Bloomberg Tax

The 2022 Corporate Tax Department Benchmark Survey

The Trends Shaping Tomorrow's Tax Function

Introduction

Whether or not the C-suite realizes it, corporate tax teams have become an increasingly vital asset tasked with managing risk, creating policy, and optimizing tax positions to drive value and reduce costs for the business. Yet, corporate executives often don't recognize that pressures and disruptions that affect other parts of the organization equally impact the efficiency and effectiveness of tax departments.

Currently, tax teams face talent shortages, new technology, economic uncertainty, and massive amounts of legislation and regulatory changes, including tax reform at all levels: international, national, state, and local. Corporate tax departments must find ways to overcome these competing challenges to maintain and extend value to their organizations.

To better understand how today's corporate tax departments are weathering rapid changes, Bloomberg Tax conducted our annual benchmark survey in the third quarter of 2022. We heard from nearly 400 tax managers, directors, vice presidents, and C-suite executives in public and private companies across the U.S. These professionals shared their experiences from 2022 regarding challenges, mandates, roles, staffing, and digital transformation.

We're pleased to bring you our insights once again. We hope that this survey will give you valuable information on how your peers are faring in today's environment and that you can use it to benchmark your tax department's performance in order to enhance operations – for the present and future.

The ever-present compliance burden

45% of respondents cite the overall compliance burden as being the top challenge their department faces. Likewise, nearly three-quarters (73%) report that keeping up with reporting and control requirements related to tax has become somewhat or much more difficult.

Top Findings

It is not easy keeping pace with an enormous number of regulatory changes. Right as one tax law is amended, companies must undergo compliance processes, only to have brand new policies slated for review. The rate of change continues to accelerate and shows no signs of slowing down soon. Even with the onslaught of legislative change, compliance isn't the only – or most significant – challenge that tax departments face. Keep this fact in mind as you review the findings in this survey.

Themes for 2022

1. **A perpetual juggling act:** From compliance burdens to short staffing to economic uncertainties, there wasn't just one challenge that tax departments faced in 2022. Instead, teams dealt with many issues simultaneously.
2. **Worries about risk:** Roughly half of respondents believe that their companies face greater tax-related risk now than 2018, and a strong majority anticipate more aggressive enforcement from taxing authorities.
3. **Cost reduction, of course:** Given current economic uncertainties, the top mandate for tax departments for 2022 — and anticipated for 2023 and 2024 — is reducing costs and promoting efficiency.
4. **Expanded involvement:** Not only does the tax function play an important role in supporting tax-related finance and accounting activities and major transactions, but half of respondents now support nontax-related finance and accounting activities as well.
5. **Understaffed, again:** Though departments are understaffed, three-quarters of respondents say they are experiencing difficulties recruiting and retaining talented tax professionals.
6. **Transformation benefits:** Tax departments are seeing the benefits of automation and/or integration of tax software. Respondents reported elimination of manual processes, increased accuracy, heightened productivity, and improved controls.

Challenges: A Perpetual Juggling Act

Legislative changes cause an uptick in compliance efforts. There are new forms, new calculations, new processes, and new data types – not to mention software changes required to handle it all. Because of this domino effect of regulatory and operational changes, 45% of respondents reported that compliance burden was their biggest challenge (see Figure 1). However, unlike previous years, respondents did not unanimously cite legislative tracking and compliance burden as their greatest hurdles. Other challenges were much more evenly spread.

Weighing in at 41% each, management of tax data and legislative tracking are tied for the second biggest challenge within tax departments in 2022. In spite of ongoing global and local tax reforms, legislative tracking – which was last year's top challenge at 56% – dropped to be on equal footing with the other issues in 2022. Conversely, the problem of managing tax data increased since 2021 (41% versus 33%, respectively). Private corporations and tax department with 10 or fewer employees were more likely to report that managing tax data was an issue for their organization.

In a close fourth spot, implementing new technology is cited as a top challenge by 38% of the respondents, which is a slight decrease from a high of 45% in 2020 and 2018. Mid-size tax departments and those in the manufacturing industry were reported to be the most concerned with implementing new or better technologies.

