2023 BDO Tax Strategist Survey

A trend is taking shape: Tax leaders using a strategic approach are key contributors to driving business outcomes

TAX STRATEGIST

BDO

Contents

METHODOLOGY

The 2023 BDO Tax Strategist Survey polled 150 senior tax executives at companies with revenues ranging from $250 million to more than $3 billion in March 2023. The survey was conducted by Rabin Research Company, an independent marketing research firm, using Op4G's panel of executives.[1]

1 Op4G is a global online market research panel built to support data collection.

The Evolving Role of Tax Leadership

Our survey results reveal a trend that makes a difference in business outcomes: Tax leaders who play a larger role in setting overall business strategy are driving positive business performance. We refer to this trend as the rise of the Tax Strategist, moving beyond the role of Tax Tactician to take a seat at the business leadership table where strategic planning decisions are made.

As the C-suite works to comply with evolving regulations, meet stakeholder expectations, and navigate economic uncertainty, the tax practitioner's strategic input is key to enhancing resilience and achieving business success. Consequently, tax leaders are broadening their purview from the core priority — managing tax liability — to leveraging strategic tax approaches for effective business outcomes.

To uncover what's behind this trend, we surveyed tax executives about their involvement in overall decision-making, as well as their top priorities and challenges for the next 12 months. The survey results confirm our thesis that not all tax executives are equally involved in planning and that the subset of leaders who are most influential in strategy help drive better performance for the business.

THE 2023 BDO TAX STRATEGIST SURVEY ANSWERS THE FOLLOWING QUESTIONS:

- What are tax executives' top priorities for the next 12 months?
- How do they expect their total tax liability to change?
- What technologies do they plan to adopt?
- How are they adapting to recent tax policy changes?
- What are their top challenges regarding ESG reporting?

Read on to learn more about how tax leaders plan to help mitigate risk and fuel business growth over the next 12 months. ▶

Profile of a Tax Strategist

Tax leaders' mandates span the business — from compliance to M&A, and from ESG strategy to expansion plans — but not all tax leaders are actively contributing to business decisions in these areas.

The *2023 BDO Tax Strategist Survey* measured respondents' level of involvement in decision-making in the following areas of the business:

- ESG strategy and execution
- M&A
- Economic resilience strategy
- Business restructuring (including IPOs)
- Geographic expansion
- Workforce strategy
- Supply chain management
- Product or service development
- Digital transformation
- Cybersecurity

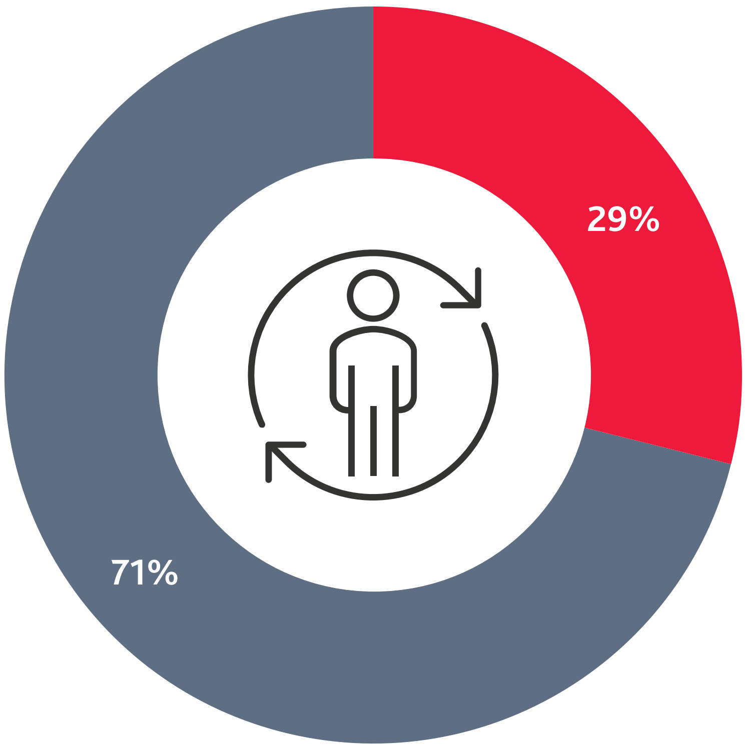
Survey respondents were grouped into one of two categories — Strategist or Tactician — according to their level of involvement in strategic decisions. Throughout the survey, we analyze the differences in the outlooks of Strategists and Tacticians, examine where their views diverge, and identify issues where they are aligned. Generally, Strategists have more influence into decision-making compared to Tacticians, as Strategists are helping their businesses drive outcomes that lead to better results.

The key to being a Tax Strategist is more than knowing where, when, and how much you pay in taxes — it's knowing what drives value for your business — and knowing which tax levers to pull to get there. You need a comprehensive understanding of your business' operations, including the flow of cash, your technology, ESG strategies, and supply chain risks. With that depth of knowledge, you can effectively take a total tax approach to serve as a strategic advisor to company leadership.

