

Special Report

# 2019 Survey Findings

How Corporate Tax  
Departments Are Evolving



**Bloomberg  
Tax**



# Introduction

It's been a turbulent few years for tax departments – from the mystery and anticipation of tax reform to the preparation of the first corporate return after the passage of the tax reform act.

How has the complex legislative environment impacted them? What decisions are corporate tax leaders making to evolve the department to address new risks and burdens? How are they overcoming the pressing challenges of regulatory changes, compliance complexity, technology requirements, and recruitment and retention of tax talent?

As part of our ongoing tax department benchmark efforts, in late 2018 Bloomberg Tax surveyed 337 tax professionals from public and private corporations across the U.S. to get answers to these and other questions. The results shed light on how corporate tax departments across the country are adapting to these complex times.

This report offers insight into the current state of corporate tax departments, including: the top challenges they face today, areas of increased tax risk, the use of technology, the role of the tax department both today and tomorrow, and finally, the struggle to hire and retain talent.



## 57%

say that keeping up with changes in the form of tax reform and legislative tracking is one of the biggest challenges their tax department will face in the coming year

## Top Findings

Even though we're now in the post-tax reform era, keeping up with legislative changes remains a top problem for corporate tax departments, with the burden of compliance running a close second. In the current legislative and political environment, nearly two-thirds feel that their company is currently more exposed to tax-related risks than it was five years ago.

While implementing new technology or improving the effective use of existing systems is a top challenge for large tax departments, it's the lack of effective technology and automation that's a problem for tax departments when it comes to the core processes of income tax accounting and tax provision. Making matters worse are the increasing difficulties in hiring and retaining tax talent, which exacerbate the pressures of an already overburdened and under-resourced tax department.

Despite the weight of these burdens and challenges, tax departments see their value to the business increasing as they focus more on providing strategic guidance and insight into broader risk management efforts and business decisions.



**41%**

report that limited resources and / or a low budget among their biggest challenges in the coming year

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# Tax Departments Struggle to Stay Up to Date

Back in 2017, our survey reported that the top challenge facing tax leaders was the uncertainty around the potential overhaul of the U.S. tax code. However, the passage of the reform act in the meantime didn't lessen the need to stay up to date on legislative changes, updates, and clarifications. In fact, when we asked survey participants what challenges they face in the coming year, the following three rose to the top:

1. Legislative tracking / tax reform / staying up to date on changes
2. Overall compliance burden
3. Management of tax data (collection, processing, etc.)

Those in smaller tax departments (fewer than 10 staff) are more likely to anticipate the compliance burden as a challenge (62%) than their counterparts in large departments (10 or more staff) (51%). A survey of chief tax officers conducted by Forbes Insights for KPMG showed that compliance with legislative and regulatory changes is a top strategic priority of the tax function over the next 12 months.<sup>1</sup>

Those in smaller tax departments are also more likely to consider limited resources and/or low budget a top challenge (49% versus 35% of larger departments). Implementing new technology or making better use of existing technology is more likely to be a top challenge for those in corporations with larger tax departments (53% compared to 34% of smaller departments) (see Figure 1).

**Figure 1. The Biggest Tax Challenges**

	Size of department		
	Total	10 or more	Fewer than 10
<b>Base</b>	<b>337</b>	<b>191</b>	<b>146</b>
Legislative tracking / tax reform / staying up to date on changes	<b>57%</b>	<b>59%</b>	54%
Overall compliance burden	<b>56%</b>	51%	<b>62%</b>
Management of tax data (collection, processing, etc.)	<b>47%</b>	48%	45%
Implementing new technology / better using existing technology systems	<b>45%</b>	53%	34%
State treatment of federal tax law changes	<b>44%</b>	42%	47%
International tax / global tax reporting	<b>44%</b>	46%	40%
Limited resources / low budget	<b>41%</b>	35%	49%
Accounting for income tax (provision)	<b>39%</b>	38%	41%
Mergers and acquisitions impacts	<b>37%</b>	40%	34%

<sup>1</sup> "Three-Dimensional Chess," KPMG, 2018.

