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EY's Kate Barton writes that enormous issues are affecting and disrupting the tax industry. She looks at three tax ''mega-trends'' for 2017—tax overhaul and transparency legislation in the U.S. and other countries; new technologies such as blockchain, robotics process automation and artificial intelligence; and tax business process outsourcing.

Three Tax Mega-Trends to Watch in 2017

BY KATE BARTON

As a new year dawns it is easy to get drawn into looking back at the previous 12 months to take stock, celebrate success and analyze what could have been done better. Looking ahead provides the opportunity to define our ambition and outline priorities for the year to come.

Today we are at a turning point in tax. There are enormous issues affecting and disrupting our industry, so much so that at times it seems like the landscape is literally moving under our feet. With that in mind, we identify what will be three tax mega-trends for 2017.

Legislation Driving Change

For the past 12 months the political, social and economic fabric of many countries has been characterized by disruption, increased nationalism and seismic shifts that many thought were unimaginable.

In the U.S., holistic tax reform for individuals, entrepreneurs and corporations is expected to take form in 2017 and be the leading policy issue of the new Trump administration and Republican-controlled Congress. The last five presidents have all moved major economic legislation containing tax changes in the first year of their presidencies and the Trump administration will be no different.

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The House Republican blueprint for tax reform outlines a provision for border adjustment taxation that is riveting the business community in the U.S. and abroad. The border adjustments would exclude U.S. exports from the tax base while including imports, representing a major departure from the current corporate income tax. This provision can significantly affect exporters, importers, consumers and trade as it changes the consumption-based tax blueprint plan to a destination-based tax on domestic consumption.

Interest isn't deductible in the blueprint, causing consternation for some companies too. Specifically for individuals, it is expected that there will be a consolidation of tax brackets from seven to three, and the lowering of the top tax rate from 39 percent to 33 percent, while for businesses, rates are expected to decrease to 15 percent or 20 percent. Change is in the wind and the U.S. Internal Revenue Code could look a lot different from today with sweeping repercussions.

Outside the U.S., we have seen much legislation. Countries like the U.K. have modified their tax systems dramatically, adding patent box legislation and many other provisions to broaden the base of taxation. Similar action has been taken in many other European countries.

There is also undoubtedly more to come on the transparency agenda. A number of critical transparency initiatives, including the Organization for Economic Cooperation and Development's proposal for country-by-country reporting (Base Erosion and Profit Shifting (BEPS) Action 13), continue to gather momentum while deliberations around issues such as the public disclosure of tax information will endure.

In today's dynamic environment, businesses must not only have the infrastructure—policies and processes—in place to manage legislative change, but they also need to be agile and have a culture that embraces a greater degree of transparency. Increased board involvement in company tax strategy is a must, particularly against a backdrop of greater public disclosure, more widespread interest in the tax affairs of corporations and reputational risk mitigation. All approaches to tax need to be viewed through the lens of increased transparency, and businesses should ensure that their tax strategy closely aligns with business strategy.

We are seeing that more heads of tax are spending a disproportionate amount of time on tax policy and how it affects their companies. Work they would otherwise do is being reshuffled to others. We expect this trend to continue.

Technology: AI, Blockchain and Robotics

Responding to digital transformation is a strategic imperative facing companies across scores of industries. Accelerated by technology, digital is a disruptive mega-trend that is enabling real-time access and real-time analytics and heightening the expectation for real-time visibility. Responding to this, the tax function needs to increasingly operate across a number of fronts.

Organizations must ask how technology can be leveraged to help build an operationally more effective tax function and meet the requirements of real-time data. New technologies, such as blockchain, robotics process automation (RPA) and artificial intelligence (AI), can offer a new era of visibility into transactional data and unlock value, help manage risk, improve efficiency and provide critical business insight.

Blockchain, for example, creates an environment in which every transaction is public, verified and available in real time. Its application in tax has the potential to move the function from retroactive analysis and historical financial information gathering to a position where transactions, expenses, assets and liabilities can be recorded in real time and publicly scrutinized. Mistakes, risk and fraud could, in theory, be eliminated.

RPA is another step in the evolution of business process bundling and outsourcing where a virtual workforce of software robots that can work faster, more inexpensively and more accurately than a human being are utilized. ''TaxBots'' are already being used to transform tax function operations—helping out on the tax provision, sales and use compliance and many other areas.

The benefits of RPA promise to be significant and universal for both companies and professionals. The promise of companies achieving faster services allows professionals to shift the work paradigm by being able to focus on value-added efforts and contribute more strategically, including the adoption of RPA.

Similarly, AI is delivering many benefits for the tax function, such as improved decision making. AI will be loaded with information such as tax codes, case law and administrative guidelines, and will be able to make certain decisions on this basis.

By improving the connection to both financial systems and historical transactions, technology can provide the foundation for real-time data that tell the most accurate tax story to both the organization and relevant tax administrations. It can help to provide more robust predictive analytics and help organizations better address global requirements around issues such as transfer pricing and initiatives like BEPS.

Tools of the Digital Transformation

Tools emerging to aid the tax function as a result of digital transformation include:

- blockchain—a digital ledger of transactions recorded chronologically and publicly; and
- robotics process automation—the use of software with artificial intelligence capabilities to handle tasks previously performed by humans.

Companies need to decide whether they are going to manage this technology disruption internally or outsource to others. The answer to this question will in part lead us to the third business trend

Tax Business Process Outsourcing

The pace of legislative change globally and in the U.S., combined with the application of disruptive technologies, will result in companies evaluating what should stay in-house and what should be outsourced to a provider who can do it better, faster and cheaper. Companies will be asking, in a time of great change, are they better off asking a third party to outsource certain aspects of their tax function? A tax- and technology-savvy tax firm may be ahead in deploying automation techniques and a company is better able to avail itself of this on an outsourced basis than to build in-house.

By combining the attributes of resources-on-demand through business process outsourcing (BPO) with integrated, value-oriented technology such as RPA, companies will have the agility needed to manage their global tax footprint and compliance needs more effectively than at any time in history.

The level of tax outsourcing is estimated to stand at about $25 billion in 2016 and is expected to grow as much as 5 percent per year through 2021. This will certainly be a major trend to watch in 2017.

Like it or not, tax departments will continue to face unprecedented change as disruptive forces of globalization, cross-border transparency requirements, technology adoption, cost pressures and a shortage of qualified talent put the tax function under pressure like never before. Operating in this increasingly complex environment requires new thinking and new ways of working.

Traditional outsourcing models that rely on offshoring processes to remote locations are no longer fit-for-purpose and aren't reliable enough to successfully navigate the many issues that the tax function of the future will have to deal with. Going forward, companies will increasingly look to third-party providers with leading tax expertise, a global infrastructure and specialist tax talent that enables them to confidently outsource certain core tax functions without disrupting operations, keeping outsourced operations close to their business and helping them to operate effectively in this ever-changing environment. In 2017, short- to medium-term BPO and managed service options will hold the key for company tax functions.

Once strategically defined, BPO can help the tax function adapt to changing business and regulatory en-

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vironments in a scalable and cost-effective way. It will allow companies to focus on the core aspects of their tax business while delegating administrative and back-office functions and enabling internal talent resources to be deployed on more business-critical and value-add work.

By utilizing outsourcing or managed service operating models for their tax functions, companies can benefit from a higher service quality than may be currently available inside their organizations. These models can enable processes to be standardized and automated while accessing qualified human and digital talent that may not be otherwise available.