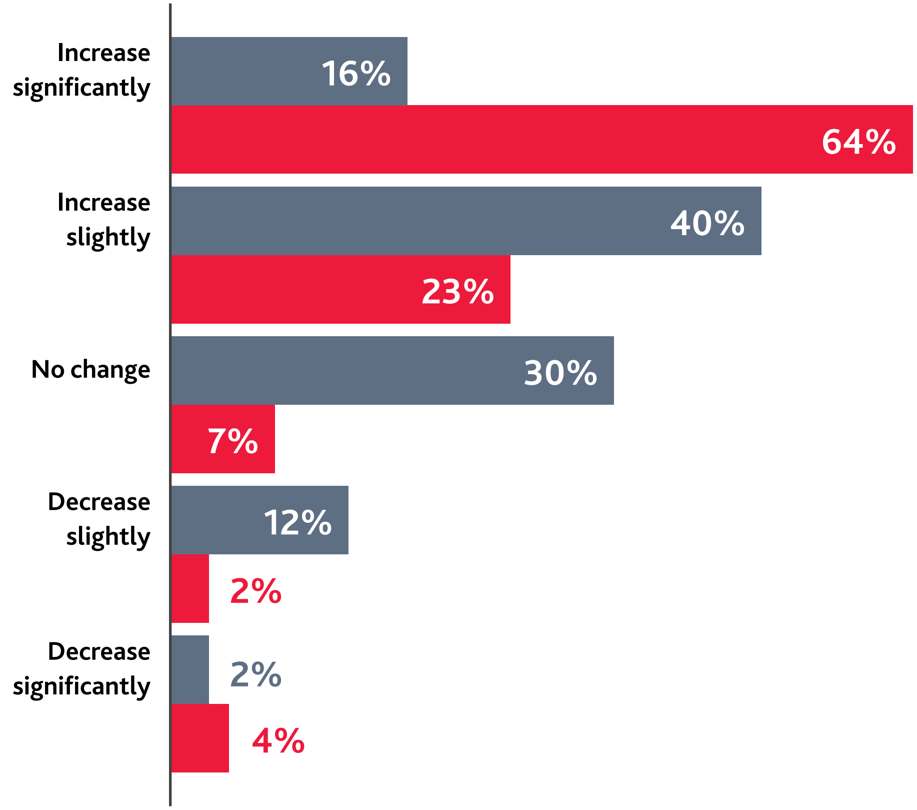
MATTHEW BECKER
Managing Partner of Tax

BDO DATA AND OBSERVATIONS

TAX LEADERS' ROLE IN THEIR ORGANIZATIONS



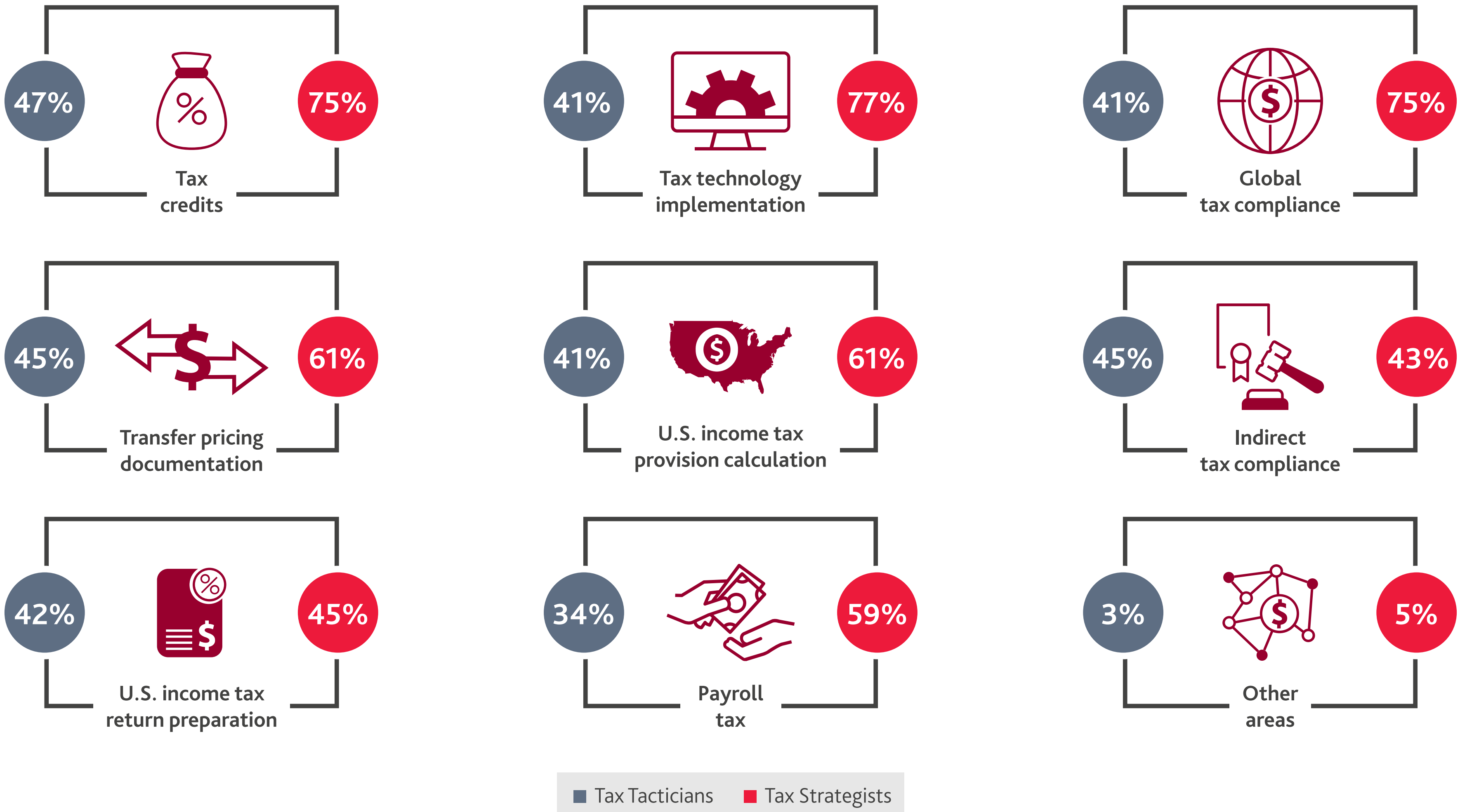
HOW WILL YOUR TOTAL TAX LIABILITY CHANGE IN THE NEXT 12 MONTHS?



Tax Tacticians Tax Strategists

Tacticians may have fewer resources in terms of personnel, budget, technology, and access to data than Strategists. Strategists have more of these resources and regularly collaborate with leaders across the business. As a result, they have a more intimate understanding of the company's overall operations, goals, opportunities, and threats. They may also be much further along in modeling the impacts of new and upcoming tax policy, such as the 15% corporate alternative minimum tax. With more visibility into the tax landscape, Strategists may also be more actively aware of the implications of increased funding to the IRS and expect a higher level of scrutiny in the coming years. Because of these advantages, Strategists are likely to have a better understanding of the triggers impacting their total tax contribution, including projected business growth, which allows them to address issues using a [total tax approach](#).

AREAS CO-SOURCED OR OUTSOURCED IN THE LAST 12 MONTHS



Another key difference between strategic and tactical tax departments is their workforce approach, specifically when they choose to outsource talent. Outsourcing can be a cost-effective strategy for tax leaders to leverage professionals with specialized knowledge, affording flexibility as it enables organizations to scale without having to hire, train, or lay off employees. Outsourcing can also provide organizations the ability to swiftly capitalize on emerging opportunities and/or quickly comply with new regulations. For example, the large number of Strategists currently outsourcing and co-sourcing tax credit-related work are likely pursuing tax credits that were introduced or changed in the Inflation Reduction Act, such as the Section 48C Qualifying Advanced Energy Project Credit. IRC Section 48C has limited funding and requires businesses to apply for the credit, so Strategists who are outsourcing assistance may be better positioned to prepare applications and claim credits before the funding runs out.

Outsourcing will continue to be a critical component of tax leaders' workforce strategies due to fewer professionals entering the accounting industry and building long-term careers. In the face of a long-term talent shortage and the imperative to adopt tax technology, tax leaders must rethink their workforce strategies. In practice, this may amount to hiring a mix of technology and tax specialists and developing frameworks for collaboration between these roles.

In a tight labor market, organizations need to ensure that their total rewards strategy (including healthcare, PTO, and hybrid work options) remains competitive. Tax professionals also want their work to serve a larger goal. Directly tying the tax department's work to the organization's overall growth plan and mission can be key for recruiting and retaining top talent. Ideally, tax leaders should be able to quantify the percentage of business growth to which the tax department contributes.

TOP CHALLENGES IN RECRUITMENT AND RETENTION

25%	Lack of candidates with specialized knowledge
18%	Lack of strategic vision for the tax department
16%	Lack of new graduates who are studying accounting
12%	Unable to compete with competitors' offers to work with the latest technology
11%	Unable to provide competitive remote/hybrid work flexibility
10%	Unable to offer competitive wages/raises
8%	Retiring workforce

RECOMMENDATIONS

Among tax leaders' many mandates, two major ones include enhancing the value of the tax function and building a tax workforce strategy that can support business growth. Consider these strategies to help accomplish both goals:

Strategists — determine the optimal staffing model: Strategists should aim to build a workforce strategy that does not require them to revisit their entire staffing model each time a regulatory change occurs, or when the business expands into a new country, or undergoes another major change with tax implications. Tax leaders who have a reliable playbook that includes established relationships with trusted outsourcing or co-sourcing partners are better able to adjust their workforce in response to new regulations or business decisions, thus allowing them to spend more time on strategy that brings business value. These tax leaders will be able to focus on understanding their total tax contribution, informing business leaders about the impact of business strategies, and proactively bringing new ideas to the table.

Tacticians — improve the strategic value of the tax function: Becoming a Strategist involves making the tax function more efficient, thereby freeing resources to focus on demonstrating how the tax function can contribute to the decision-making process. Tax-related considerations should be a key component of a business strategy rather than a mere metric for evaluating outcomes after the fact. To elevate their strategic value, Tacticians should focus on the highest-impact, lowest-cost areas of improvement and demonstrate a few use cases, such as calculating the effects of a pending supply chain decision, estimating the impact of a forthcoming regulation on total tax liability, or proactively managing the tax outcomes of financial decisions.

Are your tax and business growth strategies aligned? Learn how you can take a total tax approach to optimize your tax process, workforce, and technology strategies.

