KPMG

Chief Tax Officer Insights

Issue Spotlight

March 2023

Chief tax officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. *CTO Insights* is designed to highlight top-of-mind issues for tax executives and ways CTOs are addressing these opportunities and challenges. We are confident that you will find the information in each issue of *CTO Insights* practical and actionable in demonstrating the value you and your department bring to your organization.

Topic in this issue

To prepare for Pillar Two implementation, many CTOs are kicking off tax transformation journeys or accelerating technology optimizations already underway.

As Pillar Two advances, U.S. multinationals anticipate new compliance requirements

Entering 2023, sweeping international tax reforms continue to advance. In particular, there has been recent progress toward implementation of the agreement among participating countries around the Organization for Economic Co-operation and Development (OECD) Pillar Two rules, an intergovernmental effort to address base erosion and profit shifting (BEPS). Most recently, the OECD released Agreed Administrative Guidance that adds to the body of guidance on the Pillar Two rules already approved by the Inclusive Framework for implementation of global anti-base erosion (GloBE) rules.

Although the United States has yet to align its own rules with Pillar Two, thousands of American companies meet the Pillar Two scope threshold and will need to comply with its minimum global tax provisions. At the highest level, this means large multinational companies must pay a global minimum tax of 15 percent in every jurisdiction where they operate, collected through interlocking charging provisions enacted domestically, including top-up taxes, or denying deductions.

Pillar Two compliance requires information-heavy gathering and reporting

CTOs of U.S. multinational groups are being challenged to reconsider their global tax profiles and compliance requirements. That challenge, by any measure, is monumental. Although technical ambiguities in the model rules remain and further tranches of administrative guidance are expected, the Pillar Two implementation framework calls for multinationals to compute and report both effective tax rate and top-up tax information for every entity within every jurisdiction, adding up to hundreds or thousands of data points across a typical multinational group.

Given the data requirements that may be required for computational and compliance purposes, the impact on end-to-end tax operations looks to be quite significant. Pillar Two—along with other new tax rules and regulations across countries and jurisdictions—introduces intensive new data wrangling and calculation needs. According to the 2023 KPMG CTO Outlook Survey, 36 percent of CTOs cite tax policy risk as one of the top three greatest threats to the tax function in the next year.[1]

Tax technology transformation helps ease the compliance burden

Having mostly evaluated costs and impacts and moved past the modeling phase, CTOs of multinational organizations are now focused on how they will comply with Pillar Two's new demands on tax. Many are turning to advanced technology to help manage increasing tax requirements, making tax technology transformation a focal point of Pillar Two readiness and implementation.

CTOs say accelerating tax technology adoption and upgrades are powerful enablers of greater data interoperability, which is critical to strengthening internal tax modeling and calculation processes to comply with Pillar Two rules. The 2023 KPMG CTO Outlook survey finds 42 percent of tax functions planning to pursue stronger data capabilities and analytics to enable the insights and agility needed to address the impacts of Pillar Two (and Pillar One) initiatives.

CTOs also say keeping current with the latest technology allows automation to play a greater role in increasingly resource- and time-intensive global tax processes, making them more standardized, efficient, and nimble and reducing the workload burden on tax professionals. According to the 2023 KPMG CTO Outlook survey, the two most common drivers of technology adoption in the tax department are directly related to the shift from manual to automated processes: reducing risk of material errors (55 percent) and shortening the close process (52 percent).

[1] 2023 Chief Tax Officer Outlook (KPMG LLP, 2023)

How CTOs are preparing tax data, systems, and processes for Pillar Two implementation

CTOs are taking various approaches to get their departments' data, systems, and processes ready to comply with Pillar Two rules.

Closing data gaps

Once modeling is complete to determine exposure, the next step toward Pillar Two compliance is figuring out if the tax function has the information needed to comply. Getting their arms around the data requirements is a particular pain point, requiring significant work to assess information gaps. Compliance with the OECD's proposed GloBE information return, for example, could result in more than 200 additional data points and over 60 technical adjustments to those data points. This information will also be needed to meet compliance requirements of local countries that are enacting Pillar Two legislation for 2024.

While certain data points might be readily available from local and foreign enterprise resource plans (ERPs) and data lakes/warehouses, many are likely to come from outside sources, such as local tax calculations and workpapers and payroll, pension, and other Human Resources data. Other data points may not be tracked at all currently and will need to be created.

CTOs are engaging key stakeholders across the organization, as well as outside tax advisers, to conduct a data gap analysis, with the goal to identify the key information and calculations needed to meeting Pillar Two reporting requirements. To address data gaps, the next crucial step is cataloguing the source of each data point, along with owners, systems, and downstream consumers, to enable effective data collection and, ultimately, reporting.

Standing up new technology

To get data points that do not exist today, most tax teams are likely to need much-improved data capabilities. As such, strengthening data wrangling will be a key part of complying with Pillar Two provisions, including enhancements to data management and collection process.

New or upgraded technology systems are the key enablers of meeting Pillar Two's expanded information needs. While design, objectives, and requirements of tax transformations are unique to each organization, this has driven the need for a tax data strategy, not only for Pillar Two but also its systems, data, and process dependencies.

Ranging from ERP integration to cloud data warehouse solutions, Alteryx workflows, or Microsoft Power Suite solutions, to name a few, connecting and streamlining systems and data is essential for cost-effective Pillar Two compliance. These solutions help tax functions efficiently automate, aggregate, harmonize, and distribute relevant tax and financial data to key stakeholders and, just as importantly, drive governance and accuracy.