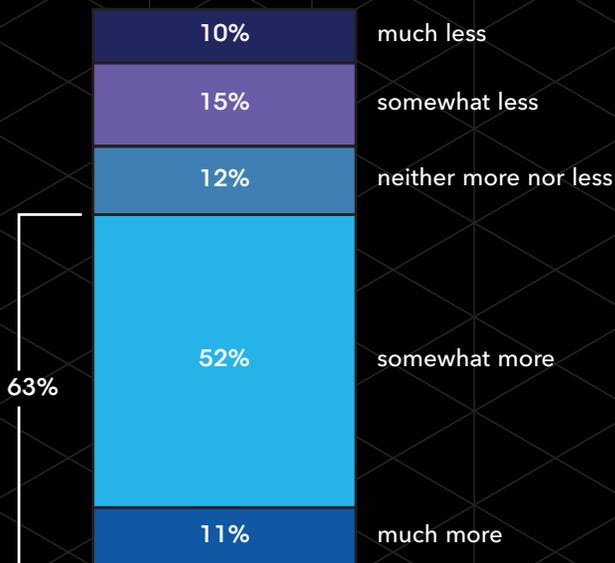
# Companies Are More Exposed to Tax-Related Risk

What else keeps tax department leaders up at night? One area that is causing anxiety is the perception that the company's exposure to tax-related risk is greater than in the past. Nearly two-thirds (63%) feel that their company is currently more exposed to tax-related risk than it was five years ago (see Figure 2).

The respondents aren't alone in their thinking that risk has increased in a post-tax reform environment. An article by EY states that "The rapidly changing tax environment can be driving higher risks, a higher compliance burden and higher levels of overall uncertainty."<sup>2</sup>

**Figure 2. Increased Tax-Related Risk**

My company is currently ( ) exposed to tax-related risk than it was five years ago.



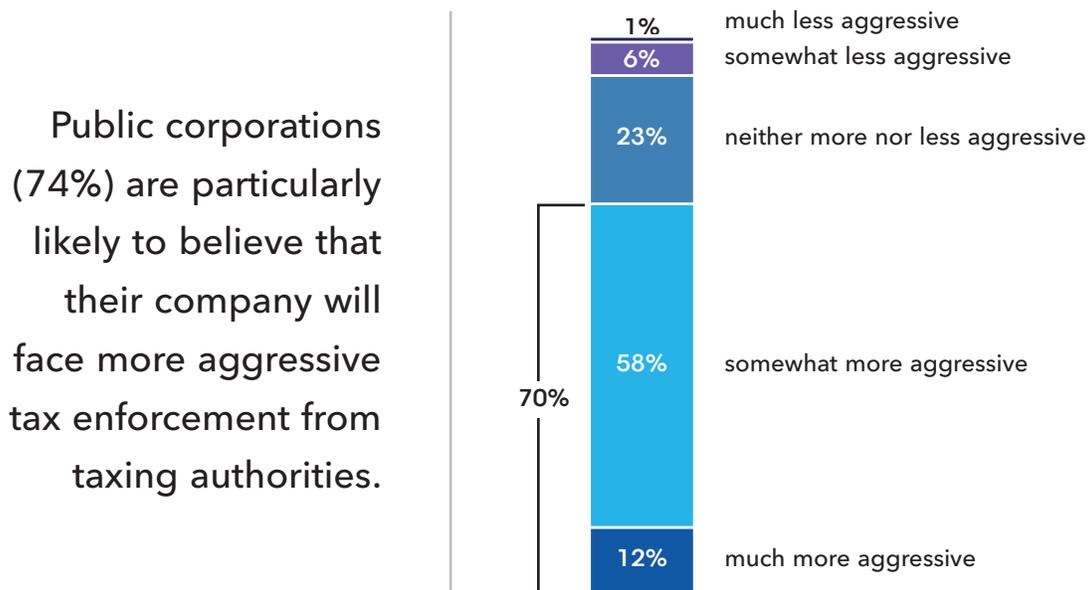
<sup>2</sup> "2018 Sees Risks and Opportunities Around Tax," EY, January 2018.

# Tax Authorities Getting More Aggressive

Looking at audit risk, seven in ten (70%) anticipate facing more aggressive tax enforcement from taxing authorities (see Figure 3). Those in public corporations are particularly likely to believe that their company will face more aggressive tax enforcement (74%).