LEARN MORE AND REQUEST A CONSULTATION ▶

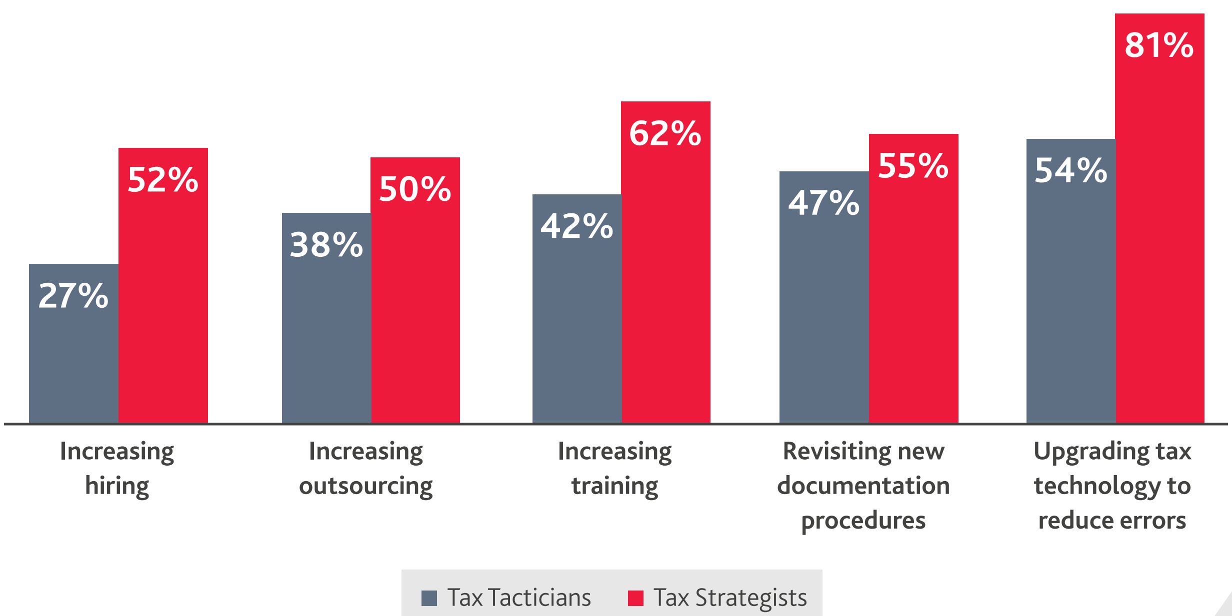
The New Tax Policy Agenda

While sweeping changes to U.S. federal tax policy may not be likely to occur before the 2024 elections, tax leaders must efficiently navigate recent and upcoming policy changes. These include:

- The Inflation Reduction Act's introduction of the new corporate alternative minimum tax and changes to business credits and incentives.
- Pillar Two of the OECD's framework, which addresses base erosion and profit shifting (BEPS).
- Heightened scrutiny and more frequent audits due to increased IRS funding.
- New international trade regulations.

BDO DATA AND OBSERVATIONS

HOW IS YOUR ORGANIZATION RESPONDING TO THE SIGNIFICANT INCREASE IN IRS FUNDING?



> *Even in the absence of major legislative changes, tax leaders will have plenty on their plates over the next 12 months — including new trade policies, the continued impact of the Inflation Reduction Act, and the OECD's global taxation framework. At the same time, issues that arise during the 2024 election cycle could materialize into law. Now is the time for the tax function to focus on flexibility so tax leaders are better able to navigate forthcoming regulatory challenges before they are imminent.*

TODD SIMMENS
Managing Partner and Tax Policy and Legislation Technical Practice Leader

Of the substantial increase in funding provided through the Inflation Reduction Act, the IRS plans to spend a large portion on expanded enforcement and on upgrading its technological and data analysis capabilities. Many of its proposed new employees are intended to be enforcement professionals.

The IRS plans to expand its use of technology and data analytics to “identify high dollar noncompliance cases while minimizing audits of compliant taxpayers.” Consequently, companies are bracing for increased, more detailed scrutiny. Leveraging technology to ensure accurate tax reporting, which will eventually include significantly expanded disclosure, is critical for companies to proactively prepare for upcoming IRS enforcement and minimize audit risk and poor audit outcomes. Coupled with strategic tax professionals, judicious use of tax technology is indicative of a Tax Strategist.

SIGNIFICANT TAX CHALLENGES TO THE ORGANIZATION IN THE NEXT 12 MONTHS:

- **37%** Increased IRS funding
- **35%** Complying with new customs and trade rules
- **34%** Transfer pricing audit activity globally
- **32%** ESG risks and stronger reporting requirements
- **31%** 15% corporate alternative minimum tax
- **27%** OECD's two pillar framework adoption
- **27%** Capturing business incentives/credits

In February 2023, the OECD released technical guidance on Pillar Two of its framework to address BEPS — the 15% global minimum tax — with implementation slated for 2024 in some jurisdictions. While the U.S. has not yet aligned with Pillar Two, multinational companies that meet the EUR 750 million revenue threshold will need to comply wherever the law is enacted. Companies need to prepare their people and processes to model the impact of the new rules on their businesses.

In addition, the nature of U.S. trade policy is changing due to new rules such as the Uyghur Forced Labor Prevention Act (UFLPA) and new Customs and Trade Partnership Against Terrorism requirements to prevent the import of products made using forced labor. The UFLPA requires customs compliance personnel and supply chain professionals to work closely together, collecting data about the origins of their goods from their suppliers — and suppliers' vendors — to **prove that no forced labor was used in production**.

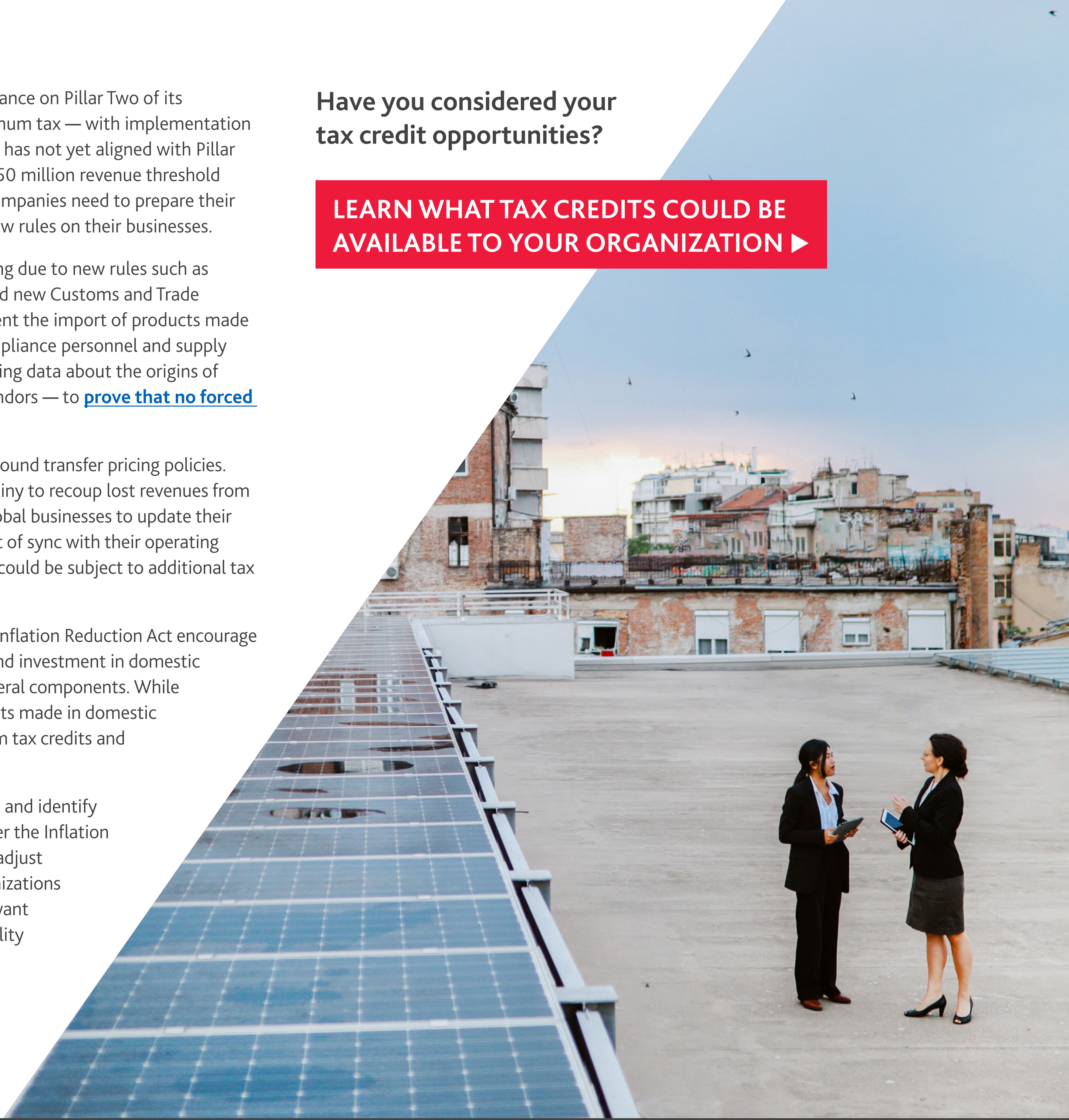
Companies also must contend with rising scrutiny around transfer pricing policies. Tax authorities around the world are increasing scrutiny to recoup lost revenues from recent economic turbulence, making it critical for global businesses to update their transfer pricing policies. If their tax structure falls out of sync with their operating model and current business practices, organizations could be subject to additional tax exposure in the form of disputes or double taxation.

