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Q1 Outlook 2022

Your view of forward-looking tax developments

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Introduction

Welcome to the first issue of Bloomberg Tax's 2022 Quarterly Outlook, our timely look at the developments and trends impacting tax professionals. This year, we're expanding our report to include insights on changes that are impacting processes and people, along with news and analysis on legislative and regulatory trends and developments. All of this will provide you and your colleagues with timely information you can use to plan and implement the best strategies and tools for the year ahead.

And just like the continuously changing world of tax, Bloomberg Tax has been growing to meet your evolving needs. We've invested in our research and software solutions to help our customers understand and comply with tax law, automate time-consuming day-to-day activities, and model scenarios to make strategic recommendations to support business decisions. Here are a few of the new content and tools we delivered in 2021:

On the Bloomberg Tax Research platform, we have completed our International expansion to cover all jurisdictions worldwide with news, analysis, and practice tools like our Withholding Chart Builder and the new OECD Two-Pillar Agreement Watch. We also added a versioning and comparison tool that allows practitioners to quickly compare specific code sections and regulations at different points in time.

To keep you ahead of change and easily communicate impacts throughout your organization, we've introduced a new feature called OnPoints, ready-to-use presentation slides covering key developments, considerations, and implications on tax developments.

We acquired Tax Prodigy Provision, the most comprehensive technical ASC 740 calculation engine on the market. This acquisition solves the technical and process issues involved in calculating a company's income tax provision – taking the manual risks out of the equation.

We added advanced data integration and automation capabilities to our Fixed Assets software, and we continue to bolster our reporting capabilities to meet the needs of different clients.

Throughout this issue, you'll find forward-looking news stories, insightful articles written by our tax provision experts, the latest things to know about tax automation, as well as survey results from our 2021 studies where we examine the challenges of the tax profession, including hiring and retaining talent and creating process improvements.

I hope you find one or two features in this Quarterly Outlook that resonate for you and your team. We'd love to get your feedback as well as ideas for future issues.

Email us at
taxmarketing@bloombergindustry.com.

Best wishes for a great 2022!

Lisa Fitzpatrick
President
Bloomberg Tax

Topic 1

News

Introduction

As we head into year three of the Covid-19 pandemic, the world continues to adapt to quickly moving recovery efforts and increasing digital demands across industries – adding new risks to safety and compliance efforts. In this section of our Quarterly Report, we pull in articles from the Daily Tax Report, which brings you a critical first look at key upcoming issues in global and domestic tax – so you can be prepared for the latest developments expected to impact tax rules and legislation.

Gain insights on big tax topics covered in this report, including:

- Big tech challenges to tax laws in 2022
- Aligning global cryptocurrency transactions with domestic tax laws
- Countries prepare global tax pact rules for 2023
- How net-zero promises will trigger accounting changes
- The continuation of the state tax cutting spree
- The state-by-state push to tax tech giants

Connect with your tax community – in one place

Have you ever wished there was just one spot to find out what the tax community is talking about? We did, too. So we built it.

The Exchange is our dedicated home for Bloomberg Tax Insights and Commentary. Building on what you already expect from our Insights, The Exchange includes articles offering expert analysis on current tax practice and policy issues, tax trends covering topics like cannabis and crypto, the impact of Tax Court cases and IRS Regulations, and tax and accounting firm practice and management.

Our commentary section is expanding and has opinion pieces from thought leaders in the tax world, including those in leadership positions at IRS and accounting firms.

We also highlight a tax professional as part of our weekly Spotlight series. To date, that's included EAs, CPAs, tax attorneys, tax professionals, and even tax TikTokkers (yes, that's a thing) from all over the world. If you know someone we should feature – even if that someone is you – **we'd love to hear about it**.

You'll also find recent tax podcast episodes featuring leaders in tax on topics ranging from state and local tax issues to global minimum tax – and everything in between.

You can find links to articles, podcasts, and more, on our **home page**. You can also have it delivered each week straight to your inbox – sign up using the link on the homepage.

Don't forget to connect with us on social – you can engage with Bloomberg Tax on **Twitter**, **Facebook**, **Instagram**, and **LinkedIn**. And, the Exchange has a dedicated and growing **LinkedIn group**, where our authors, contributors, and readers can share tax-related stories and exchange ideas. It's great for networking!

We're already thinking about how to grow The Exchange in 2022. Expect more contributor pieces to offer views on what's happening in the tax profession – and how it impacts taxpayers and tax professionals. Keep an eye out for upcoming tax-related events, including more of our virtual lunch-and-learn series, our now-annual student writing competition, and additional networking opportunities.

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Crypto Boom Sends Countries Scrambling to Align Tax Reporting

Global tax authorities face several daunting challenges this year as they undertake the work of aligning domestic tax reporting on cryptocurrency transactions to create an international standard.

At the heart of the challenge is that countries collect or plan to collect vastly different information on cryptocurrency transactions, a problem that stems from both global differences in tax treatment and the varying legal definitions used in domestic tax reporting regimes.

Cryptocurrency players, like exchanges, say the price of major economies' failure to align rules includes higher regulatory costs, tax uncertainty and weaker global growth for the sector. Tax experts say the patchwork of rules will also lead to new opportunities for tax abuse and arbitrage among companies seeking less-regulated jurisdictions.

"Each country has a different way of how they're taxing" the nascent market, Mazhar Wani, partner and fintech tax leader at PwC U.S., said. "There's a lot of inconsistencies across the board."

The Organization for Economic Cooperation and Development and the European Union are working on separate plans to include cryptocurrency information in their tax reporting requirements. The U.S. took steps late last year through its infrastructure law to create a reporting standard, which some lawmakers have already sought to **modify** through new legislation.

The OECD is set to release its plan this year for expanding the Common Reporting Standard for tax information reporting to cryptocurrencies. The framework will ease the issues tax authorities deal with domestically, like **overcoming pseudo-anonymity** of cryptocurrency users, Michelle Harding, senior tax economist at the OECD, told a European Parliament subcommittee this past November.

The EU aims to release new rules this year as part of its Directive on Administrative Cooperation to ensure that tax administrations can exchange information on crypto transactions and "keep business compliance costs to a minimum by providing a common EU reporting standard," according to an **outline plan** on the forthcoming proposal.

Greater alignment across jurisdictions—on many issues, including tax reporting—will enhance global financial interoperability, and anything less would undercut the benefits of the borderless nature of the technology, said Candace Kelly, general counsel with the Stellar Development Foundation, a non-profit group that supports an open blockchain network for digital assets and payments.

"If different jurisdictions develop inconsistent tax reporting requirements for folks, it's just going to add to their administrative burden and diminish the value of the cost savings that you can have when you use blockchain technology," she said.

Call for Clear Standards

The OECD has to have a clear intent behind its rules, like describing what size of trader it would like information from, said Sulolit "Raj" Mukherjee, head of tax at Binance U.S., the world's largest cryptocurrency exchange. It also must clarify what kind of data it wants and whether it wants it in simpler aggregate form or broken down to the transaction level, he said in an interview.

Transaction-level data isn't just more challenging for exchanges, the government also has to spend time and resources "going through the data figuring out what the important parts are," he said.

Oleksandr Lutskevych, CEO of cryptocurrency exchange CEX.io, said a patchwork of regimes puts smaller firms at a disadvantage and inhibits innovation because only tech giants will have the resources to understand the sector's global tax obligations.

"If there are clear, identical standards for companies in multiple jurisdictions, it simplifies the compliance task, saves resources, and puts everyone on an equal footing," Lutskevych said.

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U.S., EU Proposals

The EU proposal might require firms to automatically send data to a central database on a transaction-by-transaction basis, Marc Taverner, executive director of the International Association for Trusted Blockchain Applications, said in an interview.

He suggested the EU avoid this "burdensome" approach by tapping into the financial data provided under existing Know-Your-Client and Anti-Money Laundering rules.

But many companies, like those behind hardware wallets, don't collect the data those rules require, said Georg Brameshuber, tax adviser with Vienna-based cryptocurrency advisory firm Validvent.

The EU's approach so far is not ideal and more serious discussion is needed to avoid harming the cryptocurrency sector, the European Blockchain Association, an industry group, said in a statement. "While we very much appreciate a solid regulation framework, we feel there is a tendency towards overregulation," Michael Gebert, the group's chairman, said.

The U.S. Treasury Department and the European Commission, the bloc's executive arm, said on background that they were closely monitoring developments overseas.

"The Department will continue to engage with our partners in the OECD and the EU as this process moves forward," a Treasury official said.

" While we very much appreciate a solid regulation framework, we feel there is a tendency towards overregulation."

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Big Tech Fights Top Tax Law Issues to Watch in 2022

High-dollar international tax disputes, new state taxes on digital activities, and continued challenges to the 2017 tax law are among the big legal issues tax professionals are keeping a close eye on in the new year.

January brings action in a pair of high-profile tax cases: The U.S. Supreme Court will hear arguments over an IRS deadline to challenge federal tax debts, and a closely-watched trial involving Facebook Inc. parent Meta Platforms Inc. will resume in San Francisco.

Tax professionals are also paying attention to Capitol Hill negotiations on the Biden administration's stalled economic agenda, which includes a proposal to give the Internal Revenue Service more resources to aggressively enforce the tax code.

Here is more on the big legal issues to watch entering 2022:

Multinationals Face Off Against the IRS

Major multinationals including Facebook, Coca-Cola, and medical device manufacturer Medtronic have cases to watch over the tax treatment of their intercompany transactions—a tax area known as "transfer pricing."

The long-running Facebook trial, involving the transfer of various intangible assets to an Irish subsidiary, is **scheduled to resume in January in San Francisco**. The trial, which started before the pandemic in early 2020, picked back up in Washington last fall—the first in-person trial the U.S. Tax Court held under new Covid-19 safety protocols.

Meanwhile the Medtronic case is in the post-trial briefing stage **following a June 2021 Tax Court trial** over the value of patents and other intangibles licensed to a subsidiary in Puerto Rico.

"Tax professionals are also paying attention to Capitol Hill negotiations on the Biden administration's stalled economic agenda"

The awaited decision in Medtronic could end up providing guidance on what pricing methodology to use, said Barbara Mantegani, an attorney at Mantegani Tax PLLC who focuses on transfer pricing.

U.S. Tax Court Judge Kathleen Kerrigan **ruled** in 2016 that Medtronic owed roughly $14 million in additional taxes, well below the Internal Revenue Service's calculation of a nearly $1.4 billion tax bill. But the U.S. Court of Appeals for the Eighth Circuit later **ordered** further consideration of that ruling, sending it back to the Tax Court.

The Eighth Circuit wants to see "some kind of guidance that's actually useful guidance, if you will, that can maybe be applied elsewhere," Mantegani said.

The competition over methodologies was amplified in late 2020 when the Tax Court embraced the IRS's pricing methodology in a $3.4 billion fight with Coca-Cola, **siding** with the agency over the bulk of those taxes. That **sent a warning** to Medtronic and Facebook, which are both pushing for a different methodology in their own cases.

Coca-Cola is **expected to appeal**, but is waiting until the Tax Court rules on the validity of IRS regulations in a separate case involving 3M.

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State Digital Tax Fights

In the states, expect more legal action over taxing the digital economy.

Maryland has a new tax of up to 10% on gross revenue made from digital advertisements within its state, taking aim at tech giants like Google and Facebook.

The U.S. Chamber of Commerce and other trade groups have already challenged the first-in-the-nation tax, arguing that it unfairly penalizes tech companies for "social ills" and could negatively affect business in the state.

Read more: Taxing Tech Giants Pushed by Lawmakers in Maryland, Northeast

Another state case to watch is Sirius XM Radio, Inc. v. Hegar , an apportionment case pending before the Texas Supreme Court.

The state comptroller levied taxes on the satellite radio service due to the location of its subscribers, arguing that receiving the service in Texas is the taxable, income-producing activity over where the service was created.

David Dorner, a partner in Reed Smith LLP's state and local tax group, said other states with similar approaches to apportionment, including Florida and Pennsylvania, should take note. The ruling could have big impacts on business operations in different jurisdictions, Dorner said.

"This isn't the first time a state has taken what is traditionally a cost-of-performance type analysis and turned it into a market-based analysis because it fits their narrative better," he said.

Supreme Court Arguments

The IRS is gearing up for Supreme Court arguments in Boechler, P.C. v. Commissioner , a dispute with a North Dakota law firm over a 30-day deadline to challenge decisions on tax debts.

The case promises to offer clarity on whether the Tax Court petition deadline at issue is "jurisdictional," meaning it doesn't allow for judicial discretion to accept a late petition. Arguments are scheduled to be heard Jan. 12, with an opinion expected later in the year.

A ruling against the IRS could cause lower courts to change their view of tax laws involving deadlines, according to T. Keith Fogg, director of the Federal Tax Clinic at Harvard Law School. Fogg, who co-authored a **friend-of-the-court brief** in support of Boechler, said the lower courts "have previously basically said" those deadlines are always jurisdictional.

Read more: High Court Review Offers Chance at Tax Suit Deadline Flexibility

CIC Services Fallout

The U.S. Supreme Court's May ruling in CIC Services, LLC v. IRS held that the Anti-Injunction Act, which generally blocks tax lawsuits filed before assessment or collection, didn't bar a lawsuit challenging a penalty-backed IRS reporting requirement.

Gil Rothenberg, a former Justice Department official who represented the IRS and Treasury when CIC Services was at a lower court, said he expected to see taxpayers attempt to "shoehorn" challenges into the Anti-Injunction Act exception created by the Supreme Court.

Already, a taxpayer challenging an IRS summons for cryptocurrency records **has cited** CIC Services as a reason his lawsuit should be allowed to proceed.

Click here to read more
Supreme Court Seen as Opening Door to More Tax Guidance Lawsuits

2017 Tax Law Challenges

This year will see developments in two high-profile cases concerning regulations issued to implement the 2017 tax law.

In Liberty Global, Inc. v. United States , a telecommunications giant is challenging the validity of temporary IRS regulations that limited

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tax deductions on certain foreign dividends under tax code Section 245A. The company, which is challenging a disallowed deduction of $109 million, argues that those rules go beyond Treasury's authority.

