TAX EXECUTIVES INSTITUTE

Thomson Reuters Institute

The 2023 State of the Corporate Tax Department

Has the fear of missing out come to corporate tax functions?

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Executive summary

In the new digital age, one acronym has been used to identify a major attitude shift that is both paralyzing and motivating — Fear of Missing Out (FOMO), is the feeling of concern or anxiety that occurs when you believe you are not in the know about the latest developments or innovations or that you're missing out on information, experiences, or opportunities that could improve your life. And while FOMO generally is associated with those shared experiences on social media that push people to remain nervously connected just to stay up to date, there may be a work-based version of this phenomenon creeping into certain professions.

As we look at this year's survey results, distilled in the Thomson Reuters Institute's annual *State of the Corporate Tax Department* survey report, in partnership with Tax Executive Institute, we see that in this year's iteration, FOMO flows as a strong undercurrent among many corporate tax departments.

Indeed, almost half of respondents said they feel their tax department is *under-resourced*, a term which carried an impactful weight throughout the rest of the survey. In just one critical example, under-resourced tax departments showed greatly increased risk for audits and penalties, often ones that were more costly and damaging than those incurred by better-resourced departments.

> ***Almost half of respondents said they feel their tax department is* under-resourced*, a term which carried an impactful weight throughout the rest of the survey.***

It could be said that under-resourced departments carried the FOMO shadow with them through the rest of the report. With technology and automation, while more than three-quarters of tax departments survey said they've automated half or less of their operations, among under-resourced departments, that portion climbed to 88%. In fact, one thread throughout the report is that whenever the overall population of corporate tax departments posted a disappointing statistic — such as their level of automation — under-resourced departments would outpace that, often by 10 percentage points or more.

This deeper concern that some tax professionals expressed reflected fears of missing out on increasingly important technology developments, proper resourcing and hiring that would allow the department to function much more effectively, and even fear of market changes that could result in their company (and by extension, their tax department) being swallowed up by a larger, more moneyed competitor.

Indeed, more than two-thirds of those corporate tax professionals surveyed said they expect their companies to undergo significant change within the next two years, whether a shift in product and service offerings, or a restructuring or merger. That depth of expectation around identity-altering change is likely making the day-to-day work of many tax departments somewhat fraught.

More than two-thirds of those corporate tax professionals surveyed said they expect their companies to undergo significant change within the next two years.

This level of uncertainty or of feeling left behind directly correlates to FOMO. Among those tax departments that see themselves not keeping up with their peers, with the expectations of their companies or of the tax industry itself, FOMO floats to the top of mind rather quickly. Especially if they are under-resourced, many departments may feel they don't have the funding, personnel, or technological infrastructure to keep up.

Some of the under-resourced departments' FOMO, of course, is reflected directly in the survey. For example, *recruiting additional qualified tax professionals* was the third-most cited priority by all tax departments, with a little more than one-third of respondents citing this priority. However, in an indication of the severity of their talent shortage, under-resourced departments cited that priority in greater number, with almost *half* of respondents from those departments citing this as priority.

And this FOMO problem is unlikely to abate for under-resourced departments. In fact, as increasingly advanced technology — think generative artificial intelligence — starts to gain more acceptance and use within the industry, these departments may well feel they will be leap-frogged over in terms of operational ability, leaving them less able to perform their duties to a level that the company requires.

Naturally, this FOMO undercurrent didn't impact all aspects of the survey, nor affect all corporate tax departments in the same way. There were many points of stability that call back to previous years' surveys, including how the top primary goals for the coming year — cited by 70% of respondents — all had to do with operational improvement; and that accomplishments over the past year in areas of cost-savings, increased efficiency, and decreased penalties incurred were those of which many tax departments were most proud.

Yet, with such high portions of corporate tax departments feeling under-resourced, poorly automated, technologically behind, and unable to secure the talent they need, it is difficult not to feel as if this year could be a performance tipping point between well-resourced corporate tax departments and those that because of their circumstance continue to fear missing out.

Key findings

Resourcing and Fears of Under-Resourcing — Respondents from close to one-half of businesses (47%) said they feel their tax department is under-resourced, which has greatly increased the risk of audits and penalties among other negative developments. Indeed, while 61% of surveyed businesses incurred tax audits in the past year, 72% of businesses with under-resourced tax departments did so. And 47% of businesses with under-resourced tax departments incurred tax penalties, compared to 42% of all businesses. In both cases, more than one-third of businesses incurred 6 or more audits and incurred penalties of more than $50,000. Despite this, respondents say their confidence in their ability to manage tax risk remains high, particularly among more well-resourced businesses.

Tech & Automation — Respondents rated their businesses' technological maturity as low to moderate. Further, 41% said their departments take a *reactive* approach to technology, particularly those departments that are under-resourced or from midsize organizations (companies with annual revenue of between $50 million to $6 billion). More distressing, almost half (47%) said they feel their departments do not have sufficient resources to make needed technology improvements. Indeed, automation of standard processes is at a nascent stage, with 77% of respondents saying their departments have automated half or less of their work processes.

Strategic Planning and Priorities — Many survey respondents noted that their businesses expect to make significant changes within the next two years, with more than two-thirds saying their company plans to offer new products or services, undergo restructuring, or engage in M&A activity. And 62% said they anticipate that their business will expand into new jurisdictions, particularly in the services and the technology, media & telecoms industries.