Closing capability gaps with alternative sourcing arrangements

CTOs are also seeking outside support to help the internal tax function handle the added compliance burden of Pillar Two and meet global regulatory demands more effectively.

According to KPMG research, within the next three years 83 percent of CTOs plan to use some form of targeted or strategic alternative sourcing arrangements, such as outsourcing, cosourcing, and third-party managed services.[2] Among the top benefits they expect to obtain from this shift are greater assurance and reduced risk (45 percent) and greater access to advanced technology (45 percent), both of which are becoming more difficult to achieve under Pillar Two rules.[3]

Indeed, alternative sourcing arrangements can help tax departments supplement and extend the work of the internal team. By standardizing and streamlining time-intensive processes, external partnerships can play a key role in tax transformation, helping address resources shortages while improving efficiency and reducing costs of tax operations.

Outsourcing, cosourcing and managed services also increase access to leading-edge technology, data and automation solutions needed to manage increasing tax requirements. With only a minority of corporate tax departments (39 percent) developing their own tax technology in-house, third-party sourcing is the preferred way to stay current with and drive value from new technology. Nearly half (49 percent) of CTOs leverage third party software providers for the specific purpose of providing tax technology.[4]

Creating a dedicated tax technology group

Pillar Two demands are causing CTOs to think not only about their technology and data, but also about the processes around them. Many are adjusting the tax operating model to more effectively leverage their teams' talent, skills, and resources to achieve Pillar Two compliance.

While approaches vary, having a dedicated tax technology group is becoming a leading practice. For one, it helps the tax function manage, deploy, and govern global data at the increasing scope and level of detail required by the new rules. In addition, it helps drive greater value from the broader tax transformation efforts being accelerated by Pillar Two.

For example, one organization is building a tax technology enablement group to interface with information technology (IT), and a separate data enablement group with expertise in technical areas of tax as well as modern digital and analytical tools. Another has deployed a combined data management and technology team that is dedicated to tax and blends professionals with a mix of IT and accounting and finance skills. A third leverages a tax specialist group that focuses on inserting technology into data-related tax processes at a global level.

[2] 2023 Chief Tax Officer Outlook (KPMG LLP, 2023)

[3] 2023 Chief Tax Officer Outlook (KPMG LLP, 2023)

[4] 2023 Chief Tax Officer Outlook (KPMG LLP, 2023)

Finding efficiency and quality through shared services

Preparing to be compliant with Pillar Two in jurisdictions around the world is a large and complex task that many CTOs of multinational organizations are deploying a shared services model. Transferring manual and transactional work to shared services centers can help corporate tax headquarters navigate capability shortages, reduce operational costs, and streamline the overall work of Pillar Two compliance.

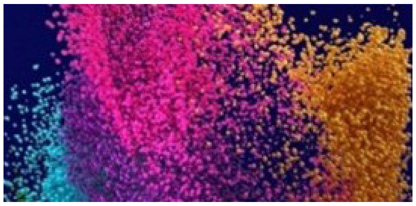
In particular, shared service models are being used to manage the administrative components of Pillar Two around the world, rather than relying on individual locations to do the work in a piecemeal fashion because it would result in hundreds if not thousands of Excel workbooks across the globe and governance would be nearly impossible. One organization, in particular, has established a tax technology shared service to provide tax data to their teams and processes internally for what they now call "Tax Data as a Product."

Another organization that is preparing for the implementation of Pillar Two is currently considering using shared services centers in lower-cost locations to help with calculations and reporting of the most technical areas of the requirements. Another is in the midst of building a master process in SAP Core Finance, and then plans to transfer Pillar Two activities to a global center of excellence for replication for all of the countries. A third houses all tax data in a global shared services center, helping ensure the information that gets pulled and reported by each location comes from a common source.

Questions to consider

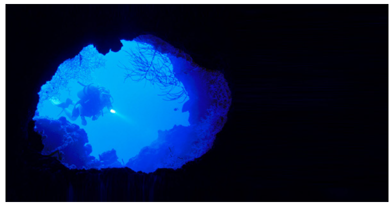
- What steps is your tax function taking to prepare and comply with Pillar Two implementation?
- How will your tax department meet the data requirements for Pillar Two calculation and compliance?
- How is Pillar Two impacting your tax technology transformation efforts?

Related insights



Tax Reimagined

Tax Reimagined focuses on your vision, challenges, and operational priorities—whether it's to deliver effective tax compliance, integrate technology to mitigate risk, leverage the power of data and analytics to harness revenues, or learn from peer-to-peer insights.



Be ready for disruption

For businesses everywhere, disruption comes in many forms. Tax organizations need to stay alert to emerging legislative and regulatory changes both large and small. Speed and flexibility are critical. Our tax insights, seasoned professionals, and powerful technology can help you navigate uncertainty and disruption with confidence.

BEPS Pillar One and Pillar Two

Analysis of the February 2 Pillar Two Administrative Guidance on GLoBE rules.

For previous editions of CTO Insights, please visit read.kpmg.us/cto-insights.

Follow the KPMG U.S. Tax practice on Twitter @KPMGUS_Tax.

Contact us

Greg Engel
Vice Chair, Tax
E: gengel@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia