seemingly constant market disruptions, including increasing regulatory scrutiny, sweeping tax changes in many parts of the world, and the growing attention to environmental, social, and governance (ESG) issues? What technology should organizations invest in, and what new skills do their tax professionals need to drive efficiency and bring greater value?

To provide some perspective on these questions, we fielded a survey of 300 C-suite executives from companies with at least \$1 billion in revenue who make or influence decisions at their organizations. In the survey, we looked at the tax function's influence on business strategy and how trends in technology and data, talent, tax reform, and ESG issues are prompting C-suite executives to reconsider what tax functions do, how they do it and where opportunities exist.

The picture that emerged is that while C-suite executives value their tax functions, there are still many ways that tax can play an even more strategic role in guiding overall business planning – ultimately enabling organizations to chart a path toward strategic growth and competitive differentiation.

We believe the time is now for companies to *reimagine* their tax functions. A confluence of trends and developments present the perfect opportunity for organizations that view the tax function largely as an operational requirement to transform tax into a competitive advantage. By leveraging data and analytics, utilizing emerging technologies, and hiring forward-thinking talent, a strong and innovative tax function can provide immeasurable value and serve as an integral partner in the organization's larger strategic planning process.

Sincerely,



Greg Engel
Vice Chair-Tax



Rema Serafi
National Managing
Partner-Tax



Brad Brown
Chief Technology
Officer-Tax

Executive summary

Tax functions need to evolve—and C-suite leaders know it.

C-suite leaders readily acknowledge that tax has “a seat at the table.” But a recent KPMG Tax survey of 300 C-suite executives, primarily CFOs and CEOs, reveals significant differences in how leaders view and use their tax functions.

Specifically, the survey, “Tax Reimagined 2021: Perspectives from the C-suite,” found that some leaders may be doing a better job than others in leveraging tax data to glean insights that can set organizations apart from competition. The survey also found that many, while valuing their tax functions, are hesitant to take steps to modernize them – steps like investing in new technology, bringing on talent with non-traditional skill sets, and upskilling current employees.

Recent economic, political, and regulatory developments have put taxes front and center for many companies and their leaders. The overarching message of the themes uncovered in the KPMG Tax survey is that the modern tax function must be equipped with the right technology and the right mix of talent to help their organizations stay on top of fast-changing tax legislation, make sense of the vast amount of tax data, and glean insights that can positively affect the bottom line. In other words, as organizations reimagine their businesses to better compete in today’s fast-changing market environment, they should also reimagine the tax function.

In the following pages, we’ll explore each of these themes in detail.

1

Influence

Most C-suite leaders acknowledge the importance of the tax function, but they don’t consistently recognize tax for being modern and innovative, and they don’t prioritize new technology or talent investments. This can leave the impression that some may be happy with the status quo, and others may not realize how to unlock the tax function’s value.

2

Power of tax data

Most C-suite leaders believe in the predictive power of tax data, but there are significant inconsistencies in the ways organizations currently use that data – particularly for predictive modeling, distilling competitive insights, or scenario planning around potential legislative or regulatory tax changes. This represents a big missed opportunity to mine data’s hidden value.

3

Investing in tax technology

While more than half of C-suite leaders said they have adopted emerging technology, there are signals that interest in further investment may have plateaued. One of the biggest barriers to investing more in tax technology is uncertain ROI, according to the survey. Another is the perception among many that the current state of emerging tax technology feels like the “*wild, wild west.*” What’s more, nearly two-thirds of survey respondents say they have become more willing to outsource or co-source beyond their internal capabilities over the past year to enhance quality, lower costs and unlock “hidden” value in their tax functions.

4

Who to hire: tax expert or tech guru?

With an increased focus on new technologies, C-suite leaders are uncertain about whether to invest in tax experts or technologists – or, in some cases, whether to invest in new talent at all.

5

Preparing for a tax reset

Although the majority of C-suite leaders anticipate a tax reset under the Biden administration and are more concerned about global tax reform, only a third are currently using their organization’s tax data to scenario plan around new tax legislation, signaling that some organizations may be caught off guard if and when tax laws are enacted.

6

Meeting ESG demands

In response to the growing interest in ESG and increasing calls for greater transparency, many C-suite leaders are refining their approaches to tax planning and making their tax story public so that stakeholders can understand how organizations are considering ESG priorities.

Tax influence on strategy

Today's tax function doesn't look much like the tax function of yesterday – nor should it.

The KPMG Tax survey data points to one main takeaway: *organizations are missing real opportunities for profit, growth, and competitive advantage by failing to use tax data in a forward-looking way.*

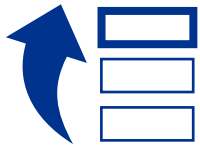
Findings also showed that there is a clear disconnect between how business leaders *perceive* their tax function and how they ultimately *engage* their tax professionals to make that perception a reality.

A majority of the C-suite leaders responding to the survey say they recognize the importance and potential of their tax function and agree that their company's tax function should be used for more than just managing taxes.



89%

Say that their company's tax functions have a seat at the table.



93%

Say that they give priority to the tax function when it comes to investment of resources.



Tax influence on strategy



Acknowledging the value of a particular function doesn't always translate into action. While the C-suite's sentiments toward tax are positive, how they actually leverage their tax function tells a different story. Most admitted that their organizations don't know how to use tax data in a forward-looking way. Respondents who said that their tax organization is "strategic," or that they regularly use tax data to inform overall business strategy and planning, were in a clear minority.



73%

Admit that their organization doesn't know how to use tax data in a forward-looking way



73%

Say that the predictive power of the tax function has the potential to impact the financial direction of the entire organization



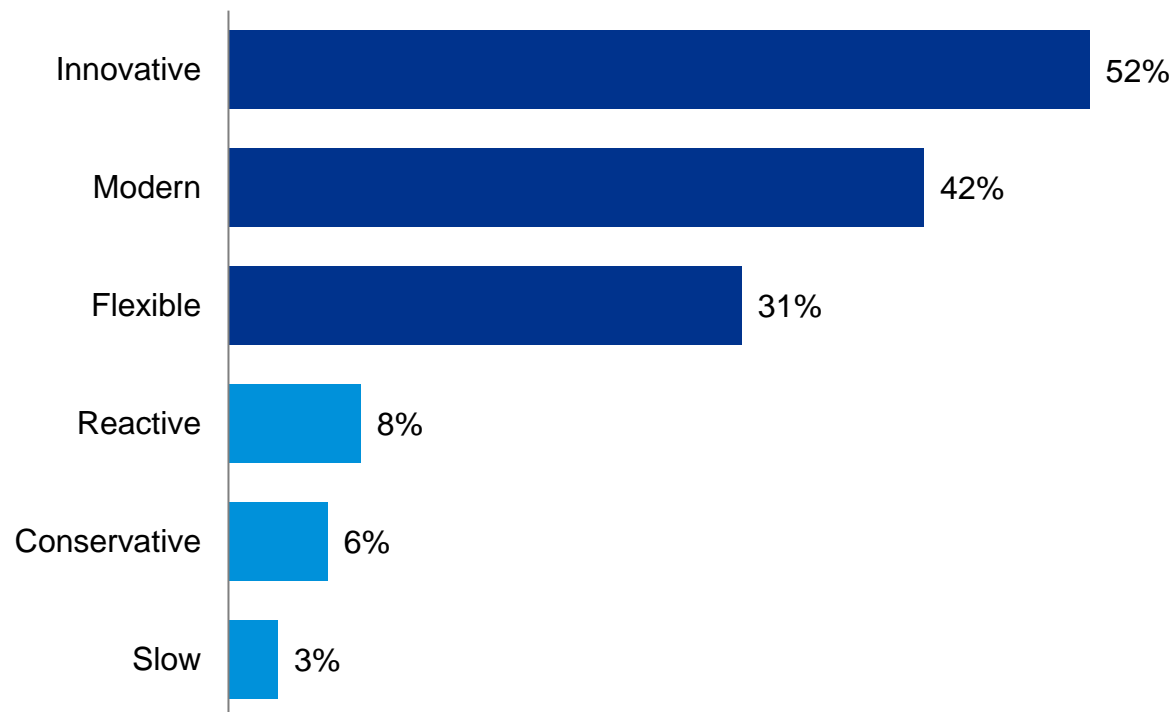
Only 35%

Describe their organization's tax function as strategic

Tax influence on strategy

Moreover, our survey found a large portion of C-suite leaders don't consistently see their tax functions as innovative or modern.