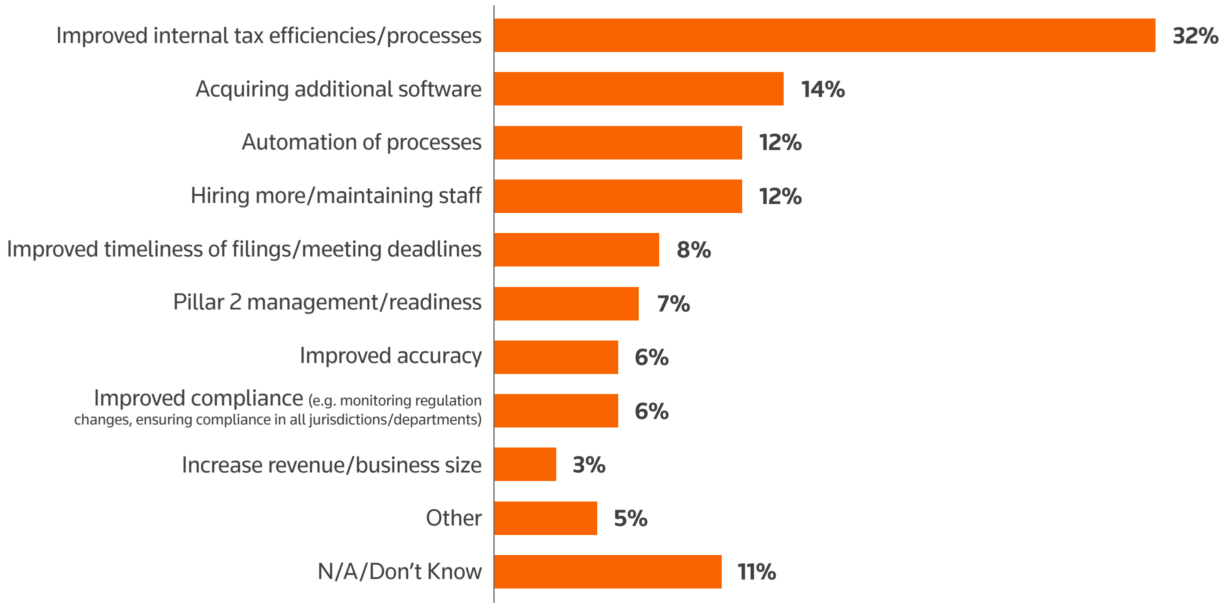
Other Important areas — There are other critical insights noted in the report around such areas as tax department spending, use of performance measures and metrics, and how environmental, social & governance (ESG) issues are impacting tax departments.

Primary goals for the coming year

Perhaps not surprising then, the top four primary goals of corporate tax departments for the coming year — cited by 70% of respondents — all had to do with operational improvement, including improving efficiency and process (32%); acquiring additional software (14%); automating processes (12%); and hiring more staff or maintaining current staff (12%).

Figure 1: Key department goals for the next 12 months

Department's primary goal in next 12 months



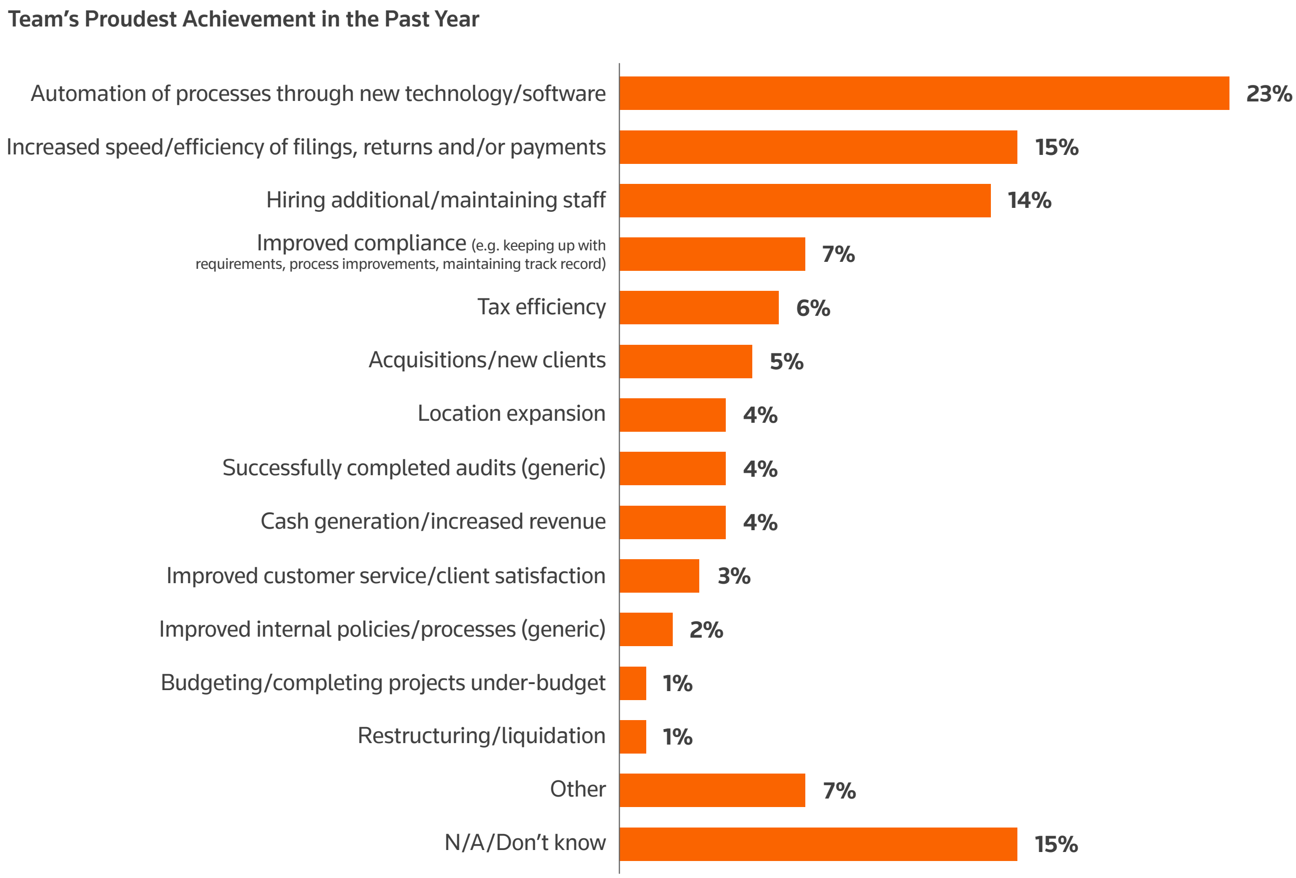
Source: Thomson Reuters 2023

When asked specifically about their goals for the year ahead, many respondents spoke about building upon what they've already begun, such as continuing to *"gain operational efficiencies through better utilization of technology and improving our work-flow systems to gain efficiencies as well,"* according to one respondent.