In FedEx Corp. v. United States , the Memphis-based courier is challenging a disallowed $89 million deduction. The IRS nixed the deduction under rules for the Section 965 transition tax, which treats foreign earnings made by U.S. shareholders involved with foreign corporations as income brought back to the U.S.

FedEx argues that the Treasury and IRS replaced "clear legislative text with their preferred policy choice" to eliminate foreign tax credits and their deduction. The case is unfolding, with discovery ongoing in a Tennessee federal district court.
Steve Dixon, a partner at Steptoe & Johnson LLP, said the two cases highlight taxpayer concerns about the validity of the IRS temporary regulations.

"I think that it's going to be very interesting to see how the Department of Justice tries to defend those temporary regulations, because I think they have a lot of difficult choices to make in mounting that defense," said Dixon.

IRS Enforcement

One of the biggest open questions for 2022 concerns the administration's plan for a big IRS funding boost.

The president's economic agenda calls for giving the IRS an additional $80 billion over a decade to increase enforcement of tax laws, but that legislation is stalled after Sen. Joe Manchin (D-W.Va.) said in December that he won't support the bill. The agency's immediate funding is also uncertain: The federal government is operating under a continuing resolution that runs through Feb. 18, and negotiators are working on a longer-term deal for the rest of fiscal 2022.

Tax professionals say the additional funding would allow the IRS to increase its examinations of high-wealth taxpayers and partnerships, while continuing to prioritize enforcement of cryptocurrency, tax-advantaged land deals known as syndicated conservation easements, and microcaptive insurance arrangements.

"The IRS has been starved for resources for a long time, and additional funding is sorely needed," said Daniel Rosen, a partner in tax at Baker & McKenzie LLP.

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Countries Prepare Global Tax Pact Rules for 2023 Start Date

More than 135 countries backing a deal to overhaul global tax rules are poised to use 2022 as the year to move forward with the bulk of technical work needed to carry out the plan.

The OECD-brokered agreement—reached in October—has set a 2023 deadline for governments to implement the plan. OECD officials and countries will need to figure out the remaining details of the plan's two parts: a reallocation of the profits of the world's largest multinationals—known as Pillar One—and a 15% minimum tax rate—known as Pillar Two.

The Organization for Economic Cooperation and Development aims to release a multilateral treaty for Pillar One in the first half of the year so countries can sign it.

"There is political will, there is a political agreement," and officials are completing technical work to get to implementation on Pillar One, Pascal Saint-Amans, director of the OECD's Center for Tax Policy and Administration, said at an event Dec. 9.

Meanwhile, countries are moving closer to adopting the minimum tax legislation—with the OECD having recently released model legislation for Pillar Two, and the EU looking to get its 27 members to approve a directive by mid-year 2022 that would implement the rules. The OECD is targeting February for a public consultation on an implementation framework for Pillar Two, focusing on issues like administration and compliance.

Mid-2022: Multilateral Treaty

The main part of Pillar One, known as Amount A, will reallocate multinational profits to give more revenue to the market countries where companies have consumers, but don't currently book much profit. October's deal sealed important details about the size and scope of the reallocation. But governments must still solve key questions before they're ready to implement Amount A through a multilateral convention, or treaty.

Chief among these is deciding exactly which jurisdictions will give up the money that is reallocated to others—a question that could spell lost revenue for some governments.

"I think the biggest issue right now is probably the surrender jurisdiction," said Mary Bennett, senior counsel at Baker Mckenzie and a former U.S. Treasury and OECD official. "Nobody knows where this income's going to come from, and whether they'll be able to get double tax relief or not."

Governments also need to fill in more detail about a safe harbor, or exception, that will leave out of the scope of Amount A certain marketing and distribution profits that are already taxed in the market jurisdiction.

To help speed along the work on Amount A, the OECD will release a number of documents in the coming months on separate "building blocks" of the plan for public feedback, it announced in December.

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According to the October agreement, the goal is to have something ready for countries to sign by about the middle of the year.

"We need to turn what is a high-level political agreement" on Pillar One into a "technical apparatus," Saint-Amans said Dec. 9.

The process doesn't end there: Each country must then ratify the treaty, under its own domestic procedures. This may prove particularly tricky in the U.S., where Republican support is in some doubt.

The OECD wants the convention to enter into force in 2023, after a critical mass of countries have ratified—which most likely would have to include the U.S.

End of 2022: Complete Amount B Work

Pillar One also seeks to simplify and standardize the valuation of certain transfer pricing transactions—the way a group prices its inter-company transactions—with a provision known as Amount B.

In part, the measure aims to address concerns of developing countries, which have limited resources for complicated economic analyses. Setting clear expectations for how these transactions should be priced would also help give companies more certainty and avoid disputes with tax authorities.

Countries said in October they'd aim to complete the Amount B work by the end of 2022. And the OECD said in December it plans to release a public consultation document in the middle of the year.

Companies want to know if the rules will be mandatory, said Pie Geelen, tax adviser and head of the European desk at DLA Piper in New York. They'll have to see whether they can keep their current operating models, "or is this going to require me to make changes to basically the transfer pricing I'm currently using in those jurisdictions?" he said.

Throughout 2022: Progress on Pillar Two

The plan's 15% minimum tax, Pillar Two, is farther along in implementation. The OECD already released model rules in December for countries to adopt into their domestic legislation.

Also **last month**, the EU launched a draft directive that would mandate its member countries to implement the rules and harmonize how the measure is applied across the bloc.

Companies should watch for variations between member states, said Kate Barton, EY's global vice chair of tax.

"While we always think guidelines are clear, what actually happens can be very different," she said.

With the potential for different countries to implement the rules slightly differently, "I think it's gonna be pretty tricky, and I think it lends itself to the unevenness of implementation and it lends itself to potential double taxation," Barton added.

The proposed EU version of the minimum tax rules would differ from the OECD model rules in one key aspect: They'd allow countries to apply the 15% minimum rate on purely domestic businesses, something the OECD model rules don't call for.

Meanwhile, the U.S., which has an existing minimum tax—under the global intangible low-taxed income (GILTI) rules—is trying adapt its rules to bring them in line with the OECD Pillar Two legislation. Democrats have been trying to push through updates to GILTI through the Build Back Better Act to better align it with Pillar Two, but it's **not clear** whether they'll succeed after Sen. Joe Manchin (D-W. Va.)—a key vote for passage—said he wouldn't support the bill.

These changes would be important for U.S. companies trying to figure out how the rules affect them, said Geelan.

"While we always think guidelines are clear, what actually happens can be very different"

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EU Eyes Global Tax Pact Implementation, Rules Revamp in 2022

The top tax priority of the European Union next year will be implementing a deal to overhaul global tax rules in time to meet a 2023 deadline.

While the work on the OECD-led deal –struck in October with the support of nearly 140 countries–is likely to dominate the tax agenda, the EU is also launching a slew of other initiatives aimed at targeting shell companies and revamping rules for value-added taxes, withholding taxes, and tax transparency to clamp down on avoidance and evasion.

The global deal will reallocate a portion of the largest multinationals' profits, known as Pillar One, and create the 15% minimum tax rate, known as Pillar Two.

The **EU proposed Dec. 22** a new **directive** that would require member countries to implement the model rules for the minimum tax, which were released by the **OECD Dec. 20**. The goal is to get agreement at the EU level on the directive by the end of June 2022, EU Commissioner for the Economy Paolo Gentiloni said Dec. 22.

EU countries have already signed up at the OECD level to the minimum tax on corporations, which should make implementation straightforward, said Markus Ferber, a German center-right lawmaker who is a vice-chair of the European Parliament's tax subcommittee.

Tax rules in the European Union must be agreed by countries unanimously, but "for this one, I have few concerns," he said.

Minimum Tax Impact

Work on implementing the minimum tax–and later in 2022, on the OECD's Pillar One–might prove to be an obstacle to progress on the many other EU tax proposals for 2022, with objections from even the smallest EU countries potentially holding up adoption of rules.

Estonia, one of the last countries to agree to the global deal, warned it was still concerned that the deadline to implement it may be too tight.

"We have just a few short months to adopt the directive, transpose it into domestic law, and develop the necessary IT systems for tax collection and administration," Estonia's Finance Minister Keit Pentus-Rosimannus said in a statement to Bloomberg Tax Dec. 23. "At this stage, it seems nearly impossible. It would make far more sense to take the time necessary to do a proper job, which would mean implementing both pillars together in 2024."

"We have just a few short months to adopt the directive, transpose it into domestic law, and develop the necessary IT systems for tax collection and administration"

The European Commission said Dec. 22 that 15% of tax payments reallocated to EU countries under the Pillar One deal should be paid into the EU budget. It promised a more detailed plan next year.

The proposal to reserve a portion of Pillar One payments to the EU budget "replaces what we referred to formerly as digital levy," said commission spokesman Johannes Bahrke. The commission previously said it would propose an EU-level tax on digital activities to raise resources for the EU budget.

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Value-Added Tax

On value-added tax, the commission plans to release proposals on e-invoicing, a single EU VAT registration, application of VAT to transactions via digital platforms, VAT exemptions for passenger transport by air and sea, and updates to VAT for financial services and travel agents.

"Progress might be possible" in less-controversial areas such as VAT for travel agents and passenger transport, but in other areas, such as e-invoicing, change could be slow in coming, in particular because the largest EU economy, Germany, has no clear position on e-invoicing, said Jürgen Scholz, a partner with tax advisors WTS Global.

Among other proposals planned for 2022 by the commission are rules on the exchange of information between tax authorities on crypto assets, an equity allowance for companies to reduce their reliance on debt financing, and a plan for companies to publish their effective tax rates.

On equity allowances, countries "that have already introduced equity allowances and that would therefore need to change their existing regimes" could prove the main obstacle, Ferber said.

The plan to require publication by companies of their effective tax rates "could prove to be hotter than many now expect," because it will divide EU countries that believe it should be treated as a tax rule—and therefore be agreed unanimously—and those that can accept it as an accounting rule agreed by a qualified majority, said Johan Barros, manager for tax policy at Accountancy Europe.

Those arguments would echo the differences that held up the public country-by-country reporting of tax payments, which the EU adopted in 2021, five years after the commission proposed it, Barros said.

Shell Companies

Officials on Dec. 22 also rolled out a **plan** to clamp down on shell companies—businesses that gain tax benefits from a country without having real economic substance there. The rules—if approved—would take effect January 1, 2024, and would deny tax benefits to shell companies that can't demonstrate sufficient substance, such as employees or a physical operation.

The goal is to "step up the fight against tax avoidance and evasion by tightening the screws on shell companies—the letterbox companies used as vehicles for tax avoidance or evasion," Gentiloni said Dec. 22.

The European Commission said it will also look at targeting shell entities outside the EU with a new initiative next year.

> *"Tax professionals are also paying attention to Capitol Hill negotiations on the Biden administration's stalled economic agenda"*

Energy Tax Reform

In 2022, EU ministers will also discuss for the first time the revision of the EU Energy Taxation Directive (2003/96/EC), which is seen as needing reform to help the EU reach net-zero greenhouse gas emissions by 2050.

The directive sets minimum tax rates EU countries must apply on different forms of energy. The rates—which have not changed since 2003—will be updated to favor clean energy over fossil fuels.

The current directive is "a fossil in itself; it's got fuels in there that aren't even on the market anymore," said Tim Gore, head of the low carbon and circular economy program at the Institute for European Environmental Policy.

A previous attempt to reform the directive in 2011 failed because of the lack of unanimity, but agreement is more likely this time because countries recognize the need to upgrade energy taxation and because the new government in Germany—"one of the big blockers previously"—backs the reform, Gore said.

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Net-Zero Promises Will Trigger Accounting Changes, Just Not Yet

Scores of companies, from Amazon.com Inc. to Uber Technologies Inc., have pledged to get to net-zero carbon emissions by 2040.

Commitments to reduce reliance on fossil fuels by closing smoke-spewing factories or switching to hybrid or electric vehicles all cost money, and these commitments will have financial accounting implications.

Making long-term promises and setting goals won't translate to financial statement liabilities just yet; that will happen as the promises turn closer to concrete actions.

Still, the undertaking could be so significant that companies and their accountants need to start plotting now how fundamental operational changes could impact the numbers they report to investors and analysts, accounting experts say.

"The No. 1 thing on these commitments or goals or ambitions is making sure there's a process to link to whether or not there should be financial statement or disclosure impact," said Laura McCracken, partner at Deloitte & Touche LLP.

First, a company has to lay out what it means to get to net zero, starting with what its emissions are right now, so it can figure out what it needs to cut. The plan will vary depending on the industry, the business model, the company's existing assets, whether they're owned or leased, and where it is located. These factors all affect the accounting, said Maura Hodge, partner at KPMG LLP.

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"All of those considerations come into play when thinking about the accounting for these types of commitments," Hodge said.

Some companies will cut emissions by retiring a factory or phasing out production of a product that requires a lot of fossil fuels. Shutting down a big asset like a factory or plant or disposing of inventory means the company will have to impair it, or write down its value, said Julie Santoro, partner at KPMG LLP.

Others may buy credits and offsets to make up for emissions. Some may even buy portions of forests to offset their emissions. These purchases can raise accounting questions, Hodge said.

"If you're a tech company that doesn't normally buy land, is that an asset or an expense?" she said.

For its part, Amazon in a sustainable operations report says it will power all its operations with renewable energy by 2025 and deliver half of its shipments with net-zero carbon by 2030. These promises aren't listed yet in its 2020 annual financial statement, however.

For Uber, net zero means 100% of customer rides taking place in zero-emission vehicles, on public transit or via micromobility options such as bikes and scooters by 2040, it reported. These pledges aren't included its 2020 10K, either, although the company discloses that it will help drivers in London switch to electric vehicles by 2025 to comply with new local air quality regulations.

Long-term commitments and goals don't have financial statement impacts just yet, said Eric Knachel, partner at Deloitte.

If a company's net-zero plan involves buying a new, green manufacturing facility, a financial statement liability won't arise until it has a contract to do so. For financial accounting purposes, companies have to focus on what the obligating event is and whether it has happened, Knachel said.

