KPMG

Steady at the wheel

Tax brings strategy forward to help organizations steer through twists and turns of disruption

2023 Chief Tax Officer Outlook Study

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Contents

Foreword

Economic uncertainty. Shifting global regulations. Geopolitical tension. Commitment to sustainability and social responsibility. Accelerating digitization. New work environments.

Pressure on tax is coming from all directions and redefining its value to the business. Chief tax officers (CTOs) are being asked to contribute information and insight in areas far removed from annual filings and regulatory compliance. To varying extents, reacting to changes in the broad spheres of geopolitics and economics; supply chain and operations; corporate citizenship and environmental, social, and governance (ESG); talent and workforce; technology and data; and mergers and acquisitions (M&A) and corporate development are all now part of the CTO mandate. The decisions tax chiefs make in respect to these complex business matters are increasingly crucial to organizational competitiveness.

The 2023 Chief Tax Officer Outlook Study finds tax departments facing significant risks, and CTOs expecting this to continue in the future. With rapid and unrelenting changes affecting tax departments, transformation is essential. Staying still is not an option. But neither is racing full speed ahead, which so often leads to dead ends.

A steady hand is needed to navigate the winding, rocky roads to an agile and resilient tax function. Our research shows CTOs leading with strategy as they approach future-forward decisions about tax operations and agenda items. Dividing focus across a wide-ranging agenda, they are pushing their departments step by step in the direction that promises to add sustainable value—not just now, but through the next wave of disruption.

This is the fourth in the annual KPMG Tax series examining challenges and opportunities facing tax functions today and tomorrow. The report shares forward-looking perspectives on key CTO agenda items, drawing on:

- Data from the fall 2022 survey of 300 CTOs of companies across all major industries
- One-on-one interviews with five CTOs representing a diverse set of businesses
- Input from KPMG Tax partners who advise CTOs on the topics covered in this report.

We hope the insights in this report get you started on a right path toward a new future for tax.

— **Greg Engel**
Vice Chair – Tax
KPMG LLP

Key findings

Top three threats to organizational growth from a tax perspective:

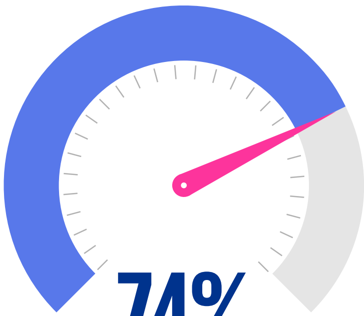
- ESG
- Regulatory
- Geopolitical risk

Tax and transactions

52%

of organizations have a **moderate appetite for M&A** over the next three years.

Global tax landscape



74%

say the **OECD's BEPS initiatives** are significantly affecting operating and tax planning.

Tax skill sets

59%

are shifting toward hiring professionals with a **healthy mix of tax and technology skills**.

Tax controversy

65%

say worldwide **tax enforcement activity, audit, and controversy** are likely to increase significantly in the near future.

Tax and corporate citizenship

56%

are more interested in being **perceived as a good corporate citizen than reducing the tax burden**.

U.S. tax landscape

60%

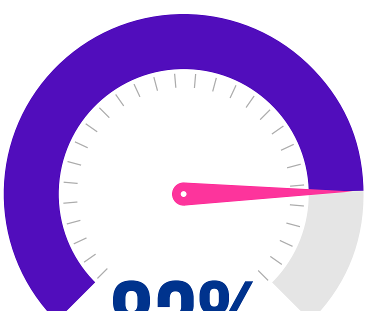
say **new U.S. legislation will significantly impact tax costs** and compliance burdens.

Tax talent

56%

say **hiring personnel is a significant challenge**.

Target operating models



83%

plan to **use outsourcing, cosourcing, or managed service alliances** in the next three years.

Tax technology

49%

leverage third-party software providers to provide tax technology.

Tax and geopolitics A primary goal is avoiding surprises

Pandemic impacts on supply chains. Trade restrictions in China. Government efforts to tackle deficits. Rising global inflation.

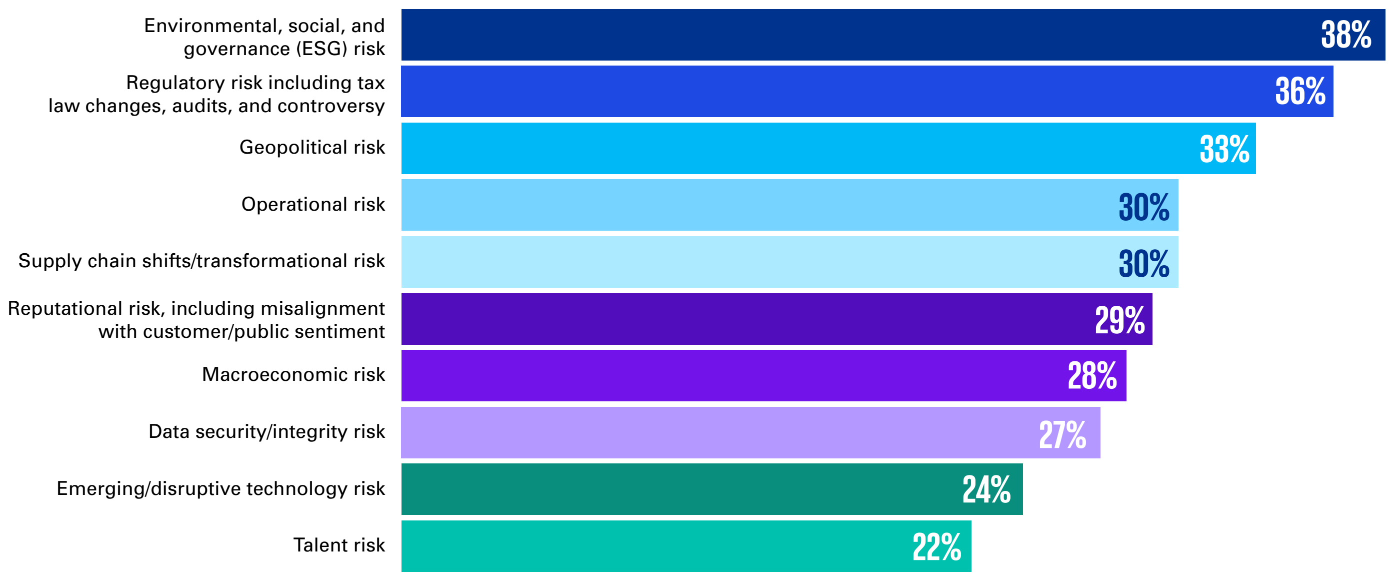
With so much political and economic unrest around the world, and the business environment more connected and global than ever, it's not surprising CTOs rank geopolitical risk as one of the top areas where tax departments face significant challenges. One-third of respondents (33 percent) name it as one of the top three greatest threats to the tax organization, behind only ESG and regulatory risk. Related risks—supply chain shifts (30 percent) and operational risk (30 percent) are not far behind in a 4th place tie.