Another expressed wanting to *"continue building on technology development to ease burden of reporting."* And yet another suggested their department was seeking to build *"better automation of tax processes including tax provision and indirect tax compliance (including e-invoicing)."*

Interestingly, when corporate tax leaders were asked what their teams' proudest accomplishment of the past year was, several echoed the same goals that they were planning for the coming year. Almost one-quarter (23%) said their team was most proud of its automation of processes through the implementation of new technology or software. Another 15% said they were most proud of how the tax team increased its speed and efficiency around filings, tax returns, and payments. Still another 14% said that hiring additional staff and maintaining their existing staff was their team's proudest accomplishment.

Figure 2: What are tax departments most proud of?



Source: Thomson Reuters 2023

In citing the specifics of what made the team so proud of these particular accomplishments, several survey respondents cited benefits such as cost-savings, increased efficiency, and even less penalties levied against their organization.

One respondent said that his teams' *"conversion to a more user-friendly and streamlined accounting software"* allowed them *"quicker close turnaround [and] doing a lot with very little allocated resources."*

Another said: *"We improved the tax provision process and reduced the days required for close."*

While still another explained how their team was actually able to reduce its outsourcing costs. *"We previously outsourced taxes to a CPA firm, and now have begun building an internal tax team. Because of this change, we have saved a lot of money in penalties and interest and cleaned up many smaller tax accounts that were previously neglected."*

METHODOLOGY

Thomson Reuters and Tax Executives Institute annual *State of the Corporate Tax Department* survey report is conducted with senior decision-makers in corporate tax departments across the globe to gain insight into department goals, challenges, and priorities for the near future.

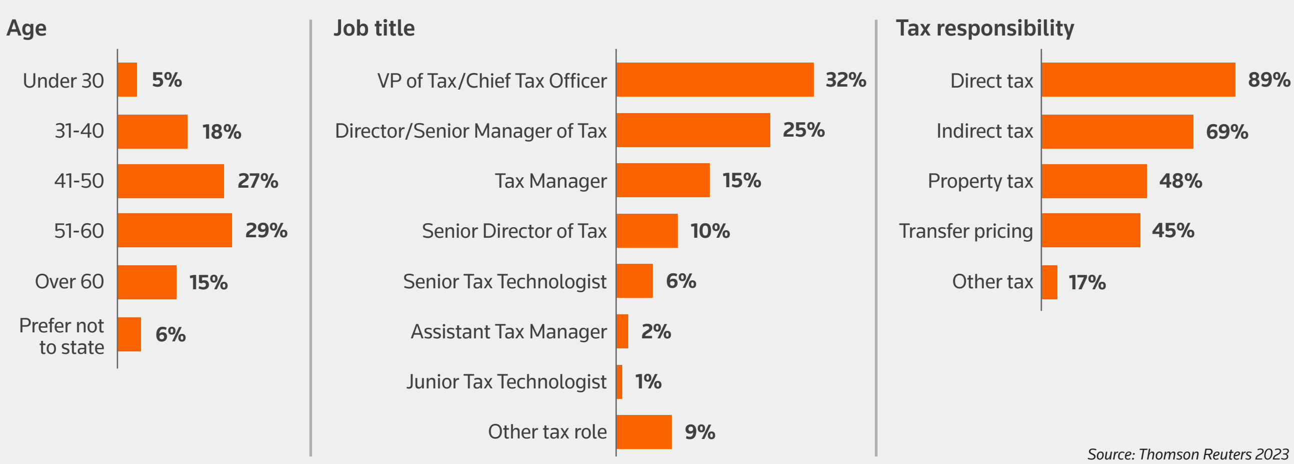
This year's survey was done via a 15-minute online survey with 365 senior tax professionals, conducted in June and July 2023. The sample was drawn from lists provided by Thomson Reuters, and Tax Executives Institute, and participants were screened to ensure that they were decision-makers in a corporate tax department.

The following industry sector categorization has been used throughout the report:

- ***Services*** — Business Services, Engineering, Hospitality/Leisure, Real Estate
- ***Energy & Natural Resources*** — Energy/Utilities, Natural resources (mining), Food/Farming/Fisheries
- ***Finance & Insurance*** — Banking, Financial Services, Insurance, Investment
- ***Pharma, Bio & Health*** — Pharmaceuticals/Bioscience, Healthcare
- ***TMT*** — Technology/Media/Telecoms
- ***General Industries*** — Automotive, Manufacturing, Construction, Transport/Logistics/Distribution
- ***Other Sectors*** — Government/Public Sector, Not-for-profit, Retail/Wholesale, Conglomerates, Other/no primary sector

For more information on the demographics of individual respondents and their corporate tax departments, please see Appendix 1 on page 26.

Respondent profile



Source: Thomson Reuters 2023

SECTION 1:

Concerns grow over under-resourcing

Of all the concerns expressed by the corporate tax professionals and department leaders surveyed, none perhaps was more worrisome or more wide-reaching than their feeling of being under-resourced, and its implications for the tax department's ability to avoid penalties and audits, invest in new technology, and retain and recruit top talent.

In fact, the specter of increasing audits and penalties has only become more real as the federal government ramps up the power of the Internal Revenue Service,[1] which recently announced it would hire almost 20,000 new employees and deploy new technology over the next two years as it taps into an $80 billion investment plan to improve tax enforcement.

Amid that development, almost half (47%) of respondents surveyed said their tax department was under-resourced, and this was particularly true for those tax departments within Canadian companies and those tax departments at smaller companies (those with between $50 million and $6 billion in annual revenue).

Figure 3: **One-half of tax departments feels under-resourced**

High-revenue organizations ($6B+) and those based in the **US or UK** are more likely to report having sufficient resources.

Resourcing	Overall	Revenue (USD)				Organization headquarters				
		<$50m A	$50m-$1bn B	$1bn-$6bn C	$6bn+ D	United States E	Canada F	United Kingdom G	Europe H	ROW I
Under-resourced	**47%**	45%	55% **D**	54% **D**	36%	45%	70% **EG**	39%	52%	53%
About right	**48%**	50%	42%	41%	62% **BC**	52% **I**	30%	55% **I**	48%	28%
Over-resourced	**2%**	3%	3%	3%	2%	2%	0%	2%	0%	6%

Source: Thomson Reuters 2023

This attitude of feeling under-resourced certainly had an impact on other areas of the department's performance and operational abilities.

