



Seizing opportunities

Meeting the challenge of building a tax function of the future

Professor Stephen Hawking said that artificial intelligence (AI) will “either be the best, or the worst thing, to happen to humanity”.¹ This description aptly illustrates the upheaval facing tax functions worldwide as automation and AI are set to take over most routine tax work.

The ability and readiness of your tax function to play a more central and upfront role in advising on business strategy and guiding operational implementation will be vital in helping to steer through the disruption that's also transforming day-to-day roles within tax. New technology can free up tax professionals to take on a strategically influential role and generate the analytical insights and real-time information to support this. So how can your tax function take advantage of the changes ahead?

¹ Speech by Professor Stephen Hawking at the launch of the Leverhulme Centre for the Future of Intelligence, 19 October 2016 (<http://www.cam.ac.uk/research/news/the-best-or-worst-thing-to-happen-to-humanity-stephen-hawking-launches-centre-for-the-future-of>)



Disruption and digital transformation

Disruption is always unsettling, but ignoring it is the worst option. We've seen the impact of digital transformation on industries like travel, retail and music. And now the spotlight is turning on jobs and professions. Tax is no exception; indeed it could be one of the professions that's most affected. An Oxford University study ranked 'tax preparers' as among the ten roles most susceptible to computerisation out of more than 700 jobs analysed.²

Yet, tax functions are accustomed to disruption, not least as legislation is always changing. The strategic remit of tax teams has also shifted quite markedly in recent years, with tax planning schemes giving way to a closer focus on risk and compliance management in today's more transparent and reputationally-sensitive environment. While automation and AI are set to provide a fresh source of upheaval, tax professionals could end up moving to the centre of the strategic stage and being more valued and influential within the business. A possible analogy would be the change from silent movies to talking pictures. Acting changed quite dramatically as a result, and a lot of leading men and women found it difficult to adjust. Yet others thrived and a new kind of star was born.

So what's coming up on the horizon? What are the implications of AI and automation in tax functions? How will the relationship with the rest of the business change? And how can your tax function respond?

Machine learning and cognitive computing

Routine tax compliance is becoming increasingly digitised and automated. This is already routine for personal tax returns. Now, a number of tax authorities such as the Australian Taxation Office (ATO) insist on XBRL filing from companies. Many of the new value-added-taxes (VAT) and goods-and-services-taxes (GST) being introduced around the world also require digital sharing of information. Eventually, we may see the end of retrospective filing as real-time reporting becomes the new normal.

Yet, this isn't just about regulation. Automation and digitisation can not only reduce costs, speed up turnaround and allow for 24-hour operation, but also lead to greater standardisation and fewer errors. Further benefits include making it easier to share comparable information around your group, review and identify outlier transactions, and benchmark your business against your peers.

If automation takes care of the simple and repeatable tasks, AI and the related developments in machine learning and cognitive computing are the 'brain'. AI not only boosts data mining and analytical capacity, but also learns from each interaction, and hence develops its expertise and ability to advise on solutions. Examples of AI within the legal field include a research 'bot', which monitors legislative developments and advises on queries.³ Comparable platforms for tax preparation are in development and it's only a matter of time before we see machines carrying out the bulk of regulation tracking and dealing with queries.

² 'The future of employment: How susceptible are jobs to computerisation?', Carl Benedikt Frey and Michael A. Osborne, 2013 (http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf)

³ ROSS (<http://www.rossintelligence.com/>) and Washington Post, 16 May 2016 (https://www.washingtonpost.com/news/innovations/wp/2016/05/16/meet-ross-the-newly-hired-legal-robot/?utm_term=.587b77c70667)

“...it’s only a matter of time before we see machines carrying out the bulk of regulation tracking and dealing with queries.”

Implications

Some fear that the impact of automation and AI will reduce the tax function to little more than programmers and robots. However, a combination of restructuring, business model changes and increased public scrutiny of tax makes strategic input from tax functions more important than ever. Automation is favourable as it releases tax professionals from mundane responsibilities, giving them more time to devote to higher value-adding tasks, including strategic advice. The availability of real-time information and development of AI also mean that the advice will be more proactive than has ever been possible before.