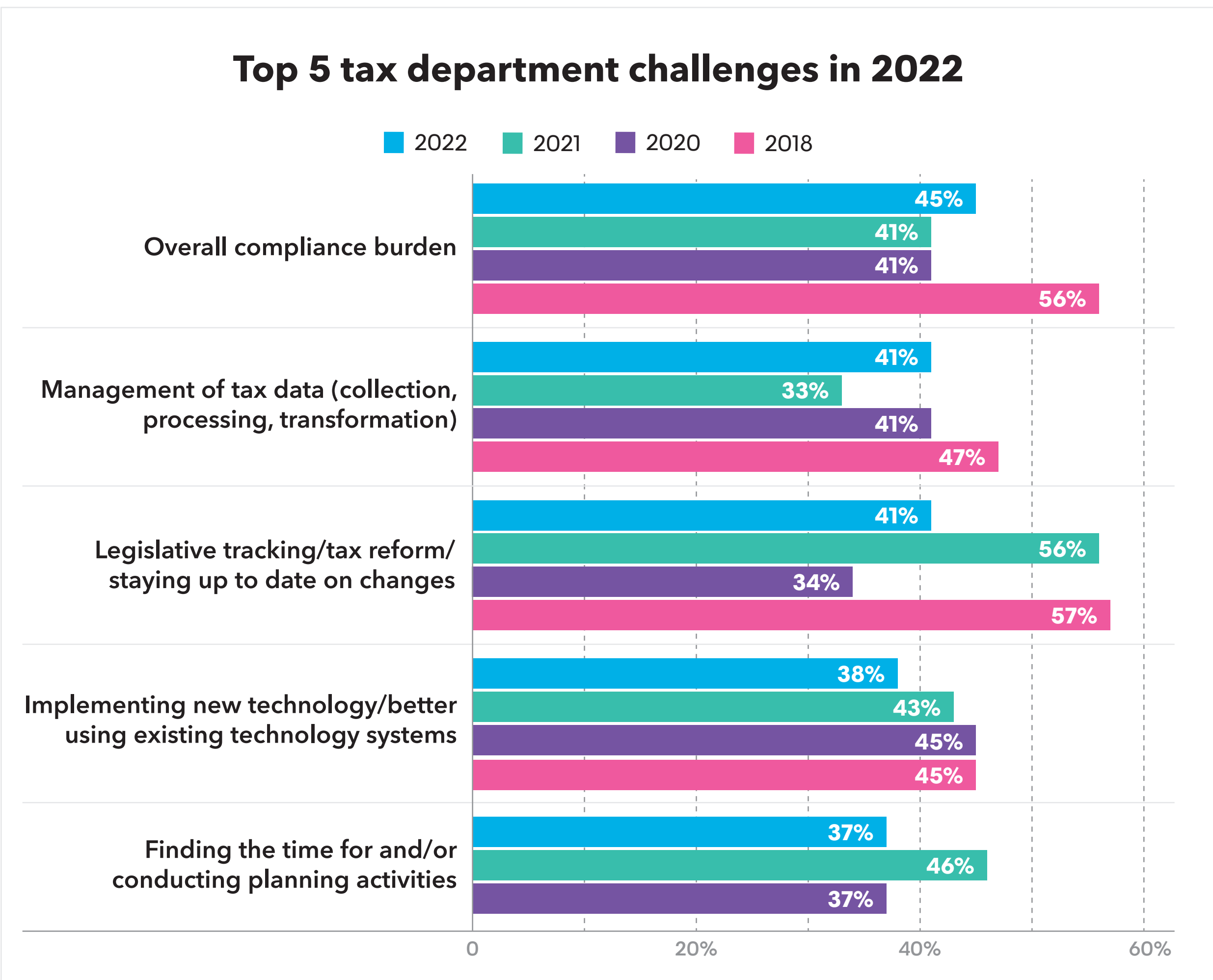


Figure 1. Top 5 tax department challenges

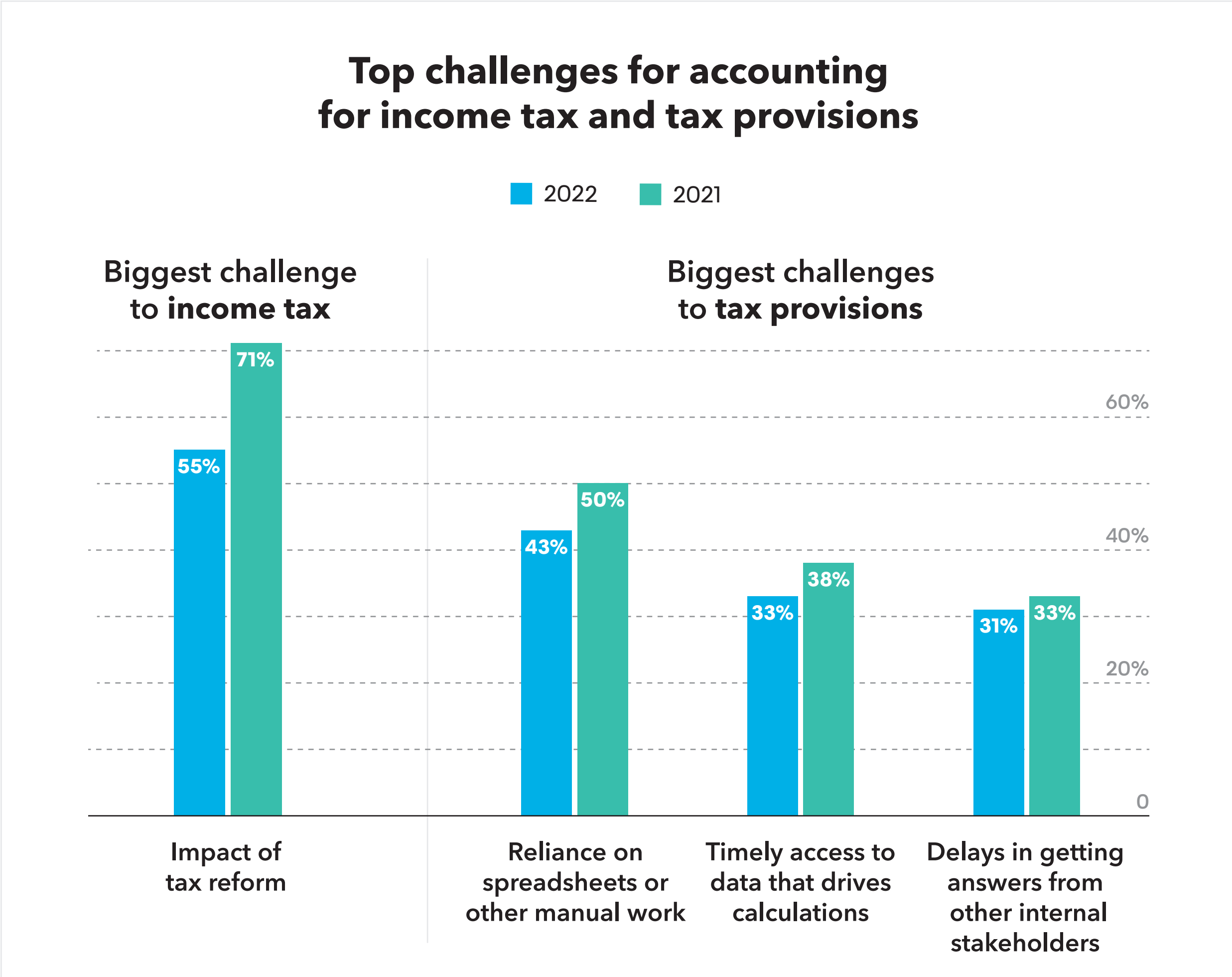
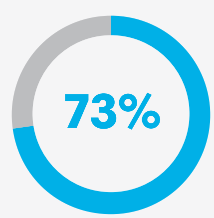


Figure 2. "Top challenges for accounting for income tax and tax provisions

When specifically asked about the challenges involved in *income tax* accounting, tax departments report that the impact of tax reform was the biggest hurdle. But as Figure 2 shows, it's significantly less of a concern in 2022 versus 2021 (55% versus 71%, respectively).

For *tax provisions* challenges, the top three shifted slightly from 2021: reliance on spreadsheets or other manual work (43%), timely access to data that drives calculations (33%), and delays in getting answers from other internal stakeholders (31%).

The hard work of compliance



73% of respondents report that keeping up with reporting and control requirements related to tax has become somewhat or much more difficult.

External Forces and Internal Events: Worries About Risk

Tax-related risk continues to be a top concern. Roughly half (52%) of the participants indicate that their company is somewhat or much more exposed to tax-related risks than it was in 2017 (see Figure 3). Down from a high of 63% in 2018, tax-related risk remains top of mind for many.

Aggressive enforcement from taxing authorities is a greater concern. Respondents' anticipation of enforcement aggressiveness remains high at 82%, which is down slightly from 2021's 85%, but is higher than 2020 and 2018 (74% and 70%, respectively). With the provisions in the Inflation Reduction Act to increase funding for the Internal Revenue Service (IRS), the rollout of the Organization for Economic Co-Operation and Development (OECD) two-pillar plan for global tax reform, and evolving state-level changes, tax departments seem to be wary of increased enforcement activity.

