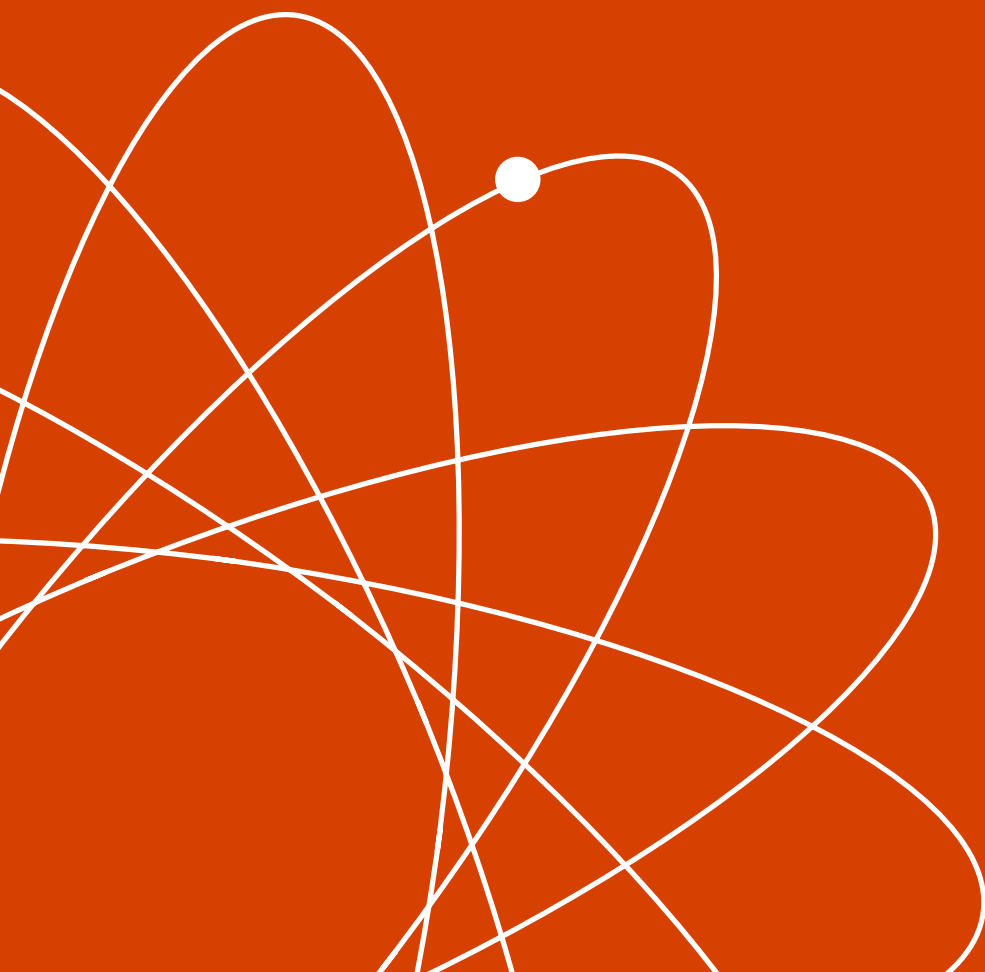
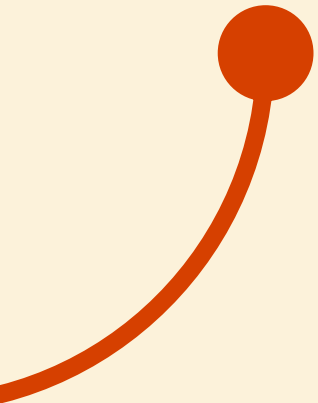


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# Challenges and Changes in Indirect Tax & Compliance





Like many professionals in key business functions, those in indirect tax compliance are dealing with a number of challenges, including managing the role of rapidly advancing technologies. The Thomson Reuters Institute recently surveyed indirect tax professionals in businesses in the United States, Canada, and the United Kingdom to understand the challenges they are facing in their indirect tax and compliance function and how they are addressing these challenges. Further, we looked at the role of new technology such as artificial intelligence (AI) and its impact on the skills required for individuals managing their businesses' indirect tax function, as well as the future outlook for these roles.

## Executive summary

Businesses face a wide range of challenges and priorities in managing their indirect tax compliance functions effectively, including the growing complexity of regulatory compliance and the availability of resources and staff. Tax compliance leaders also have to more effectively handle technology adoptions, as well as manage work processes, data, and reporting. Many indirect tax managers within corporate tax departments say they have gaps in resources, including staff skills and knowledge. In addition, they are evaluating the role that technology plays in their department and identifying the benefits and drawbacks of applying higher levels of automation.