Actions

It’s important to determine what AI and automation would mean for your tax function, what opportunities they offer, and how to be at the forefront of shaping change, rather than being reshaped by it.

The starting point is not technology so much as the changing demands placed on tax teams and the impact on daily work. Just as the ways of working and films studios themselves had to change with the shift from silent to talking pictures, your tax function is likely to need a new target operating model. Key considerations include what can be automated and what will remain within the human remit? What functions could be better carried out or augmented through the use of AI? How can AI support you in your work (eg increased analytical capabilities and real-time insight)? As automation and AI accelerate standardisation, what aspects of the tax function should remain in-house and what could be outsourced? A useful way to bring all these considerations together is to think about what the tax function and its operations would look like if you could start with a blank sheet of paper.

Some of your existing IT could now be obsolete, though quite a lot of what you now need is likely to be available within the business. Building on what’s there already can not only reduce costs, but also strengthen integration, which can help your tax function to gain greater visibility and value in the business.

And just as the kind of acting talent that appeared on screen changed with the advent of sound, the skills needed by tax teams are going to be quite different. This includes more of a data analytics and IT skillset on the one side and less focus on application of standard rules and legislation on the other.



Tax authorities want it now

Tax authorities expect a greater amount of information with requirements such as Country by Country reporting as just one example. Information is needed in more detail, within less time and in some cases, even real-time. This puts intense pressure on tax function systems, processes and accuracy checks. Tax authorities are also using the standard business reporting they receive as the basis for tagging, risk analysis and targeting of companies for investigation and audit. An example of this is the use of analytics and automated compliance processes by new VAT/GST adopters to identify and root out today's ever more complex and hard-to-trace 'carousel frauds' (charging VAT, then absconding with the funds without paying the tax authority).

Implications

This is an environment with a low tolerance for errors and delays. And the more information that's required and the more it's analysed, the greater the risk that discrepancies, however small, are identified and investigated.

Both organisation-wide consistency and a clear understanding of what's being shared with tax authorities are therefore essential. A tax function that still relies primarily on manual and low-tech capabilities, or one that allows these new requirements to create a cottage industry of their own, will struggle to keep up. Indeed, investment in automation and AI may be the only feasible way to respond with the speed and accuracy required.

Actions

Determine the implications of compliance expectations and how systems and data can help in meeting them. This includes speed, accuracy, consistency and how to keep pace with digital developments within tax authorities.

With so much data to deal with, it's important to ensure that your systems are able to cut through the noise to focus on what really matters.

Transparency is also crucial. Tax authorities are looking as closely at the processes used to generate the numbers, as the outputs themselves. It's therefore important to have a clear and accountable audit trail in place.

A big step-up in systems capabilities will almost certainly be required. Rather than just looking at how to augment tax technology, it's useful to consider what technology can be used for tax. As outlined earlier, a lot of what you need may already be available in other parts of the business. For example, you could use investment in areas such as Enterprise Resource Planning (ERP) updates or gain access to analytics and visualisation tools – most will have firm-wide licences.

What if the necessary systems aren't available within the business? Tax functions are often found at the back of the queue for technology investment. But now is the chance to reverse this. CFOs may be receptive to the idea of trialling the use of robotics and other emerging developments within tax before rolling them out to other areas of finance. Blockchain is a potential case in point. Blockchain creates a common, contemporaneous and tamper-proof record of transactions and information exchanges between different parties. You could apply this kind of record-keeping to different parts of your organisation, bring in suppliers and customers, and possibly tax authorities seeking real-time data. If effective, deployment of blockchain within tax could be extended to a broader range of finance transactions and records.

“...the emergence of AI and machine learning and new paradigms such as the sharing economy will continue to have a significant and lasting impact on the tax profession.”

Rethinking the role of the tax professional

Tax professionals have always been the custodians of knowledge about an exceptionally complex field. However, the availability of a lot of this information on the internet and within social forums is combining with the emergence of AI, machine learning and new business models such as the sharing economy to change the nature and role of the tax profession. Rather than looking at these new sources of knowledge and decision support as a distraction or a threat, it's important to think about how to contribute to them and how to make the most effective use of them.