The changes to tax credits and incentives under the Inflation Reduction Act encourage businesses to fund new renewable energy projects and investment in domestic manufacturing of solar, wind, battery, or critical mineral components. While many of the provisions are geared toward investments made in domestic manufacturing, nearly all companies can benefit from tax credits and incentives through the new direct transfer system.

Organizations should reassess their planned projects and identify opportunities to claim new tax credits available under the Inflation Reduction Act. Alternatively, they may also need to adjust investment plans to qualify for certain credits. Organizations that are not pursuing projects to claim credits may want to consider buying them to lower their total tax liability and contribute to sustainability initiatives, while organizations engaging in projects eligible for credits may choose to sell them to help fund new investments.

Have you considered your tax credit opportunities?

LEARN WHAT TAX CREDITS COULD BE AVAILABLE TO YOUR ORGANIZATION ▶



RECOMMENDATIONS

Tax leaders should consider the following steps to comply with new and forthcoming regulatory changes:

Strategists — prepare for 2024: In addition to achieving compliance with new regulations, Strategists should look to the future. Tax leaders who make process improvements and staffing decisions over the next 12 months to enhance efficiencies will be better prepared to adapt to major regulations that may be enacted after the 2024 election cycle.

Tacticians — adjust your preparation strategy for increased IRS funding: 46% of Tacticians are missing an opportunity to improve the efficiency, accuracy, and reliability of reporting by not investing in technology as part of their response to increased IRS funding. As a first step, Tacticians should consider beginning with a whiteboarding exercise to assess gaps in their technology strategy. They may find that there are opportunities to invest in tools — such as robotic process automation — that streamline data mining.

How prepared is your organization to comply with new tax regulations?

GET IN TOUCH TO DISCUSS YOUR STRATEGY ▶

Making the Case for Investment in Tax Technology

Tax leaders who invest in technology are generally better equipped to inform business decisions. Technology can enhance reporting accuracy and consistency, help mitigate risk, lower costs, and help retain talent. Technology that provides greater access to data can also empower tax leaders with insights that enable them to serve as strategic advisors to operational leaders. But not all tax departments have reached the same level of technology maturity; some are investing in advanced use cases, while others are still implementing basic compliance software and automating manual processes.

> *When crafting your tax technology strategy, start with questions to define your goals, such as: What processes can I improve or automate? Do I have easy access to data from across the business? Where are my teams spending too much time? Use the answers as your North Star and work backwards to determine the strategies and technology tools that will help mitigate challenges and capture opportunities.*

HALEY DOBRE
Partner, Tax Automation & Innovation Practice Leader

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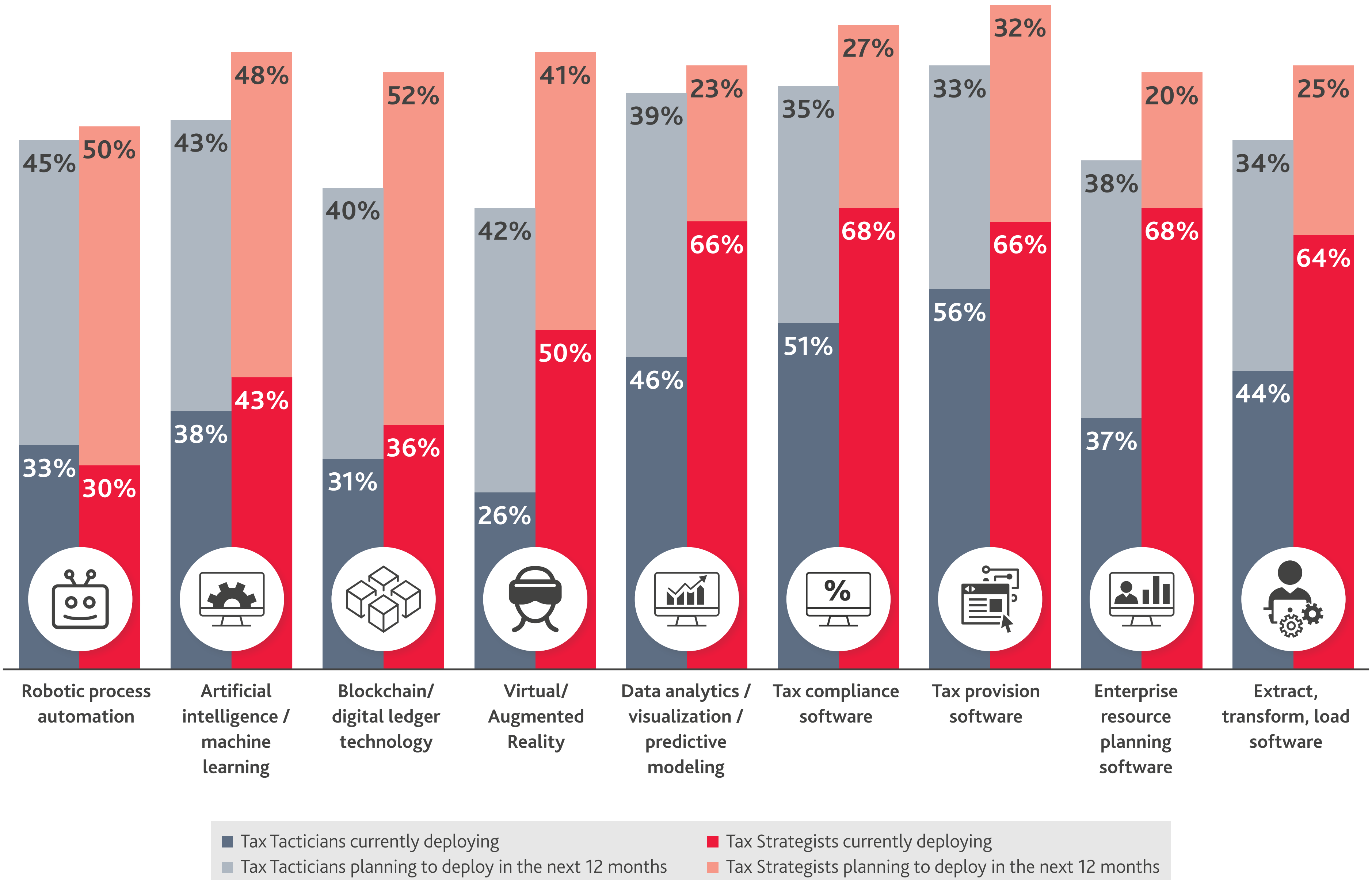
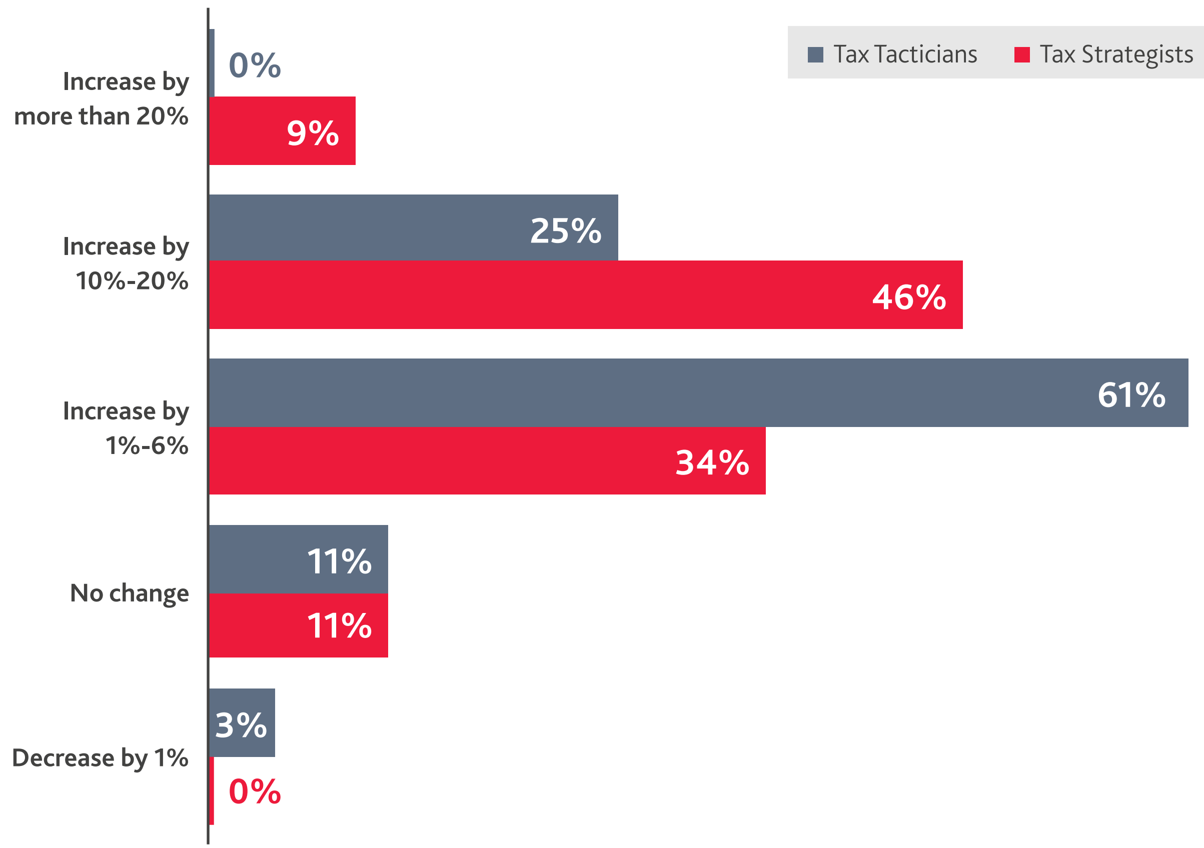
TECHNOLOGIES CURRENTLY DEPLOYED OR PLANNED FOR DEPLOYMENT IN THE TAX FUNCTION