When you look at how under-resourced tax departments fared in their crucial ability to avoid audits and penalties, research found that businesses with under-resourced tax departments were more likely to face audits as well as higher-cost penalties over the past year than their better-resourced counterparts.

1 Lawder, David; *U.S. IRS to hire nearly 20,000 staff over two years with $80 billion in new funds*, Reuters (April 10, 2023).

And the situation gets even more dire the deeper you dig into the data. Our research found that 72% of business with under-resourced tax departments incurred a tax audit in the previous year, compared to 61% of overall tax departments. Also, 47% of under-resourced tax departments incurred tax penalties, compared to 42% of all tax departments.

Potentially more damaging was that although under-resourced tax departments faced, on average, the same *number* of tax audits (5) as the median of all other tax departments, the value of the penalties incurred by under-resourced tax departments was on average $40,000 — *twice* that of the median penalty ($20,000) incurred by all other tax departments.

> ***Clearly, for companies that house under-resourced tax departments, the potential for higher monetary penalties and more audits than those incurred by their better-resourced counterparts at other companies is obvious and should be a sharp point of concern.***

Figure 4: Under-resourced tax departments most likely to incur audits and penalties

In the past year, organization incurred...	Overall	Resourcing		Lack of resource headcount for technology implementation	
		Under resourced A	About right B	Yes C	No D
Tax audit	61%	72% **B**	53%	72% **D**	57%
Penalties	42%	47% **B**	37%	53% **D**	37%

Number of tax audits incurred in past year	Overall: 1 to 3	4 to 5	6 or more	Median	Resourcing (Median)		Lack of resource headcount for technology implementation (Median)	
					Under resourced	About right	Yes	No
	38%	27%	35%	5	5	5	5	5

Number of penalties incurred in past year	Overall (n=152): < $10K	$10K to < $50K	> $50K	Median	Resourcing (Median)		Lack of resource headcount for technology implementation (Median)	
					Under resourced	About right	Yes	No
	36%	28%	36%	$20,000	$40,000	$20,000	$30,000	$10,000

Source: Thomson Reuters 2023

In their approach to technology and efficiency improvement, under-resourced firms didn't fare much better. While about three-quarters of the businesses represented in our survey said they have automated less than half of their work processes, those businesses identified as under-resourced had much lower levels of automation, with 88% saying that just half or less of their processes have been automated, including 15% that said *none* of their processes were currently automated.

Figure 5: **Three-quarters of tax departments have less that 50% of their processes automated**

Level of automation of standard processes	Overall	Resourcing: Under resourced A	Resourcing: About right B
No automation	10%	15% **B**	7%
1-25%	35%	45% **B**	27%
26-50%	32%	28%	35%
51-75%	11%	10%	12%
76-100%	11%	2%	19% **A**

Source: Thomson Reuters 2023

Another area seemingly impacted by whether or not a tax department is under-resourced is talent. When survey respondents named their top resourcing priorities, the third-most cited priority by all departments was *recruiting additional qualified tax professionals*. However, under-resourced departments cited that priority in greater number (49%), compared to all departments (34%) and to properly resourced departments (20%). Indeed, under-resourced departments' critical talent needs make this priority their second-most cited, after only *introducing technology and automation into the department*.

Figure 6: **Key resourcing priorities in the next 1-2 years**

Under-resources businesses are more likely to introduce a **range of resourcing strategies** including increasing headcount, relying more on existing team members as well third-party resources.

Anticipated changes in resourcing/recruitment strategy in next 1-2 years	Overall	Resourcing	
		Under resourced A	About right B
Introducing technology/automation into the department	51%	51%	52%
Introducing efficiencies into the department	46%	45%	47%
Recruiting additional qualified tax professional headcount	34%	49% **B**	20%
Relying more on third-party resources	31%	38% **B**	26%
Relying more heavily on existing team members	21%	30% **B**	14%
Recruiting additional analyst/tech support headcount	14%	17% **B**	10%
Recruiting additional admin/general support headcount	10%	11%	10%
Other resourcing/recruitment plans	3%	3%	3%
None of the above/don't anticipate any changes	13%	5%	20% **A**
Don't know	5%	6%	3%

Source: Thomson Reuters 2023

It seems beyond doubt that the impact of being an under-resourced corporate tax department can be severe, reaching into numerous areas of departmental operations, such as talent, technology, and the ability of the tax department to keep their company from being audited or otherwise penalized.

Again, those companies with under-resourced tax functions should consider the financial cost and potential reputational damage of their under-investment.

Headcount remains steady

On a slightly brighter note, the number of tax professionals within corporate tax departments is as expected, with under-resourced departments in the United States having slightly less (with an average of 8 tax professionals), compared to the overall average (10) and those departments with adequate resources (11). However, the average under-resourced department had far fewer general or administrative support personnel (2) than did the average department (4).

Interestingly, tax departments in companies outside the U.S. averaged almost twice as many tax professionals and support personnel as did U.S. companies.

Figure 7: **Tax department global headcount**

Average headcount	Overall		Resourcing			
			Under resourced		About right	
	Within country	Global	Within country	Global	Within country	Global
Tax professionals	10	21	8	20	11	19
Analyst/tech support	3	7	3	7	2	8
Admin/general support	4	8	2	6	3	10

Source: Thomson Reuters 2023

Our research also found, unsurprisingly, that there was a higher average number of tax professionals within the tax departments of larger companies (those with annual revenues of more than $6 billion) and within those in companies in the finance and insurance sector.

Figure 8: **Global headcount by revenue and sector**

Average global headcount for those whose resources are 'about right'		Tax professionals	Analyst/ tech support	Admin/ general support
Industry	Services	18	5	8
	Energy/utilities/natural resources	9	1	1
	Finance/insurance	35	9	5
	Pharma/Bio/Health	15	0	0
	TMT	19	8	20
	Transportation and infrastructure	17	2	2
	Other	29	29	21
Revenue	Less than $50m USD	18	5	9
	$50m - $1bn USD	4	8	4
	$1bn - $6bn USD	12	1	1
	More than $6bn USD	44	6	11

Source: Thomson Reuters 2023

SECTION 2:

How tax departments approach tech & automation

Given that the top four three primary goals for the coming year identified by a majority of respondents all had to do with improving efficiency and process, acquiring additional software, or automating work processes, how corporate tax departments approach technology solutions is a critical question.