The closer a company gets to a deadline related to a promise and takes tangible action, the more likely a liability will arise, he said. In accounting lingo, a liability arises when there's a probable future transfer of assets. For example, a CEO announcing the company will dole out 20% raises to all workers doesn't merit booking a liability as soon as the announcement happens. Once services have been rendered–the workers do their jobs–that's when there's a liability, he said.

"Promises and goals around reducing carbon footprint does not necessarily result in recording liabilities in this period," he said.

"If you're a tech company that doesn't normally buy land, is that an asset or an expense?"

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State Tax Cutting Spree Continues Despite Murky Budget Forecasts

Over a dozen states enacted major tax cuts in 2021 including Ohio, Washington, Arizona, and Arkansas, which all passed their largest tax cuts in state histories.

The biggest tax cut spree since smoking was allowed on airplanes is poised to continue into next year as more lawmakers tap into state surpluses, an unexpected byproduct of the coronavirus pandemic. But making large-scale policy changes through tax law changes based on "one-time growth" could impact budgets long term as the future remains uncertain, economists and researchers warn.

"Leaders often face pressure to increase spending or cut taxes during good budget years, but unless they act carefully, they risk putting their state long-term fiscal health in a more vulnerable position when budget conditions ultimately, or inevitably deteriorate," said Justin Theal, public budgeting and finance leader at The Pew Charitable Trusts.

Fueling the growth is a pandemic that—between delayed tax filing deadlines, states prepping for the worst, and federal stimulus—was much kinder to state coffers than many had anticipated. State tax revenue grew 20.3% from second quarter of fiscal year 2020 through same period fiscal year 2021, the largest four-quarter jump in over 25 years, according to Pew Charitable Trusts.

"We've seen more states enact tax cuts than has happened in decades—going back to 1986 tax reform," said Jared Walczak, vice president of state projects at the Tax Foundation."Many are looking at multibillion dollar surpluses right now, as we've seen double-digit revenue growth. Many have already used that to cut taxes and more are expected to follow in 2022."

Cashing Out

With inflation at its highest level in nearly 40 years, remote workers fleeing big cities at record levels, and 84% of state legislative seats up for election in November, many states are pursuing immediate cash-outs on that one-time growth.

"Tax cuts are going to yield some short-term political gain for elected fiscals," said Lucy Dadayan, a senior research associate at the Tax Policy Center. "But depending on how they're done they could create long-term fiscal challenges for the states. Balancing budgets, and finding money to pay for public programs like education and bridges and roads could get a lot more difficult once federal stimulus goes away."

In Georgia, some gubernatorial candidates are calling for an end to state income taxes, though they've said little on how they would replace the $14 billion revenue that makes up about half of its budget. State Sen. Butch Miller (R), who's running for lieutenant governor, has a bill that would eliminate Georgia's personal income tax. Though Gov. Brian Kemp (R) has been mum on the issue, earlier this year he signed off on **modest cuts**. His challengers, former U.S. Sen. David Perdue and former state assemblyman Vernon Jones (R) have both called for removing the tax as well.

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In Mississippi, Gov. Tate Reeves (R) has been pushing to eliminate income tax for some time. A similar notion fell flat in West Virginia this year, though another year of solid tax collections should make it a key item again when lawmakers convene in January.

While on his way out in 2022, Virginia Gov. Ralph Northam (D) is lobbying legislators to use the state's record $2.6 billion surplus to get rid of its grocery tax, something he'd campaigned on in 2017. Governor-elect Glenn Youngkin (R) has also promised to eliminate the tax. It's one of several tax relief measures he campaigned on, along with suspending Virginia's fuel tax and doubling its standard deduction.

Arkansas was the latest state to close the year out with a big tax cut. Gov. Asa Hutchinson (R) signed a bill Dec. 9 that slashes income taxes by half a billion dollars over the next decade. The measure—a key item in a special legislative session called after reserve funds swelled to a record $1.2 billion—received little opposition in the Republican-controlled General Assembly.

Both Arkansas legislative chambers and the governor's seat are up for reelection in November 2022, also the case in three out of the other four states to pass their largest tax cuts in state history this year: Ohio, Arizona, and Washington.

Extra Paperwork

While Treasury guidance tied to the American Rescue Plan Act expressly prohibits states from using any fiscal recovery funding to make up for revenue forgone from a tax cut, the extra federal funding has allowed states to pursue long-term investments without the need to spend their surpluses. States will have to report to Treasury how exactly they are paying for large-scale tax cuts without using federal stimulus.

"There will be a paper work requirement for tax cuts, as there are many associated with ARPA funds. States will have to demonstrate the tax cuts are not using ARPA funds, which should be easy for states that experienced double-digit growth." Walczak said.

Several court battles contesting the provision are already pending and will spill into next year.

Pending tax relief proposals in Illinois would use fiscal recovery funds to distribute tax credits to constituents in lieu of slashing rates, though Moran and Walzcak agreed that's likely a blatant violation of Treasury guidance.

Returning to Trend

Meanwhile, states should be mindful of a weakening economy and a slowdown in federal aid as they consider tax cuts, said Theal. The economy is on pace for 5.7% real GDP growth in 2021—an historically high level, and while slightly less, growth for 2022 is expected to continue well above long-term trends, according to Fitch Ratings.

"All of that is going to moderate over the next year or two," said Michael D'Arcy, director of U.S. public finance at Fitch Ratings, adding "There is risk everywhere because this current environment is very volatile." It's very difficult to project revenues accurately because the entire economic and revenue picture is so volatile and a tough time to make big tax policy decisions, he said

Federal aid is likely to slow down as well. States have already allocated more than half of their nearly $200 billion fiscal recovery funding, according to the Center on Budget and Policy Priorities.

The $550 billion infrastructure bill signed into law by President Joe Biden in November could infuse states with money for major projects, but Congress' checkbook might be closed by the time state budgets feel the impact of long-term cuts.

"For most states, which started their new fiscal years in September and October, the revenue effects of enacted rate cuts wouldn't be known until some time after the year ends at the end of next August or September," said Chris Moran, a lawyer at Venable LLP in Baltimore.

"We may not see revenue shortfalls and budget defects in the next few years, but in 2026, 2027, 2028, when there's a slowdown I think we'll see a few states start to have much more difficulty balancing their budgets," D'Arcy said.

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Taxing Tech Giants Pushed by Lawmakers in Maryland, Northeast

Tax policy makers will spend a lot of time debating state strategies that tax the digital economy in the coming months, but it's unclear those discussions will generate a rash of new levies on electronically delivered goods and services in an election year.

Taxes on digital advertising, cloud computing, and streaming entertainment, along with the electronic collection of consumer data, are all on the agenda in upcoming state legislative sessions.

The year will begin with Maryland enforcing its first-in-the-nation Digital Advertising Gross Revenues Tax. Special commissions appointed in New Jersey and possibly Massachusetts will consider tax programs aimed at tech giants such as Amazon, Facebook, Google, and Microsoft that earn huge profits but pay very little to state and local governments. And the Multistate Tax Commission will bear down on a **project guiding the states** toward uniform tax rules governing digital goods and services.

Other states to watch include Arkansas, Connecticut, Louisiana, and New York, a policy analyst with the Computer & Communications Industry Association said. But many governors and legislatures will steer clear of the issue in 2022. Heading into an election year, lawmakers just won't have an appetite for controversial new taxes in an environment of surging revenues and threats of litigation.

"With all this extra revenue and an election year, we will see a lot of tax conversations and a lot of political campaigns talking about tax policy, but 2022 will be a light year for actual tax reform packages and substantive legislation," said Morgan Scarboro, manager of state tax policy for the political consulting firm MultiState Associates.

Most state legislatures used 2021 to address problems generated by the Covid-19 pandemic, but states also focused on legislation bringing untaxed features of the digital economy into their tax codes, said Jackson Brainerd, director of the fiscal affairs program at the National Conference of State Legislatures.

Eyes on Maryland

Maryland made the most headway, enacting two tax laws in February. Lawmakers enacted **H.B. 932**, which imposed Maryland's 6% sales and use tax on digital goods. The law became effective March 14 and **taxes** electronic books, streaming video, music and games, and digitally delivered software.

Lawmakers made even bigger headlines enacting **H.B. 732**, which imposes a tax of between 2.5% and 10% on the gross revenue from digital ads earned by large internet advertisers with annual revenue above $100 million. A subsequent law shifted the effective date to Jan. 1, 2022. Maryland's Department of Legislative Services **estimated** revenue of $250 million from the tax during its first year.

Maryland's unique tax targeting social media, search engine, and digital publishing companies sets the stage for even larger revenue rewards. Gross revenues from internet advertising is expected to surge from $140 billion in 2020 to $200 billion in 2025, according to an **analysis** by the Interactive Advertising Bureau.

At least nine other states—Arkansas, Connecticut, Indiana, Massachusetts, Montana, New York, Texas, Washington, and West Virginia—considered tax legislation targeting tech companies this year. According to an **analysis** by the Tax Foundation, two states developed taxes targeting social media companies and six states proposed Maryland-style laws taxing digital advertising receipts. Two states, New York and Washington, considered bills imposing an excise tax on the collection of consumer data.

Much of the momentum is expected to spill into 2022 legislative sessions.

"As states debate the appropriate way to tax the digital economy, I'd assume these taxes will continue to be discussed, but it's hard to say if any states will follow Maryland in passing legislation," said NCSL's Brainerd.

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Critical of Big Tech

Many analysts are paying attention to Northeastern states, where progressive lawmakers have been particularly critical of tech companies.

New Jersey has directed the state Division of Taxation to examine the current tax code in the context of the digital economy and quantify the degree to which digital innovation is "untaxed or undertaxed." The state law further directs the division to submit findings and recommendations to the Legislature and the treasurer by March 31, 2022.

Massachusetts is currently considering at least three substantive bills. H. 4179, introduced on Sept. 30, would assess a 6.25% tax on a tech company's gross revenue from digital advertising. H. 2928 would take a go-slow approach, directing the state to form a commission to study taxes on digital advertising. And, H. 3081 would impose a tax of between 5% and 15% on tech companies' digital advertising revenues.

Rep. Erika Uyterhoeven (D), who sponsored H. 3081, said the measure would generate $280 million annually primarily from Amazon, Facebook, Google, and Microsoft—"near-monopolistic profitable tech companies" that "paid very little taxes to state and local governments."

Cash, Elections, and Litigation

While enthusiasm for such taxes is running hot in the Northeast, analysts pointed to several factors likely to cool the ambitions of lawmakers in other states.

For the first time in many years, nearly every state is sitting on significant cash reserves, dampening the need for tax increases. Beyond the $195 billion in relief dollars provided to the states under the American Rescue Plan Act, Scarboro said state "own-source revenue" has surged 22% over the last year.

And with lawmakers running for reelection later in the year, Scarboro said tax increases would be politically unpopular. Tax cuts are more likely and governors in several states—including Arkansas, California, Iowa, Mississippi, and North Carolina—have either cut taxes or discussed reductions in recent weeks.

Finally, taxes on digital advertising and consumer data are complicated to implement and fraught with legal peril. Many states will wait to see how Maryland fares in front of a judge before enacting their own digital advertising laws, said Scott Peterson, vice president of U.S. tax policy at the tax software company Avalara Inc.

Less than a week after Maryland enacted its tax program, the U.S. Chamber of Commerce and the Computer & Communications Industry Association filed a federal suit asserting violations of the U.S. Constitution and the Internet Tax Freedom Act, which prohibits discriminatory taxes on electronic commerce. Verizon Media Inc. and Comcast Cable Communications filed a very similar lawsuit in state court in April.

"Policymakers looking to fill budget gaps with unconstitutional digital taxes are setting state budgets up for failure," said CCIA President Matt Schruers. "Digital services are making critical contributions to local economies as the country recovers from the pandemic's economic impact and wrestles with inflation."

'Addressing Base Erosion'

States are much more likely to follow Maryland's lead with H.B. 932, extending the sales tax to digital goods and services, said Craig Johnson, executive director of the Streamlined Sales and Use Tax Agreement, a 24-state sales tax harmonization pact.

"I don't see that as a new tax on consumers or an expansion of the base. This is a way to preserve the state's current tax receipts," he said.

Most tax codes were crafted to tax tangible personal property, leaving digital versions of books, records, movies, software, and games untaxed. An analysis by Avalara found roughly 30 states and the District of Columbia have expanded their tax bases to include some digital products, but more than a dozen states don't tax such products.

"I think expansions of the sales tax base will happen, where you have a tangible component subject to the sales tax and you apply it to the digital product," said Fred Nicely, senior counsel for the business-focused Council on State Taxation. "Legislators see it as addressing base erosion."

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Topic 2

Automation

Use Automation to Solve Tax Department Pitfalls

Tax departments face a range of challenges, including burdensome manual processes, high-stress deadlines, data quality issues, technology solutions that require significant verification using Excel, and limited resources. In addition, the complexity of taxes, increased globalization, and the increased volume of data continue to make the tax practitioner's job even more challenging.

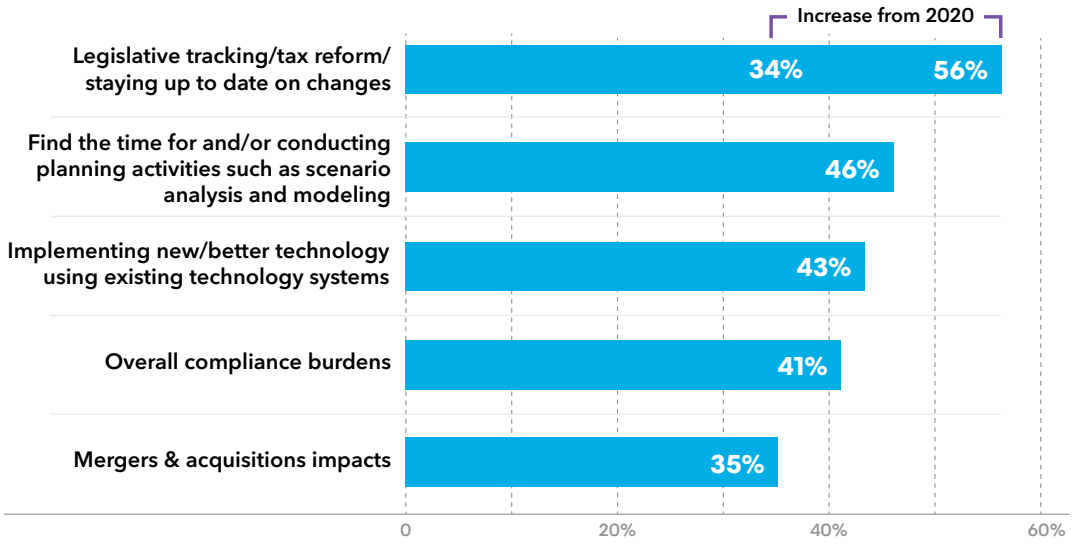
Tax Department Challenges

According to our survey, corporate tax professionals report that keeping track of legislative changes and tax reforms are their biggest challenges, closely followed by the overall burden of compliance and data management.