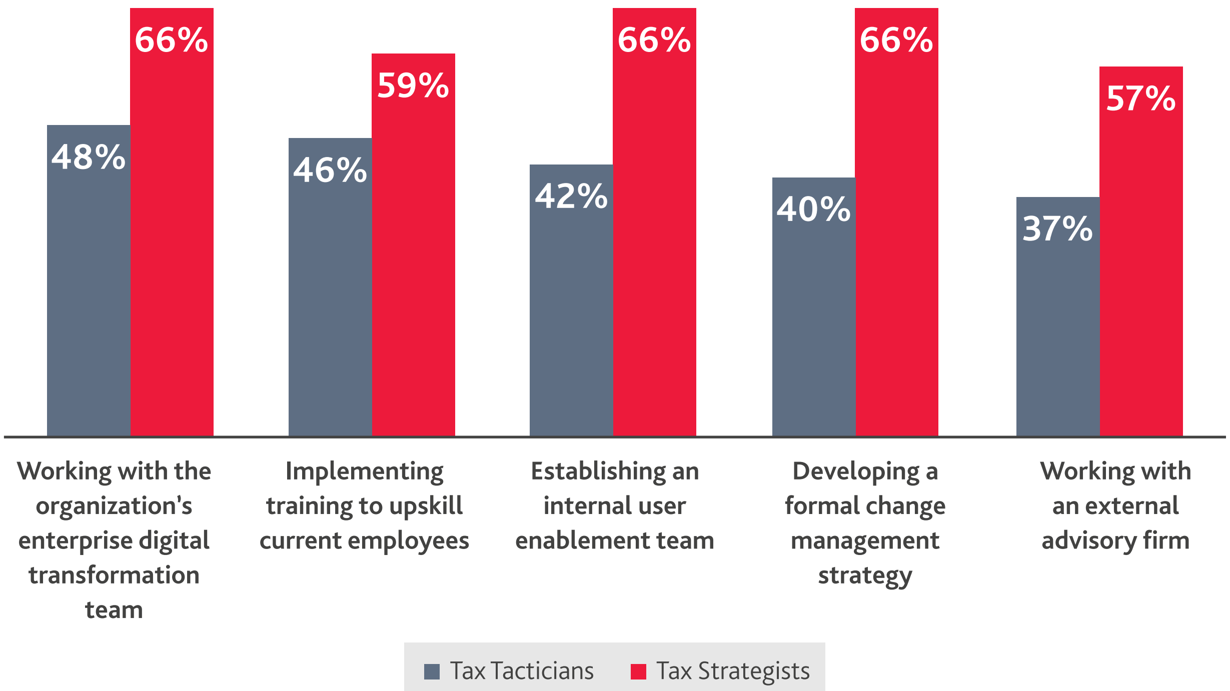
CHANGE IN BUDGET FOR TAX TECHNOLOGY OVER THE NEXT 12 MONTHS



The high number of tax executives surveyed that say they are currently deploying or plan to deploy certain tax technology is somewhat surprising. Technology is a key driver of tax leaders' ability to contribute to business strategy, so it's not surprising that Strategists as a group are more technologically mature than Tacticians. Nearly two-thirds of Strategists already deploy bread-and-butter tax technology, whereas the percentage of Tacticians is not nearly as consistent. Many tax executives are aware of the latest technological trends and have ambitions to implement new technology in their tax functions.

Strategists are also likely to deploy more advanced technology than Tacticians. For example, 73% of Strategists are very involved in supply chain planning, compared to just 28% of Tacticians, likely due to their ability to use ERP and data analytics tools in which their organization has invested. These technologies enable tax leaders to model the tax implications of business changes, such as moving a manufacturing operation from one country to another. By modeling the potential tax consequences of supply chain decisions, tax leaders can help support supply chain changes that are tax efficient and backed by comprehensive decision-making.

PLANS TO ENABLE EMPLOYEE ADOPTION OF TAX TECHNOLOGY



WHAT IS YOUR TOP PRIORITY FOR PROCESS AUTOMATION IN 2023?

Direct tax compliance process
27%

Direct tax reporting for financial statement disclosures
27%

ESG reporting requirements
25%

Indirect tax reporting or reconciliation
12%

OECD Pillar Two reporting requirements
9%

Tax leaders have several strategies planned to enable employee adoption of technology, with many of these strategies centered around training and change management. In addition to training teams on the new tools, collaboration with the business's enterprise digital transformation team will be key to solving interoperability issues and achieving data transparency. However, technology is not a panacea; companies need to invest in their workforce for digital initiatives to succeed. Two-thirds of Strategists report planning internal user enablement initiatives, which could be critical to their success, whereas most Tacticians are less likely to prioritize change management and upskilling and may see initiatives fall short as a result. Upskilling initiatives, including trainings and access to resources from technology vendors, are critical to reaching an expected ROI.