"Broadly, the tax department can help with effective cash management. That's making sure we don't have cash trapped in high-risk jurisdictions and allow for maximum flexibility in the event you need to access your cash quickly." said Joe Bertucci, Vice President, Tax, of Flowserve.

As supply chain issues spur organizations to diversify from historically low-cost countries like China and India, CTOs are also helping set up tax-efficient structures where the business wants to be. This includes helping supply chain functions evaluate tax costs and risks associated with new supplier sourcing and potential operational moves.

What are the greatest threat(s) to your tax organization's growth over the next three years?

(Select all that apply)



Geopolitical events are disrupting the way organizations do business. Some impacts are direct, such as war and unrest forcing companies to relocate employees out of a region and close physical facilities. Some are indirect, such as currency controls, trade restrictions, rising inflation, and waves of nationalism making certain foreign locations less favorable and attractive as part of the operational footprint.

All have embedded tax costs that must be carefully navigated. As such, CTOs in our study say helping their companies understand the tax implications of international events, and their aftereffects, is becoming a top agenda item.

"It's important to proactively look at where your structures are weakest from a local standpoint and try to get some certainty up-front, whether it's through tax rulings or advanced pricing agreements," said Scarlet Pereira, Executive Vice President, Global Tax, of Mastercard.

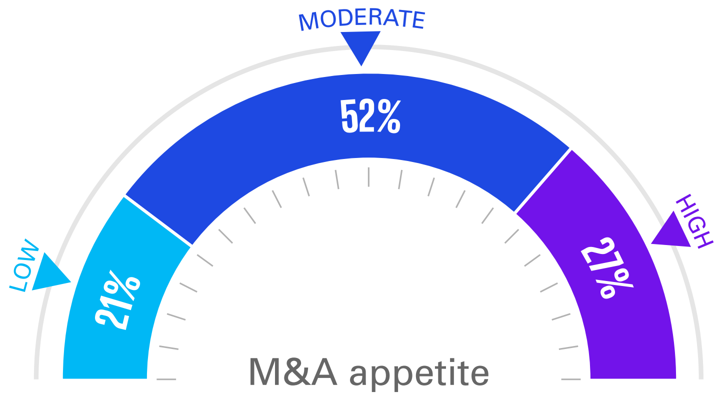
The geopolitical landscape, as well as the tumultuous economy, is affecting how corporate taxpayers approach M&A. The global M&A market has gone through notable changes through the pandemic and in the current interest rate environment is becoming more dynamic and complicated and driving elevated overall prices. Yet organizations need to keep pace with disruptive change, and a prime way to grow new, future-forward capabilities is through strategic acquisitions and partnerships.

What is your organization's appetite to undertake M&A over the next three years?

Low: Unlikely you will undertake any acquisitions or dispositions

Moderate: You will undertake acquisitions or dispositions, but with moderate impact to your organization overall

High: Likely you will undertake acquisitions that will have a significant impact to your organization overall



According to our CTO respondents, 52 percent of organizations have a moderate M&A appetite for the next three years; they are likely to undertake acquisitions or dispositions, but with just moderate impact to the business. Meanwhile, 21 percent have a low M&A appetite and 27 percent of CTOs have a high M&A appetite.

"We've pumped the brakes a bit on M&A," said Kevin Manzeck, Vice President, Global Tax, of GoDaddy. "We'll make strategic acquisitions where it makes sense, but we're being more cautious."

Although most expect only sporadic M&A activity, many CTOs say their tax functions are at least somewhat prepared for dealmaking, with access to data and resources they need to help guide the transaction process.

Nearly half (49 percent) agree that their internal tax team is equipped, adequately staffed, and experienced enough to undertake a formal M&A process. The same number say the internal tax team has data readily available to determine the tax impact of a divisional or subsidiary disposition or internal restructuring. And 56 percent say tax has policies and procedures in place to regularly update data on tax attributes and limitations, in areas like subsidiary stock basis and earnings and profits.

Insight into opportunities

Geopolitics is one of the biggest and most complex challenges facing businesses. According to our interviews, CTOs tasked with helping their companies navigate it from a tax perspective often find the best approach is a simple one: avoiding surprises. Tax can take common-sense actions to help prepare the organization for geopolitical disruption:

- Be aware of what's going on in the places where the organization has a foreign footprint.
- Proactively model potential eventualities and how the company would (and should) react.
- Adjust the tax structure to react nimbly and quickly when changes come, and in whatever shape they come.

> **"We've pumped the brakes a bit on M&A. We'll make strategic acquisitions where it makes sense, but we're being more cautious."**

***Kevin Manzeck**, Vice President, Global Tax, GoDaddy*

Tax and corporate citizenship Stepping outside the tax box

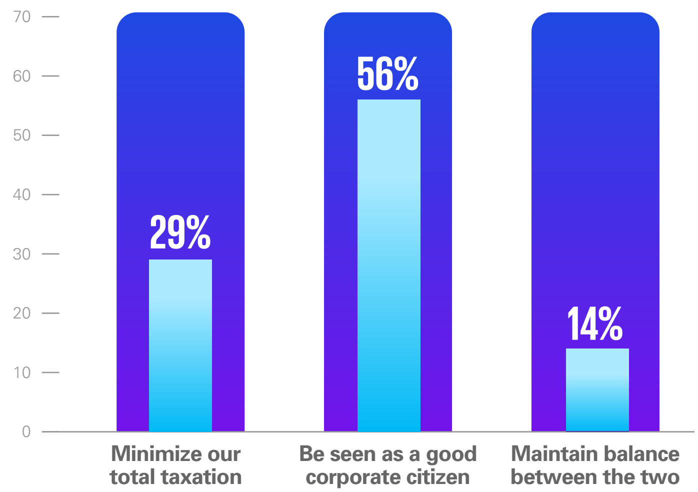
Around the world, expectations about the role of corporations in society are evolving. From customers to employees to investors to politicians, stakeholders are taking a serious look at the impact businesses have on the world. Increasingly, the spotlight is falling on how companies manage their tax affairs, including how tax payment and collection impacts the local economies where businesses operate. Companies are under pressure to show they are paying a fair share and their tax policies are responsible.

Our research shows a main approach CTOs are taking to help navigate these new pressures is increasing transparency and disclosures in tax reporting to publicly demonstrate value outside the tax box.

We see strong evidence in our respondent pool of shifting attitudes toward taxation. According to our survey, more than half of CTOs (56 percent) express more interest in being perceived as a good corporate citizen than in reducing their company's tax burden. Only 14 percent say they seek the delicate balance between reducing taxation and being perceived as a good corporate citizen. "I think the days of being a very aggressive tax planner are gone," Mastercard's Pereira said.

