

Reimagining the tax function

Being future ready!

Foreword

To understand how tax functions are transforming with increased opportunities and challenges, EY India launched the fourth edition of our annual survey – **Reimagining the tax function** reaching out to senior finance and tax executives with some pertinent and thought-provoking questions. This report is a compilation of responses from various respondents from diverse industries/ sectors (including a mix of public and private companies - India headquartered or global MNCs).

Business landscape has changed by leaps and bounds as compared to five years ago. Last two years of pandemic have only accelerated this change. What seemed to be a forced adaption to the alternate ways of working is now a reality and opens opportunities that organizations wish to realize.

One of the most important lessons from the pandemic has been dealing with the uncertainties it brought. These uncertainties are here to stay. Organizations have realized that the key lies in finding comfort and opportunity amidst these uncertainties.

As things return to normalcy with almost all restrictions easing out, 81% of respondents to our recently concluded survey think that new normal will radically change the current ways of working. Many are welcoming this change with a belief that there are a host of opportunities to unlock in this new normal (57% respondents to the current survey concurred with this view).

Many pressing forces such as risk management, talent management, digitization by tax administration, constant legislative and regulatory changes, transparency initiatives within tax etc. have significantly impacted the way tax functions operate today, leading to a shift in the role of the tax functions in current times. Besides disruption, the entire phenomenon around 'Great Resignation' is also reflected clearly in the survey results.

Basis responses to the current survey, attracting and retaining talent has emerged as a very critical lever in effective functioning of tax operations.

While India Inc. has its eyes set on recouping business growth, tax functions are solicited to act as an enabler to support this growth. 73% of the respondents in our recent survey believe that tax functions are being called upon to play a stronger role in helping businesses determine the next steps and beyond.

Most organizations have successfully ridden this wave of disruption to explore and action their best solutions aimed at achieving a future ready tax function –delivering timely, risk-managed, and accurate compliances, imbibing industry best practices, and carrying the resilience to respond to disruptions. With most organizations looking at a hybrid model, the aspects like process standardization, tech-enabled delivery, continuous evaluation, and development require a different approach.

Read along to find out what your peers have to say about their approach towards reimagining the tax function.



Jitesh Bansal

Partner and National Leader
Tax and Finance Operate
EY India

EY Global Tax and Finance Operate Survey

In this report, we would also talk about insights/ responses we have received from your peers across jurisdictions on our global tax and finance operate survey.



Scan this QR Code to understand what companies across the world think about transformation of tax and finance functions

84%

organizations are changing their tax and finance operate models

Citing a range of priorities such as



Centralising through in-house shared services



Co-sourcing with a provider who has significant capabilities in data, technology and shared service center delivery



Driving increased automation within the internal function

CFO Imperative: How to realize the value of your tax and finance function

To understand C-Suite's expectations and priorities from a tax function, this report also outlines key highlights/ insights discussed during our CFO Forum conducted earlier this year.



Scan this QR code to have a closer look at the perspectives of CFOs across industries on how to realize the value of your tax and finance function





Inside this Report



The Government of India (GoI) has been vocal about their vision and intent to bring transparency and simplification in the tax laws. Consistent with this intent, a multitude of legislative and technological amendments/ initiatives have been introduced over a span of 2 to 3 years.



1

Strengthened Information Exchange

- ▶ Full visibility/ control over tax data and operations
- ▶ Ensuring consistency in filings across legislations

2



Enhanced Income Tax Portal

- ▶ Given the level of data mining undertaken by the Government, there is a greater need to ensure proactive validation and analytics



3

E-invoicing

- ▶ With Government's focus on real-time data collection, it becomes critical to ensure correct data generation at the source

4



Input Credit reconciliations and GST reportings

- ▶ Since Government is leveraging data across various filings/ reportings done by vendors/ suppliers, it is important to ensure not only own data accuracy but also timely and accurate reportings by vendors



5

New Avatar of 26AS

- ▶ Given the vast pool of data available with the Government, it becomes imperative to ensure proactive validation *vis-à-vis* the source data

6



Expanded TDS/ TCS provisions

- ▶ Robust mechanism to undertake validations and secondary review of positions
- ▶ Strong IT infrastructure to handle large volume of data
- ▶ Regular and timely tax reconciliations



