In-house tax professionals: how to operate within the business

General Features

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We explore the key skills required of in-house tax professionals: understanding how to operate commercially with an all-round knowledge of the business, adapting to change and enhancing systems.

No two years in tax are ever the same. With so much new legislation being introduced annually, increased scrutiny from tax authorities and alignment of tax rules across jurisdictions, the role of the in-house tax adviser is constantly evolving. The role demands new skills to be able to chart this complex course.

The pragmatist: operating commercially

An internal tax team has a huge task to undertake managing compliance across multiple jurisdictions and tax competencies. The landscape can quickly change as organisations rapidly make decisions and advisers cannot review every transaction.

This leads to a natural question: how do you effectively manage tax risk? The answer is to operate commercially, a skill which has several facets.

Areas of potential risk

The first step is to invest time in getting to know the business(es) and their commercial drivers. This should allow the tax team to identify areas of greatest potential risk. Consider the business areas with the largest volumes and quantum of transactions. Ask whether another team already has ownership of that area and if up-to-date professional advice has been obtained.

Where a tax authority has a specific area of focus, this naturally increases its risk profile within the organisation and should be considered a priority risk area. Similarly, if a tax audit has flagged a tax risk in one particular country, this warrants greater attention being paid to that issue in other jurisdictions.

It is easier to manage tax risks before they crystalise into tax liabilities. Key to this is building strong internal networks and relationships, encouraging the business to proactively refer potential risks to the tax team. Identify key stakeholders and communicate with them regularly to understand their ongoing challenges and perceived areas of risk. Demonstrate value to the business by providing updates on key tax changes.

Training sessions help to deepen relationships and allow the tax adviser to learn more about the business and educate staff on the potential cost of tax risks in their particular function. Providing clear instructions for the business without undue caveats ensures that tax is seen as part of the solution, rather than an unwelcome burden.

Using external advisers

You must also understand when it is necessary to engage external advisers. Internal budgets are limited, so it is not possible to obtain advice in every instance. However, you cannot know the intricacies of legislation in every jurisdiction so support is needed to bridge knowledge gaps.

Certain factors drive this decision. Where the potential tax liability is large, the value of tax advice is enhanced. It both demonstrates strong internal process controls and also mitigates the likelihood of tax authorities levying penalties for careless behavior. Advice can also provide certainty where there is limited tax authority guidance or the position is unclear. Where a clear risk is likely to crystalise, this can ensure the matter becomes a business priority and is resolved in a timely manner. This is particularly helpful when another team does not acknowledge the tax risk.

Assess your appetite for tax risk

The final step is understanding a business's tax risk appetite and how that impacts tax processes. Risk appetite can be driven by a number of factors, such as public reporting obligations, industry regulations or agreements with tax authorities (notably where a suspended tax penalty has been agreed and conditions must be followed). Risk appetite can also differ by jurisdiction, as tax authority scrutiny, employee headcount, maturity of the entities differ between countries. A business's tax risk appetite is not a static concept but can change as new legislation is introduced, tax authorities increase compliance activities or leadership priorities change.

The commercial application of risk manifests itself in a number of different ways. A business may prioritise speed of process or choose to internalise certain tax risks, as the overall cost to the business may exceed the tax and liabilities due. A legacy position may cause wider issues if unwound.

Overall, a commercial tax adviser acts as a partner to the business. They will understand that focus should be placed on material risks and provide pragmatic solutions to tax problems. This is a skill that benefits from experience both within the business and the role itself.

The all-rounder: providing deliverables

Tax teams are likely to become involved in a number of ad-hoc projects that require specific advisory skills. It is important to define the tax team's role in these projects from the outset. A project RACI (responsibility assignment) matrix can be drawn up to show who is responsible, accountable, consulted and informed – and be clear where the tax function sits within the project model.

Typically, tax is required to guide the business on options available, the consequences of decisions, quantify the tax exposure and show how any liability may be mitigated. This ensures that the project team can make an informed decision and obtain an increased budget where needed to cover additional tax costs.

Tax may need to supply data as part of these projects; for example, the total tax contribution made during the financial year for ESG reporting; how much of the apprenticeship levy has been utilised by the business; or modelling the financial impact of tax rate changes. It is important to understand the purpose behind the data to establish how it must be presented.

Where the data is used for statutory reporting, ensure that the data is suitably reviewed with robust evidence. Not having an appropriate review process in place can lead to unwanted statutory audit delays.