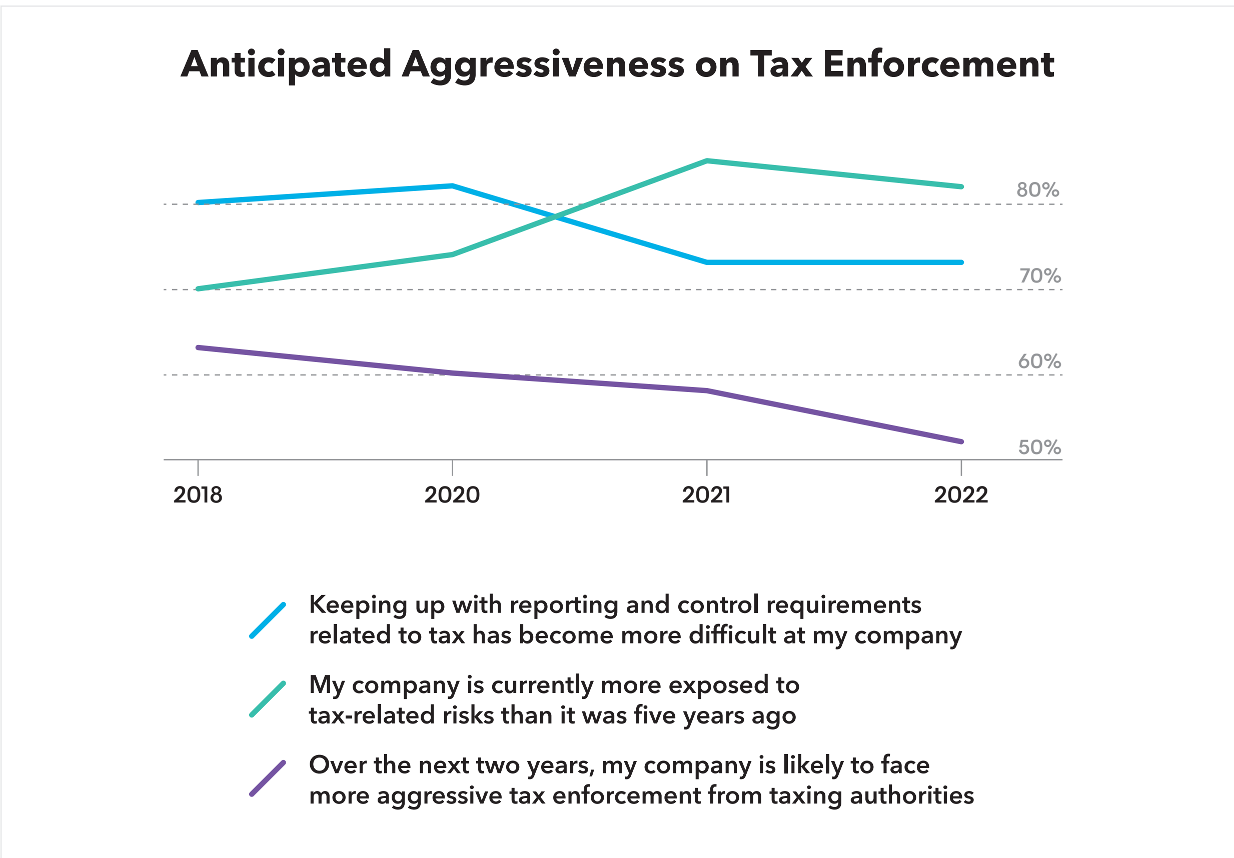


Figure 3. Tax-related risks, concerns, and controls

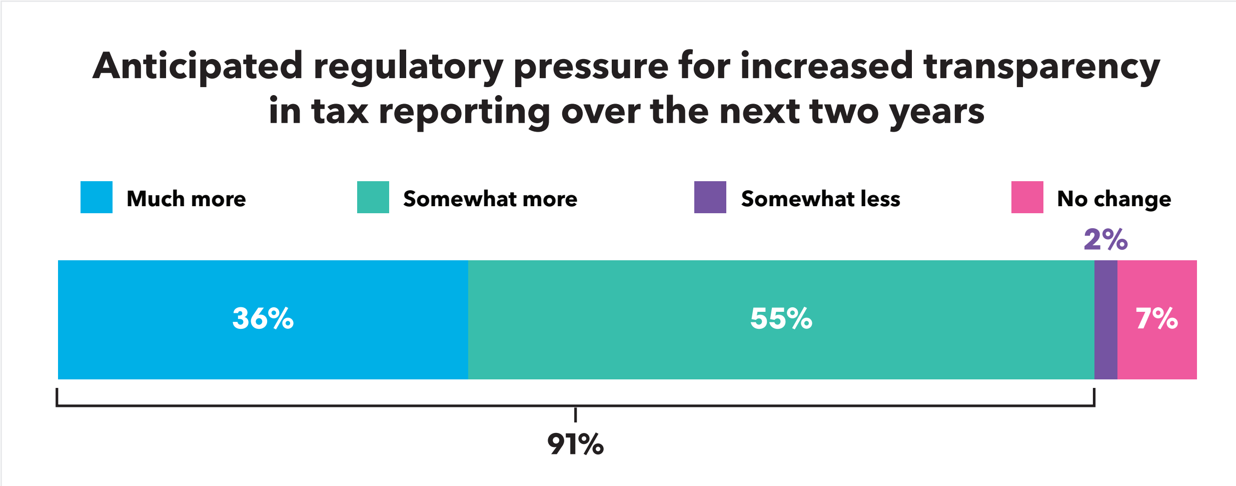


Figure 4. Anticipated regulatory pressure for increased transparency

Likewise, 91% of respondents believe that regulatory pressure to increase transparency in tax reporting will substantially or somewhat increase in 2023 and 2024 (see Figure 4).

When asked to consider tax-related events that happened in the previous five years, the most frequent response was a change in ownership, leadership, or company structure (68%) (see Figure 5). In the second spot, slightly more than half (55%) of the tax departments report audit assessments, a figure that has increased from 47% since the question debuted on Bloomberg Tax's survey in 2020.

In addition, 36% have experienced inaccurate forecasting; larger companies with more than $1 billion in revenue are more likely to have experienced it than smaller companies (37% compared to 28%). Less than two in 10 (17%) have experienced control deficiencies related to tax.