In addition, the past half decade has seen a shift toward greater information sharing, beyond what is required for compliance. While about half of CTOs (51 percent) say their approach toward tax transparency in the past five years was to be fully compliant, today an almost equal number seeks to be fully transparent (49 percent).

Which of the following best describes your approach and attitude toward taxation?



Increasing tax transparency can also help CTOs defend their organizations in a difficult enforcement environment, gain some goodwill, and get fairer treatment equal to domestic competitors in the market. Reframing political discussions to focus on societal benefits of company activities—beyond collecting tax—can help show external stakeholders the value the organization adds to the ecosystem and economy.

Which of the following statements best describes your approach to transparency?

(Select one for each time period)

Past five years: % who say they are "fully compliant – without sharing more information than required" **51%**

Today: % who say they are "fully transparent – sharing significantly more detail than required" **49%**

Next three years: % who say their approach will be to "stay in the middle of the pack – sharing no more or no less than the majority in your industry" **57%**

Of course, while companies have a fiduciary duty to pay the correct amount of tax, paying more than their fair share to avoid a negative headline puts pressure on the bottom line. As companies tighten the bootstraps to make their numbers and withstand a possible downturn, our survey shows that there seems to be only so far the current tax transparency wave will roll.

Moving forward, most CTOs will seek a delicate balance between compliance and transparency. Fifty-seven percent of CTOs expect to shift their approach in the next three years to stay in the middle of the pack and share no more or no less than the majority in their industry.

"We are net taxpayers, but I still think that my job is to make sure that we pay the correct amount of tax, and not pay more than what we are required to pay," said Christina Able, Vice President, Tax, of Roper Technologies.

"In this economy, we need to be as efficient as possible and significant focus goes towards minimizing our cash taxes." said GoDaddy's Manzeck.

Insight into opportunities

The role of the tax chief is evolving as corporate tax policy is seen as an increasingly important part of how organizations are perceived in society. Being too aggressive from a tax planning perspective can result in bad press, lost customer loyalty, employee strain, and regulatory scrutiny. But CTOs also have a duty to help their companies deliver shareholder returns—a task made more difficult in today's turbulent economy. This is a balancing act, requiring good judgement above all. Consider these ideas to help enhance tax transparency without sacrificing tax efficiency:

- Be thoughtful about the current environment, including not just what is the right tax decision but how it will be perceived.
- Detail broader societal value the organization adds to local markets in conversations with authorities and official disclosures.
- Enhance tax governance to get stakeholders comfortable that the company is doing things the right way.

> "We are net taxpayers, but I still think that my job is to make sure that we pay the correct amount of tax."
>
> ***Christina Able**, Vice President, Tax, Roper Technologies*

Tax and ESG Significant tax work ahead on ESG-related initiatives

Buzzword? Fad? Aspirational goal? Nice-to-have? Far from it. ESG factors no longer occupy a niche position in corporate happenings. Across sectors and geographies, making progress toward ESG-related goals is becoming an increasingly important business imperative, with impacts on strategic and operational decisions throughout the business.

That includes the tax function. CTOs responding to this survey say ESG-related risks—ranging from enhanced environmental reporting requirements to increased tax transparency—pose the single greatest threat to tax organizations' growth over the next three years. In our 2022 CTO Outlook survey, ESG-related risks ranked last.[1]

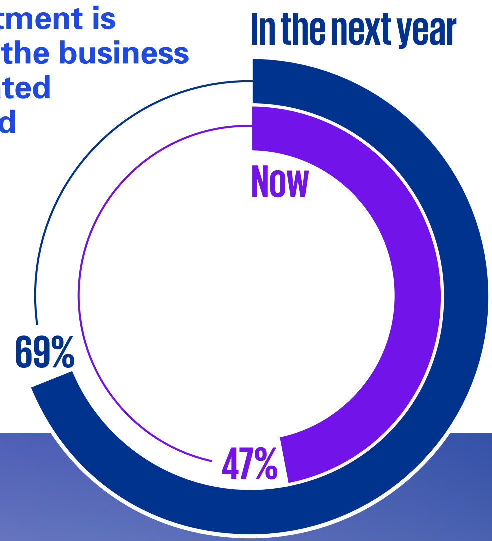
"ESG is now a chief measure of corporate behavior, with tax playing a key part due to its linkages to societal and environmental benefits," said Brett Weaver, KPMG ESG U.S. Tax Leader. "CTOs are being challenged to adjust tax strategies and affairs and ramp up reporting processes to address transparency demands, demonstrate commitment to a sustainable approach to tax, and take advantage of green tax incentives."

When it comes to ESG, tax is both a driver of sustainability and a key measure of it. In both areas, tax departments have a key role in identifying and accessing government funding for their company's ESG initiatives, minimizing exposure to environmental taxes, and shaping the public narrative regarding their approach to tax through tax transparency.

As discussed earlier in this report, tax plans, structures, and operating models may need adjusting to help ensure companies behave in alignment with their public commitments to sustainable tax behavior. More tax data collection may be required to meet calls for transparency about downstream impacts of the business on society and the environment. Companies may need to implement process enhancements to claim tax credits for climate-positive investments that are favored in the tax code.

"Stakeholder expectations and formal requirements to increase transparency and reporting around tax and the environment are going up, requiring a significant lift from a data perspective," said Weaver. "Companies are allocating multimillion dollar budgets to ESG reporting efforts to build capabilities they do not have now."

Our tax department is engaged with the business to explore related risks. Now, and in the next year. *(Those who answered significantly or very significantly)*



[1] KPMG 2022 CTO Outlook Survey (KPMG, 2022)

> ***ESG is now a chief measure of corporate behavior, with tax playing a key part due to its linkages to societal and environmental benefits.***
>
> ***Brett Weaver**, U.S. Tax Leader, KPMG ESG*

What steps is the tax department taking to address ESG-related risks and opportunities?
(Select all that apply)

Enhancing your tax control framework, including drafting a tax risk management policy	53%
Seeking to work more closely with business units to ensure ongoing compliance with ESG-driven tax credits and grant terms	52%
Defining your tax principles and publishing a global tax strategy document, or updating/refreshing your principles and strategy	51%
Increasing transparency regarding either your tax strategy, governance, or global tax payments	47%
Seeking to work more closely with business units to identify and access ESG-driven tax credits and grants	46%
Evaluating the supply chain against potential ESG-related tax risks and opportunities	43%

As influence of ESG themes on tax departments increases, the findings show CTOs planning to step up their involvement in ESG strategies. Sixty-nine percent of respondents see their tax departments playing a significant role in exploring ESG risks and opportunities in the next year, up from 47 percent now.

