

Funding the Future

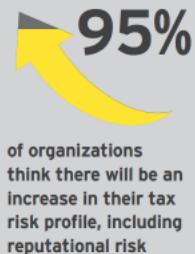
EY, tax and reality are words that do not easily fit to...

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I was amused by a [new report](#) from Big 4 accountants EY on tax and the risk businesses face. Ignore for a fact that the whole thing is, of course, a sales pitch for outsourcing the whole job to EY and consider these two questions and answers:



How will complying with the various transparency initiatives (e.g., country-by-country reporting, common reporting standard, SAF-T, other electronic transactional government filings) impact your organization's tax risk profile, including reputational risk?



The range of transparency initiatives underway from governments around the world is expected to increase the tax risk profile of almost all organizations.

Vulnerability to reputational risk has never been more prevalent. Companies need to: (1) understand the impact of all the legislative and regulatory changes on their risk profile and (2) proactively manage their risk profile on a continuing basis.



Actionable insight: As tax authorities collect more data from taxpayers, the tax and finance function should increase collaboration with other functions in the organization and adopt a global approach to managing tax risk and controversy.

So, 95% of tax executives think disclosure such as country-by-country reporting increases their tax risk.

And 93% think they may have to talk to their colleagues more as a result of such requirements.

Reflect on that for a moment. What both answers actually suggest is that tax functions

create risk that they would rather not talk about.

They also suggest that this lack of willingness to talk exists within as well as outside the business.

So why is that? Could it be that what the tax department is doing is not connected to any known reality? And is that, maybe, why others in the business are not told about what the tax department does? Could it be that they would be shocked if they knew?

And what is the risk if those others did know? Might it be that tax departments can no longer represent what they claim to be the truth is actually the truth?

And might they, as a result, have to stop creating so much artificial risk because it would be apparent that the rest of the business could not withstand it?

EY did not, of course, pose such questions, let alone answer them. But if they were really as smart as they think they are they would. Except for one thing. They're trying to sell outsourcing of tax - i.e. removing it from the reality of the business environment altogether. And what the answers actually suggest is that the problem with tax in multinational corporations is its isolation from business reality.

That EY failed to ask the right question is unsurprising. No Big 4 firm has put more effort into blocking tax transparency than EY, in my opinion. They have continually sought to protect the make-believe world that they wish to construct for clients wishing to minimise their tax bills through the use of the offshore and other services they sell. Building ever stronger ring fences around the tax department so that they can ignore the reality of the transactions that they report is wholly in EY's best interests.

But it is not, I suggest in their clients' interests to follow EY's logic.

And it is most certainly not in the interest of society that EY prevail.

There again, that has long been the case. It's just that now people are beginning to realise the truth in such claims.