Faceless Assessment

7

- ▶ Preparedness for intelligent, targeted/ focused queries
- ▶ Ability to prepare sharper submissions in crunched timelines
- ▶ Digital readiness

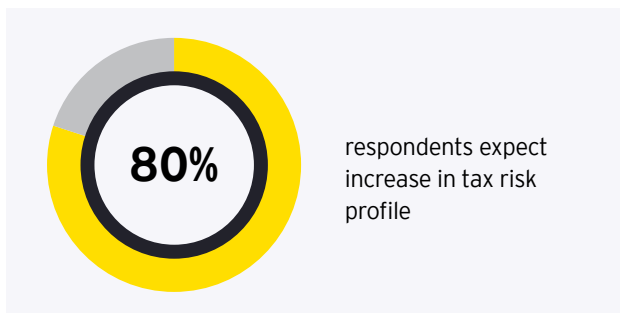
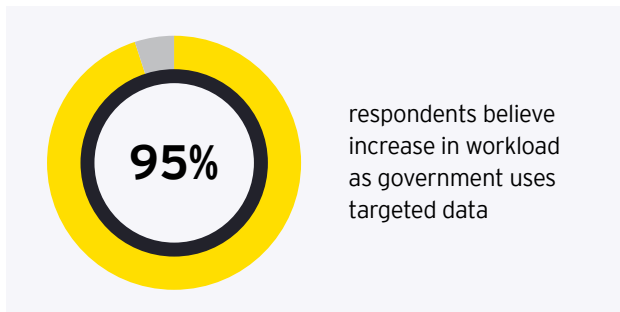
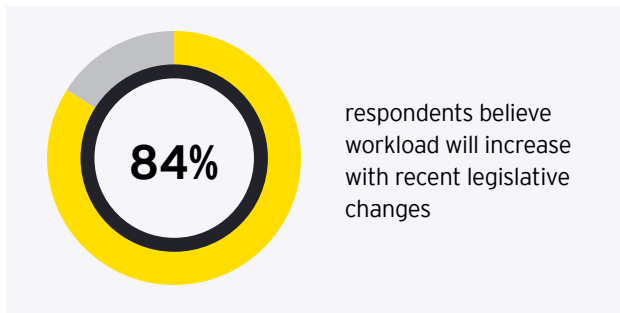
Legislative reforms continue to impact tax functions

and the list goes on...

There is no denying that the Government of India has been one of the early adopters of technology in tax administration, the level of digital enablement that the tax department has achieved within a short span is overwhelming and this pace to introduce transparency and increased reporting requirements is quite unlikely to slow down.

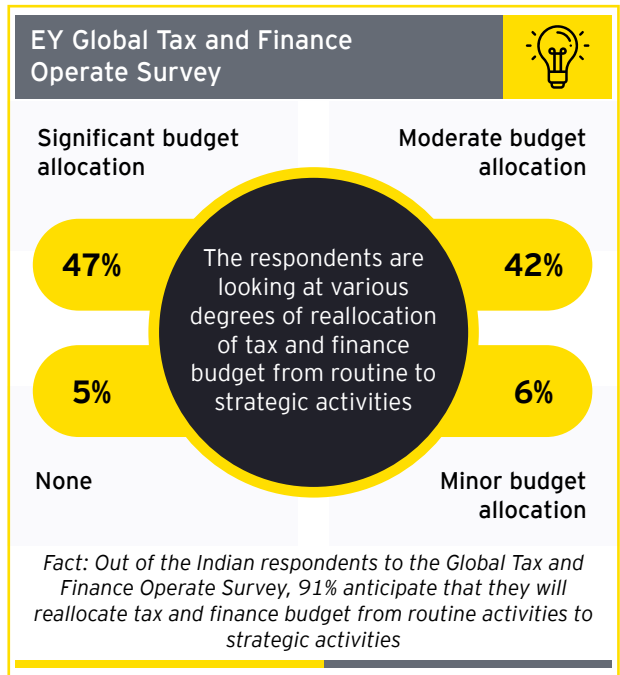
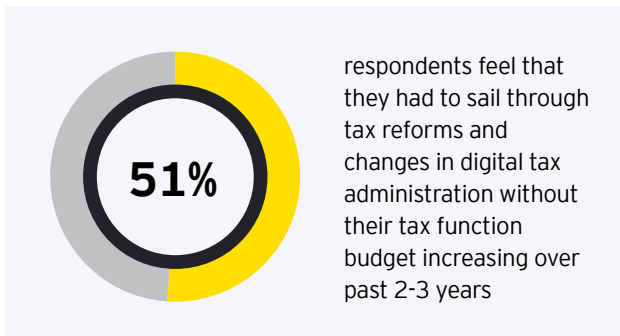
Not just the Government of India, but Governments across the globe have introduced/ implemented various initiatives to improve tax administration, increase taxpayer base, enhance transparency in tax filings and reducing compliance burden. Be it - BEPS¹ Action Plans; Automatic Exchange of Information; Global Minimum corporate tax regime, etc.