Based on these results, streamlining solutions, such as automation and integrating processes, data sources, and tax information, stand out as useful ways to address the challenges tax professionals face.

Tax organization leaders also seek more control over processes, greater data traceability, and the ability to complete work without any last-minute scrambling.

The steps involved in transitioning data from source to destination are not always straightforward and can require complex business logic to achieve the desired results. Manually reformatting data is not only time consuming but can also threaten the integrity of the data due to human error. The ability to automate tax processes offers an opportunity to mitigate these common stumbling blocks and achieve greater control over tax processes.



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The Case for Automation

Using data automation, tax professionals can upload, process, and manage data using technology rather than doing it manually (via Excel, for example). Automation addresses the following data challenges related to extraction, transformation, and control:

Data Extraction
Pulling data from multiple ERP systems and tax systems is complicated and leaves room for mistakes
Gathering data may depend on other departments
Data security is a prerequisite, and there is resistance to external software connecting directly to systems owned by different groups (e.g., ERP systems)
Data Transformation
Transforming source data into a format useful for tax in Excel is error prone and time consuming
Process involves tedious and repetitive steps, such as mapping, referencing external files, concatenating, and filtering
Existing process is not well-documented, leading to issues with auditability or troubleshooting
Excel spreadsheets support a limited number of data rows
Data Control
Source system data may have inconsistencies
Identifying the cause of inconsistencies can be challenging with data coming from many different places
Ability to make changes in a controlled fashion that allows tracking and reviewability to trace data extraction and transformation steps from source to completion
Ability for multiple resources to work with data simultaneously

When it comes to data management, automation offers the ability to reduce manual mistakes, allows more than one person to work with the data simultaneously, and generally provides greater consistency, control, and traceability.

Even beyond data, automation provides quick access to tax law and tax rate updates and tools for modeling and planning for potential situations, such as M&A deals.

There are a variety of different types of tools to consider when seeking an automation solution. Options include:

Extract, transform, and load (ETL) tools, which use repeatable, rules-based processes – you create the rules within the ETL tool itself, as the middleware – to transfer data to wherever you may be tracking your tax data or fixed assets. Some examples are Alteryx, Microsoft's SSIS, and MuleSoft. These low-code or no-code solutions allow non-developers to create automated processes; however, they can be limited in handling complex transactions and high volumes of data.

Robotic process automation (RPA), which scripts tasks that a user is currently doing manually. One of the pitfalls of RPA is it does require a certain level of maintenance and upkeep. If you are using these types of processes, you will need to have resources available for continually making sure that, as changes happen to either the data source or th e format of the data, the RPA process is also updated.

Application programming interface (API) tools, which are essentially contracts between the destination software and the data that you're feeding into it. If your software solution offers APIs, they can also be lower maintenance than ETL tools. There is an upfront development cost associated with APIs, but once that's done, they offer robust, easy-to-monitor processes that are better able to handle errors and exceptions than other types of automation.

One of the biggest challenges for tax organizations is that enterprise automation tools (e.g., legacy ETL solutions and RPA solutions) don't provide the controls and traceability that are required, can't be changed dynamically, and require IT involvement. In addition, most enterprise automation tools are not purpose-built to serve tax professionals, so all tax logic must be updated and maintained by the organization itself. Thus, tax departments should carefully study a number of factors in selecting an automation solution.

What to Look for in an Automation Solution

When deciding which automation solution to implement, you'll want to consider how the solution

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will fit with your particular tax organization and resources. For example, a highly reproducible process typically done outside the tax organization, such as creating an output file from an ERP system, may benefit from an RPA solution owned by a combination of the accounting and IT departments. For dynamic but repetitive solutions that are done within the tax organization, like working up book-to-tax calculations, it may be useful to employ an automation solution that does not require much, if any, help from IT.

Circling back to our three key data processes, consider the following questions when selecting a tax automation solution:

Data Extraction

Is the software designed to work with any system that can export csv data?

Does automating the extraction process remove dependencies on other departments and/or manual report generation?

Does the solution provider have experience working with IT departments to configure the most streamlined ways to extract ERP data securely? Experience extracting data from a tax system would be bonus.

Data Transformation

Does the solution apply automation to manual processes to free up tax resources for higher value activities?

Does it document the repeatable rules for automation to create more transparency into the flow of data and reduce risk?

Are files archived for problem solving and audit purposes?

Data Control

Does the software provide a review step, enabling users to review and edit data post-transformation?

Does the solution provide the ability to trace transformed data to the source system?

Does it allow manual corrections without needing to reload and transform data again

To help identify and prioritize your challenges and evaluate the available solutions, follow our 10-step quick guide below.

10 Steps to Get Started with Automation

STEP 1
Focus on one consistent pain point to solve with automation

STEP 2
Establish a coalition of champions to create a sense of urgency for automation

STEP 3
Pick the easiest, shortest, most valuable workflow to automate

STEP 4
Document and process and map out steps to automate

STEP 5
Work with your IT department/ vendor to understand what tools are available to automate the selected workflow

STEP 6
Use native integration tools for your systems instead of relying on third-party black-box middleware

STEP 7
Build on the quick win and start working on an automation strategy

STEP 8
Start evengelizing your automation vision focusing on business benefits

STEP 9
Create a detailed automation roadmap

STEP 10
Implement the roadmap incrementally focusing on frequent demos to the organization

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Case Study

Fixed Asset Automation with Bloomberg Tax

A large multinational manufacturer has identified their fixed asset management processes and solutions as being extremely manual and bifurcated. Book depreciation is done in its ERP system, while tax depreciation is done by exporting the data from the ERP system and manually doing the work in Excel. In addition to eliminating risks due to the process being extremely manual, the company would like to optimize both book and tax depreciation calculations.

Fixed Assets Challenges

The company identified the following as major challenges in the fixed asset process:

Fixed asset additions must be manually cleaned for assets below capitalization threshold. This takes five hours, and if a mistake is made, it means the company has taken fewer deductions than they could have. Mistakes happen 10% of the time.

Fixed asset additions must be manually classified to the correct tax fact pattern before importing. This takes 30 hours every quarter, and mistakes are made 30% of the time. When mistakes are made, it means the company can miss out on bonus expense.

There is a need to manually identify cost basis adjustments for late capitalizations. This takes 30 hours every quarter, and mistakes are made 30% of the time, which results in missing bonus expense and incorrectly computing gain/loss when assets are disposed.

Solution

After carefully considering their challenges and options, company leadership identified Bloomberg Tax Fixed Assets with workflow automation as their best solution. This software has an advantage over traditional ERP systems in that it is specifically built to handle the challenges of fixed asset tracking for GAAP and tax. With Bloomberg Tax Fixed Assets, the data is pulled directly from the ERP system.

With a new fixed assets solution implemented, the company can focus on understanding, modeling, and updating its fixed asset data in an automated fashion without the need for IT resources.

Outcome

Bloomberg Tax Fixed Assets not only streamlined and automated the depreciation work, but the company is now positioned to optimize fixed assets for both GAAP and tax purposes. Advantages include:

Workflow automation to help automate tasks and keep fixed assets connected to external systems. In addition, it helps ensure data is synchronized, improves productivity, and eliminates errors.

- Integration with any ERP system
- Faster response to business changes such as mergers and acquisitions

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Automated state depreciation calculations to alleviate the burden of monitoring individual states' depreciation rules, eliminating the need for time-consuming and error-prone manual work outside of the software.

- Automated state tax law updates to reflect changes in federal conformity
- Built-in calculations for states that do not follow federal depreciation methods
- State bonus modification reports to help ease the compliance burden

Real-time fixed asset tracking and access (currently under development).

- Track CIP assets for multiple projects
- Adjust fixed assets before project completion
- Convert CIP assets into depreciating assets
- Control and compare budgeted expenses to actual expenses

Data access in Excel to enable deeper insight into fixed assets data.

- Pull fixed assets data into Excel automatically
- Pull fixed assets data for multiple companies
- Create a custom report or generate a report based on standard report templates
- Further customize reports by adding unlimited asset fields
- Sort, pivot, and analyze fixed assets data
- Automatically update Excel reports when data changes

Foreign currency functionality to take the uncertainty out of managing and reporting on multiple currencies.

- Ability to track and audit exchange rates
- Automatic currency translations based on historical or current rates, allowing management of assets in both standard and hyperinflationary currencies
- Support of multiple currencies with the option to report assets in one or more currencies at the corporate level

Conclusion

Automation tools are useful for optimizing your tax department processes and should be chosen carefully. One such technology solution for tax is the best-in-breed software application Bloomberg Tax Fixed Assets, which checks all the boxes and maximizes automation around one important area of tax: fixed assets.

No software does everything perfectly but creating an ecosystem where each part of your toolkit is the best at what it does enhances your capabilities and reduces risk.

Bloomberg Tax offers integrated solutions and research to help you on your automation journey. You get the information you need, when you need it to make well-informed decisions. We want to streamline your tax processes so you can be responsive to tax law changes, data changes, and source changes while maximizing traceability, transparency, and efficiency.

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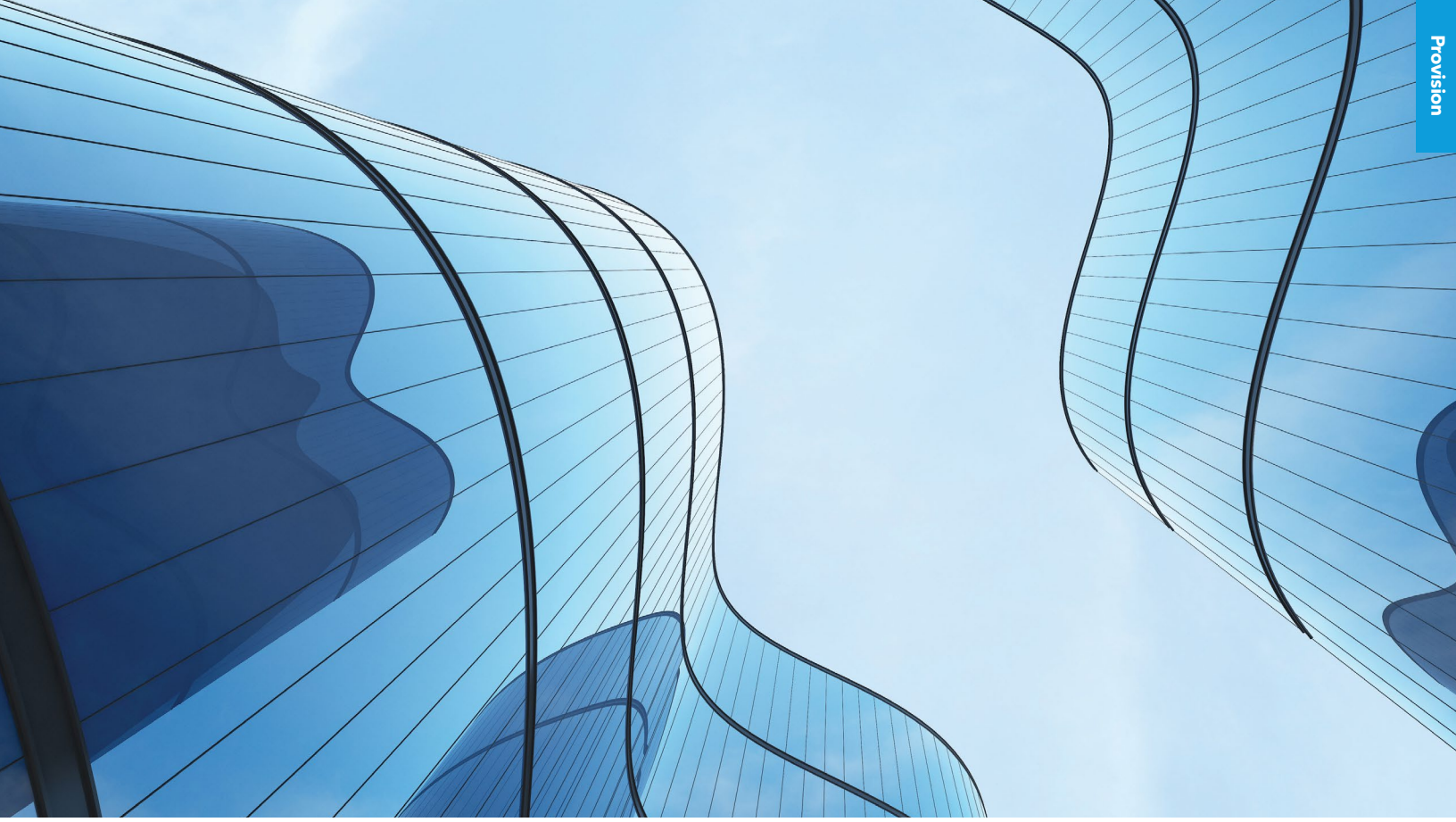
Topic 3

Provision



When Tax Provision Challenges Arise, Flexibility Is Key

The tax provision process is heavily scrutinized and subject to last-minute changes – whether by law or growth. Learn how you can assess and improve your organization's ability to handle curveballs.

Though tax compliance requires a certain amount of rigidity to ensure adherence to rules and regulations, flexibility is still an essential buzzword in the tax technology space – particularly when it comes to the provision process. In fact, being too rigid in approach can create unnecessary risk for taxpayers.

The provision process is among the most scrutinized in most corporate tax departments, due to its visibility in financial statements. To avoid dealing with messes at a critical moment and under a tight deadline, tax professionals will want to manage risk ahead of time by being proactive rather than reactive.