As a result, businesses are weighing different strategies and options for dealing with these challenges, such as:

- recruiting new staff expertise or upskilling current staff
- adopting new technologies, such as AI, as well as adapting and upgrading existing systems
- re-evaluating the future role of indirect tax professionals within the business

### Methodology

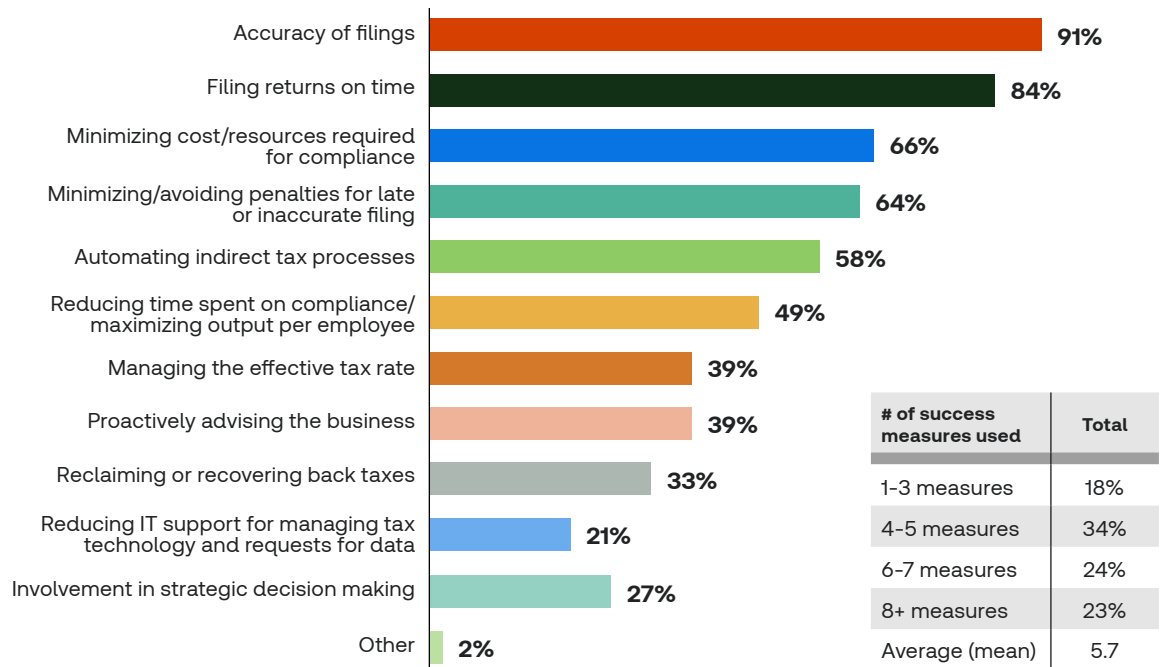
The findings in this report are based on a survey, conducted by Thomson Reuters, of 180 indirect tax professionals in the United States, Canada, and the United Kingdom. Respondents either perform or manage indirect tax functions.

# Defining and measuring success

Developing an effective strategy for improving the indirect tax function starts with defining what constitutes success for its role within the organization.

FIGURE 1:

## Measures of success in assessing indirect tax compliance functions



Source: Thomson Reuters 2024

Accuracy and on-time filings are by far the two most common measures of the functions' success, cited by more than eight-out-of-ten indirect tax professionals. Avoiding or minimizing penalties for late or inaccurate filings follows closely behind as the fourth most frequently mentioned measure.

At the same time, minimizing cost/resources required for compliance is the third most-mentioned measure of success, cited by two-thirds (66%) of survey respondents. This is followed by other measures that generally involve efficiency in work processes: automating indirect tax processes (58%); and reducing time spent on compliance/maximizing output per employee (49%).

Taken together, optimizing efficiency is clearly viewed as critical to the success of the indirect tax compliance function.

## Top challenges

Similarly, in ranking the biggest challenges to achieving indirect tax function goals, those involving efficiency in managing processes and resources rose to the top, according to respondents. Technology and automation are the most frequently mentioned challenges, cited by 40% of indirect tax professionals, followed closely by resource constraints (39%).