Despite its importance, many respondents rated their departments' technological maturity as low to moderate. Further, 41% said their departments take a reactive approach to technology, rather than being proactive and seeking new tools or solutions. Worse yet, almost half of respondents (47%) said they feel their departments do not have sufficient resources to make needed technological improvements.

In this environment, technology becomes a more important factor, not less. And those tax departments that can demonstrate the need for proper technology investment will be able to add greater value to their companies both in terms of cost savings and penalty avoidance.

Perception of tax departments' tech approach

Figure 9: **40% of tax departments have a reactive approach to technology**

Well-resourced and low-revenue organizations (<$50M) tend to take a more **proactive** approach.
Under-resourced businesses are more likely to feel their approach to technology is **chaotic**.

Approach to use of technology and automation	Overall	Resourcing		Revenue (USD)			
		Under resourced A	About right B	<$50m C	$50m-$1bn D	$1bn-$6bn E	$6bn+ F
Reactive	**41%**	49% **B**	34%	35%	53% **F**	48% **F**	32%
Proactive	**29%**	22%	36% **A**	35% **D**	19%	27%	30%
Chaotic	**16%**	23% **A**	8%	15%	23%	19%	13%
Predictive	**6%**	2%	11% **A**	0%	4%	1%	19% **DE**
Optimized	**4%**	3%	6%	5%	2%	3%	4%
None of the above	**4%**	2%	5%	10%	0%	2%	2%

Source: Thomson Reuters 2023

When asked to judge their tax departments' approach to technology, 57% of respondents said their department was either *reactive* or *chaotic* in their approach — the lowest ends of the technology development spectrum. Under that categorization, tax departments may have some tax technology in use, but the company's systems, departments, and data aren't integrated enough to take full advantage of automation.

While still a majority of respondents, that's down compared to last year when 64% of survey respondents rated their department's technological approach as either chaotic or reactive.

On the other end of the spectrum, just 10% of respondents rated their departments as either *optimized* or *predictive*, which are the highest stages of development, in which the departments' fully integrated, enterprise-wide automation of workflows and reporting allows for proactive risk management and participation in strategic decision-making.

That's down slightly compared to last year's survey in which 12% rated their departments as either optimized or predictive.

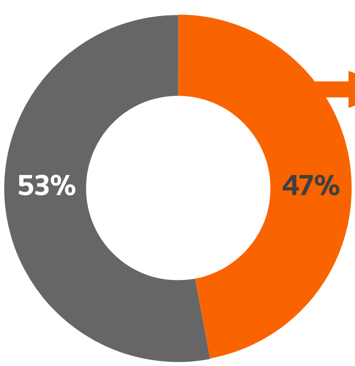
And more respondents this year (29%) opted for the middle of the road, rating their tax department's approach to technology as *proactive*, which is characterized as being integrated with enterprise data and leveraging tax automation software for file-ready compliance and storage of documents and data, along with formalized coordination and processes with other departments. Last year, 21% rated their departments proactive.

Figure 10: About one-half of tax departments feels ill-equipped to make technology improvements

Lack of time and resource headcount are key challenges for **under-resourced businesses** in particular.

Have Adequate Resources to Improve Technology/Automation

Yes No



Factors preventing the enhancement of technology and automation	Overall	Resourcing: Under resourced A	Resourcing: About right B
Lack of time to dedicate to planning/ investigating new technologies	67%	73% **B**	56%
Lack of budget	64%	69%	58%
Lack of resource headcount for technology implementation	63%	71% **B**	46%
Lack of technology skills within the existing team	44%	50%	33%
Other	5%	3%	8%
None of the above	2%	1%	2%

Source: Thomson Reuters 2023

Almost half (47%) of all respondents said their tax departments did not have adequate resources to make the technological or automation improvements they should be making over the next one to two years.

Perhaps more distressing, large portions of respondents said they felt their tax department lacked time, budget, and personnel to even search out or implement new technology solutions — and these levels were even higher among those tax departments categorized as under-resourced.

Time to dedicate to investigating or planning for new technologies seemed the biggest challenge, with more than two-thirds of respondents (67%) and a painful 73% of those from under-resourced departments saying this was their department's biggest hurdle.

Almost as many (64%) said their tax department lacked the budget to pursue needed technology; and 63% said their department lacked the personnel to make the necessary technological improvements. And those levels were 69% and 71%, respectively, among respondents from under-resourced departments.

It will take a sustained and calculated influx of resources — both in investment dollars and tech-savvy personnel — to reverse these too-high numbers and elevate corporate tax departments to their rightful role of being an efficient and cost-effective business partner.

Use of tech tools and solutions

When respondents were asked about individual tech tools or solutions, they said that direct tax compliance and tax provision tools are the most commonly used technology solutions being used by corporate tax departments. A full 70% of all respondents said their departments were using direct tax compliance tools, and half of all respondents said their department uses tax provision tools.

While the levels of usage were similar for under-resourced departments — with 69% using direct tax compliance tools, and 48% using tax provision tools — well-resourced departments showed much higher usage of other tools, including tax data management and tax workflow management tools.

Figure 11: **Most commonly used tax solutions**

Well-resourced businesses are more likely to use solutions for **tax data and tax workflow management.**

Type of tax technology solutions implemented	Overall	Resourcing: Under resourced A	Resourcing: About right B
Direct tax compliance	70%	69%	72%
Tax provision	50%	48%	53%
Indirect tax compliance solution	42%	36%	46%
Indirect tax determination engine	32%	29%	36%
Tax data management	28%	22%	34% **A**
Tax workflow management	27%	21%	34% **A**
Country by country reporting	18%	15%	22%
Transfer pricing documentation	17%	15%	20%
Digital tax reporting	15%	12%	19%
Tax analytics and KPIs	13%	7%	18% **A**
FATCA/CRS/AEOI	7%	5%	10%
Other	6%	8%	6%

Source: Thomson Reuters 2023

Not surprisingly then, direct tax compliance tools and tax provision tools were identified by respondents as the most impactful tools in their arsenals.