While emerging tools make news headlines, tax leaders should resist the temptation to overhaul their technology plans based on the latest trends. Instead, they should take a disciplined approach to studying the latest tools and understand reasonable use cases for their organizations. Additionally, tax leaders should ensure that a solid data, process, and technology foundation exists before investing in more advanced tools. For example, investing in AI when the organization has not yet streamlined data collection, standardization, and storage could be a mistake.

Process automation can help companies comply with new regulations on the horizon. One top priority for companies should be preparing to comply with Pillar Two of the OECD's framework to address BEPS, which is slated for implementation in 2024 in some jurisdictions. Compliance necessitates synthesizing data from various jurisdictions and systems across the business — ERP, sales, fixed asset and HR software, and more — so automating manual processes will be key. Companies must contend with Pillar Two compliance on top of regular tax preparatory work, which means tools that can automate and alleviate the burden of manual processes will be critical to success.

RECOMMENDATIONS

Tax leaders should regularly reassess the efficacy of their technology strategies. In doing so, they should consider the following actions:

Strategists — foster a culture of continuous innovation: While Tax Strategists have an edge when it comes to technological maturity, they should not grow complacent. Tools can quickly become obsolete due to new regulations, evolving data privacy requirements, cybersecurity threats, improvements made by competitors, or the creation of new tools. These organizations need to continuously evolve their approaches and be ready to adapt — whether that means upgrading systems or replacing tools that no longer serve their needs.

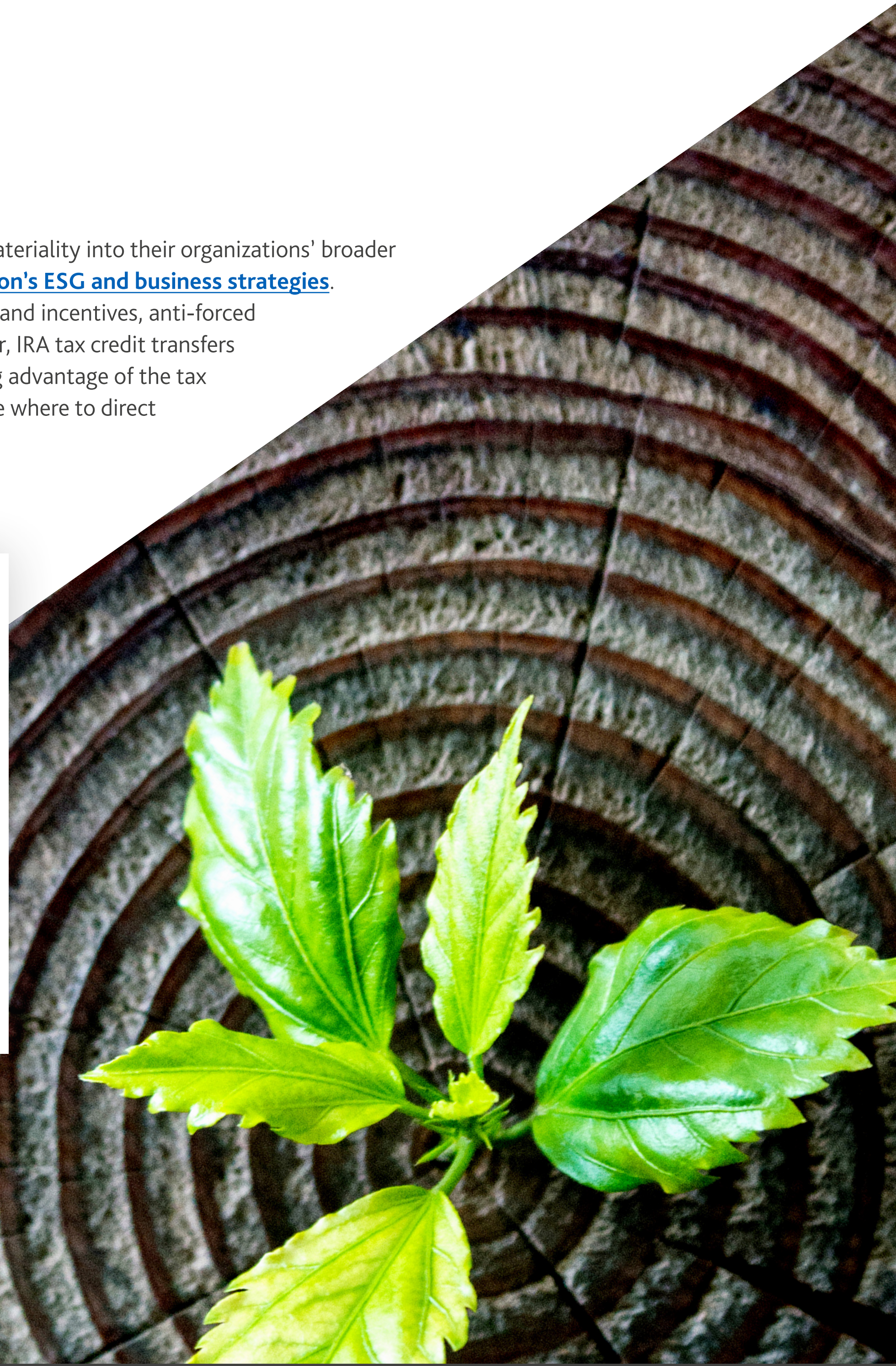
Tacticians — build a compelling investment case: Tacticians should start with a current-state assessment to understand their organization's technology maturity, then define future-state technology goals and create a roadmap for implementation. The assessment should include reviewing their team's use of current tools and determining if teams could be getting more value from them, which may be accomplished through new processes and training. When making the case to leadership for investing in technology, Tacticians should calculate the potential ROI of proposed investments — cost savings, productivity improvements, increased retention, etc. — and assign KPIs to those investments to track their efficacy and demonstrate value to the business. They should also consider examining industry benchmarks and competitors' technology approaches as well as working with third-party advisors who can assist with forecasting the ROI of specific investments.

Ready to elevate the tax function from reactive to proactive? Contact us for a free Tax Process Assessment, where we'll assess your opportunities to implement processes and technology that streamline reporting, improve efficiencies, and enable data-driven insights.