These two top challenges are closely related, as indirect tax professionals are currently grappling to balance the need for greater use of technology with the need for managing resources, including staffing levels, recruiting, and training. While resource gaps are a key challenge, those respondents who identified resource

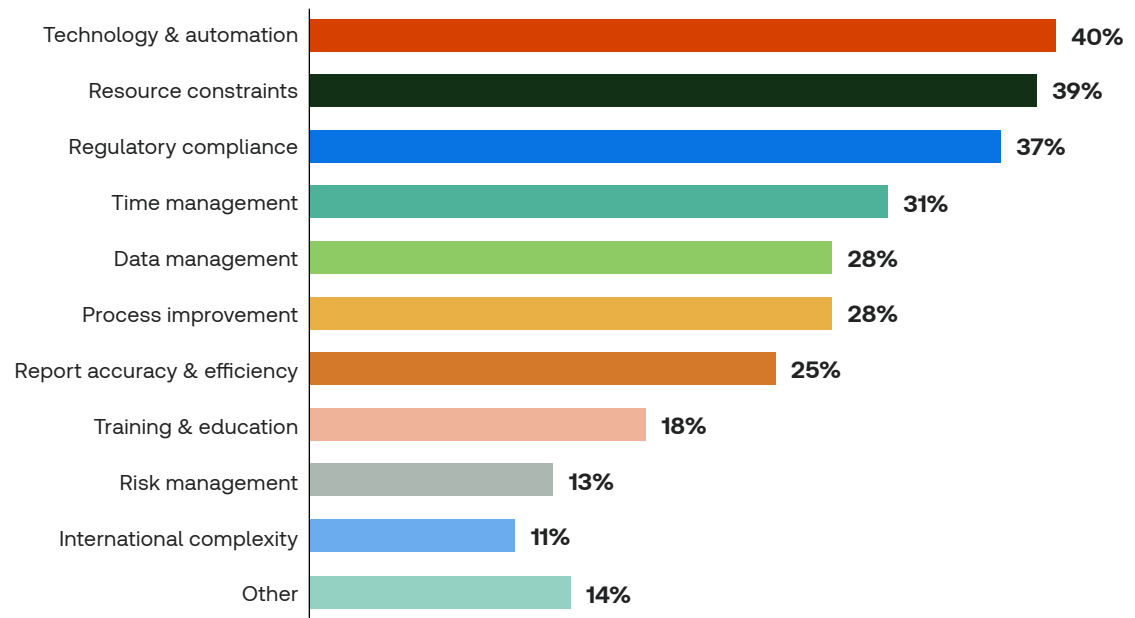
gaps as a challenge may generally feel that the gap is a modest one. Less than 10% said they feel *significantly under-resourced*, while the majority (52%) said they consider themselves to be *somewhat under-resourced*. Meanwhile, one-in-four said they have sufficient resources.

**Technology and automation, and resource constraints are the top challenges for indirect tax professionals.**

Regulatory compliance — understanding and complying with tax regulations and the complexity of frequent changes and differing jurisdictions — is only the third-most frequently mentioned challenge. It's cited as a challenge by just more than one-third of respondents (37%), even though accuracy and timeliness in filings are considered the primary measures of success. A possible explanation is that indirect tax professionals may feel that they are able to meet the required compliance standards in the normal course of their operations. As a result, other challenges, especially those related to improving efficiency, rank as greater current challenges that demand more attention.

FIGURE 2:

### Top challenges in achieving goals for indirect tax functions



Source: Thomson Reuters 2024

Time management, data management, and process improvement follow as the next most-cited challenges by indirect tax professionals, again pointing to an emphasis on the need for greater efficiencies within the department.

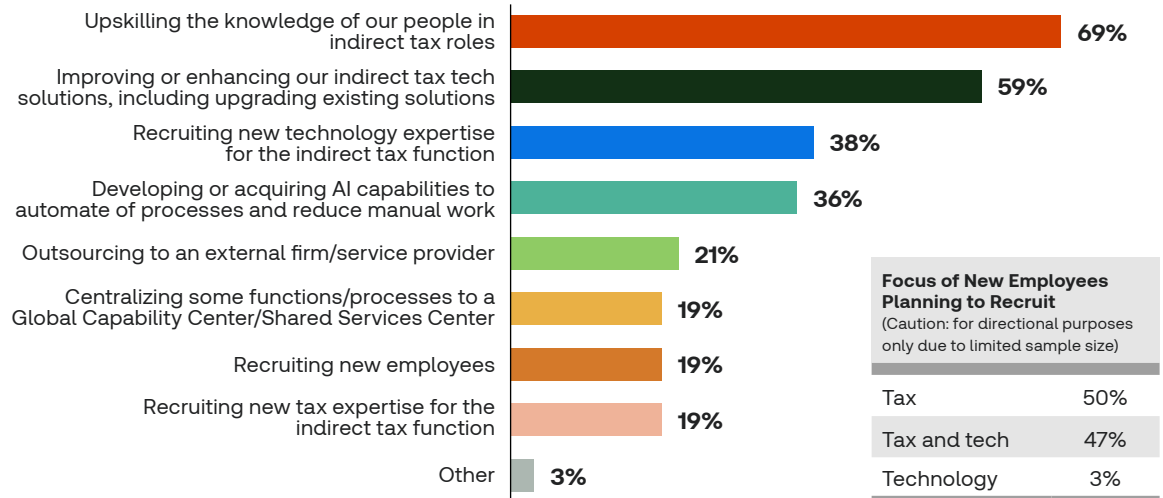
When looking at results by country, there are a few exceptions to these overall trends. In Canada, regulatory compliance is the most commonly cited challenge. In addition, responding to audit inquiries is a common concern, but less so in the UK or US. Keeping financial systems that require tax calculations up to date is of greater concern in the UK than it is in the US or Canada.

