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PERSPECTIVES ON THE FUTURE

An international tax practice in 2025

Robert Millard
Director, Cambridge Strategy Group

Much ink has been spent in recent years on how tax systems are evolving and the trends that are driving this. Less perhaps, on what an international tax practice might actually look like, or how the role of the tax advisory professional might differ from today.

How will the work of that tax professional be different in 2025? How will client needs and demands be different? How do existing services need to be retooled in order to meet those needs and what entirely new services will need to be developed? What tools will tax advisors have at their disposal in 2025, that they do not have now? Converse to that, what services that currently deliver good revenue and profit to tax advisory businesses will likely be unprofitable or even redundant in 2025?

Essentially, what strategies and business models will successful tax advisory businesses likely have in 2025 and how will these likely be different to what they have today?

To answer this question, we have to:

- understand the trends that are driving change in societies and in business
- consider how those are manifesting in terms of different approaches to taxation
- assess the implications for the tax advisory needs for clients, the services that will be required to meet these needs and the channels by which they will be delivered

Only then can one begin to understand how the strategies and indeed the fundamental business models of tax advisory practices will need to evolve.

These are extremely complex, dynamic and interconnected drivers. The number and dynamic nature of the variables make conventional quantitative analysis meaningless, as a means for forecasting the likely future states of markets and client needs. However, the validity of crowd-sourcing a wide range of inputs from knowledgeable people is well accepted both from scholarly and practitioner perspectives. In early 2018, global accounting firm RSM conducted a survey of tax practitioners across the world, to gauge perceptions of how an international tax practice in 2025 might be different to today.

The survey yielded factors that respondents believed could be highly disruptive to such a practice, were they to transpire. The respondents were also asked to indicate their view as to the likelihood that each of these would become reality within the next seven years. The results are presented in figure 1. Such surveys are not precise tools so one should not read too much into minor differences in score. However, the survey uncovered eleven change drivers that are worth highlighting. They fall roughly into two categories. Seven that are more likely (respondents scored that probability on the median or higher) and would be highly disruptive. These should be built into any strategy for an international tax practice, looking out over the next seven years. The other four drivers would be highly disruptive were they to occur but may be less likely. A watching brief should be maintained on developments in these areas and contingency plans may be necessary to switch strategies quickly, should they transpire.

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Drivers that should be incorporated into strategy (not in any particular order)

- The shifting geo-economic power towards China/SE Asia
- Increasing mobility of knowledge-intensive industries
- Growth and increasing diversity of emerging market economies
- Replacement of knowledge workers by technology (the so-called '4th Industrial Revolution')
- Populist/protectionist economic policies in the United States
- Widespread use of blockchain applications other than cryptocurrencies
- A major global recession

Drivers for which contingency plans may be necessary (not in any particular order)

- Growth and increasing diversity of emerging market economies
- Increasing globalisation of value chains (as opposed to simply trade in finished goods and services)
- The possible impacts of high national debt loads of western economies and China
- Widespread use of cryptocurrencies

Respondents were also asked to similarly rate likely regulator responses to change changes in taxation and compliance issues that are expected to emerge up to 2025. Those that are regarded as being the most potentially disruptive and likely were:

- Move to new ways of indirectly taxing value chains
- Other new technological solutions to enhance compliance monitoring / enforcement
- Greater exchange of information between tax authorities
- Blockchain applications
- Renewed pressure on tax-neutral / ultra-low tax markets
- Higher personal income tax rates

A move to taxing 'stock' rather than 'flow' was regarded as potentially very disruptive but less likely to happen over that timeframe.

Figure 1: What broader geo-economic and socio-political trends would be the most disruptive to an international tax practice as it evolves towards 2025, and how likely are they?