Established processes need to be agile enough to adequately address changes in the underlying business or environment. This becomes especially critical as companies grow or change, whether as a result of changes in tax law or changes in the actual footprint of the business that require compliance with laws in new states or countries, for example.

On top of the stresses of evolving tax laws and business needs, those in the provision space often face a time crunch. Much of the work is done just weeks after year-end. It must be completed quickly and accurately, before facing scrutiny within the organization and from external financial auditors.

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"Oftentimes, the tax department is forced to make trade-offs around where they're going to spend their time on the provision," said Adam Schrom, Bloomberg Tax product lead. "If you don't have as much time because you have a manual process and you're up against the clock to get it done, those trade-offs can lead to more risk in the calculations – risk that you're getting them wrong or not doing enough to get them materially right."

Tax Provision Challenges

Tax professionals face several challenges in the provision process: How do you apply the law appropriately? How do you apply the accounting standard ASC 740 appropriately? And how do you mechanically get it all done?

One of the most common issues from a mechanical perspective is consolidation. How do you consolidate different calculations from different jurisdictions or different legal entities both swiftly and accurately? One simple solution is implementing software to handle it, such as Bloomberg Tax Provision.

"Spreadsheets, though a very powerful tool, aren't necessarily designed to do such work in an efficient, clean, repeatable, controlled manner," said Nick Frank, Bloomberg Tax product lead. "Provision solutions can do that."

When it comes to ASC 740, automation can mitigate concerns about accuracy and efficiency, and free up more time for complex or open-ended decision-making and assessments.

"These calculations have a very mathematical, logical structure to them. If you can automate that structure through implementing a software, it frees you up to focus on other decisions or analyses that require more brainpower and aren't simply representing math in a spreadsheet," Schrom said. "You can spend your time thinking about those things, making sure you're uncovering risks, documenting those risks and addressing them."

Assessing and Improving Flexibility

As tax professionals evaluate the provision process in light of these challenges, a key question remains: how do you know if you are being flexible enough to handle the inevitable curveballs in the process? Start by anticipating potential changes.

If you acquired a new entity, how long would it take to incorporate that entity into your process? Two hours? Two days? If you had to figure out how to comply with laws in an additional state, how long would it take to integrate that into your calculations and feel comfortable that everything is calculated properly?

"If something gets raised late in the process – for whatever reason it just doesn't get filtered to the top of the priority list, or just was missed somehow – that's the spot where the pressure is on," Frank said. "All eyes are on the tax department to turn that around, and as we all know, when we try to work fast, we often make mistakes."

Once the initial assessment is complete – you have an idea of how long it will take to pivot when changes, small and significant, arise (recall that the Tax Cuts and Jobs Act of 2017 was signed only nine days before the end of the year, for example) – it's time to consider whether you can reduce that time, as well as the risks associated with last-minute scrambling. Automation via a software solution can help.

"As many people are, tax professionals are often being asked to do more with less. Yet at the same time, the world is getting more complex," said Frank. Companies are adding complexity via growth, while tax authorities simultaneously add more rules and compliance issues.

"The drive toward using tools to solve the different components of the tax experience is going to become more and more important," Frank added, "Because we're going to need to make sure that we are not wasting time on tasks that can be automated."

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Topic 4

Survey Results

2021 Corporate Tax Survey

Introduction

The tax landscape appears to be shifting once again. At the global level, the landmark agreement with the Organisation for Economic Co-Operation and Development (OECD) and the Group of Twenty (G20) sets the stage for a global minimum corporate tax and the consistent taxation of digital services, with implementation set to begin in 2023. In the U.S., sweeping tax reform is once again on the table, which, if enacted, could have significant impact on businesses. Individual states continue to enact tax-related legislation as well.

The pace and extent of proposed legislative changes mean that tax issues will be front and center for company stakeholders in the coming year – putting tax leadership and the corporate tax department in a position to guide and influence company strategy more than ever.

How is the modern corporate tax department handling the pressures of today's legislative, political, and economic uncertainty? How is it positioning the tax function to deliver strategic value to the business and advise on planning and opportunities? What future mandates do tax departments expect to fulfill?

This year's findings from the Bloomberg Tax benchmark survey shed light on these and other questions around the evolving state of the corporate tax department. More than 370 managers, directors, vice presidents, and C-suite executives in public and private companies across the U.S. shared their insights into the challenges, mandates, roles, staffing, and technology choices they're facing within their organizations today. Here we share a collection of highlights and unique perspectives to help you benchmark where your tax department stands now and going forward.

The Single Biggest Challenge

*Legislative tracking/tax reform/ staying up to date on changes is the biggest challenge facing corporate tax departments, significantly increasing from 2020 (**34%**) to 2021 (**56%**).*

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Top Findings

Uncertainty has been a constant companion for business long before the global coronavirus pandemic began in 2020. Corporate tax departments are no strangers to dealing with evolving economic, legislative, and competitive landscapes. Yet the past two years have brought new levels of uncertainty amid other worsening challenges, such as the growing talent shortage.

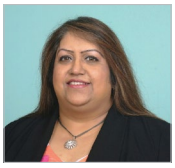
Our top findings for 2021 echo the themes we've seen over the past several years while highlighting how the corporate tax department continues to evolve within its role as strategic advisor to the business.

Themes for 2021

1. Tax reform redux: Once again, the top challenge for tax departments is legislative tracking/tax reform/staying up to date on changes, representing a significant increase from 2020.
2. Risky business: Companies believe they face greater tax-related risk today than they did five years ago.
3. Getting with the plan: Reducing cash tax payments/effective tax rate and improving tax planning/tax-related decision support will be the top mandates for the tax department for the next two years.
4. Seat at the table: The tax function plays an increasingly vital role in supporting tax-related finance and accounting activities as well as support for major transactions.
5. Help still wanted: Tax departments continue to be under-resourced, with plans to hire more staff if they can overcome hiring and retention difficulties.
6. Automation unlocks value: Increased automation and use of artificial intelligence (AI) will improve tax effectiveness over the next two years for the majority of tax departments.

Viewpoint: Our focus in 2022

"With the highly dynamic changes to the international tax landscape, we are intently focused on the BEPS Pillar 2 changes to global minimum tax rate and its impact to our business. We are also focusing on the impact of Biden's tax reform proposals on the GILTI and Foreign Tax Credit provisions."



Rakhi Bhattacharya
Director of Global Transfer Pricing, Corporate Tax
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Theme 1:

Tax reform redux

After dropping out of the top five results in early 2020 (pre-coronavirus outbreak), legislative tracking and staying up to date on changes catapulted into the number one position for the biggest challenges facing tax departments later in 2020. This year, legislative tracking not only retained the top position as the biggest challenge, but continued to increase, with 56% of respondents citing legislative tracking/ tax reform/staying up to date as the top challenge, returning to post-2017 tax reform levels (57% in December 2018), (see Figure 1). The results were the same across the board, whether public or private company, smaller or larger tax department, or industry sector.

Given the uncertainty of future tax changes, it's not surprising to see the second biggest challenge being finding the time for and/or conducting planning activities such as scenario analysis and modeling (46%). Planning and modeling are crucial to help company executives understand potential implications of tax reform and global changes and inform appropriate business strategies.

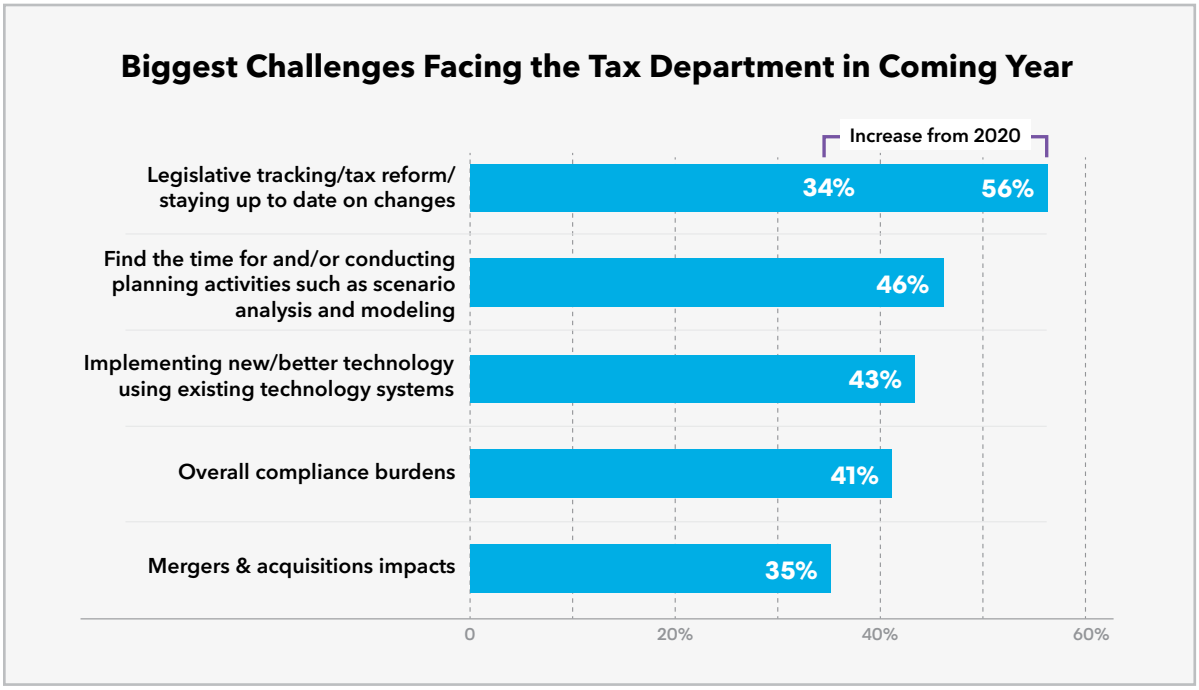

Figure 1. Top 5 Tax Department Challenges

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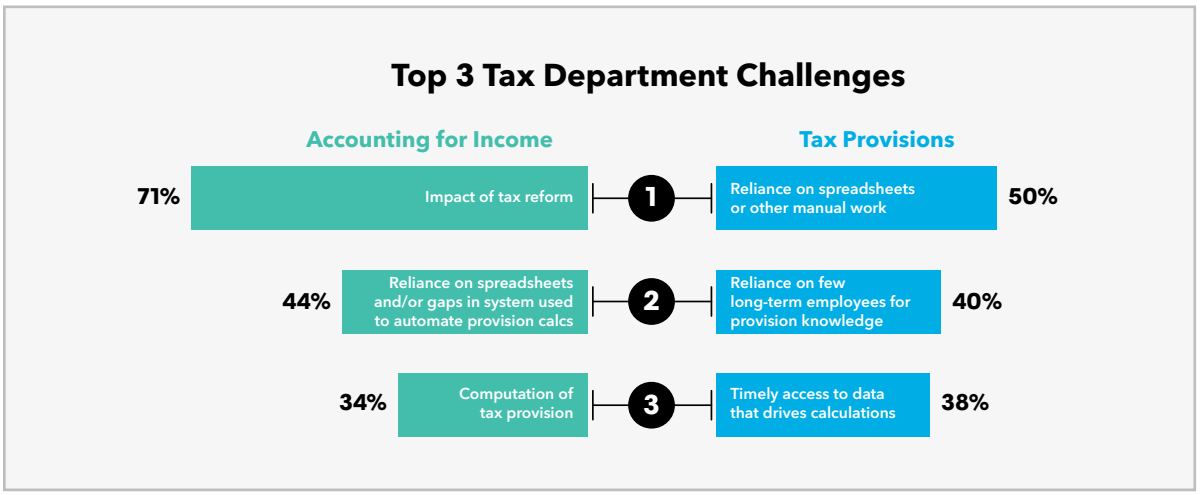

Figure 2. Biggest Challenges for Accounting for Income Tax and Tax Provision

The third biggest challenge is around implementing new technology and/or making better use of existing technology systems (43%). Considering that most tax departments in the survey (53%) handle implementation of new tax-related technology in-house, it makes sense that the effort is seen as one of the top challenges.

At the same time it's seen as a challenge, implementing new technology can help with alleviating other challenges facing tax departments, such as the reliance on spreadsheets and/or gaps in systems used to automate provision calculations (44% say this is the biggest income tax accounting challenge their department faces), (see Figure 2). New technology can also help with the biggest tax provision challenge of relying on spreadsheets or other manual work (50%).

Viewpoint: Start modeling sooner rather than later

"We have been tracking the potential tax changes from the Build Back Better Act and discussing its impact with our tax advisors to better understand the changes and the various effective dates for all of the provisions. We are paying close attention to the OECD discussion on Pillar 1 and 2, as well. I'd say it's never too late to start modeling out the impacts with different tax scenarios."

Denise Bee
Head of Tax
Slack

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Theme 2:

Risky business

Tax-related risk is still keeping tax leaders up at night, remaining more or less constant since our 2017 benchmark. This year, more than half (58%) of the participants indicated that their company is currently somewhat or much more exposed to tax-related risks than it was five years ago.

What's more, with part of the proposed U.S. legislation including spending to massively strengthen enforcement at the Internal Revenue Service (IRS), the vast majority of respondents (85%) this year as compared to 2020 (74%) anticipate somewhat or much more aggressive tax enforcement over the next two years, (see Figure 3). Public companies making more than $1 billion in revenue, with larger tax departments (with 10 people or more) were more likely to say they anticipate more aggressive enforcement.

Respondents overwhelmingly (95%) say that they anticipate increases in regulatory pressure for greater transparency in tax reporting over the next two years.