While the above changes are a welcome move from the government, the same have a consequential ripple effect on increasing workload among tax functions and tax risk profile.



It is further alarming to note that more than half of the respondents had to manage the increasing workload in tax function without a corresponding increase in the tax function spend in past 2 to 3 years. It is interesting to note that while workload increases, budgets continue to be stretched and is increasingly getting diverted to more strategic/ value-adding activities.

1- Base Erosion and Profit Shifting



Amidst the increasing workload in routine compliances and reporting requirements, it has also become imperative to create capacity/ bandwidth within the tax teams to focus on more value-added activities.

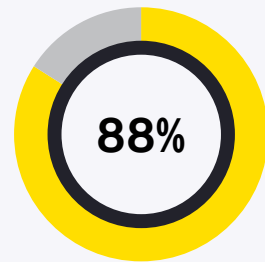
Thus, one would need to reassess areas across the spectrum of tax operations which are less strategic but more time consuming, which could be automated to bring about greater efficiency. Leveraging technology in tasks, such as data extraction, data processing, tax compliances/ reporting, data analytics/ mining, etc., can help in effective management of workload, cost burden and enhanced quality of the tax function output.

Actionable Insights

In the current times, where companies continue to deal with new ways of working, the financial and reputational risks arising from inaccurate/ delayed compliances could significantly outweigh any perceived savings in tax function cost. Thus, it has become even more imperative for businesses to ensure a fully compliant and risk managed tax function.

An important trend for organizations to consider is whether the role of tax function has changed – can it be considered as having a limited role in compliances/ reporting alone or does tax have a more strategic role to play?

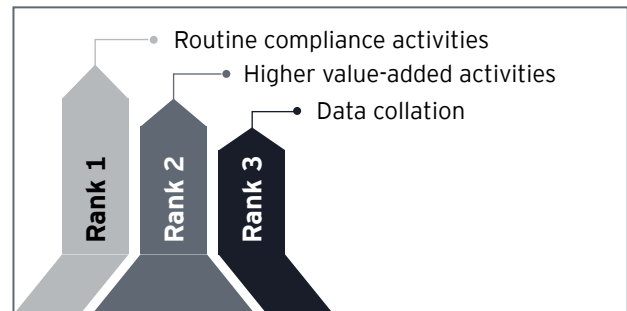
Historically, tax has been considered to be a passive function, limited to grabbing back-seat in most board meetings. However, in today's evolving tax space, tax is assuming a critical position in driving business decisions. The expectations from tax functions are clearly shifting from routine compliance activities to performing higher value-adding activities, collaborating with other business functions and supporting organization growth through innovation.



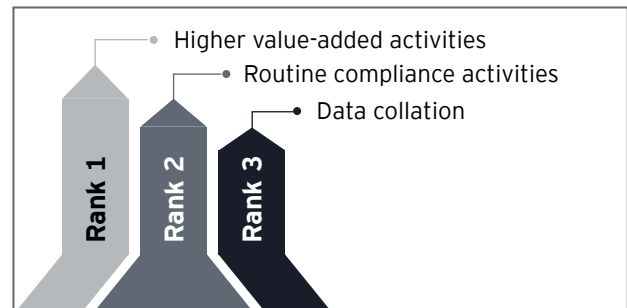
respondents foresee the need for increased collaboration with other business functions especially considering ever-changing tax landscape

Key activities of the future state tax function:

Current state



Future state

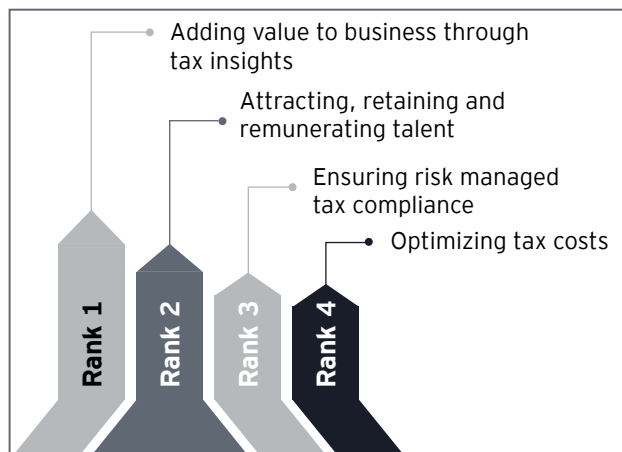


2

Changing role of tax function – shift from being a compliance center to being a strategic partner

The intent to shift the tax focus from compliance activities to higher value-added activities is clearly visible from the response to the above question year-on-year.

Having identified the need for increased business collaboration as a key focus area, tax functions have also ranked "adding value to business" as their top challenge. In fact, it is worthwhile to note that this was ranked as the top challenge, even in our last survey.



Adding value to business requires access to quality data, use of technology to undertake the right level of analytics and most importantly, the best-in-class talent to understand, evaluate trends and build ideas/ solutions/ insights for business.

Talent management is gaining significant importance, specifically in current times (ranked as the second biggest challenge in the current survey), bringing in the need to reimagine the tax function operating model in the forefront and explore how to free up people's time and divert

them from manual/ repetitive tasks to more value added analysis, without a major dent in the budget.

C-Suite, however, are looking at these challenges from the lens of converting these into opportunities that can be unlocked. In the CFO Forum hosted by EY India earlier this year, our esteemed panel of CFOs were unanimous in their view that releasing tax team's bandwidth from manual/ low value-added and repetitive tasks is critical to ensure greater focus and contribution to strategic, high value-added activities.

It has therefore, become critical to reimagine the current operating model to achieve the desired future state where tax function spends most of its time on value-added activities such as strategic partnership with business, tax planning and tax optimization, at the same time, not losing sight of timely, accurate and risk-managed compliances/ reporting.

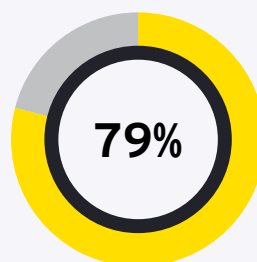
Actionable Insights

The pandemic has accelerated the shift in the role of tax function whereby it is increasingly being viewed as a strategic partner to business. Riding on this wave of change, 78% of respondents wish to continue best practices/ strategies adopted during the pandemic phase, such as leveraging technology/ automation or outsourcing some or all the tax activities as a step towards smooth functioning of the tax function.



The fact that tax is a very specialized area and requires deep technical expertise is undisputed. With a multitude of changes being introduced across various facets of tax legislations including GST, transfer pricing, direct tax, international tax, etc., there is an increasing need for tax functions to carry specialized knowledge and in-depth expertise in each of these domains.

One person single-handedly specializing across all facets of tax does not seem realistic, especially in the current environment of fast changing domestic and international tax laws.

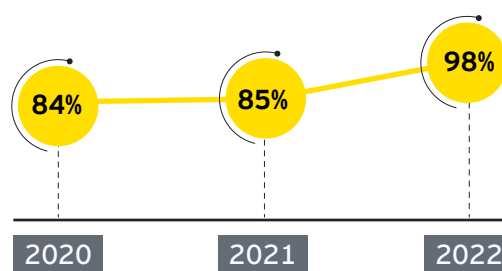


of our respondents feel that it is difficult for one person to be a subject matter expert on all facets of taxation

Does this mean companies should look to hire a range of tax specialists for each domain? That would however, mean a bigger hole in the already tight and not-so-increasing tax budgets.

Further, with tax administration and businesses going digital, it has become imperative to supplement the technical skills with process and technology skills.

Process and technology skills are now required to augment technical skills in the tax and finance function



As many as 98% of our respondents believe that process and technology skills are now required to augment technical skills in tax and finance function – a significant increase from 85% last year.

3

Talent demand and skills

EY Global Tax and Finance Operate Survey



95% of respondents believe tax and finance personnel need to augment their tax technical skills with data, process, and technology skills in the next two years.

This is an affirmation of the clear shift in the talent needs of the tax function of today and the future.