CTOs are taking various steps to help their organizations tackle ESG-related challenges. The most common actions are enhancing the tax control framework (53 percent), driving ongoing compliance with ESG-driven tax credits and grant terms (52 percent), and defining tax principles and publishing their global tax strategy (51 percent).

Other steps taken by substantial numbers of respondents are increasing transparency into tax strategy, governance, or payments (47 percent); identifying and accessing ESG-driven tax credits and grants (46 percent); and evaluating the supply chain against potential ESG-related tax risks and opportunities (43 percent).

"We frequently engage with our sustainability team to think about how we invest in energy and water-saving technologies and projects that are central to our business model," said Tom Strobel, Senior Vice President, Tax, of Ecolab.

Although tax activity in our respondent group around ESG is extensive, this research also highlights room for improvement. Seventy-one percent of CTOs say that while tax is periodically engaged with ESG, other functional groups lead the charge. Less than three in ten (28 percent) of CTOs have a seat at the table supporting ESG initiatives, according to the findings. While this is higher than the 21 percent response rate from our 2022 survey,[2] it demonstrates that ESG remains largely outside of CTO involvement in a majority of companies, likely contributing to its rise to the #1 spot among tax department risks.

[2] KPMG 2022 CTO Outlook Survey (KPMG, 2022)

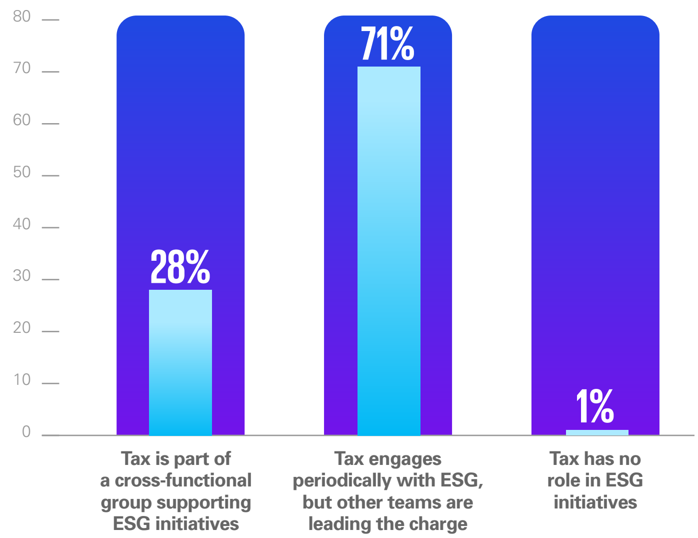
Tax and ESG continued

"Tax is very much a part of the discussion about ESG activities at Flowserve, but our impact to date has been more from an informational point of view," said Bertucci. "A main role we play is reviewing various investments and activities and providing guidance on the relevant opportunities and impacts."

Tax function involvement in ESG remains especially limited in the highest impact areas. Without a seat at the table, tax cannot effectively contribute to operational and supply chain design discussions that could have major tax implications. For example, operational moves can help companies grab dollars that governments are making available to businesses that green their supply chains, such as green credits and incentives. On the flip side, they can raise tax payments by triggering new environmental taxes, such as plastics taxes in Europe. Despite the cost of not paying attention to the tax issues, in these broader strategic areas, tax is often an afterthought.

"The company takes sustainability very seriously, but it's more operationally focused and not so tax focused," said Able of Roper. "I'm aware of what we do, but it's not something tax has been actively involved in."

Which of the following best describes the role your tax organization currently plays in ESG initiatives versus other areas?



Insight into opportunities

A wide range of corporate behaviors—each with a wide range of tax implications—hold sway over the long-term outlook for worldwide communities and economies. CTOs are being asked more ESG-related questions as C-suites move ESG higher on the agenda. Tax departments are also facing additional requirements to publicly report tax payments, with many preparing to disclose country-by-country tax data by 2025. Here are some ways CTOs can get more actively involved in ESG initiatives and help prepare the company to address ESG risks and opportunities:

- Engage more regularly with top leaders and cross-functional teams about ESG-related tax issues and demonstrate how tax considerations can drive significant value for your company's ESG initiatives.
- Research tax opportunities of ESG-related investments such as credits and incentives for showing progress in the sustainability space.
- Refresh tax controls, policies, and strategies so ESG impacts are thoughtfully considered throughout.
- Transform systems and processes to meet impending public country-by-country tax payment data reporting requirements.

U.S. and global tax landscape

Converging trends across tax legislation, regulation, and administration escalate the compliance burden

Thirty-six percent of CTOs surveyed list regulatory risk—including tax law changes, audits, and controversy—as one of the top three greatest threats to the tax function. Affecting everything from the costs of taxation to the scope of reporting to the aggressiveness of tax authorities, it ranks as the second largest obstacle CTOs will face in the next few years.

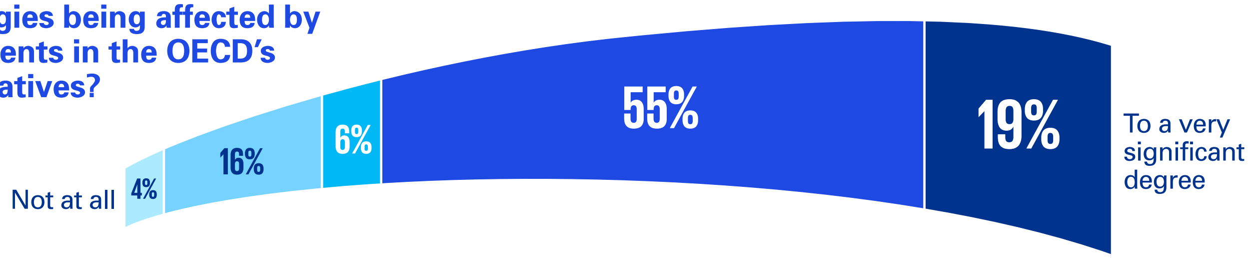
Corporate taxpayers are facing disruption and pressure at both the domestic and international level, where a wide and diverse range of tax reforms are currently planned or underway, new tax laws and increases are being enacted, and taxing authority scrutiny and aggression is increasing, including calls for public disclosure of what was once private tax information.

Globally, this research shows that compliance is the major struggle for tax departments, considering the varying reporting rules and regulations across countries and jurisdictions. From both a practicality and cost standpoint, it will only get more burdensome in the future, as world economies move toward a more transparent international tax environment through major reform efforts like public country-by-country reporting rules in the European Union (EU) and the Organisation for Economic Co-operation and Development (OECD) intergovernmental effort to address base erosion and profit shifting (BEPS).

