Why managing tax compliance and tax controversy should be co-sourced.



KWASI NYANTAKYI OWIREDU: Kwasi is the Partner in charge of Tax Services. He has over 19 years professional tax, accounting, and law experience. His industry experience is multi-faceted and has led several tax advisory, tax compliance and tax controversy support to MNCs in Ghana.

He has previously led the Africa EMEIA Desk for three years in London where he led Africa footprint projects for multi-country cross-border transaction and tax advisory support. Kwasi is a Chartered Accountant, a Chartered Tax Practitioner, and a Lawyer - a qualified Barrister, England & Wales, and a Barrister and Solicitor of the Supreme Court of Ghana.

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Businesses spend equal amounts on tax compliance and managing controversy. Changing the way they operate could fix that.

In brief

- Tax compliance has become more complex and more urgent with less room for mistakes.
- Many departments now face a paradox: they allocate approximately the same amount of resources to both compliance and tax controversy.
- By leveraging co-sourcing, tax departments can enhance their compliance processes, leading to effective management of tax risk and controversy.

Tax functions are under sustained pressure from multiple directions. Businesses are reshaping supply chains, operating footprints and governance models at speed. Regulatory scrutiny is intensifying and data requirements are expanding. Tax authorities are now using technology to identify risk faster and with greater precision.

Despite spending a significant portion of their tax and finance function budget on compliance activities to manage the exponential increase in pressure, businesses still spend significant amounts on tax controversy. Data collected as part of the EY Tax and Finance Operations (TFO) survey in 2025 shows that the people cost of internal time spent combined with external spending on compliance averages at 21.2% of a tax function's annual budget (excluding time spent on the income tax provision). They then spend on average almost the same amount again (20.7%) on tax controversy across internal resource and external support to manage the risk of tax adjustments, interest and penalties.

This presents a paradox: if investment in compliance is intended to reduce risk, arguably those figures should not aggregate to such a high total of a tax function spending. Unless we see a new norm of both high compliance spending and high controversy spending, it raises some questions: is the investment and effort up front in data quality and tax compliance too little versus the rate of increase in demands? Are the right investments in compliance and tax audit readiness being made? Is the investment structured in a way to increase ROI by achieving high-quality compliance while reducing the possibility of a tax audit?

It's likely not an issue of commitment or technical capability. One could conclude it's more likely about "how" the function sets itself up to deliver high-quality compliance.

The tax operating model is already being re-examined

Over the last several years, the TFO survey has found that tax function operating models are entering a period of structural change. In 2025, 81% of organizations expected to make moderate to significant changes to how they run their business over the next two years, driven by geopolitical pressures, regulatory change and supply chain transformation.

Execution capability has moved to the center of the agenda. Eighty six percent of tax and finance leaders rank data, AI and technology as a top priority, reflecting the growing gap between what tax functions were traditionally expected to deliver and the models many still rely on to deliver it.

That gap is already forcing decisions. More than half of tax leaders (54%) report that they are rethinking their operating models, with co-sourcing identified as the most significant structural change under consideration.

Rethinking operating models

54%

of tax leaders are rethinking their operating models; many are considering co-sourcing.

Compliance has become faster, broader and less forgiving

Tax compliance is no longer a periodic, backward looking exercise. Real time reporting, e invoicing and expanded information sharing allow tax authorities to cross reference data across different tax submissions and tax types almost immediately.

This has changed the risk profile of compliance. Issues that once surfaced months or years after a transaction or filing period now appear quickly and often trigger formal inquiries. Indirect tax provides a clear example. In the past, small inadvertent inconsistencies might accumulate over time, often unnoticed unless an audit forces them into view. Increasingly nowadays, those inconsistencies are not only found by the authorities, they are also identified early, which means tax functions no longer have the luxury of time to remediate.

Many tax functions still operate with delivery models designed for a slower, less dynamic environment. The result: compliance spend increases, but controversy exposure does not fall.

Controversy risk is rising, even as technology adoption accelerates

The 2025 EY Tax Risk and Controversy Survey reinforces this conclusion. Ninety percent of tax leaders expect an increase in tax disputes in the coming years, driven by enforcement activity, global tax reform and rising transparency.

Organizations are responding with technology. Nearly 70% of tax functions have implemented or integrated at least one GenAI tool focused on tax controversy management and 87% of senior tax executives believe these tools will make audits and dispute resolution more efficient, less time consuming and more accurate.

Yet outcomes remain uneven. Only 31% of respondents say they are very satisfied with their current controversy management approach and just 9% report full visibility over disputes across the organization. Tools are being added, but operating models are not keeping pace.