While tax functions will no longer be the exclusive holders of knowledge, they can still take the lead in developing and applying their expertise within this changing environment. The big opportunity is to move from being a responder, answering complex questions once strategies are already in place, to being at the forefront of formulating and executing strategic change. Boards will look to the tax function to identify the openings and manage the risks. As such, it will be critical to be able to ask thoughtful questions and use technology and networks to develop solutions rather than being 'the expert that has all of the answers'. This will become the way to deliver efficient and successful outcomes for the business.

And as business models are disrupted by the same forces that are reshaping the tax function, there is no shortage of strategic change and surrounding questions. They include:

- How do new business and partnership models affect our tax position and how can we optimise this?
- How can we ensure our tax strategy stands up to scrutiny in today's more transparent environment?



Implications

The expertise that defined tax professionals is no longer their exclusive preserve and technical mastery is not enough in itself in today's fast-paced, networked economy. Yet far from reducing the value of the tax professional, this is an opportunity to develop immersive information systems, pool expertise and develop solutions.

Tax functions need to consider their fundamental role within the business and whether it should operate as a cost or profit centre. The operational and strategic focus would shift from shaping tax strategies to fit business plans and filing returns at the end of tax periods to proactively contributing to commercial decision making. This would in turn require greater integration with the business.

New capabilities, and possibly new people, will be required. Business expertise and engagement skills will be paramount.⁴ It's also important to ensure that the tax implications of different strategies are explained in a way colleagues can understand, rather than sheltering behind the complexities.

Actions

The new model centres on how effectively knowledge is applied and the strategic solutions it delivers.

As a tax function, it's important to be out there, connecting and building communities within the business rather than operating in the margins. This will be new to many. Among the biggest hurdles is culture and the biggest challenge is developing the confidence to put yourself forward in this way.

Key priorities include drawing up a new talent strategy. There may be resistance to change, so keep sight of the opportunities. What are the implications for recruitment and career development? How can you build business, engagement and technology skills into training, development, performance management and incentives?

Technology frees people from being tied to offices and helps them to operate in a more agile way. You should also think about how to sustain cohesion. As mobility increases and work is distributed around a looser network of in-house and outsourced teams, how can you document and retain experience and expertise? Engagement skills and the ability to build relationships and work with other people to develop solutions will become a necessity.

⁴ Emotional Quotient (EQ) will be increasingly important and influential, while at the same time we will see Intelligence Quotient (IQ) being increasingly supplemented by machines through ever more sophisticated machine learning and AI solutions.

“Boards and business leaders will challenge those that just provide ‘the answers’, but will embrace those that pose the searching questions.”

A new tax ecosystem is emerging

The demands on tax functions and how they operate are in a state of flux and even bigger changes lie ahead. It's impossible to know exactly where we'll be in ten, or even five years' time. But what's already clear is that a new tax ecosystem is emerging. What's expected from tax teams and their relationships with the business and tax authorities are going to be very different from today. Automation and AI are key drivers, catalysts and enablers of change.

The shift in role and underlying culture and capabilities will be challenging and even disorientating for some. However, the results will raise the status and influence of your tax function and provide an intellectually liberating and stimulating opportunity for the profession. Coming back to the move in silent movies to talkies, the transition was difficult, but it took expression and engagement with the audience to new levels and paved the way for what many believe was the golden age of film.

To seize this opportunity it's important to be tuned in to the possibilities of change. You can then begin to reshape the talent, operational capabilities and underlying mission needed to take advantage of these developments. Success will belong to those that embrace the human element (that is not subject to digital disruption) and make effective use of automated solutions and AI. Boards and business leaders will challenge those that just provide ‘the answers’, but will embrace those that pose the searching questions.

Some may prefer to wait until the end game is more certain or the business defines what's expected from the function. However, a slow and reactive response could leave your tax function without a clear role or relevance within your organisation.

If you would like to discuss any of the areas raised in this article, please contact your own Grant Thornton adviser or one of the contacts listed.

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