Companies continue to plan and prepare for the impacts of the global tax overhaul on their data needs and compliance activities. In particular, OECD's BEPS initiatives add new, data-intensive compliance requirements. Nearly three-quarters (74 percent) of CTOs said their operating and tax strategies are being affected by developments in the OECD's BEPS initiatives.

"To prepare for new global tax rules under BEPS, we've dedicated internal people and tools to model the impacts, calculated additional taxes we could face, and identified gaps to meet compliance reporting requirements which we expect to be very burdensome." said Bertucci of Flowserve.

To what degree are your operating and tax strategies being affected by developments in the OECD's BEPS initiatives?



> *We've dedicated internal people and tools to model the impacts, calculated additional taxes we could face, and identified gaps to meet compliance reporting requirements which we expect to be very burdensome.*

***Joe Bertucci**, Vice President, Tax, Flowserve*

U.S. and global tax landscape continued

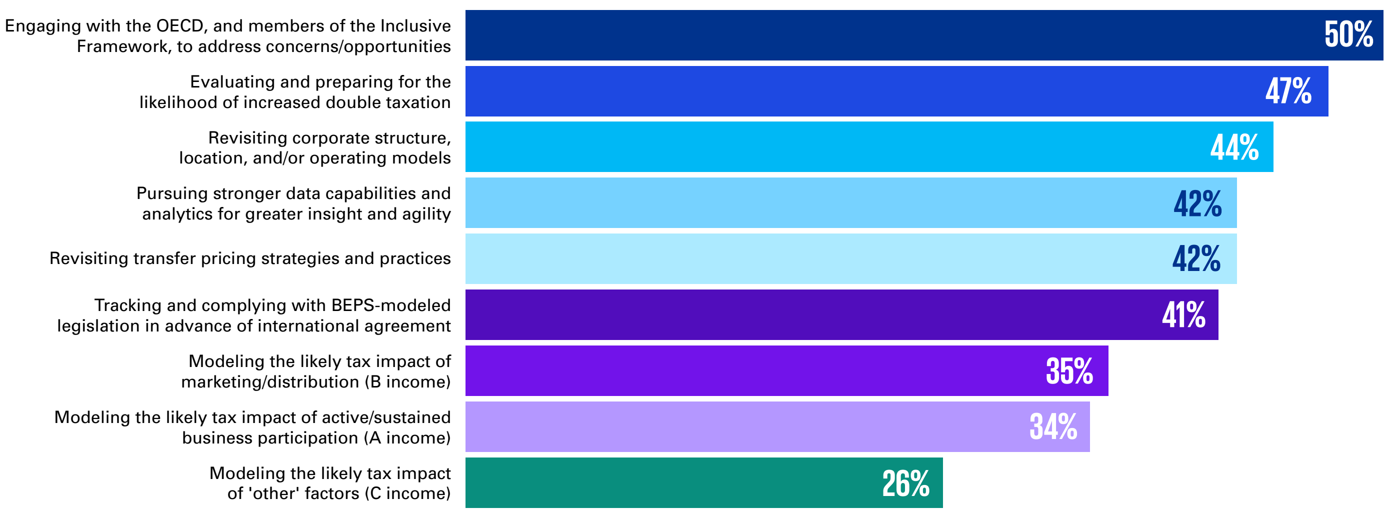
BEPS Pillar One and Two are also spurring CTOs to revisit fundamental aspects of how their own departments—and their broader enterprise—do business. There is such a high level of uncertainty and speculation remaining that CTOs seem to be tackling a little bit of everything.

According to the survey, CTOs are taking a variety of actions regarding the BEPS Pillar One and Pillar Two initiatives: engaging with the OECD and members of the Inclusive Framework to address concerns and opportunities (50 percent); evaluating and preparing for the likelihood of increased double taxation (47 percent); revisiting corporate structure, location, and/or operating models (44 percent); pursuing stronger data capabilities and analytics for greater insight and agility (42 percent); and revisiting transfer pricing strategies and practices (42 percent).

"This is a process we're going to be living with and I think it's important to participate so we don't end up with unexpected outcomes," said Mastercard's Pereira. "We've had some really productive conversations with people at the OECD, asking questions about what they meant in certain items when they were drafting and also providing our own feedback. We've also done modeling, together with KPMG, so we can inform our executives on what they can expect if there's widespread adoption of Pillars One and Two."

What steps are you taking regarding the BEPS Pillar One and Pillar Two initiatives?

(Select all that apply)

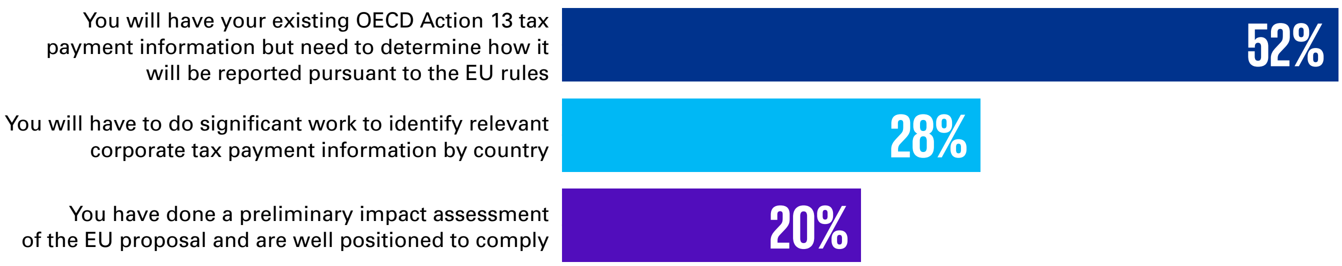


> "This is a process we're going to be living with and I think it's important to participate so we don't end up with unexpected outcomes."

***Scarlet Pereira**, Executive Vice President, Global Tax, Mastercard*

There is also significant work to be done for tax functions to prepare for EU public country-by-country reporting, according to the survey. More than half of respondents (52 percent) say they have existing OECD Action 13 tax payment information but need to determine how it will be reported pursuant to the EU rules. Just one in five CTOs believe their tax function is well positioned to comply.

To what extent are you prepared for EU public country-by-country reporting? *(Select one)*



Along with the added compliance burden, increased taxation is a primary concern regarding U.S. tax policy changes. The Inflation Reduction Act (IRA), which introduced a new alternative minimum tax for large companies and a tax on share buybacks, among other reforms, is particularly top-of-mind. Stateside, six in ten CTOs agree that tax regulations in the U.S. (distinct from rate hikes) will be used to increase taxation over the next two years. More than half (58 percent) say U.S. legislation such as the IRA will have a significant impact on their tax costs.

However, the CTOs we interviewed mostly agreed that recent U.S. tax policy changes—while adding some costs—would not have a dramatic impact on their tax approaches, compared to global reforms.

Insight into opportunities

Sweeping changes across the global taxation landscape are converging to increase the costs and efforts of compliance and complicate tax planning and strategy. Corporate taxpayers can help their companies prepare now by:

- Participating in the global tax reform process as the rules are being written through conversations with and commentary by policymakers.
- Strengthening internal data and calculation processes to comply with new global, country-by-country, and domestic tax rules.
- Regularly modeling the impact of changes to uncover ways to make structures tax efficient under evolving regulations.

What are your concerns about U.S. tax policy changes? *(Those who agree or strongly agree)*

Tax regulations in the U.S.—distinct from rate hikes—will be used to increase taxation over the next two years — 60%

New U.S. legislation (the Inflation Reduction Act) and regulations will have a significant impact on your tax costs — 58%

New U.S. legislation (the Inflation Reduction Act) and regulations will have a significant impact on your tax compliance burden — 58%

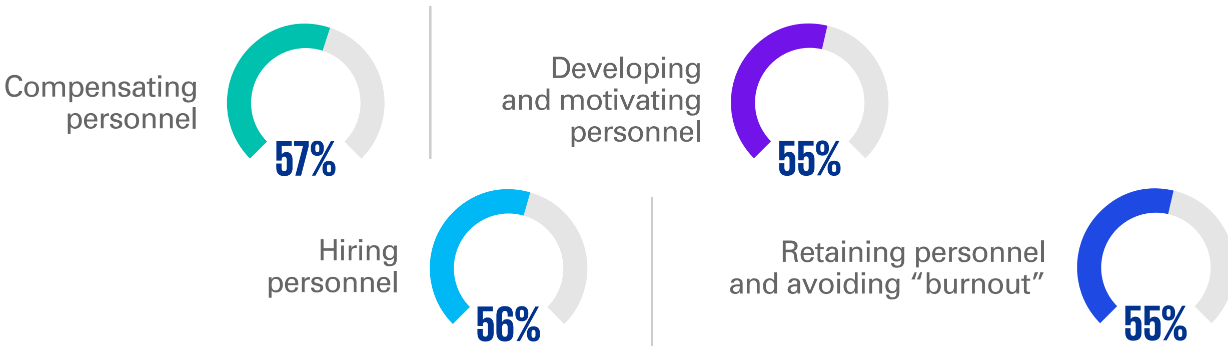
You are dedicating resources to stay ahead of changing tax regulations for cryptocurrency — 58%

The use of the reconciliation process by the U.S. Congress is decreasing the stability of the tax system — 56%

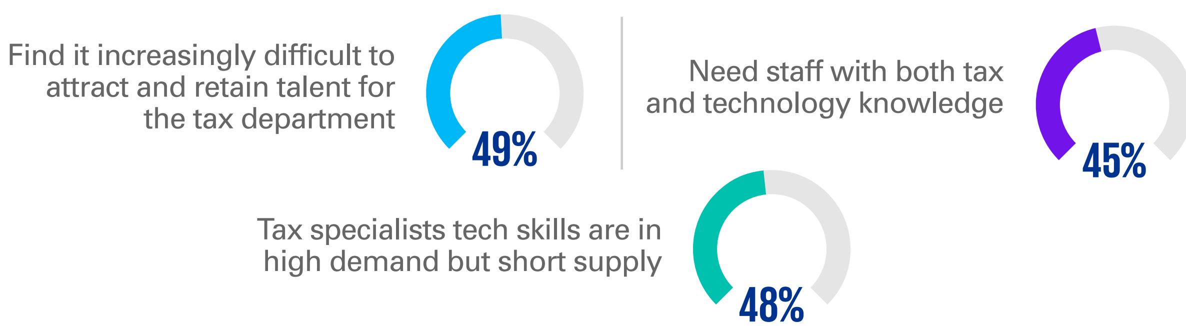
Tax talent New approaches required to attract tax "unicorns" in high demand, short supply

Facing skill gaps, increased workloads, digitization impacts, and workforce disruption, many CTOs are struggling with staffing their tax functions. Fifty-six percent say hiring personnel is a significant or very significant challenge, while 49 percent say they are finding it increasingly difficult to attract and retain the talent they need.

To what degree do the following personnel-related functions present challenges for the tax department? *(Those who replied significant or very significant)*



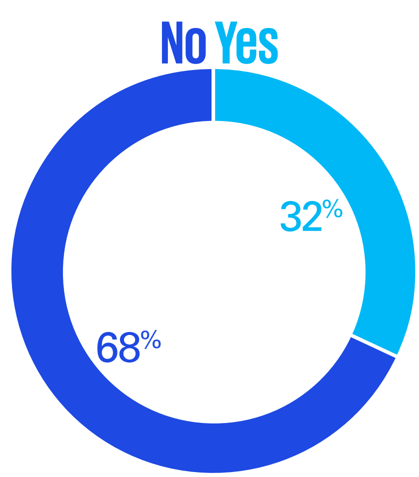
How strongly do you agree with the following statements?
(Those who replied agree or strongly agree)



According to the 2022 KPMG Tax Reimagined: Perspectives from the C-suite survey,[3] the majority of nontax C-suite leaders agree that it has been difficult to both recruit and retain tax talent this past year. To cope, 48 percent of C-suite executives surveyed say they are expanding experts to upskill employees, up 12 percent from last year.

In the area of in-house tax talent development, the survey shows clear room for improvement. Less than one-third of CTOs (32 percent) are using technology to free up human capital so their tax professionals can focus on more strategic added activities. Although they may recognize strategic value of technology beyond compliance and risk management, the majority haven't yet figured out how to tap into it.

Are you using technology to free up human capital so your tax professionals can focus more on strategic added activities?



[3] Tax Reimagined 2022: Perspectives from the C-suite (KPMG, 2022)

> ***We see leading tax departments embracing a 'tech-first, tax-second' approach to hiring talent to support their organizations.***
>
> ***Rema Serafi**, National Managing Principal, Tax, KPMG*

The importance of technology and data analytics skills in tax and corporate strategy is a driving force changing tax function hiring requirements and contributing to increased talent risk.

Although compliance burdens are increasing, budgets for tax are largely constrained. The C-suite is asking tax departments to do more with less, and technology and automation are often seen as the way to bridge the gap. The ability to navigate tools and systems and use different types of data extraction are becoming increasingly important as tax department processes shift from manual to automated.

As such, CTOs are investing today in a range of initiatives to increase the focus on analytics and lessen the burden required on data management. The most common are building tech skills, defining a data strategy, streamlining processes, and implementing new tools. In three years, respondents' top priority will be leveraging third-party solutions, while also continuing current data and analytics improvements.

Where are you investing to increase the focus on analytics and lessen the burden on data management?