ACCESS YOUR FREE ASSESSMENT ▶

Tax and ESG Strategy Alignment

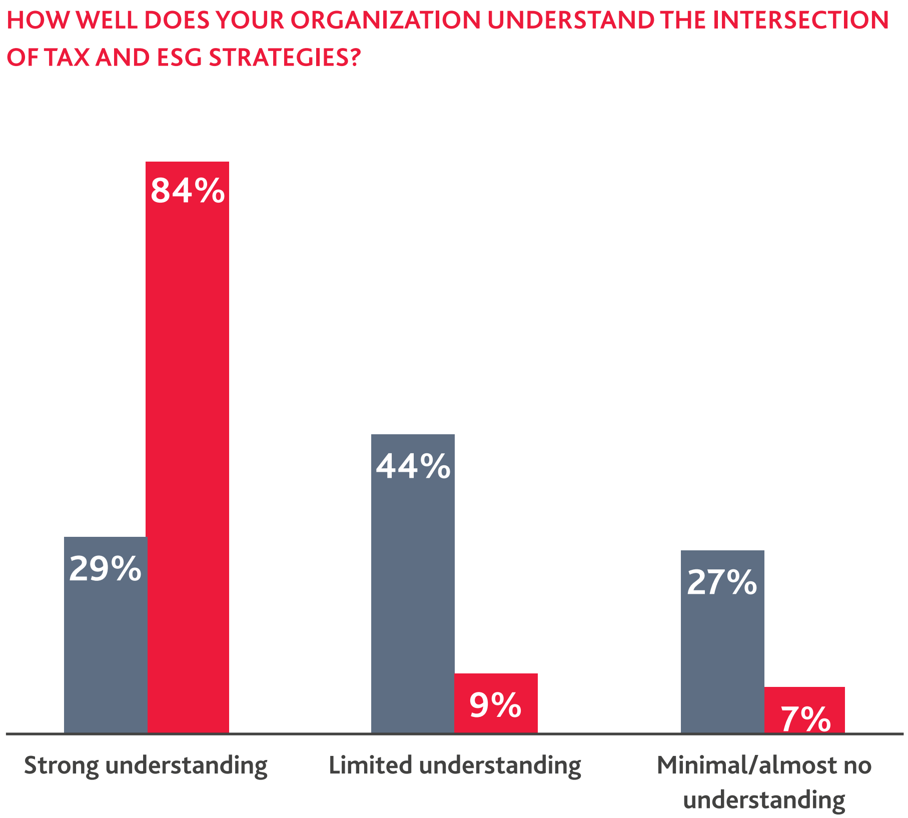
Evolving regulatory and stakeholder demands are prompting businesses to integrate ESG risk materiality into their organizations' broader operating and growth strategies. A tax leader's role is to **align tax strategy with the organization's ESG and business strategies**. Specific examples of ESG-related tax issues include new sustainability-oriented business credits and incentives, anti-forced labor regulations, and intensifying stakeholder demand for greater tax transparency. In particular, IRA tax credit transfers are a win-win for companies, the government, and the broader clean energy transition. By taking advantage of the tax incentives' current transferability, companies can support clean energy advancement and choose where to direct their tax dollars.

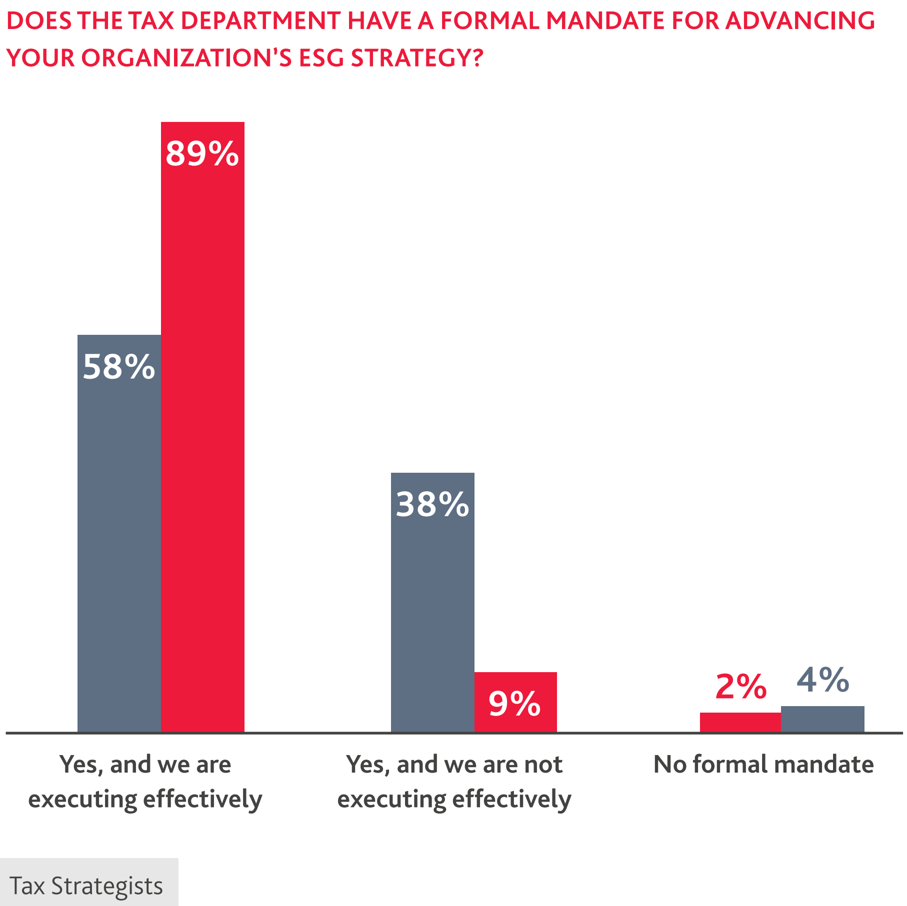


> *Tax transparency is the foundation for aligning ESG and tax strategies. It enables organizations to claim sustainability-related credits, achieve regulatory compliance, and measure total tax contribution. Tax leaders must harness their data to explain how their tax strategy advances ESG-related goals, mitigates ESG risks, and positions the organization to capitalize on ESG opportunities.*

DAN FULLER
ESG Tax Leader and Tax Digital Transformation and Innovation Leader

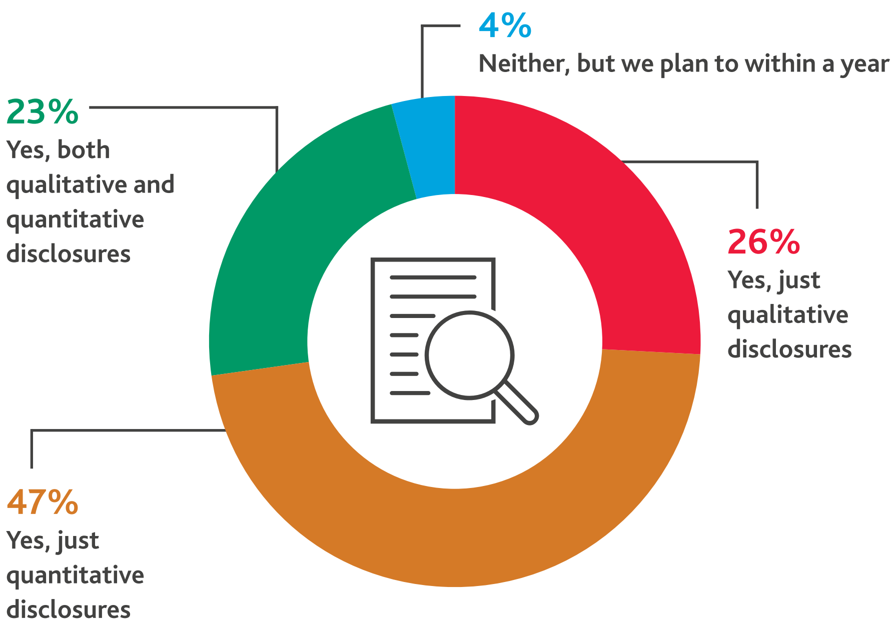
BDO DATA AND OBSERVATIONS



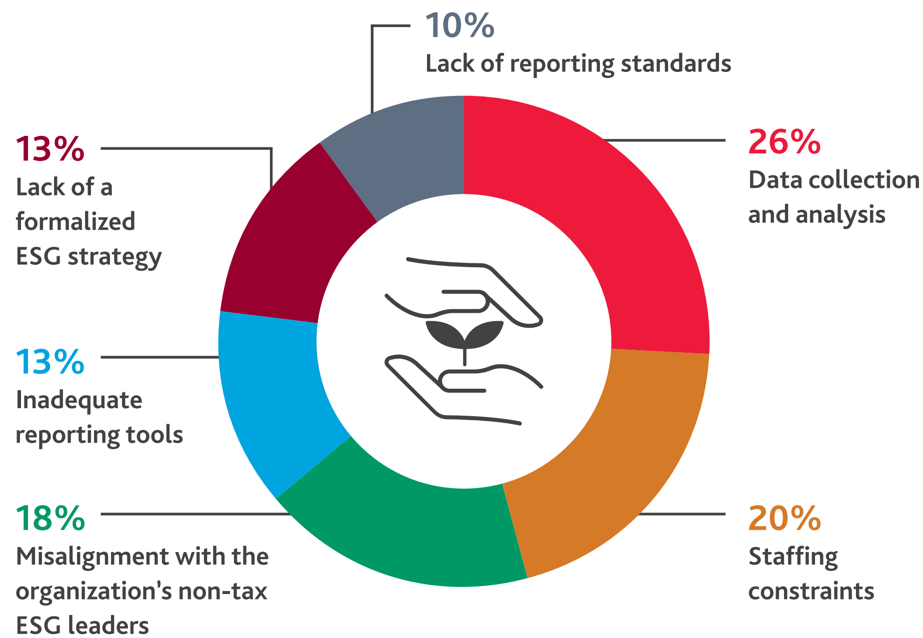


Tacticians' isolation from the broader business likely accounts for some of the challenges they face when it comes to aligning with ESG priorities. Strategists are likely executing their ESG strategies more effectively because they collaborate closely with operational leaders and communicate and champion the role of tax in the broader organization's ESG strategy. Failure to successfully align ESG and tax strategies can lead to compliance issues, higher costs, and stakeholder scrutiny.

HAS YOUR TAX DEPARTMENT PLAYED A ROLE IN DEVELOPING TAX TRANSPARENCY REPORTING?



WHAT IS THE GREATEST CHALLENGE TO YOUR ESG-RELATED TAX TRANSPARENCY REPORTING?



The ability to produce quantitative ESG tax disclosures — which likely include total tax contribution in addition to country-by-country reporting requirements — requires having transparency into tax data from around the business. Qualitative disclosures require tax leaders to understand how to interpret and communicate relevant data to stakeholders. Organizations with less visibility into tax data across the business may not have as strong an understanding of their total tax contribution and may miss opportunities to claim credits or pursue strategies that lower total tax liability.

Overcoming the challenges to achieving greater tax transparency for ESG reporting will necessitate new data collection and analytics tools. As part of this process, tax leaders may need to integrate disparate data collection systems from across the business. They should engage data scientists to develop a secure and scalable data management policy. Ideally, the tax department's data management strategy should integrate with that of the broader organization so financial and operational data is comparable and can be analyzed together. Centralizing data intelligence will enable tax and operational leaders to analyze all their data to uncover insights about the company's performance and identify opportunities to create value and capitalize on competitive advantages.

While there is no single U.S. regulation that dictates how businesses must report tax-related ESG initiatives, tax leaders who develop processes today will be better prepared to meet new requirements tomorrow. Companies that are unprepared for increased regulatory and stakeholder scrutiny could see material issues in the form of fines, public backlash, diminished access to capital, and/or lost customers.

RECOMMENDATIONS

Tax executives have a significant opportunity to demonstrate how their organization is making measurable progress toward ESG goals. To meet objectives and better align ESG and tax strategies, consider:

Strategists — develop total tax contribution messaging: Only 25% of Strategists report both quantitative and qualitative ESG tax disclosures. Private company Strategists planning an IPO should improve their measurement and messaging around total tax contribution in preparation for the increased scrutiny they will face as a public company. For instance, controversy around their tax policy and an inability to explain their total tax contribution may reduce share value.

Tacticians — build a compelling case: Only 41% of Tacticians are currently very involved in their organization's broader ESG strategy, which means there is plenty of room to enhance collaboration. To advocate for the tax department's involvement in ESG strategy, Tacticians should consider a self-assessment to determine which sustainability-related credits their organization currently claims, identify any potential credits it might have overlooked, and evaluate the impact of tax-ESG-related regulatory risks like the UFLPA. Quantifying the risks and opportunities associated with tax-ESG can help Tacticians make a stronger case for the tax department's involvement in ESG initiatives as well as for greater investment in the tax function.

TALK TO BDO ABOUT WHAT COULD BE NEXT FOR YOUR ESG JOURNEY ▶

Tax Strategists See Better Business Performance

Tax leaders who can serve as influential strategists in decision-making will help their organizations build resilience and hone their competitive advantage. This is the Tax Strategist imperative, and it applies to all tax practitioners. Regardless of their involvement level in strategic decisions, all tax departments have opportunities to help their organizations make investment decisions, overcome obstacles, and fuel growth.

Ready to elevate your tax strategy?

CONTACT US ▶

METHODOLOGY

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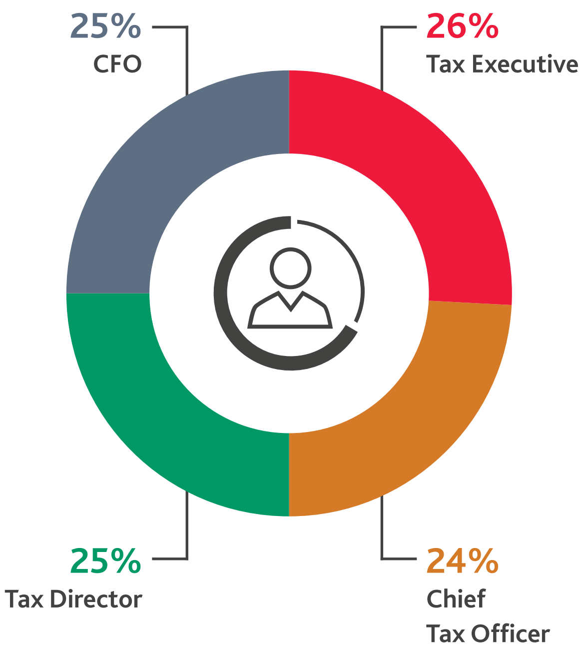
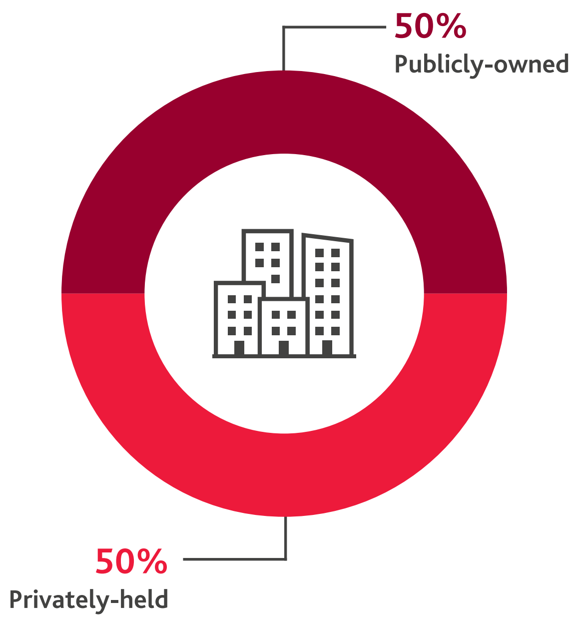
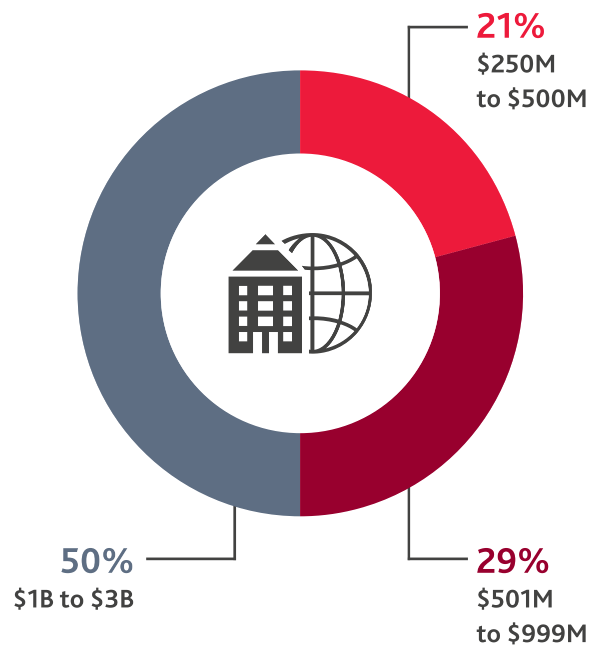
SURVEY PARTICIPANTS BY TITLE



COMPANY TYPE



COMPANY SIZE



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