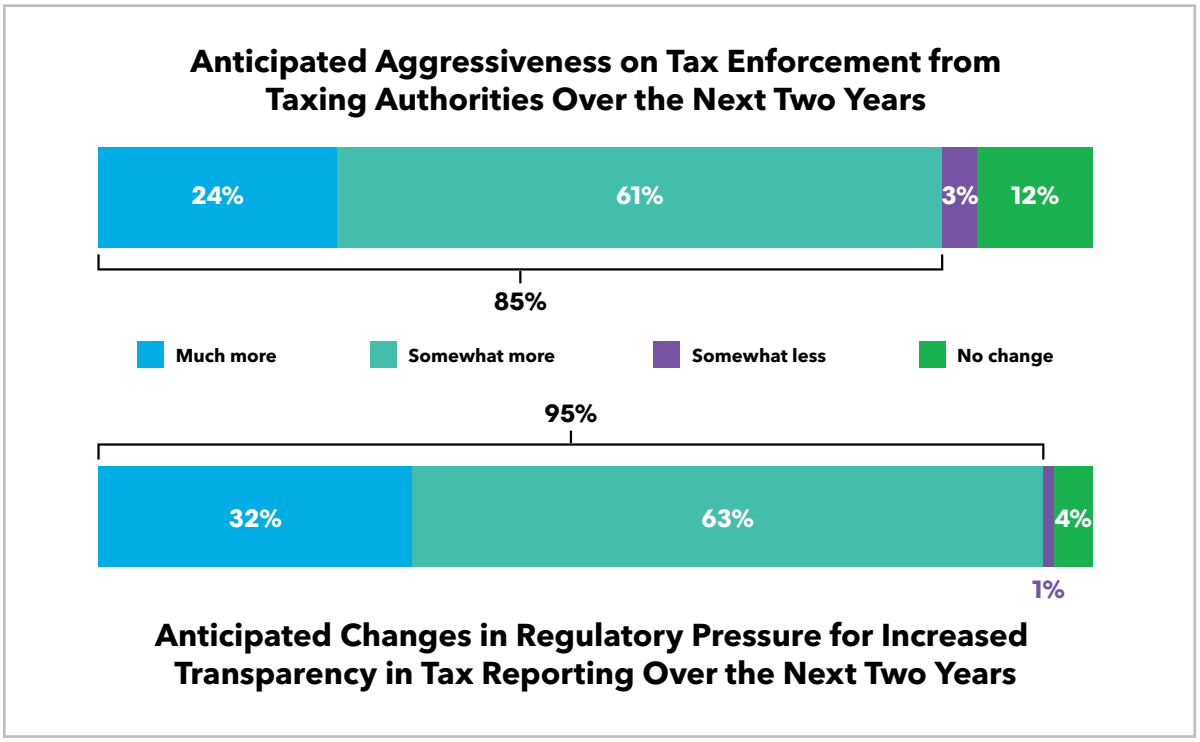

Figure 3. Anticipated Aggressiveness on Tax Enforcement and Anticipated Changes in Regulatory Pressure for Increased Transparency in Tax Reporting

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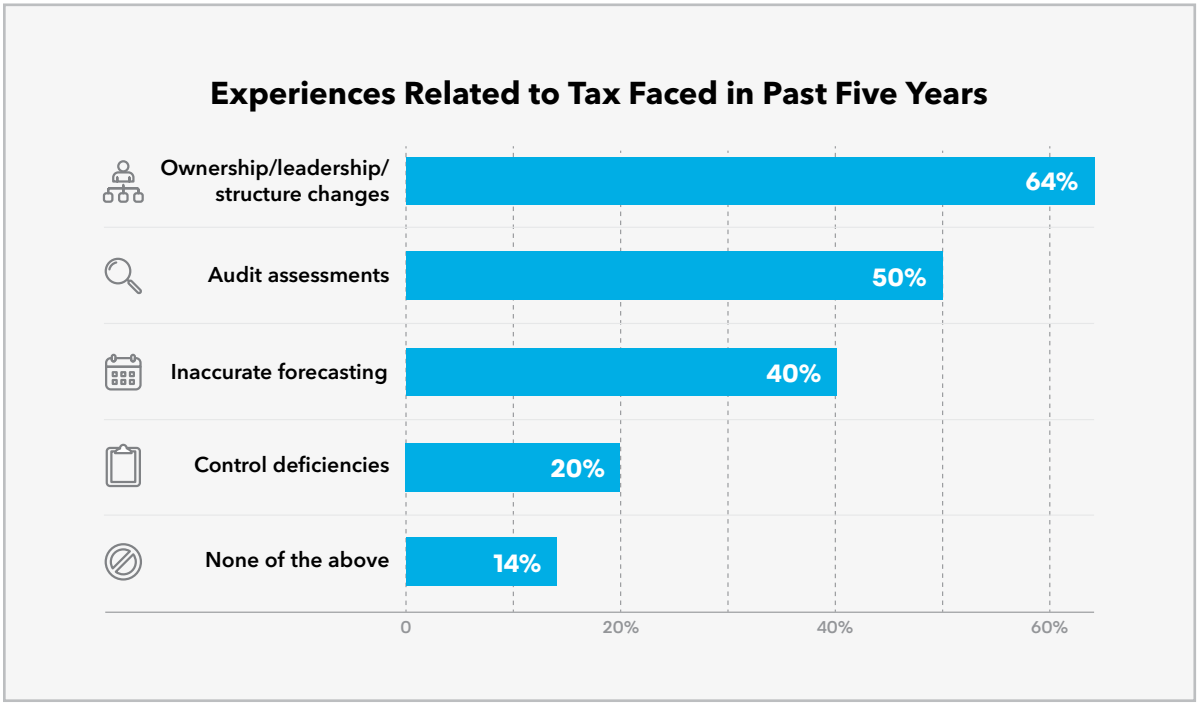

Figure 4. Tax–Related Events Over Past Five Years

Looking back over the past five years, the most frequent event impacting the tax department was a change in either ownership, leadership, or company structure (64%), (see Figure 4). In the second spot, half of the tax departments in the survey have had audit assessments, with larger corporate tax departments of more than 10 individuals more likely to have experienced an audit assessment than smaller tax departments (55% versus 44%, respectively).

In addition, four in 10 have experienced inaccurate forecasting, and two in 10 have experienced control deficiencies related to tax.

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Theme 3:

Getting with the plan

Respondents report that the most prevalent tax function mandate over the past three years has been reducing costs and promoting efficiency in tax administration (45%). This aligns with the assumptions made by respondents in previous surveys. In 2018, reducing costs (38%) ranked second behind improving tax planning as the anticipated mandate going forward. Our pre-Covid-19 survey showed it ranking first with 43% and growing to 55% after the Covid-19 pandemic hit.

However, with the surprisingly strong economic rebound in the first half of 2021, this year's survey shows that reducing costs will no longer be the top mandate over the next two years. Instead, reducing cash tax payments/effective tax rate and improving tax planning/tax-related decision support are tied for the top spot (at 42% each). Reducing costs and promoting efficiency dropped to second place with 37%, (see Figure 5).

Viewpoint: Making hybrid work

"We are looking forward to transitioning to a hybrid work environment in early 2022 and finding the right balance that combines the benefits of in-person collaboration and teambuilding with the flexibility of working remotely."

Aditi Banerjee
Vice President & Corporate Counsel, Tax
Prudential Financial

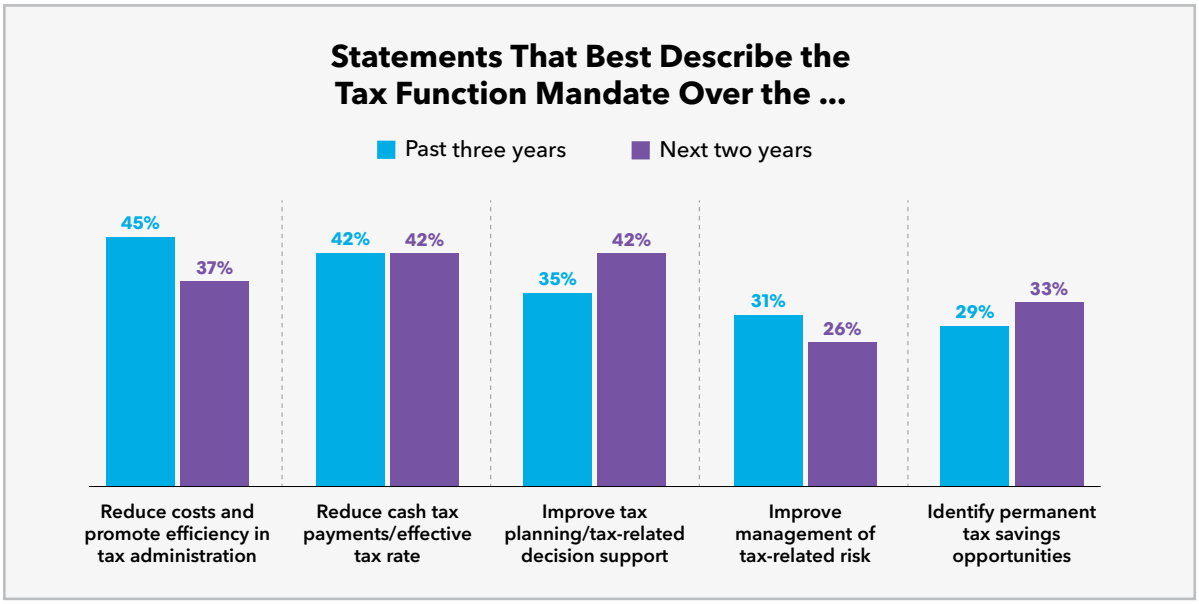

Figure 5: Tax Function Mandate Over the Past Three Years and Tax Function Mandate Over the Next Two Years

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The exceptions to this view of the department's future tax mandate include larger tax departments (10 or more staff), where reducing costs and promoting efficiency remains the top mandate (44%) and smaller companies with less than $1 billion in revenue where identifying permanent tax savings opportunities (42%) is the top mandate.

Roughly eight in 10 (84%) expect tax planning to become somewhat or much more important over the next two years, with a significantly higher proportion saying tax planning will become much more important compared to 2020 (43% versus 31%), (see Figure 6).

More respondents in 2021 from public companies, larger tax departments of 10 or more people, and with revenues greater than $1 billion say that tax planning is likely to be much more important over the next two years compared to the percentage in 2020 in these groups who said the same.

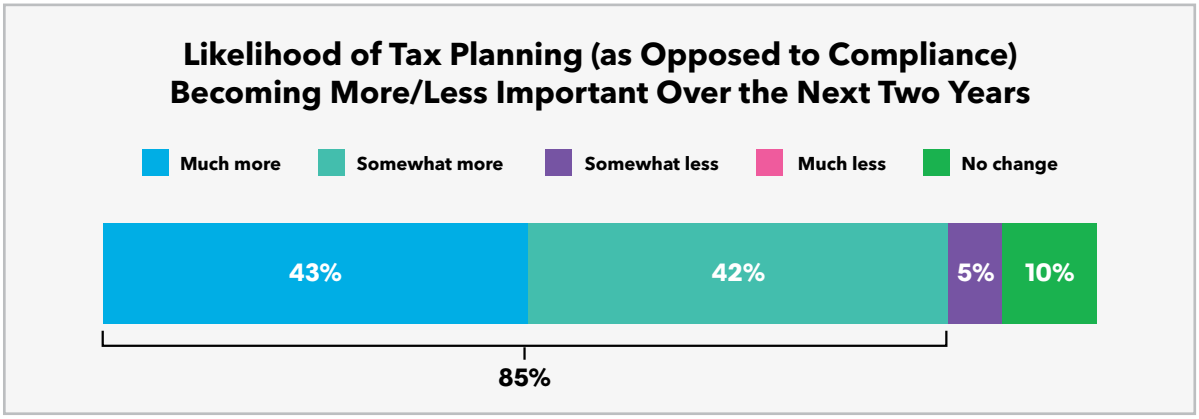

Figure 6: Likelihood of Tax Planning Becoming More/Less Important Over Next Two Years

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Theme 4:

Seat at the table

The tax function plays an increasingly vital role in guiding overall business strategies and decisions and our benchmark findings reflect this. In 2021, 86% indicate that their tax function plays a leading or key contributing role in supporting tax-related finance and accounting activities and 72% report they play a leading/key contributing role in supporting major transactions. These are both significant increases from 2020, (see Figure 7).

Those in public corporations are more likely than those in private corporations to feel that the tax function plays a leading/key contributing role in supporting major transactions and in supporting companywide efforts to manage risk.

Additionally, those in corporations with less than $1 billion in annual revenue are more likely than their counterparts in larger companies to feel that the tax function plays a leading/key contributing role in supporting non-tax-related finance and accounting activities (such as financial reporting) (66% versus 41%, respectively).

Directionally, respondents increasingly believe that the tax function should play a key contributing role in all activities. A KPMG survey reports that 78% of C-suite executives agree that their company's tax function should be used for more than just managing taxes and 89% say that their company's tax functions have a seat at the table.[1]

Smaller Companies Experienced More Mergers & Acquisitions

While 80% of all respondents indicated that their company completed a merger/acquisition (M&A) in the last three years, which is consistent with the 2020 findings, this year companies with less than $1 billion in revenue were far more likely to have completed an M&A than in the past (81% compared to only 38% in 2020).

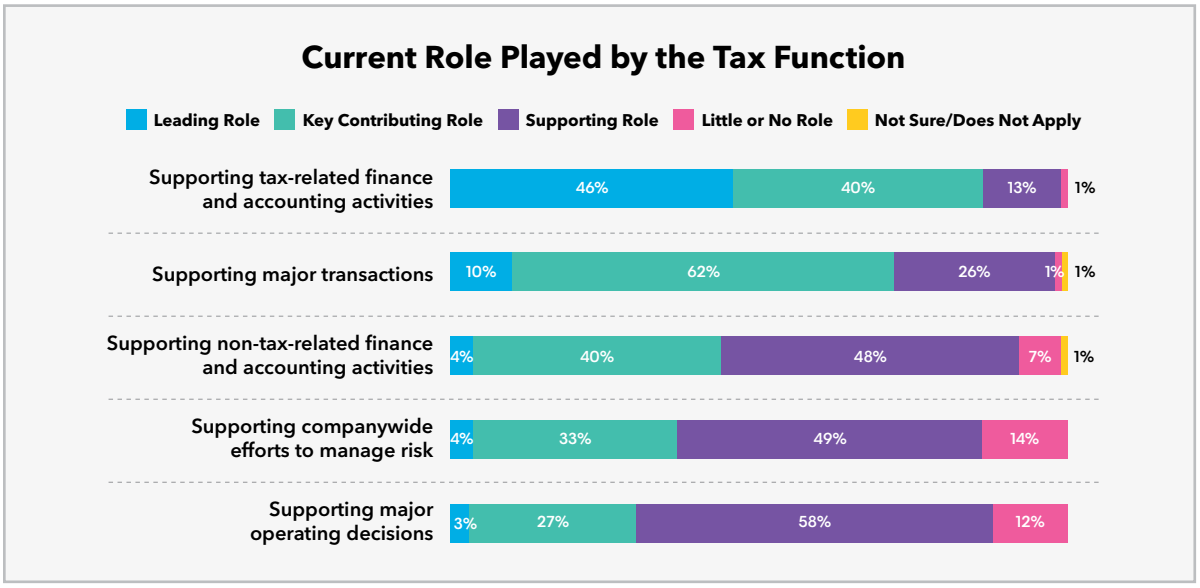

Figure 7: Current Role Played by Tax Function

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[1] "Tax Reimagined 2021: Perspectives from the C-Suite," KPMG LLP, October 2021

Theme 5:

Help still wanted

The talent deficit continues to plague many corporate tax departments. As in our previous surveys, 70% somewhat or strongly agree that corporate tax departments are under-resourced in 2021 and 74% believe that the department will require additional resources to fulfill its mandate over the next two years.