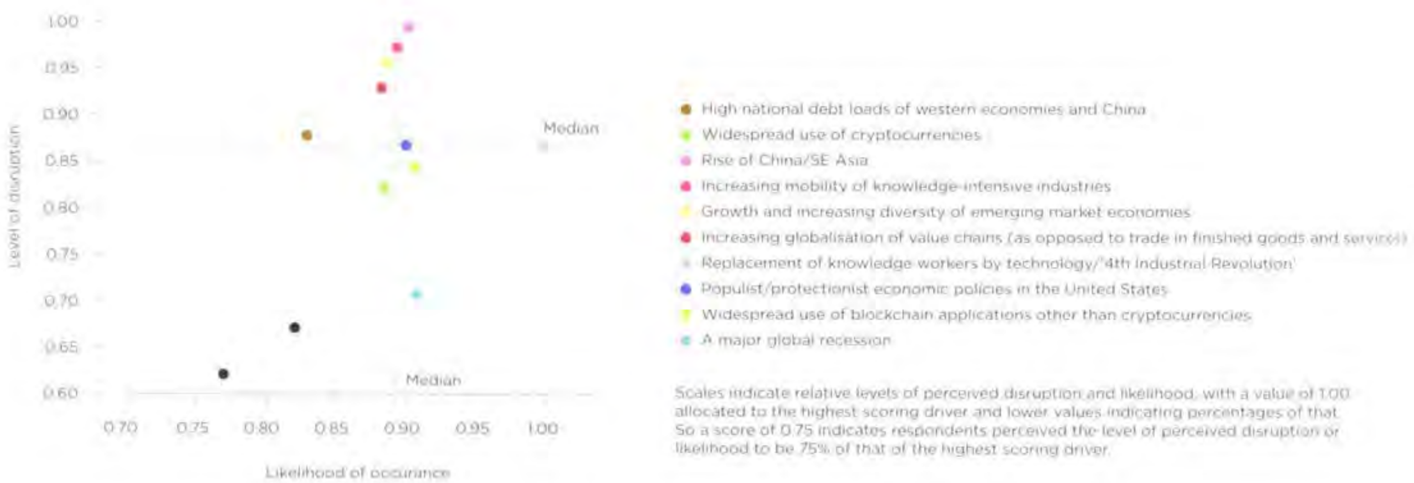


Figure 2: What possible responses by regulators to changes in the drivers of taxation would be the most disruptive to an international tax practice as it evolves towards 2025, and how likely are they?

These responses do provide valuable pointers to what an international tax practice might look like in 2025.

The concern about replacement of knowledge workers by technology is especially important. Researchers such as Osborne and Frey and Richard and Daniel Susskind[1] have already identified accountants, auditors and tax advisors as being professions that perform tasks that are heavily at risk of being replaced by technology. Indeed, several AI applications have already been developed, for instance around the analysis of transfer pricing for clients with complex cross-border interests. It remains to be seen though whether this will lead to a reduction in the number of tax advisors, or whether the support of such tools will enable a similar or even greater number of tax advisors to be able to deliver far more sophisticated tax advice to their clients. The hype in the media (of which there is no shortage) suggests the former. Considering the impact that these same trends may have on the complexity of the tax issues that multinational organisations have in the future, coupled with likely increases in compliance burdens and business risks associated with non-compliance, suggests the latter.

What is clear is that a significant skills gap exists between older tax advisors, who training and much of their experience dates from a largely pre-digital era (at least in terms of their work practices) and the very different skills that will be required in a highly digitally enabled tax practice. The gap will likely prove as stark as that between architects and engineers who grew up in an era of pens and drawing boards compared to their modern, CAD[2]-enabled colleagues.