Figure 12: **Tax compliance solutions are most impactful**

Tax technology solution with the most positive impact	Overall	Resourcing: Under resourced A	Resourcing: About right B
Direct tax compliance	29%	31%	28%
Tax provision	17%	19%	16%
Indirect tax compliance solution	13%	6%	20% **A**
Indirect tax determination engine	10%	10%	10%
Tax data management	6%	4%	8%
Tax workflow management	5%	8% **B**	3%
Digital tax reporting	2%	3%	2%
Transfer pricing documentation	2%	3%	1%
Tax analytics and KPIs	1%	1%	1%
Country by country reporting	1%	1%	1%
FATCA/CRS/AEOI	<1%	1%	0%
Other	5%	5%	5%
None of these	8%	8%	6%

Source: Thomson Reuters 2023

However, direct tax compliance tools and tax provision tools also were identified by respondents as the most under-utilized tools they had, although perceptions of under-utilization were low overall. Indeed, more than one-third of respondents (36%) said they believed *none* of the tax technology tools cited were under-utilized.

Figure 13: Perceptions of solution utilization by tax departments

Most under-utilized tax technology solution	Overall	Resourcing: Under resourced A	Resourcing: About right B
Direct tax compliance	15%	13%	17%
Tax provision	14%	15%	15%
Tax data management	8%	7%	10%
Tax workflow management	8%	7%	9%
Indirect tax compliance solution	5%	6%	4%
Indirect tax determination engine	5%	3%	4%
Transfer pricing documentation	2%	3%	1%
Tax analytics and KPIs	2%	2%	2%
Digital tax reporting	2%	2%	1%
Country by country reporting	1%	2%	0%
FATCA/CRS/AEOI	<1%	1%	0%
Other	3%	4%	2%
None of these	36%	35%	35%

Source: Thomson Reuters 2023

SECTION 3:

Risk mitigation

In the area of risk mitigation — a key mandate for corporate tax departments — many of those respondents surveyed predicted they will be able to minimize their companies' tax liabilities and avoid incurring tax penalties in the coming year.

Indeed, 84% of respondents overall said that it is somewhat likely or very likely that they will be able to minimize their company's tax liabilities to the full extent desired; and that they will be able to provide timely and accurate forecasting to company management.

Additionally, three-quarters said they are somewhat likely or very likely to avoid incurring any tax penalties, and more than half (51%) said the same about incurring any tax audits.

Figure 14: **Well-resourced departments are optimistic**

Well-resourced businesses are more confident in their abilities to minimize liability, forecast accurately, and avoid incurring tax audits.

Likelihood to manage tax activities in the coming year	Overall: Somewhat likely	Overall: Very likely	Overall: Top 2	Resourcing: Under resourced A	Resourcing: About right B	Lack of resource headcount for technology implementation: Yes C	Lack of resource headcount for technology implementation: No D
Minimize the company's tax liabilities to the full extent desired	51%	51%	84%	77%	93% **A**	75%	88% **C**
Provide timely and accurate forecasting to the business	42%	42%	84%	75%	94% **A**	73%	89% **C**
Avoid incurring any penalties	39%	36%	75%	73%	77%	72%	76%
Avoid incurring any tax audits	28%	22%	51%	44%	56% **A**	41%	55% **C**

Source: Thomson Reuters 2023

However, as we've previously discussed, there is a big difference in attitudes and abilities based on whether you consider your tax department to be under-resourced or properly resourced. For each of those predictive questions, those respondents at under-resourced departments ranked their ability to be somewhat likely or very likely successful in those circumstances up to 9-percentage points *lower* than other departments. The sole exception was in whether under-resourced departments thought they'd be somewhat likely or very likely to avoid incurring any tax penalties, which they ranked just 2-percentage points lower than other departments.

Further, survey respondents cited many ways they attempted to reduce risk in the past year, including implementing more automation and new technology (17%) and instituting reviews and quality control assessments (15%).

Figure 15: **Most effective measures for reducing risk within the past 12 months**

Source: Thomson Reuters 2023

Indeed, several respondents described the ways their departments sought to improve their automation efforts, including *"culling low-value returns to reduce workload and implementation of SurePrep to automate data entry,"* as one said.

Another said their department instituted *"automation of tax reporting from our source system into the cloud-based reporting system by Thomson Reuters"* adding that the department was also *"reducing the manual journals made in the cloud solution."*

When asked about instituting reviews and quality control methods, one respondent suggested accountability is key: *"Having a checks and balances system setup to where more than one person is keeping track of the accounting and where we are as a company."*

Another suggested the quality control process was a tremendously valuable learning experience. *"Making changes after each audit, we are learning from each audit where we have deficiencies, and we are making adjustments to our process to address the deficiencies."*

SECTION 4:

Changes & challenges ahead

Significant change is on the minds of many survey respondents, as more than two-thirds said they expect their businesses to undergo significant changes within the next two years, with 69% saying their business would likely offer more products and services; while 67% said their businesses could undergo a major restructuring and 66% said their business might engage in M&A activity.

And 62% of respondents — particularly those in the technology, media & telecoms and services industries — said they anticipate that their business will expand into new jurisdictions.

Figure 16: **Over two-thirds of departments expect changes to the business that will have an impact of taxes**

TMT and service businesses tend to anticipate **expanding into new jurisdictions** in the next 1-2 years.

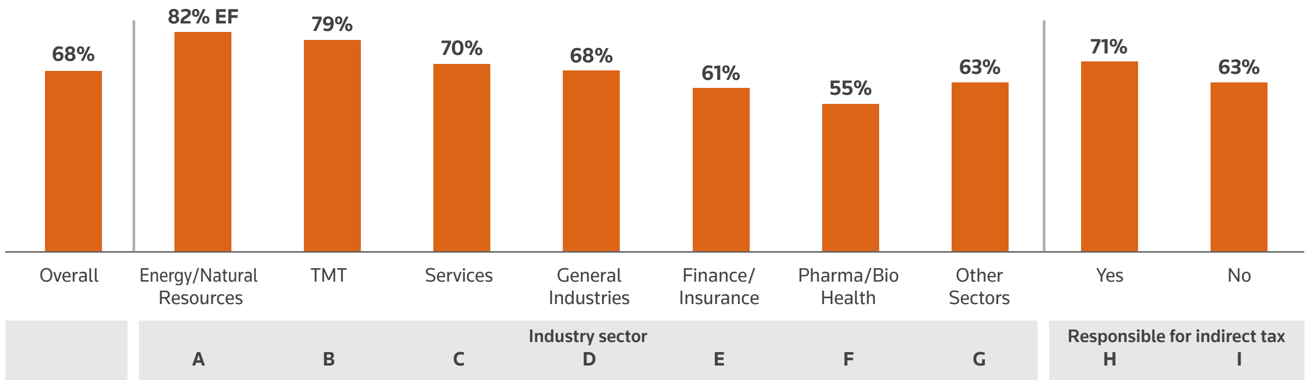
Expected changes in next 1-2 years	Overall	Industry sector						
		Services A	Energy/ Natural Resources B	Finance/ Insurance C	Pharma/ Bio/ Health D	TMT E	General Industries F	Other G
New products or services	**69%**	76%	61%	66%	56%	76%	63%	81%
Business restructuring	**67%**	69%	68%	57%	89%	74%	64%	68%
Mergers or acquisitions	**66%**	68%	81% **CG**	55%	67%	68%	66%	59%
Expansion into new jurisdictions	**62%**	71% **CDG**	61%	45%	39%	79% **CDG**	65% **C**	54%