After putting hiring on hold in 2020, nearly half of corporate tax departments are looking to address the problem of being under-resourced. In 2021, 46% are anticipating an increase in staffing levels in the coming 12 months compared to only 39% in early 2020 (pre-Covid-19) that planned to expand staffing and only 9% post-Covid-19. Despite being under-resourced, 45% expect staffing levels to remain the same in the next 12 months, with 9% expecting to instead decrease staff, (see Figure 8).

Yet, even as many departments prepare to increase their hiring, the reality is that doing so may be more difficult than in the past. In another increase from previous years, more than two-thirds (69%) of tax departments report having difficulty recruiting and retaining talented tax professionals compared to 56% experiencing these difficulties in 2019. In fact, a survey by KPMG reports similar findings with 82% of C-level executives from companies with at least $1 billion in revenue saying it's hard to hire good tax talent.[2]

The outlook for improvement in the near term isn't very promising. The vast majority of respondents (87%) believe that over the next two years, it will become either somewhat or much more difficult to recruit and retain top tax talent, (see Figure 9).

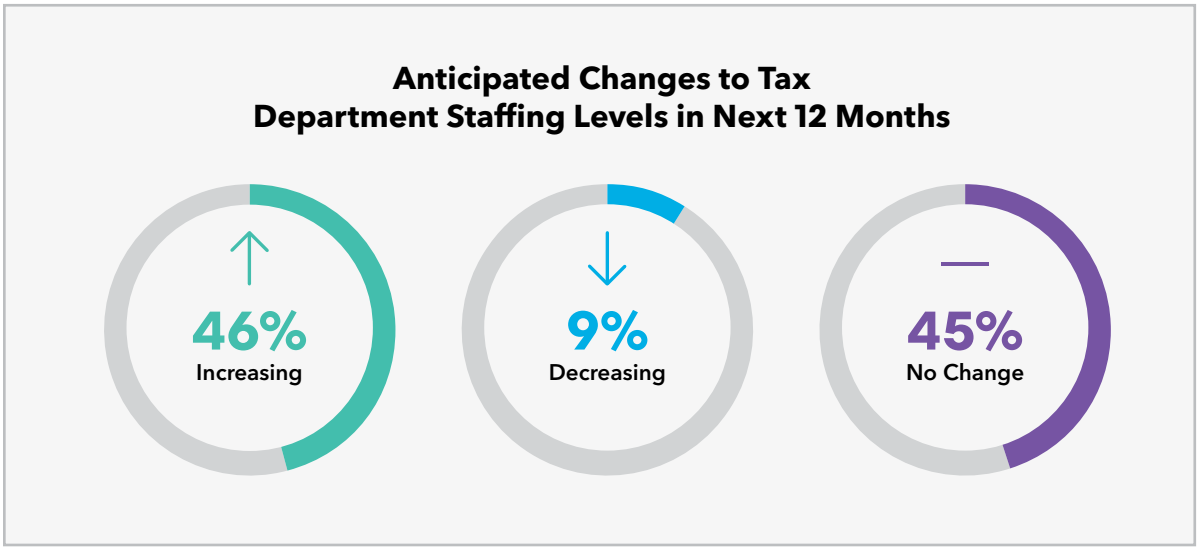

Figure 8: Anticipated Changes to Tax Department Staffing Levels in Next 12 Months

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[2] "Tax Reimagined 2021: Perspectives from the C-Suite," KPMG LLP, October 2021

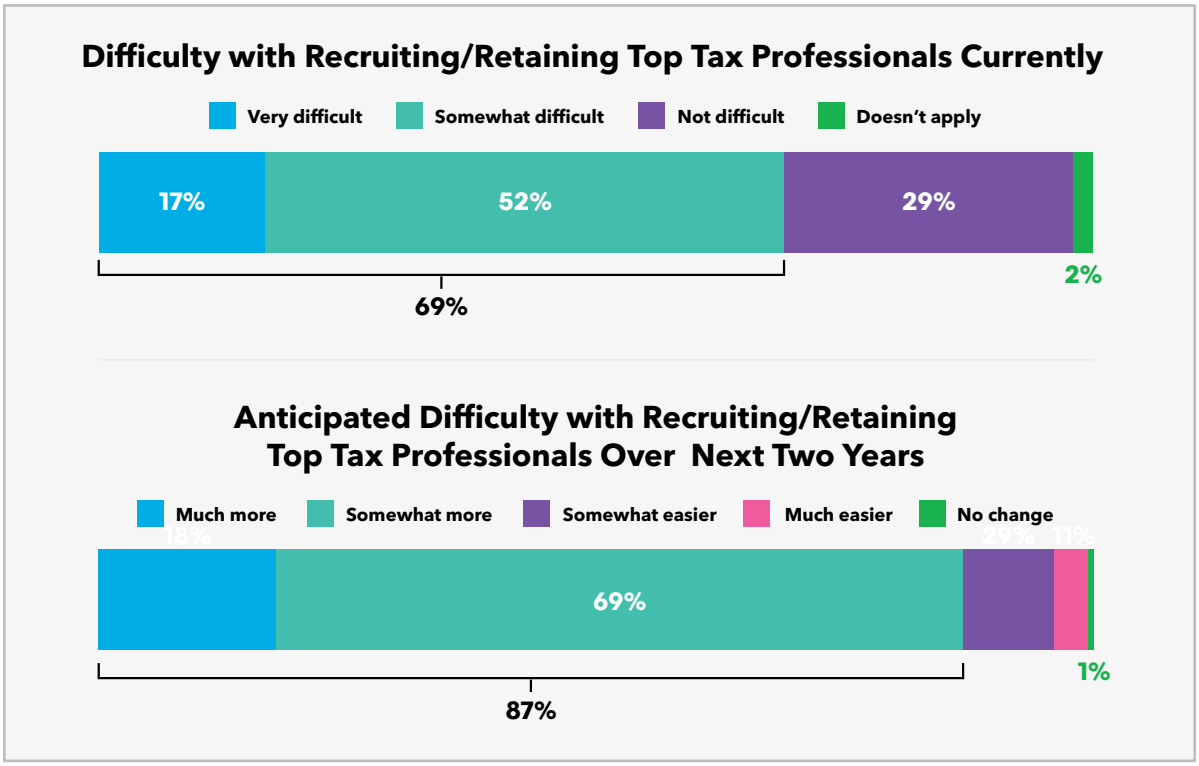

Figure 9. Difficulty in Hiring and Retaining Top Tax Professionals Currently and Over the Next Two Years

In looking at tax departments' reliance on outsourcing, nine out of 10 (95%) report that their tax department outsources or uses external consultants. Among those whose tax department already outsources/uses external consultants, six in 10 anticipate that this external spend will increase over the next year.

The largest proportion of outsourcing budget is spent on compliance (39%), an increase over 2020 (33%). The compliance function that is the most fully or partially outsourced is non-U.S. income tax, as roughly seven in 10 outsource this task. U.S. income tax and state income tax compliance are the next most outsourced compliance tasks.

In comparison, planning, scenario analysis, and modeling are primarily insourced with only 26% outsourcing this work, (see Figure 10).

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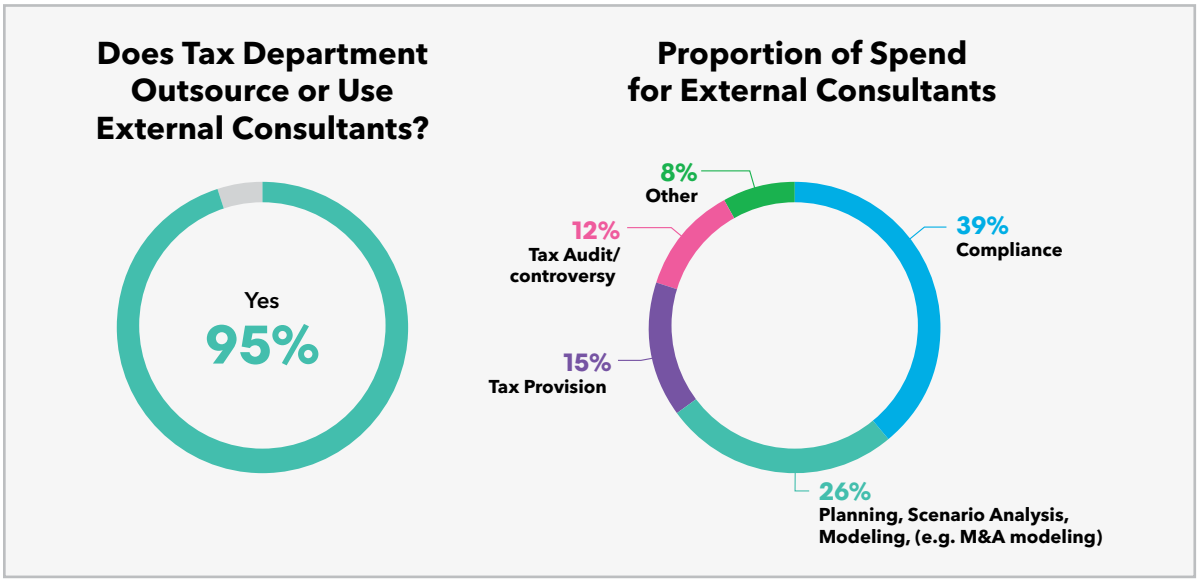

Figure 10. Percentage of Tax Departments Outsourcing or Using External Consultants and Proportion of Spend for External Consultants

Viewpoint: How technology can help solve the talent shortage

Adam Schrom, product lead for Bloomberg Tax, shares his insight into how optimizing and automating certain tax functions could be the answer for talent – and resource – strapped corporate tax departments.

Q: What can tax departments that are having difficulties recruiting and retaining tax professionals do differently to help overcome the talent shortage?

A: Today's young tax professionals grew up with technology. Tax departments that are forward thinking in their approach to technology adoption will be more appealing to those professionals and have a better chance to attract and retain the right talent.

Q: Given the shortage of talent and chronically under-resourced tax departments, which tools/automation should tax teams have in place to optimize their ability to plan quickly and accurately?

A: I see a big open question around optimizing the corporate tax planning function – is there a tools gap or a skills gap? And it may be that there is a bit of both. What I do know, however, is that if tax departments work to automate more of the routine and manual work for areas such as provision and compliance, they will have more time to address what their tax planning function should look like, which tools they need, how to upskill their staff, and other urgent needs.

Q: Do you see any other trends or challenges that should remain top of mind for tax professionals?

A: Most tax professionals are aware of the rapid pace of technological change, but it bears repeating. In today's highly dynamic environment, it's imperative that corporate tax departments have a technology strategy as well as a tax strategy. The corporate tax department of tomorrow can and will have to be a strategic asset to the business. A strong technology strategy is critical to achieving that transformation.

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Theme 6:

Automation unlocks value

While digital transformation accelerated across companies and industries during the pandemic, the tax department often continues to lag the rest of the company in terms of investment in and adoption of new technology. Our findings show that only 3 in 10 (29%) view their tax departments as innovators or early adopters of new technology and 15% consider their departments late adopters. More than half (55%) describe their tax department as typical in waiting to make sure technology is fully vetted before adopting it.

Despite reporting that software integrations, robotic process automation (RPA), and AI are the top ways to increase productivity in the tax department, a majority (68%) indicate that their tax software is either loosely (46%) or not at all integrated (22%) with the necessary source systems, while only 15% indicated that tax software is tightly integrated with the necessary source systems, (see Figure 11).

However, most of those without tightly integrated software indicate that increasing integration is a priority for their department. Further, a strong majority (84%) say increased automation and AI will play a critical, important, or contributing role in plans to improve tax effectiveness over the next two years. Respondents see a range of benefits from automation and/or integration, including eliminating manual processes, increasing accuracy and productivity, and improving controls, (see Figure 12).