When asked about the biggest challenge in tax functions at a strategic level, our respondents have ranked attracting, retaining, and remunerating talent as the second biggest challenge (up from Rank 4 in the previous year's survey). This clearly implies the need to reconsider talent strategy specifically in these times of 'Great Resignation'.

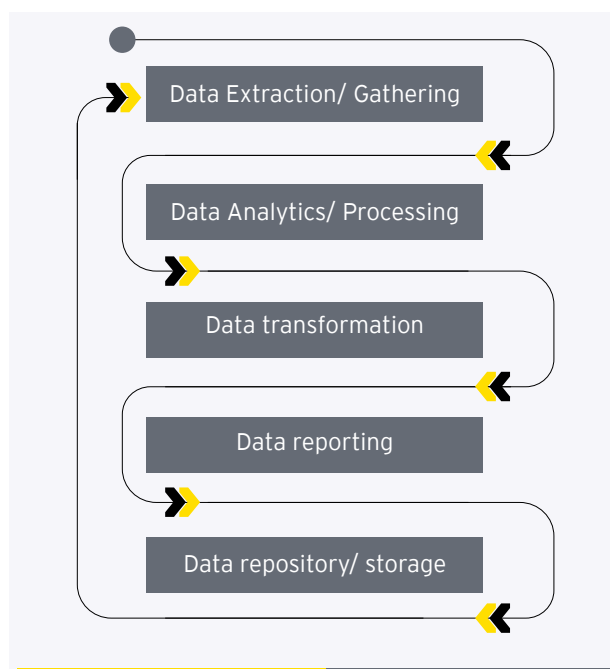
While, managing high attrition and consequential loss of legacy knowledge continues to be a real issue to be tackled, most organizations also face the dilemma whether to prioritize existing talent time on what is more impactful and value adding for business vs compliances which are although mundane, but a necessity and involves high risks.

Actionable Insights

Tax function today requires an optimum mix of people, process, and technology, with "people" being the thread that stitches process and technology together. One needs to first assess the existing talent in the organization, understand the core skill sets of your team, provide them the enablers to sharpen their capabilities through challenging experiences and growth environment so they stay connected to the organization. The key lies in creating a robust framework for transformation. Organizations which are unable to carry out such transformation in-house, are indeed looking to partner with external professionals who carry specialist skill sets and could act as an extended arm of the in-house teams.



Any transformation around people, process and technology is incomplete without effective data management.



It is crucial for organizations to understand the importance of data management during all stages of data lifecycle – data gather, data analytics, data transformation, data reporting and data storage.

The need for effective data management is further stimulated from the increasing reliance by Indian tax authorities on the use of Big Data and Artificial Intelligence to analyze taxpayer data collected from various sources.

Various reforms brought in by the Government are a clear reflection of their vision to make data analytics an integral part of the strategic planning process. Be it – extensive use of advanced analytics and data mining techniques under Project Insight; pre-filled income tax returns; increased disclosures in income tax filings; mandatory linking of Aadhaar and PAN; quoting of Aadhaar on particular transactions; e-invoicing; new avatar of Form 26AS; new income tax compliance portal; MoUs for exchange of information with the SEBI², CBIC³, MoMSME⁴, etc. All these clearly indicate towards the government's strong thrust for relying on data for conducting sharper and risk-based audits.

This gives rise to a strong need for tax functions to achieve readiness for responding to tax inquiries and ensuring consistency in compliances/ reporting across laws.

In this backdrop, it is interesting to note that more than half of the respondents do not feel confident about their tax data management.

2-Securities and Exchange Board of India

3-Central Board of Indirect Taxes & Customs

4-Ministry of Micro, Small & Medium Enterprises

4

Data management



With people attrition being at an all-time high and limited investments by companies in technology, the larger question is – Will the confidence index remain at this level?

While organizations do have access to humongous data, it is largely unstructured and needs to be curated/ processed into relevant, meaningful information. Thus, it is important that the tax function stays one step ahead around how they collect, analyze, use, report, and store data.

Hence, one must re-look at their current abilities to imbibe better control, analysis, proactive review and periodic gap assessment to ensure high levels of data integrity and quality.