Source: Thomson Reuters 2023

Further, more than two-thirds (68%) said they thought they would face significant changes in regulatory requirements enacted by governments within the next two years, specifically in areas such as increasingly digitized indirect tax filing and real-time remittance requirements.

Figure 17: Two-thirds of respondents anticipate regulatory changes in the next couple of years

Percent expecting significant changes to government requirements in next 1-2 years



Source: Thomson Reuters 2023

Not surprisingly, all this anticipated change and fears of change are expected to bring significant disruption to many industries with the corporate tax department feeling the fallout.

According to the corporate tax leaders surveyed, these coming changes are most likely to pose a challenge to tax departments' operational abilities, with 86% of respondents saying these changes will negatively impact their tax departments' work processes, either somewhat or significantly; and 79% say the same about their departments' technology. Most impacted were expected to be those tax departments within companies in the energy & natural resources and the technology, media & telecoms sectors.

While a smaller percentage of respondents (59%) overall said their people would be significantly challenged by these changes, a larger majority (80%) of those within the tax departments of pharmaceutical, bio-health & health companies reported that they are more likely to anticipate having people-related challenges.

Figure 18: Changes Likely to create challenges for tax department processes

Pharmaceutical/Health companies are more likely to anticipate having **people-related challenges.**

Business changes will pose a challenge to tax function/ department in terms of...	Overall (Somewhat of a challenge / Significant challenge / Top 2)	Industry sector: Services A	Energy/ Natural Resources B	Finance/ Insurance C	Pharma/ Bio/ Health D	TMT E	General Industries F	Other G
Processes	50% / 36% / **86%**	80%	88%	77%	80%	92%	92% **AC**	90%
Technology	39% / 40% / **79%**	63%	85% **A**	57%	90% **A**	87% **A**	79% **A**	82% **A**
People	38% / 22% / **69%**	51%	71%	52%	80% **AC**	58%	63%	57%

Source: Thomson Reuters 2023

SECTION 5:
Other issues — Spending, performance measurement, and ESG

Survey respondents offered additional insight into several areas in which their corporate tax department are involved, including department spending on outside tax professionals, use of performance measures and metrics, and how they are managing ESG initiatives.

Spending

Almost half of respondents surveyed (49%) said their businesses spent $1 million or more on external tax support in the last fiscal year, with the median spend being around $780,000. Not surprisingly, external tax spend was higher among those businesses that were catego-rized as under-resourced, which posted a median spend of around $1 million.

Figure 19: **One-half of tax departments spend more than $1M on external tax support**

Global annual spend on external tax support	Overall	Resourcing: Under resourced A	Resourcing: About right B
Less than $100,000	16%	13%	18%
$100,000 to less than $500,000	23%	21%	28%
$500,000 to less than $1M	11%	8%	15%
$1M to less than $5M	36%	44% **B**	28%
$5M+	13%	13%	13%
	Median external spend: $780,000	$1,000,000	$575,000

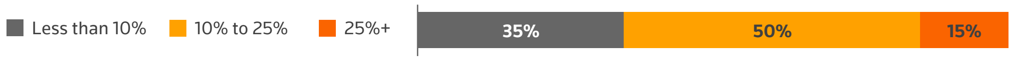
Source: Thomson Reuters 2023

Internally, a little more than half of respondents (51%) said their tax department costs were $1 million or more in the last fiscal year, with the median spend being $1 million.

Figure 20: Tax department cost to the business is $1M-plus

Global annual internal tax department cost	Overall	Resourcing: Under resourced A	Resourcing: About right B
Less than $100,000	10%	6%	13%
$100,000 to less than $500,000	24%	27%	19%
$500,000 to less than $1M	15%	16%	14%
$1M to less than $5M	36%	37%	38%
$5M+	15%	14%	17%
Median internal cost: $1,000,000		$1,000,000	$1,000,000