## Strategies for improvement

When it comes to strategies for improvement, it seems that most businesses are either currently considering or have already implemented plans to adapt and evolve in order to meet their challenges. Respondents said their organizations are much more inclined to invest in human capital and more effectively leverage their existing staff through upskilling and improving technology solutions rather than relying on other strategies such as outsourcing.

FIGURE 3:

### Anticipated changes to help meet challenges



Source: Thomson Reuters 2024

The most common change that respondents said they expect their organizations to make is upskilling the knowledge of people in indirect tax roles. More than two-thirds of respondents said they foresee their organization stepping up training for understanding regulatory changes as well as technology training to make staff more adept at utilizing new technology to handle their workload more effectively. As one respondent stated, they want their tax compliance team to be “more technology savvy [and] understand that AI is not there to take away their jobs — in fact, it’s making processes easier.” Greater levels of technical expertise is seen as both improving efficiency in managing indirect tax requirements and ensuring compliance.

Businesses are far more likely to use upskilling of existing staff to improve efficiency and address resource concerns, according to more than two-thirds of respondents (69%), rather than recruiting new employees for new tax expertise (19%). Structural changes are also less likely, with less than one-quarter saying that they expected more outsourcing with external providers or centralization of indirect tax functions within the business.

Meanwhile, technology changes may be widespread, as several technology-based changes are being anticipated. More than half of respondents (59%) said they expect their business to improve or enhance their indirect tax technology solutions. As part of that, 36% said they expect AI capabilities to either be acquired or developed to better automate processes and reduce manual work. And overlapping with staff changes, more than one-third said they expect more recruitment of new technology expertise.

Indeed, it is noteworthy that more respondents said they are far more likely to expect recruitment of technology expertise (38%) than recruiting new tax expertise (19%) at their businesses.

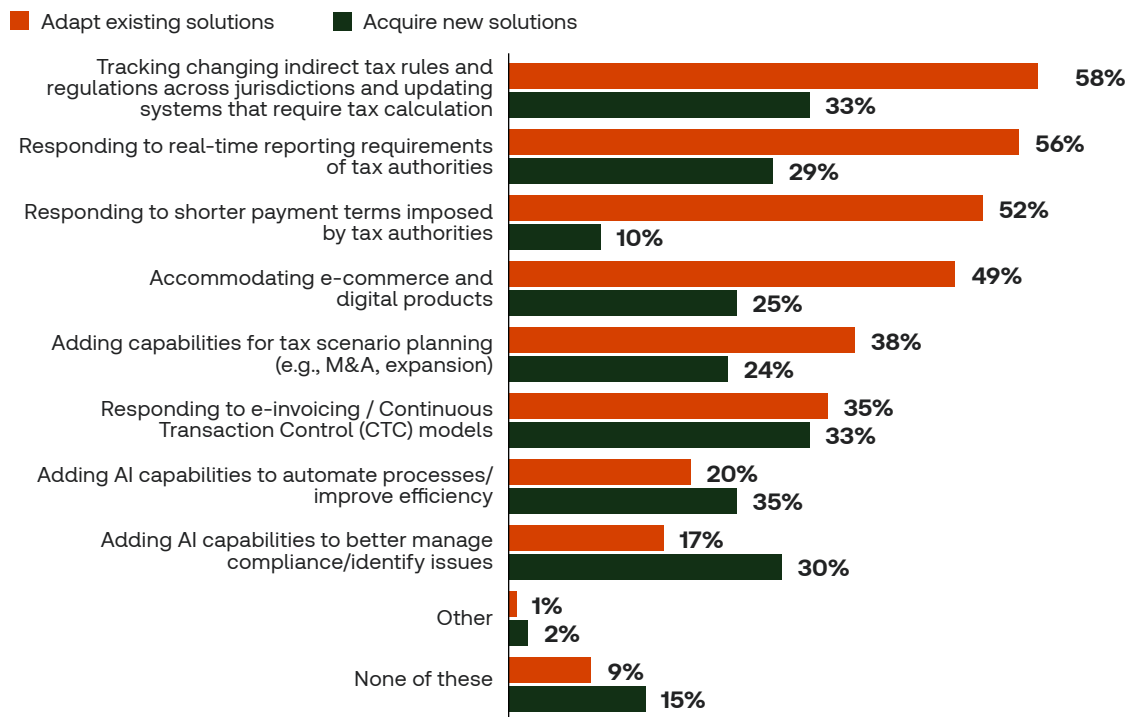
The most common areas in which organizations plan to apply technology include:

- tracking changing indirect tax rules and regulations across jurisdictions and updating systems that require tax calculations
- responding to real-time reporting requirements and shorter payment terms imposed by tax authorities
- accommodating e-commerce and digital products

In most instances, respondents said their businesses are more than twice as likely to improve or upgrade their existing systems than they are to either develop or acquire new systems.

FIGURE 4:

### Tasks in which companies plan to use technology



Source: Thomson Reuters 2024

Specifically, when it comes to artificial intelligence, AI solutions are being considered for a variety of tasks, including automating manual tasks, managing sales taxes, predicting and proactively identifying compliance and identity issues, as well as cross-checking to better flag errors and high-risk transactions.

Overall, greater reliance on technology is seen as reducing manual work and improving efficiency, while ensuring compliance with changing tax regulations.

## A balancing act

Although greater use of technology can increase efficiency and reduce costs, indirect tax compliance operations need to be mindful that the transition to more automation requires careful planning. This is especially the case as businesses balance the needs for more efficiency and for optimizing use of staff.

Automation through AI and software can reduce the number of employees required for routine tasks, freeing up people to focus on higher-value activities such as governance, risk management, and strategic planning. At the same time, increased automation and reliance on technology may lead to a reduction in personal interaction among staff and loss of expertise in certain aspects of tax-related activities, particularly if it results in lower staffing levels. Care needs to be taken to ensure this does not affect the quality of service or customer experience. Additional training, which most businesses are expecting to implement, can help minimize these effects.

**The transition to more automation requires careful planning.**

In addition, implementing new technology and training programs can require a significant upfront investment of time and resources, potentially impacting budgets or operations during the transition period.

## Evolving roles from preparer to strategic advisor

Roles within businesses' indirect tax compliance function are expected to become more integrated, with a focus on maximizing and monitoring time efficiency and streamlining processes through automation and real-time information access.

More significantly, these roles are anticipated to shift towards strategic thinking, tax advisory, and value-added contributions to the business as automation handles an increasing share of routine operational tasks. Indirect tax professionals will be more focused on managing automated workflows, and functioning more as *reviewers* of tax filings rather than *preparers*. This shift will free up time for these professionals to be more customer-facing, providing strategic advice to the business on governance, risk management, process design, and strategic business partnering. With many larger businesses deploying global shared services models to better manage their operations within multiple jurisdictions, there's increasing need for tax professionals to adapt to managing complex tax requirements across various regions.

**Roles are anticipated to shift towards strategic thinking, tax advisory, value-added contributions to the business.**

In these evolving roles, individuals and teams will be required to have much greater business knowledge — rather than product or service knowledge — to meet rapidly changing business and regulatory requirements. At the same time, there is a push for individuals to become more accountable for accuracy and timely reporting, with an increased focus on self-sufficiency and deep knowledge of tax regulations. The moves that are already underway to provide more training and upskilling of indirect tax staff should help those professions to adapt to these new or changing roles.

Indeed, some organizational changes may take place to better accommodate this growing globalization and cross-jurisdictional complexity as more business adapt to global shared services models.

## Conclusion

The indirect tax and compliance functions within many businesses face changes resulting from current challenges, including increasing cross-jurisdictional regulatory complexity and dealing with resource constraints. At the same time, however, advanced technology, including AI, can enable greater efficiency, narrow perceived resource gaps, and free up tax professionals for more strategic, customer-focused advisory work.

Indirect tax and compliance professionals anticipate that more investment in technology and upskilling of their staff will enable them to meet the challenges of an evolving indirect tax landscape going forward.



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