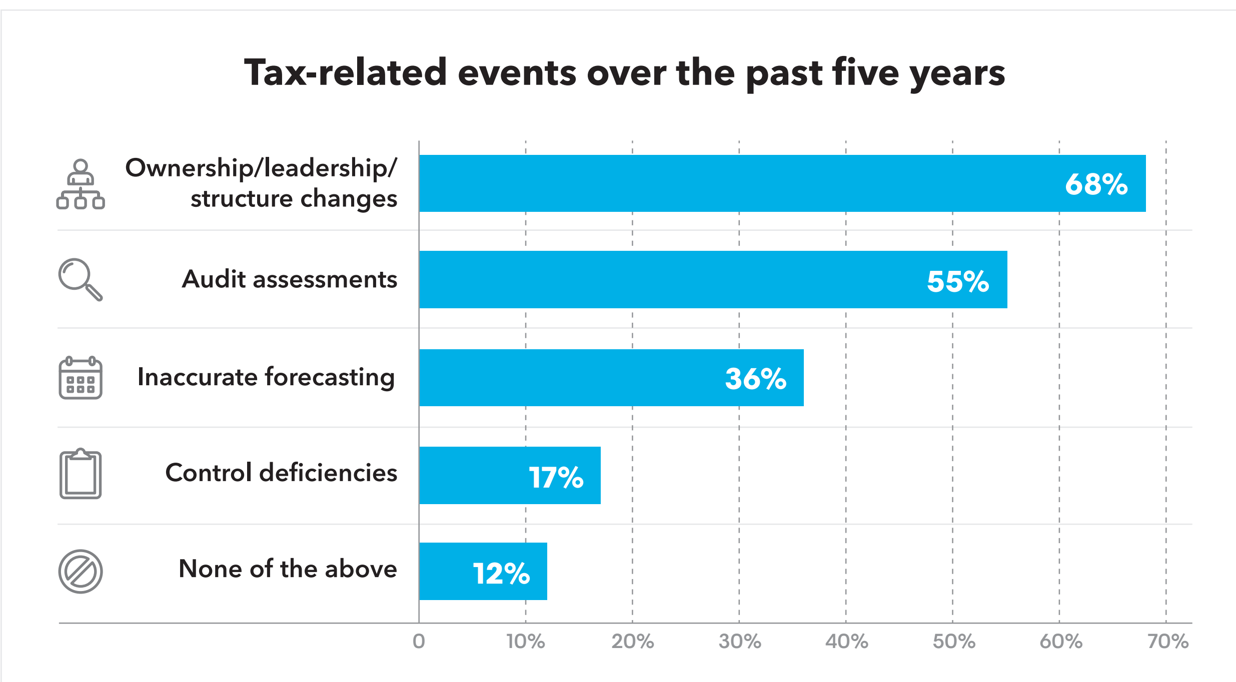


Figure 5. Tax-related events over the past five years

Mandate: Cost Reduction, of Course

In 2021, on the heels of a strong economic rebound, respondents believed that reducing cash tax payments/effective tax rate and improving tax planning/tax-related decision support would be the top mandates for 2022 and 2023. Yet, with the onset of the highest inflation in 40 years and a resulting economic uncertainty, 2022 turned out differently than anticipated. The top mandate became – as it has been in our 2018, 2020, and 2021 surveys – reducing costs and promoting efficiency in tax administration, according to 43% of respondents (see Figure 6).

Companies with less than $1 billion in revenue were more likely to indicate that reducing costs and promoting efficiency was the top mandate than their larger counterparts. Public companies were more likely to indicate that reducing cash tax payments/effective tax rate is the top mandate.

When respondents were asked what they anticipated the mandate to be in 2023 and 2024, there was a tie between reducing costs/promoting efficiency and reducing cash tax payments/effective tax rate (40% each). Improving tax planning ranked third at 36%.

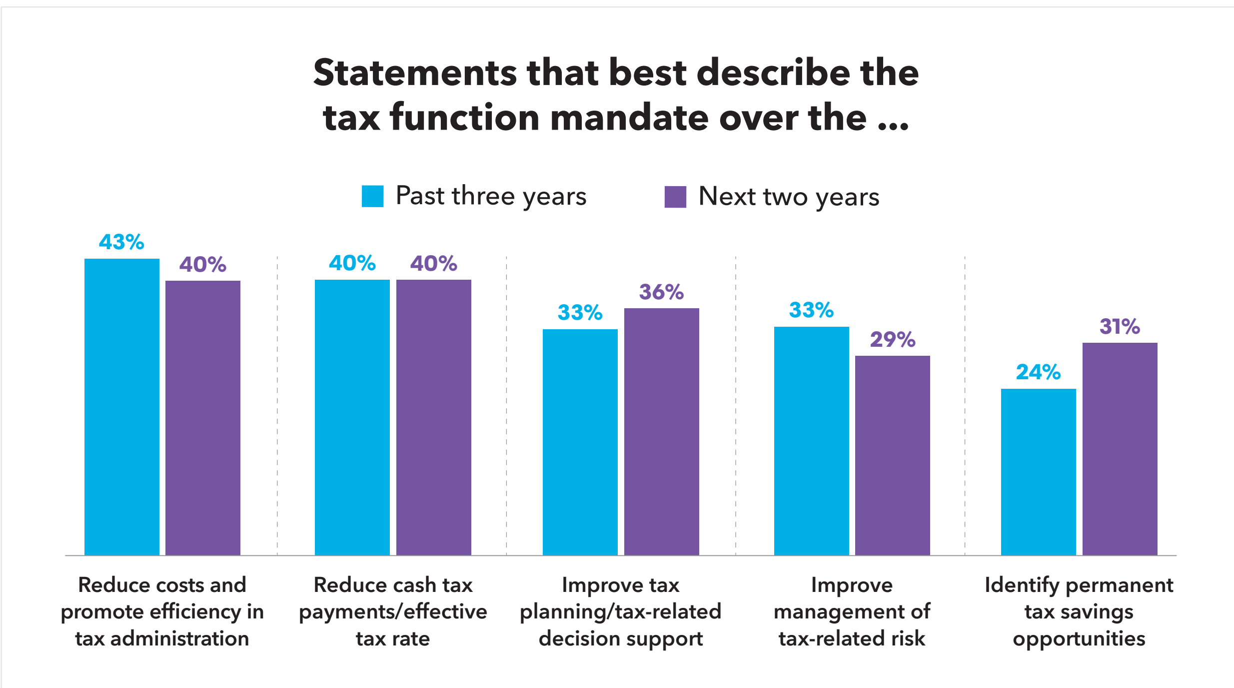


Figure 6. Tax function mandate over the past three years and the next two years

On a slight upward trend since 2020, 87% expect tax planning to become somewhat or much more important over the next two years (see Figure 7). Companies with revenues of more than $1 billion and those with tax departments with more than 21 people rank the importance of tax planning higher than their colleagues at smaller companies and departments.