Across both surveys, the same constraints appear. Sixty four percent of CFOs and tax leaders cite the inability to execute a sustainable data and technology strategy as their largest barrier to success.

At the same time, 91% of tax leaders plan to strengthen tax governance frameworks as scrutiny increases. Governance is no longer a background consideration. It is increasingly used by tax authorities to assess risk and determine the intensity of review.

Why co-sourcing is moving from option to necessity

Co-sourcing addresses these challenges by changing how tax work is delivered. The most effective models move beyond transactional outsourcing into a co-sourcing model which seeks to have in-house tax teams complemented by an external global provider to drive an integrated people, process and technology model across the tax lifecycle — with an increasingly healthy infusion of AI.

Internal tax teams retain responsibility for strategy, technical judgment and engagement with business partners and other key stakeholders. Co-sourcing partners provide standardized execution, scalable capacity and access to advanced tax technology platforms. The result is greater consistency and predictability and win-win outcomes vs. a loss of control.

The TFO survey reflects this shift. Eighty three percent of tax and finance leaders say that working with AI enabled tax and finance service providers unlocks the greatest value.

The peloton is working hard, the leaders are working differently

When it comes to the compliance or controversy paradox, however, the transformation efforts of various tax functions is analogous to a cycling race like the Tour de France. There is the peloton, a large group of cyclists who move forward in a pack, doing similar things without much appetite for change or risk, and the race leaders, who consistently push forward day after day, with a persistent focus to innovate and transform.

Most tax functions are still bunched in the peloton, the main pack of riders. While they reap some benefits from transformation, their compliance is often handled internally, country by country, with limited global visibility. When providers are leveraged, it is often through outsourcing on a country-by-country basis. However, this approach is a poor substitute for co-sourcing, given the interconnected nature of business and the ever-changing application of tax laws. These complexities require a co-dependent and collaborative approach to effectively manage quality compliance.

There are breakaways, early adopters who, for example, rushed to embrace AI but do that without addressing some of the structural, data and governance issues needed to maximize success.

The race leaders are doing something else: they are co-sourcing compliance strategically and globally with structure, creating governance, consistency, and transparency at scale. They are also thinking end-to-end from data to compliance to tax audit to increase the ROI — quality in data and compliance to minimal audit attention and disruption. Leveraging people, processes, enabled by technology, end-to-end with a vested win-win approach through in-house team to external co-source provider.

In other words, the leaders invest earlier and operate differently, so they can spend less later. And they link data and compliance execution excellence directly to controversy prevention.

Shifting the balance from response to prevention

A core advantage of co-sourcing is the ability to manage data quality, compliance and controversy as part of a single continuum. Global platforms and centralized dashboards improve visibility across jurisdictions, enabling leaders to see data quality issues, filing status, audits and emerging risks in one place.

Standardized data and documentation improve audit readiness and reduce the effort required to respond to information requests. Many disputes arise not from aggressive positions, but from inconsistent data or unclear documentation. Co-sourcing helps to address those issues upstream.

(CONTINUED IN NEXT EDITION)

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Continued from previous edition

Leaders invest earlier and operate differently, so they can spend less later.

Traditionally, controversy teams are engaged after an audit notice arrives. In an environment where disputes are increasing in both number and duration, that approach is increasingly inefficient.

Co-sourcing supports a shift toward prevention by embedding controversy awareness into compliance execution. Compliance challenges and risk surface earlier, when they are easier and less costly to address.

A new baseline for tax functions

There is little indication that regulatory scrutiny will ease. Transparency requirements continue to expand, and enforcement capabilities are becoming more sophisticated.

With more than half of tax leaders already rethinking their operating models and co-sourcing identified as the most significant structural change under consideration, the direction is clear. Co-sourcing is no longer a tactical response to capacity constraints. It is becoming a structural feature of how tax functions manage compliance, controversy and risk in a transparent global environment.

Summary

Tax functions face growing pressure as regulatory scrutiny, data demands and enforcement activity intensify. Despite rising investment in tax compliance, organizations continue to incur high tax controversy costs, revealing a disconnect between effort and outcomes. EY survey data shows many tax leaders are rethinking their operating models, with co-sourcing emerging as a critical structural shift. By combining internal tax leadership with externally delivered, technology enabled execution, co-sourcing helps improve data quality, consistency and transparency across the tax lifecycle — shifting the focus from reacting to disputes toward preventing them and creating a more sustainable model for managing tax risk.

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