Actionable Insights

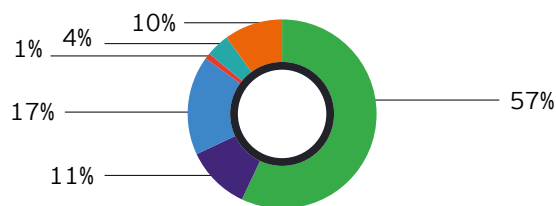
Data is the foundation stone for an efficient and resilient tax function. In today's dynamic tax landscape, it is important to ensure this foundation remains strong – the need is to create a sustainable enterprise-wide data strategy to ensure a single source of data extraction, usage and cross legislation filings/ reports; to implement bespoke solutions, wherever possible; to reduce people dependency; to ensure institutionalization of knowledge; to improve data analytics; to build a robust data repository and to optimally leverage Enterprise Resource Planning (ERP) functionalities.

Further, with data being at the core of tax compliance for every company, companies today feel confident about their data management capabilities due to the talent/ people who continue to support the same. With budgets getting restricted, attrition at its all-time high and limited investments in technology, there is a need to look at process and tech driven tax compliance model that reduces dependence on people for high-quality data and uses the available bandwidth for more value adding/ strategic activities.



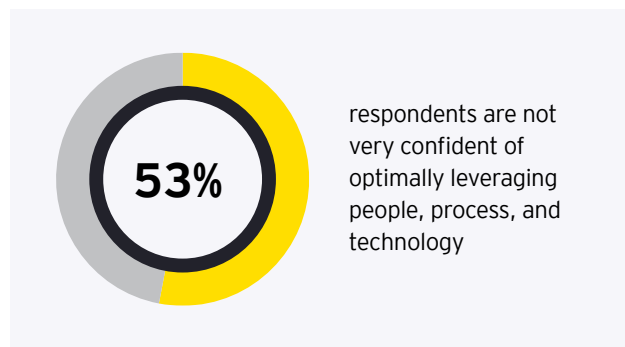
57% respondents' top priority is to ensure that their organization is tax compliant.

A tax compliant organization continues to be the top priority for most tax functions– a consistent response we have observed on a year-on-year basis.

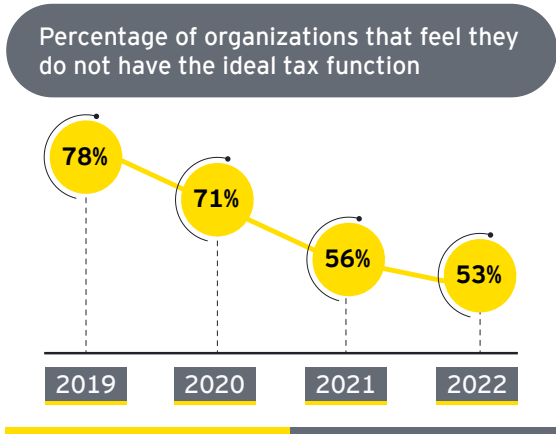


- Ensuring your organization is tax compliant
- Tax planning
- Proactively supporting wider business and capital agenda
- Managing the function's cost
- Providing insights
- Managing tax risk profile

Optimum utilization of three important components – people, processes, and technology is quintessential to be able to achieve an optimal tax function.



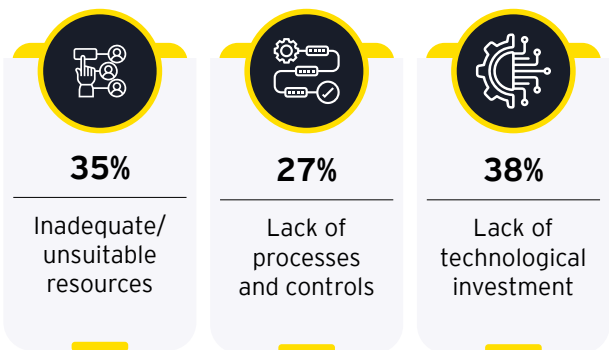
The percentage of respondents who are not very confident of optimally leveraging people, process and technology has been reducing year-on-year, which indicates towards the trend that companies may be actively taking steps to transform and re-engineer their tax functions.



5

Optimal tax function

The respondents have further pointed out that lack of right kind of technological investment, the right skillset/ resources and right processes/ controls adversely impacts the ability of the tax function to deliver predictable outcomes.