Within an organisation, stakeholders will have set their budgets at the start of the financial year. Where a project begins during a financial year, it is important to establish which team will own any adviser costs. Tax professionals can help by estimating the likely cost of support. It is also important to manage expectations, particularly the internal perception that tax advisers should know the intricacies of legislation in every country.

Finally, tax advisers within an in-house team need a broad understanding of taxation, extending beyond their particular tax competency. Many projects touch across all taxes, so you must be aware of the wider tax consequences of business decisions and refer questions to colleagues as required. Whilst experience does play a part, attending training and reading guidance provided by colleagues on similar questions can be critical.

The evolutionary: keep adapting

A tax team never stands still as new legislation is introduced and the business evolves. Keeping on top of changing legislation across jurisdictions can feel like an insurmountable challenge, but working collaboratively internally and with advisers can help ease this burden.

Regular catch-ups with colleagues in-country can help to highlight key changes – the HR, finance and country leadership teams are a great source of local knowledge. External advisers will also provide country updates across jurisdictions. Some tax authorities are collaborative and provide regular tax update webinars with relevant legislative changes.

Internal or external auditors can also flag potential areas of risk warranting further focus. Auditors are aggressively enquiring about tax affairs and large quantum payments to determine if they have been treated correctly. In these instances, where the item is inevitably included on a risk register, it can help to facilitate wider conversation and unlock budget to resolve the issue.

There may be personnel changes within the business. Working collaboratively with new stakeholders yields long term benefits and taking time upfront to upskill replacements minimises process disruption. New joiners will have new ideas and being open to these can enhance processes. It can also prove an invaluable metric in ensuring that internal processes are comparable to other businesses.

Personal development is also vital. Not every piece of advice or process will be perfect. Regularly obtaining feedback from stakeholders maintains a great level of service, highlights any implementation challenges and facilitates better decision making in future. Such conversations foster collaborative relationships, which leads to successful results.

The tax technologist: enhancing processes

Tax governance has become a key pillar for internal tax teams, creating a statutory requirement to monitor tax compliance and mitigate tax risks. Tax technology increasingly plays a key role in achieving these aims:

- Automated processes reduce the requirement for manual interventions and opportunities for human error.
- Preparing tax filings from a single source of truth reduces the risk of misaligned filings and the time spent on data analysis.
- Technology can enhance tax compliance and visibility. Many solutions offer automated filing deadline prompts or highlight high-value transactions requiring tax consideration.
- Technology can also help to manage processes, ensuring consistency and providing evidence that processes have been followed.
- Finally, tax is becoming more real time in nature. Good quality systems and data are becoming a business necessity.

A tax professional involved in technology projects must have a detailed knowledge of existing processes. You must understand the purpose of the process, the types of data currently being collated, gaps in the manual process and what efficiencies can be achieved via automation. Without this groundwork, it is not possible to assess the benefits of automation and build a successful business case.

Technology, whilst helpful, is often not a one-stop solution to all tax problems. Professionals need to co-ordinate with external providers to understand system capabilities and compare these to business requirements. Where there are limitations, most commonly where existing systems cannot interact directly with the proposed solution, a suitable workaround must be found.

Tax technologists also need to be effective communicators. A new system requires the time and resources of many teams, so being able to build a convincing business case may make or break a project. Consider how the system will be used so that training can ensure stakeholders can utilise any solution from day one.

Finally, a system change may be perceived as a hindrance to stakeholders who do not directly benefit and may result in the solution being ignored. Tax technologists must have appropriate discussions and accountabilities to ensure this does not happen.

Once a system becomes embedded, you must continue to monitor its outputs to ensure accuracy. Any statutory returns produced by the system should also be reviewed by a qualified tax professional to ensure they are correct. Where legislation changes, systems also need to be updated. Most updates happen automatically, particularly if cloud-based. But where an internal system connects directly to an external solution, care must be taken to ensure any updates do not misconfigure these links.

Overall, the mark of a tax technologist is being able to simplify difficult tax concepts into manageable steps that are compatible with IT systems and are easily understood by the business.

Conclusion

Working in-house is as challenging as it is rewarding. The skillset required to successfully manage the role can be diverse, and perhaps daunting when first making the transition from working in practice.

Constantly evaluating the skills that are required for your role and developing your network with the business and advisers is essential for maintaining the brilliant service that stakeholders demand from in-house tax professionals.