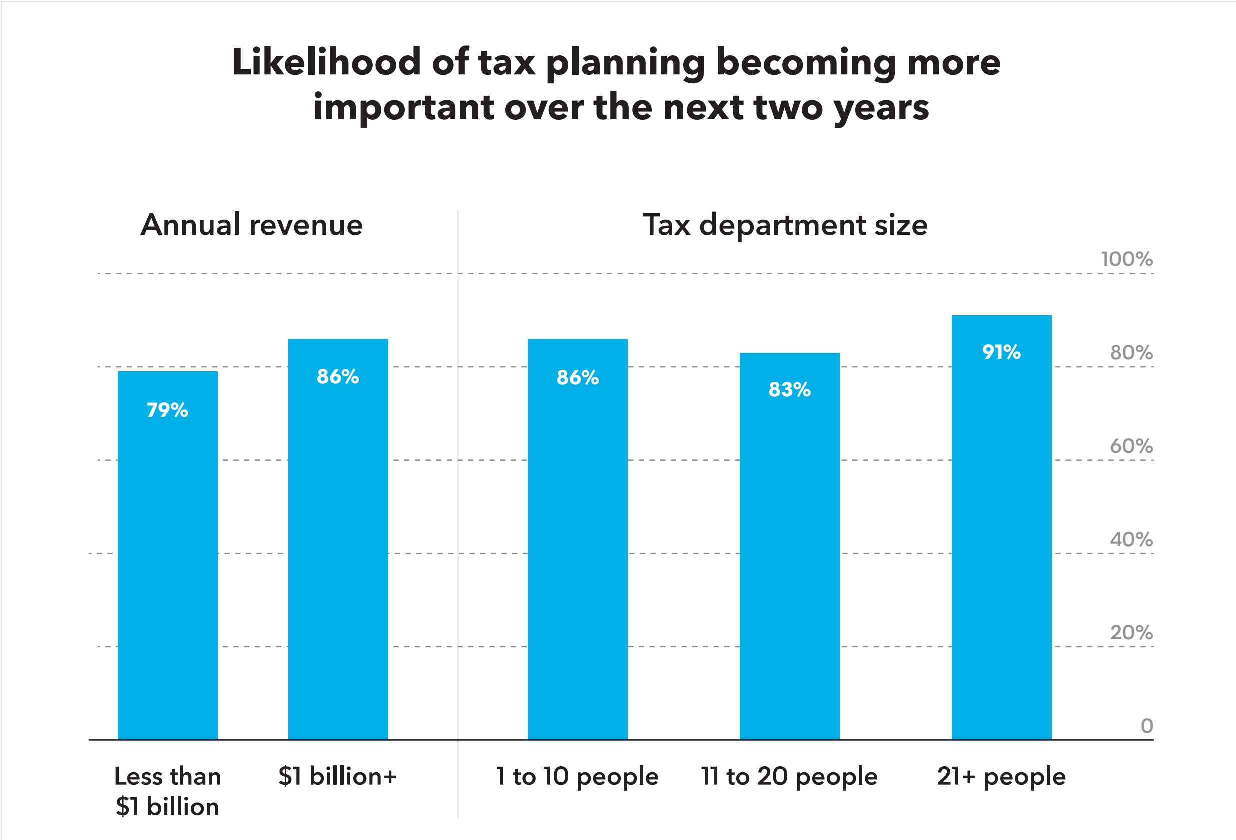


Figure 7. Likelihood of tax planning becoming more important over the next two years

Tax Department Roles: Expanded Involvement

The role of the tax department stretches far beyond compliance. Tax considerations impact many business activities, and companies are realizing that their tax leaders can deliver strategic, long-term insight and planning to mitigate risks and optimize financial outcomes.

Our findings reflect the growing recognition of tax departments' importance in company activities. While 86% of respondents indicate that their tax function plays a leading or key contributing role in supporting tax-related finance and accounting activities, 70% also indicate they play the same roles in supporting major transactions (see Figure 8).

Further, in 2022, respondents were significantly more likely to say they are playing a leading role when it comes to tax-related activities (57% versus 46% in 2020). Half of these professionals are also currently involved in supporting nontax-related finance and accounting activities. Over the past four surveys, this is the highest reported share of respondents indicating this level of support (up from its lowest of 35% in 2020).

Respondents are significantly more likely now than in 2018 to say they are playing a leading or key contributing role in supporting companywide efforts to manage risk (44% versus 36%) and major operating decisions (39% versus 29%). Manager-level employees, those in mid- to large-size tax departments, and those working in the technology/IT and communications industries are generally more likely to currently play these roles or expect to take them on.

There is still room for improvement. Since 2018, a roughly consistent share of respondents (about four in ten) indicated that major decisions are made at their companies without the input and advice from the tax function. This includes a plurality of those who acknowledge that the tax function does participate in making decisions but is often brought in too late to make an actual impact.

Focus on profitability

Compared to 2018, corporate tax professionals are now significantly more likely to say that their companies will devote more attention to maintaining profitability (86% in 2022 versus 73% in 2018), increasing revenue (83% versus 73%), and improving cash flow (79% versus 69%) over the next two years.

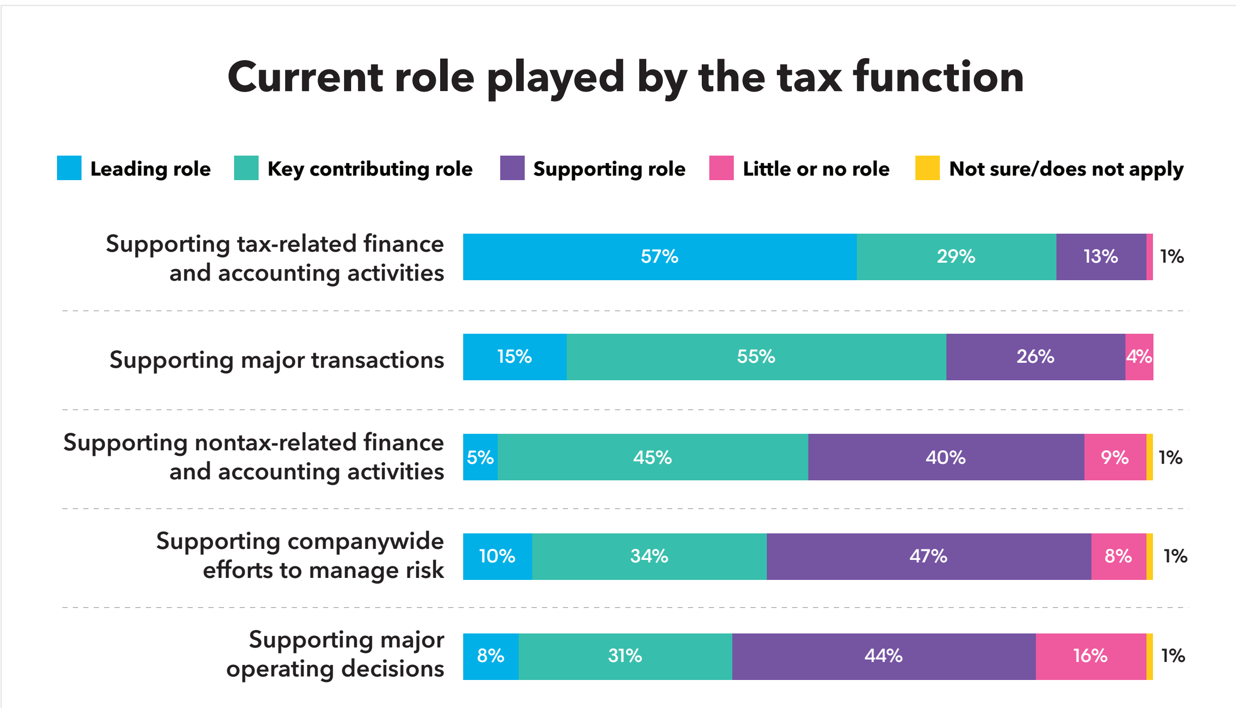


Figure 8. Current role played by tax function

Resource Challenges: Understaffed, Again

The tax department isn't immune to the talent shortage plaguing other professions. In fact, three in four respondents say that their company is currently having difficulty recruiting and retaining talented tax professionals. This figure has been steadily increasing over the years, from 59% reporting difficulty in 2018, 64% in 2020, and 69% in 2021 (see Figure 9). Respondents in manager-level positions and tax departments with fewer than 10 people are significantly more likely to have experienced staffing challenges in 2022 compared to 2021.