% of C-suite who describe their organization's tax function as...



The predictive power of tax data

“Many business leaders aren’t using their tax data to its full potential and are therefore missing an opportunity to gain insights and add value.”

— **Greg Engel**, Vice Chair-Tax, KPMG LLP

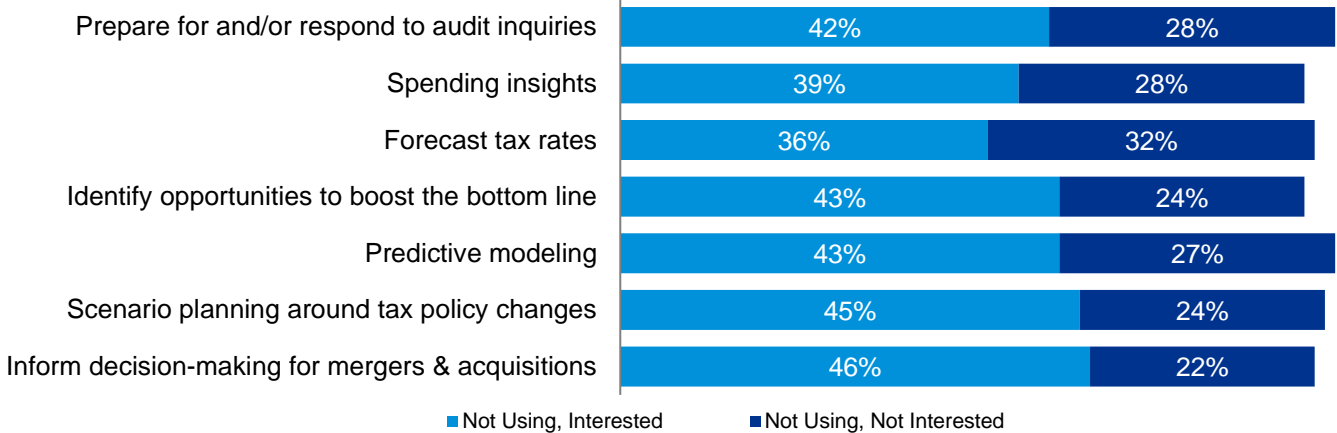
Data and analytics have become vital to every business function, and tax is no exception.

C-suite leaders know that tax data can be used to model and scenario plan to help predict the ramifications of pending tax legislation.

But our survey found that many business leaders aren’t using their tax data to its full potential. While tax data is being used in traditional ways, few companies are mining their tax data to help refine business strategy. Some of the roadblocks that are preventing organizations from using the data in new and strategic ways include struggles with accessing and sharing internal data and difficulty in translating that data’s value throughout the organization.

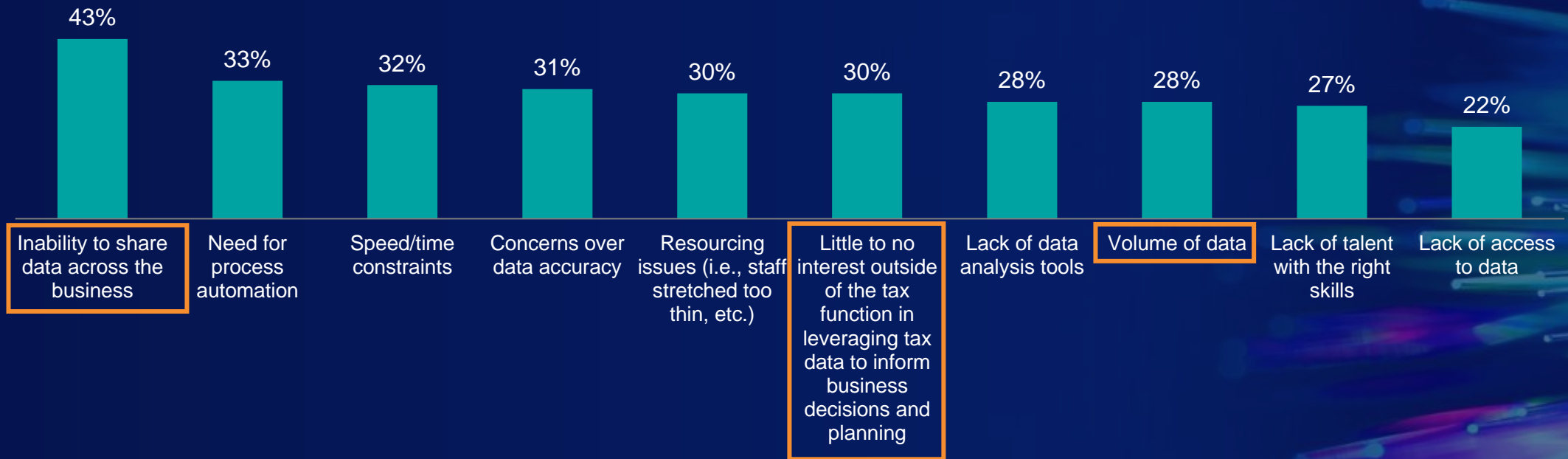
In short, there’s a wide gulf between what C-suite leaders believe is possible with tax data and how they are actually using tax data.