Investing today in:

Technology or analytical training and skills development	49%
Defining a data strategy	47%
Standardizing and streamlining processes	45%
Implementing data or technology tools	45%

Will be investing in next three years in:

Leveraging third-party software or vendor tools	44%
Building data and digital literacy across organization	44%
Implementing data governance and improving controls	43%

Tax talent continued

But at the end of the day, tax is a specialty. Accounting remains a core competency valued by the broader C-suite. Although they rank coding as the most needed skill for tax professionals, most C-suite executives outside of tax still prefer to hire tax experts who can learn technology, not vice versa.[4]

"The skill set required for today's professionals to deliver value and have a successful career in a modern tax function goes far beyond accounting and tax technical knowledge," said Rema Serafi, National Managing Principal for KPMG Tax. "We see leading tax departments embracing a 'tech-first, tax-second' approach to hiring talent to support their organizations' future needs around data, technology, and analytics."

This research further shows how CTOs need people with a mix of accounting and technology knowledge, but they aren't easy to find. According to our survey, 48 percent of CTOs say tax specialists with technology skills are in high demand but short supply. Meanwhile, 59 percent are shifting toward hiring tax professionals with a healthy background mix of tax and technology.

Thinking about the hiring requirements for your tax department, are you shifting toward hiring tax professionals that… *(Select one)*

"There is an ever-growing need for tax technology professionals that can talk the technical language to the software engineers, but also have that tax background," said GoDaddy's Manzeck.

"For us, there's a baseline of tax skills that you need to be effective in the department, but when we hire people, we're also looking for that agility to learn some of the data manipulation techniques that are necessary," added Strobel of Ecolab.

Somewhat ironically—given the short supply of tax technologists cited in this research—technology and automation can actually be used as a hiring and retention tool for tax, CTOs say. With the rise of remote and hybrid work, enterprises are seeking ways to use technologies ranging from virtual conferencing tools to the metaverse to collaborate, be efficient, and gain and retain talent. Higher-tech workplaces are especially appealing to younger professionals just entering the industry, who tend to be more technology savvy than the older guard. Tax functions can improve hiring outcomes by showing in-demand talent what they offer from a technology perspective.

In the wake of the pandemic, many CTOs have also adjusted the tax department's work policies to meet flexibility desires of their people while maintaining productivity and creating opportunities for socialization. During the past two years, about half of CTOs (51 percent) say that their companies have reduced their physical footprint and over the next three years, 45 percent say their companies will enable a nomadic workforce (workers with no steady domicile).

As companies transition to hybrid or remote work environments, our interviews show how it presents both risks and opportunities in terms of talent attraction, retention, and productivity.

In some tax departments, allowing more hybrid work has helped expand the available talent pool.

"Before, when we were hiring someone in tax, they would've been hired at our local corporate office, and would've been expected to come in. It was sometimes difficult to find qualified talent, at least in our local market," said GoDaddy's Manzeck. "Being hybrid opens up a pool of more experienced candidates and the ability to bring in talent that maybe previously we couldn't."

[4] Tax Reimagined 2022: Perspectives from the C-suite (KPMG, 2022)

Hybrid work policies are also being leveraged to help teams find added time to tackle heavy workloads, as well as manage the responsibilities of their personal lives.

"Overall flexibility is key, and that's been my approach," said Able of Roper, who generally asks her team to be in the office three days a week, per corporate policy. "The whole team appreciates the interaction and the teaming of being face to face, but productivity is key. Especially during close, I'd rather my team use the two hours they would spend commuting to getting the work done."

CTOs also note the irreplaceable value of in-person touchpoints, which are seen as critical to relationship building and learning and development.

"We try to be as purposeful as possible during the days that we're in the office to ensure that we're not just on back-to-back calls, but we're actually setting aside time for in-person meetings and connecting with people that we haven't seen for a while," added Pereira of Mastercard, whose tax department has a hybrid model.

Insight into opportunities

Hiring and talent management and development are becoming key competitive differentiators in the evolving world of tax. CTOs will need new approaches to build a tax workforce made up of the right people with the right mix of skills:

- Leverage automation to make tax professionals' jobs easier and attract young, tech-savvy talent.
- Develop the tax teams' overall analytical skills to deal with large volumes of data and pull together meaningful results.
- Consider how work policy adjustments can help drive greater satisfaction and productivity within the tax team.

"Being hybrid opens up a pool of more experienced candidates and the ability to bring in talent that maybe previously we couldn't."

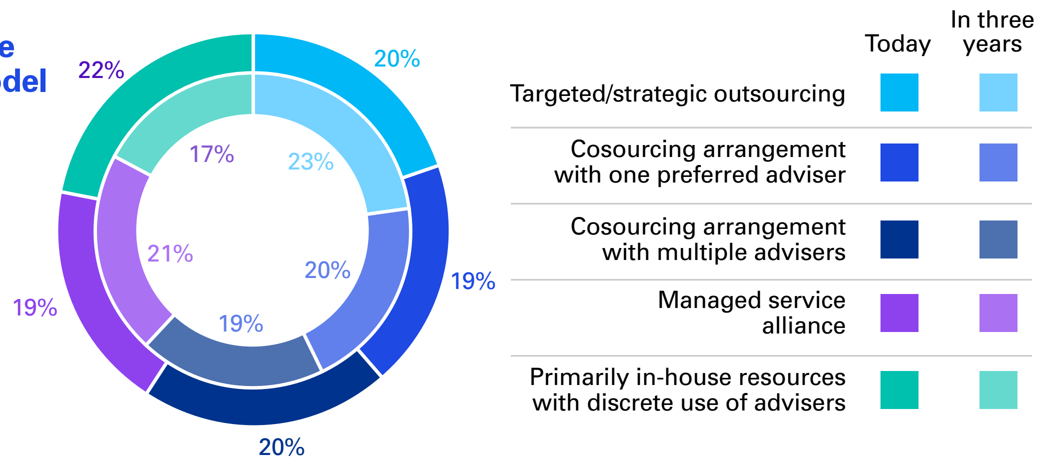
***Kevin Manzeck**, Vice President, Global Tax, GoDaddy*

Tax operations

CTOs seek outside support to keep pace with accelerated changes

As talent risk in the tax function builds, technology and automation play a greater role in tax processes, and new demands are added on tax, the majority of CTOs are turning to some form of outsourcing or cosourcing to help navigate capability shortages. More than eight in ten (83 percent) of CTOs are planning to use targeted/strategic outsourcing, cosourcing with one or more advisers, or managed service alliances within the next three years. Of those CTOs, the top benefit they expect from shifting to greater outsourcing or cosourcing is addressing the problem of attracting and retaining in-house talent (52 percent).

How would you describe the target operating model for your tax function today? What about in three years?



What benefits do you expect to obtain from shifting to greater outsourcing or cosourcing? *(Select all that apply)*

Address problem of attracting and retaining in-house talent	52%
Improved managerial focus on higher value-added issues	50%
Greater access to advanced technology	45%
Greater assurance/reduced risk	45%
More rapid access to new markets/ opportunities (agility)	41%
Lower costs	40%
Greater scalability	37%

In some cases, CTOs leverage outsourcing to deal with highly complex areas of tax demanding specialized subject matter expertise. Outsourcing especially time-intensive compliance processes can also help tax departments overcome human resource shortages, particularly in foreign jurisdictions where tax may not have local people and expertise.

"If there's something very nuanced and specialized, we usually bring in advisers," said Roper's Able. "Similarly, if it's very grunt work-ish or if the volume is high at a particular time, we bring in advisers as well."

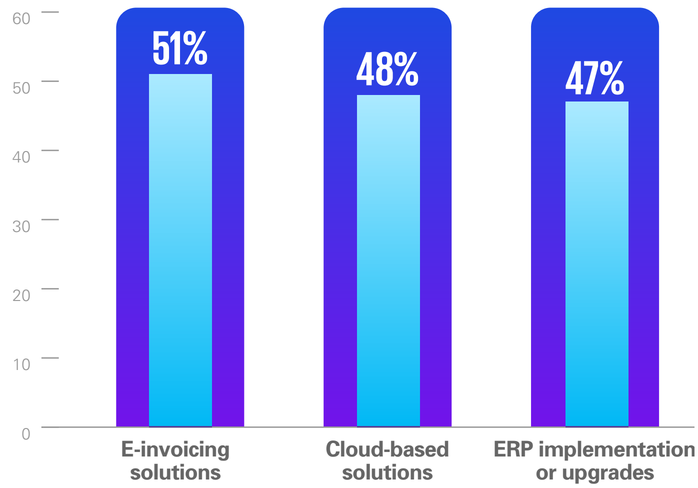
Cosourcing can yield similar benefits, while allowing the tax function to maintain more control.

“We cosource both for compliance and provision with KPMG because we try to keep our team pretty lean and we have some complexity in our world,” said Pereira of Mastercard. “When it comes to federal, international, and state local tax compliance, my team needs to know what goes into those filings. That’s why we use a cosourcing model, working together with KPMG, rather than a full outsourcing model.”

Along with addressing internal skills and resource shortages, most CTOs are also looking outside their own organizations to access, use, and drive the value of the advanced technology needed to manage increasing tax requirements. Seeking first and foremost to reduce risk of material errors (55 percent) and shorten the close process (52 percent), many tax departments have implemented innovative technologies such as e-invoicing solutions (51 percent), cloud-based solutions (48 percent), and ERP implementations or upgrades (47 percent).

For the most part, the research shows outside help is needed to drive value from tax technology and automation investments, helping tax overcome gaps in in-house expertise, expand the value of new products to uses outside of tax, and ensure scalability in an uncertain economic environment. Less than 4 in 10 (39 percent) of respondents say their organizations develop their own tax technology in-house. Cosourcing and managed services are the preferred models for keeping up with new technology. Nearly half of CTOs leverage third-party software providers to provide tax technology (49 percent), use professional services firms to take advantage of their investment in technology (47 percent), or hire technology/transformation consultants to help develop tools (45 percent).

Technologies CTOs have implemented the most already. *(Select all that apply)*



How is your tax organization keeping up with new technology? *(Select all that apply)*

You leverage third-party software providers to provide tax technology	49%
You go outside to professional service firms to take advantage of their investment in technology	47%
You hire technology/transformation consultants to assist with developing tools	45%
You develop your own tax technology in-house	39%

Tax operations continued

This is consistent with the findings of KPMG's 2021 survey of nontax C-suite executives, which also indicated waning interest in developing tax technology in-house. In that survey, 76 percent of respondents said the vast array of emerging tax technology options "feels like the wild, wild west," with a rampant pace of change, uncertain ROI, and specific tech and data capabilities needed to leverage it.

"With so much data flowing through the tax department, investments in leading-edge technology solutions can be a game-changer, enabling tax functions to reduce manual work and be more efficient and automated in their business processes," said Brad Brown, Global Technology Leader and CIO for KPMG Tax. "But technology can only help so much. To use it to full advantage requires corresponding and continual process improvements, and strong data literacy and technology skills—areas many corporate tax functions lack knowledge, expertise, and resources in."

"As it pertains specifically to technology and automation, I think the key is to utilize the necessary tools and software from your providers that supplement what we do as a tax team," said Bertucci of Flowserve, which mixes and matches outsourcing and cosourcing depending on the area of tax covered. "We generally will control the data and what we do with it, but we do utilize various tools to help us in our automation journey."

Insight into opportunities

From calculations to reviews to higher-level planning, partnerships with external technology providers and tax advisers—through outsourcing, cosourcing, managed services, or a mix of arrangements—look poised to play an increasingly core role to the daily work of corporate tax functions. Consider the following while transforming tax operations:

- How cosourcing or outsourcing can help make complex processes more standardized, cohesive, efficient, and nimble.
- How to access best-in-class tools for automation of compliance work, especially where skill gaps persist internally.
- What areas of tax and types of information are critical for the internal team to maintain input and control.

> *"With so much data flowing through the tax department, investments in leading-edge technology solutions can be a game-changer."*
>
> ***Brad Brown**, Global Technology Leader and CIO, Tax, KPMG*

Survey methodology

In fall 2022, KPMG surveyed 300 CTOs at large public and private U.S. companies about how they are leading their organizations' tax function through a period of vast change. Ninety percent of CTOs came from companies with revenue of $2 billion or more. They represented all major industries with the biggest groups being from banking and finance (7 percent), conglomerates, engineering & industrial products, and metals (7 percent), and retail (6 percent).

How KPMG can help

When tax performance is put under a microscope, you need precise knowledge and the latest facts. When you're called on for a bigger role, you need insightful, forward-thinking perspectives. In times with greater demands for transparency, you need a steady, trusted hand.

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About the authors

Greg Engel is Vice Chair-Tax at KPMG LLP where he oversees a team of more than 10,000 partners and professionals across all tax disciplines—federal, international, state and local, as well as specialty practices such as M&A, economic and valuation services, and international executive services. He has more than 35 years of experience advising companies of all sizes in all areas of taxation, including compliance, financial reporting, planning, M&A, insurance structures and products, and tax controversy.

Rema Serafi is the National Managing Principal–Tax at KPMG LLP. Prior to her current role, she led Tax's Economic & Valuation Services (EVS) practice for five years. Her previous leadership positions include east regional service line leader for EVS, America's leader for the firm's Global Transfer Pricing Financial Services network, and National Transfer Pricing leader in the United States.

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