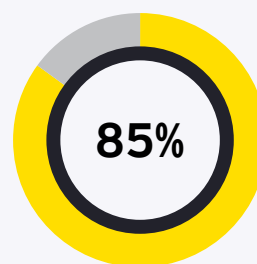


Actionable Insights

Today, tax functions are at a turning point where achieving the right balance between building a best-in-class and best-in-cost tax function is quintessential to achieve readiness to respond to the future. Finding this balance could involve transformation of specific processes, investment in right technology on a sustained basis, continuous upgrading to tackle change management, continuous training and upskilling of people, preparedness to respond to uncertainties, etc.

The bigger question that remains– what should be outsourced vs. retained?





an overwhelming percentage of respondents wish to re-engineer their tax function, consider functional outsourcing/ co-sourcing, or develop point-based solutions for specific problems to achieve a future-ready tax function

Various approaches are being adopted to achieve a best-in-class tax function, including in-house transformation, be-spoke automation solutions or outsourcing.

While in-house transformation brings in greater control of the tax function, it requires significant efforts in terms of time and capital with accountability of delivering a successful outcome on the already encumbered teams. Even otherwise, driving in-house transformation successfully would require significant investments in capex as well as on specialist talent.

On the other hand, outsourcing can be a pure opex model and helps achieve stronger processes, strategic business partnering, risk managed framework, access to industry best practices, improved data architecture, greater visibility and control while leveraging on the investments of outsourcing partners from a people, process and technology perspective which could help reduce risks of fall out and achieve better economics.

Outsourcing as an option to achieve a future ready tax function is increasingly gaining acceptance. More than half of the respondents in the current survey are either already outsourcing/ co-sourcing or exploring outsourcing their tax function to deal with the pressure of today's tax functions.

Some companies are even looking at a hybrid approach where certain identified tax processes are outsourced while the remaining activities are retained in-house.

Various parameters, such as value creation, risk management, time and capital investment, resource availability, responsibility, institutionalization, transparency, and accountability, are to be kept in mind while choosing the best approach.

6

Future-proofing

Are you future ready?

An ever permanent element in the business world is change. Every organization has many opportunities to unravel and alternatives to choose from. Each organization's journey may be different, but the destination is same, i.e., to be future-ready.



The key lies in striking the right balance.

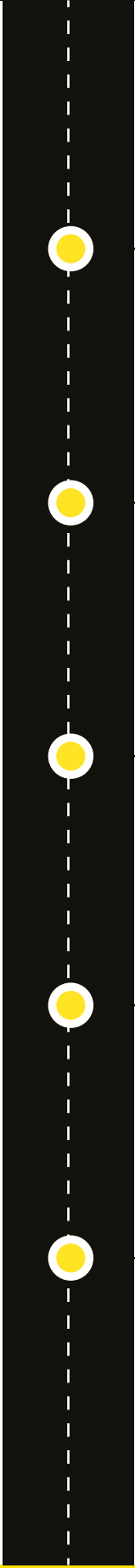


Want to self-assess the current state of your tax function and understand how to future-proof it? Go ahead and scan this QR Code for more insights.

Gear up! It is time to futureproof your tax operating model!



Some introspective questions that can help decide a roadmap to the future state tax function:



1. What is my vision for the future state tax function?

Yellow response box for question 1.

2. What are the challenges I want to overcome through this vision?

Yellow response box for question 2.

3. How do I plan to achieve this vision?

Yellow response box for question 3.

4. Any industry practice I would like to leverage?

Yellow response box for question 4.

5. What is my path to transformation?

Yellow response box for question 5.



Notes

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Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

Bengaluru

12th & 13th floor
"UB City", Canberra Block
No. 24, Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Golf View Corporate Tower B
Sector 42, Sector Road
Gurugram - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jamshedpur

1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur - 831 001
Tel: + 91 657 663 1000

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune

C-401, 4th floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

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 @EY_India  EY  EY India  EY Careers India  @ey_indiacareers

— Contacts



Jitesh Bansal
Partner and National Leader
Tax and Finance Operate
EY India
Jitesh.Bansal@in.ey.com
+91 8067275303



Garima Pande
Partner and National Leader
Global Compliance and Reporting
EY India
Garima.Pande@in.ey.com
+91 9811416000



Rahul Patni
Partner and National Leader
Digital Tax
EY India
Rahul.Patni@in.ey.com
+91 9892248624

We at EY are happy to help you find answers to any questions that may come up as you navigate your transformation journey.

Please feel free to write to us at 'tfwincentre@in.ey.com'