How their organization is currently not leveraging tax data



The predictive power of tax data

Several systemic issues are hindering the ability of organizations to use tax data in more strategic ways.



The survey also uncovered what may be a disconnect between perception and reality: While leaders claim their organizations have the necessary tools to analyze tax data, only 1 in 3 described their organization's tax function as technologically advanced.

Only **1** in **3** say that their organization's tax function is technologically advanced

Investing in tax technology

Emerging technologies can help the tax function perform its tasks faster and better.

Recognizing the value of tax technology, a large majority of C-suite leaders say they want to invest more in such technology and are confident about their purchasing savvy. However, our survey also uncovered a certain skittishness around further investing in more technology for their tax functions. Indeed, the results may be signaling that interest in further building out or investing in in-house tax technology may have plateaued. One reason may be the fast pace of innovation—it “feels like the wild, wild west”—with existing technologies evolving quickly and new technologies coming to market.



80%

Are confident in their ability to make purchasing decisions about emerging tax technologies



Over three quarters (76%) admit, “The vast array of emerging tax technology options feels like the wild, wild west”

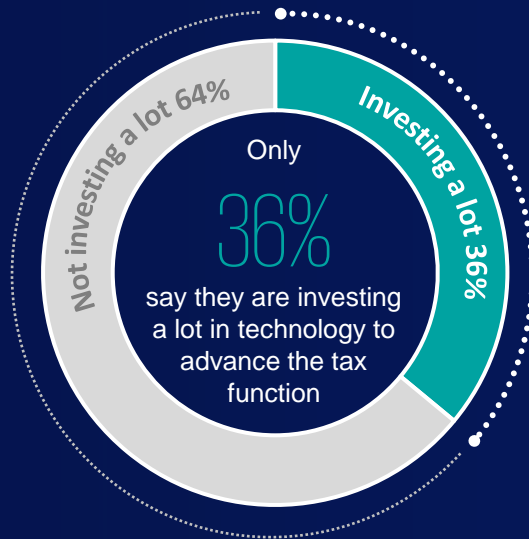
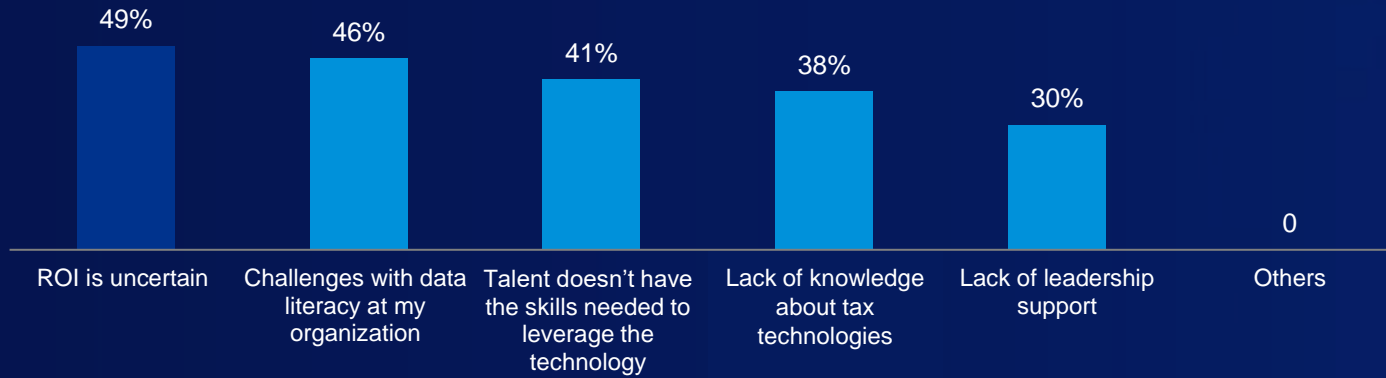
Another concern: Is the ROI worth it? Nearly half of leaders seem to be uncertain.