Few seem to anticipate staff difficulties to improve in the near term. Instead, the majority of respondents (83%) believe that over the next two years, it will become either somewhat or much more difficult to recruit and retain top tax talent.

That's a major concern for tax teams because, similar to previous years' surveys, a majority (68%) in 2022 somewhat or strongly agree that their company's tax function is under-resourced and will need more resources to fulfill its mandate over the next two years.

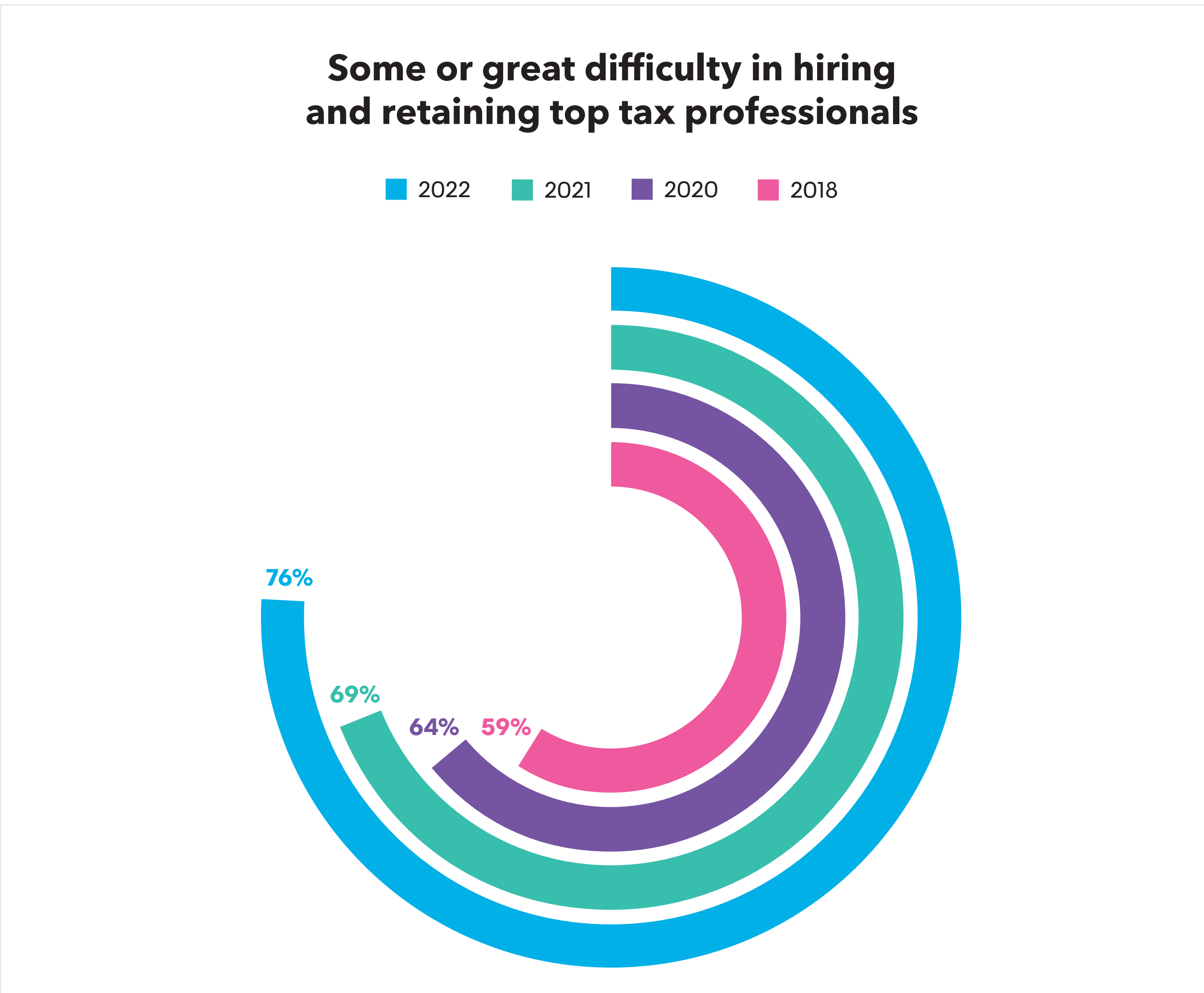


Figure 9. Difficulty in hiring and retaining top tax professionals

Despite being under-resourced, 49% of respondents anticipate that their departments' staffing level will stay the same over the next 12 months. Another 39% anticipate staffing increases in the next 12 months, with only 6% anticipating a decrease. Similarly, the overall budget for the tax department is anticipated by 49% of respondents to stay the same, 38% expect it to increase, and only 13% expect it to decrease.

Nearly every tax department (97%) reports using outsourcing or external consultants. In fact, half (51%) expect to increase their spending for external consulting resources in the next 12 months. One-quarter (25%) of respondents expect to decrease spending, and 23% do not anticipate any changes to spending on consultants (see Figure 10).