Percent of internal tax department spend on tax technology and software

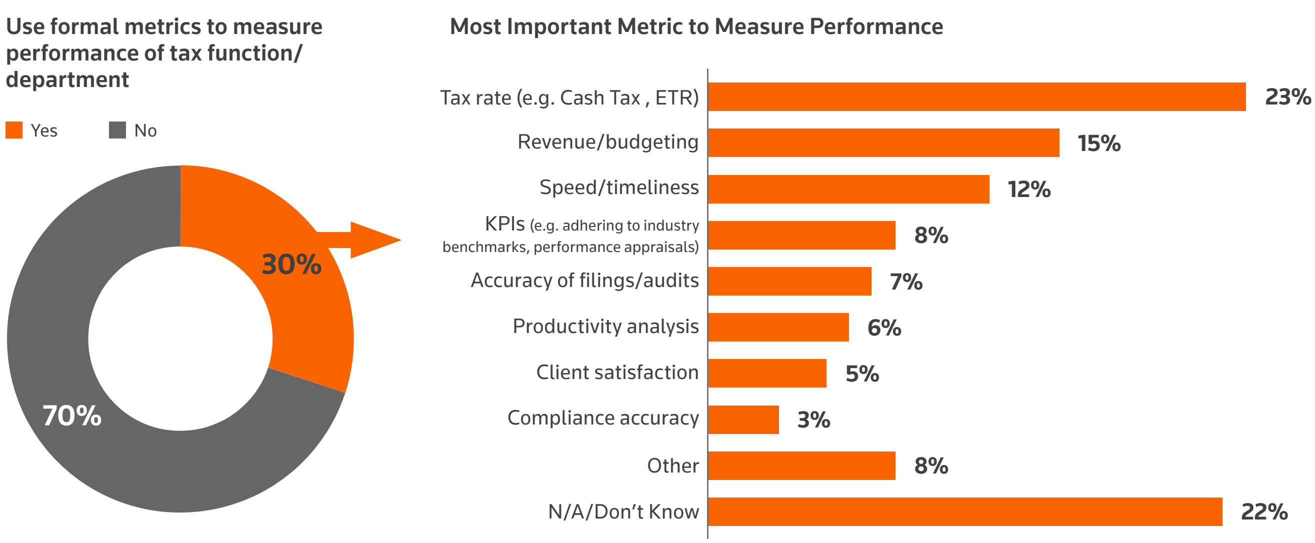


Source: Thomson Reuters 2023

Performance measures

Less than one-third of respondents (30%) said their businesses use formal metrics to assess their tax department performance. When they do, however, key metrics used include tax rate, revenue and budgeting, and speed.

Figure 21: About one-third of tax departments use formal performance metrics



Source: Thomson Reuters 2023

When we asked those respondents who said their department was using formal metrics to measure performance, what the most important metric they use was, several offered specifics, such as: *"Timelines, revisions needed, and delivery of the data."*

Another said their department's most important measurement was *"comparison of Tax Department budget to what it would cost to outsource tax return preparation."* Yet another said their department valued using *"ETR [effective tax rate] comparisons and cash taxes as % of income."*

ESG

ESG issues are impacting operations for close to half of businesses (46%), according to survey respondents. Not surprisingly, operational impact is highest for energy and natural resources companies (32%), followed by those in the services industry (24%).

Figure 22: **Operational impact of ESG is highest for energy/natural resources companies, followed by those in the services industry.**

Impact of ESG on operations	Overall	Industry sector						
		Services A	Energy/ Natural Resources B	Finance/ Insurance C	Pharma/ Bio/ Health D	TMT E	General Industries F	Other G
A significant impact	**16%**	24% **EG**	32% **CDEG**	11%	5%	3%	20% **E**	8%
A moderate impact	**30%**	29%	32%	29%	30%	29%	29%	37%
A low impact	**33%**	27%	21%	29%	50% **B**	45% **B**	37%	29%
No impact	**21%**	20%	15%	32% **F**	15%	24%	14%	27%

Source: Thomson Reuters 2023

Conclusion

Looking across the spectrum of corporate tax departments, it may be increasingly difficult not to see a strongly bifurcated industry, split almost evenly between well-resourced departments and those that consider themselves under-resourced.

We suggested that being under-resourced, these departments may feel they don't have the funding, personnel, or technological infrastructure to keep up with the demands of their workflow or the expectations of their organization. This leads, we see, to FOMO — a fear of missing out that becomes a palpable concern among those departments that may feel they're being passed over by the changes and demand in talent and technology.

And while FOMO may not impact all corporate tax departments in the same way — after all, about 70% of survey respondents still cited aspects of operational improvement as their top priorities and noted positive results from past efforts at cost-savings and increased efficiency, very similar to the levels of past years — the shadow of FOMO seemed to glid through this year's report.

And that should be a wake-up call to many companies in how they regard and more importantly fund their tax function. Because with such high percentages of respondents feeling their departments are under-resourced, weakly automated, technologically lagging, and unable to hire the type of talent they need, this bifurcated industry may find that a way too-large population of corporate tax professionals are feeling a deep fear that they — and by extension, their department and their organization — are missing out not only on being able to secure the needed tools to do their jobs, but on avoiding onerous outcomes like more audits and fines.

APPENDIX 1:

Respondent department demographics

Some additional demographics of respondents' businesses include:

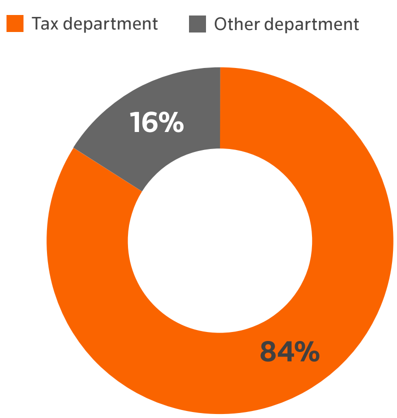
Over half of tax departments had global revenues over $1B in the last fiscal year

Business size	Overall	Resourcing	
		Under resourced A	About right B
Less than $50m USD	18%	17%	19%
$50m-$1bn USD	15%	18%	13%
$1bn-$6bn USD	29%	34%	25%
Over $6bn USD	28%	21%	36% A
Don't know	9%	10%	7%

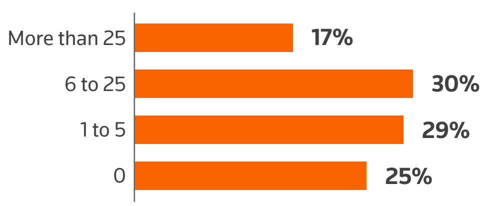
Source: Thomson Reuters 2023

Firmographics

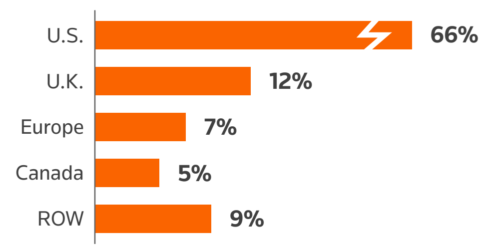
Indirect tax sits within...



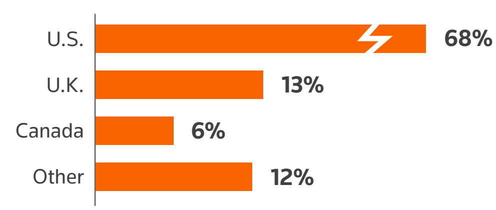
Number of additional countries where tax advice is needed



Headquarters of the organization



Headquarters of the tax department



Source: Thomson Reuters 2023

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