“When it came to investing in technology, one of the biggest concerns among survey respondents was simply the vast array of innovations on the market and the difficulty of choosing the right tools, as well as leaders questioning whether the return on the investment would even be worth it.”

— **Brad Brown, CTO-Tax,**
KPMG LLP

Investing in tax technology

Reasons why organizations are not investing more in tax technology:

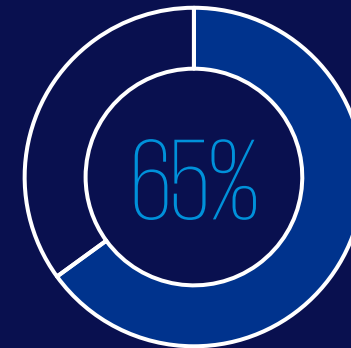


Only 36 percent of respondents said they are investing significantly in technology to advance their tax functions.

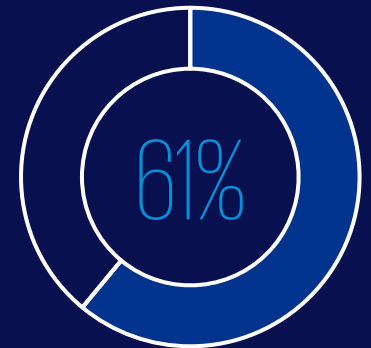
As an alternative, C-suite leaders are looking outside of their organizations to gain access to the right technology to augment the capabilities of their tax functions in an economical way.



Say they are becoming more willing to outsource or co-source their tax function over the past year



Say a factor in their decision making is better technology capabilities when outsourcing/co-sourcing



Who to hire: Tax experts or tech gurus?

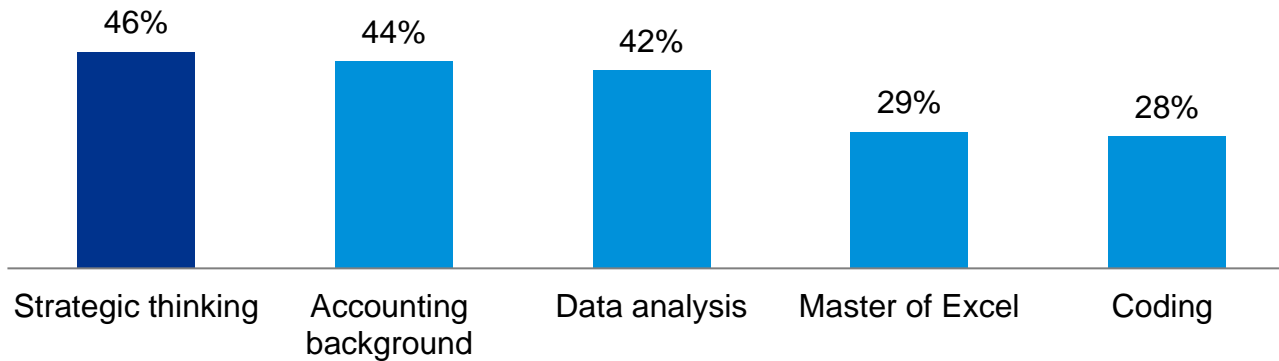
C-suite leaders have high expectations of their employees.

The future tax professional is evolving, requiring skills for capturing and interpreting data.

Today, tax professionals must not only know the tax code and related regulations; increasingly, they must also be able to glean insights from tax data and think strategically. Beyond what the numbers *are*, tax professionals today must understand what the numbers *mean*.