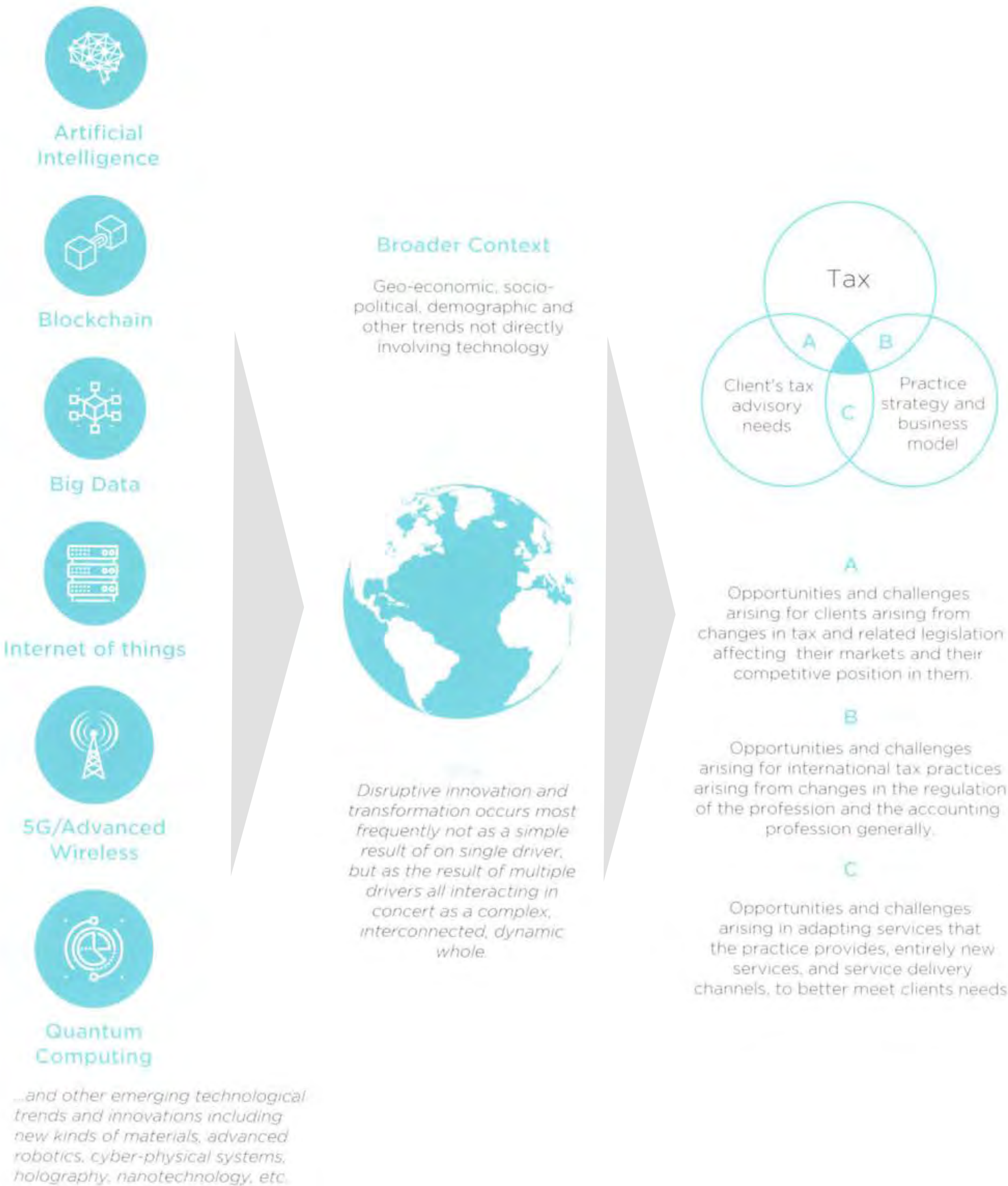
Blockchains offer both a promise and a threat. On the one hand, they promise immutability of distributed ledgers of data, offering the opportunity to track revenue flows and make compliance (and enforcement) easier. They may prove essential for 'country by country' reporting to be even possible at the level of detail that the OECD would like to see. On the other hand, the privacy that they offer, coupled with the use of cryptocurrencies for transactions (especially across national borders) create opportunities for such revenue flows to occur beyond the sight of tax authorities and possibly not be properly reported. The amount of energy required to maintain blockchains is phenomenal (perhaps as much electricity as the equivalent of the daily usage of 4.5 'typical' U.S. households for each transaction on the Bitcoin blockchain, for instance.) By 2025, new generations of blockchain will have come and gone and the versions then in use might well be different to the generation that we are experiencing today. Certainly, they will need to be more energy efficient if they are to be sustainable. Greater clarity will exist about the regulatory issues surrounding the role of block and no doubt the financial systems of the world will have had to deal with a range of unanticipated consequences.