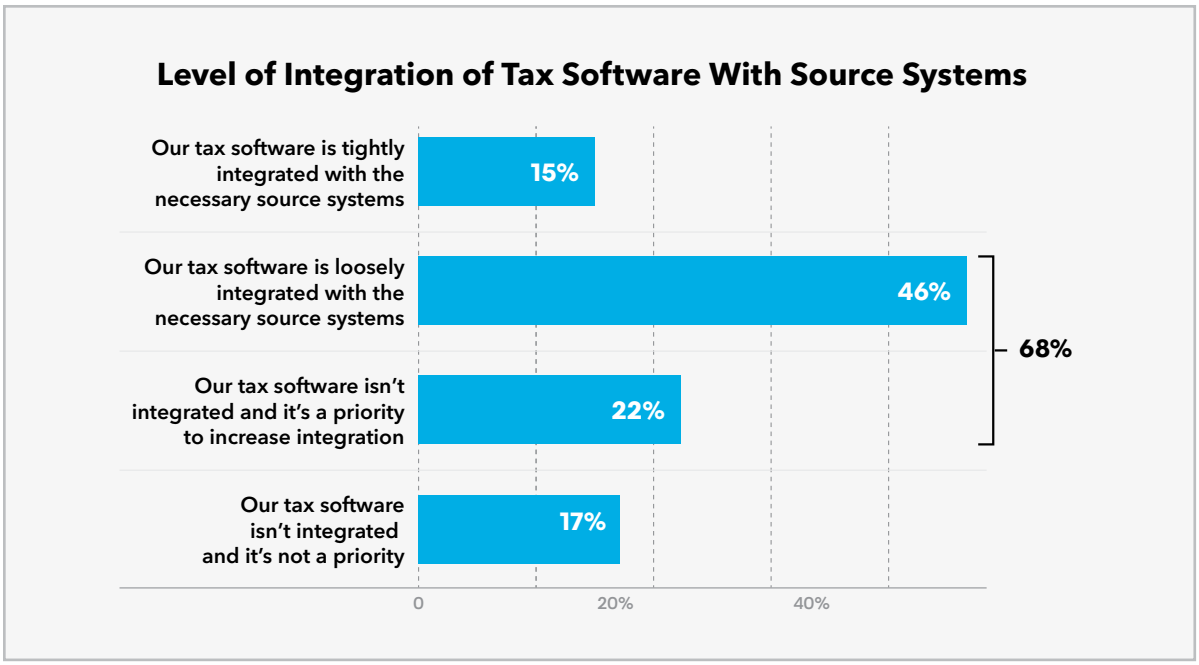

Figure 11. Level of Integration of Tax Software With Source Systems

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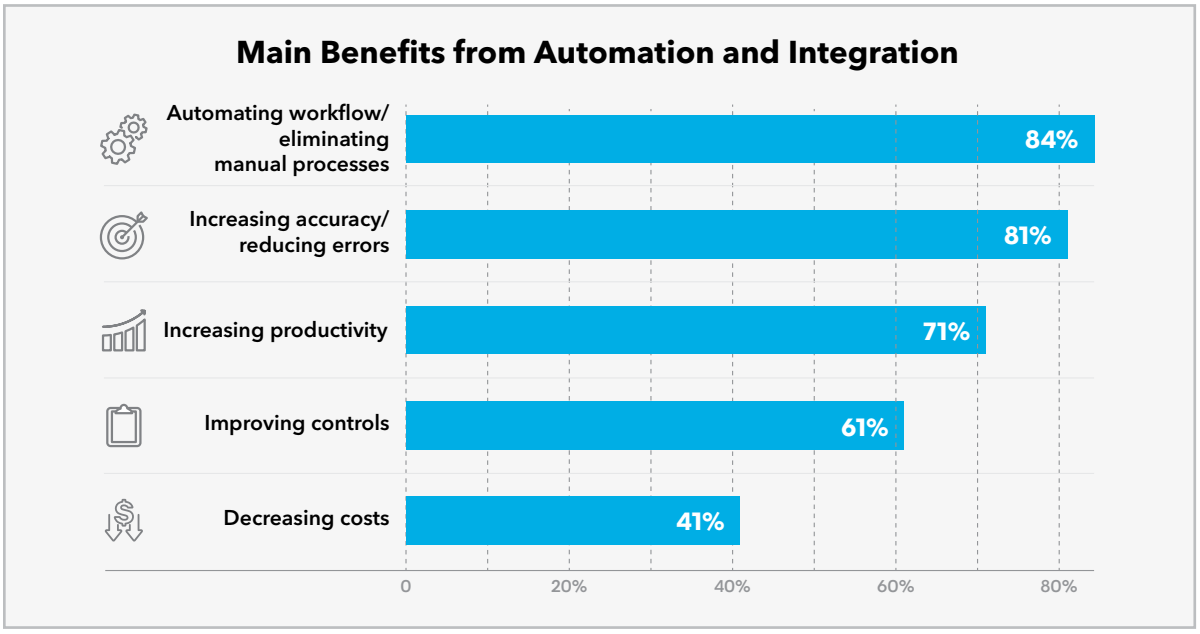

Figure 12. Benefits from Automation and Integration

Viewpoint: The biggest issues impacting the corporate tax department

As a customer experience manager for Bloomberg Tax, Stephen Day brings his extensive corporate tax, public accounting, and tax technology background to guide his clients through today's complex challenges. Stephen shares his perspective on the issues impacting corporate tax departments today.

Q: How do you see the domestic and global tax reform efforts playing out in the coming year?

A: I believe change will come in waves versus a "big bang" due to the political climate, with a steady stream of new taxes (e.g., digital services taxes (DST), climate taxes, state changes to apportionment related to work-from-home models, and others). The changes will reflect evolving political agendas coupled with the changing business landscape.

Q: What do you believe will have the greatest impact on the corporate tax department in terms of complexity and workload?

A: I believe the biggest impact will be the continued evolution of business practices. The speed at which all sizes of businesses are changing through growth, geographic expansion, and competitive pressures (such as disruptive market entrants with new technology) causes a thick layer of tax complexity, spread across the entire business footprint. Add rapid changes in legislation, including new taxes, and this all makes rapid assessment and compliance overwhelming.

Q: Given the talent shortage and chronically under-resourced tax departments, which technology should tax teams have in place to optimize their ability to plan quickly and accurately?

A: The most important thing to have in place is integration between your tax systems. They may be the existing tools your department has relied on for years to address the parts of a tax professional's life cycle of work. However, the resources simply don't exist to redo the same area of effort when a different stage of the life cycle needs the outputs. That's why integration is critical – from content to filing to audit defense.

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Conclusion

As businesses emerge from the worst days of the Covid-19 pandemic and the economy continues to rebound, corporate tax departments are finding they have little time to catch their breath. They now face a roller-coaster of legislative changes that may have significant impact on their company's tax position and strategy. At the same time, they're struggling to balance the twin challenges of overcoming the talent gap and implementing technology to help them be more efficient and productive.

All of which makes it even more important to continue transforming the corporate tax department to deliver more value to the business. One way to make that happen is by integrating tax software with core systems and automating manual processes to free up more time for strategic activities, improve productivity, and increase accuracy. The result is a strong and agile tax department that can help the business "see around corners," stay on top of fast-changing legislation, and maximize the bottom line.

About the Survey

The Bloomberg Tax Department Benchmarking Survey follows the evolution of tax departments and how they are responding to current and future challenges and mandates.

The selected findings in this summary report are based on a survey conducted in August and September 2021 with 372 respondents. Those surveyed were managers, senior managers, directors, vice presidents, and C-suite members of the tax department of public or private corporations with more than $500 million in annual revenue. Managers and senior managers must have at least five years of experience in the tax field.

The data for the 2021 survey was weighted so that the proportions with various titles were comparable to the 2020 surveys. This required us to weight up higher-level titles and weight down manager-level titles.

After weighting, two-thirds of respondents worked in public corporations (67%), with the majority (87%) reporting company revenues of $1 billion or more. Tax department size was split between less than 10 employees (42%) and 10 or more (58%).

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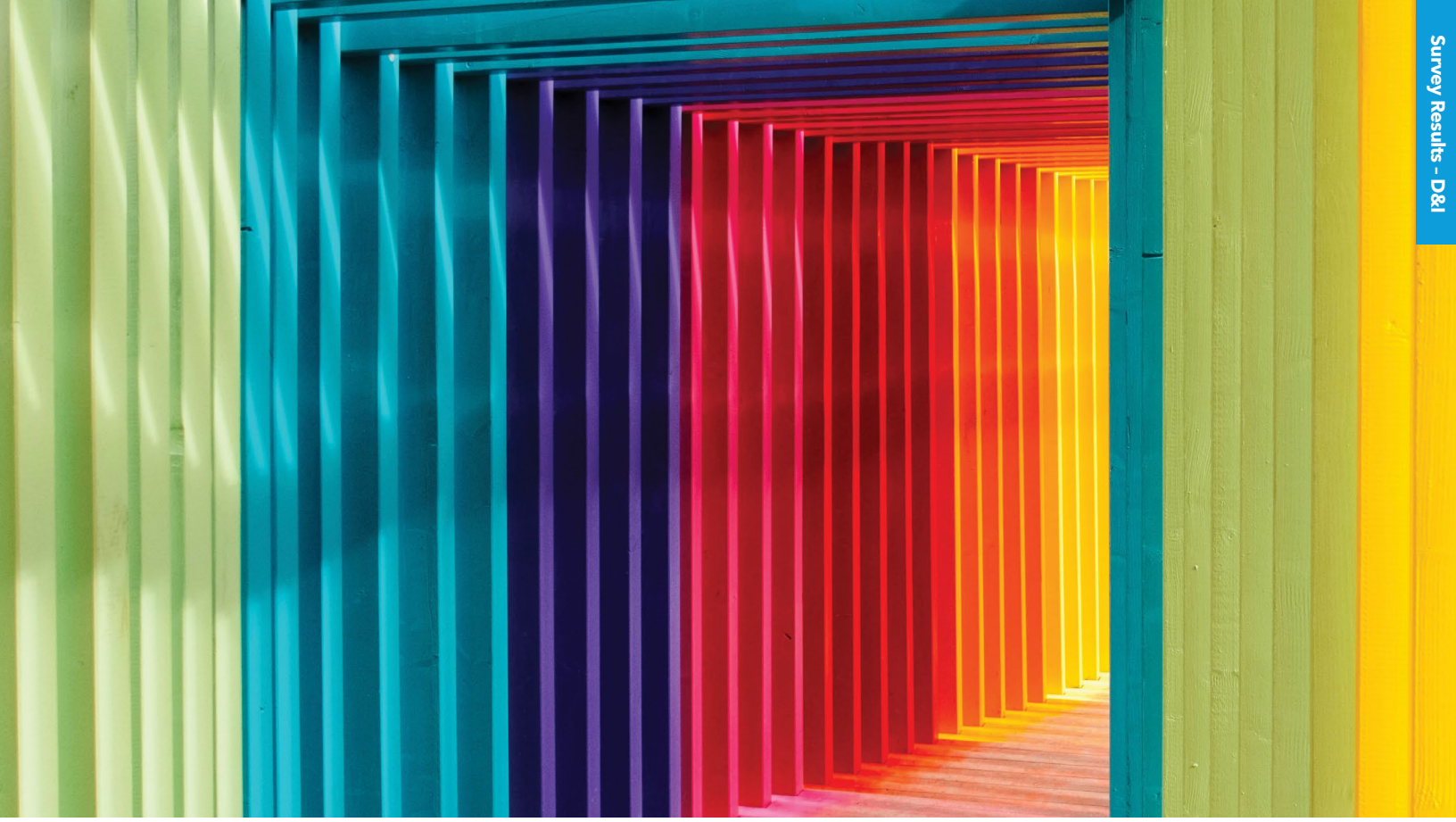

2021 Diversity & Inclusion Survey

Results from Bloomberg Tax's 2021 Diversity & Inclusion Survey reveal that despite recent years of increasing awareness and public scrutiny on the subject, the tax industry has not significantly advanced race and gender diversity within accounting firms and corporate tax departments.
The 2021 survey followed up on the **2017 D&I Survey** to identify where progress was made, or setbacks arose. The survey received 169 respondents from accounting firms (100+ employees and $10M+ in annual revenue) and 165 respondents from corporations ($500M+ in annual revenue).

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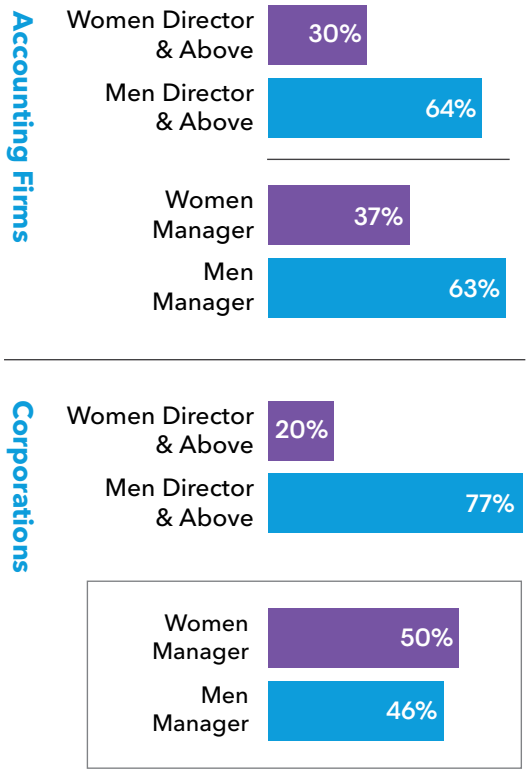
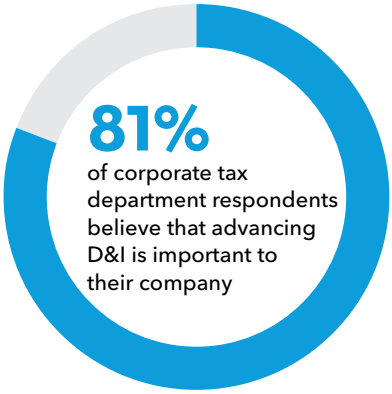
D&I Survey Highlights

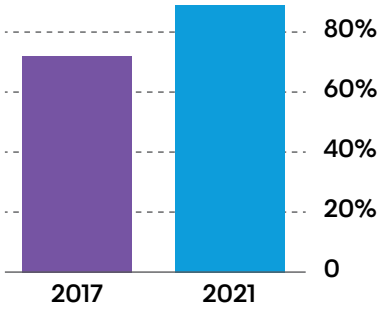
Men make up the majority across roles with one exception: **manager-level roles in corporate tax departments.**



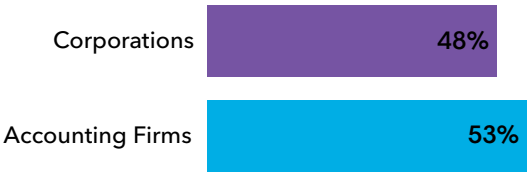
Adopting a D&I strategy is important to both **employees and corporations.**



"We have a D&I strategy in place."



The top challenge to advancing D&I as identified by both accounting firm and corporate respondents: **"Limited pipeline for top talent to join my organization."**



2nd Biggest Challenge for ...

Corporations
Senior leadership teams that do not adequately represent diverse backgrounds

Accounting Firms
Other work commitments/ lack of support for non-billable work

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