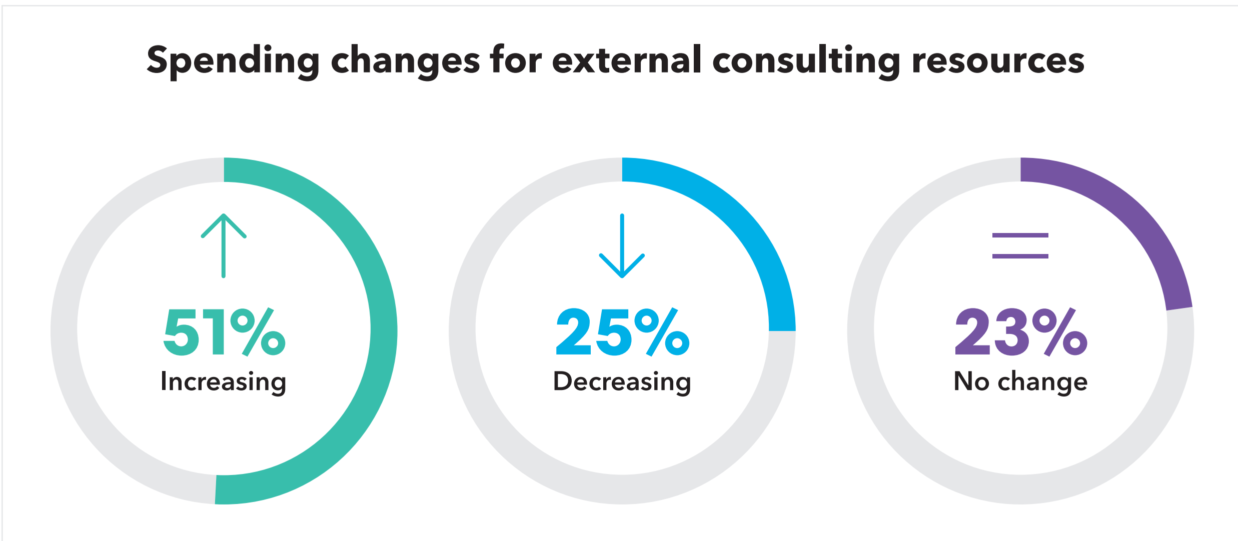


Figure 10. Spending changes for external consultants

Looking at the functional areas that are outsourced most frequently, compliance (39%) is the most fully or partially outsourced, remaining at the same level as 2021. Within compliance, the most fully or partially outsourced aspect is non-U.S. income tax, as nearly three-quarters (72%) outsource this task. State income tax compliance (58%) and property tax compliance (57%) are the next most outsourced compliance tasks (see Figure 11). In comparison, planning, scenario analysis, and modeling are primarily insourced, with only 28% of all respondents who outsource indicating they outsource this type of work.

Compared to 2021, a significantly higher percentage of respondents from private companies report fully outsourcing sales and use tax compliance, with 21% doing so in 2022 compared to 8% in 2021. Also, smaller tax teams with 10 or fewer employees were more likely to fully outsource property tax compliance in 2022 than in 2021 (29% versus 15%).

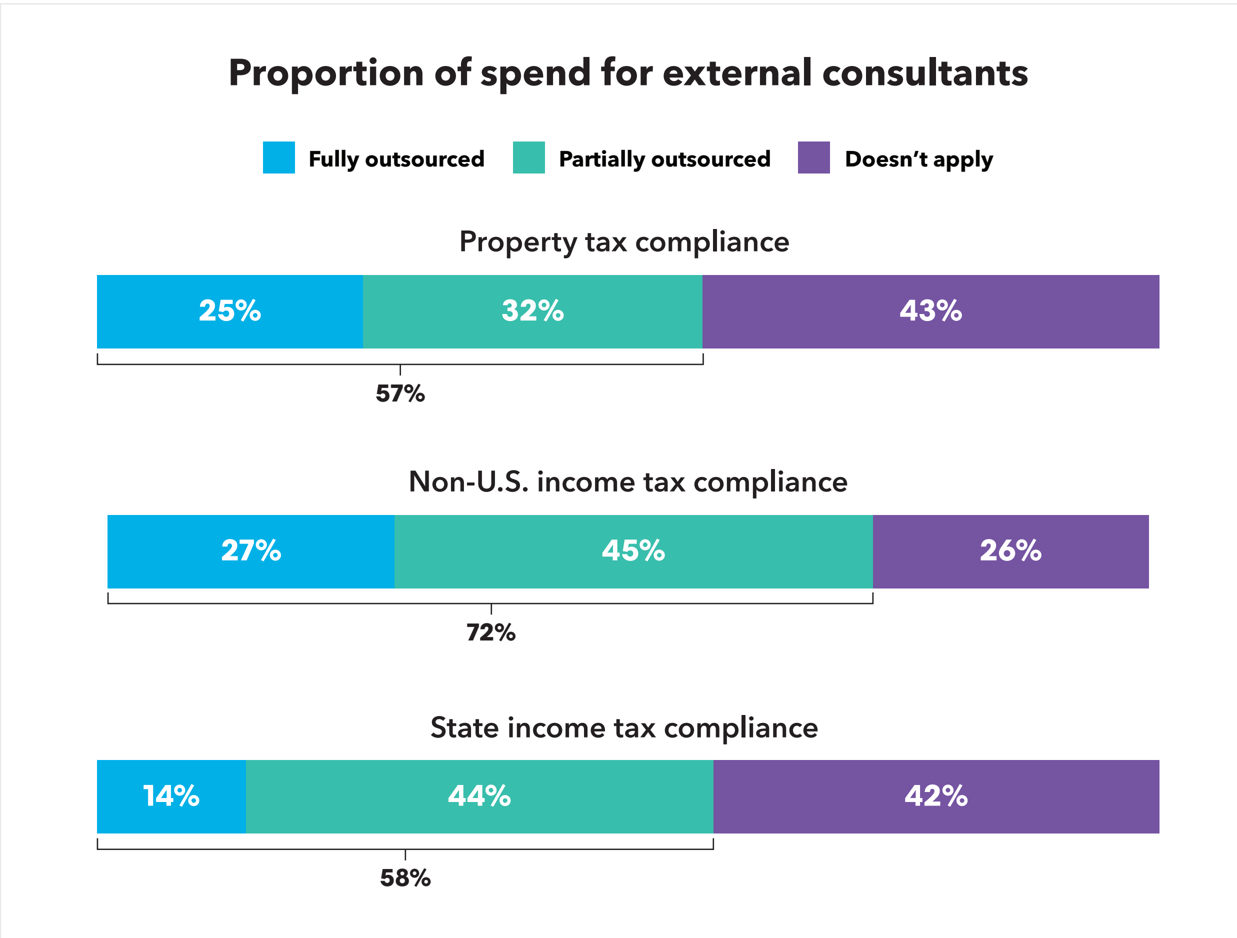


Figure 11. Proportion of spend for external consultants

Technology: Transformation Benefits

Technology, especially integration and automation, is critical for enabling tax teams to handle the growing compliance burden, delivering visibility and transparency, improving accuracy, and strengthening controls. Similar to 2021, a strong majority (83%) say increased automation and AI will play a critical, important, or contributing role in plans to improve tax effectiveness in 2023 and 2024.

The 2022 survey shows that as tax departments make progress on digital transformation efforts, they're starting to see the results. The top benefits achieved with automation and/or integration of tax software include increasing accuracy (84%), automating workflows/eliminating manual processes (83%), increasing productivity (76%), and improving controls (66%) (see Figure 12).

Compared to last year, tax professionals in private corporations were more likely to cite increasing productivity as a benefit (79% in 2022 versus 62% in 2021). Likewise, those in larger tax departments with 21 or more employees were more likely to rank increasing productivity as the top benefit (82% in 2022 versus 64% in 2021).