However, when coupled with C-suite leaders stating that the growing reliance on technology has created a knowledge gap among their tax professionals, leaders were divided on whether to prioritize tax expertise or tech savviness in hiring decisions for their tax functions. Leaders agreed, however, that they valued strategic thinking in hires above all other attributes

Most important skills needed in the tax function to ensure it operates at its full potential



“The future of the tax function will be incredibly different from what it looks like today. It will be a small function with fewer, but highly skilled, people – with most routine tasks outsourced.”

— **Rema Serafi**, National Managing Partner-Tax, KPMG LLP

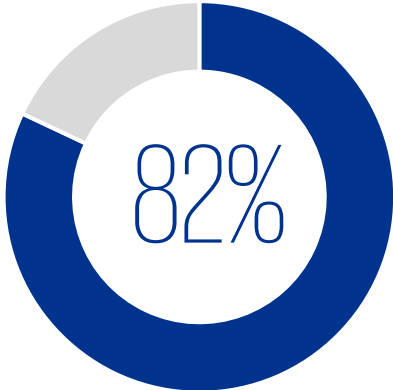




Who to hire: Tax experts or tech gurus?



Nevertheless, specialization is not dead. While having an employee base with a bundling of skills pays off, so does having tax experts and technology experts as a part of that population. The challenge today and into the future continues to center around the competition for the right, skilled talent with a majority of C-suite leaders saying it's difficult to find.



Say it's hard to hire good tax talent

Finally, diversity, equity and inclusion (DEI) continues to be a pressing issue in corporate America, and C-suite leaders indicated they are working to change hiring norms and tap into diverse talent pools. Indeed, **42 percent** of respondents say they have set goals around outreach to black, indigenous, people of color (BIPOC) and other underrepresented minorities.

Preparing for tax-related shifts

Tax is front and center on the agenda for many C-suite leaders.

But the imposing prospect of yet another round of U.S. tax changes, the recent OECD global tax agreement, and the rising pressure to consider ESG in their total tax stories have left many leaders wondering how best to prepare.

The challenge with modeling these potential changes is that there's still much uncertainty and many layers of complexity to consider. To stay ahead of potential changes and adequately prepare for them, companies must be able to generate visualizations that clearly depict the financial impact of hundreds of "if this, then that" scenarios.

While survey respondents say they are preparing for potential tax legislation changes,

findings also suggest that leaders at some organizations will likely be caught off guard.

Specifically, findings showed that many C-suite leaders are not adequately modeling for the tsunami of imminent tax changes, nor engaging in scenario planning that reveals the potential ramifications.

Essentially, tax data can be leveraged to help organizations look around the corner and understand what might be coming – and what that could mean. Beyond identifying the potential numbers and changes in financial-related responsibilities, modeling can help companies understand what the future looks like on a variety of different levels and how best to prepare for any upcoming impacts. And tax data holds the key.



Agree their organization is prepping for potential tax reform under the new administration

75%



31%

Currently using their organization's tax data for scenario planning around tax policy changes

“There can be many reasons for a company not modeling. If you're a domestic company, you may not need to do a lot of modeling. But if you're a global company, with a big complicated supply chain, I don't know how you couldn't model.”