Digitally literate tax professionals will play an essential role in supporting clients as they navigate the evolving compliance minefield, or governments as they move to protect tax revenue flows, or businesses seeking to derive competitive advantage from making intelligent use of the variations between tax regimes across the world.
It remains to be seen whether the tax professionals of 2025 will need to be able to develop tax-related digital platforms themselves, or the platforms will be developed by others and the advisory focus lies mostly in their application. Irrespective, the international tax practice will likely exist in a firm with a far more digital culture than is the case today. Technology will not be seen as a tool that supports the practice by enhancing efficiency, but as an integral part of the service being delivered and also its delivery channel to the client. It is entirely conceivable that by 2025, tax advisory work could consist largely of the advisors AI systems interfacing with the clients' business technological systems, to yield insights that it will then take well experienced [human] eyes and brains to process and produce the most accurate conclusions and the most appropriate recommendations.

> "Digitally literate tax professionals will play an essential role in supporting clients as they navigate the evolving compliance minefield..."

[1] Carl B. Frey and Michael A. Osborne, 2013. The future of employment: how susceptible are jobs to computerisation? Oxford Martin School, University of Oxford; Richard Susskind and Daniel Susskind, 2015. The Future of the Professions: How Technology Will Transform the Work of Human Experts. Oxford University Press.
[2] Computer aided design

Figure 3: Changes in tax induce changes in client tax advisory needs, which in turn drive the strategy and business model of the future tax advisory practice



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By 2025, the ubiquitously digital world that we are beginning to see unfold will likely be accelerating. By 2020, the amount of data being produced will be such that our very understanding of what data is and how it can be managed, will need to be retooled. 'Big data' is a term somewhat flippantly used today, frequently by people who have no conception for just how 'big' the sea of data is likely to become by 2025, and beyond. People will no longer be talking about megabytes and gigabytes but instead of yottabytes and larger units. Given the dependence of tax advisory work on the orderly arrangement of financial data, this is extremely important. To illustrate, consider that all the electronic data in world (both structured and unstructured) at the end of 2017 was roughly 1/20 of a yottabyte in extent.

One yottabyte of data, stored on the conventional DVDs on which one can still purchase movies at the supermarket, would require a pile of DVDs stacked from earth to the sun, and back to the earth, and halfway back to the sun again. Cleary, the professionals who work in international tax practices in 2025 will have a completely different outlook on data and how it interfaces with their work, than we do today.

Clearly, those professionals will rely on AI and other digital tools far more advanced than those with which the media would frighten us today, simply to be able to be competent to advise their clients. Competitive advantage will stem from being able to leverage these tools and combine them with human intellect to advise clients at a level simply not possible today. For instance, imagine a multinational corporation that is actively in several highly regulated industries, wishing to acquire another simply complex business. Imagine very quickly being able to identify the range of tax issues that would result from different ways in which the deal might be structured and the merged businesses integrated. Imagine then being able, as a tax professional, to move on and work closely with others to use those tax insights to help your client build real competitive advantage – not just compliance! In essence, that is the promise that exists at the convergence of AI, blockchain, big data, the Internet of Things and in due course, 5G networks and probably quantum computing.

Amidst all the technological innovations there will likely be one familiar theme in the international law practice in 2025. That is, the human element. Such a practice will almost certainly be as dependent as it would be today, on hiring and retaining the talent that they need. It will need to take active steps to ensure that its people are engaged with the firm and with their work and that they deliver high performance. Perhaps more than ever, the firm's senior professionals will need to be client centric and attentive to developing deep relationships with their clients – especially the firm's key clients. The practice will need be able to balance a strong sense of strategic direction and its corporate culture with the resilience and agility to quickly switch when changes in the market dictate. In these respects, an international tax practice in 2025 will likely not be all that different to one in 2018.

[1] Completing the DVD analogy, the largest unit of data currently used by data scientists is a 'domgemgrottobyte.' One domgengrottabyte of data stored on DVDs would imply a stack extending from earth to the nearest edge of our Milky Way galaxy, 28 thousand light years away.