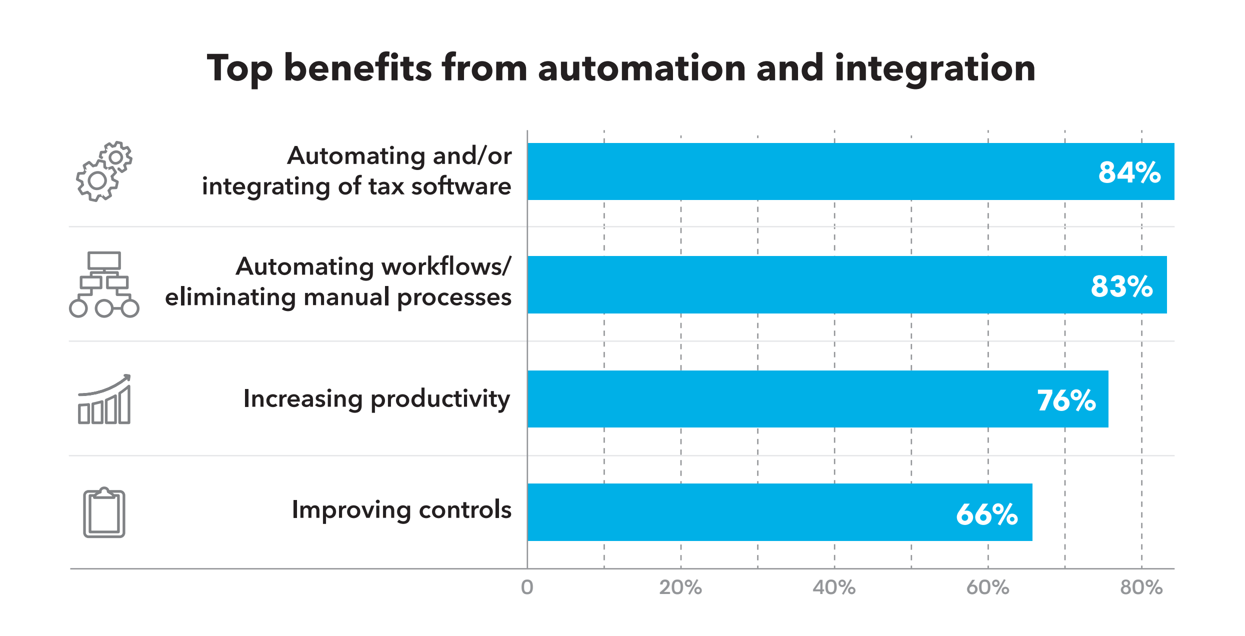


Figure 12. Top benefits of automation and integration

Automation Can Help Tax Departments Adapt to Changing Rules

The new minimum 15% corporate tax introduced in the Inflation Reduction Act will require tax departments to gather certain data not previously needed. Since this is a new calculation, every company will need to build a new process to calculate the tax. Automation can help.

Likewise, the OECD-proposed Pillars 1 and 2 changes to international tax rules regarding profit allocation and global minimum taxation may require tax departments to upgrade their technology capabilities to support new calculations and rules.

Sources: "Q4 Quarterly Outlook," Bloomberg Tax, September 2022; "**Tax Leaders Boost Their Influence Over IT**," Deloitte, October 2022

When asked about the technology that tax departments are deploying to increase productivity, software integrations were reported by nearly three-quarters (73%) of respondents. Robotic process automation ranked second (40%) and artificial intelligence third (20%). Compared to 2021, large tax departments with 21 or more employees are increasingly implementing software integrations to improve productivity (82% in 2022 versus 64% in 2021).

Yet, the percentage saying their tax software is tightly integrated with the necessary source systems remains frustratingly small at only 13%. A majority (67%) indicated that their tax software is either loosely (47%) or not at all integrated (20%) with the necessary source systems but that increasing integration is a priority.

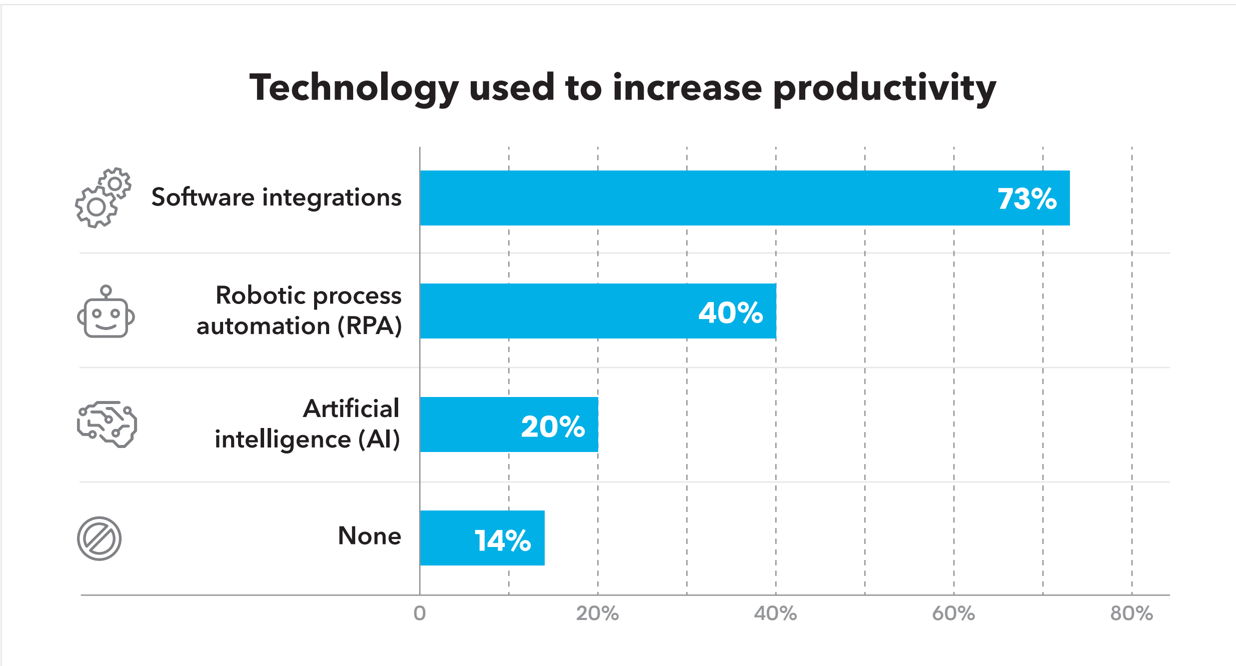


Figure 13. Technology used to increase productivity

Conclusion

Economic uncertainty. Cost pressures. Legislative changes. Talent shortages. Calls for greater tax transparency. The list of evolving issues impacting the future of the corporate tax function continues to grow. While no one knows with certainty what new challenges tax departments will face in the coming years, you can bet that change will continue to be the one constant.

How can corporate tax teams be ready for what's next? The short answer is to prepare tax teams to respond more quickly to change. How? By continuing to prioritize digital transformation, tax software integration, and automation. It's the only way to accelerate compliance readiness, ease the compliance burden, enable transparency to comply with new rules, and free up the team for strategic activities.

About the Survey

The Bloomberg Tax Corporate 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 2022 with 395 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 2022 survey was weighted by job title to be comparable to previous years' surveys. After weighting, two-thirds of respondents worked in public corporations (70%), with the majority (91%) reporting company revenues of $1 billion or more. Tax department size was split into three groups: 10 or fewer employees (45%), 11 to 20 employees (22%), and 21 or more employees (33%).

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