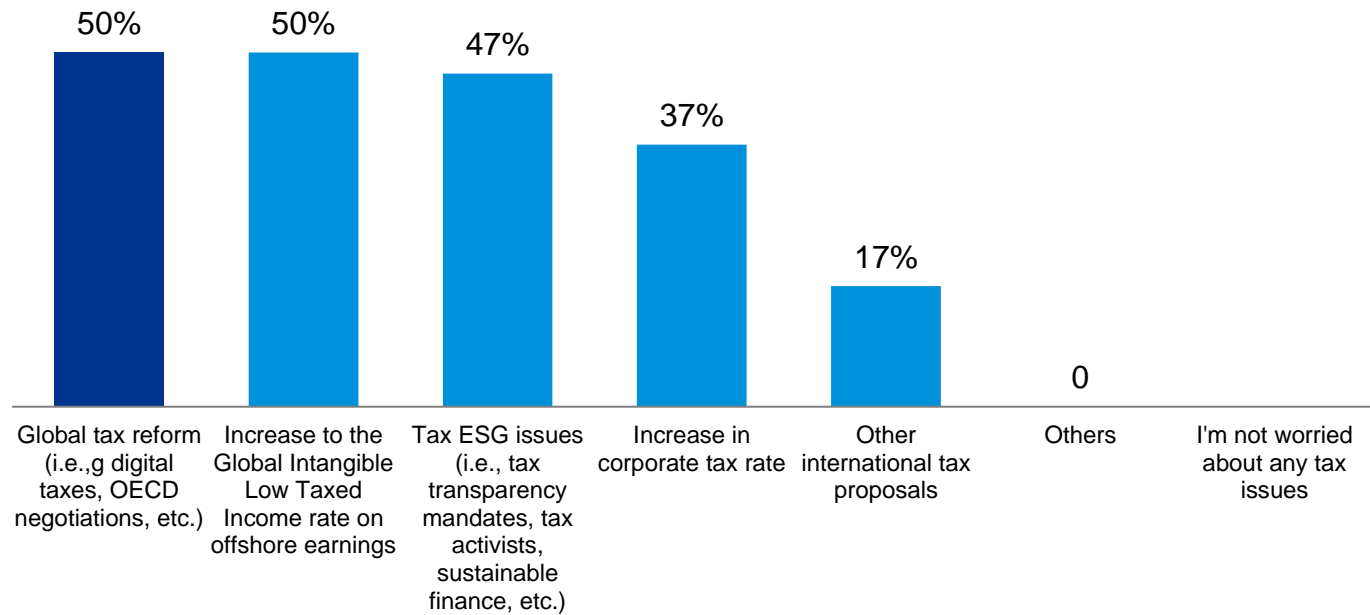
— **Greg Engel**, Vice Chair-Tax, KPMG LLP

Are leaders doing enough to prevent being caught off guard by tax legislation and other external forces?



Preparing for tax-related shifts

While C-suite leaders are aware of the probability of significant tax changes under the Biden administration, they are even more preoccupied by possible reforms on the global front with half (50 percent) saying that global tax reform keeps them up at night, compared to 37 percent who say the same about an increase to the U.S. corporate tax rate.



Meeting ESG demands

ESG issues increasingly are commanding the attention of C-suite leaders as companies come under greater scrutiny from investors, customers, and regulators. Our survey found, in response, that a strong majority of leaders are preparing to provide greater transparency around their tax functions as part of their ESG commitments.

Tax data plays a critical role in delivering on ESG commitments and in reporting outcomes to shareholders and other stakeholders. But, here again, these leaders appear to be underutilizing their data to make the most of their efforts, with 55 percent saying that their companies aren't using tax data to help determine and deliver on ESG commitments.

85%

Say their company is prioritizing, refining, and making their policy/strategy publicly available

84%

Agree their organization is preparing for more transparency around their tax function as part of their ESG commitments

80%

Prioritize teaming with their ESG leaders to structure related transactions that progress toward their ESG goals, while using tax incentives to achieve a favorable ROI

77%

Agree that investor interest in ESG is driving the topic onto their company's tax function agenda

55%

Are not currently using their organizations' tax data to align with ESG commitments

Meeting ESG demands



How can tax data provide insights about ESG? Today, the amount of taxes a company pays is often equated with its corporate social responsibility. More than ever before, corporations are expected to have a tax strategy, tax code of conduct, and other policies and principles to responsibly govern tax choices, providing stakeholders increased transparency. As the public's appetite for transparency increases, an organization's tax-related decisions and data are sure to become more important to its overall brand and reputation. Correctly leveraging tax data for ESG can help organizations improve their reputations – a win-win.

Conclusion

Organizations that fail to use the full potential of their tax functions to support their overall business strategy are missing a real opportunity for driving growth, enhancing profits, and gaining a competitive edge.

C-suite leaders largely are aware of the value tax can provide. However, the results also point to an apparent disconnect in many cases between the rhetoric and the actions being taken to modernize and strengthen the function.

Moving beyond the status quo will require a recognition of this disconnect. It will also require more companies to consider new approaches to harnessing emerging technology and the strategic talent needed. By *reimagining* their tax functions as they anticipate and prepare for market disruptions and pending tax legislations, more companies can unlock the full value that their tax functions can deliver.



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For more information, please visit tax.kpmg.us/insights/tax-reimagined-perspectives.htm.

Survey methodology

Ketchum Analytics fielded an online survey for KPMG among 300 C-suite executives at companies with more than \$1 billion in annual revenue who make or influence corporate tax-related decisions at their organizations. The survey was fielded between July 20 and August 6, 2021.



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