With tax reform widely viewed as resulting in more complexity instead of less, tax departments must also confront the increased risk of error or misinterpretation of new regulations. Almost all (93%) respondents anticipate that over the next two years, regulatory pressure for increased transparency in tax reporting is likely to increase. With greater transparency comes the risk of public exposure of any mistakes or omissions on the part of the tax department.

**Figure 3. More Aggressive Tax Enforcement**  
Over the next two years, my company is likely to face ( ) tax enforcement from taxing authorities.



In the current environment, making complex tax issues simpler for non-tax executives to understand is an essential requirement for tax leaders (more on the top characteristics needed for senior tax professionals later in this report). In a Forbes/KPMG study, communicating tax risk and opportunities to the C-suite and board was a top challenge facing chief tax officers.<sup>3</sup>

<sup>3</sup> "Three-Dimensional Chess," KPMG, 2018.

# Technology Is Viewed as Both a Challenge and a Solution

While adopting new technology requires an investment in time, resources, and budget, avoiding or delaying implementation of solutions that can significantly improve productivity, effectiveness, accuracy, and control for the tax department is, at best, short-sighted and, at worst, a fundamentally flawed approach to addressing the changing legislative environment.

For the tax departments in our survey, technology itself is often seen as a challenge, even while recognizing that technology and automation are the best ways to address other issues such as the compliance burden, keeping up with changes, reliance on risky spreadsheets, and management of tax data.

Implementing new technology or making better use of existing technology was cited by 45% of tax departments as one of their biggest challenges. Larger tax departments with 10 or more staff were more likely to consider technology as a top challenge (53% compared to 34% of smaller departments) (see Figure 4). The logical assumption is that larger teams are more likely to move forward with new technology deployments than smaller teams, who may continue to get by with manual workarounds for the time being.

**Figure 4. Technology as a Top Challenge**



**53%**

of tax departments with 10 or more employees consider technology a top challenge



**34%**

of tax departments with fewer than 10 employees consider technology a top challenge

# Lack of Modern Technology Results in Manual Efforts

Given the perfect storm of not enough tax talent, increasing regulatory complexity, and greater compliance burden, you would think that tax departments would be increasingly turning to technology to help address the challenges. Yet, it seems that tax departments are still lagging behind some of their counterparts in other parts of the enterprise. A KPMG report states that slightly more than half (55%) of chief tax officers believe that their tax function is not keeping pace with technological innovation.<sup>4</sup>

Our survey shows that the lack of effective technology is forcing tax departments to rely on manual spreadsheets and/or create manual processes to circumvent gaps in disparate systems used to automate tax provision calculations. Missing technology and automation are having particularly strong impacts in two core tax areas in our survey (see Figure 5):

1. Accounting for income taxes, where reliance on spreadsheets and/or gaps in systems used to automate provision calculations is the second largest challenge.
2. Tax provision, where manual efforts were the top challenge for this function.

**Figure 5. Manual Efforts Are Top Challenges**

Biggest Challenges			
Accounting for Income Taxes		Tax Provision	
Impact of tax reform	<b>68%</b>	Reliance on spreadsheets or other manual work	<b>48%</b>
Reliance on spreadsheets and/or gaps in systems used to automate provision calculations	<b>49%</b>	Timely access to data that drives calculations	<b>42%</b>
Computation of tax provision	<b>40%</b>	Reliance on a few long-term employees for provision knowledge	<b>32%</b>

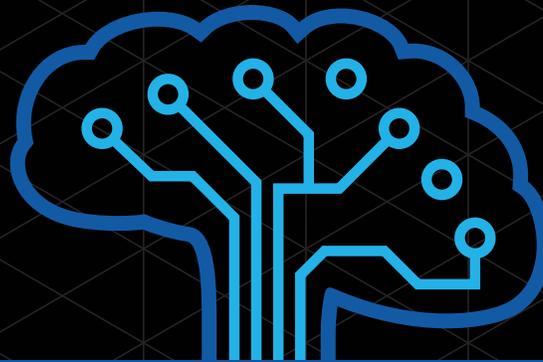
Smaller tax departments with fewer than 10 employees are more likely to be challenged by relying on spreadsheets or other manual work (55%) than larger departments (43%).

4 Ibid.

## Adopting Automation Can Help

In a similar vein, 80% say that keeping up with reporting and control requirements is becoming more difficult. Yet, this is another area where having the right technology in place can ease the reporting effort and strengthen controls.

Finally, most feel that automation, including artificial intelligence, will play either an important (36%) or contributing role (39%) in their company's plans to improve tax effectiveness over the next two years. Automation can free up time for the tax department by automating repetitive, mundane tasks, which helps departments handle greater workloads even if the staff size remains constant.



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"CFOs want to know that chief tax officers are efficiently and effectively using technology. While tax may have lagged other parts of the organization in terms of embracing newer technologies (think artificial intelligence, robotics, and digitization), that's changing."

Source: "What CFOs want from chief tax officers," Deloitte, 2018

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# Tax Departments Look to Become Strategic Partners to the Company

While tax-related finance and accounting activities represent the leading role currently played by the tax department and the top role the department should play in the future, respondents feel that the role of the department as a partner in company strategy should expand in the future.

Areas where the tax department should play a contributing or leading role include: supporting major transactions, managing risk companywide, and supporting major operating decisions (see Figure 6).

**Figure 6. Tax Function Role**

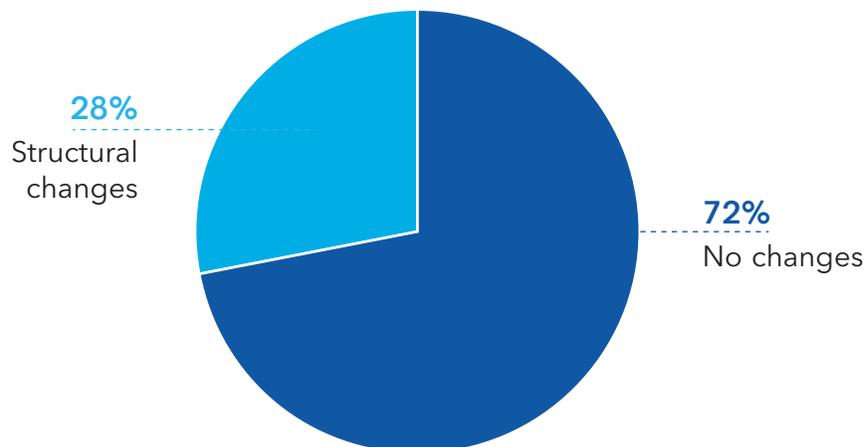
	Role Played by Tax Function	Role Tax Function Should Play	Difference
Supporting tax-related finance and accounting activities	81%	89%	<b>-8%</b>
Supporting major transactions	60%	83%	<b>-23%</b>
Supporting non-tax-related finance and accounting activities (such as financial reporting)	40%	56%	<b>-16%</b>
Supporting companywide efforts to manage risk	36%	63%	<b>-27%</b>
Supporting major operating decisions	29%	61%	<b>-32%</b>

# Some Are Making Structural Changes to the Tax Department

As departments adjust to the fallout of tax reform, roughly a quarter (28%) anticipate structural changes in the tax department in 2019 (see Figure 7). This corresponds with the results of a Deloitte survey showing that 33% of CFOs noted that the fallout from tax reform is leading them to strengthen or restructure their tax functions.

The most anticipated structural change is moving from a distributed staff to a centralized one (7%), followed by moving from centralized staff to shared services (4%) and moving from centralized staff to distributed staff (3%).

**Figure 7. Structural Changes Planned for Tax Departments**



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Those in larger tax departments with 10 or more employees are more likely than those in smaller departments to anticipate structural changes (36% compared to 19% of smaller departments).

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# Leadership Skills Are in Demand

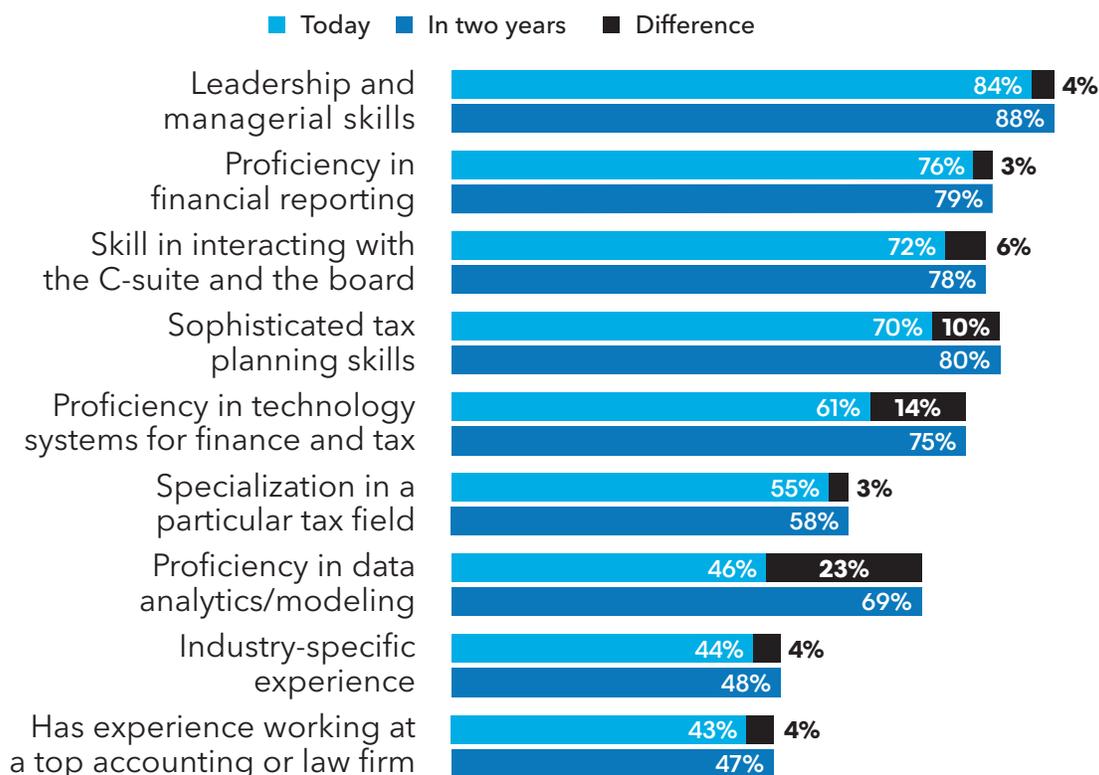
As the tax department evolves, the top three attributes anticipated to be important in a senior tax professional two years from now include (see Figure 8):

- Leadership and managerial skills
- Sophisticated tax planning skills
- Proficiency in financial reporting

Looking at the differences in terms of attributes required today versus two years from now, two areas stand out because of their strong increase in relative importance. The first is proficiency in data analytics and modeling, which shows a significant jump of 23 percentage points, rising from 46% of respondents believing that this is a top attribute of senior tax professionals to 69% believing it to be a top attribute two years from now.

The second largest gain in importance is proficiency in technology systems for finance and tax, with an increase of 14 percentage points between now and two years from now, increasing from 61% today to 75% in two years' time.

**Figure 8. Top Attributes of Senior Tax Professionals**



# More Than Half See No Staffing Changes

Despite the fact that 71% agree that the tax function at their company is currently under-resourced, only one-third (39%) of tax departments in the survey expect to add staff in 2019 to help address the top challenges of tax reform, legislative changes, and compliance. More than half (55%) expect no changes in staffing (see Figure 9).

**Figure 9. Anticipated Staffing Changes in 2019**



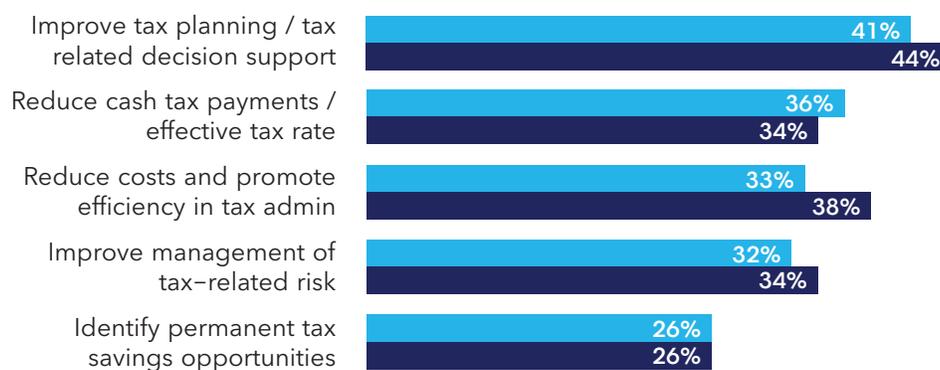
# Tax Planning Is the Top Mandate

Given the complexity of the post-reform tax environment, it makes perfect sense that tax planning is growing in strategic importance. Respondents report that the top mandate for the tax department both now and two years from now is to improve tax planning and/or tax-related decision support (see Figure 10).

This coincides with the finding that roughly 8 out of 10 anticipate tax planning (as opposed to compliance) to become at least somewhat more important to their company over the next two years. Corporations with smaller tax departments are more likely than those with larger tax departments to anticipate that tax planning is likely to become much more important to their company over the next two years (34% of smaller teams compared to 23% of larger ones).

This echoes a finding by KPMG that 64% of chief tax officers are planning to make changes to their organization to accommodate tax planning.<sup>5</sup>

**Figure 10. Top Tax Function Mandates**  
Over the **past three years** / **next two years** the tax function at my company primarily sought / will primarily seek to ...



“CFOs are asking tax executives to proactively partner with the business—and for the function to add more value. To do that effectively, however, tax leaders will need to frame their roles more broadly, moving beyond the traditional responsibilities of compliance, reporting, and management to address issues such as risk mitigation and tax-aware decision-making.”

Source: “Transforming Tax in an Age of Reform,” Deloitte, 2018

5 “Three-Dimensional Chess,” KPMG, 2018

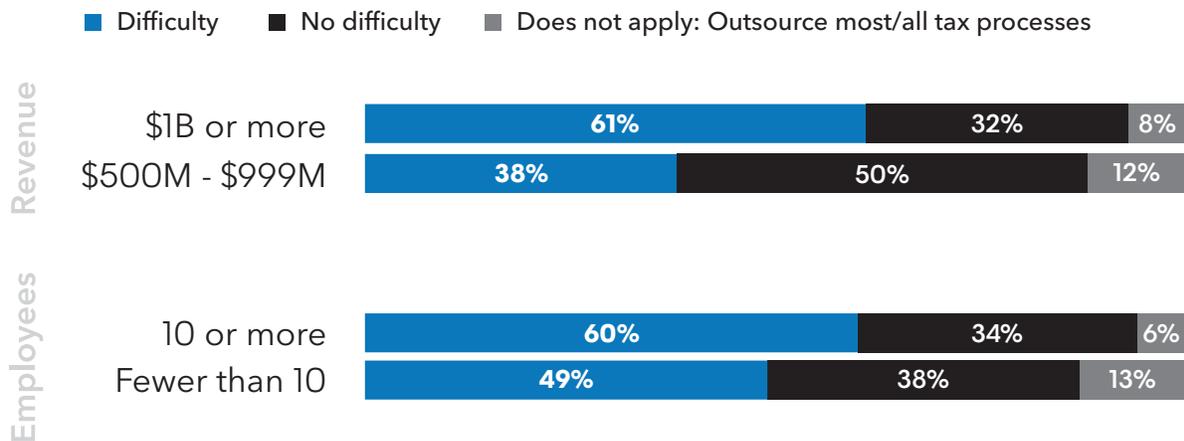
# There's a Growing Deficit in Tax Talent

Finding, recruiting, and retaining skilled talent as well as obtaining the budget for more staff are the top reasons tax departments find tax reform, compliance, and other issues difficult to overcome.

The competition for tax talent appears to be fierce for those looking to hire. The majority of tax departments in the survey (56%) report having difficulty recruiting and retaining talented tax professionals. Larger tax departments (10 or more employees) are more likely to be challenged than small tax departments (fewer than 10 employees), with 60% versus 49%, respectively, having at least some difficulty (see Figure 11).

The vast majority of respondents (86%) believe that over the next two years, it will probably become somewhat or much more difficult to recruit and retain top tax talent.

**Figure 11. Difficulty Recruiting and Retaining Talented Tax Professionals**



# Final Thoughts

Many of today's tax departments are at a crucial turning point: either evolve and adapt to overcome the challenges of a complex and uncertain tax environment or remain entrenched in a structure, skill level, and technology approach that may not keep pace with the needs of the company.

Tax department executives and leaders need to recognize that the stakes are high and getting higher all the time for both the tax department and the company. Aligning tax department decisions on staffing, technology, role, and priorities with the needs of the business is paramount for success in future tax strategy, risk management, and business decisions.

## From Survey Respondents:

"Tax professionals need to have a broader understanding of the business environment beyond tax ... they need to have a solid understanding of business operations, finance and the big picture to be successful."

"The leadership and interactions with C-suite are the most critical, the rest of the skillsets can be hired as part of the team."

## About the Survey

The Bloomberg Tax Department Benchmarking Survey follows the evolution of tax departments and how they are responding to current and future challenges and mandates.

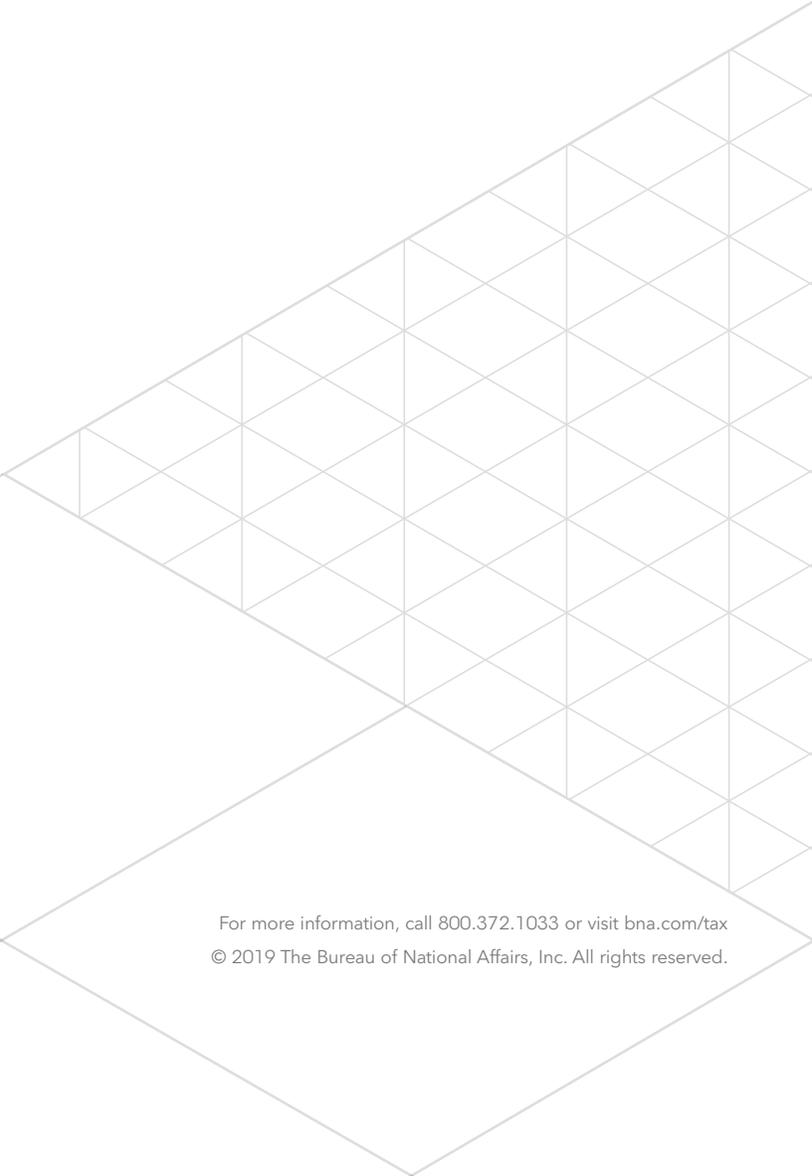
The selected findings in this summary report are based on a survey conducted in December 2018 of 337 managers, directors, VPs and C-suite members of the tax departments of public and private corporations with at least \$500 million in annual revenue. Managers and senior managers must have at least five years of experience in the tax field.

More than two-thirds of respondents were with public corporations (67%,) and 80% reported company revenues of \$1 billion or more. Tax department size was split between fewer than 10 (43%) and 10 or more (57%), with smaller departments more prevalent in private corporations (64% of private corporations have tax departments of fewer than 10 members). Public corporations were the opposite, with 67% reporting tax departments of 10 or more members.



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